Filing at a Glance

Company: Encompass Indemnity Company

Product Name: Other Than Auto
SERFF Tr Num: ALSX-125518917
State: Arkansas

TOI: 04.0 Homeowners
SERFF Status: Closed
State Tr Num: EFT $100

Sub-TOI: 04.0005 Other Homeowners
Co Tr Num: ER-0701
State Status: Fees verified and received

Filing Type: Rate/Rule
Co Status:
Reviewer(s): Becky Harrington, Betty Montesi, Brittany Yielding

Author: SPI AllState
Disposition Date: 03/19/2008

Date Submitted: 03/03/2008
Disposition Status: Filed

Effective Date Requested (New): 04/28/2008
Effective Date (New): 04/28/2008

Effective Date Requested (Renewal): 06/05/2008
Effective Date (Renewal): 06/05/2008

State Filing Description:

General Information

Project Name: Rule and Rate Filing
Status of Filing in Domicile: Not Filed

Project Number: ER-0701
Domicile Status Comments:

Reference Organization:
Reference Number:

Reference Title:
Advisory Org. Circular:

Filing Status Changed: 03/19/2008

State Status Changed: 03/03/2008
Deemer Date:

Corresponding Filing Tracking Number:

Filing Description:

With this filing, we are proposing a 6.8% overall rate level increase for the Other Than Auto program in the Encompass Indemnity Company. The proposed rate change is flat across all territories.

New Business: April 28, 2008

Renewal Business: 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

Encompass Indemnity Company	CoCode: 15130	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: 59-2366357	

Filing Fees

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

COMPANY	AMOUNT	DATE PROCESSED	TRANSACTION #
Encompass Indemnity Company	$100.00	03/03/2008	18271777

Correspondence Summary

Dispositions

Status	Created By	Created On	Date Submitted
Filed	Becky Harrington	03/19/2008	03/19/2008

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	03/05/2008	03/05/2008	SPI AllState	03/19/2008	03/19/2008
Pending Industry Response	Becky Harrington	03/03/2008	03/03/2008	SPI AllState	03/05/2008	03/05/2008

Disposition

Disposition Date: 03/19/2008

Effective Date (New): 04/28/2008

Effective Date (Renewal): 06/05/2008

Status: Filed

Comment:

Company Name:	Overall % Rate Impact:	Written Premium Change for this Program:	# of Policy Holders Affected for this Program:	Premium:	Maximum % Change (where required):	Minimum % Change (where required):	Overall % Indicated Change:
Encompass Indemnity Company	6.800%	$153,494	1,695	$2,257,261	19.700%	0.000%	22.100%

SERFF Tracking Number:	*ALSX-125518917*	*State:*	*Arkansas*
Filing Company:	*Encompass Indemnity Company*	*State Tracking Number:*	*EFT $100*
Company Tracking Number:	*ER-0701*		
TOI:	*04.0 Homeowners*	*Sub-TOI:*	*04.0005 Other Homeowners*
Product Name:	*Other Than Auto*		
Project Name/Number:	*Rule and Rate Filing/ER-0701*		

Item Type	Item Name	Item Status	Public Access
Supporting Document	Uniform Transmittal Document-Property & Casualty	Filed	Yes
Supporting Document	HPCS-Homeowners Premium Comparison Survey	Filed	Yes
Supporting Document	NAIC Loss Cost Filing Document for OTHER than Workers' Comp		Yes
Supporting Document	ActuarialIndicationMemo, ActuarialIndicationExhibits	Filed	Yes
Supporting Document	ER-0701 3.3.08Response_SupplementalAttachment1.pdf	Filed	Yes
Supporting Document	ER-0701 Response to DOI (03-19-08).doc, State Filing Form RF-1 Revised	Filed	Yes
Rate	ManualRatesHome	Filed	Yes
Rate	ManualRulesDwellingFire	Filed	Yes
Rate	ManualRulesHome	Filed	Yes

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

No Objections

Comment: Which part specifically supports the contingency provision of 2%?

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	03/19/2008
Submitted Date	03/19/2008

Dear Becky Harrington,

Comments:

Please see our attached response.

Response 1

Comments: Please see attached.

Related Objection 1

Comment:

Which part specifically supports the contingency provision of 2%?

Changed Items:

Supporting Document Schedule Item Changes

Satisfied -Name: ER-0701 Response to DOI (03-19-08).doc, State Filing Form RF-1 Revised
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	03/03/2008
Submitted Date	03/03/2008
Respond By Date	

Dear Carrie Deppe,

This will acknowledge receipt of the captioned filing.

Objection 1

- ActuarialIndicationMemo, ActuarialIndicationExhibits (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 reference Supplemental Attachment I, which includes information to support the proposed use of the underwriting profit provision in accordance with Arkansas Code Annotated § 23-67-209(d). Please reference Appendix 2, Exhibit 1 for the after tax underwriting profit percentage. Please reference Appendix 2, Exhibit 2, Pages 1 through 6, for specific information outlining the calculation of the estimate of investment income on net unearned premiums and loss reserves.

Related Objection 1

Applies To:

- ActuarialIndicationMemo, ActuarialIndicationExhibits (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:

Supporting Document Schedule Item Changes

Satisfied -Name: ER-0701 3.3.08Response_SupplementalAttachment1.pdf

Comment:

No Form Schedule items changed.

No Rate/Rule Schedule items changed.

Sincerely,

Carrie Deppe

Sincerely,

SPI AllState

Rate Information

Rate data applies to filing.

Filing Method: File and Use
Rate Change Type: Increase
Overall Percentage of Last Rate Revision: 0.000%
Effective Date of Last Rate Revision: 06/01/2007
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):
Encompass Indemnity Company	%	6.800%	$153,494	1,695	$2,257,261	19.700%	0.000%

Rate/Rule Schedule

Review Status:	Exhibit Name:	Rule # or Page #:	Rate Action	Previous State Filing Number:	Attachments
Filed	ManualRatesHome	ER-0701	Replacement	AR-PC-07-023670	ER-0701.PDF
Filed	ManualRulesDwelling Fire	ER-0701	Replacement	AR-PC-07-023670	ER-0701.PDF
Filed	ManualRulesHome	ER-0701	Replacement	AR-PC-07-023670	ER-0701.PDF

ENCOMPASS
INSURANCE

ARKANSAS USP PORTFOLIO
STRATEGIC RISK MANAGEMENT (SRM) PROGRAM

HOME RATE PAGES

ENCOMPASS INDEMNITY COMPANY

ENCOMPASS
INSURANCE

ARKANSAS USP PORTFOLIO
STRATEGIC RISK MANAGEMENT (SRM) PROGRAM

DWELLING FIRE RULES

Denotes Change

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Denotes Change

1. COVERAGE EXPLANATION

The Dwelling Fire Segment of USP Portfolio is designed for residences that do not require the more extensive, full home coverage options provided under Special, Deluxe and Elite. (Example: Residences used for rental purposes.) Coverage is provided for both liability and the dwelling, including Broad Theft coverage. In addition to the miscellaneous coverage options offered in the Home Segment, the Dwelling Fire Segment also offers a reduced premium actual cash value loss settlement option for the dwelling.

2. ELIGIBILITY

The following residence types are eligible for the Dwelling Fire Segment.

A. The term “Dwelling(s)” as used in this section of the manual refer to dwellings owned and occupied by the insured as well as dwellings owned by the insured and rented to others.

B. The term “Condo(s)” as used in this section of the manual refer to Condominiums and Cooperatives that are owned by the insured and rented to others.

3. TOWN CLASSIFICATION CODES AND INFORMATION

Refer to Rule 5 in the Home Section of this manual.

4. CONSTRUCTION DEFINITIONS

Refer to Rule 6 in the Home Section of this manual.

5. BASE PREMIUM COMPUTATION

A. Dwellings

(1) Determine the dwelling amount of insurance based on the appropriate loss settlement option.

a. Replacement Cost Coverage

b. Actual Cash Value

(2) Determine the base premium using the corresponding home rate found on the Home Rate Pages.

(3) Reserved for Future Use.

(4) Adjust the base premium by the occupancy factor determined in Rule 7.A., of this section.

(5) For dwellings with the Actual Cash Value Settlement Option, apply the factor found in Rule 9 (of this section) to the base premium.

(6) For liability limits other than $300,000 ($5,000 Medical Expenses), refer to Rule 2.G in the Home Section of this manual.

(7) For Reinsurance Charge, refer to Rule 2.I in the Home Section of this manual.

B. Condominiums and Cooperative Apartments

(1) Determine the contents coverage amount.

(2) Determine the base premium using the corresponding condominium rate found on the Home Rate Pages.

(3) Reserved for Future Use.

(4) Adjust the base premium by the occupancy factor determined in Rule 7.B, of this section.

(5) For liability limits other than $300,000 ($5,000 Medical Expenses), refer to Rule 2.G in the Home Section of this manual.

(6) For Reinsurance Charge, refer to Rule 2.I in the Home Section of this manual.

6. SEASONAL DWELLING DEFINITION

A seasonal residence is a residence with continuous un-occupancy of three or more consecutive months during any one-year period.

7. OCCUPANCY FACTORS

A. Dwellings

(1) Dwelling Factors

The factors below include dwelling coverage and a contents limit equal to 10% of the scheduled dwelling value.

	Frame	Masonry
Secondary Seasonal	.73	.77
Secondary Non-Seasonal	.77	.79
Primary	.77	.79

(2) Additional Contents Factor

The factors shown below are over and above the scheduled dwelling value.

	% of Dwelling Value for Contents Coverage				
Terr.	10%	20%	30%	40%	50%
Entire State	INC	.09	.17	.24	.27

To obtain the occupancy factor for dwellings owned and occupied by the insured, sum the factors obtained in (1) and (2) above.

(3) Rental Factor

For dwellings owned by the insured and rented to others, add .10 to the total obtained in (1) and (2) above.

B. Condominiums and Cooperatives

For condominiums and Cooperatives that are both Owned by the Insured and Rented to Others, apply the appropriate factor below.

	Contents Coverage Amount			
	$5,000—$10,000		Over $10,000	
Territory	**Seasonal**	**Non-Seasonal**	**Seasonal**	**Non-Seasonal**
Entire State	.67	.56	1.23	1.12

8. FAIR RENTAL VALUE

The Dwelling Fire Segment includes coverage for Fair Rental Value at the following limits:

Dwellings - Up to 20% of the dwelling amount of insurance
Condominiums - Up to 100% of the contents coverage amount

Increased limits for Fair Rental Value are available at the following premium charge:

$4.00 per $1,000

9. LOSS SETTLEMENT OPTIONS - DWELLINGS

A. Real Property Basic Replacement Cost Coverage

Dwellings which are insured at 100% of their replacement value will receive guaranteed full replacement cost if a total loss occurs. Dwellings insured for less than 100% of their replacement value will be written with the Real Property Basic Replacement Cost Coverage Endorsement which will not provide the full replacement cost guarantee.

B. Actual Cash Value

The policy may be endorsed to revise the loss settlement option on the dwelling to an actual cash value basis for a premium credit as follows:

Apply a factor of .87 to the dwelling premium.

Note: "Insurance To Value" is not applicable if the actual cash value settlement option is elected for the dwelling.

10. DEDUCTIBLES

All policies are subject to a deductible that applies to loss from all perils covered under the policy on an accident basis except earthquake and windstorm/Hail, which are subject to separate deductible provisions. The deductible on the dwelling fire exposure does not have to be the same as the deductible for the primary residence.

Refer to the Home Rate Pages for deductibles, deductible factors and maximum premium credits.

11. PROTECTIVE DEVICES

Refer to Rule 11 in the Home Section of this manual.

12. HOME MERIT RATING

Refer to Rule 24 in the Home Section of this manual.

13. EARTHQUAKE COVERAGE

Refer to Rule 18 in the Home Section of this manual.

14. BUILDING ORDINANCE INCREASED COSTS

The policy may be endorsed to insure the dwelling building and personal property against loss resulting from ordinances or laws which regulate construction, repair or demolition of property. The additional premium for this coverage shall be as follows:

Dwellings	- Apply a factor of 1.10
Condominiums	- Charge $3

15. LOSS ASSESSMENT COVERAGE

Coverage for loss assessment, for which the insured may be liable, is automatically included at $1,000. Increased limits of loss assessment are available at the following premium charges:

Limit	Premium
$ 5,000	$ 3
$10,000	$ 5
$50,000	$13

16. BACKUP OF SEWER OR DRAIN COVERAGE

To provide coverage against direct loss caused by water which backs up through sewers or drains or water which enters into and overflows from within a sump pump, sump pump well or other type of system designed to remove subsurface water which is drained from the foundation area, charge the appropriate premium below.

The residence deductible will be deducted for each occurrence from any loss caused by backup of sewer or drain that is covered by this endorsement.

Coverage Limit	Premium
$ 5,000	$30
Each additional $5,000 up to 70% of the dwelling amount	$10

17. PERSONAL HOME COMPUTER AND DATA RECORDS

To extend additional risks of physical loss to personal computer hardware, software and accessories located in the home, charge the appropriate premium below.

Coverage Amount	Premium
$ 5,000	$20
$10,000	$35

This coverage is subject to the residence deductible.

Note: This coverage is not available to residences owned by the insured and rented to others.

18. MISCELLANEOUS COVERAGES

The following coverages may be extended to the Dwelling Fire exposure. For the appropriate rate, refer to the corresponding rule in the Home Section of this manual.

Builder's Risk and Theft of Building Materials Coverage*
Building Additions and Alterations
Home Day Care Coverage*
Incidental Farming Personal Liability
Misplaced or Lost Jewelry Coverage*
Other Structures
Permitted Business Exposures*
Scheduled Personal Property*
Trampoline Surcharge

*These coverages are not available to residences owned by the insured and rented to others.

ARKANSAS USP PORTFOLIO
STRATEGIC RISK MANAGEMENT (SRM) PROGRAM
HOME RULES

Denotes Change

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1. ELIGIBILITY

The Home Segment of USP Portfolio is designed to provide rates for residences which require the full homeowner coverage levels offered under Special Value, Special, Deluxe and Elite. These coverage levels may be extended to the following residence types.

A. The term "dwelling(s)" in this manual refers to dwellings owned and occupied by the insured.

B. The term "condo(s)' in this manual refers to Condominiums and Cooperatives owned and occupied by the insured.

C. The term "renter(s) in this manual refers to residences rented to the insured.

2. PREMIUM DETERMINATION

A. Refer to the Territory Definitions in the Rate Section of this manual to determine the territory code.

B. Refer to rate pages for rates by territory, policy amount, construction type and town class for dwellings and condominiums.

C. For renters' coverage, apply the factor found in Rule 3. to the corresponding condominium rate.

D. Home Rating Tier Factor

Refer to the rate pages for the Property Rating Tier Factor applicable to the base premium for dwellings, renters and condos.

The policy's Home Rating Tier is determined as follows:

Policy Property IS Score	Property Rating Tier
0 – 300	1
301 – 330	2
331 – 380	3
381 – 420	4
421 – 500	5
501 – 530	6
531 - 999	7

Note: No Hit, No Scores will be placed in Tier 3.

E. Package Discount

The Package Discount factors are now incorporated into the Home Rating Tier Factors:

For USP Package policies, apply the appropriate Package Home Rating Tier Factor from the rate pages to the base premium.

Exception: For Special Value policies with Credit For Existing Insurance (CFEI), the policy must provide coverage for at least one auto without CFEI and at least one residence without CFEI, to qualify for the Package Discount. Otherwise, the Home Rating Tier Factors for Non-Package Policies apply.

F. Coverage Options

(1) To increase coverage to Elite, or reduce coverage to Special Value or Special, apply the following adjustments:

(a) Elite Coverage Option

Apply a factor of 1.10.

(b) Deluxe Coverage Option

No rate adjustments are necessary.

(c) Special Coverage Option

Apply the appropriate factor from the table below:

	Home	Renter/Condo
With Replacement Cost on Personal Property	.95	.95
Without Replacement Cost on Personal Property	.80	.65

(d) Special Value Coverage Option

Apply the appropriate factor from the table below:

	Dwelling	Renter/Condo
With Replacement Cost on Personal Property	0.81	0.81
Without Replacement Cost on Personal Property	0.72	0.59

(2) For Personal Property Plus under Special Value, Special and Deluxe, apply the factor found in rule 21.C. to the corresponding residence premium.

Note: These adjustments do not apply to the premiums for residences rented to others.

G. The Limits of Liability required under the Homeowners Policy are as follows:

1. Section I - Property Damage

(a) Elite and Deluxe Option - Blanket Property Location Limit equal to 200% of the Dwelling Replacement Value.

(b) Special Value and Special Coverage Option -

Coverage	Limit	
Dwelling	Estimated Residence Value	
Other Structure	10% of Dwelling	
Tangible Personal Property	50% of Dwelling	Without Replacement Cost on Personal Property
	70% of Dwelling	With Replacement Cost on Personal Property

2. Section II - Liability

(a)

Coverage	**Elite, Deluxe, Special and Dwelling Fire Limits**
Personal Liability	$300,000
Medical Payments to Others	$5,000
Personal Injury	Included

(b)

Coverage	**Special Value Limits**
Personal Liability	$300,000
Medical Payments to Others	$1,000
Personal Injury	Add $6

(c) **Other Liability Limits**

Limits	**Elite, Deluxe, Special, Special Value and Dwelling Fire Premiums**
$100,000 Personal Liability	Subtract $9
$300,000 Personal Liability	N/A
$500,000 Personal Liability	Add $12

Note I Personal Liability Limits apply on a per "occurrence" basis. Medical Payments limits apply on a "per person" basis.

Note II The Limit of Liability for tangible personal property of Section I may be increased. Under other structure of Section I, an additional amount of insurance may be written on a specific structure.

H. Personal Umbrella Coverage

To obtain the premium for Personal Umbrella Coverage, refer to the Personal Umbrella Coverage Section of this manual.

I. Reinsurance Charge

Charge to cover the net cost of reinsurance.

Determine the Reinsurance Charge as follows:

1. Determine the Base Reinsurance Charge using the applicable Base Reinsurance Charge tables in the rate pages.
2. Multiply by the Reinsurance Rate Adjustment Factor in the rate pages.
3. Multiply by the Reinsurance Limit Factor in the rate pages.

   Amounts of insurance not shown on the rate pages may be obtained by interpolation.

   Method for Interpolation (example): A Reinsurance Limit Factor is desired for a policy amount of $83,000. Reinsurance Limit Factors are shown for $80,000 and $85,000 on the rate pages.

   1. Coverage Amounts Shown / Factors Shown

Coverage Amounts Shown	Factors Shown
$ 85,000	85
$ - 80,000	-.80
$ 5,000 (Difference – Amount)	5 (Difference - Factor

   2. [$3,000 (Additional Amount) / $5,000) Difference – Amount)] x [5 (Difference – Factor)] = 3.000 Round to Three Decimals)

      80.000 (Factor for $80,000

      +3.000 (Factor for Additional $3,000)

      83.000 (Factor for $83,000 Rounded to Three Decimals)

3. RENTERS COVERAGE

To determine the premium for Renters Coverage, apply a factor of 1.268 to the corresponding condominium rate found on the rate pages. This rule does not apply to occupants of cooperative apartments who are charged the condominium rates found on the rate pages.

4. OTHER RESIDENCE PREMISES

To extend the Special Value, Special, Deluxe and Elite coverage options to a residence other than a primary, apply the following adjustments:

A. Calculate the basic premium using the appropriate primary residence rate: dwelling, condominium or renter.

   Note: For contents values greater than 100% of the dwelling replacement value for Elite or Deluxe, or 50% of the dwelling estimated residence value for Special Value or Special (70% With Replacement Cost on Personal Property), refer to Rule 21.B of this section.

B. Apply the Tier Factor from Rule 2 of this section.

C. Apply the appropriate Package Discount factor (if applicable) from Rule 2 of this section.

D. Apply one of the following factors based on the type of occupancy.

Secondary Seasonal	1.10
Secondary Non-Seasonal	1.00

Note: A seasonal residence is a residence with continuous un-occupancy of three or more consecutive months during any one-year period.

E. Apply the appropriate Coverage Option factors (if applicable) from Rule 2 of this section.

F. Apply the appropriate liability premium adjustment (if applicable) from Rule 2 of this section.

G. Basic Liability Only

Basic Liability coverage may be purchased without coverage on the dwelling, contents or other structures for residences other than the primary residence. The following premiums apply.

Limit	Premium
$100,000	$10
$300,000	$12
$500,000	$13

H. Personal Umbrella Coverage

To obtain the premium for Personal Umbrella Coverage, refer to the Personal Umbrella Coverage Section of this manual.

5. TOWN CLASSIFICATION CODES AND INFORMATION

A. Codes

Town Class	Code
1	01
2	02
3	03
4	04
5	05
6	06
7	07
8	08
9	09
10	10

B. Protection Information

The Town Class listings in the Town Classifications Manual apply to risks insured under Universal Security Policies.

1. The town class indicated applies in a municipality or classified area where a single class of fire protection is available throughout (8, 7, 6, etc.).
2. In a classified area where two or more classifications are shown (e.g., 6/9), the classification is determined as follows:

Distance To Fire Station	Class
a. 5 road miles or less with hydrant within 1,000 feet	*
b. 5 road miles or less with hydrant beyond 1,000 feet	**
c. Over 5 but not more than 10 road miles:	9
d. Over 10 road miles	10

*Use first town class shown
**Use second town class shown.

3. All other properties are Class 10.
4. Proprietary (Subscription) Type Fire Departments

Class 10 applies to properties which are not subscribers.

C. Suburban Rating Rule

A primary dwelling that meets all of the following requirements may be rated as Town Class 8:

1. Located within 5 miles travel distance, on a year-round passable road, of a recognized Town Class 1-8 fire department that will respond
2. Located within 1,000 feet of a year-round water source* that can supply a minimum of 1,500 gallons of water to the site
3. Not located in a severe brush or windstorm area
4. Located in a subdivision of 20 or more homes

*A year-round water source may be any of the following:

a. an operating public fire hydrant, or
b. lake, pond, pool, reservoir, or
c. a tanker/pumper truck supplied by the responding fire department.

5. Insured demonstrates written proof of their payment to the local fire department at each renewal.

This rule is in addition to those contained in the Town Classification Manual.

6. CONSTRUCTION DEFINITIONS

A. **Frame -** exterior wall of wood or other combustible construction, including wood-iron clad, stucco on wood or plaster on combustible supports and Aluminum or plastic siding over frame.

B. **Masonry Veneer -** exterior walls of combustible construction veneered with brick or stone; rate as masonry.

C. **Masonry -** exterior walls constructed of masonry materials such as adobe, brick, concrete, gypsum block, hollow concrete block, stone, tile or similar materials and floors and roof of combustible construction (disregarding floors resting directly on the ground).

D. **Superior Construction**

(1) Non-Combustible - exterior walls and floors and roof constructed of, and supported by metal, asbestos, gypsum, or other non-combustible materials.

(2) Masonry Non-Combustible - exterior walls constructed of masonry materials (as described in C above) and floors and roof of metal or other non-combustible materials.

(3) Fire Resistive - exterior walls and floors and roof constructed of masonry or other fire resistive materials.

(4) Rating - the premium for an eligible dwelling, rented residence or condominium unit in a building of superior construction is computed by multiplying the masonry base premium for a comparable dwelling, rented residence or condominium unit by a factor of .85.

Note: Mixed Construction (i.e. Masonry/Frame, Masonry Veneer/Frame) - a combination of different construction types shall be classed and coded as the higher rated type when the exterior walls comprised of that type exceed 33-1/3% of the total exterior walls area; otherwise class and code as the lower rated type.

Construction Type	Rating
Frame	Highest
Masonry/Masonry Veneer	-
Superior	Lowest

7. RESERVED FOR FUTURE USE

8. SINGLE BUILDING DEFINITION

All buildings or sections of buildings, which are accessible through unprotected openings, shall be considered as a single building.

Buildings, which are separated by space, shall be considered separate buildings.

Buildings or sections of buildings which are separated by an 8-inch masonry party wall which pierces or rises to the underside of the roof and which pierces or extends to the inner-side of the exterior wall shall be considered separate buildings. Accessibility between buildings with independent walls or through masonry party walls described above shall be protected by at least a Class A Fire Door installed in a masonry wall section.

9. RESERVED FOR FUTURE USE

10. REPLACEMENT VALUE COVERAGE

A. Replacement Value Coverage for Personal Property:

(1) For Elite and Deluxe, coverage is automatically included at no premium charge.

(2) For Special Value and Special, this coverage may be included at an additional premium charge. The Tangible Personal Property - Personal Property limit shall be increased from 50% to 70% of the dwelling estimated residence value. Refer to Rule 2. of this Section for the appropriate factor.

B. Broadened Replacement Cost Coverage for Real Property (Dwelling)

For Elite and Deluxe, guaranteed replacement cost coverage is provided for dwellings, up to 125% of the residence value, if a total loss should occur, at no additional charge.

For Special Value and Special, Specified Additional Amount of Insurance (subject to a limit of 125% of the dwelling estimated residence value shown on the coverage summary) is available for dwellings for an additional premium of $25.

Exception: Policies with the Real Property Basic Replacement Cost Coverage Endorsement will not receive the Guaranteed or Specified Additional Amount of Insurance replacement cost provisions.

11. PROTECTIVE DEVICES

Approved and properly maintained installations of burglar alarms, fire alarms and automatic sprinklers in the dwelling may be recognized for a premium credit as follows:

Type of System*		Credit
I.	Burglar Alarms	
	A. Police Station Reporting	.03
	B. Central Station Reporting	.05
II.	Fire Alarms	
	A. Local (including smoke detectors)**	.02
	B. Protective Package: A combination of a local fire alarm (including smoke detectors), dead bolt locks on all exterior doors and a fire extinguisher in the residence	.02
	C. Fire Station Reporting	.03
	D. Central Station Reporting	.05
III.	Automatic Sprinkler Systems	
	A. In all areas except attic, bathroom, closets, and attached structure areas that are protected by a fire detector.	.08
	B. In all areas including attics, bathrooms, closets, and attached structures.	.13

*Refer to Company for eligibility, types of systems and devices and installation.
**II.A will not apply if II.B does apply.

To determine the total credit, sum the applicable credits for all types subject to a maximum of .15. Only one credit per type of system is allowed.

The applicable factor is 1 minus the total credit developed above.

12. DEDUCTIBLES

All Policies are subject to a deductible applicable to loss from all perils covered under the policy on an accident basis. Only one deductible amount may be chosen for all real and tangible personal property covered (unless a windstorm/hail deductible has been selected), per each primary or secondary residence. However, the deductible on the secondary residence does not have to be the same as the primary. Also, for SPP optional deductible amounts are available.

The optional Windstorm and Hail deductible is only applicable when the amount of the deductible exceeds the amount of the deductible applicable to all other covered perils. The Windstorm and Hail deductible is not applicable to condos or renters.

The actual deductible applied will be the larger of the Windstorm and Hail deductible or the deductible applicable to all other covered perils.

The deductible amount must be entered on the Coverage Summary of the policy.

Apply the appropriate deductible factor from the rate pages to the residence premium subject to the maximum deductible credit.

13. DWELLING AGE DISCOUNT

Refer to the rate pages for the applicable Dwelling Age Discount factor. The dwelling age is calculated by subtracting the year construction was completed from the effective year of the USP policy. This discount does not apply to renters or condominiums, or to dwellings which are secondary residences.

14. RETIREMENT COMMUNITY DISCOUNT

A factor of .90 shall be applied to dwelling premiums for primary residences, if the following are true:

A. The community is specifically set up for and primarily occupied by retired persons.

B. The community must be in protection classes one through eight or be upgraded to one through eight by the Improved Protection Class Rule.

Examples of retirement communities follow, but are not limited to: Bella Vista, Cherokee Village, and Hot Springs Village.

15. MISCELLANEOUS COVERAGES

A. Backup of Sewers or Drain Coverage

A Deluxe, Special or Special Value policy may be endorsed to provide coverage against direct loss caused by water which backs up through sewers or drains or water which enters into and overflows from within a sump pump, sump pump well or other type of system designed to remove subsurface water which is drained from the foundation area. This coverage is automatically included in the Elite coverage option.

The policy deductible will be deducted for each occurrence from any loss caused by backup of sewer or drain that is covered by this endorsement.

Coverage Limit	Premium
$5,000	$30
Each additional 5,000 up to 70% of the dwelling replacement value for Deluxe or the estimated residence value for Special or Special Value	$10

B. Personal Home Computer and Data Records

For Elite and Deluxe, additional risks of physical loss are automatically included at no premium charge for personal computer hardware, software and accessories located in the home.

For Special Value and Special, this coverage may be included for an additional premium charge as follows:

Coverage Amount	Premium Per Year
$ 5,000	$20
$10,000	$35

This coverage is subject to the property deductible.

C. Loss Assessment Coverage

Coverage is automatically provided at no premium charge at the following limit:

Elite	$50,000
Deluxe	$ 5,000
Special	$ 1,000
Special Value	No coverage

Optional limits are available at the following additional premium charge:

Limit	Premium
$ 1,000	$ 1 (for Special Value only)
$ 5,000	$ 3 (for Special and Special Value)
$10,000	$ 5 (for Deluxe, Special and Special Value)
$50,000	$13 (for Deluxe, Special and Special Value)

D. Building Ordinance Increased Costs

For Elite and Deluxe, coverage is automatically included at no additional charge for additional expenses incurred from ordinances or laws which regulate construction, repair or demolition of property provided loss is from a covered peril. Coverage is provided up to 10% of the residence value, if actual damage and ordinance or law expenses exceed the limit of liability.

For Special Value and Special, this coverage may be included for an additional premium as follows:

Dwellings - Apply a factor of 1.10

Renters/Condos - Charge $3

E. Builder’s Risk and Theft of Building Materials Coverage

For an additional premium, coverage will be provided up to a limit of $20,000 for loss caused by theft of building materials while located on the insured premises, provided that the material is or will become a permanent portion of the completed building. The coverage provided by this endorsement automatically ceases upon occupancy.

This coverage applies only while the dwelling is under construction. The dwelling must be insured at its full replacement value. The premium for this endorsement is a flat $95 charge.

F. Home Day Care Operations

The policy may be endorsed to provide liability coverage on a home day care business located in the dwelling or property and liability coverages in another structure on the residence premises. The premium for 1 through 3 persons, other than insureds, receiving day care service shall be as follows:

(1) Property Coverage:

If the business is located in another structure, charge $5 per $1,000 of Replacement Value of Structure and contents.

(2) Liability Coverage:

The liability limit for this coverage must equal the basic liability limit of the policy. The following rates apply.

For each of the liability limits shown below, $5,000 Medical Expenses Coverage is included for all product levels except Special Value which has a $1,000 limit.

$100,000 Per Occurrence $100,000 Annual Aggregate	$300,000 Per Occurrence $300,000 Annual Aggregate	$500,000 Per Occurrence $500,000 Annual Aggregate
$119	$152	$168

Note: For Special Value, if this coverage is purchased, Personal Injury Coverage (Rule 2G) must also be purchased.

G. HomeWork Supplement

Coverage may be extended to insureds who operate a small business out of their residence. The premium charge for this coverage is $175 per endorsement. Refer to endorsement for specific coverages and exclusions.

This coverage may be extended to cover the interests of Additional Insureds for a premium charge of $10 each.

If Personal Umbrella Coverage applies to a policy which also includes the HomeWork Supplement, charge the additional premium per insured for the HomeWork Supplement shown in the Personal Umbrella Coverage Section of this manual.

Note: For Special Value, if this coverage is purchased, Personal Injury Coverage (Rule 2G) must also be purchased.

H. Lifestyle Coverage Endorsement

The premium charge for this endorsement is $32. Refer to endorsement for specific coverages and exclusions.

I. Misplaced or Lost Jewelry Coverage

The Universal Security Policy automatically includes the following coverage for Jewelry:

Category	Special Value	Special/Dwelling Fire	Deluxe	Elite
Theft of Jewelry	$1,000	$1,500	$5,000	$10,000
Misplaced or Lost	Optional	Optional	Included	Included

For Special Value, Special or Dwelling Fire, the charge for the option to increase Theft coverage to $2,500 and include coverage for Misplaced or Lost Jewelry is $12.

J. Reserved for Future Use

K. Trampoline Surcharge

A surcharge of $100 shall be added to the premium of any dwelling that has a trampoline exposure, regardless of whether the trampoline is in storage or in use.

L. Identity Fraud Expense Coverage Endorsement

The premium charge for this endorsement is $25. Refer to endorsement for specific coverages and exclusion.

Note: This coverage is not available for Dwelling Fire policies. This coverage is optional for Elite, Deluxe, Special or Special Value policies

16. BUILDING ADDITIONS AND ALTERATIONS

For condominiums or residences rented to the insured—coverage is automatically included at limits equal to 10% of the personal property limit. For each additional $1,000 of replacement cost of the addition or alteration, charge $3.

17. CREDIT CARD, FORGERY AND COUNTERFEIT MONEY

The limit of liability afforded under the policy varies by coverage option as follows:

Elite	- $10,000
Deluxe	- $ 2,500
Special	- $ 1,000
Special Value	- $ 1,000

These limits cannot be further increased.

18. EARTHQUAKE AND VOLCANIC ERUPTION COVERAGE

A. ZONE DEFINITIONS:

Zone 2	**Zone 3**	**Zone 4**		**Zone 5**
Clay	Independence	Arkansas	Lonoke	Balance
Craighead	Lawrence	Baxter	Marion	
Crittenden	Monroe	Cleburne	Prairie	
Cross	Randolph	Conway	Pulaski	
Greene	White	Desha	Searcy	
Jackson	Woodruff	Faulkner	Sebastian	
Lee		Fulton	Sharp	
Phillips		Izard	Stone	
Mississippi		Jefferson	Van Buren	
Poinsett		Little River		
St. Francis				

B. When earthquake coverage is provided, it shall apply to all property coverages provided under the policy.

The base deductible of 10.5% of the property location limit applies. For other deductible options, see below.

Note: In Zone 2, the minimum deductible available to any policyholder is 15%.

The premium for each $1,000 of coverage shall be developed as follows:

		Year Built 1949 and Prior		Year Built 1950 and Later		
	Zone	Superior & Frame	Masonry	Superior & Frame	Masonry	
Dwellings (Inc. Loss of Use) written under the Special Value, Special, Deluxe and Elite Coverage Options	2	1.81	2.38	1.49	1.93	Replacement Value Dwelling
	3	0.80	1.30	0.63	1.10	
	4	0.23	0.59	0.20	0.50	
	5	0.20	0.56	0.18	0.48	
Contents for condominiums and renters coverage; and increased contents limits for dwellings written under the Special Value, Special, Deluxe and Elite Coverage Options	2	1.16	1.06	0.97	0.87	Replacement Value Contents
	3	0.80	0.61	0.44	0.52	
	4	0.16	0.34	0.14	0.29	
	5	0.14	0.38	0.12	0.32	
Other structures; Dwellings Rented to others; Building Additions & Alterations for Elite, Deluxe, Special and Special Value Policies	2	1.16	1.83	0.97	1.50	Replacement Value Other Structures or Dwelling
	3	0.52	0.98	0.44	0.84	
	4	0.16	0.43	0.14	0.36	
	5	0.14	0.38	0.12	0.32	

If year of construction is unavailable, use the rates shown for "1950 and Later".

Note: if exterior Masonry Veneer
- is covered-rate as Masonry
- is not covered-rate as Frame.

C. For higher deductibles apply the following factors to the base 10.5% deductible premium:

	Factor	
Deductible Percentage	Frame and Superior	Masonry
10.5%	1.000	1.000
14.0%	.859	.944
15.0%	.819	.928
17.5%	.718	.888

Note: In Zone 2, the minimum deductible available to any policyholder is 15%.

D. LOSS ASSESSMENT COVERAGE:

The following rates shall apply to all zones:

Limit	Premium
$ 1,000	$ 1.00
5,000	5.00
10,000	10.00
50,000	50.00

Note: If earthquake loss assessment coverage is purchased, the earthquake loss assessment coverage limit must be the same as the policy loss assessment coverage limit.

19. RESERVED FOR FUTURE USE

20. OTHER STRUCTURES

A. For Elite and Deluxe, when the policy's property location limit is less than the total replacement value of the dwelling, contents and other structures on the residence premises, increased coverage for other structures should be considered.

Coverage for other structures on the residence premises is included up to 10% of the estimated residence value for Special and Special Value. When the combined value of all other structures on the premises exceeds 10% of the estimated residence value, increased coverage for other structures should be considered

For increased coverage for other structures calculate the rate as follows:

For each of the liability limits shown below, $5,000 Medical Expense Coverage is included for all product levels except Special Value, which provides $1,000.

(1) For an other structure used for residential purposes that is rented or occupied by others:

$5 per thousand of additional replacement value of structure and contents, plus $14 for $100,000 basic liability; $17 for $300,000 basic liability; or $19 for $500,000 basic liability.

(2) For an other structure used for office, professional, private school or studio refer to Rule 26 B.1(b).

(3) For an other structure occupied by the insured on the insured residence premises:

$4 per thousand of additional replacement value of structure.

Note: Liability coverage is automatically extended from the residence premises.

B. For Condominium Unit owners only:

For miscellaneous structures on the residence premises, owned by the insured and not used for business purposes.

$10 per thousand of replacement value of structure

Note: Liability coverage is automatically extended from the residence premises.

C. For an other structure other than described in A or B above, owned by or rented to the insured and not used for business purposes:

$5 per thousand of replacement value of structure and contents plus $14 for $100,000 basic liability;

$17 for $300,000 basic liability; or $19 for $500,000 basic liability.

Note: Detached garages situated on the residence premises are included in the base rate at no additional charge.

D. Personal Umbrella Coverage

If Personal Umbrella Coverage applies, there is no additional charge for A(1) and C. above.

21. PERSONAL PROPERTY

A. Property Special Limits

The Universal Security Policy contains special limits on certain categories of property. The policy limits for these categories can be increased as specified in Rule 22.

B. Tangible Personal Property

Tangible personal property is included in the property location limits of 200% of the dwelling replacement value for Deluxe and Elite.

Tangible personal property is included up to 50% of the estimated residence value for Special and Special Value (70% with Replacement Cost on Personal Property coverage).

If a greater amount of coverage is desired for tangible personal property, charge $2 for each $1,000 of additional coverage.

As a guideline, additional coverage should be considered in cases where the actual value of the insured's tangible personal property exceeds the following amounts:

Elite and Deluxe	- 100% of the dwelling replacement value.
Special and Special Value	- 50% of the dwelling estimated residence value.
	- 70% with Replacement Cost on Personal Property coverage).

C. Personal Property Plus

This coverage provides additional perils coverage for tangible personal property and is automatically included in the Elite policy. This coverage can be extended to Deluxe, Special or Special Value policies by applying a factor of 1.08 (a 8% charge) to the appropriate residence (home, condo or renters) premium, including the premium for increased limits of tangible personal property. If this coverage is purchased, it applies to all residences under the Home Segment.

This coverage is not available for Dwellings Owned by the Insured and Rented to Others.

22. SCHEDULED PERSONAL PROPERTY

A. Rates

Item	Rate Per $100
Cameras (Non-Commercial)	$ .97
Coins/Collectibles/Trading Cards	$1.05
Fine Arts	See Rule 22.H.
Fire Arms	$1.58
Furs (Personal)	$ .38
Golfer's Equipment	$ .55
Jewelry (Personal)	$ .92
Jewelry (In Vaults)	$ .24
Musical Instruments (Non-Professional)	$ .29
Silverware	$ .21
Stamps	$ .38
Other Miscellaneous Property	$1.26

B. Blanket Coverage

Scheduled Personal Property may also be used to insure a collection of items, which are relatively inexpensive, but together their value exceeds the internal property special limits. This type of blanket coverage is available for the following property categories:

Category	SPP Rate
Jewelry, Watches, Furs	Jewelry
Silverware	Silverware
Stamps, Securities	Stamps
Money, Gold, Coins	Coins
Cameras	Cameras
Firearms	Firearms
Musical Instruments	Musical Instruments
Fine Arts	Fine Arts
Golfer's Equipment	Golfer's Equipment

The maximum limit for individual items is $1,000 for Stamps, Coins and Jewelry. For other categories, the maximum limit for individual items is $2,500 when the blanket class is scheduled for any amount greater than $10,000.

C. Jewelry Surcharges

Occasionally individual jewelry items or total jewelry schedules will simply not fit normal rates but are not adverse exposures. Ranges of surcharges and credits have been designed to provide the tools needed to make selected jewelry risks insurable.

	Factor
Total jewelry valued over or equal to $50,000	1.20
If the above surcharge is not applied, then Apply the following factor to any single jewelry item valued over $25,000.	1.10

Example

If total jewelry amount is $55,000, which includes one ring valued at $30,000, then the 1.20 factor applies:

Premium = ($55,000/100) X $0.92 X 1.20 = $581

If total jewelry amount is $45,000, which includes one ring valued at $30,000, then the 1.10 factor applies to the ring.

Premium = [($30,000/100) X $0.92 X 1.10] +
[(($45,000 - $30,000)/100) X $0.92] = $422

D. Alarms

See Protective Devices Rule in this section for applicable credits.

E. Deductibles

The base deductible of $250 applies.

The following deductibles are available. The deductible factor must apply against the total schedule premium.

Deductible	Factor Credit/Debit of Total Schedule Premium
Full Coverage	1.25
$ 250	1.00
500	.90
1,000	.80
2,500	.60
5,000	.50

F. Reserved for Future Use

G. Stated Value Coverage - Scheduled Personal Property

If stated value scheduled personal property coverage is purchased, apply a factor of 1.20 to the premium for the items for which stated value coverage is purchased.

H. Fine Arts Annual Premiums

AMOUNT OF INSURANCE (Per Class)	TOWN CLASS 1-8	TOWN CLASS 9-10
$1,000 or less	$ 3	$ 6
2,000	4	7
3,000	6	9
4,000	7	11
5,000	8	13
6,000	10	15
7,000	11	17
8,000	11	19
9,000	13	21
10,000	14	23
11,000	15	24
12,000	17	26
13,000	18	29
14,000	20	31
15,000	20	33
16,000	21	34
17,000	23	36
18,000	24	39
19,000	25	41
20,000	26	42
21,000	28	44
22,000	29	46
23,000	30	48
24,000	31	51
25,000	33	52
30,000	39	62
35,000	45	72
40,000	51	81
45,000	56	91
50,000	63	101
75,000	94	150
100,000	123	198
Each Additional $100,000 of Cov.	119	194

To provide coverage for breakage:

For Elite - Coverage automatically included at no no additional premium charge.

For Deluxe, Special and Special Value — Charge an additional $1.50 per $1,000 of insurance

23. RESERVED FOR FUTURE USE

24. HOME MERIT RATING

The Home Merit Rating factor is determined separately and applies separately to each residence. The factor does not apply to premiums for earthquake, scheduled personal property, permitted business exposures, incidental farming personal liability, or miscellaneous coverages in Rule 15 except building ordinance increased costs.

A. Claim Type

For purposes of this rule, claims are classified as Type A or Type B. Type A claims consist of the following:

- Fire – fire, explosion, smoke – excludes lightning
- Theft – theft (on and off premises), mysterious disappearance (on and off premises), burglary, credit card fidelity, theft from and unattended vehicle
- Liability – any type of liability (excluding medical payments)
- Vandalism – vandalism and malicious mischief, riot and civil commotion

Type B claims consist of all other claims except: weather related, scheduled personal property, medical payments, mine subsidence and earthquake.

B. Claim Chargeability

For a claim to be chargeable, it must be a Type A or Type B claim, and it must have occurred during the three-year period prior to the policy effective date.

1. Claims that occurred under a named insured's prior homeowner, renter or condominium policy, as well as claims that occurred under the current USP policy will be considered in determining claim chargeability.
2. For renewal business, claims will be evaluated as of 45 days prior to the policy effective date. Claims occurring between this date and the policy effective date will not be considered until the next renewal.
3. Claims with payments (net of associated subrogation recoveries) that exceed the following thresholds are chargeable:

	Type A	Type B
Non-USP claims	$ 0	$ 250
USP claims	250	500

4. Scheduled Personal Property claims are not chargeable under this rule. Refer to Rule 22 for applicable surcharge.

C. Claim Surcharge Waiver

A chargeable claim as defined above will be considered not chargeable if for the 60 consecutive months prior to the claim occurrence date:

1. The named insured or spouse has maintained home coverage under a USP policy, and
2. No other Type A or Type B claim has occurred that resulted in a payment (net of associated subrogation recoveries) exceeding $250 for Type A claims or $500 for Type B claims.

D. Merit Rating Factors

		Number of Chargeable Type A Claims				
		0	1	2	3	4+
Number of Chargeable Type B Claims	0	1.00	1.25	1.65	1.85	1.85
	1	1.00	1.25	1.65	1.85	1.85
	2	1.15	1.55	1.85	1.85	1.85
	3	1.30	1.75	1.85	1.85	1.85
	4+	1.50	1.85	1.85	1.85	1.85

25. HOME CLAIM FREE DISCOUNT

A factor of 0.90 will be applied to the primary residence premium if:

1. The named insured or spouse has maintained a homeowner, renter or condominium policy issued by a non-residual market insurer for the twelve months prior to the policy effective date, and
2. No Type A or Type B claim (as defined in Rule 24) that resulted in a payment (net of associated subrogation recoveries) of more than $250 has occurred during the five-year period prior to the policy effective date.

Notes:

a. This discount does not apply to renters or to secondary residences.

b. Claims that occurred under a named insured's prior homeowner, renter or condominium policy, as well as claims that occurred under a USP policy, will be considered in determining eligibility for this discount.

c. For renewal business, claims will be evaluated as of 45 days prior to the policy effective date. Claims occurring between this date and the policy effective date will not be considered until the next renewal.

26. PERMITTED BUSINESS EXPOSURES

A. BUSINESS PURSUITS

Coverage for the liability of the insured arising out of business activities may be purchased at a limit equal to the basic liability limit. If the policy is endorsed for Personal Umbrella Coverage, a separate premium is applied for this coverage (Refer to Personal Umbrella Coverage Section of this manual). Coverage is excluded if the insured owns a business, is a partner in a business or maintains financial control in a business.

For each of the liability limits shown below, $5,000 Medical Expenses Coverage is included for all product levels except Special Value, which provides $1,000.

Classification	Premium per Person
(1) Clerical Employees	$ 9
(2) Sales person, collector or messenger— Installation, demonstration Or servicing operation:	
Included	$12
Excluded	$ 9

Classification	**Premium per Person**
(3) Teachers	
a. lab., athletic, manual or physical training	$22
b. not otherwise classified	$11
c. corporal punishment-add to a or b	$ 5

Note: For Special Value, if this coverage is purchased, Personal Injury Coverage (Rule 2G) must also be purchased.

B. PERMITTED INCIDENTAL BUSINESS OCCUPANCIES

1. Liability coverage may be purchased for the increased exposure arising from a permitted incidental business occupancy on the residence premises or in an other residence occupied by the insured. Examples of such occupancies are offices, schools or studios used for business or professional purposes and private schools or studios for music, dance, photography and other instructional purposes. Dwelling coverage is also available for an other structure located on the residence premises which is used in a permitted incidental occupancy.

   Use the appropriate rate shown below for basic liability. If the policy is endorsed for Personal Umbrella Coverage, a separate premium is applied for this coverage (Refer to Personal Umbrella Coverage Section of this manual).

   For each of the liability limits shown below, $5,000 Medical Expenses Coverage is included for all product levels except Special Value which provides $1,000.

   (a) In the primary residence premises:

   $38 for $100,000 liability, $44 for $300,000 liability or $47 for $500,000 liability.

   (b) For an other structure located on the residence premises used as an office, private school or studio, or for other professional purposes.

   - For residence owned and occupied by the insured: $4 per thousand of replacement value of structure plus $38 for $100,000 basic liability; $44 for $300,000 basic liability or $47 for $500,000 basic liability.

     Note: Property coverage is only available when liability coverage is also purchased.

   - For residences rented to the insured: Use liability rate only.

   (c) In an additional Residence Premises occupied by the insured: $29 for $100,000 basic liability; $35 for $300,000 basic liability or $38 for $500,000 basic liability.

   - For an other structure located in an additional residence occupied by the insured, use the additional Residence Premises liability rate above.

Note: For Special Value, if this coverage is purchased, Personal Injury Coverage (Rule 2G) must also be purchased.

2. Business Property

Under Deluxe, Special and Special Value, a policy may be endorsed to provide coverage for higher limits of business property. If this option is selected, the business property limits will be increased to $10,000 for on-premises coverage and $5,000 for off-premises coverage. This coverage is automatically included on Elite policies at these limits.

The premium charge for this coverage under Deluxe, Special and Special Value is $50.

27. INCIDENTAL FARMING PERSONAL LIABILITY

A. Basic Liability

Coverage may be purchased for the liability of the insured when there is incidental farming which is not the business of the insured. Rates below are for basic liability and apply on a per location basis.

For each of the liability limits shown below, $5,000 Medical Expenses Coverage is included for all product levels except Special Value, which provides $1,000.

$100,000 Liability	$300,000 Liability	$500,000 Liability
$47	$57	$64

B. Personal Umbrella Coverage

To obtain the premium for Personal Umbrella Coverage, refer to the Personal Umbrella Coverage Section of this manual.

28. INTERPOLATION OF PREMIUMS FOR POLICY AMOUNTS NOT SHOWN ON RATE PAGES

The premium for replacement values not shown on the rate page may be obtained by interpolation.

Method for Interpolation: A premium is desired for a replacement value policy amount of $76,000 which falls between $75,000 and $80,000 shown on the rate page. In other words, the desired amount is $1,000 in excess of $75,000 shown.

(1) Replacement Value Rated — Premiums Shown

Replacement Value Rated	Premiums Shown
$80,000	$132
75,000	126
$ 5,000—Difference (Amount)	$ 6--Difference (Premium)

(2) 1,000--Additional Amount x $6--Difference (Premium) = $1

5,000--Difference (Amount)

(3) $ 126 (premium for $75,000)

1 (premium for additional $1,000)

$ 127 (basic premium for $76,000)

29. EXTRAPOLATION OF PREMIUMS FOR POLICY AMOUNTS BELOW THOSE SHOWN ON RATE PAGES

Method for extrapolation: A premium is desired for a policy amount of $25,000. $25,000 is below the lowest policy amount listed on the rate pages, in this case $30,000. The desired amount is $5,000 less than the lowest limit shown. To determine the premium for this risk follow the example below.

A. Take the difference between the two lowest available limits on the rate page.

$40,000--Second lowest limit

- 30,000--Lowest limit

$10,000--Difference (Amount)

B. Take the difference between the premiums associated with the limits in Step A.

$118--Premium for second lowest limit

-106--Premium for lowest limit

$ 12--Difference (Premium)

C. $ 5,000—divided by $10,000 Difference (Amount) x $12--Difference (Premium) = $6--Premium for coverage from desired amount to lowest amount shown

D. $106--Premium for lowest limit

-6--Premium for coverage from desired amount to lowest limit

$100--Premium for desired amount ($25,000)

Supporting Document Schedules

		Review Status:	
Satisfied -Name:	Uniform Transmittal Document-Property & Casualty	Filed	03/19/2008

Comments:

Attachments:

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

		Review Status:	
Satisfied -Name:	HPCS-Homeowners Premium Comparison Survey	Filed	03/19/2008

Comments:

This will also be sent via e-mail to Becky Harrington.

Attachment:

State Filing Form HPCS.PDF

		Review Status:	
Satisfied -Name:	NAIC Loss Cost Filing Document for OTHER than Workers' Comp		03/03/2008

Comments:

Attachment:

State Filing Form RF-1.PDF

		Review Status:	
Satisfied -Name:	ActuarialIndicationMemo, ActuarialIndicationExhibits	Filed	03/19/2008

Comments:

Attachments:

ActuarialIndicationMemo.PDF
ActuarialIndicationExhibits.PDF

		Review Status:	
Satisfied -Name:	ER-0701	Filed	03/19/2008

3.3.08Response_SupplementalAttachment1.pdf

Comments:

Attachment:

ER-0701 3_3_08Response_SupplementalAttachment1_pdf.PDF

		Review Status:	
Satisfied -Name:	ER-0701 Response to DOI (03-19-08).doc, State Filing Form RF-1 Revised	Filed	03/19/2008

Comments:

Attachments:

ER-0701 Response to DOI (03-19-08)_doc.PDF
State Filing Form RF-1 Revised.PDF

Property & Casualty Transmittal Document

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	a. Date the filing is received:	
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	c. Disposition:	
	d. Date of disposition of the filing:	
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	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 #
	Encompass Indemnity Company	IL	15130	59-2366357	

5.	Company Tracking Number	ER-0701

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)**	04.0005 Other Homeowners
11.	**State Specific Product code(s) (if applicable) [See State Specific Requirements]**	
12.	**Company Program Title** (Marketing Title)	Other Than Auto
13.	**Filing Type**	☐ Rate/Loss Cost ☐ Rules ☒ Rates/Rules ☐ Forms ☐ Combination Rates/Rules/Forms ☐ Withdrawal ☐ Other (give description)
14.	**Effective Date(s) Requested**	New: 04/28/2008 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**	March 3, 2008
19.	**Status of filing in domicile**	☒ Not Filed ☐ Pending ☐ Authorized ☐ Disapproved

 INS02026

Property & Casualty Transmittal Document

20.	This filing transmittal is part of Company Tracking #	ER-0701

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

With this filing, we are proposing a 6.8% overall rate level increase for the Other Than Auto program in the Encompass Indemnity Company. The proposed rate change is flat across all territories.

New Business: April 28, 2008
Renewal Business: 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 paid 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.)**

PROPERTY & CASUALTY
RATE/RULE FILING SCHEDULE

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

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

1.	**This filing transmittal is part of Company Tracking #**	ER-0701

2.	**This filing corresponds to form filing number** (Company tracking number of form filing, if applicable)	Not applicable

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

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

4a.	**Rate Change by Company (As Proposed)**						
Company Name	**Overall % Indicated Change (when Applicable)**	**Overall % Rate Impact**	**Written Premium Change for this program**	**# of policyholders affected for this program**	**Written premium for this program**	**Maximum %Change** (where required)	**Minimum %Change** (where required)
Encompass Indemnity Company	25.7%	6.8%	153494	1695	2257261	19.7	0

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

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

6.	**Overall percentage of last rate revision**	0.0%
7.	**Effective Date of last rate revision**	06/01/2007
8.	**Filing Method of Last filing (Prior Approval, File & Use, Flex Band, etc.)**	File and Use

9.	**Rule # or Page # Submitted for Review**	**Replacement or withdrawn?**	**Previous state filing number, if required by state**
01	Home Rate Pages – Condo Rate Tables, Dwelling Base Premium	☐ New ☒ Replacement ☐ Withdrawn	AR-PC-07-023670
02	Home Rule Pages – Renters Factor (Rule 3)	☐ New ☒ Replacement ☐ Withdrawn	AR-PC-07-023670
03	Dwelling Fire Rule Pages – Occupancy Factors (Rule 7)	☐ New ☒ Replacement ☐ Withdrawn	AR-PC-07-023670

NAIC Number:	008-15130
Company Name:	Encompass Indemnity Company
Contact Person:	Carrie Deppe
Telephone No.:	847-402-2774
Email Address:	cdeppe@allstate.com
Effective Date:	4/28/08 New, 6/5/08 Renewal

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

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

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

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

Public Protection Class	Dwelling Value	Washington		Baxter		Craighead		St. Francis		Desha		Union		Miller		Sebastian		Pulaski	
		Brick	Frame	Brick	Frame	Brick	Frame	Brick	Frame	Brick	Frame	Brick	Frame	Brick	Frame	Brick	Frame	Brick	Frame
3	$80,000	$656	$708	$828	$912	$1,027	$1,131	$899	$1,148	$868	$956	$1,170	$1,235	$989	$1,035	$870	$939	$871	$932
	$120,000	$811	$875	$1,022	$1,124	$1,268	$1,396	$1,103	$1,407	$1,071	$1,178	$1,461	$1,540	$1,242	$1,298	$1,078	$1,162	$1,083	$1,157
	$160,000	$931	$1,002	$1,172	$1,287	$1,455	$1,599	$1,260	$1,603	$1,228	$1,349	$1,686	$1,775	$1,445	$1,509	$1,237	$1,333	$1,248	$1,332
6	$80,000	$798	$876	$1,058	$1,183	$1,313	$1,470	$1,580	$1,951	$1,109	$1,240	$1,347	$1,444	$1,115	$1,184	$1,060	$1,164	$1,038	$1,128
	$120,000	$984	$1,078	$1,301	$1,453	$1,618	$1,808	$1,932	$2,384	$1,364	$1,524	$1,677	$1,794	$1,395	$1,479	$1,309	$1,435	$1,286	$1,396
	$160,000	$1,126	$1,231	$1,487	$1,659	$1,849	$2,065	$2,197	$2,707	$1,559	$1,740	$1,929	$2,062	$1,619	$1,713	$1,499	$1,642	$1,478	$1,602
9	$80,000	$1,771	$2,037	$2,633	$3,062	$3,283	$3,819	$6,255	$7,528	$2,762	$3,213	$2,562	$2,893	$1,980	$2,216	$2,368	$2,724	$2,181	$2,493
	$120,000	$2,168	$2,491	$3,217	$3,740	$4,012	$4,665	$7,619	$9,169	$3,376	$3,924	$3,155	$3,557	$2,448	$2,734	$2,900	$3,333	$2,677	$3,056
	$160,000	$2,464	$2,829	$3,654	$4,244	$4,556	$5,294	$8,625	$10,377	$3,834	$4,453	$3,600	$4,055	$2,808	$3,132	$3,297	$3,787	$3,050	$3,479

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

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

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

Public Protection Class	Dwelling Value	Washington		Baxter		Craighead		St. Francis		Arkansas		Union		Miller		Sebastian		Pulaski	
		Brick	Frame	Brick	Frame	Brick	Frame	Brick	Frame	Brick	Frame	Brick	Frame	Brick	Frame	Brick	Frame	Brick	Frame
3	$80,000	$716	$754	$904	$972	$1,122	$1,206	$982	$1,224	$948	$1,019	$1,280	$1,317	$1,081	$1,103	$950	$1,001	$951	$993
	$120,000	$887	$933	$1,118	$1,200	$1,388	$1,490	$1,207	$1,502	$1,172	$1,258	$1,600	$1,644	$1,359	$1,386	$1,179	$1,240	$1,184	$1,235
	$160,000	$1,017	$1,069	$1,282	$1,374	$1,593	$1,708	$1,379	$1,712	$1,344	$1,440	$1,846	$1,896	$1,582	$1,611	$1,353	$1,423	$1,366	$1,422
6	$80,000	$871	$933	$1,156	$1,262	$1,437	$1,568	$1,729	$2,084	$1,212	$1,323	$1,474	$1,541	$1,219	$1,263	$1,159	$1,241	$1,134	$1,203
	$120,000	$1,076	$1,150	$1,425	$1,552	$1,771	$1,931	$2,117	$2,547	$1,493	$1,627	$1,836	$1,916	$1,527	$1,579	$1,433	$1,533	$1,407	$1,490
	$160,000	$1,231	$1,314	$1,628	$1,772	$2,025	$2,205	$2,407	$2,893	$1,707	$1,858	$2,113	$2,202	$1,773	$1,830	$1,641	$1,753	$1,618	$1,711
9	$80,000	$1,939	$2,175	$2,885	$3,272	$3,597	$4,081	$6,859	$8,048	$3,026	$3,433	$2,807	$3,091	$2,168	$2,366	$2,593	$2,910	$2,389	$2,663
	$120,000	$2,376	$2,661	$3,527	$3,997	$4,399	$4,987	$8,356	$9,803	$3,701	$4,194	$3,458	$3,802	$2,682	$2,922	$3,178	$3,562	$2,934	$3,266
	$160,000	$2,700	$3,023	$4,005	$4,536	$4,996	$5,660	$9,460	$11,095	$4,203	$4,759	$3,947	$4,334	$3,078	$3,347	$3,614	$4,047	$3,343	$3,718

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

HO3 and HO4 only

Fire Extinguisher	N/A %	*Deadbolt Lock*	N/A %
Burglar Alarm	N/A %	*Window Locks*	N/A %
Smoke Alarm	N/A %	*$1,000 Deductible*	N/A %
		Other (specify)	%
		Maximum Credit Allowed	N/A %

NOTE - Minimum Renters Coverage is $30,000

EARTHQUAKE INSURANCE

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

ARE YOU CURRENTLY WRITING EARTHQUAKE COVERAGE IN ARKANSAS? No *(yes or no)*

WHAT IS YOUR PERCENTAGE DEDUCTIBLE? %

WHAT IS YOUR PRICE PER $1,000 OF COVERAGE?

Zone	Brick	Frame
Highest Risk	$	$
Lowest Risk	$	$

ARKANSAS INSURANCE DEPARTMENT
RATE FILING ABSTRACT

Insurer Name: Encompass Indemnity Company
NAIC Number: 008-15130
Name of Advisory Organization Whose Filing You Are Referencing: N/A
Co. Affiliation to Advisory Organization: Member ____ Subscriber ____ Service Purchaser ____
Reference Filing #: ER 0701
Proposed Effective Date: 04/28/2008 NB, 06/05/2008 REN

Contact Person: Carrie Deppe
Signature:
Telephone No: (847) 402 2774

(1) LINE OF INSURANCE By Coverage	(2) Indicated % Rate Level Change	(3) Requested % Rate Level Change	FOR LOSS COSTS ONLY (4) Expected Loss Ratio	(5) Loss Cost Modification Factor	(6) Selected Loss Cost Multiplier	(7) Expense Constant (if applicable)	(8) Co. Current Loss Cost Multiplier
Homeowners	26.2%	7.0%					
Condo/Renter	26.2%	7.1%					
Dwelling Fire	72.1%	19.0%					
Other than Auto Balance	1.7%	0.0%					
TOTAL OVERALL EFFECT	25.7%	6.8%					

No — Apply Loss Cost Factors to Future Filings? (Y or N)
N/A — Estimated Maximum Rate Increase for any Arkansas Insured (%)
N/A — Estimated Maximum Rate Decrease for any Arkansas Insured (%)

Corresponds to Question 3 on RF-2 or RF-WC

5 Year History

Year	Policy Count	Rate Change History %	Rate Change History Eff. Date	AR Earned Premium (000)	Incurred Losses (000)	Arkansas Loss Ratio	Countrywide Loss Ratio
2003	1	0.3%	8/15/03	1	0	0%	22%
2004	242	-0.4%	5/1/04	273	75	27.6%	46%
2005	970	0.0%	10/6/05	1,091	541	49.6%	122%
2006	1,494			1,767	1,132	64.1%	49%
2007	1,655			2,073	1,881	90.7%	50%

		Selected Provisions
A.	Total Production Expense	16.1%
B.	General Expense	8.1%
C.	Taxes, License & Fees	2.9%
D.	Underwriting Profit & Contingencies	11.1%
E.	Other (explain)	0.9%
F.	TOTAL	39.1%

ENCOMPASS INSURANCE
ARKANSAS
OTHER THAN AUTOMOBILE

TABLE OF CONTENTS

SUMMARY OF CHANGES AND SUMMARY EXHIBITS

The chart below summarizes the indicated and proposed rate level changes included in this filing.

Coverage	Adjusted Earned Premium Distribution	Indicated Rate Level Change	Proposed Rate Level Change
Home	86.8%	+ 26.2%	+ 7.0%
Condo	1.2%	+ 26.2%	+ 7.1%
Renter	1.4%	+ 26.2%	+ 7.1%
Dwelling Fire	3.0%	+ 72.1%	+ 19.0%
OTA Balance	7.6%	+ 1.7%	0.0%
Overall	100.0%	+ 25.7%	+ 6.8%

The filing contains the following revisions:

Base Premium
Base premiums have been adjusted to reach a Homeowners impact of 7.0% and a Condo impact of 7.1%. Please reference the rate pages for more detail.

Renters Factor
The renters coverage factor has been adjusted to reach a Renters impact of 7.1%. Please reference Rule 3 in the Home Rule Pages for more detail.

Occupancy Factors
Occupancy factors have been adjusted to reach a Dwelling Fire impact of 19.0%. Please reference Rule 7 in the Dwelling Fire Rule Pages for more detail.

SUMMARY OF CHANGES AND SUMMARY EXHIBITS

HOME RATE PAGES

Condo Rate Tables
Updated base premiums for all territories

Dwelling Base Premium
Updated base premiums for all territories

HOME RULE PAGES

Renters Coverage (Rule 3)
Revised renters factor

DWELLING FIRE RULE PAGES

Occupancy Factors (Rule 7)
Revised Dwelling Factors and Additional Contents Factors for Dwellings and the Content Coverage Factors for Condos.

OVERVIEW OF HOMEOWNERS INDICATION METHODOLOGY

Exhibits 1 through 12.3 of this section show the Determination of Statewide Rate Level Indications for Arkansas. The objective of this process is to determine the indicated rate level need. This is done by evaluating the adequacy of our present rates to pay for our best estimate of losses and expenses, including a reasonable profit margin, that will be incurred from annual policies written in the year after the proposed effective date.

The statewide rate level indication is based on data from five rolling accident years, with losses evaluated as of December 31, 2007.

DEVELOPMENT OF STATEWIDE RATE LEVEL INDICATION (Exhibit 2)

1. Twelve-Month Experience Period:

2. Adjusted Earned Premium:
   The calculation of adjusted earned premium is shown in **Exhibit 3** and takes into account the impact of current rate levels, premium trend, and other premium adjustments.

3. Non-Cat Adjusted Incurred Loss + LAE:
   The calculation is detailed in **Exhibit 4** and includes the following factors: loss development, excess loss, loss trend, other loss adjustment, and unallocated loss adjustment expenses.

4. Non-Cat Adjusted Loss Ratio:
   (3) / (2)

5. Formula Weights:
   By weighting experience period results, an insurer can stabilize the indication while also taking into account any recent emerging trends in the data.

6. Non-Cat Ratemaking Loss Ratio:
   Shows the formula non-cat adjusted loss ratio calculated using the formula weights in (5).

7. Claim Count:
   Number of incurred claims in the experience periods used in the non-cat ratemaking loss ratio calculation.

8. Full Credibility Standard:
   Number of incurred claims in the experience period to assign full credibility.

9. Credibility:
   [(7) / (8)] ^ 0.5

10. Non-Cat Adjusted Prior Permissible Loss Ratio:
    The prior company permissible loss ratio (reduced by fixed expenses, residual market load, and expected catastrophe provision) adjusted for annual net trend, trended from the date of the most recent non-zero rate change to the proposed effective date, is used as the complement of credibility. The calculation of the non-cat adjusted prior permissible loss ratio is shown in **Exhibit 2C**.

11. Credibility Weighted Non-Cat Ratemaking Loss Ratio:
    [(6) * (9)] + [(10) * (1 – (9))]

12. Non-Modeled Catastrophe Load:
    The calculation of this provision for non-modeled catastrophes (as a percentage of incurred loss excluding catastrophes) is illustrated in **Exhibit 10**.

13. Adjusted Modeled Catastrophe Loss Ratio:
    Not Applicable.

14. Catastrophe Ratemaking Loss Ratio:
[(18) – (16) – (17) – (13)] * [1 – 1 / (12)] + (13)

15. Total Ratemaking Loss Ratio:
[(11) + (14)]

16. Adjusted Fixed Expense Ratio:
100% of General Expenses, Other Acquisition Expenses, and Miscellaneous Taxes, Licenses and Fees are assumed to be a fixed percentage of current premium and do not change in proportion to rate level revisions. This fixed expense ratio is adjusted for loss trend, premium trend, and current rate level. Since historical losses are brought to prospective cost levels and historical premiums are adjusted to the current rate level, an adjustment to these expenses is necessary as well to adjust historical expenses to future expense levels. Please refer to **Exhibit 12 page 1**.

17. Adjusted Residual Market Load:
Where applicable, a charge is included to reflect the cost incurred by the company as a result of residual market assignments. Similarly to the fixed expense ratio, this residual market load is adjusted for loss trend, premium trend, and current rate level.

18. Permissible Loss and LAE Ratio:
The permissible loss and LAE ratio calculation is shown in **Exhibit 12 page 3**.

19. Rate Level Indication:
[((15) + (16) + (17)) / (18)] – 1

ADJUSTMENTS TO PREMIUMS

Current Rate Level Factors

Earned premiums are adjusted to current rate levels to simulate premiums that would have resulted if present Encompass rates had been charged during the experience period. The adjustments are accomplished by applying the percentage effect of any rate level change during the experience period and are calculated using the parallelogram method. A detailed explanation of the parallelogram method is included in Foundations of Casualty Actuarial Science, Chapter 2, written by Charles L. McClenahan. The development of these factors is shown in **Exhibit 5**.

Premium Trend Factors

In addition to bringing premiums to current rate level, Encompass must also account for changes in the premium level due to underlying factors such as increasing amounts of insurance and deductible drift. To account for Homeowners premium trend, changes in the average written premium at current rate level on a twelve –month moving basis were reviewed, and are shown in **Exhibit 6.B**. The premium trend factors reflect the trend period from the average date of earning in each experience period to the average date of earning in the prospective policy effective period. The calculation of these factors is shown in **Exhibit 6.A**.

ADJUSTMENTS TO NON-CATASTROPHE LOSSES

Historical losses are adjusted to prospective cost levels. Losses are shown including allocated loss adjustment expenses (ALAE) and excluding catastrophes. The development of Adjusted Non-Catastrophe Losses and LAE calculation is outlined in **Exhibit 4**.

Loss Development

The losses for a given accident year may not have been fully determined at the evaluation date of this review. As such, the losses must be adjusted to an ultimate settlement basis. This is accomplished by analyzing historical patterns of incurred loss development and selecting loss development factors. Encompass Group data has been considered in the selection of the loss development factors. Losses used in the analysis include ALAE but exclude catastrophes in order to minimize distortions. Age-to-age factors are selected for each coverage using total limits losses. Additional analysis of losses limited to $100,000 per claim is performed to develop limited losses to ultimate for Homeowners coverage. The selected loss development factors that have been used in this filing are shown in **Exhibits 7.1 through 7.4**.

Excess Losses

An excess loss load is included to spread the effect of large, fortuitous losses. Total ultimate losses for Homeowners coverage are estimated by multiplying losses capped at $100,000 per claim by a limited loss development factor and then by an excess loss factor. Encompass Group data has been considered in the selection of the loss development factors. The excess loss factor is the selected ratio of ultimate unlimited losses to ultimate limited losses. The selected excess loss factors used in this filing are shown in **Exhibit 8**.

Loss Trend

The historical losses from the experience period must be adjusted to account for any difference in historical and future cost levels. While loss development factors adjust losses and allocated loss adjustment expenses to an ultimate settlement basis, they do not reflect the prospective rate of change in the occurrence of (frequency) or in the cost of (severity) incidents that may result in the payment of claims. To properly adjust historical costs to future cost levels, a loss trend adjustment must be applied.

The 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. The trend selections and an illustrated calculation of the trend factors for both frequency and severity, accompanied by the data in graphical format, are displayed in **Exhibit 9.1**.

NON-MODELED CATASTROPHE ADJUSTMENTS IN DETAIL

Encompass separately identifies and accounts for its exposure to loss due to the occurrence of catastrophic events within a state. In order to estimate our non-hurricane, non-earthquake catastrophe exposure, we develop a long-term relativity of each state to our countrywide catastrophe factor based on all years 1988 and beyond. We then apply this relativity to a countrywide catastrophe factor based on more recent 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 incorporate 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.

Exhibit 10 displays the development of the total Homeowners non-modeled catastrophe load of 24.8% for Arkansas.

The countrywide non-modeled catastrophe factor for the Dwelling Fire line is calculated using a 10-year average of the ratio of countrywide Dwelling Fire non-modeled catastrophe losses to countrywide Dwelling Fire ex-catastrophe losses. It is assumed that the Encompass Insurance Group Homeowners non-modeled catastrophe factor relativities are appropriate for Dwelling Fire. The relativities are rebalanced to the countrywide Dwelling Fire ordinary catastrophe factor using the most recent year's Dwelling Fire ex-catastrophe loss distribution by state. The Dwelling Fire catastrophe load for Arkansas is 24.8%.

The countrywide non-modeled catastrophe factor for the Other Than Automobile Balance is calculated using a 10-year average of the ratio of countrywide Other Than Automobile Balance non-modeled catastrophe losses to countrywide Other Than Automobile Balance ex-catastrophe losses. The resulting countrywide non-modeled catastrophe load of 1.9% is applied to the Other Than Automobile Balance experience for Arkansas.

* 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

EXPENSE AND PROFIT LOADS

General Expense, Other Acquisition Expense, Loss Adjustment Expense

Exhibit 11 shows the premium, expenses and losses incurred for calendar years 2004, 2005, and 2006. Using these three years of data, expenses ratios, as a percentage of direct earned premiums are selected for the general expense and other acquisition expense. Similarly, the provision for unallocated loss adjustment expense (ULAE) is based on a three-year average of ULAE to incurred loss.

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 in **Exhibit 12 page 2**.

Taxes, Licenses and Fees

Premium and Other Taxes reflect the actual state premium tax and, where applicable, other premium-related taxes such as Fire Marshall taxes and Municipal taxes. Miscellaneous Taxes, Licenses and fees reflect a fixed load for non-premium-based taxes such as State and Local taxes and Insurance Department Licenses and Fees. A provision for guaranty fund assessments is included if applicable. **Exhibit 12 page 2** displays these expenses as a percent of premium.

Underwriting Profit/Operating Profit

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). After the cost of equity is calculated, it is first adjusted to reflect the total return to the firm and is subsequently combined with the cost of debt to calculate the total cost of capital, or the "Weighted Average Cost of Capital" (WACC). The cost is then translated into an underwriting profit provision after taking leverage and investment income into account, as recommended in Actuarial Standard of Practice No. 30, *Treatment of Profit and Contingency Provisions and the Cost of Capital in Property/Casualty Insurance Ratemaking.* Consideration is given to the investment income from insurance operations and investment income on capital. The resulting underwriting profit provisions reflect a targeted after-tax operating profit of **9.01%**.

A discounted cash flow methodology based on projected insurance cash flows is used to calculate the investment income from insurance operations (also known as investment income on policyholder-supplied funds) that leads to the after-tax operating profit provision of **9.01%**. Reconciliation of the after-tax operating profit provision is found in **Exhibit 12 page 2.**

The calculations detailing the discounted cash flow methodology are found in **Exhibit 12 page 2**. The expected investment yield rate (applied as a force of interest) applied to the insurance cash flows in deriving the investment income from insurance operations (and ultimately the after-tax operating profit) is **3.95%**. This yield comprehends anticipated net investment income and anticipated capital gains, both realized and unrealized.

ENCOMPASS INSURANCE
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EXHIBIT 1

Summary Of Rate Changes

Coverage	12/05-12/06 Adjusted EP $000s	12/05-12/06 Adjusted EP %	Rate Level Change Indicated	Rate Level Change Filed
Homeowners All Forms	1,742	89.5%	26.2%	7.0%
Home	1,690	86.8%	26.2%	7.0%
Condo	24	1.2%	26.2%	7.1%
Renter	28	1.4%	26.2%	7.1%
Dwelling Fire	58	3.0%	72.1%	19.0%
Total Residence	1,800	92.4%	27.7%	7.4%
Excess Liability	23	1.2%		0.0%
Scheduled Personal Property	83	4.3%		0.0%
Boat	41	2.1%		0.0%
Workers Compensation	0	0.0%		0.0%
OTA Balance	147	7.6%	1.7%	0.0%
TOTAL OTHER THAN AUTOMOBILE	**1,947**	**100.0%**	**25.7%**	**6.8%**

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Development of Rate Level Indication

	(1)	(2) (Exhibit 3)	(3) (Exhibit 4)	(4) (3)/(2)	(5)	(6)	(7)	(8)	(9) [(7)/(8)]^.5	(10) (Exhibit 2C)	(11) [(6)*(9)]+[(10)*(1-(9))]	(12) (Exhibit 10)	(13) (Exhibit 4)	(14) [(18)-(16)-(17)-(13)]*[1-1/(12)]+(13)	(15) (11)+(14)	(16) (Exhibit 12)	(17) (Exhibit 12)	(18) (Exhibit 12)	(19) [((15)+(16)+(17))/(18)]-1
Coverage	Experience Period	Adjusted Earned Premium ($000s)	Non-Cat Adjusted Incurred Loss + LAE ($000s)	Non-Cat Adjusted Loss Ratio	Formula Weights	Non-Cat Ratemaking Loss Ratio	Claim Count	Full Credibility Standard	Credibility	Non-Cat Adjusted Prior Permissible Loss Ratio	Credibility Weighted Non-Cat Ratemaking Loss Ratio	Ordinary Catastrophe Load	Adjusted Modeled Catastrophe Loss Ratio	Catastrophe Ratemaking Loss Ratio	Total Ratemaking Loss Ratio	Adjusted Fixed Expense Ratio*	Adjusted Residual Market Load*	Permissible Loss + LAE Ratio	Rate Level Indication
HOMEOWNERS ALL FORMS	09/02-09/03	39	0	0.0%	0.01														
	09/03-09/04	215	126	58.8%	0.05														
	09/04-09/05	753	383	50.9%	0.18														
	09/05-09/06	1,374	1,127	82.0%	0.33														
	09/06-09/07	1,742	1,267	72.7%	0.42														
					Overall	70.4%	214	1,677	35.7%		66.4%			11.8%	78.3%	10.0%	0.0%	69.9%	26.2%
HOME		1,690 ***			Overall	70.4%			35.7%	64.1%	66.4%	1.248	0.0%	11.9%	78.3%	10.0%	0.0%	69.9%	26.2%
CONDO		24 ***			Overall	70.4%			35.7%	64.1%	66.4%	1.248	0.0%	11.9%	78.3%	10.0%	0.0%	69.9%	26.2%
RENTER		28 ***			Overall	70.4%			35.7%	64.1%	66.4%	1.248	0.0%	11.9%	78.3%	10.0%	0.0%	69.9%	26.2%
DWELLING FIRE	09/02-09/03	2	0	0.0%	0.01														
	09/03-09/04	11	0	0.0%	0.07														
	09/04-09/05	29	332	1156.9%	0.19														
	09/05-09/06	48	390	817.3%	0.32														
	09/06-09/07	58	162	278.8%	0.40														
					Overall	601.3%	9	1,498	7.8%	57.1%	99.3%	1.248	0.0%	12.1%	111.4%	8.8%	0.0%	69.9%	72.1%
					Selected	552.8%													
OTA BALANCE	09/02-09/03	3	0	0.0%	0.01														
	09/03-09/04	25	27	110.9%	0.06														
	09/04-09/05	79	30	38.0%	0.20														
	09/05-09/06	134	33	25.0%	0.35														
	09/06-09/07	147	112	76.4%	0.38														
					Overall	52.5%	19	1,568	11.0%	61.5%	60.5%	1.019	0.0%	1.1%	61.6%	9.5%	0.0%	69.9%	1.7%
					Selected	45.0%													

* Fixed expense ratios and residual market loads are adjusted for expense trend, premium trend and current rate level.
** See Exhibit 2B for earthquake ratemaking loss ratio development.
*** Estimated Earned premium based on in-force premium @ 12/31/07.

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Development of Rate Level Indication Supplement 1

NET TREND DEVELOPMENT

Coverage	(1) Most Recent Non-Zero SRM Effective Date	(2) Historical Trend Start Date 1	(3) Historical Trend End Date 2	(4) (See Note 4) Historical Trend Period	(5) Prospective Trend Start Date 2	(6) Prospective Trend End Date 3	(7) (See Note 4) Prospective Trend Period
ALL	10-06-2005	10-06-2006	04-01-2007	0.48	04-01-2007	06-05-2009	2.18

Coverage	(8) Historical Frequency Annual Trend	(9) Historical Severity Annual Trend	(10) (See Note 4) Historical Annual Loss Trend	(11) Historical Annual Premium Trend	(12) (See Note 4) Historical Net Trend	(13) Prospective Frequency Annual Trend	(14) Prospective Severity Annual Trend	(15) (See Note 4) Prospective Annual Loss Trend	(16) Prospective Annual Premium Trend	(17) (See Note 4) Prospective Net Trend	(18) (See Note 4) Net Trend
HOME	0.0%	10.0%	10.0%	-2.0%	5.8%	0.0%	10.0%	10.0%	-2.0%	28.6%	36.1%
DWELLING FIRE	0.0%	10.0%	10.0%	3.0%	3.2%	0.0%	10.0%	10.0%	3.0%	15.4%	19.2%
OTA BALANCE	0.0%	2.0%	2.0%	0.0%	1.0%	0.0%	2.0%	2.0%	0.0%	4.4%	5.4%

[1] The Historical Trend Start Date is the average experience date (one year beyond the effective date) for the most recent non-zero effective date for our SRM program.
[2] The Historical Trend End Date equals the Prospective Trend Start Date and is equal to the average accident date in our most recent annual experience period.
[3] The Prospective Trend End Date is equal to the average prospective experience date (one year beyond the proposed effective date).
[4] Field Derivations

(4)	Historical Trend Period	[(3)-(2)]/365
(7)	Prospective Trend Period	[(6)-(5)]/365
(10)	Historical Annual Loss Trend	[1+(8)]*[1+(9)]-1
(12)	Historical Net Trend	[(1+(10))/(1+(11))]^(4)-1
(15)	Prospective Annual Loss Tre	[1+(13)]*[1+(14)]-1
(17)	Prospective Net Trend	[(1+(15))/(1+(16))]^(7)-1
(18)	Net Trend	[1+(12)]*[1+(17)]-1

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Development of Rate Level Indication Supplement 2

NON-CATASTROPHE ADJUSTED PRIOR PERMISSIBLE LOSS RATIO DEVELOPMENT

Coverage	(1) Prior Permissible Loss Ratio	(2) (Exhibit 2A) Adjusted Fixed Expense Ratio*	(3) (Exhibit 2A) Adjusted Residual Market Load*	(4) (Exhibit 2A) Catastrophe Ratemaking Loss Ratio	(5) (Exhibit 2B) Net Trend	(6) [(1)-(2)-(3)-(4)] *[1+(5)] Non-Cat Adjusted Prior Permissible Loss Ratio
HOMEOWNERS ALL FORMS	69.0%	10.0%	0.0%	11.9%	36.1%	64.1%
DWELLING FIRE	69.0%	8.9%	0.0%	12.1%	19.2%	57.1%
OTA BALANCE	69.0%	9.5%	0.0%	1.1%	5.4%	61.5%

* Fixed expense ratios and residual market loads are adjusted for expense trend, premium trend and current rate level.

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EXHIBIT 3

Development of Adjusted Earned Premium

Coverage	(1) Experience Period	(2) Actual PRE-SRM Earned Premium ($000s)	(3) (Exhibit 5A) PRE-SRM Current Rate Level Factor	(4) (2)*(3) Earned Premium @ CRL ($000s)	(5) (Exhibit 6) Premium Trend Factor	(6) Other Premium Adjustment	(7) (4)*(5)*(6) Adjusted Earned Premium ($000s)
HOMEOWNERS	09/02-09/03	45	0.990	44	0.882	1.000	39
ALL FORMS	09/03-09/04	241	0.988	238	0.900	1.000	215
	09/04-09/05	828	0.990	820	0.919	1.000	753
	09/05-09/06	1,473	0.995	1,466	0.937	1.000	1,374
	09/06-09/07	1,821	1.000	1,821	0.957	1.000	1,742
DWELLING	09/02-09/03	1	0.988	1	1.201	1.000	2
FIRE	09/03-09/04	9	0.988	9	1.166	1.000	11
	09/04-09/05	26	0.990	25	1.132	1.000	29
	09/05-09/06	44	0.995	43	1.099	1.000	48
	09/06-09/07	54	1.000	54	1.067	1.000	58
OTA	09/02-09/03	3	1.000	3	1.000	1.000	3
BALANCE	09/03-09/04	25	1.000	25	1.000	1.000	25
	09/04-09/05	79	1.000	79	1.000	1.000	79
	09/05-09/06	134	1.000	134	1.000	1.000	134
	09/06-09/07	147	1.000	147	1.000	1.000	147

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Development of Adjusted Non-Catastrophe Incurred Lossess + LAE

Coverage	(1) Experience Period	(2) (Exhibit 7) Limited Ex-Cat Inc Losses + ALAE ($000s)	(3) (Exhibit 7) Losses Dev Factor (Limited)	(4) (Exhibit 8) Excess Loss Factor	(5) (Exhibit 9) Loss Trend Factor	(6) Other Loss Adjustment	(7) (Exhibit 11) ULAE Load	(8) [(2)*(3)*(4)*(5)*(6)*(7)] Non-Catastrophe Adjusted Inc Losses + LAE ($000s)
HOMEOWNERS ALL FORMS	09/02-09/03	0	1.000	1.210	1.806	1.000	1.133	0
	09/03-09/04	56	1.000	1.210	1.642	1.000	1.133	126
	09/04-09/05	187	1.000	1.210	1.492	1.000	1.133	383
	09/05-09/06	606	1.000	1.210	1.357	1.000	1.133	1,127
	09/06-09/07	701	1.070	1.210	1.233	1.000	1.133	1,267
DWELLING FIRE	09/02-09/03	0	1.000	1.000	1.806	1.000	1.133	0
	09/03-09/04	0	1.000	1.000	1.642	1.000	1.133	0
	09/04-09/05	193	1.016	1.000	1.492	1.000	1.133	332
	09/05-09/06	242	1.049	1.000	1.357	1.000	1.133	390
	09/06-09/07	103	1.129	1.000	1.233	1.000	1.133	162
OTA BALANCE	09/02-09/03	0	1.017	1.000	1.131	1.000	1.133	0
	09/03-09/04	21	1.041	1.000	1.108	1.000	1.133	27
	09/04-09/05	22	1.090	1.000	1.087	1.000	1.133	30
	09/05-09/06	23	1.196	1.000	1.065	1.000	1.133	33
	09/06-09/07	73	1.308	1.000	1.045	1.000	1.133	112

EXHIBIT 5

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Development of PSRM Current Rate Level Factors

Rate Changes

Effective Date	Residence	Dwelling Fire	OTA Balance
08/15/03	0.40%	0.00%	0.00%
05/01/04	-0.50%	-0.30%	0.00%
10/06/05	-0.90%	-0.90%	0.00%

Cumulative Rate Indices (1)

Effective Date	Residence	Dwelling Fire	OTA Balance
08/15/03	1.004	1.000	1.000
05/01/04	0.999	0.997	1.000
10/06/05	0.990	0.988	1.000

Average Rate Index (2)

Experience Period	Residence	Dwelling Fire	OTA Balance
09/02-09/03	1.000	1.000	1.000
09/03-09/04	1.002	1.000	1.000
09/04-09/05	1.000	0.998	1.000
09/05-09/06	0.995	0.993	1.000
09/06-09/07	0.990	0.988	1.000
06/07-12/07	0.990	0.988	1.000

Current Rate Level Factor (3)

Experience Period	Residence	Dwelling Fire	OTA Balance
	0.990	0.988	1.000
09/02-09/03	0.990	0.988	1.000
09/03-09/04	0.988	0.988	1.000
09/04-09/05	0.990	0.990	1.000
09/05-09/06	0.995	0.995	1.000
09/06-09/07	1.000	1.000	1.000
06/07-12/07	1.000	1.000	1.000

(1) Cumulative product of [1 + (Rate Change)]
(2) Average rate level in experience period using parallelogra
method and (1).
(3) (Latest cumulative rate index) / (2)

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EXHIBIT 6A

Development of Premium Trend Factors

	Selected Historical Premium Trend	Selected Prospective Premium Trend
Homeowners Annual Premium Trend Effect	-2.0%	-2.0%
Dwelling Fire Annual Premium Trend Effect	3.0%	3.0%

Homeowners

Experience Period	Historical Trend Period (1)	Historical # Of Years (2)	Prospective Trend Period (3)	Prospective # Of Years (4)	Homeowners Premium Trend Factor
09/02-09/03	04/03-04/07	4.0	04/07-06/09	2.2	(0.980)^4.0 * (0.980)^2.2 = 0.882
09/03-09/04	04/04-04/07	3.0	04/07-06/09	2.2	(0.980)^3.0 * (0.980)^2.2 = 0.900
09/04-09/05	04/05-04/07	2.0	04/07-06/09	2.2	(0.980)^2.0 * (0.980)^2.2 = 0.919
09/05-09/06	04/06-04/07	1.0	04/07-06/09	2.2	(0.980)^1.0 * (0.980)^2.2 = 0.937
09/06-09/07	04/07-04/07	0.0	04/07-06/09	2.2	(0.980)^0.0 * (0.980)^2.2 = 0.957

Dwelling Fire

Experience Period	Historical Trend Period (1)	Historical # Of Years (2)	Prospective Trend Period (3)	Prospective # Of Years (4)	Dwelling Fire Premium Trend Factor
09/02-09/03	04/03-04/07	4.0	04/07-06/09	2.2	(1.030)^4.0 * (1.030)^2.2 = 1.201
09/03-09/04	04/04-04/07	3.0	04/07-06/09	2.2	(1.030)^3.0 * (1.030)^2.2 = 1.166
09/04-09/05	04/05-04/07	2.0	04/07-06/09	2.2	(1.030)^2.0 * (1.030)^2.2 = 1.132
09/05-09/06	04/06-04/07	1.0	04/07-06/09	2.2	(1.030)^1.0 * (1.030)^2.2 = 1.099
09/06-09/07	04/07-04/07	0.0	04/07-06/09	2.2	(1.030)^0.0 * (1.030)^2.2 = 1.067

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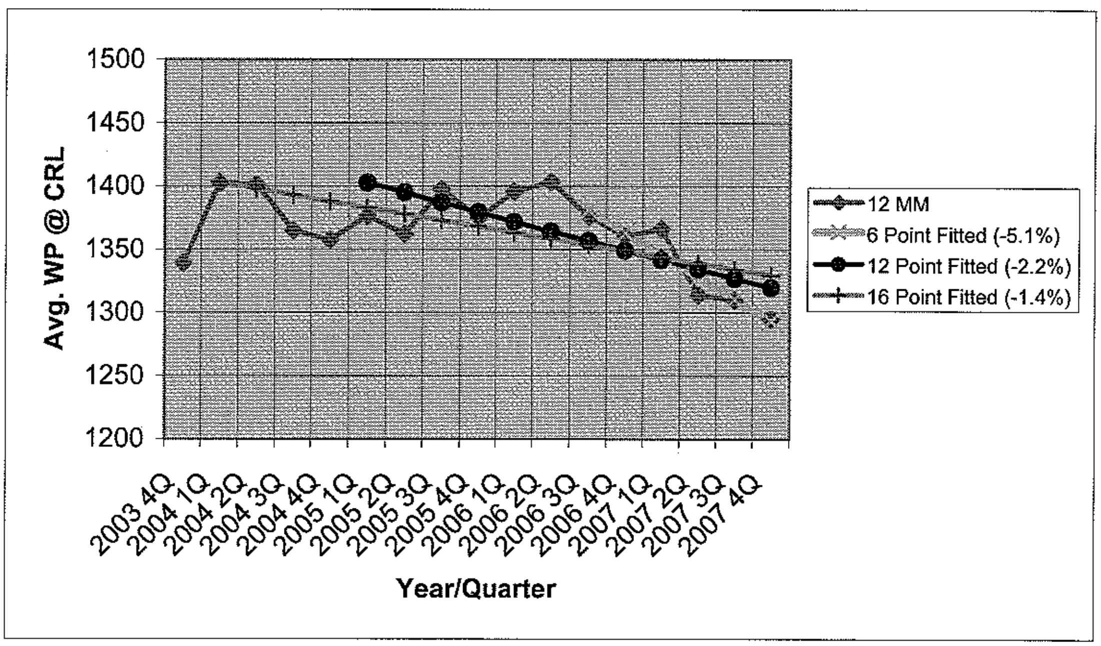
Exhibit 6.B

Homeowners Premium Trend

Quarter	12 MM	6 Point Fitted	8 Point Fitted	12 Point Fitted	16 Point Fitted
2003 2Q					
2003 3Q					
2003 4Q	1339				
2004 1Q	1402				1,403
2004 2Q	1401				1,398
2004 3Q	1365				1,393
2004 4Q	1358				1,388
2005 1Q	1376			1,403	1,383
2005 2Q	1362			1,395	1,378
2005 3Q	1397			1,387	1,373
2005 4Q	1375			1,379	1,368
2006 1Q	1396		1,410	1,372	1,363
2006 2Q	1403		1,393	1,364	1,358
2006 3Q	1376	1,381	1,376	1,357	1,353
2006 4Q	1361	1,363	1,360	1,349	1,349
2007 1Q	1366	1,345	1,344	1,342	1,344
2007 2Q	1314	1,328	1,328	1,334	1,339
2007 3Q	1310	1,310	1,312	1,327	1,334
2007 4Q	1295	1,293	1,296	1,320	1,329

6	8	12	16
-5.1%	-4.7%	-2.2%	-1.4%



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Incurred Loss + ALAE Development Factors - Property Limited Homeowners

CUMULATIVE EXPERIENCE TRIANGLE

DEVELOPMENT PERIOD	4Q1997 3Q1998	4Q1998 3Q1999	4Q1999 3Q2000	4Q2000 3Q2001	4Q2001 3Q2002	4Q2002 3Q2003	4Q2003 3Q2004	4Q2004 3Q2005	4Q2005 3Q2006	4Q2006 3Q2007	3Q2007 4Q2007
15 MONTHS	1,389	1,225	1,755	2,329	1,850	1,667	1,025	691	1,243	1,038	
27 MONTHS	1,407	1,281	1,997	2,372	1,945	1,717	1,069	702	1,395		
39 MONTHS	1,460	1,298	2,021	2,431	1,917	1,718	1,070	699			
51 MONTHS	1,464	1,300	2,040	2,389	1,894	1,718	1,070				
63 MONTHS	1,464	1,300	2,069	2,390	1,894	1,718					
75 MONTHS	1,464	1,300	2,090	2,390	1,894						
87 MONTHS	1,464	1,300	2,090	2,390							
99 MONTHS	1,464	1,300	2,090								
111 MONTHS	1,464	1,300									
123 MONTHS	1,464										

AGE TO AGE FACTORS

DEVELOPMENT PERIOD	4Q1997 3Q1998	4Q1998 3Q1999	4Q1999 3Q2000	4Q2000 3Q2001	4Q2001 3Q2002	4Q2002 3Q2003	4Q2003 3Q2004	4Q2004 3Q2005	4Q2005 3Q2006	4Q2006 3Q2007	3Q2007 4Q2007
15 To 27	1.0125	1.0461	1.1381	1.0187	1.0512	1.0300	1.0424	1.0153	1.1230		
27 To 39	1.0375	1.0128	1.0119	1.0246	0.9856	1.0007	1.0009	0.9955			
39 To 51	1.0032	1.0020	1.0094	0.9828	0.9877	1.0000	1.0003				
51 To 63	1.0000	1.0000	1.0143	1.0005	1.0004	1.0000					
63 To 75	1.0000	1.0000	1.0099	1.0000	1.0000						
75 To 87	1.0000	1.0000	1.0000	1.0000							
87 To 99	1.0000	1.0000	1.0000								
99 To 111	1.0000	1.0000									
111 To 123	1.0000										

MEAN AGE TO AGE FACTORS

DEVELOPMENT PERIOD	Volume Weighted 2 Yr Mean	Volume Weighted 3 Yr Mean	Volume Weighted 4 Yr Mean	5 Year Mean Ex-HiLo	Selected	Country-wide Selected	Factor To Ultimate
15 To 27	1.0845	1.0699	1.0555	1.0412	1.0699	1.0667	1.0699
27 To 39	0.9988	0.9997	0.9947	0.9990	1.0000	1.0214	1.0000
39 To 51	1.0001	0.9951	0.9909	0.9960	1.0000	1.0069	1.0000
51 To 63	1.0002	1.0003	1.0039	1.0003	1.0000	1.0046	1.0000
63 To 75	1.0000	1.0032	1.0027	1.0000	1.0000	1.0024	1.0000
75 To 87	1.0000	1.0000	1.0000	1.0000	1.0000	1.0013	1.0000
87 To 99	1.0000	1.0000	1.0000	1.0000	1.0000	1.0007	1.0000
99 To 111	1.0000	1.0000	1.0000	1.0000	1.0000	1.0003	1.0000
111 To 123	1.0000	1.0000	1.0000	1.0000	1.0000	1.0005	1.0000

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Incurred Loss + ALAE Development Factors - Dwelling Fire

CUMULATIVE EXPERIENCE TRIANGLE

DEVELOPMENT PERIOD	4Q1997 3Q1998	4Q1998 3Q1999	4Q1999 3Q2000	4Q2000 3Q2001	4Q2001 3Q2002	4Q2002 3Q2003	4Q2003 3Q2004	4Q2004 3Q2005	4Q2005 3Q2006	4Q2006 3Q2007	3Q2007 4Q2007
15 MONTHS	94	13	77	33	16	109	28	208	275	103	
27 MONTHS	94	15	78	48	16	112	28	213	274		
39 MONTHS	94	15	78	48	16	112	28	223			
51 MONTHS	94	15	78	48	16	112	28				
63 MONTHS	94	15	78	48	16	112					
75 MONTHS	94	15	78	48	16						
87 MONTHS	94	15	78	48							
99 MONTHS	94	15	78								
111 MONTHS	94	15									
123 MONTHS	94										

AGE TO AGE FACTORS

DEVELOPMENT PERIOD	4Q1997 3Q1998	4Q1998 3Q1999	4Q1999 3Q2000	4Q2000 3Q2001	4Q2001 3Q2002	4Q2002 3Q2003	4Q2003 3Q2004	4Q2004 3Q2005	4Q2005 3Q2006	4Q2006 3Q2007	3Q2007 4Q2007
15 To 27	1.0000	1.1841	1.0134	1.4788	1.0000	1.0281	1.0000	1.0206	0.9980		
27 To 39	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000	1.0507			
39 To 51	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000				
51 To 63	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000					
63 To 75	1.0000	1.0000	1.0000	1.0000	1.0000						
75 To 87	1.0000	1.0000	1.0000	1.0000							
87 To 99	1.0000	1.0000	1.0000								
99 To 111	1.0000	1.0000									
111 To 123	1.0000										

MEAN AGE TO AGE FACTORS

DEVELOPMENT PERIOD	Volume Weighted 2 Yr Mean	Volume Weighted 3 Yr Mean	Volume Weighted 4 Yr Mean	5 Year Mean Ex-HiLo	Selected	Country-wide Selected	Factor To Ultimate
15 To 27	1.0078	1.0073	1.0110	1.0069	1.0765	1.0765	1.1295
27 To 39	1.0448	1.0306	1.0292	1.0000	1.0328	1.0328	1.0492
39 To 51	1.0000	1.0000	1.0000	1.0000	1.0158	1.0158	1.0159
51 To 63	1.0000	1.0000	1.0000	1.0000	1.0000	1.0044	1.0000
63 To 75	1.0000	1.0000	1.0000	1.0000	1.0000	1.0061	1.0000
75 To 87	1.0000	1.0000	1.0000	1.0000	1.0000	1.0029	1.0000
87 To 99	1.0000	1.0000	1.0000	1.0000	1.0000	0.9963	1.0000
99 To 111	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000
111 To 123	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000

ENCOMPASS INSURANCE
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Incurred Loss + ALAE Development Factors - Limited OTA (Excluding Homeowners)

CUMULATIVE EXPERIENCE TRIANGLE

DEVELOPMENT PERIOD	4Q1997 3Q1998	4Q1998 3Q1999	4Q1999 3Q2000	4Q2000 3Q2001	4Q2001 3Q2002	4Q2002 3Q2003	4Q2003 3Q2004	4Q2004 3Q2005	4Q2005 3Q2006	4Q2006 3Q2007	3Q2007 4Q2007
15 MONTHS	219	60	122	181	57	72	43	41	63	76	
27 MONTHS	218	58	134	181	71	61	45	43	86		
39 MONTHS	218	58	134	181	71	61	45	41			
51 MONTHS	218	58	134	181	71	61	45				
63 MONTHS	218	58	134	181	71	61					
75 MONTHS	218	58	134	181	71						
87 MONTHS	218	58	134	181							
99 MONTHS	218	58	134								
111 MONTHS	218	58									
123 MONTHS	218										

AGE TO AGE FACTORS

DEVELOPMENT PERIOD	4Q1997 3Q1998	4Q1998 3Q1999	4Q1999 3Q2000	4Q2000 3Q2001	4Q2001 3Q2002	4Q2002 3Q2003	4Q2003 3Q2004	4Q2004 3Q2005	4Q2005 3Q2006	4Q2006 3Q2007	3Q2007 4Q2007
15 To 27	0.9963	0.9522	1.0941	1.0000	1.2494	0.8581	1.0573	1.0488	1.3751		
27 To 39	1.0000	1.0000	1.0064	1.0000	1.0000	1.0000	1.0011	0.9534			
39 To 51	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000				
51 To 63	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000					
63 To 75	1.0000	1.0000	1.0000	1.0000	1.0000						
75 To 87	1.0000	1.0000	1.0000	1.0000							
87 To 99	1.0000	1.0000	1.0000								
99 To 111	1.0000	1.0000									
111 To 123	1.0000										

MEAN AGE TO AGE FACTORS

DEVELOPMENT PERIOD	Volume Weighted 2 Yr Mean	Volume Weighted 3 Yr Mean	Volume Weighted 4 Yr Mean	5 Year Mean Ex-HiLo	Selected	Country-wide Selected	Factor To Ultimate
15 To 27	1.2462	1.1910	1.0816	1.1185	1.0938	1.0938	1.3077
27 To 39	0.9779	0.9870	0.9912	1.0000	1.0970	1.0970	1.1955
39 To 51	1.0000	1.0000	1.0000	1.0000	1.0473	1.0473	1.0898
51 To 63	1.0000	1.0000	1.0000	1.0000	1.0236	1.0236	1.0406
63 To 75	1.0000	1.0000	1.0000	1.0000	1.0166	1.0166	1.0166
75 To 87	1.0000	1.0000	1.0000	1.0000	1.0000	1.0042	1.0000
87 To 99	1.0000	1.0000	1.0000	1.0000	1.0000	1.0031	1.0000
99 To 111	1.0000	1.0000	1.0000	1.0000	1.0000	1.0006	1.0000
111 To 123	1.0000	1.0000	1.0000	1.0000	1.0000	1.0002	1.0000

ENCOMPASS INSURANCE
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EXHIBIT 7.4

Incurred Loss + ALAE Development Factors - Property Unlimited Homeowners

CUMULATIVE EXPERIENCE TRIANGLE

DEVELOPMENT PERIOD	4Q1997 3Q1998	4Q1998 3Q1999	4Q1999 3Q2000	4Q2000 3Q2001	4Q2001 3Q2002	4Q2002 3Q2003	4Q2003 3Q2004	4Q2004 3Q2005	4Q2005 3Q2006	4Q2006 3Q2007	3Q2007 4Q2007
15 MONTHS	1,742	1,225	1,791	2,511	1,871	1,684	2,094	841	1,274	1,655	
27 MONTHS	1,760	1,281	2,043	2,550	1,966	1,734	2,093	852	1,432		
39 MONTHS	1,813	1,298	2,067	2,608	1,938	1,739	1,911	998			
51 MONTHS	1,817	1,300	2,086	2,567	1,915	1,739	1,911				
63 MONTHS	1,817	1,300	2,115	2,568	1,915	1,739					
75 MONTHS	1,817	1,300	2,136	2,568	1,915						
87 MONTHS	1,817	1,300	2,136	2,568							
99 MONTHS	1,817	1,300	2,136								
111 MONTHS	1,817	1,300									
123 MONTHS	1,817										

AGE TO AGE FACTORS

DEVELOPMENT PERIOD	4Q1997 3Q1998	4Q1998 3Q1999	4Q1999 3Q2000	4Q2000 3Q2001	4Q2001 3Q2002	4Q2002 3Q2003	4Q2003 3Q2004	4Q2004 3Q2005	4Q2005 3Q2006	4Q2006 3Q2007	3Q2007 4Q2007
15 To 27	1.0100	1.0461	1.1409	1.0154	1.0506	1.0297	0.9997	1.0126	1.1245		
27 To 39	1.0300	1.0128	1.0117	1.0229	0.9858	1.0030	0.9128	1.1714			
39 To 51	1.0025	1.0020	1.0092	0.9840	0.9878	1.0000	1.0002				
51 To 63	1.0000	1.0000	1.0139	1.0005	1.0004	1.0000					
63 To 75	1.0000	1.0000	1.0097	1.0000	1.0000						
75 To 87	1.0000	1.0000	1.0000	1.0000							
87 To 99	1.0000	1.0000	1.0000								
99 To 111	1.0000	1.0000									
111 To 123	1.0000										

MEAN AGE TO AGE FACTORS

DEVELOPMENT PERIOD	Volume Weighted 2 Yr Mean	Volume Weighted 3 Yr Mean	Volume Weighted 4 Yr Mean	5 Year Mean Ex-HiLo	Selected	Country-wide Selected	Factor To Ultimate
15 To 27	1.0800	1.0401	1.0371	1.0310	1.0401	1.0765	1.0401
27 To 39	0.9876	0.9933	0.9911	1.0039	1.0000	1.0277	1.0000
39 To 51	1.0001	0.9958	0.9921	0.9960	1.0000	1.0102	1.0000
51 To 63	1.0002	1.0003	1.0037	1.0003	1.0000	1.0059	1.0000
63 To 75	1.0000	1.0031	1.0026	1.0000	1.0000	1.0053	1.0000
75 To 87	1.0000	1.0000	1.0000	1.0000	1.0000	1.0024	1.0000
87 To 99	1.0000	1.0000	1.0000	1.0000	1.0000	1.0010	1.0000
99 To 111	1.0000	1.0000	1.0000	1.0000	1.0000	1.0002	1.0000
111 To 123	1.0000	1.0000	1.0000	1.0000	1.0000	1.0005	1.0000

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EXHIBIT 8

Excess Loss Factor

HOME

	ARKANSAS			COUNTRYWIDE		
Experience Period	Ultimate Total Ex-Cat Losses + ALAE	Ultimate Limited Ex-Cat Losses + ALAE	Total / Limited	Ultimate Total Ex-Cat Losses + ALAE	Ultimate Limited Ex-Cat Losses + ALAE	Total / Limited
09/97-09/98	1,817	1,464	1.24	212,501	192,534	1.10
09/98-09/99	1,300	1,300	1.00	251,904	226,534	1.11
09/99-09/00	2,136	2,090	1.02	297,675	263,857	1.13
09/00-09/01	2,568	2,390	1.07	316,778	275,517	1.15
09/01-09/02	1,915	1,894	1.01	285,249	247,212	1.15
09/02-09/03	1,739	1,718	1.01	256,057	216,466	1.18
09/03-09/04	1,911	1,070	1.79	210,031	170,649	1.23
09/04-09/05	998	699	1.43	213,976	177,954	1.20
09/05-09/06	1,432	1,395	1.03	216,046	177,311	1.22
09/06-09/07	1,721	1,110	1.55	229,216	189,915	1.21
	Weighted Average		1.16	Weighted Average		1.16
	Straight Average		1.22	Straight Average		1.17
	Selected		**1.21**	**Selected**		**1.21**

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EXHIBIT 9.1A

Loss Trend Factors - Property (All Forms Ex DF)

4 Quarters Ending	PAID FREQUENCY Encompass	PAID FREQUENCY Fast Track	ANNUAL CHANGE Encompass	ANNUAL CHANGE Fast Track	PAID SEVERITY (Closed with pay) Encompass	PAID SEVERITY (Closed with pay) Fast Track	ANNUAL CHANGE Encompass	ANNUAL CHANGE Fast Track
4Q_2002		0.05500				2,928		
1Q_2003		0.05610				3,018		
2Q_2003		0.05350				3,386		
3Q_2003		0.04670				3,543		
4Q_2003		0.04700		-14.5%		4,679		59.8%
1Q_2004		0.04470		-20.3%		4,391		45.5%
2Q_2004		0.03680		-31.2%		4,217		24.5%
3Q_2004		0.03540		-24.2%		4,188		18.2%
4Q_2004		0.03290		-30.0%		2,860		-38.9%
1Q_2005		0.03080		-31.1%		3,835		-12.7%
2Q_2005		0.03140		-14.7%		4,371		3.7%
3Q_2005		0.02700		-23.7%		4,966		18.6%
4Q_2005		0.03050		-7.3%		5,586		95.3%
1Q_2006		0.03450		12.0%		4,732		23.4%
2Q_2006		0.03380		7.6%		4,744		8.5%
3Q_2006		0.03600		33.3%		4,360		-12.2%
4Q_2006		0.03310		8.5%		3,948		-29.3%
1Q_2007		0.02870		-16.8%		4,232		-10.6%
2Q_2007		0.03100		-8.3%		3,902		-17.7%
3Q_2007		0.03730		3.6%		3,886		-10.9%

		Frequency		Severity
Fitted Line 1	12pt Exp Trend	3.3%	12pt Exp Trend	2.0%
Fitted Line 2	6pt Exp Trend	-1.1%	6pt Exp Trend	-13.4%
SELECTED HISTORICAL ANNUAL TREND		0.0%		10.0%
SELECTED PROSPECTIVE ANNUAL TREND		0.0%		10.0%

Experience Period	Historical Trend Period (1)	Historical # Of Years (2)	Prospective Trend Period (3)	Prospective # Of Years (4)	Frequency Trend Factor (5)	Severity Trend Factor (6)
09/02-09/03	04/03-04/07	4.0	04/07-06/09	2.2	(1.000)^4.0 * (1.000)^2.2 = 1.000	(1.100)^4.0 * (1.100)^2.2 = 1.806
09/03-09/04	04/04-04/07	3.0	04/07-06/09	2.2	(1.000)^3.0 * (1.000)^2.2 = 1.000	(1.100)^3.0 * (1.100)^2.2 = 1.642
09/04-09/05	04/05-04/07	2.0	04/07-06/09	2.2	(1.000)^2.0 * (1.000)^2.2 = 1.000	(1.100)^2.0 * (1.100)^2.2 = 1.492
09/05-09/06	04/06-04/07	1.0	04/07-06/09	2.2	(1.000)^1.0 * (1.000)^2.2 = 1.000	(1.100)^1.0 * (1.100)^2.2 = 1.357
09/06-09/07	04/07-04/07	0.0	04/07-06/09	2.2	(1.000)^0.0 * (1.000)^2.2 = 1.000	(1.100)^0.0 * (1.100)^2.2 = 1.233

Experience Period	RLI Loss Trend Factor (7)
09/02-09/03	**1.806**
09/03-09/04	**1.642**
09/04-09/05	**1.492**
09/05-09/06	**1.357**
09/06-09/07	**1.233**

(1) Midpoint of experience period to midpoint of latest historical period.
(2) (1) # of years.
(3) Midpoint of latest historical period to 1 year beyond effective date of 6/5/08.
(4) (3) # of years.

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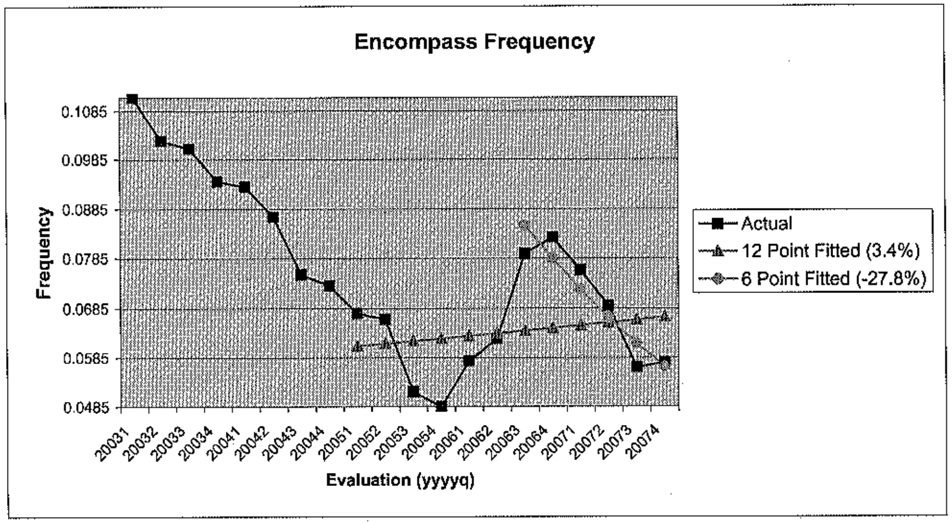
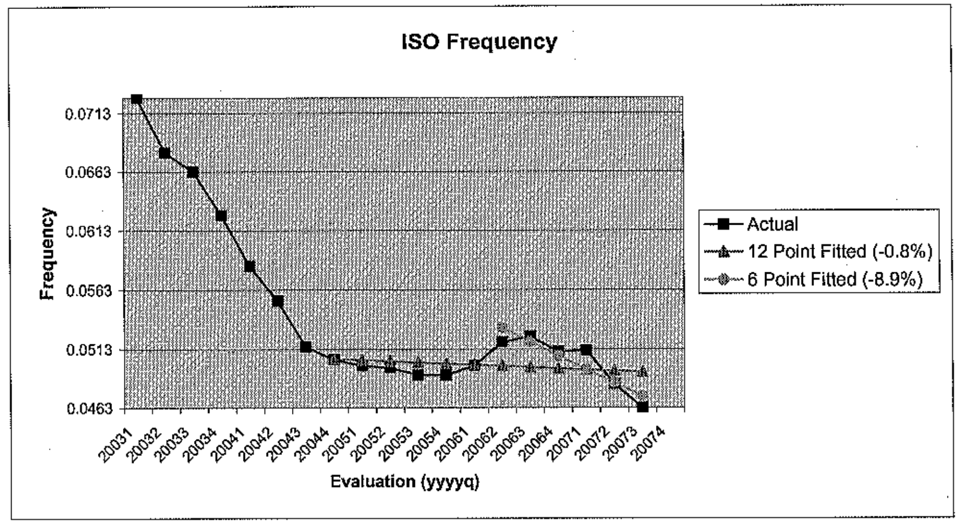
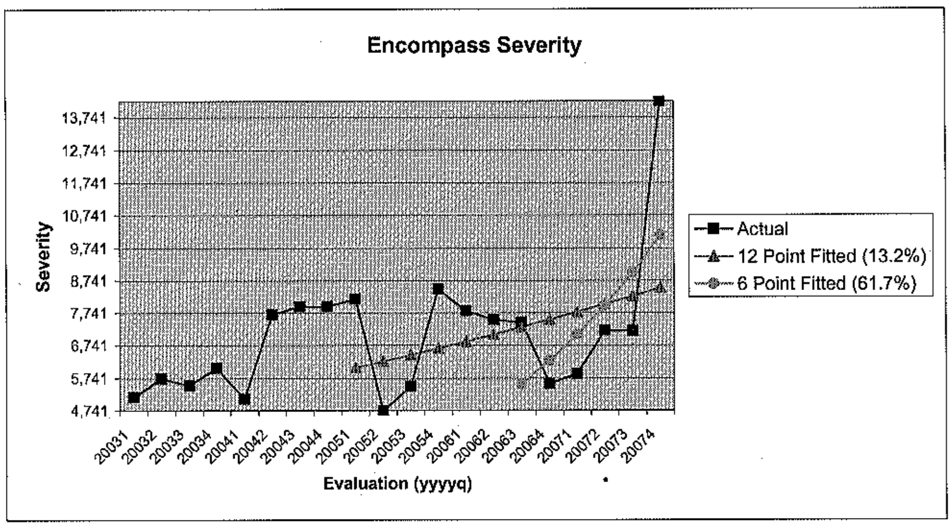
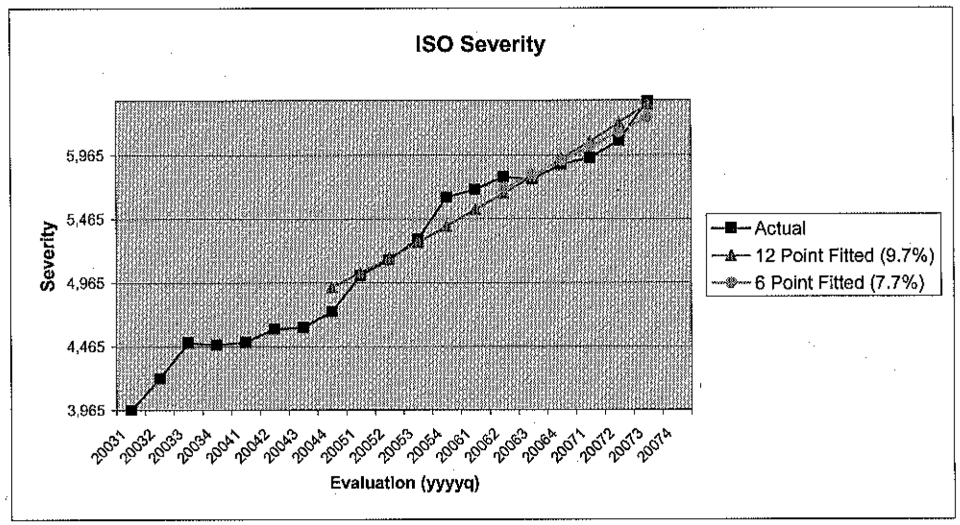
Loss Trend Factors - Property (All Forms Ex Df)









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ARKANSAS
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EXHIBIT 10

Non-Modeled Catastrophe Load

(1) CALENDAR YEAR	(2) EX-CAT INCURRED LOSS+ALAE	(3) CATASTROPHE INCURRED LOSS+ALAE	(4) STATE CATASTROPHE FACTOR	(5) COUNTRYWIDE CATASTROPHE FACTOR	(6) RELATIVITIES	(7) RELATIVITIES ADJUSTED FOR CAP OF 5.786
1988	1,579,834	37,017	0.023	0.088	0.261	0.261
1989	1,849,550	1,388,113	0.751	0.230	3.265	3.265
1990	1,008,317	351,471	0.349	0.233	1.498	1.498
1991	1,454,400	205,277	0.141	0.340	0.415	0.415
1992	903,216	26,211	0.029	0.275	0.105	0.105
1993	765,411	23,921	0.031	0.388	0.080	0.080
1994	879,397	63,772	0.073	0.321	0.227	0.227
1995	1,538,192	129,161	0.084	0.192	0.438	0.438
1996	1,628,586	1,115,444	0.685	0.502	1.365	1.365
1997	2,158,348	924,507	0.428	0.160	2.675	2.675
1998	1,309,290	284,964	0.218	0.544	0.401	0.401
1999	1,614,850	2,449,515	1.517	0.247	6.142 **	3.265 **
2000	2,353,497	1,039,955	0.442	0.255	1.733	1.733
2001	2,473,753	46,576	0.019	0.198	0.096	0.096
2002	1,918,701	191,549	0.100	0.150	0.667	0.667
2003	1,337,002	422,683	0.316	0.203	1.557	1.557
2004	1,940,473	77,354	0.040	0.162	0.247	0.247
2005	878,097	0	0.000	0.134	0.000	0.000
2006	1,114,862	422,543	0.379	0.201	1.886	1.886

(8) Average Relativity	1.214	1.062
(9) Standard Deviation	1.524	1.088
(10) Credibility		0.836
(11) Credibility Weighted Relativity		1.052
(12) Relativity Balanced to Countrywide		1.102
(13) Countrywide Selected Catastrophe Factor		0.225
(14) ARKANSAS Catastrophe Factor		0.248

** Relativity has been capped

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EXHIBIT 11

Expenses

	Item	Dollars
(1)	Avg Direct Premiums Earned*	692,575,497
(2)	Avg Incurred Loss*	283,649,133
(3)	Avg General Expenses*	55,886,890
(4)	Avg Other Acquisition*	6,023,400
(5)	Avg Unallocated Claim Expense*	37,685,297

	Item	Pecentage
(6)	General Expenses***	8.1%
(7)	Other Acquisition ***	0.9%
(8)	Unallocated Claim Expense****	13.3%
(9)	Profit	9.1%
(10)	Permissible Loss Ratio*****	69.9%

Notes

- * Average of 2004, 2005 and 2006
- ** Excludes Hagerty Agency and Involuntary Business.
- *** Ratio to Premium
- **** Ratio to Incurred Loss
- ***** Includes contingency load of 2.0%
- (4) Other Acquisition includes: Marketing, MVR ordering costs, Special Funds and Assessments, Writeoffs and Payment Fees (which are a contra-expense).

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Adjusted Fixed Expense Calculation

	(1)	(2)	(3)	(4)	(5) = (1)*[1+(2)]^(3)/(4)
Coverage	Fixed Expense	Fixed Expense Trend	Loss Trend Period	Premium Adjustment Factor	Adjusted Fixed Expense
Homeowners	9.0%	2.7%	2.2	0.957	10.0%
Dwelling Fire	9.0%	2.7%	2.2	1.074	8.9%
OTA Balance	9.0%	2.7%	2.2	1.000	9.5%

(4) = Adjusted Earned Premium ($) / Actual Earned Premium ($)

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Discounted Cash Flow

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	Countrywide Cumulative Percent of Losses Paid	Countrywide Yearly Percent of Losses Paid	Time from Start of Policy Year	Discounted * to avg time of profit @ 3.95%	Discounted Payments
1	23.8%	23.8%	0.81	1.007	23.9%
2	78.4%	54.6%	1.53	0.979	53.5%
3	90.5%	12.1%	2.39	0.947	11.4%
4	94.9%	4.4%	3.45	0.908	4.0%
5	97.0%	2.1%	4.46	0.872	1.9%
6	98.5%	1.5%	5.46	0.839	1.3%
Subsequent	100.0%	1.5%	7.94	0.760	1.1%
Total		100.0%			97.1%
Expected Losses and Loss Expense Ratio					63.0%
Present Value of Loss and Loss Expense Payments					61.2%
Taxes		2.9%	0.65	1.014	2.9%
Commissions		16.1%	0.58	1.017	16.4%
Other Acquisition		0.9%	0.63	1.015	0.9%
General Expense		8.1%	0.75	1.010	8.2%
Residual Market/Guarantee Fund		0.0%	1.00	1.000	0.0%
Profit		9.1%	1.00	1.000	9.1%
Total Present Value of Outgo					98.6%
Premiums		100.0%	0.57	1.017	101.7%
Difference, Present Value of Income Less Present Value of Outgo					3.1%

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

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Permissible Loss + LAE Ratio

	(1)	(2)	(3)	(4)	(5) = 1- [(1) + (2) + (3) +(4)]
Coverage	Taxes	Commissions	Profit	Contingency	Permissible Loss & LAE Ratio
OTA	2.9%	16.1%	9.1%	2.0%	69.9%

DETERMINATION OF THE UNDERWRITING PROFIT PROVISION

ALLSTATE INSURANCE GROUP

April, 2007

Table of Contents

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:

[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:

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

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]

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[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.

<u>Full-Information Betas</u>

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 i^{th} firm in the j^{th} segment, and summing it over all j values with i constant equals one. For example, Allstate's exposure is about 18% in the life-insurance segment and 82% in the property/casualty segment. From the firm Fama-French betas (the betas with the i subscript), the model estimates the industry-segment betas (the full-information betas, those with the j subscript). The gamma terms level the size (s) and value (h) attributes of companies in order to make their industry-group betas independent of size and value. The SUR

[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:

$$E_i = r_i * BV_{i-1} \tag{1}$$

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:

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

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:

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

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:

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

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 ($ Million)	Book Value ($ Million)	Total Sales ($ Million)	Prop/Cas Sales ($ Million)	Prop/Cas Portion	Log Market Value	Log Book-to-Market
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) Year	(2) Prior Year GAAP Net Income*	(3) Dividends	(4) Stock Repurchases (Net)	(5) = (3)+(4) Total Payout		(6) = (5)/(2) Total Payout Ratio
1997	$2,075	417	1,277	1,694		0.82
1998	3,105	450	1,400	1,850		0.60
1999	3,294	482	864	1,346		0.41
2000	2,720	506	1,385	1,891		0.70
2001	2,211	547	612	1,159		0.52
2002	1,158	594	383	977		0.84
2003	1,134	648	-48	600		0.53
2004	2,705	779	1,111	1,890		0.70
2005	3,181	846	2,203	3,049		0.96
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.

Appendix 1
Exhibit 6

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

Appendix 1
Exhibit 8

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

ENCOMPASS INSURANCE COMPANY

Arkansas
OTA

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	3.13%	App. 2, Exh. 4, Pg. 1
(7) After-tax Underwriting Profit Provision (at Present Value)	5.88%	=(5) - (6)
(8) Tax Rate	35%	FIT**
(9) Pre-tax Underwriting Profit Provision (at Present Value)	9.1%	=(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)

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) Year	(2) Equity with Bonds at Market Value	(3) Unearned Premium Reserves	(4) Loss Reserves	(5) Premium Installments Receivable	(6) Deferred Policy Acquisition Costs	(7) (2)+(3)+(4)-(5)-(6) Asset Base with Bonds at Market Value	(8) [prior year(7) +(7)]/2 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

ENCOMPASS INDEMNITY COMPANY
Arkansas
Other than Automobile

Discounted Cash Flow

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	Countrywide Cumulative Percent of Losses Paid	Countrywide Yearly Percent of Losses Paid	Time from Start of Policy Year	Discounted * to avg time of profit @ 3.95%	Discounted Payments
1	23.8%	23.8%	0.81	1.007	23.9%
2	78.4%	54.6%	1.53	0.979	53.5%
3	90.5%	12.1%	2.39	0.947	11.4%
4	94.9%	4.4%	3.45	0.908	4.0%
5	97.0%	2.1%	4.46	0.872	1.9%
6	98.5%	1.5%	5.46	0.839	1.3%
Subsequent	100.0%	1.5%	7.94	0.760	1.1%
Total		100.0%			97.1%
Expected Losses and Loss Expense Ratio					63.0%
Present Value of Loss and Loss Expense Payments					61.2%
Taxes		2.9%	0.65	1.014	2.9%
Commissions		16.1%	0.58	1.017	16.4%
Other Acquisition		0.9%	0.63	1.015	0.9%
General Expense		8.1%	0.75	1.010	8.2%
Residual Market/Guarantee Fund		0.0%	1.00	1.000	0.0%
Profit		9.1%	1.00	1.000	9.1%
Total Present Value of Outgo					98.6%
Premiums		100.0%	0.57	1.017	101.7%
Difference, Present Value of Income Less Present Value of Outgo					3.1%

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

March 19, 2008
Arkansas
Encompass Indemnity Company
ER-0701

RESPONSE TO DOI CONCERNS – CONTINGENCY PROVISION

As requested, Encompass has revised the contingency provision that was originally proposed with filing ER-0701. Encompass still feels it is appropriate and justifiable to include a 2% contingency provision. Due to implementation constraints, we are moving forward with this filing, using a 0% contingency provision. The revised overall indicated rate need changes from 25.7% to 22.1%; the proposed 6.8% overall rate increase will remain unchanged. For additional detail, please reference the updated filing form, RF-1.

Form RF-9
Rev. 4/96

ARKANSAS INSURANCE DEPARTMENT
RATE FILING ABSTRACT

Insurer Name: Encompass Indemnity Company
NAIC Number: 008-15130
Name of Advisory Organization Whose Filing You Are Referencing: N/A
Co. Affiliation to Advisory Organization: Member ____ Subscriber ____ Service Purchaser ____
Reference Filing #: ER 0701
Proposed Effective Date: 04/28/2008 NB, 06/05/2008 REN

Contact Person: Carrie Deppe
Signature: ____
Telephone No: (847) 402 2774

(1) LINE OF INSURANCE By Coverage	(2) Indicated % Rate Level Change	(3) Requested % Rate Level Change	FOR LOSS COSTS ONLY (4) Expected Loss Ratio	(5) Loss Cost Modification Factor	(6) Selected Loss Cost Multiplier	(7) Expense Constant (if applicable)	(8) Co. Current Loss Cost Multiplier
Homeowners	23.2%	7.0%					
Condo/Renter	23.2%	7.1%					
Dwelling Fire	67.1%	19.0%					
Other than Auto Balance	-1.2%	0.0%					
TOTAL OVERALL EFFECT	22.1%	6.8%					

No — Apply Loss Cost Factors to Future Filings? (Y or N)
N/A — Estimated Maximum Rate Increase for any Arkansas Insured (%)
N/A — Estimated Maximum Rate Decrease for any Arkansas Insured (%)

5 Year History

Year	Policy Count	Rate Change History %	Rate Change History Eff. Date	AR Earned Premium (000)	Incurred Losses (000)	Arkansas Loss Ratio	Countrywide Loss Ratio
2003	1	0.3%	8/15/03	1	0	0%	22%
2004	242	-0.4%	5/1/04	273	75	27.6%	46%
2005	970	0.0%	10/6/05	1,091	541	49.6%	122%
2006	1,494			1,767	1,132	64.1%	49%
2007	1,655			2,073	1,881	90.7%	50%

Corresponds to Question 3 on RF-2 or RF-WC

		Selected Provisions
A.	Total Production Expense	16.1%
B.	General Expense	8.1%
C.	Taxes, License & Fees	2.9%
D.	Underwriting Profit & Contingencies	9.1%
E.	Other (explain)	0.9%
F.	TOTAL	37.1%