SERFF Tracking Number:	*ALSX-126207337*	*State:*	*Arkansas*
Filing Company:	*Allstate Insurance Company*	*State Tracking Number:*	*EFT $100*
Company Tracking Number:	*R21438*		
TOI:	*04.0 Homeowners*	*Sub-TOI:*	*04.0003 Owner Occupied Homeowners*
Product Name:	*Homeowners*		
Project Name/Number:	*2009 - Reinsurance Rate Charge Filing/R21438*		

Filing at a Glance

Company: Allstate Insurance Company

Product Name: Homeowners	SERFF Tr Num: ALSX-126207337	State: Arkansas
TOI: 04.0 Homeowners	SERFF Status: Closed	State Tr Num: EFT $100
Sub-TOI: 04.0003 Owner Occupied Homeowners	Co Tr Num: R21438	State Status: Fees verified and received
Filing Type: Rate	Co Status:	Reviewer(s): Becky Harrington, Betty Montesi, Brittany Yielding
	Author: SPI AllState	Disposition Date: 07/01/2009
	Date Submitted: 06/26/2009	Disposition Status: Filed
Effective Date Requested (New): 08/24/2009		Effective Date (New): 08/24/2009
Effective Date Requested (Renewal): 10/08/2009		Effective Date (Renewal): 10/08/2009

State Filing Description:

Reinsurance charge

General Information

Project Name: 2009 - Reinsurance Rate Charge Filing	Status of Filing in Domicile:
Project Number: R21438	Domicile Status Comments:
Reference Organization:	Reference Number:
Reference Title:	Advisory Org. Circular:
Filing Status Changed: 07/01/2009	
State Status Changed: 06/26/2009	Deemer Date:
Corresponding Filing Tracking Number:	

Filing Description:

With this filing, information is provided to support the revision of the distinct charge to cover the hurricane/fire following earthquake portion of the net cost of reinsurance in Allstate Insurance Company for the Owners program in the state of Arkansas. The net cost of reinsurance is equal to the reinsurance premium paid less expected reinsurance recoveries under the contract.

SERFF Tracking Number:	*ALSX-126207337*	*State:*	*Arkansas*
Filing Company:	*Allstate Insurance Company*	*State Tracking Number:*	*EFT $100*
Company Tracking Number:	*R21438*		
TOI:	*04.0 Homeowners*	*Sub-TOI:*	*04.0003 Owner Occupied Homeowners*
Product Name:	*Homeowners*		
Project Name/Number:	*2009 - Reinsurance Rate Charge Filing/R21438*		

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

This filing includes editorial revisions to the manual pages, as follows:
" Updated Rate Page Calculation Options Page

The overall impact of changes set forth in this filing is -0.09%. The proposed change to the Reinsurance Rate Adjustment Factor is -74.4%, which represents the impact to the distinct charge to cover the hurricane/fire following earthquake portion of the net cost of reinsurance in Allstate Insurance Company for the Owners program in the state of Arkansas.

The terms of the applicable 2009 Reinsurance contracts are summarized below.

2009 REINSURANCE CONTRACT SUMMARY:

Allstate has a Reinsurance Broker Intermediary Contract with AonBenfield, which encompasses the marketing and placement of our catastrophe reinsurance programs.

Allstate has again purchased countrywide catastrophe aggregate excess of loss reinsurance agreements to mitigate our exposure to catastrophic losses. Two agreements, purchased last year, were 15% and 32.5% placed for a two-year term, effective 06/01/08 to 05/31/10. The remaining 47.5% was purchased in 2007 for a two-year term and remained intact until 05/31/09. A new agreement, 47.5% placed for a two-year term, effective 06/01/09 to 05/31/11, was purchased to replace the expiring two-year agreement that provided coverage from 06/01/07 to 05/31/09. Together these three catastrophe aggregate excess reinsurance agreements will apply to Allstate and Encompass brand personal lines auto and property policies nationwide (excluding Florida), providing coverage for the term 06/01/09 to 05/31/10 of 95% of the first $2 billion in excess of $2 billion of retained losses. The agreements cover losses from storms named or numbered by the National Weather Service, fire following earthquakes, California wildfires, and non-recoupable Texas Windstorm Insurance Association (TWIA) assessments, subject to the terms, conditions, and limitations set forth in these agreements.

SERFF Tracking Number:	*ALSX-126207337*	*State:*	*Arkansas*
Filing Company:	*Allstate Insurance Company*	*State Tracking Number:*	*EFT $100*
Company Tracking Number:	*R21438*		
TOI:	*04.0 Homeowners*	*Sub-TOI:*	*04.0003 Owner Occupied Homeowners*
Product Name:	*Homeowners*		
Project Name/Number:	*2009 - Reinsurance Rate Charge Filing/R21438*		

The target effective date for new business written and renewals processed is August 24, 2009, and renewal business effective October 8, 2009.

Company and Contact

Filing Contact Information

Celeste Mrdak, Senior State Filings Analyst
2775 Sanders Road
Northbrook, IL 60062

oscmrda@allstate.com
(847) 402-5000 [Phone]
(847) 402-9757[FAX]

Filing Company Information

Allstate Insurance Company
2775 Sanders Road
Suite A5
Northbrook, IL 60062
(847) 402-5000 ext. [Phone]

CoCode: 19232
Group Code: 8
Group Name: Allstate
FEIN Number: 36-0719665

State of Domicile: Illinois
Company Type: Property and Casualty
State ID Number:

Filing Fees

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

COMPANY	AMOUNT	DATE PROCESSED	TRANSACTION #
Allstate Insurance Company	$100.00	06/26/2009	28834336

SERFF Tracking Number:	*ALSX-126207337*	*State:*	*Arkansas*
Filing Company:	*Allstate Insurance Company*	*State Tracking Number:*	*EFT $100*
Company Tracking Number:	*R21438*		
TOI:	*04.0 Homeowners*	*Sub-TOI:*	*04.0003 Owner Occupied Homeowners*
Product Name:	*Homeowners*		
Project Name/Number:	*2009 - Reinsurance Rate Charge Filing/R21438*		

Correspondence Summary

Dispositions

Status	Created By	Created On	Date Submitted
Filed	Becky Harrington	07/01/2009	07/01/2009

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	06/26/2009	06/26/2009	SPI AllState	06/30/2009	06/30/2009

SERFF Tracking Number:	*ALSX-126207337*	*State:*	*Arkansas*
Filing Company:	*Allstate Insurance Company*	*State Tracking Number:*	*EFT $100*
Company Tracking Number:	*R21438*		
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Project Name/Number:	*2009 - Reinsurance Rate Charge Filing/R21438*		

Disposition

Disposition Date: 07/01/2009
Effective Date (New): 08/24/2009
Effective Date (Renewal): 10/08/2009
Status: Filed
Comment:

Company Name:	Overall % Indicated Change:	Overall % Rate Impact:	Written Premium Change for this Program:	# of Policy Holders Affected for this Program:	Written Premium for this Program:	Maximum % Change (where required):	Minimum % Change (where required):
Allstate Insurance Company	%	-0.090%	$-13,992	15,148	$14,835,030	%	%

SERFF Tracking Number:	*ALSX-126207337*	*State:*	*Arkansas*
Filing Company:	*Allstate Insurance Company*	*State Tracking Number:*	*EFT $100*
Company Tracking Number:	*R21438*		
TOI:	*04.0 Homeowners*	*Sub-TOI:*	*04.0003 Owner Occupied Homeowners*
Product Name:	*Homeowners*		
Project Name/Number:	*2009 - Reinsurance Rate Charge Filing/R21438*		

Item Type	Item Name	Item Status	Public Access
Supporting Document	Form RF-2 Loss Costs Only (not for workers' compensation)	Filed	Yes
Supporting Document	H-1 Homeowners Abstract	Filed	Yes
Supporting Document	HPCS-Homeowners Premium Comparison Survey	Filed	Yes
Supporting Document	NAIC loss cost data entry document	Filed	Yes
Supporting Document	OtherActuarialSupport01	Filed	Yes
Supporting Document	Response to DOI (063009), Appendix A (063009)	Filed	Yes
Rate	CheckingListR21438	Filed	Yes
Rate	ManualPagesR21438	Filed	Yes

SERFF Tracking Number:	*ALSX-126207337*	*State:*	*Arkansas*
Filing Company:	*Allstate Insurance Company*	*State Tracking Number:*	*EFT $100*
Company Tracking Number:	*R21438*		
TOI:	*04.0 Homeowners*	*Sub-TOI:*	*04.0003 Owner Occupied Homeowners*
Product Name:	*Homeowners*		
Project Name/Number:	*2009 - Reinsurance Rate Charge Filing/R21438*		

Objection Letter

Objection Letter Status	Pending Industry Response
Objection Letter Date	06/26/2009
Submitted Date	06/26/2009
Respond By Date	

Dear Celeste Mrdak,

This will acknowledge receipt of the captioned filing.

Objection 1

- OtherActuarialSupport01 (Supporting Document)

Comment: Please explain the increase in underwriting profit/debt provision from the previous year.

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	06/30/2009
Submitted Date	06/30/2009

Dear Becky Harrington,

Comments:

Response to June 26 objection letter

Response 1

Comments: Please see attached

Related Objection 1

Applies To:

- OtherActuarialSupport01 (Supporting Document)

SERFF Tracking Number:	*ALSX-126207337*	*State:*	*Arkansas*
Filing Company:	*Allstate Insurance Company*	*State Tracking Number:*	*EFT $100*
Company Tracking Number:	*R21438*		
TOI:	*04.0 Homeowners*	*Sub-TOI:*	*04.0003 Owner Occupied Homeowners*
Product Name:	*Homeowners*		
Project Name/Number:	*2009 - Reinsurance Rate Charge Filing/R21438*		

Comment:

Please explain the increase in underwriting profit/debt provision from the previous year.

Changed Items:

Supporting Document Schedule Item Changes

Satisfied -Name: Response to DOI (063009), Appendix A (063009)

Comment:

No Form Schedule items changed.

No Rate/Rule Schedule items changed.

Celeste Mrdak

Sincerely,
SPI AllState

SERFF Tracking Number:	*ALSX-126207337*	*State:*	*Arkansas*
Filing Company:	*Allstate Insurance Company*	*State Tracking Number:*	*EFT $100*
Company Tracking Number:	*R21438*		
TOI:	*04.0 Homeowners*	*Sub-TOI:*	*04.0003 Owner Occupied Homeowners*
Product Name:	*Homeowners*		
Project Name/Number:	*2009 - Reinsurance Rate Charge Filing/R21438*		

Rate Information

Rate data applies to filing.

Filing Method:	File and Use
Rate Change Type:	
Overall Percentage of Last Rate Revision:	18.400%
Effective Date of Last Rate Revision:	06/01/2009
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:	Written Premium for this Program:	Maximum % Change (where required):	Minimum % Change (where required):
Allstate Insurance Company	%	-0.090%	$-13,992	15,148	$14,835,030	%	%

SERFF Tracking Number:	*ALSX-126207337*	*State:*	*Arkansas*
Filing Company:	*Allstate Insurance Company*	*State Tracking Number:*	*EFT $100*
Company Tracking Number:	*R21438*		
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Product Name:	*Homeowners*		
Project Name/Number:	*2009 - Reinsurance Rate Charge Filing/R21438*		

Rate/Rule Schedule

Review Status:	Exhibit Name:	Rule # or Page #:	Rate Action	Previous State Filing Number:	Attachments
Filed	CheckingListR21438	R21438	Replacement		R21438.PDF
Filed	ManualPagesR21438	R21438	Replacement		R21438.PDF

CHECKING LIST FOR HOMEOWNERS

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

HOMEOWERS RATE PAGE CALCULATION

Enclosed: Page HORC-2 dated 7-1-2009

Withdrawn: Page HORC-2 dated 6-3-2009

DELUXE PLUS RATE PAGE CALCULATION

Enclosed: Page DPRC-2 dated 7-1-2009

Withdrawn: Page DPRC-2 dated 6-1-2009

12. Home and Auto Discount - Multiply by .85 (Rule 17)

13.The Good Hands People ® Discount - Multiply by .95 (Rule 22)

14. Apply the appropriate deductible factor, subject to any applicable maximum dollar credit.

Deductible Option	Deductible Relativity	Maximum Deductible Credit *
$ 50	1.44	-
100	1.25	-
250	Base	-
250/500 WIND/HAIL	.94	$100
250/1000 WIND/HAIL	.92	140
500	.87	250
500/1000 WIND/HAIL	.84	480
750	.80	550
1000	.75	800
1500	.70	1050
2000	.65	1200
3000	.60	1350
5000	.53	1550

* relative to the $250 deductible premium

15. $250 Theft Deductible - Multiply the $50 or $100 Deductible premium by .95

16. Add the Fixed Expense Policy Fee shown on the Supplementary Rate Page

17. For 3/4 Family Dwelling add amount shown on Supplementary Rate Pages

18. Add the appropriate Reinsurance Charge. Determine the charge as follows:

a. Determine the appropriate Base Reinsurance Charge from the Reinsurance Charge Pages.

b. Multiply the appropriate charge by a Reinsurance Rate Adjustment Factor of 0.044 (round to three decimals).

c. Multiply by the appropriate Coverage A Reinsurance Limit Factor as shown in the Reinsurance Charge Pages (penny round).

19. Add the additional premium applicable for increased limits or additional coverage and subtract any applicable credit for reduced coverage shown on the Supplementary Rate Pages. Where applicable, use the same deductible amount as Coverage A.

11. Apply the appropriate deductible factor, subject to any applicable maximum dollar credit.

Deductible Option	Deductible Relativity	Maximum Deductible Credit *
100	1.25	-
250	Base	-
250/500 WIND/HAIL	.94	$100
250/1000 WIND/HAIL	.92	140
500	.85	250
500/1000 WIND/HAIL	.84	480
750	.75	550
1000	.70	800
1500	.65	1050
2000	.61	1200
3000	.56	1350
5000	.49	1550

* relative to the $250 deductible premium

12. Add the Fixed Expense Policy Fee shown on the Supplementary Rate Page

13. Add the appropriate Reinsurance Charge. Determine the charge as follows:

    a) Determine the appropriate Base Reinsurance Charge from the Reinsurance Charge Pages.

    b) Multiply the appropriate charge by a Reinsurance Rate Adjustment Factor of 0.044 (round to three decimals).

    c) Multiply by the appropriate Coverage A Reinsurance Limit Factor as shown in the Reinsurance Charge Pages (penny round).

14. Add the additional premium applicable for increased limits or additional coverage. Where applicable, use the same deductible amount as Coverage A.

    Note: All premium calculations shall be rounded to the nearest dollar. A premium of $0.50 or more shall be rounded to the next higher whole dollar.

SERFF Tracking Number:	*ALSX-126207337*	*State:*	*Arkansas*
Filing Company:	*Allstate Insurance Company*	*State Tracking Number:*	*EFT $100*
Company Tracking Number:	*R21438*		
TOI:	*04.0 Homeowners*	*Sub-TOI:*	*04.0003 Owner Occupied Homeowners*
Product Name:	*Homeowners*		
Project Name/Number:	*2009 - Reinsurance Rate Charge Filing/R21438*		

Supporting Document Schedules

Satisfied -Name: H-1 Homeowners Abstract
Review Status: Filed
07/01/2009

Comments:

Attachment:

Homeowners Abstract.PDF

Satisfied -Name: HPCS-Homeowners Premium Comparison Survey
Review Status: Filed
07/01/2009

Comments:

Attachments:

Premium Survey Form.PDF

Premium Survey Form.XLS

Satisfied -Name: NAIC loss cost data entry document
Review Status: Filed
07/01/2009

Comments:

Attachment:

Loss Cost Data Entry.PDF

Satisfied -Name: OtherActuarialSupport01
Review Status: Filed
07/01/2009

Comments:

Attachment:

OtherActuarialSupport01.PDF

Satisfied -Name: Response to DOI (063009), Appendix A (063009)
Review Status: Filed
07/01/2009

Comments:

Attachments:

Response to DOI (063009).PDF

Appendix A (063009).PDF

ARKANSAS INSURANCE DEPARTMENT

FORM H-1
Rev. 4/98

HOMEOWNERS ABSTRACT

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

Company Name ____**Allstate Insurance Company**_____

NAIC No. ____**19232**_____ Group No. ___**0008**_____

1. If you have had an insurance to value campaign during the experience filing period, describe the campaign and estimate its impact. ____**N/A**_____

2. If you use a cost estimator (or some similar method) in order to make sure that dwellings (or contents) are insured at their value, state when this program was started in Arkansas and estimate its impact. _____
The company began using the Boeckh index in 1979. However, its impact cannot be estimated.

3. If you require a minimum relationship between the amount of insurance to be written and the replacement value of the dwelling (contents) in order to purchase insurance, describe the procedures that are used. _____
The company requires 100% insurance to value.

4. If you use an Inflation Guard form or similar type of coverage, describe the coverage(s) and estimate the impact.
A Boeckh index is employed for the area. Its impact is included in estimating changes for amounts of insurance at approximately 2.5%.

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

a.	Fire Extinguisher	__**5**_____%
b.	Burglar Alarm	__**5**_____%
c.	Smoke Alarm	__**5**_____%
d.	Insured who has both homeowners and auto with your company	__**15**____%
e.	Deadbolt Locks	__**5**_____%
f.	Window or Door Locks	__**N/A**___%
g.	Other (specify)	_____%
	Complete Central Burglar Alarm	__**10**____%
	Complete Central Fire Alarm	__**10**____%
	Central Home Sprinkler System	__**10**____%

6. Are there any areas in the State of Arkansas in which your company will not write homeowners insurance? _**N/A**__
If so, state the areas and explain reason for not writing. __**No new business is written in this company**._____
_____

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

Form	Premium Volume
_____**Homeowners**_____	_____$**14,835,030**_____

8. Do you write homeowner risks which have aluminum, steel or vinyl siding? ___**Yes, all three**_____

9. If there is a surcharge on risks with wood heat? ____**No**_____
If yes, state surcharge __**N/A**_____
Does the surcharge apply to conventional fire places? ___**N/A**_____
If yes, state surcharge ____**N/A**_____

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

_____
Signature

_____
Title

_____
Telephone Number

AID PC H-1 (4/96)

NAIC Number:	19232
Company Name:	Allstate Insurance Company
Contact Person:	Celeste Mrdak
Telephone No.:	(847) 402-7328
Email Address:	oscmrda@allstate.com
Effective Date:	8/24/2009

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*	$224.89	$264.55	$228.50	$268.16	$370.31	$431.61	$420.79	$508.52	$420.79	$508.52	$318.64	$372.72	$289.79	$339.07	$286.19	$347.48	$351.08	$411.18
	$120,000	$317.56	$371.64	$322.37	$377.65	$519.47	$604.79	$589.17	$710.55	$589.17	$710.55	$448.56	$523.07	$407.70	$475.00	$402.89	$487.02	$502.64	$586.77
	$160,000	$425.85	$499.16	$433.06	$506.37	$695.06	$809.23	$787.60	$949.84	$787.60	$949.84	$601.32	$699.87	$544.83	$637.37	$540.03	$651.79	$686.65	$802.02
6	*$80,000*	$248.93	$294.60	$251.33	$299.41	$406.37	$480.88	$508.52	$573.42	$508.52	$573.42	$349.88	$414.78	$317.43	$376.32	$347.48	$391.95	$385.94	$456.84
	$120,000	$350.01	$414.91	$353.62	$419.72	$569.94	$673.30	$710.55	$801.89	$710.55	$801.89	$490.62	$580.76	$447.36	$529.08	$487.02	$550.71	$551.92	$651.67
	$160,000	$470.32	$555.65	$475.13	$561.66	$762.36	$898.16	$949.84	$1,070.02	$949.84	$1,070.02	$657.80	$777.98	$598.91	$707.08	$651.79	$737.12	$753.95	$888.55
9	*$80,000*	$792.15	$930.36	$801.76	$942.38	$1,272.87	$1,494.01	$1,514.44	$1,842.53	$1,514.44	$1,842.53	$1,103.42	$1,294.51	$1,004.87	$1,177.93	$1,045.73	$1,274.07	$1,212.78	$1,423.10
	$120,000	$1,105.95	$1,299.44	$1,119.17	$1,315.06	$1,776.56	$2,096.24	$2,129.89	$2,653.88	$2,129.89	$2,653.88	$1,538.60	$1,805.40	$1,401.59	$1,644.36	$1,459.28	$1,777.76	$1,721.28	$2,024.13
	$160,000	$1,475.03	$1,732.22	$1,494.26	$1,752.65	$2,422.06	$2,944.85	$2,936.43	$3,632.28	$2,936.43	$3,632.28	$2,059.11	$2,467.73	$1,868.02	$2,220.15	$1,944.94	$2,423.26	$2,392.01	$2,857.11

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*	$45.56	$45.56	$45.56	$45.56	$45.56	$45.56	$45.56	$45.56	$45.56	$45.56	$45.56	$45.56	$45.56	$45.56	$45.56	$45.56	$45.56	$45.56
	$15,000	$80.89	$80.89	$80.89	$80.89	$80.89	$80.89	$80.89	$80.89	$80.89	$80.89	$80.89	$80.89	$80.89	$80.89	$80.89	$80.89	$80.89	$80.89
	$25,000	$111.15	$111.15	$111.15	$111.15	$111.15	$111.15	$111.15	$111.15	$111.15	$111.15	$111.15	$111.15	$111.15	$111.15	$111.15	$111.15	$111.15	$111.15
6	*$5,000*	$52.56	$52.56	$52.56	$52.56	$52.56	$52.56	$52.56	$52.56	$52.56	$52.56	$52.56	$52.56	$52.56	$52.56	$52.56	$52.56	$52.56	$52.56
	$15,000	$93.89	$93.89	$93.89	$93.89	$93.89	$93.89	$93.89	$93.89	$93.89	$93.89	$93.89	$93.89	$93.89	$93.89	$93.89	$93.89	$93.89	$93.89
	$25,000	$130.15	$130.15	$130.15	$130.15	$130.15	$130.15	$130.15	$130.15	$130.15	$130.15	$130.15	$130.15	$130.15	$130.15	$130.15	$130.15	$130.15	$130.15
9	*$5,000*	$62.56	$62.56	$62.56	$62.56	$62.56	$62.56	$62.56	$62.56	$62.56	$62.56	$62.56	$62.56	$62.56	$62.56	$62.56	$62.56	$62.56	$62.56
	$15,000	$110.89	$110.89	$110.89	$110.89	$110.89	$110.89	$110.89	$110.89	$110.89	$110.89	$110.89	$110.89	$110.89	$110.89	$110.89	$110.89	$110.89	$110.89
	$25,000	$154.15	$154.15	$154.15	$154.15	$154.15	$154.15	$154.15	$154.15	$154.15	$154.15	$154.15	$154.15	$154.15	$154.15	$154.15	$154.15	$154.15	$154.15

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*	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
	$120,000	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
	$160,000	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
6	*$80,000*	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
	$120,000	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
	$160,000	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
9	*$80,000*	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
	$120,000	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
	$160,000	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

SPECIFY THE PERCENTAGE GIVEN FOR CREDITS OR DISCOUNTS FOR THE FOLLOWING:
HO3 and HO4 only

Fire Extinguisher	5 %	*Deadbolt Lock*	5 %		
Burglar Alarm	5 %	*Window Locks*	N/A %		
Smoke Alarm	5 %	*$1,000 Deductible*	25 %		
		Other (specify)			
		Complete Central Burglar	10 %		
		Maximum Credit Allowed	%		

EARTHQUAKE INSURANCE

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

ARE YOU CURRENTLY WRITING EARTHQUAKE COVERAGE IN ARKANSAS? No *(yes or no)*
WHAT IS YOUR PERCENTAGE DEDUCTIBLE? N/A %

WHAT IS YOUR PRICE PER $1,000 OF COVERAGE?	Zone	Brick	Frame
	Highest Risk	$ N/A	$ N/A
	Lowest Risk	$ N/A	$ N/A

NAIC LOSS COST DATA ENTRY DOCUMENT

1.	This filing transmittal is part of Company Tracking #	**R21438**

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

		Company Name		Company NAIC Number
3.	**A.**	**Allstate Insurance Company**	**B.**	**19232**

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

5.

(A) COVERAGE (See Instructions)	(B) Indicated Reinsurance Change	(C) Requested Reinsurance Change	FOR LOSS COSTS ONLY (D) Expected Loss Ratio	(E) Loss Cost Modification Factor	(F) Selected Loss Cost Multiplier	(G) Expense Constant (If Applicable)	(H) Co. Current Loss Cost Multiplier
Deluxe and Standard	**-0.09%**	**-0.09%**					
Deluxe Plus	**-0.09%**	**-0.09%**					
TOTAL OVERALL EFFECT	**-0.09%**	**-0.09%**					

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
2004	**26,569**	**N/A**	**N/A**	**20,206,109**	**7,966,782**	**0.39**	**0.41**
2005	**23,731**	**N/A**	**N/A**	**18,854,622**	**4,724,437**	**0.25**	**0.89**
2006	**21,018**	**N/A**	**N/A**	**17,274,282**	**13,720,978**	**0.79**	**0.36**
2007	**18,965**	**N/A**	**N/A**	**16,166,447**	**6,237,801**	**0.39**	**0.51**
2008	**16,913**	**N/A**	**N/A**	**14,610,674**	**22,439,334**	**1.54**	**0.64**
2009	**15,148**	**18.4%**	**6/1/2009**	**N/A**	**N/A**	**N/A**	**N/A**

7.

Expense Constants	Selected Provisions
A. Other Acquisition	**5.0%**
B. General Expense	**3.5%**
C. Taxes, License & Fees	**3.1%**
D. Underwriting Profit	**11.6%**
E1. Commissions E2. Contingency	**12.6%** **1.0%**
F. TOTAL	**36.8%**

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

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

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

ALLSTATE INSURANCE GROUP
OWNERS
ARKANSAS

EXPLANATION OF ADJUSTMENTS MADE TO PROVIDED LOSS RECOVERIES

With this filing, Allstate is revising the distinct charge to cover the net cost of reinsurance in Arkansas. The net cost of reinsurance is equal to the reinsurance premium paid, for all applicable contracts, less expected reinsurance recoveries under these contracts, and represents the incremental cost to Allstate of the contracts. This calculation is consistent with the Provision for Reinsurance discussed in section 3.7 of Actuarial Standards of Practice No. 29, *Expense Provisions in Property/Casualty Ratemaking.*

The expected loss recoveries have been allocated to the state and line of business level for Allstate Insurance Group, allocation to the company level was not available. The reinsurance premium, net of the expected AonBenfield premium adjustment provision, has been distributed to the individual states and lines of business in proportion to their expected loss recovery. Allstate has relied on modeled losses provided by reinsurance intermediary AonBenfield. The countrywide catastrophe aggregate excess of loss reinsurance agreements include coverage for California wildfires and non-recoupable Texas Windstorm Insurance Association (TWIA) assessments, which are not included in the modeled data. Therefore, Allstate independently calculated expected losses for these two components and included them in determining expected loss recoveries and distributing the reinsurance premium.

For purposes of calculating the net cost of reinsurance, the modeled losses include demand surge and have been modified with Allstate's loss adjustment expense (also knows as Claim Adjustment Fee). Only the Claim Adjustment Fee expense was applied to the CA wildfire expected losses and no adjustments were applied to the non-recoupable TWIA assessments.

The inclusion of this adjustment increases the expected recoveries under the contract, resulting in a lower net cost of reinsurance.

ALLSTATE INSURANCE GROUP
OWNERS
ARKANSAS

DETERMINATION OF THE REINSURANCE RATE ADJUSTMENT FACTOR
EXPLANATORY MEMORANDUM

Page 3 outlines the development of the required reinsurance rate adjustment factor. An explanation, with references to supporting exhibit, is provided below.

1. Reinsurance Premium:
   Reinsurance premium paid, net of expected AonBenfield premium adjustment provision.

2. Loss Savings Due to Reinsurance:
   Provided loss recoveries under the reinsurance contracts, including Allstate adjustments as mentioned on Page 1.

3. Net Cost of Reinsurance: {(1) - (2)}
   Provided loss recoveries are subtracted from the reinsurance premium to determine the net cost of reinsurance.

4. Variable Expenses:
   Expense ratio for commissions, taxes, profit, and debt. Please note that this does not include the contingency provision.

5. Net Cost of Reinsurance Including Variable Expenses: {(3) / [1-(4)]}

6. Adjusted AIY* x Current Reinsurance Base Charge:
   This amount represents the reinsurance charge collected, based on expected AIYs, if the reinsurance Rate Adjustment Factor was set to 1.000.

7. Required Reinsurance Rate Adjustment Factor: {(5) / (6)}
   The reinsurance rate adjustment factor represents the amount by which the reinsurance base charge is to be adjusted, in order to collect the net cost of reinsurance including commissions, taxes, profit, and debt determined in row 5.

* 1 AIY = One Amount of Insurance Year
  = $1,000 of Coverage In Force for One Year

ALLSTATE INSURANCE GROUP
OWNERS
ARKANSAS
DETERMINATION OF THE REINSURANCE RATE ADJUSTMENT FACTOR

	2009
1. Reinsurance Premium	$21,597
2. Loss Savings Due to Reinsurance	$3,050
3. Net Cost of Reinsurance: (1) - (2)	$18,547
4. Variable Expenses	27.2%
5. Net Cost of Reinsurance Including Variable Expenses: (3) / [1 - (4)]	$25,477
6. Adjusted AIYs x Current Reinsurance Base Charges	$572,157
7. Required Reinsurance Rate Adjustment Factor (5) / (6)	0.044

	Current	Proposed	Percent Change
Proposed Change in Reinsurance Rate Adjustment Factor	0.172	0.044	-74.4%

ALLSTATE INSURANCE GROUP
OWNERS
ARKANSAS

COMMISSIONS, TAXES, PROFIT, AND DEBT RATIO USED IN THE DETERMINATION OF THE AVERAGE INDICATED REINSURANCE CHARGE

	Provision in Rate
Commission and Brokerage	12.6%
Taxes*	3.0%
Underwriting Profit and Debt Provision	11.6%
Commissions, Taxes, Profit, and Debt Ratio	27.2%

*State Taxes – Does not include Federal Income Tax

ALLSTATE INSURANCE COMPANY
OWNERS FORM
ARKANSAS

Response to letter dated June 26th, 2009 regarding Filing #R21438

Please explain the increase in underwriting profit/debt provision from the previous year.

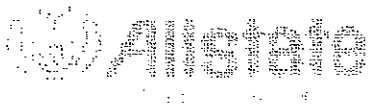
Prior to September, 2008, Allstate relied solely on the Fama-French Three-factor (FF3F) Model to estimate its cost of equity. The methodology underlying this cost of equity reflects developments in the field of financial economics as published in the *Casualty Actuarial Society Forum*, Winter, 2004 and in *Journal of Risk and Insurance, Vol. 72, No. 3, September 2005* ("Estimating the Cost of Equity Capital For Property-Liability Insurers" by J. David Cummins and Richard D. Phillips).

In September, 2008, Allstate incorporated the use of a second methodology – a Discounted Cash Flow (DCF) analysis – into the estimation of its cost of equity. A DCF analysis estimates the expected future cash flows to investors in order to gauge the proper cost of equity. Once both the DCF and FF3F estimates had been calculated, Allstate selected a cost of equity of 10.0%, which reflected the outcomes of both analyses.

In addition, previously both the cost of equity and the cost of debt were used to develop the underwriting profit provision. Allstate now develops the underwriting profit provision using only the cost of equity. Since the cost of debt represents expected, quantifiable future payments to be made to bondholders, confusion can result from including it in the derivation of the underwriting profit provision. Therefore, the cost of debt has been removed from the development of the underwriting profit provision and incorporated as a separate provision. Note that the resulting rate level is unaffected by this change; it is simply a matter of clarity of presentation.

These underwriting profit and debt provisions were previously approved for Arkansas Allstate Insurance Company Owners filing #R21073 with an effective date for new business written and renewals processed of June 1, 2009, for renewals effective on or after July 16, 2009.

Please refer to Appendix A for more detail regarding the Determination of the Underwriting Profit Provision.



APPENDIX A

DETERMINATION OF THE UNDERWRITING PROFIT PROVISION

ALLSTATE INSURANCE GROUP

September, 2008

Table of Contents

Section 1: The Fair and Reasonable Return

Standards for Fair Returns

In pricing its insurance products, Allstate seeks to produce a fair and reasonable return from its insurance operations. Generally, what constitutes a fair and reasonable return involves many factors. In the context of ratemaking, the Supreme Court of the United States examined the level of return that constitutes a fair return for a regulated business in two landmark cases; *Federal Power Commission, et al. v. Hope Natural Gas Co.*, 320 U.S. 591 (1944) and *Bluefield Waterworks & Improvement Co. v. Public Service Commission of West Virginia, et al.*, 262 U.S. 679 (1923).

In *Hope Natural Gas*, the court adopted the capital attraction standard, under which the following questions are asked: Is the current rate of return excessive? Is the industry attracting capital and holding it? How risky is the business in comparison with others? Is the industry over-capitalized? Would the industry make better use of its capital if rates were more adequate? The Court concisely summarized the essential components of what we believe to be a fair and reasonable return:

> "From the investor or company point of view it is important that there be enough revenue not only for operating expenses, but also for the capital costs of the business. These include service on the debt and dividends on the stock ... By that standard the return to the equity owner should be commensurate with returns on investments in other enterprises having corresponding risks. That return, moreover, should be sufficient to assure confidence in the financial integrity of the enterprise, so as to maintain its credit and to attract capital."[1]

In the *Bluefield Waterworks* case, the Court discussed in greater detail the requirement that a regulated enterprise must be permitted to charge such rates as will produce a return comparable to other businesses having corresponding risks. The Court explained:

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

> "A public utility is entitled to such rates as will permit it to earn a return upon the value of the property which it employs for the convenience of the public equal to that generally being made at the same time and in the same general part of the country on investments in other business undertakings which are attended by corresponding risks and uncertainties, but it has no constitutional right to profits such as are realized or anticipated in highly profitable enterprises or speculative ventures. The return . . . should be reasonably sufficient to assure confidence in the financial soundness of the utility, and should be adequate, under efficient and economical management, to maintain and support its credit, and enable it to raise the money necessary for the proper discharge of its public duties."[2]

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

1. The return to the firm should be sufficient to attract capital.

2. The return to the shareholder should be commensurate with returns on alternative investments of comparable risk.

3. The return to the firm should be commensurate with returns to other unregulated firms of comparable risk.

This paper will now examine how the components of Allstate's underwriting profit provision are designed to meet each of these standards.

Cost of Equity Capital

Insurance companies incur multiple expenses when writing insurance policies – for example, agent commissions, premium taxes, and personnel salaries, among other things. Another expense that is

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

incurred is the cost of raising and holding the capital that is required to support the business being written. This expense, known as the cost of equity capital, is included in the rate as what is typically called the "profit provision."

A firm's cost of equity capital is the rate of return that investors expect to earn on the market value of the investment. Allstate's cost of equity capital was estimated, and a corresponding profit provision was derived, using the methodologies described in the remainder of this paper.

Allstate utilized two major cost of capital estimation techniques to determine its result – the Fama-French Three-factor Method, and the Discounted Cash Flow Method. Each method is described in detail below.

Estimating the Cost of Equity Capital with the Fama-French Three-factor Model

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

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

tends to exceed the risk-free return by 5%; and when the return on the market portfolio is 10% less than the risk-free return, the return on the security tends to be 5% less than the risk-free return. Thus, a beta less than one indicates less than average risk.

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

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

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

Since the late 1980's, researchers have observed that CAPM's ability to explain and predict the average returns of many investment opportunities can be improved by incorporating additional factors into the analysis. The most widely recognized multi-factor model is the "Fama-French three-factor model."[3] Fama and French have shown that from the 1960's both small stocks and value stocks have returned more than what the traditional CAPM has predicted. In addition to the

[3] Fama, Eugene F., and Kenneth R. French, 1992, "The Cross-Section of Expected Stock Returns," *Journal of Finance* 47: 427-465.
Fama, Eugene F., and Kenneth R. French, 1993, "Common Risk Factors In the Returns on Stocks and Bonds," *Journal of Financial Economics* 39: 3-56.
Fama, Eugene F., and Kenneth R. French, 1996, "Size and Book-to-Market Factors in Earnings and Returns," *Journal of Finance* 50: 131-155.

usual market-risk premium (r_m-r_f), they utilize two other variables: size premium (π_s) and value premium (π_h).[4] The size premium is the excess of the return of a portfolio of small-cap stocks over that of a portfolio of large-cap stocks. The value premium is the excess of the return of a portfolio of high book-value-to-market-value stocks over that of a portfolio of low book-value-to-market-value stocks.[5] Shown in Appendix 1, Exhibit 1 are the long-term averages of the market-risk, small-stock, and value-stock premia from the Fama-French database, which derives from the database of the Center for Research in Security Prices. The Fama-French model regresses a stock's monthly return against monthly returns from the three factors, or in equation form:

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

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

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

The Fama-French model is a multi-factor model that reduces to the CAPM if β_s and β_h are constrained to zero. Therefore, it must explain more stock-return variance than does the CAPM. In a subsequent paper[6], Fama and French argued that the R-squared of their model is markedly

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

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

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

better than that for CAPM, and that $ß_s$ and $ß_h$ are significantly different from zero, even after controlling for the overall market.[7] Extensive research since 1992 has shown that factors other than the CAPM market systematic risk factor play an important role in explaining the cross-section of expected stock returns. As Fama and French note:

> "...the available evidence suggests that the three-factor model...is a parsimonious description of returns and average returns. The model captures much of the variation in the cross-section of average stock returns, and it absorbs most of the anomalies that have plagued the CAPM."[8]

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

In addition, we have used a technique for measuring the beta that has been shown to improve accuracy. In estimating the beta coefficients of asset pricing models such as the CAPM and Fama-French models, this technique is known as the sum-beta adjustment (Ibbotson, *SBBI Valuation Edition 2004*, 109-114). The sum-beta method is used to obtain unbiased estimates of the beta coefficients of the risk factors of asset pricing models, when either the individual stock and/or some of the stocks that comprise the risk factors are infrequently traded. Research shows that there is a downward bias in the estimate of the risk factors for shares that trade infrequently.[9] Although Allstate's stock is frequently traded, we cannot directly compare Allstate's estimated risk factors to those of other companies without first adjusting for the amount of trading in each firm's stock. The adjustment is quite simple – unbiased estimates of the beta coefficients are obtained – in the case of the Fama-French model, by regressing the excess return of the stock on the

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

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

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

contemporaneous risk factors and the previous month's factors.[10] In symbols, the sum-beta version of the Fama-French model is:

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

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

After estimating the long-term relationships between the stock's excess return and the factors, the unbiased beta coefficient for each factor is obtained by adding the current and lagged beta — hence the term "sum-beta." With unbiased estimates of the beta coefficients, the cost of equity capital is then determined by multiplying the long-term average risk premium for each factor by the appropriate sum-beta and then summing across the three factors.

Full-Information Betas

Allstate follows the lead of Cummins and Phillips in their application of the full-information adjustment to the Fama-French model.[11] From the CRSP data, betas are estimated for rolling sixty-month periods for the thousands of companies in the CRSP database. For more than five thousand of these companies, the S&P/Compustat database provides sales figures by North American Industry Classification System (NAICS) segment. This allows us to define 26 high-level, homogenous business segments, one of which is property/casualty insurance. Each firm can then be treated as a unique mixture of these business segments. In other words, we can decompose the Fama-French betas of the companies in the sample into Fama-French betas of idealized business segments, in particular, those of the property/casualty segment. The details

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

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

of this procedure are given in the earlier cited working paper of Cummins and Phillips, but in brief, we estimate the industry-segment betas of the following seemingly-unrelated-regression (SUR)[12] model:

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

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

Allstate's Cost of Equity Capital Estimate Using Fama-French

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

The attached Appendix 1, Exhibit 1 presents the three risk premia necessary to apply the Fama-French model. The three risk premia are long-term averages beginning with July 1926 data and ending in June of the year shown in the exhibit. Data before July 1926 are not readily available.

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

The CRSP data go back only that far, and Ibbotson Associates takes it as the starting point for all its series.

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

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

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

Appendix 1, Exhibit 2 presents the property/casualty insurance industry betas and coefficients necessary to apply the Fama-French model. As previously described, these values are based on CRSP data for thousands of firms, subdivided into twenty-six business segments.

Appendix 1, Exhibit 3 summarizes the market value and book value from Allstate's reported financial statements. Only the two "Log" columns will carry forward into the cost-of-capital calculation. These "Log" values will multiply with the model-estimated gammas, so that the size

and value components of the cost of capital will be tailored to Allstate within the property/casualty insurance segment.

Appendix 1, Exhibit 4, Page 1 summarizes the Fama-French model estimates of the market-risk, size-risk, and value-risk betas. Calculations are shown for the most recent five-year period. Note that nothing unique to Allstate flows into the market-risk beta, but the size-risk and value-risk components are specific to Allstate.

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

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

Appendix 1, Exhibit 4, Page 2 summarizes the final calculation of the Fama-French cost of equity. The cost of equity is equal to the sum of the P/C industry market risk premium, the Allstate size risk premium, the Allstate value risk premium, and the risk-free return.

Estimating the Cost of Equity Capital with the Discounted Cash Flow Model

The Discounted Cash Flow (DCF) model, as the name implies, is based on the concept of discounting future cash flows. The underlying assumption of the model is that the cost of an investment, typically the price of a stock, must equal the present value of the cash flows from the investment. The logic is as follows: investors are willing to pay the current price for a share of stock only if the present value of the expected cash flows arising from the investment is equal to that price. If the present value of the cash flows were greater (less) than the current price, investors would bid the price up (down).

The cash flows arising from the purchase of a share of stock are the dividend payments the investor expects to receive in the future. If the security is expected to be held in perpetuity, then the stock price can be expressed as the sum of the discounted future dividend yields:

$$P_0 = [D_1/(1+k)]+[D_2/(1+k)^2]+[D_3/(1+k)^3] + \ldots \quad (1)$$

where P_0 is the price of the stock, D_i is the dividend yield in period i, and k is the investor's implicit discount rate, or cost of capital. If dividends are expected to grow at a constant annual rate, g, in the future, then the dividend in time period i is simply the current dividend, D_0, times the growth factor $(1+g)^i$. It can be shown, by suitable mathematical manipulation, that this formulation of the DCF model is equivalent to the equation below:

$$k = (D_1/P_0) + g \quad (2)$$

where D_1/P_0 is the dividend yield expected in the first year and g is the expected growth rate of the dividends. It can also be shown that even if the investor expects to sell the security at some later date, the price at that time will be equal to the present value of the then future dividend flows. Therefore any expected future capital gain will be impounded in the current estimates of future cash flows.

As shown in equation (2) above, calculating cost of capital entails collecting data and developing computational procedures to estimate the two components on the right hand side of the equal sign – the expected first year dividend yield and the expected growth rate in dividends. The approach taken by Allstate in the estimation of these two components was derived largely from the hearings of the Federal Energy Regulatory Commission (FERC), which produced a substantial amount of testimony relating to the implementation of the DCF model[13].

The first component of the DCF equation, D_1/P_0, is the anticipated dividend yield in the coming year. It is the estimated total cash dividends to be declared over the next 12 months divided by the

[13] We relied heavily on a series of these FERC orders, including orders 420, 442, 442A, 461, and 489 in developing the estimation procedures used in the analysis herein.

current price of the stock. This value is reported directly in the data source[14] upon which we rely, and hence requires no specific calculation.

The second component of equation (2) is the growth rate, g. We calculate this value as the average of several different estimates, including historical and forecasted dividend and earnings growth rates, and the growth rate from what is termed the "fundamental analysis."

Regarding the dividend/earnings data, the composite earnings and dividend growth rates are calculated as the average of five-year and ten-year historical growth rates and analysts forecasts of such growth rates in the future. Details of these calculations can be found on Appendix 2, Exhibit 3, Pages 1 and 2. The average of the dividend growth rate[15] and the earnings growth rate[16] is called the "Growth Forecast."

The second method, "fundamental analysis" (also known as the "sustainable growth model", the "internal growth model" or the "plowback method"), is a method of estimating expected future dividend growth that depends solely on the firm's own financing activities: the retention and reinvestment of earnings and the issuance of new stock. The underlying premise of this approach is that sustainable growth in the future depends on the firm's ability to generate such growth internally. Thus, the fundamental analysis computes the expected growth rate as the sum of the earnings retained to common equity and a stock issuance adjustment factor, as follows:

Fundamental growth = e + s*v

e= earnings retained to common equity
s= fraction of shares to be issued
v= (market/book) - 1.

The first component of the sum above – the earnings retained to common equity – represents the growth in dividends arising from the reinvestment of retained earnings; for example, if 60% of

[14] Value Line Investment Survey
[15] Appendix 2, Exhibit 3, Page 1: Column (5)
[16] Appendix 2, Exhibit 3, Page 2: Column (5)

earnings are retained and reinvested within the firm, and the rate of return on investment is expected to be 15%, then earnings and dividends should grow 9% (=60% * 15%), because the reinvested earnings will produce profits that can be used to pay higher dividends in the future. The second component of the sum above represents an estimate of the growth in dividends that can arise if a firm sells new stock at prices above book value. Details regarding the calculation of the fundamental analysis can be found on Appendix 2, Exhibit 4, Pages 1 and 2.

The dividend growth rate (g), can then be estimated as the average of the growth forecast and the fundamental analysis. Once the dividend growth rate has been calculated, the cost of equity can be calculated using equation (2) above – the sum of the dividend growth rate and the expected first-year dividend yield. Details regarding the calculation of the cost of equity can be found on Appendix 2, Exhibit 1.

Allstate's Cost of Equity Capital Selection

Allstate utilizes both the Fama-French model and the Discounted Cash Flow model to leverage the strengths of each model. A strength of the Fama-French model is its responsiveness to current market conditions; a strength of the Discounted Cash Flow model is its degree of stability in its results. By incorporating the results of both analyses, Allstate can produce an estimated cost of capital that strikes a balance between the more responsive model and the more stable one.

After considering the results from both the Fama-French and Discounted Cash Flow analyses, Allstate selected a cost of capital, as shown on Appendix 3, Exhibit 1, Page 1.

Section 2: Development of the Underwriting Profit Provision From a Given Cost of Equity

Underwriting profit is defined in *Actuarial Standards of Practice, No. 30* as "Premiums less losses, loss adjustment expenses, underwriting expenses, and policyholder dividends."[17] Thus, a provision for underwriting profit is a portion of the actuarially developed rate, and is often expressed as a percentage of the rate.[18] The underwriting profit provision is an estimate of future profits; because actual losses and expenses can differ from those expected, the actual realized underwriting profit may not equal the target profit provision.

In the past, development of the underwriting profit provision for insurance companies was a task that involved no underlying theory, but rather constituted the simple task of selecting a round number. From 1921 until the 1960's, a 5% underwriting profit provision was used for most lines.[19] This approach, however, was not based on financial theory and neglected investment income and income taxes. As pricing techniques have become more sophisticated through the incorporation of financial theory, the development of the underwriting profit provision has become more rigorous and the need for financial soundness more important. Allstate's method of determining the appropriate underwriting profit provision, which is described in detail in this paper, involves determining the *total* profit needed to meet the demand of investors and then subtracting out the profit received from investment income to arrive at the underwriting profit needed from insurance operations and, ultimately, from the premium collected.

Section 1: *The Fair and Reasonable Return* describes the step-by-step process by which Allstate's cost of equity was calculated. In order to obtain the needed cost of equity, Allstate must include an appropriate underwriting profit provision in its ratemaking methodology. The development of the appropriate underwriting profit provision is shown below.
Appendix 3, Exhibit 1, Page 2 displays the flow of calculations from a given cost of equity to the underwriting profit provision; below is a detailed discussion of each step in the process of

[17] *Actuarial Standards of Practice, No. 30*; page 2
[18] *Ibid;* page 2
[19] The notable exception is Workers Compensation, which used a 2.5% profit load (Robbin, 1992)

calculating an underwriting profit provision based on a given cost of equity. Please see the exhibits attached in Appendix 3 for supporting data used in the calculation of the underwriting profit provision, as catalogued in Appendix 3, Exhibit 1, Page 2.

Detail Supporting the Underwriting Profit Calculations

Step (1): Average Market Value of Equity

As mentioned in Section 1: *The Fair and Reasonable Return*, the cost of equity is a rate of return on the market value of the firm. Therefore, once we have calculated the cost of equity (as described in *The Fair and Reasonable Return*), we must determine the appropriate market value to which this return should be applied.

The market value of a firm, which can be calculated as the sum of a firm's shares of stock multiplied by the price for that stock, is a constantly changing value. Therefore, in order to establish a measure of stability within the pricing calculations, Allstate applies a long-term average of the company's market-to-book ratio to the year-end book value to determine the average market value. In addition, a "market value" for two of Allstate's separate entities – Allstate New Jersey and Allstate Floridian – is imputed using each company's proportion of total corporate book value. Details for these calculations can be found on Appendix 3, Exhibit 2.

Step (2): Cost of Equity (%)

Details of the derivation of the cost of equity can be found in Section 1: *The Fair and Reasonable Return.* A summary of the cost of capital analysis results can be found in Appendix 3, Exhibit 1, Page 1.

Step (3): Cost of Equity ($)

Given the market value of the firm (Step 1) and the percentage cost of equity (Step 2), we can calculate the dollar value of the cost of equity as the product of Step 1 and Step 2.

Step (4): Dividend Payout Ratio

Appendix 3, Exhibit 3 details the derivation of the dividend payout ratio. In this calculation, stock repurchases are considered with dividends in the total payout. The result of a stock repurchase is to increase the value of each remaining share. Since the market value is unchanged, and the number of shares outstanding has decreased, the value per share increases. Thus, similar to a dividend, the shareholder receives income, despite the fact that total market value and the present value of growth opportunities for the company remain unchanged. The dividend payout ratio is obtained by summing the Total Payout, column (5), and the GAAP Net Income, column (2), and calculating the ratio of these two sums. Because the amount of dividends paid and stock repurchases made in a given year are based on the income earned in the previous year, the GAAP Net Income is lagged by one year in determining the dividend payout ratio. Data starting in 1996 is used to calculate the average, as that is the data available since Allstate became a publicly traded firm in 1995.

Step (5): Average Market-to-book Ratio

Appendix 3, Exhibit 4 details the derivation of the average market-to-book ratio. Due to the amount of fluctuation in market-to-book ratios, Allstate uses a long-term average estimate of this ratio.

Step (6): Income Due Shareholders

Recall that the cost of equity is the return on the market value of the firm, which is the return due to the shareholders. Therefore, the dollar value of the cost of equity, shown in Step 3, is the income due to shareholders.

Step (7): Income Needed by Allstate

The amount of income that Allstate must earn in order to pay shareholders is not necessarily equal to the amount of income due to the shareholders. Given Allstate's dividend payout ratio

and market-to-book ratio, we can calculate the amount of income that Allstate must earn in order to provide the cost of capital to shareholders.

If a company's market-to-book ratio is greater than one, and its dividend payout ratio is less than 100%, then the amount of income that the firm needs to make is less than the amount due to the shareholders. For example, if the income due to shareholders was $100, and the company had a market-to-book ratio of 1.50 and a dividend payout ratio of 0.60, then we know that $100 = 60%*X + 40%*1.50*X, where X is the income needed by the company. We can rearrange the equation to make it easier to solve for X: X = $100/(60%+40%*1.50) = $83.33. Therefore, in this scenario, the company would need to earn $83.33 in order to provide $100 to its shareholders.

Similar to this example, because Allstate's market-to-book ratio is greater than one and its dividend payout ratio is less than 100%, the amount of income that Allstate must earn is less than the amount due to the shareholders. In general terms, the equation can be described as follows: Income Needed by the Company = Income Due Shareholders/[Dividend Payout Ratio – (1 – Dividend Payout Ratio)*Market-to-book Ratio]. This is the formula used to calculate the income needed by Allstate in Step 7.

Step (8): Investment Income on Equity

Allstate earns investment income on its equity capital, which contributes to the income needed by Allstate. The value listed in Step 8 is derived from an investment income forecast produced by Allstate's Investments department. Allstate uses projected values of investment income, rather than historical averages of actual investment income, because it allows for swifter adaptation to changes in Allstate's investment portfolio, as well as evolving market conditions.

The investment income estimate includes investment income and capital gains, both realized and unrealized. In addition, net income from Allstate Financial is included.

Step (9): Operating Income Needed:

"Operating income" is the term that is used to describe the amount of income made by a company through its insurance operations, that is, through its underwriting profits and investment income from policyholder-supplied funds. Operating income does not include investment income on capital.

To derive Allstate's target operating income, one must simply start with the total target income for Allstate (Step 7) and subtract the investment income on equity capital (Step 8). The remaining target income is the operating income.

Step (10): Earned Premium

This value represents the latest calendar year of earned premium from all lines of business. Similar to the estimate of the average market value of equity in Step 1, the earned premium is subdivided for Allstate New Jersey, Allstate Floridian, and the remainder of Allstate Group. Details on this subdivision can be found on Appendix 3, Exhibit 2.

Step (11): Operating Ratio

Operating income can be expressed as a ratio to premium by dividing the operating income (Step 9) by the earned premium (Step 10).

Step (12): Investment Income for Policyholder-supplied Funds

As mentioned above, operating income is equal to the sum of the underwriting profit and the investment income from policyholder-supplied funds (PHSF). Therefore, in order to determine the appropriate target underwriting profit, we must estimate the expected investment income from PHSF.

PHSF are equal to loss and unearned premium reserves, and Allstate estimates the investment income produced by them using an analysis of premium, expense, and loss cash flows. Premiums are collected, expenses are incurred, and losses are paid in different time frames. In most cases, premiums are collected over a short period of time, while expenses and, more notably, losses are paid out over a longer period of time. This difference in cash inflow and

outflow allows the insurer to earn investment income on the premium supplied by the policyholder.

A cash-flow analysis is one of the two examples given in Actuarial Standards of Practice, No. 30 as appropriate methods for recognizing investment income from insurance operations (page 4). This methodology also allows us to differentiate the amount of expected investment income by line of business and by state. Therefore, lines of business and states with longer-tailed losses are estimated to have higher than average investment income, and vice versa.

The discount rate used in the cash flow calculations is based on the investment income rate of return for Allstate's investment portfolio. It is the same rate of return that is used in Step 8: investment income on equity capital.

Details of the investment income on PHSF calculations can be found on Appendix 3, Exhibit 5.

Step (13): After-tax Underwriting Profit Provision

As mentioned in Step 12 above, the amount of underwriting income required from insurance operations can be reduced for the investment gains resulting from the timing of policy cash flows. Thus, the investment gains from PHSF are subtracted from the operating ratio to get the after-tax underwriting profit provision.

Step (14): Tax Rate

Allstate's federal income tax rate on underwriting income is 35%. This step in the calculations is only for the taxation of underwriting income. Taxes paid on investment income were accounted for separately in Steps 8 and 12.

Step (15): Pre-tax Underwriting Profit Provision

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

Appendix 1

The Fama-French Three-factor Model

Appendix 1
Exhibit 1

FAMA-FRENCH RISK PREMIA

Annual Avg until December	Market-Risk Premium	Small-Stock Premium	Value-Stock Premium
2003	8.26%	3.79%	5.16%
2004	8.30%	3.81%	5.21%
2005	8.25%	3.73%	5.26%
2006	8.29%	3.69%	5.37%
2007	8.22%	3.54%	5.15%

All time series commence from 1926.

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

Appendix 1
Exhibit 2

PROPERTY/CASUALTY INDUSTRY SEGMENT
Betas

60 Months ending December	Market-Risk Beta	Prop/Cas Small-Stock Beta	Prop/Cas Value-Stock Beta	Market-Value Coefficient	Book-to-Market Coefficient
2003	0.576	1.230	0.706	-0.148	0.259
2004	0.648	1.104	0.658	-0.133	0.239
2005	0.511	1.601	0.451	-0.166	0.345
2006	0.845	1.408	0.229	-0.145	0.219
2007	1.198	1.453	0.076	-0.184	0.321

ALLSTATE CORPORATION

NAICS Code 524126

Allstate Compustat Data

Estimation Year	Market Value ($ Million)	Book Value ($ Million)	Log Market Value	Log Book-to-Market
2003	30,268	20,565	10.3178	-0.3865
2004	35,491	21,823	10.4770	-0.4863
2005	35,072	20,186	10.4652	-0.5524
2006	40,690	21,846	10.6137	-0.6220
2007	29,809	21,851	10.3025	-0.3105

Source: Standard & Poor's/Compustat

ALLSTATE CORPORATION
Betas

Market Risk Component:

(1) Period	(2) Prop/Cas Market Beta
2003	**0.576**
2004	**0.648**
2005	**0.511**
2006	**0.845**
2007	**1.198**
3-yr Avg	**0.851**
5-yr Avg	**0.756**
Selected	**0.851**

Size Risk Component:

(3) Period	(4) Prop/Cas Size Beta	(5) Market Value Coefficient	(6) Log Market Value	(7)=(4) + (5)*(6) Size Risk Beta
2003	1.230	-0.148	10.3178	**-0.297**
2004	1.104	-0.133	10.4770	**-0.289**
2005	1.601	-0.166	10.4652	**-0.136**
2006	1.408	-0.145	10.6137	**-0.131**
2007	1.453	-0.184	10.3025	**-0.443**
			3-yr Avg	**-0.237**
			5-yr Avg	**-0.259**
			Selected	**-0.237**

Value Risk Component:

(8) Period	(9) Prop/Cas Value Beta	(10) Book-to-Mkt Coefficient	(11) Log Book-to-Market	(12)=(9)+(10)*(11) Value Risk Beta
2003	0.706	0.259	-0.3865	**0.606**
2004	0.658	0.239	-0.4863	**0.542**
2005	0.451	0.345	-0.5524	**0.260**
2006	0.229	0.219	-0.6220	**0.093**
2007	0.076	0.321	-0.3105	**-0.024**
			3-yr Avg	**0.110**
			5-yr Avg	**0.295**
			Selected	**0.110**

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

ALLSTATE CORPORATION
Estimated Cost of Equity Capital

Cost of Equity Capital:

		Value	Source
(1)	Long-term Average Market Risk Premium:	8.22%	App. 1, Exh. 1
(2)	Selected Beta:	0.851	App. 1, Exh. 4, Pg. 1
(3)	P/C Industry Market Risk Premium:	7.00%	=(1) * (2)
(4)	Long-term Size Risk Premium:	3.54%	App. 1, Exh. 1
(5)	Selected Size Beta:	-0.237	App. 1, Exh. 4, Pg. 1
(6)	Allstate Size Risk Premium:	-0.84%	=(4) * (5)
(7)	Long-term Value Risk Premium:	5.15%	App. 1, Exh. 1
(8)	Selected Value Beta:	0.110	App. 1, Exh. 4, Pg. 1
(9)	Allstate Value Risk Premium:	0.57%	=(7) * (8)
(10)	Total Risk Premium:	6.73%	=(3) + (6) + (9)
(11)	Risk-free Return:	1.88%	US Treasury*
(12)	Fama-French Cost of Equity Capital:	8.61%	=(10) + (11)

*The risk-free return is the investment return on a 28-day Treasury bill, as of June 16, 2008
http://www.ustreas.gov/offices/domestic-finance/debt-management/interest-rate/daily_treas_bill_rates_historical.shtml

Appendix 2

The Discounted Cash Flow Model

ALLSTATE CORPORATION
Discounted Cash Flow Analysis
Summary

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
Time Period	Estimated Dividend Yield	Dividend Component	Earnings Component	Growth Forecast	Earnings Retention	Stock Issuance Factor	Fundamental Analysis	Dividend Growth Rate	Cost of Capital
4th Quarter 2007	2.90	11.00	10.83	10.92	11.49	(0.90)	10.59	10.75	13.65
3rd Quarter 2007	2.60	11.00	11.50	11.25	10.99	(0.90)	10.09	10.67	13.27
2nd Quarter 2007	2.60	11.67	6.33	9.00	10.00	(0.09)	9.91	9.45	12.05
1st Quarter 2007	2.30	11.83	6.83	9.33	9.90	(0.06)	9.84	9.58	11.88
4th Quarter 2006	2.40	11.67	8.00	9.83	8.60	(0.03)	8.57	9.20	11.60
3rd Quarter 2006	2.60	11.67	8.00	9.83	9.10	(0.04)	9.06	9.44	12.04
2nd Quarter 2006	2.60	11.67	7.17	9.42	9.87	(0.36)	9.50	9.46	12.06
1st Quarter 2006	2.50	13.33	11.67	12.50	10.70	(0.90)	9.80	11.15	13.65
4th Quarter 2005	2.40	13.33	11.67	12.50	10.70	(0.90)	9.80	11.15	13.55
3rd Quarter 2005	2.20	15.17	9.33	12.25	10.70	(0.99)	9.71	10.98	13.18
2nd Quarter 2005	2.40	15.17	9.00	12.08	10.26	(1.43)	8.83	10.45	12.85
1st Quarter 2005	2.30	15.50	10.83	13.17	10.76	(1.69)	9.07	11.12	13.42
4th Quarter 2004	2.30	15.50	10.33	12.92	9.76	(0.37)	9.39	11.15	13.45
3rd Quarter 2004	2.50	15.50	10.17	12.83	9.76	(0.28)	9.48	11.16	13.66
2nd Quarter 2004	2.50	7.33	3.67	5.50	10.06	(0.55)	9.51	7.51	10.01
1st Quarter 2004	2.20	6.83	3.67	5.25	10.24	(0.56)	9.67	7.46	9.66
4th Quarter 2003	2.50	6.83	3.67	5.25	10.24	(0.46)	9.78	7.52	10.02
3rd Quarter 2003	2.50	6.83	3.17	5.00	10.57	(0.50)	10.07	7.53	10.03
2nd Quarter 2003	2.80	6.83	6.17	6.50	10.57	(0.50)	10.07	8.28	11.08
1st Quarter 2003	2.20	7.00	5.83	6.42	10.74	(0.60)	10.14	8.28	10.48

Sources (within Appendix 2):
(2): Exhibit 2, Column (2)
(3): Exhibit 3, Page 1, average of Columns (2)-(4)
(4): Exhibit 3, Page 2, average of Columns (2)-(4)
(5): Average of Columns (3)-(4)
(6): Exhibit 4, Page 1, average of Columns (2)-(4)
(7): Exhibit 4, Page 2, Column (5)
(8): Sum of column (6) and column (7)
(9): Average of Columns (5) and (8)
(10): Sum of column (2) and column (9)

ALLSTATE CORPORATION
Discounted Cash Flow Analysis
Estimated Dividend Yield

(1)	(2)
Time Period	Estimated Dividend Yield
4th Quarter 2007	2.90
3rd Quarter 2007	2.60
2nd Quarter 2007	2.60
1st Quarter 2007	2.30
4th Quarter 2006	2.40
3rd Quarter 2006	2.60
2nd Quarter 2006	2.60
1st Quarter 2006	2.50
4th Quarter 2005	2.40
3rd Quarter 2005	2.20
2nd Quarter 2005	2.40
1st Quarter 2005	2.30
4th Quarter 2004	2.30
3rd Quarter 2004	2.50
2nd Quarter 2004	2.50
1st Quarter 2004	2.20
4th Quarter 2003	2.50
3rd Quarter 2003	2.50
2nd Quarter 2003	2.80
1st Quarter 2003	2.20

Sources:
Value Line Investment Surveys, Part 3, The Ratings & Reports
Various editions from 1994 to 2008

ALLSTATE CORPORATION
Discounted Cash Flow Analysis
Dividends Per Share Experience

(1)	(2)	(3)	(4)	(5)
	Annual Rate of Change			
Time Period	Past 10 Years	Past 5 Years	Forecast	Average
4th Quarter 2007	12.50	13.00	7.50	11.00
3rd Quarter 2007	12.50	13.00	7.50	11.00
2nd Quarter 2007	13.50	12.50	9.00	11.67
1st Quarter 2007	13.50	12.50	9.50	11.83
4th Quarter 2006	13.50	12.50	9.00	11.67
3rd Quarter 2006	13.50	12.50	9.00	11.67
2nd Quarter 2006	13.50	12.50	9.00	11.67
1st Quarter 2006	18.50	12.50	9.00	13.33
4th Quarter 2005	18.50	12.50	9.00	13.33
3rd Quarter 2005	25.00	11.50	9.00	15.17
2nd Quarter 2005	25.00	11.50	9.00	15.17
1st Quarter 2005	25.00	11.50	10.00	15.50
4th Quarter 2004	25.00	11.50	10.00	15.50
3rd Quarter 2004	25.00	11.50	10.00	15.50
2nd Quarter 2004	NA	12.00	10.00	11.00
1st Quarter 2004	NA	12.00	8.50	10.25
4th Quarter 2003	NA	12.00	8.50	10.25
3rd Quarter 2003	NA	12.00	8.50	10.25
2nd Quarter 2003	NA	11.50	9.00	10.25
1st Quarter 2003	NA	11.50	9.50	10.50

Sources:
Value Line Investment Surveys, Part 3, The Ratings & Reports
Various editions from 1994 to 2008

ALLSTATE CORPORATION
Discounted Cash Flow Analysis
Earnings Per Share Experience

(1)	(2)	(3)	(4)	(5)
	Annual Rate of Change			
Time Period	Past 10 Years	Past 5 Years	Forecast	Average
4th Quarter 2007	11.00	12.50	9.00	10.83
3rd Quarter 2007	11.50	13.50	9.50	11.50
2nd Quarter 2007	10.00	1.00	8.00	6.33
1st Quarter 2007	10.00	1.00	9.50	6.83
4th Quarter 2006	10.00	1.00	13.00	8.00
3rd Quarter 2006	10.00	1.00	13.00	8.00
2nd Quarter 2006	10.00	1.00	10.50	7.17
1st Quarter 2006	22.50	0.50	12.00	11.67
4th Quarter 2005	22.50	0.50	12.00	11.67
3rd Quarter 2005	19.50	-3.50	12.00	9.33
2nd Quarter 2005	19.50	-3.50	11.00	9.00
1st Quarter 2005	19.50	-3.50	16.50	10.83
4th Quarter 2004	19.50	-3.50	15.00	10.33
3rd Quarter 2004	19.50	-3.50	14.50	10.17
2nd Quarter 2004	NA	-1.50	12.50	5.50
1st Quarter 2004	NA	-1.50	12.50	5.50
4th Quarter 2003	NA	-1.50	12.50	5.50
3rd Quarter 2003	NA	-1.50	11.00	4.75
2nd Quarter 2003	NA	10.00	8.50	9.25
1st Quarter 2003	NA	10.00	7.50	8.75

Sources:
Value Line Investment Surveys, Part 3, The Ratings & Reports
Various editions from 1994 to 2008

ALLSTATE CORP
Discounted Cash Flow Analysis
Average Earnings Retention Rates

(1)	(2)	(3)	(4)	(5)
Time Period	10-year Average	5-Year Average	Forecast	Average
4th Quarter 2007	11.46	10.50	12.50	11.49
3rd Quarter 2007	11.46	10.50	11.00	10.99
2nd Quarter 2007	11.47	10.52	8.00	10.00
1st Quarter 2007	11.37	10.32	8.00	9.90
4th Quarter 2006	10.83	7.46	7.50	8.60
3rd Quarter 2006	10.83	7.46	9.00	9.10
2nd Quarter 2006	11.60	8.50	9.50	9.87
1st Quarter 2006	11.60	8.50	12.00	10.70
4th Quarter 2005	11.60	8.50	12.00	10.70
3rd Quarter 2005	11.60	8.50	12.00	10.70
2nd Quarter 2005	10.72	9.06	11.00	10.26
1st Quarter 2005	10.72	9.06	12.50	10.76
4th Quarter 2004	10.72	9.06	9.50	9.76
3rd Quarter 2004	10.72	9.06	9.50	9.76
2nd Quarter 2004	10.69	9.00	10.50	10.06
1st Quarter 2004	10.65	10.56	9.50	10.24
4th Quarter 2003	10.65	10.56	9.50	10.24
3rd Quarter 2003	10.65	10.56	10.50	10.57
2nd Quarter 2003	10.65	10.56	10.50	10.57
1st Quarter 2003	9.80	12.42	10.00	10.74

Sources:
Value Line Investment Surveys, Part 3, The Ratings & Reports
Various editions from 1994 to 2008

ALLSTATE CORP
Discounted Cash Flow Analysis
Stock Issuance Adjustment Factor

(1)	(2)	(3)	(4)	(5)
Time Period	Current Shares	Forecast Shares	Forecast Market/ Book	Stock Issuance Adjustment Factor
4th Quarter 2007	575.00	525.00	1.40	(0.90)
3rd Quarter 2007	575.00	525.00	1.40	(0.90)
2nd Quarter 2007	622.00	600.00	1.10	(0.09)
1st Quarter 2007	620.00	610.00	1.15	(0.06)
4th Quarter 2006	625.00	610.00	1.05	(0.03)
3rd Quarter 2006	625.00	600.00	1.04	(0.04)
2nd Quarter 2006	630.00	600.00	1.30	(0.36)
1st Quarter 2006	645.00	600.00	1.50	(0.90)
4th Quarter 2005	645.00	600.00	1.50	(0.90)
3rd Quarter 2005	650.00	600.00	1.50	(0.99)
2nd Quarter 2005	683.00	600.00	1.45	(1.43)
1st Quarter 2005	680.00	600.00	1.55	(1.69)
4th Quarter 2004	690.00	650.00	1.25	(0.37)
3rd Quarter 2004	690.00	660.00	1.25	(0.28)
2nd Quarter 2004	690.00	660.00	1.50	(0.55)
1st Quarter 2004	701.00	670.00	1.50	(0.56)
4th Quarter 2003	695.00	670.00	1.50	(0.46)
3rd Quarter 2003	695.00	670.00	1.55	(0.50)
2nd Quarter 2003	695.00	670.00	1.55	(0.50)
1st Quarter 2003	700.00	670.00	1.55	(0.60)

Sources:
(1)-(3): Value Line Investment Surveys, Part 3, The Ratings & Reports
Various editions from 1994 to 2008
(5) = [(4) - 1] x [((3) / (2)) exp(t) - 1] x 100,
where t is 0.25 for forecasts.

Appendix 3

Development of the Underwriting Profit Provision
From a Given Cost of Equity

ALLSTATE CORPORATION
Estimated Cost of Equity Capital

Allstate Corporation Cost of Equity Capital Estimates

		Value	Source
(1)	Fama-French Three-factor Model	8.61%	App. 1, Exh. 4, Pg. 2
(2)	Discounted Cash Flow Model	13.65%	App. 2, Exh. 1
(3)	**Selected Cost of Equity Capital**	**10.00%**	Selection

ALLSTATE INSURANCE GROUP

Arkansas
Homeowners

Development of the Underwriting Profit

			Total	Source
(1)	Average Market Value of Equity:	$	32,528	App. 3, Exh. 2
(2)	Cost of Equity (%):		10.00%	App. 3, Exh. 1, Pg. 1
(3)	Cost of Equity ($):	$	3,253	=(1)*(2)
(4)	Dividend Payout Ratio:		0.73	App. 3, Exh. 3
(5)	Average Market-to-book Ratio:		1.55	App. 3, Exh. 4
(6)	Income Due Shareholders:	$	3,253	=(3)
(7)	Income Needed by Allstate:	$	2,832	=(6)/[(4)+(1-(4))*(5)]
(8)	Investment Income on Equity:	$	852	IDF*
(9)	Operating Income Needed:	$	1,980	=(7)-(8)
(10)	Earned Premium:	$	25,972	App. 3, Exh. 2
(11)	Operating Ratio:		7.62%	=(9)/(10)
(12)	Investment Income from PHSF**:		0.92%	App. 3, Exh. 5, Pg. 1
(13)	After-tax U/W Profit Provision:		6.70%	=(11)-(12)
(14)	Tax Rate:		35%	FIT***
(15)	Pre-tax U/W Income Needed by Allstate:		10.31%	=(13)/(1-(14))

*Investments Department forecast
**Policyholder-supplied Funds (PHSF) are unearned premium and loss reserves
***This is the federal income tax rate on underwriting profit for Allstate
Dollar values are in millions

Appendix 3
Exhibit 2

ALLSTATE INSURANCE GROUP

Enterprise Valuation

($ In Millions)

Entity	GAAP Book Value*	Earned Premium	Imputed Market Value**
Total Group	21,851	27,233	33,869
ANJ/AFIC	865	1,261	1,371
Group Less ANJ/AFIC	20,986	25,972	32,528

*As of 12/31/07

**Equals GAAP Book Value multiplied by the average market-to-book ratio

ALLSTATE CORPORATION

Dividend Payout Ratio

(1)	(2)	(3)	(4)	(5) = (3)+(4)		(6) = (5)/(2)
Year	Prior Year GAAP Net Income*	Dividends	Stock Repurchases (Net)	Total Payout		Total Payout Ratio
1997	$2,075	417	1,277	1,694		0.82
1998	$3,105	450	1,400	1,850		0.60
1999	3,294	482	864	1,346		0.41
2000	2,720	506	1385	1,891		0.70
2001	2,211	547	612	1,159		0.52
2002	1,158	594	383	977		0.84
2003	1,134	648	-48	600		0.53
2004	2,705	779	1111	1,890		0.70
2005	3,181	846	2,203	3,049		0.96
2006	1,765	885	1,516	1,765	**	1.00
2007	4,993	901	3,483	4,384		0.88
Total	28,341	7,055	14,186	20,605		**0.73**

Source: 2007 Allstate Annual Report - pages 11, 117

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

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

ALLSTATE CORPORATION

Historical Market-to-book Ratios

Years	Allstate
Dec-98	1.76
Dec-99	1.08
Dec-00	1.74
Dec-01	1.38
Dec-02	1.47
Dec-03	1.47
Dec-04	1.62
Dec-05	1.73
Dec-06	1.85
Dec-07	1.35
10-yr Avg:	1.55
Selected:	**1.55**

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

ALLSTATE INSURANCE COMPANY
HOMEOWNERS

Arkansas

Calculation of Present Value, as of the Average Earning Date
of a Policy year, of all Income and Outgo @ 1.95%*
force of interest, given an Operating Profit of 7.62%
and twelve month Policy Terms

Years From Start of Policy Year	Arkansas Cumulative Percent of Losses Paid	Arkansas Yearly Percent of Losses Paid	Time from Start of Policy Year	Discounted ** to avg time of profit @ 1.95%	Discounted Payments
1	30.7%	30.7%	0.70	1.0059	30.88%
2	95.1%	64.4%	1.40	0.9922	63.90%
3	100.5%	5.4%	2.30	0.9750	5.27%
4	100.0%	-0.5%	3.60	0.9506	-0.48%
5	100.3%	0.3%	4.60	0.9322	0.28%
Subsequent	100.0%	-0.3%	6.60	0.8966	-0.27%
Total		100.0%			99.58%
Expected Losses and Loss Expense Ratio					63.26%
Present Value of Loss and Loss Expense Payments					62.99%
Taxes, Licenses and Fees		3.10%	0.70	1.0059	3.12%
Commissions		12.60%	0.58	1.0082	12.70%
Other Acquisition		5.00%	0.63	1.0072	5.04%
General Expense		3.50%	0.75	1.0049	3.52%
Contingency Provision		1.00%	1.00	1.0000	1.00%
Debt Provision		1.24%	1.00	1.0000	1.24%
Profit		10.30%	1.00	1.0000	10.30%
Total Present Value of Outgo					99.91%
Premiums		100.0%	0.57	1.0084	100.84%
Difference, Present Value of Income Less Present Value of Outgo					0.93%

*Discount rate from Investments Department forecast

**exp (0.0195 x (timing of profit being earned - timing of cash flow))