

Date: December 19, 2007
To: Our Massachusetts Agents
From: Vin Nieroda
Subject: Managed Auto Competition

As you know, we have been working long and hard to prepare for the transition to managed competition and to ensure that together we win in Massachusetts over the long term.

In spite of continuing efforts by some to derail reform, we remain committed to creating a competitive market and we fully expect the transition to managed competition to occur on schedule.

While we have been very successful under the current system over the past several years, we also have been a leader in the drive to reform. Our concern has been and continues to be that with so few insurance carriers in the state, market instability and inadequate capacity is inevitable over the long run. The concentration of a small number of Massachusetts-only companies has contributed to the coastal— "Cape Cod" problem and the frustration of consumers who have limited insurance choices. Reform presents our company with both opportunity and risk, and certainly in the short-term, we expect it to lead to lower returns. However, as a concerned corporate citizen and a major employer in Massachusetts, we are not motivated by short-term objectives. On the contrary, we are obligated to look beyond our own business interest, and we are committed to doing the

right thing. We have called Massachusetts home for generations and plan to do so for generations to come.

As yet another reminder of the many challenges the Division of Insurance and proponents of reform face in fixing the Commonwealth's broken system, Attorney General Martha Coakley over the past two weeks has called for hearings questioning the recent competitive rate filings made by several leading carriers, including ours. The Attorney General has indicated that she believes the companies – which also include Arbella, Commerce, Premier and Safety – made expense, loss and profit assumptions that were inconsistent with prior year “fixed and established” rate decisions. She has also singled out State Farm and Fireman's Fund, and the Commissioner of Insurance had previously questioned the initial rate filings of Liberty Mutual, Electric Insurance, Commerce and Arbella.

We are not particularly surprised by the Attorney General's decision to seek hearings. She has been very skeptical of the transition to managed competition, and, as you can see from the companies noted above, she has targeted the major players in the market.

Although we are not surprised, we are disappointed. We expended a tremendous amount of time and energy on our filing. We worked with the Division of Insurance as appropriate, and we applied some of our most talented resources to this effort. People worked nights, weekends and through Thanksgiving to meet the short filing deadlines. We believe that we have satisfied all of the guidelines set forth by the Division, that our filing is fair and highly competitive, and that ultimately, it will be accepted by the Commissioner of Insurance.

Our filing outlines our plans to deliver competitive prices and innovative coverage options which would not have been available except for reform. We plan to reduce the cost of insurance for our best customers by as much as 30 percent or more, reduce rates by about 20 percent or more for about 25 percent of our customers, cut the state's six-year accident and violation surcharge period in half, and offer several new coverage options and discounts that enable drivers to further reduce their costs. According to the Attorney General's own release, our overall, average rate decrease of 8.2 percent is among the highest in the industry. Competition is a good thing for Massachusetts drivers.

Given that this is a new process in Massachusetts, we recognize that there will be challenges as all interested parties adjust and the benefits of competition become more apparent. If in fact any company does have excess profits or inflated expenses, competition will squeeze that out – as it does for every other product. Also, as other companies come into the state, you can expect prices to continue to drop.

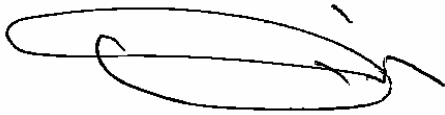
Having said that, we look forward to a speedy hearing process, and to continuing to prepare to compete in the new environment. We are determined to see that the state's auto insurance consumers soon will be able to reap the full benefits of managed competition.

For our part, we remain committed to doing what we do in every other market where we do business - investing in people, products and services, partnering with the best agents, contributing to our communities, delivering on our promises every day – and winning, with you.

We are excited that together with you—our agent partners, we now have the opportunity to develop new and innovative products to meet the needs of our Massachusetts customers. We think that we are uniquely positioned to meet these needs and we look forward to growing our businesses together.

We will continue to keep you informed as we move toward managed competition in Massachusetts. As always, we thank you for your partnership. Together, we can and will do great things.

Sincerely,

A handwritten signature in black ink, appearing to read "Vincent Nieroda". The signature is written in a cursive style with a large, sweeping initial "V" and a horizontal line across the middle.

Vincent Nieroda
President—Massachusetts Personal Lines