

AUTOONE NEWS

Spring/Summer 2005

What Drives You?®

CEO's Message

THE AUTOONE SUCCESS STORY CONTINUES



The AutoOne success story continues. Our core New York and New Jersey AIP programs continue to perform well. Our New York Take-out Programs achieved their goals and AutoOne generated over 55% of all industry Take-out Credits, which contributed directly to materially lowering our clients' assigned risk costs. The management team and staff did an amazing job of implementing our new LAD / CLAD Assigned Risk services in eight new states from Maine to California and those programs are now performing in an excellent fashion.

In 2005, we are focusing resources on initiatives that will increase our internal operating efficiency. We know that doing so will allow us to continue to grow while keeping our associated expenses to a minimum. This is good news for both our Company and our clients as it means our fee structure will remain as low as possible.

As we look forward, the driver for our future expansion plans will continue to be the requests from our valued clients. We do not take it for granted that companies trust us to handle this obligation. We value our client relationships and we are always interested in looking at mutually beneficial ways to expand upon them. As you've probably heard us say, we built this operation from 'Day One' to be a long-term trusted business partner for our clients.

In a soft personal auto market, and given the number of rate reductions implemented or expected in several AIP programs, 2006 looks to be an interesting year for all of us in the auto business. We are continuing to look for creative solutions that will benefit our clients, even with this additional volatility. You will hear more about our expansion of services and our expectations for the various state markets in this newsletter and through our personal communications with you over the next several months.

With our proven management team, the backing of our parent company OneBeacon, and the White Mountains' wisdom and capital behind us - we are well poised to take advantage of future opportunities and provide your company with superior services.

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AutoOne Insurance

P 1.866.252.4669

F 1.631.547.2254

www.AutoOneIns.com
news@AutoOneIns.com



assigned risk services

BEING IN THE 'RIGHT PLACE AT THE RIGHT TIME'

As you read through our newsletter, you may get the sense that there's been lots of activity since our last newsletter. You may also get the sense of the great optimism of our senior management team. It may seem sometimes that AutoOne has a knack for being in the 'right place at the right time.'

While part of the AutoOne success story has been to recognize opportunities and to quickly move on them, another part of it has been relationships. That's why we always work to earn our clients' trust.

In our last newsletter, we discussed our plans to add thirteen new services in eight new states. It entailed great planning and execution from every department in our organization as well as external regulatory approvals. Our concern at the time was that we did not want to over-commit the organization. Growing from LAD in two states, to thirteen new programs in eight new states was quite a leap.

Even though it was less than a year ago when we made the decision to do so, it now seems like ancient history. All thirteen new assigned risk services are fully operational - and we are again contemplating additional services in new states.

As you likely know, the LAD/CLAD 'Marketing Season' occurs each year in September. It's always an interesting affair as the three active Assigned Risk Servicing Carriers in New York and New Jersey compete to attract new clients while working to retain their existing clients. As with the previous years, last September was a series of quotes and counter-quotes as the servicing carriers competed for business.

In New York, AutoOne again integrated Take-out Credits as part of our LAD solution strategy. Once

again, this strategy paid off as we were able to deliver all of our LAD clients at least 90% of their quota in credits, virtually eliminating their quota. As a result we also helped to drive down the LAD rates of our competitors even further, resulting in savings for all companies that LAD (even those that signed with 'the other guys'). Finally, we were also able to provide CLAD and PAP CLAD in New York for the first time, and signed up new clients for those services as well.

Not only were we able to save money for those companies that signed up with AutoOne, but we also were able to drive down the LAD/CLAD rates that other companies paid ...

In New Jersey, the competitive landscape also changed as AutoOne signed on even more companies in our second year as a LAD servicing carrier in the state. AutoOne's NJ LAD clients are now enjoying LAD rates under 5% for 2005. This also effectively eliminated another servicing carrier from the market, as they were quoting rates that were reportedly ten points or more above AutoOne's. The remaining LAD servicing carrier is still enjoying multiple-year contracts that prevented many of their clients from actively shopping and getting the benefit of lower rates.

AutoOne was also able to bring newfound competition into our new markets (seven states and the District of Columbia) where there was previously a monopoly of service. Once again competition proved good for the marketplace.

As with our entry into New York in 2002, the introduction of Take-out Credits in 2003, and our entry into New Jersey in 2004, AutoOne's entrance brought significant decreases to the prevailing LAD rates in our new markets. Not only were we able to save money for those companies that signed up with AutoOne, but we also were able to drive down the LAD/CLAD rates that other companies paid as the former monopoly provider was forced to lower their rates to match AutoOne's.

One interesting side note to our new state entry story: in most of these states, AIPSO has a 'market cap' rule that prohibits any servicing carrier from receiving an excess of the available LAD business. The enforcement of this rule would have provided AutoOne market share in each of these markets (resulting in a loss of business to the incumbent servicing carrier). However, we agreed with the waiving of this rule, as we would rather earn our clients' business than be guaranteed a proportional share.

We were pleased to win the business of over 40 insurance company groups for 2005. We appreciate their confidence and trust. We are confident that over time, our combination of service, integrity, financial stability and competitive rates will win over more and more companies who trust us to handle their assigned risk burden, while they focus on their core business.

When you consider trusting a company to manage your Assigned Risk business, we hope that AutoOne will again be there in the 'right place at the right time.'

*~Phil Gibson
Senior Vice President*

(Cont'd from cover)

We want to thank our clients and friends for your business support. We look forward to continuing our great relationships, and to continuing to reach out to new clients. If you have any questions or thoughts on how we could serve you better, please don't hesitate to let us know.

Also, if you have a colleague that would benefit from an introduction to AutoOne, please let us know. We are always looking for new clients.

~ Carey D. Benson
President & CEO



marketing

2005 IS SHAPING UP TO BE ANOTHER BANNER YEAR

2005 is not even half over and we are enjoying a robust and exciting year. We have been able to say a resounding "yes!" to more and more clients who ask us to write business in additional states.

AutoOne is now a LAD servicing carrier in ten jurisdictions: California, Connecticut, District of Columbia, Delaware, Maine, New Jersey, New York, Pennsylvania, Texas, and Vermont. We are a CLAD servicing carrier in three states: New York, Pennsylvania, Texas. We are also a PAP CLAD servicing carrier in New York and a Low Cost Auto servicing carrier in California.

We believe it is important to stay informed and active in our industry. Therefore, we attend Assigned Risk governing board meetings in all of our states of interest. We have been selected to serve as a member on several of these boards, including: Connecticut, Delaware, Maine, New Jersey, New York, Vermont, and West Virginia. We also serve on several sub-committees of the NYAIP Governing Committee and technical committees of AIPSO, the Assigned Risk Service Organization.

AutoOne now serves the assigned risk needs of over 40 insurance company groups, managing assigned risks for them in 15 programs across 10 states. In doing so, we not only save them money, we allow them to focus on their core business - while we manage the business we know best!

Part of our success has been the integration of Take-out Credits as a cost management strategy in New York. AutoOne has been the leading company depopulating the Plan. And we have provided over \$200,000,000 of Take-out Credits

to more than 25 insurance companies writing in New York, helping to reduce or eliminate their quota share. Add to that the impact of the reduction in the New York Plan size because of AutoOne's Take-out programs, and the savings for our clients has been, well, enormous.

AutoOne now serves the assigned risk needs of over 40 insurance company groups, managing assigned risks for them in 15 programs across 10 states.

With all of AutoOne's successful growth, it is critical that we do not lose focus on our valued clients. To maintain that focus, we've added Pete Treutlein to the AutoOne team. Pete is our new Director of Assigned Risk Services. He will be an additional resource, assisting with client needs, questions and any concerns that may exist. Pete will also represent AutoOne at various industry events to remain current on issues of interest to our clients and friends.

Please feel free to contact Pete by phone at 866-252-4669, extension 2010, by e-mail at PTreutlein@AutoOneIns.com, or by fax at 888-496-8777.

~Phil Gibson



actuarial

TAKE-OUT CREDIT IMPACT ON NYAIP

Take-out credits in New York continue to have a significant impact on quotas and Plan volume. However, the effect is now stabilizing and the rolling 12-month credit amounts (used for quota determination) have peaked and are expected to decrease over the next several quarters. The decline is attributable to fewer renewal AIP policies available for Take-out, as a result of the declines in new business applications that began to accelerate in early 2003.

INDUSTRY NYAIP TAKE-OUT CREDIT INFORMATION

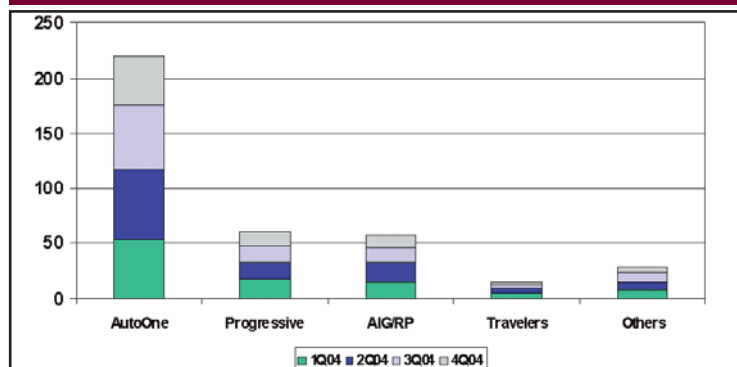
Industry data on Take-out credits is available from two sources. One is the quarterly New York Take-out Credit Report, which comes out approximately two weeks after the quarterly quota circulars are released. This report is publicly available simply by requesting a copy from AIPSO. The latest report came out in mid-April 2005 and displays credits generated and purchased by carrier for the latest quarter and year-to-date. The latest circular shows all credits derived from take-out policies written in the Fourth Quarter 2004 (these policies became eligible for credit after they were in force for 60 days, and were reported to AIPSO in First Quarter 2005). Based on this report, which displays all of the Take-out data for policies effective in 2004, AutoOne remains the clear leader in generation and sale of Take-out credits in New York. **Table 2.1** displays the distribution of Take-out credits in millions by carrier for the 2004 policy year.

AutoOne generated over \$219 million in Take-out credits during 2004, which was significantly higher than the next largest credit generator, Progressive, at \$60 million. Of the two other LAD servicing carriers, AIG (Robert Plan) reported \$57.3 million in credits and Clarendon reported just over \$0.5 million.

57% of the credits reported over the last four calendar quarters have been generated by AutoOne, and 26% were generated internally by companies doing their own internal take-outs. The remainder has been generated by four depopulation pool companies, the largest of which are AIG and CWIC (Countrywide Insurance Company).

Another industry data source for Take-out credits is the monthly report contained in the New York AIP Governing Committee agendas that displays total Take-out credit by territory and reporting month. To tie the two reports together, we must keep in mind that the Governing Committee report displays data by reporting month, and generally the report month lags the take-out policy effective month by one quarter. The latest Governing Committee report displays credits reported through March 2005, corresponding to take-outs effective through December 2004. This report, however, does not break down credits by reporting carrier but only in total by month. However, from AutoOne's internal data we can develop a graph that displays the AutoOne and 'All Other' Take-out credit data by month, along with the rolling 12-month total, as shown in **Table 2.2**.

TABLE 2.1 : 2004 TAKE-OUT CREDITS GENERATED (in millions)



2004-5 TAKE-OUT CREDIT PROJECTIONS

Through December 2004 take-out policy effective dates, the rolling 12-month Take-out credit total is \$383 million. Rolling 12-month credits peaked at \$425 million for Take-out policy effective dates ending September 2004. We expect the rolling 12-month total to continue to decline over the next several quarters as the supply of available Take-out policies declines, and as companies become more selective in the risks they



decide to take out. The NYAIP rate increase of 19.5% taken in August 2003 and the resulting decline in new applications has significantly affected the number of renewals available to be taken out late in 2004.

Table 2.3 shows our projections of industry Take-out credits by quarter through the end of 2005.

As noted, rolling 12-month Take-out credit amounts peaked with credits reported from policies with effective dates in third quarter 2004 at \$425 million. That group of credits appeared in the February 2005 quota circulars. Going forward, we expect the rolling 12-month Take-out credit value to steadily decline, ending 2005 at \$240 million. Total credits reported for the 2004 quota year (from Take-out policies effective in 2004), were \$383 million, an increase of 35% over the \$283 million reported from the 2003 policy effective year.

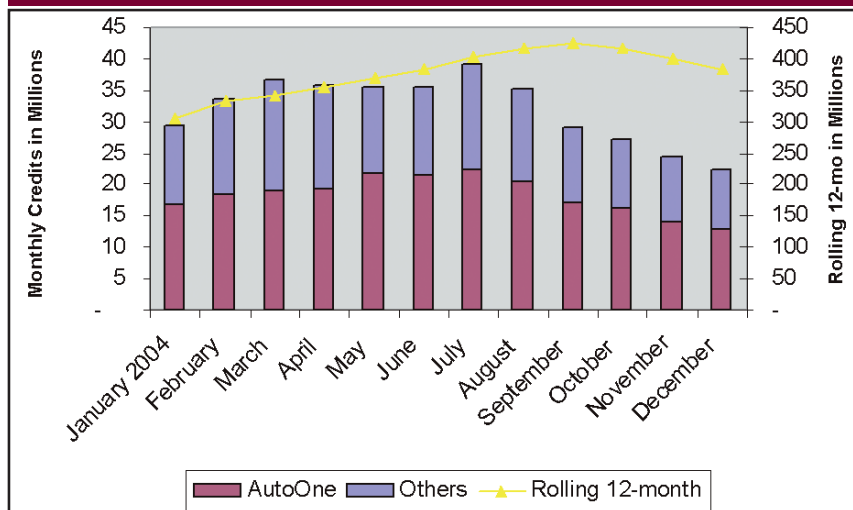
TERRITORIAL IMPACT

Take-out credits continue to have a beneficial impact in depopulating the NYAIP, especially in the territories traditionally known for having large populations of NYAIP risks. **Table 2.4** shows the decline in vehicles in force in the AIP by month and the number of Take-out exposures written by month, for both the NYC territories and "All Other" territories, over the last year.

Total vehicles in force in the NYAIP have declined 36% since year-end 2003, to 295,000 at March of 2005.

Between 2000-4000 vehicles per month are being taken out in the New York City Boroughs, and between 4000-6000 vehicles per month are being taken out in other New York territories. In just the last 12

TABLE 2.2 : NYAIP INDUSTRY TAKE-OUT CREDITS LAST 12 MONTHS

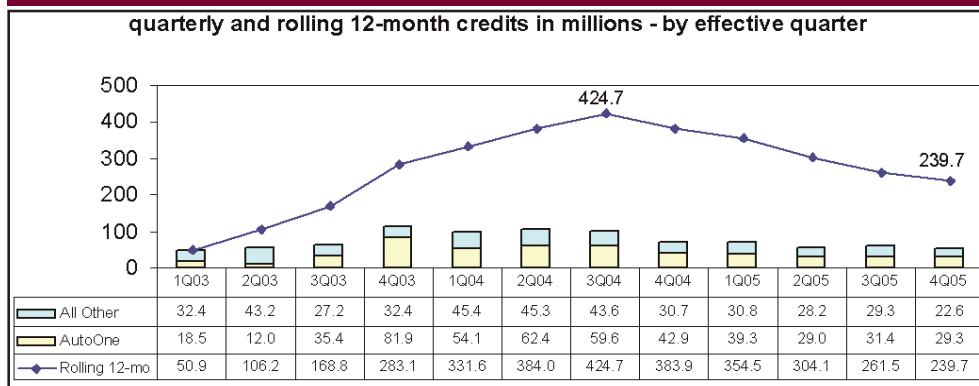


months, over 96,000 vehicles have been taken out of the Plan through Take-out programs. AutoOne has taken out over 51,000 of those vehicles. The vehicle in force count in the NYAIP is now approaching the all-time low over the last decade, which was just over 200,000 vehicles back in 1999.

2-FOR-1 TAKE-OUT CREDIT MULTIPLE WORKING GROUP

At the request of the Organizational Subcommittee of the NYAIP, a working group was formed as part of the Finance Subcommittee

TABLE 2.3 : PROJECTED INDUSTRY AND AUTOONE NYAIP TAKE-OUT CREDITS



that was instructed to review possible changes to the 2-for-1 value of the Take-out credit due to potential market disruption caused by the large impact of Take-out credits. One issue brought

TABLE 2.4 : VEHICLES TAKEN OUT BY MONTH & TOTAL AIP VEHICLES INFORCE BY MONTH (in thousands)



up in this working group was the potential abuse of the Take-out program where carriers may take-out risks and then attempt to cancel or uprate the policy in order to drive it away as soon as possible after the 60-day timeframe for credit eligibility. Our internal Take-out policy retention data clearly shows this is not happening for the AutoOne Take-out business, and in fact our Take-out policy retention is very similar to or even higher than for normal NYAIP renewals, as shown in [Table 2.5](#).

It is our opinion that any changes that would reduce the credit multiple from the current 2-for-1 value would severely inhibit the number of take-out policies written in the future and may quickly lead to a repopulation of the NYAIP. This would result in an increase in assignments for all carriers.

We are participating in this working group and are proponents of maintaining the current Take-out credit multiple. We believe the current 2-for-1 value provides a strong incentive to depopulate the Plan, rewarding those carriers who 'do their part'. We think that this

incentive is good for our clients and good for the industry as a whole.

STATE OF THE ASSIGNED RISK MARKET

NEW YORK PIP TRENDS

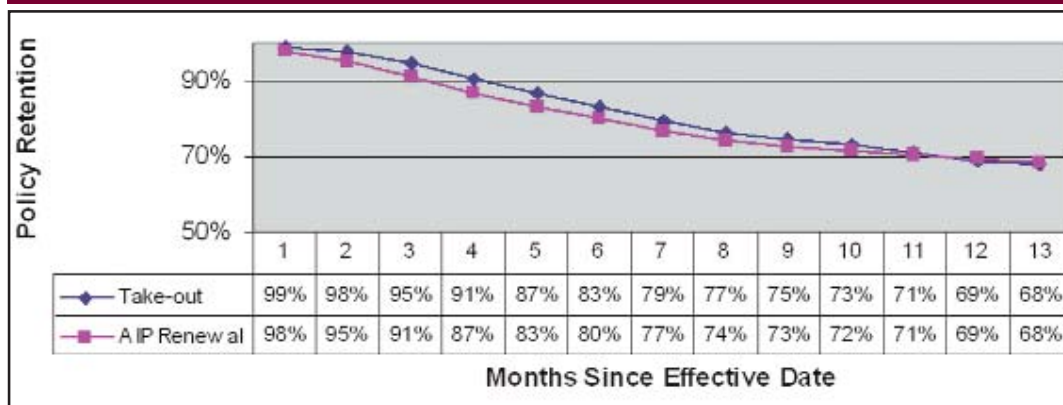
Recently, much news has been made regarding significant declines in claim severity trends in New York, especially for PIP coverage. Since the middle of accident year 2003, we have also seen significant decreases in claim frequency in the NYAIP for both BI and PIP coverages. The ratio of PIP to PD features,

commonly considered as a measure of fraudulent activity, has also declined significantly over the last year and a half. Although these trends are favorable, it should be noted that the downward average paid trend for PIP seen in ISO Fast Track data (which is a sample of voluntary carriers, and does not include AIP risks) do not reflect the significant increases in ALAE (and ULAE) that are offsetting some of the large declines in indemnity payouts. Because ISO does not collect ALAE data for PIP coverages in its statistical reporting, the costs associated with the more rigorous procedures now being undertaken to fight and prevent PIP fraud may not be entirely reflected in ratemaking data, as the PIP LAE expenditures are excluded from ISO Fast Track trend data.

Although AutoOne's PIP average indemnity payout is lower than industry averages thus far, ALAE and ULAE expenditures for an average PIP claim exceed 50% of what is being paid on the indemnity side. Thus, companies should be cautious not to read too much into the dramatic PIP average paid decreases, as much of the decrease may be offset by a shift in cost from paying

claims to defending and fighting fraudulent claims through higher expense outlays. In addition, significant increases in the number of pending litigated PIP cases and changes in the industry stance towards settling litigation has resulted in a longer tail on PIP loss development, which will take time to work its way into the industry data. Some of the decreases may be attributable to a

TABLE 2.5 : POLICY RETENTION BY MONTH



higher proportion of smaller non-litigated claims being paid, while the larger litigated cases remain unresolved and are therefore not yet reflected in Fast Track paid data.

NYAIP RATE CHANGES

In August 2004, a flat 2% rate decrease was implemented for the NYAIP. Based on ratemaking data through accident year 2003, AIPSO has developed a preliminary indication for New York that would indicate a further rate decrease, based on improving industry trends in New York. We would caution against further decreases at this time since it could potentially have two harmful effects.

First, the Plan may begin to re-populate as the AIP rate becomes more competitive in certain territories, making it the insurer of choice for some risks. The AIP is still the lowest rate available for risks in some territories, and further decreases to AIP rate levels will make it even harder for non-standard carriers to depopulate the Plan due to a more competitive Plan rate. In addition, since Take-out credits are based on the rate that would have been charged had the risk stayed in the Plan, the Take-out credit revenue varies directly with Plan rate level. A decrease in AIP rates will make depopulation pool carriers more selective and reduce the number of risks taken out, due to the decreased credit subsidy associated with lower AIP rates.

A second reason a rate decrease would be harmful is that as Plan size continues to decline due to take-out activity and more voluntary carrier activity, the risks remaining in the Plan will be those more typically associated with the AIP due to their poor or limited driving experience. We expect claim frequency in the AIP to increase during 2005 as Plan volume continues to shrink, and an additional rate decrease at this time will exacerbate the inadequacy of Plan rates (already subsidized through the voluntary market via the Stewart Formula). This will ultimately result in higher AIP burden for all carriers writing automobile business in New York.

NYAIP: A PERFECT STORM SCENARIO

A 'worst case' scenario for personal auto insurers writing in New York would be a large decrease to Plan rates coupled with the reduction of the

'2-for-1' Take-out credit incentive. A rate decrease would most likely increase the number of new applications coming into the Plan, while a decrease to the incentive would likely return Take-out activities to pre-2003 levels. This combination of a rise in new applications coupled with virtually no depopulation would rapidly increase the size of the Plan, perhaps to \$1 billion in written premium. This would again cause a dramatic increase in each company's assignments, and eliminate AutoOne's ability to deliver savings for our clients via the application of Take-out Credits.

As a result, AutoOne will remain active in monitoring rate activity meetings as well as any efforts by carriers who would attempt to reduce or eliminate the '2-for-1' Take-out credit incentive.

... the Plan (NYAIP) may begin to re-populate as the AIP rate becomes more competitive in certain territories, making it the insurer of choice for some risks.

NYAIP VOLUME PROJECTIONS

NYAIP Plan volume for 2004 came in at \$628 million, or a decrease of 28% from 2003. Our prior projection for final 2004 volume was \$623 million, which is very close to what actually developed. We expect further declines in Plan volume in 2005, to \$500-\$550 million, and volume could be even smaller if another rate decrease is granted in 2005. New application counts continue to decline, and are down approximately 34% for 2005 through April vs. 2004. We expect a moderation of this decline later in 2005, but still anticipate a decrease of 20-25% in new applications during 2005 vs. 2004. Should a large rate decrease be approved, we could see an increase in new applications later in the year, but decreases in average policy premium would likely offset any increase in new applications. **Table 2.6** displays historical and projected NYAIP volume through 2005.



NEW JERSEY PAIP

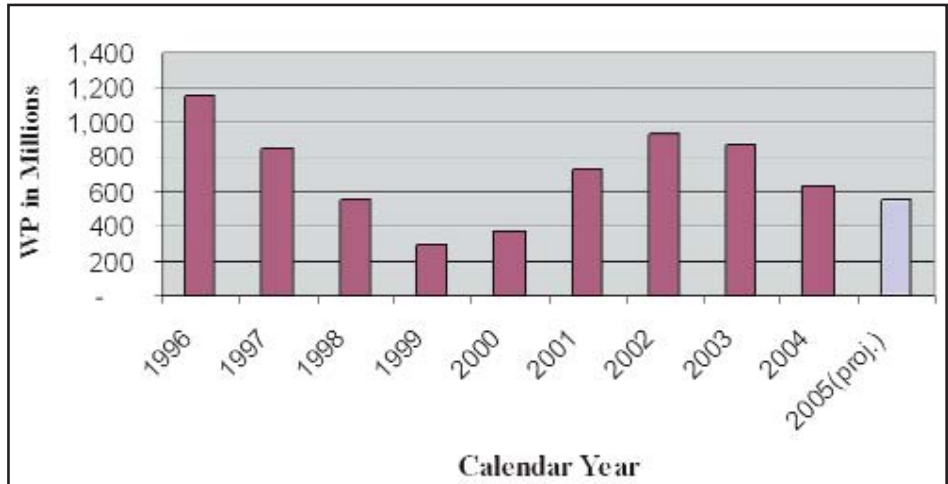
In most other states, AIP volume is shrinking as well. In New Jersey, despite an 8% rate **decrease** effective 12/1/04, new applications continue to decline relative to 2004. This may be attributable to one or more factors. Several new writers have entered the state, and they may be writing some of these risks. Also, existing writers may have increased their appetite for growth and therefore, may be canceling less policyholders. Finally, some risks may be being written in the Special Auto Policy, as that program is experiencing significant growth.

Through the first four months of 2005, new application counts are down 28% relative to 2004. This is despite the introduction of the Voluntary Rating Tier (VRT) in mid-2004, that now provides carriers with the ability to send selected voluntary risks into the PAIP, given that a company meets certain growth criteria in a given territory. This mechanism is the means that is being used to phase out the 'take-all-comers' rule in New Jersey over the next few years. We expected that this might result in an increase in New Jersey PAIP volume over time, but the influx of new carriers to New Jersey seems to have mitigated the impact of the VRT on PAIP volume. We expect New Jersey Plan volume to remain flat or decrease slightly during 2005, and expect volume to run between \$350 and \$375 million for 2005.

... new application counts are down 28% relative to 2004.

... the influx of new carriers to New Jersey seems to have mitigated the impact of the VRT (Voluntary Rating Tier) on PAIP volume

TABLE 2.6 : NYAIP PPA WRITTEN PREMIUM



VOLUME PROJECTIONS FOR OTHER STATES

Rate increases in 2004 have affected new application volume in many of the remaining larger AIP plans, such as California (+10.3% effective 11/19/04) and Texas (+27.7% effective 2/1/2004). New application counts had been declining rapidly in California even prior to the most recent rate change, and we project 2005 volume of approximately \$40 million (2004 ended at \$43 million). In Texas, new applications have declined by over 40% since the last rate change, and we anticipate 2005 volume of approximately \$20 million (2004 ended at \$26 million). A small rate decrease is now possible in Texas based on more recent information. In Pennsylvania, we see some marginal declines in new application volume, and project 2005 volume of between \$40 and \$45 million (2004 ended at \$46 million).

New York Commercial AIP volume (excluding PAP and SRDP) is expected to remain flat or marginally increase in 2005. A +14.9% rate increase was effective 4/1/2004, and has caused a decline in new applications since then. Our projected volume estimate for New York Commercial AIP, excluding SRDP and PAP, is \$90 to \$95 million.

We are also keeping a close eye on the developments in Massachusetts regarding a transition to an AIP mechanism. There will be more to come on that topic in a future newsletters.

*~Ben Walden
VP, Chief Actuary*

underwriting

MEETING THE CHALLENGE

Once our state expansion plans were determined, the Underwriting Department geared up for another exciting opportunity. Our successes in New York and New Jersey taught us well...there is no substitute for hard work and preparation. With a focused goal of providing superior customer service to our brokers and policyholders across all states and products, we set about the tasks necessary to ensure a successful expansion effort.

These steps included:

Identification of Staff We identified and assembled a talented group of experienced insurance professionals excited about the prospect of taking on a new challenge.

Training Our dedicated team of training specialists went about the task of developing the new processes and procedures necessary to ensure successful execution of the new programs. Concise and effective training materials were developed to ensure training

would be comprehensive and precise. Training classes were held to ensure each underwriter was familiar with multiple states and products, thereby increasing our efficiency and flexibility.

Technology We had to ensure we had the technology available for us to do the job accurately and efficiently. In some cases, this involved identifying and working with new vendors to customize tools that would best support our processing needs.

As a result of these efforts, we developed a highly skilled underwriting staff and successfully executed our expansion plans. Having accomplished all of this, we look forward to new challenges in the remainder of 2005 and in years to come.

*~Myra Rakosky
VP, Underwriting*

claims

TAKING AUTOMATION AND EFFICIENCIES TO A NEW LEVEL

As we expand our business into new programs and states, we remain focused on superior service, quality claims handling, and expense management. The key to achieving these goals is our aggressive pursuit of the proper technological and performance management tools. We then apply these tools to proactively manage our claims and resources.

In recent months, we investigated and selected a business partner to build, test, and implement a robust imaging and workflow management system. This system will go live later in the year. This cutting edge tool will provide an immediate impact, helping us to maintain our regulatory compliance and our internal service standards, while increasing productivity

and lowering our expense ratios across our claim teams. By establishing this technological base for the future, we increase our change management flexibility. At the same time, we are building a data warehouse to allow us to properly and proactively manage our internal and external resources, as well as our vendors.

While we are excited about our past and present successes, our future is certain to bring new achievements. Ultimately, our technological plan will help to keep our costs (and therefore our client rates) low. It will also provide the service needed to allow AutoOne to enter additional markets and tackle new challenges the future will bring. We will do this quickly and efficiently, but more importantly, with the speed our clients and customers demand.

*~Adam Karol
~Dennis Termotto
AVPs, Claims*





special investigations unit

DOING OUR HOMEWORK

AutoOne's successful growth comes from our expertise and dedication to serving the needs of our clients - both established clients and new ones. That and our solid financial base have put us in position for expansion. As we do business in new states, we're leaving nothing to chance and we're drawing on our resources to maximum benefit.

In the category of "time well spent," AutoOne's Special Investigations Unit has been researching the legislative climate in each expansion state, especially as it impacts any anti-fraud initiatives. For example, legislation in California, Pennsylvania, Maine and Washington D.C. mandate insurers to meet minimum requirements for a functioning investigative unit. Obviously, with our strong anti-fraud focus, AutoOne will continue to exceed all SIU requirements.

All states require mandatory reporting of suspicious claims and/or underwriting activity to specific agencies within the state. In addition, many of our new states required the formal filing of a fraud plan, set standards

for the employment of SIU personnel and/or expect annual reporting of SIU investigative results. Since we've done our homework, we are prepared to handle any and all activities utilizing our philosophy of timely, consistent and fair claims investigations.

As part of our strategic growth in 2005, AutoOne will make good use of the partnerships we have developed over the previous three years to provide us with a strong foundation in these new markets. The AutoOne Special Investigations Unit will utilize alliances with national organizations such as National Insurance Crime Bureau and International Association of Special Investigators to provide insight as we expand.

We look forward to a productive year serving the needs of all of our clients by handling their assigned risk needs with expertise.

*~Harvey Aloni
AVP, SIU*

staff counsel

ACHIEVING EXCELLENCE BY PROVIDING SUPPORT

Throughout 2004 and into 2005, the Legal Department continued to drive down the cost of litigation while providing quality legal representation for AutoOne and its insureds. This was achieved by expanding the company's in-house staff counsel operation, by providing developmental legal support in preparation for the company's multi-state expansion and by developing partnerships with established, quality law firms in each new jurisdiction.

Our second staff-counsel office opened in June 2004. This new office focuses on representing the interests of our insureds who have become defendants in lawsuits arising out of automobile accidents. The results produced by AutoOne's staff counsel operation have been extraordinary during their short tenure. The combined efforts of the staff-counsel offices, all of which were established in 2004, resulted in over \$1,000,000 in saved legal fees and contributed to approximately \$2,200,000 in indemnity savings by litigating cases in a proactive, effective and efficient manner.

Every department within AutoOne was extremely busy during the second half of 2004 and first quarter 2005 gearing up for and implementing the company's expansion into new markets and the Legal Department

was no exception. Many of the attorneys and support professionals were engaged by providing regulatory compliance support, assessments on the legal environment in each new territory and in assisting with vendor services' contracts and agreements.

As we all know, automobile insurers in every state and jurisdiction will eventually face the need for legal representation for their insureds. In preparation for anticipated litigation, the Legal Department has established partnerships with some of the most respected and most qualified legal professionals in each new state. Legal services guidelines have been established to ensure that each firm is familiar with AutoOne's high standards and proactive philosophy. These partnerships will benefit the company's insureds by providing legal representation at a time when they need it most.

Our goal is to provide the highest level of legal representation to our insureds with a focus on customer satisfaction, achieving amicable results now and in the future. This initiative and the efforts employed, have accomplished just that.

*~David Tetlak, Esq.
AVP, Legal*

more on take-out credits

EXCERPTS FROM A LETTER TO THE NEW SUPERINTENDENT

"Since the approval of AutoOne Insurance Company's Take-out program on February 24, 2003, we have provided the Department, as requested, with quarterly updates of our progress in helping to depopulate the New York Automobile Insurance Plan (NYAIP).

The Take-out Program rule changes approved by the Department in late 2002 had a profound impact on the NYAIP. At that time, the Plan was approaching \$1 billion in annual written premium. Some very simple rule changes devised through cooperation between the NYAIP and the Department, such as lifting of the territory restriction for Take-out Credits and increasing the credit incentive from a 1 for 1 ratio to a 2 for 1 ratio, allowed and encouraged companies, including AutoOne, to execute depopulation strategies.

The implementation of Take-out programs by numerous carriers has caused a dramatic and lasting depopulation of the Plan... AutoOne Insurance has taken out over 95,000 policyholders from the NYAIP... the retention of our Take-out policies has been significantly better than it is for new AIP business.

We attribute our success in writing and retaining these policyholders to the fact that the AutoOne Take-out Program provided them lower rates combined with more affordable payment plans.

Former AIP policyholders are not the only ones benefiting from our Take-out program. We have provided an additional voluntary personal auto market to over 780 insurance brokers throughout the state of New York. These brokers have been instrumental in our success: quoting, selling and servicing this product. Insurance carriers writing personal automobile insurance in New York have benefited from the depopulation of the Plan as well. Depopulation has resulted in a smaller Plan size, which directly affects the number of NYAIP assignments to be

applied against each company's quota ... 54 company groups are now generating or purchasing Take-out Credits, thereby lowering their assigned risk costs.

Thus far, there has only been one identifiable group of companies that has not significantly benefited from the change to the Take-out rules. This group is comprised of those few carriers writing business in New York that chose not to participate in Plan depopulation by executing a Take-out strategy in a meaningful way.

We believe the Take-out rules currently provide an appropriate incentive and reward for carriers that 'do their part' to depopulate the Plan. This is fair and appropriate since those carriers that were willing to support the Department's initiative and engage in a risky strategy (writing AIP business in a voluntary program) are being rewarded. It is also fair and appropriate that those carriers that are unwilling to 'do their part' should not receive the same proportionate benefits as those that do.

AutoOne, and other carriers, have been able to generate this supply of Take-out Credits because of the changes to the Take-out rules supported by the Plan and approved by the Department.

Without the revenue subsidy afforded by the 2 for 1 credit multiple, the production of Take-out Credits would no longer be economically viable for AutoOne and many other carriers that are currently actively taking risks out of the Plan. The reduction in value of this effective depopulation mechanism would make it highly likely that depopulation would be significantly curtailed or cease altogether. The Plan would begin to grow again as significantly fewer policies would be taken out."



We are pleased to announce the appointment of **Ralph Marinello, Jr.** as Vice President, Claims and Chief Claims Officer effective June 17th, 2005. Our previous Claims Vice President recently retired and we wish him all the best.

Ralph brings over 18 years of experience in personal and commercial automobile insurance. For the last several years, he was the Vice President and Chief Claims Officer of First Trenton Indemnity, a subsidiary of Travelers Personal Lines Insurance where he was responsible for the claim operations in New Jersey.

Ralph will be responsible for overseeing and directing all aspects of claims activities for our LAD/CLAD and Private Passenger Auto programs.

Please join us in welcoming Ralph and let him know how he (we) can service your business best.

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We would also like to welcome, **Lisa King** to our management team as our AVP of Human Resources. She brings over thirteen years of HR experience in the high-tech sector to AutoOne.

Lisa has a proven track record as a strategic partner in establishing positive links between business objectives and human resources initiatives. Lisa's extensive HR experience includes recruitment, employee relations, performance management and policy development skills.

Welcome Lisa!



# AutoOne in the News

Technology plays a pivotal role in accomplishing our goals. It leverages our business by the way it extends our service levels to meet, hopefully exceeding the demands of our customers.

Being an effective CEO means being able to use the strength and flexibility of technology to balance the ever-changing complexities and demands of the insurance industry. For that type of thinking and action, our own CEO, Carey Benson, has been recognized in the June edition of Insurance & Technology as one of only five top tech-savvy CEOs.



To read the full article titled, "**Clean Slate**," please visit:

[www.AutoOneIns.com](http://www.AutoOneIns.com), **June 2005**.

Our own VP of Underwriting, Myra Rakosky, was interviewed for an article that appeared in the December edition of Insurance & Technology magazine citing our need for an automated performance management solution due to our rapid growth and expansion. Partnering with Opus Group, their Performance Management tool integrated data feeds from various systems to compile data on work volume, work completed and available resource hours, and enabled us to measure the amount of time people spend on their core work functions against a consistent standard.

The entire article, "**Be All You Can Be**," can be found on:

[www.AutoOneIns.com](http://www.AutoOneIns.com), **December 2004**

As our business expanded, it became apparent that manual processes were slowing down progress. Director of Finance, Lisa Tancredi, was tasked with finding a way to automate the financial reporting and planning portion of its Assigned Risk business and found a wealth of time savings in Applix's TM1 solution.

The full article, "**Speedy Delivery**," is available online:

[www.AutoOneIns.com](http://www.AutoOneIns.com), **July 2005**

Questions? Contact Us.

**Peter Treutlein**

Director, Assigned Risk Services  
631.547.2010  
[PTreutlein@AutoOneIns.com](mailto:PTreutlein@AutoOneIns.com)

**Ben Walden**

VP, Chief Actuary  
631.547.2310  
[BWalden@AutoOneIns.com](mailto:BWalden@AutoOneIns.com)

**Phil Gibson**

Senior Vice President  
631.547.2350  
[PGibson@AutoOneIns.com](mailto:PGibson@AutoOneIns.com)