

The Plymouth Rock Company

INCORPORATED

177 Milk Street

Boston, Massachusetts 02109

Chairman's Letter

March 31, 1985

To Our Shareholders:

Plymouth Rock Assurance Corporation wrote its first policy of insurance on January 1, 1984. This is the first annual report. I am pleased to observe that 1984 was good to us. For that I want to thank our remarkably conscientious staff, our farsighted investors, and an agency force which is already the envy of our competitors.

We operate at Plymouth Rock according to a rigorous budgeting procedure. We admittedly expend more effort on detailed written projections and the tracking of actual results against budgets than most companies think necessary, but we believe this is worthwhile for us. It forces us to grade ourselves objectively, to explicitly debate changes in our course, and to test our knowledge of our own business against the very difficult standard of predictive accuracy.

This year, after our April budget review, we had to amend our projections to reflect something we came to learn about the current homeowners market in Massachusetts. We had expected to do over \$1.5 million in homeowners written premium for 1984. Our expectation reflected an underestimate of both the inertia involved in diverting business from accustomed markets and the fierce competition that presently characterizes Massachusetts homeowners. By the spring, it became apparent that we would either have to cut our rates just a few months after they took effect or scale back our projections. We chose not to make any premium adjustments in our maiden year and to accept the consequences for our 1984 volume. Our May budget anticipated premiums written of \$3.0 million in automobile insurance, \$0.5 million in homeowners and a bottom line consolidated loss for 1984 of \$480,000. This would have been, by insurance industry standards, a rather healthy start for a brand new entrant.

We actually did just a little bit better. Our written automobile volume was \$3.1 million. Our homeowners volume was \$0.6 million. The net loss for 1984 was \$260,000. A little more than half of the bottom line improvement was due to the conversion at midyear by our major investor, Central Securities Corporation, of two million dollars in interest bearing notes to preferred shares. This eliminated our long term debt and the accompanying interest burden. The rest of the improvement was due to favorable operating results.

Expense ratios in formative years tend to be well above normalized expense levels. The costs of our executive staff, data processing capabilities and other relatively fixed expenses are not matched by the expense provision in our small premium base. Economies of scale operate here, and the expense ratio will be high until those economies are realized. Until then, we will measure ourselves by our budgets. In 1984, we remained within our expense budget for the year, both in total and in the major subcategories. The 1984 expense ratio on the basis of Generally Accepted Accounting Principles was 56%. We hope to see it fall steadily each year until it settles at thirty points or below about five years from now.

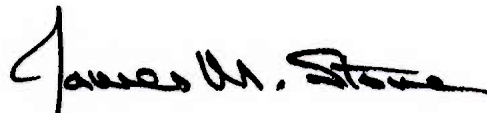
Our loss ratio is not subject to an economies of scale handicap. New companies generally have a disadvantage here from a different source. The business that floats most freely in the marketplace, and is thus easiest for a new company to attract, carries a higher loss ratio than firmly anchored business. We have gone out of our way to avoid the easy-to-get risks in our automobile underwriting and concentrated instead on seasoned business. The result is a 1984 loss ratio of 69%, a level we would be pleased to maintain forever. At some point, we expect to find that a trade-off develops between speed of growth and assurance of quality. If that occurs, we will be inclined toward the latter.

Our ability to grow and still hold our standards high in 1985 will be enhanced by Plymouth Rock's appointment in October of 1984 as a Servicing Carrier for the Massachusetts residual market, Commonwealth Automobile Reinsurers. As a servicing carrier, we will be

effectively obligated to take some business we might otherwise prefer to leave, but we will be permitted to decide, for each piece of our automobile book, whether to record the premium and losses for our own account or that of the industry. This gives us a continuing opportunity to screen our book. Pleased with the computerized underwriting model we have been using at our agents' offices, we are now building an even more sophisticated computer model to help us decide what to keep and what to cede. If we do not prove superior to the industry norms in risk selection, we will have been unsuccessful at one of our major goals.

There is less to say about our investment performance. We have adhered for the present to what might be described as a minimalist approach to portfolio risk. Our investments are more than 90% in debt securities issued or guaranteed by the federal government. Our average return this year was about 11.5%. We have selected this approach, which some may judge too conservative, principally because a portfolio of modest size is unlikely to generate enough incremental return to pay the direct costs of implementing a more complex strategy or the indirect costs of the risk it would embody.

The most important lesson of 1984 was a reconfirmation of what it takes to succeed in property casualty insurance. Selection of risk and service to the customer and agent are paramount. Our tasks are relatively straightforward. We must operate only in those lines of business we can analyze more accurately than our competitors; we must pick only those agents who can attract and hold a high quality of business; and we must scrutinize every risk individually to determine whether the price justifies the exposure. We must be quicker in both processing and claims than the other companies; we must be more accurate than the others; and we must be friendlier. These are our corporate objectives as we enter our second year. I will be surprised if they differ ten years from now.


James M. Stone