

SERFF Tracking Number: FARM-125408913 State: Arkansas  
First Filing Company: Farmers Insurance Company, Inc., ... State Tracking Number: # 2558 # 3010677078 \$100 EACH  
Company Tracking Number: HAR0796-107760, HAR0796-207760  
TOI: 05.0 Commercial Multi-Peril - Liability & Non- Sub-TOI: 05.0000 CMP Sub-TOI Combinations  
Liability  
Product Name: H-AR-2007-ML-F  
Project Name/Number: Landlord Protector/F-07-AR1

## Filing at a Glance

Companies: Farmers Insurance Company, Inc., Farmers Insurance Exchange  
Product Name: H-AR-2007-ML-F SERFF Tr Num: FARM-125408913 State: Arkansas  
TOI: 05.0 Commercial Multi-Peril - Liability & Non-Liability SERFF Status: Closed State Tr Num: # 2558 # 3010677078 \$100 EACH  
Sub-TOI: 05.0000 CMP Sub-TOI Combinations Co Tr Num: HAR0796-107760, HAR0796-207760 State Status: Fees verified and received  
Filing Type: Rate/Rule Co Status: Reviewer(s): Becky Harrington, Betty Montesi, Brittany Yielding  
Disposition Date: 01/30/2008  
Authors: Anahit Bekarian, Tina Campbell, Jeanette Campion, Gayane Rupchian, Mina Villegas, Chris SalvaCruz, Edmond Balaian, Karen Lacy  
Date Submitted: 12/31/2007 Disposition Status: Filed  
Effective Date Requested (New): 04/16/2008 Effective Date (New): 04/16/2008  
Effective Date Requested (Renewal): 04/16/2008 Effective Date (Renewal): 04/16/2008

State Filing Description:  
two checks \$100 each  
numbers 2558 and 3010677078

## General Information

Project Name: Landlord Protector Status of Filing in Domicile: Authorized  
Project Number: F-07-AR1 Domicile Status Comments:  
Reference Organization: Reference Number:  
Reference Title: Advisory Org. Circular:  
Filing Status Changed: 01/30/2008  
State Status Changed: 01/14/2008 Deemer Date:  
Corresponding Filing Tracking Number:

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**Filing Description:**

Cover letter is attached as separate item in Supporting Document header

**Company and Contact**

**Filing Contact Information**

Feliksa Barran, Manager - Business Feliksa\_Barran@farmersinsurance.com  
 Implementation  
 4700 Wilshire Blvd. (323) 932-3056 [Phone]  
 Los Angeles, CA 90010

**Filing Company Information**

Farmers Insurance Company, Inc. CoCode: 21628 State of Domicile: Kansas  
 10850 Lowell Avenue Group Code: 212 Company Type:  
 Overland Park, KS 66210-1667 Group Name: State ID Number:  
 (323) 932-3056 ext. [Phone] FEIN Number: 48-0609012

Farmers Insurance Exchange CoCode: 21652 State of Domicile: California  
 4680 Wilshire Blvd. Group Code: 212 Company Type:  
 Los Angeles, CA 90010 Group Name: State ID Number:  
 (323) 932-3056 ext. [Phone] FEIN Number: 95-2575893

**Filing Fees**

Fee Required? Yes  
 Fee Amount: \$100.00  
 Retaliatory? No  
 Fee Explanation: \$100.00 is the required fee for this rate/rule filing for DIE & FICI for a total of \$200.00. Check will be mailed on Friday, 01-04-2008.  
 Per Company: No

COMPANY	AMOUNT	DATE PROCESSED	TRANSACTION #
Farmers Insurance Exchange	\$0.00	12/31/2007	17302651

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## Correspondence Summary

### Dispositions

Status	Created By	Created On	Date Submitted
Filed	Becky Harrington	01/30/2008	01/30/2008

### 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	01/07/2008	01/07/2008	Mina Villegas	01/25/2008	01/25/2008

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 Product Name: H-AR-2007-ML-F  
 Project Name/Number: Landlord Protector/F-07-ARI

## Disposition

Disposition Date: 01/30/2008  
 Effective Date (New): 04/16/2008  
 Effective Date (Renewal): 04/16/2008  
 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:
Farmers Insurance Company, Inc.	27.500%	\$1,240,598	15,009	\$5,757,038	27.500%	27.500%	%
Farmers Insurance Exchange	27.500%	\$73,241	1,065	\$339,318	27.500%	27.500%	%

### Overall Rate Information for Multiple Company Filings

Overall Percentage Rate Indicated For This Filing	0.000%
Overall Percentage Rate Impact For This Filing	0.000%
Effect of Rate Filing-Written Premium Change For This Program	\$1,313,839
Effect of Rate Filing - Number of Policyholders Affected	16,074

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<b>Item Type</b>	<b>Item Name</b>	<b>Item Status</b>	<b>Public Access</b>
<b>Supporting Document</b>	Cover letter	Filed	Yes
<b>Supporting Document</b>	RF-1 for FIE & FICI	Filed	Yes
<b>Supporting Document</b>	Exhibits 1 thru 8	Filed	Yes
<b>Supporting Document</b>	Exhibit 9	Filed	Yes
<b>Supporting Document</b>	Response to objection letter dated 01-07-2008	Filed	Yes

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Project Name/Number: Landlord Protector/F-07-AR1

## Objection Letter

Objection Letter Status Pending Industry Response  
Objection Letter Date 01/07/2008  
Submitted Date 01/07/2008

Respond By Date

Dear Feliksa Barran,

This will acknowledge receipt of the captioned filing.

Objection 1

- RF-1 for FIE & FICI (Supporting Document)

Comment: Please complete the expense information.

Objection 2

- Exhibits 1 thru 8 (Supporting Document)

Comment: Provide the supporting data showing the development of the projected CAT loss ratio of 10.6% and the CAT loss ratio of 9.4%.

Please feel free to contact me if you have questions.

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.

Sincerely,

Becky Harrington

## Response Letter

Response Letter Status Submitted to State  
Response Letter Date 01/25/2008  
Submitted Date 01/25/2008

Dear Becky Harrington,

### Comments:

As response to objection letter dated 01-07-2008, we have attached the cover memo, RF-1's, and supporting exhibits

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Product Name: H-AR-2007-ML-F  
Project Name/Number: Landlord Protector/F-07-AR1

## Response 1

Comments: Response to objection letter dated 01-07-2008

### Related Objection 1

Applies To:

- RF-1 for FIE & FICI (Supporting Document)

Comment:

Please complete the expense information.

### Related Objection 2

Applies To:

- Exhibits 1 thru 8 (Supporting Document)

Comment:

Provide the supporting data showing the development of the projected CAT loss ratio of 10.6% and the CAT loss ratio of 9.4%.

### Changed Items:

#### Supporting Document Schedule Item Changes

Satisfied -Name: Response to objection letter dated 01-07-2008

Comment: Response to objection letter dated 01-07-2008

No Form Schedule items changed.

No Rate/Rule Schedule items changed.

Response to objection letter dated 01-07-2008.

Sincerely,

Anahit Bekarian, Chris SalvaCruz, Edmond Balaian, Gayane Rupchian, Jeanette Campion, Karen Lacy, Mina Villegas, Tina Campbell

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 Project Name/Number: Landlord Protector/F-07-ARI

## Rate Information

Rate data applies to filing.

**Filing Method:** Modified File & Use  
**Rate Change Type:** Increase  
**Overall Percentage of Last Rate Revision:** 10.7000%  
**Effective Date of Last Rate Revision:** 02/16/2007  
**Filing Method of Last Filing:** Modified File & Use

## Company Rate Information

Company Name:	Overall % Indicated Change:	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):
Farmers Insurance Company, Inc.	%	27.500%	\$1,240,598	15,009	\$5,757,038	27.500%	27.500%
Farmers Insurance Exchange	%	27.500%	\$73,241	1,065	\$339,318	27.500%	27.500%

## Overall Rate Information for Multiple Company Filings

**Overall % Rate Indicated:**  
**Overall Percentage Rate Impact For This Filing:**  
**Effect of Rate Filing - Written Premium Change For This Program:** \$1,313,839

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Project Name/Number: Landlord Protector/F-07-AR1

**Effect of Rate Filing - Number of Policyholders Affected: 16074**



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## Supporting Document Schedules

<b>Satisfied -Name:</b> Cover letter	<b>Review Status:</b> Filed	01/30/2008
<b>Comments:</b>		
<b>Attachment:</b> Cover memo.pdf		
<b>Satisfied -Name:</b> RF-1 for FIE & FICI	<b>Review Status:</b> Filed	01/30/2008
<b>Comments:</b>		
<b>Attachments:</b> AR RF-1- FIE.pdf AR RF-1 - FICI.pdf		
<b>Satisfied -Name:</b> Exhibits 1 thru 8	<b>Review Status:</b> Filed	01/30/2008
<b>Comments:</b>		
<b>Attachment:</b> Supporting Exhibits.pdf		
<b>Satisfied -Name:</b> Exhibit 9	<b>Review Status:</b> Filed	01/30/2008
<b>Comments:</b>		
<b>Attachment:</b> Exhibit 9.pdf		
<b>Satisfied -Name:</b> Response to objection letter dated 01-07-2008	<b>Review Status:</b> Filed	01/30/2008
<b>Comments:</b> Response to objection letter dated 01-07-2008		
<b>Attachments:</b>		







**F A R M E R S**

4700 Wilshire Blvd.  
Los Angeles, CA 90010  
Bus: (323) 964-8036  
Fax: (323) 932-3950  
www.farmersinsurance.com

December 31, 2007

Honorable Julie Benafield Bowman  
Commissioner of Insurance  
Arkansas Insurance Department  
1200 West Third Street  
Little Rock, AR 72201

**SUBJECT: Landlords Protector Rate and Rule Revision**

Company Name	Reference #	NAIC #	Group #
Farmers Insurance Exchange	HAR0796-107760	21652	0212
Farmers Insurance Company, Inc.	HAR0796-207760	21628	0212

Dear Commissioner:

We respectfully submit for filing revisions to our Landlords Protector Rates and Rules for Farmers Insurance Exchange / Farmers Insurance Company, Inc.. Attached are supporting exhibits for this rate review.

The five-year fiscal accident year loss experience for Farmers Insurance Exchange / Farmers Insurance Company, Inc. brought to current levels and trended, indicates an overall rate change of 29.0%. The proposed changes will result in an overall increase of 27.5% or an estimated impact of \$1,313,839.

The following changes have been made:

1. Base Rates

The following supporting exhibits will assist in your review of our proposal:

**Exhibit 1 Summary of Proposed Changes**

Exhibit 1 shows the premium effect by policy form for each of the changes described above.

**Exhibit 2 Calculation of Overall Rate Level Indication**

Rate level indications are calculated in this exhibit. This exhibit shows indications done on a fiscal accident year basis using five years of experience, start date through end date, valued as of usually the same as end date.

The indications assume an April, 16, 2008 effective date. Current level earned premium is

projected to an average date of April 16, 2009, and ultimate incurred losses are projected to an average accident date of April 16, 2009.

The overall indication is determined by comparing the projected Loss & ALAE Ratio to the Permissible Loss & ALAE Ratio. The details of the Permissible Loss & ALAE Ratio calculation, including consideration of Investment Income, are found in Exhibit 3.

### **Exhibit 3 Investment Income and Expense Exhibits**

These exhibits provide support for the Permissible Loss & ALAE Ratio used in our indications. To enable our company to serve the future insurance needs of our present policyholders and to meet our obligations in a growing market, our policyholders' surplus must increase at a rate sufficient to maintain a proper level in relation to written premiums.

Details of the calculations of our investment income and expense are found in the following Exhibit 3 subparts:

#### **(A) Permissible Loss and ALAE Ratio**

Exhibit 3 provides a summary of the parameters used in the formula for Target Total Return as a percentage of premium. The equation for total return is the Calendar Year Return On Equity (CYROE) model. The equation consists of three terms: (1) The first term accounts for after-tax underwriting gain or loss, where 1-E-P-L is the underwriting profit provision; (2) the second term characterizes the after-tax investment return on losses, LAE and unearned premium reserves; and (3) the final term reflects after-tax investment return on surplus. This equation has been rearranged to yield the Permissible Loss and ALAE Ratio, L, used to determine the statewide average rate indication. The target combined ratio, C, equals the sum of L, the underwriting expenses, E, and the Contingencies Load, P. The target rate of return assumes a 2.20 to 1.00 premium to surplus ratio and a 15.0% after-tax return on equity. This represents a departure from our previous rate and rule filing, effective June 16, 2003, when we used permissible loss and LAE ratio. This change was made to recognize the fact that during recent years ULAE has varied more consistently as a percentage of premium than as a percentage of loss.

#### **(B) Expense Analysis**

This exhibit summarizes underwriting expense for 2004-2006 and the expected changes for the period that rates will be in effect.

**ULAE:** We have revised our methodology to treat ULAE as an expense component and allocate ULAE as a percentage of premium. The selected ULAE percentage is reflected in the underwriting expense ratio as shown as 6.4% under the ULAE line item on Exhibit 3B. The overall underwriting expense ratio of 37.9% flows through to item E, Underwriting Expenses (Including ULAE) on the Permissible Loss ratio calculated in Exhibit 3A. Please note that since ULAE is no longer treated as a percentage of loss, there is no separate provision for this

expense in Exhibit 2A: Rate Level Indication worksheet for ULAE expenses.

The Other Underwriting Expenses was based on the comparable 2006 historical ratios, with the following two adjustments:

**Advertising expenses expected in the prospective period:** In order to maintain our marketing presence in the increasingly competitive marketplace, Farmers has made the strategic decision to increase our corporate advertising budget. This advertising budget increase reflects amounts in excess of our historical advertising expenses. In other words, the prospective period will witness a higher overall level of advertising expense compared to the advertising expense levels experienced in years 2004-2006. Consequently, an adjustment for the additional advertising expenses that will be incurred during 2007 and subsequent years was added to the historical Other Underwriting Expenses ratio to calculate the selected expense ratios for the prospective period. The additional expense amount from this adjustment is 0.89%.

**Underwriting fees expected in the prospective period:** Over time, underwriting fees and expenses for each line of business do not grow at the same rate. Therefore, underwriting fees must be adjusted periodically to ensure that the fees associated with each line of business match the underlying expenses generating those fees. We are revising the underwriting fee schedule to maintain this balance; this revision will take place over the course of 2007-2008. This change resulted in an increase in the underwriting fees for the Fire lines of business and a reduction to the underwriting fees collected surplus neutral to our combined exchanges. Because the 2006 historical expense ratios for the Fire lines of business reflect a lower underwriting fee rate than will be incurred in the prospective period, this expense adjustment was added to the historical expense ratios to calculate the selected expense ratios for the prospective period. The additional expense amount from this adjustment is 1.04%.

**(C) Unearned Premium Reserves**

Unearned premium reserves as a percentage of earned premium is a component of investment income on reserves. The change in unearned premium reserve as a percentage of earned premium is used as part of a component to offset underwriting income.

**(D) Loss and LAE Reserves**

A ratio of loss and LAE reserves (2004-2006) as a percentage of incurred losses and LAE is applied to the permissible loss and LAE ratio and is the other component of investment income on reserves. The three-year average of the change in loss and LAE as a percentage of incurred losses and LAE is used as a part of a component to offset underwriting income.

**(E) Investment Income as a Percentage of Total Assets**

This exhibit shows the projected investment income ratio as the average of the investment income ratios for 2004-2006. Also shown is the projected net realized capital gains, which is the average new realized capital gain for 1981-2006. Both

ratios are shown as a percentage of total assets, and their sum represents our total investment gain.

**(F) Federal taxes on Investment Income**

This exhibit contains the method used to compute federal taxes on investment income, based on the current federal income tax rate and the taxable portion applicable to each component of investment income.

**Exhibit 4 Determination of Premium Trend**

We applied an exponential trend procedure to average premium per policy at current rate levels to estimate the average annual change in premium due primarily to increasing amounts of insurance written, distributional shifts in limits, discounts, etc.

**Exhibit 5 Loss Development Exhibits**

Loss development factors are generally chosen to be the average of the most recent five years of development factors, excluding the high and low figures (called “Olympic” in the Selected Method row) based on incurred losses (excluding catastrophes). When warranted by the data, a different selection method was employed.

**Exhibit 6 Determination of Loss Trends**

Exponential trend analyses are performed on average claim frequency, average claim severity, and pure premium.

Two trends are selected for each peril. First, a “historical” trend is selected to trend each fiscal-accident year of the experience period to the midpoint of the latest fiscal-accident year. To the extent that the Arkansas historical loss trend is not fully credible, the companywide loss trend is used as the complement of credibility.

Second, a “future” trend is selected to bring the entire experience period, now at the midpoint of the latest fiscal-accident year, to the midpoint of the projection period. Future trends are judgmentally selected to reflect anticipated future loss costs, and as a result, are not credibility-weighted.

**Exhibit 7 Determination of Catastrophe Factor**

This exhibit shows total losses for accident quarters 1987 Q1 through 2007 Q2 separated into catastrophe and non-catastrophe losses. From these losses, quarterly catastrophe ratios are calculated as the ratio of the total losses to the non-catastrophe losses separately for each quarter. The quarterly catastrophe ratios are then capped at the average catastrophe ratio plus three times its standard deviation. The selected catastrophe factor is the dollar-weighted average of all years’ capped catastrophe ratios. This factor is applied to each of the five years’ normal loss experience. We include an Extreme Event Provision to account for the portion of losses excluded by the catastrophe capping procedure. Please see Exhibit 7B for a detailed explanation of Extreme Event Provision methodology.

**Exhibit 8 Allocated Loss Adjustment Expense (ALAE)**

We estimate fiscal-accident-year ultimate Allocated Loss Adjustment Expense using Paid ALAE to

Paid Loss ratios (ALAE ratios). The ultimate ALAE ratios are developed using the classical chain ladder method, summarized as follows: (1) For age-to-age selections associated with the earlier development periods, we select an Olympic ALAE ratio. For the ninth development period, we select the 3-year average, and for the tenth and subsequent development periods, we select the average of all ALAE ratios. (2) The age-to-ultimate factors are the multiplicative cumulation of age-to-age factors. (3) Ultimate ALAE ratios are found by taking the product of the year-to-date ratios and the age-to-ultimate factors.

We have applied the traditional method above with one exception: The ultimate ALAE ratios were estimated using the Bornhuetter-Ferguson method, as described in "The Actuary and IBNR," *Proceeding of Casualty Actuarial Society (PCAS) LIX*, 1972. The Bornhuetter-Ferguson method uses the age-to-ultimate factor to weight the actual ALAE ratio and the expected ALAE ratio. We defined our expected ALAE ratio as the average of the prior five ultimate ALAE ratios.

Once determined, we weighted the resulting ultimate ALAE ratios for the last five fiscal-accident-years to derive the "weighted 5-year average ALAE ratio" which we then applied to the "ALAE as a percentage of loss" on Exhibit 1 in determining the overall rate level indication.

#### **Exhibit 9      Base Rate Page**

Base rate manual page is included in this filing. Final printed manual pages will be sent upon receipt of your approval for all changed variables.

*Our proposed effective date for this filing is April 16, 2008 for both New Business and Renewals*

If you have any questions on this material or require further information for your analysis, feel free to contact Brian Sniegowski at 323-964-8036.

Very truly yours,  
Farmers Insurance Group of Companies

A handwritten signature in black ink, reading "Jeff Reinig". The signature is written in a cursive style. To the right of the signature is a vertical red line.

Jeff Reinig  
Senior Vice President, Fire Product Management

By:      Brian Sniegowski, Assistant Product Manager

Cc:      Charlie Snyder, State Executive Director

**FORM RF-1 Rate Filing Abstract NAIC LOSS COST DATA ENTRY DOCUMENT**

**1.** This filing transmittal is part of Company Tracking # HAR0796-107760

**2.** If filing is an adoption of an advisory organization loss cost filing, give name of Advisory Organization and Reference/Item Filing Number

	Company Name		Company NAIC Number
<b>3.</b>	<b>A.</b> Farmers Insurance Exchange	<b>B.</b>	21652

	Product Coding Matrix Line of Business (i.e., Type of Insurance)		Product Coding Matrix Line of Business (i.e., Sub-type of Insurance)
<b>4.</b>	<b>A.</b> 04.0 LLP	<b>B.</b>	04.0000 Homeowners Sub-TOI

**5.**

(A) COVERAGE (See Instructions)	(B) Indicated % Rate Level Change	(C) Requested % Rate Level Change	(D) Expected Loss Ratio	FOR LOSS COSTS ONLY			
				(E) Loss Cost Modification Factor	(F) Selected Loss Cost Multiplier	(G) Expense Constant (If Applicable)	(H) Co. Current Loss Cost Multiplier
LLP	29.0%	27.5%	N/A	N/A	N/A	N/A	N/A
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
2002	2,021	None	None	N/A	N/A	N/A	N/A
2003	1,646	16%	4/16/2003	N/A	N/A	N/A	N/A
2004	1,390	None	N/A	N/A	N/A	N/A	N/A
2005	1,219	None	N/A	N/A	N/A	N/A	N/A
2006	1,101	None	N/A	N/A	N/A	N/A	N/A
2007	1,065	None	N/A	N/A	N/A	N/A	N/A

**7.**

Expense Constants	Selected Provisions
A. Total Production Expense	N/A
B. General Expense	N/A
C. Taxes, Licenses & Fees	N/A
D. Underwriting Profit & Contingencies	N/A
E. Other (explain)	N/A
F. TOTAL	N/A

**8.**   N   Apply Loss Cost Factors to Future filings? (Y or N)  
**9.**   27.5%   Estimated Maximum Rate Increase for any Insured (%) Territory (if applicable): \_\_\_\_\_  
**10.**   27.5%   Estimated Maximum Rate Decrease for any Insured (%) Territory (if applicable): \_\_\_\_\_

\* Figures from Page 14/15, Farmers Insurance Company, Inc.  
 \* Based on current book of business multi-variable analysis.  
 \*\*\* Figures from TA635 reports

**FORM RF-1 Rate Filing Abstract NAIC LOSS COST DATA ENTRY DOCUMENT**

**1.** This filing transmittal is part of Company Tracking # HAR0796-207760

**2.** If filing is an adoption of an advisory organization loss cost filing, give name of Advisory Organization and Reference/Item Filing Number

**3. A.** Company Name Farmers Insurance Company, Inc. **B.** Company NAIC Number 21628

**4. A.** Product Coding Matrix Line of Business (i.e., Type of Insurance) 04.0 LLP **B.** Product Coding Matrix Line of Business (i.e., Sub-type of Insurance) 04.0000 Homeowners Sub-TOI

**5.**

(A) COVERAGE (See Instructions)	(B) Indicated % Rate Level Change	(C) Requested % Rate Level Change	(D) Expected Loss Ratio	FOR LOSS COSTS ONLY			
				(E) Loss Cost Modification Factor	(F) Selected Loss Cost Multiplier	(G) Expense Constant (If Applicable)	(H) Co. Current Loss Cost Multiplier
LLP	29.0%	27.5%	N/A	N/A	N/A	N/A	N/A
Total Overall Effect	29.0%	27.5%					

**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
2002	11,476	None	None	N/A	N/A	N/A	N/A
2003	10,446	16%	4/16/2003	N/A	N/A	N/A	N/A
2004	10,358	None	N/A	N/A	N/A	N/A	N/A
2005	11,359	None	N/A	N/A	N/A	N/A	N/A
2006	13,293	None	N/A	N/A	N/A	N/A	N/A
2007	15,009	None	N/A	N/A	N/A	N/A	N/A

**7.**

Expense Constants	Selected Provisions
A. Total Production Expense	N/A
B. General Expense	N/A
C. Taxes, Licenses & Fees	N/A
D. Underwriting Profit & Contingencies	N/A
E. Other (explain)	N/A
F. TOTAL	N/A

**8.** N Apply Loss Cost Factors to Future filings? (Y or N)  
**9.** 65.4% Estimated Maximum Rate Increase for any Insured (%) Territory (if applicable): \_\_\_\_\_  
**10.** -8.7% Estimated Maximum Rate Decrease for any Insured (%) Territory (if applicable): \_\_\_\_\_

\* Figures from Page 14/15, Farmers Insurance Company, Inc. Based on current book of business multi-variable analysis.  
 \*\* PTP, SPF and TP are initialisms for Protector Plus, Special Form and Townhouse Protector, respectively  
 \*\*\* Figures from TA635 reports

Exhibit 1.

Farmers Insurance Company, Inc.  
Farmers Insurance Exchange  
Arkansas

Line of Business: Commercial Multiple Peril  
Subline: Landlords Protector

Summary of Proposed Changes

Change	Form	
	LLP	Total
Base Rate Change	27.5%	27.5%
Overall Change	27.5%	27.5%
2007 Premium	\$ 6,096,356	\$ 6,096,356
Overall Indication	29.0%	29.0%

**Farmers Insurance Company, Inc.  
Farmers Insurance Exchange  
Arkansas**

**Line of Business: Commercial Multiple Peril  
Subline: Landlords Protector**

**Rate Level Indication**

(1)	(2)	(3)
Fiscal Accident Year Ending in <u>Qtr 2 of</u>	Projected Loss <u>Ratio</u>	Accident Year <u>Weights</u>
2003	52.7%	0.200
2004	77.8%	0.200
2005	66.7%	0.200
2006	68.7%	0.200
2007	66.4%	0.200
(4) Weighted Loss Ratio: = Sum[(2)x(3)]		66.5%
(5) ALAE as a percentage of Loss:		2.8%
(6) Extreme Event Provision:		0.1%
(7) Weighted Loss, ALAE and Extreme Event Provision: = [(4) + (6)]*[1 + (5)]		68.5%
		1.000
		95.8%
		68.5%
		0.0%
		68.5%
(8) Permissible Loss and ALAE Ratio:		53.1%
(9) Statewide Indicated Change: (8)/(9)-1		<b>29.0%</b>

Calculation of (6) Extreme Event Provision:

Projected CAT Loss Ratio	10.6%
-Contingency Load	-1.0%
-CAT Loss Ratio	<u>-9.4%</u>
Extreme Event Provision (capped below at 0%)	0.1%

Exhibit 2B.

Farmers Insurance Company, Inc.  
Farmers Insurance Exchange

Arkansas

Line of Business: Commercial Multiple Peril  
Subline: Landlords Protector

Experience Loss Ratios

	(1)	(2)	(3)	(4)	(5) =(3)x(4)	(6) =(5)/(2)	(7)	(8)	(9)	(10)	(11)	(12) =(6)x(7)x(8)/[(9)x(10)x(11)]
Fiscal Accident Year Ending in Qtr 2 of	Earned Exposures	Collected Earned Premium	Ultimate Incurred Loss Excluding Catastrophes	Catastrophe Adjustment Factor	Adjusted Ultimate Incurred Losses	Loss Ratio	Historical Loss Trend Factor	Future Loss Trend Factor	Premium at Current Factor	Historical Premium Trend Factor	Future Premium Trend Factor	Projected Loss Ratio
2003	6,317	2,456,909	979,274	1.1656	1,141,442	46.5%	1.3665	1.2763	1.3385	1.0915	1.0514	52.7%
2004	5,874	2,443,051	1,305,591	1.1656	1,521,797	62.3%	1.2639	1.2763	1.1506	1.0679	1.0514	77.8%
2005	5,952	3,323,021	1,464,518	1.1656	1,707,042	51.4%	1.1690	1.2763	1.0454	1.0447	1.0514	66.7%
2006	6,690	3,669,951	1,750,168	1.1656	2,039,995	55.6%	1.0812	1.2763	1.0383	1.0221	1.0514	68.7%
2007	7,696	4,266,307	2,040,202	1.1656	2,378,059	55.7%	1.0000	1.2763	1.0197	1.0000	1.0514	66.4%

Effective Date 04/16/08

Exhibit 3A.

Farmers Insurance Exchange  
Farmers Insurance Company, Inc.  
Countrywide

Line of Business: Commercial Multiple Peril  
Subline: Landlords Protector

Permissible Loss and ALAE Ratio

	<u>Estimate</u>
R = Target Total After-Tax Return on Surplus	15.0%
S = Leverage Ratio	2.00 : 1
	Prem:Surplus (=R/RT)
RT = Total After-Tax Return as % of Premium	7.5%
	=R/S
E = Underwriting Expenses (Including ULAE)	37.9%
P = Contingencies Load	1.0%
U = Unearned Premium Reserve	52.3%
lr = Loss and LAE Reserve	50.1%
i = Investment Income, % of Total Assets	3.3%
tu = Tax Rate on Underwriting Assuming a Regular Taxpayer	35.0%
ti = Tax Rate on Investment Income	27.9%

L = Permissible Loss and ALAE Ratio

54.3%

C = Target Combined Ratio

93.2%

= L + E + P

$$\begin{aligned}
 RT &= \{(1 - tu) * (1 - E - P - L)\} && \text{(Underwriting Income)} \\
 &+ (1 - ti) * i * [L * lr + U] && \text{(Investment Income on Reserves)} \\
 &+ \{(1 - ti) * i\} / S && \text{(Investment Income on Surplus)}
 \end{aligned}$$

which yields

$$L = \frac{\{(1 - tu) * (1 - E - P)\} + \{(1 - ti) * i\} * [U + 1 / S]}{1 - tu - (1 - ti) * i * lr} - RT$$

Exhibit 3B.

Farmers Insurance Group Consolidated  
Expense Analysis  
Countrywide

Line of Business: Commercial Multiple Peril  
Subline: Landlords Protector  
(Amounts in Thousands)

Expense Component	2004		2005		2006		2006		Selected
	Amount	%	Amount	%	Amount	%	Amount	%	
Companywide Premiums Written, All	\$ 246,505	100.0%	\$ 286,208	100.0%	\$ 324,133	100.0%	\$ 324,133	100.0%	
Comm. & Brok.	\$ 30,051	12.2%	\$ 35,728	12.5%	\$ 41,330	12.8%	\$ 41,330	12.8%	12.5%
Companywide Premiums Written	\$ 246,505	100.0%	\$ 286,208	100.0%	\$ 324,133	100.0%	\$ 324,133	100.0%	
Companywide Premiums Earned	\$ 229,969	100.0%	\$ 267,919	100.0%	\$ 302,890	100.0%	\$ 302,890	100.0%	
Other Underwriting Expenses	\$ 35,474	15.4%	\$ 41,861	15.6%	\$ 47,473	15.7%	\$ 47,473	15.7%	16.7%
Countrywide Premiums Written	\$ 246,505	100.0%	\$ 286,208	100.0%	\$ 324,133	100.0%	\$ 324,133	100.0%	
Taxes, Licenses, & Fees	\$ 6,009	2.4%	\$ 6,407	2.2%	\$ 7,104	2.2%	\$ 7,104	2.2%	2.3%
Consolidated Premiums Earned	\$ 229,969	100.0%	\$ 267,919	100.0%	\$ 302,890	100.0%	\$ 302,890	100.0%	
ULAE	\$ 12,551	5.5%	\$ 19,557	7.3%	\$ 19,359	6.4%	\$ 19,359	6.4%	6.4%
<b>Total</b>		<b>35.5%</b>		<b>37.6%</b>		<b>37.0%</b>		<b>37.0%</b>	<b>37.9%</b>

SOURCES

Companywide Premiums Written For All States	Sum of All States/Company A.S. p.14 line 4 col. 1				
Companywide Premiums Written, All	Sum of All States/Company A.S. p.14 line 4 col. 11	Three-year Average (2004 - 2006)			
Companywide Premiums Written	Sum of State/Companies Internal Reports				
Companywide Premiums Earned	Sum of State/Companies Internal Reports				
Other Underwriting Expenses	Sum of State/Companies Internal Reports	Latest year (2006)			
Countrywide Premiums Written	Sum of St/Cos Int Reports Countrywide data				
Taxes, Licenses, & Fees	Sum of St/Cos Int Reports Countrywide data	Three-year Average (2004 - 2006)			
Consolidated Premiums Earned	FIG Cons. Internal Reports	FIG Cons. Internal Reports	FIG Cons. Internal Reports	FIG Cons. Internal Reports	
ULAE	FIG Cons. Internal Reports	FIG Cons. Internal Reports	FIG Cons. Internal Reports	FIG Cons. Internal Reports	Three-year Average (2004 - 2006)

FIG Consolidated figures exclude Foremost companies.

Commissions & Brokerages are computed as a percentage of Written Premium

The 2004 - 2005 Underwriting Expense has been restated to conform to 2006 accounting conventions.

The Selected Ratio for Underwriting Expenses is adjusted for the following:

(1) state-specific expenses: removal of the latest year amounts and inclusion of 3-year average for Countrywide, and

(2) advertising expense and underwriting fees expected in the prospective period.

Underwriting Expenses are computed as a percentage of Earned Premium.

Exhibit 3C.

Farmers Insurance Group  
Unearned Premium Reserves

Line of Business: Commercial Multiple Peril  
Subline: Landlords Protector

(1)	2006 Direct Earned Premium	302,890,000
(2)	2006 Unearned Premium Reserve	169,051,000
(3)	2005 Unearned Premium Reserve	147,807,475
(4)	Average [ (2) + (3) ] / 2	158,429,237
(5)	Percent of Earned Premium (4) / (1)	52.3% = U

Source: Internal Reports

Exhibit 3D.

Farmers Insurance Group  
Loss and LAE Reserves

Line of Business: Commercial Multiple Peril  
 Subline: Landlords Protector  
 (000 Omitted)

	2004	2005	2006	Selected (Average)
(1a) Direct Losses Incurred	94,838	89,139	128,241	
(1b) Direct ALAE Incurred	14,550	1,741	5,416	
(1c) Direct Losses and ALAE Incurred	109,388	90,880	133,657	
(2a) Direct Losses Unpaid (Current Year)	52,091	51,752	(60,745)	
(2b) Direct ALAE Unpaid (Current Year)	22,752	17,583	(15,483)	
(2c) Direct ULAE Unpaid (Current Year)	3,848	8,060	(9,058)	
(2d) Direct Losses and LAE Unpaid (Current Year)	78,692	77,395	(85,286)	
(3a) Direct Losses Unpaid (Prior Year)	49,148	52,091	51,752	
(3b) Direct ALAE Unpaid (Prior Year)	16,583	22,752	17,583	
(3c) Direct ULAE Unpaid (Prior Year)	3,289	3,848	8,060	
(3d) Direct Losses and LAE Unpaid (Prior Year)	69,019	78,692	77,395	
(4) Average [ (2d) + (3d) ] / 2	73,856	78,044	(3,945)	
(5) Percent of Incurred Losses and ALAE (4) / (1c)	67.5%	85.9%	-3.0%	lr = 50.1%

Source: Internal Reports

Exhibit 3E-1.

**Farmers Insurance Group  
Projected Investment Income Ratio  
Percent of Total Assets**

(000 Omitted)

	2004	2005	2006
(1) <b>Net Investment Income Earned</b> FIG Consolidated Annual Statement Page 4, Line 9	\$ 497,951	\$ 551,767	\$ 588,012
(2) <b>Other Income</b> FIG Consolidated Annual Statement Page 4, Line 12, 13, & 14	\$ (154,818)	\$ (80,899)	\$ (72,382)
(3) <b>Total Assets, current year</b> FIG Consolidated Annual Statement Page 2, Line 26	\$ 18,408,620	\$ 19,568,397	\$ 20,735,536
(4) <b>Total Assets, previous year</b> FIG Consolidated Annual Statement Page 2, Line 22	\$ 17,048,575	\$ 18,408,620	\$ 19,568,397
(5) <b>Average Total Assets</b> [ (3) + (4) ] / 2	\$ 17,728,598	\$ 18,988,509	\$ 20,151,967
(6) <b>Investment Income Ratio</b> [ (1) + (2) ] / (5)	1.9%	2.5%	2.6%
(7) <b>Projected Investment Income</b> (three-year average)			<u>2.3%</u>

Exhibit 3E-2.

**Farmers Insurance Group  
Net Realized Capital Gains  
Percent of Total Assets**

(000 Omitted)

Year	Total Assets*	Avg. with Prior Year	Realized Cap. Gains**	Percent Return
1980	\$ 3,634,699	\$	\$ (10,494)	
1981	\$ 3,926,527	\$ 3,780,613	\$ (12,486)	-0.3%
1982	\$ 4,223,299	\$ 4,074,913	\$ (26,853)	-0.7%
1983	\$ 4,598,221	\$ 4,410,760	\$ (3,773)	-0.1%
1984	\$ 4,903,894	\$ 4,751,058	\$ 17,446	0.4%
1985	\$ 5,676,097	\$ 5,289,995	\$ 82,360	1.6%
1986	\$ 6,956,911	\$ 6,316,504	\$ 122,176	1.9%
1987	\$ 7,775,115	\$ 7,366,013	\$ 28,205	0.4%
1988	\$ 8,707,533	\$ 8,241,324	\$ 141,175	1.7%
1989	\$ 9,640,862	\$ 9,174,198	\$ 87,070	0.9%
1990	\$ 10,612,794	\$ 10,126,828	\$ 90,738	0.9%
1991	\$ 11,580,703	\$ 11,096,749	\$ 236,461	2.1%
1992	\$ 12,357,318	\$ 11,969,011	\$ 344,083	2.9%
1993	\$ 13,340,263	\$ 12,848,791	\$ 316,809	2.5%
1994	\$ 12,683,956	\$ 13,012,110	\$ 168,748	1.3%
1995	\$ 12,050,610	\$ 12,367,283	\$ 157,480	1.3%
1996	\$ 12,041,209	\$ 12,045,910	\$ 150,743	1.3%
1997	\$ 12,357,046	\$ 12,199,128	\$ 297,625	2.4%
1998	\$ 14,763,606	\$ 13,560,326	\$ 74,597	0.6%
1999	\$ 15,603,826	\$ 15,183,716	\$ 27,009	0.2%
2000	\$ 16,155,992	\$ 15,879,909	\$ (12,277)	-0.1%
2001	\$ 14,908,778	\$ 15,532,385	\$ 363,945	2.3%
2002	\$ 15,726,766	\$ 15,317,772	\$ 184,329	1.2%
2003	\$ 17,048,575	\$ 16,387,670	\$ 20,284	0.1%
2004	\$ 18,408,620	\$ 17,728,598	\$ 37,617	0.2%
2005	\$ 19,568,397	\$ 18,988,509	\$ 6,567	0.0%
2006	\$ 20,735,536	\$ 20,151,967	\$ 42,800	0.2%
Average				1.0%

\* Source: Annual Statement Page 2, Line 28

\*\* Source: Annual Statement Page 4, Line 10

Exhibit 3F.

Farmers Insurance Group  
Federal Taxes on Investment Income  
2006

(000 Omitted)

Type of Investment	Income	Taxable Portion	Taxable Income	Source
Taxable Bonds	\$ 493,351	100.0%	\$ 493,351	Page 12 Exhibit of Net Investment Income Lines 1 and 1.2, Col 2
Tax-Exempt Bonds				Page 12 Exhibit of Net Investment Income Line 1.1, Col 2
Old (prior to 8/86)	0	0.0%	0	
New (after to 8/86)	\$ 152,585	15.0%	\$ 22,888	
Stocks				Page 12 Exhibit of Net Investment Income Lines 2.1 and 2.2, Col 2
Old (prior to 8/86)	0	30.0%	0	
New (after to 8/86)	\$ 16,594	40.5%	\$ 6,721	* See Footnote
Other Investment Income	\$ 85,969	100.0%	\$ 85,969	Page 12 Exhibit of Net Investment Income Lines 3 through 10, Col 2
Realized Capital Gains	\$ 201,520	100.0%	\$ 201,520	Page 4, Line 10 (EXPECTED)
Other Income	\$ (102,700)	100.0%	\$ (102,700)	Page 4, Lines 15 (3-Yr AVERAGE)
GROSS TOTAL	\$ 847,319		\$ 707,749	
Investment Expenses	\$ 160,487	100.0%	\$ 160,487	Page 12 Exhibit of Net Investment Income Line 16, Col 2
NET TOTAL	\$ 686,832		\$ 547,261	
CORPORATE TAX RATE (Assuming Regular Taxpayer)			35.0%	
TAX AMOUNT			\$ 191,541	
TAX AMOUNT AS % OF INVESTMENT INCOME			27.9%	

\* 30% of income is fully taxable, the remainder is 15% taxable.

Exhibit 4.

Farmers Insurance Company, Inc.  
Farmers Insurance Exchange  
Arkansas

Line of Business: Commercial Multiple Peril  
Subline: Landlords Protector  
Premium Trend

Calendar		(1)		(2)		(3)	
Year	Quarter	Earned Pols	4Q Moving Earned Pols	Earned Premium @Current	4Q Moving Earned Premium	Average Premium	4Q Moving Average Premium
2000	4	1,869		1,166,473		624	
2001	1	1,895		1,131,518		597	
2001	2	1,910		1,211,038		634	
2001	3	1,887	7,560	1,141,870	4,650,899	605	615
2001	4	1,835	7,526	1,144,668	4,629,094	624	615
2002	1	1,799	7,430	1,052,448	4,550,024	585	612
2002	2	1,748	7,269	995,336	4,334,322	569	596
2002	3	1,672	7,054	938,763	4,131,215	561	586
2002	4	1,598	6,817	837,082	3,823,629	524	561
2003	1	1,543	6,561	777,289	3,548,469	504	541
2003	2	1,504	6,317	735,421	3,288,555	489	521
2003	3	1,477	6,121	738,438	3,088,230	500	505
2003	4	1,471	5,994	732,254	2,983,402	498	498
2004	1	1,469	5,920	458,780	2,664,894	312	450
2004	2	1,458	5,874	881,554	2,811,027	605	479
2004	3	1,453	5,851	855,777	2,928,365	589	501
2004	4	1,467	5,847	870,735	3,066,845	594	525
2005	1	1,496	5,873	870,883	3,478,949	582	592
2005	2	1,537	5,952	876,623	3,474,018	571	584
2005	3	1,585	6,084	898,514	3,516,755	567	578
2005	4	1,640	6,257	928,710	3,574,730	566	571
2006	1	1,699	6,460	965,201	3,669,048	568	568
2006	2	1,766	6,690	1,018,257	3,810,681	577	570
2006	3	1,828	6,933	1,039,375	3,951,542	569	570
2006	4	1,892	7,186	1,072,858	4,095,691	567	570
2007	1	1,960	7,447	1,112,433	4,242,922	567	570
2007	2	2,015	7,696	1,125,564	4,350,230	559	565

= (2) / (1)

312  
624

Exponential Regression Analysis

Average Premium per Policy

	<u>Regression</u>	<u>Trend</u>	<u>R<sup>2</sup></u>
4	4-point	-1.0%	63.4%
8	8-point	-0.8%	52.9%
12	12-point	2.3%	19.5%
16	16-point	5.3%	54.9%
20	20-point	2.2%	17.7%
24	24-point	-0.3%	0.6%

Selected

2.2%

20

Future Premium Trend

2.2%



Exhibit 6.

Farmers Insurance Company, Inc.  
Farmers Insurance Exchange  
Arkansas

Line of Business: Commercial Multi Peril  
Subline: Landlords Protector

Loss Trend  
(Excl. Cats)

Calendar	Year	Quarter	Obs	(1)		(2)		(3)		(4)		(5)		(6)		(7)	
				4Q Moving		4Q Moving		4Q Moving		Net 4Q Moving		Incurred	4Q Moving	Claim	4Q Moving	Pure	4Q Moving
				Earned	Earned	Paid	Paid	Incurred	Incurred	Paid	Paid						
Pol	Pol	Claims	Claims	Claims	Claims	Loss	Loss	Frequency*	Frequency*	Cost	Cost	Premium	Premium				
2000	4			1,869		121		101		473,571		5,4054		3,914		253	
2001	1			1,895		93		71		657,813		3,7474		7,073		347	
2001	2			1,910		126		117		769,327		6,1269		6,106		403	
2001	3	1		1,887	7,560	118	458	136	425	621,718	2,522,430	7,2067	5,6218	5,269	5,507	329	334
2001	4	2		1,835	7,526	100	437	62	386	643,745	2,692,604	3,3790	5,1287	6,437	6,162	351	358
2002	1	3		1,799	7,430	72	416	70	385	455,190	2,489,980	3,8921	5,1816	6,322	5,986	253	335
2002	2	4		1,748	7,269	88	378	100	368	352,051	2,072,704	5,7204	5,0629	4,001	5,483	201	285
2002	3	5		1,672	7,054	68	328	52	284	269,084	1,720,070	3,1098	4,0263	3,957	5,244	161	244
2002	4	6		1,598	6,817	41	269	42	264	217,528	1,293,853	2,6281	3,8727	5,306	4,810	136	190
2003	1	7		1,543	6,561	50	247	53	247	266,099	1,104,762	3,4351	3,7645	5,322	4,473	172	168
2003	2	8		1,504	6,317	51	210	57	204	298,497	1,051,208	3,7912	3,2296	5,853	5,006	199	166
2003	3	9		1,477	6,121	103	245	89	241	345,142	1,127,266	6,0278	3,9373	3,351	4,601	234	184
2003	4	10		1,471	5,994	25	229	26	225	193,799	1,103,537	1,7677	3,7539	7,752	4,819	132	184
2004	1	11		1,469	5,920	30	209	36	208	386,399	1,223,837	2,4506	3,5136	12,880	5,856	263	207
2004	2	12		1,458	5,874	47	205	45	196	286,368	1,211,708	3,0872	3,3367	6,093	5,911	196	206
2004	3	13		1,453	5,851	60	162	61	168	292,603	1,159,169	4,1975	2,8714	4,877	7,155	201	198
2004	4	14		1,467	5,847	28	165	29	171	353,807	1,319,176	1,9773	2,9248	12,636	7,995	241	226
2005	1	15		1,496	5,873	44	179	43	178	466,283	1,399,061	2,8748	3,0307	10,597	7,816	312	238
2005	2	16		1,537	5,952	46	178	42	175	292,120	1,404,813	2,7335	2,9401	6,350	7,892	190	236
2005	3	17		1,585	6,084	58	176	77	191	447,173	1,559,383	4,8584	3,1395	7,710	8,860	282	256
2005	4	18		1,640	6,257	56	204	60	222	466,739	1,672,315	3,6594	3,5482	8,335	8,198	285	267
2006	1	19		1,699	6,460	53	213	45	224	541,800	1,747,831	2,6484	3,4674	10,223	8,206	319	271
2006	2	20		1,766	6,690	56	223	52	234	318,019	1,773,731	2,9441	3,4978	5,679	7,954	180	265
2006	3	21		1,828	6,933	56	221	58	215	343,480	1,670,038	3,1731	3,1012	6,134	7,557	188	241
2006	4	22		1,892	7,186	48	213	54	209	331,211	1,534,510	2,8537	2,9086	6,900	7,204	175	214
2007	1	23		1,960	7,447	61	221	55	219	607,210	1,599,920	2,8056	2,9409	9,954	7,239	310	215
2007	2	24		2,015	7,696	77	242	77	244	740,426	2,022,326	3,8213	3,1707	9,616	8,357	367	263

\* Avg claim frequency per 100 policies.

Exponential Regression Analysis

Frequency			Severity			Pure Premium		
Regression	Trend	R2	Regression	Trend	R2	Regression	Trend	R2
4-point	3.1%	5.8%	4-point	13.1%	33.1%	4-point	11.3%	12.0%
8-point	-7.0%	32.2%	8-point	-6.8%	34.7%	8-point	-7.9%	26.8%
12-point	2.0%	5.4%	12-point	-0.4%	0.3%	12-point	3.0%	6.8%
16-point	-3.7%	20.1%	16-point	12.4%	50.2%	16-point	7.6%	44.7%
20-point	-4.6%	39.6%	20-point	14.1%	68.8%	20-point	7.1%	43.0%
24-point	-8.7%	64.2%	24-point	9.9%	57.4%	24-point	-1.6%	2.0%
Selected	Not Used		Selected	Not Used		Selected	7.1%	20

Credibility, Z

Full Credibility Standard	Historical	=>
Number of Claims	Number of Claims	
6,148	213	0.186

Credibility Weighted Liability Loss Trend

	Frequency	Severity	Pure Prem	Loss Trend	Compl	CW Loss Trend
Historical	Not Used	Not Used	7.1%	7.1%	8.3%	8.1%
Future	3.0%	8.0%	Not Used	11.2%		11.2%
CW Future	3.0%	8.0%	Not Used			

Farmers Insurance Company, Inc.  
Farmers Insurance Exchange  
Arkansas

Line of Business: Commercial Multiple Peril  
Subline: Landlords Protector

Catastrophe Adjustment

Accident Year	Accident Quarter	(1) Non-Cat Losses	(2) Cat Losses	(3) Total Losses	(5) Proposed*	
					(4) Total/Non-Cat	Total/Non-Cat
1987	1	16,968	0	16,968	1.0000	1.0000
1987	2	1,773	0	1,773	1.0000	1.0000
1987	3	781	0	781	1.0000	1.0000
1987	4	2,078	0	2,078	1.0000	1.0000
1988	1	42,769	0	42,769	1.0000	1.0000
1988	2	10,725	0	10,725	1.0000	1.0000
1988	3	19,992	0	19,992	1.0000	1.0000
1988	4	5,651	4,811	10,462	1.8513	1.8513
1989	1	6,731	0	6,731	1.0000	1.0000
1989	2	14,439	29,797	44,236	3.0636	3.0636
1989	3	17,272	0	17,272	1.0000	1.0000
1989	4	10,057	16,620	26,677	2.6526	2.6526
1990	1	27,613	1,451	29,064	1.0526	1.0526
1990	2	64,266	8,935	73,201	1.1390	1.1390
1990	3	31,585	0	31,585	1.0000	1.0000
1990	4	17,173	707	17,879	1.0412	1.0412
1991	1	39,478	14,936	54,413	1.3783	1.3783
1991	2	77,615	20,406	98,021	1.2629	1.2629
1991	3	109,393	0	109,393	1.0000	1.0000
1991	4	30,248	0	30,248	1.0000	1.0000
1992	1	117,356	0	117,356	1.0000	1.0000
1992	2	70,394	18,227	88,620	1.2589	1.2589
1992	3	54,605	0	54,605	1.0000	1.0000
1992	4	100,259	0	100,259	1.0000	1.0000
1993	1	69,410	0	69,410	1.0000	1.0000
1993	2	-9,808	14,125	4,317	-0.4402	-0.4402
1993	3	80,033	0	80,033	1.0000	1.0000
1993	4	17,097	0	17,097	1.0000	1.0000
1994	1	68,504	0	68,504	1.0000	1.0000
1994	2	138,949	33,694	172,643	1.2425	1.2425
1994	3	48,480	1,046	49,527	1.0216	1.0216
1994	4	27,076	0	27,076	1.0000	1.0000
1995	1	188,234	0	188,234	1.0000	1.0000
1995	2	136,874	49,070	185,944	1.3585	1.3585
1995	3	126,217	11,305	137,521	1.0896	1.0896
1995	4	362,205	0	362,205	1.0000	1.0000
1996	1	193,756	238,406	432,162	2.2304	2.2304
1996	2	89,210	591,806	681,016	7.6338	4.3886
1996	3	172,651	10,691	183,343	1.0619	1.0619
1996	4	259,542	740	260,282	1.0029	1.0029
1997	1	135,007	181,241	316,248	2.3425	2.3425
1997	2	221,815	21,651	243,467	1.0976	1.0976
1997	3	175,117	0	175,117	1.0000	1.0000
1997	4	241,242	0	241,242	1.0000	1.0000
1998	1	338,232	1,538	339,770	1.0045	1.0045
1998	2	419,847	710	420,556	1.0017	1.0017
1998	3	254,909	0	254,909	1.0000	1.0000
1998	4	293,869	0	293,869	1.0000	1.0000
1999	1	201,518	1,013,961	1,215,480	6.0316	4.3886
1999	2	394,187	6,581	400,769	1.0167	1.0167
1999	3	407,305	0	407,305	1.0000	1.0000
1999	4	437,121	0	437,121	1.0000	1.0000
2000	1	605,712	172,869	778,581	1.2854	1.2854
2000	2	429,041	0	429,041	1.0000	1.0000
2000	3	416,937	0	416,937	1.0000	1.0000
2000	4	692,454	770,837	1,463,291	2.1132	2.1132
2001	1	578,786	0	578,786	1.0000	1.0000
2001	2	578,747	0	578,747	1.0000	1.0000
2001	3	763,238	0	763,238	1.0000	1.0000
2001	4	452,696	0	452,696	1.0000	1.0000
2002	1	402,536	0	402,536	1.0000	1.0000
2002	2	316,795	0	316,795	1.0000	1.0000
2002	3	198,091	0	198,091	1.0000	1.0000
2002	4	251,596	0	251,596	1.0000	1.0000
2003	1	409,190	0	409,190	1.0000	1.0000
2003	2	118,104	0	118,104	1.0000	1.0000
2003	3	367,721	0	367,721	1.0000	1.0000
2003	4	285,484	0	285,484	1.0000	1.0000
2004	1	309,716	0	309,716	1.0000	1.0000
2004	2	338,652	0	338,652	1.0000	1.0000
2004	3	335,778	0	335,778	1.0000	1.0000
2004	4	378,483	0	378,483	1.0000	1.0000
2005	1	457,144	0	457,144	1.0000	1.0000
2005	2	286,424	0	286,424	1.0000	1.0000
2005	3	424,617	0	424,617	1.0000	1.0000
2005	4	743,895	0	743,895	1.0000	1.0000
2006	1	195,006	406,157	601,163	3.0828	3.0828
2006	2	355,857	86,514	442,371	1.2431	1.2431
2006	3	292,768	0	292,768	1.0000	1.0000
2006	4	476,782	0	476,782	1.0000	1.0000
2007	1	409,793	0	409,793	1.0000	1.0000
2007	2	545,998	0	545,998	1.0000	1.0000
Dollar Weighted Catastrophe Factor					1.1986	1.1656
Average Catastrophe Factor					1.2964	1.2337
Selected Catastrophe Factor					1.1656	

\* Capped at Mean Col(4) + 3 x Std Dev Col(4)

**Farmers Insurance Company, Inc.**  
**Farmers Insurance Exchange**  
  
**Arkansas**  
**Line of Business: Commercial Multiple Peril**  
**Subline: Landlords Protector**  
  
**Extreme Event Provision**

One of the greatest challenges in pricing property insurance is the proper inclusion of an adequate provision for catastrophes. There are three broad types of catastrophes to assess, each with different pricing challenges and solutions.

1. Very large and very infrequent events. These would normally include hurricanes and earthquakes, such as Andrew and Northridge. The availability of hazard models in recent years has provided a possible tool for pricing hurricanes and earthquakes risks.
2. Regular recurring moderate catastrophes. These are primarily wind, hail and tornado. These events happen with enough regularity that the traditional methods of using long term catastrophe loads generally work reasonably well.
3. Mid-size or unusual catastrophes. These are non-recurring events other than earthquake and hurricane. Mid-size catastrophes are events that do not fit into the first two categories and provide a challenge for pricing as they do not recur with a frequency to allow long term averaging. In addition, the hazard models can not adequately handle them at the time.

In order to approximate expected catastrophe exposure during the period being priced, a provision for events that occur with frequencies greater than 59 quarters must be included. An individual state's experience alone is not credible to estimate this provision due to the infrequent nature of these events at the state level. Even for states with unusual events in the experience period, losses are many times capped to minimize the distortion to the rate indication resulting in an inadequate CAT provision. Therefore, countrywide data is more appropriate to use to determine the "Extreme Event" provision since abnormal events at the state level are not abnormal at the countrywide level.

First, the countrywide CAT load is calculated using 59 quarters of historical countrywide catastrophe loss and premium data. For each year, a countrywide CAT loss ratio is calculated by dividing the catastrophe loss, excluding earthquake and hurricane losses, by earned premium. The average countrywide CAT load is calculated by taking the arithmetic average of the countrywide catastrophe ratios for all 59 quarters. Second, the "Extreme Event Provision" is calculated by taking the difference between the countrywide CAT load and the sum of individual state CAT loads. To minimize the devastating effect a single event can have on a state's experience and to provide needed stability, the catastrophe factor of individual years are capped at the mean plus three times the standard deviation of the CAT ratio. Finally, one point of the "Extreme Event Provision" is assigned to the contingency load, which is consistent with actuarial standard of practice, and the rest of the "Extreme Event Provision" is distributed back to each state based on its catastrophe potential. To determine each state's share of the "Extreme Event Provision", a weight is calculated by dividing individual state capped CAT losses by the countrywide capped CAT losses. Once the weight is calculated, then it is multiplied by the "Extreme Event Provision" less the contingency load.

Exhibit 8.

Farmers Insurance Company, Inc./Farmers Insurance Exchange  
Arkansas

Landlords Protector  
Allocated Loss Adjustment Expenses Paid to Paid Amount Ratio

Fiscal		As of xx Quarters of Development												
Accident		<u>4</u>	<u>8</u>	<u>12</u>	<u>16</u>	<u>20</u>	<u>24</u>	<u>28</u>	<u>32</u>	<u>36</u>	<u>40</u>	<u>44</u>	<u>48</u>	<u>52</u>
Year														
1995		0.0027	0.0024	0.0024	0.0024	0.0024	0.0024	0.0024	0.0024	0.0024	0.0024	0.0024	0.0024	0.0024
1996		0.0121	0.0112	0.0133	0.0134	0.0134	0.0134	0.0134	0.0134	0.0134	0.0134	0.0134	0.0134	0.0134
1997		0.0210	0.0251	0.0265	0.0271	0.0291	0.0293	0.0293	0.0295	0.0295	0.0295	0.0295	0.0295	0.0295
1998		0.0292	0.0304	0.0303	0.0304	0.0304	0.0304	0.0304	0.0304	0.0304	0.0304	0.0304	0.0304	0.0304
1999		0.0417	0.0380	0.0423	0.0423	0.0422	0.0422	0.0422	0.0422	0.0422	0.0422	0.0422	0.0422	0.0422
2000		0.0194	0.0212	0.0210	0.0229	0.0227	0.0227	0.0225	0.0225					
2001		0.0416	0.0414	0.0414	0.0414	0.0415	0.0413	0.0413						
2002		0.0237	0.0300	0.0366	0.0366	0.0375	0.0375							
2003		0.0254	0.0280	0.0280	0.0279	0.0279								
2004		0.0186	0.0227	0.0227	0.0226									
2005		0.0249	0.0258	0.0280										
2006		0.0274	0.0341											
2007		0.0220												
Fiscal		Age-to-Age Development Factors												
Accident		<u>4-8</u>	<u>8-12</u>	<u>12-16</u>	<u>16-20</u>	<u>20-24</u>	<u>24-28</u>	<u>28-32</u>	<u>32-36</u>	<u>36-40</u>	<u>40-44</u>	<u>44-48</u>	<u>48-52</u>	<u>52-Ult</u>
Year														
1995		0.8916	1.0059	1.0000	0.9999	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000
1996		0.9303	1.1854	1.0060	0.9968	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000
1997		1.1954	1.0566	1.0211	1.0742	1.0056	0.9993	1.0099	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000
1998		1.0415	0.9970	1.0007	1.0010	1.0000	1.0006	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000
1999		0.9120	1.1123	0.9989	0.9988	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000
2000		1.0945	0.9915	1.0892	0.9903	1.0000	0.9928	1.0000						
2001		0.9943	0.9988	1.0000	1.0027	0.9964	0.9995							
2002		1.2654	1.2203	0.9987	1.0253	1.0012								
2003		1.1028	0.9984	0.9981	1.0000									
2004		1.2210	1.0017	0.9935										
2005		1.0371	1.0864											
2006		1.2415												
3-Yr Avg		1.1666	1.0288	0.9968	1.0093	0.9992	0.9974	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000
3-Yr Dollar Wtd		1.1644	1.0291	0.9972	1.0098	0.9990	0.9983	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000
5-Yr Avg		1.1736	1.0611	1.0159	1.0034	0.9995	0.9984	1.0020	1.0000					
All-Yr Avg		1.0773	1.0595	1.0106	1.0099	1.0004	0.9989	1.0017	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000
Olympic		1.1885	1.0290	0.9989	1.0005	1.0000	0.9996	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000
Selected		1.1885	1.0290	0.9989	1.0005	1.0000	0.9996	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000
Age-Ult		1.2217	1.0280	0.9990	1.0001	0.9996	0.9996	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000
Method		Olympic	Olympic	Olympic	Olympic	Olympic	Olympic	Olympic	Olympic	3-Yr Avg	3-Yr Avg	2-Yr Avg	Latest Obs	Tail

Estimated Ultimate Losses

Fiscal	Ratio as of	Selected	Triangle	Bornhuetter-		
				Ultimate	Ultimate	Ultimate
Accident	Qtr 2	Age-Ult	Ultimate	Ultimate	Ultimate	Ultimate
Year	2007	Factor	Ratio	Ratio	Ratio	Ratio
1995	0.0024	1.0000	0.0024	0.0024	0.0024	0.0024
1996	0.0134	1.0000	0.0134	0.0134	0.0134	0.0134
1997	0.0295	1.0000	0.0295	0.0295	0.0295	0.0295
1998	0.0304	1.0000	0.0304	0.0304	0.0304	0.0304
1999	0.0422	1.0000	0.0422	0.0422	0.0422	0.0422
2000	0.0225	1.0000	0.0225	0.0225	0.0225	0.0225
2001	0.0413	1.0000	0.0413	0.0413	0.0413	0.0413
2002	0.0375	0.9996	0.0375	0.0375	0.0375	0.0375
2003	0.0279	0.9996	0.0279	0.0348	0.0279	0.0279
2004	0.0226	1.0001	0.0226	0.0343	0.0226	0.0226
2005	0.0280	0.9990	0.0280	0.0304	0.0280	0.0280
2006	0.0341	1.0280	0.0350	0.0315	0.0349	0.0349
2007	0.0220	1.2217	0.0269	0.0302	0.0275	0.0275
Five Year Average						0.0282

Exhibit 9.

Farmers Insurance Company, Inc.  
Farmers Insurance Exchange  
Arkansas Landlords Protector  
Current Base Rates: LANDLORDS PROTECTOR  
Protection Class 1, Frame

AOI	1	2	3
10	425	553	558
20	552	725	727
30	654	849	862
40	750	980	989
50	845	1,104	1,117
60	941	1,224	1,241
70	1,047	1,360	1,377
80	1,135	1,478	1,493
90	1,242	1,612	1,637
100	1,329	1,733	1,756
110	1,425	1,860	1,879
120	1,526	1,988	2,013
130	1,621	2,117	2,143
140	1,724	2,248	2,270
150	1,819	2,372	2,400
160	1,918	2,500	2,527
170	2,015	2,623	2,655
180	2,113	2,751	2,783
190	2,207	2,876	2,911
200	2,305	3,004	3,038
210	2,403	3,131	3,167
220	2,500	3,259	3,298
230	2,598	3,383	3,425
240	2,694	3,511	3,555
250	2,792	3,638	3,686
260	2,902	3,785	3,829
270	3,012	3,927	3,975
280	3,125	4,071	4,121
290	3,235	4,215	4,269
300	3,344	4,359	4,412
310	3,454	4,505	4,558
320	3,565	4,649	4,707
330	3,677	4,793	4,851
340	3,788	4,934	4,998
350	3,896	5,082	5,146
Add \$1k	10.80	14.80	14.80



FARMERS

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Fax: (323) 932-3950  
www.farmersinsurance.com

January 24, 2008

Honorable Julie Benafield Bowman  
Commissioner of Insurance  
Arkansas Insurance Department  
1200 West Third Street  
Little Rock, AR 72201

Attn.: Ms. Becky Harrington  
Property and Casualty

**SUBJECT:** Response to Objection Letter dated 01/07/2008  
Landlords Protector Rate and Rule Revision

Company Name	Reference #	NAIC #	Group #
Farmers Insurance Exchange	HAR0796-107760	21652	0212
Farmers Insurance Company, Inc.	HAR0796-207760	21628	0212

Dear Ms. Harrington:

Thank you for your list of questions regarding our rate filing. We numbered your questions and provided responses as requested.

**1. Please complete the expense information.**

As requested, we completed the expense portion (Section 7) from the RF-1 forms. Since our expenses are calculated based on variable and not fixed expenses, we would like to change the header from "expense constant" to "expense ratio," to properly represent your request and to provide a proper picture of Farmers' expenses.

We updated the RF-1 Forms for Farmers Insurance Company, Inc. and Farmers Insurance Exchange. To help explain our calculations, we provided the following expense information by company. In addition, we had to pull two different exhibits to complete Section 7. Please use Exhibit B1 as your guide to show you where we got our numbers.

Summary:

- Exhibit B1: Expense Ratios by Company

Farmers Insurance Company, Inc.:

- Exhibit B2: Permissible Loss and ALAE Ratio
- Exhibit B3: Expense Analysis

Farmers Insurance Exchange:

- Exhibit B4: Permissible Loss and ALAE Ratio
- Exhibit B5: Expense Analysis

2. Provide the supporting data showing the development of the projected CAT loss ratio of 10.6% and the CAT loss ratio of 9.4%.

CAT loss Ratio (9.4%)

- See Exhibit B6 for the supporting data and explanation.

Projected Loss Ratio (10.6%)

- See Exhibit B7 for the supporting data.
- See Exhibit B8 for our explanation.

If you have any questions on this material or require further information for your analysis, feel free to contact Brian Sniagowski at (323) 964-8036 or [Brian.Sniagowski@Farmers.com](mailto:Brian.Sniagowski@Farmers.com).

Very truly yours,  
FARMERS INSURANCE GROUP of COMPANIES

By: Brian Sniagowski  
Assistant Fire Product Manager

Cc: Charlie Snyder, State Executive Director

**FORM RF-1 Rate Filing Abstract NAIC LOSS COST DATA ENTRY DOCUMENT**

<b>1.</b>	This filing transmittal is part of Company Tracking #	HAR0703-107760
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<b>2.</b>	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	
<b>3.</b>	<b>A.</b> Farmers Insurance Exchange	<b>B.</b>	21652

Product Coding Matrix Line of Business (i.e., Type of Insurance)		Product Coding Matrix Line of Business (i.e., Sub-type of Insurance)	
<b>4.</b>	<b>A.</b> 04.0 LLP	<b>B.</b>	04.0000 Homeowners Sub-TOI

<b>5.</b>				<b>FOR LOSS COSTS ONLY</b>			
(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
LLP	29.0%	27.5%	N/A	N/A	N/A	N/A	N/A
Total Overall Effect							

<b>6.</b> 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
2002	2,021	None	None	N/A	N/A	N/A	N/A
2003	1,646	16%	4/16/2003	N/A	N/A	N/A	N/A
2004	1,390	None	N/A	N/A	N/A	N/A	N/A
2005	1,219	None	N/A	N/A	N/A	N/A	N/A
2006	1,101	None	N/A	N/A	N/A	N/A	N/A
2007	1,065	None	N/A	N/A	N/A	N/A	N/A

<b>7.</b>	
Expense Ratios	Selected Provisions
A. Total Production Expense	11.80%
B. General Expense	16.80%
C. Taxes, Licenses & Fees	3.50%
D. Underwriting Profit & Contingencies	8.10%
E. Other (explain)	6.40%
F. TOTAL	46.60%

- 8.**   N   Apply Loss Cost Factors to Future filings? (Y or N)
- 9.**   27.5%   Estimated Maximum Rate Increase for any Insured (%) Territory (if applicable): \_\_\_\_\_
- 10.**   27.5%   Estimated Maximum Rate Decrease for any Insured (%) Territory (if applicable): \_\_\_\_\_

\* Figures from Page 14/15, Farmers Insurance Company, Inc.  
 \* Based on current book of business multi-variable analysis.  
 \*\*\* Figures from TA635 reports

**FORM RF-1 Rate Filing Abstract NAIC LOSS COST DATA ENTRY DOCUMENT**

**1.** This filing transmittal is part of Company Tracking # HAR0703-207760

**2.** If filing is an adoption of an advisory organization loss cost filing, give name of Advisory Organization and Reference/Item Filing Number

**3.** **A.** Company Name Farmers Insurance Company, Inc. **B.** Company NAIC Number 21628

**4.** **A.** Product Coding Matrix Line of Business (i.e., Type of Insurance) 04.0 LLP **B.** Product Coding Matrix Line of Business (i.e., Sub-type of Insurance) 04.0000 Homeowners Sub-TOI

**5.**

(A) COVERAGE (See Instructions)	(B) Indicated % Rate Level Change	(C) Requested % Rate Level Change	(D) Expected Loss Ratio	FOR LOSS COSTS ONLY			
				(E) Loss Cost Modification Factor	(F) Selected Loss Cost Multiplier	(G) Expense Constant (If Applicable)	(H) Co. Current Loss Cost Multiplier
LLP	29.0%	27.5%	N/A	N/A	N/A	N/A	N/A
Total Overall Effect	29.0%	27.5%					

**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
2002	11,476	None	None	N/A	N/A	N/A	N/A
2003	10,446	16%	4/16/2003	N/A	N/A	N/A	N/A
2004	10,358	0%	6/16/2004	N/A	N/A	N/A	N/A
2005	11,359	None	N/A	N/A	N/A	N/A	N/A
2006	13,293	None	N/A	N/A	N/A	N/A	N/A
2007	15,009	None	N/A	N/A	N/A	N/A	N/A

**7.**

Expense Ratios	Selected Provisions
A. Total Production Expense	12.70%
B. General Expense	17.40%
C. Taxes, Licenses & Fees	3.00%
D. Underwriting Profit & Contingencies	8.10%
E. Other (explain)	6.40%
F. TOTAL	47.60%

**8.** N Apply Loss Cost Factors to Future filings? (Y or N)  
**9.** 27.5% Estimated Maximum Rate Increase for any Insured (%) Territory (if applicable): \_\_\_\_\_  
**10.** 27.5% Estimated Maximum Rate Decrease for any Insured (%) Territory (if applicable): \_\_\_\_\_

\* Figures from Page 14/15, Farmers Insurance Company, Inc. Based on current book of business multi-variable analysis.  
 \*\* PTP, SPF and TP are initialisms for Protector Plus, Special Form and Townhouse Protector, respectively  
 \*\*\* Figures from TA635 reports

## Exhibit B1:

### Expense Ratios by Company

#### Farmers Insurance Company

Expense Categories	Expense Ratios
<b>A. Total Production Expense</b>	<b>12.70%</b>
1. Comm. & Brok. (Exhibit B3)	12.70%
<b>B. General Expense</b>	<b>17.40%</b>
1. Other Underwriting Expenses (Exhibit B3)	17.40%
<b>C. Taxes, Licenses &amp; Fees (Exhibit B3)</b>	<b>3.00%</b>
<b>D. Underwriting Profit &amp; Contingencies</b>	<b>8.10%</b>
1. Contingencies (Exhibit B2)	1.00%
2. Total After-Tax Return as % of Premium (Exhibit B2)	7.10%
<b>E. Other (explain)</b>	<b>6.40%</b>
1. ULAE (Exhibit B3)	6.40%
<b>F. TOTAL (A + B + C + D + E)</b>	<b>47.60%</b>

#### Farmers Insurance Exchange

Expense Categories	Expense Ratios
<b>A. Total Production Expense</b>	<b>11.80%</b>
1. Comm. & Brok. (Exhibit B5)	11.80%
<b>B. General Expense</b>	<b>16.80%</b>
1. Other Underwriting Expenses (Exhibit B5)	16.80%
<b>C. Taxes, Licenses &amp; Fees (Exhibit B5)</b>	<b>3.50%</b>
<b>D. Underwriting Profit &amp; Contingencies</b>	<b>8.10%</b>
1. Contingencies (Exhibit B4)	1.00%
2. Total After-Tax Return as % of Premium (Exhibit B4)	7.10%
<b>E. Other (explain)</b>	<b>6.40%</b>
1. ULAE (Exhibit B5)	6.40%
<b>F. TOTAL (A + B + C + D + E)</b>	<b>46.60%</b>

Exhibit B2:

**Farmers Insurance Company, Inc.  
Arkansas  
Line of Business: Landlord Protector**

**Permissible Loss and ALAE Ratio**

	<u><b>Estimate</b></u>
R = Target Total After-Tax Return on Surplus	15.0%
S = Leverage Ratio	2.10 : 1
Prem:Surplus (=R/RT)	
RT = Total After-Tax Return as % of Premium	7.1%
=R/S	
E = Underwriting Expenses (Including ULAE)	39.5%
P = Contingencies Load	1.0%
U = Unearned Premium Reserve	52.3%
lr = Loss and LAE Reserve	50.1%
i = Investment Income, % of Total Assets	3.3%
tu = Tax Rate on Underwriting Assuming a Regular Taxpayer	35.0%
ti = Tax Rate on Investment Income	27.9%

**L = Permissible Loss and ALAE Ratio**

<b>53.1%</b>
--------------

**C = Target Combined Ratio**

<b>93.6%</b>
--------------

**= L + E + P**

RT = $\{(1 - tu) * (1 - E - P - L)\}$	(Underwriting Income)
+ $(1 - ti) * i * [L * lr + U]$	(Investment Income on Reserves)
+ $\{(1 - ti) * i\} / S$	(Investment Income on Surplus)

which yields

$$L = \frac{\{(1 - tu) * (1 - E - P)\} + \{\{(1 - ti) * i\} * [U + 1 / S]\} - RT}{1 - tu - (1 - ti) * i * lr}$$

**Farmers Insurance Company, Inc.**  
**Expense Analysis**  
**Arkansas**

**Commercial Multiple Peril: Landlord Protector Subline**  
(Amounts in Thousands)

Expense Component	2004		2005		2006		Selected %
	Amount	%	Amount	%	Amount	%	
Companywide Premiums Written, EA	\$2,928	100.0%	\$3,347	100.0%	\$4,072	100.0%	
Comm. & Brok.	\$350	11.9%	\$430	12.9%	\$544	13.4%	12.7%
Companywide Premiums Written	\$2,928	100.0%	\$3,347	100.0%	\$4,072	100.0%	
Companywide Premiums Earned	\$2,657	100.0%	\$3,215	100.0%	\$3,729	100.0%	
Other Underwriting Expenses	\$389	14.6%	\$486	15.1%	\$575	15.4%	17.4%
Arkansas Premiums Written	\$2,928	100.0%	\$3,347	100.0%	\$4,072	100.0%	
Taxes, Licenses, & Fees	\$90	3.1%	\$100	3.0%	\$122	3.0%	3.0%
Consolidated Premiums Earned	\$229,969	100.0%	\$267,919	100.0%	\$302,890	100.0%	
ULAE	\$12,551	5.5%	\$19,557	7.3%	\$19,359	6.4%	6.4%
Total		35.1%		38.3%		38.2%	39.5%

Exhibit B4:

**Farmers Insurance Exchange  
Arkansas  
Line of Business: Landlord Protector**

**Permissible Loss and ALAE Ratio**

	<u><b>Estimate</b></u>
R = Target Total After-Tax Return on Surplus	15.0%
S = Leverage Ratio	2.10 : 1
Prem:Surplus (=R/RT)	
RT = Total After-Tax Return as % of Premium	7.1%
=R/S	
E = Underwriting Expenses (Including ULAE)	38.5%
P = Contingencies Load	1.0%
U = Unearned Premium Reserve	52.3%
lr = Loss and LAE Reserve	50.1%
i = Investment Income, % of Total Assets	3.3%
tu = Tax Rate on Underwriting Assuming a Regular Taxpayer	35.0%
ti = Tax Rate on Investment Income	27.9%

**L = Permissible Loss and ALAE Ratio** **54.2%**

**C = Target Combined Ratio** **93.7%**  
**= L + E + P**

RT = $\{(1 - tu) * (1 - E - P - L)\}$	(Underwriting Income)
+ $(1 - ti) * i * \{L * lr + U\}$	(Investment Income on Reserves)
+ $\{(1 - ti) * i\} / S$	(Investment Income on Surplus)

which yields

$$L = \frac{\{(1 - tu) * (1 - E - P)\} + \{(1 - ti) * i\} * \{U + 1 / S\} - RT}{1 - tu - (1 - ti) * i * lr}$$

Exhibit B5:

**Farmers Insurance Group Consolidated Standard Companies**  
**Expense Analysis**  
**Countrywide**

**Commercial Multiple Peril: Landlord Protector Subline**  
(Amounts in Thousands)

Expense Component	2004		2005		2006		Selected
	Amount	%	Amount	%	Amount	%	%
Companywide Premiums Written, EA	\$298	100.0%	\$264	100.0%	\$239	100.0%	
Comm. & Brok.	\$33	11.1%	\$31	11.9%	\$30	12.5%	11.8%
Companywide Premiums Written	\$298	100.0%	\$264	100.0%	\$239	100.0%	
Companywide Premiums Earned	\$288	100.0%	\$261	100.0%	\$230	100.0%	
Other Underwriting Expenses	\$44	15.3%	\$40	15.4%	\$36	15.5%	16.8%
Arkansas Premiums Written	\$298	100.0%	\$264	100.0%	\$239	100.0%	
Taxes, Licenses, & Fees	\$9	3.1%	\$9	3.4%	\$9	3.9%	3.5%
Consolidated Premiums Earned	\$229,969	100.0%	\$267,919	100.0%	\$302,890	100.0%	
ULAE	\$12,551	5.5%	\$19,557	7.3%	\$19,359	6.4%	6.4%
Total		34.9%		37.9%		38.3%	38.5%

**Exhibit B6:**

5. Provide the supporting data showing the development of the projected CAT loss ratio of 10.6% and the CAT loss ratio of 9.4%.

Supporting Data (CAT Loss Ratio: 9.4%)

I copied the following portion of Exhibit 2B to explain how we came up with our CAT loss ratios, including projected.

	(1)	(2)	(3)	(4)	(5) =(3)x(4)	(6) =(5)/(2)	(7)	(8)	(9)	(10)	(11) =(6)x(7)x(8)/(9)x(10)x(11))	(12)
Fiscal Accident Year Ending in Qtr 2 of	Earned Exposures	Collected Earned Premium	Ultimate Incurred Loss Excluding Catastrophes	Catastrophe Adjustment Factor	Adjusted Ultimate Incurred Losses	Loss Ratio	Historical Loss Trend Factor	Future Loss Trend Factor	Premium at Current Factor	Historical Premium Trend Factor	Future Premium Trend Factor	Projected Loss Ratio
2003	6,317	2,456,909	979,274	1.1656	1,141,442	46.5%	1.3665	1.2763	1.3385	1.0915	1.0514	52.7%
2004	5,874	2,443,051	1,305,591	1.1656	1,521,797	62.3%	1.2639	1.2763	1.1506	1.0679	1.0514	77.8%
2005	5,952	3,323,021	1,464,518	1.1656	1,707,042	51.4%	1.1690	1.2763	1.0454	1.0447	1.0514	66.7%
2006	6,690	3,669,951	1,750,168	1.1656	2,039,995	55.6%	1.0812	1.2763	1.0383	1.0221	1.0514	68.7%
2007	7,696	4,266,307	2,040,202	1.1656	2,378,059	55.7%	1.0000	1.2763	1.0197	1.0000	1.0514	66.4%

**Step 1: Calculate the Projected Loss Ratio.**

We determined the Projected Loss Ratio by multiplying columns (6 x 7 x 8) / (9 x 10 x 11).

For example, for 2007, we multiplied (.557 \* 1.000 \* 1.2763) / (1.0197 \* 1.000 \* 1.0514) to get 66.4%

**Step 2: Calculate the weighted Projected Loss Ratio.**

By Accident Year, we multiplied the Projected Loss Ratio with the Weights (taken from Exhibit 2A). Then we totaled the five years worth of Projected Loss Ratio.

Fiscal Accident Year Ending in Qtr 2 of	(12) Projected Loss Ratio	(A) Accident Year Weights	(12) x (A)
2003	52.7%	0.2000	10.5%
2004	77.8%	0.2000	15.6%
2005	66.7%	0.2000	13.3%
2006	68.7%	0.2000	13.7%
2007	66.4%	0.2000	13.3%
Total Projected Loss Ratio:			66.5%

**Step 3: Calculate the Projected Non-CAT Loss Ratio.**

We determined the Projected Non-CAT Loss Ratio by using following formula [ (3) x (7) x (8) ] / [ (2) x (9) x (10) x (11) ]

For example, for 2007, we multiplied [ 2,040,202 x 1.00 x 1.2763 ] / [ 4,266,307 x 1.0197 x 1.00 x 1.0514 ] to arrive at 56.9%.

**Step 4: Calculate the weighted Projected Non-Cat Loss Ratio.**

By Accident Year, we multiplied the Projected Loss Ratio with the Weights (taken from Exhibit 2A). Then we totaled the five years worth of Projected Loss Ratios.

Fiscal Accident Year Ending in Qtr 2 of	(A) Projected Non-Cat Loss Ratio	(12) x (A) Accident Year Weights	
2003	45.3%	0.2000	9.1%
2004	66.7%	0.2000	13.3%
2005	57.3%	0.2000	11.5%
2006	59.0%	0.2000	11.8%
2007	56.9%	0.2000	11.4%
Total Projected Non-CAT Loss Ratio:			57.0%

**Step 4: Take the Difference**

We subtract the Non-CAT Loss Ratio from the Total to arrive at the CAT Loss Ratio.

Projected Loss Ratio	66.5%
Projected Non-CAT Loss Ratio	57.0%
CAT Loss Ratio	9.4%

**Exhibit B7:**

5. Provide the supporting data showing the development of the projected CAT loss ratio of 10.6% and the CAT loss ratio of 9.4%

Supporting Data (Projected CAT Loss Ratio: 10.6%)

**Landlord Protector**

This data is Farmers Countrywide Catastrophe Analysis as of Q2 2007.

	(a)	(1)	(2)	(3)	(4)	(5)	(6)	(7)
		Other than Theft or Liability Non-CAT LR	UnCapped CAT Factor	UnCapped CAT LR	Capped CAT Factor	Capped CAT LR	Deficiency	Prop CAT LR
State	Earned Premium			$= (1) \times [(2) - 1]$		$= (1) \times [(4) - 1]$	$= [(6TOT) - 1\%] \times$ $(5)/(5TOT) + 1\%$	$= (5) + (6)$
Arkansas	4,569,795	57.61%	1.1986	11.44%	1.1656	9.54%	1.05%	10.6%
TOTAL	354,326,321	41.90%	1.1504	6.30%	1.1259	5.27%	1.03%	6.3%
							$= (3TOT) - (5TOT)$	

Please see Exhibit B8 for an explanation.

## Exhibit B8:

5. Provide the supporting data showing the development of the projected CAT loss ratio of 10.6% and the CAT loss ratio of 9.4%

Explanation: Projected CAT Loss Ratio (10.6%)

Supporting Data: Exhibit B7

The following steps describe how we calculated the Projected CAT Loss Ratio. This procedure results in a Projected CAT Loss Ratio for 10.6% for Arkansas. Columns () refer to Exhibit B7.

1. Calculate the capped and uncapped CAT loss ratios by state using extensive historical loss data (as in exhibit 2B of the original filing).
2. Calculate the countrywide CAT loss ratio deficiency as the difference between the capped and uncapped CAT loss ratios (column (3) – column (5)).
3. Take 1 percentage point of the deficiency and apply to states based on premium, via 1% contingency load in the PLR. Note that this is not strictly a contingency load in that we are accounting for losses not yet included rather than adding an extraneous load.
4. The remainder of the CAT loss ratio deficiency is spread back to each state based on CAT potential via the ratio of the state's capped CAT loss ratio to the countrywide capped CAT loss ratio (column (6)).
5. The calculated excess CAT loss ratio is added back to the capped CAT loss ratio to get the total CAT loss ratio (column (7)).

### Summary:

Using extensive historical loss data (as in Exhibit 2B of the original filing), we calculate the projected capped and uncapped CAT loss ratios for each state. The capped loss ratios are selected in each individual state's pricing process by restricting losses in each quarter to 3 standard deviations above the overall mean. Since the difference between the uncapped and capped CAT loss ratios (excess CAT loss ratio) is a real risk which has been removed, we must incorporate a provision for these excess losses, which we refer to as the Extreme Event Provision.

We compared the Projected CAT Loss Ratio to the (capped) CAT loss ratio calculated in our pricing model to determine the Extreme Event Provision. The (capped) CAT loss ratio is calculated as the difference between the forecasted loss ratios with and without the capped Catastrophe Adjustment Factor. The Extreme Event Provision is calculated as the difference between the Projected CAT Loss Ratio and the (capped) CAT Loss Ratio, less 1% (as shown in Exhibit 2A of the original filing). The 1% that we removed from the Extreme Event Provision is incorporated into our PLR via the contingency load. As noted above, this contingency load

is not a contingency load in the strict sense, as it directly accounts for the portion of the CAT loss ratio that has been removed as a result of the Extreme Event Provision calculation.

The difference between the entry in column (5) of Exhibit B7 and the CAT Loss Ratio used in Exhibit 2A of the original filing is explained by the fact that the Capped CAT LR on Exhibit A7 is calculated on a countrywide basis with default settings for all states, before any Arkansas specific choices are made. The ratio in Exhibit 2A of the original filing is impacted by choices made in the development of the final indication.