

# Welcome

8:00 – 8:30

## **Registration and Continental Breakfast**

8:30 – 8:45

## **Opening Comments**

*Sujata Mutalik, Vice President, Investor Relations*

8:45 – 9:45

## **Overview – The Journey Continues**

*Fred Eppinger, President and Chief Executive Officer*

9:45 – 12:05

## **Executing the Vision**

*Marita Zuraitis, President, Property and Casualty Companies*

## **Break**

## **World Class Marketing Capabilities**

*Dick Lavey, Vice President, Field Operations, Marketing & Distribution*

## **Positioned to Win in Personal Lines**

*Jim Hyatt, President, Personal Lines*

## **The Best Partners for Growing Mid-Sized Agents**

*David Firstenberg, President, Commercial Lines*

**Technology: A Distinctive Capability**

*Greg Tranter, Senior Vice President and Chief Information Officer*

**Delivering Immediate Value While Positioning to Grow**

*Mark Welzenbach, Vice President, Claims*

12:05 – 12:20

**Break for Box Lunch**

12:20 – 1:00

**Question and Answer Period and Closing**

*Fred Eppinger, President and Chief Executive Officer*

*Marita Zuraitis, President, Property and Casualty Companies*

*Ed Parry, Executive Vice President and Chief Financial Officer*



# Forward Looking Statements and Non-GAAP Financial Measures

*Our policy is performance.™*

Certain statements in this presentation, including responses to your questions, contain “forward looking statements” as defined in the Private Securities Litigation Reform Act of 1995. Use of the words “believes”, “anticipates”, “expects”, “projections”, “outlook”, “should”, “plan”, “guidance”, “targeted”, expense levels and expense ratios (including OUE and LAE); and similar expressions is intended to identify forward-looking statements. In particular, this presentation may include, forward-looking statements with respect to (i) earnings growth; (ii) return on equity; (iii) anticipated price changes in our property and casualty business; (iv) personal lines, commercial lines and aggregate property and casualty segment premium growth; (v) policies in-force levels; (vi) retention; (vii) expense management; (viii) underwriting conditions; (ix) loss development; (x) the adequacy of resources and reserves (including reserves established with respect to damage caused by Hurricane Katrina and related matters); (xi) expense reductions; (xii) loss ratios including accident year loss ratios; (xiii) net investment income; (xiv) tax rate assumptions; (xv) new product availability and impact; (xvi) capital levels; (xvii) ratings; and (xviii) Life Companies segment earnings (including continuing and discontinued operations and loss on disposal of the business); (xix) Life Companies dividends; (xx) estimated weighted average shares, etc.

The company cautions investors that forward-looking statements are not guarantees of future performance, and actual results could differ materially. Investors are directed to consider the risks and uncertainties in our business that may affect future performance and that are discussed in readily available documents, including the company’s earnings press release dated January 29, 2007 and Annual Report and other documents filed by The Hanover with the Securities and Exchange Commission, which are also available at [www.hanover.com](http://www.hanover.com) under “Investors.” We assume no obligation to update this presentation, which speaks as of December 31, 2006.

These uncertainties include the possibility of adverse catastrophe experience (including terrorism) and severe weather, the uncertainties in estimating property and casualty losses, the ability to increase or maintain certain property and casualty insurance rates, the impact of new product introductions (such as the multi-variate private passenger auto product), adverse loss development and adverse trends in mortality and morbidity, changes in the current favorable frequency and loss trends generally being experienced industry-wide, the ability to improve renewal rates and increase new property and casualty policy counts, adverse selection in underwriting activities, investment impairments, heightened competition (including rate pressure), adverse and evolving state and federal legislation or regulation, adverse regulatory or litigation actions (including uncertainties over the application of the so-called “flood” exclusion in Louisiana following Hurricane Katrina), financial ratings actions, and various other factors.

## Non - GAAP Financial Information

The discussion in this presentation of The Hanover’s financial performance includes reference to certain financial measures that are not derived from generally accepted accounting principles, or GAAP, such as total segment income, property and casualty segment income, segment income after taxes and segment income and loss ratios excluding catastrophes and accident year loss ratios excluding catastrophes.

Certain measures are also presented after adjustment for reinsurance reinstatement premiums insured in 2005. A reconciliation of non-GAAP measures to the closest GAAP measure is included in both the press release and statistical supplement, which are posted on our website, and in the appendix to this presentation also posted on the website.

# The Hanover Insurance Group, Inc.

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## Investor Conference

**The materials that follow should be  
read only in conjunction with the  
prepared remarks**

**Hyatt Regency Boston**

March 1, 2007

# **The Hanover Insurance Group, Inc.**

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## **Investor Conference**

### **The Journey Continues**

**Fred Eppinger**

President and Chief Executive Officer

# Key Messages

*Our policy is performance.™*

- Three years ago, we committed to a vision
- That vision has focused us on improved performance and delivering results
- But...more importantly, it drove us to build capabilities that could position us to become a long-term winner
- While the current market is difficult, structural changes create an enormous opportunity for us...
- To capture that opportunity, we will continue to focus on four leverageable strengths

# Four Leverageable Strengths

*Our policy is performance.™*

- Identifying and converting mid-sized winning agents into defensible partners
- Delivering Personal Lines product offerings that allow winning agents to defend and grow their most profitable accounts
- Delivering a broad but focused Commercial Lines product set that helps mid-sized agents grow; and creates a stable profit pool for The Hanover
- Creating a flexible cost effective operating model that allows us to deliver our high-tech and high-touch approach
  - Flexible technology platform and capabilities
  - Claims platform that effectively manages loss dollars and scales to growth

# Three Years Ago, We Committed to a Vision

Our policy is performance.™

## Three years ago



## Today



# Our Vision Focuses Us On Improved Performance

Our policy is performance.™



To Become a World Class  
Regional Property  
and Casualty Company

## *What Does It Mean?*

- Consistent top-quartile financial performance**
- Consistent top-quartile products and services**
- Top place to work for outstanding professionals**

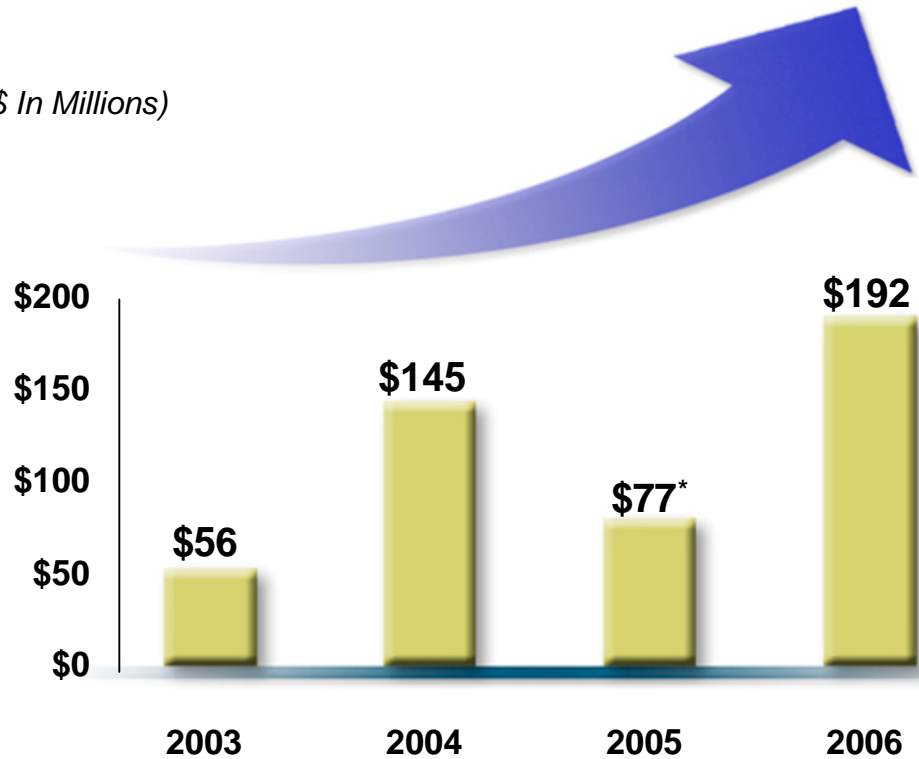
**Which we have delivered  
over the last three years...**

# ✓ Strong Earnings Improvement

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## Income from continuing operations, net of tax

(\$ In Millions)



**Net Income**

**\$87M**

**\$125M**

**\$(325)<sup>1</sup>**

**\$170**

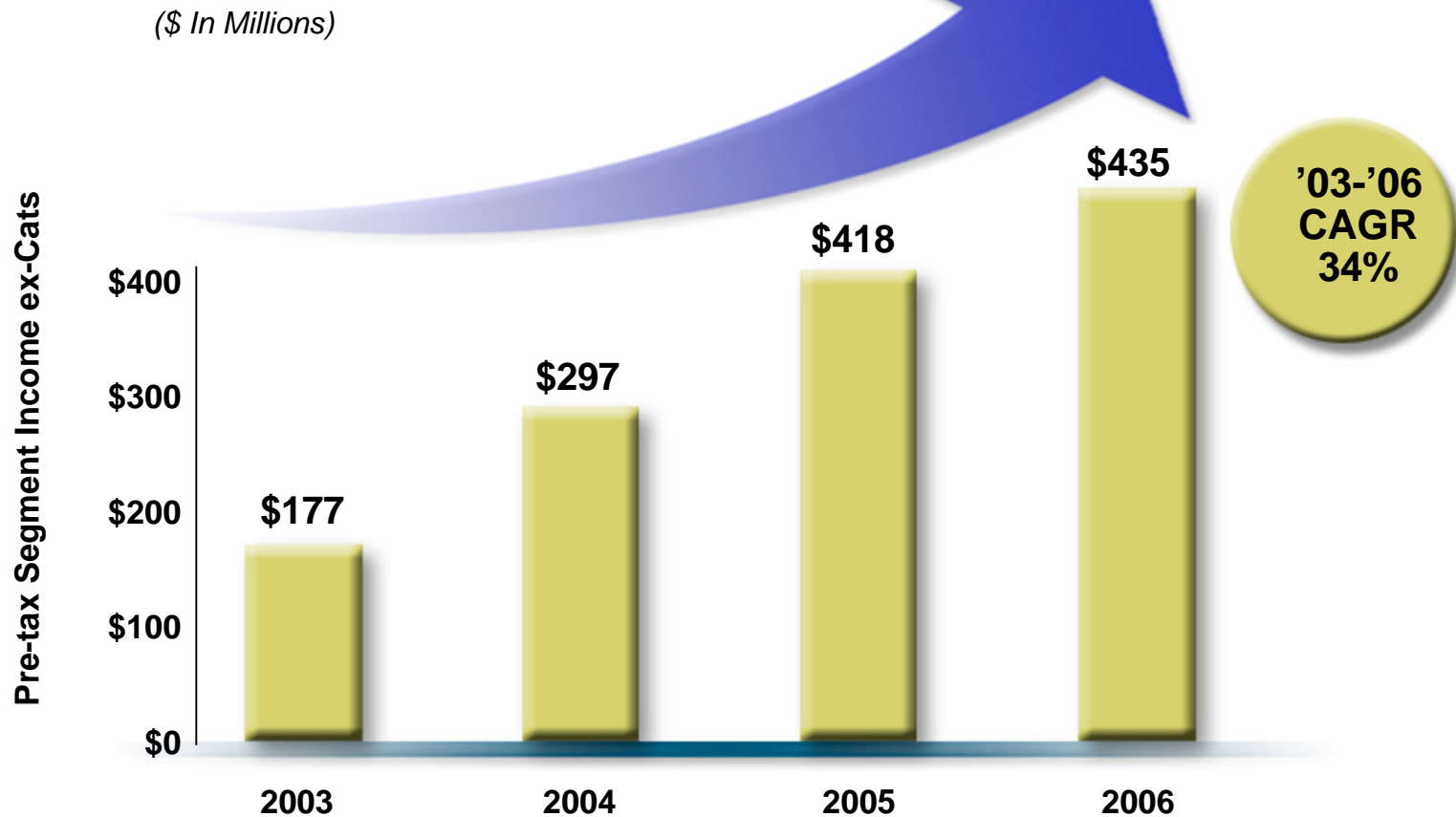
\*Impacted by Hurricane Katrina Losses

<sup>1</sup>Impacted by sale of Life Company and Hurricane Katrina Losses

# ✓ Strong Earnings Improvement

Our policy is performance.™

## P&C Pre-tax Contribution (ex-cats)\*

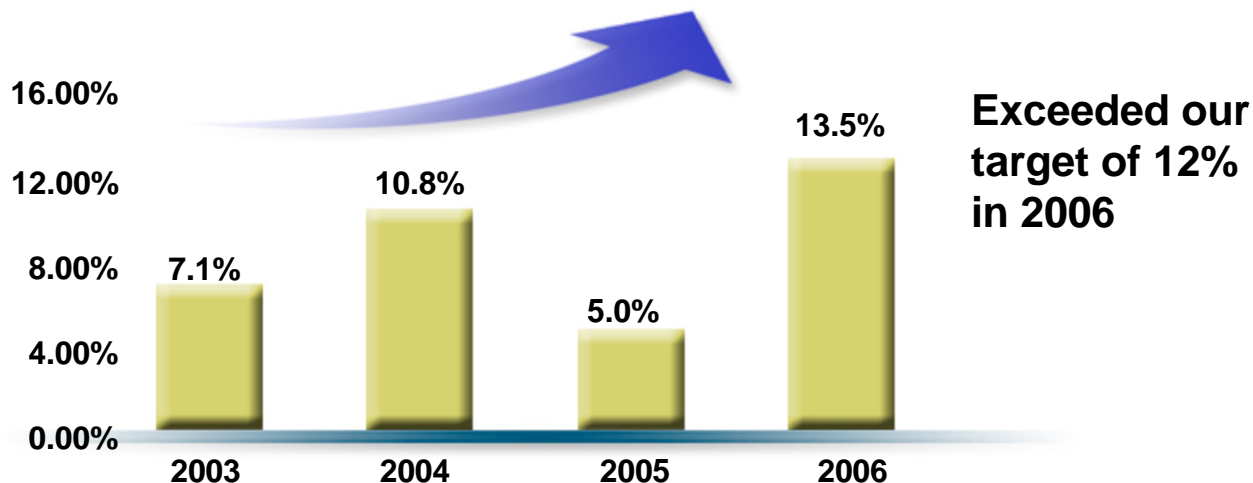


\*Non-GAAP measure see appendix,  
for reconciliation to closest GAAP measure

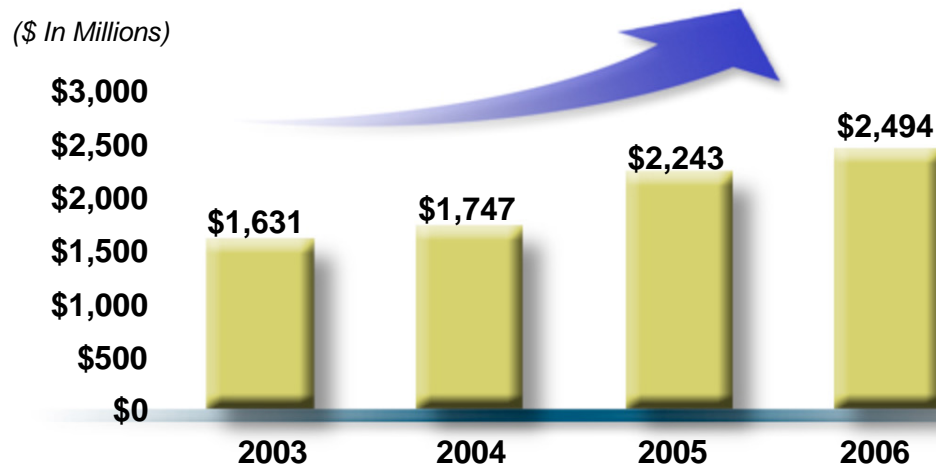
# ✓ Improved P&C ROE & Market Capitalization

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## P&C Levered ROE\*



## Market Capitalization

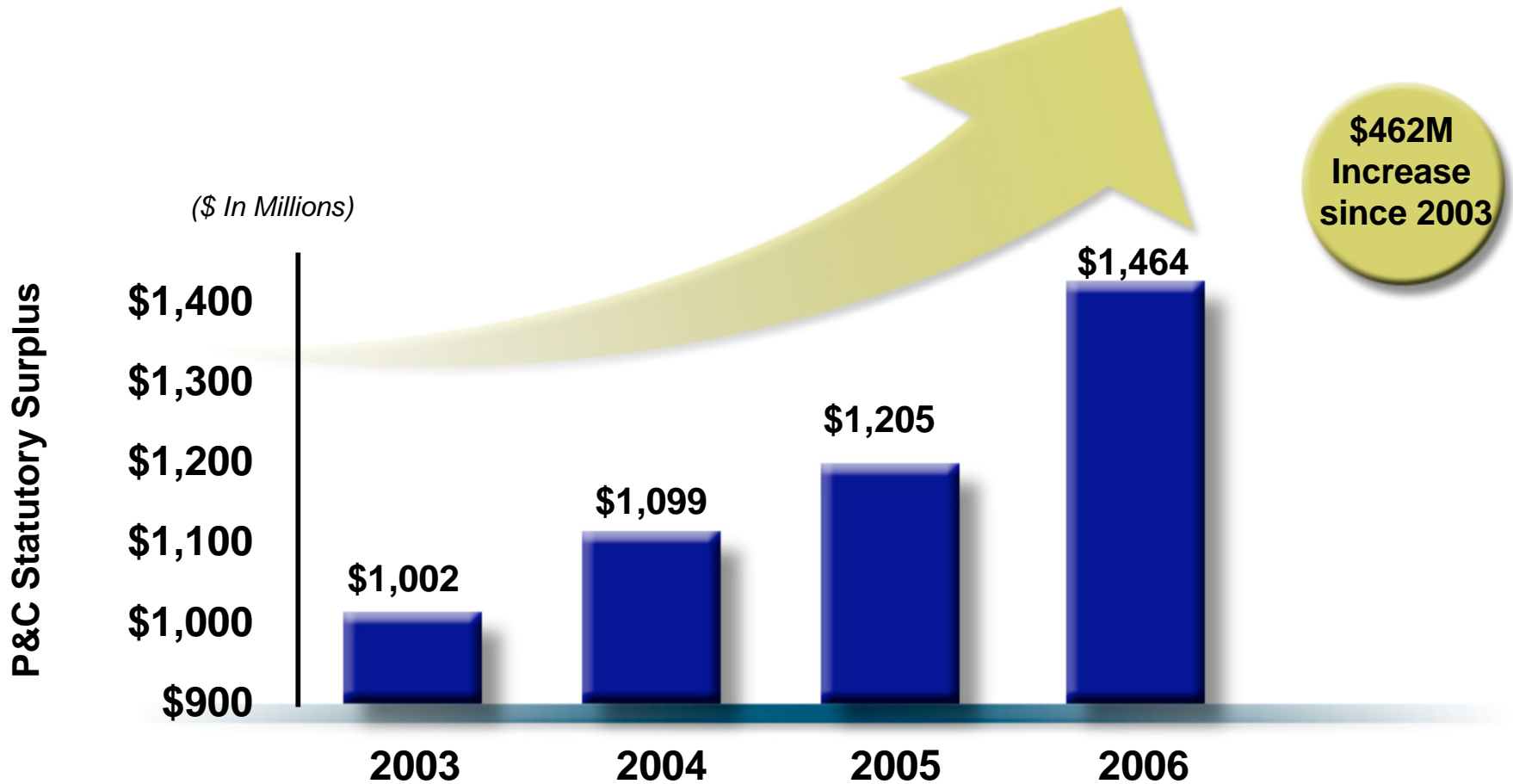


\*Non-GAAP measure see appendix, for reconciliation to closest GAAP measure

# ✓ Continued to Strengthen Our Balance Sheet

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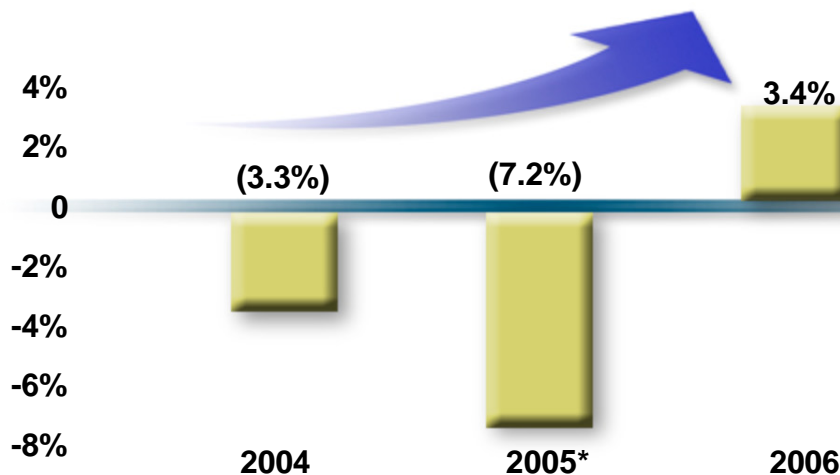
## Property and Casualty Statutory Capital



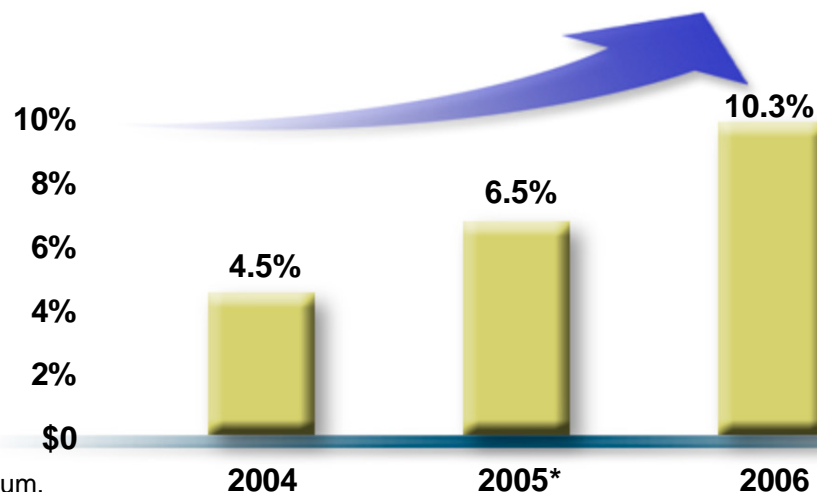
# ✓ Gaining Market Share while Maintaining Margins

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## Turned Around Personal Lines Growth



## Commercial Lines Growth Exceeded Industry Averages



\*Excludes reinsurance reinstatement premium, see appendix for reconciliation to reported growth

# But...Our Journey Is Far From Complete

*Our policy is performance.™*

**Creating a Distinctive Position  
and Delivering  
Top-Quartile Performance**

Our policy is performance.™

## Building Our Foundation

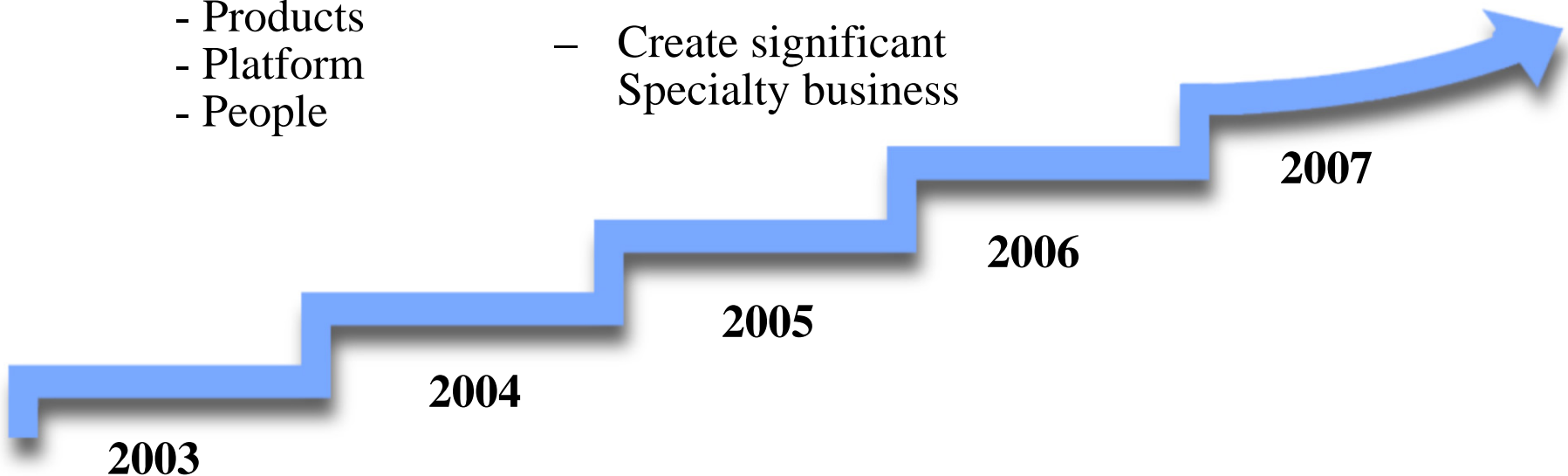
- Fix balance sheet
- Re-underwrite business
- Fix coastal exposure and reinsurance gaps
- Invest in future business
  - Products
  - Platform
  - People

## Creating a Distinctive Position

- Establish investment - grade balance sheet
- Develop Partner Agents
- Create geographic spread
- Develop ability to write total accounts
- Create significant Specialty business

## Sustain Superior Performance

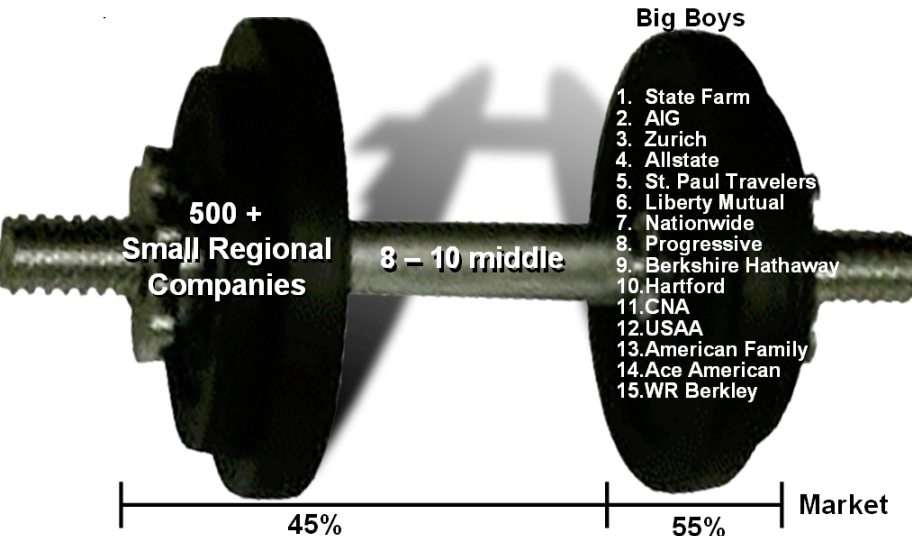
- Deliver top-quartile performance
- Capture significant market opportunities



# And Market Has Created Significant Opportunities

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## \$450 Billion Market



*Deliver better value proposition to the \$125 Billion market served by small regional companies*

# \$125 Billion Market Opportunity

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## \$450 Billion Market



# Sub-Scale Companies Under Intense Pressure

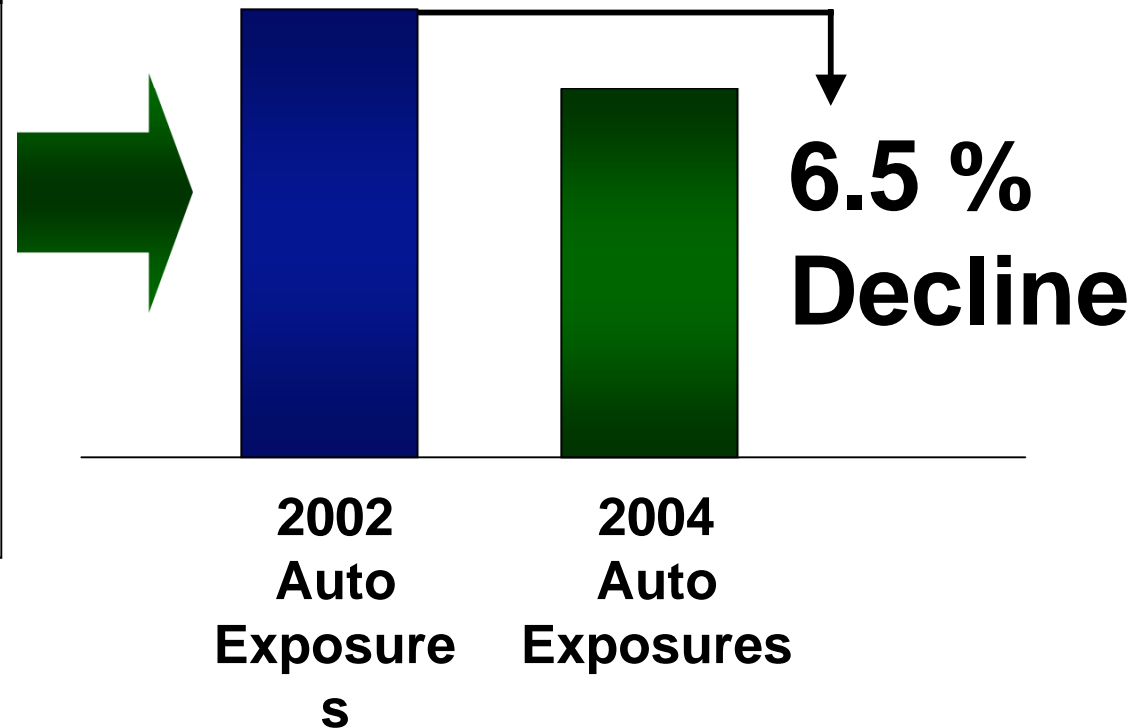
Our policy is performance.™

## Small Company Personal Lines Auto Exposures Shrinking

### Pressures

- Data limitation
- Scale disadvantage
  - Technology
  - Claims
- Concentration risk

All companies:  
\$100 - \$300 Million net written premium



# Using Our Capabilities to Create a Long-Term Winner in Consolidating Market

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## Stockpile Talent Plus...

1. Identify and convert winning mid-sized agents to defensible partners
2. & 3. Creating focused product portfolio in PL and CL that supports winning agents growth while promoting strong earnings potential and stability
4. Creating an operating model that can cost-effectively scale and allows for high-touch at critical times for critical partners

# We Lead By Partnering With The Value-Added Channel

*Our policy is performance.™*

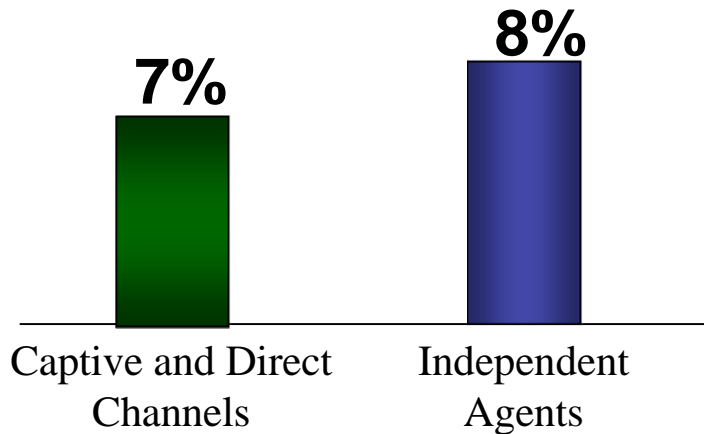


# Capturing This Opportunity Starts With Our Ability to Identify and Convert Winning Agents

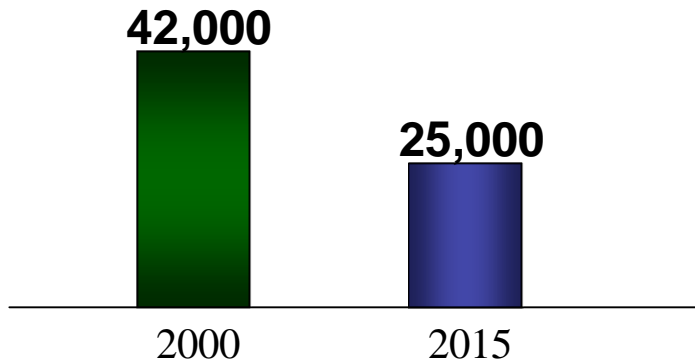


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## Agency Channel Will Compete - Annual Growth 2002 - 2004



## Agency Consolidation Driven by Winning Agents



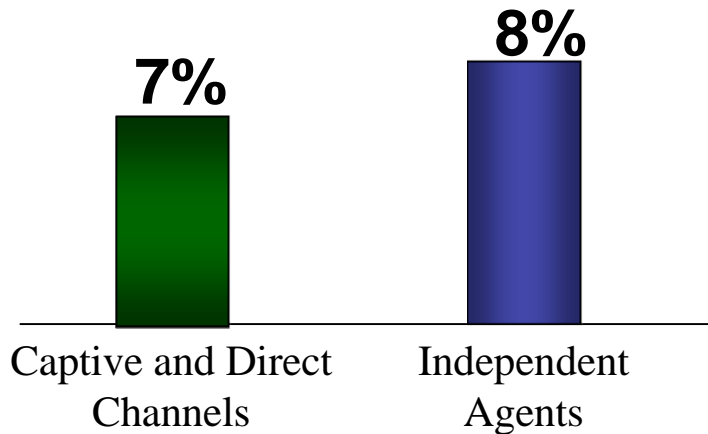
### Key Points

- Independent agents recapturing stake
- Winning agents growing roughly 3x of average agents
- Mid-sized agents fastest growing segment

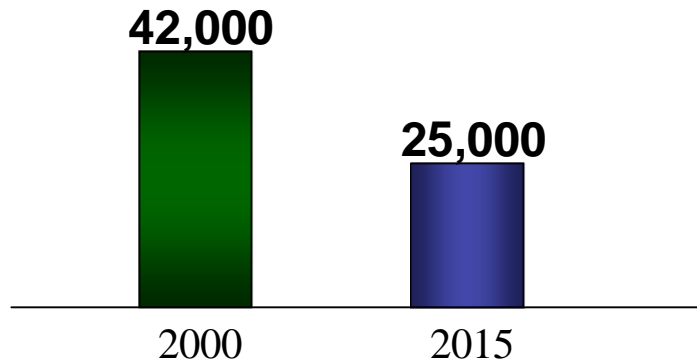
# Our Belief: Winning Agents Represent Huge Opportunity

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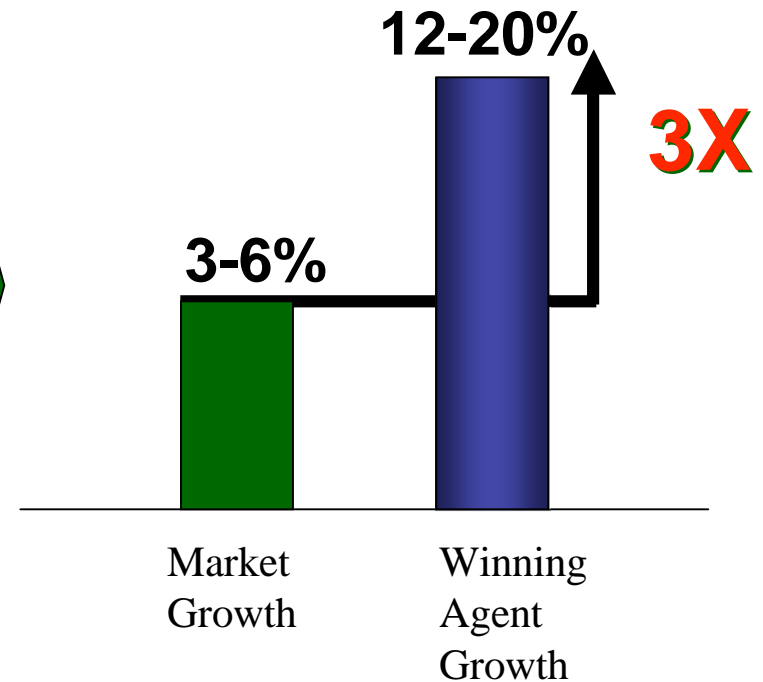
## Agency Channel Will Compete Annual Growth 2002 - 2004



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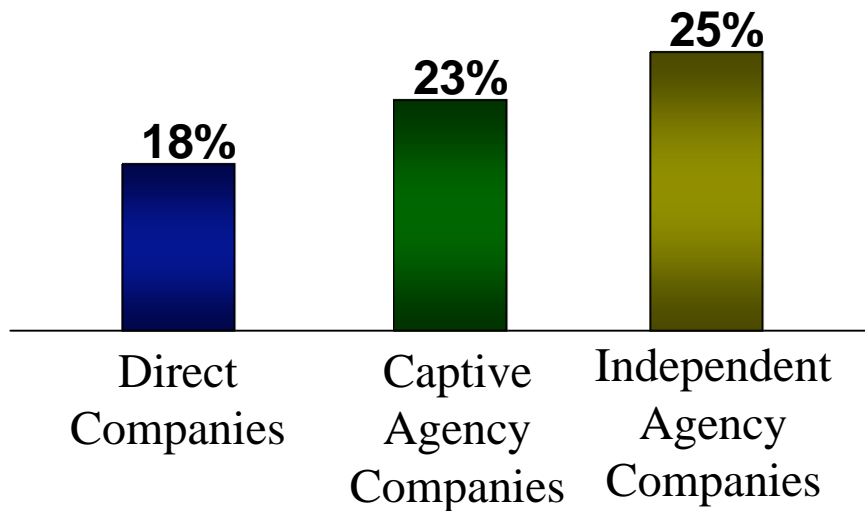


## Winning Agents Will Grow Much Faster Than Market



## “The \$70 Dollar Challenge”

Expense Ratios For Various Channels  
Personal Lines



Cost Difference On Average  
Personal Lines Account

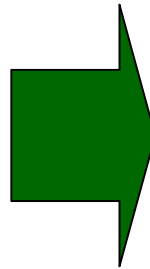
**\$70 or 4%**

\* For \$2,000 account, comprised of \$1,000 auto premium and \$1,000 home/other

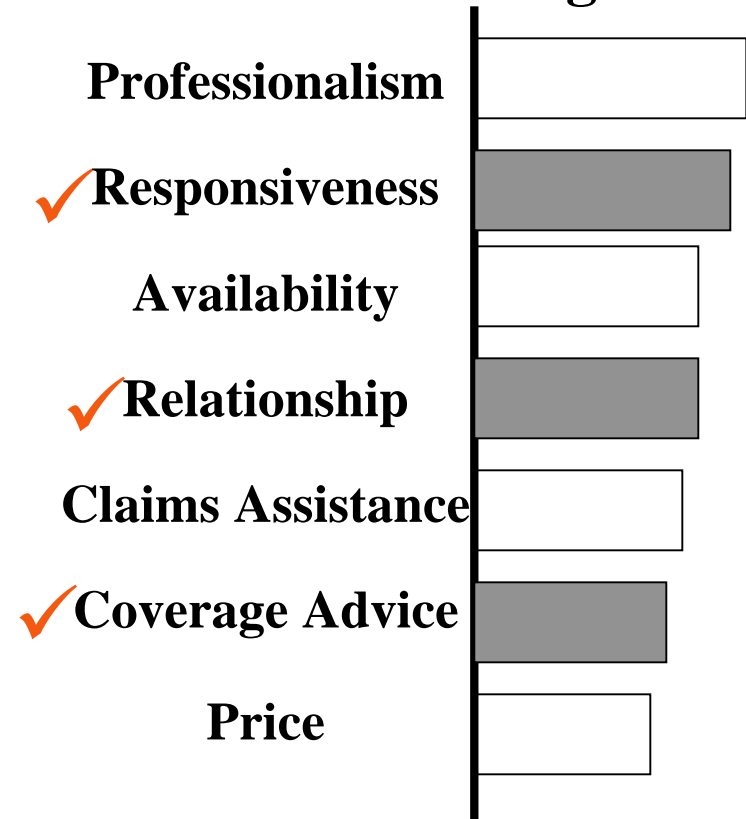
# That's What the Market Wants

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## 70% of Clients Want Value-Added Services



## Drivers of Customer Satisfaction with Agents

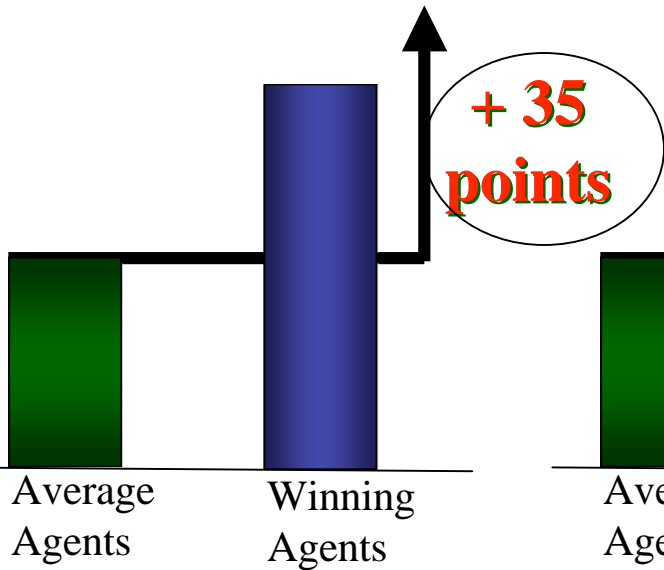


✓ Most important

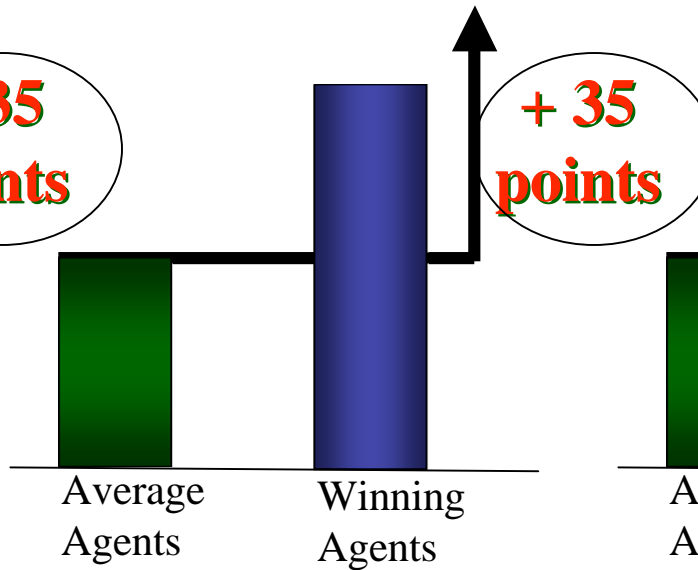
# But You Better Know What a Winning Agent Looks Like...It's All About "Winning Agents"

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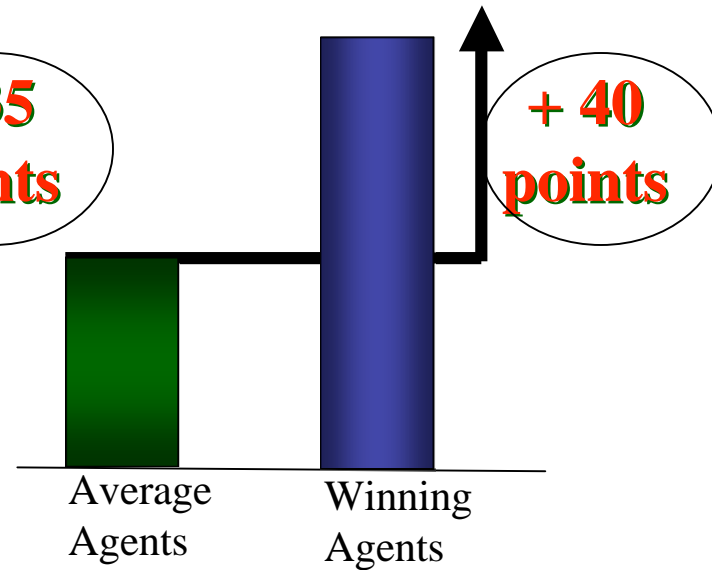
## Relationship



## Responsiveness



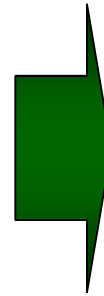
## Coverage Advice



Winning agents grow  
at 3x of average agents

# To Win Our Best Agents...Product Suite Must Be Better Than Regional Companies

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## Product Features

- Underwriting breadth
- Specialty capabilities
- Account capabilities

# Personal Lines Value Proposition

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**Auto \* Home \* Boat \* Umbrella Liability \* Valuable Items**



- **Total Account Writer** – aligned with agency needs
- **Distinctive product sophistication** backed by solid analytical team
- **Easy to do business with** – technology, service, accuracy, problem resolution
- **Defensible Partnerships** – repeatable process of building defensible positions
- **Breakthrough opportunities** through relationships with the **best Personal Lines Agencies**
- **Better economic solution in the long run** – use of third party data, predictive modeling, ability to grow the business profitably

# Commercial Lines Value Proposition

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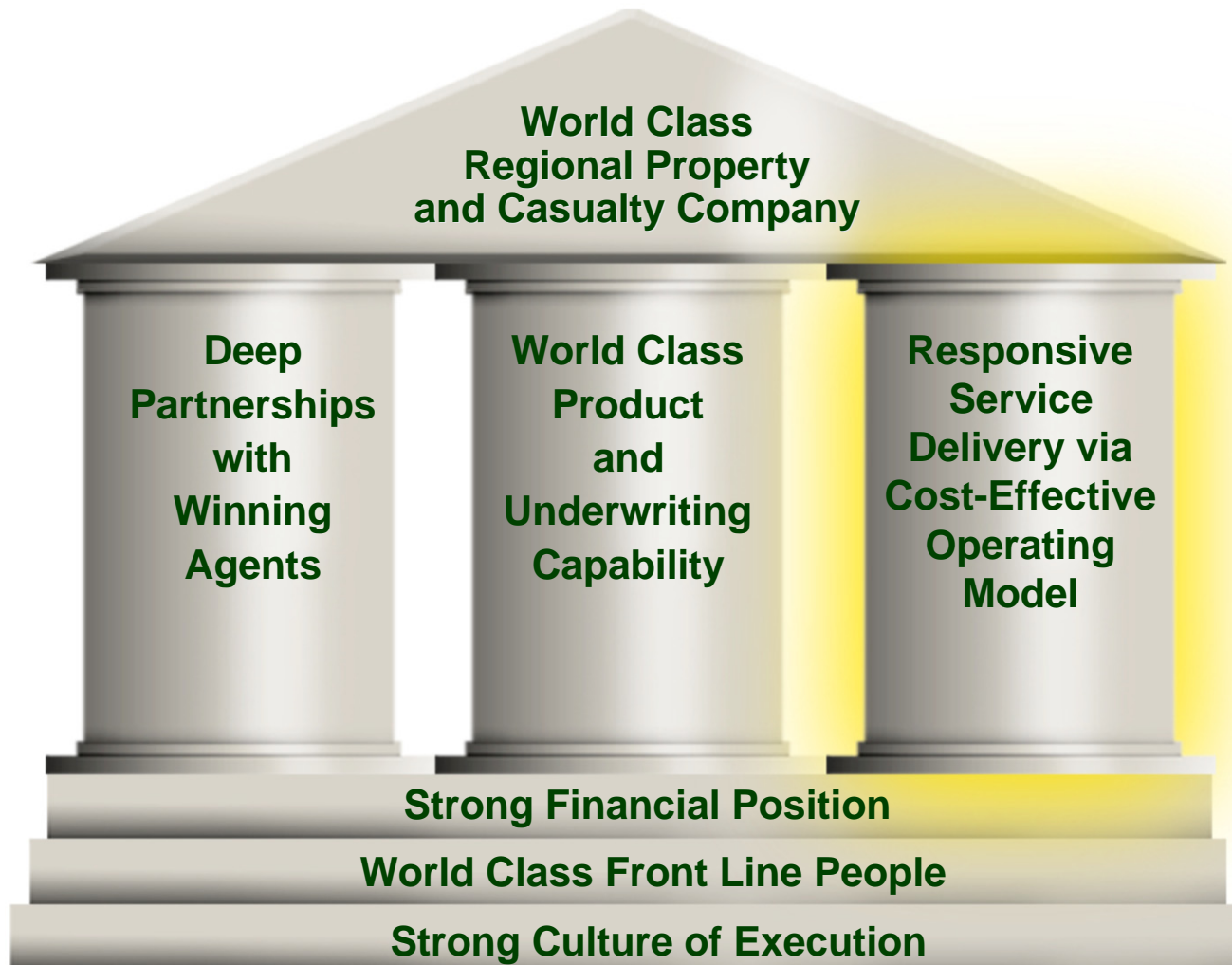
## The Best Partner for Growing Mid-Sized Agents

***Small Commercial \* First Tier Middle Market \* Marine \* Bond \* Umbrella \* Niches***

- A “total solution” operating model for accounts up to \$200K
- Top-tier, local underwriting talent supporting our “sweet spot” (\$25-100K)
- Broad risk appetite and specialty capabilities – true “problem solvers”
- Unsurpassed responsiveness and customer service

# And A Cost-Effective Operating Model Is Key

*Our policy is performance.™*



# Efficient Operating Model

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## Support Local Decision Maker



## Adult in Local Market



**Virtual Hanover Offices**

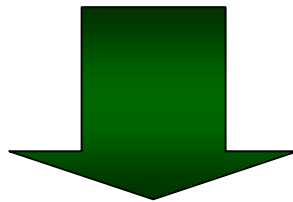


**Independent Agent**

# ...And an Operating Model That Is Scalable to Support Growth

*Our policy is performance.™*

- Regional distribution with top level field leadership in place
- Competitive product suite developed and ready to penetrate the market
- Three service centers with efficient processes and infrastructure in place to absorb increased volume
- Transformation of claims organization under way



**2007 – Expected expense reduction of 1.5 points by leveraging our platform and improving our efficiency**

**2008 - 2009 – 2-3 more points of expense reductions to leverage**

# So Today, We Have These Capabilities - Differentiating Us From Our Regional Competitors

*Our policy is performance.™*

- ✓ Agency Management – A distinctive approach to identify and penetrate with growing agents
- ✓ Personal Lines Business – A unique total account approach delivering value-added products and services to winning agents
- ✓ Commercial Lines Business – Broad leverageable product lines that match the needs and “lock-in” mid-sized agents’ business
- ✓ Technology – Innovative, efficient and scalable automation designed for the high-touch/high-cost market segment
- ✓ Claims – A scalable claims competency with a high-touch approach to managing loss costs
- ✓ Financial strength - Leverage size and scale to create advantage against Regional companies
- ✓ Talent – A talent pool unlike any Regional that allows us to pull this off

# And By The Way...

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**These skills added to our  
responsiveness and local talent  
make us better than many of the  
nationals for winning agents**

# The Hanover Value Proposition

*Our policy is performance.™*

## THE BEST OF BOTH

National Companies		Regional Companies	
WEAKNESSES	STRENGTHS	STRENGTHS	WEAKNESSES
<ul style="list-style-type: none"> <li>• Little local market knowledge</li> <li>• Limited touch</li> <li>• Decision makers distant from agents</li> <li>• Little flexibility</li> <li>• Dictate terms</li> <li>• Limited underwriting flexibility</li> </ul>	<ul style="list-style-type: none"> <li>• Prominent market presence</li> <li>• Attention to large agents and brokers</li> <li>• Low cost/efficient servicing</li> <li>• Superior technology</li> <li>• Scale to invest</li> <li>• Broad product offering</li> </ul>	<ul style="list-style-type: none"> <li>• Local response</li> <li>• Strong agency relationships</li> <li>• Local service - Sales people with underwriting authority</li> <li>• Focus on small to mid-commercial market</li> <li>• Broader individual account underwriting</li> </ul>	<ul style="list-style-type: none"> <li>• Narrow geographic scope</li> <li>• Difficult to export success</li> <li>• Limited talent</li> <li>• Higher-cost operation</li> <li>• Limited capital</li> <li>• Difficult to do business</li> <li>• Basic product</li> </ul>

Super Regional Carrier  
**The Hanover**

# **The Hanover Insurance Group, Inc.**

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**Investor Conference**

**Executing the Vision**

**Marita Zuraitis**

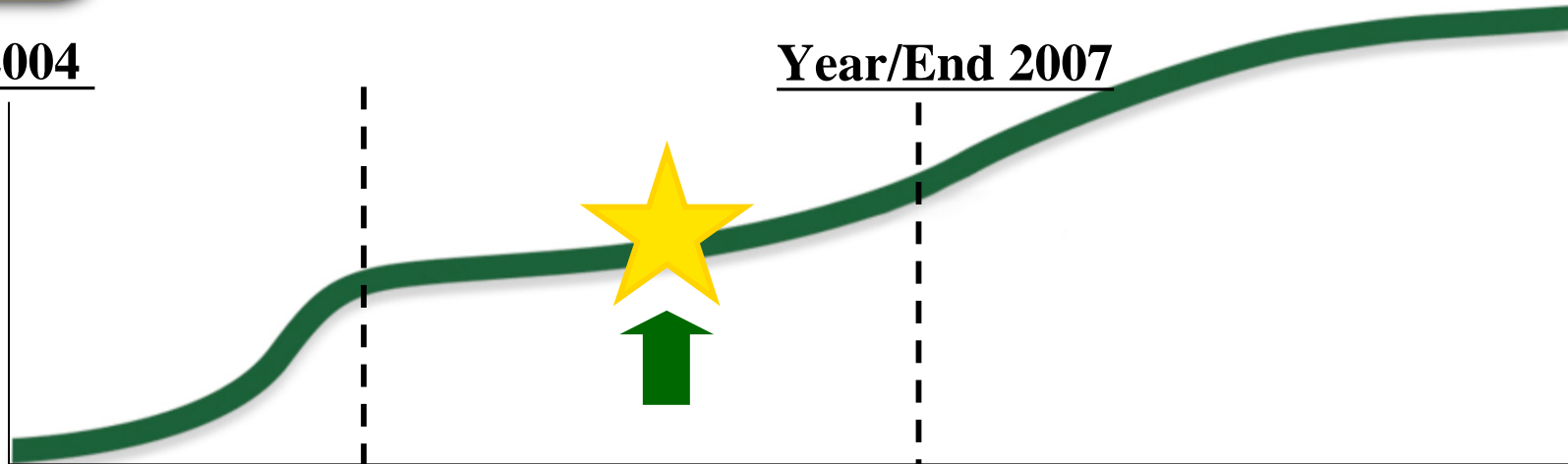
**President, P&C Companies**

# The Journey: We Are Prepared to Step Up!

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**2004**

**Year/End 2007**



- **Fix the franchise**
- **Build the foundation**

- **Invest in our organization's competencies**

- **Begin to breakout**

## Deep Agency Partnerships

- Traditional/Distributed Agency Management

- Defensible Partnership concept embedded/winners identified. True business plans built.

- Leverage Defensible Partnerships

## Product/Underwriting

- Plain Vanilla Products/Capabilities
- Re-underwriting Phase
- Measured Geographic Concentration

- Built/Delivered Full Value Proposition
- Restore Profitability
- Total Exposure Management

- Leverage Total Product Suite, Sophisticated Underwriting Capabilities and Profitable Growth

## Operating Model

- Fragmented Field Mgmt./Inconsistent Service Delivery

- Franchise Field Leaders
- Distinctive Service Advantage

- Leverage Leadership and Scaleable Operating Model

# What We Deliver in 2007 Positions Future Success...

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## Strategic Priorities for 2007

### Personal Lines:

Leverage the total account capabilities that we built to drive profitable growth.

### Commercial Lines:

Capitalize on above industry level growth with defensible agency partners, to drive scalability of our Operating Model and seize greater market share.

### Supported By:

#### Marketing:

A Marketing Engine/Capability that identifies and penetrates the best winning agents.

#### Technology:

A distinctive technology operating model that delivers low cost, efficient, innovative solutions linked to business strategy.

#### Claims:

A claims organization that delivers value today, through targeted savings, while creating a distinctive platform for tomorrow.

## Total Value Proposition

... The Best Partner for Growing Mid-Sized Agents

# How We Deliver in 2007 and Beyond...

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## Who We Are



### The Hanover Value Proposition

Our policy is performance.™

National Companies		Regional Companies	
WEAKNESSES	STRENGTHS	STRENGTHS	WEAKNESSES
<ul style="list-style-type: none"> <li>• Little local market knowledge</li> <li>• Limited touch</li> <li>• Decision makers distant from agents</li> <li>• Little flexibility</li> <li>• Dictate terms</li> <li>• Limited underwriting flexibility</li> </ul>	<ul style="list-style-type: none"> <li>• Prominent market presence</li> <li>• Attention to large agents and brokers</li> <li>• Low cost/efficient servicing</li> <li>• Superior technology</li> <li>• Scale to invest</li> <li>• Broad product offering</li> </ul>	<ul style="list-style-type: none"> <li>• Local response</li> <li>• Strong agency relationships</li> <li>• Local service – Sales people with underwriting authority</li> <li>• Focus on small to mid-commercial market</li> <li>• Broader individual account underwriting</li> </ul>	<ul style="list-style-type: none"> <li>• Narrow geographic scope</li> <li>• Difficult to export success</li> <li>• Limited talent</li> <li>• Higher cost operation</li> <li>• Limited capital</li> <li>• Difficult to do business</li> <li>• Basic product</li> </ul>

Our policy is performance.™



## P&C Company Structure

- Hanover and Citizens separately ran
- Under separate leadership
- With separate distribution
- Two sets of infrastructure
- Personnel for PL and CL combined
- Unsophisticated legacy products and technology
- Limited competitive intelligence
- Each lacked scale on its own

● Existing field presence

**A Transformation was needed...**

# What we've done in the last three years

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**1,745**

New hires with broad roles replace 1,800 old jobs

**16**

New hires at the senior leadership level replacing/adding targeted skills

Willis

STA

GMAC

HIG

Progressive

Liberty

Chubb

25 Operating Committee members bring experience from leading industry players... with more than 450 years of P&C experience

**300**

New claims professionals add/ replace existing staff

Retained Core Talent with Virtually No Voluntary Turnover

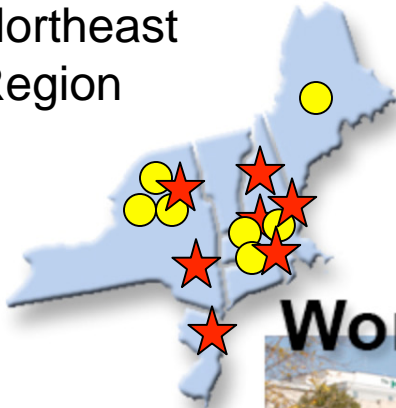
Significantly upgraded operations talent

Significant improvements in technology

# Today...Talent Combined with a Culture of Execution

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Northeast  
Region



Southeast  
Region



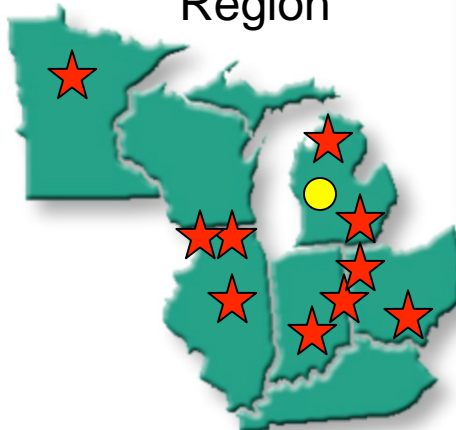
**Worcester**




Central  
Region




Midwest  
Region



- Regional Structure: Geographically focused/Agency driven
- Regional Distribution in place with expanded footprint
- Dedicated PL and CL resources and field leadership
- Unified operating model with shared infrastructure
- Full product suite/Total value proposition
- Distinctive specialty capabilities
- Distinctive technology capabilities
- Distributed leadership, integrated thinking
- Scale to invest in product, service and partnerships

 Existing field presence

 Leadership added in the last 3 years

# Capitalizing on Market Opportunity...

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**What**  
We have  
built...

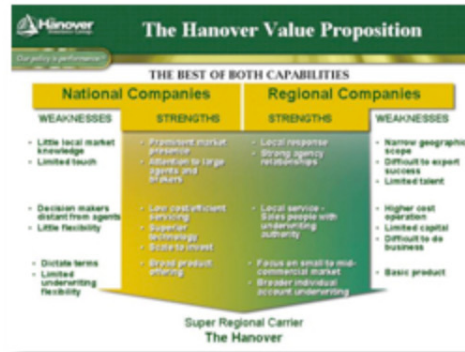


**How**  
We deliver  
to the market



- Strong Financial Position
- World Class Front Line People
- Strong Culture of Execution

- Deep Partnerships with Winning Agents
- World Class Product And Underwriting Capability
- Responsive Service Delivery



**Providing a Solid Foundation for Our Success**

# Confidence that We Will Deliver...

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- Mid-Single Digit Growth in Personal Lines
- Mid-to High-Single Digit Growth in Commercial Lines

## *While...*

- Maintaining underwriting discipline ⇨ Some expected deterioration in accident year loss ratio due to significant new business growth

## *And...*

- Improving our expense ratio by 1.5 points by leveraging our platform and improving efficiency

20 Minute  
**Break**

# We will demonstrate today why you should be confident in our ability to execute...

Our policy is performance.™

## Speaker

## Topic

- **Dick Lavey**  
V.P., Field Ops. & Marketing  
World Class Marketing Capabilities
- **Jim Hyatt**  
President, Personal Lines  
Positioned to Win in Personal Lines
- **David Firstenberg**  
President, Commercial Lines  
The Best Growth Partner for Mid-Sized Agents
- **Greg Tranter**  
Chief Information Officer  
Technology: A Distinctive Capability
- **Mark Welzenbach**  
V.P., Claims  
Delivering Immediate Value while Positioning to Grow

# **The Hanover Insurance Group, Inc.**

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## **Investor Conference**

### **World Class Marketing Capabilities**

**Dick Lavey**

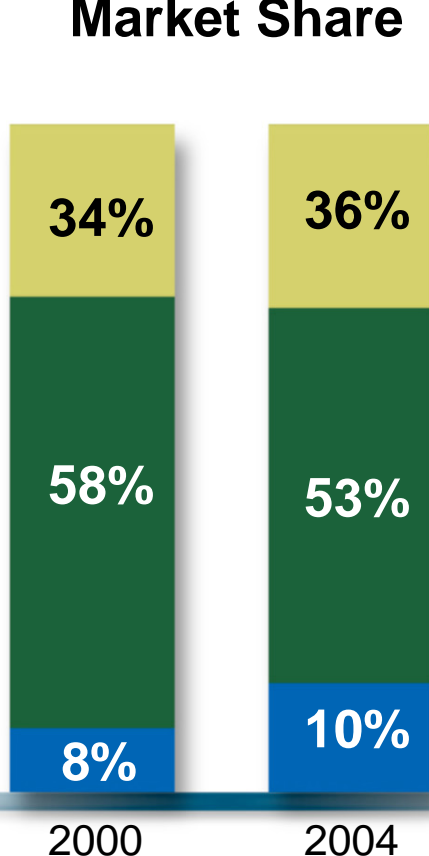
Vice President, Field Operations,  
Marketing and Distribution

- We have a marketing engine/capability that enables a highly targeted segmentation and penetration of our distribution plant
- Specifically, we are building a “scientific approach” for:
  - Finding the best, winning agents in our local markets, and
  - Converting/penetrating those agents so that we have a defensible partnership
- We are passionately focused on the “Mid-sized agent” (\$15-\$60 Million total agency volume)
  - This agent segment controls approximately \$150 Billion of business
  - Our Value propositions are built for these agents and we enjoy an advantage over the other regional carriers within these agencies
- Everything we do is about building deep partnerships with these agents

# The Independent Agency Channel Is Growing and Gaining Share

Our policy is performance.™

## Personal Lines Market Share



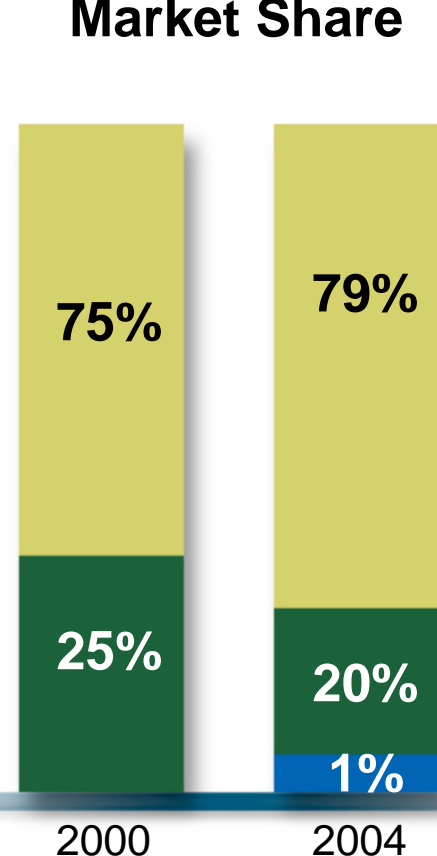
2 Point Share Increase

Independent Agents

Captive Agents

Direct Response

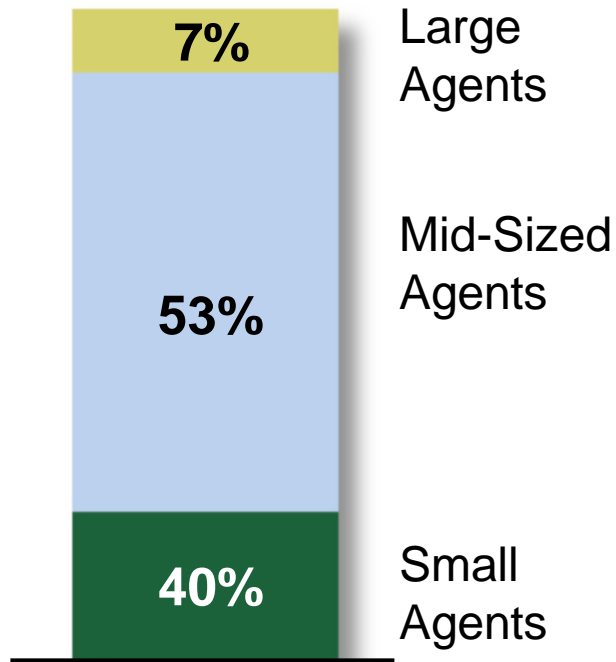
## Commercial Lines Market Share



4 Point Share Increase

–IA & Direct are benefiting from switching  
–Captives are losing market share

## Mid-Sized Agents



- 17,000 mid-sized agents
- Controlling over half the market
- Approximately 5,000 really good ones—sales oriented, acquisitive
- Growing about 3 times the growth rate of others
- Tend to have 1 or 2 National carriers on their shelf and about 3 to 4 Regional carriers

# Regional Companies Control Shelf Space in Mid-Sized Agents

Our policy is performance.™

**P&C Market  
Controlled  
By  
Independent  
Agents**

**~\$275B**

**...Controlled By  
Regional  
Companies  
(46%)**

**~\$125B**

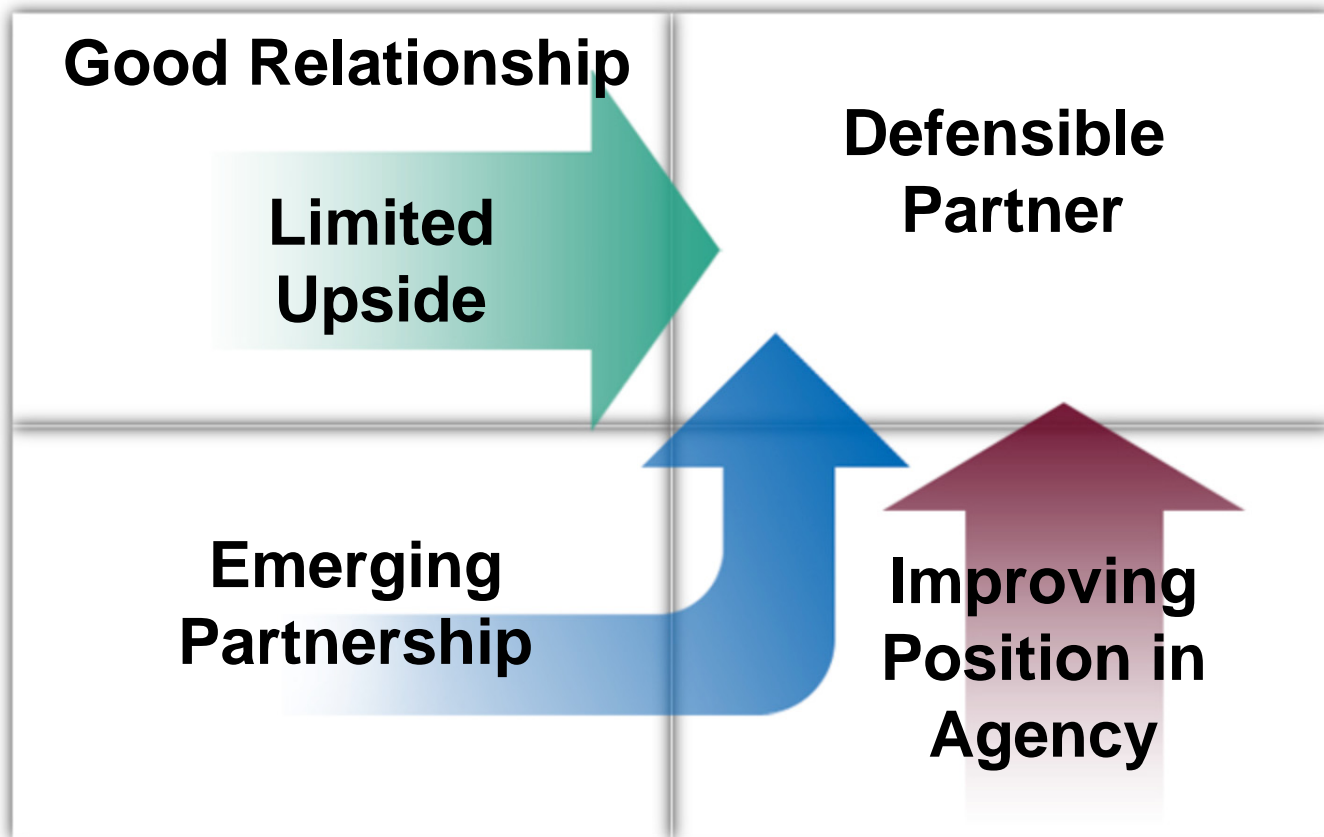
**...Controlled in  
Mid-Sized Agent  
Channel  
(55%)**

**~\$70B**

# Our Goal Is To Build Defensible Partnerships With Those Agents

Our policy is performance.™

**% of Their Business (Market Share)** **10-25%**

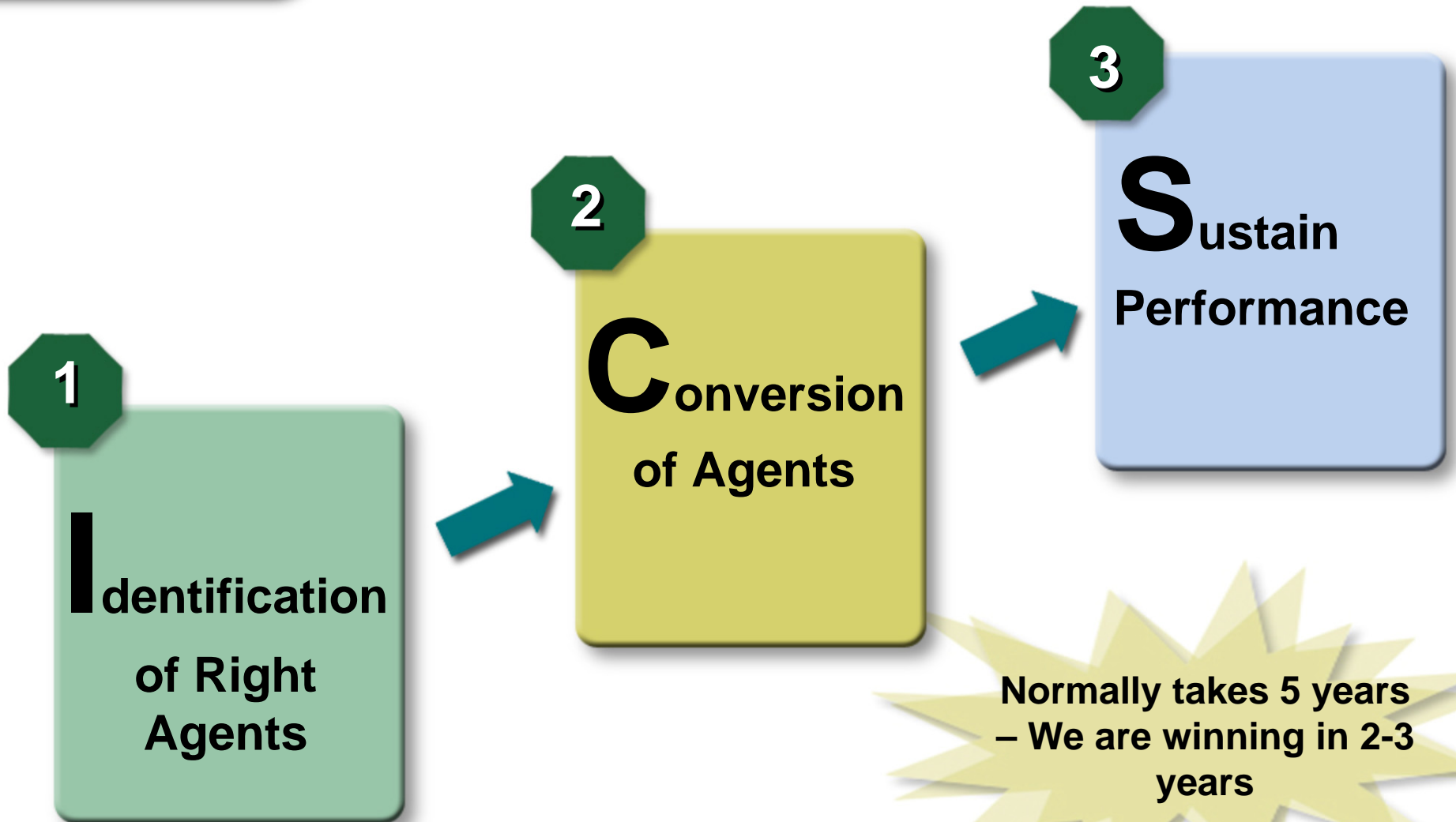


**\$1.0 – \$2.0 million**

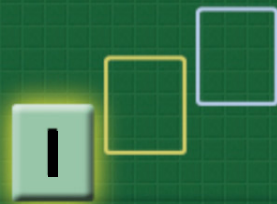
**Premium Size With Us**

# Process for Building Agent Partnerships

Our policy is performance.™



# Identification of The Right Agents



## Micro Market Analysis: Chicago, IL Market

- Number of Agents in Each Zip Code
- Size Profiles
- Acquisition Activity

## Profile of Successful Agent

- Aggressive Growth Goals
- High Retention
- Sales Oriented
- Partnership Minded and Value Added Philosophy
- Hanover Successes

A: YES--Pursue

B:  
Unsure—More Detailed Profile Needed

C: No—Do Not Pursue

## “Four Parts” to Every Agent Interaction

**The  
Agent  
Story**

**The  
Hanover  
Story**

**“The  
Connection”**

**“The Big  
Ask”**

## Agent Profile & Situation

\$15M Agent in Mid-Atlantic

75% Commercial Lines

Primary Carriers:

- Hartford, Travelers, CNA, Selective, Harlysville, Montgomery Mutual

“Dormant” Hanover agent

## Process of “Conversion”

- Starts with Partnership Conversation & Aggressive Business Planning
- Two Years of delivering on UW responsiveness
- Three Senior Management Touch Points in those two years
- Invitation to Speak at Hanover All Employee Meeting
- Exposure to Hanover Senior Team
- “Big Ask” to Profile Book of Business & Marketing Proposal

## Results

- \$3.2 M Book Roll of Regional Company Book
- #1 Carrier in their Shop
- Opening opportunity to Roll Bond Book
- Book rolls result in better customer solutions

## Agent Profile & Situation

Portfolio Approach in  
Micro Market:  
Southern Market

20 High Potential,  
“Winning  
Agents”—some  
new appointments,  
some existing  
agents

TAV Range: \$8-45M

## Process of “Conversion”

- Starts with Partnership Conversation & Aggressive Business Planning
- Introduce new *Connections Auto* Product to obtain “trial” and change “CSR muscle memory”
- Targeted Marketing Programs:
  - “Ramp It Up”
  - “Flying Start Program”
- Push Service Center Utilization
- Cross Sell Campaigns

## Results

- Ten agents on pace to meet 18 month goal of \$400,000 new business
- One Significant Bookroll--\$1M
- Three Book thinning opportunities--\$100,000

## Robust Agent Business Plans

Multi-Year  
Financial Plan

+

Critical Initiatives  
& Responsibilities

Monthly  
View of  
“Gap to  
Business  
Plan” at  
Agent level

Daily View of  
Production on  
all Senior  
Management  
Desktops

Monthly  
Aggregate  
Performance  
of Future  
Defensible  
Agents

Monthly Sales  
Person  
Dashboards

- Production
- Submission
- Yield
- Mix of Business

# Where Are We today?

Our policy is performance.™

% of Their  
Business

**Good Relationship,  
Limited Upside**

**20%**

**Defensible Partner**

**30%**

**Emerging  
Partnership**

**35%**

**Improving Position  
in Agency**

**15%**

Premium Size With Us

## The Hanover Journey for Defensible Partnerships With Agents

---

- 100% Agency Centric, Analytically Focused
- Fully Integrated with Business
- Play Key “Integrator Role”
- Accountable for Financial Results

# The Hanover Insurance Group, Inc.

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## Investor Conference

### Positioned to Win in Personal Lines

**Jim Hyatt**

President, Personal Lines

# Personal Lines Accomplishments

## *What we did in 2006 has positioned us to win!*

Our policy is performance.™

### Partnerships

- Significantly increased the breadth and depth of our agency partnerships
- Expanded our sales and distribution capabilities...more salespeople in more geographies with more focus



### Product

- Rebuilt our entire product portfolio...Auto, Home and Umbrella
- Forged a partnership with American Modern that allows agents to seamlessly write more business and keep more of what they write



### Service

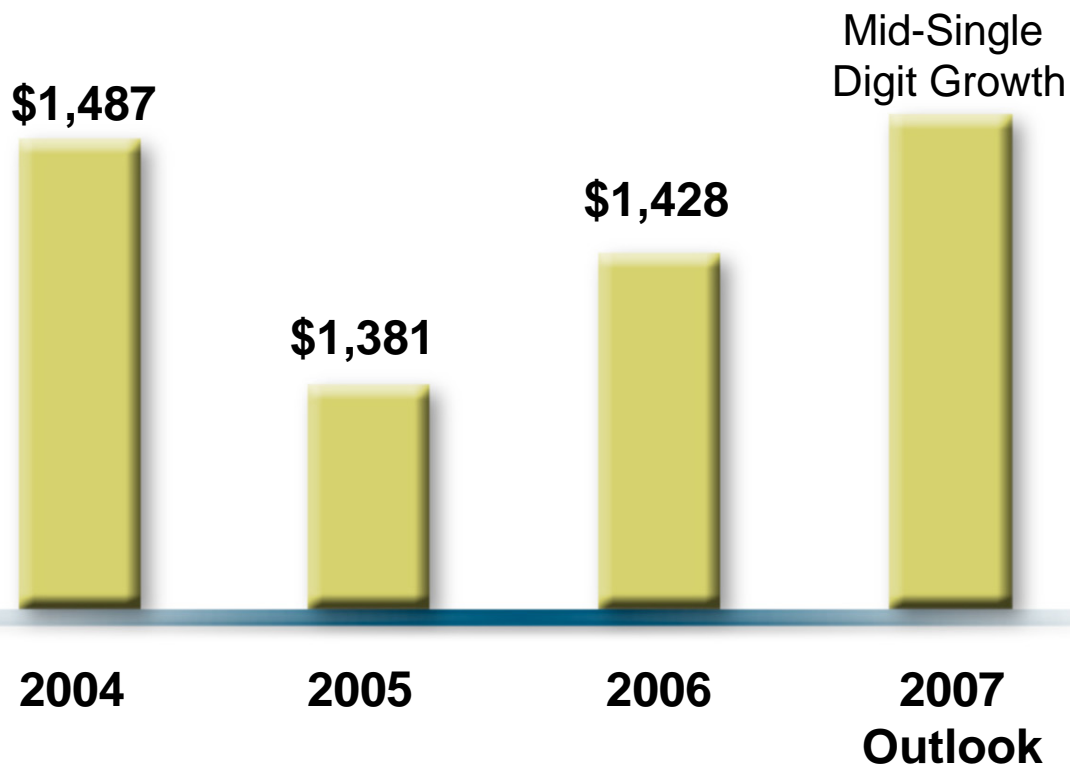
- Created a distinctive service experience that is cost effective and scalable
- Delivered an operating model that improves the economics of winning agents



# We Have Regained Momentum in Personal Lines....

Our policy is performance.™

## Net Written Premium

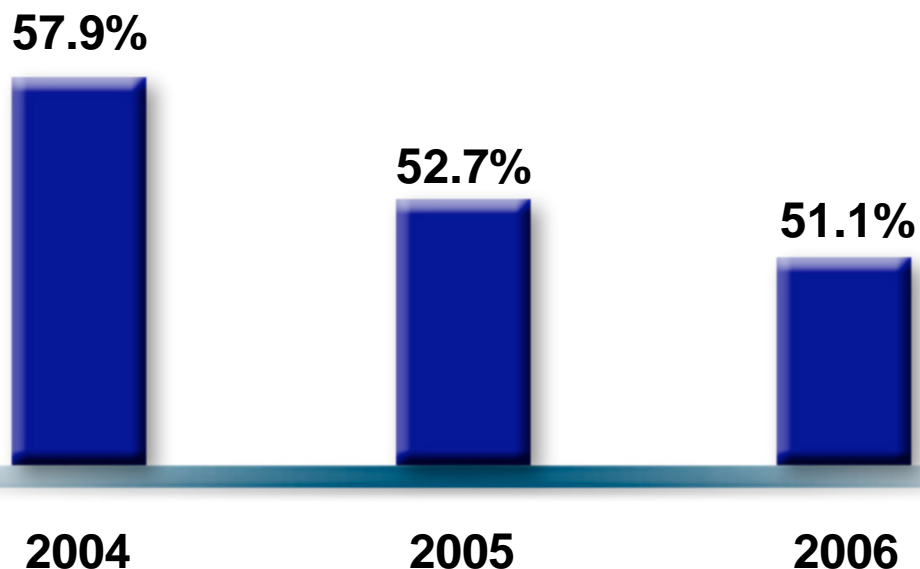


Note: 2005 excludes one-time reinsurance reinstatement premium following Hurricane Katrina, see appendix for reconciliation to reported growth

# ... While Improving the Composition of our Book and Growing Margins

Our policy is performance.™

## Calendar Year Loss Ratio (ex-CATs)\*



*Note: 2005 excludes reinsurance reinstatement premium*

\*Non-GAAP measure see appendix,  
for reconciliation to closest GAAP measure

# And Significantly Broadening our Geographic Footprint

Our policy is performance.™



We've made significant investments in *products, people and capabilities* in 14 states beyond our traditional four core markets

# We've Significantly Increased our Distribution Capabilities and Footprint



Our policy is performance.™

## A Look Back to 2004...

*No concept of defensible partnership*

- Limited number of \$1 Million + relationships outside of Michigan and Massachusetts
- No dedicated Personal Lines sales force
- Dormant agency plant within a limited geography

## Today

*450-500 defensible partners identified and executing to agency level plans*

- 162 \$1 Million + agency relationships outside Michigan and Massachusetts
- Dedicated sales force with 50% more touch-points than 2004
- Over 1,000 new agents appointed in new states



## A Look Back to 2004...

*Uncompetitive product portfolio left us vulnerable...*

- Unsophisticated Legacy Auto product
- Cumbersome Homeowners product with poor quote turn-around time
- Limited capabilities in umbrella and other personal lines products

## Today

*We've completely rebuilt our product portfolio...*

- Sophisticated multivariate auto product live in 17 states
- Strong homeowners product that is significantly more user-friendly
- Fully integrated umbrella capabilities
- Capability to write virtually all personal risk exposures, internally or through partnership



## A Look Back to 2004...

*Limited capabilities delivered through a traditional infrastructure...*

- Service not distinctive
- Operating model not scaleable
- Cumbersome agent-facing technology

## Today

*Leveraging a cost-effective operating model that is...*

Distinctive: First Call Resolution team handles 95% of agents questions in one call

Scaleable: Our service model has a demonstrated track record of achieving 10%+ efficiency gains per year

CSR Friendly: Quick quotes and a seamless, intuitive screen flow make life easier and more productive at the producer level

Customer Friendly: Flexible payment options, integrated policy features and customizable coverage choices deliver value for consumers

# These Investments Have Positioned Us to Win!

Our policy is performance.™



Our Investments Have  
Positioned Us As:

**The Best Solution for**  
**Winning Mid-Sized**  
**Agents**

# Why? We Deliver What Winning Mid-Sized Agents Need!

Our policy is performance.™

## What do they need?\*

- Strong / Effective Carrier Relationships
- Focusing on Growth and New Business
- Maximizing Technology

## The Hanover Solution

- Winning Agent Strategy
  - Assistance in consolidation
  - Building Defensible Partners
- New Product Offerings
  - Competing with Direct Writers
  - Attracting New Clients
- Constant Improvements
  - Responsive Quoting
  - IVANS Transformation Station, TransAct Now

# How? By Delivering What Other Regional Carriers Can't!

Our policy is performance.™

## Typical Regional/Mutual Carriers Offer...

- Uni-Variate rating methodology
- Little effective use of credit
- Limited technology development
- Home as a core product
- No service centers
- Limited analytic horsepower

## ...but Hanover Delivers

- Total Account Writer – Auto, Home, Umbrella and Toys
- Competitive Agency Compensation
- A Focus on Small to Mid-Sized Winning Agents
- Value added local market expertise that help agents succeed
- Effective use of credit
- Significant technology investments
- A competitive, core multi variate auto product
- Successful Customer Service Center

# Positioned to Win In Personal Lines

Our policy is performance.™

*Our investments in building distinctive capabilities across...*

**Distribution**

**Product**

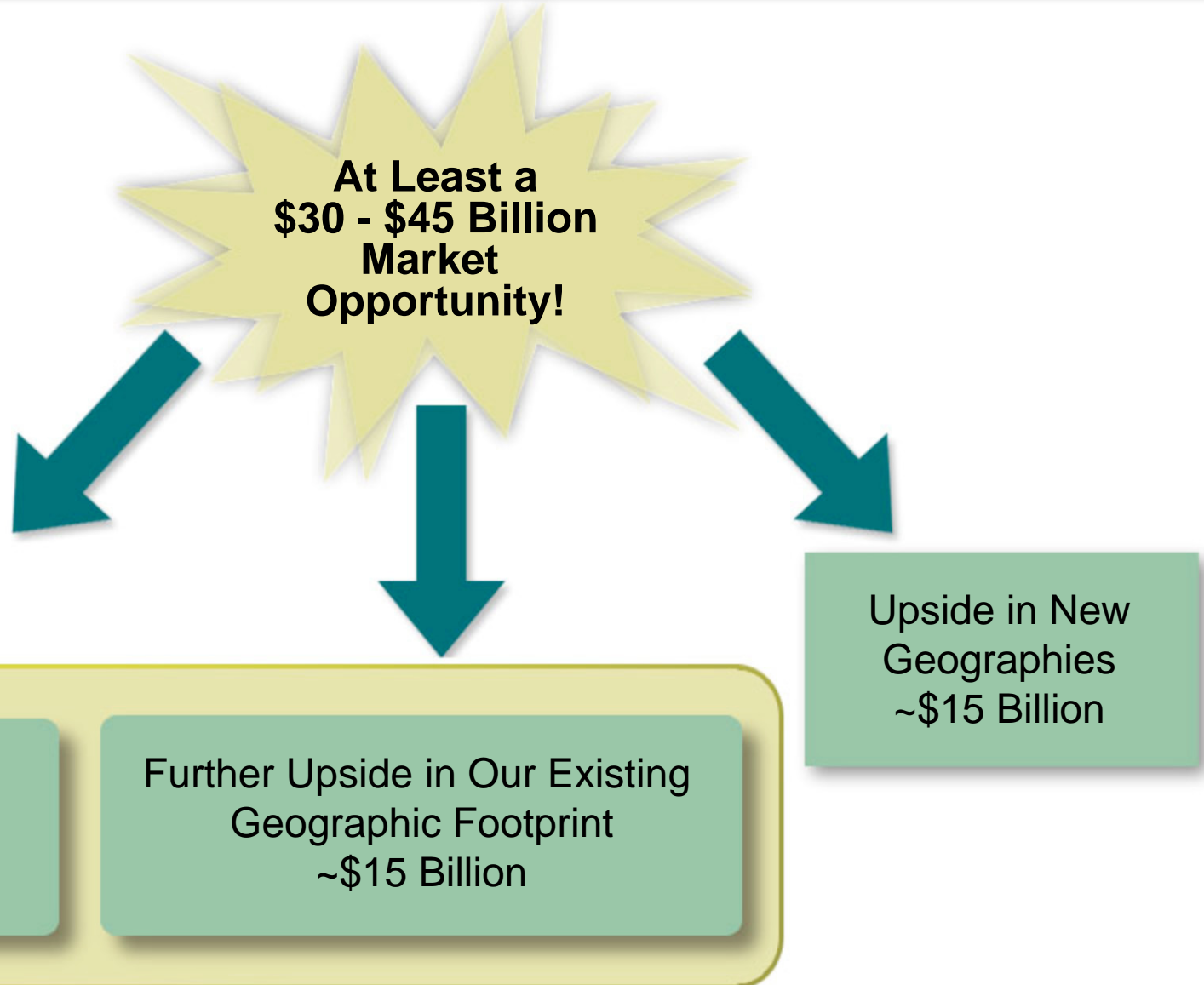
**Operating Model**

Provide us with a tremendous opportunity  
to profitably grow and position us as  
**The Best Solution for Winning Mid-Sized Agents**

**~\$30 - \$45B**

# We Have Segmented and Quantified our Opportunity...

Our policy is performance.™



# ...And We Are Positioned to Seize The Opportunity Hanover Is: The Market of Choice for Winning Producers

Our policy is performance.™

**Auto \* Home \* Boat \* Umbrella Liability \* Valuable Items**



- **Total Account Writer** – aligned with agency needs
- **Distinctive product sophistication** – backed by solid analytical team
- **Easy to do business with** – technology, service, accuracy, problem resolution
- **Defensible Partnerships** – repeatable process of building defensible positions
- **Breakthrough opportunities** – through relationships with the **best Personal Lines Agencies**
- **Better economic solution in the long run** – use of third party data, predictive modeling, ability to grow the business profitably

# **The Hanover Insurance Group, Inc.**

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## **Investor Conference**

### **The Best Partner for Growing Mid-Sized Agents**

**David Firstenberg**  
President, Commercial Lines

# Commercial Lines Accomplishments

*We did what we said we would in 2006!*

Our policy is performance.™

## Partnerships

- Developed significantly more defensible partnerships
- Expanded local market presence to enhance performance



## Product

- Upgraded product platform to drive first tier middle market results
- Dramatically grew specialty business with excellent margins



## Service

- Further refined our operating model to deliver top-tier responsiveness
- Made additional investments in state-of-the-art capabilities



# We Take A Focused Approach to Our Commercial Lines Business...

Our policy is performance.™



## Partnerships

- **Thoughtful Market Selection**
  - Product portfolio built for the mid-sized agent
  - Highly selective distribution strategy
  - Customized solutions for local needs



## Product

- **No Compromise in Underwriting**
  - Tough actions in workers' compensation
  - Tight control of our contracting book
  - Considerable re-profiling in Business Owners Policies and Auto
  - Extreme discipline on larger accounts



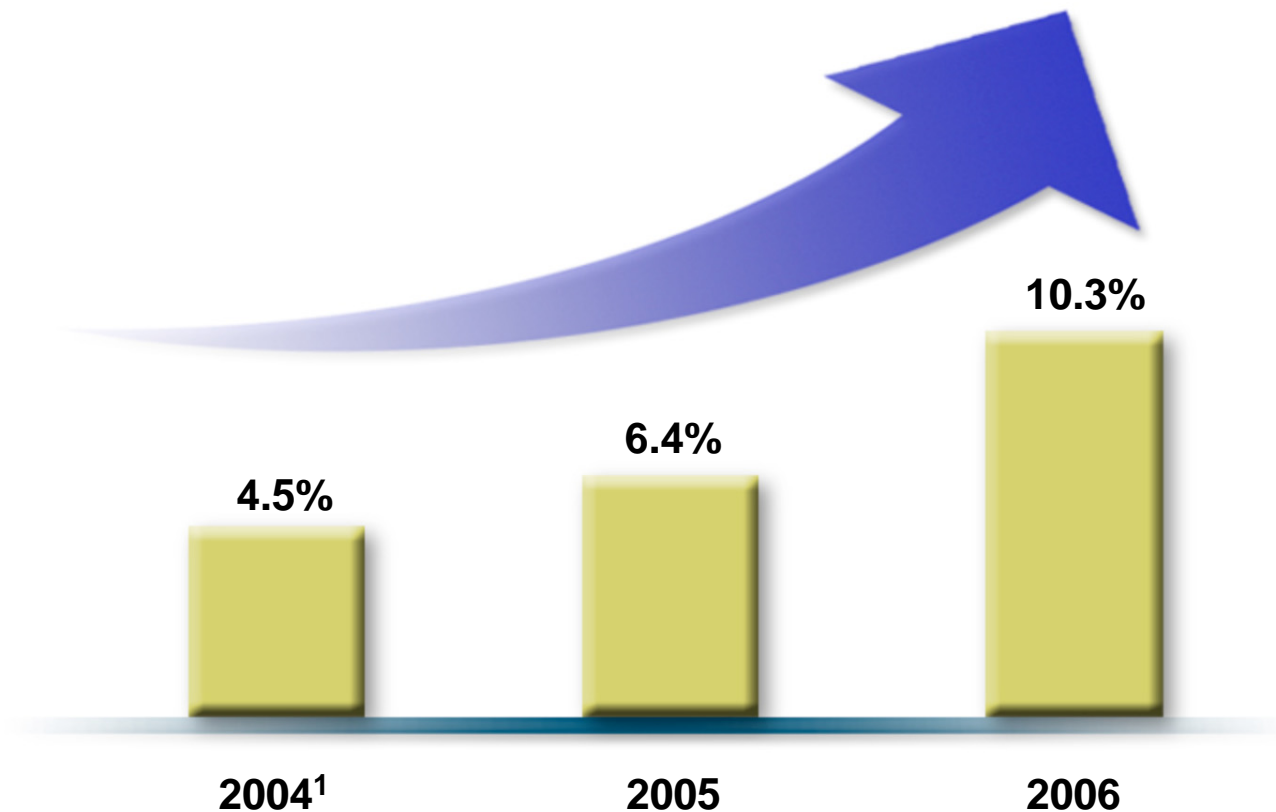
## Service

- **“Best of Both” Operating Model**
  - Distributed underwriting and sales
  - Rebuilt “The Back Office” structure and process
  - Major investments in agent-facing technology

# The Hanover's Growth Rate Demonstrates Our Commercial Lines Success...

Our policy is performance.™

## Net Written Premium Growth



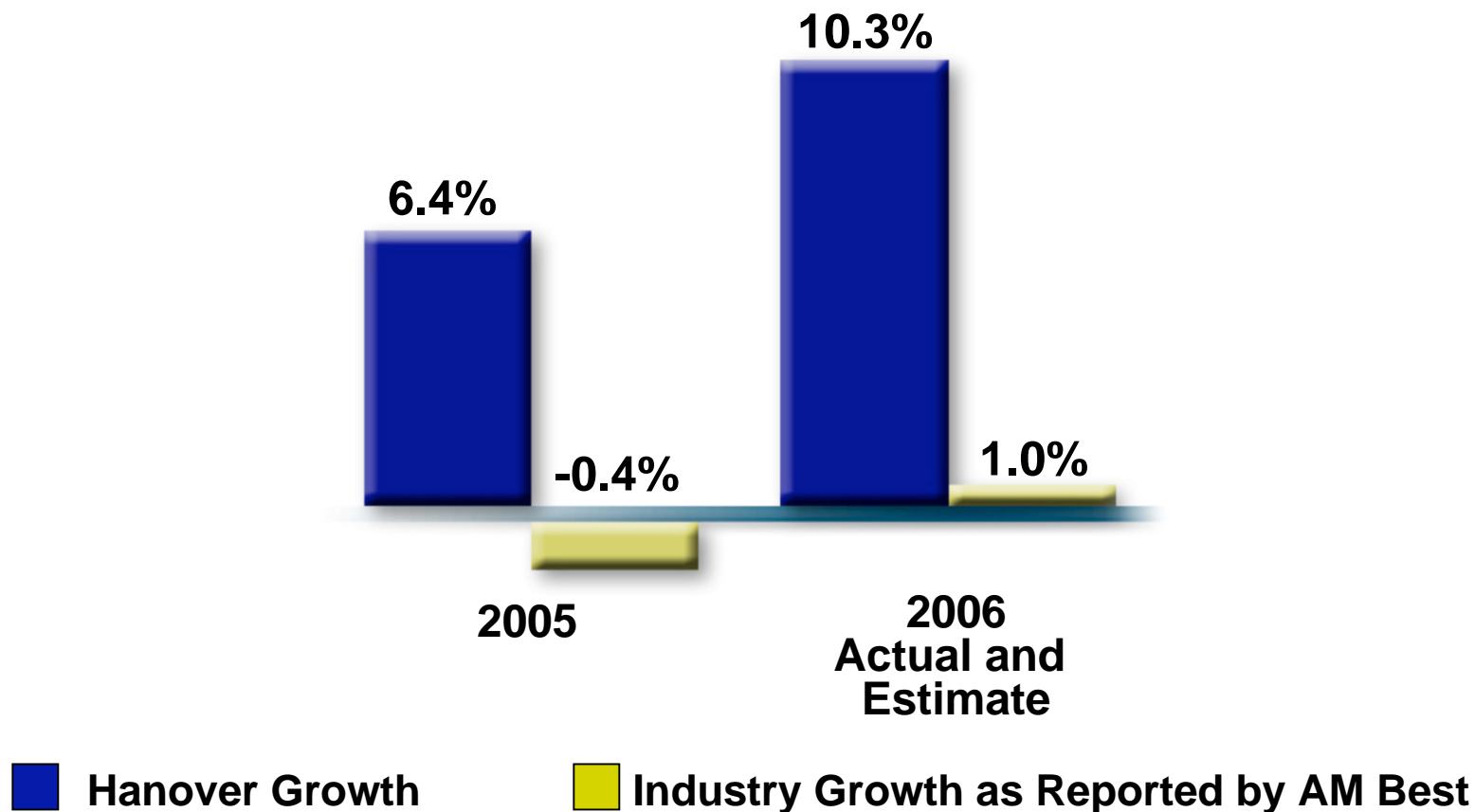
<sup>1</sup> As reported growth

Note: 2005 excludes one-time reinsurance reinstatement premium following Hurricane Katrina, see appendix for reconciliation to reported growth

# ...And Significantly Exceeds the Rate of the Industry...

Our policy is performance.™

## Net Written Premium Growth vs. Industry

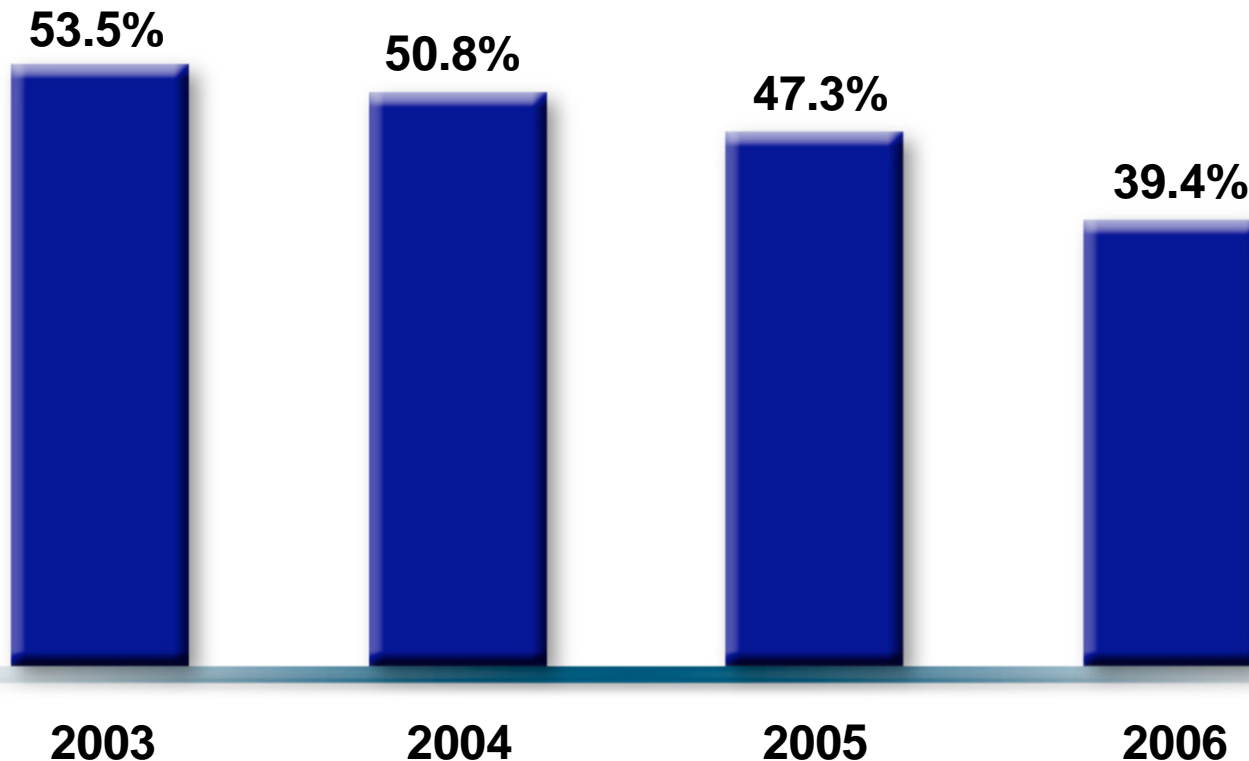


Note: 2005 excludes reinstatement premium

# ... While Improving a Strong Loss Ratio

Our policy is performance.™

## Calendar Year Loss Ratio Ex-CAT's\*



*Note: 2005 excludes reinsurance reinstatement premium*

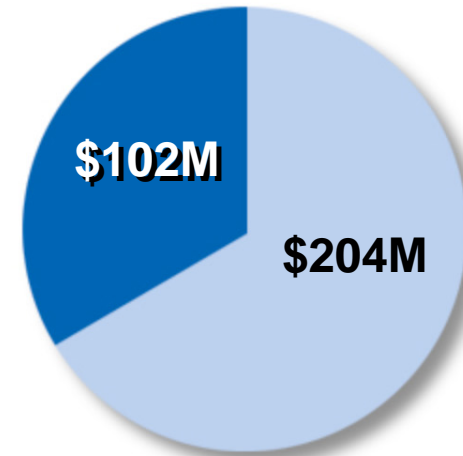
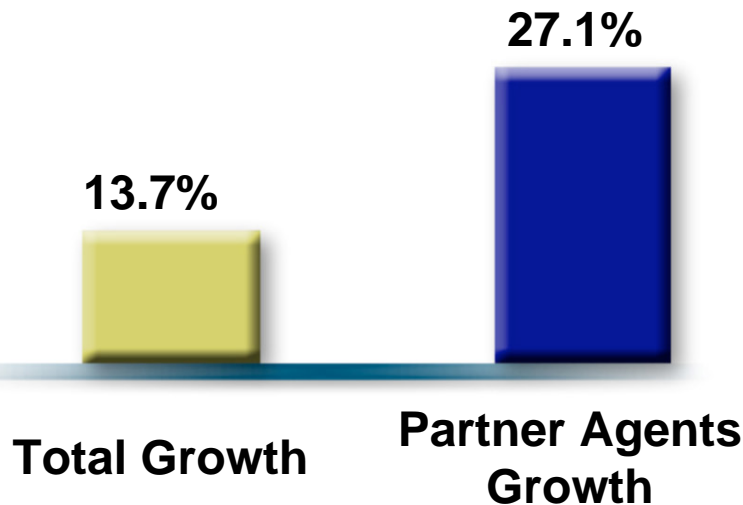
\*Non-GAAP measure see appendix,  
for reconciliation to closest GAAP measure

# Our Ability to Execute with the Right Agents...

Our policy is performance.™

2006

One-third of new business premium growth driven by partner agents



New Business Premium

 Partner Agents

# ... Has Enabled Us to Create Truly Defensible Partnerships.



Our policy is performance.™

## A Look Back to 2004...

- 465 Agents over \$500K
- 208 Agents over \$1M

## Today

- 553 Agents over \$500K
- 267 Agents over \$1M



Our policy is performance.™

## A Look Back to 2004...

- \$33M in Marine Business
- \$26M in Bond Business
- \$16M in Niche Business
- \$749M in Commercial Lines Business with 4.5% growth
- Vanilla products and capabilities

## Today

- \$115M in Marine Business
- \$60M in Bond Business
- \$31M in Niche Business
- \$879M in Commercial Lines Business with 10.3% Growth
- Full product suite for accounts under \$200,000



## A Look Back to 2004...

- Combined Small and Middle Market Underwriting
- Narrow Middle Market capability
- No Small Account Sales Managers
- Inconsistent processing in every branch
- “Vintage 70’s” standard package system

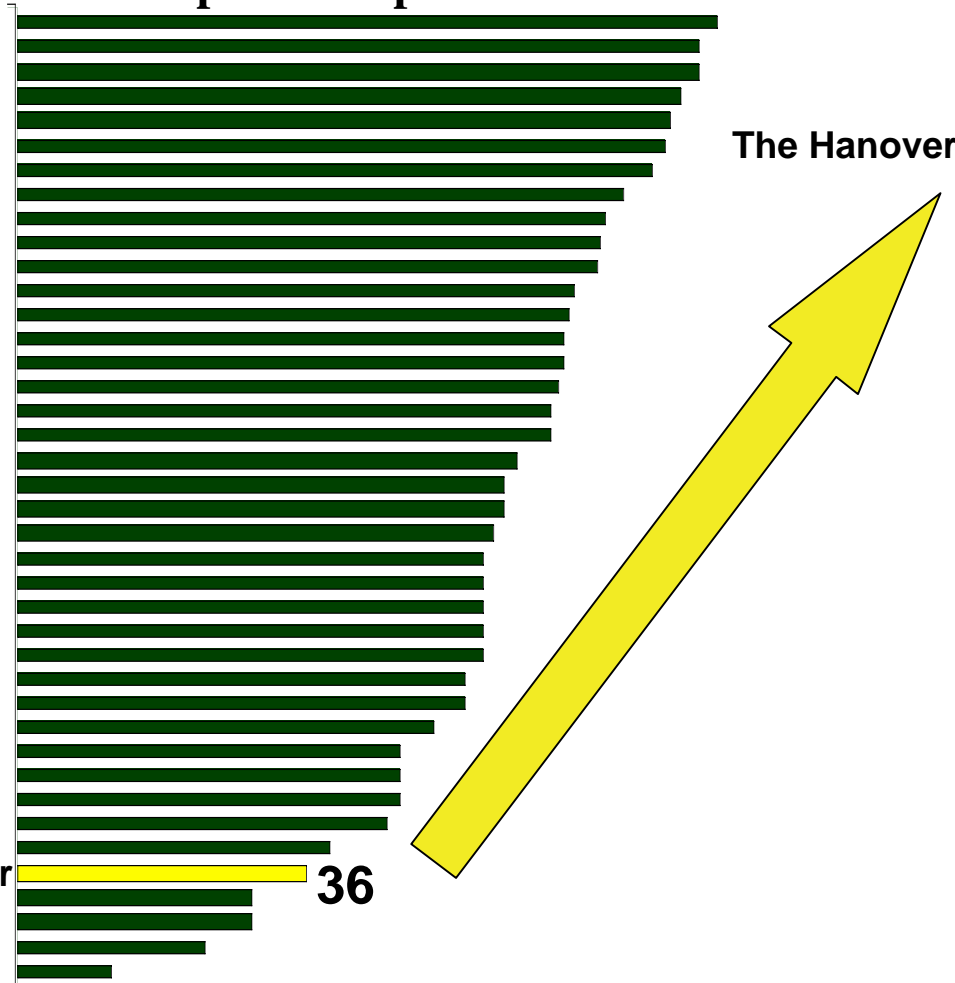
## Today

- Dedicated Small Account Underwriting “Hubs”
- Distinct Middle Market Underwriting Capabilities
- 35 Small Account Sales Managers
- Consistent work processes restricted to six key locations
- Web-enabled agent facing package system

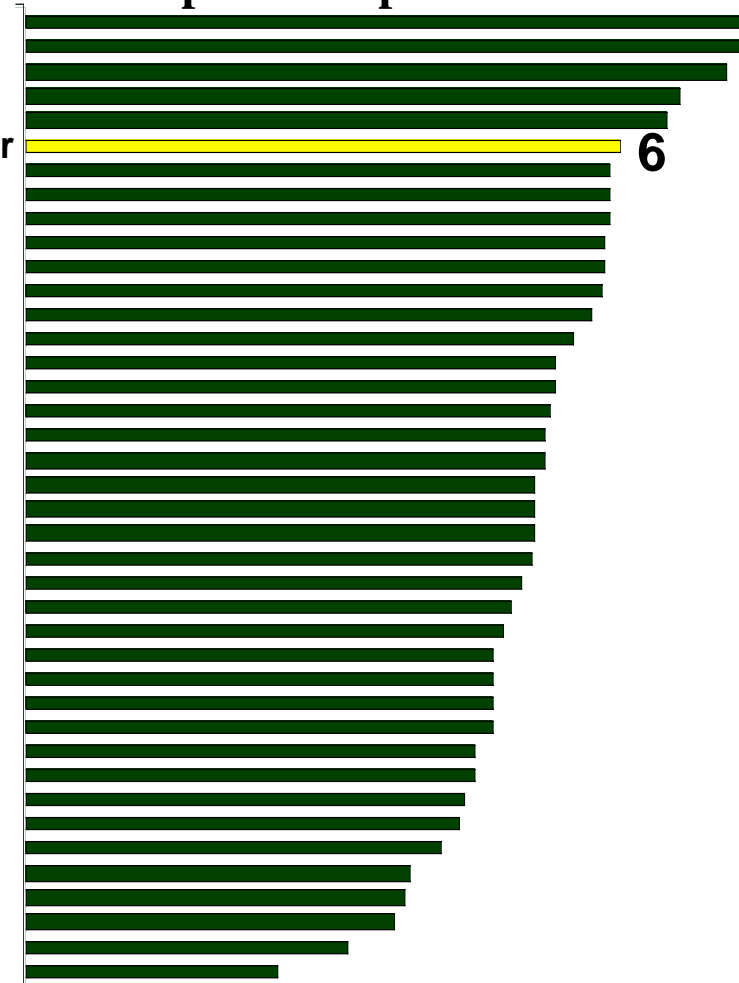
# Major Investments and Hard Work Have Delivered Top-Tier Responsiveness.

Our policy is performance.™

**Service Rank 2003  
Top 40 Companies**



**Service Rank 2006  
Top 40 Companies**



The Hanover

6

36

# Our Future: More Headroom, Expanding Products, Maturing Operations...

Our policy is performance.™

## Partnerships

- **Build Winning Partnerships**
  - 4% penetration with top 215 partners
  - 70% of \$115M in Marine business with 100 partners
  - 80% of \$60M in Bond business with 80 partners
  - Detailed plans developed with specific goals and measures for Small Commercial and Specialty business
- **Open New Markets:** Minnesota, Wisconsin, Missouri

## Product

- **Introduce Competitive Products**
  - BonDirect, Small Account Platform, Builders Risk, Miscellaneous Professional Liability
- **“Offensive” Use of Predictive Modeling**
- **Continue to Deliver Industry Focused Products - 2007**

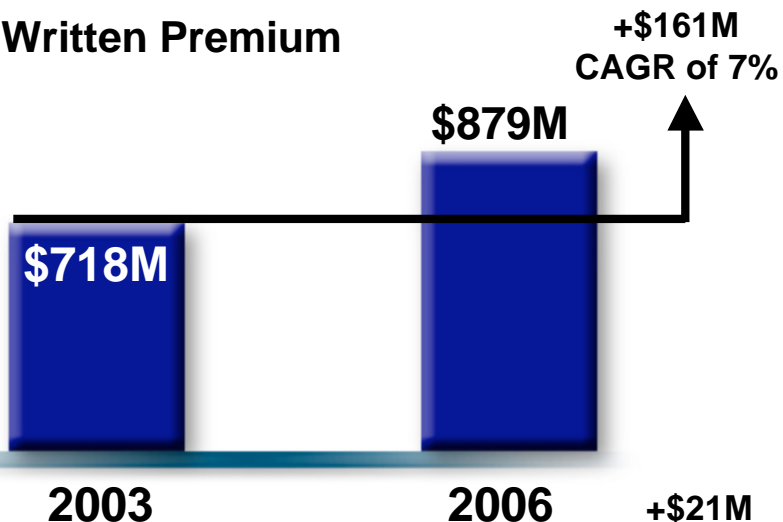
## Service

- **Capitalize on 2006 Operating Model Investments**
- **Further Enhance Technology Investments in 2007**

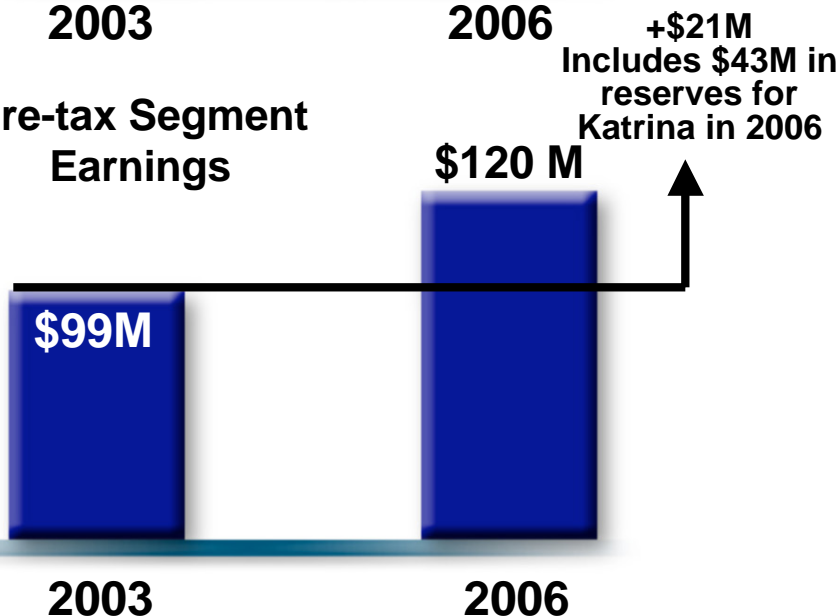
# It's Working... And Is Expected to Continue in 2007!

Our policy is performance.™

## Net Written Premium



## Pre-tax Segment Earnings



## 2003 -- 2006

- Accident Year Loss Ratio: From 50.8% to 48.1%
- Branch Offices: From 17 to 27
- Specialty Business: From \$75M to \$215M
- Agents with a \$1M written premium: From 193 to 267

# What Drives These Results: A Value Proposition That Resonates with Winning Agents

Our policy is performance.™



## The Best Partner for Growing Mid-Sized Agents

***Small Commercial \* First Tier Middle Market \* Marine \* Bond \* Umbrella \* Niches***

- A “total solution” operating model for accounts up to \$200K
- Top-tier, local underwriting talent supporting our “sweet spot” (\$25-100K)
- Broad risk appetite and specialty capabilities – true “problem solvers”
- Unsurpassed responsiveness and customer service

# **The Hanover Insurance Group, Inc.**

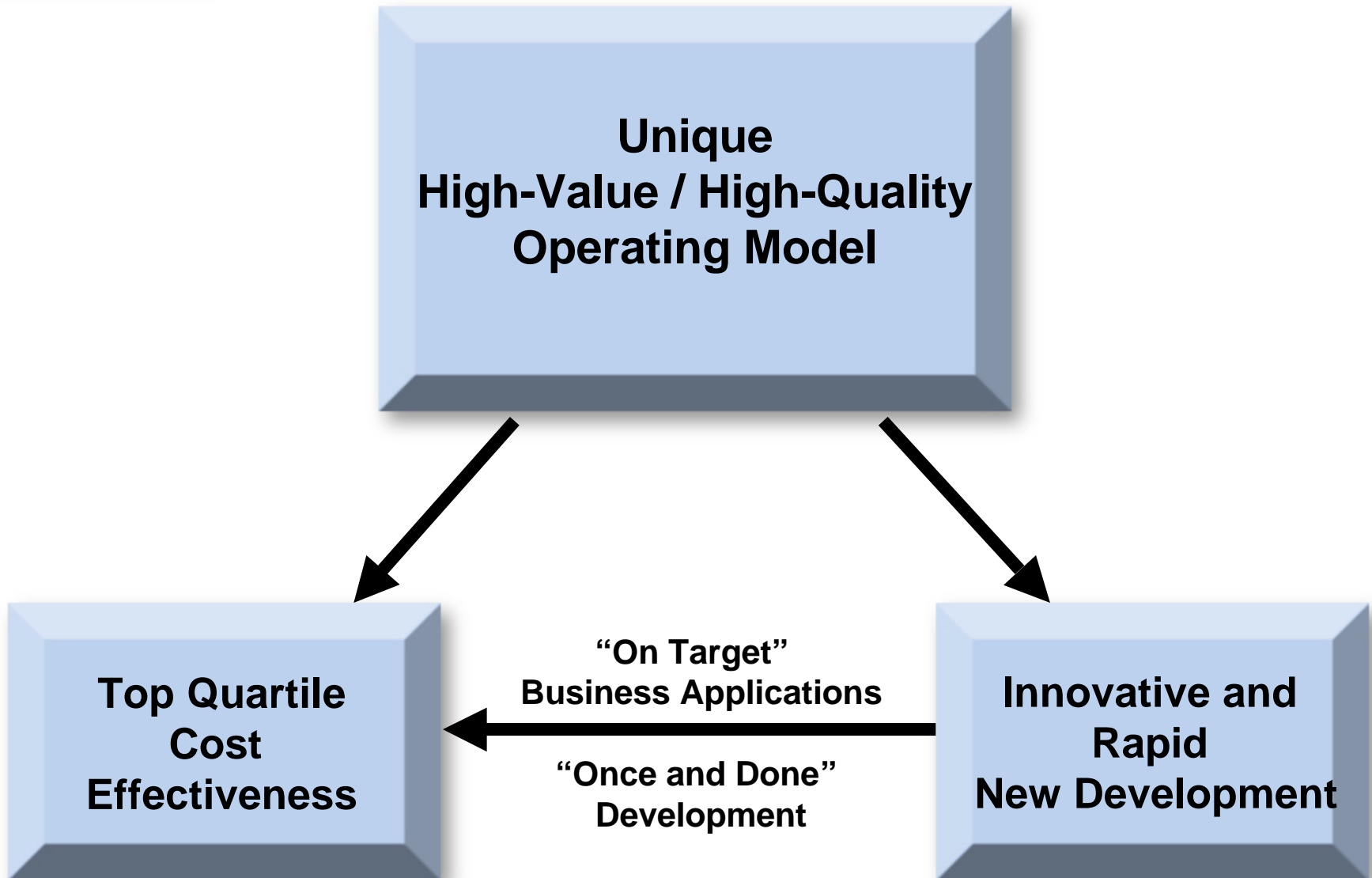
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## **Investor Conference**

### **Technology: A Distinctive Capability**

**Greg Tranter**

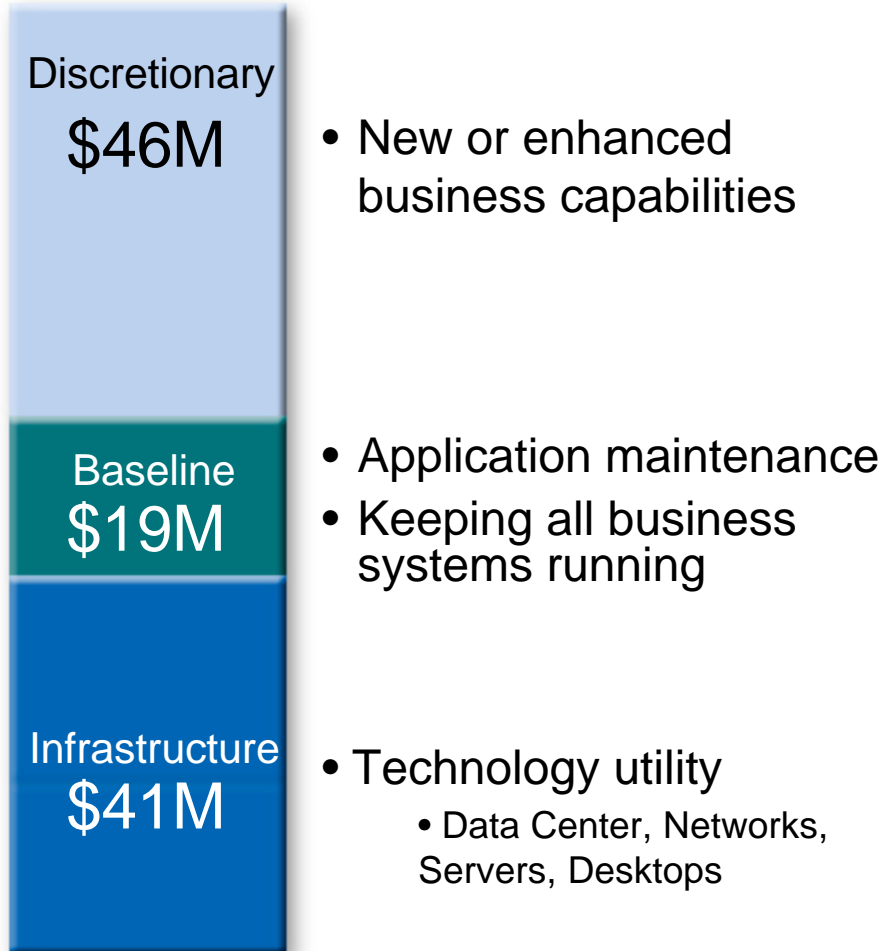
**Sr. Vice President and  
Chief Information Officer**



# We think about our Technology in Three Components

Our policy is performance.™

## Technology Components (2007)



## Management Focus

Cost Effective	Rapid Development
✓	✓
✓	✓
✓	

***...because we manage each one differently...***

# Unique Management of each Technology Component - Infrastructure

Our policy is performance.™

What is in Infrastructure	Unique because...	Benchmark
<ul style="list-style-type: none"> <li>• <b>Mainframe</b></li> </ul>	<ul style="list-style-type: none"> <li>• Optimized at 90% utilization</li> <li>• Variabilized capacity to be able to expand to 150%</li> </ul>	<ul style="list-style-type: none"> <li>• \$2,589 - MIP/Yr.</li> <li>• \$5.16 per Gigabyte/ Yr.</li> </ul>
<ul style="list-style-type: none"> <li>• <b>Servers</b></li> </ul>	<ul style="list-style-type: none"> <li>• 58% virtualized —~1:1 physical : logical</li> </ul>	<ul style="list-style-type: none"> <li>• \$4,775 per Server</li> </ul>
<ul style="list-style-type: none"> <li>• <b>Desktops</b></li> </ul>	<ul style="list-style-type: none"> <li>• Remote management</li> <li>• Automated software distribution</li> </ul>	<ul style="list-style-type: none"> <li>• \$151 / per seat</li> </ul>
<ul style="list-style-type: none"> <li>• <b>Networks</b></li> </ul>	<ul style="list-style-type: none"> <li>• Quality of Service adjustable based on our eight core applications</li> </ul>	<ul style="list-style-type: none"> <li>• &lt; \$0.01 per minute telephony costs</li> </ul>
<ul style="list-style-type: none"> <li>• <b>Help Desk</b></li> </ul>	<ul style="list-style-type: none"> <li>• 90% “once and done” first call resolution</li> </ul>	<ul style="list-style-type: none"> <li>• \$10.40 / per call</li> </ul>

**Cost Effective Infrastructure**

# Unique Management of each Technology Component - Baseline

Our policy is performance.™

What is Baseline	Unique because...	Benchmark
<p>Eight Major Systems Applications</p> <ul style="list-style-type: none"> <li>• Point of Sale</li> <li>• Policy Administration (2)</li> <li>• Claim</li> <li>• Billing</li> <li>• Workflow Management</li> <li>• The Agency Place (TAP)</li> <li>• Call Center Portal</li> </ul>	<ul style="list-style-type: none"> <li>• Significantly fewer systems to support than our competitors</li> <li>• Strategic sourcing <i>partnership</i> with a single outsourcer – Keane (staff extension)</li> <li>• Manage to tight Service Level Agreements (SLAs)</li> <li>• Capability Marketing Model (CMM) Level 5</li> </ul> <p>Application suite managed as an investment portfolio</p>	<ul style="list-style-type: none"> <li>• Lower than industry unit cost = \$36.24 / hr.</li> <li>• 46% &gt; throughput past two years</li> <li>• Capability to make rate changes rapidly &lt; 5 days</li> <li>• No re-work – only one production defect YTD</li> </ul>

**Cost Effective Baseline Operations**

# Unique Management of each Technology Component - Discretionary

Our policy is performance.™

## Own/Rent Model for Discretionary Development

Own Core IT Competencies	Source (Rent) Commoditized Work
<ul style="list-style-type: none"> <li>• Define Business Processes &amp; Requirements</li> <li>• Design the Technology Solution</li> <li>• Manage the Projects to a Goal Outcome</li> </ul>	<ul style="list-style-type: none"> <li>• Build</li> <li>• Test</li> <li>• Deploy</li> </ul>

- Enables high tech/high touch
- Technology integrated with the business
- 24 x 5 development and testing capabilities
- Highly scalable, highly responsive to business needs
- Business confidence in on time, on budget delivery

### *Promotes...*

- Cost Effectiveness
- Scalability
- Innovative and Rapid New Development

# Cost Effectiveness and Scaleability of Discretionary Development

Our policy is performance.™

90%

Of projects on time on budget

\$48.47/ hr.

Unit cost is 25% - 50% less than competitors

+ / - \$15M - \$20M

Can easily swing capacity to respond to business needs

# Innovative and Rapid New Development

Our policy is performance.™

## Speed of Development

Industry Norm: 9 mos.



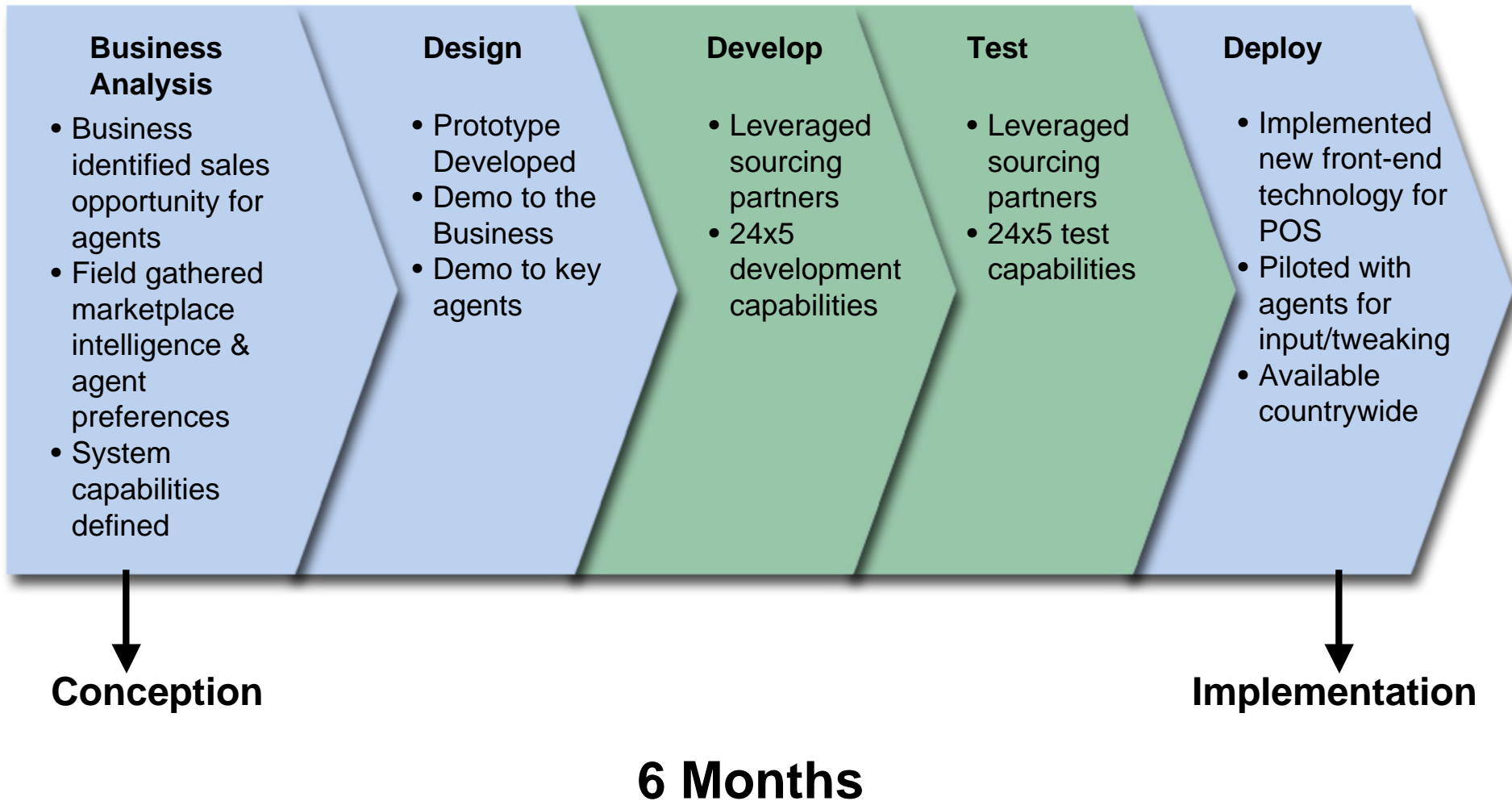
The Hanover Results: 5 mos.



### Distinctive characteristics of our Technology group that make this happen:

- Business Analysts Embedded with the Business
- Parallel processing / prototyping
- 24 x 5 development and testing capabilities
- Agency Automation Coordinators high-touch deployment; soft sales approach
- Limited re-work

## Inland Marine – Builder’s Risk



# Other Initiatives with Similar Success

Our policy is performance.™

<b>Product</b>	<b>The Hanover's Delivery Time (Months)</b>	<b>Competitors' Delivery Time (Months)</b>
Inland Marine	6	10
<i>Connections Auto</i>	12	24
HO Product	7	15
Small CL Account POS	7	12

- Significant variability in cost structure
  - Strategic global sourcing partners
  - 24 hour delivery and testing capabilities (follow the sun)
  - Rapidly response to business needs
  
- Track record of on-time and within budget delivery
  - Projects delivered on time and within budget
  - Predictability of IT
  
- National Company Capabilities
  - Product Portfolio completely enhanced over the last 24 months
  - Sales and Service points of entry expanded from two to seven
  - Underwriting capacity enhanced through Predictive Modeling
  - Service capabilities significantly enhanced
    - Ranked number six in service – 2006 Goldman Sachs survey

Our policy is performance.™

## Gartner

Best practice around Insurance Sourcing

## COMPUTERWORLD



Honors Program Finalist – *Computerworld* magazine



100 Best Places to Work in IT



100 most resourceful IT organizations.



MASS  
TECHNOLOGY  
LEADERSHIP  
COUNCIL

Innovative technology  
approaches

## INSURANCE & TECHNOLOGY

Elite 8 – Recognizing innovative CIOs



Innovative approaches & practices re:  
business-technology strategies, investments,  
procedures

# **The Hanover Insurance Group, Inc.**

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## **Investor Conference**

**Delivering Immediate Value  
While Positioning to Grow**

**Mark Welzenbach**  
Vice President, Claims

## ***...Delivering value today while creating a distinctive Claims platform for tomorrow...***

- » Organized to deliver both the efficiencies of scale and the value of local expertise and responsiveness to agents and customers
- » Ability to rapidly grow while maintaining high levels of claim quality and service standards

# Our Claims Organization ...a little about us...

Our policy is performance.™



## Locally Responsive

- 44 claims and legal offices
- 175+ “road” staff
- Network of over 500 preferred body shops
- Dedicated catastrophe team
- Mobile complex loss adjusters

## Sophisticated

- 22 captive law offices / 150+ staff
- Medical professionals supporting adjustment process
- Self-learning fraud technology/local fraud investigators
- Claim analytics team
- Use of sophisticated decision support technology
- Complex loss expertise

## Efficient

- Three major hub locations for routine losses
- Centralized review and electronic processing of medical and legal bills
- Once and done claim handling center
- Implementing fully paperless technology system

## Delivering value while creating distinctive position

### Two Pronged Approach

#### Deliver Immediate Benefits

- Deploy series of targeted initiatives that result in savings:
  - Implementation of “best-in-class” practices
  - Achievable without enterprise-wide behavior changes
  - Easy to implement, measure and quantify

#### Build for the Future

- Investments in operating model to support growth and savings:
  - Process
  - Quality
  - Talent
  - Technology enhancements
  - Metrics

# Claims Quick Capture Benefits

Our policy is performance.™

- Vendor Partnerships
- SLA's/Compliance
- Leveraged purchasing
- Utilization of claim decisional tools
- *Metrics/analytics*

Achieved Indemnity Savings of \$25M

Targeted Indemnity Savings of \$15M

2006

2007

- Body shop selection
- Centralized valuation/replacement of home contents
- Medical bill re-pricing software
- Utilization of glass network for autos
- Consolidation of auto salvage with single vendor
- Electronic legal bill auditing

- Body shop selection (Phase II)
- Centralized re-pricing/replacement of jewelry
- More expansive medical networks
- Forensic determination of carpet quality and pricing
- Re-pricing third party medical bills
- Enhanced property estimating

# Building for the Future

Our policy is performance.™

## From:

Paper intensive work environment/limited data capture

Limited metrics and management information

No centralized QA process/limited adjuster supervision

Highly tenured staff with limited cross-functional or upward potential/loose performance management process

Limited focus on efficiency/productivity

## Levers

Technology

Metrics/MIS

File Quality

Talent

Process

## To:

Rules based paperless system/robust data capture & MIS capabilities

Comprehensive outcome- focused metrics

File centric organization supported by unit managers and strong central QA

Hiring to specific candidate profiles, ensuring cross-functional training, robust performance management process

Eliminating non-value and redundant work; ensuring that all work is performed by the appropriate level staff

Our policy is performance.™

- Improved Process

- Drove low value activities to Final Notice of Loss (FNOL)
- Scaled high volume work
- Improved Special Investigative Unit (SIU) analytics and field resources

- Strengthened Quality

- Implemented QA process
- Deployed unit managers
- Strengthened complex claim talent
- Identified key performance metrics

- Upgraded Talent

- Candidate profiles established and in use
- Hired eight top talent, experienced senior leaders
- Implemented robust performance assessment process

- Deploying Technology

- Substantially completed development of auto claim management system
- Integrating paperless technology/workflows into new system

- Metrics

- Developed robust scorecards for all lines
- Built Claims analytics team

# Closing Remarks

# Questions

# Thank You



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