Filing at a Glance

Company: Liberty Mutual Fire Insurance Company

Product Name: Dwelling Fire
SERFF Tr Num: LBPM-125972532
State: Arkansas

TOI: 01.0 Property
SERFF Status: Closed
State Tr Num: EFT $100

Sub-TOI: 01.0002 Personal Property (Fire and Allied Lines)
Co Tr Num: AR DF SR 09
State Status: Fees verified and received

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

Author: Jennifer Colby
Disposition Date: 02/02/2009

Date Submitted: 01/08/2009
Disposition Status: Filed

Effective Date Requested (New): 02/23/2009
Effective Date (New): 02/23/2009

Effective Date Requested (Renewal): 04/15/2009
Effective Date (Renewal): 04/15/2009

State Filing Description:

General Information

Project Name: DF SR
Status of Filing in Domicile: Not Filed

Project Number: AR DF SR 09
Domicile Status Comments:

Reference Organization:
Reference Number:

Reference Title:
Advisory Org. Circular:

Filing Status Changed: 02/02/2009

State Status Changed: 01/14/2009
Deemer Date:

Corresponding Filing Tracking Number:

Filing Description:

In accordance with the “file and use” provision, Liberty Mutual Fire Insurance Company (LMFIC) request the following rate revisions in the state of Arkansas. These revisions are applicable to all policies produced and effective on or after February 23, 2009 and renewal policies on or after April 15, 2009.

Company and Contact

Filing Contact Information

Jennifer Colby, Industry Filing Analyst
175 Berkeley Street
Boston, MA 02116
jennifer.colby@libertymutual.com
(800) 225-8346 [Phone]

Filing Company Information

Liberty Mutual Fire Insurance Company	CoCode: 23035	State of Domicile: Wisconsin
175 Berkeley Street	Group Code: 111	Company Type:
Boston, MA 02116	Group Name:	State ID Number:
(800) 225-8346 ext. [Phone]	FEIN Number: 04-1924000	

Filing Fees

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

COMPANY	AMOUNT	DATE PROCESSED	TRANSACTION #
Liberty Mutual Fire Insurance Company	$100.00	01/08/2009	24892365

Correspondence Summary

Dispositions

Status	Created By	Created On	Date Submitted
Filed	Becky Harrington	02/02/2009	02/02/2009

Objection Letters and Response Letters

Objection Letters				Response Letters		
Status	**Created By**	**Created On**	**Date Submitted**	**Responded By**	**Created On**	**Date Submitted**
Pending Industry Response	Becky Harrington	01/28/2009	01/28/2009	Jennifer Colby	01/30/2009	01/30/2009
Pending Industry Response	Becky Harrington	01/14/2009	01/14/2009	Jennifer Colby	01/26/2009	01/26/2009

Amendments

Item	Schedule	Created By	Created On	Date Submitted
Response 2/2/09	Supporting Document	Jennifer Colby	02/02/2009	02/02/2009

Filing Notes

Subject	Note Type	Created By	Created On	Date Submitted
RF-1	Note To Filer	Becky Harrington	02/02/2009	02/02/2009

Disposition

Disposition Date: 02/02/2009

Effective Date (New): 02/23/2009

Effective Date (Renewal): 04/15/2009

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:
Liberty Mutual Fire Insurance Company	15.000%	$20,062	171	$135,078	15.000%	15.000%	21.100%

Item Type	Item Name	Item Status	Public Access
Supporting Document	Form RF-1 NAIC Loss Cost Data Entry Document--All P&C Lines	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	Uniform Transmittal Document-Property & Casualty	Filed	Yes
Supporting Document	Actuarial Justification	Filed	Yes
Supporting Document	Responses with information requested	Filed	Yes
Supporting Document	Responses 1 31 09	Filed	Yes
Supporting Document	Response 2/2/09	Filed	Yes
Rate	Rating Manual	Filed	Yes

Objection Letter

Objection Letter Status	Pending Industry Response
Objection Letter Date	01/28/2009
Submitted Date	01/28/2009
Respond By Date	

Dear Jennifer Colby,

This will acknowledge receipt of the captioned filing.

Objection 1

- Responses with information requested (Supporting Document)

Comment: I had requested that historical data be used instead of modeling. I apologize if I was not clear that my request should apply to 12b as well as 12 of Exhibit II-F. Arkansas Code Annotated § 23-67-209 requires that state and countrywide experience be considered. Countrywide may be used if state data is not credible.

Objection 2

- HPCS-Homeowners Premium Comparison Survey (Supporting Document)

Comment: The Department's specified form was not used. You made changes to the worksheet. Please use the correct form.

Please feel free to contact me if you have questions.

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

Sincerely,

Becky Harrington

Response Letter

Response Letter Status	Submitted to State
Response Letter Date	01/30/2009
Submitted Date	01/30/2009

Dear Becky Harrington,

Comments:

Response 1

Comments: Hello,

Attached please find the responses and information requested.

Thank you,
Jennifer Colby

Related Objection 1

Applies To:

- Responses with information requested (Supporting Document)

Comment:

I had requested that historical data be used instead of modeling. I apologize if I was not clear that my request should apply to 12b as well as 12 of Exhibit II-F. Arkansas Code Annotated § 23-67-209 requires that state and countrywide experience be considered. Countrywide may be used if state data is not credible.

Related Objection 2

Applies To:

- HPCS-Homeowners Premium Comparison Survey (Supporting Document)

Comment:

The Department's specified form was not used. You made changes to the worksheet. Please use the correct form.

Changed Items:

Supporting Document Schedule Item Changes

Satisfied -Name: Responses 1 31 09
Comment:

No Form Schedule items changed.

No Rate/Rule Schedule items changed.

Sincerely,
Jennifer Colby

Objection Letter

Objection Letter Status	Pending Industry Response
Objection Letter Date	01/14/2009
Submitted Date	01/14/2009
Respond By Date	

Dear Jennifer Colby,

This will acknowledge receipt of the captioned filing.

Objection 1

- HPCS-Homeowners Premium Comparison Survey (Supporting Document)

Comment:

Form HPCS must be submitted in Excel spreadsheet format. Companies MAY NOT change the form in any way or include formulas. Please re-submit using the Department's specified form.

Objection 2

- Actuarial Justification (Supporting Document)

Comment: Please remove the provision for hurricane losses. This risk is insignificant in AR.

Objection 3

- Actuarial Justification (Supporting Document)

Comment: The non-hurricane catastrophe loss provision should be based upon actual historical data in Arkansas, not countrywide modeled losses. Please amend your filing accordingly.

Objection 4

- Actuarial Justification (Supporting Document)

Comment: The previous rate filing did not include a reinsurance cost provision. Please explain.

Objection 5

- Actuarial Justification (Supporting Document)

Comment: Explain the move to countrywide expense provision development from regional data of the previous filing.

The profit provision has increased from the previous filing. Explain how the profit provision complies with ACA 23-67-209(d) as being reasonable.

Please feel free to contact me if you have questions.

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

Response Letter

Response Letter Status	Submitted to State
Response Letter Date	01/26/2009
Submitted Date	01/26/2009

Dear Becky Harrington,

Comments:

Response 1

Comments: Hello,

Attached please find the responses to your questions.

Please note - for Form HPCS it was uploaded in excel format originally.

Please contact me with any questions.

Thank you,
Jennifer Colby

Related Objection 1

Applies To:

- HPCS-Homeowners Premium Comparison Survey (Supporting Document)

Comment:

Form HPCS must be submitted in Excel spreadsheet format. Companies MAY NOT change the form in any way or include formulas. Please re-submit using the Department's specified form.

Related Objection 2

Applies To:

- Actuarial Justification (Supporting Document)

Comment:

Please remove the provision for hurricane losses. This risk is insignificant in AR.

Related Objection 3

Applies To:

- Actuarial Justification (Supporting Document)

Comment:

The non-hurricane catastrophe loss provision should be based upon actual historical data in Arkansas, not countrywide modeled losses. Please amend your filing accordingly.

Related Objection 4

Applies To:

- Actuarial Justification (Supporting Document)

Comment:

The previous rate filing did not include a reinsurance cost provision. Please explain.

Related Objection 5

Applies To:

- Actuarial Justification (Supporting Document)

Comment:

Explain the move to countrywide expense provision development from regional data of the previous filing.

The profit provision has increased from the previous filing. Explain how the profit provision complies with ACA 23-67-209(d) as being reasonable.

Changed Items:

Supporting Document Schedule Item Changes

Satisfied -Name: Responses with information requested

Comment:

No Form Schedule items changed.

No Rate/Rule Schedule items changed.

Sincerely,
Jennifer Colby

Amendment Letter

Amendment Date:

Submitted Date: 02/02/2009

Comments:

Hi Becky,

The updated information you requested is attached. Please note the written premium change for this program is $20,262.

Thank you,

Jennifer Colby

Changed Items:

Supporting Document Schedule Item Changes:

User Added -Name: Response 2/2/09

Comment:

FORM RF-1 Rate Filing Abstract V2.pdf

Rate& Rule Sch.pdf

Note To Filer

Created By:

Becky Harrington on 02/02/2009 07:46 AM

Subject:

RF-1

Comments:

Please update the RF-1. Complete the state earned premium/losses, and countrywide loss ratio fields for the years shown. Also include the 2008 information for policy count and premium change.

I apologize for not catching this in the beginning.

Rate Information

Rate data applies to filing.

Filing Method:	File and Use
Rate Change Type:	Increase
Overall Percentage of Last Rate Revision:	50.000%
Effective Date of Last Rate Revision:	07/10/2006
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):
Liberty Mutual Fire Insurance Company	21.100%	15.000%	$20,062	171	$135,078	15.000%	15.000%

Rate/Rule Schedule

Review Status:	Exhibit Name:	Rule # or Page #:	Rate Action	Previous State Filing Number:	Attachments
Filed	Rating Manual	LM-1	Replacement	AR-PC-06-019824	LM-1.pdf

LIBERTY MUTUAL FIRE INSURANCE COMPANY

DWELLING POLICY PROGRAM
LIBERTY MUTUAL FIRE INSURANCE COMPANY
PREMIUM DEVIATION PAGE

The Premium Deviation of +63.3% (1.633) is applicable to Forms DP 00 01, DP 00 02 and DP 00 03.

A +63.3% deviation (1.633 rating factor) is to be applied separately to the premium computation for these coverages when applicable.

1. Fire building
2. Fire other structure
3. Fire contents
4. Extended, Broad and Special buildings
5. Extended, Broad and Special structures – other
6. Extended and Broad contents
7. VMM building
8. VMM other structures
9. VMM contents
10. Broad Form theft
11. Limited Form theft
12. Personal liability

Supporting Document Schedules

		Review Status:	
Satisfied -Name:	Form RF-1 NAIC Loss Cost Data Entry Document--All P&C Lines	Filed	02/02/2009

Comments:

Attachment:

FORM RF-1 Rate Filing Abstract.pdf

		Review Status:	
Satisfied -Name:	HPCS-Homeowners Premium Comparison Survey	Filed	02/02/2009

Comments:

Attachment:

AR Premium Comparison Survey.xls

		Review Status:	
Satisfied -Name:	Uniform Transmittal Document-Property & Casualty	Filed	02/02/2009

Comments:

Cover letter, P&C Transmittal, and Rate/Rule Schedule

Attachments:

AR DF SR 09 Cover Letter.pdf
P&C Transmittal.pdf
Rate& Rule Sch.pdf

		Review Status:	
Satisfied -Name:	Actuarial Justification	Filed	02/02/2009

Comments:

Attachment:

AR Actuarial Justification.pdf

		Review Status:	
Satisfied -Name:	Responses with information	Filed	02/02/2009

SERFF Tracking Number:	*LBPM-125972532*	*State:*	*Arkansas*
Filing Company:	*Liberty Mutual Fire Insurance Company*	*State Tracking Number:*	*EFT $100*
Company Tracking Number:	*AR DF SR 09*		
TOI:	*01.0 Property*	*Sub-TOI:*	*01.0002 Personal Property (Fire and Allied Lines)*
Product Name:	*Dwelling Fire*		
Project Name/Number:	*DF SR/AR DF SR 09*		

requested

Comments:

Attachments:

AR Dwelling Fire DOI Objections Response.pdf

AR Actuarial Justification.pdf

Review Status:

Satisfied -Name: Responses 1 31 09 Filed 02/02/2009

Comments:

Attachments:

AR Premium Comparison Survey-2.xls
AR Dwelling Fire DOI Objections Response 2.pdf
AR Actuarial Justification.pdf

Review Status:

Satisfied -Name: Response 2/2/09 Filed 02/02/2009

Comments:

Attachments:

FORM RF-1 Rate Filing Abstract V2.pdf
Rate& Rule Sch.pdf

NAIC LOSS COST DATA ENTRY DOCUMENT

1.	This filing transmittal is part of Company Tracking #	**AR DF SR 09**

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

		Company Name		Company NAIC Number
3.	**A.**	**Liberty Mutual Fire Insurance Company**	**B.**	**111-23035**

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

5.

(A)			FOR LOSS COSTS ONLY				
COVERAGE (See Instructions)	(B) Indicated % Rate Level Change	(C) Requested % Rate Level Change	(D) Expected Loss Ratio	(E) Loss Cost Modification Factor	(F) Selected Loss Cost Multiplier	(G) Expense Constant (If Applicable)	(H) Co. Current Loss Cost Multiplier
Fire & Allied Lines	**21.1%**	**15.0%**					
TOTAL OVERALL EFFECT	**21.1%**	**15.0%**					

6. 5 Year History Rate Change History

Year	Policy Count	% of Change	Effective Date	State Earned Premium (000)	Incurred Losses (000)	State Loss Ratio	Countrywide Loss Ratio
2003	**145**						
2004	**166**						
2005	**213**						
2006	**208**	**49.5%**	**7/10/06**	**104,630**	**33,681**	**32.2%**	**50.7%**
2007	**188**						

7.

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

8. ___N___Apply Lost Cost Factors to Future filings? (Y or N)

9. _____ Estimated Maximum Rate Increase for any Insured (%). Territory (if applicable): __15%___________________________

10. _____ Estimated Maximum Rate Decrease for any Insured (%) Territory (if applicable): ____0%_________________________

NAIC Number:	23035		
Company Name:	Liberty Mutual Fire Insurance Company		
Contact Person:	Jennifer Colby		
Telephone No.:	800-225-8346 x41714		
Email Address:	jennifer.colby@libertymutual.com		
Effective Date:	2/23/2009		

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 to 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 (Covers risk of direct physical loss for dwelling and other structures; named perils for personal property, replacement cost on dwelling, actual cash value on personal property)

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																		
	$120,000																		
	$160,000																		
6	$80,000																		
	$120,000																		
	$160,000																		
9	$80,000																		
	$120,000																		
	$160,000																		

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																		
	$15,000																		
	$25,000																		
6	$5,000																		
	$15,000																		
	$25,000																		
9	$5,000																		
	$15,000																		
	$25,000																		

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	$642.00	$755.00	$642.00	$755.00	$642.00	$755.00	$642.00	$755.00	$642.00	$755.00	$642.00	$755.00	$642.00	$755.00	$642.00	$755.00	$642.00	$755.00
	$120,000	$834.00	$975.00	$834.00	$975.00	$834.00	$975.00	$834.00	$975.00	$834.00	$975.00	$834.00	$975.00	$834.00	$975.00	$834.00	$975.00	$834.00	$975.00
	$160,000	$1,024.00	$1,196.00	$1,024.00	$1,196.00	$1,024.00	$1,196.00	$1,024.00	$1,196.00	$1,024.00	$1,196.00	$1,024.00	$1,196.00	$1,024.00	$1,196.00	$1,024.00	$1,196.00	$1,024.00	$1,196.00
6	$80,000	$642.00	$755.00	$642.00	$755.00	$642.00	$755.00	$642.00	$755.00	$642.00	$755.00	$642.00	$755.00	$642.00	$755.00	$642.00	$755.00	$642.00	$755.00
	$120,000	$834.00	$975.00	$834.00	$975.00	$834.00	$975.00	$834.00	$975.00	$834.00	$975.00	$834.00	$975.00	$834.00	$975.00	$834.00	$975.00	$834.00	$975.00
	$160,000	$1,024.00	$1,196.00	$1,024.00	$1,196.00	$1,024.00	$1,196.00	$1,024.00	$1,196.00	$1,024.00	$1,196.00	$1,024.00	$1,196.00	$1,024.00	$1,196.00	$1,024.00	$1,196.00	$1,024.00	$1,196.00
9	$80,000	$871.00	$1,129.00	$871.00	$1,129.00	$871.00	$1,129.00	$871.00	$1,129.00	$871.00	$1,129.00	$871.00	$1,129.00	$871.00	$1,129.00	$871.00	$1,129.00	$871.00	$1,129.00
	$120,000	$1,120.00	$1,445.00	$1,120.00	$1,445.00	$1,120.00	$1,445.00	$1,120.00	$1,445.00	$1,120.00	$1,445.00	$1,120.00	$1,445.00	$1,120.00	$1,445.00	$1,120.00	$1,445.00	$1,120.00	$1,445.00
	$160,000	$1,372.00	$1,760.00	$1,372.00	$1,760.00	$1,372.00	$1,760.00	$1,372.00	$1,760.00	$1,372.00	$1,760.00	$1,372.00	$1,760.00	$1,372.00	$1,760.00	$1,372.00	$1,760.00	$1,372.00	$1,760.00

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

HO3 and HO4 only

Fire Extinquisher	%	*Deadbolt Lock*	%
Burglar Alarm	%	*Window Locks*	%
Smoke Alarm	%	*$1,000 Deductible*	%
		Other (specify)	

EARTHQUAKE INSURANCE

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

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

WHAT IS YOUR PERCENTAGE DEDUCTIBLE? %

Zone	Brick	Frame

175 Berkeley Street
Maildrop O3-J
Boston, MA 02117
Telephone: (800) 225-8346
Facsimile: (617) 574-6699

Submitted Via SERFF

January 6, 2009

Honorable Julie Benafield Bowman
Arkansas Insurance Department
Property & Casualty Division
1200 W 3rd Street
Little Rock, AR 72201-1904

RE: **Dwelling Fire Policy Program**
Co. # AR DF SR 09
Liberty Mutual Fire Insurance Company 111-23035

Dear Commissioner:

In accordance with the "file and use" provision, Liberty Mutual Fire Insurance Company (LMFIC) request the following rate revisions in the state of Arkansas. These revisions are applicable to all policies produced and effective on or after **February 23, 2009** and renewal policies on or after **April 15, 2009**.

Summary of Changes

All Forms – DP-1, DP-2 and DP-3

1. Revise the dwelling fire deviation factor from 1.42 to 1.633 for both dwelling and contents policies. The deviation rating factor is to be applied separately to the premium computation for the following coverages:

1. Fire building
2. Fire other structures
3. Fire contents
4. Extended, Broad and Special buildings
5. Extended, Broad and Special structures – other
6. Extended and Broad contents
7. VMM building
8. VMM other structures
9. VMM contents
10. Broad Form theft
11. Limited Form theft
12. Personal liability

The current and proposed deviation factors are detailed below:

	Current			Proposed		
	Cov A	Cov B	Cov C	Cov A	Cov B	Cov C
Fire	1.42	1.42	1.42	1.633	1.633	1.633
Extended	1.42	1.42	--	1.633	1.633	--
Special	1.42	1.42	1.42	1.633	1.633	1.633
Broad	1.42	1.42	1.42	1.633	1.633	1.633
Vandalism	1.42	1.42	1.42	1.633	1.633	1.633

Rating Manual Changes

Page	Revision
Arkansas LM-1	Revise the deviation factor from 1.42 to 1.633 for all policies.

Rate Effect

The overall effect of these changes is as follows:

Form	Rate Change	Premium
Fire Coverage A	15%	
Fire Coverage C	15%	
TOTAL	15%	$20,262

This requests reflects a 15.0% overall rate increase resulting in an additional $20,262 in premium. This change is effective for new business policies issued on or after **February 23, 2009** and renewal policies on or after **April 15, 2009**.

If you have any questions, please contact me at (800) 225-8346, ext. 41714, fax me at (617) 574-6692 or e-mail me at Jennifer.Colby@libertymutual.com. Thank you.

Sincerely,

Jennifer Colby
Industry Filings Analyst
Industry & Regulatory Relations

Property & Casualty Transmittal Document

1. Reserved for Insurance Dept. Use Only	2. Insurance Department Use only	
	a. Date the filing is received:	
	b. Analyst:	
	c. Disposition:	
	d. Date of disposition of the filing:	
	e. Effective date of filing:	
	New Business	
	Renewal Business	
	f. State Filing #:	
	g. SERFF Filing #:	
	h. Subject Codes	

3.	Group Name	Group NAIC #
	Liberty Mutual Group	111-01112

4.	Company Name(s)	Domicile	NAIC #	FEIN #	State #
	Liberty Mutual Fire Insurance Company	WI	111-23035	04-1924000	

5.	Company Tracking Number	AR DF SR 09

Contact Info of Filer(s) or Corporate Officer(s) [include toll-free number]

6.	Name and address	Title	Telephone #s	FAX #	e-mail
	Jennifer Colby 175 Berkeley Street Boston, MA 02116, 03J	Industry Filings Analyst	(800)225-8346	617-574-6699	Jennifer.Colby@libertymutual.com

7.	Signature of authorized filer	
8.	Please print name of authorized filer	Jennifer Colby

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

9.	**Type of Insurance (TOI)**	Dwelling Fire
10.	**Sub-Type of Insurance (Sub-TOI)**	
11.	**State Specific Product code(s) (if applicable)[See State Specific Requirements]**	
12.	**Company Program Title** (Marketing title)	Liberty Guard Personal Dwelling Fire Policy Program
13.	**Filing Type**	☐ Rate/Loss Cost ☐ Rules ☒ Rates/Rules ☐ Forms ☐ Combination Rates/Rules/Forms ☐ Withdrawal ☐ Other (give description)
14.	**Effective Date(s) Requested**	New: 2/23/2009 Renewal: 4/15/2009
15.	**Reference Filing?**	☐ Yes ☒ No
16.	**Reference Organization** (if applicable)	

17.	**Reference Organization # & Title**	
18.	**Company's Date of Filing**	January 6, 2009
19.	**Status of filing in domicile**	☒ Not Filed ☐ Pending ☐ Authorized ☐ Disapproved

Property & Casualty Transmittal Document—

20.	**This filing transmittal is part of Company Tracking #**	AR DF SR 09

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

In accordance with the "file and use" provision, Liberty Mutual Fire Insurance Company (LMFIC) request the following rate revisions in the state of Arkansas. These revisions are applicable to all policies produced and effective on or after February 23, 2009 and renewal policies on or after April 15, 2009.

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 #: EFT
Amount: $100.00

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

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

Effective March 1, 2007

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 #**	**AR DF SR 09**
2.	**This filing corresponds to form filing number** (Company tracking number of form filing, if applicable)	

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

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

4a. Rate Change by Company (As Proposed)

Company Name	Overall % 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)
LMFIC	21.1	15	20,062	171	135,078	15	15

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)

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**	**50**
7.	**Effective Date of last rate revision**	**7/10/2006**
8.	**Filing Method of Last filing (Prior Approval, File & Use, Flex Band, etc.)**	**File & Use**

9.	**Rule # or Page # Submitted for Review**	**Replacement or Withdrawn?**	**Previous state filing number, if required by state**
01	LM-1	☐ New ☒ Replacement ☐ Withdrawn	AR-PC-06-019824
02		☐ New ☐ Replacement ☐ Withdrawn	
03		☐ New ☐ Replacement ☐ Withdrawn	

Liberty Mutual Group
Arkansas Dwelling Fire Rate Filing- Actuarial Justification

Table of Contents

I. Summary of Rate Filing

The overall rate change proposed in the filing is +15.0%. The proposed effective date for these changes is February 23, 2009. The premium effect of the proposed change of increasing the deviation factor from 1.42 to 1.633 is estimated to be $20,062.

Past and Prospective Experience

Countrywide Calendar/Accident Year data for the five-year period ending December 31, 2007 is used in determining our overall rate level needed. The rate level indication is +21.1%. Our Fire & Allied Lines data used to develop the indication is 100% credible. The calculation of the indication is explained, and supporting data provided, in Section II.

Expenses

The expense provision used in the indication is based on the 2008 Homeowners countrywide planned expense numbers for Liberty Mutual.

Reasonable Profit Margin

Our margin of 10.3% for profit and contingencies is calculated and explained in Section III. This margin is calculated to allow a return on surplus of 15.2%, with a 1.75:1 premium-to-surplus model.

II. Rate Indication and Supporting Data

Liberty Mutual's Countrywide rate level indication is used for Arkansas and is calculated from five years of historical premium and loss experience, with adjustments made for loss and premium, including adjustments to smooth the effects of catastrophe losses. The attached exhibits explain how the historical data is developed and adjusted to project premium and loss levels for the proposed effective period and to determine the indicated rate change. Exhibit II-A summarizes the calculation of the rate-level indication and displays each item incorporated into the calculation. Exhibits II-B through II-H provide further detail on specific calculations and projections.

Below is a description of each item contributing to the rate-level indication (as summarized in Exhibit II-A), including an explanation of the modifications made to the reported data to project future experience:

The attached exhibits display Liberty Mutual's historical Fire & Allied Lines data and develop it to projected experience level of the future. On the basis of this projected experience, an indicated rate level change is calculated. Below is a description of the modifications made to the reported data to achieve our indication.

1. Reported Earned Premium – The direct earned premiums for the latest five calendar years are listed.

2. Earned Exposures - The earned exposures for the latest five calendar years are listed.

3. Earned Premium at Current Level – These result from multiplying the Reported Earned Premium (1) with the On Level & Premium Trend Factors (2b).

4. Total Incurred Loss - These are the statewide total reported losses for the five accident years ending December 31, 2007, evaluated as of December 31, 2007.

5. X-Cat X-Severe Storm Incurred Loss - To recognize the erratic nature of unusual catastrophe events and to provide stability in the ratemaking process, incurred catastrophic and severe storm losses are removed from Total Incurred Losses (4) to produce X-cat X-Severe Storm Incurred Losses.

6. Loss Development Factor – XCat X-Severe Storm Incurred Losses are developed to their ultimate value by use of loss development factors. Our selected factors are based on an analysis of accident year losses evaluated at common ages and the patterns exhibited as incurred losses change from their initial valuation to final settlement. The factors selected and the supporting data are presented in Exhibit II-D.

7. Loss Trend Factors – Using Liberty Mutual's Homeowners Countrywide "Fast Track" loss data, an annual rate of change (trend) in expected loss costs is determined. The Loss Trend Factors measure the effect of inflation on past claim costs. The factors are indexed from the average date of loss in the accident year to the last day of the overall experience period (7/1/2007). The factors selected and the supporting data and calculations are presented in Exhibit II-E.

8. Adjusted Normal Losses – X-cat X-Severe Storm Incurred losses are multiplied by the appropriate loss development factor and loss trend factor.

   Note: At this point in the rate indication process, the loss data have been adjusted to remove catastrophic loss activity and developed to their ultimate level. Premiums and losses have also been trended to the present time and will now be projected into the period during which the proposed rates will become effective.

9. Loss Ratio Weights - These weights are used to combine the adjusted loss ratios of each year in the experience period into a single representative loss ratio. Equal weights are applied to all years.

10. Adjusted Normal Loss Ratio - This is the Adjusted Normal Losses (8) divided by the Earned Premium at Current Level (3) for each calendar/accident year separately.

11. Weighted Normal Loss Ratio - This is the result of multiplying each year's Adjusted Normal Loss Ratio by its respective weight and adding the products.

12. Factor for Non-Hurricane Non-Severe Storm Catastrophes - This provision is for any expected catastrophic activity that is not hurricane or severe storm related. The expected Non-Hurricane Non-Severe Storm loss per $1000 of amount of insurance factor is selected based upon 15 years of Liberty Mutual Fire and Allied Lines historical non-hurricane non-severe storm catastrophe experience. The calculation of this provision, along with supporting data, is presented in Exhibit II-F.

12a. Provision for Hurricane Losses – This provision is based on average countrywide annual hurricane losses estimated from the AIR CLASIC/2 v9.0 model. These models are based on scientific data and mathematical and empirical models. Liberty Mutual's policyholder exposure information is used with the model to estimate the average annual hurricane loss. The provision is the ratio of Liberty Mutual's expected annual hurricane loss to the most recent year's earned premium at current level. The calculation of this provision is presented in Exhibit II-F.

12b. Provision for Severe Storm Losses – This provision is based on average countrywide annual severe storm losses modeled from the AIR CLASIC/2 v 9.0 model. These models are based on scientific data and mathematical and empirical models. Liberty Mutual's policyholder exposure information is used with the model to estimate the average annual loss. The provision is the ratio of Liberty Mutual's expected annual severe storm loss to the most recent year's earned premium at current level. The calculation of this provision is presented in Exhibit II-F.

13. Premium Projection Factor - This factor adjusts premium to the coverage levels expected to be purchased by our customers in the time periods when the proposed rates will be in effect. The calculation of this factor is presented with the calculation of the historical premium trend factors in Exhibit II-B.

14. Loss Projection Factor - The Loss Projection Factor is used to project losses from the

average accident date in thelatest experience period to the average accident date of one year beyond the proposed effective date of the rate revision (February 23, 2010). The calculation of this factor is presented with the calculation of the historical loss trend factors in Exhibit II-E.

15. Loss Ratio Projection Factor - This factor is the ratio of the Loss Projection Factor (14) and the Premium Projection Factor (13) calculated above.

16. Loss Adjustment Expense Factor - To include Loss Adjustment Expense (LAE), a factor is calculated based upon the most recent three years of countrywide LAE to loss ratios.

17. House-Years in Experience Period - This is the total number of earned house-years where one house-year is defined to be one house insured for 12 months.

18. Credibility - Credibility is a measure of the confidence assigned to a particular body of data for ratemaking purposes. Full credibility is defined to be 75,000 earned house-years. In this step, credibility to be assigned to the company's non-hurricane non-severe storm loss experience is calculated. The calculation of this credibility standard is presented in Exhibit II-H.

19. Projected Non-hurricane Non-Severe Storm Loss and LAE Ratio - In this step, the experience period Normal Loss Ratio is adjusted for LAE and expected Non-Hurricane Non-Severe Storm Catastrophic activity. Then, this ratio is projected to its future level by applying the Loss Ratio Projection Factor. For the expected Non-Hurricane Non-Severe Storm Catastrophic activity, since AOI is already projected into the future, the loss projection portion of the loss ratio trend is backed out so as not to double count losses.

20. Projected Total Loss and LAE Ratio - The Provisions for Hurricane and Severe Storm Losses are projected to future level and adjusted for LAE. For the Provisions for Hurricane and Severe Storm Losses, since AOI is already projected into the future (February 23, 2010), the loss projection portion of the loss ratio trend is backed out so as not to double count losses. This ratio is added to the Projected Non-Hurricane Non-Severe Storm Loss and LAE Ratio to obtain the Projected Total Loss and LAE Ratio.

21. Fixed Provision for Acquisition and General Expense - The expense covers policy issuance, sales staffing, and other administrative functions. Based on an internal expense analysis, 80% of Acquisition and General Expenses are fixed. The supporting expense data is presented in Exhibit II-G.

21a. Variable Provision for Acquisition and General Expense – These items vary directly with premium. The supporting expense data is presented in Exhibit II-G.

21b. Provision for Reinsurance Cost – The total reinsurance cost to Liberty Mutual for Fire and Allied Lines was allocated to each state based on the state's participation in all direct losses above $550 million. $550 million is Liberty Mutual's corporate reinsurance treaty attachment point.

21c. Provision for Taxes, Licenses, Fees, and Profit & Contingency - These items vary directly with premium.

22. Permissible Loss and LAE & Expense Ratio - From unity, items (21a) and (21c) are subtracted.

23. Indicated Rate Change - The Projected Total Loss & LAE, Fixed Expense Ratio and Provision for Reinsurance Expense are added together and divided by the Permissible Loss, LAE and Expense Ratio.

24. Selected Rate Change

Exhibit II-A: Dwelling Fire Rate Level Indication

Liberty Mutual Group
Countrywide
Fire and Allied
Indicated Rate Level Change
Evaluated as of 12/31/2007

Proposed Effective date: **2/23/2009**

Accident Year Ending	(1) Earned Premium	(2) Earned Exposures	(2b) On-Level & Prem Trend Factor	(3) E/P at Current Level	(4) Total Incurred Loss	(5) xCat xSS Incurred Loss
12/31/2003	22,221,901	61,652	1.394	30,966,951	12,734,035	11,575,047
12/31/2004	30,207,599	79,242	1.318	39,802,683	24,929,156	15,636,426
12/31/2005	41,279,442	101,186	1.231	50,828,211	42,267,913	21,725,408
12/31/2006	48,909,418	109,982	1.129	55,241,784	24,808,572	24,260,394
12/31/2007	57,062,640	116,062	1.022	58,297,217	28,594,360	26,179,252
Total	199,681,001	468,125		235,136,847	133,334,035	99,376,528

Accident Year Ending	(6) Loss Development Factor	(7) Loss Trend Factor	(8) Adjusted Normal Loss	(9) Loss Ratio Weights	(10) Adjusted Normal Loss Ratio
12/31/2003	1.000	1.193	13,809,336	0.2	44.6%
12/31/2004	1.000	1.147	17,937,181	0.2	45.1%
12/31/2005	1.000	1.103	23,963,558	0.2	47.1%
12/31/2006	1.004	1.061	25,845,303	0.2	46.8%
12/31/2007	1.067	1.020	28,491,280	0.2	48.9%
Total			110,046,657		

11) Weighted Normal Loss Ratio	0.465
12) Factor for Non-hurricane Catastrophes	0.021
12a) Provision for Hurricane Losses	0.089
12b) Provision for Severe Storm Losses	0.063
13) Premium Projection Factor	1.068
14) Loss Projection Factor	1.088
15) Loss Ratio Projection Factor	1.019
16) Loss Adjustment Expense Factor	1.175
17) House Years in Experience Period	468,125
18) Credibility = Square root of [(17)/75,000] (max = 1.0)	100%
19) Projected Non-hurricane Loss & LAE Ratio: [(11)*(15)+(12)/(13)]*(16)	0.580
20) Projected Total Loss & LAE Ratio: (19)+[{(12a)+(12b)}*(16)/(13)]	0.748
21) Fixed Provision for Acquisition & General Expense	0.211
21a) Variable Provision for Acquisition & General Expense	0.053
21b) Provision for Reinsurance Cost	0.021
21c) Provision for Tax, Licenses, Fees, Profit & Contingency	0.138
22) Permissible Loss and LAE, and Expense [1.0 - (21a) - (21c)]	0.809
23) Indicated Rate Change [{(20)+(21)+(21b)}/(22)] - 1.0	**21.1%**
24) Selected Rate Change	15.0%

Exhibit II-B: Determination of Premium Projection Factor

To project premium to the average earned day after the proposed effective date, the premium projection factor is applied. This factor is developed based upon a review of Liberty Mutual Dwelling Fire data and is equal to 1.068.

Calculation of Premium Projection Factor

1) Annual Premium Trend Based on Liberty Data	2.5%
2) Average Earned Date of Last Year of Experience Period	7/1/2007
3) Effective Date for Proposed Rates	02/23/09
4) Average Earned Date Under Proposed Rates	02/23/10
5) Number of Months Between (2) And (4)	31.8
6) Premium Projection Factor	

$$\{1\}^{\{5\}/12} = 1.068$$

Exhibit II-C: Development of Current Rate Factor

Current Rate Factors have been calculated based upon Liberty Mutual's historical rate changes in all fifty states and DC. They are applied to Reported Earned Premiums to bring the earned premiums to what they would have been had they been written at today's rate. The Current Rate Factors are determined using the parallelogram method.

Exhibit II-D: Loss Development

We have calculated loss development factors based upon Liberty Mutual's countrywide experience for Fire and Allied Lines. Catastrophe and severe storm losses are excluded. We have selected the following ultimate factors based on this experience.

Age as of December 31, 2007	Development Factor
12 months	1.067
24 months	1.004
36 months	1.000
48 months	1.000
60 months	1.000

The Countrywide loss development triangle from which the above factors were selected is provided on the following page.

Countrywide Fire and Allied Lines
Loss Development Excluding Catastrophes and Severe Storms

Accident Year Ending	12	24	36	48	60	72	84	96	108	120	132	144
JAN96 - DEC96	7,705,013	7,970,957	7,905,720	7,875,121	7,869,861	7,869,861	7,869,861	7,969,637	7,902,870	7,902,870	7,902,870	7,902,870
JAN97 - DEC97	7,819,189	8,087,420	8,160,301	7,890,994	8,094,127	8,104,752	8,103,322	8,103,322	8,103,322	8,103,322	8,103,322	
JAN98 - DEC98	7,760,214	8,007,866	8,093,201	7,956,890	7,939,863	7,922,356	7,964,504	7,962,536	7,970,386	7,970,386		
JAN99 - DEC99	7,595,161	8,017,700	8,076,580	7,982,066	7,966,010	7,951,526	7,928,327	7,926,358	7,926,358			
JAN00 - DEC00	10,181,578	10,685,623	11,000,823	11,042,216	11,151,880	11,588,972	11,449,624	11,453,624				
JAN01 - DEC01	10,145,419	10,336,651	10,340,058	10,197,367	10,202,392	10,202,392	10,193,309					
JAN02 - DEC02	9,630,480	10,075,054	10,272,847	10,452,839	10,209,151	10,126,195						
JAN03 - DEC03	10,545,484	10,685,271	11,026,251	11,045,674	11,061,479							
JAN04 - DEC04	14,290,892	15,519,657	15,313,137	15,067,579								
JAN05 - DEC05	19,141,430	21,253,150	21,113,436									
JAN06 - DEC06	21,826,492	23,030,736										
JAN07 - DEC07	25,048,268											

Accident Year Ending	24/12	36/24	48/36	60/48	72/60	84/72	96/84	108/96	120/108	132/120
JAN97 - DEC97	1.034	1.009	0.967	1.026	1.001	1.000	1.000	1.000	1.000	1.000
JAN98 - DEC98	1.032	1.011	0.983	0.998	0.998	1.005	1.000	1.001	1.000	
JAN99 - DEC99	1.056	1.007	0.988	0.998	0.998	0.997	1.000	1.000		
JAN00 - DEC00	1.050	1.029	1.004	1.010	1.039	0.988	1.000			
JAN01 - DEC01	1.019	1.000	0.986	1.000	1.000	0.999				
JAN02 - DEC02	1.046	1.020	1.018	0.977	0.992					
JAN03 - DEC03	1.013	1.032	1.002	1.001						
JAN04 - DEC04	1.086	0.987	0.984							
JAN05 - DEC05	1.110	0.993								
JAN06 - DEC06	1.055									
Avg 5X ex. High/Low	1.062	1.004	0.997	1.000	0.999	1.000	1.000	1.000	1.000	1.000
Cum	1.067	1.004	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000

Exhibit II-E: Development of Loss Trend Factors

Loss trend factors reflect the effects of inflation on past claim costs. Liberty Mutual uses an annual loss trend of +4.0% to trend losses from the average date of loss in the accident year to the last day of the experience period. This trend is based upon a review of least squares fitted trend lines to the last five years of Liberty Mutual's Homeowners Countrywide Fast Track loss data. A loss trend of +4.0% was used to project losses from the last day of the experience period to the average accident date after the proposed effective date.

Calculation of Loss Trend Factors

Annual Loss Trend = +4.0%
Final Day of Experience Period = 12/31/2007

Accident Year Ending	Average Accident Date			Loss Trend Factors
12/31/03	07/01/03	$1.040^{4.5}$	=	1.193
12/31/04	07/01/04	$1.040^{3.5}$	=	1.147
12/31/05	07/01/05	$1.040^{2.5}$	=	1.103
12/31/06	07/01/06	$1.040^{1.5}$	=	1.061
12/31/07	07/01/07	$1.040^{0.5}$	=	1.020

Calculation of Loss Projection Factor

1) Annual Loss Trend Based on Liberty Data	4.0%
2) Last Day of Experience Period	12/31/07
3) Effective Date for Proposed Rates	02/23/09
4) Average Accident Date Under Proposed Rates	02/23/10
5) Number of Months Between (2) And (4)	25.8
6) Loss Projection Factor	

$$\{1\}^{\{5\}/12} = 1.088$$

The Homeowners Fast Track data used in selecting the historical loss trends is provided on the following page.

LIBERTY MUTUAL - HOMEOWNERS FAST TRACK TREND DATA

Countrywide Dwelling Forms

Prior 4 Qtrs. Ending		Dwelling (Forms 1-3 & 5)		
Year	Qtr.	Paid Severity	Paid Freq.	Paid Pure Premium
2004	3	6,553	4.27	279.62
2004	4	6,597	4.18	275.68
2005	1	6,805	4.05	275.73
2005	2	6,838	3.99	272.98
2005	3	6,872	4.01	275.28
2005	4	7,005	3.95	276.64
2006	1	7,382	3.90	287.58
2006	2	7,640	3.84	293.33
2006	3	7,807	3.84	299.41
2006	4	8,144	3.79	308.80
2007	1	8,194	3.76	308.22
2007	2	8,489	3.68	312.77
2007	3	8,707	3.61	314.13
2007	4	8,671	3.61	313.30
2008	1	8,871	3.67	325.37
2008	2	8,860	3.70	328.11
2008	3	9,185	3.65	335.56
FITTED TREND				
2-Yr (5 pts)		5.27	2.01	7.39
3-Yr (9 pts)		7.49	-2.21	5.11
4-Yr (13 pts)		9.88	-3.13	6.44
5-Yr (17 pts)		9.59	-3.74	5.48

Selected Trend: **+4.0%**

Exhibit II-F: Catastrophe Analysis

Because of the low frequency and high severity nature of catastrophes, catastrophe losses could significantly impact the financial results of an insurer from one year to another. To properly reflect the catastrophe hazard, it is appropriate to eliminate actual catastrophe losses from the experience period and to include a catastrophe provision in the rates which represents expected catastrophic loss.

The following summarizes the analysis incorporated in Liberty Mutual's catastrophe provision. The projected loss costs below are all based on countrywide catastrophe loss experience.

Provision for Non-Hurricane, Non-Severe Storm Catastrophes

1) Annual AOI Trend	1.055
2) Average Earned Date of Last Year of Experience Period	7/1/2007
3) Effective Date for Proposed Rates	02/23/09
4) Average Earned Date Under Proposed Rates	02/23/10
5) Number of Years Between (2) And (4)	2.65
6) AOI Projection Factor = (1)^(5)	1.153
7) Calendar Year Ending 12/31/2007 Earned AOI (000s)	10,531,553
8) Projected Earned AOI = (6) * (7)	12,138,337
9) Expected Non-Hurricane Non-Severe Storm Cat Loss Per $1000 AOI	0.101
10) Projected Expected Non-Hurricane Non-Severe Storm Cat Losses = (8) * (9)	1,226,019
11) Calendar Year Ending 12/31/2007 Earned Premium	58,297,217
12) Provision for Ex. Hurr, Ex. Sev. Storm Cat Losses = (10) / (11)	2.1%

*The table below displays the supporting data for item 9, Liberty Mutual's loss costs per $1000 Amount of Insurance. This loss cost is calculated from Liberty Mutual's historical losses due to catastrophes other than hurricanes and severe storms over the 15-year period ending 12/31/2007.

Historical Catastrophe Losses per $1000 AOI
(Excluding Hurricanes and Severe Storms)

Liberty Mutual Group
Countrywide
Fire and Allied
Historical CAT Loads
Accident Years Ending December 1993 - 2007

Accident Year	Total Inc'd Loss	Incurred CAT Loss	Severe Storm CAT Loss	Hurricane Loss	AOI/1000	Non Hurricane Catload
	(1)	(2)	(3)	(4)	(5)	(6)=((2)-(3)-(4))/(5)
Dec-93	8,953,812	722,228	612,804	0	3,274,214	0.033
Dec-94	10,156,019	1,778,620	585,882	0	3,366,049	0.354
Dec-95	11,089,932	2,616,769	2,102,699	274,679	3,626,535	0.066
Dec-96	11,636,729	2,531,712	886,675	474,115	4,381,108	0.267
Dec-97	9,476,194	235,069	175,571	5,544	4,793,410	0.011
Dec-98	10,617,345	1,679,623	1,346,875	152,716	5,053,314	0.036
Dec-99	9,907,183	1,208,276	372,462	502,018	5,199,672	0.064
Dec-00	15,153,899	2,548,435	2,197,299	0	5,314,638	0.066
Dec-01	14,187,762	2,329,259	1,702,763	239,462	5,449,442	0.071
Dec-02	12,529,374	1,045,929	769,278	4,270	5,552,218	0.049
Dec-03	15,137,736	2,916,843	1,750,476	216,949	5,897,333	0.161
Dec-04	26,712,321	10,289,895	997,165	8,261,894	6,856,070	0.150
Dec-05	44,917,346	21,904,229	1,361,725	19,858,489	9,744,143	0.070
Dec-06	31,244,331	5,101,643	4,553,466	72,964	13,444,697	0.035
Dec-07	34,215,587	6,792,999	4,377,891	0	15,522,601	0.156
Total	$265,935,570	$63,701,529	$23,793,031	$30,063,099	$97,475,445	0.101

Selected	0.101
LM 1993 - 2007 Cat Factor	0.101

Provision for Severe Storm Loss

1) Annual AOI Trend	1.055
2) Average Earned Date of Last Year of Experience Period	7/1/2007
3) Effective Date for Proposed Rates	02/23/09
4) Average Earned Date Under Proposed Rates	02/23/10
5) Number of Years Between (2) And (4)	2.65
6) AOI Projection Factor = (1)^(5)	1.153
7) Calendar Year Ending 12/31/2007 Earned AOI (000s)	10,531,553
8) Projected Earned AOI = (6) * (7)	12,138,337
9) Expected Severe Storm Loss Per $1000 AOI	0.304
10) Projected Expected Severe Storm Losses = (8) * (9)	3,690,807
11) 12 Months Ending 12/31/2007 Earned Premium	58,297,217
12) Provision for Severe Storm Losses = (10) / (11)	6.3%

Note: The loss cost per $1000 Amount of Insurance is estimated from the AIR CLASIC/2 v9.0 Severe Storm Model.

Provision for Hurricane Loss

1) Annual AOI Trend	1.055
2) Average Earned Date of Last Year of Experience Period	7/1/2007
3) Effective Date for Proposed Rates	02/23/09
4) Average Earned Date Under Proposed Rates	02/23/10
5) Number of Years Between (2) And (4)	2.65
6) AOI Projection Factor = (1)^(5)	1.153
7) Calendar Year Ending 12/31/2007 Earned AOI (000s)	10,531,553
8) Projected Earned AOI = (6) * (7)	12,138,337
9) Expected Hurricane Cat Loss Per $1000 AOI	0.429
10) Projected Expected Hurricane Cat Losses = (8) * (9)	5,213,152
11) Calendar Year Ending 12/31/2007 On-level Earned Premium	58,297,217
12) Provision for Hurricane Cat Losses = (10) / (11)	8.9%

Note: The loss cost per $1000 Amount of Insurance is estimated from the AIR CLASIC/2 v9.0 Hurricane Model.

Exhibit II-G: Expense Data

The table below summarizes Liberty Mutual's countrywide expense data. The expense data below serves as the basis for all of the expense provisions in the rate-level indication.

Liberty Mutual Group
Fire and Allied
Countrywide

Expense Provision -- Countrywide Data						
	Historical				Planned	
Item	2005	2006	2007	Average	2008	Selected
Expenses Based on Losses						**3 Yr. Avg**
ALAE	$23,473,677	$22,513,794	$21,877,368	$22,621,613	$29,691,903	$22,621,613
ULAE	$149,287,163	$114,133,555	$121,034,255	$128,151,658	$115,066,774	$128,151,658
Incurred Loss	$1,080,477,209	$779,063,574	$751,252,396	$870,264,393	$903,681,719	$870,264,393
LAE / Loss	16.0%	17.5%	19.0%	17.5%	16.0%	17.5%
LAE / Earned Premium	12.6%	9.0%	8.7%	10.1%	8.0%	10.1%
Expenses Based on Earned Premium						**Planned:**
General Expense	$307,186,957	$326,524,059	$363,304,493	$332,338,503	$476,714,645	$476,714,645
Earned Premium	$1,372,621,890	$1,519,256,846	$1,650,718,453	$1,514,199,063	$1,809,734,456	$1,809,734,456
Total General Ratio	22.4%	21.5%	22.0%	22.0%	26.3%	26.3%
Fixed General						21.1%
Variable General						5.3%
Expenses Based on Written Premium						
Premium Tax (State Specific, Latest Year)					3.5%	3.5%
Contingency					1.0%	1.0%
Profit					9.3%	9.3%
(General + LAE) / Earned Premium	35.0%	30.5%	30.7%	32.0%	34.3%	34.7%
Total Expense Ratio (excl. LAE)					40.1%	40.1%
Permissible Loss + LAE Ratio					59.9%	**59.9%**

Exhibit II-H: Credibility Standard

For Dwelling Fire and Allied Lines, Liberty Mutual uses a full credibility standard of 75,000 earned house-years based on Homeowners data.

This standard is based upon the intent to have 99.5% confidence that the calculated value is within 5.0% of the true value of the statistic. According to Longley-Cook's 1962 PCAS paper, 3,163 claims are needed.

To translate this into an exposure standard, we reviewed our countrywide claim frequency figures excluding catastrophic claims. For the last five years, they show:

2003	4.9 claims/100 house-years
2004	4.2 claims/100 house-years
2005	3.9 claims/100 house-years
2006	3.8 claims/100 house-years
2007	3.6 claims/100 house-years

5 year mean of frequencies:
4.1 claims/100 house-years

Dividing the claims necessary for full credibility by the experience claim frequency produces the house-years full standard.

$$\frac{3{,}163}{0.041} = 77{,}552$$

For convenience sake, a full credibility standard of 75,000 house-years was used.

III. Profit Provision

A mutual insurance company, unlike a stock company, has no recourse to stock market capitalization to generate needed surplus funds. Any increase in surplus for a mutual company must come from (1) underwriting profit, (2) investment income, (3) realized capital gains or (4) unrealized capital gains. In the following analysis, Liberty Mutual selects a provision for underwriting profit which will ensure that anticipated income from all sources produces net income after taxes that is commensurate with the risk assumed in the business of property/casualty insurance. Furthermore, this provision ensures that projected changes in policyholder surplus are sufficiently similar (in direction and magnitude) to changes in premium accounts so that confidence in the Companies' financial integrity can be maintained.

Exhibit III-A, Table 1 shows a history of calendar year rates of return for investment income expressed as a percentage of mean invested assets. The primary source is interest, dividends, and real estate income shown in Column (3). Based on the current market yield, it is reasonable to anticipate before tax rates of 3.50% from interest, dividends, and real estate income during the time rates are effective, based on the new money rate. Historically, realized capital gains have contributed very little to earnings. They were larger than usual in 1986, 1992 and 1999, but they vary significantly throughout the last eighteen years and we have seen declining gains since 1999. For the prospective period, we have selected 1.0%, which is the average return of the last six years. After federal income taxes, the total anticipated rate of return is 3.10% of invested assets.

Exhibit III-B, Table 1 presents the investment income derived from unearned premium reserves. The model uses historical information, modified for the current tax rate. This income is separated into two categories. First, there are premium finance charges (Table 1, Line 10) collected by allowing policyholders to pay their premiums in installments over the 12-month policy term. Line 3 is the corresponding portion of the unearned premium reserve representing the premium which is being financed by the company. Second, there is the remaining reserve, after prepaid expense and taxes, (Line 7) which develops income based on the anticipated rate of return.

Exhibit III-C, Table 1 applies the rate of return to mean loss and loss adjustment expense reserves. These exhibits relate investment income to premium earned. Exhibit III-D provides pertinent expense data. Exhibit III-E deals with the calculation of federal income taxes applicable to unearned premium and loss reserves.

An economic analysis of market rates and available returns shows that the appropriate and fair rate of return for property-casualty insurers writing lines of above-average risk, such as Homeowners, falls within the range of 17.5% to 21.2%. For average risk lines, the appropriate percentage is 13.7% to 17.5%. The selected profit and contingency provision of 10.3% used in this filing would generate a 15.2% return on surplus (GAAP).

Income from all of the above sources is combined with our selected underwriting profit provisions in the following 1.75:1 premium-to-surplus model:

Let Premium = $100; Surplus = $57

1)	Investment Income on Unearned Premium Reserves $100 x (Exhibit III-B, Item 12)	$1.16
2)	Investment Income on Loss Reserves $100 x (Exhibit III-C, Item 5)	$0.73
3)	Investment Income on Surplus $57 x (Exhibit III-A, Column 7)	$1.77
4)	Underwriting Income After Tax $100 x (1-.35) x Profit Provision (Exhibit III-D)	$6.70
5)	Total Expected Return [1]+[2]+[3]+[4]	$10.36
6)	Expected Return on Surplus [5]/$57 x 100%	18.13%
7)	GAAP Adjusted Return [6]/GAAP Adj. Factor (Exhibit III-F)	15.2%

The end product is an anticipated return of 10.36% on earned premium, after tax. Related to surplus, this underwriting profit provision generates an anticipated 15.2% adjusted rate of return on GAAP basis.

Exhibit III-A: Effective Rate of Return on Investable Assets

Table 1: Historical Investments Returns 1986-2006

(1)	(2)	(3)	(4)	(5)	(6)	(7)
Calendar Year	Mean Invested Assets (a)	Net Investment Income (b)	Net Inv. Inc. % of (2)	Net Realized Capital Gains (c)	Net Realized Cap. Gains % of (2)	
1986	8,118,335,491	638,231,286	7.9	306,142,812	3.8	
1987	9,808,729,009	733,126,525	7.5	117,222,704	1.2	
1988	11,272,895,755	868,278,838	7.7	34,851,447	0.3	
1989	12,415,308,080	965,013,926	7.8	45,991,686	0.4	
1990	13,727,246,565	1,040,182,466	7.6	43,141,539	0.3	
1991	14,085,608,244	1,084,863,706	7.7	16,195,685	0.1	
1992	14,872,603,927	1,078,372,300	7.3	356,556,819	2.4	
1993	15,380,644,905	1,019,000,685	6.6	192,575,284	1.3	
1994	15,728,080,374	1,000,703,107	6.4	42,091,361	0.3	
1995	16,644,320,729	1,004,243,423	6.4	58,061,803	0.3	
1996	17,754,458,149	1,024,976,627	5.8	80,172,253	0.5	
1997	19,051,878,513	1,049,458,975	5.5	112,763,515	0.6	
1998	20,008,196,638	1,114,613,916	5.6	199,016,656	1.0	
1999	21,692,869,206	1,259,013,722	5.8	559,579,315	2.6	
2000	23,097,086,037	1,249,282,280	5.4	336,548,991	1.5	
2001	22,316,155,306	1,180,115,309	5.3	295,996,921	1.3	
2002	22,117,700,188	1,149,160,133	5.2	236,186,278	1.1	
2003	24,593,328,553	1,213,180,583	4.9	186,183,583	0.8	
2004	28,362,100,873	1,278,067,945	4.5	411,926,118	1.5	
2005	31,616,013,191	1,277,698,305	4.0	273,728,472	0.9	
2006	35,560,878,142	1,370,600,938	3.9	106,166,957	0.3	
Latest 12 Years	282,814,985,523	14,170,412,156	5.2	2,856,330,862	1.0	
Latest 6 Years	164,566,176,253	7,468,823,213	4.6	1,510,188,329	1.0	
Anticipated Returns (Before Tax)			3.5		1.0	
2006 Federal Tax Rate (Exhibit III-A, Table 2)			0.2969		0.3500	
Anticipated Returns (After Tax)			2.50		0.60	3.10

(a) Mean of current and prior year Annual Statements: Page 2, Line 10, 2005 and later. Line 9, 2004 and prior. Less Page 22, Column (2), Lines 25, 39 and 53, 2005 and later. Page 28, Column (2), Lines 25, 39 and 53, 2003 – …...2004. Page 30, Column (2), 1998 - 2000. Page 31, Column (3), 1997 and prior.

(b) Annual Statement: Page 4, Line 9 less Page 12, Part 1, Column (2), Lines 1.3, 2.11, 2.21, and 8, 2005 and later. Page 4, Line 8 less Page 6, Part 1, Column (6), Lines 1.3, 2.11, 2.21, and 8, 2001. Column (8) 2000 and prior.

(c) Annual Statement: Page 4, Line 10, 2005 and later. Line 9, 2001 and prior.

Table 2: Effective Federal Tax Rate

		Earned Income		Distribution	Federal Tax Rate	
BONDS (Ex Tax Exempt)	(a)	$1,214,994,487		0.886	0.3500	
BONDS (Tax Exempt)						
Acquired Before 8/7/86		$5,102,207		0.004	0.0000	
Acquired After 8/7/86		194,238,202		0.142	0.0525	
STOCKS - Common						
Acquired Before 8/7/86						
Non-Affiliated		$2,264,218		0.002	0.1050	
Foreign		35,600		0.000	0.3500	
Total		$2,299,818				
Acquired After 8/7/86						
Non-Affiliated		$43,318,452		0.032	0.1418	
Foreign		8,868,316		0.006	0.3500	
Total		52,166,768				
STOCKS - Preferred						
Acquired Before 8/7/86						
Non-Affiliated		$145,333		0.000	0.1050	
Foreign		0		0.000	0.3500	
Total		$145,333				
Acquired After 8/7/86						
Non-Affiliated		$15,365,825		0.011	0.1418	
Foreign		0		0.000	0.3500	
Total		15,365,825				
All Other Investment Income	(b)	($113,731,702)	(c)	-0.083	0.3500	
Net Investment Income Gain/(Loss)		$1,370,600,938	(d)	1.000	0.2969	(e)

(a) 2006 Annual Statement: Page 12, Column (2), Lines 1 + 1.2
(Excludes bonds of affiliates)
(b) Reduced by investment expenses and depreciation on real estate
(c) 2006 Annual Statement: Page 12, Part 1, Column (2), lines 3, 4, 6, and 9 less lines 11, 13, and 14
(d) Exhibit III-A, Table 1, Column 3

(e) Weighted average rate using "Distribution" column

Exhibit III-B: Investment Income from Unearned Premium Reserves

Table 1: Investment Income from Unearned Premium Reserves as Factor of Earned Premium (Homeowner's Insurance)

1)	Earned Premium	$100.00
2)	Mean Unearned Premium Reserve 0.516 x [1]	$51.60
3)	Mean Premium Subject to Installment Payment Finance Plan 0.197 x [2]	$10.17
4)	Funds Available for Prepaid Expense, Tax, and Investment [2] - [3]	$41.43
5)	Prepaid Expense 0.253 x (2)	$13.05
6)	Federal Tax - 1986 Reform Act 0.012 x [2]	$0.62
7)	Funds Available for Investment [4] - [5] - [6]	$27.76
8)	Rate of Return, After Tax	3.1%
9)	Income on Invested Reserve [7] x [8]	$0.86
10)	Income from Installment Payment Premium Finance Plan 0.029 x (3)	$0.29
11)	Total Investment Income [9] + [10]	$1.16
12)	Investment Income as a Factor of Earned Premium [11] / [1]	0.0116

Notes

Lines [2], [3], and [10]: Exhibit III-B, Table 2, Columns [9], [10] and [6], 'Selected'
Line [5]: Exhibit III-D - Acquisition (20.6%), Taxes (2%) and 50% of General (2.7%)
Line [6]: Exhibit III-E, Section A, Item 5.
Line [8]: Exhibit III-A

Table 2: Investment Income from Installment Payment Premium Finance Plan ($000)
(Homeowner's Insurance)

Year	[1] Premium Finance Charges	[2] Premium Charged-Off	[3]=[1]-[2] Net Investment Income
1998	4,999	252	4,747
1999	1,567	260	1,307
2000	2,238	365	1,872
2001	5,398	449	4,949
2002	6,970	790	6,180
2003	8,919	726	8,193
2004	9,778	1,040	8,738
2005	11,506	2,111	9,396
2006	12,392	2,334	10,059
Total	63,767	8,326	55,442

Year	[4]=[3]*0.65 After-Tax Investment Income	[5] Mean Premium Financed	[6]=[4]/[5] Ratio of Investment Income to Mean Premium Financed
1998	3,086	52,073	0.059
1999	850	54,620	0.016
2000	1,217	60,213	0.020
2001	3,217	67,910	0.047
2002	4,017	82,183	0.049
2003	5,326	108,101	0.049
2004	5,680	138,091	0.041
2005	6,107	180,942	0.034
2006	6,538	228,417	0.029
Total	36,037	972,550	0.037
Selected			0.029

Year	[7] Direct Earned Premium	[8] Mean Direct Unearned Premium Reserve	[9]=[8]/[7] Ratio	[10]=[5]/[8] Ratio
1998	499,120	261,512	0.524	0.199
1999	660,717	312,567	0.473	0.175
2000	689,933	362,752	0.526	0.166
2001	739,462	389,198	0.526	0.174
2002	826,871	444,125	0.537	0.185
2003	1,358,063	625,902	0.461	0.173
2004	1,508,424	809,142	0.536	0.171
2005	1,655,694	880,583	0.532	0.205
2006	1,794,027	958,478	0.534	0.238
Total	9,732,311	5,044,259	0.517	0.187
Selected			0.516	0.197

Notes
The Column (6) selection is the 2006 ratio.
The Column (9) selection is the 2003-2006 average.
The Column (10) selection is the 2003-2006 average

Exhibit III-C: Investment Income from Loss Reserves

Table 1: Investment Income from Loss Reserves as a Factor of Premium

1)	Ratio of Loss & LAE Reserves to Incurred Loss & LAE	0.428
2)	Ratio of Federal Tax Payable to Incurred Loss & LAE	0.000
3)	Permissible Loss & LAE Ratio	0.550
4)	Net Effective Rate of Return After Tax	0.031
5)	Investment Income as a Factor of Premium {[(1)-(2)] * (3) * (4)}	0.007

Notes

Line [1]: Exhibit III-C, Table 2, Column 9
Line [2]: Exhibit III-E, Section B, Line 11
Line [3]: Exhibit III-D, Line8
Line [4]: Exhibit III-A, Table 1

Table 2: Ratio of Loss and LAE Reserves to Loss and LAE Incurred

Year	[1] Year-End Net Loss Reserve	[2] Prior Year Net Loss Reserve	[3] Mean Net Loss Reserve
1989	102,290		
1990	110,738	102,290	106,514
1991	128,892	110,738	119,815
1992	155,893	128,892	142,393
1993	133,130	155,893	144,512
1994	124,714	133,130	128,922
1995	141,072	124,714	132,893
1996	126,266	141,072	133,669
1997	128,921	126,266	127,594
1998	139,385	128,921	134,153
1999	171,405	139,385	155,395
2000	183,292	171,405	177,349
2001	194,335	183,292	188,814
2002	232,327	194,335	213,331
2003	348,145	232,327	290,236
2004	379,136	348,145	363,641
2005	322,796	379,136	350,966
2006	395,561	322,796	359,179

Year	[4] Year End Net LAE Reserve	[5] Prior Year Net LAE Reserve	[6] Mean Net LAE Reserve
1989	8666		
1990	9,449	8,666	9,058
1991	12,186	9,449	10,818
1992	13,245	12,186	12,716
1993	12,982	13,245	13,114
1994	29,477	12,982	21,230
1995	32,972	29,477	31,225
1996	36,214	32,972	34,593
1997	38,552	36,214	37,383
1998	43,575	38,552	41,064
1999	50,000	43,575	46,788
2000	49,226	50,000	49,613
2001	40,363	49,226	44,795
2002	48,392	40,363	44,378
2003	82,322	48,392	65,357
2004	94,668	82,322	88,495
2005	94,365	94,668	94,517
2006	93,546	94,365	93,956

Year	[7] Net Incurred Losses	[8] Net Incurred LAE	[9] Ratio of Reserves to Incurred
1989	190,002	23,569	
1990	183,806	26,164	0.550
1991	202,723	34,185	0.551
1992	283,072	32,364	0.492
1993	205,854	33,980	0.657
1994	243,752	53,801	0.505
1995	230,594	34,643	0.619
1996	293,337	44,848	0.498
1997	248,025	43,546	0.566
1998	360,457	60,203	0.417
1999	404,869	67,106	0.428
2000	465,672	69,629	0.424
2001	553,844	74,962	0.372
2002	509,392	93,398	0.428
2003	766,082	160,409	0.384
2004	818,434	163,904	0.460
2005	878,866	162,485	0.428
2006	885,181	148,526	0.438

Selected (Average of Latest 5 Years)	0.428
Average 5 Years	0.428
Average 4 Years	0.428
Average 3 Years	0.442

Exhibit III-D: Expense Ratios for Homeowners' Insurance

1) Acquisition	20.6%
2) General	5.4%
3) Taxes	2.0%
4) Reinsurance	6.8%
5) Profit	9.3%
6) Contingency	1.0%
7) Total	45.0%
8) Permissible Loss and LAE Ratio	55.0%

Data from 2006 Insurance Expense Exhibit (Direct)

Exhibit III-E: Federal Income Tax Payable Due to Tax Reform Act of 1986

A. Tax on Unearned Premium Reserves ($000)

1)	Net Unearned Premium Reserve 12/31/05	$881,175
2)	Net Unearned Premium Reserve 12/31/06	$1,049,680
3)	Mean Net Unearned Premium Reserve {[1] + [2]} / 2	$965,428
4)	Federal Tax Payable on Change in Net Unearned Premium Reserve {[2]-[1]} x 20% x 0.35	$11,795
5)	Ratio of Tax Payable to Mean Net Unearned Premium Reserve [4] / [3]	0.012

B. Loss & LAE Reserve Discounting ($000,000)

1)	Net Reserve at 12/31/05	$417.16
2)	Net Reserve at 12/31/06	$489.11
3)	Discounted Net Reserve at 12/31/05	$382.43
4)	Discounted Net Reserve at 12/31/06	$456.43
5)	Change in Net Reserve [2]-[1]	$71.95
6)	Change in Discounted Net Reserve [4]-[3]	$74.00
7)	Additional Taxable Income [5]-[6]	($2.06)
8)	Federal Tax Payable [7] x 0.35	($0.72)
9)	2006 Incurred Loss & LAE (Insurance Expense Exhibit)	$1,033.71
10)	Ratio of Federal Tax Payable to Incurred Loss & LAE [8] / [9]	-0.001
11)	Selected	0.000

Exhibit III-F: Expected Total Return - Adjustment to GAAP

Expected Total Return - Adjustment to GAAP

Item	Amount in Millions	Source
(1) 12/31/06 Policyholders Surplus (Based on Prem to Surplus Ratio) 2006 DWP	12131	2006 Annual Statement: Page 3, Column (1), line 35
(2) Non-Admitted Assests	919	2006 Annual Statement: Page 2, Column (2), line 26
(3) Equity in the UPR [= (h) calculated below]	1419	calculated field
(4) Total Adjustments (2)+(3)	2338	calculated field
(5) GAAP Surplus Adjustment Factor [(4)+(1)]/(1)	1.193	calculated field

Calculation of Equity in UPR

Item	Amount In Millions	Source
(a) Commissions and Brokerage Expense Incd	1323	2006 Insurance Expense Exhibit: Page 7, Part 3, Column (23), line 34
(b) Taxes, License & Fees	590	2006 Insurance Expense Exhibit: Page 7, Part 3, Column (25), line 34
(c) Other Acquisition Expenses Incd	1486	2006 Insurance Expense Exhibit: Page 7, Part 3, Column (27), line 34
(d) General Expense Incd	1375	2006 Insurance Expense Exhibit: Page 7, Part 3, Column (29), line 34
(e) Total of (a) + (b) + (c) + 0.5(d)	4087	calculated field
(f) 2006 Written Premium	18122	2006 Insurance Expense Exhibit: Page 6, Part 3, Column (1), line 34
(g) 2006 Ending UPR	6292	2006 Insurance Expense Exhibit: Page 6, Part 3, Column (19), line 34
(h) Equity in UPR (g)*(e)/(f)	1419	calculated field

Liberty Mutual Fire Insurance Company
Dwelling Fire
Arkansas
Response to DOI Objections

<u>Objection 2</u>

Actuarial Justification (Supporting Document)
Comment: Please remove the provision for hurricane losses. This risk is insignificant in AR.

The provision has been removed (please see revised indication).

<u>Objection 3</u>

Actuarial Justification (Supporting Document)
Comment: The non-hurricane catastrophe loss provision should be based upon actual historical data in Arkansas, not countrywide modeled losses. Please amend your filing accordingly.

The provision has been changed to reflect actual historical data in Arkansas (please see revised indication).

<u>Objection 4</u>

Actuarial Justification (Supporting Document)
Comment: The previous rate filing did not include a reinsurance cost provision. Please explain.

Our Countrywide actuarial justification includes a provision for reinsurance cost. Since Arkansas does not contribute to our Reinsurance Treaty attachment point, the provided Arkansas specific indication does not include this provision.

Objection 5

Actuarial Justification (Supporting Document)

a. Comment: Explain the move to countrywide expense provision development from regional data of the previous filing.

Liberty Mutual no longer manages expenses at a regional level. Our smaller lines of business, including Dwelling Fire, are now managed at a countrywide level. For the purpose of this filing we have updated the documentation to include regional expense data. The impact of this change on the Arkansas indication is small (please see our revised indication, which uses regional expense data as in the past).

b. The profit provision has increased from the previous filing. Explain how the profit provision complies with ACA 23-67-209(d) as being reasonable.

A profit provision of 10.3% is consistent with our target Return on Surplus of 15%. Note, however, that our rate proposal of +15% is significantly lower than the indicated +21% rate need at this target.

Based on our indication, we would need to increase rates by 21% to achieve a 15% ROS. Our proposed rate change of +15% represents less than three-quarters of the indicated rate need. This corresponds to an ROS of less than 10% and implies a profit provision of about 6%.

Liberty Mutual Group
Arkansas Dwelling Fire Rate Filing- Actuarial Justification

Table of Contents

I. Summary of Rate Filing

The overall rate change proposed in the filing is +15.0%. The proposed effective date for these changes is February 23, 2009. The premium effect of the proposed change is estimated to be $20,261.

Past and Prospective Experience

Arkansas Calendar/Accident Year data for the five-year period ending December 31, 2007 is used in determining our overall rate level needed. The rate level indication is +21.2%. Our Fire & Allied Lines data used to develop the indication is 50% credible. The Countrywide xCat Pure Premium excluding Florida Fire and Allied Lines of $240 was used as the complement of credibility. The calculation of the indication is explained, and supporting data provided, in Section II.

Expenses

The expense provision used in the indication is based on the Homeowners 3 year average expense numbers for Liberty Mutual's Southwest Region.

Reasonable Profit Margin

Our margin of 10.3% for profit and contingencies is calculated and explained in Section III. This margin is calculated to allow a return on surplus of 15.2%, with a 1.75:1 premium-to-surplus model.

II. Rate Indication and Supporting Data

Liberty Mutual's rate level indication for Arkansas is calculated from five years of historical premium and loss experience, with adjustments made for loss and premium, including adjustments to smooth the effects of catastrophe losses. The attached exhibits explain how the historical data is developed and adjusted to project premium and loss levels for the proposed effective period and to determine the indicated rate change. Exhibit II-A summarizes the calculation of the rate-level indication and displays each item incorporated into the calculation. Exhibits II-B through II-H provide further detail on specific calculations and projections.

Below is a description of each item contributing to the rate-level indication (as summarized in Exhibit II-A), including an explanation of the modifications made to the reported data to project future experience:

The attached exhibits display Liberty Mutual's historical Fire & Allied Lines data and develop it to projected experience level of the future. On the basis of this projected experience, an indicated rate level change is calculated. Below is a description of the modifications made to the reported data to achieve our indication.

1. Reported Earned Premium – The direct earned premiums for the latest five calendar years are listed.

1a. Earned Exposures - The earned exposures for the latest five calendar years are listed.

2a. On Level Factors – These factors represent the adjustment to Reported Earned Premium to place the experience on the current rate level. They are determined using the parallelogram method and the state's rate change history. The rate changes incorporated in this calculation, and the factors developed, are presented in Exhibit II-C.

2b. Premium Trend Factors – These factors are developed to reflect changes in the amount of coverage selected by the insured. The calculation of the actual factors involves regression analysis on a state-specific basis of the latest five calendar years of average earned premium at current rate level. The supporting data for this projection is presented in Exhibit II-B.

3. Earned Premium at Current Level – These result from multiplying the Reported Earned Premium (1) with the On Level Factors (2a) and the Premium Trend Factors (2b).

4. Total Incurred Loss - These are the statewide total reported losses for the five accident years ending December 31, 2007, evaluated as of December 31, 2007.

5. X-Cat X-Severe Storm Incurred Loss - To recognize the erratic nature of unusual catastrophe events and to provide stability in the ratemaking process, incurred catastrophic and severe storm losses are removed from Total Incurred Losses (4) to produce X-cat X-Severe Storm Incurred Losses.

6. Loss Development Factor – XCat X-Severe Storm Incurred Losses are developed to their ultimate value by use of loss development factors. Our selected factors are based on an analysis of accident year losses evaluated at common ages and the patterns exhibited as

incurred losses change from their initial valuation to final settlement. The factors selected and the supporting data are presented in Exhibit II-D.

7. Loss Trend Factors – Using Liberty Mutual's Homeowners "Fast Track" loss data for both Arkansas and Southwest region, an annual rate of change (trend) in expected loss costs is determined. The Loss Trend Factors measure the effect of inflation on past claim costs. The factors are indexed from the average date of loss in the accident year to the last day in the experience period (12/31/2007). The factors selected and the supporting data and calculations are presented in Exhibit II-E.

8. Adjusted Normal Losses – X-cat X-Severe Storm Incurred losses are multiplied by the appropriate loss development factor and loss trend factor.

Note: At this point in the rate indication process, the loss data have been adjusted to remove catastrophic loss activity and developed to their ultimate level. Premiums and losses have also been trended to the present time and will now be projected into the period during which the proposed rates will become effective.

8a. Loss Complement - The Countrywide xCat xSevere Storm Pure Premium excluding Florida Fire and Allied Lines of $240 multiplied by Earned Exposures (1a).

8b. Credibility Adjusted Normal Loss – Adjusted Normal Loss (8) multiplied by Credibility (18) plus one minus Credibility multiplied by Loss Complement (8a).

9. Loss Ratio Weights - These weights are used to combine the adjusted loss ratios of each year in the experience period into a single representative loss ratio. Equal weights are applied to all years.

10. Adjusted Normal Loss Ratio - This is the Credibility Adjusted Normal Losses (8b) divided by the Earned Premium at Current Level (3) for each calendar/accident year separately.

11. Weighted Normal Loss Ratio - This is the result of multiplying each year's Adjusted Normal Loss Ratio by its respective weight and adding the products.

12. Factor for Non-Hurricane Non-Severe Storm Catastrophes - This provision is for any expected catastrophic activity that is not hurricane or severe storm related. The expected Non-Hurricane Non-Severe Storm loss per $1000 of amount of insurance factor is selected based upon 15 years of Liberty Mutual Fire and Allied Lines historical non-hurricane non-severe storm catastrophe experience in the state of Arkansas. The calculation of this provision, along with supporting data, is presented in Exhibit II-F.

12a. Provision for Hurricane Losses - Since the risk of loss due to hurricane is insignificant, no hurricane provision is included.

12b. Provision for Severe Storm Losses – This provision is based on average annual severe storm losses for Arkansas modeled from the AIR CLASIC/2 v 9.0 model. These models are based on scientific data and mathematical and empirical models. Liberty Mutual's policyholder exposure information is used with the model to estimate the average annual loss. The provision is the ratio of Liberty Mutual's expected annual severe storm loss to the most recent year's earned premium at current level. The calculation of this provision is presented in Exhibit II-F.

13. Premium Projection Factor - This factor adjusts premium to the coverage levels expected to be purchased by our customers in the time periods when the proposed rates will be in effect. The calculation of this factor is presented with the calculation of the historical premium trend factors in Exhibit II-B.

14. Loss Projection Factor - The Loss Projection Factor is used to project losses from the average accident date in the latest experience period to the average accident date of one year beyond the proposed effective date of the rate revision (February 23, 2010). The calculation of this factor is presented with the calculation of the historical loss trend factors in Exhibit II-E.

15. Loss Ratio Projection Factor - This factor is the ratio of the Loss Projection Factor (14) and the Premium Projection Factor (13) calculated above.

16. Loss Adjustment Expense Factor - To include Loss Adjustment Expense (LAE), a factor is calculated based upon the most recent three years of LAE to loss ratios for the Southwest region.

17. House-Years in Experience Period - This is the total number of earned house-years where one house-year is defined to be one house insured for 12 months.

18. Credibility - Credibility is a measure of the confidence assigned to a particular body of data for ratemaking purposes. Full credibility is defined to be 75,000 earned house-years with a minimum credibility of 50%. In this step, credibility to be assigned to the company's non-hurricane non-severe storm loss experience is calculated. The calculation of this credibility standard is presented in Exhibit II-H.

19. Projected Non-hurricane Non-Severe Storm Loss and LAE Ratio - In this step, the experience period Normal Loss Ratio is adjusted for LAE and expected Non-Hurricane Non-Severe Storm Catastrophic activity. Then, this ratio is projected to its future level by applying the Loss Ratio Projection Factor. For the expected Non-Hurricane Catastrophic activity, since AOI is already projected into the future, the loss projection portion of the loss ratio trend is backed out so as not to double count losses.

20. Projected Total Loss and LAE Ratio - The Provisions for Hurricane and Severe Storm Losses are projected to future level and adjusted for LAE. For the Provisions for Hurricane and Severe Storm Losses, since AOI is already projected into the future (February 23, 2010), the loss projection portion of the loss ratio trend is backed out so as not to double count losses. This ratio is added to the Projected Non-Hurricane Non-Severe Storm Loss and LAE Ratio to obtain the Projected Total Loss and LAE Ratio.

21. Fixed Provision for Acquisition and General Expense - The expense covers policy issuance, sales staffing, and other administrative functions. Based on an internal expense analysis, 80% of Acquisition and General Expenses are fixed. The supporting expense data is

presented in Exhibit II-G.

21a. <u>Variable Provision for Acquisition and General Expense</u> – These items vary directly with premium. The supporting expense data is presented in Exhibit II-G.

21b. <u>Provision for Reinsurance Cost</u> – The total reinsurance cost to Liberty Mutual for Fire and Allied Lines was allocated to each state based on the state's participation in all direct losses above $550 million. $550 million is Liberty Mutual's corporate reinsurance treaty attachment point.

21c. <u>Provision for Taxes, Licenses, Fees, and Profit & Contingency</u> - These items vary directly with premium.

22. <u>Permissible Loss and LAE & Expense Ratio</u> - From unity, item (21a) and (21b) is subtracted.

23. <u>Indicated Rate Change</u> - The Projected Total Loss & LAE, Fixed Expense Ratio and Provision for Reinsurance Expense are added together and divided by the Permissible Loss, LAE and Expense Ratio.

24. <u>Selected Rate Change</u>

Exhibit II-A: Arkansas Dwelling Fire Rate Level Indication

Liberty Mutual Group
Arkansas
Fire & Allied
Indicated Rate Level Change
For the 5-year period ending December 31, 2007

Proposed Effective date: **2/23/2009**

Calendar / Accident Year Ending	(1) Earned Premium	(1a) Earned Exposures	(2a) On Level Factors	(2b) Prem Trend Factors	(3) E/P at Current Level	(4) Total Incurred Loss	(5) xCat xSS Incurred Loss
12/31/2003	62,229	145	1.495	1.123	104,475	11,513	9,245
12/31/2004	75,344	166	1.495	1.065	119,961	13,287	9,723
12/31/2005	96,982	213	1.495	1.058	153,398	3,060	1,237
12/31/2006	104,630	208	1.433	0.998	149,685	33,681	27,413
12/31/2007	125,390	188	1.060	1.022	135,804	389,264	386,848
Total	464,575	920			663,323	450,806	434,465

Calendar / Accident Year Ending	(6) Loss Development Factor	(7) Loss Trend Factor	(8) Adjusted Normal Loss	(8a) Loss Complement CW PP = 240*Exposure	(8b) Cred. Adj. Normal Loss	(9) Loss Ratio Weights	(10) Adjusted Normal Loss Ratio
12/31/2003	1.000	1.474	13,625	34,770	24,198	0.2	23.2%
12/31/2004	1.000	1.352	13,145	39,949	26,547	0.2	22.1%
12/31/2005	1.000	1.240	1,534	51,061	26,297	0.2	17.1%
12/31/2006	1.004	1.138	31,335	49,816	40,575	0.2	27.1%
12/31/2007	1.067	1.044	431,014	45,188	238,101	0.2	175.3%
Total			490,654	220,784	355,719		

11) Weighted Normal Loss Ratio	0.530
12) Factor for Non-hurricane Non-Severe Storm Catastrophes	0.000
12a) Provision for Hurricane Losses	0.000
12b) Provision for Severe Storm Losses	0.127
13) Premium Projection Factor	1.068
14) Loss Projection Factor	1.133
15) Loss Ratio Projection Factor	1.062
16) Loss Adjustment Expense Factor	1.215
17) House Years in Experience Period	920
18) Credibility = Square root of [(17)/75,000] (max = 1.0)	50%
19) Projected Non-hurricane Loss & LAE Ratio: [(11)*(15)+(12)/(13)]*(16)	0.683
20) Projected Total Loss & LAE Ratio: (19)+[{(12a)+(12b)}*(16)/(13)]	0.828
21) Fixed Provision for Acquisition & General Expense	0.166
21a) Variable Provision for Acquisition & General Expense	0.042
21b) Provision for Reinsurance Cost	0.000
21c) Provision for Tax, Licenses, Fees, Profit & Contingency	0.138
22) Permissible Loss and LAE, and Expense [1.0 - (21a) - (21c)]	0.820
23) Indicated Rate Change [{(20)+(21)+(21b)}/(22)] - 1.0	21.2%
24) Selected Rate Change	15.0%

Exhibit II-B: Determination of Premium Trend and Premium Projection Factor

To reflect changes in the amounts of coverage purchased by our policyholders over time, the premium trend factors have been developed. These factors reflect any changes in the average on-leveled earned premium including the increasing amounts of insurance purchased due to inflation, shifts towards higher deductibles, changes in territory mix, etc. The premium trend factor for each year is the ratio of the projected average on-leveled premium in the last year of the experience to the average on-leveled premium in a given year.

To project premium to the average earned day after the proposed effective date, the premium projection factor is applied. This factor is developed based upon a review of Liberty Mutual Dwelling Fire data and is equal to 1.068.

Development of Premium Trend Factors

(1)	(2)	(3)	(4)
Year Ending	Average Earned Date	On-Level Average Earned Prem	Relativity To Latest Point [Latest Point/(3)]
12/31/2003	7/1/2003	642.1	1.123
12/31/2004	7/1/2004	676.7	1.065
12/31/2005	7/1/2005	681.5	1.058
12/31/2006	7/1/2006	722.6	0.998
12/31/2007	7/1/2007	705.7	1.022
Date Trended To:	7/1/2007	721.0	

Calculation of Premium Projection Factor

1) Annual Premium Trend Based on Liberty Data	0.025
2) Average Earned Date of Last Year of Experience Period	7/1/2007
3) Effective Date for Proposed Rates	02/23/09
4) Average Earned Date Under Proposed Rates	02/23/10
5) Number of Months Between (2) And (4)	31.8
6) Premium Projection Factor	

$$\{1\}^{\{5\}/12} = 1.068$$

Exhibit II-C: Development of Current Rate Factor

Current Rate Factors have been calculated based upon Liberty Mutual's historical rate changes in Arkansas. They are applied to Reported Earned Premiums to bring the earned premiums to what they would have been had they been written at today's rate. The Current Rate Factors are determined using the parallelogram method.

Rate Changes Not Fully Reflected In Earned Premium

Date	Rate Change
08/02/2006	49.5%

On Level Factors Calculated Based On Rate Changes Above

Period Ending	On Level Factors
12/31/2003	1.495
12/31/2004	1.495
12/31/2005	1.495
12/31/2006	1.433
12/31/2007	1.060

Exhibit II-D: Loss Development

We have calculated loss development factors based upon Liberty Mutual's countrywide experience for Fire and Allied Lines. Catastrophe losses are excluded. We have selected the following ultimate factors based on this experience.

Age as of December 31, 2007	Development Factor
12 months	1.067
24 months	1.004
36 months	1.000
48 months	1.000
60 months	1.000

The Countrywide loss development triangle from which the above factors were selected is provided on the following page.

Countrywide Fire and Allied Lines
Loss Development Excluding Catastrophes

Accident Year Ending	12	24	36	48	60	72	84	96	108	120	132	144
JAN96 - DEC96	7,705,013	7,970,957	7,905,720	7,875,121	7,869,861	7,869,861	7,869,861	7,969,637	7,902,870	7,902,870	7,902,870	7,902,870
JAN97 - DEC97	7,819,189	8,087,420	8,160,301	7,890,994	8,094,127	8,104,752	8,103,322	8,103,322	8,103,322	8,103,322	8,103,322	
JAN98 - DEC98	7,760,214	8,007,866	8,093,201	7,956,890	7,939,863	7,922,356	7,964,504	7,962,536	7,970,386	7,970,386		
JAN99 - DEC99	7,595,161	8,017,700	8,076,580	7,982,066	7,966,010	7,951,526	7,928,327	7,926,358	7,926,358			
JAN00 - DEC00	10,181,578	10,685,623	11,000,823	11,042,216	11,151,880	11,588,972	11,449,624	11,453,624				
JAN01 - DEC01	10,145,419	10,336,651	10,340,058	10,197,367	10,202,392	10,202,392	10,193,309					
JAN02 - DEC02	9,630,480	10,075,054	10,272,847	10,452,839	10,209,151	10,126,195						
JAN03 - DEC03	10,545,484	10,685,271	11,026,251	11,045,674	11,061,479							
JAN04 - DEC04	14,290,892	15,519,657	15,313,137	15,067,579								
JAN05 - DEC05	19,141,430	21,253,150	21,113,436									
JAN06 - DEC06	21,826,492	23,030,736										
JAN07 - DEC07	25,048,268											

Accident Year Ending	24/12	36/24	48/36	60/48	72/60	84/72	96/84	108/96	120/108	132/120
JAN97 - DEC97	1.034	1.009	0.967	1.026	1.001	1.000	1.000	1.000	1.000	1.000
JAN98 - DEC98	1.032	1.011	0.983	0.998	0.998	1.005	1.000	1.001	1.000	
JAN99 - DEC99	1.056	1.007	0.988	0.998	0.998	0.997	1.000	1.000		
JAN00 - DEC00	1.050	1.029	1.004	1.010	1.039	0.988	1.000			
JAN01 - DEC01	1.019	1.000	0.986	1.000	1.000	0.999				
JAN02 - DEC02	1.046	1.020	1.018	0.977	0.992					
JAN03 - DEC03	1.013	1.032	1.002	1.001						
JAN04 - DEC04	1.086	0.987	0.984							
JAN05 - DEC05	1.110	0.993								
JAN06 - DEC06	1.055									
Avg 5X ex. High/Low	1.062	1.004	0.997	1.000	0.999	1.000	1.000	1.000	1.000	1.000
Cum	1.067	1.004	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000

Exhibit II-E: Development of Loss Trend Factors

Loss trend factors reflect the effects of inflation on past claim costs. A loss trend of +9.0% was used to trend losses from the average date of loss in the accident year to the last day in the overall experience period (12/31/2007). This trend is based upon a review of least squares fitted trend lines to the last five years of Liberty Mutual's Homeowners Fast Track loss data for Arkansas. A loss trend of +6.0% was used to project losses from the last day in the overall experience period to the average accident date of one year beyond the proposed effective date. This trend is based on Liberty Mutual and Industry Homeowners Countrywide Fast Track data.

Calculation of Loss Trend Factors

Annual Loss Trend = +9.0%
Final Day of Experience Period = 12/31/2007

Accident Year Ending	Average Accident Date			Loss Trend Factor
12/31/03	07/01/03	$1.090^{4.5}$	=	1.474
12/31/04	07/01/04	$1.090^{3.5}$	=	1.352
12/31/05	07/01/05	$1.090^{2.5}$	=	1.240
12/31/06	07/01/06	$1.090^{1.5}$	=	1.138
12/31/07	07/01/07	$1.090^{0.5}$	=	1.044

Calculation of Loss Projection Factor

1) Annual Loss Trend Based on ISO Data	**6.0%**
2) Last Day of Experience Period	12/31/07
3) Effective Date for Proposed Rates	02/23/09
4) Average Accident Date Under Proposed Rates	02/23/10
5) Number of Months Between (2) And (4)	25.8
6) Loss Projection Factor	

$$\{1\}^{\{5\}/12} = 1.133$$

The Homeowners Fast Track data used in selecting the historical loss trends is provided on the following page.

LIBERTY MUTUAL - HOMEOWNERS FAST TRACK TREND DATA (xCat)

Arkansas LM Dwelling Forms

Prior 4 Qtrs. Ending		Dwelling (Forms 1-3 & 5)		
Year	Qtr.	Paid Severity	Paid Freq.	Paid Pure Premium
2004	4	4,825	5.07	244.38
2005	1	4,404	4.76	209.52
2005	2	3,628	4.77	173.21
2005	3	4,133	5.20	215.06
2005	4	4,409	5.70	251.30
2006	1	6,829	6.19	422.50
2006	2	6,976	6.17	430.59
2006	3	7,970	6.03	480.65
2006	4	8,487	5.78	490.54
2007	1	5,593	5.93	331.76
2007	2	6,453	5.85	377.27
2007	3	8,794	5.32	468.10
2007	4	10,424	5.09	530.64
2008	1	11,485	5.23	600.75
2008	2	11,777	4.98	586.07
2008	3	13,088	4.88	638.75
2008	4	11,597	5.15	597.34
2-Yr (5 pts)		14.75	-1.81	12.67
3-Yr (9 pts)		42.09	-8.83	29.55
4-Yr (13 pts)		33.39	-7.29	23.67
5-Yr (17 pts)		34.86	-0.43	34.28

Arkansas Industry Dwelling Forms

Prior 4 Qtrs. Ending		Dwelling (Forms 1-3 & 5)		
Year	Qtr.	Paid Severity	Paid Freq.	Paid Pure Premium
2004	3	4,798	5.32	255.11
2004	4	4,798	5.32	255.11
2005	1	5,065	5.26	266.47
2005	2	5,182	5.23	270.91
2005	3	5,342	5.16	275.70
2005	4	5,664	5.17	292.73
2006	1	5,738	5.26	301.76
2006	2	5,832	5.48	319.84
2006	3	5,823	5.55	322.95
2006	4	5,976	5.42	324.20
2007	1	6,067	5.49	332.93
2007	2	6,223	5.23	325.52
2007	3	6,566	5.06	332.47
2007	4	6,567	5.09	334.06
2008	1	6,610	5.11	338.04
2008	2	6,785	5.49	372.43
2008	3	6,888	5.81	400.24
2-Yr (5 pts)		5.26	15.10	21.16
3-Yr (9 pts)		8.89	0.36	9.28
4-Yr (13 pts)		8.31	1.01	9.40
5-Yr (17 pts)		9.59	0.65	10.31

Historical Selected Trend: **+9.0%**

Exhibit II-F: Catastrophe Analysis

Because of the low frequency and high severity nature of catastrophes, catastrophe losses could significantly impact the financial results of an insurer from one year to another. To properly reflect the catastrophe hazard, it is appropriate to eliminate actual catastrophe losses from the experience period and to include a catastrophe provision in the rates which represents expected catastrophic loss.

The following summarized the analysis incorporated in Liberty Mutual's catastrophe provision for Arkansas. The projected loss costs below are all based on Arkansas's specific catastrophe loss experience.

Provision for Non Hurricane, Non-Severe Storm Catastrophes

1) Annual AOI Trend	1.055
2) Average Earned Date of Last Year of Experience Period	7/1/2007
3) Effective Date for Proposed Rates	02/23/09
4) Average Earned Date Under Proposed Rates	02/23/10
5) Number of Years Between (2) And (4)	2.65
6) AOI Projection Factor = (1)^(5)	1.153
7) Calendar Year Ending 12/31/2007 Earned AOI (000s)	17,382
8) Projected Earned AOI = (6) * (7)	20,034
9) Expected Non-Hurricane Non-Severe Storm Cat Loss Per $1000 AOI	0.000
10) Projected Expected Non-Hurricane Non-Severe Storm Cat Losses = (8) * (9)	0
11) Calendar Year Ending 12/31/2007 On-level Earned Premium	135,804
12) Provision for Ex. Hurr, Ex. Sev. Storm Cat Losses = (10) / (11)	0.0%

*The table below displays the supporting data for item 9, Liberty Mutual's loss costs per $1000 Amount of Insurance. This loss cost is calculated from Liberty Mutual's historical losses due to catastrophes other than hurricanes and severe storms for Arkansas over the 15-year period ending 12/31/2007.

Arkansas Historical Catastrophe Losses per $1000 AOI
(Excluding Hurricanes and Severe Storms)

Liberty Mutual Group
Arkansas
Fire and Allied
Historical CAT Loads
For the Accident Years December 31, 1993 to December 31, 2007

Accident Year	Total Inc'd Loss	Incurred CAT Loss	Severe Storm CAT Loss	Hurricane Loss	AOI/1000	Non Hurricane Non Severe Storm Catload
	(1)	(2)	(3)	(4)	(5)	(6)=((2)-(3)-(4))/(5)
Dec-93	2,003	0	0	0	$ 2,816	0.000
Dec-94	4,233	0	0	0	$ 3,523	0.000
Dec-95	2,838	0	0	0	$ 4,054	0.000
Dec-96	3,376	1,889	1,889	0	$ 4,768	0.000
Dec-97	6,883	6,432	6,432	0	$ 5,883	0.000
Dec-98	10,674	0	0	0	$ 7,235	0.000
Dec-99	34,880	33,253	33,253	0	$ 7,942	0.000
Dec-00	82,117	1,698	1,698	0	$ 7,569	0.000
Dec-01	189,277	0	0	0	$ 8,028	0.000
Dec-02	108,149	0	0	0	$ 9,296	0.000
Dec-03	11,513	0	0	0	$ 10,422	0.000
Dec-04	13,287	0	0	0	$ 13,203	0.000
Dec-05	3,060	0	0	0	$ 17,574	0.000
Dec-06	33,681	4,574	4,574	0	$ 18,684	0.000
Dec-07	389,264	0	0	0	$ 17,382	0.000
Total	$895,238	$47,847	$47,847	$0	$ 138,377	0.000

Selected	0.000
LM Cat Factor from 1993 to 2007	0.000

Provision for Severe Storm Loss

1) Annual AOI Trend	1.055
2) Average Earned Date of Last Year of Experience Period	7/1/2007
3) Effective Date for Proposed Rates	02/23/09
4) Average Earned Date Under Proposed Rates	02/23/10
5) Number of Years Between (2) And (4)	2.65
6) AOI Projection Factor = (1)^(5)	1.153
7) Calendar Year Ending 12/31/2007 Earned AOI (000s)	17,382
8) Projected Earned AOI = (6) * (7)	20,034
9) Expected Severe Storm Loss Per $1000 AOI	0.860
10) Projected Expected Severe Storm Losses = (8) * (9)	17,227
11) 12 Months Ending 12/31/2007 On-level Earned Premium	135,804
12) Provision for Severe Storm Losses = (10) / (11)	12.7%

Note: The loss cost per $1000 Amount of Insurance is estimated from the AIR CLASIC/2 v9.0 Severe Storm Model.

Exhibit II-G: Expense Data

The table below summarizes Liberty Mutual's expense data for its Southwest Region (with the exception of the provision for premium-based taxes, which are specific to Arkansas). The expense data below serves as the basis for all of the expense provisions in the rate-level indication.

Liberty Mutual Group
Fire & Allied
Arkansas

Expense Provision -- Regional Data				
	Historical			
Item	2005	2006	2007	Selected
Expenses Based on Losses				**3 Yr. Avg.:**
ALAE	$2,431,124	$3,092,316	$1,847,438	$2,456,959
ULAE	$35,936,125	$15,559,766	$13,009,551	$21,501,814
Incurred Loss	$446,188,665	$47,249,498	$90,027,536	$194,488,566
LAE / Loss	8.6%	39.5%	16.5%	21.5%
LAE / Earned Premium	24.8%	11.4%	8.6%	15.0%
Expenses Based on Earned Premium				
General Expense	$29,504,041	$38,732,841	$33,817,782	$34,018,221
Earned Premium	$154,743,504	$162,916,863	$172,592,226	$163,417,531
Total General Ratio	19.1%	23.8%	19.6%	20.8%
Fixed General				16.6%
Variable General				4.2%
Expenses Based on Written Premium				
Premium Tax (State Specific, Latest Year)				3.5%
Contingency				1.0%
Profit				9.3%
(General + LAE) / Earned Premium	43.9%	35.2%	28.2%	35.5%
Total Expense Ratio (excl. LAE)				34.6%
Permissible Loss + LAE Ratio				**65.4%**

Exhibit II-H: Credibility Standard

For Dwelling Fire and Allied Lines, Liberty Mutual uses a full credibility standard of 75,000 earned house-years based on Homeowners data.

This standard is based upon the intent to have 99.5% confidence that the calculated value is within 5.0% of the true value of the statistic. According to Longley-Cook's 1962 PCAS paper, 3,163 claims are needed.

To translate this into an exposure standard, we reviewed our countrywide claim frequency figures excluding catastrophic claims. For the last five years, they show:

2003	4.9 claims/100 house-years
2004	4.2 claims/100 house-years
2005	3.9 claims/100 house-years
2006	3.8 claims/100 house-years
2007	3.6 claims/100 house-years

5 year mean of frequencies:
4.1 claims/100 house-years

Dividing the claims necessary for full credibility by the experience claim frequency produces the house-years full standard.

$$\frac{3{,}163}{0.041} = 77{,}552$$

For convenience sake, a full credibility standard of 75,000 house-years was used. Note: Individual states were capped at a lower bound of 50% for credibility.

III. Profit Provision

A mutual insurance company, unlike a stock company, has no recourse to stock market capitalization to generate needed surplus funds. Any increase in surplus for a mutual company must come from (1) underwriting profit, (2) investment income, (3) realized capital gains or (4) unrealized capital gains. In the following analysis, Liberty Mutual selects a provision for underwriting profit which will ensure that anticipated income from all sources produces net income after taxes that is commensurate with the risk assumed in the business of property/casualty insurance. Furthermore, this provision ensures that projected changes in policyholder surplus are sufficiently similar (in direction and magnitude) to changes in premium accounts so that confidence in the Companies' financial integrity can be maintained.

Exhibit III-A, Table 1 shows a history of calendar year rates of return for investment income expressed as a percentage of mean invested assets. The primary source is interest, dividends, and real estate income shown in Column (3). Based on the current market yield, it is reasonable to anticipate before tax rates of 3.50% from interest, dividends, and real estate income during the time rates are effective, based on the new money rate. Historically, realized capital gains have contributed very little to earnings. They were larger than usual in 1986, 1992 and 1999, but they vary significantly throughout the last eighteen years and we have seen declining gains since 1999. For the prospective period, we have selected 1.0%, which is the average return of the last six years. After federal income taxes, the total anticipated rate of return is 3.10% of invested assets.

Exhibit III-B, Table 1 presents the investment income derived from unearned premium reserves. The model uses historical information, modified for the current tax rate. This income is separated into two categories. First, there are premium finance charges (Table 1, Line 10) collected by allowing policyholders to pay their premiums in installments over the 12-month policy term. Line 3 is the corresponding portion of the unearned premium reserve representing the premium which is being financed by the company. Second, there is the remaining reserve, after prepaid expense and taxes, (Line 7) which develops income based on the anticipated rate of return.

Exhibit III-C, Table 1 applies the rate of return to mean loss and loss adjustment expense reserves. These exhibits relate investment income to premium earned. Exhibit III-D provides pertinent expense data. Exhibit III-E deals with the calculation of federal income taxes applicable to unearned premium and loss reserves.

An economic analysis of market rates and available returns shows that the appropriate and fair rate of return for property-casualty insurers writing lines of above-average risk, such as Homeowners, falls within the range of 17.5% to 21.2%. For average risk lines, the appropriate percentage is 13.7% to 17.5%. The selected profit and contingency provision of 10.3% used in this filing would generate a 15.2% return on surplus (GAAP).

Income from all of the above sources is combined with our selected underwriting profit provisions in the following 1.75:1 premium-to-surplus model:

Let Premium = $100; Surplus = $57

1)	Investment Income on Unearned Premium Reserves $100 x (Exhibit III-B, Item 12)	$1.16
2)	Investment Income on Loss Reserves $100 x (Exhibit III-C, Item 5)	$0.73
3)	Investment Income on Surplus $57 x (Exhibit III-A, Column 7)	$1.77
4)	Underwriting Income After Tax $100 x (1-.35) x Profit Provision (Exhibit III-D)	$6.70
5)	Total Expected Return [1]+[2]+[3]+[4]	$10.36
6)	Expected Return on Surplus [5]/$57 x 100%	18.13%
7)	GAAP Adjusted Return [6]/GAAP Adj. Factor (Exhibit III-F)	15.2%

The end product is an anticipated return of 10.36% on earned premium, after tax. Related to surplus, this underwriting profit provision generates an anticipated 15.2% adjusted rate of return on GAAP basis.

Exhibit III-A: Effective Rate of Return on Investable Assets

Table 1: Historical Investments Returns 1986-2006

(1)	(2)	(3)	(4)	(5)	(6)	(7)
Calendar Year	Mean Invested Assets (a)	Net Investment Income (b)	Net Inv. Inc. % of (2)	Net Realized Capital Gains (c)	Net Realized Cap. Gains % of (2)	
1986	8,118,335,491	638,231,286	7.9	306,142,812	3.8	
1987	9,808,729,009	733,126,525	7.5	117,222,704	1.2	
1988	11,272,895,755	868,278,838	7.7	34,851,447	0.3	
1989	12,415,308,080	965,013,926	7.8	45,991,686	0.4	
1990	13,727,246,565	1,040,182,466	7.6	43,141,539	0.3	
1991	14,085,608,244	1,084,863,706	7.7	16,195,685	0.1	
1992	14,872,603,927	1,078,372,300	7.3	356,556,819	2.4	
1993	15,380,644,905	1,019,000,685	6.6	192,575,284	1.3	
1994	15,728,080,374	1,000,703,107	6.4	42,091,361	0.3	
1995	16,644,320,729	1,004,243,423	6.4	58,061,803	0.3	
1996	17,754,458,149	1,024,976,627	5.8	80,172,253	0.5	
1997	19,051,878,513	1,049,458,975	5.5	112,763,515	0.6	
1998	20,008,196,638	1,114,613,916	5.6	199,016,656	1.0	
1999	21,692,869,206	1,259,013,722	5.8	559,579,315	2.6	
2000	23,097,086,037	1,249,282,280	5.4	336,548,991	1.5	
2001	22,316,155,306	1,180,115,309	5.3	295,996,921	1.3	
2002	22,117,700,188	1,149,160,133	5.2	236,186,278	1.1	
2003	24,593,328,553	1,213,180,583	4.9	186,183,583	0.8	
2004	28,362,100,873	1,278,067,945	4.5	411,926,118	1.5	
2005	31,616,013,191	1,277,698,305	4.0	273,728,472	0.9	
2006	35,560,878,142	1,370,600,938	3.9	106,166,957	0.3	
Latest 12 Years	282,814,985,523	14,170,412,156	5.2	2,856,330,862	1.0	
Latest 6 Years	164,566,176,253	7,468,823,213	4.6	1,510,188,329	1.0	
Anticipated Returns (Before Tax)			3.5		1.0	
2006 Federal Tax Rate (Exhibit III-A, Table 2)			0.2969		0.3500	
Anticipated Returns (After Tax)			2.50		0.60	3.10

(a) Mean of current and prior year Annual Statements: Page 2, Line 10, 2005 and later. Line 9, 2004 and prior.
Less Page 22, Column (2), Lines 25, 39 and 53, 2005 and later. Page 28, Column (2), Lines 25, 39 and 53, 2003 – …...2004. Page 30, Column (2), 1998 - 2000. Page 31, Column (3), 1997 and prior.

(b) Annual Statement: Page 4, Line 9 less Page 12, Part 1, Column (2), Lines 1.3, 2.11, 2.21, and 8, 2005 and later.
Page 4, Line 8 less Page 6, Part 1, Column (6), Lines 1.3, 2.11, 2.21, and 8, 2001. Column (8) 2000 and prior.

(c) Annual Statement: Page 4, Line 10, 2005 and later. Line 9, 2001 and prior.

Table 2: Effective Federal Tax Rate

		Earned Income		Distribution	Federal Tax Rate	
BONDS (Ex Tax Exempt)	(a)	$1,214,994,487		0.886	0.3500	
BONDS (Tax Exempt)						
Acquired Before 8/7/86		$5,102,207		0.004	0.0000	
Acquired After 8/7/86		194,238,202		0.142	0.0525	
STOCKS - Common						
Acquired Before 8/7/86						
Non-Affiliated		$2,264,218		0.002	0.1050	
Foreign		35,600		0.000	0.3500	
Total		$2,299,818				
Acquired After 8/7/86						
Non-Affiliated		$43,318,452		0.032	0.1418	
Foreign		8,868,316		0.006	0.3500	
Total		52,166,768				
STOCKS - Preferred						
Acquired Before 8/7/86						
Non-Affiliated		$145,333		0.000	0.1050	
Foreign		0		0.000	0.3500	
Total		$145,333				
Acquired After 8/7/86						
Non-Affiliated		$15,365,825		0.011	0.1418	
Foreign		0		0.000	0.3500	
Total		15,365,825				
All Other Investment Income	(b)	($113,731,702)	(c)	-0.083	0.3500	
Net Investment Income Gain/(Loss)		$1,370,600,938	(d)	1.000	0.2969	(e)

(a) 2006 Annual Statement: Page 12, Column (2), Lines 1 + 1.2
(Excludes bonds of affiliates)

(b) Reduced by investment expenses and depreciation on real estate

(c) 2006 Annual Statement: Page 12, Part 1, Column (2), lines 3, 4, 6, and 9 less lines 11, 13, and 14
(d) Exhibit III-A, Table 1, Column 3
(e) Weighted average rate using "Distribution" column

Exhibit III-B: Investment Income from Unearned Premium Reserves

Table 1: Investment Income from Unearned Premium Reserves as Factor of Earned Premium
(Homeowner's Insurance)

1)	Earned Premium	$100.00
2)	Mean Unearned Premium Reserve 0.516 x [1]	$51.60
3)	Mean Premium Subject to Installment Payment Finance Plan 0.197 x [2]	$10.17
4)	Funds Available for Prepaid Expense, Tax, and Investment [2] - [3]	$41.43
5)	Prepaid Expense 0.253 x (2)	$13.05
6)	Federal Tax - 1986 Reform Act 0.012 x [2]	$0.62
7)	Funds Available for Investment [4] - [5] - [6]	$27.76
8)	Rate of Return, After Tax	3.1%
9)	Income on Invested Reserve [7] x [8]	$0.86
10)	Income from Installment Payment Premium Finance Plan 0.029 x (3)	$0.29
11)	Total Investment Income [9] + [10]	$1.16
12)	Investment Income as a Factor of Earned Premium [11] / [1]	0.0116

Notes

Lines [2], [3], and [10]: Exhibit III-B, Table 2, Columns [9], [10] and [6], 'Selected'
Line [5]: Exhibit III-D - Acquisition (20.6%), Taxes (2%) and 50% of General (2.7%)
Line [6]: Exhibit III-E, Section A, Item 5.
Line [8]: Exhibit III-A

Table 2: Investment Income from Installment Payment Premium Finance Plan ($000)
(Homeowner's Insurance)

Year	[1] Premium Finance Charges	[2] Premium Charged-Off	[3]=[1]-[2] Net Investment Income
1998	4,999	252	4,747
1999	1,567	260	1,307
2000	2,238	365	1,872
2001	5,398	449	4,949
2002	6,970	790	6,180
2003	8,919	726	8,193
2004	9,778	1,040	8,738
2005	11,506	2,111	9,396
2006	12,392	2,334	10,059
Total	63,767	8,326	55,442

Year	[4]=[3]*0.65 After-Tax Investment Income	[5] Mean Premium Financed	[6]=[4]/[5] Ratio of Investment Income to Mean Premium Financed
1998	3,086	52,073	0.059
1999	850	54,620	0.016
2000	1,217	60,213	0.020
2001	3,217	67,910	0.047
2002	4,017	82,183	0.049
2003	5,326	108,101	0.049
2004	5,680	138,091	0.041
2005	6,107	180,942	0.034
2006	6,538	228,417	0.029
Total	36,037	972,550	0.037
Selected			0.029

Year	[7] Direct Earned Premium	[8] Mean Direct Unearned Premium Reserve	[9]=[8]/[7] Ratio	[10]=[5]/[8] Ratio
1998	499,120	261,512	0.524	0.199
1999	660,717	312,567	0.473	0.175
2000	689,933	362,752	0.526	0.166
2001	739,462	389,198	0.526	0.174
2002	826,871	444,125	0.537	0.185
2003	1,358,063	625,902	0.461	0.173
2004	1,508,424	809,142	0.536	0.171
2005	1,655,694	880,583	0.532	0.205
2006	1,794,027	958,478	0.534	0.238
Total	9,732,311	5,044,259	0.517	0.187
Selected			0.516	0.197

Notes
The Column (6) selection is the 2006 ratio.
The Column (9) selection is the 2003-2006 average.
The Column (10) selection is the 2003-2006 average

Exhibit III-C: Investment Income from Loss Reserves

Table 1: Investment Income from Loss Reserves as a Factor of Premium

1)	Ratio of Loss & LAE Reserves to Incurred Loss & LAE	0.428
2)	Ratio of Federal Tax Payable to Incurred Loss & LAE	0.000
3)	Permissible Loss & LAE Ratio	0.550
4)	Net Effective Rate of Return After Tax	0.031
5)	Investment Income as a Factor of Premium {[(1)-(2)] * (3) * (4)}	0.007

Notes
Line [1]: Exhibit III-C, Table 2, Column 9
Line [2]: Exhibit III-E, Section B, Line 11
Line [3]: Exhibit III-D, Line8
Line [4]: Exhibit III-A, Table 1

Table 2: Ratio of Loss and LAE Reserves to Loss and LAE Incurred

Year	[1] Year-End Net Loss Reserve	[2] Prior Year Net Loss Reserve	[3] Mean Net Loss Reserve
1989	102,290		
1990	110,738	102,290	106,514
1991	128,892	110,738	119,815
1992	155,893	128,892	142,393
1993	133,130	155,893	144,512
1994	124,714	133,130	128,922
1995	141,072	124,714	132,893
1996	126,266	141,072	133,669
1997	128,921	126,266	127,594
1998	139,385	128,921	134,153
1999	171,405	139,385	155,395
2000	183,292	171,405	177,349
2001	194,335	183,292	188,814
2002	232,327	194,335	213,331
2003	348,145	232,327	290,236
2004	379,136	348,145	363,641
2005	322,796	379,136	350,966
2006	395,561	322,796	359,179

Year	[4] Year End Net LAE Reserve	[5] Prior Year Net LAE Reserve	[6] Mean Net LAE Reserve
1989	8666		
1990	9,449	8,666	9,058
1991	12,186	9,449	10,818
1992	13,245	12,186	12,716
1993	12,982	13,245	13,114
1994	29,477	12,982	21,230
1995	32,972	29,477	31,225
1996	36,214	32,972	34,593
1997	38,552	36,214	37,383
1998	43,575	38,552	41,064
1999	50,000	43,575	46,788
2000	49,226	50,000	49,613
2001	40,363	49,226	44,795
2002	48,392	40,363	44,378
2003	82,322	48,392	65,357
2004	94,668	82,322	88,495
2005	94,365	94,668	94,517
2006	93,546	94,365	93,956

Year	[7] Net Incurred Losses	[8] Net Incurred LAE	[9] Ratio of Reserves to Incurred
1989	190,002	23,569	
1990	183,806	26,164	0.550
1991	202,723	34,185	0.551
1992	283,072	32,364	0.492
1993	205,854	33,980	0.657
1994	243,752	53,801	0.505
1995	230,594	34,643	0.619
1996	293,337	44,848	0.498
1997	248,025	43,546	0.566
1998	360,457	60,203	0.417
1999	404,869	67,106	0.428
2000	465,672	69,629	0.424
2001	553,844	74,962	0.372
2002	509,392	93,398	0.428
2003	766,082	160,409	0.384
2004	818,434	163,904	0.460
2005	878,866	162,485	0.428
2006	885,181	148,526	0.438

Selected (Average of Latest 5 Years)	$\boxed{0.428}$
Average 5 Years	0.428
Average 4 Years	0.428
Average 3 Years	0.442

Exhibit III-D: Expense Ratios for Homeowners' Insurance

1) Acquisition	20.6%
2) General	5.4%
3) Taxes	2.0%
4) Reinsurance	6.8%
5) Profit	9.3%
6) Contingency	1.0%
7) Total	45.0%
8) Permissible Loss and LAE Ratio	55.0%

Data from 2006 Insurance Expense Exhibit (Direct)

Exhibit III-E: Federal Income Tax Payable Due to Tax Reform Act of 1986

A. Tax on Unearned Premium Reserves ($000)

1)	Net Unearned Premium Reserve 12/31/05	$881,175
2)	Net Unearned Premium Reserve 12/31/06	$1,049,680
3)	Mean Net Unearned Premium Reserve {[1] + [2]} / 2	$965,428
4)	Federal Tax Payable on Change in Net Unearned Premium Reserve {[2]-[1]} x 20% x 0.35	$11,795
5)	Ratio of Tax Payable to Mean Net Unearned Premium Reserve [4] / [3]	0.012

B. Loss & LAE Reserve Discounting ($000,000)

1)	Net Reserve at 12/31/05	$417.16
2)	Net Reserve at 12/31/06	$489.11
3)	Discounted Net Reserve at 12/31/05	$382.43
4)	Discounted Net Reserve at 12/31/06	$456.43
5)	Change in Net Reserve [2]-[1]	$71.95
6)	Change in Discounted Net Reserve [4]-[3]	$74.00
7)	Additional Taxable Income [5]-[6]	($2.06)
8)	Federal Tax Payable [7] x 0.35	($0.72)
9)	2006 Incurred Loss & LAE (Insurance Expense Exhibit)	$1,033.71
10)	Ratio of Federal Tax Payable to Incurred Loss & LAE [8] / [9]	-0.001
11)	Selected	0.000

Exhibit III-F: Expected Total Return - Adjustment to GAAP

Expected Total Return - Adjustment to GAAP

Item	Amount in Millions	Source
(1) 12/31/06 Policyholders Surplus (Based on Prem to Surplus Ratio) 2006 DWP	12131	2006 Annual Statement: Page 3, Column (1), line 35
(2) Non-Admitted Assests	919	2006 Annual Statement: Page 2, Column (2), line 26
(3) Equity in the UPR [= (h) calculated below]	1419	calculated field
(4) Total Adjustments (2)+(3)	2338	calculated field
(5) GAAP Surplus Adjustment Factor [(4)+(1)]/(1)	1.193	calculated field

Calculation of Equity in UPR

Item	Amount In Millions	Source
(a) Commissions and Brokerage Expense Incd	1323	2006 Insurance Expense Exhibit: Page 7, Part 3, Column (23), line 34
(b) Taxes, License & Fees	590	2006 Insurance Expense Exhibit: Page 7, Part 3, Column (25), line 34
(c) Other Acquisition Expenses Incd	1486	2006 Insurance Expense Exhibit: Page 7, Part 3, Column (27), line 34
(d) General Expense Incd	1375	2006 Insurance Expense Exhibit: Page 7, Part 3, Column (29), line 34
(e) Total of (a) + (b) + (c) + 0.5(d)	4087	calculated field
(f) 2006 Written Premium	18122	2006 Insurance Expense Exhibit: Page 6, Part 3, Column (1), line 34
(g) 2006 Ending UPR	6292	2006 Insurance Expense Exhibit: Page 6, Part 3, Column (19), line 34
(h) Equity in UPR (g)*(e)/(f)	1419	calculated field

Liberty Mutual Fire Insurance Company
Dwelling Fire
Arkansas
Response to DOI Objections

<u>Objection 1</u>

Responses with information requested (Supporting Document)
Comment: I had requested that historical data be used instead of modeling. I apologize if I was not clear that my request should apply to 12b as well as 12 of Exhibit II-F. Arkansas Code Annotated § 23-67-209 requires that state and countrywide experience be considered. Countrywide may be used if state data is not credible.

Catastrophes are low frequency and high severity events. As such, care must be taken when consulting historical data to determine an appropriate provision. The presence or absence of catastrophes in any historical data used to develop future cost estimates can create biases that diminish the appropriateness of using that data as the basis for future cost estimates. To the extent that unusually high catastrophe activity is represented in the data, using historical experience without adjustment may result in an overstated catastrophe provision. Similarly, if catastrophe activity is underrepresented in the data, using historical experience without adjustment may result in an understated catastrophe provision.

Given the small volume of Liberty Mutual experience data for the state of Arkansas, and the above issues with relying on limited historical data to determine catastrophe provisions, we based our severe storm provision on average annual severe storm losses for Arkansas modeled from the AIR CLASIC/2 v 9.0 model. This model overcomes the potential biases of limited historical data by drawing on simulated "storm catalogs" that represent 10,000 years of possible severe storm events. The distribution of these events (in terms of location, strength, etc.) is based on historical storm activity, which is determined using meteorological data from NOAA and similar sources.

Though we believe the severe storm provision based on this model faithfully represents our exposure to severe storm losses in Arkansas, <u>we are submitting a revised indication that gives more weight to our Arkansas historical data.</u>

Liberty Mutual Group
Arkansas Dwelling Fire Rate Filing- Actuarial Justification

Table of Contents

I. Summary of Rate Filing

The overall rate change proposed in the filing is +15.0%. The proposed effective date for these changes is February 23, 2009. The premium effect of the proposed change is estimated to be $20,261.

Past and Prospective Experience

Arkansas Calendar/Accident Year data for the five-year period ending December 31, 2007 is used in determining our overall rate level needed. The rate level indication is +16.0%. Our Fire & Allied Lines data used to develop the indication is 50% credible. The Countrywide xCat Pure Premium excluding Florida Fire and Allied Lines of $240 was used as the complement of credibility. The calculation of the indication is explained, and supporting data provided, in Section II.

Expenses

The expense provision used in the indication is based on the Homeowners 3 year average expense numbers for Liberty Mutual's Southwest Region.

Reasonable Profit Margin

Our margin of 10.3% for profit and contingencies is calculated and explained in Section III. This margin is calculated to allow a return on surplus of 15.2%, with a 1.75:1 premium-to-surplus model.

II. Rate Indication and Supporting Data

Liberty Mutual's rate level indication for Arkansas is calculated from five years of historical premium and loss experience, with adjustments made for loss and premium, including adjustments to smooth the effects of catastrophe losses. The attached exhibits explain how the historical data is developed and adjusted to project premium and loss levels for the proposed effective period and to determine the indicated rate change. Exhibit II-A summarizes the calculation of the rate-level indication and displays each item incorporated into the calculation. Exhibits II-B through II-H provide further detail on specific calculations and projections.

Below is a description of each item contributing to the rate-level indication (as summarized in Exhibit II-A), including an explanation of the modifications made to the reported data to project future experience:

The attached exhibits display Liberty Mutual's historical Fire & Allied Lines data and develop it to projected experience level of the future. On the basis of this projected experience, an indicated rate level change is calculated. Below is a description of the modifications made to the reported data to achieve our indication.

1. Reported Earned Premium – The direct earned premiums for the latest five calendar years are listed.

1a. Earned Exposures - The earned exposures for the latest five calendar years are listed.

2a. On Level Factors – These factors represent the adjustment to Reported Earned Premium to place the experience on the current rate level. They are determined using the parallelogram method and the state's rate change history. The rate changes incorporated in this calculation, and the factors developed, are presented in Exhibit II-C.

2b. Premium Trend Factors – These factors are developed to reflect changes in the amount of coverage selected by the insured. The calculation of the actual factors involves regression analysis on a state-specific basis of the latest five calendar years of average earned premium at current rate level. The supporting data for this projection is presented in Exhibit II-B.

3. Earned Premium at Current Level – These result from multiplying the Reported Earned Premium (1) with the On Level Factors (2a) and the Premium Trend Factors (2b).

4. Total Incurred Loss - These are the statewide total reported losses for the five accident years ending December 31, 2007, evaluated as of December 31, 2007.

5. X-Cat X-Severe Storm Incurred Loss - To recognize the erratic nature of unusual catastrophe events and to provide stability in the ratemaking process, incurred catastrophic and severe storm losses are removed from Total Incurred Losses (4) to produce X-cat X-Severe Storm Incurred Losses.

6. Loss Development Factor – XCat X-Severe Storm Incurred Losses are developed to their ultimate value by use of loss development factors. Our selected factors are based on an analysis of accident year losses evaluated at common ages and the patterns exhibited as

incurred losses change from their initial valuation to final settlement. The factors selected and the supporting data are presented in Exhibit II-D.

7. Loss Trend Factors – Using Liberty Mutual's Homeowners "Fast Track" loss data for both Arkansas and Southwest region, an annual rate of change (trend) in expected loss costs is determined. The Loss Trend Factors measure the effect of inflation on past claim costs. The factors are indexed from the average date of loss in the accident year to the last day in the experience period (12/31/2007). The factors selected and the supporting data and calculations are presented in Exhibit II-E.

8. Adjusted Normal Losses – X-cat X-Severe Storm Incurred losses are multiplied by the appropriate loss development factor and loss trend factor.

   Note: At this point in the rate indication process, the loss data have been adjusted to remove catastrophic loss activity and developed to their ultimate level. Premiums and losses have also been trended to the present time and will now be projected into the period during which the proposed rates will become effective.

8a. Loss Complement - The Countrywide xCat xSevere Storm Pure Premium excluding Florida Fire and Allied Lines of $240 multiplied by Earned Exposures (1a).

8b. Credibility Adjusted Normal Loss – Adjusted Normal Loss (8) multiplied by Credibility (18) plus one minus Credibility multiplied by Loss Complement (8a).

9. Loss Ratio Weights - These weights are used to combine the adjusted loss ratios of each year in the experience period into a single representative loss ratio. Equal weights are applied to all years.

10. Adjusted Normal Loss Ratio - This is the Credibility Adjusted Normal Losses (8b) divided by the Earned Premium at Current Level (3) for each calendar/accident year separately.

11. Weighted Normal Loss Ratio - This is the result of multiplying each year's Adjusted Normal Loss Ratio by its respective weight and adding the products.

12. Factor for Non-Hurricane Non-Severe Storm Catastrophes - This provision is for any expected catastrophic activity that is not hurricane or severe storm related. The expected Non-Hurricane Non-Severe Storm loss per $1000 of amount of insurance factor is selected based upon 15 years of Liberty Mutual Fire and Allied Lines historical non-hurricane non-severe storm catastrophe experience in the state of Arkansas. The calculation of this provision, along with supporting data, is presented in Exhibit II-F.

12a. Provision for Hurricane Losses - Since the risk of loss due to hurricane is insignificant, no hurricane provision is included.

12b. Provision for Severe Storm Losses – This provision is based both on Liberty Mutual's historical losses due to severe storms for Arkansas over the 15-year period ending 12/31/2007 and average annual severe storm losses for Arkansas modeled from the AIR CLASIC/2 v 9.0 model. This model is based on scientific data and mathematical and empirical models. Liberty Mutual's policyholder exposure information is used with the model to estimate the average annual loss. The provision is the ratio of Liberty Mutual's expected annual severe storm loss to the most recent year's earned premium at current level. The calculation of this provision is presented in Exhibit II-F.

13. Premium Projection Factor - This factor adjusts premium to the coverage levels expected to be purchased by our customers in the time periods when the proposed rates will be in effect. The calculation of this factor is presented with the calculation of the historical premium trend factors in Exhibit II-B.

14. Loss Projection Factor - The Loss Projection Factor is used to project losses from the average accident date in the latest experience period to the average accident date of one year beyond the proposed effective date of the rate revision (February 23, 2010). The calculation of this factor is presented with the calculation of the historical loss trend factors in Exhibit II-E.

15. Loss Ratio Projection Factor - This factor is the ratio of the Loss Projection Factor (14) and the Premium Projection Factor (13) calculated above.

16. Loss Adjustment Expense Factor - To include Loss Adjustment Expense (LAE), a factor is calculated based upon the most recent three years of LAE to loss ratios for the Southwest region.

17. House-Years in Experience Period - This is the total number of earned house-years where one house-year is defined to be one house insured for 12 months.

18. Credibility - Credibility is a measure of the confidence assigned to a particular body of data for ratemaking purposes. Full credibility is defined to be 75,000 earned house-years with a minimum credibility of 50%. In this step, credibility to be assigned to the company's non-hurricane non-severe storm loss experience is calculated. The calculation of this credibility standard is presented in Exhibit II-H.

19. Projected Non-hurricane Non-Severe Storm Loss and LAE Ratio - In this step, the experience period Normal Loss Ratio is adjusted for LAE and expected Non-Hurricane Non-Severe Storm Catastrophic activity. Then, this ratio is projected to its future level by applying the Loss Ratio Projection Factor. For the expected Non-Hurricane Catastrophic activity, since AOI is already projected into the future, the loss projection portion of the loss ratio trend is backed out so as not to double count losses.

20. Projected Total Loss and LAE Ratio - The Provisions for Hurricane and Severe Storm Losses are projected to future level and adjusted for LAE. For the Provisions for Hurricane and Severe Storm Losses, since AOI is already projected into the future (February 23, 2010), the loss projection portion of the loss ratio trend is backed out so as not to double count losses. This ratio is added to the Projected Non-Hurricane Non-Severe Storm Loss and LAE Ratio to obtain the Projected Total Loss and LAE Ratio.

21. Fixed Provision for Acquisition and General Expense - The expense covers policy issuance, sales staffing, and other administrative functions. Based on an internal expense analysis,

80% of Acquisition and General Expenses are fixed. The supporting expense data is presented in Exhibit II-G.

21a. Variable Provision for Acquisition and General Expense – These items vary directly with premium. The supporting expense data is presented in Exhibit II-G.

21b. Provision for Reinsurance Cost – The total reinsurance cost to Liberty Mutual for Fire and Allied Lines was allocated to each state based on the state's participation in all direct losses above $550 million. $550 million is Liberty Mutual's corporate reinsurance treaty attachment point.

21c. Provision for Taxes, Licenses, Fees, and Profit & Contingency - These items vary directly with premium.

22. Permissible Loss and LAE & Expense Ratio - From unity, item (21a) and (21b) is subtracted.

23. Indicated Rate Change - The Projected Total Loss & LAE, Fixed Expense Ratio and Provision for Reinsurance Expense are added together and divided by the Permissible Loss, LAE and Expense Ratio.

24. Selected Rate Change

Exhibit II-A: Arkansas Dwelling Fire Rate Level Indication

Liberty Mutual Group
Arkansas
Fire & Allied
Indicated Rate Level Change
For the 5-year period ending December 31, 2007

Proposed Effective date: **2/23/2009**

Calendar / Accident Year Ending	(1) Earned Premium	(1a) Earned Exposures	(2a) On Level Factors	(2b) Prem Trend Factors	(3) E/P at Current Level	(4) Total Incurred Loss	(5) xCat xSS Incurred Loss
12/31/2003	62,229	145	1.495	1.123	104,475	11,513	9,245
12/31/2004	75,344	166	1.495	1.065	119,961	13,287	9,723
12/31/2005	96,982	213	1.495	1.058	153,398	3,060	1,237
12/31/2006	104,630	208	1.433	0.998	149,685	33,681	27,413
12/31/2007	125,390	188	1.060	1.022	135,804	389,264	386,848
Total	464,575	920			663,323	450,806	434,465

Calendar / Accident Year Ending	(6) Loss Development Factor	(7) Loss Trend Factor	(8) Adjusted Normal Loss	(8a) Loss Complement CW PP = 240*Exposure	(8b) Cred. Adj. Normal Loss	(9) Loss Ratio Weights	(10) Adjusted Normal Loss Ratio
12/31/2003	1.000	1.474	13,625	34,770	24,198	0.2	23.2%
12/31/2004	1.000	1.352	13,145	39,949	26,547	0.2	22.1%
12/31/2005	1.000	1.240	1,534	51,061	26,297	0.2	17.1%
12/31/2006	1.004	1.138	31,335	49,816	40,575	0.2	27.1%
12/31/2007	1.067	1.044	431,014	45,188	238,101	0.2	175.3%
Total			490,654	220,784	355,719		

11) Weighted Normal Loss Ratio	0.530
12) Factor for Non-hurricane Non-Severe Storm Catastrophes	0.000
12a) Provision for Hurricane Losses	0.000
12b) Provision for Severe Storm Losses	0.089
13) Premium Projection Factor	1.068
14) Loss Projection Factor	1.133
15) Loss Ratio Projection Factor	1.062
16) Loss Adjustment Expense Factor	1.215
17) House Years in Experience Period	920
18) Credibility = Square root of [(17)/75,000] (max = 1.0)	50%
19) Projected Non-hurricane Loss & LAE Ratio: [(11)*(15)+(12)/(13)]*(16)	0.683
20) Projected Total Loss & LAE Ratio: (19)+[{(12a)+(12b)}*(16)/(13)]	0.785
21) Fixed Provision for Acquisition & General Expense	0.166
21a) Variable Provision for Acquisition & General Expense	0.042
21b) Provision for Reinsurance Cost	0.000
21c) Provision for Tax, Licenses, Fees, Profit & Contingency	0.138
22) Permissible Loss and LAE, and Expense [1.0 - (21a) - (21c)]	0.820
23) Indicated Rate Change [{(20)+(21)+(21b)}/(22)] - 1.0	16.0%
24) Selected Rate Change	15.0%

Exhibit II-B: Determination of Premium Trend and Premium Projection Factor

To reflect changes in the amounts of coverage purchased by our policyholders over time, the premium trend factors have been developed. These factors reflect any changes in the average on-leveled earned premium including the increasing amounts of insurance purchased due to inflation, shifts towards higher deductibles, changes in territory mix, etc. The premium trend factor for each year is the ratio of the projected average on-leveled premium in the last year of the experience to the average on-leveled premium in a given year.

To project premium to the average earned day after the proposed effective date, the premium projection factor is applied. This factor is developed based upon a review of Liberty Mutual Dwelling Fire data and is equal to 1.068.

Development of Premium Trend Factors

(1)	(2)	(3)	(4)
Year Ending	Average Earned Date	On-Level Average Earned Prem	Relativity To Latest Point [Latest Point/(3)]
12/31/2003	7/1/2003	642.1	1.123
12/31/2004	7/1/2004	676.7	1.065
12/31/2005	7/1/2005	681.5	1.058
12/31/2006	7/1/2006	722.6	0.998
12/31/2007	7/1/2007	705.7	1.022
Date Trended To:	7/1/2007	721.0	

Calculation of Premium Projection Factor

1) Annual Premium Trend Based on Liberty Data	0.025
2) Average Earned Date of Last Year of Experience Period	7/1/2007
3) Effective Date for Proposed Rates	02/23/09
4) Average Earned Date Under Proposed Rates	02/23/10
5) Number of Months Between (2) And (4)	31.8
6) Premium Projection Factor	

$$\{1\}^{\{5\}/12} = 1.068$$

Exhibit II-C: Development of Current Rate Factor

Current Rate Factors have been calculated based upon Liberty Mutual's historical rate changes in Arkansas. They are applied to Reported Earned Premiums to bring the earned premiums to what they would have been had they been written at today's rate. The Current Rate Factors are determined using the parallelogram method.

Rate Changes Not Fully Reflected In Earned Premium

Date	Rate Change
08/02/2006	49.5%

On Level Factors Calculated Based On Rate Changes Above

Period Ending	On Level Factors
12/31/2003	1.495
12/31/2004	1.495
12/31/2005	1.495
12/31/2006	1.433
12/31/2007	1.060

Exhibit II-D: Loss Development

We have calculated loss development factors based upon Liberty Mutual's countrywide experience for Fire and Allied Lines. Catastrophe losses are excluded. We have selected the following ultimate factors based on this experience.

Age as of December 31, 2007	Development Factor
12 months	1.067
24 months	1.004
36 months	1.000
48 months	1.000
60 months	1.000

The Countrywide loss development triangle from which the above factors were selected is provided on the following page.

Countrywide Fire and Allied Lines
Loss Development Excluding Catastrophes

Accident Year Ending	12	24	36	48	60	72	84	96	108	120	132	144
JAN96 - DEC96	7,705,013	7,970,957	7,905,720	7,875,121	7,869,861	7,869,861	7,869,861	7,969,637	7,902,870	7,902,870	7,902,870	7,902,870
JAN97 - DEC97	7,819,189	8,087,420	8,160,301	7,890,994	8,094,127	8,104,752	8,103,322	8,103,322	8,103,322	8,103,322	8,103,322	
JAN98 - DEC98	7,760,214	8,007,866	8,093,201	7,956,890	7,939,863	7,922,356	7,964,504	7,962,536	7,970,386	7,970,386		
JAN99 - DEC99	7,595,161	8,017,700	8,076,580	7,982,066	7,966,010	7,951,526	7,928,327	7,926,358	7,926,358			
JAN00 - DEC00	10,181,578	10,685,623	11,000,823	11,042,216	11,151,880	11,588,972	11,449,624	11,453,624				
JAN01 - DEC01	10,145,419	10,336,651	10,340,058	10,197,367	10,202,392	10,202,392	10,193,309					
JAN02 - DEC02	9,630,480	10,075,054	10,272,847	10,452,839	10,209,151	10,126,195						
JAN03 - DEC03	10,545,484	10,685,271	11,026,251	11,045,674	11,061,479							
JAN04 - DEC04	14,290,892	15,519,657	15,313,137	15,067,579								
JAN05 - DEC05	19,141,430	21,253,150	21,113,436									
JAN06 - DEC06	21,826,492	23,030,736										
JAN07 - DEC07	25,048,268											

Accident Year Ending	24/12	36/24	48/36	60/48	72/60	84/72	96/84	108/96	120/108	132/120
JAN97 - DEC97	1.034	1.009	0.967	1.026	1.001	1.000	1.000	1.000	1.000	1.000
JAN98 - DEC98	1.032	1.011	0.983	0.998	0.998	1.005	1.000	1.001	1.000	
JAN99 - DEC99	1.056	1.007	0.988	0.998	0.998	0.997	1.000	1.000		
JAN00 - DEC00	1.050	1.029	1.004	1.010	1.039	0.988	1.000			
JAN01 - DEC01	1.019	1.000	0.986	1.000	1.000	0.999				
JAN02 - DEC02	1.046	1.020	1.018	0.977	0.992					
JAN03 - DEC03	1.013	1.032	1.002	1.001						
JAN04 - DEC04	1.086	0.987	0.984							
JAN05 - DEC05	1.110	0.993								
JAN06 - DEC06	1.055									
Avg 5X ex. High/Low	1.062	1.004	0.997	1.000	0.999	1.000	1.000	1.000	1.000	1.000
Cum	1.067	1.004	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000

Exhibit II-E: Development of Loss Trend Factors

Loss trend factors reflect the effects of inflation on past claim costs. A loss trend of +9.0% was used to trend losses from the average date of loss in the accident year to the last day in the overall experience period (12/31/2007). This trend is based upon a review of least squares fitted trend lines to the last five years of Liberty Mutual's Homeowners Fast Track loss data for Arkansas. A loss trend of +6.0% was used to project losses from the last day in the overall experience period to the average accident date of one year beyond the proposed effective date. This trend is based on Liberty Mutual and Industry Homeowners Countrywide Fast Track data.

Calculation of Loss Trend Factors

Annual Loss Trend = +9.0%
Final Day of Experience Period = 12/31/2007

Accident Year Ending	Average Accident Date			Loss Trend Factor
12/31/03	07/01/03	$1.090^{4.5}$	=	1.474
12/31/04	07/01/04	$1.090^{3.5}$	=	1.352
12/31/05	07/01/05	$1.090^{2.5}$	=	1.240
12/31/06	07/01/06	$1.090^{1.5}$	=	1.138
12/31/07	07/01/07	$1.090^{0.5}$	=	1.044

Calculation of Loss Projection Factor

1) Annual Loss Trend Based on ISO Data	**6.0%**
2) Last Day of Experience Period	12/31/07
3) Effective Date for Proposed Rates	02/23/09
4) Average Accident Date Under Proposed Rates	02/23/10
5) Number of Months Between (2) And (4)	25.8
6) Loss Projection Factor	

$$\{1\}^{\{5\}/12} = 1.133$$

The Homeowners Fast Track data used in selecting the historical loss trends is provided on the following page.

LIBERTY MUTUAL - HOMEOWNERS FAST TRACK TREND DATA (xCat)

Arkansas LM Dwelling Forms

Prior 4 Qtrs. Ending		Dwelling (Forms 1-3 & 5)		
Year	Qtr.	Paid Severity	Paid Freq.	Paid Pure Premium
2004	4	4,825	5.07	244.38
2005	1	4,404	4.76	209.52
2005	2	3,628	4.77	173.21
2005	3	4,133	5.20	215.06
2005	4	4,409	5.70	251.30
2006	1	6,829	6.19	422.50
2006	2	6,976	6.17	430.59
2006	3	7,970	6.03	480.65
2006	4	8,487	5.78	490.54
2007	1	5,593	5.93	331.76
2007	2	6,453	5.85	377.27
2007	3	8,794	5.32	468.10
2007	4	10,424	5.09	530.64
2008	1	11,485	5.23	600.75
2008	2	11,777	4.98	586.07
2008	3	13,088	4.88	638.75
2008	4	11,597	5.15	597.34
2-Yr (5 pts)		14.75	-1.81	12.67
3-Yr (9 pts)		42.09	-8.83	29.55
4-Yr (13 pts)		33.39	-7.29	23.67
5-Yr (17 pts)		34.86	-0.43	34.28

Arkansas Industry Dwelling Forms

Prior 4 Qtrs. Ending		Dwelling (Forms 1-3 & 5)		
Year	Qtr.	Paid Severity	Paid Freq.	Paid Pure Premium
2004	3	4,798	5.32	255.11
2004	4	4,798	5.32	255.11
2005	1	5,065	5.26	266.47
2005	2	5,182	5.23	270.91
2005	3	5,342	5.16	275.70
2005	4	5,664	5.17	292.73
2006	1	5,738	5.26	301.76
2006	2	5,832	5.48	319.84
2006	3	5,823	5.55	322.95
2006	4	5,976	5.42	324.20
2007	1	6,067	5.49	332.93
2007	2	6,223	5.23	325.52
2007	3	6,566	5.06	332.47
2007	4	6,567	5.09	334.06
2008	1	6,610	5.11	338.04
2008	2	6,785	5.49	372.43
2008	3	6,888	5.81	400.24
2-Yr (5 pts)		5.26	15.10	21.16
3-Yr (9 pts)		8.89	0.36	9.28
4-Yr (13 pts)		8.31	1.01	9.40
5-Yr (17 pts)		9.59	0.65	10.31

Historical Selected Trend: **+9.0%**

Exhibit II-F: Catastrophe Analysis

Because of the low frequency and high severity nature of catastrophes, catastrophe losses could significantly impact the financial results of an insurer from one year to another. To properly reflect the catastrophe hazard, it is appropriate to eliminate actual catastrophe losses from the experience period and to include a catastrophe provision in the rates which represents expected catastrophic loss.

The following summarized the analysis incorporated in Liberty Mutual's catastrophe provision for Arkansas. The projected loss costs below are all based on Arkansas's specific catastrophe loss experience.

Provision for Non Hurricane, Non-Severe Storm Catastrophes

1) Annual AOI Trend	1.055
2) Average Earned Date of Last Year of Experience Period	7/1/2007
3) Effective Date for Proposed Rates	02/23/09
4) Average Earned Date Under Proposed Rates	02/23/10
5) Number of Years Between (2) And (4)	2.65
6) AOI Projection Factor = (1)^(5)	1.153
7) Calendar Year Ending 12/31/2007 Earned AOI (000s)	17,382
8) Projected Earned AOI = (6) * (7)	20,034
9) Expected Non-Hurricane Non-Severe Storm Cat Loss Per $1000 AOI	0.000
10) Projected Expected Non-Hurricane Non-Severe Storm Cat Losses = (8) * (9)	0
11) Calendar Year Ending 12/31/2007 On-level Earned Premium	135,804
12) Provision for Ex. Hurr, Ex. Sev. Storm Cat Losses = (10) / (11)	0.0%

*The table below displays the supporting data for item 9, Liberty Mutual's loss costs per $1000 Amount of Insurance. This loss cost is calculated from Liberty Mutual's historical losses due to catastrophes other than hurricanes and severe storms for Arkansas over the 15-year period ending 12/31/2007.

Arkansas Historical Catastrophe Losses per $1000 AOI (Excluding Hurricanes and Severe Storms)

Liberty Mutual Group
Arkansas
Fire and Allied
Historical CAT Loads
For the Accident Years December 31, 1993 to December 31, 2007

Accident Year	Total Inc'd Loss	Incurred CAT Loss	Severe Storm CAT Loss	Hurricane Loss	AOI/1000	Non Hurricane Non Severe Storm Catload
	(1)	(2)	(3)	(4)	(5)	(6)=((2)-(3)-(4))/(5)
Dec-93	2,003	0	0	0	$ 2,816	0.000
Dec-94	4,233	0	0	0	$ 3,523	0.000
Dec-95	2,838	0	0	0	$ 4,054	0.000
Dec-96	3,376	1,889	1,889	0	$ 4,768	0.000
Dec-97	6,883	6,432	6,432	0	$ 5,883	0.000
Dec-98	10,674	0	0	0	$ 7,235	0.000
Dec-99	34,880	33,253	33,253	0	$ 7,942	0.000
Dec-00	82,117	1,698	1,698	0	$ 7,569	0.000
Dec-01	189,277	0	0	0	$ 8,028	0.000
Dec-02	108,149	0	0	0	$ 9,296	0.000
Dec-03	11,513	0	0	0	$ 10,422	0.000
Dec-04	13,287	0	0	0	$ 13,203	0.000
Dec-05	3,060	0	0	0	$ 17,574	0.000
Dec-06	33,681	4,574	4,574	0	$ 18,684	0.000
Dec-07	389,264	0	0	0	$ 17,382	0.000
Total	$895,238	$47,847	$47,847	$0	$ 138,377	0.000

Selected	0.000
LM Cat Factor from 1993 to 2007	0.000

Provision for Severe Storm Loss

1) Annual AOI Trend	1.055
2) Average Earned Date of Last Year of Experience Period	7/1/2007
3) Effective Date for Proposed Rates	02/23/09
4) Average Earned Date Under Proposed Rates	02/23/10
5) Number of Years Between (2) And (4)	2.65
6) AOI Projection Factor = (1)^(5)	1.153
7) Calendar Year Ending 12/31/2007 Earned AOI (000s)	17,382
8) Projected Earned AOI = (6) * (7)	20,034
9) Expected Severe Storm Loss Per $1000 AOI	0.603
10) Projected Expected Severe Storm Losses = (8) * (9)	12,077
11) 12 Months Ending 12/31/2007 On-level Earned Premium	135,804
12) Provision for Severe Storm Losses = (10) / (11)	8.9%

*The table below displays the supporting data for item 9, Liberty Mutual's loss costs per $1000 Amount of Insurance. This loss cost is calculated based on Liberty Mutual's historical losses due to severe storms for Arkansas over the 15-year period ending 12/31/2007 and average annual severe storm losses for Arkansas modeled from the AIR CLASIC/2 v 9.0 model.

Arkansas Historical Severe Storm Losses per $1000 AOI

Liberty Mutual Group
Arkansas
Fire and Allied
Historical CAT Loads
For the Accident Years December 31, 1993 to December 31, 2007

Accident Year	Total Inc'd Loss	Incurred CAT Loss	Severe Storm CAT Loss	Hurricane Loss	AOI/1000	Severe Storm CAT Load
	(1)	(2)	(3)	(4)	(5)	(6)=(3)/(5)
Dec-93	2,003	0	0	0	$ 2,816	0.000
Dec-94	4,233	0	0	0	$ 3,523	0.000
Dec-95	2,838	0	0	0	$ 4,054	0.000
Dec-96	3,376	1,889	1,889	0	$ 4,768	0.396
Dec-97	6,883	6,432	6,432	0	$ 5,883	1.093
Dec-98	10,674	0	0	0	$ 7,235	0.000
Dec-99	34,880	33,253	33,253	0	$ 7,942	4.187
Dec-00	82,117	1,698	1,698	0	$ 7,569	0.224
Dec-01	189,277	0	0	0	$ 8,028	0.000
Dec-02	108,149	0	0	0	$ 9,296	0.000
Dec-03	11,513	0	0	0	$ 10,422	0.000
Dec-04	13,287	0	0	0	$ 13,203	0.000
Dec-05	3,060	0	0	0	$ 17,574	0.000
Dec-06	33,681	4,574	4,574	0	$ 18,684	0.245
Dec-07	389,264	0	0	0	$ 17,382	0.000
Total	$895,238	$47,847	$47,847	$0	$ 138,377	0.346

LM CAT Factor from 1993 to 2007	0.346
Credibility (See Exhibit II-A)	0.500
LM CAT Factor based on AIR Severe Storm Model	0.860
Credibility-Weighted LM CAT Factor	0.603

Exhibit II-G: Expense Data

The table below summarizes Liberty Mutual's expense data for its Southwest Region (with the exception of the provision for premium-based taxes, which are specific to Arkansas). The expense data below serves as the basis for all of the expense provisions in the rate-level indication.

Liberty Mutual Group
Fire & Allied
Arkansas

Expense Provision -- Regional Data				
	Historical			
Item	2005	2006	2007	Selected
Expenses Based on Losses				**3 Yr. Avg.:**
ALAE	$2,431,124	$3,092,316	$1,847,438	$2,456,959
ULAE	$35,936,125	$15,559,766	$13,009,551	$21,501,814
Incurred Loss	$446,188,665	$47,249,498	$90,027,536	$194,488,566
LAE / Loss	8.6%	39.5%	16.5%	21.5%
LAE / Earned Premium	24.8%	11.4%	8.6%	15.0%
Expenses Based on Earned Premium				
General Expense	$29,504,041	$38,732,841	$33,817,782	$34,018,221
Earned Premium	$154,743,504	$162,916,863	$172,592,226	$163,417,531
Total General Ratio	19.1%	23.8%	19.6%	20.8%
Fixed General				16.6%
Variable General				4.2%
Expenses Based on Written Premium				
Premium Tax (State Specific, Latest Year)				3.5%
Contingency				1.0%
Profit				9.3%
(General + LAE) / Earned Premium	43.9%	35.2%	28.2%	35.5%
Total Expense Ratio (excl. LAE)				34.6%
Permissible Loss + LAE Ratio				**65.4%**

Exhibit II-H: Credibility Standard

For Dwelling Fire and Allied Lines, Liberty Mutual uses a full credibility standard of 75,000 earned house-years based on Homeowners data.

This standard is based upon the intent to have 99.5% confidence that the calculated value is within 5.0% of the true value of the statistic. According to Longley-Cook's 1962 PCAS paper, 3,163 claims are needed.

To translate this into an exposure standard, we reviewed our countrywide claim frequency figures excluding catastrophic claims. For the last five years, they show:

2003	4.9 claims/100 house-years
2004	4.2 claims/100 house-years
2005	3.9 claims/100 house-years
2006	3.8 claims/100 house-years
2007	3.6 claims/100 house-years

5 year mean of frequencies:
4.1 claims/100 house-years

Dividing the claims necessary for full credibility by the experience claim frequency produces the house-years full standard.

$$\frac{3{,}163}{0.041} = 77{,}552$$

For convenience sake, a full credibility standard of 75,000 house-years was used. Note: Individual states were capped at a lower bound of 50% for credibility.

III. Profit Provision

A mutual insurance company, unlike a stock company, has no recourse to stock market capitalization to generate needed surplus funds. Any increase in surplus for a mutual company must come from (1) underwriting profit, (2) investment income, (3) realized capital gains or (4) unrealized capital gains. In the following analysis, Liberty Mutual selects a provision for underwriting profit which will ensure that anticipated income from all sources produces net income after taxes that is commensurate with the risk assumed in the business of property/casualty insurance. Furthermore, this provision ensures that projected changes in policyholder surplus are sufficiently similar (in direction and magnitude) to changes in premium accounts so that confidence in the Companies' financial integrity can be maintained.

Exhibit III-A, Table 1 shows a history of calendar year rates of return for investment income expressed as a percentage of mean invested assets. The primary source is interest, dividends, and real estate income shown in Column (3). Based on the current market yield, it is reasonable to anticipate before tax rates of 3.50% from interest, dividends, and real estate income during the time rates are effective, based on the new money rate. Historically, realized capital gains have contributed very little to earnings. They were larger than usual in 1986, 1992 and 1999, but they vary significantly throughout the last eighteen years and we have seen declining gains since 1999. For the prospective period, we have selected 1.0%, which is the average return of the last six years. After federal income taxes, the total anticipated rate of return is 3.10% of invested assets.

Exhibit III-B, Table 1 presents the investment income derived from unearned premium reserves. The model uses historical information, modified for the current tax rate. This income is separated into two categories. First, there are premium finance charges (Table 1, Line 10) collected by allowing policyholders to pay their premiums in installments over the 12-month policy term. Line 3 is the corresponding portion of the unearned premium reserve representing the premium which is being financed by the company. Second, there is the remaining reserve, after prepaid expense and taxes, (Line 7) which develops income based on the anticipated rate of return.

Exhibit III-C, Table 1 applies the rate of return to mean loss and loss adjustment expense reserves. These exhibits relate investment income to premium earned. Exhibit III-D provides pertinent expense data. Exhibit III-E deals with the calculation of federal income taxes applicable to unearned premium and loss reserves.

An economic analysis of market rates and available returns shows that the appropriate and fair rate of return for property-casualty insurers writing lines of above-average risk, such as Homeowners, falls within the range of 17.5% to 21.2%. For average risk lines, the appropriate percentage is 13.7% to 17.5%. The selected profit and contingency provision of 10.3% used in this filing would generate a 15.2% return on surplus (GAAP).

Income from all of the above sources is combined with our selected underwriting profit provisions in the following 1.75:1 premium-to-surplus model:

Let Premium = $100; Surplus = $57

1)	Investment Income on Unearned Premium Reserves $100 x (Exhibit III-B, Item 12)	$1.16
2)	Investment Income on Loss Reserves $100 x (Exhibit III-C, Item 5)	$0.73
3)	Investment Income on Surplus $57 x (Exhibit III-A, Column 7)	$1.77
4)	Underwriting Income After Tax $100 x (1-.35) x Profit Provision (Exhibit III-D)	$6.70
5)	Total Expected Return [1]+[2]+[3]+[4]	$10.36
6)	Expected Return on Surplus [5]/$57 x 100%	18.13%
7)	GAAP Adjusted Return [6]/GAAP Adj. Factor (Exhibit III-F)	15.2%

The end product is an anticipated return of 10.36% on earned premium, after tax. Related to surplus, this underwriting profit provision generates an anticipated 15.2% adjusted rate of return on GAAP basis.

Exhibit III-A: Effective Rate of Return on Investable Assets

Table 1: Historical Investments Returns 1986-2006

(1) Calendar Year	(2) Mean Invested Assets (a)	(3) Net Investment Income (b)	(4) Net Inv. Inc. % of (2)	(5) Net Realized Capital Gains (c)	(6) Net Realized Cap. Gains % of (2)	(7)
1986	8,118,335,491	638,231,286	7.9	306,142,812	3.8	
1987	9,808,729,009	733,126,525	7.5	117,222,704	1.2	
1988	11,272,895,755	868,278,838	7.7	34,851,447	0.3	
1989	12,415,308,080	965,013,926	7.8	45,991,686	0.4	
1990	13,727,246,565	1,040,182,466	7.6	43,141,539	0.3	
1991	14,085,608,244	1,084,863,706	7.7	16,195,685	0.1	
1992	14,872,603,927	1,078,372,300	7.3	356,556,819	2.4	
1993	15,380,644,905	1,019,000,685	6.6	192,575,284	1.3	
1994	15,728,080,374	1,000,703,107	6.4	42,091,361	0.3	
1995	16,644,320,729	1,004,243,423	6.4	58,061,803	0.3	
1996	17,754,458,149	1,024,976,627	5.8	80,172,253	0.5	
1997	19,051,878,513	1,049,458,975	5.5	112,763,515	0.6	
1998	20,008,196,638	1,114,613,916	5.6	199,016,656	1.0	
1999	21,692,869,206	1,259,013,722	5.8	559,579,315	2.6	
2000	23,097,086,037	1,249,282,280	5.4	336,548,991	1.5	
2001	22,316,155,306	1,180,115,309	5.3	295,996,921	1.3	
2002	22,117,700,188	1,149,160,133	5.2	236,186,278	1.1	
2003	24,593,328,553	1,213,180,583	4.9	186,183,583	0.8	
2004	28,362,100,873	1,278,067,945	4.5	411,926,118	1.5	
2005	31,616,013,191	1,277,698,305	4.0	273,728,472	0.9	
2006	35,560,878,142	1,370,600,938	3.9	106,166,957	0.3	
Latest 12 Years	282,814,985,523	14,170,412,156	5.2	2,856,330,862	1.0	
Latest 6 Years	164,566,176,253	7,468,823,213	4.6	1,510,188,329	1.0	
Anticipated Returns (Before Tax)			3.5		1.0	
2006 Federal Tax Rate (Exhibit III-A, Table 2)			0.2969		0.3500	
Anticipated Returns (After Tax)			2.50		0.60	3.10

(a) Mean of current and prior year Annual Statements: Page 2, Line 10, 2005 and later. Line 9, 2004 and prior. Less Page 22, Column (2), Lines 25, 39 and 53, 2005 and later. Page 28, Column (2), Lines 25, 39 and 53, 2003 – …...2004. Page 30, Column (2), 1998 - 2000. Page 31, Column (3), 1997 and prior.

(b) Annual Statement: Page 4, Line 9 less Page 12, Part 1, Column (2), Lines 1.3, 2.11, 2.21, and 8, 2005 and later. Page 4, Line 8 less Page 6, Part 1, Column (6), Lines 1.3, 2.11, 2.21, and 8, 2001. Column (8) 2000 and prior.

(c) Annual Statement: Page 4, Line 10, 2005 and later. Line 9, 2001 and prior.

Table 2: Effective Federal Tax Rate

		Earned Income		Distribution	Federal Tax Rate	
BONDS (Ex Tax Exempt)	(a)	$1,214,994,487		0.886	0.3500	
BONDS (Tax Exempt)						
Acquired Before 8/7/86		$5,102,207		0.004	0.0000	
Acquired After 8/7/86		194,238,202		0.142	0.0525	
STOCKS - Common						
Acquired Before 8/7/86						
Non-Affiliated		$2,264,218		0.002	0.1050	
Foreign		35,600		0.000	0.3500	
Total		$2,299,818				
Acquired After 8/7/86						
Non-Affiliated		$43,318,452		0.032	0.1418	
Foreign		8,868,316		0.006	0.3500	
Total		52,166,768				
STOCKS - Preferred						
Acquired Before 8/7/86						
Non-Affiliated		$145,333		0.000	0.1050	
Foreign		0		0.000	0.3500	
Total		$145,333				
Acquired After 8/7/86						
Non-Affiliated		$15,365,825		0.011	0.1418	
Foreign		0		0.000	0.3500	
Total		15,365,825				
All Other Investment Income	(b)	($113,731,702)	(c)	-0.083	0.3500	
Net Investment Income Gain/(Loss)		$1,370,600,938	(d)	1.000	0.2969	(e)

(a) 2006 Annual Statement: Page 12, Column (2), Lines 1 + 1.2
(Excludes bonds of affiliates)

(b) Reduced by investment expenses and depreciation on real estate

(c) 2006 Annual Statement: Page 12, Part 1, Column (2), lines 3, 4, 6, and 9 less lines 11, 13, and 14

(d) Exhibit III-A, Table 1, Column 3
(e) Weighted average rate using "Distribution" column

Exhibit III-B: Investment Income from Unearned Premium Reserves

Table 1: Investment Income from Unearned Premium Reserves as Factor of Earned Premium
(Homeowner's Insurance)

1)	Earned Premium	$100.00
2)	Mean Unearned Premium Reserve 0.516 x [1]	$51.60
3)	Mean Premium Subject to Installment Payment Finance Plan 0.197 x [2]	$10.17
4)	Funds Available for Prepaid Expense, Tax, and Investment [2] - [3]	$41.43
5)	Prepaid Expense 0.253 x (2)	$13.05
6)	Federal Tax - 1986 Reform Act 0.012 x [2]	$0.62
7)	Funds Available for Investment [4] - [5] - [6]	$27.76
8)	Rate of Return, After Tax	3.1%
9)	Income on Invested Reserve [7] x [8]	$0.86
10)	Income from Installment Payment Premium Finance Plan 0.029 x (3)	$0.29
11)	Total Investment Income [9] + [10]	$1.16
12)	Investment Income as a Factor of Earned Premium [11] / [1]	0.0116

Notes

Lines [2], [3], and [10]: Exhibit III-B, Table 2, Columns [9], [10] and [6], 'Selected'
Line [5]: Exhibit III-D - Acquisition (20.6%), Taxes (2%) and 50% of General (2.7%)
Line [6]: Exhibit III-E, Section A, Item 5.
Line [8]: Exhibit III-A

Table 2: Investment Income from Installment Payment Premium Finance Plan ($000) (Homeowner's Insurance)

Year	[1] Premium Finance Charges	[2] Premium Charged-Off	[3]=[1]-[2] Net Investment Income
1998	4,999	252	4,747
1999	1,567	260	1,307
2000	2,238	365	1,872
2001	5,398	449	4,949
2002	6,970	790	6,180
2003	8,919	726	8,193
2004	9,778	1,040	8,738
2005	11,506	2,111	9,396
2006	12,392	2,334	10,059
Total	63,767	8,326	55,442

Year	[4]=[3]*0.65 After-Tax Investment Income	[5] Mean Premium Financed	[6]=[4]/[5] Ratio of Investment Income to Mean Premium Financed
1998	3,086	52,073	0.059
1999	850	54,620	0.016
2000	1,217	60,213	0.020
2001	3,217	67,910	0.047
2002	4,017	82,183	0.049
2003	5,326	108,101	0.049
2004	5,680	138,091	0.041
2005	6,107	180,942	0.034
2006	6,538	228,417	0.029
Total	36,037	972,550	0.037
Selected			0.029

Year	[7] Direct Earned Premium	[8] Mean Direct Unearned Premium Reserve	[9]=[8]/[7] Ratio	[10]=[5]/[8] Ratio
1998	499,120	261,512	0.524	0.199
1999	660,717	312,567	0.473	0.175
2000	689,933	362,752	0.526	0.166
2001	739,462	389,198	0.526	0.174
2002	826,871	444,125	0.537	0.185
2003	1,358,063	625,902	0.461	0.173
2004	1,508,424	809,142	0.536	0.171
2005	1,655,694	880,583	0.532	0.205
2006	1,794,027	958,478	0.534	0.238
Total	9,732,311	5,044,259	0.517	0.187
Selected			0.516	0.197

Notes

The Column (6) selection is the 2006 ratio.

The Column (9) selection is the 2003-2006 average.

The Column (10) selection is the 2003-2006 average

Exhibit III-C: Investment Income from Loss Reserves

Table 1: Investment Income from Loss Reserves as a Factor of Premium

1)	Ratio of Loss & LAE Reserves to Incurred Loss & LAE	0.428
2)	Ratio of Federal Tax Payable to Incurred Loss & LAE	0.000
3)	Permissible Loss & LAE Ratio	0.550
4)	Net Effective Rate of Return After Tax	0.031
5)	Investment Income as a Factor of Premium {[(1)-(2)] * (3) * (4)}	0.007

Notes

Line [1]: Exhibit III-C, Table 2, Column 9
Line [2]: Exhibit III-E, Section B, Line 11
Line [3]: Exhibit III-D, Line8
Line [4]: Exhibit III-A, Table 1

Table 2: Ratio of Loss and LAE Reserves to Loss and LAE Incurred

Year	[1] Year-End Net Loss Reserve	[2] Prior Year Net Loss Reserve	[3] Mean Net Loss Reserve
1989	102,290		
1990	110,738	102,290	106,514
1991	128,892	110,738	119,815
1992	155,893	128,892	142,393
1993	133,130	155,893	144,512
1994	124,714	133,130	128,922
1995	141,072	124,714	132,893
1996	126,266	141,072	133,669
1997	128,921	126,266	127,594
1998	139,385	128,921	134,153
1999	171,405	139,385	155,395
2000	183,292	171,405	177,349
2001	194,335	183,292	188,814
2002	232,327	194,335	213,331
2003	348,145	232,327	290,236
2004	379,136	348,145	363,641
2005	322,796	379,136	350,966
2006	395,561	322,796	359,179

Year	[4] Year End Net LAE Reserve	[5] Prior Year Net LAE Reserve	[6] Mean Net LAE Reserve
1989	8666		
1990	9,449	8,666	9,058
1991	12,186	9,449	10,818
1992	13,245	12,186	12,716
1993	12,982	13,245	13,114
1994	29,477	12,982	21,230
1995	32,972	29,477	31,225
1996	36,214	32,972	34,593
1997	38,552	36,214	37,383
1998	43,575	38,552	41,064
1999	50,000	43,575	46,788
2000	49,226	50,000	49,613
2001	40,363	49,226	44,795
2002	48,392	40,363	44,378
2003	82,322	48,392	65,357
2004	94,668	82,322	88,495
2005	94,365	94,668	94,517
2006	93,546	94,365	93,956

Year	[7] Net Incurred Losses	[8] Net Incurred LAE	[9] Ratio of Reserves to Incurred
1989	190,002	23,569	
1990	183,806	26,164	0.550
1991	202,723	34,185	0.551
1992	283,072	32,364	0.492
1993	205,854	33,980	0.657
1994	243,752	53,801	0.505
1995	230,594	34,643	0.619
1996	293,337	44,848	0.498
1997	248,025	43,546	0.566
1998	360,457	60,203	0.417
1999	404,869	67,106	0.428
2000	465,672	69,629	0.424
2001	553,844	74,962	0.372
2002	509,392	93,398	0.428
2003	766,082	160,409	0.384
2004	818,434	163,904	0.460
2005	878,866	162,485	0.428
2006	885,181	148,526	0.438

Selected (Average of Latest 5 Years)	0.428
Average 5 Years	0.428
Average 4 Years	0.428
Average 3 Years	0.442

Exhibit III-D: Expense Ratios for Homeowners' Insurance

1) Acquisition	20.6%
2) General	5.4%
3) Taxes	2.0%
4) Reinsurance	6.8%
5) Profit	9.3%
6) Contingency	1.0%
7) Total	45.0%
8) Permissible Loss and LAE Ratio	55.0%

Data from 2006 Insurance Expense Exhibit (Direct)

Exhibit III-E: Federal Income Tax Payable Due to Tax Reform Act of 1986

A. Tax on Unearned Premium Reserves ($000)

1)	Net Unearned Premium Reserve 12/31/05	$881,175
2)	Net Unearned Premium Reserve 12/31/06	$1,049,680
3)	Mean Net Unearned Premium Reserve {[1] + [2]} / 2	$965,428
4)	Federal Tax Payable on Change in Net Unearned Premium Reserve {[2]-[1]} x 20% x 0.35	$11,795
5)	Ratio of Tax Payable to Mean Net Unearned Premium Reserve [4] / [3]	0.012

B. Loss & LAE Reserve Discounting ($000,000)

1)	Net Reserve at 12/31/05	$417.16
2)	Net Reserve at 12/31/06	$489.11
3)	Discounted Net Reserve at 12/31/05	$382.43
4)	Discounted Net Reserve at 12/31/06	$456.43
5)	Change in Net Reserve [2]-[1]	$71.95
6)	Change in Discounted Net Reserve [4]-[3]	$74.00
7)	Additional Taxable Income [5]-[6]	($2.06)
8)	Federal Tax Payable [7] x 0.35	($0.72)
9)	2006 Incurred Loss & LAE (Insurance Expense Exhibit)	$1,033.71
10)	Ratio of Federal Tax Payable to Incurred Loss & LAE [8] / [9]	-0.001
11)	Selected	0.000

Exhibit III-F: Expected Total Return - Adjustment to GAAP

Expected Total Return - Adjustment to GAAP

Item	Amount in Millions	Source
(1) 12/31/06 Policyholders Surplus (Based on Prem to Surplus Ratio) 2006 DWP	12131	2006 Annual Statement: Page 3, Column (1), line 35
(2) Non-Admitted Assests	919	2006 Annual Statement: Page 2, Column (2), line 26
(3) Equity in the UPR [= (h) calculated below]	1419	calculated field
(4) Total Adjustments (2)+(3)	2338	calculated field
(5) GAAP Surplus Adjustment Factor [(4)+(1)]/(1)	1.193	calculated field

Calculation of Equity in UPR

Item	Amount In Millions	Source
(a) Commissions and Brokerage Expense Incd	1323	2006 Insurance Expense Exhibit: Page 7, Part 3, Column (23), line 34
(b) Taxes, License & Fees	590	2006 Insurance Expense Exhibit: Page 7, Part 3, Column (25), line 34
(c) Other Acquisition Expenses Incd	1486	2006 Insurance Expense Exhibit: Page 7, Part 3, Column (27), line 34
(d) General Expense Incd	1375	2006 Insurance Expense Exhibit: Page 7, Part 3, Column (29), line 34
(e) Total of (a) + (b) + (c) + 0.5(d)	4087	calculated field
(f) 2006 Written Premium	18122	2006 Insurance Expense Exhibit: Page 6, Part 3, Column (1), line 34
(g) 2006 Ending UPR	6292	2006 Insurance Expense Exhibit: Page 6, Part 3, Column (19), line 34
(h) Equity in UPR (g)*(e)/(f)	1419	calculated field

NAIC LOSS COST DATA ENTRY DOCUMENT

1.	This filing transmittal is part of Company Tracking #	**AR DF SR 09**

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

		Company Name		Company NAIC Number
3.	**A.**	**Liberty Mutual Fire Insurance Company**	**B.**	**111-23035**

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

5.

(A)			FOR LOSS COSTS ONLY				
COVERAGE (See Instructions)	(B) Indicated % Rate Level Change	(C) Requested % Rate Level Change	(D) Expected Loss Ratio	(E) Loss Cost Modification Factor	(F) Selected Loss Cost Multiplier	(G) Expense Constant (If Applicable)	(H) Co. Current Loss Cost Multiplier
Fire & Allied Lines	**16.0%**	**15.0%**					
TOTAL OVERALL EFFECT	**16.0%**	**15.0%**					

6. 5 Year History Rate Change History

Year	Policy Count	% of Change	Effective Date	State Earned Premium (000)	Incurred Losses (000)	State Loss Ratio	Countrywide Loss Ratio
2003	**145**			**62,229**	**11,513**	**18.5%**	**57.3%**
2004	**166**			**75,344**	**13,287**	**17.6%**	**82.5%**
2005	**213**			**96,982**	**3,060**	**3.2%**	**102.4%**
2006	**208**	**49.5%**	**7/10/06**	**104,630**	**33,681**	**32.2%**	**50.7%**
2007	**188**			**125,390**	**389,264**	**310.4%**	**50.1%**
					Prem. Change		
2008	**171**	**15%**	**2/23/09**	**135,078**	**20,262**		

7.

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

8. **___N___** Apply Lost Cost Factors to Future filings? (Y or N)

9. ______ Estimated Maximum Rate Increase for any Insured (%). Territory (if applicable): __15%___________________________

10. ______ Estimated Maximum Rate Decrease for any Insured (%) Territory (if applicable): ____0%_________________________

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 #**	**AR DF SR 09**
2.	**This filing corresponds to form filing number** (Company tracking number of form filing, if applicable)	

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

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

4a. Rate Change by Company (As Proposed)

Company Name	Overall % 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)
LMFIC	21.1	15	20,262	171	135,078	15	15

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)

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**	**50**
7.	**Effective Date of last rate revision**	**7/10/2006**
8.	**Filing Method of Last filing (Prior Approval, File & Use, Flex Band, etc.)**	**File & Use**

9.	**Rule # or Page # Submitted for Review**	**Replacement or Withdrawn?**	**Previous state filing number, if required by state**
01	LM-1	☐ New ☒ Replacement ☐ Withdrawn	AR-PC-06-019824
02		☐ New ☐ Replacement ☐ Withdrawn	
03		☐ New ☐ Replacement ☐ Withdrawn	