

T rade Winds

NEWS AND INFORMATION FOR PERSONAL LINES AGENTS

MESSAGE FROM THE PRESIDENT

Record-Breaking Success!

When you can say you've had your best year ever three years in a row, even your staunchest competitors and critics have to admit you're on to something. As we begin 2007, that's exactly where we are, coming off our third consecutive "best year ever."

Thank you for being an integral part of this historic year. We know that topping previous "bests" simply does not happen without your support.

We are thrilled with our 2006 numbers, particularly in light of last year's eight percent rate reduction in Massachusetts private passenger auto. Some critical external variables were

certainly on our side. We benefited from the mild winter and hurricane seasons. And high gas prices caused drivers—good and bad—to drive less. Yet nothing determined our course more than the formula we've perfected over the past several years: strong underwriting, outstanding customer and claim service, and, most importantly, strong relationships with our agents.



John F. Donohue
Chairman, President,
and CEO

Doing these things well for a number of years has helped us stay the course under adverse conditions and positively thrive under favorable conditions like those we saw last year,

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Arbella's Story by the Numbers

The results we're reporting in this issue of *TradeWinds* weren't achieved overnight. In the past five years we've seen a gradual increase in direct written premium from \$504m in 2002 to \$519.5M in 2006; and a drop in net combined ratio from 108.9 percent in 2002 to 91.7 percent in 2006. The table below tells our personal lines story by the numbers.

	Direct Written Premium			Net Combined Ratio		
	MA	CT	Total	MA	CT	Total
2002	475,910	28,954	504,864	109.5%	98.9%	108.9%
2003	476,473	30,034	506,507	107.4%	89.3%	106.4%
2004	481,332	29,818	511,150	99.4%	84.7%	98.6%
2005	482,297	30,199	512,496	96.7%	95.8%	96.6%
2006	488,544	30,983	519,527	93%	89.8%	92%

even as rates decline. And the numbers for 2006 bear that out.

- A net combined ratio of 92 percent in personal lines (an improvement from 96.6 percent in 2005)
- A 17 percent increase in direct premium for homeowners
- In Massachusetts, a nearly 20 percent reduction in glass-only claims for personal lines, with a 13.8 percent reduction in overall personal lines claims
- An income of \$60 million and a surplus of \$398 million for the entire Arbella Insurance Group

Strengthening our relationships with our agencies means constantly looking for ways to make it easier for you to do business with us. That won't change in 2007. If anything, we'll turn it up a notch with:

- **New homeowners products.** We'll reward

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Arbella.com: A RESOURCE FOR YOUR CUSTOMERS

We set up the agent portion of Arbella.com to make it even easier for you to do business with Arbella. While that portion of the site gets the most notoriety, the fact remains the public site, Arbella.com, offers a number of tools to make it easier for customers to do business with Arbella as well.

Arbella.com makes finding an Arbella agent as simple as entering your city or zip code. It also includes a handy "How to Report a Loss" section and a tool to help your customers find the nearest Arbella claim center—complete with contact information, hours of operation, and driving directions. You can even check out our latest promotional video.

So make your job easier — send your customers to www.arbella.com for claims and company information.

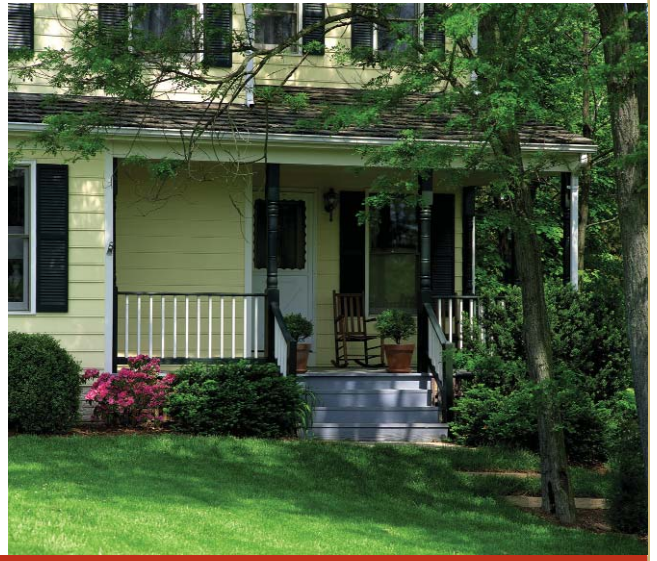
Homeowners Update

Last year, we added a number of homeowners products and updated coverages specifically in response to your comments. Those include:

- An Elite pricing tier for homes with replacement values between \$400,000 and \$1,000,000 as part of our Schooner package (see brochure description in this newsletter).
- Two new homeowners liability limits for Coverage A, available through the Specified Additional Amount of Insurance endorsement (11AR1126) of 125 percent and 150 percent in the event of a total loss.
- Increasing the average Coverage A amount to \$262,000 (up from \$221,000 in 2004) through the M&SB tele-estimating project. This provides more adequate coverage for customers and earns you an additional commission from the increase.
- A \$600,000 and \$750,000 liability limit on Coverage E.

No homeowners update would be complete without a report on the tremendous 2006 results. Direct written premium for homeowners was up 21.3 percent compared to 2005. Overall, including Commonwealth Mutual and Covenant, our Connecticut operation, homeowners increased 17 percent compared to the same period.

Look for further homeowners updates as we develop more products to make it easier to choose Arbella for all your personal lines business.



MESSAGE FROM THE PRESIDENT

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customers for placing both their homeowners and auto with us.

- **Additional branding efforts.** You've seen our new look and heard the radio spots. Look for our promotional video on www.arbella.com as we continue to tell Arbella's story and enhance our brand.
- **Co-op advertising.** We'll help you advertise your agency by continuing our program of financial support.
- **e-SUITE® additions.** We'll continue adding tools to e-SUITE® so you can do even more business with Arbella from anywhere you have an Internet connection.

Over the past year, we have actively opposed the so-called "reform" of the Mass. auto system. Your letters, phone calls and visits to state legislators and officials have played a pivotal role in that effort. We appreciate the fact that so many

of you continue to support us as we urge the governor to halt implementation of the MAIP and focus instead on more thoughtful, sensible approaches.

A special word of thanks goes to our 47 Captain and Admiral agents who took advantage of our matching program through the Arbella Charitable Foundation. Under the program, the foundation matched up to \$2,500 for each Captain and Admiral agent, generating combined donations totaling \$159,540 from April through November of 2006.

The accomplishments of the past three years have not been achieved by accident. They came about by the application of a successful formula: strong underwriting, claims and customer service; solid partnerships with agents; and continuous improvement to earn your business. It's a formula that we believe will bring continued success in the future.

A Reminder About Homes Under Construction

Per Arbella's underwriting guidelines, you can write homes under construction on a homeowners policy as long as construction will be completed and the customer occupies the home within 180 days. In order to write this coverage, you must include a certificate of insurance, provided by the general contractor, with the request for the 11AR 1091 endorsement.

This coverage applies for the first 180 days of the policy period, or until the construction is complete and the customer occupies the home, whichever comes first. Risks where the insured acts as the general contractor are ineligible.



Update

Fall Sales Meetings

This year's fall sales meetings featured presentations by John Donohue, Doug Jones, and Andrea MacKay. All presenters thanked agents for the outstanding year-to-date 2006 results, which show Arbella on pace to have its best year ever.

John Donohue went on to present an update on the status of private passenger auto insurance reform in Massachusetts. He thanked agents for their efforts in voicing opposition to the current plan for reform and encouraged all to stay involved in the fight.

The meeting also featured the unveiling of Arbella's new branding video. Donohue encouraged agents to send customers to www.arbella.com to view the first of several promotional videos we'll produce going into the new year.

The meeting closed with a presentation on the latest eSUITE® updates by Arbella's Sandy Washburn. Most of the discussion was about our plans to unveil a new and vastly improved way of electronically uploading private passenger new business and policy changes.

Arbella hosts sales meetings each spring and fall to keep you abreast of what's going on. This fall's meetings took place in October in Plymouth, Wakefield, Sturbridge, and Quincy. Arbella's next round of sales meetings will take place in the early spring.

Sure, the "e" in e-SUITE® may stand for "electronic" but it could just as well stand for "easy." With the addition of Massachusetts private passenger auto to the list of online applications, Arbella.com now allows you to upload private passenger auto business directly online. It enables you to make changes to existing policies as well.

Our new upload feature means that the information you input from your agency vendor system (AMS, SIS, and Applied) can be transferred to Arbella.com with only a few clicks of the mouse. Once that is done, you can quickly complete the transaction right there on line. Built in underwriting edits and clear help guides allow you to easily submit a complete application directly to us in mere minutes!

We also added real-time interfaces with RL Polk and the Registry of Motor Vehicles to give you immediate access to the most up-to-date information. We even provide the city and state for the ZIP code you enter.

When entering new business, you only need to provide basic information—address, effective date, license numbers, VIN, and coverage limits—to get a quote. And with our pre-fill features, completing the rest of the application is a breeze. Essentially, the only thing left to do is submit your request and the rest is on us! Because we use reference numbers with this application process, you don't have to wait for a policy number to submit down payments. You can initiate an electronic payment at the time you submit the transaction using the reference number provided.

Another new e-SUITE® feature lets you endorse an existing policy directly on Arbella.com. Since you're the one making the changes, this cuts the turnaround time dramatically. It also eliminates the need to enter two requests for expiring and renewal terms. We can now incorporate two term changes with one simple request. Say good-bye to double entry forever!

e-SUITE® represents Arbella's commitment to improving our technology and making it easier for you to do business with us. With our new upload feature for Massachusetts private passenger auto—along with the processing features already available for home, dwelling, umbrella, BOP, workers comp and commercial auto business—it has never been easier to make Arbella part of your day, every day.

AVOID POLICY CANCELLATIONS WITH ELECTRONIC PAYMENTS

Even with the convenience of electronic payments, sending in payment for policies pending cancellation still meant a separate phone call, fax or e-mail to let us know about it. That is, until now.

The latest additions to e-SUITE® allow you to electronically send payment on policies pending cancellation and to notify Arbella within the same transaction. How it works is easy. Simply answer "Yes" to the cancellation question located on the Electronic Payment Submission screen. When you check this button, it will automatically notify us that the payment is for a pending cancellation. We will then take the necessary steps to ensure the cancellation does not occur. It's as simple as that.

For more information on this new tool, visit the e-SUITE® update section of the Agent Home page of Arbella.com.

Andrea MacKay Named Vice President

Arbella recently named Andrea MacKay vice president for Massachusetts personal lines underwriting. In this newly created position, Andrea will report directly to Arbella Chairman John Donohue and be responsible for all aspects of underwriting, pricing, research, and development for all our personal lines business in Massachusetts.

Andrea joined Arbella in 1991 after being employed at a number of agencies in Massachusetts and New York. After working in both our actuarial and underwriting departments, she rose through the ranks to the position of assistant vice president of underwriting in 2001.

"Andrea's mastery of the nuances of pricing and underwriting has made her an invaluable member of our operation," said John Donohue, chairman of Arbella Insurance Group. "With this new position, we're not only recognizing her many accomplishments, but expanding her responsibilities to fully utilize her leadership and expertise."



Andrea MacKay

The Arbella Network— Our Advisory Councils

With our advisory councils, Arbella has a network of partners who let us know how we're doing and how we can improve. Those same councils can provide you with networking opportunities through which you can share observations and opinions about your experiences with other Arbella agents.

The best examples are the bi-annual meetings. Each of the councils meets formally twice a year, (once at a two-day meeting away from Arbella headquarters) but the networking among agents starts long before the meetings. Members of the Agent Advisory Council will typically contact other agents in their area prior to each of the meetings, generally to inquire about whether you have questions, comments or concerns to bring up at the meeting. This is a great opportunity to open a dialogue with your fellow agents.

At the council meetings themselves, there are a number of formal and informal opportunities

for networking. Each meeting is set up to include an agents-only session for council members to express thoughts and concerns and formulate their comments among themselves.

Between council meetings, you can find meeting minutes and a complete list of council members on our Web site. This gives you the opportunity to find out what topics have been discussed at the meetings and to follow up with council members.

While meetings act as the catalyst, the advisory councils really offer a way to keep in touch with other Arbella agents year-round. It's part of the reason agents accept appointments to the councils: to help other Arbella agents. Not only do they not mind hearing from you, they welcome it. So don't be shy. Your advisory council is there for you.

The next round of Agent Council meetings will be held in the spring. To view the minutes from the most recent meetings, please go to the agent section of Arbella.com

New and Improved Personal Lines Brochures

We've updated the old and added some new to our selection of brochures promoting personal lines products. Our latest brochure offerings include:

Elite Homeowners Program

(form # 90AG1056)

Explains our program that protects single-family homes valued between \$400,000 and \$1,000,000. Every Elite Homeowners policy includes the Schooner Package to provide maximum protection to your customer's home and assets.

Identity Fraud *(form # 90AG1055)*

Cites the benefits of choosing our Identity Fraud endorsement to go along with the Homeowners policy. This brochure also offers suggestions on how to reduce the risk of identity fraud.

Keeping Your Seasonal Home Safe

(form # 90AG1058 64M 12/05)

Provides tips on preventing damage to seasonal homes. This brochure offers advice regarding certain perils that can threaten seasonal homes, ranging from weather to theft.

Protecting Your Most Valuable Asset

(form # 90AG1050)

Educates your customers on the importance of insuring their home at full value. This brochure touches on the ways in which a home's value may increase over time and how underinsurance can affect payment of a claim.

Why Do I Need a Personal Umbrella Policy?

Highlights examples of how large, unexpected auto or homeowners claims can affect your customer's assets, and how the additional coverage offered under the umbrella policy protects against such situations.

Renter's Insurance

(form # 90AG1065 10/06)

Provides information about the coverage and importance of having renter's insurance.

To order brochures, fill out the form provided on Arbella.com. You can find the form by going to the agent home page and clicking on the Brochure link located in the Agency Support drop-down menu in the Services section.

PERSONAL LINES AGENT ADVISORY COUNCIL

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L & S Boule Insurance Agency, Inc.

John Koegel, Vice President
Eastern Insurance Group, LLC

Rob Marchionne, Treasurer
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Jensen-Sheehan Insurance Agency, Inc.

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Lisa Gervais
Byette Insurance Agency, Inc.

Joyce Pasquale
Hub International New England, LLC

Leslie Joyce
Thomas F. Keefe Insurance Agency, Inc.

Karen Roan
Rodman Insurance Agency, Inc.

Wendi Obuchowski
Whalen Insurance Agency, Inc.

Aimee Goddard
Richardson-Cuddy Insurance Agency, Inc.

Janet Papineau
Waverley Insurance Agency, Inc.

Gloria Harnois
J. R. Tallman & Company, Inc.