The Plymouth Rock Company

2004 Annual Report

The Plymouth Rock Company

695 Atlantic Avenue
Boston, Massachusetts 02111

Chairman's Letter

February 9, 2005

To Our Shareholders:

It would be hard to complain about how 2004 treated Plymouth Rock. Net income was $36.6 million, up 98% from the prior year. Most of the gain was related to the inclusion in our results of the first full year of business at High Point Management Company, which administers the business that the Palisades reciprocal acquired from Prudential in 2003. This is not to suggest that internal growth was sluggish. Business underwritten in New England grew by 29%.

Our company's equity at year-end, computed according to generally accepted accounting principles, stood at $162 million, up $32 million since last year. On a per share basis, the book value increase was from $713 to $886. This 24% gain pushed to 18.0% per annum the cumulative book value return on capitalization from Plymouth Rock's 1983 inception. It is safe to guess that our market value return over the same period has increased at a higher annual rate. Every year we commission an independent outside appraisal to help guide the few purchases and sales that take place in a year, and to set a value on the stock for charitable giving. When we received the appraisal last May, it set the market price estimate at about 2.5 times book value. If this seems like a high multiple, given that the typical insurer trades at something like 1.5 times book, it is not without reason. Our elevated book multiple reflects the fact that so much of the Company's earning capacity is found in its management relationship with the New Jersey reciprocal and is not, therefore, reflected in the book value. We are also, by most measures, doing better than the average company. So, the market to book multiple has presumably increased over time as well as the book value itself. If, when we receive the next appraisal a few months from now, we compute the annual compounded gain in value from the Company's first year to the end of 2004, it will almost certainly show us with an annual market value growth rate in the twenties. I'd like to see the rate of gain in book value advance into that range as well.

In the same manner as GAAP equity excludes the value of the reciprocal relationship, it also ignores some substantial unrealized gains on our real estate portfolio and, with respect to our common stock investments in Homesite Group and Response Insurance, the value of those holdings in excess of their adjusted costs. This does not make the GAAP numbers wrong or inaccurate in any way. One must simply accept that no single measure of net worth captures the whole picture. The picture GAAP offers of our operating scale is similarly contracted. Much of our volume is managed on behalf of a reciprocal insurer and other client companies, and some of it is ceded as reinsurance to private carriers and state pools. What shows as the top line on the income statement is only the premiums our companies underwrite, rather than manage, and then retain after reinsurance is ceded. The group's total premium volume, both underwritten and managed, at year-end 2004 is now $1.1 billion, of which the managed portion now constitutes more than two-thirds.

In last year's letter, I summarized the various elements of our income sliced up as Hal and I tend to look at the pieces. Let me offer that again before turning to a more detailed company-by-company look. The three profit generators in our enterprise are underwriting, insurance management, and investments. The year just ended was a period of good growth and improving profitability for our underwriting business, all of which is written in three of our New England insurance companies. From $321 million in business written, the contribution to net income of underwriting was about $12.5 million, a return on gross premiums of just a hair under 4%. Although this is close to the long-term industry average for automobile insurance writers, it is well short of our ideal target metric for such business. The managed business did better. It returned profits of $24.1 million on gross volume of $790 million. This is a return of over 3% on gross premiums, and closer to the long-term target for this segment. The return target for managed business, of course, is much lower than that for underwritten business because: (a) it requires less capital than underwritten volume; (b) it carries less risk; and (c) the owners of the managed business have to earn a fair return too.

The investment year was not remarkable. The metric strictly additive to the two profit elements above is investment gain at the Plymouth Rock holding company on its own portfolio plus any group profit on the investment items excluded from GAAP. The Plymouth Rock Company earned a solid 13.7% return on its investments, ignoring difficult-to-quantify increases in franchise values at Homesite and Response. This is superior to the overall investment return for the group, which was dominated by low bond yields, but below the typical return the holding company has earned on investments in other years. Another measure of investment performance I like to follow, though one which is *not* additive to the other profit elements because it would double-count some of the insurance returns, is the contribution to economic profit above and beyond the "plain vanilla" portfolio return that would be available to us at minimal risk. The increment this year, in yield terms, was about 320 basis points, slightly above its long-term mean. The increment will probably average something not too far from this as long as most of the portfolio remains in fixed income instruments. So, how does good but less than memorable performance in two of the three profit performance metrics permit such a jump in overall profits? The answer is found in our growth. Plymouth Rock's fine year was more the consequence of the recent expansions in absolute size than its small relative improvements in performance. This is good news, of course, since it means that there is room to do even better in future years.

New Jersey is our biggest state now. There the 2004 news is largely positive at both the company level and the industry level. Hal and I were warned more times than I can count that the acquisition of a large existing company would be fraught with hidden traps and perils, that integration of two distinct companies would seem like an endless nightmare, and that most mergers prove in the end to disappoint. So far, we appear to have ducked those bullets. The business of Prudential P&C of New Jersey, now High Point, was conducted by honest and highly competent people, many of whom now work with us. Their numbers have tested out as accurate. Learning is mutual as techniques and information pass from one group to the other. Most important, perhaps, the High Point people seem to embrace readily the culture that has long characterized Plymouth Rock. Jim Tignanelli, Joe Metz -- the new Chief Operating Officer of High Point -- and their managerial staff meet all of the requirements of a Plymouth Rock company, and they understand teamwork. The integration of the enterprises, that threatened nightmare, has instead proven not only to have been compatible with enhanced results in the pre-existing businesses, but also to be the source of greatest pride in this past year's list of accomplishments for Tig, for Gerry Wilson (who now serves as chairman of High Point as well as president of Palisades), for Hal, and for me. Of the four, I probably deserve the least credit.

Premiums managed at High Point were $570 million in 2004. The gross loss ratio for that company's business was a healthy 62%. The all-inclusive expense ratio is our metric for costs. It joins loss adjustment expenses, investment expenses, and underwriting expenses to develop a measure of total operating outflow other than payments to claimants. This ratio, computed for the insurer and the manager taken together, which is the only way it makes any sense to me in a managed business, was 32%. That sets an example for all of our other companies. Perhaps the greatest source of worry senior management has about High Point today comes from its carrying too much homeowners volume for a single-state carrier. There is a new and beefed-up reinsurance program in place at High Point, but we would prefer to see a reduction in exposure level. Reinsurance is like an umbrella that works better in the sun than in the rain. A second concern arises from an unfinished aspect of the integration of the companies. Until the migration of the High Point IT systems to a Plymouth Rock platform is complete, there could still be rapids ahead on the integration journey. None are in sight so far, though, and High Point is navigating smoothly. It remains a realistic hope that we will all be able to look back in a year or so and describe this as the rare acquisition made in heaven.

Palisades Safety and Insurance Association and its subsidiary Palisades Insurance Company had another good year, but not without its challenges. Premium for those companies was $167 million. The contribution to Plymouth Rock group's net income rose by 16% to $4.3 million. The gross pure auto insurance loss ratio was a splendid 55%, the best in our group, and the all-inclusive expense ratio, again for the combined insurer and management company, improved half a point to 37%. Service remained outstanding. Hal and I had worried once that, if we both lived in Massachusetts, the New Jersey commitment to service quality might suffer. That looks in retrospect to have been a foolish underestimation of Gerry Wilson. Gerry and his team have actually improved the service culture Hal had built. New Jersey's insurance department just published its annual statistics on consumer complaints. Once again, Palisades had the best record of the twenty-nine companies writing in that state. Second in the rankings was an admittedly excellent New Jersey writer. In third place, doing better than all but one of its better known competitors, was our own High Point Insurance, which has moved up from a still respectable ninth the prior year just as Tig promised it would. Toward the bottom of the list were some companies whose names you would know well, one giant carrier having recorded nearly 25 times as many Insurance Department validated complaints per vehicle as High Point. Congratulations are due all of the New Jersey contributors to our success there.

The State of New Jersey, once the *bête noir* of free market enthusiasts in our industry, is now becoming an insurance industry darling. GEICO has returned forcefully to the state after an absence of more than twenty-five years. Mercury General entered the state and hit the ground running. State Farm is no longer threatening to leave. Progressive is rumored to be making an appearance soon. Competition is accordingly heating up. Most of this is the result of a major regulatory reform, which is regarded by some companies here in Massachusetts as a model for our state's future. Some of the most important changes are plainly good policy and common sense. Moderate rate increases are now expedited, where they used to drag through department scrutiny. The state's unusual excess profits tax calculation has been rationalized somewhat. More sophisticated rating and underwriting tools are now permitted, and there has been a relaxation of the take-all-comers mandate -- sensibly conditioned on the assigned risk pool remaining below 10% of the market. We applaud these initiatives in general. Because one of my jobs here is to warn you of risks, though, it may be useful to list some aspects of the new scene that should give pause. One is that New Jersey seems to make a new regulatory deal with each attractive new entrant. Regulation, by its very nature, should be evenhanded and a level playing field is a minimum requirement of fairness in a state-regulated industry. A very temporary and minor tilt toward new entrants is perhaps understandable. We watch each new deal, however, with some concern that it may be more than minor or more durable than would be fair. Then there is the danger of inflated expectations for rate stability. These last few years have been among the best since the proliferation of the automobile for underlying insurance cost trends. It is painless for a regulator to maintain peace between consumers and companies when the trend of rates is so felicitous. New Jersey may not be an easy state in which to keep that peace when the trends turn up again.

Finally, there is a hazard in the potential for relative rate level explosion. New Jersey has limits on territorial relativities, without sufficient compensating incentives to make the market work properly. That means that many companies tend to seek ways to curtail writing in cities. We favor a system of urban premium credits for companies rather than premium increases to consumers to remedy this situation. Prices are already starting to rise disproportionally in the urban areas, and availability may diminish. Like the general rate picture, this is all blurred by the favorable cost trends of the moment, but don't count on that for the indefinite future. If too many carriers are permitted to write less than their shares of city business, moreover, this will exacerbate the stresses. The New Jersey political leadership has successfully removed auto insurance from the front pages for a time. Don't bet that it won't return to the headlines when the deal window closes, urban availability diminishes, and rate trends turn upward. New Jersey remains the most expensive state in which to insure a car, as well as a state with huge socioeconomic disparities between its poorest and richest neighborhoods. These are hardy seeds for discontent in the automobile insurance market.

The challenges I referred to at Palisades are consequences of the heightened competition in New Jersey. Improved regulatory conditions are always a double-edged sword for us. The more our competitors enjoy doing business in a state, the harder we have to work to stay ahead of them. On the other hand, the regulatory climate that can attract the others usually contains the elements of flexibility we can employ to stay a bit ahead. People often ask me whether Plymouth Rock's history of thriving in Massachusetts and New Jersey during their most regulated periods implies that we will suffer in a freer environment. My answer is that we indeed gained in our start-up years from the unpopularity of our two major states. Since a start-up is necessarily weaker than an established company in branding, in scale economies, and in depth of talent and financial resources, a degree of disaffection among the giants is helpful in bootstrapping market share. On the other hand, we are now a top-ten writer of auto insurance in both states (roughly tied for third in New Jersey), our credentials for service are well-established, and we have reasonable depth in all dimensions. So now, if we can be intelligent enough, the flexibilities may be as valuable to us as the clear field. A short-term exception to that logic exists in 2004 and 2005 for Palisades. Before it reentered, GEICO was our largest agency in New Jersey, and a fine one at that. Now it understandably wants for itself the business it can produce, so we have lost a source of revenues. Since some of the customers placed with us by GEICO in the past were only there because GEICO itself was unavailable and each customer can choose which one of us they want in the future, Palisades has lost a share of those drivers as well. Exposure growth, for the first time in Palisades' history, was in the low single digits for 2004 and may well be flat in 2005 as the lost GEICO business runs off. Look to 2006 for a resumption of the growth at Palisades.

Pilgrim Insurance, our Massachusetts-based insurance management company, had a moderate growth year on the top line. Premiums managed were up by about 8%. On the bottom line, though, its performance improvement was much more commendable. Ellen Wilcox has taken Pilgrim's profit from $1.6 million to $2.8 million, cutting the expense ratio by six points. The return on equity at Pilgrim is now in the thirties. Pilgrim, on the other hand, is the Plymouth Rock company potentially most affected by proposed changes in the works for the Massachusetts regulatory environment. Pilgrim has prospered by developing a recognized expertise in handling residual market business under the current Massachusetts rules. Ellen is confident that there will be a role for that expertise no matter what the shape the residual market takes. Hal and I believe that, too, but we may need to be agile to adapt Pilgrim's offerings to a new set of service demand conditions in Massachusetts, and we would all like to see the service offering expanded to a broader list of jurisdictions and products.

Plymouth Rock Assurance Corporation, our first and largest insurance underwriting company, had a better year than the year prior in both absolute and relative terms. In 2003, it wrote $180 million in New

England auto insurance business and its combined ratio was 102%. In 2004, it passed $240 million in automobile insurance premiums and took its combined ratio below 99%. That means that it got to keep a penny on every dollar of business it wrote as well as the investment income on the float. Just as important, it undertook, along with the other Plymouth Rock companies and under the leadership of Paul Luongo, a major overhaul of its IT systems designed to make our family of companies more efficient and more independent of outside vendors. Costs, and the combined ratio, would have been lower had we not committed to this IT project, but no one here doubts that the investment will pay off. The all-inclusive expense ratio, covering claim adjustment and investment costs as well as underwriting (and IT) expenses, stood at 37.3%, down three-fourths of a point for the second year in a row. Hal has kept his promise on this score admirably. Premium in Connecticut, now on Chip Conner's watch, approached $16 million by year-end, up from $10 million last year. The pure loss ratio is around 70%. We will have to figure out how to accelerate there. We aren't as patient as when we first started Plymouth Rock; in those days $6 million in growth seemed like a lot for one year. Chip, as Plymouth Rock Assurance's COO, is also responsible for New Hampshire, where written premium is actually down a bit in 2004, to $17 million. The loss ratio results, on the other hand, have improved, and we saw a small profit in New Hampshire as measured on a stand-alone basis. We've been at it a long time to have such a small book in that state. The agents like us; the staff is excellent; but we haven't hit any home runs in marketing our product. If you know the technique, let Chip know. He's ready to swing for the fences.

As comforting as the Massachusetts results may be in 2004 for automobile insurers, the regulatory environment is discomforting. This is not because we feel threatened by what is occurring but because no one knows what to plan for in the years ahead. The Governor and the Insurance Commissioner are determined to alter key elements of the current regulatory regime in an effort to bring more competitors into Massachusetts. In designing their proposed changes, they have relied heavily on the board of CAR, the residual market mechanism here, and a coalition of companies as policy advisors. The result was a package of reforms, approved by the Commissioner in November, that we thought tolerable and well-meaning but flawed in three specific respects. The first flaw was that the reforms would bring about several years of increased risk pooling on the part of the industry, an invitation for companies to settle claims less diligently than they do when their own money is on the line. The inevitable result of such a socialization of auto insurance claim handling is more fraud and ultimately higher costs for the consumers. The second flaw was that, despite disclaimers from the Administration, the reforms would raise rates for many urban drivers by reducing the tempering of relative premium levels that I believe has kept a just peace with the driving public for nearly three decades now. The third flaw involved the central thrust of the reforms, to move over three years from a reinsurance approach to an assigned risk approach for the Massachusetts residual market. Assigned risk is an approach with many merits, not the least of which is broad acceptance in other states, but which was explicitly rejected by the Massachusetts legislature long ago after having been in use in this state and found wanting. That third flaw, which causes the Commissioner's program for 2005 and 2006 to be described as a "Transition Plan", caught the attention of the courts, and a stay was issued against the new plan just a month after it took effect. We will most likely have at least a few quarters now of the old regulatory regime, followed by a return to some new agenda set by the Commissioner – probably with a degree of increased scrutiny by the courts and the legislature this time. Don't ask yet for more specific predictions.

I am not convinced this state can conform to the national model that the Governor has in mind – or should try. If the national model involves huge rate disparities between urban and rural or suburban premiums, or allowing companies to place anyone they don't care for in a pool with higher rates or lower levels of service, the legislature should consider it a step backwards from where we are today. On the other hand, the current regimen has led to a constant upwards ratcheting in the gaming of CAR's rules, and the Governor, the Commissioner, and the Attorney General were absolutely right to demand reforms to put a stop to it. I am not certain any reforms will work if they leave great power at CAR itself. Where else in our society can a company's competitors sit in judgment of it, and take its money to award to themselves? It would be far more assuring if the rules were directly administered by a state agency or at least under the protections of the Administrative Procedures Act and the numerous conflict-of-interest laws that constrain state action. The Commissioner already has ample authority to implement a greater degree of competitive rating, which I tried unsuccessfully to introduce during my term in that office nearly thirty years ago. She also has the authority to halt most of the gaming at CAR. If she wants to win confidence in the system's integrity and good sense, those might be easier places to begin. Whatever she does, and whatever the courts say about whatever she does, we expect that Massachusetts will remain outside the national model for now. You can take a bit of solace from the fact that no equitable plan for future regulation is likely to threaten Plymouth Rock's ability to remain among the state's successful carriers. Perhaps there is a silver lining even in the discomforting environment. The uncertainties may be more upsetting to bureaucratically centralized and inflexible companies than to us, and that too could provide a comparative advantage.

Bunker Hill Insurance Company may deserve the "most improved" award among the underwriting companies. John Tierney, its president, has taken it from a loss of more than half a million dollars in 2003 to a gain of $1.2 million in 2004. Everything there is moving in the right direction – which means toward more profit with less catastrophe risk potential. We are now covered against catastrophes at Bunker Hill for about the one in 100 year storm season and the protection level is rising despite recent changes in the commonly used catastrophe models that have raised the bar in New England by predicting worse weather and increased potential damage. The net income represents an 11% return on equity. While the profits are still short of reflecting the rate of return I'd like to see on homeowners business, and the catastrophe protection is not yet quite enough, John is taking all of the steps available to him to get to the targets without harming the Plymouth Rock agents. Meeting their needs is one of our principal motivations for being in the New England homeowners business. Undertaken other than as Homesite does the business, homeowners insurance is a tough industry in which to thrive.

Investment results for 2004, I said above, did not make history. SRB Corporation, and therefore Rick Childs, Jim Bailey, and I, continues to take responsibility for the Plymouth Rock group portfolios. Feeling constrained by regulators and rating agencies, we still hold two-thirds of the portfolio in high-grade intermediate-duration bonds. How I wish we didn't have to do so. We earned only about a 2% total return on those bonds, while our marketable equity return has averaged more than 20% measured over the entire twelve-year history of our investing in stocks and over 16% for the last five years. I am guessing our strategic equity investments, not yet subject to appraisal, will do at least as well. We would need, however, significant overcapitalization to invest the bulk of our assets in equities. Those days haven't come yet.

Notice that I referred above to the long-term equity returns and not to the 2004 returns. This is not just for principle, though indeed equity performance should always be looked at over a multiyear horizon, but because we took a significant hit in 2004 on our holdings in Merck. In a portfolio of only six common stocks, a market value deterioration like Merck's in 2004 will have a significant impact, and for us it reduced the marketable equity yield for 2004 to around 0%. The lesson here is not that we should hold more stocks. Our cumulative IRR of over 20% would not be achievable with a diversified portfolio. It is not that we need to alter how we evaluate stocks for purchase. We still, in fact, have a respectable 8% annual return on our Merck investment from its inception, and we still have faith in that company's potential to improve the return in the future. If there is a lesson, and it does not follow that every stock market loss contains a lifetime lesson (or, more precisely, a lesson I am capable of figuring out), it is that we need to pay more attention to the operating risks at our portfolio companies. Among the major advantages of holding such an undiversified portfolio is that one can do this. Jim, Rick, and I never had the kind of debate about Vioxx that we have whenever we buy a new stock. I'd like to think we will have such debates in the future. We still won't be stock traders, and we will still give every benefit of the doubt to holding on to the companies that pass our difficult screens, but this was in retrospect the rare possible-sell situation we might have identified.

The Company's real estate, down in appraised value for several years now, began to rebound in 2004. We can see the underlying strength in our own rentals. Our headquarters building will soon boast one of Boston's finest health clubs on the bottom two floors, and the rest of the building is nearly full.

The headline at Response, one of our two major strategic investments, is that it has finished its second year in the black. Mory Katz and his team deserve a great deal of credit for this. The loss ratio, which John Javaruski oversees, remains even better than it needs to be. The IT systems work. The footprint is expanding. Customer service is excellent. The numbers are always prompt and reliable. The expense ratio is not yet what it should be, but this is largely a scale issue and not far from solution now. The company writes $130 million in premium, and it can achieve full scale economies by the time it reaches $200 million in size. What remains to be done is all in the area of internally generated growth. Response grew for a while largely by acquisition. It now needs to build and fuel an internal growth engine that can reliably compound its scale at a rate of at least 20% per year. The fuel for that engine has to be profits on the renewal book of business. Those profits are not yet sufficient to achieve the target growth rates but they are moving steadily toward that. The engine itself has to be a synthesis of marketing techniques that allows volume with a lifetime loss ratio better than 70% to be produced in large increments at an acquisition cost of no more than $0.35 on the premium dollar. All eyes at Response are now on that goal.

My contractual term as chairman of Response concludes in September of 2005. Peter Wood has already ended his service to the direct U.S. companies and returned his focus to the U.K., where he is building yet another new automobile insurer. Without Peter's earlier participation, it is not clear whether Response or Homesite Group would have come to exist. He stays on, of course, as a valued director of Plymouth Rock. Meanwhile, the principal investor in Response, Morgan Stanley Capital Partners, has been spun off from Morgan Stanley and renamed itself Metalmark Capital. Under the direction of Howard Hoffen, Metalmark will continue to manage the investments of the Morgan Stanley private equity funds. Although Howard and I are talking about whether it makes sense to renew our shareholders' agreement, and thus continue my involvement, we agree that the default is a situation in which Plymouth Rock and I would be minority owners of Response but no more than that. I will in that case have left the investors a profitable company, well led and well positioned -- if quite a bit late -- for a valuable future in an inviting industry segment with high barriers to entry. When Mory can operate a fully powered growth machine, Response should be worth a multiple of what I suspect it would be worth on the market today. I'd prefer not to have to sell our Response stake in the next few years, regardless of our level of management involvement.

Homesite Group, the strategic investment we hold in the homeowners business, is still in the red operationally, but don't let that fool you into thinking that Fabian Fondriest and his team produced anything less than a splendid year. Let me describe Homesite, not as it looks in its historical records, but as it might appear to an observer willing to chance an extrapolation into its future. The new business flow to Homesite reached a high of 1700 sales per week in the fall of 2004, and is expected to exceed this over the full year 2005. That translates into new premium volume of roughly $50 million per year. Homesite loses by attrition about 10% of its business each year. If these two metrics continue on that pace, with $50 million coming in and 10% falling away each year, the company will grow asymptotically to half a billion dollars in premium volume. The loss ratio has been pretty reliably below 60 points to date, the policy-life acquisition cost (including commissions to partners) around 15 points, and the sum of loss adjustment and general expenses is trending with scale toward a total less than 15 points. Should Homesite even come close to achieving or maintaining those numbers, and assuming reasonable investment results, you can imagine Homesite earning close to 15 pre-tax points on premiums when it reaches the size to which its current partner list can take it. It may be wise to think of these numbers as wishes rather than predictions because a limitless number of unseen obstacles lie in the future, and Fabian would never promise that everything will go right. Surely obstacles will arise and some things will in fact go wrong, but I can tell you that, when something does, Fabian is the one to fix it. Fabian *can* promise that he hasn't, and won't, stop looking for new partners to take the numbers even higher.

One challenge for Homesite is that its prospects may outstrip its capital base. A push to raise some additional capital seems highly likely in 2005. A potential investor will see a company with a remarkable list of blue chip partners, the newest and already among the largest of which is AIG's direct auto operation. Homesite will begin the year with $100 million in direct premiums, up from $60 million in direct premiums (excluding substantial reinsurance assumed from partners) a year ago, and with plans to reach $175 million by the end of 2005. At the same time, and all the more impressive given the remarkable pace of growth, an investor today should see a company waving goodbye to the operating losses that small scale had previously made inevitable. If the potential investor also sees the future as I do, we should be able to make a deal.

This was, of course, Plymouth Rock's best year ever, but each step forward opens to a new stage and some new challenges. That is one of my blessings in life. Lest you be concerned that we are turning the lights off early now, here are some of the subjects Hal and I enjoy talking about as we contemplate the future. There are more states in the Northeast to enter; we are particularly interested in New York and Pennsylvania. Plymouth Rock now has over 1400 employees, and has made some real progress in adding bench strength to the top of the organization recently, but we have many more bright, nice and ambitious people to hire. We will never get in trouble by hiring too many talented people for Plymouth Rock. We will have our share of strategic changes to make as the companies respond to the regulatory reforms in our key states. Especially here in Massachusetts, our ability to adapt may have to substitute for an ability to predict. We also have a persistent gap to bridge between actual profitability and our ambitious target profitability, a gap that can be filled only by enhancements of both loss ratio and efficiency. Finally, we have only scratched the surface in learning how to develop the agencies we have bought and how to help our independent agencies grow their franchises. The task list, thank goodness, never gets any shorter.

James M. Stone