



COMMENTARY: **PLM's Year End Results**

John K. Smith, President & CEO

We are in the midst of finalizing our year end results as I write today, so I hope you will forgive me for speaking in estimates and approximations as opposed to giving you cold hard finite financial results for PLM at year end 2010.



We did not have a good year when you view our results from a loss ratio or an underwriting viewpoint. We are estimating a combined ratio of approximately 118% at this juncture. We were pleased to note, however, that we finished the year very strong by closing out the last part of the year with five consecutive months of underwriting profit. This result, when combined with strong investment income and the very positive result in our investment portfolio's unrealized gains, will lead our surplus back over \$110 million and there is an outside chance that we will in fact achieve an all-time record high surplus in spite of the dismal underwriting loss.

"...we enter 2011 optimistic that the worst is behind us and that better times are in front of both PLM and our insured's as the U.S. economy continues to emerge from a recession and gain traction."

Our premium fell dramatically during 2010, as a result of our approach to booking premium associated with our two year policies. That was further amplified by a significant drop in premium rating exposures (sales for instance) associated with our niche. We are delighted to see a slight increase once again in the number of wood businesses that we insure in the United States.

Again, in 2011 as in 2010 and 2009, an ever-increasing number of businesses operating in the **Continued on page 4...**

New Safety Group Dividend Plan Announced

Pennsylvania Lumbermens Mutual Insurance Company is pleased to announce its newest partnership with Kentucky Forest Industries Association (KFIA). Starting January 1, 2011, PLM is offering the primary and secondary manufacturing members of KFIA a Safety Group Dividend Plan.



Details of the plan:

In order to join the KFIA/PLM Safety Group Dividend Plan, the KFIA member must be insured by PLM. Participants in the plan will have the opportunity to earn dividends based on the loss ratio of the group. Included in the dividend calculation are property, liability and commercial automobile coverages written through PLM. The plan year for the KFIA/PLM Safety Group Dividend Plan runs from January 1st through December 31st.

When the group reaches an earned premium threshold of \$1 million for the plan year, a dividend calculation will be performed and dividends, if earned, will be paid based on the following schedule:

GROUP LOSS RATIO	DIVIDEND PAYABLE
0.00% to 10.00%	10%
10.01% to 20.00%	7.5%
20.01% to 44.99%	5%
45.00% to 50.00%	2.5%
50.01% and over	0%

** Note: By law, dividends are discretionary and are not guaranteed. They are subject to the prior approval of the PLM Board of Directors.*

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WINTER 2011
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Pennsylvania Lumbermens Mutual Insurance Company

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Below is the list of groups that we currently have dividend plans with:

KFIA is an association based in Frankfort, Kentucky that serves the primary and secondary wood industry, landowners, loggers and service industries in Kentucky. For more information on the association, you may visit their website at www.kfia.org.

If you are a member of KFIA, or if you are interested in joining the association to qualify for the Safety Group Dividend plan, please contact Susan Cho at 267.825.9350 or via email at scho@plmins.com. You must be a current insured of PLM and a member of KFIA to join the Safety Group Dividend Plan. You must also elect to join the plan by signing a dividend election form. ■

- Allied Building Stores, Inc. (ABS)
- Construction Suppliers Association (CSA)
- Eastern Building Material Dealers Association (EBMDA)
- ENAP, Inc.
- Independent Builders Supply Association (IBSA)
- Kentucky Forest Industries Association (KFIA)
- Lumbermens Merchandising Corporation (LMC)
- NEMEON
- NJ Building Materials Dealers Association (NJBMDA)
- North American Wholesale Lumber Association (NAWLA)
- North Carolina Forestry Association (NCFA)
- Oklahoma Lumbermen's Association (OLA)
- Progressive Affiliated Lumbermen Cooperative (PAL)

Protecting Your Business: Winter Weather

With this new year, there has already been a significant amount of snowfall throughout the United States. Below are some tips that may be useful for your business during this winter season:

Arctic Freeze Checklist

Weight of Snow and Ice

Here are some things you can do to prevent collapse:

- During heavy snowfall, be sure to check accumulations. Clean the snow off the roof, if necessary.
- Check adjacent roofs, especially those lower than the main roof.
- Clear clogged drains to avoid ponding, especially on pitched roofs.
- Check support columns and beams for fork lift damage.



ACTION	TIME NEEDED	DONE
1. Restore any cutback of heat to buildings or processes.		
2. Provide additional heat for normally cold areas.		
3. Make certain there is an adequate supply of fuel for the heating systems.		
4. Expedite the completion of any postponed repairs to the heating system.		
5. Forgo any planned heating plant or boiler inspections until the danger of the severe cold has passed.		
6. Keep someone on the premises who will continually monitor all areas of the premises for signs of impending trouble, and provide that person with an up-to-date list of emergency numbers to call should trouble be detected.		
7. Add heat tape to process and protective system piping that might freeze.		
8. Check insulation on piping and structures to be certain it will protect them against the extreme cold temperatures.		
9. Where processes are shut down, drain piping and tanks to prevent freezing damage.		

For further information, contact us at 800.752.1895 to be connected with one of our technical services representatives.

After reviewing this checklist you should add any other items unique to your facility. This is just a sample of a checklist and how to organize it to make sure you are thorough in safeguarding your business against the perils that cold weather can bring.

PLM Chooses Policy Administration Solution

Melissa Farber, Business Systems Analyst/Project Leader

After an extensive and thorough vendor-selection process, PLM has entered into an agreement with Instec for their *quicksolver* 3 product, a web-based rating and policy administration software application. As an industry-leading provider of rating and policy administration software and services to the commercial Property & Casualty insurance market, Instec has a proven track record of successfully leading more than 40 plus clients through legacy system replacement initiatives, delivering well-engineered, client-specific products with a focused attention on customer-tailored services.

Founded in 1982 and based in Naperville, Illinois, Instec and its *quicksolver* 3 provide a complete property and casualty insurance rating and policy administration product that supports multi-state, multi-location, hybrid (ISO and proprietary) rating and policy processing for all 50 states and all ISO commercial lines of business. Like PLM, Instec is a relationship-based, people-oriented company with a demonstrated commitment to forming long-term business partnerships, a critical component given the volatility of today's insurance marketplace.

“This new system should dramatically enhance our ability to react to marketplace demands and opportunities and facilitate faster turnaround of processed and completed policies.”

The decision to replace PLM's current rating and legacy-based policy systems with Instec's *quicksolver* came after a thorough review of our multiple internal business systems and a highly detailed analysis of business and customer requirements. Key decision points were the sun-setting of our current rating engine and the number and complexity of our customized manual Rating & Quoting processes, and their ever-increasing associated costs. Once in production, *quicksolver* will enable PLM to eliminate the manual assembly of policies and will provide for a direct interface with Imageright, our enterprise content management and imaging system, thereby improving the quality of our policy processing.

Instec's *quicksolver* 3 addresses these pressure points directly as it allows for decreased time to market of new products, consolidates our rating and policy production processes, eliminating the need for duplicate manual data entry and creating a single point of entry for all of our business. The

quicksolver system uses an innovative web-based technology, hosted on secure servers at PLM's corporate offices, and provides our Customer Service, Underwriting and Field Operations areas with real-time policy data access allowing for improved response to customers as well improved risk selection and forecasting. By centralizing and standardizing our data centers, key factors in our transition away from our legacy systems and their technological limitations, we will boost our ability to be more innovative in the future.



But what will all of this mean for PLM's policyholders? This new system should dramatically enhance our ability to react to marketplace demands and opportunities and facilitate faster turnaround of processed and completed policies. Enhanced policy delivery mechanisms will improve customer satisfaction and allow for strengthened industry compliance and reporting at a time when state Departments of Insurance have dramatically increased oversight. Instec's *quicksolver* directly enables consolidation of disparate systems and will result in the elimination of many of our redundant data entry points, enabling PLM to comply on a timelier basis with regulatory change and improve our overall efficiency. Reduced production cost per policy will ultimately improve our competitive capabilities.

The decision to move forward with the *quicksolver* application underscores the high level of confidence PLM's Executive Leadership has in Instec's ability to service our current and future rating and policy processing needs. The recommendation was made by a cross-functional team of employees representing key operating departments and relied heavily on their impressions of the user experience and resultant improvements in our ability to serve our customers. We are in the preliminary phases of planning, and have built into this phase the time required by Instec to incorporate all of the enhancements needed to meet PLM's detailed business requirements. We are currently foreseeing a production timeframe in mid to late 2011. We will keep you updated as we progress.





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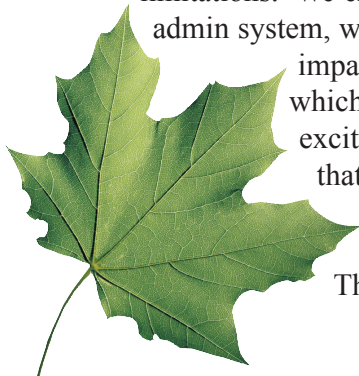
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wood niche chose to place their faith and confidence in PLM's ability to provide comprehensive and competitively priced solutions to their property/casualty insurance needs.

We endured more than our fair share of customers closing their doors or filing for bankruptcies as one would expect in the niche that is so heavily driven by home building. While we continually turn to the touchstone that the strong will survive, we enter 2011 optimistic that the worst is behind us and that better times are in front of both PLM and our insureds as the U.S. economy continues to emerge from a recession and gain traction.

We are delighted to announce that just before the end of the year after a long and arduous review, PLM entered into a contract with Instec to provide a new policy rating and processing system. Our current system is over 40 years old and we are well aware of its limitations. We expect that the implementation of this new policy rating and admin system, which will occur before the end of 2011, will dramatically impact the quality of our policy documentation and the speed with which we can produce quotations and policies. We are indeed excited about this step in our continued evolution and we believe that it lays the foundation for a new policy billing system that we anticipate indentifying in 2011 and rolling out in 2012.

Thank you for your continued faith and confidence in PLM. ■



LumberMEMO

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