

Filing at a Glance

Company: Allstate Property & Casualty Insurance Company

Product Name: Homowners

SERFF Tr Num: ALSX-125220175 State: Arkansas

TOI: 04.0 Homeowners

SERFF Status: Closed

State Tr Num: AR-PC-07-025262

Sub-TOI: 04.0003 Owner Occupied

Co Tr Num: R17860

State Status:

Homeowners

Filing Type: Rate

Co Status:

Reviewer(s): Becky Harrington,
Betty Montesi

Author: SPI AllState

Disposition Date: 07-27-2007

Date Submitted: 06-28-2007

Disposition Status: Filed

Effective Date Requested (New): 08-06-2007

Effective Date (New): 09-03-2007

Effective Date Requested (Renewal): 09-20-2007

Effective Date (Renewal): 10-18-
2007

General Information

Project Name: Rate Filing

Status of Filing in Domicile: Not Filed

Project Number: R17860

Domicile Status Comments:

Reference Organization:

Reference Number:

Reference Title:

Advisory Org. Circular:

Filing Status Changed: 07-27-2007

State Status Changed: 06-28-2007

Deemer Date:

Corresponding Filing Tracking Number:

Filing Description:

Section I - Revision of the Distinct Charge for Net Cost of Reinsurance

Allstate has again purchased countrywide catastrophe aggregate excess reinsurance agreements to mitigate our exposure to catastrophic losses. One agreement has a one year term, effective 6/1/2007 to 5/31/2008, and the other agreement has a two year term, effective 6/1/2007 to 5/31/2009. The one year term agreement has been 15% placed and the two year term agreement has been 80% placed, leaving Allstate the option of placing an additional 15% in year two. Together the catastrophe aggregate excess reinsurance agreements will apply to Allstate and Encompass brand personal auto and personal property policies nationwide (excluding Florida), providing coverage for the term 6/1/2007 to 5/31/2008 of 95% of the first \$2 billion in excess of \$2 billion of retained losses from storms named or numbered by the National Weather Service, earthquakes, and fire following earthquakes, subject to the terms, conditions, and limitations set forth in these agreements. These agreements replace Allstate's countrywide catastrophe aggregate excess reinsurance agreement that was effective from 6/1/2006 to 5/31/2007.

With this filing, information is provided to support the revision of the distinct charge to cover the fire following an earthquake portion of the net cost of reinsurance in Allstate Property and Casualty Insurance Company for the Owners

program in the state of Arkansas. The net cost of reinsurance is equal to the reinsurance premium paid, less expected reinsurance recoveries under the contract. Please refer to filing R17479 for additional information on the original net cost of reinsurance filing.

Allstate's decreased reinsurance cost will be reflected by revising the reinsurance rate adjustment factor in the rate calculation for the Owners program. The factor is currently 1.000 for Owners. The revised reinsurance rate adjustment factor will apply to the calculation of the reinsurance charge for all policies and will therefore have the same effect as a reinsurance base rate change. The proposed reinsurance rate adjustment factor is 0.957.

Section II - Indication Filing

With this filing Allstate Property and Casualty Insurance Company proposes an overall 9.2% rate increase to the Owners program in Arkansas. The maximum customer impact is less than 19.9%. Inclusion of the change to the reinsurance charge will only lower the customer impacts.

Allstate Property and Casualty Insurance Company opened on October 3, 2005 at the same rate level as Allstate Indemnity Company. Due to limited data in the Allstate Property and Casualty Insurance Company, the Allstate Indemnity Company rate level need will be used as the best estimate of the Allstate Property and Casualty Insurance Company rate level need. Attachment II details the overall Allstate Indemnity Company rate level need.

Due to limited data in the Allstate Property and Casualty Insurance Company, Allstate has chosen a rate level change of 9.2% as opposed to the full indication to limit customer impacts.

Allstate will achieve this overall increase by revising the rate adjustment factor and revising the rating group factors and town class group factors that are in the Allstate Property and Casualty Insurance Company in Arkansas. The rate adjustment factor will not vary by territory or any other rating plan. Attachment I details the proposed changes for Allstate Property and Casualty Insurance Company.

Please note that the reinsurance charge is not included in development of the overall rate level indication. The reinsurance charge is separate from our overall rate level to provide the ability to be responsive to changes in the reinsurance agreement.

The target effective date for new business written and renewals processed is August 6, 2007 and renewal business effective September 20, 2007.

Company and Contact

Filing Contact Information

Carrie Deppe, Assistant State Filings Manager cdepp@allstate.com
2775 Sanders Road (847) 402-2774 [Phone]
Northbrook, IL 60062 (847) 402-9757[FAX]

Filing Company Information

Allstate Property & Casualty Insurance Company	CoCode: 17230	State of Domicile: Illinois
2775 Sanders Road	Group Code: 8	Company Type:
Suite A5		
Northbrook, IL 60062	Group Name: Allstate	State ID Number:
(847) 402-5000 ext. [Phone]	FEIN Number: 36-3341779	

Filing Fees

Fee Required? Yes
Fee Amount: \$100.00
Retaliatory? No
Fee Explanation: Rate Filing
Per Company: No

COMPANY	AMOUNT	DATE PROCESSED	TRANSACTION #
Allstate Property & Casualty Insurance Company	\$100.00	06-28-2007	14373134

Correspondence Summary

Dispositions

Status	Created By	Created On	Date Submitted
Filed	Becky Harrington	07-27-2007	07-27-2007

Objection Letters and Response Letters

Objection Letters				Response Letters		
Status	Created By	Created On	Date Submitted	Responded By	Created On	Date Submitted
Pending Industry Response	Becky Harrington	07-11-2007	07-11-2007	SPI AllState	07-25-2007	07-25-2007
Pending Industry Response	Becky Harrington	06-29-2007	06-29-2007	SPI AllState	07-11-2007	07-11-2007

Filing Notes

Subject	Note Type	Created By	Created On	Date Submitted
Use to disapprove is not changed.	Reviewer Note	Becky Harrington	07-11-2007	

Disposition

Disposition Date: 07-27-2007

Effective Date (New): 09-03-2007

Effective Date (Renewal): 10-18-2007

Status: Filed

Comment:

Company Name:	Overall % Rate Impact:	Written Premium Change for this Program:	# of Policy Holders Affected for this Program:	Premium:	Maximum % Change (where required):	Minimum % Change (where required):	Overall % Indicated Change:
Allstate Property & Casualty Insurance Company	9.200%	\$1,138,023	17,531	\$12,369,825	19.900%	0.000%	42.400%

Item Type	Item Name	Item Status	Public Access
Supporting Document	Uniform Transmittal Document-Property & Casualty	Filed	Yes
Supporting Document	HPCS-Homeowners Premium Comparison Survey	Filed	Yes
Supporting Document	NAIC Loss Cost Filing Document for OTHER than Workers' Comp	Filed	Yes
Supporting Document	Support_R17860, AR - HOMEOWNERS ABSTRACT FORM H 1	Filed	Yes
Supporting Document	Responses_to_AR_ObjectionsR17860.doc, StateFilingForms04(02).doc	Filed	Yes
Supporting Document	Response to 07.11.07 Objection	Filed	Yes
Rate (revised)	CheckingListR17860A#1	Filed	Yes
Rate	CheckingListR17860		Yes
Rate (revised)	ManualR17860A#1	Filed	Yes
Rate	ManualR17860		Yes

Objection Letter

Objection Letter Status Pending Industry Response

Objection Letter Date 07-11-2007

Submitted Date 07-11-2007

Dear Carrie Deppe,

This will acknowledge receipt of the response dated 7/11/07

Objection 1

- Responses_to_AR_ObjectionsR17860.doc, StateFilingForms04(02).doc (Supporting Document)

Comment: Our previous position remains unchanged. The provision results in excessive rates and will be disapproved if not reduced.

In accordance with Regulation 23, Section 7.A., this filing may not be implemented until 20 days after the requested amendment(s) and/or information is received.

Please feel free to contact me if you have questions.

Sincerely,

Becky Harrington

Response Letter

Response Letter Status Submitted to State

Response Letter Date 07-25-2007

Submitted Date 07-25-2007

Dear Becky Harrington,

Comments: Response to July 11, 2007 objection letter

Response 1

Comments: Attached is our response, revised manual page, and revised checking list.

Related Objection 1

Applies to:

- Responses_to_AR_ObjectionsR17860.doc, StateFilingForms04(02).doc (Supporting Document)

Comment: Our previous position remains unchanged. The provision results in excessive rates and will be disapproved if not reduced.

Supporting Document Schedule Item Changes

Satisfied -Name: Response to 07.11.07 Objection

Comment:

No Form Schedule items changed.

Rate/Rule Schedule Item Changes

Exhibit Name	Rule # or Page #	Rate Action	Previous State Filing #
CheckingListR17860A#1	R17860	Replacement	
ManualR17860A#1	R17860	Replacement	

If you have any questions, please feel free to contact me at 847-402-2774.

Sincerely,

Carrie Deppe

Sincerely,

SPI AllState

Objection Letter

Objection Letter Status Pending Industry Response
Objection Letter Date 06-29-2007
Submitted Date 06-29-2007

Dear Carrie Deppe,

This will acknowledge receipt of the captioned filing.

Objection 1

- Support_R17860, AR - HOMEOWNERS ABSTRACT FORM H 1 (Supporting Document)

Comment: The After-Tax Operating Profit used in the determination of the average indicated reinsurance charge and permissible loss ratio has approximately doubled from that of the previous filing and appears excessive. Explain and provide the pre-tax provision amount.

Objection 2

- Support_R17860, AR - HOMEOWNERS ABSTRACT FORM H 1 (Supporting Document)

Comment: Have the LA and MS hurricane catastrophes been excluded for the cat provision?

Objection 3

- NAIC Loss Cost Filing Document for OTHER than Workers' Comp (Supporting Document)

Comment: Policy count and premium information are blank. The PCTD contradicts this. Please revise.

Objection 4

- Support_R17860, AR - HOMEOWNERS ABSTRACT FORM H 1 (Supporting Document)

Comment: It appears that Allstate P&C data was only used in the calculation of the cat ratio. Please explain why the P&C company information for Arkansas was not included in other calculations.

In accordance with Regulation 23, Section 7.A., this filing may not be implemented until 20 days after the requested amendment(s) and/or information is received.

Please feel free to contact me if you have questions.

Sincerely,

Becky Harrington

Response Letter

Response Letter Status Submitted to State
Response Letter Date 07-11-2007
Submitted Date 07-11-2007

Dear Becky Harrington,

Comments: Please see the attached response and revised NAIC Loss Cost filing form.

Response 1

Comments: Please see the attached.

Related Objection 1

Applies to:

- Support_R17860, AR - HOMEOWNERS ABSTRACT FORM H 1 (Supporting Document)

Comment: The After-Tax Operating Profit used in the determination of the average indicated reinsurance charge and permissible loss ratio has approximately doubled from that of the previous filing and appears excessive. Explain and provide the pre-tax provision amount.

Related Objection 2

Applies to:

- Support_R17860, AR - HOMEOWNERS ABSTRACT FORM H 1 (Supporting Document)

Comment: Have the LA and MS hurricane catastrophes been excluded for the cat provision?

Related Objection 3

Applies to:

- NAIC Loss Cost Filing Document for OTHER than Workers' Comp (Supporting Document)

Comment: Policy count and premium information are blank. The PCTD contradicts this. Please revise.

Related Objection 4

Applies to:

- Support_R17860, AR - HOMEOWNERS ABSTRACT FORM H 1 (Supporting Document)

Comment: It appears that Allstate P&C data was only used in the calculation of the cat ratio. Please explain why the P&C company information for Arkansas was not included in other calculations.

Supporting Document Schedule Item Changes

Satisfied -Name: Responses_to_AR_ObjectionsR17860.doc, StateFilingForms04(02).doc

Comment: Response to Objection Letter Dated June 29, 2007

No Form Schedule items changed.

No Rate/Rule Schedule Item Changes

Sincerely,
Carrie Deppe
Sincerely,
SPI AllState

Reviewer Note

Created By:

Becky Harrington on 07-11-2007 10:23 AM

Subject:

Use to disapprove is not changed.

Comments:

This filing is being disapproved pursuant to Arkansas Code Annotated §23-67-208.

The cost of reinsurance, while in the short term reducing marginally the profits of the company, increases its profitability over time by deflecting the catastrophic risk of the company to policyholders by having them absorb the added expense of reinsurance. We conclude the profitability desired by the company and the implication of the first time purchase of reinsurance only after dramatic declines in executive compensation will produce unreasonable profits in Arkansas and result in an excessive rate.

Rate Information

Rate data applies to filing.

Filing Method:

File and Use

Rate Change Type:

Increase

Overall Percentage of Last Rate Revision:

0.000%

Effective Date of Last Rate Revision:

02-19-2007

Filing Method of Last Filing:

File and Use

Company Rate Information

Company Name:	Overall % Rate Impact:	Written Premium Change for this Program:	# of Policy Holders Affected for this Program:	Premium:	Maximum % Change (where required):	Minimum % Change (where required):	Overall % Indicated Change:
Allstate Property & Casualty Insurance Company	9.200%	\$1,138,023	17,531	\$12,369,825	19.900%	0.000%	0.000%

Rate/Rule Schedule

Review Status:	Exhibit Name:	Rule # or Page #:	Rate Action	Previous State Filing Attachments Number:
Filed	CheckingListR17860A #1	R17860	Replacement	R17860.PDF
Filed	ManualR17860A#1	R17860	Replacement	R17860.PDF

CHECKING LIST FOR HOMEOWNERS

Printing dates are shown on each page to facilitate identification of different editions, but have no direct connection with the effective date of the page.

RATE PAGE CALCULATION OPTIONS

Enclosed: Page RFP-14 dated 7-2-2007

Withdrawn: Page RFP-14 dated 7-1-2007

**ARKANSAS
HOMEOWNERS
RATE FACTOR PAGES**

Order in
Calculation

23 Reinsurance Charge

BASE REINSURANCE FIRE FOLLOWING CHARGE*:

0.054

*Charge is per \$1000 of Coverage A Limit

REINSURANCE LIMIT FACTORS

COVERAGE A	FACTOR
10,000	10
11,000	11
12,000	12
13,000	13
14,000	14
15,000	15
16,000	16
17,000	17
18,000	18
19,000	19
20,000	20
25,000	25
30,000	30
35,000	35
40,000	40
45,000	45
50,000	50
55,000	55
57,000	57
58,000	58
59,000	59
60,000	60
61,000	61
63,000	63
65,000	65
66,000	66

COVERAGE A	FACTOR
68,000	68
69,000	69
70,000	70
71,000	71
72,000	72
73,000	73
74,000	74
75,000	75
80,000	80
85,000	85
90,000	90
95,000	95
100,000	100
110,000	110
120,000	120
130,000	130
140,000	140
150,000	150
170,000	170
180,000	180
190,000	190
200,000	200
225,000	225
275,000	275
325,000	325
Each Additional 1,000	1

Step #		Select	
		Homeowners	Homeowners
1	Base Reinsurance Charge		
2	Rate Adjustment Factor (Round to 3 decimals)	x .900	x .900
3	Reinsurance Limit Factor (Penny Round)	x	x
4	Reinsurance Charge for Fire Following		

Supporting Document Schedules

Satisfied -Name: Uniform Transmittal Document-
Property & Casualty **Review Status:** Filed 07-27-2007

Comments:

Attachments:

AR - NAIC P&C TRANSMITTAL DOCUMENT.PDF
AR - NAIC RATE RULE FILING SCHEDULE.PDF

Satisfied -Name: HPCS-Homeowners Premium
Comparison Survey **Review Status:** Filed 07-27-2007

Comments:

This will also be sent via e-mail to Becky Harrington, since we are unable to prevent this from being converted to a pdf file.

Attachment:

StateFilingForm02 - HPCS.PDF

Satisfied -Name: NAIC Loss Cost Filing Document
for OTHER than Workers' Comp **Review Status:** Filed 07-27-2007

Comments:

Attachment:

StateFilingForms04 - NAIC Loss Cost Data Entry.PDF

Satisfied -Name: Support_R17860, AR -
HOMEOWNERS ABSTRACT
FORM H 1 **Review Status:** Filed 07-27-2007

Comments:

Attachments:

Support_R17860.PDF
AR - HOMEOWNERS ABSTRACT FORM H 1.PDF

Satisfied -Name: Responses_to_AR_ObjectionsR17
860.doc,
StateFilingForms04(02).doc **Review Status:** Filed 07-27-2007

Comments:

Response to Objection Letter Dated June 29, 2007

Attachments:

Created by SERFF on 07-27-2007 07:54 AM

Responses_to_AR_ObjectionsR17860_doc.PDF

StateFilingForms04(02)_doc.PDF

Review Status:

Filed

07-27-2007

Satisfied -Name: Response to 07.11.07 Objection

Comments:

Attachment:

Response to 07_11_07 Objection.PDF

Property & Casualty Transmittal Document

1. Reserved for Insurance Dept. Use Only	2. Insurance Department Use only a. Date the filing is received: b. Analyst: c. Disposition: d. Date of disposition of the filing: e. Effective date of filing: <table style="width: 100%; border: none;"> <tr> <td style="width: 50%; border: none;">New Business</td> <td style="border: none;"></td> </tr> <tr> <td style="border: none;">Renewal Business</td> <td style="border: none;"></td> </tr> </table> f. State Filing #: g. SERFF Filing #: h. Subject Codes	New Business		Renewal Business	
New Business					
Renewal Business					

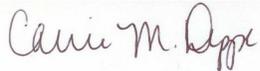
3. Group Name	Group NAIC #
Allstate	008

4. Company Name(s)	Domicile	NAIC #	FEIN #	State #
Allstate Property & Casualty Insurance Company	IL	17230	36-3341779	

5. Company Tracking Number	R17860
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Contact Info of Filer(s) or Corporate Officer(s) [include toll-free number]

6.	Name and address	Title	Telephone #s	FAX #	e-mail
	Carrie M. Deppe 2775 Sanders Road, Suite A5 Northbrook IL 60062	Assistant State Filings Manager	800-366-2958 Ext. 22774	847-402-9757	cdepp@allstate.com

7. Signature of authorized filer	
8. Please print name of authorized filer	Carrie M. Deppe

Filing Information (see General Instructions for descriptions of these fields)

9.	Type of Insurance (TOI)	04.0 Homeowners
10.	Sub-Type of Insurance (Sub-TOI)	04.0003 Owner Occupied Homeowners
11.	State Specific Product code(s) (if applicable) [See State Specific Requirements]	
12.	Company Program Title (Marketing Title)	Homeowners
13.	Filing Type	<input checked="" type="checkbox"/> Rate/Loss Cost <input type="checkbox"/> Rules <input type="checkbox"/> Rates/Rules <input type="checkbox"/> Forms <input type="checkbox"/> Combination Rates/Rules/Forms <input type="checkbox"/> Withdrawal <input type="checkbox"/> Other (give description)
14.	Effective Date(s) Requested	New: 08/06/2007 Renewal: 09/20/2007
15.	Reference Filing?	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
16.	Reference Organization (if applicable)	Not applicable
17.	Reference Organization # & Title	Not applicable
18.	Company's Date of Filing	June 28, 2007
19.	Status of filing in domicile	<input checked="" type="checkbox"/> Not Filed <input type="checkbox"/> Pending <input type="checkbox"/> Authorized <input type="checkbox"/> Disapproved

Property & Casualty Transmittal Document

20.	This filing transmittal is part of Company Tracking #	R17860
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21.	Filing Description [This area can be used in lieu of a cover letter or filing memorandum and is free-form text]
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Section I - Revision of the Distinct Charge for Net Cost of Reinsurance

Allstate has again purchased countrywide catastrophe aggregate excess reinsurance agreements to mitigate our exposure to catastrophic losses. One agreement has a one year term, effective 6/1/2007 to 5/31/2008, and the other agreement has a two year term, effective 6/1/2007 to 5/31/2009. The one year term agreement has been 15% placed and the two year term agreement has been 80% placed, leaving Allstate the option of placing an additional 15% in year two. Together the catastrophe aggregate excess reinsurance agreements will apply to Allstate and Encompass brand personal auto and personal property policies nationwide (excluding Florida), providing coverage for the term 6/1/2007 to 5/31/2008 of 95% of the first \$2 billion in excess of \$2 billion of retained losses from storms named or numbered by the National Weather Service, earthquakes, and fire following earthquakes, subject to the terms, conditions, and limitations set forth in these agreements. These agreements replace Allstate's countrywide catastrophe aggregate excess reinsurance agreement that was effective from 6/1/2006 to 5/31/2007.

With this filing, information is provided to support the revision of the distinct charge to cover the fire following an earthquake portion of the net cost of reinsurance in Allstate Property and Casualty Insurance Company for the Owners program in the state of Arkansas. The net cost of reinsurance is equal to the reinsurance premium paid, less expected reinsurance recoveries under the contract. Please refer to filing R17479 for additional information on the original net cost of reinsurance filing.

Allstate's decreased reinsurance cost will be reflected by revising the reinsurance rate adjustment factor in the rate calculation for the Owners program. The factor is currently 1.000 for Owners. The revised reinsurance rate adjustment factor will apply to the calculation of the reinsurance charge for all policies and will therefore have the same effect as a reinsurance base rate change. The proposed reinsurance rate adjustment factor is 0.957.

Section II - Indication Filing

With this filing Allstate Property and Casualty Insurance Company proposes an overall 9.2% rate increase to the Owners program in Arkansas. The maximum customer impact is less than 19.9%. Inclusion of the change to the reinsurance charge will only lower the customer impacts.

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Due to limited data in the Allstate Property and Casualty Insurance Company, Allstate has chosen a rate level change of 9.2% as opposed to the full indication to limit customer impacts.

Allstate will achieve this overall increase by revising the rate adjustment factor and revising the rating group factors and town class group factors that are in the Allstate Property and Casualty Insurance Company in Arkansas. The rate adjustment factor will not vary by territory or any other rating plan. Attachment I details the proposed changes for Allstate Property and Casualty Insurance Company.

Please note that the reinsurance charge is not included in development of the overall rate level indication. The reinsurance charge is separate from our overall rate level to provide the ability to be responsive to changes in the reinsurance agreement.

The target effective date for new business written and renewals processed is August 6, 2007 and renewal business effective September 20, 2007.

22.	Filing Fees (Filer must provide check # and fee amount if applicable.) [If a state requires you to show how you calculated your filing fees, place that calculation below]
	Check #: Not applicable. Fee will be paid via Electronic Funds Transfer.

Effective March 1, 2007

Amount: \$100.00

Rate Filing

Refer to each state's checklist for additional state specific requirements or instructions on calculating fees.

*****Refer to each state's checklist for additional state specific requirements (i.e. # of additional copies required, other state specific forms, etc.)**

PROPERTY & CASUALTY RATE/RULE FILING SCHEDULE

(This form must be provided ONLY when making a filing that includes rate-related items such as Rate; Rule; Rate & Rule; Reference; Loss Cost; Loss Cost & Rule or Rate, etc.)

(Do not refer to the body of the filing for the component/exhibit listing, unless allowed by state.)

1.	This filing transmittal is part of Company Tracking #	R17860
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2.	This filing corresponds to form filing number (Company tracking number of form filing, if applicable)	Not applicable
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Rate Increase
 Rate Decrease
 Rate Neutral (0%)

3.	Filing Method (Prior Approval, File & Use, Flex Band, etc.)	File and Use
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4a.	Rate Change by Company (As Proposed)
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Company Name	Overall % Indicated Change (when Applicable)	Overall % Rate Impact	Written Premium Change for this program	# of policyholders affected for this program	Written premium for this program	Maximum %Change (where required)	Minimum %Change (where required)
Allstate Property & Casualty Insurance Company	9.2	9.2	1138023	17531	1236982 5	19.9	

4b.	Rate Change by Company (As Accepted) For State Use Only
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Company Name	Overall % Indicated Change (when Applicable)	Overall % Rate Impact	Written Premium Change for this program	# of policyholders affected for this program	Written premium for this program	Maximum %Change (where required)	Minimum %Change (where required)

5. Overall Rate Information (Complete for Multiple Company Filings only)

		COMPANY USE	STATE USE
5a.	Overall percentage rate indication(when applicable)		
5b.	Overall percentage rate impact for this filing		
5c.	Effect of Rate Filing – Written premium change for this program		
5d.	Effect of Rate Filing - Number of policyholders affected		

6.	Overall percentage of last rate revision	0.0
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7.	Effective Date of last rate revision	02/19/2007
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8.	Filing Method of Last filing (Prior Approval, File & Use, Flex Band, etc.)	File and Use
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9.	Rule # or Page # Submitted for Review	Replacement or withdrawn?	Previous state filing number, if required by state
01	Please refer to checking list.	<input type="checkbox"/> New <input checked="" type="checkbox"/> Replacement <input type="checkbox"/> Withdrawn	
02		<input type="checkbox"/> New <input type="checkbox"/> Replacement <input type="checkbox"/> Withdrawn	
03		<input type="checkbox"/> New <input type="checkbox"/> Replacement <input type="checkbox"/> Withdrawn	

NAIC Number: 17230
 Company Name: Allstate Property and Casualty Insurance Company
 Contact Person: Carrie Deppe
 Telephone No.: 847-402-2774
 Email Address: cdeppe@allstate.com
 Effective Date: 8/6/2007

**Homeowners Premium Comparison Survey Form
 FORM HPCS - last modified August, 2005**

Submit to: Arkansas Insurance Department
 1200 West Third Street
 Little Rock, AR 72201-1904
 Telephone: 501-371-2800
 Email as an attachment to insurance.pnc@arkansas.gov
 You may also attach to a SERFF filing or submit on a cdr disk

**USE THE APPROPRIATE FORM BELOW - IF NOT APPLICABLE, LEAVE
 BLANK**

Survey Form for HO3 (Homeowners) - Use \$500 Flat Deductible (Risk of direct physical loss for dwelling and other structures; named perils for personal property, RC on dwelling, ACV on personal property, liab and med pay for others incl)

Public Protection	Dwelling Value	Washington		Baxter		Craighead		St. Francis		Desha		Union		Miller		Sebastian		Pulaski	
		Brick	Frame	Brick	Frame	Brick	Frame	Brick	Frame	Brick	Frame	Brick	Frame	Brick	Frame	Brick	Frame	Brick	Frame
3	\$80,000	\$586.07	\$634.29	\$682.05	\$740.36	\$678.00	\$735.84	\$536.59	\$579.38	\$524.41	\$565.85	\$518.14	\$558.70	\$640.34	\$694.10	\$541.39	\$584.28	\$551.37	\$595.56
	\$120,000	\$690.48	\$749.72	\$809.63	\$881.34	\$804.80	\$876.03	\$629.04	\$681.43	\$613.77	\$664.36	\$605.96	\$655.63	\$757.87	\$824.07	\$634.62	\$687.50	\$647.29	\$701.53
	\$160,000	\$781.00	\$849.50	\$920.04	\$1,003.34	\$914.43	\$996.87	\$708.69	\$769.71	\$691.07	\$749.85	\$681.70	\$739.54	\$859.70	\$936.53	\$715.81	\$776.97	\$730.42	\$793.38
6	\$80,000	\$596.41	\$689.70	\$694.03	\$807.19	\$689.93	\$802.55	\$545.73	\$629.01	\$533.06	\$613.55	\$526.72	\$605.82	\$651.56	\$756.17	\$550.57	\$634.42	\$560.64	\$646.80
	\$120,000	\$702.96	\$817.98	\$824.37	\$963.78	\$819.11	\$957.94	\$639.83	\$741.96	\$624.41	\$722.87	\$616.15	\$713.11	\$771.76	\$900.62	\$645.85	\$748.59	\$658.62	\$764.19
	\$160,000	\$795.15	\$928.28	\$937.00	\$1,098.94	\$930.94	\$1,091.88	\$721.38	\$839.61	\$703.22	\$817.64	\$693.77	\$805.86	\$875.34	\$1,024.79	\$728.19	\$847.47	\$743.33	\$865.89
9	\$80,000	\$705.43	\$824.14	\$827.27	\$969.56	\$822.33	\$963.79	\$642.41	\$748.56	\$626.47	\$730.07	\$618.51	\$719.81	\$774.51	\$906.70	\$648.11	\$755.54	\$661.01	\$771.15
	\$120,000	\$837.77	\$982.40	\$989.38	\$1,163.44	\$982.88	\$1,155.97	\$759.68	\$888.34	\$739.78	\$865.14	\$729.83	\$852.71	\$923.93	\$1,084.72	\$766.56	\$897.04	\$782.64	\$916.10
	\$160,000	\$952.11	\$1,119.09	\$1,129.34	\$1,330.48	\$1,122.02	\$1,322.14	\$860.78	\$1,009.03	\$837.66	\$981.92	\$825.73	\$967.33	\$1,052.66	\$1,238.75	\$868.89	\$1,019.02	\$887.75	\$1,041.55

Survey Form for HO4 (Renters) - Use \$500 Flat Deductible (Named perils for personal property, actual cash value for loss, liability and medical payments for others included)

Public Protection	Property Value	Washington		Baxter		Craighead		St. Francis		Arkansas		Union		Miller		Sebastian		Pulaski	
		Brick	Frame	Brick	Frame	Brick	Frame	Brick	Frame	Brick	Frame	Brick	Frame	Brick	Frame	Brick	Frame	Brick	Frame
3	\$5,000	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
	\$15,000	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
	\$25,000	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
6	\$5,000	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
	\$15,000	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
	\$25,000	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
9	\$5,000	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
	\$15,000	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
	\$25,000	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

Survey Form for DP-2 (Dwelling/Fire) - Use \$500 Flat Deductible (Named perils for dwelling and personal property; replacement cost for dwelling, actual cash value for personal property, no liability coverage)

Public Protection	Dwelling Value	Washington		Baxter		Craighead		St. Francis		Arkansas		Union		Miller		Sebastian		Pulaski	
		Brick	Frame	Brick	Frame	Brick	Frame	Brick	Frame	Brick	Frame	Brick	Frame	Brick	Frame	Brick	Frame	Brick	Frame
3	\$80,000	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
	\$120,000	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
	\$160,000	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
6	\$80,000	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
	\$120,000	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
	\$160,000	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
9	\$80,000	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
	\$120,000	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
	\$160,000	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

SPECIFY THE PERCENTAGE GIVEN FOR CREDITS OR DISCOUNTS FOR THE FOLLOWING:

HO3 and HO4 only

Fire Extinguisher	3	%	Deadbolt Lock	3	%
Burglar Alarm	0	%	Window Locks	0	%
Smoke Alarm	3	%	\$1,000 Deductible	0	%
			Other (specify)		
			Central Fire Alarm	4	%
			Maximum Credit	0	%

EARTHQUAKE INSURANCE

IMPORTANT, homeowners insurance does NOT automatically cover losses from earthquakes. Ask your agent about this coverage

ARE YOU CURRENTLY WRITING EARTHQUAKE COVERAGE IN ARKANSAS?	NO*	(yes or no)	
WHAT IS YOUR PERCENTAGE DEDUCTIBLE?	5 and 10	%	
*Earthquake coverage was removed for new business written May 1, 2006 and renewals effective September 15, 2006			
WHAT IS YOUR PRICE PER \$1,000 OF COVERAGE?	Zone	Brick	Frame
	Highest Risk	\$ 3.42	\$ 2.66
	Lowest Risk	\$ 0.22	\$ 0.19

NAIC LOSS COST DATA ENTRY DOCUMENT

1.	This filing transmittal is part of Company Tracking #	R17860
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2.	If filing is an adoption of an advisory organization loss cost filing, give name of Advisory Organization and Reference/ Item Filing Number	
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Company Name		Company NAIC Number		
3.	A.	Allstate Property and Casualty Insurance Company	B.	17230

Product Coding Matrix Line of Business (i.e., Type of Insurance)		Product Coding Matrix Line of Insurance (i.e., Sub-type of Insurance)		
4.	A.	Owners	B.	

5.			FOR LOSS COSTS ONLY				
(A) COVERAGE (See Instructions)	(B) Indicated Rate Level Change	(C) Requested Rate Level Change	(D) Expected Loss Ratio	(E) Loss Cost Modification Factor	(F) Selected Loss Cost Multiplier	(G) Expense Constant (If Applicable)	(H) Co. Current Loss Cost Multiplier
Homeowners	42.4%	9.2%					
TOTAL OVERALL EFFECT							

6.		5 Year History	Rate Change History				
Year	Policy Count	% of Change	Effective Date	State Earned Premium (000)	Incurred Losses (000)	State Loss Ratio	Countrywide Loss Ratio
	N/A		N/A		N/A		

7.	
Expense Constants	Selected Provisions
A. Other Acquisition	4.4%
B. General Expense	3.9%
C. Taxes, License & Fees	3.1%
D. Underwriting Profit	13.2%
E. Commissions	13.5%
F. TOTAL	38.1%

- 8.** _____ Apply Lost Cost Factors to Future filings? (Y or N)
- 9.** _____ Estimated Maximum Rate Increase for any Insured (%). Territory (if applicable): _____ 19.9% _____
- 10.** _____ Estimated Maximum Rate Decrease for any Insured (%) Territory (if applicable): _____

Section I

Revision of the Distinct Charge For Net Cost of Reinsurance

**ALLSTATE INSURANCE GROUP
OWNERS
ARKANSAS**

DEVELOPMENT OF THE AVERAGE INDICATED REINSURANCE CHARGE

With this filing, Allstate is revising the distinct charge to cover the net cost of reinsurance for fire following an earthquake in Arkansas. The net cost of reinsurance is equal to the reinsurance premium paid, which includes premium for a countrywide reinsurance contract, less expected reinsurance recoveries under this contract, and represents the incremental cost to Allstate of the contract. This is the net cost for Allstate Insurance Group as allocation to the company level was not available. Net cost figures were only available at the state and line level.

The reinsurance premium, net of expected Benfield Inc.'s premium adjustment provision, has been distributed to the individual states and lines in proportion to their expected loss recovery. Allstate has relied on expected loss recoveries provided by Benfield Inc. These expected losses have been loaded, by Benfield Inc., with Allstate's loss adjustment expense. The inclusion of this adjustment increases the expected recoveries under the contract, resulting in a lower net cost of reinsurance. Note: The adjustment was applied to gross modeled losses, then the terms of the contract were applied to determine expected loss recoveries.

Additionally, the countrywide annual aggregate reinsurance contract premiums displayed in this filing represent the current cost of this contract. However, the final costs may increase, remain unchanged or decrease, based on Allstate's exposures as of June 30, 2007 and December 31, 2007.

This packet further displays, in greater detail, the determination of the indicated reinsurance charge per Amount of Insurance Year (AIY)* for the Owners line.

*1 AIY = One Amount of Insurance Year
= \$1000 of Coverage in Force for One Year

**ALLSTATE INSURANCE GROUP
OWNERS
ARKANSAS**

**DETERMINATION OF THE AVERAGE INDICATED REINSURANCE CHARGE
EXPLANATORY MEMORANDUM**

Page 4 shows the development of the indicated reinsurance charge. An explanation, with references to the supporting exhibit, is provided below.

1. Reinsurance Premium:
Reinsurance premium paid, net of expected Benfield Inc. premium adjustment provision.
2. Loss Savings Due to Reinsurance:
Provided loss recoveries under the reinsurance contracts.
3. Net Cost of Reinsurance: (1) - (2)
Provided loss recoveries are subtracted from the reinsurance premium to determine the net cost of reinsurance.
4. 2007 Reinsurance Expense Provision per 2006 AIY Distributions:
Allstate calculated a reinsurance expense provision per AIY in 2006 of 0.041 by dividing the 2006 net cost of reinsurance by the expected AIYs associated with the reinsurance contracts effective 6/1/2006 to 5/31/2007. To reflect this reinsurance expense provision in terms of the 2007 net cost of reinsurance, the 0.041 is multiplied by the change in the net cost of reinsurance between years 2006 and 2007. [$0.041 * (\$312,177 / \$289,950)$]
5. Commissions, Taxes, and Profit Ratio:
Expense ratio for commissions, taxes, and profit. **Page 5** details the expense ratios.
6. Reinsurance Charge per 2006 AIY Distributions:
This line shows the charge per AIY, by loading the reinsurance expense provision per AIY, (4) / [1 - line (5)], with commissions, taxes, and profit.
7. Allstate's Expected Recovery of the Net Cost of Reinsurance:
This is the amount of the net cost of reinsurance Allstate would recover assuming the 2006 base rates applied to expected AIY distributions associated with the reinsurance contracts effective 6/1/2007 to 5/31/2008.
8. Reinsurance Rate Adjustment Factor:
To attain the Reinsurance Charge per AIY shown in Line (6), Allstate will revise the reinsurance rate adjustment factor. The revised reinsurance rate adjustment factor will apply to the calculation of the reinsurance charge for all policies and will therefore have the same effect as a reinsurance base rate change. However, Line (6) is the reinsurance charge needed assuming an AIY distribution associated with the reinsurance contracts effective 6/1/2006 to 5/31/2007.

To accurately reflect distributional AIY shifts that have occurred, the reinsurance rate adjustment factor was calculated by applying the commissions, taxes, and profit to the net cost of reinsurance and comparing it to the expected recovery of the net cost of reinsurance found in Line (7).

*1 AIY = One Amount of Insurance Year
= \$1,000 of Coverage in Force for One Year.

**ALLSTATE INSURANCE GROUP
OWNERS
ARKANSAS
DETERMINATION OF THE AVERAGE INDICATED REINSURANCE CHARGE**

	<u>2007</u>
1. Reinsurance Premium	\$344,048
2. Loss Savings Due to Reinsurance	\$31,931
3. Net Cost of Reinsurance	\$312,117
4. 2007 Reinsurance Expense Provision per 2006 AIY Distributions	0.044
5. Commissions, Taxes, and Profit Ratio	28.8%
6. Reinsurance Charge Per 2006 AIY Distribution (4) / [1 - (5)]	0.062
7. Allstate's Expected Recovery of the Net Cost of Reinsurance	\$458,262
8. Reinsurance Rate Adjustment Factor [(3) / (1 - (5))] / (7)	0.957

*1 AIY = One Amount of Insurance Year
= \$1000 of Coverage in Force for One Year

**ALLSTATE INSURANCE GROUP
OWNERS
ARKANSAS
COMMISSIONS, TAXES, AND PROFIT RATIO USED IN THE
DETERMINATION OF THE AVERAGE INDICATED REINSURANCE CHARGE**

	Provision in Rate
Commission and Brokerage	13.5%
Taxes, Licenses and Fees *	3.1%
Underwriting Profit**	12.2%
	<hr/> <hr/>
Commissions, Taxes, and Profit Ratio	28.8%

* State Taxes - Does not include Federal Income Tax

** Reflects a Total After-Tax Operating Profit of 10.20%

Section II

Arkansas Indications Filing

**ALLSTATE PROPERTY AND CASUALTY INSURANCE COMPANY
OWNERS
ARKANSAS**

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Attachment I

Summary of Proposed Change

**ALLSTATE PROPERTY AND CASUALTY INSURANCE COMPANY
OWNERS
ARKANSAS**

SUMMARY OF PROPOSED CHANGE

	<u>Written Premium @ CRL*</u>	<u>Selected Change</u>
Owners Package	\$11,313,827	10.1%
Fixed Expense Premium**	1,157,046	N/C
Variable Package Premium	10,156,781	11.2%
Additional Coverages***	1,055,999	N/C
Total Owners	\$12,369,825	9.2%

*CRL - Current Rate Level

**We implicitly assume no indicated change for fixed expense premium.

***We implicitly assume no indicated change for additional coverages.

**ALLSTATE PROPERTY AND CASUALTY INSURANCE COMPANY
OWNERS
ARKANSAS**

SUMMARY OF PROPOSED CHANGE

	<u>Percent Change to Variable Premium</u>
Town class group factors	0.6%
Rating group factors	4.0%
Rate adjustment factor	6.6%
Total	11.2%

**ALLSTATE PROPERTY AND CASUALTY INSURANCE COMPANY
OWNERS
ARKANSAS**

SUMMARY OF CHANGE TO RATING GROUP FACTORS

With this rate change, Allstate will be revising the rating group factors in the Allstate Property and Casualty Insurance Company. When the Allstate Property and Casualty Insurance Company opened on October 3, 2005 in Arkansas the rating plan factors were developed by fitting a generalized linear model to loss data using maximum likelihood estimation. This analysis was based on countrywide data for accident years 2001 and 2002. The data has since been updated to include accident year 2003, and the recommended factors are based on this updated data. The current, recommended, and proposed rating group factors are shown on **Page 4**.

**ALLSTATE PROPERTY AND CASUALTY INSURANCE COMPANY
OWNERS
ARKANSAS**

SUMMARY OF CHANGE TO RATING GROUP FACTORS

<u>Rating Group</u>	<u>Current Factors</u>	<u>Recommended Factors</u>	<u>Proposed Factors</u>
1	0.400	0.400	0.400
2	0.400	0.400	0.400
3	0.400	0.400	0.400
4	0.450	0.460	0.460
5	0.450	0.460	0.460
6	0.450	0.460	0.460
7	0.480	0.490	0.490
8	0.480	0.490	0.490
9	0.480	0.490	0.490
10	0.520	0.550	0.540
11	0.520	0.550	0.540
12	0.520	0.550	0.540
13	0.570	0.610	0.600
14	0.570	0.610	0.600
15	0.570	0.610	0.600
16	0.610	0.670	0.650
17	0.610	0.670	0.650
18	0.610	0.670	0.650
19	0.690	0.740	0.730
20	0.690	0.740	0.730
21	0.690	0.740	0.730
22	0.780	0.830	0.820
23	0.780	0.830	0.820
24	0.780	0.830	0.820
25	0.840	0.900	0.880
26	0.840	0.900	0.880
27	0.840	0.900	0.880
28	1.000	1.000	1.000
29	1.000	1.000	1.000
30	1.000	1.000	1.000

**ALLSTATE PROPERTY AND CASUALTY INSURANCE COMPANY
OWNERS
ARKANSAS**

SUMMARY OF CHANGE TO TOWN CLASS GROUP FACTORS

With this rate change, Allstate will be revising the town class group factors in the Allstate Property and Casualty Insurance Company. When the Allstate Property and Casualty Insurance Company opened on October 3, 2005 in Arkansas the rating plan factors were developed by fitting a generalized linear model to loss data using maximum likelihood estimation. This analysis was based on countrywide data for accident years 2001 and 2002. The data has since been updated to include accident year 2003, and the recommended factors are based on this updated data. The current, recommended, and proposed town class group factors are shown below.

<u>BRICK</u>			
<u>Town Class Group</u>	<u>Current Factor</u>	<u>Recommended Factor</u>	<u>Proposed Factor</u>
1	0.860	0.820	0.830
2	0.910	0.900	0.900
3	0.920	0.900	0.910
4	0.930	0.910	0.920
5	0.930	0.910	0.920
6	0.930	0.930	0.930
7	1.010	0.980	0.990
8	1.040	1.010	1.020
9	1.140	1.100	1.110
10	1.140	1.170	1.160
<u>FRAME</u>			
<u>Town Class Group</u>	<u>Current Factor</u>	<u>Recommended Factor</u>	<u>Proposed Factor</u>
1	1.000	1.000	1.000
2	1.000	1.020	1.010
3	1.000	1.020	1.010
4	1.000	1.040	1.030
5	1.040	1.090	1.080
6	1.080	1.140	1.120
7	1.180	1.240	1.220
8	1.240	1.340	1.310
9	1.260	1.340	1.320
10	1.260	1.390	1.350

**ALLSTATE PROPERTY AND CASUALTY INSURANCE COMPANY
OWNERS
ARKANSAS**

SUMMARY OF RATE ADJUSTMENT FACTOR CHANGE

Additionally, Allstate will be revising the rate adjustment factor to achieve the remainder of the proposed rate change. The rate adjustment factor will not vary by territory or any other rating plan, and will therefore have the same effect as a base rate change. The current rate adjustment factor is 1.000, and the proposed rate adjustment factor is 1.066. This change is being made to the variable premium only. The rate adjustment factor in conjunction with the changes to the rating group factors, shown on **Pages 3 and 4**, and town class factors, shown on **Page 5**, bring the overall rate change to 9.2%

Attachment II

Summary of Arkansas Rate Level Indication

**ALLSTATE INDEMNITY COMPANY
OWNERS FORMS
ARKANSAS**

SUMMARY OF THE DEVELOPMENT OF STATEWIDE RATE LEVEL INDICATION

In developing rate level indications, Allstate projects estimated losses and premium for underlying trends that are expected to produce changes in the average loss cost and average premium amount between the experience period of the data and the period for which the proposed rates will be in effect. This is consistent with the Casualty Actuarial Society ratemaking literature.

The determination of the overall indication of 42.4% is included on **Pages 2 through 4**.

With this filing, we are modifying our methodology to develop the dollar provision for general and other acquisition expenses. Please see the Expenses and Investment Income Explanatory Memorandum on **Pages 28 and 29** for more information on this modification.

Support for the development of the weighted non-catastrophe loss and loss adjustment expense ratio is included on **Pages 5 through 9**. Allstate transitioned from writing all of its Owners business in Allstate Insurance Company to writing all new Owners policies in Allstate Indemnity Company on May 29, 2001. Accordingly, Allstate Insurance Company data has been considered along with Allstate Indemnity Company data in the development of the non-catastrophe loss and loss adjustment expense ratio. Further explanation on how Allstate Insurance Company data was considered is contained later in this packet.

In addition, we are changing the underlying data used in developing the non-catastrophe losses from a calendar year basis to an accident year basis. This change in methodology more accurately matches the non-catastrophe losses to both premium and exposures used throughout the indication.

Support for the development of the expected catastrophe loss and loss adjustment expense ratio is displayed on **Pages 16 through 27**.

Consistent with past filings, we have also included the effect of investment income in the development of the profit provision for Arkansas. The supporting calculations for the investment income calculations are explained in greater detail on **Pages 32 and 33**.

Support for the development of the underwriting profit provision can be found in **Attachment IV**.

**ALLSTATE INDEMNITY COMPANY
OWNERS FORMS
ARKANSAS**

**DETERMINATION OF STATEWIDE RATE LEVEL INDICATION
EXPLANATORY MEMORANDUM**

Page 4 shows the development of the indicated rate level change. An explanation of the development, with reference to supporting exhibits, is provided below. The effective date of this change is 8/06/2007.

1. Latest Twelve-Month Moving Average Earned Premium at Current Rates:
Average earned premium for the fiscal year ending June 30, 2006.
2. Weighted Non-Catastrophe Loss and Loss Adjustment Expense Ratio:
Developed on **Page 9**.
3. Indicated Provision for Non-Catastrophe Loss and Loss Adjustment Expense: (1) x (2)
Average premium at current rates is multiplied by the indicated provision for non-catastrophe losses and LAE.
4. Expected Catastrophe Loss Ratio including all LAE:
Developed on **Page 26**.
5. Indicated Provision for Catastrophe Loss including all LAE: (1) x (4)
Average premium at current rates is multiplied by the indicated provision for catastrophe losses and LAE.
6. Current General and Other Acquisition Expense Ratio:
Provisions for general and other acquisition expenses found on **Page 31**.
7. Average Earned Premium For the Development of the Indicated Dollar Provision for General and Other Acquisition Expenses:
Average earned premium between January 1, 2003 and December 31, 2005.
8. Current Dollar Provision for General and Other Acquisition Expenses: (6) x (7)
Average premium is multiplied by the current provision for general and other acquisition expenses.

9. Factor to Adjust for Subsequent Change in General and Other Acquisition Expenses:
This factor represents the quotient of the fixed expense trend, projected from the average earned date of the period considered in the calculation of the average earned premium to the average earned date of the proposed policy period, and the premium projection factor, projected from the average earned date of the latest experience period to the average earned date of the proposed policy period.
10. Indicated Provision for General and Other Acquisition Expenses: (8) x (9)
The current provision for fixed expenses multiplied by the fixed expense trend. This represents the portion of our indicated premium needed to pay fixed expenses.
11. Commission, Taxes, Profit and Contingencies Ratio:
Expense ratios for commissions, taxes, and profit and contingencies can be found on **Page 30**.
12. Indicated Average Premium: [(3) + (5) + (10)] / [1.0 - (11)]
The ratio of the indicated provision to pay catastrophe and non-catastrophe losses, loss adjustment expense, and fixed expenses to the complement of the provision for variable expenses.
13. Indicated Rate Level Change: [(12) / (1) - 1.0]
The indicated average premium as a ratio of the average premium at current rate level determines the indicated rate level change.

**ALLSTATE INDEMNITY COMPANY
OWNERS FORMS
ARKANSAS
DETERMINATION OF STATEWIDE RATE LEVEL INDICATION**

(1) Latest 12 MM Average Earned Premium At Current Rates	\$709.57
(2) Weighted Non-Catastrophe Loss and LAE Ratio	67.9%
(3) Indicated Provision for Non-Catastrophe Loss and LAE (1) x (2)	\$482.01
(4) Expected Catastrophe Loss Ratio including all LAE	23.6%
(5) Indicated Provision for Catastrophe Loss including all LAE (1) x (4)	\$167.40
(6) Current General and Other Acquisition Expense Ratio	8.3%
(7) Average Earned Premium for the Development of the Indicated Dollar Provision for General and Other Acquisition Expense	\$685.51
(8) Current Dollar Provision for General and Other Acquisition Expense (6) x (7)	\$56.90
(9) Factor to Adjust for Subsequent Change in General and Other Acquisition Expense	1.049
(10) Indicated Dollar Provision for General and Other Acquisition Expense (8) x (9)	\$59.67
(11) Commission, Taxes, Profit and Contingencies Ratio	29.8%
(12) Indicated Average Premium [(3) + (5) + (10)] / [1.0 - (11)]	\$1,010.10
(13) Indicated Rate Level Change [(12) / (1) - 1.0]	42.4%

**ALLSTATE INDEMNITY COMPANY
OWNERS FORMS
ARKANSAS**

**DEVELOPMENT OF THE WEIGHTED NON-CATASTROPHE LOSS AND LAE RATIO
EXPLANATORY MEMORANDUM**

The numerical references in this memorandum correspond to the numbering sequence found on **Page 9**. Prior to May 29, 2001, when Allstate began writing all new Owners business in Allstate Indemnity Company, all of the Allstate Owners business was written in Allstate Insurance Company. Accordingly, Allstate Insurance Company data has been considered along with Allstate Indemnity Company data in the development of the weighted non-catastrophe loss and loss adjustment expense ratio. More information on how Allstate Insurance Company data was considered is included below.

Please note that all references to current rate level refer to current Allstate Indemnity Company rate level.

- (1) Allstate Indemnity Company Earned Premium:
Earned premium for the 12-month periods ending June 30, 2002 through June 30, 2006.
- (2) Allstate Indemnity Company Accident Year Non-Catastrophe Ultimate Losses:
Non-catastrophe accident year losses including all loss adjustment expenses for the 12-month periods ending June 30, 2002 through June 30, 2006 developed to ultimate.

Due to the limited amount of Allstate Indemnity Company data, loss development factors were based on Allstate Insurance Group data. Loss development patterns for Allstate Indemnity Company and Allstate Insurance Company are expected to be similar, since claims settlement practices are the same for each company.

Loss Development

With this filing, Allstate will begin to use accident year losses. In prior filings, calendar year losses were used. With this filing and moving forward, Allstate will utilize historical development patterns when determining ultimate losses. Allstate will determine ultimate accident year losses (including allocated loss adjustment expense) after analyzing ultimate loss estimates arising from two methods: the Link Ratio method, and the Additive method.

While the link ratio method assumes that future development is proportional to losses that have already emerged as of a given evaluation date, the additive method assumes that future development is proportional to the number of earned exposures in the accident period, where the expected development per exposure is based on historical development patterns per exposure adjusted to account for differences in frequency and severity over time. Benefits of the Link Ratio Method include its objectivity and simplicity to calculate. The Additive Method avoids potential leveraging distortions, and has been shown to have lower variances and less bias than other methods as further discussed in

“A Simulation Test of Prediction Errors of Loss Reserve Estimation Techniques” (Proceedings of the Casualty Actuarial Society, Vol. LXXII, 1985) by James Stanard. Allstate believes the new approach of considering two loss development procedures when estimating ultimate losses better upholds the suggestion contained in the Statement of Principles Regarding Property and Casualty Loss and Loss Adjustment Expense Reserves that “Ordinarily the actuary will examine the indications of more than one method when estimating the loss and loss adjustment expense liability for a specific group of claims.”

Due to the limited amount of Allstate Indemnity Company data, loss development factors and additive amounts were based on Allstate Insurance Company and Allstate Indemnity Company combined data. Loss development patterns for Allstate Indemnity Company and Allstate Insurance Company are expected to be similar, since claims settlement practices are the same for each company.

To calculate estimated ultimate losses using the Link Ratio methods, historical age-to-age link ratios are calculated, which represent loss development between different evaluation periods. An average of the historical link ratios is then used to estimate the ultimate level of paid losses to be used in ratemaking. This method assumes that historical loss development patterns can be used to estimate future loss development on current immature claims.

For the additive method, the historical additive amounts per exposure calculated for all losses combined would be equivalent to the sum of the historical additive amounts per exposure calculated for liability and non-liability losses separately. Therefore, it is not necessary to develop liability and non-liability losses separately for the additive method.

For the Additive loss development method, historical losses are first trended to today's price level using pure premium trends selected from Allstate Insurance Group data. This is done to avoid distortions due to changes in the underlying loss costs. Trended additive amounts per exposures are calculated, which represent trended loss development between different evaluation periods. An average of the historical trended additive amount per exposure is then used to estimate the ultimate trended level of paid losses. Trended age-to-ultimate additive amounts per exposure are multiplied by earned exposures for each accident year to calculate trended losses that have yet to emerge. A final step in the Additive Method is to detrend the trended losses yet to emerge. Losses are detrended because the application of trend is accounted for in a separate step in the ratemaking process. This method assumes that historical loss development patterns per exposure can be used to estimate future loss development on current immature claims.

Refer to **Pages 13 and 14** for the loss development using both the Link Ratio and Additive Methods of loss development. A summary of the estimated ultimate losses using each method as well as the selected ultimate losses is shown on **Page 15**.

Loss Adjustment Expenses

Losses in the experience period have been adjusted to account for unallocated loss adjustment expenses (ULAE). Under normal circumstances, a three-year average of the

ratios of countrywide calendar year ULAE to countrywide calendar year incurred losses is used to determine the ULAE provision. However, in 2003 Allstate modified that process by which ULAE is allocated to states and lines. Due to this change, in 2006 a two-year average (using 2004 and 2005 data) was used as a more appropriate method to calculate the ULAE provision. When expenses are updated again in 2007, three years of data will be analyzed. The support for the unallocated loss adjustment expense is detailed in **Page 10**.

(3) Allstate Indemnity Company Accident Year Non-Catastrophe Loss Ratio: (2) / (1)

(4) Factor to Adjust Premium to Current Rate Level:

The experience year earned premiums must be adjusted to represent the premiums that would be developed if all policies had been written at the current premium level. The adjustment is accomplished by applying the percentage effect of any rate level adjustments during or after the experience period, and is calculated using the method described by Frank J. Karlinski III in his discussion of the paper "A Refined Model for Premium Adjustment" (Proceedings of the Casualty Actuarial Society, Volume LXIV, 1977) by David Miller and George Davis. This method is used since the exposure growth in Allstate Indemnity Company violates the assumption of uniform exposure levels that underlies the parallelogram method.

The date and percentage effect of prior premium level adjustments are as follows:

<u>Date</u>	<u>Change</u>
5/27/02	11.4%
12/02/02	14.7%

The current rate level factors used are as follows:

<u>12 Months Ending</u>	<u>Factor</u>
6/30/02	1.140
6/30/03	1.001
6/30/04	1.000
6/30/05	1.000
6/30/06	1.000

(5) Allstate Indemnity Company Accident Year Non-Catastrophe Loss Ratio at Current Rate Level: (3) / (4)

(6) Modified Allstate Group Accident Year Non-Catastrophe Loss Ratio at Current Rate Level:

The modified Allstate Group accident year non-catastrophe loss ratios at current rate level are determined by multiplying the Allstate Group loss ratios at current rate level by a modification factor. The modification factor, 1.102, is the ratio of the Allstate Indemnity Company loss ratio at current rate level to the Allstate Group loss ratio at current rate level for the most recent accident year. Allstate Group refers to the

combination of Allstate Insurance Company and Allstate Indemnity Company. The modification factor is used to adjust the Allstate Group losses to the current Allstate Indemnity Company experience level. These adjusted Allstate Group losses are used to calculate the expected Allstate Indemnity Company loss ratio.

(7) Factor to Adjust Modified Loss Ratios to Projected Premium Level:

In addition to bringing premiums to current rate level, we must also account for changes in our premium level due to underlying factors such as amount of insurance. To account for premium trend, we review changes in the average written premium at current premium level on a twelve-month moving basis.

Modified loss ratios are developed using data that has already been trended for premium trend. Step (7) is the compounded projection factor. We have selected a factor of 3.5% to trend and project the premium component of the modified loss ratios to the level expected in the future rating period. **Page 11** displays the twenty, twelve and six-point written premium trends for Allstate Indemnity Company data in Arkansas.

(8) Factor to Adjust Modified Loss Ratios to Projected Cost Level:

In calculating our rate level indication, we use historical losses from the experience period to project the loss amounts expected to occur in a future policy period. We adjust these historical losses for changes we expect to occur between the average occurrence date in the experience period and the average occurrence date in the future policy period for which we are pricing. In previous filings, Allstate measured frequency as calendar year paid claims divided by calendar year exposures and calculated severity by dividing calendar year paid losses by calendar year paid claims, unadjusted for changing exposure levels. In order to more appropriately account for changes in exposure levels, Allstate is adjusting the calculations underlying frequencies and severities. Beginning with this filing, Allstate will employ a new methodology of calculating frequency and severity amounts that more consistently matches the losses and claims paid with the exposures that produced the claims. This methodology is described in "The Effect of Changing Exposure Levels on Calendar Year Loss Trends" (*Casualty Actuarial Society Forum*, Winter 2005) by Chris Styrsky.)

Modified loss ratios are developed using data that has already been trended to current cost level. Step (8) is the compounded projection factor. We have selected a factor of 10.0% to trend and project the loss component of the modified loss ratios to the level expected in the future rating period. **Page 12** displays the twenty-, twelve-, and six-point paid frequency and paid severity trends for Allstate Indemnity Company in Arkansas.

(9) Allstate Indemnity Company Non-Catastrophe Projected Loss Ratio: $[(6) \times (8)] / (7)$

The modified non-catastrophe loss ratio is adjusted to the projected premium and cost levels.

(10) Experience Year Weight:

A weight is assigned to each year in order to appropriately consider responsiveness and stability.

(11) Weighted Non-Catastrophe Loss and Loss Adjustment Expense Ratio

The experience-year weights are applied to the Non-Catastrophe Projected Loss Ratios.

ALLSTATE INDEMNITY COMPANY
OWNERS FORMS
ARKANSAS

DEVELOPMENT OF THE WEIGHTED NON-CATASTROPHE LOSS AND LAE RATIO

(000's omitted)

FISCAL YEAR ENDING*	(1) Earned Premium	(2) Accident Year Non-Catastrophe Ultimate Losses**	(3) Accident Year Non-Catastrophe Loss Ratio (2)/(1)	(4) Factor to Adjust Premium to Current Rate Level	(5) Accident Year Non-Catastrophe Loss Ratio @ CRL (3)/(4)
6/29/2002	1,876	\$1,103	58.8%	1.140	51.6%
6/30/2003	5,636	\$2,758	48.9%	1.001	48.9%
6/29/2004	11,100	\$3,925	35.4%	1.000	35.4%
6/29/2005	15,925	\$4,804	30.2%	1.000	30.2%
6/30/2006	18,426	\$9,262	50.3%	1.000	50.3%

FISCAL YEAR ENDING*	(6) Modified Allstate Group Accident Year Non-Catastrophe Loss Ratio @ CRL	(7) Factor to Adjust Modified Loss Ratios To Projected Premium Level @ 08/06/2008	(8) Factors to Adjust Modified Loss Ratios To Projected Cost Level @ 08/06/2008	(9) Non-Catastrophe Projected Loss Ratio (6)x(8)/(7)	(10) Experience Year Weight
6/29/2002	70.9%	1.094	1.438	93.2%	10.0%
6/30/2003	58.9%	1.094	1.438	77.4%	15.0%
6/29/2004	57.1%	1.094	1.438	75.1%	20.0%
6/29/2005	36.9%	1.094	1.438	48.6%	25.0%
6/30/2006	50.3%	1.094	1.438	66.1%	30.0%

(11) Weighted Non-Catastrophe Loss and LAE Ratio: 67.9%

* Evaluated at 09/30/2006

** Includes all loss adjustment expense

ALLSTATE INSURANCE GROUP*
Personal Property Lines

Countrywide Expense Experience - Unallocated (Adjusting and Other Expense) Factors

2004 & 2005

	2004	2005
1. Direct Losses and Allocated Loss Adjustment Expense Incurred excluding Earthquake and Hurricane Losses	\$ 1,985,798	\$ 2,323,735
2. Direct Unallocated Loss Adjustment Expense Incurred excluding Earthquake and Hurricane	\$ 343,475	\$ 370,787
3. Ratio (2)/(1)	0.173	0.160
4. Two-Year Average		0.167
5. Proposed Provision		0.167

* Allstate Insurance Company, Allstate Indemnity Company, Allstate Property and Casualty Insurance Company and Allstate Country Mutual Insurance Company.

SOURCE: Data underlying Insurance Expense Exhibits (000 Omitted)

**ALLSTATE INDEMNITY COMPANY
OWNERS
ARKANSAS
CALCULATION OF AVERAGE CHANGE IN WRITTEN PREMIUM**

12 MONTHS ENDING	AWP @ CRL*	20 POINT TREND	12 POINT TREND	6 POINT TREND
12/31/2001	603.57	666.42		
3/31/2002	647.09	669.53		
6/30/2002	705.64	672.66		
9/30/2002	717.96	675.79		
12/31/2002	711.46	678.95		
3/31/2003	700.14	682.11		
6/30/2003	692.07	685.30		
9/30/2003	690.62	688.49		
12/31/2003	684.19	691.70	683.38	
3/31/2004	688.58	694.93	687.45	
6/30/2004	694.21	698.17	691.54	
9/30/2004	696.20	701.43	695.65	
12/31/2004	701.48	704.70	699.79	
3/31/2005	702.28	707.99	703.95	
6/30/2005	702.21	711.29	708.14	701.78
9/30/2005	709.14	714.61	712.35	708.15
12/31/2005	715.89	717.95	716.59	714.58
3/31/2006	716.35	721.30	720.85	721.07
6/30/2006	726.87	724.66	725.14	727.61
9/30/2006	736.97	728.04	729.45	734.22

ANNUAL CHANGE AS A PERCENT
OF LAST FITTED POINT

1.9%	2.4%	3.7%
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* AWP @ CRL - AVERAGE WRITTEN PREMIUM AT CURRENT RATE LEVEL

Allstate Indemnity Company
Owners
Arkansas
Total All Perils Excluding Earthquake - Excluding Catastrophes
Paid Pure Premium Trend

12 Months Ending	Pure Premium	Exponential Curve of Best Fit		
		20 pt.	12 pt.	6 pt.
12/31/2001	475.55	330.24		
03/31/2002	389.49	318.75		
06/30/2002	541.26	307.66		
09/30/2002	352.07	296.96		
12/31/2002	281.11	286.63		
03/31/2003	287.58	276.66		
06/30/2003	292.95	267.04		
09/30/2003	198.45	257.75		
12/31/2003	191.23	248.78	127.68	
03/31/2004	97.86	240.13	136.72	
06/30/2004	116.67	231.77	146.41	
09/30/2004	180.92	223.71	156.78	
12/31/2004	169.00	215.93	167.89	
03/31/2005	184.12	208.42	179.78	
06/30/2005	189.06	201.17	192.52	182.61
09/30/2005	191.40	194.17	206.16	199.51
12/31/2005	219.01	187.42	220.76	217.97
03/31/2006	231.81	180.90	236.40	238.14
06/30/2006	268.60	174.60	253.15	260.18
09/30/2006	283.42	168.53	271.09	284.26
Annual change as a percent of last fitted point		-13.2%	31.5%	42.5%

* Countrywide Excluding FL, NJ & TX

Allstate Insurance Group
Arkansas
Owners
Total All Peril

Loss Development - Link Ratio Method

AXYR	Field Incurred Losses*									
	15	27	39	51	63	75	87	99	111	123
1993					7,641,243	7,641,775	7,641,196	7,640,765	7,641,368	7,641,368
1994				8,737,835	8,734,844	8,734,423	8,734,657	8,732,186	8,734,618	8,734,318
1995			6,924,796	6,922,198	6,917,807	6,913,639	6,914,139	6,914,040	6,914,005	6,906,465
1996		8,109,860	8,145,590	8,176,153	8,186,353	8,187,063	8,173,155	8,190,155	8,190,155	8,193,968
1997	7,324,412	7,472,077	7,444,912	7,456,459	7,508,166	7,603,430	7,580,387	7,580,387	7,575,814	7,575,814
1998	6,164,930	6,589,469	6,623,543	6,611,512	6,614,802	6,557,912	6,552,732	6,552,732	6,552,732	
1999	8,523,132	8,582,134	9,309,961	9,330,444	9,309,397	9,314,000	9,305,532	9,305,532		
2000	7,836,941	8,116,300	8,120,872	8,217,517	8,184,335	8,191,475				
2001	8,149,826	8,404,237	8,444,572	8,418,573	8,450,549	8,451,005				
2002	8,915,254	9,165,795	9,280,755	9,200,752	9,215,508					
2003	8,457,977	8,683,593	8,786,342	8,814,550						
2004	10,316,885	10,627,837	10,685,393							
2005	8,310,025	8,472,597								
2006	13,711,378									

AXYR	Link Ratios									
	15-27	27-39	39-51	51-63	63-75	75-87	87-99	99-111	111-123	
1993					1.000	1.000	1.000	1.000	1.000	1.000
1994				1.000	1.000	1.000	1.000	1.000	1.000	1.000
1995			1.000	0.999	0.999	1.000	1.000	1.000	1.000	0.999
1996		1.004	1.004	1.001	1.000	0.998	1.002	1.000	1.000	1.000
1997	1.020	0.996	1.002	1.007	1.013	0.997	1.000	0.999	1.000	1.000
1998	1.069	1.005	0.998	1.000	0.991	0.999	1.000	1.000		
1999	1.007	1.085	1.002	0.998	1.000	0.999	1.000			
2000	1.038	1.001	1.012	0.996	1.001	1.000				
2001	1.031	1.005	0.997	1.004	1.000					
2002	1.028	1.013	0.991	1.002						
2003	1.027	1.012	1.003							
2004	1.030	1.005								
2005	1.020									
2006										

	Age-to-Age Link Ratios									
	15-27	27-39	39-51	51-63	63-75	75-87	87-99	99-111	111-123	
3 Year Average:	1.025	1.010	0.997	1.000	1.000	0.999	1.000	1.000	1.000	
5 Year Average:	1.027	1.007	1.001	1.000	1.001	0.999	1.000	1.000	1.000	
Selected:	1.027	1.007	1.001	1.000	1.001	0.999	1.000	1.000	1.000	

	Age-to-Ultimate Link Ratios									
	15-Ult	27-Ult	39-Ult	51-Ult	63-Ult	75-Ult	87-Ult	99-Ult	111-Ult	
3 Year Average:	1.033	1.007	0.997	1.000	0.999	0.999	1.000	1.000	1.000	
5 Year Average:	1.035	1.008	1.001	1.000	1.000	0.999	1.000	1.000	1.000	
Selected:	1.035	1.008	1.001	1.000	1.000	1.000	1.000	1.000	1.000	

Allstate Indemnity					
Year	Company Inc. Loss	Factor to Ultimate	Ultimate Loss	ULAE Factor	Ultimate Loss & LAE
2002	944,528	1.000	944,556	1.167	1,102,297
2003	2,362,903	1.000	2,362,787	1.167	2,757,373
2004	3,356,476	1.001	3,360,079	1.167	3,921,212
2005	4,058,629	1.008	4,091,551	1.167	4,774,840
2006	7,638,379	1.035	7,909,321	1.167	9,230,178

* Home Office Supplemental Reserves have been included at 123 months of development and after.

**Allstate Insurance Group
Arkansas
Owners
Total All Peril**

Loss Development - Additive Method

AXYR	Field Incurred Losses*										Exposures
	15	27	39	51	63	75	87	99	111	123	
1993					7,641,243	7,641,775	7,641,196	7,640,765	7,641,368	7,641,368	43,661
1994				8,737,835	8,734,844	8,734,423	8,734,657	8,732,186	8,734,618	8,734,318	40,699
1995			6,924,796	6,922,196	6,917,807	6,913,639	6,914,139	6,914,040	6,914,005	6,908,465	39,126
1996		8,109,860	8,145,590	8,176,153	8,186,353	8,187,063	8,173,155	8,190,155	8,190,155	8,193,968	38,543
1997	7,324,412	7,472,077	7,444,912	7,456,459	7,508,166	7,603,430	7,580,387	7,580,387	7,575,814	7,575,814	38,155
1998	6,164,930	6,589,469	6,623,543	6,611,512	6,614,802	6,557,912	6,552,732	6,552,732	6,552,732		38,185
1999	8,523,132	8,582,134	9,309,961	9,330,444	9,309,397	9,314,000	9,305,532	9,305,532			37,948
2000	7,836,941	8,116,300	8,120,872	8,217,517	8,184,335	8,191,475	8,191,475				38,034
2001	8,149,826	8,404,237	8,444,572	8,418,573	8,450,549	8,451,005					37,574
2002	8,915,254	9,165,795	9,280,755	9,200,752	9,215,508						34,420
2003	8,457,977	8,683,593	8,786,342	8,814,550							31,515
2004	10,316,885	10,627,837	10,685,393								42,321
2005	8,310,025	8,472,597									46,238
2006	13,711,378										49,237

Selected Trend: 10.0%

AXYR	Trended Field Incurred Losses*										Exposures
	15	27	39	51	63	75	87	99	111	123	
1993					26,379,642	26,381,479	26,379,480	26,377,993	26,380,076	26,380,076	43,661
1994				27,423,069	27,413,681	27,412,360	27,413,095	27,405,341	27,412,973	27,412,032	40,699
1995			19,757,251	19,749,837	19,737,311	19,725,418	19,726,844	19,726,564	19,726,464	19,704,951	39,126
1996		21,034,889	21,127,564	21,206,836	21,233,291	21,235,133	21,199,060	21,243,153	21,243,153	21,253,042	38,543
1997	17,270,579	17,618,766	17,554,713	17,581,940	17,703,863	17,928,490	17,874,156	17,874,156	17,863,372	17,863,372	38,155
1998	13,215,075	14,125,113	14,198,154	14,172,364	14,179,416	14,057,467	14,046,362	14,046,362			38,185
1999	16,609,174	16,724,150	18,142,479	18,182,395	18,141,380	18,150,352	18,133,848	18,133,848			37,948
2000	13,883,619	14,378,521	14,386,621	14,557,832	14,499,048	14,511,698					38,034
2001	13,125,377	13,535,108	13,600,067	13,558,196	13,609,694	13,610,428					37,574
2002	13,052,824	13,419,641	13,587,953	13,470,821	13,492,426						34,420
2003	11,257,568	11,557,862	11,694,621	11,732,166							31,515
2004	12,483,431	12,859,683	12,929,326								42,321
2005	9,141,027	9,319,857									46,238
2006	13,711,378										49,237

AXYR	Trended Additive Amount Per Exposure										Exposures
	15-27	27-39	39-51	51-63	63-75	75-87	87-99	99-111	111-123		
1993					0.04	-0.05	-0.03	0.05	0.00		43,661
1994				-0.19	-0.32	-0.03	0.02	-0.19	0.19	-0.02	40,699
1995			2.40	2.06	0.69	0.05	-0.94	1.14	0.00	0.26	39,126
1996		9.13	-1.68	0.71	3.20	5.89	-1.42	0.00	-0.28	0.00	38,543
1997	23.83	1.91	-0.68	1.05	0.18	-3.19	-0.29	0.00	0.00		38,185
1998	3.03	37.38	1.68	1.05	-1.08	0.24	-0.43	0.00			37,948
1999	13.01	0.21	4.50	-1.55	0.33	0.00					38,034
2000	10.90	1.73	-1.11	1.37	0.02						37,574
2001	10.66	4.89	-3.40	0.63							34,420
2002	9.53	4.34	1.19								31,515
2003	8.89	1.65									42,321
2004	3.87										46,238
2005											49,237

	Age-to-Age Additive Amounts Per Exposure									
	15-27	27-39	39-51	51-63	63-75	75-87	87-99	99-111	111-123	
3 Year Weighted Average:	7.12	3.46	-1.17	0.13	0.20	-0.24	0.00	-0.09	-0.10	
5 Year Weighted Average:	8.50	2.44	0.50	-0.11	0.66	-0.62	0.23	-0.02	-0.06	
Selected:	8.50	2.44	0.50	-0.11	0.66	-0.62	0.23	-0.02	-0.06	

	Age-to-Ultimate Additive Amounts Per Exposure									
	15-Ult	27-Ult	39-Ult	51-Ult	63-Ult	75-Ult	87-Ult	99-Ult	111-Ult	
3 Year Average:	9.30	2.18	-1.28	-0.11	-0.24	-0.44	-0.19	-0.19	-0.10	
5 Year Average:	11.51	3.02	0.58	0.08	0.19	-0.47	0.15	-0.08	-0.06	
Selected:	11.51	3.02	0.58	0.08	0.19	-0.47	0.15	-0.08	-0.06	

Year	Allstate Indemnity Company Trended Inc. Loss	Allstate Indemnity Company Earned Exposures	Additive Amt. to Ultimate Per Exposure	Trended Losses Yet To Emerge	Ultimate Trended Loss	Ultimate Loss	ULAE Factor	Ultimate Loss & LAE
	2002	1,382,884	2,155	0.19	407	1,383,291	944,806	1.167
2003	3,145,024	7,642	0.08	637	3,145,661	2,363,382	1.167	2,758,066
2004	4,061,336	14,761	0.58	8,605	4,069,941	3,363,587	1.167	3,925,306
2005	4,464,492	21,189	3.02	63,954	4,528,446	4,116,769	1.167	4,804,270
2006	7,638,379	25,901	11.51	298,247	7,936,626	7,936,626	1.167	9,262,042

* Home Office Supplemental Reserves have been included at 123 months of development and after.

**ALLSTATE INDEMNITY COMPANY
OWNERS FORMS
ARKANSAS
SUMMARY OF LOSS DEVELOPMENT**

Allstate Indemnity Company	Link Ratio Method	Additive Method
Year	Ultimate Loss & LAE	Ultimate Loss & LAE
2002	1,102,297	1,102,589
2003	2,757,373	2,758,066
2004	3,921,212	3,925,306
2005	4,774,840	4,804,270
2006	9,230,178	9,262,042

Allstate Indemnity Selected (in 000's)
1,103
2,758
3,925
4,804
9,262

**ALLSTATE INSURANCE GROUP (INCLUDES ALLSTATE INSURANCE COMPANY,
ALLSTATE INDEMNITY COMPANY, AND ALLSTATE PROPERTY AND
CASUALTY INSURANCE COMPANY)
HOMEOWNERS
ARKANSAS**

SUMMARY OF THE TOTAL CATASTROPHE ADJUSTMENT

Allstate separately identifies and accounts for its exposure to loss due to the occurrence of catastrophic events within a state. In order to estimate our non-hurricane, non-earthquake catastrophe exposure, we develop a long-term relativity of each state to our countrywide (excluding California, Florida, New Jersey, and Washington) catastrophe factor based on all years 1981 and beyond. We then apply this relativity to a countrywide catastrophe factor based on the most recent ten years of data. By using this approach, we are able to balance the stability of a long-term estimate of catastrophe potential in Arkansas (needed because of the infrequent occurrence of catastrophes) and the responsiveness of more recent data (needed because of changing demographic conditions).

Within our method we incorporated two procedures designed to stabilize the results of individual states. The first procedure caps losses for years that are uncharacteristic for that state. Relativities above three standard deviations plus the mean for the state are capped. Impacted years are limited to the highest relativity below the cap.

In addition to the capping procedure, we apply credibility to the resulting relativities in the state. The credibility is based on the standard (Buhlmann/Bayesian) credibility method as described in Loss Models, by Klugman, Panjer and Willmot, chapter 5, pages 436 to 441. The credibility reflects the confidence we have in the state's average relativity. In order to develop the credibility, we consider the number of years used to determine the relativity as well as the variance of all states' relativities to countrywide.* The complement of credibility is applied to a relativity of 1.000.

A result of our capping and credibility process is that the average of all the statewide relativities may no longer equal a countrywide relativity of 1.000. In order to assure an adequate provision for catastrophes on a countrywide basis, the resulting state relativities are adjusted to achieve an overall countrywide relativity of 1.000. The off-balance adjustment is made in proportion to each state's variability as defined by its standard deviation. The final relativity is applied to the countrywide catastrophe factor to develop the Arkansas catastrophe factor.

Pages 18 through 22 display the development of the total catastrophe provision of 1.172 for Arkansas. Enhancements to better account for the implementation of mandatory minimum wind/hail deductibles in applicable states have also been made. In addition, the total catastrophe provision has been adjusted to take into consideration differences in the average amount of insurance between Allstate Indemnity Company and Allstate Insurance Group.

Pages 23 and 24 display the development of the Allstate Indemnity Company Owners forms catastrophe provision.

This company specific provision is used in the development of an expected catastrophe incurred loss ratio, explained and displayed on **Pages 25 and 26**.

* Note: The number of years is used rather than exposures (as recommended in the standard model) because increased exposures does not necessarily lead to more stable estimates for catastrophes, particularly when the exposures are geographically concentrated.

**ALLSTATE INSURANCE GROUP (INCLUDES ALLSTATE INSURANCE COMPANY,
ALLSTATE INDEMNITY COMPANY, AND ALLSTATE PROPERTY AND
CASUALTY INSURANCE COMPANY)
HOMEOWNERS
ARKANSAS**

**DEVELOPMENT OF TOTAL CATASTROPHE PROVISION
EXPLANATORY MEMORANDUM**

The numerical references in this memorandum correspond to the numbering sequence on **Page 20**.

- (1) Calendar Year
- (2) Amount of Insurance Years:
One amount of insurance year (AIY) equals \$1000 worth of dwelling coverage in force for one year.
- (3) Catastrophe Incurred Loss:
Catastrophe incurred losses excluding earthquake losses. Please note that because Allstate Property and Casualty Insurance Company was recently opened for new business in Arkansas, starting with calendar year 2005, any Allstate Property and Casualty Insurance Company catastrophe incurred losses will be included in the development of the Arkansas catastrophe ratio.
- (4) State Catastrophe Ratio: (3) / (2)
- (5) Countrywide Catastrophe Ratio:
Countrywide (excluding California, Florida, New Jersey, and Washington) catastrophe ratio excluding earthquake and modeled hurricane losses. Please note that beginning with calendar year 2005, Allstate Property and Casualty Insurance Company losses and amount of insurance years will be included where applicable.
- (6) Relativities: (4) / (5)
- (7) Relativities Adjusted for the Cap:
Column (6) adjusted for the cap. Impacted years are limited to highest relativity below the cap. Relativities were not impacted by the capping process.

- (8) Average Relativities:
Arithmetic mean of relativities.
- (9) Standard Deviation
- (10) Credibility of Capped Relativities:
Buhlmann/Bayesean credibility factor: # of years / (# of years + average process variance/variance of hypothetical means). The process variance and variance of hypothetical means are calculated using the 25-year capped relativities across all states.
- (11) Credibility Weighted Relativity: Row (8) (capped) x (10) + [1.0 - (10)] x 1.000.
- (12) Relativity Balanced to Countrywide:
Row (11) balanced to achieve a countrywide relativity of 1.000 in proportion to the Arkansas standard deviation (based on capped relativities).
- (13) Selected Countrywide Catastrophe Factor
- (14) Arkansas Catastrophe Factor Excluding All LAE: (12) x (13)
- (15) Arkansas Catastrophe Provision Including All LAE:
The Catastrophe Provision from (14) loaded with the ULAE factor found on **Page 10**.

ALLSTATE INSURANCE GROUP
HOMEOWNERS INSURANCE
ARKANSAS
BASIC CATASTROPHE PROVISION

(1) CALENDAR YEAR	(2) AMOUNT OF INSURANCE YEARS	(3) CATASTROPHE INCURRED LOSS	(4) STATE CATASTROPHE RATIO	(5) COUNTRYWIDE* CATASTROPHE RATIO	(6) RELATIVITIES	(7) RELATIVITIES ADJUSTED FOR CAP OF 7.201 **
1981	2,644,282	1,003,000	0.379	0.246	1.541	1.541
1982	2,308,405	2,313,000	1.002	0.335	2.991	2.991
1983	1,892,706	1,268,000	0.670	0.380	1.763	1.763
1984	1,886,371	3,387,000	1.796	0.496	3.621	3.621
1985	2,022,557	822,000	0.406	0.353	1.150	1.150
1986	2,386,042	1,999,000	0.838	0.225	3.724	3.724
1987	2,706,082	922,000	0.341	0.213	1.601	1.601
1988	2,819,207	2,406,000	0.853	0.259	3.293	3.293
1989	2,996,467	5,639,000	1.882	0.577	3.262	3.262
1990	3,153,771	902,000	0.286	0.581	0.492	0.492
1991	3,171,794	1,314,000	0.414	0.399	1.038	1.038
1992	2,996,917	554,000	0.185	0.780	0.237	0.237
1993	2,859,375	95,000	0.033	0.423	0.078	0.078
1994	2,891,545	2,208,000	0.764	0.850	0.899	0.899
1995	2,948,886	1,651,000	0.560	0.675	0.830	0.830
1996	3,025,076	17,106,000	5.655	0.864	6.545	6.545
1997	3,144,832	2,733,000	0.869	0.269	3.230	3.230
1998	3,302,976	244,000	0.074	0.492	0.150	0.150
1999	3,366,313	10,286,000	3.056	0.521	5.866	5.866
2000	3,486,794	6,984,000	2.003	0.768	2.608	2.608
2001	3,593,939	1,054,000	0.293	0.655	0.447	0.447
2002	3,949,900	822,000	0.208	0.448	0.464	0.464
2003	4,485,912	1,801,000	0.401	0.628	0.639	0.639
2004	5,277,783	1,135,000	0.215	0.310	0.694	0.694
2005	***	6,206,944	0.140	0.246	0.569	0.569
(8) Average Relativity					1.909	1.909
(9) Standard Deviation					1.764	1.764
(10) Credibility						0.868
(11) Credibility Weighted Relativity						1.789
(12) Relativity Balanced to Countrywide						1.897
(13) Countrywide Selected Catastrophe Factor						0.520
(14) Arkansas Catastrophe Factor						0.986
(15) Arkansas Catastrophe Factor Including all LAE						1.151

* Excludes California, Florida, New Jersey, and Washington
 ** Relativities were not impacted by capping process
 *** Starting in 2005, AP&C included

**ALLSTATE INSURANCE GROUP
OWNERS
ARKANSAS**

**DEVELOPMENT OF THE LINE SPECIFIC CATASTROPHE PROVISION
EXPLANATORY MEMORANDUM**

The numerical references in this memorandum correspond to the numbering sequence on **Page 22**. The Arkansas catastrophe factor including all LAE on **Page 20** incorporates all Homeowners lines of business (Owners, Renters, and Condominiums). **Page 22** details the Owners line specific catastrophe factor.

- (1) Average State Catastrophe Ratio:
Arithmetic mean of state catastrophe ratios using the most recent twelve years of data
- (2) Line to Line 7X Ratio:
The Line specific average state catastrophe ratio developed from (1) divided by the Line 7X average state catastrophe ratio also developed from (1)
- (3) 2005 Amount of Insurance Years:
The amount of insurance years by line as of 12/31/2005
- (4) 2005 AIY Weighted Line to Line 7X Ratio:
Line to Line 7X ratio developed from (2) weighted by the Amount of Insurance Years as of 12/31/2005 to reflect the current distribution between lines
- (5) Ratio Balanced to Line 7X:
Row (4) balanced to achieve a Line 7X relativity of 1.000
- (6) Line Specific Catastrophe Factor:
State Homeowners Catastrophe Factor Including all LAE developed on **Page 20** multiplied by the line specific relativity developed in (5)

ALLSTATE INSURANCE GROUP
CATASTROPHE COMPARISON BY LINE (FOR LINE 7X*)
ARKANSAS

DEVELOPMENT OF THE LINE SPECIFIC CATASTROPHE PROVISION

CONDOMINIUM (LINE 78)			
CALENDAR YEAR	AMOUNT OF INSURANCE YEARS	CATASTROPHE INCURRED LOSS	STATE CATASTROPHE RATIO
1994	14,507	673	0.046
1995	14,250	1,591	0.112
1996	13,957	8,518	0.610
1997	14,057	0	0.000
1998	13,653	1,435	0.105
1999	13,888	600	0.043
2000	14,412	1,500	0.104
2001	15,503	5,584	0.360
2002	15,920	0	0.000
2003	16,757	0	0.000
2004	18,491	0	0.000
2005	21,423	2,696	0.126

RENTERS (LINE 71)			
CALENDAR YEAR	AMOUNT OF INSURANCE YEARS	CATASTROPHE INCURRED LOSS	STATE CATASTROPHE RATIO
1994	63,989	3,468	0.054
1995	61,888	255	0.004
1996	64,401	7,266	0.113
1997	70,457	7,870	0.112
1998	80,618	2,193	0.027
1999	89,088	37,481	0.421
2000	92,644	10,485	0.113
2001	92,068	27,020	0.293
2002	91,871	-103	-0.001
2003	89,879	11,292	0.126
2004	91,411	-144	-0.002
2005	95,186	0	0.000

OWNERS (LINE 70)			
CALENDAR YEAR	AMOUNT OF INSURANCE YEARS	CATASTROPHE INCURRED LOSS	STATE CATASTROPHE RATIO
1994	2,813,049	2,203,334	0.783
1995	2,872,748	1,648,765	0.574
1996	2,946,718	17,089,861	5.800
1997	3,060,318	2,724,699	0.890
1998	3,208,705	240,243	0.075
1999	3,263,337	10,247,991	3.140
2000	3,379,738	6,971,765	2.063
2001	3,486,368	1,021,481	0.293
2002	3,842,109	821,700	0.214
2003	4,379,276	1,789,355	0.409
2004	5,167,881	1,134,832	0.220
2005	6,090,335	865,387	0.142

HOMEOWNERS (LINE 7X)			
CALENDAR YEAR	AMOUNT OF INSURANCE YEARS	CATASTROPHE INCURRED LOSS	STATE CATASTROPHE RATIO
1994	2,891,545	2,207,476	0.763
1995	2,948,886	1,650,611	0.560
1996	3,025,076	17,105,645	5.655
1997	3,144,832	2,732,569	0.869
1998	3,302,976	243,871	0.074
1999	3,366,313	10,286,072	3.056
2000	3,486,794	6,983,750	2.003
2001	3,593,939	1,054,085	0.293
2002	3,949,900	821,597	0.208
2003	4,485,912	1,800,647	0.401
2004	5,277,783	1,134,687	0.215
2005	6,206,944	868,083	0.140

	(1)	(2)	(3)	(4)	(5)	(6)
	AVERAGE STATE CATASTROPHE RATIO	LINE TO LINE 7X RATIO	2005 AMOUNT OF INSURANCE YEARS	2005 AIY WEIGHTED LINE TO LINE 7X RATIO	RATIO BALANCED TO LINE 7X	LINE SPECIFIC CATASTROPHE FACTOR**
LINE 70	1.217	1.026	6,090,335	1.026	1.018	1.172
LINE 71	0.105	0.089	95,186	0.089	0.088	0.101
LINE 78	0.126	0.106	21,423	0.106	0.105	0.121
LINES 71&78	0.110	0.093	116,609	0.930	0.092	0.106
LINE 7X	1.186	1.000	6,206,944	1.088	1.000	1.151

*Line 7X incorporates all Homeowners lines (Owners, Renters, and Condominiums)

**Includes all Loss Adjustment Expenses

**ALLSTATE INSURANCE GROUP
OWNERS
ARKANSAS**

**DEVELOPMENT OF THE CATASTROPHE PROVISION BY COMPANY
EXPLANATORY MEMORANDUM**

The numerical references in this memorandum correspond to the numbering sequence on **Page 24**.

- (1) Earned Exposures
Earned Exposures for Owners forms.
- (2) Projected Average AIYs
The Amount of Insurance Years adjusted to represent the AIY's that we expect to be in force during the policy period.
- (3) Expected Catastrophe Loss Relativity
To more appropriately allocate the non-hurricane catastrophe provision between companies Allstate has researched an Amount of Insurance scale based upon wind and non-hurricane catastrophes. The relativity is based on the average Amount of Insurance by company.
- (4) Expected Catastrophe Loss Per Policy:
The total expected catastrophe loss per policy is the total projected average AIY multiplied by the total Allstate Insurance Group Owners catastrophe provision developed on **Page 22**. The total is then allocated by company based on (3).
- (5) Indicated Catastrophe Provision – Owners Forms: (4) / (2)

ALLSTATE INSURANCE GROUP
OWNERS
ARKANSAS

Development of Owners Catastrophe Provisions by Company

	(1)	(2)	(3)	(4)	(5)
<u>Company</u>	<u>Earned Exposures</u>	<u>Projected Average AIYs</u>	<u>Expected Catastrophe Loss Relativity</u>	<u>Expected Catastrophe Loss Per Policy</u>	<u>Indicated Catastrophe Provision*</u>
Allstate Insurance Company	22,920	126.20	0.897	156.09	1.237
Allstate Indemnity Company	25,968	162.29	1.052	182.98	1.128
Total	48,888	145.37	0.979	170.37	1.172

* Includes all loss adjustment expenses.

ALLSTATE INDEMNITY COMPANY
OWNERS FORMS
ARKANSAS

DEVELOPMENT OF THE EXPECTED CATASTROPHE LOSS RATIO
EXPLANATORY MEMORANDUM

The numerical references in this memorandum correspond to the numbering sequence on **Page 26**.

- (1) Average AIY* for 12-month period ending 06/30/2006
- (2) Factor to Adjust AIY @ 08/06/2008:
The Amount of Insurance Years must be adjusted to represent the AIY's that we expect to be in force during the policy period. Selections were based on Allstate Indemnity Company data. **Page 27** shows the twelve- and six-point average AIY trends for Arkansas. We have selected a 5.0% provision to project the AIY's to the average earned date of the proposed policy period.
- (3) Average AIY Trended to 08/06/2008: (1) x (2)
- (4) Total Dollar Catastrophe Provision Per AIY including all LAE:
Developed on **Pages 18 through 24**.
- (5) Expected Catastrophe Losses: (3) x (4)
- (6) Latest 12 MM Average Earned Premium at Current Rates
- (7) Factor to Adjust Premium for Premium Trend @ 08/06/2008:
The earned premium must be adjusted to represent the premium that we expect to be in force during the policy period.
- (8) Trended Average Earned Premium @ CRL: (6) x (7)
- (9) Expected Catastrophe Loss Ratio including all LAE: (5) / (8)

*1 AIY = One Amount of Insurance Year
= \$1,000 of Coverage in Force for One Year.

**ALLSTATE INDEMNITY COMPANY
OWNERS FORMS
ARKANSAS
DEVELOPMENT OF THE EXPECTED CATASTROPHE LOSS RATIO**

(1) Average Earned AIY* for 12 month period ending 06/30/06	142.96
(2) Factor to Adjust AIY @ 08/06/08	1.135
(3) Average AIY Trended to 08/06/08 (1) x (2)	162.29
(4) Total Dollar Catastrophe Provision Per AIY including all LAE (Refer to the Dev. of Total Catastrophe Provision Exhibit)	1.128
(5) Expected Catastrophe Losses (3) x (4)	\$183.07
(6) Latest 12 MM Average Earned Premium At Current Rates	\$709.57
(7) Factor to Adjust Premium for Premium Trend @ 08/06/08	1.094
(8) Trended Average Earned Premium @CRL (6) x (7)	\$775.96
(9) Expected Catastrophe Loss Ratio including all LAE (5) / (8)	23.6%

* 1 AIY = One Amount of Insurance Year
= \$1000 of Coverage in Force for One Year

**ALLSTATE INDEMNITY COMPANY
OWNERS
ARKANSAS
CALCULATION OF AVERAGE CHANGE IN AMOUNT OF
INSURANCE YEARS**

12 MONTHS ENDING	AVERAGE AIY'S	12 POINT TREND	6 POINT TREND
12/31/2001	109.02		
3/31/2002	110.57		
6/30/2002	113.10		
9/30/2002	116.25		
12/31/2002	117.88		
3/31/2003	118.91		
6/30/2003	120.19		
9/30/2003	122.42		
12/31/2003	123.99	125.55	
3/31/2004	126.27	127.58	
6/30/2004	129.58	129.64	
9/30/2004	132.42	131.73	
12/31/2004	135.19	133.86	
3/31/2005	137.06	136.02	
6/30/2005	139.36	138.21	139.94
9/30/2005	142.25	140.44	141.50
12/31/2005	143.33	142.71	143.07
3/31/2006	144.36	145.01	144.66
6/30/2006	146.01	147.35	146.27
9/30/2006	148.04	149.73	147.90
Average Change as a Percent of Last Fitted Point		6.6%	4.5%

**ALLSTATE INSURANCE GROUP
HOMEOWNERS
ARKANSAS**

**EXPENSES AND INVESTMENT INCOME
EXPLANATORY MEMORANDUM**

Page 30 displays the development of the permissible loss ratio for Arkansas.

Commission and Brokerage Expense

The proposed commission and brokerage expense provision has been developed from the actual calendar year 2005 commission and brokerage incurred expense ratio in Arkansas. The provision is shown on **Page 30**.

General and Other Acquisition Expense

The provisions for other acquisition and general expense are based on countrywide data. Since the methods and procedures that incur these expenses are uniform within each state, it is a reasonable assumption that these expense provisions are uniform across all states. To develop the provision for other acquisition and general expenses, a three-year average of countrywide calendar year incurred expense divided by countrywide calendar year direct earned premium was calculated. These figures are taken from the Insurance Expense Exhibit. The provision for Other Acquisition Expense has been reduced by the amount of installment fees collected. The provision for General Expense has been adjusted to account for changes in pension benefit plan funding per the Statement of Statutory Accounting Principles (SSAP) No. 89. The General Expense provision has also been reduced to account for anticipated salary savings resulting from a workforce-reduction initiative that Allstate completed in early 2006.

Rate Need Calculations

For past filings, in developing the dollar provision for general and other acquisition expenses used in the calculation of our Arkansas rate level need, the three-year countrywide average expense ratio for general and other acquisition expenses was applied to the latest Arkansas twelve-month moving average earned premium. This dollar provision was then adjusted for trend to calculate the indicated dollar provision for fixed expenses. With this filing, we are modifying this methodology by altering the time period used for the development of the Arkansas average earned premium. The three-year countrywide average expense ratio will continue to be applied to the Arkansas average earned premium. However, rather than using a twelve-month moving average, the Arkansas average earned premium will now be developed using the same three-year period used in the calculation of the countrywide average expense ratio. An adjustment to the trend period used in the calculation of the trend factor will also be made to account for these changes. This new methodology more consistently aligns the time periods for the development of both the countrywide expense ratio and the Arkansas earned premium.

Trend

In past Allstate filings, the provision for fixed expense trend was supported by countrywide experience for private passenger auto and personal property lines combined. With this filing, we are implementing a new method for determining this provision that relies mostly on data from the Bureau of Labor Statistics. The method used to calculate the fixed expense trend (inflation factor) is similar to the method used by the Insurance Services Office (I.S.O.) and other competitors to determine a fixed expense trend. The method utilizes the CPI (Consumer Price Index) and the CCI (Compensation Cost Index – Insurance Carriers, Agents, Brokers, & Service) and is discussed by Geoffrey Todd Werner, FCAS, MAAA in his paper Incorporation of Fixed Expenses, which was published in the *CAS Forum* (Winter 2004). Based on a review of the historical indices, an annual percentage change is selected for each index. These selected annual percent changes are then weighted together using the distribution of the Allstate expenditures in the latest calendar year for the two broad expense categories that these indices represent. This method is expected to produce stable and reasonable estimates of the true trend in fixed expenses. **Page 34** displays the support for the fixed expense trend.

The expense provisions for other acquisition and general expenses are shown on **Page 31**.

Taxes, Licenses & Fees

The provision for taxes is determined by taking the currently prescribed Arkansas premium tax ratio and adding to that the arithmetic average ratio of other assessments (reflecting other taxes, licenses, and fees). These average ratios are based on five calendar years for Guaranty Funds and Mandatory Pools, and three years for Other Taxes.

Profit Provision

The methodology underlying the cost of equity capital has been updated to reflect developments in the field of financial economics as published in the *Casualty Actuarial Society Forum*, Winter, 2004 and in *Journal of Risk and Insurance*, Vol. 72, No. 3, September 2005 (“Estimating the Cost of Equity Capital For Property-Liability Insurers” by J. David Cummins and Richard D. Phillips).

Page 32 titled “Reconciliation of After-tax Operating Profit” shows the connection between the after-tax operating and the pre-tax underwriting profit provision. Operating profit is equal to the sum of the after-tax underwriting profit provision and the investment income on policyholder-supplied funds (PHSF).

A discounted cash flow (DCF) methodology is used to calculate the investment income on PHSF. DCF is one of the two examples given in Actuarial Standards of Practice, No. 30 as appropriate methods for recognizing investment income from insurance operations (page 4).

The calculations detailing the discounted cash flow methodology are found on **Page 33**. The expected investment yield rate (applied as a force of interest) used to discount losses and expenses includes anticipated net investment income and anticipated capital gains, both realized and unrealized. Operating cash flows are discounted to the average time of earnings of premium and profit for the policy year, rather than to the start of the policy year.

Please refer to the attached documented, **Attachment IV**, titled “The Development of the Underwriting Profit Provision” for more information.

**ALLSTATE INSURANCE GROUP
HOMEOWNERS
ARKANSAS
DEVELOPMENT OF CURRENT PERMISSIBLE LOSS AND LAE RATIO**

	Provision in Premium
Commission and Brokerage	13.5%
Other Acquisition Expense	4.4%
General Expense	3.9%
Taxes, Licenses and Fees *	3.1%
Underwriting Profit** & Contingencies	13.2%
Subtotal	38.1%
Current Permissible Loss and Loss Adjustment Expense	61.9%
Total	100.0%

Fixed Expense Projection: 3.4%

* State Taxes - Does not include Federal Income Tax

** Reflects a Total After-Tax Operating Profit of 10.20%

ALLSTATE INSURANCE GROUP *

Personal Property Lines
Countrywide Expense Experience For Other Acquisition and General Expenses

	Other Acquisition Expense		
	2003	2004	2005
1. Direct Premium Earned	\$4,510,339	\$5,011,186	\$5,546,004
2. Other Acquisition Expense Incurred**	194,035	225,459	236,288
3. Ratio (2)/(1)	0.0430	0.0450	0.0426
4. Three Year Average			0.044
5. Proposed Provision			0.044

	General Expense		
	2003	2004	2005
1. Direct Premium Earned	\$4,510,339	\$5,011,186	\$5,546,004
2. General Expense Incurred	191,745	198,637	209,709
3. Ratio (2)/(1)	0.0425	0.0396	0.0378
4. Three Year Average			0.040
5. Adjusted Three Year Average***			0.039
6. Proposed Provision			0.039

SOURCE: Insurance Expense Exhibits
(000 Omitted)

* Allstate Insurance Company, Allstate Indemnity Company, Allstate Property and Casualty Insurance Company and Allstate County Mutual

** Expenses are reduced by the amount of Installment Fees collected

*** Adjusted to account for future pension benefit plan funding and reduced workforce.

Allstate Insurance Group
Homeowners
Arkansas
Reconciliation of After-Tax Operating Profit Provision

1. Discounted Pre-Tax Underwriting Profit Provision	12.17%
2. Applicable Tax Ratio	35%
3. After-Tax Underwriting Profit Provision (1) x [1.0- (2)]	7.91%
4. After-Tax Investment Gain From Policy Cash Flow	2.29%
5. Total After-Tax Operating Profit Provision (3) + (4)	10.20%

ALLSTATE INSURANCE COMPANY
HOMEOWNERS

Arkansas - 2005

Calculation of Present Value, as of the Average Earning Date
of a Policy year, of all Income and Outgo @ 4.52%
force of interest, assuming an Operating Profit of 10.20%
and twelve-month Policy Terms

<u>Years From Start of Policy Year</u>	<u>Arkansas Cumulative Percent of Losses Paid</u>	<u>Arkansas Yearly Percent of Losses Paid</u>	<u>Time from Start of Policy Year</u>	<u>Discounted * to avg time of profit @ 4.52%</u>	<u>Discounted Payments</u>
1	35.1%	35.1%	0.70	1.0137	35.58%
2	94.9%	59.8%	1.50	0.9777	58.47%
3	99.8%	4.9%	2.30	0.9429	4.62%
4	100.0%	0.2%	3.40	0.8972	0.18%
5	99.7%	-0.3%	4.40	0.8575	-0.26%
Subsequent	100.0%	0.3%	6.70	0.7729	0.23%
Total		100.0%			98.82%
Expected Losses and Loss Expense Ratio					62.93%
Present Value of Loss and Loss Expense Payments					62.19%
Taxes		3.10%	0.74	1.0118	3.14%
Commissions		13.50%	0.58	1.0192	13.76%
Other Acquisition		4.40%	0.63	1.0169	4.47%
General Expense		3.90%	0.75	1.0114	3.94%
Profit		12.17%	1.00	1.0000	12.17%
Total Present Value of Outgo					99.67%
Premiums		100.0%	0.57	1.0196	101.96%
Difference, Present Value of Income Less Present Value of Outgo					2.29%

*exp (0.0452 x (timing of profit being earned - timing of cash flow))

**ALLSTATE INSURANCE GROUP
COUNTRYWIDE
CALULATION OF ANNUAL FIXED EXPENSE TREND**

(1)	% of Other Acquisition and General Expenses used for Salaries and Employee Relations & Welfare - Allstate Insurance Group, 2005	41.2%
(2)	Compensation Cost Index - Insurance Carriers, Agents, Brokers, and Services - (selected annual change ending 12/31/05) U.S. Department of Labor	4.0%
(3)	% of Other Acquisition and General Expenses not used for Salaries and Employee Relations & Welfare - Allstate Insurance Group, 2005.	58.8%
(4)	Consumer Price Index, All Items - (selected annual change ending 12/31/05)	3.0%
(5)	Annual Fixed Expense Trend - [(1) x (2)] + [(3) x (4)]	3.4%
(6)	Selected Annual Fixed Expense Trend	3.4%

Attachment III

Summary of Manual Changes

**ALLSTATE PROPERTY AND CASUALTY INSURANCE COMPANY
OWNERS
ARKANSAS**

SUMMARY OF MANUAL CHANGES

Pages

- | | |
|---------------|--|
| RFP-2 | Revised to reflect the change to the Town Class Group Factors |
| RFP-4 | Revised to reflect the change to the Rate Adjustment Factor.
Revised the Claim Rating Tables to reflect the change to Rating Group Factors. |
| RFP-5 | Revised the Claim Rating Tables to reflect the change to Rating Group Factors. |
| RFP-6 | Revised the Claim Rating Tables to reflect the change to Rating Group Factors. |
| RFP-7 | Revised the Claim Rating Tables to reflect the change to Rating Group Factors. |
| RFP-14 | Revised to reflect the change to the Reinsurance Rate Adjustment Factor. |

Attachment IV

Determination of the Underwriting Profit Provision

ALLSTATE

**DETERMINATION OF THE
UNDERWRITING PROFIT PROVISION**

ALLSTATE INSURANCE GROUP

August, 2006

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Section 1: The Fair and Reasonable Return

Standards for Fair Returns

The level of return that constitutes a fair return for regulated business is a legal question that the Supreme Court of the United States has ruled on in two landmark cases; Federal Power Commission, et al. v. Hope Natural Gas Co., 320 U.S. 591 (1944) and Bluefield Waterworks & Improvement Co. v. Public Service Commission of West Virginia, et al., 262 U.S. 679 (1923).

In the Hope Natural Gas case, the court promulgated standards of fair returns that are based on the *return to the equity investor*. The court said at 603:

"From the investor or company point of view it is important that there be enough revenue not only for operating expenses, but also for the capital costs of the business. These include service on the debt and dividends on the stock . . . By that standard the return to the equity owner should be commensurate with returns on investments in other enterprises having corresponding risks. That return, moreover, should be sufficient to assure confidence in the financial integrity of the enterprise, so as to maintain its credit and to attract capital."

In the Bluefield Waterworks case, the court promulgated standards of fair returns that are based on the *return to the firm*. The court said at 692:

"A public utility is entitled to such rates as will permit it to earn a return upon the value of the property which it employs for the convenience of the public equal to that generally being made at the same time and in the same general part of the country on investments in other business undertakings which are attended by corresponding risks and uncertainties, but it has no constitutional right to profits such as are realized or anticipated in highly profitable enterprises or speculative ventures. The return . . . should be reasonably sufficient to assure confidence in the financial soundness of the utility, and

should be adequate, under efficient and economical management, to maintain and support its credit, and enable it to raise the money necessary for the proper discharge of its public duties."

Accordingly, in order for a return to be a fair return, it must meet the following standards that have been promulgated by the United States Supreme Court:

1. The return to the firm should be sufficient to attract capital.
2. The return to the shareholder should be commensurate with returns on alternative investments of comparable risk.
3. The return to the firm should be commensurate with returns to other unregulated firms of comparable risk.

Return on Equity

The return to the firm is measured by the return on its equity and is equal to net income divided by the book value of the firm's equity. The book value of a firm's equity is calculated in accordance with Generally Accepted Accounting Principles (GAAP). Publicly held companies are required to report financial statements in accordance with GAAP. Federal regulations mandate that financial statements be prepared in accordance with GAAP so that all who are interested in the financial condition of the firm, equity owners, creditors, customers, and particularly those who are making investment decisions whether to buy or sell the firm's capital stock, have adequate information.

It is essential that in making such decisions the financial condition of the firm can be compared with the financial condition of other companies. For that reason, it is essential that financial statements used for this purpose, i.e. to measure the value of the firm as an ongoing business enterprise, be stated on a comparable accounting basis. Similarly for such purposes, independent auditors are required to certify that the financial statements are prepared in accordance with GAAP.

Cost of Equity Capital

Whereas the return on equity is an accounting concept, the cost of equity capital is a market-based concept. A firm's cost of equity capital is the rate of return that investors expect to earn on the market value of the investment.

The cost of equity capital differs from the historic rate of return on equity in two fundamental ways.

1. The numerator of a historic rate of return reflects the income that actually materialized in a specific accounting period. The actual, historic income may be significantly different from the income that investors expected and that was the basis for the investment decision.
2. The base for calculating a rate of return on equity is the book value of the firm (GAAP), whereas the base for the cost of equity capital is the market value of the firm. The market value of the average firm usually exceeds its book value by significant amounts.

As will be shown later in this paper, the return on equity for a firm is simply a function of the cost of equity capital, the market-to-book ratio, the firm's dividend payout ratio, and the return to the shareholders on income retained by the firm. If all earnings were paid out in dividends, then the ratio of the return on equity to the cost of equity capital would equal the market-to-book ratio. This makes intuitive sense, since the return on equity is a return on the book value, and the cost of equity capital is a return on the market value; if the market value exceeds the book value, then the return on equity must exceed the cost of equity capital. When the dividend payout ratio is less than 100%, the relationship is more complicated, but essentially remains the same. In general, because the market value of the average firm exceeds its book value, a fair rate of return on market value cannot equal a fair rate of return on book value.

It is sometimes claimed that it is inappropriate for a firm to earn a greater return (return on equity) than is earned by the investor (cost of equity capital). However, it must be reiterated that the firm's goal is to provide the appropriate return to the investor; if it cannot do this, then it will have trouble

raising capital. Recall that the first item in the list of standards for a fair return to the firm promulgated by the Supreme Court was that it should be "sufficient to attract capital."

The disconnect between a return on the book value of the firm and a return on the market value of the firm is more obvious in some non-insurance companies. For example, some web-based companies that provide a service rather than a product (eBay for example) have very few physical assets and consequently have a comparatively miniscule book value. A firm such as this might have a market value that is ten times larger than its book value; for it to target the same return on book value that the firm needs to provide on market value would result in a drastic shortage in a return to the investors and the inability to provide the cost of equity capital.

This issue, while less drastic in the insurance industry, is still present and needs to be accounted for. The degree to which the market value exceeds the book value dictates the degree to which the return on equity exceeds the cost of equity capital.

Also, it should be noted that, although the return on equity appears to be larger than the cost of equity capital, the actual dollar value being earned by the investor is greater than that being earned by the firm if the firm's market-to-book ratio exceeds 1.00, due to the extra return to the shareholder on income retained by the company. For example, if a firm with a market-to-book ratio of 1.50 earns \$1,000 and pays 50% of earnings in dividends, then the \$1,000 of income for the firm becomes \$1,250 (see the Appendix for an explanation of this calculation) for the investor. If the firm's book value is \$10,000, this would translate to a return on equity of 10% ($=1,000/10,000$) and a return to the shareholder of 8.33% ($=1,250/15,000$). The shareholder's return appears smaller because of the larger denominator in the calculation, but on a dollar-basis, the return is actually larger. Thus, it should not be perceived that the firm is attempting to earn more than is calculated to be the necessary cost of equity capital, but rather it is a consequence of mathematics and differing definitions of returns that results in the seeming disparity.

Estimating the Cost of Equity Capital

Modern financial theory teaches that investors demand higher returns from risky investments. The higher return is necessary to induce investors to assume the risk. Therefore, for our purposes, it is necessary to estimate the financial risk of property/casualty insurance.

According to traditional capital market theory, the return on any given stock is partly driven by the return on the overall market and partly driven by idiosyncratic factors that are not correlated with the overall market. The relationship or co-variability between a given stock's return and the return on the market is measured by a statistic called "beta". Equilibrium returns, according to theory, are linearly related to risk as measured by beta. Intuitively, beta is a measure of the tendency of the return on a stock to move with the market portfolio and provides an indication of the volatility of a security's return relative to the market as a whole. A security with a beta of one is a security with average market risk. A beta of 1.5 indicates that when the return on the market portfolio exceeds the risk-free return by 10%, then the return on the security tends to exceed the risk-free return by 15%; and when the return on the market is 10% less than the risk-free return, the return on the security tends to be 15% less than the risk-free return. Thus, a beta value that is greater than 1.00 indicates a greater than average risk. A beta of 0.5, on the other hand, indicates that when the return on the market portfolio exceeds the risk-free return by 10%, then the return on the security tends to exceed the risk-free return by 5%; and when the return on the market portfolio is 10% less than the risk-free return, the return on the security tends to be 5% less than the risk-free return. Thus, a beta less than one indicates less than average risk.

The capital asset pricing model (CAPM) has been widely used to estimate the cost of equity capital. CAPM is intuitively appealing and simple in its logic. CAPM holds that the return on a stock should reflect the co-variability of the stock with the market portfolio, because this component of risk cannot be diversified away by investors. According to CAPM the return on a stock should not reflect the idiosyncratic component of the return, which can be diversified away by holding an appropriately structured portfolio. The CAPM cost of equity capital estimate requires only three values: an estimate of the firm's beta, a risk-free rate of return, and the expected return on the total market portfolio. The CAPM cost of capital is then simply determined as the sum of the risk-free rate plus a risk premium equal to the product of the stock's beta

coefficient and the expected return on the market portfolio in excess of the risk-free rate. Expressed mathematically, the CAPM formula is:

$$r = r_f + \beta(r_m - r_f),$$

where r_f is the risk-free rate of return, r_m the expected equity-market rate of return, and r the stock's expected rate of return. β measures the riskiness of the stock's return relative to that of the equity market.

Since the late 1980's, researchers have observed that CAPM's ability to explain and predict the average returns of many investment opportunities can be improved by using a multifactor asset pricing model. The most widely recognized multifactor model is the "Fama-French three-factor model."¹ Fama and French have shown that from the 1960's both small stocks and value stocks have returned more than what the traditional CAPM has predicted. In addition to the usual market-risk premium ($r_m - r_f$), they utilize two other variables: size premium (π_s) and value premium (π_h).² The size premium is the excess of the return of a portfolio of small-cap stocks over that of a portfolio of large-cap stocks. The value premium is the excess of the return of a portfolio of high book-value-to-market-value stocks over that of a portfolio of low book-value-to-market-value stocks.³ Shown in Appendix 1, Exhibit 1 are the long-term averages of the market-risk, small-stock, and value-stock premia from the Fama-French database, which derives from the database of the Center for Research in Security Prices. The Fama-French model regresses a stock's monthly return against monthly returns from the three factors, or in equation form:

$$r - r_f = \alpha + \beta_m (r_m - r_f) + \beta_s \pi_s + \beta_h \pi_h + \varepsilon$$

¹ Fama, Eugene F., and Kenneth R. French, 1992, "The Cross-Section of Expected Stock Returns," *Journal of Finance* 47: 427-465.

Fama, Eugene F., and Kenneth R. French, 1993, "Common Risk Factors In the Returns on Stocks and Bonds," *Journal of Financial Economics* 39: 3-56.

Fama, Eugene F., and Kenneth R. French, 1996, "Size and Book-to-Market Factors in Earnings and Returns," *Journal of Finance* 50: 131-155.

² The notation is from a working paper of J. David Cummins and Richard D. Phillips, "Estimating the Cost of Equity Capital for Property-Liability Insurers."

³ The details of how Fama and French define these portfolios, how they periodically rebalance them, and their historic performance are freely available at <http://mba.tuck.dartmouth.edu/pages/faculty/ken.french>.

As before, r_f is the risk-free rate of return for the month observed. But r is now the observed return of the stock for that month. To predict returns we use expected values, but the regression equation explains actual, random observations (hence the error term ϵ). Similarly, r_m is the actual return of the equity market. The variables π_s and π_h measure by how much small-cap stocks outperformed large-cap stocks, and by how much high book-to-market stocks outperformed low ones. Negative values indicate underperformance. Though an intercept term α is estimated, economic theory states that in the long run it should be zero. Hence, in predicting stock returns it is ignored.

Thus, three betas are estimated, which measure the stock's sensitivity to the three factors. Note that the π -variables are not related to the risk-free return r_f , since they are differences of the returns on one equity portfolio from the returns on another equity portfolio.

The Fama-French model is a multi-factor model that reduces to the CAPM if β_s and β_h are constrained to zero. Therefore, it must explain more stock-return variance than does the CAPM. In a subsequent paper⁴, Fama and French argued that the R-squared of their model is markedly better than that for CAPM, and that β_s and β_h are significantly different from zero, even after controlling for the overall market.⁵ Extensive research since 1992 has shown that factors other than the CAPM market systematic risk factor play an important role in explaining the cross-section of expected stock returns. As Fama and French note:

“...the available evidence suggests that the three-factor model...is a parsimonious description of returns and average returns. The model captures much of the variation in the cross-section of average stock returns, and it absorbs most of the anomalies that have plagued the CAPM.”⁶

⁴ Fama, Eugene F. and Kenneth R. French, 1993, “Common Risk Factors in the Returns on Stocks and Bonds,” *Journal of Financial Economics* 39: 3-56.

⁵ R-squared is a widely accepted measure of the goodness-of-fit of a regression model. It measures the proportion of the variability in the dependent variable of the model (in this case, the excess return of a stock) that is explained by the model.

⁶ Fama, Eugene F. and Kenneth R. French, 1996, “Multifactor Explanations of Asset Pricing Anomalies,” *The Journal of Finance* 51: 56.

The Fama-French model has been subject to the most extensive testing and validation of any multiple factor model.

In estimating the beta coefficients of asset pricing models such as the CAPM and Fama-French models, it is often important to utilize a technique known as the sum-beta adjustment (Ibbotson, *S&P 500 Valuation Edition 2004*, 109-114). The sum-beta method is used to obtain unbiased estimates of the beta coefficients of the risk factors of asset pricing models, when either the individual stock and/or some of the stocks that comprise the risk factors are infrequently traded. Research shows that there is a downward bias in the estimate of the risk factors for shares that trade infrequently.⁷ Although Allstate's stock is frequently traded, we cannot directly compare Allstate's estimated risk factors to those of other companies without first adjusting for the amount of trading in each firm's stock. The adjustment is quite simple – unbiased estimates of the beta coefficients are obtained – in the case of the Fama-French model, by regressing the excess return of the stock on the contemporaneous risk factors and the previous month's factors.⁸ In symbols, the sum-beta version of the Fama-French model is:

$$r - r_f = \alpha + \beta_{m0}(r_{m0} - r_{f0}) + \beta_{m1}(r_{m1} - r_{f1}) + \beta_{s0}\pi_{s0} + \beta_{s1}\pi_{s1} + \beta_{h0}\pi_{h0} + \beta_{h1}\pi_{h1} + \varepsilon$$

In this version there are six beta terms, and their subscripts are augmented with 0 and 1. The stock's excess return is thereby related to the market, size, and value returns of the current period (period 0), as well as to those of the previous period (period 1). Otherwise, all the variables are defined as they were in the three-factor Fama-French model previously discussed.

After estimating the long-term relationships between the stock's excess return and the factors, the unbiased beta coefficient for each factor is obtained by adding the current and lagged beta — hence the term “sum-beta.” With unbiased estimates of the beta coefficients, the cost of equity capital is

⁷ Dimson, Elroy, 1979, “Risk Measurement When Shares are Subject to Infrequent Trading,” *Journal of Financial Economics* 7: 197-226.

⁸ In applying the sum-beta method, it is important for reasons of consistency to apply the model to stocks that trade frequently as well as to infrequently traded stocks. In the former case, the sum-beta adjustment does not significantly affect the cost of capital estimates.

then determined by multiplying the long-term average risk premium for each factor by the appropriate sum-beta and then summing across the three factors.

Full-Information Betas

Until now Allstate has estimated its beta by comparison with, and adjustment of, the betas of other property/casualty insurers. As Ibbotson remarks (*SBBi Valuation Edition 2004*, 115f):

“Unfortunately, this type of analysis includes only the “pure play” companies in the calculation of beta. Many of the largest companies in the United States are conglomerates, making it difficult or impossible to include these companies in the industry average. ... One solution to the conglomerate problem is the full information approach developed by Kaplan and Peterson. The full information approach seeks to include in the calculation of the industry beta data from all companies participating in a given industry. The full information approach is a cross-sectional regression that solves for betas for a variety of industries based on the exposure a given company has to that industry.”

Allstate follows the lead of Cummins and Phillips in their application of the full-information adjustment to the Fama-French model.⁹ From the CRSP data, betas are estimated for rolling sixty-month periods for the thousands of companies in the CRSP database. For more than five thousand of these companies, the S&P/Compustat database provides sales figures by North American Industry Classification System (NAICS) segment. This allows us to define 26 high-level, homogenous business segments, one of which is property/casualty insurance. Each firm can then be treated as a unique mixture of these business segments. In other words, we can decompose the Fama-French betas of the companies in the sample into Fama-French betas of idealized business segments, in particular, those of the property/casualty segment. The details of this procedure are given in the earlier cited working paper of Cummins and

⁹ J. David Cummins and Richard D. Phillips, “Estimating the Cost of Equity Capital for Property-Liability Insurers.”

Phillips, but in brief, we estimate the industry-segment betas of the following seemingly-unrelated-regression (SUR)¹⁰ model:

$$\begin{aligned}\beta_{mi} &= \sum_j \beta_{mj} \omega_{ij} + \varepsilon_{mi} \\ \beta_{si} &= \sum_j \beta_{sj} \omega_{ij} + \gamma_s \ln(MV_i) + \varepsilon_{si} \\ \beta_{hi} &= \sum_j \beta_{hj} \omega_{ij} + \gamma_h \ln(BV_i / MV_i) + \varepsilon_{hi}\end{aligned}$$

Subscript i indexes the actual companies, subscript j the industry segments. The independent variable ω_{ij} is the participation of the i^{th} firm in the j^{th} segment, and summing it over all j values with i constant equals one. For example, Allstate's exposure is about 18% in the life-insurance segment and 82% in the property/casualty segment. From the firm Fama-French betas (the betas with the i subscript), the model estimates the industry-segment betas (the full-information betas, those with the j subscript). The gamma terms level the size (s) and value (h) attributes of companies in order to make their industry-group betas independent of size and value. The SUR feature estimates and incorporates the covariance between the triad of error terms. Allstate decomposed sum-betas and weighted the error terms of the regression according to the market value of the companies, as did Cummins and Phillips.

Allstate's Cost of Equity Capital

Investors expect higher returns from equity investments because equity investments are riskier than risk-free investments, such as Treasury Bills. This additional return over and above a risk-free return is commonly referred to as a risk premium.

The attached Appendix 1, Exhibit I presents the three risk premia necessary to apply the Fama-French model. The three risk premia are long-term averages beginning with July 1926 data and ending in June of the year shown in the exhibit. Data before July 1926 are not readily available. The CRSP data go back only that far, and Ibbotson Associates takes it as the starting point for all its series.

¹⁰ Seemingly unrelated regression is an advanced modeling technique discussed in most econometric textbooks. For a standard treatment see Judge, George G., R.C. Hill, W.E. Griffiths, H. Lütkepohl, and T.-C. Lee, *Introduction to the Theory and Practice of Econometrics*, Second Edition, New York, John Wiley & Sons, 1988, chapter 11.

The market-risk premium reflects the degree to which the return on a broad base of stocks has exceeded the risk-free return. Since this risk premium compensates investors for systematic portfolio risk, it is based on a weighted portfolio of all the stocks (currently more than 7,000) in the CRSP database, a portfolio that encompasses the New York and American stock exchanges, the NASDAQ, and the over-the-counter market.

The small-stock premium reflects the degree to which the returns for small companies have exceeded the returns for large companies and adjusts the estimated cost of equity capital for the risk factor associated with firm size.

The value-stock premium reflects the degree to which the returns for companies whose book values are large relative to their market values have exceeded the returns for companies whose book values are correspondingly small. It adjusts the estimated cost of equity capital for the risk factor associated with a firm's ratio of book value to market value. Fama and French form, and quarterly rebalance, the small and large portfolios of CRSP stocks according to the median size. For every month since July 1926, they calculate the difference of the return of the large-stock portfolio from that of the small-stock portfolio. The process is similar for the value-stock premium, except that they use only the upper thirty percent and lower thirty percent of stocks, ranked by their book-to-market ratios.

Appendix 1, Exhibit II presents the property/casualty insurance industry betas and coefficients necessary to apply the Fama-French model. As previously described, these values are based on CRSP data for thousands of firms, subdivided into twenty-six business segments.

Appendix 1, Exhibit III summarizes the same elements of Allstate's reported financial statements. But only the two "Log" columns will carry forward into the cost-of-capital calculation. These "Log" values will multiply with the model-estimated gammas, so that the size and value components of the cost of capital will be tailored to Allstate within the property/casualty insurance segment.

Appendix 1, Exhibit IV summarizes the Fama-French model estimates of the market-risk, size-risk, and value-risk betas. Calculations are shown for rolling, five-year periods ending June 1999 through June 2005. Note that nothing unique to Allstate flows into the market-risk beta, but the size-risk and value-risk components are specific to Allstate.

Allstate's methodology utilizes an averaging of the betas in an attempt to increase stability, as the beta values can fluctuate from year to year. A 3-year average is currently used, which also lends a degree of responsiveness to the beta value. However, both the 3- and 5-year averages will be monitored and considered prospectively in order to prevent large fluctuations from year to year.

The return on 28-day Treasury Bills is used to represent the risk-free return. This value, obtained from the Federal Reserve, is the annualized return. Since such Bills mature at the end of the period, they are as free from market-price fluctuation as they are from default.

The cost of equity capital is a determinant of the underwriting profit provision used by Allstate for ratemaking purposes.

Allstate's Fair Return

As previously discussed, there are important differences between a firm's cost of equity capital and a fair return on equity. One of those differences arises because the cost of equity capital is in relation to the firm's market value and a return on equity is in relation to the firm's book value (GAAP).

The calculation of the fair rate of return to the firm (the return on equity) requires, in addition to the investors' cost of equity capital, the firm's dividend payout ratio, its expected ratio of market value to book value, and the return to investors on income retained by the company.

The dividend payout ratio is the proportion of net income that is paid to shareholders in the form of dividends and stock repurchases. Dividends paid and stock repurchases made by the company in a given year are based on the previous year's net income. Therefore, the dividend payout ratio is the ratio of the sum of dividends and stock repurchases to the previous year's net income. Appendix 1,

Exhibit V displays Allstate's dividend payout ratio for each year since 1997, which is based on the net income from 1996, the first year Allstate was fully independent of Sears. The average dividend payout ratio including stock repurchases over this period is 0.67.

Property/casualty insurers also have market values that exceed book values. For example, the median market-to-book ratio for the Fire, Marine and Casualty Insurance Industry in Ibbotsen's 2006 Cost of Capital Yearbook was 1.49..

Appendix 1, Exhibit VI presents historical market-to-book ratios for Allstate Corporation.. In addition, the inception-to-date and 10-year moving averages have been calculated. Market-to-book ratios can fluctuate dramatically from year to year, so Allstate selected the 10-year average of 1.68 as an estimate of the expected market-to-book ratio.

Appendix 1, Exhibit VII displays the calculation of Allstate's fair rate of return. The resulting fair rate of return on equity is 17.27%.

Allstate believes that it needs to earn a rate of return on GAAP equity of 17.27%, at this point in time. We believe that this rate of return is implied by theory, supported by data, and is reasonable in light of the returns that other comparable firms earn. Further, this rate of return is consistent with the standards of fair returns that have been enunciated by the U. S. Supreme Court.

Weighted Average Cost of Capital

Insurance operations are not entirely financed by equity capital; debt is also used as a vehicle to raise funds. Therefore the cost of both equity and debt must be incorporated into the methodology. Once the appropriate cost of equity capital is determined and converted to a book-value basis, it is combined with the cost of debt, and the Weighted Average Cost of Capital (WACC) is determined.

Appendix 1, Exhibit VIII displays the calculation of the Weighted Average Cost of Capital. In this calculation, the cost of equity capital is converted to a return on the book value of equity, which is then combined with the cost of debt.

Section 2: Converting Cost of Equity Capital to Return on Equity

Investors purchase shares of a firm and expect to receive a return on their investment that is commensurate with the risk involved. This return is paid to the shareholders in two ways: dividends issued and change in share value. When the firm earns income during a year, there are two things that the firm can do with that income: issue dividends to shareholders or reinvest the income in the business for the purposes of growth. Thus, it is the reinvestment of income in the business that must provide for the change in share value.

The return demanded by the shareholder is a return on share price and thus is based on the market value of the firm. However, the equity available to the firm is the Generally Accepted Accounting Principles (GAAP) valuation of the equity, or the "book value" of the equity. The market value generally exceeds the book value of the firm due to several intangible valuables such as brand image, personnel expertise, and the growth opportunities of the firm. Therefore, it is necessary to calculate the return on the book value of equity that the firm must earn in order to provide the necessary return on market value for the shareholder.

Let E_i equal the net expected income to the *firm* in year i ,
 I_i equal the net expected income to the *shareholders* in year i ,
 Z equal the ratio of the growth in market value to the income retained,
 d equal the dividend payout ratio,
 r_i equal the return on the book value of equity in year i ,
 k_i equal the return on the market value of equity (a.k.a. cost of equity capital) in year i ,
 BV_i equal the book value of equity at the end of year i ,
 MV_i equal the market value of equity at the end of year i ,
and m_i equal the ratio of market value to book value at the end of year i .

The return on equity is equal to the income received by the firm in a given year divided by the beginning-of-year GAAP book value of equity:

$$r_i = \frac{E_i}{BV_{i-1}}$$

or:

$$E_i = r_i * BV_{i-1} \quad (1)$$

The cost of equity capital is equal to the income received by the shareholders in a given year divided by the market value of the equity, or:

$$k_i = \frac{I_i}{MV_{i-1}}$$

The income received by the shareholders in a given year is equal to the dividends received plus some return (the Z factor will be discussed below) on the income retained by the firm, or

$$I_i = d(E_i) + (1-d)E_i * Z$$

Using these two formulas, we can derive the following equation:

$$E_i = \frac{MV_{i-1} * k_i}{Z + d(1-Z)} \quad (2)$$

By setting equations (1) and (2) equal to each other, we get:

$$r_i * BV_{i-1} = \frac{MV_{i-1} * k_i}{Z + d(1-Z)}$$

After much rearranging and substituting m for MV/BV we get:

$$r_i = \frac{m_{i-1} * k_i}{d + (1-d)Z} \quad (3)$$

With this equation we can calculate the needed return on the book value of equity to produce the appropriate return to shareholders on the market value of equity. Equation (3) shows that the return on equity is a function of the cost of equity capital, the dividend payout ratio, the ratio of market value to book value, and the return to shareholders on income retained by the firm.

It is difficult to determine what the appropriate factor for "Z" should be, since the change in share value due to retained earnings by the firm is a function of anticipated growth opportunities by investors. Allstate believes that the most appropriate estimate of this ratio is the expected future ratio of market value to book value, since this ratio already takes into account the present value of anticipated growth opportunities. Given this assumption, equation (3) becomes:

$$r = \frac{m * k}{d + (1 - d) * m} \quad (4)$$

This is the equation that Allstate uses to determine the appropriate return on equity for a given cost of equity capital. Notably, equation (4) can likewise be derived by application of the Dividend Discount Model (discussed in many Finance textbooks), given appropriate assumptions.

Section 3: Development of the Underwriting Profit Provision From a Given Weighted Average Cost of Capital

Underwriting profit is defined in *Actuarial Standards of Practice, No. 30* as “Premiums less losses, loss adjustment expenses, underwriting expenses, and policyholder dividends.”¹¹ Thus, a provision for underwriting profit is a portion of the actuarially developed rate, and is often expressed as a percentage of the rate.¹² The underwriting profit provision is an estimate of future profits; because actual losses and expenses can differ from those expected, the actual realized underwriting profit may not equal the target profit provision.

In the past, development of the underwriting profit provision for insurance companies was a task that involved no underlying theory, but rather constituted the simple task of selecting a round number. From 1921 until the 1960's, a 5% underwriting profit provision was used for most lines.¹³ This approach, however, was not based on financial theory and neglected investment income and income taxes. As pricing techniques have become more sophisticated in the incorporation of financial theory, the development of the underwriting profit provision has become more complicated and increasingly important. Allstate's method of determining the appropriate underwriting profit provision, which is described in detail in this paper, involves determining the *total* profit needed to meet the demand of investors and subtracting out the profit received from investment income to arrive at the underwriting profit needed from insurance operations and, ultimately, from the premium collected.

Section 1: *The Fair and Reasonable Return* describes the step-by-step process by which the investor's cost of capital was calculated and converted to Allstate Corporation's needed Weighted Average Cost of Capital (WACC). In order to obtain the needed WACC, Allstate must include an appropriate underwriting profit provision in its ratemaking methodology. The development of the appropriate underwriting profit provision is shown below.

¹¹ *Actuarial Standards of Practice, No. 30*; page 2

¹² *Ibid*; page 2

¹³ The notable exception is Workers Compensation, which used a 2.5% profit load (Robbin, 1992)

Appendix 2, Exhibit 1 displays the flow of calculations from a given WACC to the underwriting profit provision; below is a detailed discussion of each step in the process of calculating an underwriting profit provision based on a given WACC. Please see the exhibits attached in Appendix 2 for supporting data used in the calculation of the underwriting profit provision, as catalogued in Appendix 2, Exhibit 1.

Detail Supporting the Underwriting Profit Calculations

Step (1): Weighted Average Cost of Capital

The targeted Weighted Average Cost of Capital (WACC) for the Allstate Corporation is based on the calculated cost of equity to the investor and the cost of debt. The cost of equity is first converted into a return on the book value of equity (ROE), and the ROE is then combined with the cost of debt to get the WACC.

Based on a calculated cost of equity of 12.59%, the required return on equity for the Allstate Corporation is 17.27%. Allstate's after-tax cost of debt is 3.90%. Based on these numbers, Allstate's WACC is 14.49%. Refer to Section 1: *The Fair and Reasonable Return* above for the explanation and calculations underlying these results.

Step (2): Estimated Investment Income on Equity to Total Capital

The equity of an insurance company, while designated for other specific purposes, earns investment income while it is held by the company. The percentage used in the calculations represents the anticipated net investment income and anticipated capital gains, both realized and unrealized, as a ratio to year-end GAAP equity. Henceforth, unless otherwise noted, the term "equity" will refer to the equity of the Allstate Corporation as a whole. Funds raised through the issuing of debt are assumed to have been used for insurance operations and growth opportunities and are not considered available for investment purposes.

Appendix 2, Exhibit 2, Page 1 outlines the procedure that was used to calculate the estimated investment income as a ratio to total capital. Investment income returns are generally calculated on an average-equity basis, thus requiring an adjustment to be relative to year-end equity. This procedure assumes that the difference between the starting equity and the ending equity is the

return on equity, less dividends. The average of the starting equity and the ending equity is then determined, and a ratio of the average equity to the ending equity is calculated and applied to the average equity investment income return. Because the WACC calculations are relative to total capital (equity and debt), the investment income on GAAP equity must be converted to a percentage relative to total capital. This number, found in line (10), is the estimated investment income as a percent of total capital.

This procedure requires four important numbers: the dividend payout ratio, the return on GAAP equity, the investment income on average equity funds, and the ratio of year-end GAAP equity to total capital. The sources of these four inputs are described below.

Dividend Payout Ratio

Appendix 1, Exhibit 5 details the derivation of the dividend payout ratio. In this calculation, stock repurchases are considered with dividends in the total payout. The result of a stock repurchase is to increase the value of each remaining share. Since the market value is unchanged, and the number of shares outstanding has decreased, the value per share increases. Thus, similar to a dividend, the shareholder receives income, despite the fact that total market value and the present value of growth opportunities for the company remain unchanged. The dividend payout ratio is obtained by summing the Total Payout, column (5), and the GAAP Net Income, column (2), and calculating the ratio of these two sums. Because the amount of dividends paid and stock repurchases made in a given year are based on the income earned in the previous year, the GAAP Net Income is lagged by one year in determining the dividend payout ratio. Data from 1996 to 2005 is used to calculate the average, as that is the data available since Allstate became a publicly traded firm in 1995.

Return on GAAP Equity

As mentioned in Step (1) above, the Return on GAAP Equity is calculated to obtain the appropriate cost of equity for the investor. The details of this procedure were outlined above in Section 1: *The Fair and Reasonable Return*.

Investment Income on Average Equity Funds

Appendix 2, Exhibit 2, Page 2 is a summary of the various sources of investment income that, when totaled, equal the estimated investment income rate of return on average equity funds.

Percentages are broken out by source between investment income and capital gains; realized and unrealized capital gains are combined.

The WACC calculated above in Section 1: *The Fair and Reasonable Return* is a return to investors in Allstate Corporation, and the calculation is performed using data from the insurance industry and from Allstate Corporation as a whole. Therefore, income from all components of Allstate Corporation is considered in the determination of the target underwriting profit provision; Property-liability operations, corporate investments, and Allstate Financial are included. Consideration of income from all components of Allstate Corporation recognizes the fact that Allstate Insurance Company need not provide all required income for the corporation. The target underwriting profit provision is thus offset by income produced by other sources.

Appendix 2, Exhibit 2, Page 3 details the calculation of the estimated investment income rate of return on average equity funds for each source of income. Property-liability operations and corporate investments are listed separately. The percentages shown are calculated by taking the ratio of the investment income to the average total asset base. The asset base includes both equity and policyholder supplied funds. It is difficult to calculate separate returns for equity and policyholder supplied funds, therefore the investment income percent for each is assumed to be equal to the investment income percent for the asset base as a whole.

Appendix 2, Exhibit 2, Page 4 shows the inclusion of Allstate Financial income. A 3-year weighted average of the ratio of after-tax Allstate Financial income to the *average total* asset base is used. Allstate Financial income is divided by equity plus policyholder supplied funds to get a percentage that is on the same basis as other sources of income and can be combined with them.

Appendix 2, Exhibit 2, Page 6 details the calculation of the year-end and average total asset base. The calculated asset base is the sum of the equity with bonds at market value, unearned premium reserves, and loss reserves, less premium installments receivable and deferred policy acquisition costs. Premium installments receivable are booked premiums that have not yet been received by the company; deferred policy acquisition costs are an asset that are allowed for accounting and

tax purposes under the Generally Accepted Accounting Principles (GAAP) to be carried forward in order to spread the up-front costs of business acquisition over the tenure of the business being acquired. In both cases, the asset is not something that can be invested by the company and thus is not included in the asset base.

Ratio of GAAP Equity to Total Capital

Appendix 2, Exhibit 2, Page 5 shows the breakdown of total capital between equity and debt.

The ratio of equity to total capital is used to convert investment income on equity to a percentage relative to total capital.

Step (3): After-tax Operating Profit to Total Capital

Actuarial Standards of Practice, No. 30 defines Operating Profit as "The sum of underwriting profit, miscellaneous (non-investment) income from insurance operations, and investment income from insurance operations."¹⁴ Consequently, the amount of income required from insurance operations is reduced by the estimated investment income from equity.

Step (4): Ratio of Premium to Total Capital

The WACC, as discussed in Section 1: *The Fair and Reasonable Return*, is a weighted average of the cost of equity and the cost of debt, and is thus the needed return on total capital.

Therefore, in order to remain mathematically consistent, the ratio of premium to total capital must be used to convert the needed return on total capital to a return on premium. This ratio should not be confused with the commonly quoted premium-to-equity ratio (or "leverage ratio") that often serves as a measure of the relative amount of risk to which capital is exposed. Even a highly-leveraged, riskier company with small amounts of equity can have a ratio of premium to total capital near 1.00.

Also, as mentioned earlier, total capital of Allstate Corporation is used, since the target WACC is that of Allstate Corporation, which was calculated using information from the industry and from Allstate Corporation as a whole. Investors do not invest in select portions of the corporation (such as property or auto lines of business, or Allstate Financial), but rather in the entire entity, and the stock price reflects the present value of growth opportunities of all sources of income.

¹⁴ *Actuarial Standards of Practice, No. 30*, page 2

Thus, to keep the calculations consistent and appropriate, income and capital for the entire corporation are taken into account.

Appendix 2, Exhibit 3 shows the calculation of the ratio of premium to total capital. The last five years have been shown for the sake of comparison; barring an unforeseen large change in capital, the most recent year's ratio is the best estimate of the expected future ratio.

Step (5): Total After-tax Operating Profit to Premium

The after-tax operating profit in Step (3) is expressed as a percentage of total capital; for ratemaking purposes, the operating profit is converted into a percent of premium. Since the operating profit needed is expressed as a percent of *total capital*, but is built into the rates as a percent of *premium*, the percent needs to be adjusted by the ratio of premium to total capital.

For example, if a company had \$1,000 of capital and required a 10% return on capital, or \$100, that it needed from insurance operations, and the company had \$2,000 of premium, then a 5% charge on premium ($\$100/\2000) would be sufficient. Thus, a 10% return on capital would require a $10\% / (\$2,000/\$1,000) = 5\%$ charge on premium.

Step (6): Investment Gain from Policy Cash Flow

Premiums are collected, expenses are incurred, and losses are paid in different time frames.

Generally the differences in cash flow timing work favorably for the insurance company: premiums are collected over a short period of time, while expenses and, more notably, losses are paid out over a longer period of time. This difference in cash inflow and outflow allows the insurer to earn investment income on the premium supplied by the policyholder. Because of this additional income, the amount of income needed from insurance operations through underwriting profit can be reduced.

Allstate uses a discounted cash flow (DCF) method to calculate the impact of cash flow timing differences.¹⁵ This method uses the investment income rate on average equity, discussed previously in Step (2) and shown in Appendix 2, Exhibit 2, Page 2, to calculate a discounted present value of premiums received, and losses and expenses paid. Note that premiums,

¹⁵ DCF is one of the two examples given in *Actuarial Standards of Practice, No. 30* as appropriate methods for recognizing investment income from insurance operations (page 4).

expenses, and losses are all discounted to the *average time that the profit is being earned*, which is the average time that the policies for a given year are in force. For example, for a line of business with 6-month policy terms, a given policy year will have policies in effect from time = 0 to time = 1.5, since policies written on the last day of the year are in effect for 6 months after the end of the year. Thus the average earned time is at time = .75. Similarly, for a line of business with a 12-month policy term, the average earned time would be at time = 1.00.

Step (7): After-tax Underwriting Profit Provision (at Present Value)

As mentioned in Step 6 above, the amount of underwriting income required from insurance operations can be reduced for the investment gains resulting from the timing of policy cash flows. Thus, the investment gains from policy cash flows are subtracted from the total after-tax operating profit to get the after-tax underwriting profit provision.

Step (8): Tax Rate

The standard federal income tax rate for corporations is 35%.

Step (9): Pre-tax Underwriting Profit Provision (at Present Value)

In order to receive the appropriate after-tax underwriting income, a pre-tax underwriting profit provision must be targeted. To calculate this, the after-tax underwriting profit provision is divided by one minus the income tax rate. This is the underwriting profit provision used in the development of the rate level indication.

Appendix 1

The Fair and Reasonable Return

FAMA-FRENCH RISK PREMIA

Monthly Avg until June	Market-Risk Premium*	Small-Stock Premium*	Value-Stock Premium*
1997	8.16%	2.67%	4.74%
1998	8.33%	2.51%	4.80%
1999	8.43%	2.32%	4.51%
2000	8.41%	2.59%	4.11%
2001	8.02%	2.63%	4.69%
2002	7.67%	2.77%	4.91%
2003	7.60%	2.79%	4.74%
2004	7.75%	2.93%	4.79%
2005	7.74%	2.90%	4.91%

All time series commence from July 1926.

*The risk premia have been annualized.

Source: <http://mba.tuck.dartmouth.edu/pages/faculty/ken.french>

PROPERTY/CASUALTY INDUSTRY SEGMENT

Betas

60 Months ending June	Market-Risk Beta	Small-Stock Beta	Value-Stock Beta	Market-Value Coefficient	Book-to-Market Coefficient
		1.903	0.693	-0.216	0.322
1998	1.084		1.011	-0.185	0.271
1999	1.166	1.761	1.149	-0.158	0.454
2000	1.294	1.402	1.328	-0.181	0.316
2001	1.194	1.752	1.126	-0.166	0.252
2002	0.938	1.496	0.846	-0.156	0.135
2003	0.772	1.388	0.675	-0.145	0.211
2004	0.764	1.157	0.597	-0.172	0.257
2005	0.597	1.557			

ALLSTATE CORPORATION
NAICS Code: 524126

Allstate Compustat Data

Report Date	(\$ Million)				Prop/Cas Portion	Log Market Value	Log Book-to-Market
	Market Value	Book Value	Total Sales	Prop/Cas Sales			
Dec-97	538,462.50	\$15,280	\$24,914	\$21,157	84.84%	10.5574	-0.9231
Dec-98	31,588.79	16,953	25,795	21,836	84.65%	10.3606	-0.6224
Dec-99	19,379.84	15,824	24,188	20,112	83.15%	9.8720	-0.2027
Dec-00	31,857.39	17,009	26,791	21,871	81.64%	10.3690	-0.6275
Dec-01	24,029.08	16,519	27,395	22,197	81.03%	10.0870	-0.3748
Dec-02	26,002.34	16,841	28,780	23,361	81.17%	10.1659	-0.4344
Dec-03	30,267.75	20,766	30,129	24,677	81.90%	10.3178	-0.3768
Dec-04	35,490.89	21,684	33,837	28,354	83.80%	10.4770	-0.4927

Source: Standard & Poor's/Compustat

ALLSTATE CORPORATION

Betas

Market Risk Component:

(1) Period	(2) Prop/Cas Market Beta
1999	1.166
2000	1.294
2001	1.194
2002	0.938
2003	0.772
2004	0.764
2005	0.597
3-yr Avg	0.711
5-yr Avg	0.853
Selected	0.711

Size Risk Component:

(3) Period	(4) Prop/Cas Size Beta	(5) Market Value Coefficient	(6) Log Market Value	(7)=(4) + (5)*(6) Size Risk Beta
1999	1.761	-0.185	10.3606	-0.156
2000	1.402	-0.158	9.8720	-0.158
2001	1.752	-0.181	10.3690	-0.125
2002	1.496	-0.166	10.0870	-0.178
2003	1.388	-0.156	10.1659	-0.198
2004	1.157	-0.145	10.3178	-0.339
2005	1.557	-0.172	10.4770	-0.245
3-yr Avg				-0.261
5-yr Avg				-0.217
Selected				-0.261

Value Risk Component:

(8) Period	(9) Prop/Cas Value Beta	(10) Book-to-Mkt Coefficient	(11) Log Book- to-Market	(12)=(9)+(10)*(11) Value Risk Beta
1999	1.011	0.271	-0.6224	0.842
2000	1.149	0.454	-0.2027	1.057
2001	1.328	0.316	-0.6275	1.130
2002	1.126	0.252	-0.3748	1.032
2003	0.846	0.135	-0.4344	0.787
2004	0.675	0.211	-0.3768	0.596
2005	0.597	0.257	-0.4927	0.470
3-yr Avg				0.618
5-yr Avg				0.803

Selected	0.618
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Note: Each time period is a 60-month period ending June in the year shown.

ALLSTATE CORPORATION

Estimated Cost of Equity Capital

Cost of Equity Capital:

	<u>Value</u>
(1) Long-term Average Market Risk Premium:	7.74%
(2) Selected Beta:	0.711
(3) P/C Industry Market Risk Premium:	5.50%
(4) Long-term Size Risk Premium:	2.90%
(5) 5-year Average Size Coefficient:	-0.261
(6) Allstate Size Risk Premium:	-0.76%
(7) Long-term Value Risk Premium:	4.91%
(8) 5-year Average Value Beta:	0.618
(9) Allstate Value Risk Premium:	3.03%
(10) Total Risk Premium:	7.77%
(11) Risk-free Return:	4.82%
(12) Cost of Equity Capital:	12.59%

*The risk-free return is the 28-day Treasury bill rate (secondary market), according to the Bureau of Public Debt, as of July 7, 2006
<http://www.publicdebt.treas.gov/AI/OFBills>

Source

App. 1, Exh. 1
App. 1, Exh. 4, Pg. 1
=(1) * (2)

App. 1, Exh. 1
App. 1, Exh. 4, Pg. 1
=(4) * (5)

App. 1, Exh. 1
App. 1, Exh. 4, Pg. 1
=(7) * (8)

=(3) + (6) + (9)

BPD*

=(10) + (11)

ALLSTATE CORPORATION

Dividend Payout Ratio

(1) Year	(2) Prior Year GAAP Net Income*	(3) Dividends	(4) Stock Repurchases (Net)	(5) = (3)+(4) Total Payout	(6) = (5)/(2) Total Payout Ratio
1997	\$2,075	417	1,277	1,694	0.82
1998	3,105	450	1,400	1,850	0.60
1999	3,294	482	864	1,346	0.41
2000	2,720	506	1,385	1,891	0.70
2001	2,211	547	612	1,159	0.52
2002	1,158	594	383	977	0.84
2003	1,134	648	-48	600	0.53
2004	2,705	779	1,111	1,890	0.70
2005	3,181	846	2,203	3,049	0.96
Total	21,583	5,269	9,187	14,456	0.67

Source: Allstate proxy statements: Consolidated Statements of Operations and Shareholders Equity

*Dividends and Stock Repurchases for a given year are determined based on the previous year's income. Therefore, GAAP Net Income is lagged by one year so that the appropriate ratio is calculated.

ALLSTATE CORPORATION

Historical Market-to-book Ratios

Years	Allstate
Dec-05	1.70
Dec-04	1.62
Dec-03	1.47
Dec-02	1.49
Dec-01	1.40
Dec-00	1.82
Dec-99	1.14
Dec-98	1.83
Dec-97	2.46
Dec-96	1.90
Dec-95	1.45
Dec-94	1.27
Dec-93	1.29
Inception-to-date:	1.60
10-yr Avg:	1.68
Selected:	1.68

Source: MSN Online Reports

<http://moneycentral.msn.com/investor/invsub/results/compare.asp?Page=PriceRatios&Symbol=ALL>

ALLSTATE CORPORATION

Fair Return to the Firm

The relationship between the cost of equity capital and the fair return to the firm is as follows:

$$r_i = \frac{m_{i-1} * k_i}{d + (1 - d) * m_{i-1}}$$

where,

- k = Cost of equity capital =
- d = Dividend payout ratio =
- m = Selected market to book ratio =
- r = Fair return to firm,

Amount	Source
12.59%	App. 1, Exh. 4, Pg. 2
0.67	App. 1, Exh. 5
1.68	App. 1, Exh. 6
17.27%	Calculated

ALLSTATE CORPORATION

Weighted Average Cost of Capital

(1) Pre-tax Cost of Debt (millions)*	318.0
(2) Tax Rate	35%
(3) After-tax Cost of Debt (millions) $(=(1)*(1-(2)))$	206.7
(4) Book Value of Debt (millions)**	5,300
(5) Cost of Debt $(=(3)/(4))$	3.90%
(6) Book Value of Equity (millions)***	20,186
(7) Return on Equity (from App. 1, Exh. 7)	17.27%
(8) Total Capital $(=(4)+(6))$	25,486
(9) Weighted Average Cost of Capital $(= [(4)*(5)+(6)*(7)]/(8))$	14.49%

Source: Allstate Corporation 2005 Annual Report

*Page 151: Notes on Debt Outstanding

**Page 149: Total Debt Outstanding

***Page 1: "Total Shareholders' Equity"

Appendix 2

Development of the Underwriting Profit Provision
From a Given Weighted Average Cost of Capital

ALLSTATE INSURANCE GROUP

Arkansas
Homeowners

Development of the Underwriting Profit
Provision from a Given Weighted Average Cost of Capital

	Value	Source
(1) Weighted Average Cost of Capital	14.49%	App. 1, Exh. 8
(2) Estimated Investment Income on Equity to Total Capital**	3.68%	App. 2, Exh. 2, Pg. 1
(3) After-tax Operating Profit to Total Capital**	10.81%	=(1) - (2)
(4) Ratio of Premium to Total Capital**	1.06	App. 2, Exh. 3
(5) After-tax Operating Profit to Premium	10.20%	=(3)/(4)
(6) Investment Gain from Policy Cash Flow	2.29%	App. 2, Exh. 4
(7) After-tax Underwriting Profit Provision (at Present Value)	7.91%	=(5) - (6)
(8) Tax Rate	35%	FIT*
(9) Pre-tax Underwriting Profit Provision (at Present Value)	12.17%	=(7)/[1-(8)]

*This is the standard federal income tax rate for corporations

**Total Capital = Equity + Debt

ALLSTATE INSURANCE GROUP

Calculation of Investment Income on Equity to Total Capital

	Amount	Source
(1) Dividend Payout Ratio	67%	App. 1, Exh. 5
(2) Return on GAAP Equity	17.27%	App. 1, Exh. 7
(3) Beginning of Year Equity to Beginning of Year Equity	100%	Given
(4) Portion of Return on GAAP Equity Paid Out in Dividends	11.57%	=(1)*(2)
(5) End of Year Equity to Beginning of Year Equity	105.7%	=(3) + [(2)-(4)]
(6) Avg Equity	102.9%	=[(3)+(5)]/2
(7) Investment Income on Average Equity Funds	4.52%	App. 2, Exh. 2, Pg. 2
(8) Investment Income on Average Equity Funds to Beginning of Year Equity	4.65%	=(6)*(7)
(9) Ratio GAAP equity to total capital	79.20%	App. 2, Exh. 2, Pg. 5
<u>(10) Investment income on equity as a percent of total capital</u>	<u>3.68%</u>	=(8)*(9)

*The Fair and Reasonable Return paper

ALLSTATE INSURANCE GROUP

Projected After-tax Net Rate of Return to Average Asset Base

<u>Source</u>	<u>After Tax Rate of Return</u>	<u>Source</u>
Net Capital Gains	0.43%	
P/L Operations	0.43%	App. 2, Exh. 2, Pg. 3
Corporate	0.00%	App. 2, Exh. 2, Pg. 3
Net Investment Income	4.09%	
P/L Operations	3.13%	App. 2, Exh. 2, Pg. 3
Corporate	0.21%	App. 2, Exh. 2, Pg. 3
Income from Allstate Financial	0.75%	App. 2, Exh. 2, Pg. 4
<u>Total</u>	4.52%	

ALLSTATE INSURANCE GROUP

Investment Income Projections

(\$ In Thousands)

	Annualized Investment Plan Return on Average Invested Assets* (1)	2005 Average Asset Base (2)	Percent Return On Asset Base (3)=(1)*(2)
Property-Liability Operations			
After-tax investment income net of investment expense	1,420,684		3.13%
After-tax capital gains, realized & unrealized	194,639		0.43%
Total	1,615,324	45,405	3.56%
Corporate Investments			
After-tax investment income net of investment expense	93,458		0.21%
After-tax capital gains, realized & unrealized	(676)		0.00%
Total	92,781	45,405	0.20%

*From Investment Department, 2006 forecast

ALLSTATE INSURANCE GROUP

After-tax Allstate Financial Income to Average Asset Base

(\$ In Millions)

(1) <u>Year</u>	(2) <u>Average Asset Base*</u>	(3) After-tax Allstate Financial <u>Income**</u>	(4) <u>(3) / (2)</u>
2003	\$39,569.4	\$305	0.77%
2004	\$43,195.2	\$246	0.57%
2005	\$45,404.7	\$416	0.92%
Total	\$128,169.2	\$967	0.75%

* Asset Base = Average Equity (Market Basis) plus Loss and Unearned Premium Reserves
 minus Premium Installment Receivables minus Deferred Policy Acquisition Costs

** The Allstate Corporation 2005 Annual Statement

ALLSTATE INSURANCE GROUP

Total Capital

(\$ In Millions)

	2005	% of Total Capital
(1) GAAP Equity*	\$20,186	79.20%
(2) Debt**	\$5,300	20.80%
(3) Total Capital [(1)+(2)]	\$25,486	100.00%

Source: Allstate Corporation 2005 Annual Report

*Page 72: "Total Shareholders' Equity"

**Page 137: Debt Outstanding

ALLSTATE INSURANCE GROUP

Asset Base
1991-2005

(\$ In Millions)

(1) Year	(2) Equity with Bonds at Market Value	(3) Unearned Premium Reserves	(4) Loss Reserves	(5) Premium Installments Receivable	(6) Deferred Policy Acquisition Costs	(7) (2)+(3)+(4)- (5)-(6)	(8) [prior year(7) +(7)]/2 Average Asset Base with Bonds at Market Value
1991	\$9,384.3	\$5,085.8	\$12,426.3	\$1,761.7	\$465.8	\$24,668.9	\$24,640.7
1992	\$7,821.3	\$5,326.5	\$13,808.4	\$1,846.1	\$497.5	\$24,612.6	\$26,919.7
1993	\$10,299.7	\$5,695.8	\$15,682.9	\$1,948.5	\$503.1	\$29,226.8	\$28,801.6
1994	\$8,426.0	\$5,863.4	\$16,933.4	\$2,298.0	\$548.5	\$28,376.3	\$30,688.6
1995	\$12,680.0	\$6,130.2	\$17,687.2	\$2,892.2	\$604.4	\$33,000.8	\$33,229.6
1996	\$13,452.0	\$6,071.9	\$17,381.9	\$2,671.0	\$776.5	\$33,458.3	\$34,429.0
1997	\$15,610.0	\$6,168.6	\$17,403.3	\$2,938.3	\$843.9	\$35,399.8	\$35,962.0
1998	\$17,240.0	\$6,377.5	\$16,880.5	\$3,058.1	\$915.6	\$36,524.3	\$36,777.4
1999	\$16,600.6	\$7,606.9	\$17,814.0	\$3,858.6	\$1,132.3	\$37,030.6	\$37,033.9
2000	\$17,451.3	\$7,553.1	\$16,858.7	\$3,725.6	\$1,100.2	\$37,037.2	\$36,818.6
2001	\$17,195.8	\$7,931.4	\$16,499.9	\$3,892.1	\$1,135.0	\$36,600.1	\$37,019.5
2002	\$17,438.4	\$8,483.2	\$16,690.4	\$3,993.0	\$1,180.1	\$37,438.9	\$39,569.4
2003	\$20,565.4	\$9,048.9	\$17,713.8	\$4,302.8	\$1,325.5	\$44,690.5	\$43,195.2
2004	\$21,823.0	\$9,624.3	\$19,337.7	\$4,635.0	\$1,459.5	\$46,118.9	\$45,404.7
2005	\$20,186.0	\$9,978.2	\$22,116.6	\$4,678.3	\$1,483.6		

* Bonds categorized as "Available for sale" are shown at market value

Note: Market value includes an adjustment for federal income taxes.

From the Allstate Corporation and Subsidiary Combining Statement of Financial Position: 12/31/05

ALLSTATE INSURANCE GROUP

Ratio of Premium to Total Capital

(\$ In Millions)

<u>Year</u>	<u>Earned Premium</u>	<u>GAAP Equity</u>	<u>Debt</u>	<u>Total Capital*</u>	<u>Premium to Total Capital Ratio</u>
2001	\$22,197	\$17,195.8	\$3,921.0	\$21,116.8	1.05
2002	\$23,361	\$17,438.4	\$4,240.0	\$21,678.4	1.08
2003	\$24,677	\$20,565.4	\$5,076.0	\$25,641.4	0.96
2004	\$25,989	\$21,823.0	\$5,334.0	\$27,157.0	0.96
2005	\$27,039	\$20,186.0	\$5,300.0	\$25,486.0	1.06
	Latest Year	1.06			

*Total Capital = GAAP Equity + Debt

Sources: The Allstate Corporation 2005 Annual Report

ALLSTATE INSURANCE COMPANY
HOMEOWNERS

Arkansas - 2005

Calculation of Present Value, as of the Average Earning Date
of a Policy year, of all Income and Outgo @ 4.52%
force of interest, assuming an Operating Profit of 10.20%
and twelve-month Policy Terms

<u>Years From Start of Policy Year</u>	<u>Arkansas Cumulative Percent of Losses Paid</u>	<u>Arkansas Yearly Percent of Losses Paid</u>	<u>Time from Start of Policy Year</u>	<u>Discounted * to avg time of profit @ 4.52%</u>	<u>Discounted Payments</u>
1	35.1%	35.1%	0.70	1.0137	35.58%
2	94.9%	59.8%	1.50	0.9777	58.47%
3	99.8%	4.9%	2.30	0.9429	4.62%
4	100.0%	0.2%	3.40	0.8972	0.18%
5	99.7%	-0.3%	4.40	0.8575	-0.26%
Subsequent	100.0%	0.3%	6.70	0.7729	0.23%
Total		100.0%			98.82%
Expected Losses and Loss Expense Ratio					62.93%
Present Value of Loss and Loss Expense Payments					62.19%
Taxes		3.10%	0.74	1.0118	3.14%
Commissions		13.50%	0.58	1.0192	13.76%
Other Acquisition		4.40%	0.63	1.0169	4.47%
General Expense		3.90%	0.75	1.0114	3.94%
Profit		12.17%	1.00	1.0000	12.17%
Total Present Value of Outgo					99.67%
Premiums		100.0%	0.57	1.0196	101.96%
Difference, Present Value of Income Less Present Value of Outgo					2.29%

*exp (0.0452 x (timing of profit being earned - timing of cash flow))

ARKANSAS INSURANCE DEPARTMENT

FORM H-1 HOMEOWNERS ABSTRACT

INSTRUCTIONS: All questions must be answered. If the answer is "none" or "not applicable", so state. If all questions are not answered, the filing will not be accepted for review by the Department. Use a separate abstract for each company if filing for a group. Subsequent homeowners rate/rule submissions that do not alter the information contained herein need not include this form.

Company Name	Allstate Property & Casualty Insurance Company
NAIC # (including group #)	008-17230

1. If you have had an insurance to value campaign during the experience filing period, describe the campaign and estimate its impact.
Not applicable

2. If you use a cost estimator (or some similar method) in order to make sure that dwellings (or contents) are insured at their value, state when this program was started in Arkansas and estimate its impact.
Allstate Property and Casualty Insurance Company will be using RCT, a Marshall & Swift Boeckh Product. RCT is not used to make sure that dwellings are insured at their value. Rather, Allstate Property and Casualty Insurance Company uses the RCT tool to develop an estimate of the minimum amount for which Allstate Property and Casualty Insurance Company will insure a property.

3. If you require a minimum relationship between the amount of insurance to be written and the replacement value of the dwelling (contents) in order to purchase insurance, describe the procedures that are used.
At the point of sale, it is required that the cost estimator be completed. The new business processing application will require the agency to select a Coverage A limit equal to or greater than the RCT generated estimate.

4. If you use an Inflation Guard form or similar type of coverage, describe the coverage(s) and estimate the impact.
Allstate's policy contains the Property Insurance Adjustment language. It allows for an adjustment to a policy's Coverage A limit at renewal when there has been a change in the estimated cost to replace a customer's home.

5. Specify the percentage given for credit or discounts for the following:

a. Fire Extinguisher	3 %
b. Burglar Alarm	0 %
c. Smoke Alarm	3 %
d. Insured who has both homeowners and auto with your company	20 %
e. Deadbolt Locks	3 %
f. Window or Door Locks	0 %
g. Other (specify)	%
Complete Central Burglar Alarm	3 %
Complete Central Fire Alarm	4 %

6. Are there any areas in the State of Arkansas In which your company will not write homeowners insurance? If so, state the areas and explain reason for not writing.
No

7. Specify the form(s) utilized in writing homeowners insurance. Indicate the Arkansas premium volume for each form.

Form	Premium Volume
Homeowners	\$12,369,825

8. Do you write homeowner risks which have aluminium, steel or vinyl siding? Yes No
9. Is there a surcharge on risks with wood heat? No
- If yes, state the surcharge Not applicable
- Does the surcharge apply to conventional fire places? Not applicable
- If yes, state the surcharge Not applicable

THE INFORMATION PROVIDED IS CORRECT TO THE BEST OF MY KNOWLEDGE AND BELIEF.



Signature

Carrie M. Deppe

Printed Name

Assistant State Filings Manager

Title

847-402-2774 Ext. 22774

Telephone Number

cdepp@allstate.com

Email address

**Arkansas
Department of Insurance Objections**

July 11, 2007

Objection #1)

The After-Tax Operating Profit used in the determination of the average indicated reinsurance charge and permissible loss ratio has approximately doubled from that of the previous filing and appears excessive. Explain and provide the pre-tax provision amount.

Response #1)

The after-tax operating profit is comparable to the after-tax operating profit originally filed by Allstate in the previous filing. At the time of the previous filing Allstate came to an agreement with the Arkansas Department of Insurance to lower the after-tax operating profit. With this filing, we are including the after-tax operating profit necessary to achieve the appropriate return to Allstate. Please see **Attachment IV** in the document titled Support_R17860 for the development of the after-tax operating profit as well as the pre-tax provision amount.

Objection #2)

Have the LA and MS hurricane catastrophes been excluded for the cat provision?

Response #2)

Yes, the LA and MS hurricane catastrophes are excluded for the development of the catastrophe provision.

Objection #3)

It appears that Allstate P&C data was only used in the calculation of the cat ratio. Please explain why the P&C company information for Arkansas was no included in other calculations.

Response #3)

Allstate Property and Casualty Insurance Company opened on October 3, 2005. At the time of this indication, only one year of data was available. Due to the limited amount of data in Allstate Property and Casualty an indication based on AP&C data was not completed. Instead, the selected Allstate Property and Casualty rate level change is based on the Allstate Indemnity Company indication. Allstate believes that the Allstate Indemnity Company data is predictive of the Allstate Property and Casualty Insurance Company experience.

Objection #4)

NAIC Loss Cost Filing Document for Other than Workers' Comp: Policy count and premium information are blank. The PCTD contradicts this. Please revise.

Response #4)

The NAIC Loss Cost Data Filing Document has been updated to include the policy count and premium information associated with this proposed change. There is no previous rate change history in Allstate Property and Casualty Insurance Company.

NAIC LOSS COST DATA ENTRY DOCUMENT

1.	This filing transmittal is part of Company Tracking #	R17860
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2.	If filing is an adoption of an advisory organization loss cost filing, give name of Advisory Organization and Reference/ Item Filing Number
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Company Name		Company NAIC Number		
3.	A.	Allstate Property and Casualty Insurance Company	B.	17230

Product Coding Matrix Line of Business (i.e., Type of Insurance)		Product Coding Matrix Line of Insurance (i.e., Sub-type of Insurance)	
4.	A.	Owners	B.

5.

(A) COVERAGE (See Instructions)	(B) Indicated Rate Level Change	(C) Requested Rate Level Change	FOR LOSS COSTS ONLY			
			(D) Expected Loss Ratio	(E) Loss Cost Modification Factor	(F) Selected Loss Cost Multiplier	(G) Expense Constant (If Applicable)
Homeowners	42.4%	9.2%				
TOTAL OVERALL EFFECT						

6. 5 Year History Rate Change History

Year	Policy Count	% of Change	Effective Date	State Earned Premium (000)	Incurred Losses (000)	State Loss Ratio	Countrywide Loss Ratio
2007	17,531	9.2%	8/06/07	\$12,370			

7.

Expense Constants	Selected Provisions
A. Other Acquisition	4.4%
B. General Expense	3.9%
C. Taxes, License & Fees	3.1%
D. Underwriting Profit	13.2%
E. Commissions	13.5%
F. TOTAL	38.1%

- 8.** _____ Apply Lost Cost Factors to Future filings? (Y or N)
- 9.** _____ Estimated Maximum Rate Increase for any Insured (%). Territory (if applicable): _____ 19.9% _____
- 10.** _____ Estimated Maximum Rate Decrease for any Insured (%) Territory (if applicable): _____

**ALLSTATE PROPERTY AND CASUALTY INSURANCE COMPANY
OWNERS
ARKANSAS**

RESPONSE TO DOI OBJECTION

OBJECTION:

Our previous position remains unchanged. The provision results in excessive rates and will be disapproved if not reduced. In accordance with Regulation 23, Section 7.A., this filing may not be implemented until 20 days after the requested amendment(s) and/or information is received.

Regarding the distinct charge for the net cost of reinsurance, in order to expedite the approval of filing R17860, Allstate has selected a reinsurance rate adjustment factor of 0.900. This selection is consistent with the reinsurance rate adjustment factor developed using an after-tax underwriting profit of 5% (7.7% pre-tax), which is the profit requested by the Arkansas Department of Insurance last year with regard to Allstate filing R17479. The development of the net cost of reinsurance using a 5% after-tax underwriting profit provision is shown on Exhibit 1.

Regarding the rate level change, the selected rate level change remains 9.2%. This selection is based on the indicated rate level change of 42.4% and was selected to mitigate customer impacts. The selection of 9.2% results in an after-tax underwriting loss of -5.9% (-9.1% pre-tax) to Allstate.

The target effective date for new business has been revised to September 3, 2007 and the target effective date for renewal business has been revised to October 18, 2007.

**ALLSTATE INSURANCE GROUP
OWNERS
ARKANSAS
DETERMINATION OF THE AVERAGE REINSURANCE CHARGE**

	Indicated Average Reinsurance <u>Charge</u>	Average Reinsurance Charge Using 5% After-Tax Underwriting <u>Profit Provision</u>	<u>Selected</u>
1. Reinsurance Premium	\$344,048	\$344,048	
2. Loss Savings Due to Reinsurance	\$31,931	\$31,931	
3. Net Cost of Reinsurance	\$312,117	\$312,117	
4. 2007 Reinsurance Expense Provision per 2006 AIY* Distributions	0.044	0.044	
5. Commissions, Taxes, and Profit Ratio	28.8%	24.3%**	
6. Reinsurance Charge Per AIY (4) / [1 - (5)]	0.062	0.058	
7. Allstate's Expected Recovery of the Net Cost of Reinsurance	\$458,262	\$458,262	
8. Reinsurance Rate Adjustment Factor [(3) / (1 - (5))] / (7)	0.957	0.900	0.900

* 1 AIY = One Amount of Insurance Year
= \$1000 of Coverage in Force for One Year

** Commissions Provision: 13.5%
Taxes, Licenses, and Fees: 3.1%
Pre-tax Underwriting Profit: 7.7%

Superseded Attachments

Please note that all items on the following pages are items, which have been replaced by a newer version. The newest version is located with the appropriate schedule on previous pages. These items are in date order with most recent first.

Original Date:	Schedule	Document Name	Replaced Date	Attach Document
No original date	Rate and Rule	CheckingListR17860	06-28-2007	R17860.PDF
No original date	Rate and Rule	ManualR17860	06-28-2007	R17860.PDF

CHECKING LIST FOR HOMEOWNERS

Printing dates are shown on each page to facilitate identification of different editions, but have no direct connection with the effective date of the page.

RATE FACTOR

Enclosed: Page RFP-2 dated 7-1-2007
Page RFP-4 dated 7-1-2007
Page RFP-5 dated 7-1-2007
Page RFP-6 dated 7-1-2007
Page RFP-7 dated 7-1-2007
Page RFP-14 dated 7-1-2007

Withdrawn: Page RFP-2 dated 7-1-2007
Page RFP-4 dated 7-1-2007
Page RFP-5 dated 7-1-2007
Page RFP-6 dated 7-1-2007
Page RFP-7 dated 7-1-2007
Page RFP-14 dated 7-1-2007

**ARKANSAS
HOMEOWNERS
RATE FACTOR PAGES**

**Order in
Calculation**

IC Town Class Factor:

<u>T/C Group</u>	<u>Town Class</u>	<u>Construction</u>	
		<u>Brick</u>	<u>Frame</u>
1	1	0.83	1.00
	2	0.90	1.01
	3	0.91	1.01
	4	0.92	1.03
	5	0.92	1.08
	6	0.93	1.12
	7	0.99	1.22
	8	1.02	1.31
	9	1.11	1.32
	10	1.16	1.35

**ARKANSAS
HOMEOWNERS
RATE FACTOR PAGES**

**Order in
Calculation**

2 Rate Adjustment Factor:

Factor: 1.066

3 Claim Rating Factor:

Rating Groups 1-3
of Chargeable Claims in the past 3 years

			Group A					
			0	1	2	3	4	5
Total Group B and C	# of C	# of B						
0	0	0	0.400	0.540	0.745	1.028	1.419	1.850
1	0	1	0.400	0.540	0.745	1.028	1.419	1.850
1	1	0	0.440	0.594	0.820	1.131	1.561	1.850
2	0	2	0.400	0.540	0.745	1.028	1.419	1.850
2	1	1	0.440	0.594	0.820	1.131	1.561	1.850
2	2	0	0.524	0.707	0.975	1.346	1.850	1.850

Each Additional Chargeable Group A Claim - apply factor of 1.380 to the claim rating factor. The overall Claim Rating Factor shall not exceed 1.85.
 Each Additional Chargeable Group B Claim - apply factor of 1.000 to the claim rating factor. The overall Claim Rating Factor shall not exceed 1.85.
 Each Additional Chargeable Group C Claim - apply factor of 1.190 to the claim rating factor. The overall Claim Rating Factor shall not exceed 1.85.

Rating Groups 4-6
of Chargeable Claims in the past 3 years

			Group A					
			0	1	2	3	4	5
Total Group B and C	# of C	# of B						
0	0	0	0.460	0.621	0.857	1.183	1.632	1.850
1	0	1	0.460	0.621	0.857	1.183	1.632	1.850
1	1	0	0.506	0.683	0.943	1.301	1.795	1.850
2	0	2	0.460	0.621	0.857	1.183	1.632	1.850
2	1	1	0.506	0.683	0.943	1.301	1.795	1.850
2	2	0	0.602	0.813	1.122	1.548	1.850	1.850

Each Additional Chargeable Group A Claim - apply factor of 1.380 to the claim rating factor. The overall Claim Rating Factor shall not exceed 1.85.
 Each Additional Chargeable Group B Claim - apply factor of 1.000 to the claim rating factor. The overall Claim Rating Factor shall not exceed 1.85.
 Each Additional Chargeable Group C Claim - apply factor of 1.190 to the claim rating factor. The overall Claim Rating Factor shall not exceed 1.85.

Rating Groups 7-9
of Chargeable Claims in the past 3 years

			Group A					
			0	1	2	3	4	5
Total Group B and C	# of C	# of B						
0	0	0	0.490	0.662	0.913	1.260	1.738	1.850
1	0	1	0.490	0.662	0.913	1.260	1.738	1.850
1	1	0	0.539	0.728	1.004	1.386	1.850	1.850
2	0	2	0.490	0.662	0.913	1.260	1.738	1.850
2	1	1	0.539	0.728	1.004	1.386	1.850	1.850
2	2	0	0.641	0.866	1.195	1.649	1.850	1.850

Each Additional Chargeable Group A Claim - apply factor of 1.380 to the claim rating factor. The overall Claim Rating Factor shall not exceed 1.85.
 Each Additional Chargeable Group B Claim - apply factor of 1.000 to the claim rating factor. The overall Claim Rating Factor shall not exceed 1.85.
 Each Additional Chargeable Group C Claim - apply factor of 1.190 to the claim rating factor. The overall Claim Rating Factor shall not exceed 1.85.

**ARKANSAS
HOMEOWNERS
RATE FACTOR PAGES**

Order in
Calculation

3 cont. Claim Rating Factor:

Rating Groups 10-12

of Chargeable Claims in the past 3 years

			Group A					
			0	1	2	3	4	5
Total Group B and C	# of C	# of B						
0	0	0	0.540	0.729	1.006	1.388	1.850	1.850
1	0	1	0.540	0.729	1.006	1.388	1.850	1.850
1	1	0	0.594	0.802	1.107	1.527	1.850	1.850
2	0	2	0.540	0.729	1.006	1.388	1.850	1.850
2	1	1	0.594	0.802	1.107	1.527	1.850	1.850
2	2	0	0.707	0.954	1.317	1.817	1.850	1.850

Each Additional Chargeable Group A Claim - apply factor of 1.380 to the claim rating factor. The overall Claim Rating Factor shall not exceed 1.85.
 Each Additional Chargeable Group B Claim - apply factor of 1.000 to the claim rating factor. The overall Claim Rating Factor shall not exceed 1.85.
 Each Additional Chargeable Group C Claim - apply factor of 1.190 to the claim rating factor. The overall Claim Rating Factor shall not exceed 1.85.

Rating Groups 13-15

of Chargeable Claims in the past 3 years

			Group A					
			0	1	2	3	4	5
Total Group B and C	# of C	# of B						
0	0	0	0.600	0.810	1.118	1.543	1.850	1.850
1	0	1	0.600	0.810	1.118	1.543	1.850	1.850
1	1	0	0.660	0.891	1.230	1.697	1.850	1.850
2	0	2	0.600	0.810	1.118	1.543	1.850	1.850
2	1	1	0.660	0.891	1.230	1.697	1.850	1.850
2	2	0	0.785	1.060	1.463	1.850	1.850	1.850

Each Additional Chargeable Group A Claim - apply factor of 1.380 to the claim rating factor. The overall Claim Rating Factor shall not exceed 1.85.
 Each Additional Chargeable Group B Claim - apply factor of 1.000 to the claim rating factor. The overall Claim Rating Factor shall not exceed 1.85.
 Each Additional Chargeable Group C Claim - apply factor of 1.190 to the claim rating factor. The overall Claim Rating Factor shall not exceed 1.85.

Rating Groups 16-18

of Chargeable Claims in the past 3 years

			Group A					
			0	1	2	3	4	5
Total Group B and C	# of C	# of B						
0	0	0	0.650	0.878	1.211	1.671	1.850	1.850
1	0	1	0.650	0.878	1.211	1.671	1.850	1.850
1	1	0	0.715	0.965	1.332	1.838	1.850	1.850
2	0	2	0.650	0.878	1.211	1.671	1.850	1.850
2	1	1	0.715	0.965	1.332	1.838	1.850	1.850
2	2	0	0.851	1.149	1.585	1.850	1.850	1.850

Each Additional Chargeable Group A Claim - apply factor of 1.380 to the claim rating factor. The overall Claim Rating Factor shall not exceed 1.85.
 Each Additional Chargeable Group B Claim - apply factor of 1.000 to the claim rating factor. The overall Claim Rating Factor shall not exceed 1.85.
 Each Additional Chargeable Group C Claim - apply factor of 1.190 to the claim rating factor. The overall Claim Rating Factor shall not exceed 1.85.

**ARKANSAS
HOMEOWNERS
RATE FACTOR PAGES**

Order in
Calculation

3 cont. Claim Rating Factor:

Rating Groups 19-21

of Chargeable Claims in the past 3 years

Total Group B and C	# of C	# of B	Group A					
			0	1	2	3	4	5
0	0	0	0.730	0.986	1.360	1.850	1.850	1.850
1	0	1	0.730	0.986	1.360	1.850	1.850	1.850
1	1	0	0.803	1.084	1.496	1.850	1.850	1.850
2	0	2	0.730	0.986	1.360	1.850	1.850	1.850
2	1	1	0.803	1.084	1.496	1.850	1.850	1.850
2	2	0	0.956	1.290	1.780	1.850	1.850	1.850

Each Additional Chargeable Group A Claim - apply factor of 1.380 to the claim rating factor. The overall Claim Rating Factor shall not exceed 1.85.
 Each Additional Chargeable Group B Claim - apply factor of 1.000 to the claim rating factor. The overall Claim Rating Factor shall not exceed 1.85.
 Each Additional Chargeable Group C Claim - apply factor of 1.190 to the claim rating factor. The overall Claim Rating Factor shall not exceed 1.85.

Rating Groups 22-24

of Chargeable Claims in the past 3 years

Total Group B and C	# of C	# of B	Group A					
			0	1	2	3	4	5
0	0	0	0.820	1.107	1.528	1.850	1.850	1.850
1	0	1	0.820	1.107	1.528	1.850	1.850	1.850
1	1	0	0.902	1.218	1.680	1.850	1.850	1.850
2	0	2	0.820	1.107	1.528	1.850	1.850	1.850
2	1	1	0.902	1.218	1.680	1.850	1.850	1.850
2	2	0	1.073	1.449	1.850	1.850	1.850	1.850

Each Additional Chargeable Group A Claim - apply factor of 1.380 to the claim rating factor. The overall Claim Rating Factor shall not exceed 1.85.
 Each Additional Chargeable Group B Claim - apply factor of 1.000 to the claim rating factor. The overall Claim Rating Factor shall not exceed 1.85.
 Each Additional Chargeable Group C Claim - apply factor of 1.190 to the claim rating factor. The overall Claim Rating Factor shall not exceed 1.85.

Rating Groups 25-27

of Chargeable Claims in the past 3 years

Total Group B and C	# of C	# of B	Group A					
			0	1	2	3	4	5
0	0	0	0.880	1.188	1.639	1.850	1.850	1.850
1	0	1	0.880	1.188	1.639	1.850	1.850	1.850
1	1	0	0.968	1.307	1.803	1.850	1.850	1.850
2	0	2	0.880	1.188	1.639	1.850	1.850	1.850
2	1	1	0.968	1.307	1.803	1.850	1.850	1.850
2	2	0	1.152	1.555	1.850	1.850	1.850	1.850

Each Additional Chargeable Group A Claim - apply factor of 1.380 to the claim rating factor. The overall Claim Rating Factor shall not exceed 1.85.
 Each Additional Chargeable Group B Claim - apply factor of 1.000 to the claim rating factor. The overall Claim Rating Factor shall not exceed 1.85.
 Each Additional Chargeable Group C Claim - apply factor of 1.190 to the claim rating factor. The overall Claim Rating Factor shall not exceed 1.85.

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3 cont. Claim Rating Factor:

Rating Groups 28-30

of Chargeable Claims in the past 3 years

Total Group B and C	# of C	# of B	Group A					
			0	1	2	3	4	5
0	0	0	1.000	1.350	1.850	1.850	1.850	1.850
1	0	1	1.000	1.350	1.850	1.850	1.850	1.850
1	1	0	1.100	1.485	1.850	1.850	1.850	1.850
2	0	2	1.000	1.350	1.850	1.850	1.850	1.850
2	1	1	1.100	1.485	1.850	1.850	1.850	1.850
2	2	0	1.309	1.767	1.850	1.850	1.850	1.850

Each Additional Chargeable Group A Claim - apply factor of 1.380 to the claim rating factor. The overall Claim Rating Factor shall not exceed 1.85.

Each Additional Chargeable Group B Claim - apply factor of 1.000 to the claim rating factor. The overall Claim Rating Factor shall not exceed 1.85.

Each Additional Chargeable Group C Claim - apply factor of 1.190 to the claim rating factor. The overall Claim Rating Factor shall not exceed 1.85.

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23 Reinsurance Charge

BASE REINSURANCE FIRE FOLLOWING CHARGE*:

0.054

*Charge is per \$1000 of Coverage A Limit

REINSURANCE LIMIT FACTORS

COVERAGE A	FACTOR
10,000	10
11,000	11
12,000	12
13,000	13
14,000	14
15,000	15
16,000	16
17,000	17
18,000	18
19,000	19
20,000	20
25,000	25
30,000	30
35,000	35
40,000	40
45,000	45
50,000	50
55,000	55
57,000	57
58,000	58
59,000	59
60,000	60
61,000	61
63,000	63
65,000	65
66,000	66

COVERAGE A	FACTOR
68,000	68
69,000	69
70,000	70
71,000	71
72,000	72
73,000	73
74,000	74
75,000	75
80,000	80
85,000	85
90,000	90
95,000	95
100,000	100
110,000	110
120,000	120
130,000	130
140,000	140
150,000	150
170,000	170
180,000	180
190,000	190
200,000	200
225,000	225
275,000	275
325,000	325
Each Additional 1,000	1

Step #		Select	
		Homeowners	Homeowners
1	Base Reinsurance Charge		
2	Rate Adjustment Factor (Round to 3 decimals)	x 0.957	x 0.957
3	Reinsurance Limit Factor (Penny Round)	x	x
4	Reinsurance Charge for Fire Following		