Arkansas Democrat Gazette

STATEMENT OF LEGAL ADVERTISING

ARK INSURANCE DEPARTMENT
1200 W THIRD
LITTLE ROCK AR 72201

ATTN: Pam Looney

DATE : 04/09/08 INVOICE #: 2292100
ACCT #: L801001 P.O. #:

REMIT TO:
ARKANSAS DEMOCRAT-GAZETTE, INC.
P.O. BOX 2221
LITTLE ROCK, AR 72203

BILLING QUESTIONS CALL 378-3812

STATE OF ARKANSAS, }
COUNTY OF PULASKI, } ss.

I, Elizabeth Myers do solemnly swear that I am the Legal Billing Clerk of the Arkansas Democrat - Gazette, a daily newspaper printed and published in said County, State of Arkansas; that I was so related to this publication at and during the publication of the annexed legal advertisement in the matter of:

rate increase

pending in the Court, in said County, and at the dates of the several publications of said advertisement stated below, and that during said periods and at said dates, said newspaper was printed and had a bona fide circulation in said County; that said newspaper had been regularly printed and published in said County, and had a bona fide circulation therein for the period of one month before the date of the first publication of said advertisement; and that said advertisement was published in the regular daily issues of said newspaper as stated below.

DATE	DAY	LINAGE	RATE	DATE	DAY	LINAGE	RATE
04/07	Mon	29	1.25				
04/08	Tue	29	1.25				
04/09	Wed	29	1.25				

TOTAL COST ---------- 108.75
Billing Ad #: 50098860

Elizabeth Myers

Subscribed and sworn to me this 8 day of April, 2008

Jean Bradley
Notary Public

JEAN BRADLEY
MY COMMISSION EXPIRES
March 4, 2013
FAULKNER COUNTY
NOTARY PUBLIC, STATE OF ARKANSAS

AD COPY

ARKANSAS INSURANCE DEPARTMENT
NOTICE OF RATE INCREASE
(Homeowners)

Allstate Indemnity Company has increased its overall rates for its mobile homeowners insurance business in Arkansas. The overall rate increase is 28%. Copies of the rate filing may be obtained by writing or calling the Arkansas Insurance Department, or by visiting our Internet site at http://www.insurance.arkansas.gov/PandC/FilingElectronic/20083/ALSX-125502610.pdf. For more information, please contact the Department at:

Arkansas Insurance Department
Property & Casualty Division
1200 West Third Street
Little Rock, AR 72201-1904
501-371-2800

50098860f

RECEIVED
APR 10 2008
ACCOUNTING
ARKANSAS INSURANCE DEPARTMENT

Filing at a Glance

Company: Allstate Indemnity Company

Product Name: Manufactured Home	SERFF Tr Num: ALSX-125502610	State: Arkansas
TOI: 04.0 Homeowners	SERFF Status: Closed	State Tr Num: EFT $100
Sub-TOI: 04.0002 Mobile Homeowners	Co Tr Num: R19494	State Status: Fees verified and received
Filing Type: Rate	Co Status:	Reviewer(s): Becky Harrington, Betty Montesi, Brittany Yielding
	Author: SPI AllState	Disposition Date: 03/31/2008
	Date Submitted: 02/22/2008	Disposition Status: Filed
Effective Date Requested (New): 04/21/2008		Effective Date (New): 04/21/2008
Effective Date Requested (Renewal): 06/05/2008		Effective Date (Renewal): 06/05/2008

State Filing Description:

General Information

Project Name: Rate Filing	Status of Filing in Domicile: Not Filed
Project Number: R19494	Domicile Status Comments:
Reference Organization:	Reference Number:
Reference Title:	Advisory Org. Circular:
Filing Status Changed: 03/31/2008	
State Status Changed: 02/22/2008	Deemer Date:
Corresponding Filing Tracking Number:	

Filing Description:

Attached are exhibits supporting an overall 29.8% increase to the Arkansas Allstate Indemnity Company Manufactured Homes Program. With this filing, Allstate is proposing to take this rate level increase through changes to Base Rates, Rating Group factors, and Age of Manufactured Home factors. Based on 2007 written premium at current rate level of $818,991, this rate change will generate approximately $244,059 in additional annual premium.

We are targeting an implementation date of April 21, 2008 for all new business written and renewals processed on or

after April 21, 2008 and renewal business effective on or after June 5, 2008.

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 Indemnity Company	CoCode: 19240	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: 36-6115679	

Filing Fees

Fee Required?	Yes
Fee Amount:	$100.00
Retaliatory?	No
Fee Explanation:	Independent rate filing
Per Company:	No

COMPANY	AMOUNT	DATE PROCESSED	TRANSACTION #
Allstate Indemnity Company	$100.00	02/22/2008	18109409

Correspondence Summary

Dispositions

Status	Created By	Created On	Date Submitted
Filed	Becky Harrington	03/31/2008	03/31/2008

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	03/12/2008	03/12/2008	SPI AllState	03/26/2008	03/26/2008
Pending Industry Response	Becky Harrington	03/05/2008	03/05/2008	SPI AllState	03/10/2008	03/10/2008
Pending Industry Response	Becky Harrington	02/22/2008	02/22/2008	SPI AllState	03/05/2008	03/05/2008

Amendments

Item	Schedule	Created By	Created On	Date Submitted
ManualR19494	Rate	SPI AllState	03/26/2008	03/26/2008
StateFilingForm01_Final	Supporting Document	SPI AllState	03/26/2008	03/26/2008

Filing Notes

Subject	Note Type	Created By	Created On	Date Submitted

Manual Pages and RF-1	Note To Filer	Becky Harrington	03/26/2008	03/26/2008

Disposition

Disposition Date: 03/31/2008

Effective Date (New): 04/21/2008

Effective Date (Renewal): 06/05/2008

Status: Filed

Comment: See attachment for a copy of the notice to be placed in our statewide newspaper.

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 Indemnity Company	28.000%	$244,059	1,314	$818,991	%	%	28.000%

SERFF Tracking Number:	*ALSX-125502610*	*State:*	*Arkansas*
Filing Company:	*Allstate Indemnity Company*	*State Tracking Number:*	*EFT $100*
Company Tracking Number:	*R19494*		
TOI:	*04.0 Homeowners*	*Sub-TOI:*	*04.0002 Mobile Homeowners*
Product Name:	*Manufactured Home*		
Project Name/Number:	*Rate Filing/R19494*		

Item Type	Item Name	Item Status	Public Access
Supporting Document	Uniform Transmittal Document-Property & Casualty	Filed	Yes
Supporting Document	NAIC Loss Cost Filing Document for OTHER than Workers' Comp	Filed	Yes
Supporting Document	OtherActSupportExh01	Filed	Yes
Supporting Document	ResponseExhibits01, ResponseSupplementalAttachmentA	Filed	Yes
Supporting Document	R19494Response02	Filed	Yes
Supporting Document	ResponseExhibits03, SummaryofProposedChangeResponse03	Filed	Yes
Supporting Document	StateFilingForm01_Final	Filed	Yes
Rate	ManualR19494	Filed	Yes
Rate	CheckingListR19494	Filed	Yes
Rate	ManualR19494	Filed	Yes

ARKANSAS INSURANCE DEPARTMENT

NOTICE OF RATE INCREASE
(Homeowners)

Allstate Indemnity Company has increased its overall rates for its mobile homeowners insurance business in Arkansas. The overall rate increase is 28%. Copies of the rate filing may be obtained by writing or calling the Arkansas Insurance Department, or by visiting our Internet site at http://www.insurance.arkansas.gov/PandC/divpage.htm. For more information, please contact the Department at:

Arkansas Insurance Department
Property & Casualty Division
1200 West Third Street
Little Rock, AR 72201-1904
501-371-2800

Objection Letter

Objection Letter Status	Pending Industry Response
Objection Letter Date	03/12/2008
Submitted Date	03/12/2008
Respond By Date	

Dear Carrie Deppe,

This will acknowledge receipt of the captioned filing.

Objection 1

- R19494Response02 (Supporting Document)

Comment: Allstate's market share in Arkansas should provide credible data. Please provide AR specific data related to a contingency provision or remove it.

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	03/26/2008
Submitted Date	03/26/2008

Dear Becky Harrington,

Comments:

Please see our attached response.

Response 1

Comments: Please refer to attached Exhibit 1 for Arkansas specific mold losses from 2003 to 2007. This data shows that Arkansas is in fact susceptible to the unexpected losses used in our Countrywide support. Allstate still feels it is appropriate and justifiable to include a 2% contingency provision. However, in order to expedite this filing, we have tempered our selection to a 1% contingency provision. The revised overall indicated rate need changes from 29.8% to

28.0%. A revised Summary of Proposed Changes has been included to reflect this change.

Related Objection 1

Applies To:

- R19494Response02 (Supporting Document)

Comment:

Allstate's market share in Arkansas should provide credible data. Please provide AR specific data related to a contingency provision or remove it.

Changed Items:

Supporting Document Schedule Item Changes

Satisfied -Name: ResponseExhibits03, SummaryofProposedChangeResponse03

Comment:

No Form Schedule items changed.

No Rate/Rule Schedule items changed.

Sincerely,

Carrie Deppe

Sincerely,
SPI AllState

Objection Letter

Objection Letter Status	Pending Industry Response
Objection Letter Date	03/05/2008
Submitted Date	03/05/2008
Respond By Date	

Dear Carrie Deppe,

This will acknowledge receipt of the captioned filing.

Objection 1

- ResponseExhibits01, ResponseSupplementalAttachmentA (Supporting Document)

Comment: Support for the contingency factor is unacceptable. ACA 23-67-209 requires the use of 5 years of Arkansas data when credible, then companywide when not. The unexpected events listed are not Arkansas related and a time period is not referenced. The contingency provision must be removed and affected areas of the rated development recalculated.

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	03/10/2008
Submitted Date	03/10/2008

Dear Becky Harrington,

Comments:

Please see the attached response.

Response 1

Comments: See attached.

Related Objection 1

Applies To:

- ResponseExhibits01, ResponseSupplementalAttachmentA (Supporting Document)

Comment:

Support for the contingency factor is unacceptable. ACA 23-67-209 requires the use of 5 years of Arkansas data when credible, then companywide when not. The unexpected events listed are not Arkansas related and a time period is not referenced. The contingency provision must be removed and affected areas of the rated development recalculated.

Changed Items:

Supporting Document Schedule Item Changes

Satisfied -Name: R19494Response02

Comment:

No Form Schedule items changed.

No Rate/Rule Schedule items changed.

Sincerely,

Carrie Deppe

Sincerely,
SPI AllState

Objection Letter

Objection Letter Status	Pending Industry Response
Objection Letter Date	02/22/2008
Submitted Date	02/22/2008
Respond By Date	

Dear Carrie Deppe,

This will acknowledge receipt of the captioned filing.

Objection 1

- OtherActSupportExh01 (Supporting Document)

Comment: Attachment A, Page 2: Provide supporting data that shows the development of the indicated rating group factors.

Objection 2

- OtherActSupportExh01 (Supporting Document)

Comment: Attachment A, Page 3: Provide supporting data used to develop the indicated factors.

Objection 3

- OtherActSupportExh01 (Supporting Document)

Comment: Attachment B, Page 13: Show the development of the .563 adjustment factor.

Objection 4

- OtherActSupportExh01 (Supporting Document)

Comment: Attachment C, Exhibit 15: Provide additional data regarding the total estimated loss from unexpected events amount of $388,265,584. State the specific losses included.

Objection 5

- OtherActSupportExh01 (Supporting Document)

Comment: In recent rate filings we have requested your after-tax underwriting profit provision be lowered to 5%. Explain how the development of the contingency provision and the after-tax underwriting provision comply with Arkansas Code Annotated § 23-67-209(d).

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	03/05/2008
Submitted Date	03/05/2008

Dear Becky Harrington,

Comments:
Please see our attached response.

Response 1

Comments: Please refer to attached Exhibit 1 for the Countrywide Manufactured Home univariate pure premium relativities. However, these univariate pure premiums do not account for the correlation between rating variables. Therefore, the indicated factors were developed using a generalized linear model, which is a multivariate approach, with the losses and exposures provided in Exhibit 1 underlying the model. The multivariate approach is more accurate given that it addresses the correlations between rating variables.

Related Objection 1

Applies To:

- OtherActSupportExh01 (Supporting Document)

Comment:
Attachment A, Page 2: Provide supporting data that shows the development of the indicated rating group factors.

Changed Items:

Supporting Document Schedule Item Changes
Satisfied -Name: ResponseExhibits01, ResponseSupplementalAttachmentA
Comment: Objection response 3.5.08

No Form Schedule items changed.

No Rate/Rule Schedule items changed.

Response 2

Comments: Please see the response to Objection 1.

Related Objection 1

Applies To:

- OtherActSupportExh01 (Supporting Document)

Comment:

Attachment A, Page 3: Provide supporting data used to develop the indicated factors.

Changed Items:

No Supporting Documents changed.

No Form Schedule items changed.

No Rate/Rule Schedule items changed.

Response 3

Comments: Please refer to attached Exhibit 2 for the calculation of the adjustment factor. This adjustment factor is intended to account for differences in the exposure base of Purchase Price used in Allstate Insurance Company and Estimated Replacement Cost used in Allstate Indemnity Company.

Related Objection 1

Applies To:

- OtherActSupportExh01 (Supporting Document)

Comment:

Attachment B, Page 13: Show the development of the .563 adjustment factor.

Changed Items:

No Supporting Documents changed.

No Form Schedule items changed.

No Rate/Rule Schedule items changed.

Response 4

Comments: Please refer to attached Exhibit 3.

Related Objection 1

Applies To:

- OtherActSupportExh01 (Supporting Document)

Comment:

Attachment C, Exhibit 15: Provide additional data regarding the total estimated loss from unexpected events amount of $388,265,584. State the specific losses included.

Changed Items:

No Supporting Documents changed.

No Form Schedule items changed.

No Rate/Rule Schedule items changed.

Response 5

Comments: Please reference Supplemental Attachment A, which includes information to support the proposed use of a 7.12% after-tax underwriting provision in accordance with Arkansas Code Annotated § 23-67-209(d). Please reference Appendix 2, Exhibit 1 for the after tax underwriting profit percentage.

Related Objection 1

Applies To:

- OtherActSupportExh01 (Supporting Document)

Comment:

In recent rate filings we have requested your after-tax underwriting profit provision be lowered to 5%. Explain how the development of the contingency provision and the after-tax underwriting provision comply with Arkansas Code Annotated § 23-67-209(d).

Changed Items:

No Supporting Documents changed.

No Form Schedule items changed.

No Rate/Rule Schedule items changed.

Sincerely,

Carrie Deppe

Sincerely,
SPI AllState

Amendment Letter

Amendment Date:

Submitted Date: 03/26/2008

Comments:

Hi Becky,

Attached is a revised RF-1 form and updated rate pages. Only the rate pages that changed from the original filing submission are included herein. We still intend to keep an April 21, 2008 new business written date.

Thanks!

Carrie

Changed Items:

Rate/Rule Schedule Item Changes:

Exhibit Name:	Rule # or Page #:	Rate Action:	Previous State Filing Numbers:	Attach Document:
ManualR19494	R19494	Replacement		R19494.PDF

Supporting Document Schedule Item Changes:

User Added -Name: StateFilingForm01_Final

Comment:

StateFilingForm01_Final.PDF

Note To Filer

Created By:

Becky Harrington on 03/26/2008 12:59 PM

Subject:

Manual Pages and RF-1

Comments:

Please submit revised manual pages and an RF-1.

Do you wish to keep the 4/21/2008 effective date?

Rate Information

Rate data applies to filing.

Filing Method:	File and Use
Rate Change Type:	Increase
Overall Percentage of Last Rate Revision:	Increase
Effective Date of Last Rate Revision:	08/06/2007
Filing Method of Last Filing:	File and 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):**
Allstate Indemnity Company	%	29.800%	$244,059	1,314	$818,991	%	%

SERFF Tracking Number:	*ALSX-125502610*	*State:*	*Arkansas*
Filing Company:	*Allstate Indemnity Company*	*State Tracking Number:*	*EFT $100*
Company Tracking Number:	*R19494*		
TOI:	*04.0 Homeowners*	*Sub-TOI:*	*04.0002 Mobile Homeowners*
Product Name:	*Manufactured Home*		
Project Name/Number:	*Rate Filing/R19494*		

Rate/Rule Schedule

Review Status:	Exhibit Name:	Rule # or Page #:	Rate Action	Previous State Filing Number:	Attachments
Filed	ManualR19494	R19494	Replacement		R19494.PDF
Filed	CheckingListR19494	R19494	New		R19494.PDF
Filed	ManualR19494	R19494	Replacement		R19494.PDF

ALLSTATE INDEMNITY COMPANY
ARKANSAS MANUFACTURED HOMES
RATE FACTOR PAGES

Order in Calculation

1 **Base Rates:**

Zone	Base Rate
1	937.52
2	962.99
3	934.88
4	934.88
5	824.05
6	1022.23
7	1103.32
8	1041.02

2 **Tied Down Status:**

Tie Down Status	Factor
Yes	0.900
No	1.000

3 **Park Size:**

Park Size	Factor
1-20	1.250
21-100	1.000
101 and over	0.900

4 **Amount of Insurance:**

	Amount of Insurance	Factor
	20,000	0.255
	30,000	0.443
	35,000	0.540
	36,000	0.560
	37,000	0.580
	38,000	0.600
	39,000	0.618
	40,000	0.636
	41,000	0.654
	42,000	0.672
	43,000	0.690
	44,000	0.708
	45,000	0.724
	46,000	0.740
	47,000	0.756
	48,000	0.772
	49,000	0.788
	50,000	0.802
	51,000	0.816
	52,000	0.830
	53,000	0.844
	54,000	0.858
	55,000	0.870
	56,000	0.882
	57,000	0.894
	58,000	0.906
	59,000	0.918
	60,000	0.930
	61,000	0.942
	62,000	0.954
	63,000	0.964
	64,000	0.974
	65,000	0.984
	66,000	0.994
	67,000	1.004
	68,000	1.014
	69,000	1.024
Each Add'l	1,000	0.010

ALLSTATE INDEMNITY COMPANY
ARKANSAS MANUFACTURED HOMES
RATE FACTOR PAGES

Order in Calculation

5 Deductible:

Amount	Factor
$100	1.11
$250	1.00
250/500W	0.98
250/1000W	0.94
$500	0.94
500/1000W	0.90
$1,000	0.87
$2,500	0.75

6 Out of Park Surcharge:

Factor: 0 1.300

7 Rating Group:

Group	Factor
1	0.650
2	0.650
3	0.650
4	0.700
5	0.750
6	0.800
7	0.930
8	1.030
9	1.170
10	1.480

ALLSTATE INDEMNITY COMPANY
ARKANSAS MANUFACTURED HOMES
RATE FACTOR PAGES

Order in Calculation

8 Original Owner Discount:

Year Manufactured Home Purchased	Discount Factor
Current	0.950
1st Preceding	0.950
2nd Preceding	0.950
3rd Preceding	0.950
4th Preceding	0.950
All Others	1.000

9 Age of Manufactured Home Factor:

Age of Manufactured Home	ACV Factor	Replacement Cost Factor
0	0.860	0.880
1	0.860	0.880
2	0.880	0.900
3	0.890	0.920
4	0.900	0.930
5	0.910	0.950
6	0.910	0.970
7	0.920	0.990
8	0.930	1.040
9	0.940	1.100
10 -15	1.030	1.170
16 -20	1.100	1.300
21 +	1.170	1.400

10 Personal Property Reimbursement Provision:

Factor: 1.150

CHECKING LIST FOR MANUFACTURED HOME

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.

PREMIUM SECTION

Enclosed: RFP-1 dated 4-1-2008
RFP-2 dated 4-1-2008
RFP-3 dated 4-1-2008

Withdrawn: RFP-1 dated 8-1-2004
RFP-2 dated 8-1-2004
RFP-3 dated 8-1-2004

ALLSTATE INDEMNITY COMPANY
ARKANSAS MANUFACTURED HOMES
RATE FACTOR PAGES

Order in Calculation

1 **Base Rates:**

Zone	Base Rate
1	924.05
2	949.16
3	921.45
4	921.45
5	812.21
6	1007.55
7	1087.47
8	1026.07

2 **Tied Down Status:**

Tie Down Status	Factor
Yes	0.900
No	1.000

3 **Park Size:**

Park Size	Factor
1-20	1.250
21-100	1.000
101 and over	0.900

4 **Amount of Insurance:**

	Amount of Insurance	Factor
	20,000	0.255
	30,000	0.443
	35,000	0.540
	36,000	0.560
	37,000	0.580
	38,000	0.600
	39,000	0.618
	40,000	0.636
	41,000	0.654
	42,000	0.672
	43,000	0.690
	44,000	0.708
	45,000	0.724
	46,000	0.740
	47,000	0.756
	48,000	0.772
	49,000	0.788
	50,000	0.802
	51,000	0.816
	52,000	0.830
	53,000	0.844
	54,000	0.858
	55,000	0.870
	56,000	0.882
	57,000	0.894
	58,000	0.906
	59,000	0.918
	60,000	0.930
	61,000	0.942
	62,000	0.954
	63,000	0.964
	64,000	0.974
	65,000	0.984
	66,000	0.994
	67,000	1.004
	68,000	1.014
	69,000	1.024
Each Add'l	1,000	0.010

Supporting Document Schedules

Satisfied -Name: Uniform Transmittal Document-Property & Casualty

Review Status: Filed 03/31/2008

Comments:

Attachments:

AR - NAIC P&C TRANSMITTAL DOCUMENT.PDF

Rate&RuleSchedule.PDF

Satisfied -Name: NAIC Loss Cost Filing Document for OTHER than Workers' Comp

Review Status: Filed 03/31/2008

Comments:

Attachment:

StateFilingForm01.PDF

Satisfied -Name: OtherActSupportExh01

Review Status: Filed 03/31/2008

Comments:

Attachment:

OtherActSupportExh01.PDF

Satisfied -Name: ResponseExhibits01, ResponseSupplementalAttachment A

Review Status: Filed 03/31/2008

Comments:

Objection response 3.5.08

Attachments:

ResponseExhibits01.PDF

ResponseSupplementalAttachmentA.PDF

Satisfied -Name: R19494Response02

Review Status: Filed 03/31/2008

SERFF Tracking Number:	*ALSX-125502610*	*State:*	*Arkansas*
Filing Company:	*Allstate Indemnity Company*	*State Tracking Number:*	*EFT $100*
Company Tracking Number:	*R19494*		
TOI:	*04.0 Homeowners*	*Sub-TOI:*	*04.0002 Mobile Homeowners*
Product Name:	*Manufactured Home*		
Project Name/Number:	*Rate Filing/R19494*		

Comments:

Attachment:

R19494Response02.PDF

Satisfied -Name: ResponseExhibits03, SummaryofProposedChangeResponse03

Review Status: Filed 03/31/2008

Comments:

Attachments:

ResponseExhibits03.PDF

SummaryofProposedChangeResponse03.PDF

Satisfied -Name: StateFilingForm01_Final

Review Status: Filed 03/31/2008

Comments:

Attachment:

StateFilingForm01_Final.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:	
	New Business	
	Renewal Business	
	f. State Filing #:	
	g. SERFF Filing #:	
	h. Subject Codes	

3.	Group Name	Group NAIC #
	Allstate	008

4.	Company Name(s)	Domicile	NAIC #	FEIN #	State #
	Allstate Indemnity Company	IL	19240	36-6115679	

5.	Company Tracking Number	R19494

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	Carrie M. Deppe
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)**	04.0002 Mobile Homeowners
11.	**State Specific Product code(s) (if applicable) [See State Specific Requirements]**	
12.	**Company Program Title** (Marketing Title)	Manufactured Home
13.	**Filing Type**	☒ Rate/Loss Cost ☐ Rules ☐ Rates/Rules ☐ Forms ☐ Combination Rates/Rules/Forms ☐ Withdrawal ☐ Other (give description)
14.	**Effective Date(s) Requested**	New: 04/21/2008 Renewal: 06/05/2008
15.	**Reference Filing?**	☐ Yes ☒ No
16.	**Reference Organization** (if applicable)	Not applicable
17.	**Reference Organization # & Title**	Not applicable
18.	**Company's Date of Filing**	February 22, 2008
19.	**Status of filing in domicile**	☒ Not Filed ☐ Pending ☐ Authorized ☐ Disapproved

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Property & Casualty Transmittal Document

20.	**This filing transmittal is part of Company Tracking #**	R19494

21.	**Filing Description** [This area can be used in lieu of a cover letter or filing memorandum and is free-form text]

Attached are exhibits supporting an overall 29.8% increase to the Arkansas Allstate Indemnity Company Manufactured Homes Program. With this filing, Allstate is proposing to take this rate level increase through changes to Base Rates, Rating Group factors, and Age of Manufactured Home factors. Based on 2007 written premium at current rate level of $818,991, this rate change will generate approximately $244,059 in additional annual premium.

We are targeting an implementation date of April 21, 2008 for all new business written and renewals processed on or after April 21, 2008 and renewal business effective on or after June 5, 2008.

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 sent via Electronic Funds Transfer.
Amount: $100.00

Independent 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.)**

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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 #**	R19494

2.	**This filing corresponds to form filing number** (Company tracking number of form filing, if applicable)	

☒ Rate Increase ☐ Rate Decrease ☐ Rate Neutral (0%)

3.	**Filing Method (Prior Approval, File & Use, Flex Band, etc.)**	File & Use

4a. Rate Change by Company (As Proposed)

Company Name	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 Indemnity Company	29.8%	$244,059	1,314	$818,991		

4b. Rate Change by Company (As Accepted) For State Use Only

Company Name	Overall % Rate Impact	Written premium change for this program	# of policyholders affected for this program	Written premium for this program	Maximum % Change	Minimum % Change

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

		COMPANY USE	STATE USE
5a.	**Overall percentage rate impact for this filing**		
5b.	**Effect of Rate Filing - Written premium change for this program**		
5c.	**Effect of Rate Filing - Number of policyholders affected**		

6.	**Overall percentage of last revision**	**N/A**
7.	**Effective Date of last rate revision**	**8/6/2007-New; 9/20/2007-Renewal**
8.	**Filing Method of Last filing (Prior Approval, File & Use, Flex Band, etc.)**	**File & Use**

9.	**Rule # or Page # Submitted for Review**	**Replacement or withdrawn?**	**Previous state filing number, if required by state**
01	Rate Pages RFP-1	☐ New ☒ Replacement ☐ Withdrawn	
02	Rate Pages RFP-2	☐ New ☒ Replacement ☐ Withdrawn	
03	Rate Pages RFP-3	☐ New ☒ Replacement ☐ Withdrawn	

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NAIC LOSS COST DATA ENTRY DOCUMENT

1.	This filing transmittal is part of Company Tracking #	**R19494**

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
3.	**A.**	**Allstate Indemnity Company**	**B.**	**19240**

		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.**	**Homeowners**	**B.**	**Mobilehome**

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)	(H) Co. Current Loss Cost Multiplier
Mobile Home	**29.8%**	**29.8%**	**63.3%**			**36.7%**	
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^
3/31/2007				**$418**	**$639**	**153.0%**	**104.79%**
3/31/2006	**N/A**			**N/A**	**N/A**	**N/A**	**98.7%**
3/31/2005	**N/A**			**N/A**	**N/A**	**N/A**	**84.9%**
3/31/2004	**N/A**			**N/A**	**N/A**	**N/A**	**N/A**
3/31/2003	**N/A**			**N/A**	**N/A**	**N/A**	**N/A**

^Countrywide Loss Ratios are Calendar Year figures excluding Catastrophes

7.

Expense Constants	Selected Provisions
A. Total Production Expense	**17.2**
B. General Expense	**3.6**
C. Taxes, License & Fees	**3.0**
D. Underwriting Profit & Contingencies	**12.9**
E. Other (explain)	
F. TOTAL	**36.7**

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

ALLSTATE INDEMNITY COMPANY
MANUFACTURED HOMES

ARKANSAS

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Attachment A
Summary of Proposed Change

ALLSTATE INDEMNITY COMPANY
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ARKANSAS

SUMMARY OF PROPOSED CHANGE

INDICATED RATE LEVEL CHANGE:	29.8%
SELECTED RATE LEVEL CHANGE:	29.8%

	Written Premium @CRL As of 1/15/08	Total Change
Base Premium	$ 795,278	30.7%
Additional Coverages	$ 23,713	N/C
Total	$ 818,991	29.8%

ALLSTATE INDEMNITY COMPANY
MANUFACTURED HOMES
ARKANSAS

SUMMARY OF FACTOR CHANGES

RATING GROUP

Group	Current Factor	Indicated Factor	Proposed Factor
1	0.65	0.59	0.65
2	0.65	0.62	0.65
3	0.65	0.64	0.65
4	0.70	0.68	0.70
5	0.75	0.75	0.75
6	0.80	0.80	0.80
7	0.85	0.93	0.93
8	0.90	1.03	1.03
9	0.95	1.17	1.17
10	1.00	1.48	1.48

ALLSTATE INDEMNITY COMPANY
MANUFACTURED HOMES
ARKANSAS

SUMMARY OF FACTOR CHANGES

AGE OF MANUFACTURED HOME

Age	Current Actual Cash Value Factor	Indicated Actual Cash Value Factor	Proposed Actual Cash Value Factor	Age	Current Replacement Cost Factor	Indicated Replacement Cost Factor	Proposed Replacement Cost Factor
0-1	0.86	0.71	0.86	0-1	0.88	0.81	0.88
2	0.88	0.73	0.88	2	0.90	0.84	0.90
3	0.89	0.75	0.89	3	0.92	0.87	0.92
4	0.90	0.77	0.90	4	0.93	0.89	0.93
5	0.91	0.79	0.91	5	0.95	0.93	0.95
6	0.91	0.80	0.91	6	0.97	0.93	0.97
7	0.92	0.85	0.92	7	0.99	0.99	0.99
8	0.93	0.89	0.93	8	1.01	1.04	1.04
9	0.94	0.94	0.94	9	1.03	1.10	1.10
10-15	0.98	1.03	1.03	10-15	1.08	1.17	1.17
16-20	1.01	1.10	1.10	16-20	1.14	1.34	1.30
21+	1.05	1.17	1.17	21+	1.19	1.46	1.40

Attachment B
Arkansas Memos

ALLSTATE INDEMNITY COMPANY
MANUFACTURED HOMES
ARKANSAS

ACTUARIAL STANDARDS OF PRACTICE

This document confirms compliance with the following Actuarial Standards of Practices that are applicable to the preparation of statewide rate filings performed by casualty actuaries as stated in "Applicability Guidelines for Actuarial Standards of Practice" (American Academy of Actuaries, September 2004). In addition, references to relevant sections of this filing are included, where applicable.

- Actuarial Standard of Practice No. 9, *Documentation and Disclosure in Property and Casualty Insurance Ratemaking, Loss Reserving, and Valuations*
  - Att B, Page 2: Material Changes in Data, Assumptions, or Methods
  - Att B, Pages 3-4: Summary of the Development of Statewide Rate Level Indication
- Actuarial Standard of Practice No. 13, *Trending Procedures in Property/Casualty Insurance Ratemaking*
  - Att B, Pages 5-6: Determination of Statewide Rate Level Indication Explanatory Memorandum
  - Att B, Pages 7-9: Development of Provision for Non-Catastrophe Loss and LAE Provision Explanatory Memorandum
  - Att B, Pages 17-18: Expenses and Investment Income
- Actuarial Standard of Practice No. 23, *Data Quality*
  - Att B, Pages 3-4: Summary of the Development of Statewide Rate Level Indication
- Actuarial Standard of Practice No. 29, *Expense Provisions in Property/Casualty Insurance Ratemaking*
  - Att B, Pages 17-18: Expenses and Investment Income
- Actuarial Standard of Practice No. 30, *Treatment of Profit and Contingency Provisions and the Cost of Capital in Property/Casualty Insurance Ratemaking*
  - Att B, Pages 17-18: Expenses and Investment Income
  - Att B, Pages 19-21: Contingency Factor Support Explanatory Memorandum
- Actuarial Standard of Practice No. 39, *Treatment of Catastrophe Losses in Property/Casualty Insurance Ratemaking*
  - Att B, Pages 12-14: Summary of the Total Catastrophe Adjustment
- Actuarial Standard of Practice No. 41, *Actuarial Communications*
  - Applies to this filing in its entirety

ALLSTATE INDEMNITY COMPANY
MANUFACTURED HOMES
ARKANSAS

MATERIAL CHANGES IN SOURCES OF DATA, ASSUMPTIONS, OR METHODS

This document lists all material changes in sources of data, assumptions, or methods from the last Allstate rate level indication filing. These changes are further described in the subsequent memos in compliance with Actuarial Standard of Practice No. 9, *Documentation and Disclosure in Property and Casualty Insurance Ratemaking, Loss Reserving, and Valuations.*

- Accident Year Weights
  - Use of equal year weights among all accident years, as described in Att B, Page 9
- Accident Year Loss Data
  - Use of accident year data, rather than calendar year, as described in Att B, Page 3
- Loss Trends
  - Updated methodology for calculating frequency and severity amounts as described in Att B, Pages 8-9
  - Selected separate historical and projected loss trends as described in Att B, Page 9
  - Changes to data utilized when selecting trends for Allstate Indemnity Company, as described in Att B, Page 9
- Provision for General and Other Acquisition Expenses
  - Use of three-year average, rather than 12-month moving, earned premium to calculate the provision as described in Att B, Page 17
  - Methodology change for calculating the provision for fixed expense trend as described in Att B, Page 18
- Commission and Brokerage Expense
  - Use of Allstate Insurance Group data, rather than Allstate Indemnity Company specific data, as described in Att B, Page 17
- Profit Provision
  - Update to methodology as described in Att B, Page 18
- Current Rate Level
  - Factors to current rate level calculated using the "Miller-Davis-Karlinski" method, rather than the "parallelogram method", as described in Att B, Page 7
- Premium Trends
  - Selected separate historical and projected loss trends as described in Att B, Page 8
  - Changes to data utilized when selecting trends as described in Att B, Page 8
- Catastrophe Adjustment
  - Catastrophe provision adjusted as described in Att B, Pages 12-14

ALLSTATE INDEMNITY COMPANY
MANUFACTURED HOMES
ARKANSAS

SUMMARY OF THE DEVELOPMENT OF STATEWIDE RATE LEVEL INDICATION

The data used in the calculation of the rate level indication was selected in accordance with the considerations listed in Section 3.2 of Actuarial Standard or Practice No. 23, *Data Quality*. The calculation of the rate level indication is consistent with the Statement of Principles Regarding Property and Casualty Insurance Ratemaking.

In developing rate level indications, Allstate projects estimated losses, expenses, cost of capital, 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. The proposed effective date of the indication is 01/01/2008. This is consistent with the Casualty Actuarial Society ratemaking literature.

The determination of the overall indication of 29.8% is included on **Exhibit 1** with an explanatory memorandum on **Pages 5 through 6**.

Non-Catastrophe Losses and Loss Adjustment Expense

Support for the development of the weighted non-catastrophe loss and loss adjustment expense provision is included on **Pages 7 through 9** and **Exhibit 2.**

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.

Expected Catastrophe Loss and Loss Adjustment Expense

Support for the development of the expected catastrophe loss and loss adjustment expense is included on **Page 11** and **Exhibit 6.**

Expenses

With this filing, we are modifying our methodology to develop the indicated provision for fixed expenses. Please see the Expenses and Investment Income Explanatory Memorandum on **Pages 17 through 18** for more information on this modification.

Consistent with past filings, we have also included the effect of investment income in the development of the underwriting profit provision for Arkansas. The supporting calculations for the investment income calculations are explained in greater detail on **Page 18** and **Exhibits 11 and 12.**

Indicated Average Premium

Support for the development of the indicated average premium is included on **Pages 5 through 6** and **Exhibit 1**.

ALLSTATE INDEMNITY COMPANY
MANUFACTURED HOMES
ARKANSAS

DETERMINATION OF STATEWIDE RATE LEVEL INDICATION
EXPLANATORY MEMORANDUM

Exhibit 1 shows the development of the indicated rate level change. An explanation of the development, with reference to supporting exhibits, is provided below.

1. Latest Twelve-Month Moving Average Earned Premium at Current Rates:
   Average earned premium for the year ending March 31, 2007, adjusted for past rate changes.

2. Weighted Non-Catastrophe Loss and Loss Adjustment Expense (LAE) Ratio:
   Weighted non-catastrophe loss and loss adjustment expense (LAE) ratio developed on **Exhibit 2.** Please refer to **Pages 7 through 9** for the explanatory memorandum.

3. Indicated Provision for Non-Catastrophe Loss and Loss Adjustment Expense: (1) x (2)

4. Expected Catastrophe Loss Ratio including all LAE
   Expected Catastrophe Loss and LAE Ratio developed on **Exhibit 6**. Please refer to **Page 11** for the explanatory memorandum.

5. Indicated Provision for Catastrophe Loss including all LAE: (1) x (4)

6. Current General and Other Acquisition Expense Ratio:
   Provisions for general and other acquisition expenses are found on **Pages 17 through 18** and **Exhibit 14**.

7. Three Year Average Earned Premium:
   Average earned premium for Allstate Insurance Group between January 1, 2004 and December 31, 2006 is used in the development of the indicated dollar provision for Fixed Expenses. Allstate Insurance Group includes Allstate Insurance Company and Allstate Indemnity Company.

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 three-year period 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, profit and contingencies found on **Pages 17 through 21** and **Exhibits 10 and 11**.

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
MANUFACTURED HOMES
ARKANSAS

DEVELOPMENT OF PROVISION FOR NON-CATASTROPHE LOSS AND LAE PROVISION
EXPLANATORY MEMORANDUM

The numerical references in this memorandum correspond to the numbering sequence found on **Exhibit 2**. Allstate Indemnity Company was introduced for Arkansas Manufactured Homes on May 30, 2005.

(1) Earned Premium:
Earned Premium for the 12-month period ending March 31, 2007 for Allstate Indemnity Company.

(2) Non-Catastrophe Ultimate Loss and LAE:
Non-catastrophe accident year losses including allocated loss adjustment expenses for the 12-month period ending March 31, 2007 for Allstate Indemnity Company developed to ultimate. Refer to **Page 10**, Loss Development Methodology for detail on the selection of ultimate losses.
Losses in the experience period have been adjusted to account for non-hurricane unallocated loss adjustment expenses (ULAE). A provision is developed using countrywide Allstate Insurance Group data. 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. The average ratio is then applied to the losses for each year used in the formula calculation. The ULAE ratio that used in this filing is shown in **Exhibit 13**.

(3) 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. We use the Miller-Davis-Karlinski method to bring premiums to current rate level prior to calculating the changes in average premium (the premium trends).

Previously, Allstate has calculated the factors to current rate level using the industry-standard parallelogram method, which assumes that exposures are written uniformly throughout the year. With this filing, Allstate has adopted a more refined methodology that assumes that exposures are written uniformly by month, using a procedure described in a discussion by Frank Karlinski of the paper entitled "A Refined Model for Premium Adjustment", by David Miller and George Davis. (Mr. Karlinski's discussion appeared in the Proceedings of the Casualty Actuarial Society (PCAS), Vol. LXIV, 1977, and the paper by Miller and Davis appeared in the PCAS, Vol LXIII, 1976). This method (which we call "Miller-Davis-Karlinski"), more accurately calculates factors to current rate level in instances when exposures are changing throughout the year, whether through growth, shrinkage or seasonality. (When exposures are, in fact, written uniformly

throughout the year, this method produces approximately the same answers as the parallelogram method.)

Since there have been no rate changes to date in Allstate Indemnity Company, a factor of 1.000 is used.

(5) 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 Allstate Insurance Group non-catastrophe accident year losses are adjusted using a modification factor. The modification factor is the ratio of the Countrywide Allstate Indemnity Company loss ratio to the Allstate Insurance Company loss ratio for the most recent calendar year. The adjusted losses provide an estimate of the losses that the Allstate Indemnity Company would have experienced had it been writing business for the entire accident period.

(7) Factor to Adjust to Projected Premium Level:
Changes in the average written premium at the current premium level were reviewed. Based upon this review, historical premium trends were selected to account for shifts in the distribution of various underlying factors. Since the effects on losses caused by these shifts are reflected in the loss trends, it is important that Allstate also account for the anticipated future changes in premiums. Therefore, projected premium trend was taken into consideration when calculating the rate level need.

Annual selections are used to project the data from the average occurrence date of the experience period to the average occurrence date of the future policy period. Selections were based on Allstate Indemnity Company data. We selected a trend factor of 5.5% and a projection factor of 5.5%. **Exhibit 4** displays the six-point written premium trends for Allstate Indemnity Company in Arkansas supporting these selections.

This approach for selecting premium trends is consistent with the Current Practices and Alternatives detailed in Section 4 of Actuarial Standards of Practice No. 13, *Trending Procedures in Property/Casualty Insurance Ratemaking.*

(8) Factor to Adjust Losses for Pure Premium Trend:
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.

We selected a trend factor of 0.0% and a projection factor of 7.0%. Selections were based on Allstate Group data. **Exhibit 3** displays the twenty-four-, twelve-, and six-point paid pure premium trends for Countrywide Allstate Group data. Because of the limited amount of Arkansas Allstate Group data available, Countrywide data was considered in the selection process.

This approach for selecting pure premium trends is consistent with the Current Practices and Alternatives detailed in Section 4 of Actuarial Standards of Practice No. 13, *Trending Procedures in Property/Casualty Insurance Ratemaking*.

(9) Non-Catastrophe Projected Loss Ratio: (6) x (8) / (7)

(10) Experience Year Weight:
A weight is applied to each year in order to appropriately consider responsiveness and stability.

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

The experience year weight is applied to the Projected Non-Catastrophe Losses and LAE Ratio.

ALLSTATE INDEMNITY COMPANY
MANUFACTURED HOMES
ARKANSAS

LOSS DEVELOPMENT METHODOLOGY
EXPLANATORY MEMORANDUM

Allstate has developed accident year losses (including allocated loss adjustment expense) to ultimate settlement levels using the Link Ratio method.

Due to the limited amount of Arkansas Allstate Indemnity Company data, loss development factors were based on Countrywide 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.

Refer to **Exhibit 5** for the loss development using the Link Ratio Method. Please note that the actual five year average loss development factors were selected to project current losses to ultimate settlement level.

ALLSTATE INDEMNITY COMPANY
MANUFACTURED HOMES
ARKANSAS

DEVELOPMENT OF CATASTROPHE PROVISION AND LAE EXPLANATORY MEMORANDUM

The numerical references in this memorandum correspond to the numbering sequence on **Exhibit 6.**

(1) Average AIY for 12-month period ending 3/31/2007

(2) Factor to Adjust to Projected AIY Level:
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. **Exhibit 7** shows the six-point average AIY trends for Arkansas. We have selected a 7.0% provision to project the AIY's to the average earned date of the proposed policy period.

(3) Average AIY Projected to 1/1/2009: (1) x (2)

(4) Total Catastrophe Provision Per AIY including all LAE:
Developed on **Exhibits 8 through 9,** with explanatory memorandum on **Pages 12 through 16.**

(5) Expected Catastrophe Losses: (3) x (4)

(6) Average Earned Premium at Current Rate Level:
The earned premiums are adjusted to current rate level to represent the premiums that would have been earned if all policies had been written at the current manual rates. The explanatory memorandum on **Page 7** further explains this calculation under item **(4).**

(7) Factor to Adjust to Projected Premium Level:
The earned premium must be adjusted to represent the premium that we expect to be in force during the policy period. A 5.5% provision was selected to project premium to the 1/1/09 trend date. The explanatory memorandum on **Page 8** further explains this calculation under item **(7).**

(8) Trended Average Earned Premium at Current Rate Level: (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
MANUFACTURED HOMES
ARKANSAS

EXPLANATORY MEMORANDUM
DEVELOPMENT OF THE CATASTROPHE PROVISION

Allstate quantifies its exposure to losses due to the occurrence of catastrophic events within a state. For ratemaking purposes, all actual catastrophe losses are removed from the state's loss data. A provision for catastrophes is developed to reflect the best estimate of Allstate's annual expected levels of catastrophe losses.

Since the Allstate Insurance Group Manufactured Home catastrophe loss data is only available since 1987, the Allstate Insurance Group Manufactured Home data does not, in itself, provide a sufficiently credible basis for determining a catastrophe provision. Thus, the catastrophe provision is developed using the state's historical Allstate Insurance Group Manufactured Home catastrophe data and the Homeowners catastrophe provision. The development of this provision has been updated to include 2006 data.

The catastrophe provision is the product of the Allstate Insurance Group Homeowners catastrophe provision and the Allstate Insurance Group Manufactured Home to Allstate Insurance Group Homeowners catastrophe ratio. The development of the Arkansas Allstate Indemnity Company Manufactured Home catastrophe provision is shown on **Exhibit 8** with an explanatory memorandum on **Page 13**.

ALLSTATE INDEMNITY COMPANY
MANUFACTURED HOMES
ARKANSAS

DEVELOPMENT OF THE TOTAL CATASTROPHE PROVISION
EXPLANATORY MEMORANDUM

The numerical references in this memorandum correspond to the numbering sequence on **Exhibit 8**.

1. Year: Calendar Year

2. Manufactured Home Amounts of Insurance Years (AIY):
One Amount of Insurance Year (AIY) equals $1,000 worth of dwelling coverage in force for one year.

3. Manufactured Home Catastrophe Incurred Losses:
Catastrophe incurred losses excluding earthquake losses.

4. Manufactured Home Catastrophe Ratio: (3) / (2)
The ratio of Manufactured Home catastrophe incurred losses to AIY.

5. Homeowners Amount of Insurance Years:
One Amount of Insurance Year (AIY) equals $1,000 worth of dwelling coverage in force for one year.

6. Homeowners Catastrophe Incurred Losses:
Catastrophe incurred losses excluding earthquake losses.

7. Homeowners Catastrophe Ratio: (6) / (5)
The ratio of Homeowners catastrophe incurred losses to AIY.

8. Manufactured Home to Homeowners Catastrophe Ratio: [Avg. (4)] / [Avg. (7)]

9. Homeowners Catastrophe Provision

10. Arkansas Manufactured Home Catastrophe Provision: (8) x (9) x Adjustment Factor
With the introduction of the Arkansas Allstate Indemnity Company Manufactured Home Program, the exposure base has been revised. To account for the difference in bases between Allstate Insurance Company and Allstate Indemnity Company, the Arkansas Allstate Indemnity Company Catastrophe Provision is being adjusted by a factor of **0.563**. The resulting provision is **0.978**.

11. Manufactured Home Catastrophe Provision Including all LAE: (10) x ULAE factor
The current ULAE factor is 1.163, as developed on **Exhibit 13**.

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

HOMEOWNERS
ARKANSAS

SUMMARY OF THE TOTAL NON-MODELED CATASTROPHE ADJUSTMENT

Allstate separately identifies and accounts for its exposure to loss due to the occurrence of catastrophic events within a state. The adjustment to account for catastrophes described below is consistent with the Analysis of Issues and Recommended Practices detailed in Section 3.4 of Actuarial Standards of Practice No. 39, *Treatment of Catastrophe Losses in Property/Casualty Insurance Ratemaking*. 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 15 through 16 and **Exhibit 9** display the Development of the Total Homeowners Catastrophe Provision of **0.985** for Arkansas. The development of this provision has been updated to include 2006 data. In addition, a modification has been made to the 2001 countrywide catastrophe ratio to better account for significant ice damming losses in a few states.

* 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 **Exhibit 9.**

(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) Non-Modeled Catastrophe Incurred Loss including ALAE:
Catastrophe incurred losses excluding earthquake.

(4) State Non-Modeled Catastrophe Ratio: (3) / (2)

(5) Countrywide Non-Modeled Catastrophe Ratio:
Countrywide (excluding California, Florida, New Jersey, and Washington) catastrophe ratio excluding earthquake and modeled hurricane losses. Developed by weighting individual state non-modeled catastrophe ratios by 2006 AIYs.

(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.

(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 26-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 Non-Modeled Catastrophe Factor

(14) Arkansas Non-Modeled Catastrophe Factor Excluding All ULAE: (12) x (13)

(15) Arkansas Non-Modeled Catastrophe Provision Including All LAE:
The Non-Modeled Catastrophe Provision from (14) loaded with the ULAE factor found on **Exhibit 13**.

ALLSTATE INSURANCE GROUP
MANUFACTURED HOMES
ARKANSAS

EXPENSES AND INVESTMENT INCOME
EXPLANATORY MEMORANDUM

Exhibits 10 and 11 display the development of the permissible loss ratio for Arkansas.

The expense provisions described below were derived in accordance to Section 3.2 of Actuarial Standard of Practice No 29, *Expense Provisions in Property/Casualty Insurance Ratemaking.*

Commission and Brokerage Expense

The proposed commission and brokerage expense provision has been developed from the actual calendar year 2006 commission and brokerage incurred expense ratio in Arkansas. The provision is shown on **Exhibit 10**.

General and Other Acquisition Expense

Provisions
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 earned premium was calculated. Because premiums charged for the net cost of reinsurance (NCOR) do not include provisions for general and other acquisition expenses, the earned premium used in the development of the general and other acquisition expenses is countrywide direct earned premium less countrywide NCOR premium. The expense figures are taken from the Insurance Expense Exhibit. The provision for Other Acquisition Expense has been reduced by the amount of installment fees collected. In addition, the provision has been adjusted for premiums written off. The General Expense provision has 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 inflation 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 inflation 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 (Inflation)

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 and is consistent with the Current Practices and Alternatives detailed in Section 4 of Actuarial Standards of Practice No. 13, *Trending Procedures in Property/Casualty Insurance Ratemaking*.

The expense provisions for other acquisition and general expenses are shown on **Exhibit 14**.

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 that vary by the size of the premium from the latest five calendar years in Arkansas.

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).

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 **Exhibit 12**. 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.

The profit provision is shown on **Exhibit 11.**

A contingency provision of 2% is included.

ALLSTATE INSURANCE GROUP
HOMEOWNERS

CONTINGENCY FACTOR SUPPORT
EXPLANATORY MEMORANDUM

This memo provides explanation regarding Allstate's methodology for calculating a contingency provision to be used in its Homeowner rate level.

Background

Actuarial Standard of Practice #30 (ASOP #30), Treatment of Profit and Contingency Provisions and the Cost of Capital in Property/Casualty Insurance Ratemaking, defines the contingency provision for ratemaking purposes as follows: A provision for the expected differences, if any, between the estimated costs and the average actual costs, that cannot be eliminated by changes in other components of the ratemaking process. ASOP #30 goes on to state that:

- The actuary should include a contingency provision in the rates if assumptions used in ratemaking produce cost estimates that are not expected to equal average actual costs, and if the difference cannot be eliminated by changes in other components of the ratemaking process.

- While estimated costs are intended to equal average actual costs over time, differences between estimated and actual risk transfer costs may be expected in any given year. If a difference persists, the difference should be reflected in the ratemaking calculations as a contingency provision. The contingency provision is not intended to measure the variability of results and is not expected to contribute to profit.

Thus, even if the actuary has available relevant, credible data and uses the best, state-of-the-art actuarial techniques, there may still be instances where estimated future costs differ from actual future costs. The factors causing this situation to occur are outside the actuary's ability to predict and the insurer's ability to control. Examples would include (but not be limited to) court decisions, legislative action and media influence on the public's behavior.

In spite of the inability to foresee specific events, an insurer may look back at recent history and identify past events that triggered unexpected payments. Given the highly regulated nature of the property and casualty insurance industry and the large amounts of money that flow through an insurance organization, it is reasonable to assume that adverse court decisions and similar unexpected events will occur again in the future. Courts and regulatory bodies are likely to continue to respond to lawsuits and other attempts at unexpected application of an insurance policy's coverage. As outlined in the Actuarial Standard of Practice referenced above, these events should be accounted for in ratemaking in the form of a contingency provision.

In his paper Contingency Margins in Rate Calculations, Steven Lehmann argues that the difference between the targeted underwriting profit and the realized underwriting profit can be used as a basis for calculating a contingency provision. He writes that the difference between targeted and realized profit can be caused by many things including court and legislative issues (as mentioned above) and also by dramatic inflation, inadequate residual market rates and other events. There are a couple of reasons why Allstate is not following the specific methodology outlined in Mr. Lehmann's paper. First, the difference between targeted and realized underwriting profit is also influenced by the occurrence of catastrophes

during the time period for which the difference is calculated. Mr. Lehmann mentions that one element of a contingency provision should be catastrophe events not adequately anticipated in the ratemaking. Because Allstate does calculate an adequate catastrophe load (theoretically sound and calculated over a sufficiently long period of time), the calculations described in Contingency Margins in Rate Calculations could result in "double-counting" some catastrophe events. This occurs if the calculations are made over a relatively short time period that also contains a significant catastrophe event. Addressing this problem by extending the contingency calculation too far into the past could lead to a provision that might not reflect the current environment. A second reason to depart from Mr. Lehmann's methodology is that we have data resources today that were not available at the time Mr. Lehmann's paper was published (1985). Sophisticated programs allow Allstate to review our claim file narratives to identify specific types of claims that are appropriate to include in support for a contingency provision because they can be representative of unforeseeable events. Taking advantage of advances in computing and data coding, Allstate can exclude claims that are not appropriate to a contingency provision, such as normal catastrophes and regulatory delay situations (regulatory delay can usually be priced for by adjusting assumptions regarding length of time the rates will be in effect). The effect of inflation (which should be captured in pure premium trend selections) is also excluded. For these reasons, Allstate has calculated a contingency provision using a methodology different from (but not inconsistent with) the methodology outlined in Mr. Lehmann's paper.

Allstate Homeowners Contingency Provision calculation

With this filing, Allstate is presenting a method of calculating a contingency provision that allows more specificity around the type of events that are included. We have reviewed experience over approximately a 20-year period and have identified a number of representative events that are appropriate to a contingency provision, due to their unanticipated nature. Considered events include the following: court decisions redefining the cause of loss for earth movement- and landslide-related loss, sinkholes, failure to disclose (in connection with sale of a home), oil tank leakage, foundation slab losses, mold, methamphetamine lab damage, legislated exceptions to policy language, flooding, lead paint poisoning, imminent collapse, terrorism, radiant floor heating systems and dog bites.

Some of these losses are too old to obtain reliable loss data at the claim level of detail. Some events are excluded because, even with sophisticated computer programs, losses are not specifically tracked and so can't be separated from other loss data for inclusion in Allstate's computations. Some events simply did not produce a frequency of loss to materially impact our calculations. However, each event mentioned above illustrates that unforeseen loss does occur. This can be the case when a legislative or court decision expands the scope of Allstate's policy coverage, or when the media unexpectedly focuses attention on a health issue or other item of public concern. Other as-yet-unknown influences that Allstate cannot predict or price for will also likely affect claims payments in the future.

In order to estimate an appropriate contingency provision, we have used a recent group of events (including oil tanks, slab losses, mold and flooding) for which we can obtain more reliable loss data. Issues which triggered payments over several years cannot be considered "unexpected" for an indefinite period of time. In these cases, we have judgmentally included losses from the first 3 years following the initial event. After 3 years we assume that these losses are present in our indications data and that we have priced sufficiently for the event's exposure in our rates. Some events are of shorter duration and so fewer than 3 years of losses are included in the calculations. Note also that data includes some catastrophe losses. As mentioned above, catastrophe losses are more appropriately accounted for in a catastrophe provision rather than in a contingency provision. However, the legislative, media and other influences that generate unexpected losses can also affect catastrophe losses. Therefore, catastrophe losses are included in our analysis when they stem from one of the issues in question. Losses are included for Allstate's Owners, Renters and Condo forms.

Exhibit 15 shows the sum of all claims divided by countrywide homeowners accident year losses from 1996 – 2003 (adjusted for expected catastrophe levels) and adjusted for expense provisions. This time period was chosen to match the time period of losses readily available to us (our claim files older than 1996 cannot be effectively reviewed to extract specific losses). Losses for some events have been adjusted downward to reflect the fact that, despite the sophistication of our analysis, some claims unrelated to the issue in question can be unintentionally included in the loss totals. The indicated contingency provision is 1.9% and the selected provision of 2.0% is also displayed.

Attachment C
Exhibits of Indication Filings

ALLSTATE INDEMNITY COMPANY
MANUFACTURED HOMES
ARKANSAS
DETERMINATION OF STATEWIDE RATE LEVEL INDICATION

(1)	Latest 12 MM Average Earned Premium At Current Rates	$602.14
(2)	Weighted Non-Catastrophe Loss and LAE Ratio	73.1%
(3)	Indicated Provision for Non-Catastrophe Loss and LAE (1) x (2)	$440.16
(4)	Expected Catastrophe Loss Ratio including all LAE	12.9%
(5)	Indicated Provision for Catastrophe Loss including all LAE (1) x (4)	$77.86
(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	$511.84
(8)	Current Dollar Provision for General and Other Acquisition Expense (6) x (7)	$42.48
(9)	Factor to Adjust for Subsequent Change in General and Other Acquisition Expense	0.973
(10)	Indicated Dollar Provision for General and Other Acquisition Expense (8) x (9)	$41.33
(11)	Commission, Taxes, Profit and Contingencies Ratio	28.4%
(12)	Indicated Average Premium [(3) + (5) + (10)] / [1.0 - (11)]	$781.66
(13)	Indicated Rate Level Change [(12) / (1) - 1.0]	29.8%

ALLSTATE INDEMNITY COMPANY
MANUFACTURED HOMES
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)
3/31/2003	N/A	N/A	N/A	N/A	N/A
3/30/2004	N/A	N/A	N/A	N/A	N/A
3/30/2005	N/A	N/A	N/A	N/A	N/A
3/31/2006	N/A	N/A	N/A	N/A	N/A
3/31/2007	$418	$639	153.0%	1.000	153.0%

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 @ 01/01/2009	(8) Factors to Adjust Modified Loss Ratios To Projected Cost Level @ 01/01/2009	(9) Non-Catastrophe Projected Loss Ratio (6)x(8)/(7)	(10) Experience Year Weight
3/31/2003	60.4%	1.398	1.165	50.4%	20.0%
3/30/2004	83.2%	1.325	1.165	73.2%	20.0%
3/30/2005	79.2%	1.256	1.165	73.5%	20.0%
3/31/2006	77.8%	1.191	1.165	76.1%	20.0%
3/31/2007	89.3%	1.129	1.165	92.2%	20.0%

(11) Weighted Non-Catastrophe Loss and LAE Ratio: 73.1%

* Evaluated at 06/30/2007
** Includes all loss adjustment expense

ALLSTATE INSURANCE GROUP
MANUFACTURED HOMES
COUNTRYWIDE
LOSS TRENDS - PURE PREMIUM
TOTAL ALL PERILS EXCLUDING EARTHQUAKE & FLOOD

			Exponential Curve of Best Fit		
Year Ending	Actual Paid Pure Premium	Annual Change	24 pt.	12 pt.	6 pt.
09/01	$173.07	22.71 %	$154.08		
12/01	174.66	15.17	153.08		
03/02	169.18	9.18	152.08		
06/02	155.16	-7.59	151.09		
09/02	150.50	-13.04	150.10		
12/02	148.90	-14.75	149.12		
03/03	143.20	-15.36	148.15		
06/03	141.48	-8.82	147.18		
09/03	135.10	-10.23	146.22		
12/03	131.09	-11.96	145.26		
03/04	135.94	-5.07	144.32		
06/04	136.99	-3.17	143.37		
09/04	131.21	-2.88	142.44	$126.24	
12/04	130.68	-0.31	141.51	128.16	
03/05	128.97	-5.13	140.58	130.10	
06/05	130.89	-4.45	139.67	132.08	
09/05	134.41	2.44	138.76	134.08	
12/05	134.18	2.68	137.85	136.12	
03/06	134.31	4.14	136.95	138.19	$131.22
06/06	133.92	2.31	136.06	140.28	135.74
09/06	138.63	3.14	135.17	142.41	140.42
12/06	144.47	7.67	134.29	144.58	145.25
03/07	148.29	10.41	133.41	146.77	150.25
06/07	158.82	18.59	132.54	149.00	155.43

Regression	24 pt.	12 pt.	6 pt.
Avg Annual Percent Change Based on Best Fit:	-2.59 %	6.21 %	14.50 %

ALLSTATE INDEMNITY COMPANY
MANUFACTURED HOMES
ARKANSAS
PREMIUM TRENDS

Year Ending	Average Written Premium @ CRL	Annual Change	Exponential Curve of Best Fit 6 pt.
03/06	574.73	0.00	$580.70
06/06	588.23	6.12	588.86
09/06	605.97	7.43	597.13
12/06	606.48	4.49	605.52
03/07	619.36	7.77	614.03
06/07	614.29	4.43	622.66

	Regression	6 pt.
Avg Annual Percent Change Based on Best Fit:		5.74 %

ALLSTATE INSURANCE GROUP
MANUFACTURED HOME
COUNTRYWIDE
CALCULATION OF LOSS DEVELOPMENT FACTORS
TOTAL ALL PERILS EXCLUDING EARTHQUAKE & FLOOD

Incurred Losses †

Fiscal Accident Year Ending	15 Months	27 Months	39 Months	51 Months	63 Months	75 Months	87 Months‡
3/31/1996							47,531,877
3/31/1997						42,811,377	42,899,927
3/31/1998					40,803,678	40,854,361	40,905,943
3/31/1999				42,851,763	42,988,518	43,156,586	43,215,360
3/31/2000			41,439,427	41,880,456	42,059,668	42,054,294	42,107,499
3/31/2001		47,542,171	47,840,609	47,944,098	48,357,583	48,352,642	48,350,368
3/31/2002	42,964,965	44,624,511	45,673,824	45,959,994	45,908,833	45,939,203	
3/31/2003	33,313,292	34,495,215	35,097,059	35,141,818	35,182,407		
3/31/2004	30,176,335	31,335,306	31,658,815	31,908,268			
3/31/2005	30,613,176	31,102,898	31,455,116				
3/31/2006	30,932,080	31,923,956					
3/31/2007	34,377,105						

Link Ratios

Development	15 to 27	27 to 39	39 to 51	51 to 63	63 to 75	75 to 87
4th Prior	1.039	1.006	1.011	1.003	1.001	1.002
3rd Prior	1.035	1.024	1.002	1.004	1.004	1.001
2nd Prior	1.038	1.017	1.006	1.009	1.000	1.001
1st Prior	1.016	1.010	1.001	0.999	1.000	1.001
Latest	1.032	1.011	1.008	1.001	1.001	1.000
Average:	1.032	1.014	1.006	1.003	1.001	1.001
Selected:	1.032	1.014	1.006	1.003	1.001	1.001

Selected Methodology Link Ratio Method (avg w/o excluded link ratios)

Loss Development Period (months):	15 - 87	27 - 87	39 - 87	51 - 87	63 - 87
Loss Development Factor:	1.058	1.025	1.011	1.005	1.002

†Includes ALAE
‡Includes supplemental reserves in addition to case reserves

ALLSTATE INDEMNITY COMPANY
MANUFACTURED HOMES
ARKANSAS
DEVELOPMENT OF THE EXPECTED CATASTROPHE LOSS RATIO

(1) Average Earned AIY* for 12 month period ending 03/31/07	66.33
(2) Factor to Adjust AIY @ 01/01/09	1.165
(3) Average AIY Trended to 01/01/09 (1) x (2)	77.29
(4) Total Dollar Catastrophe Provision Per AIY including all LAE (Refer to the Dev. of Total Catastrophe Provision Exhibit)	1.137
(5) Expected Catastrophe Losses (3) x (4)	$87.88
(6) Latest 12 MM Average Earned Premium At Current Rates	$602.14
(7) Factor to Adjust Premium for Premium Trend @ 01/01/09	1.129
(8) Trended Average Earned Premium @CRL (6) x (7)	$679.59
(9) Expected Catastrophe Loss Ratio including all LAE (5) / (8)	12.9%

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

ALLSTATE INDEMNITY COMPANY
MANUFACTURED HOMES
ARKANSAS
AIY TRENDS

			Exponential Curve of Best Fit
Year Ending	AIY Trends	Annual Change	6 pt.
03/06	61.65	0.00	61.62
06/06	62.21	9.91	62.67
09/06	63.84	3.97	63.75
12/06	65.40	5.91	64.84
03/07	66.33	7.59	65.96
06/07	66.51	6.91	67.09

	Regression	6 pt.
Avg Annual Percent Change Based on Best Fit:		7.05 %

ALLSTATE INSURANCE GROUP
MANUFACTURED HOMES
ARKANSAS
DEVELOPMENT OF TOTAL CATASTROPHE PROVISION

	Mobile Home			Homeowners		
(1) Year	(2) AIY	(3) Incurred CAT Loss	(4) Loss / AIY	(5) AIY	(6) Incurred CAT Loss	(7) Loss / AIY
1987	69,427	$45,135	0.650	2,706,082	$922,000	0.341
1988	56,163	176,644	3.145	2,722,673	2,406,000	0.884
1989	49,921	132,410	2.652	2,854,035	5,639,000	1.976
1990	43,780	47,883	1.094	2,997,011	902,000	0.301
1991	37,215	32,847	0.883	3,024,869	1,314,000	0.434
1992	31,502	2,645	0.084	2,833,694	554,000	0.196
1993	27,412	586	0.021	2,710,739	95,000	0.035
1994	24,728	8,632	0.349	2,803,199	2,207,475	0.787
1995	22,854	7,560	0.331	2,871,367	1,650,609	0.575
1996	22,772	55,988	2.459	2,980,889	17,105,643	5.738
1997	24,601	86,206	3.504	3,125,272	2,732,567	0.874
1998	31,187	21,063	0.675	3,282,343	243,869	0.074
1999	40,837	222,278	5.443	3,322,641	10,286,071	3.096
2000	48,728	228,961	4.699	3,420,427	6,983,749	2.042
2001	57,388	146,879	2.559	3,588,393	1,054,082	0.294
2002	57,064	38,462	0.674	3,884,746	821,596	0.211
2003	58,082	217,739	3.749	4,427,465	1,800,646	0.407
2004	61,109	45,357	0.742	5,231,642	1,134,687	0.217
2005	67,417	1,540	0.023	6,068,605	868,082	0.143
2006	90,739	248,291	2.736	7,323,099	19,722,171	2.693
		Average	1.915			1.087

8) Ratio of Mobile Home - Line 32 to Homeowners	1.762
9) Homeowners Catastrophe Provision	0.985
10) Arkansas Mobile Home - Line 32 Catastrophe Provision (8) x (9) x Adjustment Factor	0.978
11) Mobile Home - Line 32 Catastrophe Provision including all LAE (10) x ULAE	1.137

ALLSTATE INSURANCE GROUP
HOMEOWNERS INSURANCE
ARKANSAS
BASIC CATASTROPHE PROVISION

(1)	(2)	(3)	(4)	(5)	(6)	(7)
CALENDAR YEAR	AMOUNT OF INSURANCE YEARS	CATASTROPHE INCURRED LOSS	STATE CATASTROPHE RATIO	COUNTRYWIDE* CATASTROPHE RATIO	RELATIVITIES	RELATIVITIES ADJUSTED FOR CAP OF 7.551 **
1981	2,644,282	1,003,000	0.379	0.242	1.566	1.566
1982	2,308,405	2,313,000	1.002	0.336	2.982	2.982
1983	1,892,706	1,268,000	0.670	0.376	1.782	1.782
1984	1,886,371	3,387,000	1.796	0.496	3.621	3.621
1985	2,022,557	822,000	0.406	0.355	1.144	1.144
1986	2,386,042	1,999,000	0.838	0.223	3.758	3.758
1987	2,706,082	922,000	0.341	0.212	1.608	1.608
1988	2,819,207	2,406,000	0.853	0.261	3.268	3.268
1989	2,996,467	5,639,000	1.882	0.571	3.296	3.296
1990	3,153,771	902,000	0.286	0.583	0.491	0.491
1991	3,171,794	1,314,000	0.414	0.398	1.040	1.040
1992	2,996,917	554,000	0.185	0.767	0.241	0.241
1993	2,859,375	95,000	0.033	0.424	0.078	0.078
1994	2,891,545	2,208,000	0.764	0.843	0.906	0.906
1995	2,948,886	1,651,000	0.560	0.663	0.845	0.845
1996	3,025,076	17,106,000	5.655	0.866	6.530	6.530
1997	3,144,832	2,733,000	0.869	0.267	3.255	3.255
1998	3,302,976	244,000	0.074	0.463	0.160	0.160
1999	3,366,313	10,286,000	3.056	0.520	5.877	5.877
2000	3,486,794	6,984,000	2.003	0.755	2.653	2.653
2001	3,593,939	1,054,000	0.293	0.645	0.454	0.454
2002	3,949,900	822,000	0.208	0.446	0.466	0.466
2003	4,485,912	1,801,000	0.401	0.629	0.638	0.638
2004	5,277,783	1,135,000	0.215	0.309	0.696	0.696
2005 ****	6,206,944	868,000	0.140	0.237	0.591	0.591
2006	7,323,099	19,722,000	2.693	0.528	5.100	5.100
(8) Average Relativity					2.040	2.040
(9) Standard Deviation					1.837	1.837
(10) Credibility						0.901
(11) Credibility Weighted Relativity						1.937
(12) Relativity Balanced to Countrywide						2.053
(13) Countrywide Selected Catastrophe Factor						0.480
(14) Arkansas Catastrophe Factor						0.985
(15) Arkansas Catastrophe Factor Including all LAE						1.146

* Excludes California, Florida, New Jersey, and Washington
** Relativity has been capped
**** Starting in 2005, AP&C included

ALLSTATE INDEMNITY COMPANY
MANUFACTURED HOMES
ARKANSAS
SUMMARY OF EXPENSE PROVISIONS

	Percent Fixed	Expense Provision
Licenses and Fees	100 %	0.1 %
Commissions	0	12.5
Contingency Provision	0	2.0
Taxes †	0	2.9
Other Acquisition	100	4.7
General Expense	100	3.6

† State Taxes - Does not include Federal Income Tax

ALLSTATE INDEMNITY COMPANY
MANUFACTURED HOMES
ARKANSAS
DEVELOPMENT OF THE UNDERWRITING PROFIT PROVISION FROM A GIVEN WEIGHTED AVERAGE COST OF CAPITAL

	Amount
(1) Weighted Average Cost of Capital	14.06 %
(2) Estimated Investment Income on Equity to Total Capital*	4.78 %
(3) After-tax Operating Profit to Total Capital* (1) - (2)	9.28 %
(4) Ratio of Premium to Total Capital*	1.03
(5) After-tax Operating Profit to Premium (3) / (4)	9.01 %
(6) Investment Gain from Policy Cash Flow	1.90 %
(7) After-tax Underwriting Profit Provision (at Present Value) (5) - (6)	7.12 %
(8) Tax Rate**	35.00 %
(9) Pre-tax Underwriting Profit Provision (at Present Value) (7) / [1 - (8)]	10.94 %

* Total Capital = Equity + Debt

** This is the standard federal income tax rate for corporations

ALLSTATE INDEMNITY COMPANY
MANUFACTURED HOMES
ARKANSAS
INVESTMENT INCOME

Calculation of Present Value, as of the Average Earning Date of a Policy Year, of all Income and Outgo @ 3.95% force of interest, assuming an Operating Profit of 9.01% and twelve month Policy Terms

Years From Start of Policy Year	Cumulative Percent of Losses Paid	Yearly Percent of Losses Paid	Time from Start of Policy Year	Discounted† to Average Time of Profit @ 3.95%	Discounted Payments
1	39.5 %	39.50 %	0.70	1.0119	39.97 %
2	91.8	52.30	1.30	0.9882	51.68
3	96.9	5.10	2.20	0.9537	4.86
4	98.4	1.50	3.60	0.9024	1.35
5	99.1	0.70	4.60	0.8674	0.61
Subsequent	100.0	0.90	7.10	0.7859	0.71
Total					99.18 %
Expected Losses and Loss Expense Ratio					65.26 %
Present Value of Loss and Loss Expense Payments					64.72 %
General Expense		3.6 %	0.75	1.0099	3.64 %
Other Acquisition		4.7 %	0.63	1.0147	4.77 %
Taxes		2.9 %	0.72	1.0111	2.93 %
Commissions		12.5 %	0.58	1.0167	12.71 %
Profit		10.94 %	1.00	1.0000	10.94 %
Licenses and Fees		0.1 %	0.72	1.0111	0.10 %
Total Present Value of Outgo					99.81 %
Premiums		100.0 %	0.57	1.0171	101.71 %
Difference, Present Value of Income Less Present Value of Outgo					1.90 %

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

ALLSTATE INSURANCE GROUP*
PERSONAL PROPERTY LINES
COUNTRYWIDE EXPENSE EXPERIENCE
UNALLOCATED (ADJUSTING AND OTHER EXPENSE) FACTORS

2004, 2005, 2006

		2004 - 2006
(1) Direct Losses and Allocated Loss Adjustment Expense Incurred excluding Earthquake and Hurricane Losses	$	6,992,664
(2) Direct Unallocated Loss Adjustment Expense Incurred excluding Earthquake and Hurricane	$	1,140,700
(3) Ratio (2)/(1)		0.163
(4) Proposed Provision		0.163

* 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 INSURANCE GROUP*
PERSONAL PROPERTY LINES EXCLUDING EARTHQUAKE
COUNTRYWIDE EXPENSE EXPERIENCE FOR OTHER ACQUISITION AND GENERAL EXPENSES

	Other Acquisition Expense		
	2004	2005	2006
(1) Direct Premium Less Reinsurance Premium****	$4,973,257	$5,499,808	$5,889,174
(2) Other Acquisition Expense Incurred**	228,188	241,685	294,728
(3) Ratio (2)/(1)	0.0459	0.0439	0.0500
(4) Three Year Average			0.047
(5) Proposed Provision			0.047

	General Expense		
	2004	2005	2006
(1) Direct Premium Less Reinsurance Premium****	$4,973,257	$5,499,808	$5,889,174
(2) General Expense Incurred	197,098	208,035	221,185
(3) Ratio (2)/(1)	0.0396	0.0378	0.0375
(4) Three Year Average			0.038
(5) Proposed Provision***			0.036

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 Payment Fees collected and includes Premium Write offs.

***Reduction in force adjustment included

****Premiums for Net Cost of Reinsurance (NCOR) do not include provisions for General and Other Acquisition expenses. Therefore, direct premiums must be reduced by NCOR premiums to get the premium base upon which general and other acquisition expense provisions are applied.

(000's) omitted

ALLSTATE INSURANCE GROUP
HOMEOWNERS
CONTINGENCY FACTOR SUPPORT
ACCIDENT YEARS 1996 - 2003

(1) Total estimated loss from unexpected events:	$388,265,584
(2) Total countrywide ex-cat accident year losses:	$14,082,669,021
(3) Indicated contingency provision as percentage of ex-cat loss:	2.80%
(4) Indicated contingency provision as percentage of total loss:	2.10%
(5) Indicated contingency provision adjusted for expenses:	1.90%
(6) Selected contingency provision:	**2.00%**

Attachment D
Summary of Manual Changes

ALLSTATE INDEMNITY COMPANY
MANUFACTURED HOMES
ARKANSAS

SUMMARY OF MANUAL CHANGES

Rate Page RFP-1 is being updated to incorporate the change to Base Rates.

Rate Page RFP-2 is being updated to incorporate the change to Rating Group factors.

Rate Page RFP-3 is being updated to incorporate the change to Age of Manufactured Home factors.

ALLSTATE INDEMNITY COMPANY
MANUFACTURED HOMES
DEVELOPMENT OF INDICATED FACTORS
COUNTRYWIDE ACCIDENT YEAR DATA 1998-2003

The Indicated Factors were based on a multivariate analysis technique that allows us to consider all major rating plans simultaneously to account for correlation among variables. It consists of fitting a generalized linear model to loss data using maximum likelihood estimation. The analysis was based on countrywide data for accident years 1998 to 2003. Only non-catastrophe incurred losses were incorporated in the model to achieve stability. The model was validated to test the goodness of fit by using data independent of the modeling data.

RATING GROUP

Insurance Group	Incurred Losses	Exposures	Pure Premium
1	$649,833	7,433	$87.43
2	$1,689,334	18,959	$89.10
3	$1,117,473	10,674	$104.69
4	$1,424,335	12,822	$111.09
5	$2,311,482	17,809	$129.80
6	$1,363,209	11,903	$114.53
7	$1,351,913	11,562	$116.93
8	$1,995,662	11,381	$175.35
9	$1,906,226	8,181	$233.02
10	$1,121,440	4,923	$227.78
Total	$14,930,907	115,647	$129.11

AGE OF MANUFACTURED HOME

Actual Cash Value				Replacement Cost			
Age	Incurred Losses	Exposures	Pure Premium	Age	Incurred Losses	Exposures	Pure Premium
0-1	$867,464	6,009	$144.35	0-1	$4,071,597	24,445	$166.56
2	$795,065	6,409	$124.06	2	$3,011,560	20,582	$146.32
3	$1,208,161	8,118	$148.82	3	$3,485,761	22,948	$151.90
4	$989,657	8,989	$110.10	4	$3,748,929	23,473	$159.71
5	$1,128,875	9,118	$123.80	5	$2,738,066	22,721	$120.51
6	$868,499	8,884	$97.76	6	$2,530,518	21,922	$115.44
7	$1,040,049	8,526	$121.98	7	$3,089,929	21,756	$142.03
8	$1,004,346	8,254	$121.69	8	$2,657,655	22,872	$116.20
9	$913,480	8,171	$111.79	9	$3,062,606	24,601	$124.49
10-15	$10,727,443	80,040	$134.03	10-15	$22,176,347	175,160	$126.61
16-20	$13,039,840	91,690	$142.22	16-20	$14,524,270	113,080	$128.44
21+	$25,680,971	235,372	$109.11	21+	$16,653,496	122,214	$136.27
Total	$58,263,850	$479,581	$121.49	Total	$81,750,736	$615,772	$132.76

ALLSTATE INDEMNITY COMPANY
MANUFACTURED HOMES
TOTAL CATASTROPHE PROVISION
DEVELOPMENT OF ADJUSTMENT FACTOR

Model	Countrywide Data			Selected	Arkansas
Year	AI Avg AIYs	AIC Avg AIYs	Actual AI/AIC Relativity	Relativities*	Distribution
1976	52,184	16,917	3.08	2.81	0.4%
1977	54,520	17,477	3.12	2.76	0.5%
1978	49,185	18,458	2.66	2.72	0.4%
1979	49,647	19,544	2.54	2.67	0.4%
1980	52,443	20,321	2.58	2.62	0.3%
1981	51,449	20,483	2.51	2.58	0.4%
1982	50,690	21,258	2.38	2.53	0.4%
1983	50,848	21,703	2.34	2.48	0.7%
1984	51,185	23,503	2.18	2.44	1.8%
1985	54,466	23,687	2.30	2.39	1.6%
1986	54,372	24,755	2.20	2.34	1.8%
1987	53,097	25,874	2.05	2.30	1.4%
1988	57,481	25,993	2.21	2.25	1.2%
1989	56,141	27,222	2.06	2.20	1.2%
1990	59,947	28,183	2.13	2.16	1.3%
1991	58,956	28,852	2.04	2.11	0.9%
1992	62,722	29,644	2.12	2.06	2.0%
1993	60,026	30,711	1.95	2.02	2.4%
1994	60,535	32,618	1.86	1.97	3.6%
1995	61,864	34,451	1.80	1.92	3.0%
1996	63,442	36,805	1.72	1.88	6.4%
1997	66,599	37,665	1.77	1.83	5.8%
1998	67,233	40,332	1.67	1.78	7.1%
1999	69,135	41,121	1.68	1.74	8.4%
2000	71,845	42,411	1.69	1.69	6.2%
2001	74,642	46,041	1.62	1.64	5.8%
2002	76,368	46,898	1.63	1.60	6.0%
2003	75,720	49,682	1.52	1.55	3.7%
2004	81,451	52,071	1.56	1.50	3.0%
2005	79,482	52,016	1.53	1.46	7.7%
2006	79,516	52,211	1.52	1.41	8.7%
2007	75,919	60,409	1.26	1.36	5.3%

Arkansas Average Relativity 1.776

Arkansas Adjustment Factor **0.563**
[1 / Arkansas Average Relativity]

* Developed using a best fit linear approximation to the Actual AI/AIC Relativities.

ALLSTATE INSURANCE GROUP
HOMEOWNERS
CONTINGENCY FACTOR SUPPORT
DEVELOPMENT OF LOSSES FROM UNEXPECTED EVENTS

Event	Losses
NJ Oil Tanks	$14,039,223
TX slab losses**	$6,395,953
CW Mold***	$196,869,231
TX Mold***	$114,230,031
MD Water back-up*	$104,745
CA Senate Bill 1899	$56,626,400
Total	$388,265,584

* 10% of Total Event Losses used
** 25% of Total Event Losses used
*** 40% of Total Event Losses used

DETERMINATION OF THE UNDERWRITING PROFIT PROVISION

ALLSTATE INSURANCE GROUP

April, 2007

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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 Hope Natural Gas, the court adopted the capital attraction standard, under which the following questions are asked: Is the current rate of return excessive? Is the industry attracting capital and holding it? How risky is the business in comparison with others? Is the industry over-capitalized? Would the industry make better use of its capital if rates were more adequate? The court explained in its decision:

> "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."[1]

In the Bluefield Waterworks case, the court recognized and applied the Relative Risk Standard, stating that a regulated enterprise is entitled to such rates as will permit it to earn the same return as other businesses having corresponding risks. The court explained:

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[1] Hope Natural Gas, 320 U.S. at 603 (citations omitted).

> "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."[2]

Accordingly, 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

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[2] Bluefield Waterworks, 262 U.S. at 692.

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. ß 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."[3] 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).[4]

[3] 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.

[4] 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."

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.[5] 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:

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

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 paper[6], 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

[5] 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.

[6] 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.

controlling for the overall market.[7] 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."[8]

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, *SBBI 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.[9] 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.[10] In symbols, the sum-beta version of the Fama-French model is:

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[7] 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.

[8] Fama, Eugene F. and Kenneth R. French, 1996, "Multifactor Explanations of Asset Pricing Anomalies," *The Journal of Finance* 51: 56.

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

[10] In applying the sum-beta method, it is important for reasons of consistency to apply the model to stocks that trade frequently as

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

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 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."

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well as to infrequently traded stocks. In the former case, the sum-beta adjustment does not significantly affect the cost of capital estimates.

Allstate follows the lead of Cummins and Phillips in their application of the full-information adjustment to the Fama-French model.[11] 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 Phillips, but in brief, we estimate the industry-segment betas of the following seemingly-unrelated-regression (SUR)[12] model:

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

Subscript i indexes the actual companies, subscript j the industry segments. The independent variable ω_{ij} is the participation of the ith firm in the jth 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

[11] J. David Cummins and Richard D. Phillips, "Estimating the Cost of Equity Capital for Property-Liability Insurers."

[12] 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.

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.

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 2002 through June 2006. 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.

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 Ibbotson's 2006 Cost of Capital Yearbook was 1.49.

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

Appendix 1, Exhibit VII displays the calculation of Allstate's fair rate of return.

Allstate believes that it needs to earn the rate of return on GAAP equity calculated in Appendix 1, Exhibit VII 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:

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

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:

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

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:

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

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:

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

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."[13] Thus, a provision for underwriting profit is a portion of the actuarially developed rate, and is often expressed as a percentage of the rate.[14] 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.[15] 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.

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[13] *Actuarial Standards of Practice, No. 30*; page 2
[14] *Ibid;* page 2
[15] 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. Refer to Section 1: *The Fair and Reasonable Return* above for the explanation and derivation of the WACC.

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.

In addition to investment income from Allstate's equity portfolio, net income from Allstate Financial is included. Since Allstate Financial is a subsidiary of Allstate Insurance Company, it is therefore an investment of Allstate Insurance Company, and its income should be included with other investment income.

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 (12), is the estimated investment income as a percent of total capital.

This procedure requires five important numbers: the dividend payout ratio, the return on GAAP equity, the investment income on average equity funds, income from Allstate Financial, and the ratio of year-end GAAP equity to total capital. The sources of these five 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 starting in 1996 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, Income from Allstate Financial
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 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.

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 beginning-of-year total capital is used. This denominator is used so that the resulting percentage can be appropriately added to the investment income percentage, which is also relative to beginning-of-year total capital.

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."[16] 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

[16] *Actuarial Standards of Practice, No. 30*; page 2

highly-leveraged, riskier company with small amounts of equity can have a ratio of premium to total capital near 1.00.

We calculate the total capital for the Allstate Insurance Group as a whole, except that Allstate New Jersey (ANJ), Allstate Floridian Group (AFIC) and California (CA) are not included in the Allstate Insurance Group number, and each has a separately calculated premium to total capital ratio. The different premium-to-capital ratios are used due to unique capital situations in New Jersey, Florida, and California. Regardless of the specific ratio used, all target the same return on capital – the WACC for Allstate Corporation.

Appendix 2, Exhibit 3, Page 1 lists the most recent four years of premium-to-total-capital ratios for Allstate Insurance Group. Allstate believes that the most recent year's ratio is the best estimate of the expected future ratio. Appendix 2, Exhibit 3, Page 2 shows the calculation of the ratio of premium to total capital for Allstate Insurance Group excluding ANJ, AFIC, and CA.

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.[17] This method uses the investment income rate on average equity, discussed previously in Step (2) and shown on line (7) of Appendix 2, Exhibit 2, Page 2, to calculate a discounted present value of premiums received, and losses and expenses paid. Note that premiums, 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.

[17] 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).

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%	2.69%	4.75%
1998	8.34%	2.53%	4.81%
1999	8.43%	2.34%	4.52%
2000	8.41%	2.61%	4.12%
2001	8.03%	2.65%	4.70%
2002	7.67%	2.78%	4.92%
2003	7.61%	2.80%	4.76%
2004	7.76%	2.94%	4.80%
2005	7.75%	2.91%	4.92%
2006	7.74%	2.92%	4.96%

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	Allstate Small-Stock Beta	Allstate Value-Stock Beta	Market-Value Coefficient	Book-to-Market Coefficient
1998	1.087	1.897	0.704	-0.214	0.317
1999	1.165	1.753	1.018	-0.184	0.269
2000	1.292	1.404	1.153	-0.158	0.452
2001	1.192	1.756	1.321	-0.182	0.313
2002	0.938	1.500	1.118	-0.167	0.243
2003	0.770	1.400	0.838	-0.158	0.128
2004	0.742	1.154	0.654	-0.145	0.212
2005	0.575	1.562	0.582	-0.173	0.264
2006	0.747	1.435	0.344	-0.153	0.343

ALLSTATE CORPORATION

NAICS Code 524126

Allstate Compustat Data

Report Date	Market Value	Book Value	Total Sales	Prop/Cas Sales	Prop/Cas Portion	Log Market Value	Log Book-to-Market
	($ Million)						
Dec-97	$38,462.50	$15,280	$24,914	$21,137	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
Dec-05	35,072.02	19,510	35,244	29,346	83.27%	10.4652	-0.5865

Source: Standard & Poor's/Compustat

ALLSTATE CORPORATION

Betas

Market Risk Component:

(1) Period	(2) Prop/Cas Market Beta
2002	**0.938**
2003	**0.770**
2004	**0.742**
2005	**0.575**
2006	**0.747**
3-yr Avg	**0.688**
5-yr Avg	**0.754**
Selected	**0.688**

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**
2002	1.500	-0.167	10.0870	**-0.185**
2003	1.400	-0.158	10.1659	**-0.206**
2004	1.154	-0.145	10.3178	**-0.342**
2005	1.562	-0.173	10.4770	**-0.251**
2006	1.435	-0.153	10.4652	**-0.166**
			3-yr Avg	**-0.253**
			5-yr Avg	**-0.230**
			Selected	**-0.253**

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**
2002	1.118	0.243	-0.3748	**1.027**
2003	0.838	0.128	-0.4344	**0.782**
2004	0.654	0.212	-0.3768	**0.574**
2005	0.582	0.264	-0.4927	**0.452**
2006	0.344	0.343	-0.5865	**0.143**
			3-yr Avg	**0.390**
			5-yr Avg	**0.596**
			Selected	**0.390**

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:

		Value	Source
(1)	Long-term Average Market Risk Premium:	7.74%	App. 1, Exh. 1
(2)	Selected Beta:	0.688	App. 1, Exh. 4, Pg. 1
(3)	P/C Industry Market Risk Premium:	5.33%	=(1) * (2)
(4)	Long-term Size Risk Premium:	2.92%	App. 1, Exh. 1
(5)	Selected Size Beta:	-0.253	App. 1, Exh. 4, Pg. 1
(6)	Allstate Size Risk Premium:	-0.74%	=(4) * (5)
(7)	Long-term Value Risk Premium:	4.96%	App. 1, Exh. 1
(8)	Selected Value Beta:	0.390	App. 1, Exh. 4, Pg. 1
(9)	Allstate Value Risk Premium:	1.93%	=(7) * (8)
(10)	Total Risk Premium:	6.52%	=(3) + (6) + (9)
(11)	Risk-free Return:	5.247%	BPD*
(12)	Cost of Equity Capital:	11.77%	=(10) + (11)

*The risk-free return is the 28-day Treasury bill rate (secondary market), according to the Bureau of Public Debt, as of March 22, 2007 (CUSIP 912795ZC8, Investment Rate) http://wwws.publicdebt.treas.gov/AI/OFBills

ALLSTATE CORPORATION

Dividend Payout Ratio

(1)	(2)	(3)	(4)	(5) = (3)+(4)		(6) = (5)/(2)
	Prior Year GAAP Net		Stock Repurchases	Total		Total Payout
Year	Income*	Dividends	(Net)	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
2006	1,765	885	1,516	*1,765*	**	1.00
Total	23,348	6,154	10,703	16,221		**0.69**

Source: 2006 Allstate Annual Report - page 110

*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.

**While additional payout was provided from equity funds in 2006, the dividend payout ratio is concerned with percentage of income paid towards dividends and stock repurchases. Therefore, the 2006 payout ratio is capped at 1.00.

ALLSTATE CORPORATION

Historical Market-to-book Ratios

Years	Allstate
Dec-97	2.35
Dec-98	1.75
Dec-99	1.08
Dec-00	1.74
Dec-01	1.38
Dec-02	1.47
Dec-03	1.47
Dec-04	1.62
Dec-05	1.73
Dec-06	1.85
10-yr Avg:	1.64
Selected:	**1.64**

Source: MSN Online Reports
http://moneycentral.msn.com/investor/invsub/results/compare.asp?Page=TenYearSummary&Symbol=ALI

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,

	Amount	Source
k = Cost of equity capital =	11.77%	App. 1, Exh. 4, Pg. 2
d = Dividend payout ratio =	0.69	App. 1, Exh. 5
m = Selected market to book ratio =	1.64	App. 1, Exh. 6
r = Fair return to firm,	16.10%	Calculated

ALLSTATE CORPORATION

Weighted Average Cost of Capital

(1)	Pre-tax Cost of Debt (millions)*	322.0
(2)	Tax Rate	35%
(3)	After-tax Cost of Debt (millions) (=(1)*(1-(2)))	209.3
(4)	Book Value of Debt (millions)**	4,662
(5)	Cost of Debt (=(3)/(4))	4.49%
(6)	Book Value of Equity (millions)***	21,846
(7)	Return on Equity (from App. 1, Exh. 7)	16.10%
(8)	Total Capital (=(4)+(6))	26,508
(9)	**Weighted Average Cost of Capital (= [(4)*(5)+(6)*(7)]/(8))**	**14.06%**

Source: Allstate Corporation 2006 Annual Report

*Page 163: Notes on Debt Outstanding

**Page 162: Total Debt Outstanding, 2006

***Page 10: "Total Shareholders' Equity"

Appendix 2

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

ALLSTATE INSURANCE GROUP

Arkansas
Manufactured Homes

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

	Total	Source
(1) Weighted Average Cost of Capital	14.06%	App. 1, Exh. 8
(2) Estimated Investment Income on Equity to Total Capital*	4.78%	App. 2, Exh. 2, Pg. 1
(3) After-tax Operating Profit to Total Capital*	9.28%	=(1) - (2)
(4) Ratio of Premium to Total Capital*	1.03	App. 2, Exh. 3, Pg. 2
(5) After-tax Operating Profit to Premium	9.01%	=(3)/ (4)
(6) Investment Gain from Policy Cash Flow	1.90%	App. 2, Exh. 4, Pg. 1
(7) After-tax Underwriting Profit Provision (at Present Value)	7.12%	=(5) - (6)
(8) Tax Rate	35%	FIT**
(9) Pre-tax Underwriting Profit Provision (at Present Value)	10.94%	=(7)/[1-(8)]

*Total Capital = Equity + Debt

**This is the standard federal income tax rate for corporations

ALLSTATE INSURANCE GROUP

Calculation of Investment Income on Equity to Total Capital

	Amount	Source
(1) Dividend Payout Ratio	69%	App. 1, Exh. 5
(2) Return on GAAP Equity	16.10%	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	11.11%	=(1)*(2)
(5) End of Year Equity to Beginning of Year Equity	105.0%	=(3) + [(2)-(4)]
(6) Avg Equity	102.5%	=[(3)+(5)]/2
(7) Investment Income on Average Equity Funds	3.95%	App. 2, Exh. 2, Pg. 2
(8) Investment Income on Average Equity Funds to Beginning of Year Equity	4.05%	=(6)*(7)
(9) Ratio GAAP equity to total capital	82.41%	App. 2, Exh. 2, Pg. 5
(10) Investment Income on equity as a percent of total capital	3.34%	=(8)*(9)
(11) Allstate Financial Income as a percent of total capital	1.44%	App. 2, Exh. 2, Pg. 4
(12) Total Investment Income on equity as a percent of total capital	4.78%	=(10)+(11)

**The Fair and Reasonable Return* paper

ALLSTATE INSURANCE GROUP

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

Source	After Tax Rate of Return	Source
Net Capital Gains	**0.46%**	
P/L Operations	0.46%	App. 2, Exh. 2, Pg. 3
Corporate	0.00%	App. 2, Exh. 2, Pg. 3
Net Investment Income	**3.49%**	
P/L Operations	3.27%	App. 2, Exh. 2, Pg. 3
Corporate	0.22%	App. 2, Exh. 2, Pg. 3
Total	**3.95%**	

ALLSTATE INSURANCE GROUP

Investment Income Projections

($ In Thousands)

	Annualized Investment Plan Return on Average Invested Assets* (1)	2006 Average Asset Base (2)	Percent Return On Asset Base (3)=(1)/(2)
Property-Liability Operations			
After-tax investment income net of investment expense	1,485,742		**3.27%**
After-tax capital gains, realized & unrealized	210,564		**0.46%**
Total	1,696,307	45,499,277	**3.73%**
Corporate Investments			
After-tax investment income net of investment expense	101,851		**0.22%**
After-tax capital gains, realized & unrealized	58		**0.00%**
Total	101,909	45,499,277	**0.22%**

*From Investment Department, 2007 forecast

ALLSTATE INSURANCE GROUP

After-tax Allstate Financial Income to Average Asset Base

($ In Millions)

(1) Year	(2) Beginning of Year Total Capital	(3) After-tax Allstate Financial Income**	(4) (3) / (2)
2004	$25,641.0	$246	0.96%
2005	$27,157.0	$416	1.53%
2006	$25,486.0	$464	1.82%
Total	$78,284.0	$1,126	**1.44%**

** The Allstate Corporation 2006 Annual Statement, page 10

ALLSTATE INSURANCE GROUP

Total Capital

($ In Millions)

	2006	% of Total Capital
(1) GAAP Equity*	$21,846	82.41%
(2) Debt**	$4,662	17.59%
(3) Total Capital [(1)+(2)]	$26,508	100.00%

Source: Allstate Corporation 2006 Annual Report

*Page 10: Shareholders' Equity

**Page 162: Debt Outstanding

ALLSTATE INSURANCE GROUP

Asset Base
2003-2006

($ In Millions)

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
						(2)+(3)+(4)-(5)-(6)	[prior year(7) +(7)]/2
Year	Equity with Bonds at Market Value	Unearned Premium Reserves	Loss Reserves	Premium Installments Receivable	Deferred Policy Acquisition Costs	Asset Base with Bonds at Market Value	Average Asset Base with Bonds at Market Value
2003	$20,565.0	$9,048.9	$17,713.8	$4,302.8	$1,325.5	$41,699.4	
2004	$21,823.0	$9,624.3	$19,337.7	$4,635.0	$1,459.5	$44,690.5	$43,195.0
2005	$20,186.0	$9,978.2	$22,116.6	$4,678.3	$1,483.6	$46,118.9	$45,404.7
2006	$21,846.0	$10,380.5	$18,865.7	$4,727.9	$1,484.6	$44,879.7	$45,499.3

Note: Market value includes an adjustment for federal income taxes.
From the Allstate Corporation and Subsidiary Combining Statement of Financial Position: 12/31/06

ALLSTATE INSURANCE GROUP

Group Ratio of Premium to Total Capital

($ In Millions)

Year	Earned Premium	GAAP Equity	Debt	Total Capital*	Premium to Total Capital Ratio
2003	$24,677	$20,565	$5,076	$25,641	0.96
2004	$25,989	$21,823	$5,334	$27,157	0.96
2005	$27,039	$20,186	$5,300	$25,486	1.06
2006	$27,369	$21,846	$4,662	$26,508	1.03
	Latest Year	**1.03**			

*Total Capital = GAAP Equity + Debt

Sources: The Allstate Corporation 2006 Annual Report

ALLSTATE INSURANCE GROUP

Entity Ratio of Premium to Total Capital

($ In Millions)

Entity	GAAP Equity*	Debt	Total Capital	Earned Premium	Premium to Total Capital Ratio
Total Group	21,846,000,000	4,662,000,000	26,508,000,000	27,369,000,000	1.03
ANJ/AFIC/CA	3,313,545,151	707,120,182	4,020,665,333	4,158,562,645	1.03
Remainder	18,532,454,849	3,954,879,818	22,487,334,667	23,210,437,355	1.03

*As of 12/31/06

ALLSTATE INSURANCE COMPANY
MANUFACTURED HOMES

Arkansas

Calculation of Present Value, as of the Average Earning Date
of a Policy year, of all Income and Outgo @ 3.95%
force of interest, assuming an Operating Profit of 9.01%
and twelve-month Policy Terms

Years From Start of Policy Year	Arkansas Cumulative Percent of Losses Paid	Arkansas Yearly Percent of Losses Paid	Time from Start of Policy Year	Discounted * to avg time of profit @ 3.95%	Discounted Payments
1	39.5%	39.5%	0.70	1.0119	39.97%
2	91.8%	52.3%	1.30	0.9882	51.68%
3	96.9%	5.1%	2.20	0.9537	4.86%
4	98.4%	1.5%	3.60	0.9024	1.35%
5	99.1%	0.7%	4.60	0.8674	0.61%
Subsequent	100.0%	0.9%	7.10	0.7859	0.71%
Total		100.0%			99.18%
Expected Losses and Loss Expense Ratio					65.26%
Present Value of Loss and Loss Expense Payments					64.72%
Taxes, Licenses & Fees		3.00%	0.72	1.0111	3.03%
Commissions		12.50%	0.58	1.0167	12.71%
Other Acquisition		4.70%	0.63	1.0147	4.77%
General Expense		3.60%	0.75	1.0099	3.64%
Profit		10.94%	1.00	1.0000	10.94%
Total Present Value of Outgo					99.81%
Premiums		100.0%	0.57	1.0171	101.71%
Difference, Present Value of Income Less Present Value of Outgo					1.90%

*exp (0.0395 x (timing of profit being earned - timing of cash flow))

March 7, 2008
Arkansas Manufactured Homes
Allstate Indemnity Company
Our File Number: R19494

Response to 3/5/08 Objection

Objection 1: ResponseExhibits01, ResponseSupplementalAttachmentA
Comments: Support for the contingency factor is unacceptable. ACA 23-67-209 requires the use of 5 years of Arkansas data when credible, then companywide when not. The unexpected events listed are not Arkansas related and a time period is not referenced. The contingency provision must be removed and affected areas of the rated development recalculated. Please feel free to contact me if you have questions.

In accordance with Actuarial Standards of Practice Number 30, Section 3.7, a contingency provision should be included "if the assumptions used in the ratemaking process produce cost estimates that are not expected to equal average actual costs, and if this difference cannot be eliminated by changes in other components of the ratemaking process." The inability to predict these previously unknown types of losses creates a difference in average actual costs and the cost estimates produced through the ratemaking process. The fact that the events used to determine this provision were unpredictable and unexpected before they occurred indicates there are future events that will incur losses and costs that are currently unknown and unexpected. Although the losses shown in the provided support do not directly relate to Arkansas, it does not prove Arkansas is immune from future unexpected events. Therefore, due to the nature of such events, as well as Arkansas specific data not being credible, Allstate Insurance Group data was used for Accident Years 1996-2003 as stated in Attachment C, Exhibit 15 of the original filing. This methodology is consistent with ACA 23-67-209 and we believe it is prudent to include such a provision.

Exhibit 1

ALLSTATE INSURANCE GROUP
ARKANSAS
CONTINGENCY FACTOR SUPPORT
MOLD CLAIMS EXCLUDING CATASTROPHES

Year	Losses
2003	46,444.42
2004	24,345.56
2005	58,493.36
2006	63,759.22
2007	155,465.37
Total	**348,507.93**

ALLSTATE INDEMNITY COMPANY
MANUFACTURED HOMES
ARKANSAS

SUMMARY OF PROPOSED CHANGE

INDICATED RATE LEVEL CHANGE:	28.0%
SELECTED RATE LEVEL CHANGE:	28.0%

	Written Premium @CRL As of 1/15/08	Total Change
Base Premium	$ 795,278	28.8%
Additional Coverages	$ 23,713	N/C
Total	$ 818,991	28.0%

NAIC LOSS COST DATA ENTRY DOCUMENT

1.	This filing transmittal is part of Company Tracking #	**R19494**

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
3.	**A.**	**Allstate Indemnity Company**	**B.**	**19240**

		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.**	**Homeowners**	**B.**	**Mobilehome**

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)	(H) Co. Current Loss Cost Multiplier
Mobile Home	**28.0%**	**28.0%**	**64.3%**			**35.7%**	
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^
3/31/2007				**$418**	**$639**	**153.0%**	**104.79%**
3/31/2006	**N/A**			**N/A**	**N/A**	**N/A**	**98.7%**
3/31/2005	**N/A**			**N/A**	**N/A**	**N/A**	**84.9%**
3/31/2004	**N/A**			**N/A**	**N/A**	**N/A**	**N/A**
3/31/2003	**N/A**			**N/A**	**N/A**	**N/A**	**N/A**

^Countrywide Loss Ratios are Calendar Year figures excluding Catastrophes

7.

Expense Constants	Selected Provisions
A. Total Production Expense	**17.2**
B. General Expense	**3.6**
C. Taxes, License & Fees	**3.0**
D. Underwriting Profit & Contingencies	**11.9**
E. Other (explain)	
F. TOTAL	**35.7**

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