

WE'RE IMPROVING CUSTOMER SERVICE

A message from
Alan R. Long, President



Many of you may remember the 1970s song by the Guess Who that includes the lyrics, "...seasons change and so did I." As we move into spring, our customers will discover a season of change here at Eldredge & Lumpkin.

With the goal of improving customer service, the following significant changes will take place during April:

- We will consolidate our Harwich office staff into our Chatham office as of Tuesday, April 17.
- We will staff up by adding an additional personal lines customer service representative (CSR). This will allow all CSR's to manage the tremendous workload increase associated with the extremely difficult and disruptive homeowner's insurance market here on the Cape.
- We will reorganize our agency to better serve our customers by creating separate personal insurance and commercial insurance departments.

I imagine these changes will prompt some questions from our policyholders. So in anticipation of that, here goes:

Q) Why have you decided to consolidate your offices?

- A) Combining the Harwich and Chatham staffs will provide much greater depth at all levels, including reception, CSR and support, to handle incoming calls and visits from our customers. All our staff were included in this decision, and they enthusiastically endorsed the merger in

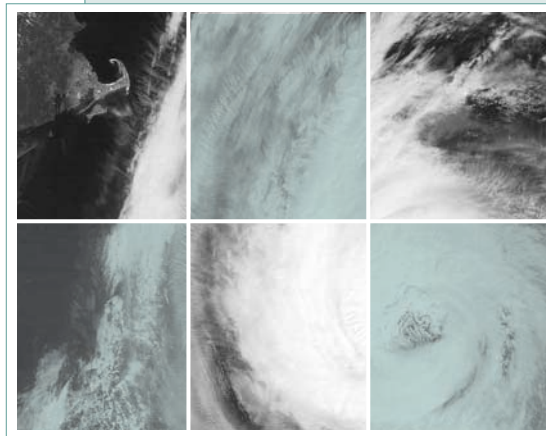
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Storm Prospects Drive Homeowner's Premiums Higher. How High is Too High?

There's no good way to sugarcoat the news: expect a hefty increase in your homeowner's insurance premium this year, along with a significantly higher wind deductible (the portion you pay before wind insurance kicks in). That's an unfortunate fact of life today, not just on Cape Cod and the Islands but up and down the entire East Coast.

Cape Cod homeowner's rates could go up significantly, equal to or greater than those seen last year, say industry forecasters – a much higher increase than in the rest of the state. In hurricane-prone Florida, the state's largest property insurer planned to introduce an average 56 percent statewide hike in premiums, on top of an earlier 26 percent rise.

Everywhere else the market is softening and premiums are coming down, but not here on the East Coast. Some 54 percent of the U.S. population lives within 50 miles of the coast, and the rates reflect this. We keep hearing that increases are due to projections of devastating hurricanes and the skyrocketing costs of reinsurance. Whatever the reason, we keep paying more for less insurance.



A close call in September 2001.

Are the insurance companies making excessive profits?

According to Genio Staranczak, chief economist for the Property Casualty

Insurers Association of America, the industry has historically been less profitable than other sectors of the economy; the banking and oil industries come to mind. Profits are required to replenish reserves for future claims and catastrophes, and the stock market plays a critical role in profits. 2006 was a good year; the prior few, however, were not.

To help answer the question, I set out to find what the U.S. insurance industry's net profit or loss was over the last 10 years. The headlines noted that the industry had posted record profits in several of these years. But you also have to read about the record losses of 9/11, the 2004 hurricane season and, of course, the consequences of Katrina and Rita. The problem was that each source I consulted had different numbers, making the question impossible to answer.

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President's Message...

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the belief that collectively we will be able to provide a better level of service to our customers.

Q) Will my account still be handled by the same Customer Service Representative?

A) In view of our goal to improve customer service, the decision was made to add one additional CSR. This will require that we redistribute the workload. Some customers will be managed by a new CSR but we have attempted to minimize the number of customers who will be affected by this change.

Q) You mention reorganization of the agency into personal and commercial insurance departments. Why is that?

A) In the past 10 years the insurance industry has evolved dramatically. A decade ago all companies used the same policy forms and conditions with few exceptions. Today, each company uses its own policy forms. Keeping pace with our companies' products and services is an overwhelming task for each CSR.

When we compound that with the need to keep up with changes in both the personal and commercial sides of our business, the challenge becomes even more daunting.

We believe it makes sense to have our CSRs focus on either personal insurance (homeowner's, personal auto, boats) or commercial insurance (business owners, contractors, business autos, Workers' Compensation). In this way, they can do a better job keeping pace with constant changes in our industry, and advise our customers on the impact those changes may have on their insurance needs.

Q) What if I have both personal and commercial insurance with the agency? Who will I contact when I need help with my insurance?

A) Beginning April 17, you will have both a personal insurance CSR and a commercial insurance CSR. When you call or stop by the office, we will direct you to your existing or new CSR depending upon your needs. Our intent is to make the transition as smooth as possible for you.

Here at Eldredge & Lumpkin we are very excited about the changes taking place. Every member of our staff firmly believes the changes will lead to an improved level of customer service. We look forward to continuing to serve our customers' needs as we move forward in these increasingly challenging times in the insurance business here on Cape Cod!

We appreciate your business!

Alan

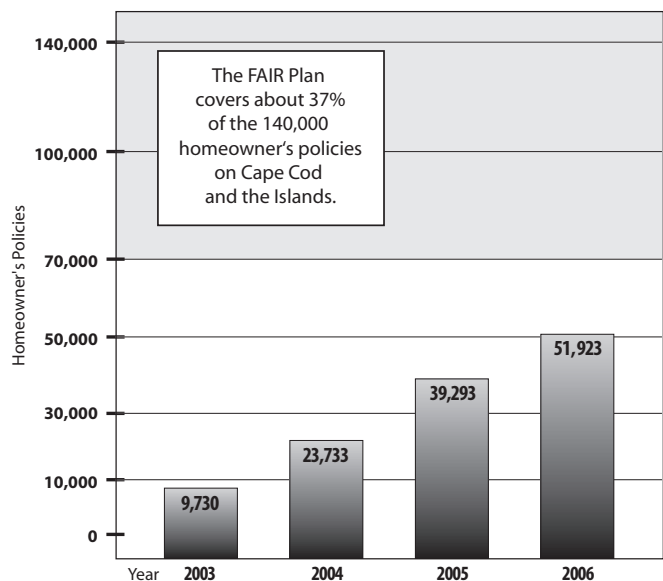
Understanding the FAIR Plan— Now a Major Player on the Cape

By Alan Long

As insurer after private insurer leaves the Cape and Islands insurance market, more and more residents are moving to the FAIR Plan, otherwise known as the state pool or the Massachusetts Property Insurance Underwriting Association (MPIUA).

Statistics show close to a ten-fold increase in local FAIR Plan policyholders in just the last six years, from about 5,000 in 2001 to more than 50,000 in 2006. At Eldredge & Lumpkin we expect to write as many as 1,000 FAIR Plan policies in 2007. (See the four-year chart below.)

Cape Cod, Martha's Vineyard and Nantucket
Homeowner's Insurance Policies Covered by the FAIR Plan



With so many of our customers being forced into the FAIR Plan, we feel it is important for you to understand what the FAIR Plan is and how it differs from private insurers.

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Storm Prospects Drive Homeowner's Premiums Higher....

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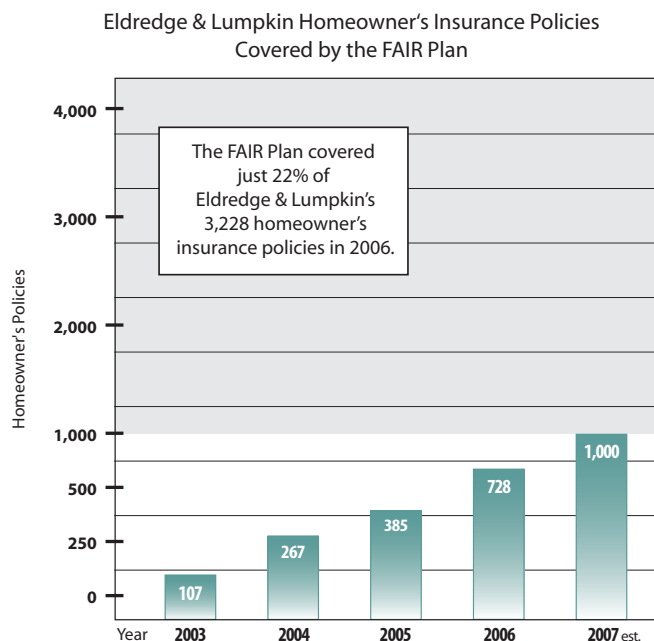
When do profits become excessive? Is it when the consumer can no longer afford the product? Since mortgage holders require you to carry home insurance, it's a vexing problem.

You would think that high premiums and profits would attract competition among insurers. Instead, the opposite is happening up and down the East Coast, and most competitors are abandoning the market. The dichotomy of the situation produces an uneasy consumer view of the industry and makes it very difficult for agents like us to explain the changes to customers. — Alan Long

Understanding the FAIR Plan—

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FAIR (Fair Access to Insurance Requirements) Plans — which exist in more than 30 states — originated in the 1960s, when the Los Angeles Watts area riots resulted in staggering losses for insurers.



Authorized by Congress to provide federal reinsurance to companies writing in disturbance-prone areas, FAIR Plans guaranteed consumers that insurance protection would be available. "Without insurance, the whole economy is undermined," explains John Cantalupa, FAIR Plan Supervisory Underwriter in Boston. "People can't get mortgages, cities and towns lose money, business suffers; the FAIR Plan prevents this domino effect."

The Massachusetts Experience

In 1968, the Massachusetts Legislature formed rules and regulations to create MPIUA and made FAIR Plan coverage available statewide. Since rates reflect market conditions and change each year, the Commissioner of the Massachusetts Division of Insurance - an appointed post - must approve rates requested by the FAIR Plan. The Plan's "filing" is often carefully scrutinized by the Attorney General's office as well.

It is our understanding that the FAIR Plan will apply for a rate increase sometime in 2007. Remember that the FAIR Plan was designed to be a market of last resort. According to regulation, its rate filings must reflect an average of the rates being used by the largest voluntary carriers in any given location. Therefore, as the rates of voluntary carriers increase, rules require that Fair Plan rates increase accordingly.

Just Like Any Other Company

The FAIR Plan operates like any other insurance company. It underwrites and inspects risks, accepts premiums, issues policies and adjusts claims. MPIUA uses the same independent adjusting firms that are commonly used by the voluntary companies. So, in the event of a claim, an adjuster will be assigned to handle your loss and

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E&L PEOPLE

On the Road with Diane Racette

When Diane Racette laughs, you have to smile. Her laughter is infectious and refreshing in the insurance business. As a licensed insurance broker for 28 years, Diane has seen a lot, and her sense of humor has come in handy. She is also a student of the insurance business, having earned her Certified Insurance Counselor designation — the result of lengthy continuing education and intense testing.

Diane began her insurance career in the 1970's. When she moved to the Cape in 1975, she worked with Alan Long at the C. Robin Turner Insurance Agency. After several years working for another agent, she returned to Chatham in 1996 to work with Alan once again at Eldredge & Lumpkin.



Diane Racette and her Ironhead Harley Sportster.

Diane has raised two children, Michael and Kate on Cape, and now helps with her granddaughter, Amber. When not involved with her family, her interests include puzzles, bowling and walking. But when the weather turns warm she takes to the road.

As a motorcycle enthusiast Diane says, "I started on a Honda Rebel, but now ride a 1977 Ironhead Harley Sportster." She reveals, "Learning what your bike can do, and what your capabilities are, requires a lot of practice. I spent much time in a parking lot before I got out on the road. It's not as easy as it looks."

Never one to take the easy road, Diane is a valued part of the Eldredge and Lumpkin team.

Understanding the FAIR Plan—

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report back to a claims examiner at MPIUA. Following review and approval, MPIUA will pay your claim.

From the standpoint of coverage, there is no difference between the FAIR Plan and the private companies, says MPIUA's John Cantalupa. "We provide all the policies and most endorsements of a regular carrier and operate exactly the same way with two exceptions. We do no marketing, and we don't automatically renew policies." At renewal time, the customer must first try to get insurance in the private market, he explains. When that's not possible, the FAIR Plan will renew.

But is it Safe?

All insurance companies writing property coverage in the Commonwealth are required to become MPIUA members. The Association's members share in all expenses, profits and losses. In the event losses exceed premiums, companies are assessed a portion of excess losses based on the percentage of voluntary business they write statewide. Therefore, the FAIR plan cannot go bankrupt unless the collective resources of all of the companies doing business in Massachusetts are exhausted. The FAIR Plan is a safe bet but a temporary solution in this crisis environment.

For more information about the FAIR Plan go online to www.MPIUA.com.

Coming in June:

Look for these stories and much more in the summer edition of Insurance Currents:

- See the E&L staff photo gallery, and learn their new responsibilities.
- State Auto Insurance Reform under the Patrick Administration – what's likely to happen, and what will it mean for your premiums?
- Divorce and the impact it will have on your insurance.
- Introducing the Renaissance Alliance.

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*Look inside:
 A season of change at E&L*



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