

**State:** Arkansas      **Filing Company:** Allstate Insurance Company  
**TOI/Sub-TOI:** 04.0 Homeowners/04.0003 Owner Occupied Homeowners  
**Product Name:** AR AIC HO Rate Change (+19.9%)  
**Project Name/Number:** Rate Change (+19.9%)/981335

## Filing at a Glance

Company: Allstate Insurance Company  
Product Name: AR AIC HO Rate Change (+19.9%)  
State: Arkansas  
TOI: 04.0 Homeowners  
Sub-TOI: 04.0003 Owner Occupied Homeowners  
Filing Type: Rate  
Date Submitted: 06/01/2012  
SERFF Tr Num: ALSE-128442190  
SERFF Status: Closed-Filed  
State Tr Num:  
State Status:  
Co Tr Num: R24980  
  
Effective Date: 08/13/2012  
Requested (New):  
Effective Date: 09/27/2012  
Requested (Renewal):  
Author(s): Andi Colosi  
Reviewer(s): Becky Harrington (primary)  
Disposition Date: 07/20/2012  
Disposition Status: Filed  
Effective Date (New): 08/13/2012  
Effective Date (Renewal): 09/27/2012

State Filing Description:  
meeting 6/29/12

State: Arkansas Filing Company: Allstate Insurance Company
TOI/Sub-TOI: 04.0 Homeowners/04.0003 Owner Occupied Homeowners
Product Name: AR AIC HO Rate Change (+19.9%)
Project Name/Number: Rate Change (+19.9%)/981335

General Information

Project Name: Rate Change (+19.9%) Status of Filing in Domicile:
Project Number: 981335 Domicile Status Comments:
Reference Organization: Reference Number:
Reference Title: Advisory Org. Circular:
Filing Status Changed: 07/20/2012
State Status Changed: 06/29/2012 Deemer Date:
Created By: Andi Colosi Submitted By: Andi Colosi
Corresponding Filing Tracking Number:

Filing Description:

With this filing, Allstate proposes an overall change of 19.9% to its Allstate Insurance Company (AIC) owners program in Arkansas.

In order to achieve the proposed increase stated above, AIC proposes to make revisions to its underlying rate level and its reinsurance charges. The proposed change to AIC's underlying rate level will be realized through a revision to its Rate Adjustment Factor (RAF), while Allstate's revised reinsurance cost will be reflected by revising its Reinsurance Rate Adjustment Factor. Both have the same effect as a base rate change for their respective portion of the rate.

- Attachment I –Summary of Disclosures
Attachment II – Summary of Rate Level Indication
Attachment III – Modeled Loss Provision
Attachment IV –Retained Risk Provision
Attachment V – Contingency Factor Support Explanatory Memorandum
Attachment VI – Rate Level Indication Exhibits
Attachment VII –Explanatory Memos for Revision of Distinct Charge for Net Cost of Reinsurance
Attachment VIII –Exhibits for Revision of Distinct Charge for Net Cost of Reinsurance
Attachment IX – Rate Level Impact of Revisions
Attachment X –Summary of Manual Changes

Allstate is targeting an implementation date for these changes of August 13, 2012 for renewal business effective September 27, 2012.

Company and Contact

Filing Contact Information

Andi Colosi, State Filings Project Manager andi.colosi@allstate.com
2775 Sanders Road 847-402-5000 [Phone] 21839 [Ext]
Suite A2-W 847-402-9757 [FAX]
Northbrook, IL 60062

State: Arkansas Filing Company: Allstate Insurance Company

TOI/Sub-TOI: 04.0 Homeowners/04.0003 Owner Occupied Homeowners

Product Name: AR AIC HO Rate Change (+19.9%)

Project Name/Number: Rate Change (+19.9%)/981335

Filing Company Information

Allstate Insurance Company
2775 Sanders Road
Suite A2-W
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

Table with 4 columns: Company, Amount, Date Processed, Transaction #. Row 1: Allstate Insurance Company, \$100.00, 06/01/2012, 59637170

<b>SERFF Tracking #:</b>	ALSE-128442190	<b>State Tracking #:</b>		<b>Company Tracking #:</b>	R24980
<b>State:</b>	Arkansas	<b>Filing Company:</b>	Allstate Insurance Company		
<b>TOI/Sub-TOI:</b>	04.0 Homeowners/04.0003 Owner Occupied Homeowners				
<b>Product Name:</b>	AR AIC HO Rate Change (+19.9%)				
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## Correspondence Summary

### Dispositions

Status	Created By	Created On	Date Submitted
Filed	Becky Harrington	07/20/2012	07/20/2012

## Objection Letters and Response Letters

### Objection Letters

Status	Created By	Created On	Date Submitted
Pending Industry Response	Becky Harrington	06/29/2012	06/29/2012
No response necessary	Becky Harrington	06/27/2012	06/27/2012
Pending Industry Response	Becky Harrington	06/04/2012	06/04/2012

### Response Letters

Responded By	Created On	Date Submitted
Andi Colosi	07/19/2012	07/19/2012
Andi Colosi	06/21/2012	06/21/2012

<b>SERFF Tracking #:</b>	ALSE-128442190	<b>State Tracking #:</b>		<b>Company Tracking #:</b>	R24980
<b>State:</b>	Arkansas	<b>Filing Company:</b>	Allstate Insurance Company		
<b>TOI/Sub-TOI:</b>	04.0 Homeowners/04.0003 Owner Occupied Homeowners				
<b>Product Name:</b>	AR AIC HO Rate Change (+19.9%)				
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## Disposition

Disposition Date: 07/20/2012

Effective Date (New): 08/13/2012

Effective Date (Renewal): 09/27/2012

Status: Filed

Comment:

<b>Company Name:</b>	<b>Overall % Indicated Change:</b>	<b>Overall % Rate Impact:</b>	<b>Written Premium Change for this Program:</b>	<b># of Policy Holders Affected for this Program:</b>	<b>Written Premium for this Program:</b>	<b>Maximum % Change (where req'd):</b>	<b>Minimum % Change (where req'd):</b>
Allstate Insurance Company	25.400%	19.900%	\$2,270,180	11,035	\$11,407,941	25.000%	%

<b>SERFF Tracking #:</b>	ALSE-128442190	<b>State Tracking #:</b>		<b>Company Tracking #:</b>	R24980
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<b>TOI/Sub-TOI:</b>	04.0 Homeowners/04.0003 Owner Occupied Homeowners				
<b>Product Name:</b>	AR AIC HO Rate Change (+19.9%)				
<b>Project Name/Number:</b>	Rate Change (+19.9%)/981335				

Schedule	Schedule Item	Schedule Item Status	Public Access
Supporting Document	Form RF-2 Loss Costs Only (not for workers' compensation)		Yes
Supporting Document (revised)	H-1 Homeowners Abstract	Filed	Yes
Supporting Document	H-1 Homeowners Abstract		Yes
Supporting Document (revised)	HPCS-Homeowners Premium Comparison Survey	Filed	Yes
Supporting Document	HPCS-Homeowners Premium Comparison Survey		Yes
Supporting Document	HPCS-Homeowners Premium Comparison Survey		Yes
Supporting Document (revised)	NAIC loss cost data entry document	Filed	Yes
Supporting Document	NAIC loss cost data entry document		Yes
Supporting Document	Additional Support	Filed	Yes
Supporting Document	Objection Response 6/21	Filed	Yes
Supporting Document	Objection Response - 7/19	Filed	Yes
Rate	CheckingList	Filed	Yes
Rate (revised)	ManualR24890	Filed	Yes
Rate	ManualR24890		Yes

State: Arkansas Filing Company: Allstate Insurance Company

TOI/Sub-TOI: 04.0 Homeowners/04.0003 Owner Occupied Homeowners

Product Name: AR AIC HO Rate Change (+19.9%)

Project Name/Number: Rate Change (+19.9%)/981335

## Objection Letter

Objection Letter Status	Pending Industry Response
Objection Letter Date	06/29/2012
Submitted Date	06/29/2012
Respond By Date	

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Dear Andi Colosi,

**Introduction:**

The requested increase amount has been reviewed by the Commissioner.

Please limit individual increase amounts to no more than 25%.

Provide revised effective dates if necessary.

**Conclusion:**

NOTICE regarding, corrections to filings and scrivener's Errors:

Effective for all filings made on or after June 1, 2011, Arkansas no longer allows the re-opening of closed filings for corrections, changes in effective dates, scrivener's errors, amendments or substantive changes. Please see the General Instructions for how these events will be handled after the effective date of the change."

n 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

<b>SERFF Tracking #:</b>	ALSE-128442190	<b>State Tracking #:</b>		<b>Company Tracking #:</b>	R24980
<b>State:</b>	Arkansas	<b>Filing Company:</b>	Allstate Insurance Company		
<b>TOI/Sub-TOI:</b>	04.0 Homeowners/04.0003 Owner Occupied Homeowners				
<b>Product Name:</b>	AR AIC HO Rate Change (+19.9%)				
<b>Project Name/Number:</b>	Rate Change (+19.9%)/981335				

## Response Letter

Response Letter Status	Submitted to State
Response Letter Date	07/19/2012
Submitted Date	07/19/2012

Dear Becky Harrington,

### Introduction:

Hi Becky: Thanks for your help with this filing. Please see our response attached and let me know if you have any additional questions or concerns.

### Response 1

#### Comments:

Allstate is limiting individual increases to 25% for the next renewal period.

Please see Exhibit 1, Page 1 for the proposed changes, Page 2 for the rate level impact, and Page 3 for the impact distribution chart. Revised Rules manuals with updated Rate Adjustment Factors are also attached. Please note that the indicated change shown on Exhibit 1, Page 1 represents the amended indicated amount as a result of the amendment submitted by Allstate on June 21, 2012, with the Retained Risk Provision removed and actual hurricane losses used instead of the Modeled Hurricane Provision. Revised Rules manuals with updated Rate Adjustment Factors are also attached.

Also attached are HPCS, H-1, and RF-1 forms.

### Changed Items:

Supporting Document Schedule Item Changes
Satisfied -Name: H-1 Homeowners Abstract
Comment:
Satisfied -Name: HPCS-Homeowners Premium Comparison Survey
Comment:
Satisfied -Name: NAIC loss cost data entry document
Comment:
Satisfied -Name: Objection Response - 7/19
Comment:

No Form Schedule items changed.

<b>SERFF Tracking #:</b>	ALSE-128442190	<b>State Tracking #:</b>		<b>Company Tracking #:</b>	R24980
<b>State:</b>	Arkansas	<b>Filing Company:</b>	Allstate Insurance Company		
<b>TOI/Sub-TOI:</b>	04.0 Homeowners/04.0003 Owner Occupied Homeowners				
<b>Product Name:</b>	AR AIC HO Rate Change (+19.9%)				
<b>Project Name/Number:</b>	Rate Change (+19.9%)/981335				

Rate/Rule Schedule Item Changes			
Exhibit Name	Rule # or Page #	Rate Action	Previous State Filing #
ManualR24890		Replacement	
<i>Previous Version</i>			
ManualR24890		Replacement	

**Conclusion:**

Sincerely,  
Andi Colosi

State: Arkansas Filing Company: Allstate Insurance Company

TOI/Sub-TOI: 04.0 Homeowners/04.0003 Owner Occupied Homeowners

Product Name: AR AIC HO Rate Change (+19.9%)

Project Name/Number: Rate Change (+19.9%)/981335

## Objection Letter

Objection Letter Status	No response necessary
Objection Letter Date	06/27/2012
Submitted Date	06/27/2012
Respond By Date	

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Dear Andi Colosi,

**Introduction:**

*This will acknowledge receipt of the recent response.*

*This filing is being referred to the Commissioner for review due to the request increase amount being greater than 6%. Please do not respond at this time.*

**Conclusion:**

*NOTICE regarding, corrections to filings and scrivener's Errors:*

*Effective for all filings made on or after June 1, 2011, Arkansas no longer allows the re-opening of closed filings for corrections, changes in effective dates, scrivener's errors, amendments or substantive changes. Please see the General Instructions for how these events will be handled after the effective date of the change."*

*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

State: Arkansas Filing Company: Allstate Insurance Company

TOI/Sub-TOI: 04.0 Homeowners/04.0003 Owner Occupied Homeowners

Product Name: AR AIC HO Rate Change (+19.9%)

Project Name/Number: Rate Change (+19.9%)/981335

## Objection Letter

Objection Letter Status	Pending Industry Response
Objection Letter Date	06/04/2012
Submitted Date	06/04/2012
Respond By Date	

Dear Andi Colosi,

**Introduction:**

*This will acknowledge receipt of the captioned filing.*

**Objection 1**

*- HPCS-Homeowners Premium Comparison Survey (Supporting Document)*

*Comments: The form has been altered. Please re-submit using the Department's form without ANY changes, additions, etc.*

**Objection 2**

*- Additional Support (Supporting Document)*

*Comments: The retained risk provision proposed does not comply with Arkansas Code Ann. 23-67-209 which required past loss experience to be considered in rating. In addition, Arkansas Code Ann. 23-67-210 requires classes to be based on actual differences in experience and expenses and they must have a probable effect on future losses or expenses. Please amend the filing to remove this provision.*

**Objection 3**

*- Additional Support (Supporting Document)*

*Comments: EXPLANATION OF ADJUSTMENTS MADE TO PROVIDED*

*LOSS RECOVERIES*

*Explain why the shake portion of adjustment for earthquake is appropriate in AR giving Allstate does not provide coverage.*

**Objection 4**

*- Additional Support (Supporting Document)*

*Comments: Please remove the hurricane provision and recalculate your indicated rate need. We do not allow hurricane provisions or modeling in Arkansas.*

**Objection 5**

*- Additional Support (Supporting Document)*

*Comments: Supporting documentation regarding the contingency factor has not changed from previous filings and absent any new additional supporting documentation, the 2% factor remains unacceptable. Please reduce the factor to 1%.*

**Objection 6**

*- Additional Support (Supporting Document)*

*Comments: Please provide the average dollar impact for an insured as a result of the change in the reinsurance rate adjustment factor.*

**Conclusion:**

**State:** Arkansas      **Filing Company:** Allstate Insurance Company

**TOI/Sub-TOI:** 04.0 Homeowners/04.0003 Owner Occupied Homeowners

**Product Name:** AR AIC HO Rate Change (+19.9%)

**Project Name/Number:** Rate Change (+19.9%)/981335

*NOTICE regarding, corrections to filings and scrivener's Errors:*

*Effective for all filings made on or after June 1, 2011, Arkansas no longer allows the re-opening of closed filings for corrections, changes in effective dates, scrivener's errors, amendments or substantive changes. Please see the General Instructions for how these events will be handled after the effective date of the change."*

*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*

<b>SERFF Tracking #:</b>	ALSE-128442190	<b>State Tracking #:</b>		<b>Company Tracking #:</b>	R24980
<b>State:</b>	Arkansas	<b>Filing Company:</b>	Allstate Insurance Company		
<b>TOI/Sub-TOI:</b>	04.0 Homeowners/04.0003 Owner Occupied Homeowners				
<b>Product Name:</b>	AR AIC HO Rate Change (+19.9%)				
<b>Project Name/Number:</b>	Rate Change (+19.9%)/981335				

## Response Letter

Response Letter Status	Submitted to State
Response Letter Date	06/21/2012
Submitted Date	06/21/2012

Dear Becky Harrington,

### Introduction:

### Response 1

#### Comments:

Please see the attached HPCS-Homeowners Premium Comparison Survey.

### Related Objection 1

Applies To:

- HPCS-Homeowners Premium Comparison Survey (Supporting Document)

Comments: The form has been altered. Please re-submit using the Department's form without ANY changes, additions, etc.

### Changed Items:

#### Supporting Document Schedule Item Changes

Satisfied -Name: HPCS-Homeowners Premium Comparison Survey

Comment:

No Form Schedule items changed.

No Rate/Rule Schedule items changed.

### Response 2

#### Comments:

Please see the attached document for our response

### Related Objection 2

Applies To:

- Additional Support (Supporting Document)

Comments: The retained risk provision proposed does not comply with Arkansas Code Ann. 23-67-209 which required past loss experience to be considered in rating. In addition, Arkansas Code Ann. 23-67-210 requires classes to be based on actual differences in experience and expenses and they must have a probable effect on future losses or expenses. Please amend the filing to remove this provision.

### Changed Items:

<b>SERFF Tracking #:</b>	ALSE-128442190	<b>State Tracking #:</b>		<b>Company Tracking #:</b>	R24980
<b>State:</b>	Arkansas	<b>Filing Company:</b>	Allstate Insurance Company		
<b>TOI/Sub-TOI:</b>	04.0 Homeowners/04.0003 Owner Occupied Homeowners				
<b>Product Name:</b>	AR AIC HO Rate Change (+19.9%)				
<b>Project Name/Number:</b>	Rate Change (+19.9%)/981335				

### Supporting Document Schedule Item Changes

Satisfied -Name: Objection Response 6/21

Comment:

No Form Schedule items changed.

No Rate/Rule Schedule items changed.

### Response 3

#### Comments:

Please see the document attached to objection response #2

### Related Objection 3

Applies To:

- Additional Support (Supporting Document)

Comments: EXPLANATION OF ADJUSTMENTS MADE TO PROVIDED

LOSS RECOVERIES

Explain why the shake portion of adjustment for earthquake is appropriate in AR giving Allstate does not provide coverage.

### Changed Items:

No Supporting Documents changed.

No Form Schedule items changed.

No Rate/Rule Schedule items changed.

### Response 4

#### Comments:

Please see the document attached to objection response #2

### Related Objection 4

Applies To:

- Additional Support (Supporting Document)

Comments: Please remove the hurricane provision and recalculate your indicated rate need. We do not allow hurricane provisions or modeling in Arkansas.

### Changed Items:

No Supporting Documents changed.

No Form Schedule items changed.

No Rate/Rule Schedule items changed.

<b>SERFF Tracking #:</b>	ALSE-128442190	<b>State Tracking #:</b>		<b>Company Tracking #:</b>	R24980
<b>State:</b>	Arkansas	<b>Filing Company:</b>		Allstate Insurance Company	
<b>TOI/Sub-TOI:</b>	04.0 Homeowners/04.0003 Owner Occupied Homeowners				
<b>Product Name:</b>	AR AIC HO Rate Change (+19.9%)				
<b>Project Name/Number:</b>	Rate Change (+19.9%)/981335				

### **Response 5**

#### **Comments:**

*Please see the document attached to objection response #2*

### **Related Objection 5**

*Applies To:*

*- Additional Support (Supporting Document)*

*Comments: Supporting documentation regarding the contingency factor has not changed from previous filings and absent any new additional supporting documentation, the 2% factor remains unacceptable. Please reduce the factor to 1%.*

#### **Changed Items:**

*No Supporting Documents changed.*

*No Form Schedule items changed.*

*No Rate/Rule Schedule items changed.*

### **Response 6**

#### **Comments:**

*Please see the document attached to objection response #2*

### **Related Objection 6**

*Applies To:*

*- Additional Support (Supporting Document)*

*Comments: Please provide the average dollar impact for an insured as a result of the change in the reinsurance rate adjustment factor.*

#### **Changed Items:**

*No Supporting Documents changed.*

*No Form Schedule items changed.*

*No Rate/Rule Schedule items changed.*

#### **Conclusion:**

*Sincerely,*

*Andi Colosi*

<b>SERFF Tracking #:</b>	ALSE-128442190	<b>State Tracking #:</b>		<b>Company Tracking #:</b>	R24980
<b>State:</b>	Arkansas	<b>Filing Company:</b>	Allstate Insurance Company		
<b>TOI/Sub-TOI:</b>	04.0 Homeowners/04.0003 Owner Occupied Homeowners				
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## Rate Information

Rate data applies to filing.

<b>Filing Method:</b>	File and Use
<b>Rate Change Type:</b>	Increase
<b>Overall Percentage of Last Rate Revision:</b>	0.300%
<b>Effective Date of Last Rate Revision:</b>	08/08/2011
<b>Filing Method of Last Filing:</b>	File and Use

## Company Rate Information

<b>Company Name:</b>	<b>Overall % Indicated Change:</b>	<b>Overall % Rate Impact:</b>	<b>Written Premium Change for this Program:</b>	<b># of Policy Holders Affected for this Program:</b>	<b>Written Premium for this Program:</b>	<b>Maximum % Change (where req'd):</b>	<b>Minimum % Change (where req'd):</b>
Allstate Insurance Company	26.800%	19.900%	\$2,270,180	11,035	\$11,407,941	36.100%	16.000%

<b>SERFF Tracking #:</b>	ALSE-128442190	<b>State Tracking #:</b>		<b>Company Tracking #:</b>	R24980
<b>State:</b>	Arkansas	<b>Filing Company:</b>	Allstate Insurance Company		
<b>TOI/Sub-TOI:</b>	04.0 Homeowners/04.0003 Owner Occupied Homeowners				
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<b>Project Name/Number:</b>	Rate Change (+19.9%)/981335				

## Rate/Rule Schedule

Item No.	Schedule Item Status	Exhibit Name	Rule # or Page #	Rate Action	Previous State Filing Number	Attachments
1	Filed 07/20/2012	CheckingList		New		CheckingList - R24980.pdf
2	Filed 07/20/2012	ManualR24890		Replacement		Manual - R24980.pdf

**CHECKING LIST**

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.

**HOMEOWNERS**

**RATE PAGE CALCULATION OPTIONS**

Enclosed: Page HORC-1 through HORC-2 dated 8-1-2012

Withdrawn: Page HORC-1 through HORC-2 dated 5-2-2011

**DELUXE PLUS - HOMEOWNERS**

**RATE PAGE CALCULATION OPTIONS**

Enclosed: Page DPRC-1 through DPRC-2 dated 8-1-2012

Withdrawn: Page DPRC-1 dated 6-3-2009  
Page DPRC-2 dated 5-2-2011

**Rounding:**

Unless otherwise noted, all premium calculations shall be rounded to the nearest dollar. A premium of \$0.50 or more shall be rounded to the next whole dollar.

The Reinsurance Charge as well as the final premium shall be rounded to the nearest penny. Amounts of \$0.005 or more shall be rounded to the next whole penny.

The premium calculation should be done in the following order:

1. Determine the Package Premium:
  - a) Determine the appropriate \$250 deductible premium for the Coverage A limits shown on the Package Premium Pages.
  - b) Premiums for policies with Coverage A limits less than \$20,000 may be developed by subtracting \$1 per \$1,000 for the \$20,000 premium.
  - c) Multiply the appropriate \$250 deductible premium by a Rate Adjustment Factor of 2.098.
2. Claim Rating Factor – Multiply by the appropriate factor (Rule 25)
3. Claim Free Discount – Multiply by .85 (Rule 26)
4. Coverage BC - Building Codes - Multiply by 1.05 (Rule 4.A.)
5. Dwelling in the Course of Construction - Multiply by .70 (Rule 4.B.)
6. Age of Home Discount - Multiply by the appropriate factor (Rule 23)
7. Partially Renovated Home Discount - Multiply by the appropriate factor (Rule 27)
8. Personal Property Reimbursement Provision - Multiply by 1.15 (Rule 4.A.)
9. Fire Resistive Discount - Multiply by .85 (Rule 10)
10. Protective Device Discount - Multiply by the appropriate factor (Rule 15)
11. 55 and Retired Discount - Multiply by .90 (Rule 16)

- 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.

<u>Deductible Option</u>	<u>Deductible Relativity</u>	<u>Maximum Deductible Credit *</u>
\$ 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 0.968 (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.

The premium calculation should be done in the following order:

1. Multiply the appropriate \$250 deductible premium shown on the Package Premium Pages by a Rate Adjustment Factor of 2.066.
2. Claim Rating Factor – Multiply by the appropriate factor (Rule 25)
3. Claim Free Discount – Multiply by .85 (Rule 26)
4. Age of Home Discount - Multiply by the appropriate factor (Rule 23)
5. Partially Renovated Home Discount - Multiply by the appropriate factor (Rule 27)
6. Fire Resistive Discount - Multiply by .85 (Rule 10)
7. Protective Device Discount - Multiply by the appropriate factor (Rule 15)
8. 55 and Retired Discount - Multiply by .90 (Rule 16)
9. Home and Auto Discount - Multiply by .85 (Rule 17)
10. The Good Hands People® Discount - Multiply by .95 (Rule 22)

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

<u>Deductible Option</u>	<u>Deductible Relativity</u>	<u>Maximum Deductible Credit *</u>
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 0.968 (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.

<b>SERFF Tracking #:</b>	ALSE-128442190	<b>State Tracking #:</b>		<b>Company Tracking #:</b>	R24980
<b>State:</b>	Arkansas	<b>Filing Company:</b>	Allstate Insurance Company		
<b>TOI/Sub-TOI:</b>	04.0 Homeowners/04.0003 Owner Occupied Homeowners				
<b>Product Name:</b>	AR AIC HO Rate Change (+19.9%)				
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## Supporting Document Schedules

		Item Status:	Status Date:
Satisfied - Item:	H-1 Homeowners Abstract	Filed	07/20/2012
Comments:			
Attachment(s):	FORM H-1 Homewoner's abstract_AIC.pdf		

		Item Status:	Status Date:
Satisfied - Item:	HPCS-Homeowners Premium Comparison Survey	Filed	07/20/2012
Comments:			
Attachment(s):	HO Survey FORM HPCS.pdf HO Survey FORM HPCS.xls		

		Item Status:	Status Date:
Satisfied - Item:	NAIC loss cost data entry document	Filed	07/20/2012
Comments:			
Attachment(s):	FORM RF-1 Rate Filing Abstract.pdf		

		Item Status:	Status Date:
Satisfied - Item:	Additional Support	Filed	07/20/2012
Comments:			
Attachment(s):	Act. Support Memo.pdf		

		Item Status:	Status Date:
Satisfied - Item:	Objection Response 6/21	Filed	07/20/2012
Comments:			

<b>SERFF Tracking #:</b>	ALSE-128442190	<b>State Tracking #:</b>		<b>Company Tracking #:</b>	R24980
<b>State:</b>	Arkansas	<b>Filing Company:</b>	Allstate Insurance Company		
<b>TOI/Sub-TOI:</b>	04.0 Homeowners/04.0003 Owner Occupied Homeowners				
<b>Product Name:</b>	AR AIC HO Rate Change (+19.9%)				
<b>Project Name/Number:</b>	Rate Change (+19.9%)/981335				

Attachment(s):  
 Objection 6 4 2012 Response - AIC.pdf

		<b>Item Status:</b>	<b>Status Date:</b>
Satisfied - Item:	Objection Response - 7/19	Filed	07/20/2012
Comments:			

Attachment(s):  
 Objection 6.29.2012 Response - AIC.pdf

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

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
<u>Homeowners</u>	<u>\$11,407,941</u>

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.

Jake Teuro  
Signature  
Product Technician  
Title  
(847) 402-0442  
Telephone Number

NAIC Number:	19232
Company Name:	Allstate Insurance Company
Contact Person:	Jacob Tews
Telephone No.:	(847) 402-0442
Email Address:	jtews@allstate.com
Effective Date:	8/13/2012

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

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](mailto:insurance.pnc@arkansas.gov)  
You may also attach to a SERFF filing or submit on a cdr disk

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

**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	\$539.16	\$615.16	\$545.16	\$622.16	\$818.16	\$938.16	\$916.16	\$1,084.16	\$916.16	\$1,084.16	\$720.16	\$824.16	\$662.16	\$757.16	\$657.16	\$775.16	\$767.16	\$877.16
	\$120,000	\$724.24	\$829.24	\$733.24	\$839.24	\$1,111.24	\$1,280.24	\$1,248.24	\$1,483.24	\$1,248.24	\$1,483.24	\$975.24	\$1,121.24	\$895.24	\$1,029.24	\$888.24	\$1,052.24	\$1,039.24	\$1,196.24
	\$160,000	\$941.32	\$1,081.32	\$954.32	\$1,094.32	\$1,456.32	\$1,681.32	\$1,638.32	\$1,981.32	\$1,638.32	\$1,981.32	\$1,274.32	\$1,470.32	\$1,170.32	\$1,346.32	\$1,159.32	\$1,376.32	\$1,361.32	\$1,570.32
6	\$80,000	\$584.16	\$674.16	\$590.16	\$681.16	\$888.16	\$1,031.16	\$1,084.16	\$1,211.16	\$1,084.16	\$1,211.16	\$781.16	\$905.16	\$718.16	\$831.16	\$775.16	\$863.16	\$833.16	\$964.16
	\$120,000	\$786.24	\$912.24	\$795.24	\$921.24	\$1,210.24	\$1,409.24	\$1,483.24	\$1,659.24	\$1,483.24	\$1,659.24	\$1,060.24	\$1,233.24	\$973.24	\$1,131.24	\$1,052.24	\$1,173.24	\$1,133.24	\$1,316.24
	\$160,000	\$1,023.32	\$1,189.32	\$1,036.32	\$1,202.32	\$1,587.32	\$1,867.32	\$1,981.32	\$2,249.32	\$1,981.32	\$2,249.32	\$1,389.32	\$1,617.32	\$1,273.32	\$1,483.32	\$1,376.32	\$1,540.32	\$1,484.32	\$1,729.32
9	\$80,000	\$1,075.16	\$1,075.16	\$1,087.16	\$1,087.16	\$1,673.16	\$1,673.16	\$2,007.16	\$2,007.16	\$2,007.16	\$2,007.16	\$1,462.16	\$1,462.16	\$1,338.16	\$1,338.16	\$1,391.16	\$1,391.16	\$1,562.16	\$1,562.16
	\$120,000	\$1,470.24	\$1,470.24	\$1,487.24	\$1,487.24	\$2,384.24	\$2,384.24	\$2,862.24	\$2,862.24	\$2,862.24	\$2,862.24	\$2,046.24	\$2,046.24	\$1,851.24	\$1,851.24	\$1,933.24	\$1,933.24	\$2,208.24	\$2,208.24
	\$160,000	\$1,960.32	\$1,960.32	\$1,985.32	\$1,985.32	\$3,231.32	\$3,231.32	\$3,868.32	\$3,868.32	\$3,868.32	\$3,868.32	\$2,782.32	\$2,782.32	\$2,522.32	\$2,522.32	\$2,632.32	\$2,632.32	\$2,996.32	\$2,996.32

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

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

**HO3 and HO4 only**

Fire Extinguisher	<input type="text" value="5"/>	%	Deadbolt Lock	<input type="text" value="5"/>	%
Burglar Alarm	<input type="text" value="5"/>	%	Window Locks	<input type="text" value="5"/>	%
Smoke Alarm	<input type="text" value="5"/>	%	\$1,000 Deductible	<input type="text" value="25"/>	%
			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

Complete Central Burglar	10	%
Maximum Credit Allowed		%

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

Highest Risk

\$

\$

Lowest Risk

\$

\$

|

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**SERFF Tracking #:** ALSE-128442190      **State Tracking #:**      **Company Tracking #:** R24980

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**State:** Arkansas      **Filing Company:** Allstate Insurance Company

**TOI/Sub-TOI:** 04.0 Homeowners/04.0003 Owner Occupied Homeowners

**Product Name:** AR AIC HO Rate Change (+19.9%)

**Project Name/Number:** Rate Change (+19.9%)/981335

## Supporting Document Schedules

### NAIC LOSS COST DATA ENTRY DOCUMENT

<b>1.</b>	This filing transmittal is part of Company Tracking #	<b>R24980</b>
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<b>2.</b>	If filing is an adoption of an advisory organization loss cost filing, give name of Advisory Organization and Reference/ Item Filing Number	
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Company Name		Company NAIC Number		
<b>3.</b>	<b>A.</b>	<b>Allstate Insurance Company</b>	<b>B.</b>	<b>19232</b>

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

<b>5.</b>			<b>FOR LOSS COSTS ONLY</b>				
(A) COVERAGE (See Instructions)	(B) Indicated % Rate Level Change	(C) Requested % Rate Level Change	(D) Expected Loss Ratio	(E) Loss Cost Modification Factor	(F) Selected Loss Cost Multiplier	(G) Expense Constant (If Applicable)	(H) Co. Current Loss Cost Multiplier
<b>Homeowners and Deluxe Plus Homeowners</b>	<b>25.4%</b>	<b>19.9%</b>					
<b>TOTAL OVERALL EFFECT</b>	<b>25.4%</b>	<b>19.9%</b>					

<b>6.</b>		5 Year History	Rate Change History				
Year	Policy Count	% of Change	Effective Date	State Earned Premium (000)	Incurred Losses (000)	State Loss Ratio	Countrywide Loss Ratio
<b>2007</b>	<b>18,965</b>	<b>N/A</b>	<b>N/A</b>	<b>16,166,447</b>	<b>6,237,801</b>	<b>0.39</b>	<b>0.51</b>
<b>2008</b>	<b>16,913</b>	<b>N/A</b>	<b>N/A</b>	<b>14,610,674</b>	<b>22,439,334</b>	<b>1.54</b>	<b>0.64</b>
<b>2009</b>	<b>14,720</b>	<b>18.4%</b>	<b>6/1/2009</b>	<b>13,460,240</b>	<b>14,290,325</b>	<b>1.06</b>	<b>0.54</b>
<b>2010</b>	<b>13,316</b>	<b>N/A</b>	<b>N/A</b>	<b>13,481,741</b>	<b>6,664,664</b>	<b>0.49</b>	<b>0.65</b>
<b>2011</b>	<b>12,003</b>	<b>0.3%</b>	<b>8/8/11</b>	<b>12,800,255</b>	<b>12,415,393</b>	<b>0.97</b>	<b>0.74</b>

<b>7.</b>	
Expense Constants	Selected Provisions
A. Total Production Expense	<b>5.3%</b>
B. General Expense	<b>4.8%</b>
C. Taxes, License & Fees	<b>3.2%</b>
D. Underwriting Profit & Contingencies	<b>10.1%</b>
E. Other (Commissions and Contingency)	<b>13.7%</b>
<b>F. TOTAL</b>	<b>37.1%</b>

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

9. 25.0% Estimated Maximum Rate Increase for any Insured (%). Territory (if applicable): \_\_\_\_\_ occurs in multiple territories \_\_\_\_\_

10. N/A Estimated Maximum Rate Decrease for any Insured (%) Territory (if applicable): \_\_\_\_\_

**ALLSTATE INSURANCE COMPANY  
OWNERS FORMS  
ARKANSAS**

**INDEX OF ATTACHMENTS**

<b>Attachment I –</b>	<b>Summary of Disclosures</b>
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Page 2	Actuarial Standards of Practice
Page 4	Material Changes in Sources of Data, Assumptions, or Methods
<b>Attachment II –</b>	<b>Summary of Rate Level Indication</b>
Page 1	Summary of the Development of Statewide Rate Level Indication
Page 3	Adjustments to Non-Weather Losses
Page 6	Adjustments to Weather Losses
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Page 10	Variable and Fixed Expenses
Page 13	Profit Provision, Debt Provision and Contingency Factor
Page 14	Retained Risk Provision
Page 15	Adjustments to Premiums
<b>Attachment III –</b>	<b>Modeled Loss Provision</b>
Page 1	Development of the Hurricane Provision Based on the 2010/09 AIR Version 12.0 Hurricane Model in the Statewide Rate Level Indication Explanatory Memorandum
<b>Attachment IV –</b>	<b>Retained Risk Provision</b>
Page 1	Development of Retained Risk Provision Based On Modeled Exposure
<b>Attachment V –</b>	<b>Contingency Factor Support Explanatory Memorandum</b>
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**ALLSTATE INSURANCE COMPANY  
OWNERS FORMS  
ARKANSAS**

**INDEX OF ATTACHMENTS (continued)**

<b>Attachment VI –</b>	<b>Rate Level Indication Exhibits</b>
Exhibit 1	Determination of Statewide Rate Level Indication
Exhibit 2	Development of Provision for Non-Weather Loss and LAE
Exhibit 3	Development of Provision for Weather Loss and LAE
Exhibit 4.1-4.3	Calculation of Non-Weather Loss Development Factors
Exhibit 5	Non-Weather Ultimate Losses & ALAE
Exhibit 6	Unallocated Loss Adjustment Expense Provision
Exhibit 7	Calculation of Non-Weather Pure Premium Trend Factor
Exhibit 8	Non-Weather Loss Trends – Pure Premium
Exhibit 9	Provision for Weather Frequency
Exhibit 10	Calculation of the Weather Loss Severity Trend Factor
Exhibit 11	Weather Loss Trends – Severity
Exhibit 12.1-12.2	Calculation of Weather Loss Development Factors
Exhibit 13	Development of Provisions for Modeled Loss and LAE and Retained Risk
Exhibit 14	Summary of Expense Provisions
Exhibit 15	Countrywide Expense Experience for General Expenses
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<b>Attachment VII –</b>	<b>Explanatory Memos for Revision of Distinct Charge for Net Cost of Reinsurance</b>
Page 1	Definitions
Page 2	2011 Reinsurance Contract Summary
Page 5	Explanation of Adjustments Made to Provided Loss Recoveries
Page 6	Determination of the Reinsurance Rate Adjustment Factor Explanatory Memo
<b>Appendix A</b>	<b>Participation Percentages</b>
	Nationwide Contracts
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	Participating Reinsurers
<b>Appendix B</b>	<b>Calculations Underlying the Allocation of Multistate Reinsurance Premium Costs to Arkansas</b>

**ALLSTATE INSURANCE COMPANY  
OWNERS FORMS  
ARKANSAS**

**INDEX OF ATTACHMENTS (continued)**

<b>Attachment VIII –</b>	<b>Exhibits for Revision of Distinct Charge for Net Cost of Reinsurance</b>
Exhibit 1	Determination of the Reinsurance Indication
Exhibit 2	Summary of Variable Expenses
<b>Attachment IX –</b>	<b>Rate Level Impact of Revisions</b>
Page 1	Rate Level Impact of Revisions
Page 2	Impact Distribution Chart
<b>Attachment X –</b>	<b>Summary of Manual Changes</b>
Page 1	Summary of Manual Changes

# **ATTACHMENT I**

## **Summary of Disclosures**

**ALLSTATE INSURANCE COMPANY  
OWNERS FORMS  
ARKANSAS**

**DEFINITIONS**

Please note that throughout this filing, the following terms and their definitions are used:

Owners Policy – a policy which covers a freestanding dwelling or townhome that is not classified as a manufactured home.

Homeowners Policy – An owners, condo, co-op, or renters policy.

**ALLSTATE INSURANCE COMPANY  
OWNERS FORMS  
ARKANSAS**

**ACTUARIAL STANDARDS OF PRACTICE**

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

- Actuarial Standard of Practice No. 13, *Trending Procedures in Property/Casualty Insurance Ratemaking*
  - Attachment II, Page 1: Summary of the Development of Statewide Rate Level Indication
  - Attachment II, Page 4: Adjustments to Non-Weather Losses – Loss Trend
  - Attachment II, Page 7: Adjustments to Weather Losses – Severity Trend
  - Attachment II, Page 9: Modeled Losses (AIY’s)
  - Attachment II, Page 11: Expense Provisions – Fixed Expenses – Trend (Inflation)
  - Attachment II, Page 15: Adjustments to Premiums – Premium Trend
- Actuarial Standard of Practice No. 23, *Data Quality*
  - Attachment II, Page 1: Summary of the Development of Statewide Rate Level Indication
  - Attachment III, Page 1: Development of the Hurricane Provision Based on the 2010/09 AIR Version 12.0 Hurricane Model in the Statewide Rate Level Indication Explanatory Memorandum
  - Attachment IV, Page 1: Development of Retained Risk Provision Based On Modeled Exposure
- Actuarial Standard of Practice No. 25, *Credibility Procedures Applicable to Accident and Health, Group Term Life, and Property/Casualty Coverages*
  - Attachment II, Page 3: Adjustments to Non-Weather Losses – Accident Year Weights
  - Attachment II, Page 4: Adjustments to Non-Weather Losses – Loss Trend
  - Attachment II, Page 6: Adjustments to Weather Losses – Accident Year Weights
  - Attachment II, Page 7: Adjustments to Weather Losses – Severity Trend
- Actuarial Standard of Practice No. 29, *Expense Provisions in Property/Casualty Insurance Ratemaking*
  - Attachment II, Page 10: Expense Provisions
- Actuarial Standard of Practice No. 30, *Treatment of Profit and Contingency Provisions and the Cost of Capital in Property/Casualty Insurance Ratemaking*
  - Attachment II, Page 12: Profit Provision, Debt Provision, and Contingency Factor– Underwriting Profit Provision
  - Attachment V, Page 1: Contingency Factor Support Explanatory Memorandum
- Actuarial Standard of Practice No. 38, *Using Models Outside the Actuary’s Area of Expertise (Property and Casualty)*
  - Attachment III, Page 1: Development of the Hurricane Provision Based on the 2010/09 AIR Version 12.0 Hurricane Model in the Statewide Rate Level Indication Explanatory Memorandum

- Attachment IV, Page 1: Development of Retained Risk Provision Based On Modeled Exposure
- Actuarial Standard of Practice No. 39, *Treatment of Catastrophe Losses in Property/Casualty Insurance Ratemaking*
  - Attachment III, Page 1: Development of the Hurricane Provision Based on the 2010/09 AIR Version 12.0 Hurricane Model in the Statewide Rate Level Indication Explanatory Memorandum
  - Attachment IV, Page 1: Development of Retained Risk Provision Based On Modeled Exposure
- Actuarial Standard of Practice No. 41, *Actuarial Communications*
  - Applies to this filing in its entirety

**ALLSTATE INSURANCE COMPANY  
OWNERS FORMS  
ARKANSAS**

**MATERIAL CHANGES IN SOURCES OF DATA, ASSUMPTIONS, OR METHODS**

This document lists all material changes in sources of data, assumptions, or methods from the last Owners Allstate rate level indication filing. These changes are further described in the subsequent memos in compliance with Actuarial Standard of Practice No. 41, *Actuarial Communications*.

- Modeled Hurricane Provision
  - Updated the hurricane model used in the development of the modeled hurricane provision to the 2010/09 AIR Version 12.0 Hurricane Model
- Weather / Non-Weather Analysis
  - Separation of Underlying Loss, Loss Trend and Loss Development by weather and non-weather losses, as described in Attachment II, Page 3 through Page 8
- Retained Risk Provision
  - Retained Risk Provision included in calculating statewide rate level indication, as described in Attachment II, Page 14.

# **ATTACHMENT II**

## **Summary of Rate Level Indication**

**ALLSTATE INSURANCE COMPANY  
OWNERS FORMS  
ARKANSAS**

**SUMMARY OF THE DEVELOPMENT OF STATEWIDE RATE LEVEL INDICATION**

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

A rate level indication is a test of the adequacy of expected revenues versus expected costs during the future policy period. Therefore, to derive the indicated rate level need accurately, Allstate's historical premium and loss experience needs to be adjusted. In accordance with Section 3.1 of Actuarial Standard of Practice No. 13, *Trending Procedures in Property/Casualty Insurance Ratemaking*, Allstate trends the underlying historical experience for premiums, losses, and fixed expenses to appropriately reflect historical and projected changes in these components of the rate level indications. In addition, historical premiums must be adjusted to reflect the current rate level, and historical losses must be adjusted to reflect expected development over time. All hurricane losses during the experience period were removed and replaced with a provision to reflect those expected losses. Details of these necessary adjustments to the historical data used in the rate level indication are described in this memorandum. The adjustments have been applied to Arkansas's premium and loss experience in deriving the indicated rate level change.

Table 1 on Page 2 of this attachment summarizes the indicated rate change, and the actual rate level change being proposed. The determination of the overall indicated change is included in **Attachment VI, Exhibit 1**, and described in detail throughout this filing.

Table 2 on Page 2 of this attachment summarizes the overall change including the revision to the distinct charge of the Net Cost of Reinsurance as described in **Attachments VII and VIII** of this filing.

<b>Table 1: Allstate Insurance Company</b>			
	<b>Premium Dist. at Current Rates</b>	<b>Indicated Change</b>	<b>Proposed Change**</b>
Fixed Expense Premium	6.5%	NA	N/C
Variable Package Premium	93.0%	NA	21.0%
<b>Total Owners Package*</b>	<b>99.5%</b>	<b>NA</b>	<b>19.7%</b>
Additional Coverages	0.5%	NA	N/C
<b>Total Owners</b>	<b>100.0%</b>	<b>19.2%</b>	<b>19.6%</b>
*Includes premium from Standard, Deluxe, Deluxe Plus, Standard Select Value, and Deluxe Select Value Policies. Please reference Rule Manual for more details.			
**Implicitly assumes no indicated change for fixed expenses and additional coverages.			

<b>Table 2: Allstate Insurance Company</b>			
	<b>Premium Distribution</b>	<b>Indicated Change</b>	<b>Proposed Change</b>
Premium Underlying Indicated Rates	99.7%	26.5%	19.6%
Reinsurance Charges	0.3%	136.4%	136.4%
<b>Total</b>	<b>100.0%</b>	<b>26.8%</b>	<b>19.9%</b>

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**ADJUSTMENTS TO NON-WEATHER LOSSES**

Base Data

In developing rate level indications for Arkansas, data from fiscal accident years ending December 31, 2007, 2008, 2009, 2010, and 2011 was used. Each of these fiscal accident years is evaluated as of December 31, 2011. This filing defines non-weather losses as those whose primary cause of loss was Fire, Theft, Liability, or All Other perils. In previous filings, Allstate combined the loss data for all perils to calculate the indicated rate level. Allocated loss adjustment expense (ALAE) is included in the losses.

Accident Year Weights

In order to develop a credible measure of the indicated rate level, it is sometimes necessary to use more than one year of historical loss experience. A maximum of five accident years is combined to determine the indicated provision for loss and loss adjustment expense. The number of years used and the credibility per year is based upon a credibility procedure from the paper "On the Credibility of the Pure Premium" (Proceedings of the Casualty Actuarial Society, Vol. LV, 1968), by Mayerson, Jones and Bowers, and the appendix of the paper "Classical Partial Credibility with Application to Trend" (Proceedings of the Casualty Actuarial Society, Vol. LXXIII, 1986), by Venter. The analysis was completed using a  $k$  value of 0.05 and a  $P$  value of 90.0%; these parameters reflect the desire that the observed pure premium should be within 100k% of the expected pure premium with probability  $P$ . Assuming a Poisson frequency, an empirical review of the severity size of loss curve provides a gauge of credibility based on the number of claims closed with a payment.

This approach for incorporating credibility in determination of the accident year weights is consistent with the Current Practices and Alternatives detailed in Section 3 of Actuarial Standard of Practice No. 25, *Credibility Procedures Applicable to Accident and Health, Group Term Life, and Property/Casualty Coverages*.

Loss Development

As with past filings, Allstate determines ultimate accident year losses (including allocated loss adjustment expense) after analyzing ultimate incurred loss estimates arising from two methods: the link ratio method and the additive method.

While the link ratio method assumes that future development is proportional to losses that have already emerged as of a given evaluation date, the additive method assumes that future development is proportional to the number of earned exposures in the accident period, where the expected development per exposure is based on historical development patterns per exposure, adjusted to account for differences in frequency and severity over time. Allstate believes the approach of considering two loss development procedures when estimating ultimate losses better upholds the suggestion contained in the *Statement of Principles Regarding Property and Casualty Loss and Loss Adjustment Expense Reserves* that "Ordinarily the actuary will examine

the indications of more than one method when estimating the loss and loss adjustment expense liability for a specific group of claims.”

Loss development factors and additive amounts were based on Allstate Insurance Company data. To calculate estimated ultimate losses using the link ratio method, historical age-to-age link ratios are calculated, which represent loss development between different evaluation periods. An average of the historical link ratios is then used to estimate the ultimate level of paid losses to be used in ratemaking. This method assumes that historical loss development patterns can be used to estimate future loss development on current immature claims.

For non-weather peril losses, liability and non-liability losses were developed separately for the link ratio method. For the additive method, the historical additive amounts per exposure calculated for all losses combined would be equivalent to the sum of the historical additive amounts per exposure calculated for liability and non-liability losses separately. Therefore, it is not necessary to develop liability and non-liability losses separately for the additive method.

For the additive loss development method, historical losses are first trended to today's price level using pure premium trends selected from Allstate Insurance Company data. This is done to avoid distortions due to changes in the underlying loss costs. Please note that due to the different lengths of trend periods in each analysis, the selected pure premium trend that is used in loss development often differs from the selected trend that applies to the underlying data. Trended additive amounts per exposure are calculated, which represent trended loss development between different evaluation periods. An average of the historical trended additive amount per exposure is then used to estimate the ultimate trended level of paid losses. Trended age-to-ultimate additive amounts per exposure are multiplied by earned exposures for each accident year to calculate trended losses that have yet to emerge. A final step in the additive method is to detrend the trended losses yet to emerge. Losses are detrended because the application of trend is accounted for in a separate step in the ratemaking process. This method assumes that historical loss development patterns per exposure can be used to estimate future loss development on current immature claims.

Refer to **Exhibits 4.1 through 4.3 of Attachment VI** for the loss development using both the link ratio and additive methods of loss development. A summary of the estimated ultimate losses using each method as well as the selected ultimate losses is shown on **Attachment VI, Exhibit 5**. Please note that the actual five year average loss development factors and additive amounts per exposure were used for all non-weather perils. An exception to this was that the 48 to 60 month development period was calculated using four years of average loss development factors and additive amount per exposure for all non-weather perils because the 4<sup>th</sup> prior year was not representative and therefore was not used for this development period.

### Loss Trend

Using Allstate Insurance Company data for the state of Arkansas, the past changes in actual frequency and severity on a twelve-month-moving basis (evaluated at each quarter) over a five year period were examined. After considering past results, credibility level of Allstate data, and actuarial judgment, annual pure premium trends were selected. The Allstate Insurance Company data has been adjusted as described below.

Frequency and severity amounts are calculated using the methodology in “The Effect of changing Exposure Levels on Calendar Year Loss Trends” (*Casualty Actuarial Society Forum*, Winter 2005) by Chris Styrsky. This methodology helps to more consistently match losses and claims paid with the exposures that produced the claims.

The selected trends are displayed in **Attachment VI, Exhibit 7**. These annual selections are used to project the data from the average occurrence date of the experience period to the average occurrence date of the future policy period. The projection is also shown in **Attachment VI, Exhibit 7**. Allstate Insurance Company trend data is included as **Attachment VI, Exhibit 8**.

Selections were based on Allstate Insurance Company data. **Attachment VI, Exhibit 8** displays the twenty-four, twelve-, and six-point paid pure premium trends for Allstate Insurance Company in Arkansas. The credibility level of Allstate loss trend data was analyzed based on the number of claims paid in the latest experience year, which is consistent with the criteria for selecting a credibility procedure outlined in Section 3 of Actuarial Standard of Practice No. 25, *Credibility Procedures Applicable to Accident and Health, Group Term Life, and Property/Casualty Coverages*.

This approach for selecting pure premium trends and projections is consistent with the Current Practices and Alternatives detailed in *Appendix 1 – Background and Current Practices of Actuarial Standard of Practice No. 13, Trending Procedures in Property/Casualty Insurance Ratemaking*.

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**ADJUSTMENTS TO WEATHER LOSSES**

The indicated provision for weather losses is determined based on individual frequency and severity components. Allstate has found that separate analyses of frequency and severity for weather losses provide a better estimate of pure premium given the inherent complication of process variance in these losses. The specific base data and methodology for weather losses is explained in detail below.

Base Data

In developing rate level indications for Arkansas, data from fiscal accident years ending December 31, 2009, 2010, and 2011 was used for the severity analysis. Each of these fiscal accident years is evaluated as of December 31, 2011. For the frequency analysis, fiscal accident years 1987 through 2011 were used; each fiscal accident year is evaluated as of December 31, 2011.

This filing defines weather losses as those whose primary cause of loss was Water, Wind, Hail, or Lightning perils. Allocated loss adjustment expense (ALAE) is included in the losses. Please note that although Water claims arise from both weather and non-weather events, data limitations currently prevent separate classifications of claims within this peril. All Water claims have been classified as weather events for purposes of this analysis.

Accident Year Weights

A maximum of five accident years is combined to determine the indicated weather severity provision. The number of years used and the credibility per year is based upon a credibility procedure from the paper "On the Credibility of the Pure Premium" (Proceedings of the Casualty Actuarial Society, Vol. LV, 1968), by Mayerson, Jones and Bowers, and the appendix of the paper "Classical Partial Credibility with Application to Trend" (Proceedings of the Casualty Actuarial Society, Vol. LXXIII, 1986), by Venter. The analysis was completed using a k value of 0.05 and a P value of 90.0%; these parameters reflect the desire that the observed severity should be within 100k% of the expected severity with probability P. Unlike its non-weather counterpart, this analysis does not rely on a frequency assumption; rather, an empirical review of the severity size of loss curve provided a gauge of credibility based on the number of claims closed with a payment.

This approach for incorporating credibility in determination of the accident year weights is consistent with the Current Practices and Alternatives detailed in Section 3 of Actuarial Standard of Practice No. 25, *Credibility Procedures Applicable to Accident and Health, Group Term Life, and Property/Casualty Coverages*.

Severity Development

Allstate determines ultimate accident year weather severity using the link ratio method, which assumes that future development is proportional to losses that have already emerged as of a

given evaluation date. As severities are not considered on a per-exposure basis, no additive loss development estimate is developed for the weather provision.

Loss development factors were based on Allstate Insurance Company, Allstate Indemnity Company, and Allstate Property and Casualty Insurance Company. Loss development patterns for Allstate Insurance Company, Allstate Indemnity Company, and Allstate Property and Casualty Insurance Company are expected to be similar, since claims settlement practices are the same for each company.

To calculate estimated ultimate severities using the link ratio method, historical age-to-age link ratios are calculated, which represent loss development between different evaluation periods. An average of the historical link ratios is then used to estimate the ultimate level of paid losses to be used in ratemaking. This method assumes that historical loss development patterns can be used to estimate future loss development on current immature claims.

Refer to **Exhibit 12.2 of Attachment VI** for the weather severity loss development using the link ratio method. The estimated ultimate severity is shown on **Attachment VI, Exhibit 3**. Please note that the actual five year average loss development factors were used.

#### Severity Trend

Using Allstate Insurance Company data for the state of Arkansas, the past changes in actual severity on a twelve-month-moving basis (evaluated at each quarter) over a three year period were examined. After considering past results, credibility level of Allstate data, and actuarial judgment, annual severity trends were selected. The Allstate Insurance Company data has been adjusted as described below.

Frequency and severity amounts are calculated using the methodology in “The Effect of changing Exposure Levels on Calendar Year Loss Trends” (*Casualty Actuarial Society Forum*, Winter 2005) by Chris Styrsky. This methodology helps to more consistently match losses and claims paid with the exposures that produced the claims.

The selected trends are displayed in **Attachment VI, Exhibit 10**. These annual selections are used to project the data from the average occurrence date of the experience period to the average occurrence date of the future policy period. The projection is also shown in **Attachment VI, Exhibit 10**. Allstate Insurance Company trend data is included as **Attachment VI, Exhibit 11**.

Selections were based on Allstate Insurance Company data. **Attachment VI, Exhibit 11** displays the twenty four-, twelve-, and six-point paid severity trends for Allstate Insurance Company in Arkansas. The credibility level of Allstate loss trend data was analyzed based on the number of claims paid in the latest experience year, which is consistent with the criteria for selecting a credibility procedure outlined in Section 3 of Actuarial Standard of Practice No. 25, *Credibility Procedures Applicable to Accident and Health, Group Term Life, and Property/Casualty Coverages*.

This approach for selecting severity trends and projections is consistent with the Current Practices and Alternatives detailed in *Appendix 1 – Background and Current Practices of Actuarial Standard of Practice No. 13, Trending Procedures in Property/Casualty Insurance Ratemaking*.

#### Frequency Estimation

Allstate used 25 years of Allstate Insurance Group data to calculate the average frequency for Arkansas for the combined Wind and Water perils (i.e., weather). Each accident year's claim frequencies are developed to ultimate. The straight average across all years is used as the state estimate of future claims frequency. Note that no trend is applied to this frequency estimate.

Claim development factors were based on Allstate Insurance Company, Allstate Indemnity Company, and Allstate Property and Casualty Insurance Company combined data. To calculate estimated ultimate frequencies using the link ratio method, historical age-to-age link ratios are calculated, which represent claim development between different evaluation periods. An average of the historical link ratios is then used to estimate the ultimate level of frequencies to be used in ratemaking. This method assumes that historical claim development patterns can be used to estimate future claim development on current immature claims.

Refer to **Exhibit 12.1** of **Attachment VI** for the weather frequency claim development using the link ratio method. The estimated ultimate frequency is shown on **Attachment VI, Exhibit 12.1**. Please note that the actual five year average loss development factors were used.

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**MODELED LOSSES**

Allstate separately identifies and accounts for its exposure to loss due to the occurrence of hurricane or other modeled events within a state. All hurricane losses during the experience period were removed and then replaced with a provision to reflect expected modeled losses in Arkansas.

**Attachment III** describes the modeled provision in detail. **Attachment VI, Exhibit 13, Development of Provisions for Modeled Loss and LAE and Retained Risk**, displays the total modeled provision used in Arkansas.

Please note that in developing the Provision for Modeled Loss and LAE, the Amount of Insurance Years (AIY's) are used as an exposure base. One AIY is equal to \$1,000 of Coverage in force for one year. The AIY's must be adjusted to represent the AIY's that we expect to be in force during the policy period. Selections were based on Allstate Insurance Company data with considerations to the state Property Insurance Adjustment. **Attachment VI, Exhibit 23** shows the twenty, twelve, and six-point average AIY trends for Arkansas. A 1.0% provision is selected to project the AIY's to the average earned date of the proposed policy period.

This approach for selecting AIY projections is consistent with the Current Practices and Alternatives detailed in *Appendix 1 – Background and Current Practices of Actuarial Standard of Practice No. 13, Trending Procedures in Property/Casualty Insurance Ratemaking*.

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**EXPENSE PROVISIONS**

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

**Attachment VI, Exhibit 14** shows the expense provisions used in developing the current fixed and variable expense ratios.

**Fixed Expenses**

General and Other Acquisition Expense

*Provisions*

The provisions for general expense and other acquisition expense are based on countrywide data. Since the methods and procedures that incur these expenses are uniform within each state, it is a reasonable assumption that these expense provisions are uniform across all states. To develop the provision for other acquisition and general expenses, a three-year average of countrywide, combined-lines, calendar year incurred expense divided by countrywide calendar year direct earned premium was calculated. Because premiums charged for the net cost of reinsurance (NCOR) do not include provisions for general and other acquisition expenses, the earned premium used in the development of the general and other acquisition expenses is countrywide direct earned premium less countrywide NCOR premium. The provision for other acquisition expense has been reduced by the amount of installment fees collected. In addition, the provision has been adjusted for premiums written off.

*Rate Need Calculations*

In developing the dollar provision for general and other acquisition expenses used in the calculation of the Arkansas rate level need, the three-year countrywide average expense ratio for general and other acquisition expenses is applied to the average earned group premium of Arkansas. The Arkansas group average earned premium is developed using the same three-year period used in the calculation of the countrywide expense ratio. The provision is then adjusted for the trend expected to occur from the midpoint of the three years used in the calculation of the average earned premium to the average earned date of the proposed policy period to derive the provision included in the rate level indications.

The expense provisions for general and other acquisition expenses are developed on **Attachment VI, Exhibits 15 and 16**.

### Licenses & Fees

A provision for licenses and fees that do not vary by premium size is determined by taking the arithmetic average ratio of these licenses and fees from the latest three calendar years in Arkansas. The provision for licenses and fees is considered, along with the general and other acquisition expense provisions, to be a fixed expense and is shown on **Attachment VI, Exhibit 14**.

### *Trend (Inflation)*

The method used to calculate the fixed expense trend is similar to the method used by the Insurance Services Office (I.S.O.) and other competitors to determine a fixed expense trend. The method utilizes the CPI (Consumer Price Index) and the ECI (Employment Cost Index – Insurance Carriers, Agents, Brokers, & Service) and is discussed by Geoffrey Todd Werner, FCAS, MAAA in his paper *Incorporation of Fixed Expenses*, which was published in the *CAS Forum* (Winter 2004). Based on a review of the historical indices, an annual percentage change is selected for each index. These selected annual percent changes are then weighted together using the distribution of the Allstate expenditures in the latest calendar year for the two broad expense categories that these indices represent. This method is expected to produce stable and reasonable estimates of the true trend in fixed expenses and is consistent with the Current Practices and Alternatives detailed in *Appendix 1 – Background and Current Practices of Actuarial Standard of Practice No. 13, Trending Procedures in Property/Casualty Insurance Ratemaking*. This trend is applied to all fixed expenses. The factor to adjust for subsequent change in Fixed Expense is shown on **Attachment VI, Exhibit 17**.

## **Variable Expenses**

### Commission and Brokerage Expense

The proposed commission and brokerage expense provision has been developed from the 2010 calendar year commission and brokerage incurred expense ratio in Arkansas. The provision is shown on **Attachment VI, Exhibit 14**.

### Taxes

The provision for taxes is determined by taking the currently prescribed Arkansas premium tax ratio and adding to that the arithmetic average ratio of other assessments that vary by the size of the premium from the latest three or five calendar years ending 12/31/2010 in Arkansas. The provision is shown on **Attachment VI, Exhibit 14**.

## **Unallocated Loss Adjustment Expenses**

Allocated loss adjustment expense (ALAE) is included in the losses. Losses in the experience period have been adjusted to account for non-hurricane unallocated loss adjustment expenses (ULAE). A provision is developed using countrywide Allstate Insurance Group data. A three-year average of the ratios of countrywide, combined-lines, calendar year non-hurricane ULAE to countrywide, combined-lines, calendar year non-hurricane incurred losses and allocated loss adjustment expense is used to determine the ULAE provision. The average ratio is then applied

to the losses for each year used in the formula calculation. The ULAE ratios that have been used in this filing are shown in **Attachment VI, Exhibit 6**.

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**PROFIT PROVISION, DEBT PROVISION AND CONTINGENCY FACTOR**

Underwriting Profit Provision

Allstate performs two separate cost of capital analyses in the estimation of its cost of equity. The first uses the Fama-French Three-factor Model (FF3F), which 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). The second is a Discounted Cash Flow (DCF) analysis, which 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 10.00%, which reflected the outcomes of both analyses.

An analysis of premium, loss and expense cash flows is used to calculate the investment income on policyholder supplied funds (PHSF). This methodology is one of the two examples given in Actuarial Standard of Practice, No. 30, *Treatment of Profit and Contingency Provisions and the Cost of Capital in Property/Casualty Insurance Ratemaking*, as appropriate methods for recognizing investment income from insurance operations (page 4).

The calculations detailing this investment income analysis are found on **Attachment VI, Exhibit 18**. The expected investment yield rate (applied as a force of interest) used to discount losses and expenses includes anticipated net investment income and anticipated capital gains, both realized and unrealized. Operating cash flows are discounted to the average time of earnings of premium and profit for the policy year, rather than to the start of the policy year.

The final pre-tax underwriting profit provision at present value is shown in **Attachment VI, Exhibit 18** as well.

The underwriting profit provision will not apply to the retained risk provision or the high-layer retained hurricane losses.

Debt Provision

The cost of debt is listed as a separate provision in the Variable Expense and Profit Ratio. The debt provision amount is shown on **Attachment VI, Exhibit 14**.

Contingency Provision

As with previous Allstate filings, the contingency provision of 2% is shown on **Attachment VI, Exhibit 14**. Additional support on the selected contingency provision is shown on **Attachment VI, Exhibit 19** and throughout **Attachment V**. Please note that the contingency provision does not apply to the retained risk provision.

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**RETAINED RISK PROVISION**

With this filing, Allstate is introducing a retained risk provision in determining the rate level need in Arkansas. This provision is meant to provide appropriate returns on the high-layer retained hurricane exposure. **Attachment IV** describes the development of the retained risk provision per Amount of Insurance Year (AIY). **Attachment VI, Exhibit 13**, Development of Provisions for Modeled Loss and LAE and Retained Risk, displays the retained risk provision per AIY used in Arkansas. Please note that in developing the Provision for Modeled Loss and LAE and Retained Risk, the Amount of Insurance Years (AIY's) are used as an exposure base. One AIY is equal to \$1,000 of Coverage in force for one year. The AIY's must be adjusted to represent the AIY's that we expect to be in force during the policy period. Selections were based on Allstate Insurance Company data with considerations to the state Property Insurance Adjustment. **Attachment VI, Exhibit 23** shows the twenty, twelve, and six-point average AIY trends for Arkansas. We have selected a 1.0% provision to project the AIY's to the average earned date of the proposed policy period. This approach for selecting AIY projections is consistent with the Current Practices and Alternatives detailed in *Appendix 1 – Background and Current Practices* of Actuarial Standard of Practice No. 13, *Trending Procedures in Property/Casualty Insurance Ratemaking*. Since the retained risk provision represents an appropriate return for this high-layer retained hurricane exposure, the underwriting profit provision for the corresponding loss and LAE is not applied.

The methodology used to develop this retained risk provision is based upon the approach detailed in the presentation “Quantifying Risk Load for Property Catastrophe Exposure” by David Appel from the 2010 Casualty Actuarial Society Ratemaking and Product Management Seminar (<http://www.casact.org/education/rpm/2010/handouts/RR3-Appel.pdf>).

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**ADJUSTMENTS TO PREMIUMS**

Current Rate Level

All premiums in the experience period were adjusted to current rate level in Arkansas. As in the last filing, Allstate used the “Miller-Davis-Karlinski” method to do this since it more accurately calculates factors to current rate level in instances when exposures are changing throughout the year, whether through growth, shrinkage or seasonality. When exposures are, in fact, written uniformly throughout the year, this method produces approximately the same answers as the parallelogram method.

The Miller-Davis-Karlinski method is also used to bring premiums to current rate level prior to calculating the changes in average premium (the premium trends).

Premium Trend

In addition to bringing premiums to current rate level, changes in the average written premium at the current premium level were reviewed on a state basis. Unlike losses, premium is relatively stable. Only the latest year of premium is used in the calculation of the indication, which eliminates the need for premium trend. Premium projections are still selected to account for shifts in the distribution of various underlying factors. Since the effects on losses caused by these shifts are reflected in the loss projections, it is important that Allstate also account for the anticipated future changes in premiums.

The projection was based on Allstate Insurance Company data. The selected projection is displayed on **Attachment VI, Exhibit 21**. This annual projection is used to project the data from the average occurrence date of the most recent experience period to the average occurrence date of the future policy period. Allstate Insurance Company premium trend data is included as **Attachment VI, Exhibit 22**.

This approach for selecting a premium projection is consistent with the Current Practices and Alternatives detailed in *Appendix 1 – Background and Current Practices* of Actuarial Standard of Practice No. 13, *Trending Procedures in Property/Casualty Insurance Ratemaking*.

# **ATTACHMENT III**

## **Modeled Loss Provision**

**ALLSTATE INSURANCE GROUP  
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**DEVELOPMENT OF THE HURRICANE PROVISION  
BASED ON THE 2010/09 AIR VERSION 12.0 HURRICANE MODEL  
IN THE STATEWIDE RATE LEVEL INDICATION  
EXPLANATORY MEMORANDUM**

I. INTRODUCTION

**The Casualty Actuarial Society Statement of Principles Regarding Property and Casualty Ratemaking defines a rate as "...an estimate of the expected value of future costs" and further states that "a rate provides for all costs associated with the transfer of risk". Rates are therefore an estimate of the costs for the policies to which the rates will apply. In our property ratemaking we assume that the proposed rates will apply to the policies written for one year from the effective date of the rates. Each provision of the rate is based on an estimate of the costs associated with those policies.**

Losses expected from a hurricane are significantly different than losses expected from other types of loss events. Hurricanes are unique because of the large potential impact such storms can have on the company's solvency and because of the relatively low frequency of such events.

The significant variation in the frequency of different magnitudes of hurricanes diminishes the accuracy of historical hurricane loss experience for projecting expected loss levels for the policies to which proposed rates will apply. Average expected recurrence periods for the larger, more severe storms are so long that many external variables will change in the time periods between occurrences. For example, the area of southern Florida hit by Hurricane Andrew in 1992 was last hit by a major hurricane, Hurricane Betsy, in 1965. The type, number, value, vulnerability and geographical distribution of exposed properties in the area impacted by Hurricane Andrew are very different than those of the exposed properties in 1965. Actual loss statistics from a hurricane that occurred many years ago are not easily adjusted for the type, number, value, and vulnerability of present day structures.

Since historical hurricane losses cannot be used to accurately estimate current hurricane loss potential, Allstate has contracted with an outside vendor, AIR Worldwide (AIR), which uses an alternative methodology based on Monte Carlo simulation to arrive at Allstate's expected annual hurricane losses. This approach involves the development of computer programs that describe in detail the frequency of hurricanes, their meteorological characteristics, and their effects on exposed properties. A high-speed computer then simulates a large set of hypothetical hurricanes and estimates the resulting property losses based on Allstate's exposure.

In order to estimate the potential loss from hurricanes, 100,000 scenario years of potential hurricanes are simulated. This large number of simulations attempts to ensure that the resulting

probability distribution of losses converges to a stable representative distribution of potential annual hurricane loss.

The pattern of simulated hurricanes is representative of what has occurred historically because meteorological data on the actual events since 1900 were used to estimate the parameters of the AIR hurricane simulation model. The meteorological sources used to develop the model are the most complete and accurate databases available from various agencies of the National Weather Service and the National Oceanic and Atmospheric Administration (NOAA), including the National Hurricane Center.

This explanatory memorandum incorporates text taken directly from documents supplied to Allstate by AIR Worldwide (AIR) and should not be copied or distributed without the express, written permission of AIR.

## II. HURRICANE PARAMETERS AND WIND SPEED ESTIMATION

### HURRICANE PARAMETERS

The primary characteristics of hurricanes used to simulate each storm and resulting wind speeds are:

1. Hurricane Frequency
2. Landfall Location
3. Central Pressure
4. Radius of Maximum Winds
5. Forward Speed
6. Track Angle at Landfall
7. Storm Track
8. Gradient Wind Reduction Factor
9. Peak Weighting Factor

The probability distributions for several of these variables (2-6) are estimated for coastal segments of equal length from Texas to Maine. Random samples are generated from the probability distributions of these input variables to assign values to the variables for each simulated hurricane.

#### 1. Hurricane Frequency

More than one hundred years of history, spanning the period 1900-2008, were used to estimate the parameters of the annual frequency distribution.

#### 2. Landfall Location

There are 62 segments of fifty nautical miles in the AIR hurricane simulation model, totaling 3,100 nautical miles of coastline. Of these, segment 29 in Southern Florida is split into two parts, one of which represents Key West in Florida. Historical landfalls are tabulated by the 62 segments and the frequencies are then smoothed to produce an estimate of the landfall probability for each segment. A cumulative probability distribution of landfall locations is developed for the entire coastline. Once a landfall segment has been selected from this distribution, the exact landfall location is selected from a uniform distribution within the segment.

### 3. Central Pressure

Central pressure is the lowest sea-level pressure at the center of the hurricane. This variable is the primary determinant of hurricane wind speed. All else being equal, wind speeds increase as the central pressure decreases, or more precisely, as the difference between the central and peripheral pressure increases. Distributions are first fitted to historical central pressure data for each hundred nautical mile coastal segment. Separate distributions are then estimated for larger regions defined based on broad meteorological differences. The final distribution used for each segment is a mixture, with appropriate weights applied, of the regional distributions and the segment distribution.

### 4. Radius of Maximum Winds

Radius of Maximum Winds ( $R_{\max}$ ) is the distance from the storm's center (eye) to the point where the strongest winds are found. The  $R_{\max}$  of stochastic events is estimated using a procedure that relates the  $R_{\max}$  to the central pressure of the storm and to latitude. The  $R_{\max}$  is allowed to vary after landfall over the life of the storm.

### 5. Forward Speed

Forward Speed is the speed at which a hurricane moves from point to point. The parameters of the distribution of forward speed at landfall are estimated for each coastal segments. The lower bound of the distribution of forward speed is three nautical miles. The upper bound is dependent on latitude. Forward speed is allowed to vary after landfall based on historical distributions.

## 6. Track Angle at Landfall

Track Angle at Landfall is the angle between track direction and due north at landfall location. Separate distributions for track angle at landfall are estimated for segments of coastline that have variable orientation.

## 7. Storm Track

A times-series model is employed to reflect dependent variables in the historical data to produce simulated storm tracks. The track direction of each simulated hurricane has the capability to curve and recurve on a fully probabilistic basis using conditional probability matrices. Thus, the AIR hurricane simulation model has the ability to propagate a storm track that accurately imitates actual storm motion.

## 8. Gradient Wind Reduction Factor (GWRF)

The model uses a stochastic GWRF, which varies from storm to storm according to a probability distribution. The probability distribution is developed based on dropsonde data for the period 2002-2005 along with published literature.

## 9. Peak Weighting Factor (PWF)

The PWF is a stochastic parameter used to reflect the vertical slant of the hurricane eye. The PWF and GWRF are generated jointly using a bounded Bivariate Normal distribution.

## HURRICANE WIND SPEED ESTIMATION

Once the key parameters have been generated, the meteorological relationships among them are used to develop a complete time profile of wind speeds for each location affected by the storm. This involves the following calculations for each simulated hurricane:

1. Gradient-Level Wind Speed
2. Adjustment to surface (10-meter) level
3. Storm Asymmetry
4. Storm Decay (Filling)
5. Radial Decay (Storm Center-Relative Wind Speed)
6. Adjustment of Wind Speed for Surface Friction and Averaging Time

### 1. Maximum Gradient-Level Wind Speed

A maximum upper-level (or gradient-level) wind speed is determined based on central and peripheral pressures, as well as radius of maximum winds and latitude coordinates. The upper level wind is then determined above the location of interest by adjusting the

maximum value based on the distance of location from the eye of the storm. This is done using an expected radial gradient wind profile derived from the scientific literature. This wind, called the gradient-level wind speed, is estimated over a 10-minute averaging time.

## 2. Adjustment to surface (10-meter) level

The gradient-level wind is then reduced to a 10-meter height level through application of a scaling factor and a spatial relationship adjustment. The gradient-wind adjustment factor (GWRF) that is used is a variable factor that represents the observed relationship between gradient-level winds and those measured at a 10-m height. The spatial adjustment accounts for differences in the GWRF relationship between the core and the periphery of the storm. The resulting wind represents the surface-level (10-meter) wind speed over an open water surface.

## 3. Storm Asymmetry

An asymmetry factor is calculated based on the forward speed of the hurricane and the relationship between the track direction and the surface wind direction. Since storms in the Northern Hemisphere rotate counterclockwise, this factor is added to the wind speeds calculated to the right of the hurricane track and is subtracted from those calculated to the left of the hurricane track. The wind field's asymmetry is therefore a function of how quickly the storm is propagating.

## 4. Storm Decay (Filling)

Once over land, the hurricane moves away from its source of energy, i.e., warm ocean water. Central pressure rises and as a result, the eye "fills" and winds degrade. Filling equations used in the AIR model estimate the reduction in over-land wind speed as a function of time since landfall, rather than distance. A fast moving storm can produce damaging winds further inland than a slow moving storm with the same landfall intensity (wind speed). Some storms can also reintensify after landfall, in accordance with historical data, but central pressure cannot be lower than the central pressure at landfall. The filling equations vary by coastal region and smoothing is performed to ensure that there are no unrealistic jumps between regions.

## 5. Radial Decay (Storm Center-Relative Wind Speed)

The wind speed in any five-digit zip code is dependent on the distance of the zip code centroid from the eye of the storm. The estimated wind speed at any point within the hurricane is dependent on the radius of maximum winds ( $R_{max}$ ), the distance between the eye of the storm and the centroid of the zip code area, the translational factor between upper-level winds and surface-level wind speeds, and the vertical slant in the eye of a hurricane. As a zip code centroid lies farther from the eyewall, the winds decay until they reach an ambient level at the periphery of the storm.

## 6. Adjustment of Wind Speeds for Surface Friction and Averaging Time

Differences in surface terrain also affect wind speeds. The roughness of the underlying surface induces friction which tends to slow down the winds, and induces turbulence effects which tend to generate short-lived gusts. The friction and gust effects are estimated based on the roughness of the surface over which the wind passes and from which direction the winds are coming.

A friction factor is calculated to capture surface roughness at each affected site and the associated decrease in wind speed that results from surface obstacles. Estimates of surface roughness are derived from digital US Geological Survey (USGS) land use/land cover data. Each terrain type has a different “roughness value” that will lead to different frictional effects on wind speeds at different locations. In general, the rougher the terrain the larger the effect of friction on wind speeds.

As soon as a storm crosses the coastline, there is an immediate reduction in wind speed. The reduction factors reach equilibrium values when the terrain is homogeneous over sufficiently large areas such that the surface winds come in balance with the surface. Thus, most local variability occurs when the underlying surface is diverse.

A gust factor is calculated to capture the effects of surface turbulence and is also associated with the roughness of the terrain. Smooth surfaces impart only a small turbulent effect. The adjustment for rougher surfaces is more substantial since rough surfaces tend to generate short-lived gusts which will translate to a stronger maximum 1-minute sustained wind speed. The gust factor is computed using the same USGS land use data set as is used for the friction calculation. The final adjusted wind represents a 1-minute at a 10-meter height that accounts for the impacts of the local environment and the forward motion of the storm.

## III. DAMAGE ESTIMATION AND DEMAND SURGE

AIR engineers have developed damage functions that describe the interaction between buildings, (including both structural and nonstructural components) and their contents, and the local wind speeds to which they are exposed. These functions relate the mean damage level as well as the variability of damage to wind speed at each location. Because different structural types will experience different degrees of damage, the damage functions vary according to construction class, occupancy, and height. The model estimates a complete distribution around the mean level of damage for each local wind speed and each structural type. Losses are calculated by applying the appropriate damage function to the replacement value of the insured property.

The AIR damage functions capture the effects of wind duration as well as the effect of peak wind speed. The longer a property experiences severe wind speeds, the greater the damage. The

hurricane damageability relationships incorporate well-documented engineering studies published by wind engineers and other experts outside of AIR. They also incorporate the results of post-hurricane field surveys performed by AIR engineers. These relationships are continually refined and validated based on actual client companies' loss data.

Any major hurricane event causes an increase in demand for materials and services to repair and rebuild damaged property. This can put pressure on costs, resulting in higher than expected costs. Therefore, AIR applies aggregate demand surge functions to loss estimates to take into account the combined effects of events clustered in both time and geography.

#### IV. LOSS CALCULATION

##### ALLSTATE EXPOSURE DETAIL

Allstate has supplied AIR with a detailed exposure database containing insured values by policy level and ZIP Code for each line of business, construction, and deductible combination. Damage functions relating wind speed and wind duration to the percentage of property damaged for varying types of coverage and construction are used to produce loss estimates by zip code for each simulated hurricane.

##### MODELED LOSS ESTIMATES

Losses estimated from 100,000 years of simulated potential hurricanes are summed and divided by 100,000 to produce the expected annual losses from all hurricanes for each ZIP Code. ZIP Code loss estimates are then aggregated to produce expected annual loss by county and state.

Hurricane factors are then calculated as the total loss estimate for a given ZIP Code, county, or state divided by the total insured value in thousands of dollars (amount of insurance years). The development of the hurricane factor for the state is displayed on **Attachment VI, Exhibit 13**. This factor is applied to the expected average amount of insurance years in the determination of the overall rate level indication.

##### ADJUSTMENTS TO MODELED LOSS ESTIMATES

As advances in science and changes in claim payment behaviors evolve, Allstate re-evaluates how it currently reflects modeled hurricane losses in ratemaking. At times it is necessary to adjust the modeled losses to more accurately estimate the Property and Casualty industry's risk from hurricanes. Note that all adjustments made to the modeled losses are under continual development and may change in the future as Allstate learns more about the changing risk environment. Modeled loss estimates include adjustments for:

1. Atlantic Warm Sea Surface Temperature
2. Loss Adjustment Expenses

## 1. Atlantic Warm Sea Surface Temperature Adjustment

Meteorological research has identified correlations between naturally varying ocean temperatures and hurricane activity originating in the Atlantic that affects both the Gulf and the Atlantic coastlines. The active 2004 and 2005 hurricane seasons have heightened Allstate's awareness of such relationships. Scientists have concluded that the climate is presently undergoing a cycle of warmer than average sea surface temperatures which is expected to result in increased hurricane activity in the United States. It is well known that the ocean is able to retain heat for very long periods of time, a physical characteristic known as persistence. Due to the ocean's long-term persistence and the associated ocean current cycle known as the Atlantic Thermohaline Circulation, most scientists believe that the Atlantic Ocean is likely to remain warmer than average for the next several years.

### Methodology:

The AIR WSST hurricane catalog (using 50,000 years of simulations) is a catalog developed to account for the impact of warm sea surface temperatures in the Atlantic Ocean on hurricane landfall activity. The WSST catalog is based on AIR's standard hurricane catalog with adjustments made to landfall frequencies by region to reflect the expected impact of warmer-than-average sea surface temperatures. All of the model components aside from the catalog are that of the AIR Atlantic Tropical Cyclone Model, Version 12.

The AIR WSST catalog was used to calculate an Average Annual Loss net of deductible and gross of reinsurance (referred to as "Gross AAL"). In addition, the AIR standard hurricane catalog (using the first 50,000 years of simulations) was used to calculate a Gross AAL. The WSST Factor was developed by taking the ratio of the Gross AAL from the WSST hurricane catalog to the Gross AAL from the standard hurricane model.

$$\text{Indicated WSST Factor} = \frac{\text{Gross AAL from AIR WSST hurricane catalog}}{\text{Gross AAL from AIR standard hurricane catalog}}$$

The WSST Factors were calculated for each state and line of business and rounded to 3 decimals.

### Data:

2010/09 WSST Factors	
<u>State</u>	<u>Factor</u>
AR	1.121

\* Uses 50,000 Years

## 2. Loss Adjustment Expenses

Loss Adjustment Expenses (LAE), both allocated and unallocated, represent the costs of adjusting, investigating and settling losses due to the hurricane peril. Allocated expenses are incurred while investigating and settling claims and are considered allocated since they can be linked directly to a claim file. Unallocated expenses are associated with processing claims but cannot be linked directly to a claim file. Modeled hurricane losses provided by AIR do not include LAE. Therefore it is necessary to develop a LAE provision to be applied to these losses for use in pricing and hurricane exposure management. In order to account for the LAEs associated with hurricane losses, we have applied a factor of 1.17 to the modeled losses for all property lines. The selection of this provision was based on a study of the LAE associated with hurricane losses for Allstate.

Methodology:

### Allocated Loss Adjustment Expense (ALAE)

Loss and allocated loss adjustment expense data for hurricane events from 1998 through 2010 was analyzed. Tropical storms are not included in the LAE analysis, as they are not simulated in the modeled loss data. A ratio of allocated loss adjustment expenses to losses was developed.

### Unallocated Loss Adjustment Expense (ULAE)

Loss and unallocated loss adjustment expense data for hurricane events from the time period of 1998 through 2010 was analyzed. A ratio of unallocated loss adjustment expenses to losses was developed.

Allstate Insurance Group Allstate Personal and Commercial Lines Combined Loss Adjustment Expense Analysis - Hurricane Peril	
ALAE	1.7%
ULAE	18.5%
Total	20.2%
Selected:	17.0%

## V. ACTUARIAL STANDARDS OF PRACTICE

The rules and procedures as set forth in Actuarial Standard of Practice No. 38, *Using Models Outside the Actuary's Area of Expertise (Property and Casualty)* were applied in reviewing the modeled losses.

# **ATTACHMENT IV**

## **Retained Risk Provision**

**ALLSTATE INSURANCE GROUP  
OWNERS FORMS  
ARKANSAS**

**DEVELOPMENT OF RETAINED RISK PROVISION BASED ON MODELED  
EXPOSURE**

With this filing, Allstate is introducing a provision in the rates to cover the risk of exposing its capital to large catastrophic events. This retained risk provision (RRP) is intended to provide appropriate compensation to Allstate relative to its retained, high-layer modeled risk. The provision described below is consistent with the rules and procedures set forth in the Actuarial Standard of Practice No. 38, *Using Models Outside the Actuary's Area of Expertise (Property and Casualty)* and Actuarial Standard of Practice No. 39, *Treatment of Catastrophe Losses in Property/Casualty Insurance Ratemaking*.

The procedure for developing the RRP calls for identifying the portion of catastrophic losses that will be retained by Allstate and then estimating the cost to Allstate of holding the capital required to pay such losses. To measure the amount of retained losses, Allstate's actual reinsurance contracts are applied to the modeled losses based on the 2010/2009 AIR Version 12.0 Hurricane and Earthquake Model for Arkansas. This provides an estimate of the portion of the losses that will be covered by Allstate's reinsurance contracts and the amounts that will be retained by Allstate. Once the retained losses in excess of a 1-in-5-year event (i.e., 20% annual occurrence probability) have been determined, we then calculate the appropriate compensation for exposure to such losses by using data from capital markets – specifically the market for catastrophe bonds. The details of the procedures used to determine the magnitude of retained losses at various occurrence probabilities, and the investor-required compensation for bearing the risk of those losses, are explained in more detail below.

Catastrophe bonds are one of a class of financial instruments known collectively as “insurance linked securities (ILS).” ILS have payoffs conditional on future contingent events, such as the occurrence of hurricanes. While there are a variety of ILS traded in today's capital markets, the most common and prominent of these are catastrophe bonds, which are bonds that may default on both principal and interest if a specific catastrophic event occurs.

Typically a catastrophe bond is issued by an insurance company with a provision that if a specified catastrophic event (e.g., hurricane in Florida, earthquake in California, winter storm in Europe, etc.) of a particular magnitude occurs, the issuer may default on the payment of principal and/or interest on the bond. In that respect, the bond functions similarly to reinsurance – once the “attachment point” is breached, the insurer receives a benefit that at maximum is equal to the face amount of the bond. When catastrophe bonds are sold, investors naturally demand a yield premium as compensation for the risk of default.

Mechanically, when catastrophe bonds are sold, the issuer deposits the proceeds of the sale into a segregated account which pays interest at the risk free rate. However, because of the default risk, the yields on such bonds must be higher than the risk free rate. Thus, the interest in excess of the risk free rate is an excellent basis for measuring the risk premium that the marketplace has

established for bearing catastrophe exposure. Furthermore, since insurers face the same risk of catastrophic loss as investors, the risk premiums paid in capital markets provide an appropriate measure of the compensation required for the insurer as well.

There are several reasons why this is a particularly useful way to quantify a RRP in ratemaking. First, the data are drawn directly from capital markets, meaning they reflect the consensus of all investors as to the compensation required for bearing catastrophe risk. Second, they reflect exactly the types of risks to which insurers are exposed when they write property coverage in catastrophe prone states; as such they represent an appropriate estimate of the return demanded for the catastrophe exposure. Third, the entire analysis is free of assumptions regarding insurer-specific factors such as cost of capital, leverage, and investment income. Finally, the data required to adapt this information to insurance ratemaking is readily available and reported regularly at annual (or more frequent) intervals.

The data used in the calculation of the rate retained risk provision was selected in accordance with the considerations listed in Section 3.2 of Actuarial Standard of Practice No. 23, *Data Quality*. As regards the data, the sources Allstate relies upon are the annual publications of Lane Financial LLC, the most prominent analyst of the ILS market in the US. Annually, Lane Financial provides a summary of all newly issued catastrophe bonds, which includes information on the following critical variables:

- Face amount of bond
- Insured peril
- Yield spread to risk free rate (the excess return or risk premium on the bond)
- Probability of first loss (the probability that the insured event will cause any loss of principal or interest)
- Probability of exhaustion (the probability that the loss will be large enough to exhaust the entire principal of the bond)
- Expected value of loss (the annual average loss given the probability of attachment and exhaustion, expressed as a percent of the face amount of the bond)

Allstate uses this data to develop the appropriate RRP by state, line, and company in the following manner. First, profit multiples are calculated, which are obtained by subtracting the expected value of loss from the excess return on the bond, and then dividing that quantity by the expected loss. This profit multiple is essentially a measure of the profit an investor expects per dollar of expected loss on the bond. However, as might be expected, the amount of profit that investors require per dollar of loss depends on the riskiness of the losses themselves. For bonds that are extremely risky (i.e., that have very low probabilities of attachment) the profit multiples are considerably higher than for less risky instruments. Therefore, when the data are compiled, the profit multiples are computed for bonds in several different groups: those with attachment probabilities of 20% - 10%, 10% - 5%, 5% - 2%, 2% - 1%, 1% - 0.4%, and less than 0.4%. As expected, these profit multiples increase as the attachment probabilities decrease. The selected profit multiples used in the calculation of the Retained Risk Provision for Arkansas Allstate Insurance Company Owners are shown in **Exhibit 1** of this attachment.

The next step is to apply these profit multiples to the amount of modeled losses retained by Allstate. To do this, the amount of retained modeled losses are compiled by layer, where the

layers are defined by occurrence probabilities in the same ranges as the profit multiples described above. Given the expected retained losses within each layer and the required profit per dollar of loss as measured by the profit multiples, the RRP (in dollars) is calculated by multiplying the expected retained losses within each layer by the corresponding profit multiple and summing across the layers. This result can be used to estimate the appropriate compensation to Allstate for its retained modeled exposure.

These calculations are performed using annual aggregate modeled losses since Allstate's surplus is exposed to multiple events in the same year. The aggregate annual occurrence probabilities are determined by using all modeled losses in Arkansas using the AIR model event sets.

The AIR model produces 50,000 years of modeled losses, which are initially ranked from high to low. The loss sizes are determined for each of the occurrence probabilities that are used to define the loss layers (0.4%, 1%, 2%, 5%, 10%, and 20%). For example, the 1-in-100-year loss (1% probability) is the amount of modeled loss in the 500<sup>th</sup> largest year (1% of 50,000), the 1-in-250-year loss (0.4% probability) is the amount of modeled loss in the 200<sup>th</sup> largest year, etc. Once the loss sizes are determined for the boundaries of each layer, all expected losses from the AIR model are distributed into these layers of loss.

Next, the amount of losses in each layer that are covered by Allstate's reinsurance contracts is determined by applying Allstate's reinsurance contracts to the modeled losses. The following items need to be considered when applying Allstate's reinsurance contracts:

- For events that impact more than one state, the reinsured losses are allocated to each affected state proportional to those events' expected losses in each state.
- Allstate's nationwide (excluding New Jersey and Florida) reinsurance contract is a per occurrence excess-of-loss contract that covers catastrophe losses in a year, subject to the terms and limits of that contract.
- The reinsurance coverage provided by the nationwide contract is applied to each state proportional to each state's expected losses in the reinsured layer.
- Some states have multiple reinsurance contracts that provide coverage for various types of catastrophe losses – these may include state-specific reinsurance contracts in addition to the nationwide contract.
- Additional considerations are required when there are multiple events in a year to ensure that the reinsured losses are allocated properly to each state.

Allstate's retained losses for each event are derived by subtracting the losses covered by reinsurance from the total expected losses. In some years, the retained losses exceed the total amount of Allstate's statutory surplus. Those years with retained losses in excess of Allstate's surplus are identified and Arkansas's portion of the excess losses is determined proportional to the retained losses in that year. The losses in excess of Allstate's statutory surplus are subtracted from the retained losses to determine the exposed losses covered by Allstate's surplus.

The indicated RRP is then developed by applying the profit multiple indicated by capital markets to the exposed Arkansas losses covered by surplus in each layer. The dollars of RRP are summed across the layers, and a diversification factor is applied to account for the fact that Allstate is a

multi-line, multi-state company, to determine the total RRP. The calculation of the total diversified RRP for Arkansas Allstate Insurance Company Owners is shown on **Exhibit 2** of this attachment.

Finally, the dollars of calculated RRP are divided by Amount of Insurance Years (AIYs) to develop a per-AIY charge that is included in the rate level indication.

**Summary of Catastrophe Bond Profit Multiples**  
*Based on Short-Term Cat Bonds issued between 2006 and 2011*  
*for All U.S. bonds with a probability of loss between 0.05% and 20.00%*

<u>Probability</u>	<u># of Cat Bonds</u>	<u>Average Size of Issue</u> <u>(\$ Millions)</u>	<u>Profit Multiple</u> <sup>1</sup>
less than 0.4%	14	\$59.7	15.70
0.4% to 1%	23	184.9	7.81
1% to 2%	36	138.6	5.41
2% to 5%	50	82.4	4.15
5% to 10%	20	60.9	2.09
10% to 20%	7	27.1	2.05
Total	150	\$104.1	5.72

Source: Lane Financial LLC, Annual Securitization Reviews

Note: The 14 cat bonds in the "less than 0.4%" layer are from 1999 through 2011

Excludes cat bonds with no stated profit multiples; based on the Straight Average

**Allstate Insurance Company  
Owners Forms  
Arkansas**

**Development of Retained Risk Provision**  
All Peril Excluding Earthquake

	(1)	(2)	(3)	(4) = (1) - (2) - (3)	(5)	(6) = (4) x (5)
Layer	Probability of Attaching	Expected Loss	Reinsured Loss	Exposed Losses Above Surplus	Exposed Losses Covered by Surplus	Retained Risk Provision by Layer
1	100.0%	\$0	\$0	\$0	\$0	\$0
2	20.0%	\$423	2	\$0	\$421	865
3	10.0%	\$5,548	93	\$0	\$5,455	11,374
4	5.0%	\$14,614	790	\$0	\$13,824	57,382
5	2.0%	\$14,420	1,215	\$0	\$13,205	71,376
6	1.0%	\$16,525	2,272	\$0	\$14,253	111,313
7	0.4%	\$34,468	13,493	\$0	\$20,975	329,311
Total		\$85,998	\$17,864	\$0	\$68,134	\$581,621

(7) Diversification Factor: 0.401

(8) Total Diversified Retained Risk Provision (in \$): \$233,480  
= (6) Total \* (7)

(9) Arkansas AIC Owners AIYs\*: 1,673,466

(10) Indicated Retained Risk Provision per AIY: 0.140  
= (8) / (9)

Notes: Losses include loss and 16.0% LAE

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

# **ATTACHMENT V**

## **Contingency Factor Support Explanatory Memorandum**

**ALLSTATE PROPERTY AND CASUALTY INSURANCE COMPANY  
OWNERS FORMS  
ARKANSAS**

**CONTINGENCY FACTOR SUPPORT  
EXPLANATORY MEMORANDUM**

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

Background

Actuarial Standard of Practice No. 30, *Treatment of Profit and Contingency Provisions and the Cost of Capital in Property/Casualty Insurance Ratemaking*, defines the contingency provision for ratemaking purposes as follows: A provision for the expected differences, if any, between the estimated costs and the average actual costs, that cannot be eliminated by changes in other components of the ratemaking process. ASOP No. 30 goes on to state that:

- The actuary should include a contingency provision in the rates if assumptions used in ratemaking produce cost estimates that are not expected to equal average actual costs, and if the difference cannot be eliminated by changes in other components of the ratemaking process.
- While estimated costs are intended to equal average actual costs over time, differences between estimated and actual risk transfer costs may be expected in any given year. If a difference persists, the difference should be reflected in the ratemaking calculations as a contingency provision. The contingency provision is not intended to measure the variability of results and is not expected to contribute to profit.

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

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

### **Allstate Homeowners Contingency Provision calculation**

With this filing, Allstate is using a method of calculating a contingency provision that allows more specificity around the type of events that are included. We have reviewed experience over approximately a twenty five year period and have identified a number of representative events that are appropriate to a contingency provision, due to their unanticipated nature. Considered events include the following: court decisions redefining the cause of loss for earth movement- and landslide-related loss, sinkholes, failure to disclose (in connection with sale of a home), oil tank leakage, foundation slab losses, mold, methamphetamine lab damage, legislated exceptions to policy language, flooding, lead paint poisoning, imminent collapse, terrorism, radiant floor heating systems, dog bites, and drug cartel wars. Identifying these events through Allstate claim file narratives allows us to exclude claims that are not appropriate to a contingency provision, such as normal low frequency, high severity events and regulatory delay situations. The effect of inflation is also excluded.

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

In order to estimate an appropriate contingency provision, we have selected a group of events from the above list of considered events (including oil tanks, slab losses, mold and flooding) for which we can obtain more reliable loss data. It is not our intention to price these specifically named events, but to use these events as a proxy for unforeseen events occurring in the future. Issues which triggered payments over several years cannot be considered "unexpected" for an indefinite period of time. In these cases, we have judgmentally included losses from the first three years following the initial event. After three years we assume that these losses are present in our indications data and that we have priced sufficiently for the event's exposure in our rates. Some events are of shorter duration and so fewer than three years of losses are included in the calculations. Note also that data includes some low frequency, high severity losses. Such losses are more appropriately accounted for with a long-term provision rather than in a contingency provision, and Allstate does calculate an adequate weather provision (theoretically sound and calculated over a sufficiently long period of time). However, the legislative, media and other influences that generate unexpected losses can also affect such losses. Therefore, these losses are included in our analysis when they stem from one of the issues in question. Losses are included for Allstate's Owners, Renters and Condo forms.

**Attachment VI, Exhibit 19** shows the sum of all claims divided by countrywide homeowners accident year losses from 1996 – 2003 (adjusted for expected catastrophe levels) and adjusted for expense provisions. This time period was chosen to match the time period of losses readily

available to us (our claim files older than 1996 cannot be effectively reviewed to extract specific losses). Our analysis was completed in 2004, and due to systems modifications since then, retrieving data at this level of detail would require extensive effort. Losses for some events have been adjusted downward to reflect the fact that, despite the sophistication of our analysis, some claims unrelated to the issue in question can be unintentionally included in the loss totals.

# **ATTACHMENT VI**

## **Rate Level Indication Exhibits**

Allstate Insurance Company  
Owners Forms  
Arkansas

Determination of Statewide Rate Level Indication

1) Indicated Provision for Loss and Loss Adjustment Expense [ (a) + (b) + (c) + (d) ]	\$828.16
a) Non-Weather Loss and LAE	\$244.95
b) Weather Loss and LAE	\$578.71
c) Low-Layer Retained and Ceded Hurricane Loss and LAE	\$0.68
d) High-Layer Retained Hurricane Loss and LAE	\$3.82
2) Current Fixed Expense Ratio	10.2 %
3) Three Year Average Earned Premium	\$871.85
4) Current Dollar Provision for Fixed Expense [ (2) x (3) ]	\$88.93
5) Factor to Adjust for Subsequent Change in Fixed Expense	1.074
6) Indicated Provision for Fixed Expense [ (4) x (5) ]	\$95.51
7) Variable Expense, Contingencies Ratio, and Profit Ratio [ (a) + (b) + (c) ]	26.9 %
a) Variable Expense Ratio (including Commissions, Taxes, and Debt Provision)	16.2 %
b) Contingencies Ratio	2.0 %
c) Profit Ratio	8.7 %
8) Indicated Retained Risk Provision	\$18.52
9) Indicated Average Premium [ (a) + (b) + (c) ]	\$1,285.11
a) Non-Weather Loss and LAE	\$1,258.34
Weather Loss and LAE	
Low-Layer Retained and Ceded Hurricane Loss and LAE	
Fixed Expense	
[ (1a) + (1b) + (1c) + (6) ] / [ 1 - (7 Total) ]	
b) High-Layer Retained Hurricane Loss and LAE (1d) / [ 1 - (7a) - (7b) ]	\$4.67
c) Retained Risk Provision (8) / [ 1 - (7a) ]	\$22.10
10) Projected Average Earned Premium at Current Rates	\$1,015.64
11) Indicated Rate Level Change [ (9 Total) / (10) - 1.0 ]	26.5 %

Allstate Insurance Company  
Owners Forms  
Arkansas

Development of Provision for Non-Weather Loss and LAE  
Non-Weather Peril excluding Earthquake

Fiscal Year Ending	(1) Earned Exposures	(2) Accident Year * Non-Weather Ultimate Loss	(3) Non-Weather Ultimate Loss and LAE	(4) Factor to Adjust Losses for Pure Premium Trend	(5) Projected Non- Weather Ultimate Loss and LAE	(6) Projected Average Non-Weather Loss and LAE	(7) Experience Year Weights
12/31/2007	18,416	2,548,000	\$2,935,296	1.617	\$4,746,374	\$257.73	20%
12/31/2008	16,415	2,182,000	\$2,513,664	1.497	3,762,955	229.24	20%
12/31/2009	14,720	2,138,000	\$2,462,976	1.386	3,413,685	231.91	20%
12/31/2010	13,317	2,213,000	\$2,549,376	1.284	3,273,399	245.81	20%
12/31/2011	12,003	2,279,000	\$2,625,408	1.189	3,121,610	260.07	20%
<b>(8) Indicated Provision for Non-Weather Loss and LAE</b>						<b>\$244.95</b>	

\* Evaluated at 12 months

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Development of Provision for Weather Loss and LAE  
Total Weather Peril

Accident Year* Ending	(1) Accident Year * Ultimate Severity	(2) Ultimate Severity incl. LAE	(3) Severity Trend Factor	(4) Projected Ultimate Severity incl. LAE	(7) Experience Year Weights
12/31/2009	\$2,727.52	\$3,142.10	1.281	4,025.03	27%
12/31/2010	\$4,125.96	\$4,753.11	1.208	5,741.76	28%
12/31/2011	\$4,635.47	\$5,340.06	1.140	6,087.67	45%
<b>(8) Indicated Provision for Severity Including All LAE</b>				\$5,433.90	
<b>(9) Indicated Provision for Frequency</b>				10.65%	
<b>(10) Indicated Provision for Weather Loss and LAE</b>				\$578.71	

\* Evaluated at 12 months

Allstate Insurance Company  
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Calculation of Loss Development Factors  
Non-Weather Peril excluding Earthquake  
Additive Method

Fiscal Accident Year Ending 12/31	Incurred Losses †							Earned Exposures
	12 Months	24 Months	36 Months	48 Months	60 Months	72 Months	84 Months‡	
2000							5,672,127	37,219
2001						4,411,832	4,408,659	34,611
2002						5,157,687	5,163,031	24,415
2003				4,309,775	4,637,764	4,649,416	4,664,566	27,217
2004			3,329,199	3,329,669	3,329,749	3,329,929	3,329,929	25,764
2005		1,957,023	1,917,566	1,917,859	1,917,859	1,917,859	1,892,805	22,974
2006	3,313,710	3,911,029	3,860,454	3,803,768	3,812,023	3,811,843		20,418
2007	2,247,162	2,532,600	2,537,142	2,541,642	2,544,817			18,416
2008	2,054,601	2,125,262	2,183,472	2,175,700				16,415
2009	2,035,357	2,139,155	2,141,381					14,720
2010	2,129,571	2,221,468						13,317
2011	2,085,781							12,003
<b>Selected Trend:</b>	5.0%							

Fiscal Accident Year Ending 12/31	Trended Incurred Losses						
	12 Months	24 Months	36 Months	48 Months	60 Months	72 Months	84 Months‡
2000							9,701,262
2001						7,186,409	7,181,241
2002					7,978,793	8,001,265	8,009,556
2003				6,367,501	6,852,090	6,869,305	6,891,688
2004			4,684,517	4,685,179	4,685,291	4,685,545	4,685,545
2005		2,622,598	2,569,722	2,570,114	2,570,114	2,570,114	2,536,540
2006	4,229,227	4,991,574	4,927,026	4,854,679	4,865,215	4,864,985	
2007	2,731,439	3,078,391	3,083,912	3,089,382	3,093,241		
2008	2,378,457	2,460,256	2,527,642	2,518,645			
2009	2,243,981	2,358,418	2,360,873				
2010	2,236,050	2,332,541					
2011	2,085,781						

Development	Trended Additive Amounts per Exposure						
	12 to 24	24 to 36	36 to 48	48 to 60	60 to 72	72 to 84	
4th Prior	37.337	-2.302	0.026	17.805	0.920	-0.149	
3rd Prior	18,840	-3.161	0.017	0.004	0.633	0.340	
2nd Prior	4.983	0.300	-3.543	0.000	0.010	0.822	
1st Prior	7.774	4.105	0.297	0.516	0.000	0.000	
Latest	7.246	0.167	-0.548	0.210	-0.011	-1.461	
3 Year Weighted Average:	6.59	1.52	-1.37	0.23	0.00	-0.15	
5 Year Weighted Average:	16.83	-0.45	-0.72	4.35	0.33	-0.06	
5 Year Excluding High/Low Outliers:	12.01	-0.80	-0.12	0.22	0.23	0.04	
5 Year Excluding Outlier	16.83	-0.45	-0.72	0.17	0.33	-0.06	
Selected:	16.83	-0.45	-0.72	0.17	0.33	-0.06	

Loss Development Period ( months ):	12 - 84	24 - 84	36 - 84	48 - 84	60 - 84
Additive Amt per Exp:	16.10	-0.73	-0.28	0.44	0.27

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

Year	Allstate Insurance Company						
	Trended Age-to-Ult Additive Amt Per Exposure	Earned Exposures	Trended Losses Yet To Emerge	De-Trended Losses Yet To Emerge	Incurred Loss & ALAE	Ultimate Loss & ALAE	
2007	0.27	18,416	4,972	4,090	2,544,817	2,548,907	
2008	0.44	16,415	7,223	6,239	2,175,700	2,181,939	
2009	-0.28	14,720	-4,122	-3,739	2,141,381	2,137,642	
2010	-0.73	13,317	-9,721	-9,258	2,221,468	2,212,210	
2011	16.10	12,003	193,248	193,248	2,085,781	2,279,029	

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Calculation of Loss Development Factors  
Liability  
Link Ratio Method  
Incurred Losses †

Fiscal Accident Year Ending 12/31	12 Months	24 Months	36 Months	48 Months	60 Months	72 Months	84 Months‡
2000							167,088
2001						133,615	133,615
2002					366,697	382,013	387,357
2003				60,712	95,805	107,457	122,718
2004			95,495	95,495	95,575	95,575	95,575
2005		109,596	103,513	103,513	103,513	103,513	78,459
2006	54,593	129,047	56,603	77,938	77,938	77,938	
2007	52,142	75,279	66,441	70,941	74,116		
2008	36,280	92,760	144,059	136,887			
2009	30,920	28,421	30,647				
2010	65,092	71,710					
2011	26,267						

	Link Ratios					
Development	12 to 24	24 to 36	36 to 48	48 to 60	60 to 72	72 to 84
4th Prior	2.364	0.944	1.000	1.578	1.042	1.000
3rd Prior	1.444	0.439	1.000	1.001	1.122	1.014
2nd Prior	2.557	0.883	1.377	1.000	1.000	1.142
1st Prior	0.919	1.553	1.068	1.000	1.000	1.000
Latest	1.102	1.078	0.950	1.045	1.000	0.758
3 Year Average:	1.526	1.171	1.132	1.015	1.000	0.967
5 Year Average:	1.677	0.979	1.079	1.125	1.033	0.983
5 Year Excluding High/Low Outliers:	1.637	0.968	1.023	1.015	1.014	1.005
5 Year Excluding Outliers:	1.677	0.979	1.079	1.012	1.033	0.983
Selected:	1.677	0.979	1.079	1.012	1.033	0.983

<b>Loss Development Period ( months ):</b>	<u>12 - 84</u>	<u>24 - 84</u>	<u>36 - 84</u>	<u>48 - 84</u>	<u>60 - 84</u>
<b>Loss Development Factor:</b>	1.820	1.086	1.109	1.028	1.015

†Includes ALAE

‡Includes supplemental reserves in addition to case reserves

Allstate Insurance Company

Year	Inc. Loss	Factor to Ultimate	Ultimate Loss & ALAE
2007	\$74,116	1.015	75,228
2008	\$136,887	1.028	140,720
2009	\$30,647	1.109	33,988
2010	\$71,710	1.086	77,877
2011	\$26,267	1.820	47,806

Allstate Insurance Company  
Owners Forms  
Arkansas

Calculation of Loss Development Factors  
Non-Weather Excluding Liability  
Link Ratio Method  
Incurred Losses †

Fiscal Accident Year Ending 12/31	12 Months	24 Months	36 Months	48 Months	60 Months	72 Months	84 Months‡
2000							5,505,039
2001						4,278,217	4,275,044
2002					4,776,504	4,775,674	4,775,674
2003				4,249,063	4,541,959	4,541,959	4,541,848
2004			3,233,704	3,234,174	3,234,174	3,234,354	3,234,354
2005		1,847,427	1,814,053	1,814,346	1,814,346	1,814,346	1,814,346
2006	3,259,117	3,781,982	3,803,851	3,725,830	3,734,085	3,733,905	
2007	2,195,020	2,457,321	2,470,701	2,470,701	2,470,701		
2008	2,018,321	2,032,502	2,039,413	2,038,813			
2009	2,004,437	2,110,734	2,110,734				
2010	2,064,479	2,149,758					
2011	2,059,514						
	<b>Link Ratios</b>						
<u>Development</u>	<u>12 to 24</u>	<u>24 to 36</u>	<u>36 to 48</u>	<u>48 to 60</u>	<u>60 to 72</u>	<u>72 to 84</u>	
4th Prior	1.160	0.982	1.000	1.069	1.000	0.999	
3rd Prior	1.119	1.006	1.000	1.000	1.000	1.000	
2nd Prior	1.007	1.005	0.979	1.000	1.000	1.000	
1st Prior	1.053	1.003	1.000	1.002	1.000	1.000	
Latest	1.041	1.000	1.000	1.000	1.000	1.000	
3 Year Average:	1.034	1.003	0.993	1.001	1.000	1.000	
5 Year Average:	1.076	0.999	0.996	1.014	1.000	1.000	
5 Year Excluding High/Low Outliers:	1.071	1.003	1.000	1.001	1.000	1.000	
5 Year Excluding Outliers:	1.076	0.999	0.996	1.001	1.000	1.000	
Selected:	1.076	0.999	0.996	1.001	1.000	1.000	
<b>Loss Development Period ( months ):</b>	<u>12 - 84</u>	<u>24 - 84</u>	<u>36 - 84</u>	<u>48 - 84</u>	<u>60 - 84</u>		
<b>Loss Development Factor:</b>	1.072	0.996	0.997	1.001	1.000		

†Includes ALAE

‡Includes supplemental reserves in addition to case reserves

Allstate Insurance Company

Year	Inc. Loss	Factor to Ultimate	Ultimate Loss & ALAE
2007	\$2,470,701	1.000	2,470,701
2008	\$2,038,813	1.001	2,040,852
2009	\$2,110,734	0.997	2,104,402
2010	\$2,149,758	0.996	2,141,159
2011	\$2,059,514	1.072	2,207,799

Allstate Insurance Company  
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Ultimate Losses & ALAE  
Total Non-Weather Peril

<b>Ultimate Losses &amp; ALAE</b>			
<b><u>Year</u></b>	<b><u>Link Ratio</u></b> <b><u>Estimate*</u></b>	<b><u>Additive</u></b> <b><u>Estimate</u></b>	<b><u>Selected</u></b>
2007	2,545,929	2,548,907	2,548,000
2008	2,181,572	2,181,939	2,182,000
2009	2,138,390	2,137,642	2,138,000
2010	2,219,036	2,212,210	2,213,000
2011	2,255,605	2,279,029	2,279,000

\* Link Ratio includes Liability and All Excluding Liability, excluding Earthquake.

**ALLSTATE INSURANCE GROUP\***

**Countrywide Expense Experience - Unallocated (Adjusting and Other Expense) Factors\*\***

**2008, 2009 & 2010**

	<u>2008 - 2010</u>
1. Direct Losses and Allocated Loss Adjustment Expense Incurred excluding Earthquake and Hurricane Losses	\$ 41,320,934
2. Direct Unallocated Loss Adjustment Expense Incurred excluding Earthquake and Hurricane	\$ 6,283,405
3. Ratio (2)/(1)	0.152
4 Proposed Provision	0.152

\* Allstate Insurance Company, Allstate Indemnity Company, Allstate Property and Casualty Insurance Company  
Allstate County Mutual Insurance Company, Allstate Fire & Casualty, Northbrook Indemnity, and Allstate Texas Lloyds.

\*\* Includes Personal Property Lines and Private Passenger Automobile Insurance

(000 Omitted)

Allstate Insurance Company  
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Calculation of Pure Premium Trend Factor

<u>Peril</u>	Selected Annual Pure Premium Impacts	
	<u>Historical</u>	<u>Projected</u>
Non-Weather Peril excluding Earthquake	8.00%	8.00%

	<u>4th Prior Year</u>	<u>3rd Prior Year</u>	<u>2nd Prior Year</u>	<u>1st Prior Year</u>	<u>Current Year</u>
1) Loss Trend Projection Date	9/27/2013	9/27/2013	9/27/2013	9/27/2013	9/27/2013
2) Mid-Point of Current Year's Experience Period	6/30/2011	6/30/2011	6/30/2011	6/30/2011	6/30/2011
3) Experience Period Ended	12/31/2007	12/31/2008	12/31/2009	12/31/2010	12/31/2011
4) Midpoint of Experience Period	6/30/2007	6/30/2008	6/30/2009	6/30/2010	6/30/2011
5) Historical: Number of Years from (4) to (2)	4.000	3.000	2.000	1.000	0.000
6) Projected: Number of Years from (2) to (1)	2.244	2.244	2.244	2.244	2.244

Calculation of Trend Factors

(a) Historical Pure Premium Factors are the Annual Historical Impacts plus unity compounded for the number of years in (5)

(b) Projected Pure Premium Factors are the Annual Projected Impacts plus unity compounded for the number of years in (6)

(c) Factor to Adjust Losses for Pure Premium Trend = (a) x (b)

Allstate Insurance Company  
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Loss Trends - Pure Premium  
Non-Weather Peril excluding Earthquake

Year Ending	Actual Paid Pure		Exponential Curve of Best Fit		
	Premium	Annual Change	24 pt.	12 pt.	6 pt.
03/06	91.76	-40.21 %	130.98		
06/06	114.10	-8.89	132.14		
09/06	126.38	21.47	133.31		
12/06	149.47	109.46	134.49		
03/07	180.90	97.15	135.69		
06/07	165.35	44.92	136.89		
09/07	178.15	40.97	138.11		
12/07	155.51	4.04	139.33		
03/08	132.58	-26.71	140.57		
06/08	137.35	-16.93	141.81		
09/08	129.01	-27.58	143.07		
12/08	149.76	-3.70	144.34		
03/09	145.69	9.89	145.62	137.35	
06/09	153.37	11.66	146.91	139.56	
09/09	169.56	31.43	148.22	141.80	
12/09	143.85	-3.95	149.53	144.07	
03/10	153.13	5.11	150.86	146.39	
06/10	140.03	-8.70	152.19	148.73	
09/10	106.63	-37.12	153.54	151.12	102.43
12/10	114.45	-20.44	154.91	153.55	119.06
03/11	132.34	-13.58	156.28	156.01	138.39
06/11	162.54	16.08	157.67	158.52	160.87
09/11	200.70	88.23	159.07	161.06	186.99
12/11	209.45	83.01	160.48	163.65	217.35
Regression			24 pt.	12 pt.	6 pt.
Avg Annual Percent Change Based on Best Fit:			3.60 %	6.58 %	82.56 %
State Credibility based on 288 Paid Claims					
In Year Ending 12/2011:			16 %	16 %	16 %

Allstate Insurance Group  
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Provision for Weather Frequency

(1) Accident Year Ending	(2) Earned Exposures	(3) Accident Year * Paid Claims	(4) Accident Year Paid Frequency	(5) Accident Year Ultimate Paid Frequency
1987	47,293	3,208	6.78%	6.78%
1988	48,389	3,454	7.14%	7.14%
1989	49,696	6,408	12.89%	12.89%
1990	50,237	4,701	9.36%	9.36%
1991	48,759	5,012	10.28%	10.28%
1992	44,726	3,743	8.37%	8.37%
1993	41,327	2,778	6.72%	6.72%
1994	39,352	4,447	11.30%	11.30%
1995	38,666	3,232	8.36%	8.36%
1996	38,269	9,391	24.54%	24.54%
1997	38,091	2,418	6.35%	6.35%
1998	38,208	2,583	6.76%	6.76%
1999	37,930	5,935	15.65%	15.65%
2000	37,616	8,198	21.79%	21.79%
2001	35,907	2,653	7.39%	7.39%
2002	30,495	2,155	7.07%	7.07%
2003	40,220	2,442	6.07%	6.07%
2004	45,361	2,198	4.85%	4.85%
2005	48,589	2,296	4.73%	4.73%
2006	52,159	5,344	10.25%	10.25%
2007	57,038	2,268	3.98%	3.98%
2008	59,242	11,807	19.93%	19.93%
2009	60,230	13,320	22.12%	22.14%
2010	58,381	4,049	6.94%	6.96%
2011	55,750	8,756	15.71%	16.62%
<b>(6) Arkansas Weather Frequency Provision</b>				<b>10.65%</b>

\* Evaluated at 12 months

Allstate Insurance Company  
Owners Forms  
Arkansas

Calculation of Weather Loss Severity Trend Factor

<u>Peril</u>	Selected Annual Pure Premium Impacts				
	<u>Historical</u>	<u>Projected</u>			
Weather Peril	6.00%	6.00%			
	<u>4th Prior Year</u>	<u>3rd Prior Year</u>	<u>2nd Prior Year</u>	<u>1st Prior Year</u>	<u>Current Year</u>
1) Loss Trend Projection Date	9/27/2013	9/27/2013	9/27/2013	9/27/2013	9/27/2013
2) Mid-Point of Current Year's Experience Period	6/30/2011	6/30/2011	6/30/2011	6/30/2011	6/30/2011
3) Experience Period Ended	12/31/2007	12/31/2008	12/31/2009	12/31/2010	12/31/2011
4) Midpoint of Experience Period	6/30/2007	6/30/2008	6/30/2009	6/30/2010	6/30/2011
5) Historical: Number of Years from (4) to (2)	4.000	3.000	2.000	1.000	0.000
6) Projected: Number of Years from (2) to (1)	2.244	2.244	2.244	2.244	2.244

Calculation of Trend Factors

(a) Historical Weather Loss Severity Factors are the Annual Historical Impacts plus unity compounded for the number of years in (5)

(b) Projected Weather Loss Severity Factors are the Annual Projected Impacts plus unity compounded for the number of years in (6)

(c) Factor to Adjust Losses for Weather Loss Severity Trend = (a) x (b)

Allstate Insurance Company  
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Loss Trends - Severity  
Total Weather Peril

Year Ending	Actual Paid		Exponential Curve of Best Fit		
	Severity	Annual Change	24 pt.	12 pt.	6 pt.
03/06	2,565.74	30.05 %	3,170.61		
06/06	3,756.83	80.60	3,204.10		
09/06	3,752.88	83.10	3,237.94		
12/06	3,848.64	73.51	3,272.14		
03/07	3,973.64	54.87	3,306.69		
06/07	3,159.81	-15.89	3,341.62		
09/07	3,258.03	-13.19	3,376.91		
12/07	3,301.90	-14.21	3,412.58		
03/08	3,075.20	-22.61	3,448.62		
06/08	3,745.92	18.55	3,485.04		
09/08	3,886.11	19.28	3,521.85		
12/08	3,982.59	20.61	3,559.04		
03/09	3,184.20	3.54	3,596.63	2,787.18	
06/09	2,632.47	-29.72	3,634.62	2,928.67	
09/09	2,603.00	-33.02	3,673.01	3,077.35	
12/09	2,698.58	-32.24	3,711.80	3,233.57	
03/10	3,874.99	21.69	3,751.00	3,397.73	
06/10	4,081.02	55.03	3,790.62	3,570.21	
09/10	4,317.56	65.87	3,830.65	3,751.46	4,179.95
12/10	4,144.92	53.60	3,871.11	3,941.90	4,222.07
03/11	4,207.47	8.58	3,911.99	4,142.02	4,264.63
06/11	4,195.08	2.79	3,953.31	4,352.29	4,307.61
09/11	4,373.85	1.30	3,995.06	4,573.24	4,351.02
12/11	4,487.16	8.26	4,037.26	4,805.40	4,394.87
Regression			24 pt.	12 pt.	6 pt.
Avg Annual Percent Change Based on Best Fit:			4.29 %	21.91 %	4.09 %
State Credibility based on 2067 Paid Claims					
In Year Ending 12/2011:			44 %	44 %	44 %

Allstate Insurance Group  
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Calculation of Frequency Development Factors  
Weather Peril  
Link Ratio Method  
Paid Frequency

Accident Year Ending	12 Months	24 Months	36 Months	48 Months	60 Months	72 Months	84 Months
2000							21.79%
2001						7.39%	7.39%
2002						7.07%	7.07%
2003				6.06%	6.07%	6.07%	6.07%
2004			4.84%	4.85%	4.85%	4.85%	4.85%
2005		4.68%	4.71%	4.72%	4.72%	4.73%	4.73%
2006	9.78%	10.20%	10.22%	10.24%	10.24%	10.25%	
2007	3.69%	3.96%	3.97%	3.98%	3.98%		
2008	19.27%	19.90%	19.93%	19.93%			
2009	20.91%	22.10%	22.12%				
2010	6.53%	6.94%					
2011	15.71%						
	<b>Link Ratios</b>						
<u>Development</u>	<u>12 to 24</u>	<u>24 to 36</u>	<u>36 to 48</u>	<u>48 to 60</u>	<u>60 to 72</u>	<u>72 to 84</u>	
4th Prior	1.043	1.008	1.000	1.000	1.000	1.000	
3rd Prior	1.074	1.003	1.002	1.000	1.001	1.000	
2nd Prior	1.033	1.003	1.002	1.000	1.000	1.000	
1st Prior	1.057	1.001	1.001	1.000	1.000	1.000	
Latest	1.061	1.001	1.000	1.000	1.000	1.000	
3 Year Average:	1.050	1.002	1.001	1.000	1.000	1.000	
5 Year Average:	1.054	1.003	1.001	1.000	1.000	1.000	
5 Year Excluding High/Low Outliers:	1.054	1.002	1.001	1.000	1.000	1.000	
5 Year Excluding Outliers:	1.054	1.003	1.001	1.000	1.000	1.000	
Selected:	1.054	1.003	1.001	1.000	1.000	1.000	
<b>Development Period ( months ):</b>	<u>12 - 84</u>	<u>24 - 84</u>	<u>36 - 84</u>	<u>48 - 84</u>	<u>60 - 84</u>		
<b>Frequency Development Factor:</b>	1.058	1.004	1.001	1.000	1.000		

Allstate Insurance Group

Year	Paid Frequency	Factor to Ultimate	Ultimate Frequency
2007	3.98%	1.000	3.98%
2008	19.93%	1.000	19.93%
2009	22.12%	1.001	22.14%
2010	6.94%	1.004	6.96%
2011	15.71%	1.058	16.62%

Allstate Insurance Group  
Owners Forms  
Arkansas

Calculation of Severity Development Factors  
Weather Peril  
Link Ratio Method  
Paid Severity

Fiscal Accident Year Ending 12/31	12 Months	24 Months	36 Months	48 Months	60 Months	72 Months	84 Months
2000							1,235
2001						1,632	1,632
2002					1,817	1,819	1,819
2003				2,203	2,205	2,210	2,210
2004			2,409	2,412	2,412	2,412	2,412
2005		2,970	2,991	3,010	3,010	3,012	3,013
2006	4,544	4,632	4,638	4,642	4,644	4,645	
2007	3,556	3,659	3,676	3,680	3,684		
2008	4,328	4,458	4,472	4,474			
2009	3,155	3,308	3,312				
2010	4,460	4,653					
2011	5,190						
	<b>Link Ratios</b>						
<u>Development</u>	<u>12 to 24</u>	<u>24 to 36</u>	<u>36 to 48</u>	<u>48 to 60</u>	<u>60 to 72</u>	<u>72 to 84</u>	
4th Prior	1.019	1.007	1.001	1.001	1.001	1.000	1.000
3rd Prior	1.029	1.001	1.006	1.000	1.002	1.000	1.000
2nd Prior	1.030	1.005	1.001	1.000	1.000	1.000	1.000
1st Prior	1.049	1.003	1.001	1.001	1.001	1.001	1.000
Latest	1.043	1.001	1.000	1.001	1.000	1.000	1.000
3 Year Average:	1.041	1.003	1.001	1.001	1.000	1.000	1.000
5 Year Average:	1.034	1.003	1.002	1.001	1.001	1.000	1.000
5 Year Excluding High/Low Outliers:	1.034	1.003	1.001	1.001	1.001	1.000	1.000
5 Year Excluding Outliers:	1.034	1.003	1.002	1.001	1.001	1.000	1.000
Selected:	1.034	1.003	1.002	1.001	1.001	1.000	1.000
<b>Development Period ( months ):</b>	<u>12 - 84</u>	<u>24 - 84</u>	<u>36 - 84</u>				
<b>Severity Development Factor:</b>	1.041	1.007	1.004				

Allstate Insurance Company

Year	Paid Severity	Factor to Ultimate	Ultimate Severity
2009	2,717	1.004	2,727.52
2010	4,097	1.007	4,125.96
2011	4,453	1.041	4,635.47

Allstate Insurance Company  
Owners Forms  
Arkansas

Development of Provision for Hurricane Loss and LAE and Retained Risk

1) Hurricane Provision Per AIY Including All LAE	0.034
2) Retained Risk Provision Per AIY	0.140
3) Earned Exposures	12,003
4) Earned AIY	1,551,936
5) Average Earned AIY (4)/(3)	129.30
6) Factor to Adjust to Projected Average AIY Level	1.023
7) Average AIY Projected to 9/27/2013 (5)*(6)	132.27
8) Proportion of High-Layer Retained Modeled Losses to Total Modeled Losses	0.848
9) Expected Modeled Catastrophe Pure Premium (1)*(7)	\$4.50
a) Low-Layer Retained and Ceded Hurricane Pure Premium [1 - (8)]*(9 Total)	\$0.68
b) High-Layer Retained Hurricane Pure Premium (8)*(9 Total)	\$3.82
10) Expected Retained Risk Provision (2)*(7)	\$18.52

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

Allstate Insurance Company  
Owners Forms  
Arkansas

Summary of Expense Provisions

	Percent Fixed	Expense Provision
Commissions	0 %	11.7 %
Taxes †	0	3.1
Licenses and Fees	100	0.1
Other Acquisition	100	5.3
General Expense	100	4.8
Debt Provision	0	1.4
Contingency Provision	0	2.0
Profit Provision	0	8.7

† State Taxes - Does not include Federal Income Tax

**ALLSTATE INSURANCE GROUP\***

Countrywide Experience for General Expenses

	General Expense**		
	2008	2009	2010
1. Direct Premium Earned Less Reinsurance Premium***	\$22,179,653	\$21,698,432	\$21,675,897
2. General Expense Incurred	1,103,876	1,011,399	1,018,249
3. Ratio (2)/(1)	0.0498	0.0466	0.0470
4. Three Year Average			0.048
5. Proposed Provision			0.048

\* Allstate Insurance Company, Allstate Property and Casualty Insurance Company, Allstate Indemnity Company, Northbrook Indemnity Company, Allstate Fire & Casualty Insurance Company and Allstate County Mutual

\*\* Data includes Personal Property Lines (excluding Earthquake) and Private Passenger Automobile Insurance

\*\*\* Premiums for Net Cost of Reinsurance (NCOR) do not include provisions for General Expenses. Therefore, direct premiums must be reduced by NCOR premiums to get the premium base upon which the general expense provision is applied.

(000's) omitted

**ALLSTATE INSURANCE GROUP\***

Personal Property Lines

Countrywide Experience for Other Acquisition Expenses\*

	Other Acquisition Expense		
	2008	2009	2010
1. Direct Premium Earned Less Reinsurance Premium**	\$22,179,653	\$21,698,432	\$21,675,897
2. Other Acquisition Expense Incurred	1,286,955	1,259,684	1,459,795
3. Ratio (2)/(1)	0.0580	0.0581	0.0673
4. Three Year Average			0.0611
5. Adjusted Three Year Average***			0.0528
6. Proposed Provision			0.053

\* Allstate Insurance Company, Allstate Property and Casualty Insurance Company, Allstate Indemnity Company, Northbrook Indemnity Company, Allstate Fire & Casualty and Allstate County Mutual. Data includes Personal Property Lines and Private Passenger Automobile Insurance

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

\*\*\* Reduced by 1.02% to reflect the amount of Installment Fees collected for Allstate Insurance Group Personal Property Lines and includes a 0.19% provision for Allstate Insurance Group Personal Property Lines premiums written off.

(000's) omitted

Allstate Insurance Company  
Owners Forms  
Arkansas

Factor to Adjust for Subsequent Change in Fixed Expense  
(For calendar years 2008-2010 )

1) Average Earned Date of Experience Period	6/30/2009
2) Average Earned Date of Proposed Policy Period	9/27/2013
3) Number of Years from (1) to (2)	4.244
4) Selected Annual Impact	1.70%
5) Factor to Adjust for Subsequent Change in Fixed Expense [ 1.0 + (4) ] ^ (3)	1.074

Allstate Insurance Company  
Owners Forms  
Arkansas  
Investment Income

Calculation of Present Value, as of the Average Earning Date of a Policy Year, of all Income and Outgo @ 2.6% †force of interest, assuming an Operating Profit of 7.00% and twelve month Policy Terms

Years From Start of Policy Year	Cumulative Percent of Losses Paid	Yearly Percent of Losses Paid	Time from Start of Policy Year	Discounted‡ to Average Time of Profit @ 2.6%	Discounted Payments
1	28.8 %	28.80 %	0.70	1.008	29.0 %
2	94.5	65.70	1.40	0.990	65.0
3	98.4	3.90	2.40	0.964	3.8
4	99.1	0.70	3.40	0.940	0.7
5	99.7	0.60	4.40	0.915	0.5
Subsequent	100.0	0.30	6.90	0.858	0.3
<b>Total</b>					99.3 %
<b>Expected Losses and Loss Expense Ratio</b>					62.9 %
<b>Present Value of Loss and Loss Expense Payments</b>					62.5 %
General Expense		4.8 %	0.75	1.007	4.8 %
Other Acquisition		5.3 %	0.63	1.010	5.4 %
Taxes		3.1 %	0.63	1.010	3.1 %
Licenses and Fees		0.1 %	0.63	1.010	0.1 %
Commissions		11.7 %	0.58	1.011	11.8 %
Debt Provision		1.4 %	1.00	1.000	1.4 %
Contingency Provision		2.0 %	1.00	1.000	2.0 %
Profit		8.7 %	1.00	1.000	8.7 %
<b>Total Present Value of Outgo</b>					99.8 %
<b>Premiums</b>		100.0 %	0.57	1.011	101.1 %
<b>Difference, Present Value of Income Less Present Value of Outgo</b>					1.3 %

†Discount rate from Investment Department forecast

‡exp (force of interest x (timing of profit being earned – timing of cash flow))

Allstate Insurance Company  
Homeowners  
Countrywide

Contingency Factor Support  
Accident Years 1996-2003

1) Total estimated loss from unexpected events:	\$388,265,584
2) Total countrywide ex-cat accident year losses:	\$14,082,669,021
3) Indicated contingency provision as percentage of ex-cat loss:	2.8%
4) Indicated contingency provision as percentage of total loss:	2.1%
5) Indicated contingency provision adjusted for expenses:	1.9%
6) Selected contingency provision:	2.0%

Allstate Insurance Company  
Owners Forms  
Arkansas

Development of Projected Average Earned Premium

Fiscal Year Ending	(1) Earned Exposures	(2) Earned Premium at Current Rates	(3) Factor to Adjust to Projected Premium Level	(4) Projected Earned Premium at Current Rates (2) x (3)	(5) Projected Average Earned Premium at Current Rates (4) / (1)	(6) Experience Year Weights
12/31/2011	12,003	\$11,916,657	1.023	\$12,190,740	\$1,015.64	100 %
		(7) Projected Average Earned Premium at Current Rates			\$1,015.64	

Allstate Insurance Company  
Owners Forms  
Arkansas

Calculation of Premium Trend Factor

<u>Peril</u>	Selected Annual Premium Impacts <u>Projected</u>
Total All Peril excluding EQ	1.00%
	<u>Current Year</u>
1) Average Earned Date of Proposed Policy Period	9/27/2013
2) Mid-Point of Current Year's Experience Period	6/30/2011
3) Experience Period Ended	12/31/2011
4) Midpoint of Experience Period	6/30/2011
5) Historical: Number of Years from (4) to (2)	0.000
6) Projected: Number of Years from (2) to (1)	2.244

Calculation of Trend Factors

- (a) Historical Premium Factors are the Annual Historical Impacts plus unity compounded for the number of years in (5)
- (b) Projected Premium Factors are the Annual Projected Impacts plus unity compounded for the number of years in (6)
- (c) Factor to Adjust to Projected Premium Level = (a) x (b)

Allstate Insurance Company  
Owners Forms  
Arkansas

Premium Trends

Year Ending	Average Written Premium @ CRL Annual Change		Exponential Curve of Best Fit		
			20 pt.	12 pt.	6 pt.
03/07	\$950.64	3.15 %	\$958.71		
06/07	960.56	3.43	960.40		
09/07	967.57	3.63	962.10		
12/07	972.36	3.86	963.80		
03/08	970.17	2.05	965.50		
06/08	970.60	1.05	967.20		
09/08	974.14	0.68	968.91		
12/08	972.41	0.01	970.62		
03/09	973.54	0.35	972.34	\$964.10	
06/09	977.22	0.68	974.06	966.97	
09/09	974.82	0.07	975.78	969.86	
12/09	969.72	-0.28	977.50	972.76	
03/10	966.51	-0.72	979.23	975.67	
06/10	961.95	-1.56	980.96	978.58	
09/10	968.33	-0.67	982.69	981.50	\$971.68
12/10	979.41	1.00	984.42	984.43	978.79
03/11	987.58	2.18	986.16	987.37	985.96
06/11	998.46	3.80	987.90	990.32	993.17
09/11	999.66	3.24	989.65	993.28	1,000.44
12/11	1,004.40	2.55	991.40	996.25	1,007.76
Regression			20 pt.	12 pt.	6 pt.
Avg Annual Percent Change Based on Best Fit:			0.71%	1.20%	2.96%

Allstate Insurance Company  
Owners Forms  
Arkansas

AIY Trends

Exponential Curve of Best Fit

Year Ending	AIY	Annual Change	20 pt.	12 pt.	6 pt.
03/07	119.37	6.13 %	122.60		
06/07	121.35	6.61	123.03		
09/07	123.04	6.25	123.47		
12/07	124.16	5.92	123.91		
03/08	124.20	4.05	124.35		
06/08	124.55	2.64	124.79		
09/08	125.17	1.73	125.24		
12/08	127.50	2.69	125.68		
03/09	128.21	3.23	126.13	128.86	
06/09	129.53	4.00	126.58	128.87	
09/09	130.73	4.44	127.03	128.89	
12/09	128.78	1.00	127.48	128.91	
03/10	128.53	0.25	127.93	128.93	
06/10	127.99	-1.19	128.39	128.94	
09/10	127.81	-2.23	128.85	128.96	128.13
12/10	128.58	-0.16	129.30	128.98	128.45
03/11	129.04	0.40	129.76	128.99	128.78
06/11	129.29	1.02	130.23	129.01	129.11
09/11	129.40	1.24	130.69	129.03	129.43
12/11	129.55	0.75	131.15	129.04	129.76
Regression			20 pt.	12 pt.	6 pt.
Avg Annual Percent Change Based on Best Fit:			1.43%	0.05%	1.02%

## **ATTACHMENT VII**

### **Explanatory Memos for Revision of Distinct Charge for Net Cost of Reinsurance**

**ALLSTATE INSURANCE GROUP  
OWNERS  
ARKANSAS**

**DEFINITIONS**

Please note that throughout this filing, the following terms and their definitions are used:

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

Homeowners Policy – An owners, condo, co-op, or renters policy.

Owners Policy – a policy which covers a freestanding dwelling or townhome that is not classified as a manufactured home.

**ALLSTATE INSURANCE GROUP  
OWNERS  
ARKANSAS  
2011 REINSURANCE CONTRACT SUMMARY**

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

Allstate's catastrophe reinsurance program has been redesigned effective June 01, 2011. Since the 2006 inception of Allstate's catastrophe reinsurance program, our exposure to wind loss has been materially reduced and we have nearly eliminated our exposure to earthquake loss. Our redesigned program for 2011 responds to these exposure changes by including coverage for multiple perils, in addition to hurricanes and earthquakes, in all but one of the contracts comprising the program. In addition, the per Occurrence structure effective June 01, 2011 facilitates the program's administration while providing greater potential with respect to loss recovery.

Our redesigned program includes a Nationwide Per Occurrence Excess Catastrophe Reinsurance program reinsuring our personal lines property and auto excess catastrophe losses resulting from multiple perils, including hurricanes, windstorms, hail, tornados, earthquakes, fire following earthquakes, riots and freeze, in all states other than New Jersey and Florida. For June 01, 2011 to May 31, 2012, the program consists of two agreements:

1. Nationwide Per Occurrence Excess Catastrophe Reinsurance agreement provides \$3.25 billion of reinsurance coverage above the retention with reinstatement of limits in the first five of the six layers, and
2. Nationwide Top and Drop Excess Catastrophe Reinsurance agreement which includes Coverage A and Coverage B.

The Per Occurrence Excess Catastrophe Reinsurance agreement will provide a \$3.25 billion per Occurrence limit in excess of a \$500 million retention and after \$250 million in losses "otherwise recoverable." Losses from multiple qualifying Occurrences can apply to this \$250 million threshold which applies once to each contract year and only to the agreement's First Layer limit.

The Top and Drop Excess Catastrophe Reinsurance agreement provides \$250 million of reinsurance limits which may be used for Coverage A, Coverage B, or a combination of both. Coverage A reinsures the "Top" of the program and provides 47.5% of \$500 million excess of a \$3.25 billion retention. Coverage B allows the program limit to "Drop" and provides reinsurance 95% of \$250 million in limits excess of a \$750 million retention and after \$500 million in losses "otherwise recoverable" under the agreement. Losses from multiple qualifying Occurrences can apply to this \$500 million threshold.

A description of the catastrophe reinsurance treaties that will reinsure Allstate as June 01, 2011 follows:

### **Nationwide Contract**

The Per Occurrence Excess Catastrophe Reinsurance agreement reinsures personal lines property and auto excess catastrophe losses, with the exception of those occurring in the states of Florida and New Jersey, caused by multiple perils under Six Layers of coverage as follows:

- First Layer: \$250 million limit in excess of a \$500 million retention and after an initial \$250 million in losses “otherwise recoverable” has been satisfied, 1 reinstatement
- Second Layer: \$250 million limit in excess of a \$750 million retention, 1 reinstatement
- Third Layer: \$500 million limit in excess of a \$1 billion retention, 1 reinstatement
- Fourth Layer: \$750 million limit in excess of a \$1.5 billion retention, 1 reinstatement
- Fifth Layer: \$1 billion limit in excess of a \$2.25 billion retention, 1 reinstatement
- Sixth Layer: \$500 million limit in excess of a \$3.25 billion retention, no reinstatement

Each Layer comprises three contracts, each contract providing one third of the total limit and expiring as of May 31, 2012, 2013 and 2014, respectively. We employ a multi-year approach to placing this reinsurance coverage to lessen the amount of reinsurance being placed in the market in any one year. Coverage for the First through the Fifth Layers is 95% placed and coverage for the Sixth Layer is 47.5% placed. Unlike the other layers, the Sixth Layer is not subject to reinstatement. In addition to the retention applicable to the First Layer, the Companies must incur \$250 million in losses “otherwise recoverable” under the First Layer each contract year before this Layer attaches. Losses from multiple qualifying Occurrences, in excess of \$500 million per Occurrence, can apply to this \$250 million threshold.

Reinsurance premium is subject to redetermination for exposure changes at each anniversary.

### **Nationwide Top and Drop Contract**

The Top and Drop Excess Catastrophe Reinsurance agreement reinsures personal lines property and auto excess catastrophe losses, with the exception of those occurring in the states of Florida and New Jersey, caused by multiple perils. The reinsurance limit may be used for Coverage A, Coverage B or a combination of both and is not subject to reinstatement. Coverage A provides 47.5% of \$500 million in limits in excess of a \$3.25 billion retention. Coverage A completes the 95% placement of the Sixth Layer of the Per Occurrence agreement described above. Coverage B provides 95% of \$250 million in limits in excess of a \$750 million retention. In addition to this retention, the Company must incur \$500 million in losses “otherwise recoverable” under Coverage B during each contract year before Coverage B attaches. Losses from multiple qualifying Occurrences, in excess of \$750 million per Occurrence, can apply to this \$500 million

threshold. Coverage B is essentially a third limit for the Second Layer of the Per Occurrence Excess Catastrophe Reinsurance agreement described above. For June 01, 2011 to May 31, 2012, the placement of the Top and Drop Excess Catastrophe Reinsurance agreement consists of an annual contract and a three year term contract which, in the aggregate, provide 47.5% of Coverage A's \$500 million limit and 95% of Coverage B's \$250 million limit. For June 01, 2012 to May 31, 2013, the three year term contract provides 12.66% of Coverage A's and 25.3% of Coverage B's placement and for June 01, 2013 to May 31, 2014, provides 6% of Coverage A's and 12.66% of Coverage B's placement. The reinsurance premium for the three year term contract is subject to redetermination for exposure changes at each anniversary.

**ALLSTATE INSURANCE GROUP  
OWNERS FORMS  
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 represents the incremental cost of the contracts to Allstate. It is equal to the reinsurance premium paid, for all applicable contracts, less expected reinsurance recoveries under these 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 Aon Benfield premium adjustment provision, has been distributed to the individual states and lines of business in proportion to their expected loss recovery as determined by the Warm Sea Surface Temperature catalogue, including demand surge. Allstate has relied on modeled losses provided by reinsurance intermediary Aon Benfield. The Nationwide Per Occurrence Excess reinsurance agreements and the Top and Drop reinsurance agreements include coverage for non-recoupable Texas Windstorm Insurance Association (TWIA) assessments up to \$100,000,000 in assessments for any one contract year, which are not included in the modeled data. Therefore, Allstate independently calculated expected losses for this component 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, which reflect warm sea-surface temperature and demand surge, have been modified to reflect the Claim Adjustment Fee stated in the reinsurance contracts. The purpose of the Claim Adjustment Fee is to cover Allstate's loss adjustment expense associated with covered events. The inclusion of these adjustments increases the expected recoveries under the contract, resulting in a lower net cost of reinsurance.

ADJUSTMENT	ADJUSTMENT FACTOR
Claim Adjustment Fee (Contract Year 2011)	
Earthquake (Shake & Fire Following)	1.170
Hurricane	1.160

Please refer to **Appendix A** of this attachment for the schedule portions of each contract, which include participation percentages for the nationwide reinsurance contracts. **Appendix B** of this attachment includes a description of the process used to allocate nationwide reinsurance premium to the brand, state, and line level. In addition, it includes details on the calculation of the reinsurance premium allocated to Allstate Arkansas Homeowners.

**ALLSTATE INSURANCE GROUP  
OWNERS  
ARKANSAS**

**DETERMINATION OF THE REINSURANCE RATE ADJUSTMENT FACTOR  
EXPLANATORY MEMORANDUM**

**Attachment VIII, Page 1** outlines the development of the required reinsurance rate adjustment factor. An explanation, with references to supporting exhibits, is provided below.

1. Reinsurance Premium:  
Reinsurance premium paid, net of expected Aon Benfield premium adjustment provision.
2. Loss Savings Due to Reinsurance:  
Provided loss recoveries under the reinsurance contracts, including adjustments as mentioned on **Attachment VII, Page 5**.
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 summarized on **Attachment VIII Page 2**.
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, as summarized on **Attachment VIII Page 3**.
7. Indicated 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.

The Reinsurance Rate Adjustment Factor will be applied consistently to all Reinsurance Base Charges preserving the current relative level of charges by territory, deductible, and construction type.

# **APPENDIX A**

## **Participation Percentage**

**Schedule B**

**Excess Catastrophe  
Reinsurance Contract - Nationwide  
Effective: June 1, 2011**

issued to and by and between

Allstate Insurance Company  
Individually and on behalf of any and all affiliated companies, which now or in the future  
underwrite business covered by this Contract

and

Allstate Indemnity Company  
Northbrook, Illinois  
Allstate County Mutual Insurance Company  
Irving, Texas  
Allstate Fire and Casualty Insurance Company  
Northbrook, Illinois  
Allstate Property and Casualty Insurance Company  
Northbrook, Illinois  
Allstate Texas Lloyd's  
Irving, Texas  
Allstate Vehicle and Property Insurance Company  
Northbrook, Illinois  
Encompass Home and Auto Insurance Company  
Northbrook, Illinois  
Encompass Indemnity Company  
Northbrook, Illinois  
Encompass Independent Insurance Company  
Northbrook, Illinois  
Encompass Insurance Company  
Northbrook, Illinois  
Encompass Insurance Company of America  
Northbrook, Illinois  
Encompass Insurance Company of Massachusetts  
Boston, Massachusetts  
Encompass Property and Casualty Company  
Northbrook, Illinois  
Northbrook Indemnity Company  
Northbrook, Illinois  
and  
North Light Specialty Insurance Company  
Northbrook, Illinois

**Participation Percentages  
By Brand and State**

State	Personal Lines		
	Allstate	Encompass	Total
Alabama	1.69%	0.05%	1.74%
Alaska	0.00%	0.00%	0.00%
Arizona	0.00%	0.00%	0.00%
Arkansas	0.14%	0.00%	0.14%
California	7.19%	0.42%	7.61%
Colorado	0.00%	0.00%	0.00%
Connecticut	4.39%	0.45%	4.84%
Delaware	0.28%	0.09%	0.37%
District of Columbia	0.11%	0.02%	0.13%
Georgia	5.07%	0.65%	5.72%
Hawaii	0.00%	0.00%	0.00%
Idaho	0.00%	0.00%	0.00%
Illinois	0.44%	0.01%	0.45%
Indiana	0.16%	0.00%	0.16%
Iowa	0.00%	0.00%	0.00%
Kansas	0.00%	0.00%	0.00%
Kentucky	0.40%	0.05%	0.45%
Louisiana	9.14%	1.05%	10.19%
Maine	0.23%	0.00%	0.23%
Maryland	1.70%	0.39%	2.09%
Massachusetts	0.00%	0.18%	0.18%
Michigan	0.00%	0.00%	0.00%
Minnesota	0.00%	0.00%	0.00%
Mississippi	3.64%	0.00%	3.64%
Missouri	0.04%	0.00%	0.04%
Montana	0.00%	0.00%	0.00%
Nebraska	0.00%	0.00%	0.00%
Nevada	0.28%	0.00%	0.28%
New Hampshire	0.33%	0.02%	0.35%
New Mexico	0.00%	0.00%	0.00%
New York	14.69%	1.64%	16.33%
North Carolina	7.00%	0.27%	7.27%
North Dakota	0.00%	0.00%	0.00%
Ohio	0.65%	0.05%	0.70%
Oklahoma	0.03%	0.00%	0.03%
Oregon	0.41%	0.01%	0.42%
Pennsylvania	3.35%	0.43%	3.78%
Rhode Island	1.53%	0.08%	1.61%
South Carolina	7.85%	0.26%	8.11%
South Dakota	0.00%	0.00%	0.00%
Tennessee	0.76%	0.03%	0.79%

**Participation Percentages  
By Brand and State  
(continued)**

Texas	15.83%	0.28%	16.11%
Utah	0.00%	0.00%	0.00%
Vermont	0.05%	0.00%	0.05%
Virginia	4.44%	0.17%	4.61%
Washington	1.25%	0.12%	1.37%
West Virginia	0.15%	0.06%	0.21%
Wisconsin	0.00%	0.00%	0.00%
Wyoming	0.00%	0.00%	0.00%
<b>GRAND TOTALS</b>	<b>93.22%</b>	<b>6.78%</b>	<b>100.00%</b>

**Allstate Personal Lines  
Participation Percentages  
By Line of Business**

State	Auto	Mobile Home	Residential Fire	Landlords Package			Condominiums	Total
				Homeowners	Renters	Policy		
Alabama	9.70%	4.46%	0.00%	79.76%	1.77%	2.94%	1.37%	100.00%
Alaska	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Arizona	100.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	100.00%
Arkansas	7.27%	2.04%	0.00%	82.36%	0.93%	7.25%	0.15%	100.00%
California	3.85%	0.12%	0.02%	83.52%	2.22%	8.23%	2.04%	100.00%
Colorado	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Connecticut	3.14%	0.41%	0.29%	91.99%	0.85%	1.25%	2.07%	100.00%
Delaware	2.72%	6.21%	0.00%	82.96%	0.76%	3.76%	3.59%	100.00%
District of Columbia	1.63%	0.00%	0.00%	82.35%	2.00%	10.49%	3.53%	100.00%
Georgia	3.11%	1.81%	0.09%	87.14%	0.46%	6.95%	0.44%	100.00%
Hawaii	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Idaho	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Illinois	3.34%	0.31%	0.01%	86.24%	0.85%	5.46%	3.79%	100.00%
Indiana	3.84%	1.92%	0.03%	85.90%	0.91%	6.83%	0.57%	100.00%
Iowa	100.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	100.00%
Kansas	100.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	100.00%
Kentucky	2.48%	3.99%	0.00%	85.99%	0.92%	5.97%	0.65%	100.00%
Louisiana	6.89%	0.82%	0.00%	90.98%	0.73%	0.06%	0.52%	100.00%
Maine	2.27%	9.87%	0.66%	77.80%	0.86%	7.43%	1.11%	100.00%
Maryland	3.44%	0.71%	0.06%	87.74%	1.05%	4.95%	2.05%	100.00%
Michigan	100.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	100.00%
Minnesota	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Mississippi	6.45%	0.00%	0.00%	92.37%	0.43%	0.65%	0.10%	100.00%
Missouri	7.97%	0.82%	0.01%	81.33%	1.31%	7.69%	0.87%	100.00%
Montana	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Nebraska	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Nevada	1.47%	0.10%	0.00%	81.24%	1.22%	15.13%	0.84%	100.00%
New Hampshire	2.84%	1.83%	0.00%	89.68%	1.13%	2.85%	1.67%	100.00%
New Jersey	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
New Mexico	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
New York	4.31%	0.16%	0.42%	86.22%	1.58%	2.84%	4.47%	100.00%
North Carolina	5.78%	3.99%	0.00%	78.37%	1.10%	9.47%	1.29%	100.00%
North Dakota	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Ohio	3.09%	1.68%	0.10%	87.81%	0.74%	5.72%	0.86%	100.00%
Oklahoma	5.37%	5.20%	0.25%	80.99%	0.63%	7.36%	0.20%	100.00%
Oregon	9.14%	0.74%	0.03%	73.39%	2.18%	13.46%	1.06%	100.00%
Pennsylvania	2.43%	0.78%	0.02%	88.25%	0.53%	7.30%	0.69%	100.00%
Rhode Island	2.31%	0.72%	0.00%	86.14%	0.77%	9.05%	1.01%	100.00%
South Carolina	8.20%	3.22%	0.07%	79.60%	0.97%	5.81%	2.13%	100.00%
South Dakota	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%

**Allstate Personal Lines  
Participation Percentages  
By Line of Business  
(continued)**

Tennessee	4.04%	2.78%	0.00%	84.23%	0.83%	7.56%	0.56%	100.00%
Texas	9.07%	0.95%	0.00%	86.92%	1.18%	1.30%	0.58%	100.00%
Utah	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Vermont	3.03%	4.25%	0.00%	85.65%	1.54%	3.02%	2.51%	100.00%
Virginia	3.98%	0.93%	0.00%	85.57%	1.81%	6.54%	1.17%	100.00%
Washington	5.61%	0.22%	0.03%	80.50%	1.69%	10.45%	1.50%	100.00%
West Virginia	3.24%	9.54%	0.29%	82.69%	0.44%	3.59%	0.21%	100.00%
Wisconsin	10.05%	0.00%	0.00%	82.57%	1.81%	4.15%	1.42%	100.00%
Wyoming	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%

**Encompass Personal Lines  
Participation Percentages  
By Line of Business**

State	Auto	Residential		Homeowners	Renters	Condominiums	Total
		Fire					
Alabama	4.18%	3.09%		92.26%	0.22%	0.25%	100.00%
Arizona	100.00%	0.00%		0.00%	0.00%	0.00%	100.00%
Arkansas	4.27%	1.83%		92.69%	0.30%	0.91%	100.00%
California	4.79%	14.87%		78.17%	0.48%	1.69%	100.00%
Colorado	0.00%	0.00%		0.00%	0.00%	0.00%	0.00%
Connecticut	1.63%	5.85%		91.01%	0.34%	1.17%	100.00%
Delaware	2.55%	3.79%		89.13%	0.16%	4.37%	100.00%
District of Columbia	0.75%	9.83%		85.53%	0.69%	3.20%	100.00%
Georgia	2.09%	4.29%		92.66%	0.33%	0.63%	100.00%
Illinois	6.43%	0.90%		87.98%	0.56%	4.13%	100.00%
Indiana	2.93%	1.98%		91.85%	0.59%	2.65%	100.00%
Iowa	100.00%	0.00%		0.00%	0.00%	0.00%	100.00%
Kansas	100.00%	0.00%		0.00%	0.00%	0.00%	100.00%
Kentucky	1.52%	2.58%		94.10%	0.53%	1.27%	100.00%
Louisiana	2.09%	6.36%		88.47%	0.57%	2.51%	100.00%
Maine	0.63%	4.92%		93.60%	0.24%	0.61%	100.00%
Maryland	1.92%	3.38%		91.94%	0.40%	2.36%	100.00%
Massachusetts	6.34%	4.02%		88.15%	0.21%	1.28%	100.00%
Michigan	100.00%	0.00%		0.00%	0.00%	0.00%	100.00%
Minnesota	0.00%	0.00%		0.00%	0.00%	0.00%	0.00%
Missouri	6.92%	1.19%		90.60%	0.39%	0.90%	100.00%
Nevada	1.72%	9.08%		85.81%	0.26%	3.13%	100.00%
New Hampshire	2.19%	2.24%		94.02%	0.34%	1.21%	100.00%
New Jersey	0.00%	0.00%		0.00%	0.00%	0.00%	0.00%
New Mexico	0.00%	0.00%		0.00%	0.00%	0.00%	0.00%
New York	1.81%	4.65%		90.04%	0.88%	2.62%	100.00%
North Carolina	2.64%	3.01%		92.77%	0.81%	0.77%	100.00%
Ohio	1.81%	3.31%		93.22%	0.39%	1.27%	100.00%
Oklahoma	2.32%	2.28%		93.62%	0.62%	1.16%	100.00%
Oregon	5.99%	7.69%		84.82%	0.80%	0.70%	100.00%
Pennsylvania	2.09%	4.03%		91.25%	1.05%	1.58%	100.00%
Rhode Island	2.07%	2.98%		93.35%	0.29%	1.31%	100.00%
South Carolina	5.91%	2.65%		90.94%	0.15%	0.35%	100.00%
Tennessee	2.21%	3.13%		92.05%	0.65%	1.96%	100.00%
Texas	4.04%	8.31%		82.03%	2.81%	2.81%	100.00%
Utah	0.00%	0.00%		0.00%	0.00%	0.00%	0.00%
Vermont	0.98%	1.87%		93.94%	0.38%	2.83%	100.00%
Virginia	2.14%	3.56%		92.95%	0.47%	0.88%	100.00%
Washington	4.18%	5.69%		87.77%	0.91%	1.45%	100.00%
West Virginia	2.37%	1.39%		95.47%	0.33%	0.44%	100.00%
Wisconsin	5.17%	0.75%		92.92%	0.00%	1.16%	100.00%

**Schedule A**  
**Top and Drop Excess Catastrophe**  
**Reinsurance Contract**  
**Effective: June 1, 2011**

issued to and by and between

Allstate Insurance Company  
Individually and on behalf of any and all affiliated companies, which now or in the future  
underwrite business covered by this Contract  
and

Allstate Indemnity Company  
Northbrook, Illinois

Allstate County Mutual Insurance Company  
Irving, Texas

Allstate Fire and Casualty Insurance Company  
Northbrook, Illinois

Allstate Property and Casualty Insurance Company  
Northbrook, Illinois

Allstate Texas Lloyd's  
Irving, Texas

Allstate Vehicle and Property Insurance Company  
Northbrook, Illinois

Encompass Home and Auto Insurance Company  
Northbrook, Illinois

Encompass Indemnity Company  
Northbrook, Illinois

Encompass Independent Insurance Company  
Northbrook, Illinois

Encompass Insurance Company  
Northbrook, Illinois

Encompass Insurance Company of America  
Northbrook, Illinois

Encompass Insurance Company of Massachusetts  
Boston, Massachusetts

Encompass Property and Casualty Company  
Northbrook, Illinois

Northbrook Indemnity Company  
Northbrook, Illinois

and

North Light Specialty Insurance Company  
Northbrook, Illinois

**Participation Percentages  
By Brand and State**

State	Personal Lines		
	Allstate	Encompass	Total
Alabama	1.03%	0.03%	1.06%
Alaska	0.00%	0.00%	0.00%
Arizona	0.00%	0.00%	0.00%
Arkansas	0.06%	0.00%	0.06%
California	11.00%	0.68%	11.68%
Colorado	0.00%	0.00%	0.00%
Connecticut	6.46%	0.69%	7.15%
Delaware	0.29%	0.10%	0.39%
District of Columbia	0.09%	0.01%	0.10%
Georgia	3.04%	0.36%	3.40%
Hawaii	0.00%	0.00%	0.00%
Idaho	0.00%	0.00%	0.00%
Illinois	0.42%	0.01%	0.43%
Indiana	0.11%	0.00%	0.11%
Iowa	0.00%	0.00%	0.00%
Kansas	0.00%	0.00%	0.00%
Kentucky	0.13%	0.01%	0.14%
Louisiana	9.33%	1.17%	10.50%
Maine	0.23%	0.00%	0.23%
Maryland	1.38%	0.34%	1.72%
Massachusetts	0.00%	0.18%	0.18%
Michigan	0.00%	0.00%	0.00%
Minnesota	0.00%	0.00%	0.00%
Mississippi	2.17%	0.00%	2.17%
Missouri	0.01%	0.00%	0.01%
Montana	0.00%	0.00%	0.00%
Nebraska	0.00%	0.00%	0.00%
Nevada	0.33%	0.01%	0.34%
New Hampshire	0.37%	0.02%	0.39%
New Mexico	0.00%	0.00%	0.00%
New York	21.31%	2.42%	23.73%
North Carolina	4.03%	0.15%	4.18%
North Dakota	0.00%	0.00%	0.00%
Ohio	0.40%	0.03%	0.43%
Oklahoma	0.02%	0.00%	0.02%
Oregon	0.32%	0.01%	0.33%
Pennsylvania	4.45%	0.53%	4.98%
Rhode Island	1.40%	0.07%	1.47%
South Carolina	5.47%	0.18%	5.65%
South Dakota	0.00%	0.00%	0.00%
Tennessee	0.33%	0.02%	0.35%
Texas	14.15%	0.23%	14.38%

**Participation Percentages  
By Brand and State  
(continued)**

Utah	0.00%	0.00%	0.00%
Vermont	0.06%	0.01%	0.07%
Virginia	3.15%	0.12%	3.27%
Washington	0.87%	0.08%	0.95%
West Virginia	0.09%	0.04%	0.13%
Wisconsin	0.00%	0.00%	0.00%
Wyoming	0.00%	0.00%	0.00%
<b>GRAND TOTALS</b>	<b>92.50%</b>	<b>7.50%</b>	<b>100.00%</b>

**Allstate Personal Lines  
Participation Percentages  
By Line of Business**

State	Auto	Mobile Home	Residential Fire	Homeowners		Landlords Package	Condominiums	Total
				Homeowners	Renters	Policy		
Alabama	10.62%	2.75%	0.00%	81.25%	1.93%	2.07%	1.38%	100.00%
Alaska	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Arizona	100.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	100.00%
Arkansas	5.41%	3.64%	0.00%	83.49%	0.61%	6.63%	0.22%	100.00%
California	2.47%	0.11%	0.01%	85.28%	2.12%	8.14%	1.87%	100.00%
Colorado	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Connecticut	3.14%	0.36%	0.29%	91.93%	0.89%	1.27%	2.12%	100.00%
Delaware	2.84%	5.79%	0.00%	83.07%	0.84%	3.89%	3.57%	100.00%
District of Columbia	1.44%	0.00%	0.00%	82.80%	1.82%	10.65%	3.29%	100.00%
Georgia	2.93%	1.48%	0.08%	87.46%	0.46%	7.17%	0.42%	100.00%
Hawaii	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Idaho	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Illinois	2.21%	0.18%	0.00%	88.56%	0.73%	4.85%	3.47%	100.00%
Indiana	3.04%	1.91%	0.03%	86.76%	0.81%	6.90%	0.55%	100.00%
Iowa	100.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	100.00%
Kansas	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Kentucky	3.21%	6.57%	0.00%	82.08%	0.84%	6.31%	0.99%	100.00%
Louisiana	6.63%	0.58%	0.00%	91.34%	0.78%	0.05%	0.62%	100.00%
Maine	2.20%	9.93%	0.65%	77.92%	0.84%	7.41%	1.05%	100.00%
Maryland	3.45%	0.74%	0.06%	87.44%	1.10%	4.96%	2.25%	100.00%
Michigan	100.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	100.00%
Minnesota	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Mississippi	6.45%	0.00%	0.00%	92.31%	0.44%	0.70%	0.10%	100.00%
Missouri	6.13%	1.57%	0.01%	82.59%	0.86%	8.16%	0.68%	100.00%
Montana	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Nebraska	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Nevada	1.11%	0.11%	0.00%	81.34%	1.18%	15.36%	0.90%	100.00%
New Hampshire	2.75%	1.76%	0.00%	89.89%	1.11%	2.87%	1.62%	100.00%
New Jersey	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
New Mexico	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
New York	4.56%	0.14%	0.44%	85.22%	1.78%	2.93%	4.93%	100.00%
North Carolina	5.93%	3.50%	0.00%	78.68%	1.12%	9.47%	1.30%	100.00%
North Dakota	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Ohio	2.85%	1.48%	0.11%	88.35%	0.72%	5.66%	0.83%	100.00%
Oklahoma	5.33%	5.22%	0.26%	80.86%	0.63%	7.51%	0.19%	100.00%
Oregon	4.72%	0.54%	0.03%	78.83%	1.62%	13.67%	0.59%	100.00%
Pennsylvania	2.33%	0.62%	0.02%	88.26%	0.58%	7.44%	0.75%	100.00%
Rhode Island	2.32%	0.67%	0.00%	86.16%	0.79%	9.04%	1.02%	100.00%
South Carolina	7.65%	2.90%	0.07%	80.78%	0.98%	5.85%	1.77%	100.00%
South Dakota	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Tennessee	3.69%	4.17%	0.00%	83.75%	0.65%	7.11%	0.63%	100.00%

**Allstate Personal Lines  
Participation Percentages  
By Line of Business  
(continued)**

Texas	9.22%	0.77%	0.00%	87.28%	1.17%	0.99%	0.57%	100.00%
Utah	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Vermont	2.74%	4.18%	0.00%	86.22%	1.47%	2.99%	2.40%	100.00%
Virginia	3.79%	0.82%	0.00%	85.82%	1.73%	6.72%	1.12%	100.00%
Washington	3.22%	0.19%	0.03%	83.57%	1.32%	10.80%	0.87%	100.00%
West Virginia	3.01%	9.07%	0.28%	83.32%	0.43%	3.69%	0.20%	100.00%
Wisconsin	9.69%	0.00%	0.00%	82.90%	1.81%	4.17%	1.43%	100.00%
Wyoming	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%

**Encompass Personal Lines  
Participation Percentages  
By Line of Business**

State	Auto	Residential			Condominiums	Total
		Fire	Homeowners	Renters		
Alabama	6.20%	2.84%	90.58%	0.17%	0.21%	100.00%
Arizona	100.00%	0.00%	0.00%	0.00%	0.00%	100.00%
Arkansas	3.29%	2.22%	93.01%	0.31%	1.17%	100.00%
California	2.11%	15.47%	80.52%	0.44%	1.46%	100.00%
Colorado	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Connecticut	1.62%	6.04%	90.83%	0.34%	1.17%	100.00%
Delaware	2.45%	3.76%	89.71%	0.16%	3.92%	100.00%
District of Columbia	0.66%	9.94%	85.79%	0.63%	2.98%	100.00%
Georgia	2.06%	4.35%	92.63%	0.31%	0.65%	100.00%
Illinois	1.88%	0.92%	92.86%	0.48%	3.86%	100.00%
Indiana	2.31%	2.08%	92.17%	0.58%	2.86%	100.00%
Iowa	100.00%	0.00%	0.00%	0.00%	0.00%	100.00%
Kansas	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Kentucky	2.47%	3.15%	92.58%	0.55%	1.25%	100.00%
Louisiana	2.09%	6.33%	88.34%	0.64%	2.60%	100.00%
Maine	0.61%	4.88%	93.70%	0.24%	0.57%	100.00%
Maryland	1.76%	3.34%	92.06%	0.39%	2.45%	100.00%
Massachusetts	5.69%	4.10%	88.89%	0.19%	1.13%	100.00%
Michigan	100.00%	0.00%	0.00%	0.00%	0.00%	100.00%
Minnesota	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Missouri	5.14%	1.30%	92.08%	0.51%	0.97%	100.00%
Nevada	1.33%	9.65%	85.14%	0.25%	3.63%	100.00%
New Hampshire	2.11%	2.22%	94.17%	0.33%	1.17%	100.00%
New Jersey	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
New Mexico	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
New York	1.86%	4.68%	89.81%	0.92%	2.73%	100.00%
North Carolina	2.75%	3.03%	92.60%	0.82%	0.80%	100.00%
Ohio	1.68%	3.25%	93.51%	0.36%	1.20%	100.00%
Oklahoma	2.30%	2.28%	93.86%	0.58%	0.98%	100.00%
Oregon	3.08%	7.79%	88.41%	0.36%	0.36%	100.00%
Pennsylvania	1.98%	3.97%	91.35%	1.03%	1.67%	100.00%
Rhode Island	2.09%	2.94%	93.37%	0.29%	1.31%	100.00%
South Carolina	5.35%	2.77%	91.36%	0.15%	0.37%	100.00%
Tennessee	1.75%	2.97%	92.63%	0.56%	2.09%	100.00%
Texas	4.06%	8.68%	81.51%	2.94%	2.81%	100.00%
Utah	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Vermont	0.88%	1.91%	94.10%	0.35%	2.76%	100.00%
Virginia	2.03%	3.68%	92.98%	0.45%	0.86%	100.00%
Washington	2.47%	5.88%	90.34%	0.49%	0.82%	100.00%
West Virginia	2.20%	1.42%	95.66%	0.31%	0.41%	100.00%
Wisconsin	4.86%	0.75%	93.22%	0.00%	1.17%	100.00%



## **APPENDIX B**

# **Calculations Underlying the Allocation of Nationwide Reinsurance Premium Costs to Arkansas**

**Participation in Ceded Premiums  
For  
Reinsurance Contracts**

June 01, 2011 through May 31, 2012

**Process**

Allstate distributes reinsurance costs to various business segments based on their contribution to the expected recoveries (a.k.a., Participation Percentage). The following provides a detailed explanation of the process utilized by Allstate to develop expected recoveries and distribute reinsurance costs:

1. Allstate provides AonBenfield with countrywide personal lines property and auto exposure data for Allstate, and Encompass, and personal lines property exposure data for North Light Specialty for the modeled perils (Hurricane, Shake and Fire Following Earthquake). The exposure data sent contains the characteristics necessary for AonBenfield to process the exposures through catastrophe models. Below are the details of the exposure data sent:
  - a. Policy level Shake property exposures for Allstate and Encompass
  - b. ZIP aggregated Fire Following property exposures for Allstate and Encompass and policy level Fire Following property exposures for North Light
  - c. Policy level Hurricane property exposures for Encompass and North Light and for Allstate a mixture of policy level and ZIP aggregated property exposures
  - d. ZIP aggregated auto exposures
2. AonBenfield processes the exposure data through AIR Worldwide (AIR) CLASIC/2 catastrophe modeling software using a 50,000-year simulation. AIR's Warm Sea-Surface Temperature (WSST) catalog with demand surge was utilized to generate modeled losses.
3. AonBenfield provides Allstate with expected loss recoveries under each reinsurance contract by business unit, state, line of business, and peril, as well as an "Event Loss Table." Notes:
  - a. The expected loss recoveries provided by AonBenfield reflect all inuring relationships between reinsurance contracts as well as reinstatement provisions.
  - b. Allstate's Catastrophe Modeling Team, using the "Event Loss File" provided by AonBenfield, validates the expected loss recoveries provided by AonBenfield.
4. Allstate modified the "Event Loss File" provided by AonBenfield to reflect potential non-recoupable assessments (up to \$100 million for any one contract year) from the Texas Windstorm Insurance Association (TWIA). Specifically, Non-recoupable TWIA

assessments – Allstate Wind Pool policies were modeled and losses adjusted to an industry level in order to calculate estimated non-recoupable TWIA assessments for each simulated year, which were distributed to each modeled event within that year using loss distribution for the events. Finally, assessments were distributed by business unit and line of business based on written premium distribution provided by Pricing. These potential losses are covered by the Nationwide catastrophe per Occurrence excess of loss contracts. This ensures that the cost attributed due to TWIA assessments coverage gets allocated to the state of Texas and not to any other state.

5. Using the modified “Event Loss File,” Allstate’s Catastrophe Modeling Team recalculated expected loss recoveries under each reinsurance contract by business unit, state, line of business, and peril. These expected loss recoveries were then utilized to calculate participation percentages as follows:
  - a. First by business unit and state, rounding to four decimal places and re-indexing, if necessary, to ensure the total equals 100.00%.
  - b. Then, by state, line of business, and peril for Allstate and Encompass. Again, rounding to four decimal places and re-indexing to ensure the total equals 100.00%. Participation percentages are then summed to the state and line of business level.
6. These participation percentages, based on AIR’s Warm Sea-Surface Temperature catalog, are provided to AonBenfield for inclusion in reinsurance contracts. **Please see Attachment VII, Appendix A for Nationwide and Nationwide Top and Drop contracts for participation percentages information.**
7. **Attachment VII, Appendix A “Participating Reinsurers” lists participating reinsurers for the Nationwide contracts for different layers.**
8. **Please refer to Attachment VII, Appendix B Exhibit I– Page 1 (Nationwide per Occurrence contract) and Exhibit II– Page 1 (Nationwide Top and Drop per Occurrence contract) for details about expected recoveries.**
9. **Please refer to Attachment VII, Appendix B Exhibit I– Page 2-4 (Nationwide per Occurrence contract) and Exhibit II– Page 2-4 (Nationwide Top and Drop per Occurrence contract) for details about participation percentages information based on AIR’s WSST catalog.**
10. **Please refer to Attachment VII, Appendix B Exhibit III – Page 1 for participation percentage, reinsurance premium and expected recoveries for information on Homeowners Policy for the state of Arkansas.**

**Allstate Insurance Group  
Arkansas  
Expected Recoveries and Premium Distributions**

**Table of Contents**

<u>Exhibit</u>	<u>Page</u>	<u>Contract Group</u>	<u>Placement</u>	<u>Inception Date</u>	<u>Expiration Date</u>
I	1-4	Nationwide <sup>a</sup>	95.00%	6/1/2011	5/31/2012
I	1	Expected Recoveries			
I	2	Participation by Brand and State			
I	3	Allstate Participation by Line of Business			
I	4	Encompass Participation by Line of Business			
II	1-4	Nationwide Top and Drop	47.50%	6/1/2011	5/31/2012
II	1	Expected Recoveries			
II	2	Participation by Brand and State			
II	3	Allstate Participation by Line of Business			
II	4	Encompass Participation by Line of Business			
III	1	Reinsurance Premium Calculation - Homeowners			

<sup>a</sup> Nationwide is divided into 6 layers with layer 1 through 5 placed at 95% and layer 6 placed at 47.5%  
\*AIR v12 50K WSSTwDS Catalog; 2011-2012 Reinsurance

**Allstate Insurance Group**  
**Nationwide Reinsurance Cover (95% Placed)\***  
**Effective: June 1, 2011**

**Expected Loss Recoveries**

State	Brand	Line of Business	EQ -Fire Following	EQ Shake	Hurricane	Total	Percent of Total	Percent of State
Arkansas	APL	Auto	\$0	\$6,828	\$1,942	\$8,770		7.27%
Arkansas	APL	Mobile Home	\$314	\$0	\$2,149	\$2,464		2.04%
Arkansas	APL	Res Fire	\$0	\$0	\$0	\$0		0.00%
Arkansas	APL	Homeowners	\$54,767	\$0	\$44,552	\$99,318		82.36%
Arkansas	APL	Renters	\$848	\$0	\$273	\$1,121		0.93%
Arkansas	APL	LPP	\$5,024	\$0	\$3,715	\$8,739		7.25%
Arkansas	APL	Condos	\$45	\$0	\$131	\$177		0.15%
	APL	NorthLight Homeowners	\$0	\$0	\$0	\$0		0.00%
	APL	NorthLight LPP	\$0	\$0	\$0	\$0		0.00%
	<b>APL</b>	<b>Total</b>	<b>\$60,998</b>	<b>\$6,828</b>	<b>\$52,762</b>	<b>\$120,589</b>	<b>0.14%</b>	<b>100.00%</b>
Arkansas	EPL	Auto	\$0	\$105	\$70	\$175		4.27%
Arkansas	EPL	Res Fire	\$13	\$0	\$62	\$75		1.83%
Arkansas	EPL	Homeowners	\$1,324	\$0	\$2,477	\$3,801		92.69%
Arkansas	EPL	Renters	\$3	\$0	\$10	\$12		0.30%
Arkansas	EPL	Condos	\$5	\$0	\$33	\$38		0.91%
	<b>EPL</b>	<b>Total</b>	<b>\$1,345</b>	<b>\$105</b>	<b>\$2,651</b>	<b>\$4,100</b>	<b>0.00%</b>	<b>100.00%</b>
<b>Arkansas</b>	<b>Total</b>		<b>\$62,343</b>	<b>\$6,933</b>	<b>\$55,413</b>	<b>\$124,689</b>	<b>0.14%</b>	
Other (x-FL, NJ & AR)	APL	Auto	\$0	\$382,436	\$4,182,820	\$4,565,256		
Other (x-FL, NJ & AR)	APL	Mobile Home	\$13,835	\$2,333	\$1,007,471	\$1,023,639		
Other (x-FL, NJ & AR)	APL	Res Fire	\$2,260	\$11	\$76,030	\$78,301		
Other (x-FL, NJ & AR)	APL	Homeowners	\$7,317,718	\$164,264	\$60,875,693	\$68,357,676		
Other (x-FL, NJ & AR)	APL	Renters	\$193,726	\$1,539	\$750,457	\$945,722		
Other (x-FL, NJ & AR)	APL	LPP	\$758,724	\$9,092	\$2,696,254	\$3,464,070		
Other (x-FL, NJ & AR)	APL	Condos	\$218,557	\$1,071	\$1,112,296	\$1,331,924		
	APL	NorthLight Homeowners	\$474	\$0	\$426,268	\$426,742		
	APL	NorthLight LPP	\$0	\$0	\$1,663	\$1,663		
	<b>APL</b>	<b>Total</b>	<b>\$8,505,293</b>	<b>\$560,747</b>	<b>\$71,128,952</b>	<b>\$80,194,992</b>		
Other (x-FL, NJ & AR)	EPL	Auto	\$0	\$23,983	\$126,503	\$150,486		
Other (x-FL, NJ & AR)	EPL	Res Fire	\$62,423	\$488	\$250,807	\$313,718		
Other (x-FL, NJ & AR)	EPL	Homeowners	\$417,526	\$24,356	\$4,785,805	\$5,227,687		
Other (x-FL, NJ & AR)	EPL	Renters	\$4,172	\$149	\$35,771	\$40,092		
Other (x-FL, NJ & AR)	EPL	Condos	\$12,764	\$403	\$96,188	\$109,355		
	<b>EPL</b>	<b>Total</b>	<b>\$496,885</b>	<b>\$49,380</b>	<b>\$5,295,073</b>	<b>\$5,841,338</b>		
<b>Other (x-FL, NJ &amp; AR)</b>	<b>Total</b>		<b>\$9,002,178</b>	<b>\$610,127</b>	<b>\$76,424,025</b>	<b>\$86,036,330</b>		
<b>Total</b>	<b>Total</b>		<b>\$9,064,521</b>	<b>\$617,060</b>	<b>\$76,479,439</b>	<b>\$86,161,020</b>		

\* Nationwide is divided into 6 layers with layer 1 through 5 placed at 95% and layer 6 placed at 47.5%

\* Excluding Florida and New Jersey

\*AIR v12 50K WSSTwDS Catalog

**Participation in Nationwide Reinsurance Cover (95% Placed)\*  
By Brand & State**

State	Personal Lines		Total
	Allstate	Encompass	
Alabama	1.69%	0.05%	1.74%
Alaska	0.00%	0.00%	0.00%
Arizona	0.00%	0.00%	0.00%
<b>Arkansas</b>	<b>0.14%</b>	<b>0.00%</b>	<b>0.14%</b>
California	7.19%	0.42%	7.61%
Colorado	0.00%	0.00%	0.00%
Connecticut	4.39%	0.45%	4.84%
Delaware	0.28%	0.09%	0.37%
District of Columbia	0.11%	0.02%	0.13%
Georgia	5.07%	0.65%	5.72%
Hawaii	0.00%	0.00%	0.00%
Idaho	0.00%	0.00%	0.00%
Illinois	0.44%	0.01%	0.45%
Indiana	0.16%	0.00%	0.16%
Iowa	0.00%	0.00%	0.00%
Kansas	0.00%	0.00%	0.00%
Kentucky	0.40%	0.05%	0.45%
Louisiana	9.14%	1.05%	10.19%
Maine	0.23%	0.00%	0.23%
Maryland	1.70%	0.39%	2.09%
Massachusetts	0.00%	0.18%	0.18%
Michigan	0.00%	0.00%	0.00%
Minnesota	0.00%	0.00%	0.00%
Mississippi	3.64%	0.00%	3.64%
Missouri	0.04%	0.00%	0.04%
Montana	0.00%	0.00%	0.00%
Nebraska	0.00%	0.00%	0.00%
Nevada	0.28%	0.00%	0.28%
New Hampshire	0.33%	0.02%	0.35%
New Mexico	0.00%	0.00%	0.00%
New York	14.69%	1.64%	16.33%
North Carolina	7.00%	0.27%	7.27%
North Dakota	0.00%	0.00%	0.00%
Ohio	0.65%	0.05%	0.70%
Oklahoma	0.03%	0.00%	0.03%
Oregon	0.41%	0.01%	0.42%
Pennsylvania	3.35%	0.43%	3.78%
Rhode Island	1.53%	0.08%	1.61%
South Carolina	7.85%	0.26%	8.11%
South Dakota	0.00%	0.00%	0.00%
Tennessee	0.76%	0.03%	0.79%
Texas	15.83%	0.28%	16.11%
Utah	0.00%	0.00%	0.00%
Vermont	0.05%	0.00%	0.05%
Virginia	4.44%	0.17%	4.61%
Washington	1.25%	0.12%	1.37%
West Virginia	0.15%	0.06%	0.21%
Wisconsin	0.00%	0.00%	0.00%
Wyoming	0.00%	0.00%	0.00%
<b>Total</b>	<b>93.22%</b>	<b>6.78%</b>	<b>100.00%</b>

\* Nationwide is divided into 6 layers with layer 1 through 5 placed at 95% and layer 6 placed at 47.5%

\* Excluding Florida and New Jersey

\*AIR v12 50K WSSTwDS Catalog

**Allstate Personal Lines  
Participation in Nationwide Reinsurance Cover (95% Placed)\*  
By Line of Business**

State	Auto	Mobile Homes	Residential Fire	Total <sup>1</sup>				Total <sup>2</sup> Landlords		Total	Allstate Homeowners	NorthLight Homeowners	Allstate Landlords	NorthLight Landlords
				Homeowners	Renters	Package Policy	Condominiums	Package Policy	Condominiums					
Alabama	9.70%	4.46%	0.00%	79.76%	1.77%	2.94%	1.37%	100.00%	67.95%	11.81%	2.90%	0.04%		
Alaska	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%		
Arizona	100.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	100.00%	0.00%	0.00%	0.00%	0.00%		
<b>Arkansas</b>	<b>7.27%</b>	<b>2.04%</b>	<b>0.00%</b>	<b>82.36%</b>	<b>0.93%</b>	<b>7.25%</b>	<b>0.15%</b>	<b>100.00%</b>	<b>82.36%</b>	<b>0.00%</b>	<b>7.25%</b>	<b>0.00%</b>		
California	3.85%	0.12%	0.02%	83.52%	2.22%	8.23%	2.04%	100.00%	83.52%	0.00%	8.23%	0.00%		
Colorado	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%		
Connecticut	3.14%	0.41%	0.29%	91.99%	0.85%	1.25%	2.07%	100.00%	91.99%	0.00%	1.25%	0.00%		
Delaware	2.72%	6.21%	0.00%	82.96%	0.76%	3.76%	3.59%	100.00%	82.85%	0.11%	3.75%	0.01%		
District of Columbia	1.63%	0.00%	0.00%	82.35%	2.00%	10.49%	3.53%	100.00%	82.35%	0.00%	10.49%	0.00%		
Georgia	3.11%	1.81%	0.09%	87.14%	0.46%	6.95%	0.44%	100.00%	86.99%	0.15%	6.95%	0.00%		
Hawaii	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%		
Idaho	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%		
Illinois	3.34%	0.31%	0.01%	86.24%	0.85%	5.46%	3.79%	100.00%	86.24%	0.00%	5.46%	0.00%		
Indiana	3.84%	1.92%	0.03%	85.90%	0.91%	6.83%	0.57%	100.00%	85.90%	0.00%	6.83%	0.00%		
Iowa	100.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	100.00%	0.00%	0.00%	0.00%	0.00%		
Kansas	100.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	100.00%	0.00%	0.00%	0.00%	0.00%		
Kentucky	2.48%	3.99%	0.00%	85.99%	0.92%	5.97%	0.65%	100.00%	85.99%	0.00%	5.97%	0.00%		
Louisiana	6.89%	0.82%	0.00%	90.98%	0.73%	0.06%	0.52%	100.00%	90.87%	0.11%	0.06%	0.00%		
Maine	2.27%	9.87%	0.66%	77.80%	0.86%	7.43%	1.11%	100.00%	77.80%	0.00%	7.43%	0.00%		
Maryland	3.44%	0.71%	0.06%	87.74%	1.05%	4.95%	2.05%	100.00%	87.69%	0.05%	4.95%	0.00%		
Michigan	100.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	100.00%	0.00%	0.00%	0.00%	0.00%		
Minnesota	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%		
Mississippi	6.45%	0.00%	0.00%	92.37%	0.43%	0.65%	0.10%	100.00%	88.49%	3.88%	0.63%	0.02%		
Missouri	7.97%	0.82%	0.01%	81.33%	1.31%	7.69%	0.87%	100.00%	81.33%	0.00%	7.69%	0.00%		
Montana	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%		
Nebraska	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%		
Nevada	1.47%	0.10%	0.00%	81.24%	1.22%	15.13%	0.84%	100.00%	81.24%	0.00%	15.13%	0.00%		
New Hampshire	2.84%	1.83%	0.00%	89.68%	1.13%	2.85%	1.67%	100.00%	89.68%	0.00%	2.85%	0.00%		
New Jersey	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%		
New Mexico	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%		
New York	4.31%	0.16%	0.42%	86.22%	1.58%	2.84%	4.47%	100.00%	86.22%	0.00%	2.84%	0.00%		
North Carolina	5.78%	3.99%	0.00%	78.37%	1.10%	9.47%	1.29%	100.00%	78.09%	0.28%	9.47%	0.00%		
North Dakota	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%		
Ohio	3.09%	1.68%	0.10%	87.81%	0.74%	5.72%	0.86%	100.00%	87.81%	0.00%	5.72%	0.00%		
Oklahoma	5.37%	5.20%	0.25%	80.99%	0.63%	7.36%	0.20%	100.00%	80.99%	0.00%	7.36%	0.00%		
Oregon	9.14%	0.74%	0.03%	73.39%	2.18%	13.46%	1.06%	100.00%	73.39%	0.00%	13.46%	0.00%		
Pennsylvania	2.43%	0.78%	0.02%	88.25%	0.53%	7.30%	0.69%	100.00%	88.25%	0.00%	7.30%	0.00%		
Rhode Island	2.31%	0.72%	0.00%	86.14%	0.77%	9.05%	1.01%	100.00%	86.14%	0.00%	9.05%	0.00%		
South Carolina	8.20%	3.22%	0.07%	79.60%	0.97%	5.81%	2.13%	100.00%	78.32%	1.28%	5.81%	0.00%		
South Dakota	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%		
Tennessee	4.04%	2.78%	0.00%	84.23%	0.83%	7.56%	0.56%	100.00%	84.23%	0.00%	7.56%	0.00%		
Texas	9.07%	0.95%	0.00%	86.92%	1.18%	1.30%	0.58%	100.00%	86.86%	0.06%	1.30%	0.00%		
Utah	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%		
Vermont	3.03%	4.25%	0.00%	85.65%	1.54%	3.02%	2.51%	100.00%	85.65%	0.00%	3.02%	0.00%		
Virginia	3.98%	0.93%	0.00%	85.57%	1.81%	6.54%	1.17%	100.00%	85.42%	0.15%	6.54%	0.00%		
Washington	5.61%	0.22%	0.03%	80.50%	1.69%	10.45%	1.50%	0.00%	80.50%	0.00%	10.45%	0.00%		
West Virginia	3.24%	9.54%	0.29%	82.69%	0.44%	3.59%	0.21%	100.00%	82.69%	0.00%	3.59%	0.00%		
Wisconsin	10.05%	0.00%	0.00%	82.57%	1.81%	4.15%	1.42%	100.00%	82.57%	0.00%	4.15%	0.00%		
Wyoming	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%		

\* Excluding Florida and New Jersey; Layer 1 through Layer 5 placed at 95% and Layer 6 placed at 47.5%

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<sup>1</sup>Total Homeowners comprises of Allstate Homeowners and NorthLight Homeowners

<sup>2</sup>Total LPP comprises of Allstate LPP and NorthLight LPP

**Encompass Personal Lines  
Participation in Nationwide Reinsurance Cover (95% Placed)\*  
By Line of Business**

State	Residential					Total
	Auto	Fire	Homeowners	Renters	Condominiums	
Alabama	4.18%	3.09%	92.26%	0.22%	0.25%	100.00%
Arizona	100.00%	0.00%	0.00%	0.00%	0.00%	100.00%
Arkansas	4.27%	1.83%	92.69%	0.30%	0.91%	100.00%
California	4.79%	14.87%	78.17%	0.48%	1.69%	100.00%
Colorado	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Connecticut	1.63%	5.85%	91.01%	0.34%	1.17%	100.00%
Delaware	2.55%	3.79%	89.13%	0.16%	4.37%	100.00%
District of Columbia	0.75%	9.83%	85.53%	0.69%	3.20%	100.00%
Georgia	2.09%	4.29%	92.66%	0.33%	0.63%	100.00%
Illinois	6.43%	0.90%	87.98%	0.56%	4.13%	100.00%
Indiana	2.93%	1.98%	91.85%	0.59%	2.65%	100.00%
Iowa	100.00%	0.00%	0.00%	0.00%	0.00%	100.00%
Kansas	100.00%	0.00%	0.00%	0.00%	0.00%	100.00%
Kentucky	1.52%	2.58%	94.10%	0.53%	1.27%	100.00%
Louisiana	2.09%	6.36%	88.47%	0.57%	2.51%	100.00%
Maine	0.63%	4.92%	93.60%	0.24%	0.61%	100.00%
Maryland	1.92%	3.38%	91.94%	0.40%	2.36%	100.00%
Massachusetts	6.34%	4.02%	88.15%	0.21%	1.28%	100.00%
Michigan	100.00%	0.00%	0.00%	0.00%	0.00%	100.00%
Minnesota	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Missouri	6.92%	1.19%	90.60%	0.39%	0.90%	100.00%
Nevada	1.72%	9.08%	85.81%	0.26%	3.13%	100.00%
New Hampshire	2.19%	2.24%	94.02%	0.34%	1.21%	100.00%
New Mexico	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
New York	1.81%	4.65%	90.04%	0.88%	2.62%	100.00%
North Carolina	2.64%	3.01%	92.77%	0.81%	0.77%	100.00%
Ohio	1.81%	3.31%	93.22%	0.39%	1.27%	100.00%
Oklahoma	2.32%	2.28%	93.62%	0.62%	1.16%	100.00%
Oregon	5.99%	7.69%	84.82%	0.80%	0.70%	100.00%
Pennsylvania	2.09%	4.03%	91.25%	1.05%	1.58%	100.00%
Rhode Island	2.07%	2.98%	93.35%	0.29%	1.31%	100.00%
South Carolina	5.91%	2.65%	90.94%	0.15%	0.35%	100.00%
Tennessee	2.21%	3.13%	92.05%	0.65%	1.96%	100.00%
Texas	4.04%	8.31%	82.03%	2.81%	2.81%	100.00%
Utah	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Vermont	0.98%	1.87%	93.94%	0.38%	2.83%	100.00%
Virginia	2.14%	3.56%	92.95%	0.47%	0.88%	100.00%
Washington	4.18%	5.69%	87.77%	0.91%	1.45%	100.00%
West Virginia	2.37%	1.39%	95.47%	0.33%	0.44%	100.00%
Wisconsin	5.17%	0.75%	92.92%	0.00%	1.16%	100.00%

\* Excluding Florida and New Jersey; Layer 1 through Layer 5 placed at 95% and Layer 6 placed at 47.5%

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**Allstate Insurance Group**  
**Nationwide Top and Drop Reinsurance Cover (47.5% Placed)\***  
**Effective: June 1, 2011**

**Expected Loss Recoveries**

State	Brand	Line of Business	EQ -Fire Following	EQ Shake	Hurricane	Total	Percent of Total	Percent of State
Arkansas	APL	Auto	\$0	\$34	\$43	\$77		5.41%
Arkansas	APL	Mobile Home	\$0	\$0	\$52	\$52		3.64%
Arkansas	APL	Res Fire	\$0	\$0	\$0	\$0		0.00%
Arkansas	APL	Homeowners	\$152	\$0	\$1,042	\$1,194		83.49%
Arkansas	APL	Renters	\$2	\$0	\$6	\$9		0.61%
Arkansas	APL	LPP	\$11	\$0	\$84	\$95		6.63%
Arkansas	APL	Condos	\$0	\$0	\$3	\$3		0.22%
	APL	NorthLight Homeowners	\$0	\$0	\$0	\$0		0.00%
	APL	NorthLight LPP	\$0	\$0	\$0	\$0		0.00%
	<b>APL</b>	<b>Total</b>	<b>\$166</b>	<b>\$34</b>	<b>\$1,230</b>	<b>\$1,430</b>	<b>0.06%</b>	100.00%
Arkansas	EPL	Auto	\$0	\$1	\$2	\$2		3.29%
Arkansas	EPL	Res Fire	\$0	\$0	\$1	\$1		2.22%
Arkansas	EPL	Homeowners	\$3	\$0	\$57	\$60		93.01%
Arkansas	EPL	Renters	\$0	\$0	\$0	\$0		0.31%
Arkansas	EPL	Condos	\$0	\$0	\$1	\$1		1.17%
	<b>EPL</b>	<b>Total</b>	<b>\$3</b>	<b>\$1</b>	<b>\$61</b>	<b>\$65</b>	<b>0.00%</b>	100.00%
<b>Arkansas</b>	<b>Total</b>		<b>\$169</b>	<b>\$35</b>	<b>\$1,291</b>	<b>\$1,495</b>	<b>0.06%</b>	
Other (x-FL, NJ & AR)	APL	Auto	\$0	\$9,421	\$110,379	\$119,800		
Other (x-FL, NJ & AR)	APL	Mobile Home	\$395	\$5	\$18,818	\$19,218		
Other (x-FL, NJ & AR)	APL	Res Fire	\$115	\$0	\$3,006	\$3,121		
Other (x-FL, NJ & AR)	APL	Homeowners	\$302,515	\$644	\$1,689,738	\$1,992,896		
Other (x-FL, NJ & AR)	APL	Renters	\$7,904	\$6	\$22,088	\$29,998		
Other (x-FL, NJ & AR)	APL	LPP	\$28,764	\$25	\$65,527	\$94,316		
Other (x-FL, NJ & AR)	APL	Condos	\$10,139	\$21	\$37,000	\$47,160		
	APL	NorthLight Homeowners	\$1	\$0	\$7,849	\$7,849		
	APL	NorthLight LPP	\$0	\$0	\$31	\$31		
	<b>APL</b>	<b>Total</b>	<b>\$349,832</b>	<b>\$10,122</b>	<b>\$1,954,434</b>	<b>\$2,314,389</b>		
Other (x-FL, NJ & AR)	EPL	Auto	\$0	\$475	\$3,655	\$4,130		
Other (x-FL, NJ & AR)	EPL	Res Fire	\$2,858	\$2	\$8,148	\$11,008		
Other (x-FL, NJ & AR)	EPL	Homeowners	\$17,832	\$114	\$149,181	\$167,127		
Other (x-FL, NJ & AR)	EPL	Renters	\$179	\$2	\$1,155	\$1,336		
Other (x-FL, NJ & AR)	EPL	Condos	\$600	\$4	\$3,242	\$3,845		
	<b>EPL</b>	<b>Total</b>	<b>\$21,469</b>	<b>\$596</b>	<b>\$165,381</b>	<b>\$187,447</b>		
<b>Other (x-FL, NJ &amp; AR)</b>	<b>Total</b>		<b>\$371,301</b>	<b>\$10,719</b>	<b>\$2,119,816</b>	<b>\$2,501,835</b>		
<b>Total</b>	<b>Total</b>		<b>\$371,470</b>	<b>\$10,753</b>	<b>\$2,121,107</b>	<b>\$2,503,330</b>		

\* Excluding Florida and New Jersey

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**Participation in Nationwide Top and Drop Reinsurance Cover (47.5% Placed)\*  
By Brand & State**

State	Personal Lines		Total
	Allstate	Encompass	
Alabama	1.03%	0.03%	1.06%
Alaska	0.00%	0.00%	0.00%
Arizona	0.00%	0.00%	0.00%
<b>Arkansas</b>	<b>0.06%</b>	<b>0.00%</b>	<b>0.06%</b>
California	11.00%	0.68%	11.68%
Colorado	0.00%	0.00%	0.00%
Connecticut	6.46%	0.69%	7.15%
Delaware	0.29%	0.10%	0.39%
District of Columbia	0.09%	0.01%	0.10%
Georgia	3.04%	0.36%	3.40%
Hawaii	0.00%	0.00%	0.00%
Idaho	0.00%	0.00%	0.00%
Illinois	0.42%	0.01%	0.43%
Indiana	0.11%	0.00%	0.11%
Iowa	0.00%	0.00%	0.00%
Kansas	0.00%	0.00%	0.00%
Kentucky	0.13%	0.01%	0.14%
Louisiana	9.33%	1.17%	10.50%
Maine	0.23%	0.00%	0.23%
Maryland	1.38%	0.34%	1.72%
Massachusetts	0.00%	0.18%	0.18%
Michigan	0.00%	0.00%	0.00%
Minnesota	0.00%	0.00%	0.00%
Mississippi	2.17%	0.00%	2.17%
Missouri	0.01%	0.00%	0.01%
Montana	0.00%	0.00%	0.00%
Nebraska	0.00%	0.00%	0.00%
Nevada	0.33%	0.01%	0.34%
New Hampshire	0.37%	0.02%	0.39%
New Mexico	0.00%	0.00%	0.00%
New York	21.31%	2.42%	23.73%
North Carolina	4.03%	0.15%	4.18%
North Dakota	0.00%	0.00%	0.00%
Ohio	0.40%	0.03%	0.43%
Oklahoma	0.02%	0.00%	0.02%
Oregon	0.32%	0.01%	0.33%
Pennsylvania	4.45%	0.53%	4.98%
Rhode Island	1.40%	0.07%	1.47%
South Carolina	5.47%	0.18%	5.65%
South Dakota	0.00%	0.00%	0.00%
Tennessee	0.33%	0.02%	0.35%
Texas	14.15%	0.23%	14.38%
Utah	0.00%	0.00%	0.00%
Vermont	0.06%	0.01%	0.07%
Virginia	3.15%	0.12%	3.27%
Washington	0.87%	0.08%	0.95%
West Virginia	0.09%	0.04%	0.13%
Wisconsin	0.00%	0.00%	0.00%
Wyoming	0.00%	0.00%	0.00%
<b>Total</b>	<b>92.50%</b>	<b>7.50%</b>	<b>100.00%</b>

\* Excluding Florida and New Jersey

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**Allstate Personal Lines  
Participation in Nationwide Top and Drop Reinsurance Cover (47.5% Placed)\*  
By Line of Business**

State	Auto	Mobile Homes	Residential Fire	Total <sup>1</sup>				Total <sup>2</sup> Landlords		Total	Allstate Homeowners	NorthLight Homeowners	Allstate Landlords	NorthLight Landlords
				Homeowners	Renters	Package Policy	Condominiums	Package Policy	Condominiums					
Alabama	10.62%	2.75%	0.00%	81.25%	1.93%	2.07%	1.38%	100.00%	68.03%	13.22%	2.02%	0.05%		
Alaska	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%		
Arizona	100.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	100.00%	0.00%	0.00%	0.00%	0.00%		
<b>Arkansas</b>	<b>5.41%</b>	<b>3.64%</b>	<b>0.00%</b>	<b>83.49%</b>	<b>0.61%</b>	<b>6.63%</b>	<b>0.22%</b>	<b>100.00%</b>	<b>83.49%</b>	<b>0.00%</b>	<b>6.63%</b>	<b>0.00%</b>		
California	2.47%	0.11%	0.01%	85.28%	2.12%	8.14%	1.87%	100.00%	85.28%	0.00%	8.14%	0.00%		
Colorado	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%		
Connecticut	3.14%	0.36%	0.29%	91.93%	0.89%	1.27%	2.12%	100.00%	91.93%	0.00%	1.27%	0.00%		
Delaware	2.84%	5.79%	0.00%	83.07%	0.84%	3.89%	3.57%	100.00%	82.96%	0.11%	3.88%	0.01%		
District of Columbia	1.44%	0.00%	0.00%	82.80%	1.82%	10.65%	3.29%	100.00%	82.80%	0.00%	10.65%	0.00%		
Georgia	2.93%	1.48%	0.08%	87.46%	0.46%	7.17%	0.42%	100.00%	87.34%	0.12%	7.17%	0.00%		
Hawaii	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%		
Idaho	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%		
Illinois	2.21%	0.18%	0.00%	88.56%	0.73%	4.85%	3.47%	100.00%	88.56%	0.00%	4.85%	0.00%		
Indiana	3.04%	1.91%	0.03%	86.76%	0.81%	6.90%	0.55%	100.00%	86.76%	0.00%	6.90%	0.00%		
Iowa	100.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	100.00%	0.00%	0.00%	0.00%	0.00%		
Kansas	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%		
Kentucky	3.21%	6.57%	0.00%	82.08%	0.84%	6.31%	0.99%	100.00%	82.08%	0.00%	6.31%	0.00%		
Louisiana	6.63%	0.58%	0.00%	91.34%	0.78%	0.05%	0.62%	100.00%	91.26%	0.08%	0.05%	0.00%		
Maine	2.20%	9.93%	0.65%	77.92%	0.84%	7.41%	1.05%	100.00%	77.92%	0.00%	7.41%	0.00%		
Maryland	3.45%	0.74%	0.06%	87.44%	1.10%	4.96%	2.25%	100.00%	87.38%	0.06%	4.96%	0.00%		
Michigan	100.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	100.00%	0.00%	0.00%	0.00%	0.00%		
Minnesota	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%		
Mississippi	6.45%	0.00%	0.00%	92.31%	0.44%	0.70%	0.10%	100.00%	88.28%	4.03%	0.68%	0.02%		
Missouri	6.13%	1.57%	0.01%	82.59%	0.86%	8.16%	0.68%	100.00%	82.59%	0.00%	8.16%	0.00%		
Montana	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%		
Nebraska	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%		
Nevada	1.11%	0.11%	0.00%	81.34%	1.18%	15.36%	0.90%	100.00%	81.34%	0.00%	15.36%	0.00%		
New Hampshire	2.75%	1.76%	0.00%	89.89%	1.11%	2.87%	1.62%	100.00%	89.89%	0.00%	2.87%	0.00%		
New Jersey	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%		
New Mexico	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%		
New York	4.56%	0.14%	0.44%	85.22%	1.78%	2.93%	4.93%	100.00%	85.22%	0.00%	2.93%	0.00%		
North Carolina	5.93%	3.50%	0.00%	78.68%	1.12%	9.47%	1.30%	100.00%	78.43%	0.25%	9.47%	0.00%		
North Dakota	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%		
Ohio	2.85%	1.48%	0.11%	88.35%	0.72%	5.66%	0.83%	100.00%	88.35%	0.00%	5.66%	0.00%		
Oklahoma	5.33%	5.22%	0.26%	80.86%	0.63%	7.51%	0.19%	100.00%	80.86%	0.00%	7.51%	0.00%		
Oregon	4.72%	0.54%	0.03%	78.83%	1.62%	13.67%	0.59%	100.00%	78.83%	0.00%	13.67%	0.00%		
Pennsylvania	2.33%	0.62%	0.02%	88.26%	0.58%	7.44%	0.75%	100.00%	88.26%	0.00%	7.44%	0.00%		
Rhode Island	2.32%	0.67%	0.00%	86.16%	0.79%	9.04%	1.02%	100.00%	86.16%	0.00%	9.04%	0.00%		
South Carolina	7.65%	2.90%	0.07%	80.78%	0.98%	5.85%	1.77%	100.00%	79.74%	1.04%	5.85%	0.00%		
South Dakota	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%		
Tennessee	3.69%	4.17%	0.00%	83.75%	0.65%	7.11%	0.63%	100.00%	83.75%	0.00%	7.11%	0.00%		
Texas	9.22%	0.77%	0.00%	87.28%	1.17%	0.99%	0.57%	100.00%	87.24%	0.04%	0.99%	0.00%		
Utah	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%		
Vermont	2.74%	4.18%	0.00%	86.22%	1.47%	2.99%	2.40%	100.00%	86.22%	0.00%	2.99%	0.00%		
Virginia	3.79%	0.82%	0.00%	85.82%	1.73%	6.72%	1.12%	100.00%	85.69%	0.13%	6.72%	0.00%		
Washington	3.22%	0.19%	0.03%	83.57%	1.32%	10.80%	0.87%	100.00%	83.57%	0.00%	10.80%	0.00%		
West Virginia	3.01%	9.07%	0.28%	83.32%	0.43%	3.69%	0.20%	0.00%	83.32%	0.00%	3.69%	0.00%		
Wisconsin	9.69%	0.00%	0.00%	82.90%	1.81%	4.17%	1.43%	100.00%	82.90%	0.00%	4.17%	0.00%		
Wyoming	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%		

\* Excluding Florida and New Jersey

\*AIR v12 50K WSSTwDS Catalog

<sup>1</sup>Total Homeowners comprises of Allstate Homeowners and NorthLight Homeowners

<sup>2</sup>Total LPP comprises of Allstate LPP and NorthLight LPP

**Encompass Personal Lines  
Participation in Nationwide Top and Drop Reinsurance Cover (47.5% Placed)\*  
By Line of Business**

State	Residential					Total
	Auto	Fire	Homeowners	Renters	Condominiums	
Alabama	6.20%	2.84%	90.58%	0.17%	0.21%	100.00%
Arizona	100.00%	0.00%	0.00%	0.00%	0.00%	100.00%
Arkansas	3.29%	2.22%	93.01%	0.31%	1.17%	100.00%
California	2.11%	15.47%	80.52%	0.44%	1.46%	100.00%
Colorado	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Connecticut	1.62%	6.04%	90.83%	0.34%	1.17%	100.00%
Delaware	2.45%	3.76%	89.71%	0.16%	3.92%	100.00%
District of Columbia	0.66%	9.94%	85.79%	0.63%	2.98%	100.00%
Georgia	2.06%	4.35%	92.63%	0.31%	0.65%	100.00%
Illinois	1.88%	0.92%	92.86%	0.48%	3.86%	100.00%
Indiana	2.31%	2.08%	92.17%	0.58%	2.86%	100.00%
Iowa	100.00%	0.00%	0.00%	0.00%	0.00%	100.00%
Kansas	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Kentucky	2.47%	3.15%	92.58%	0.55%	1.25%	100.00%
Louisiana	2.09%	6.33%	88.34%	0.64%	2.60%	100.00%
Maine	0.61%	4.88%	93.70%	0.24%	0.57%	100.00%
Maryland	1.76%	3.34%	92.06%	0.39%	2.45%	100.00%
Massachusetts	5.69%	4.10%	88.89%	0.19%	1.13%	100.00%
Michigan	100.00%	0.00%	0.00%	0.00%	0.00%	100.00%
Minnesota	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Missouri	5.14%	1.30%	92.08%	0.51%	0.97%	100.00%
Nevada	1.33%	9.65%	85.14%	0.25%	3.63%	100.00%
New Hampshire	2.11%	2.22%	94.17%	0.33%	1.17%	100.00%
New Mexico	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
New York	1.86%	4.68%	89.81%	0.92%	2.73%	100.00%
North Carolina	2.75%	3.03%	92.60%	0.82%	0.80%	100.00%
Ohio	1.68%	3.25%	93.51%	0.36%	1.20%	100.00%
Oklahoma	2.30%	2.28%	93.86%	0.58%	0.98%	100.00%
Oregon	3.08%	7.79%	88.41%	0.36%	0.36%	100.00%
Pennsylvania	1.98%	3.97%	91.35%	1.03%	1.67%	100.00%
Rhode Island	2.09%	2.94%	93.37%	0.29%	1.31%	100.00%
South Carolina	5.35%	2.77%	91.36%	0.15%	0.37%	100.00%
Tennessee	1.75%	2.97%	92.63%	0.56%	2.09%	100.00%
Texas	4.06%	8.68%	81.51%	2.94%	2.81%	100.00%
Utah	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Vermont	0.88%	1.91%	94.10%	0.35%	2.76%	100.00%
Virginia	2.03%	3.68%	92.98%	0.45%	0.86%	100.00%
Washington	2.47%	5.88%	90.34%	0.49%	0.82%	100.00%
West Virginia	2.20%	1.42%	95.66%	0.31%	0.41%	100.00%
Wisconsin	4.86%	0.75%	93.22%	0.00%	1.17%	100.00%

\* Excluding Florida and New Jersey

\*AIR v12 50K WSSTwDS Catalog

**Allstate Insurance Group  
Reinsurance Premium Calculation  
Arkansas**

**Allstate Homeowners**

Contract Group	Gross Premium	AonBenfield Premium Adjustment	Net Premium	APL Distribution*	APL Homeowners Distribution	Distribution of Total Contract	APL Homeowners Premium	APL Homeowners Expected Recoveries
Nationwide	408,500,000	7.6%	377,454,001	0.14%	82.36%	0.12%	435,220	99,318
Nationwide Top and Drop	24,225,000	7.6%	22,383,900	0.06%	83.49%	0.05%	11,213	1,194
<b>Total</b>	<b>432,725,000</b>		<b>399,837,901</b>				<b>446,433</b>	<b>100,512</b>

\*From Exhibits I through II

\*AIR v12 50K WSSTwDS Catalog

## **ATTACHMENT VIII**

### **Exhibits for Revision of Distinct Charge for Net Cost of Reinsurance**

Allstate Insurance Company  
Owners Forms  
Arkansas

Determination of the Reinsurance Indication

**2011**

1. Reinsurance Premium	\$446,433
a. Reinsurance Premium for Nationwide Contract	\$446,433
2. Loss Savings Due to Reinsurance	\$100,512
a. Loss Savings Due to Reinsurance for Nationwide Contract	\$100,512
3. Net Cost of Reinsurance: (1) - (2)	\$345,921
4. Variable Expenses	24.9%
5. Net Cost of Reinsurance Including Variable Expenses: (3) / [1 - (4)]	\$460,614
6. Adjusted AIYs x Current Reinsurance Base Charges	\$475,795
7. Indicated Reinsurance Rate Adjustment Factor (5) / (6)	0.968

	<b><u>Current</u></b>	<b><u>Indicated</u></b>	<b><u>Proposed</u></b>	<b><u>Reinsurance Charge Impact</u></b>
Indicated Change in Reinsurance Rate Adjustment Factor	0.407	0.968	0.968	136.4%

Allstate Insurance Company  
Owners  
Arkansas

Summary of Expense Provisions

	<u>Percent Fixed</u>	<u>Expense Provision</u>
Commissions	0 %	11.7 %
Taxes †	0	3.1
Debt Provision	0	1.4
Profit Provision	0	8.7

† State Taxes - Does not include Federal Income Tax

# **ATTACHMENT IX**

## **Rate Level Impact of Revisions**

**ALLSTATE INSURANCE COMPANY  
OWNERS FORMS  
ARKANSAS**

**RATE LEVEL IMPACT OF REVISIONS**

The impacts shown below have been measured using an extension of exposures method and a snapshot of policyholders in Allstate Insurance Company.

**Revision of the Rate Adjustment Factor**

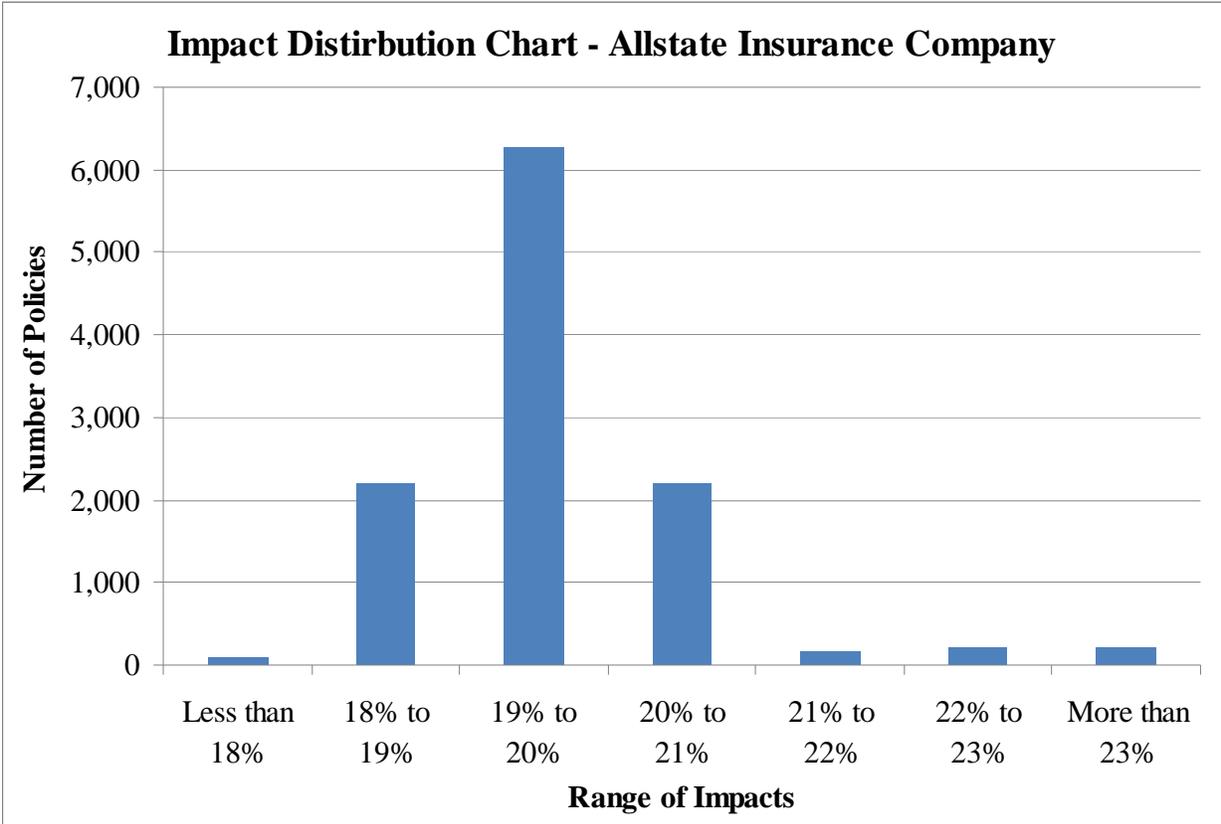
To achieve the proposed rate level change for the rating program, the Rate Adjustment Factors (RAF) will be revised. The proposed Rate Adjustment Factors will achieve the selected rate level change on a variable package premium basis as shown in **Attachment II, Page 2**.

<b>Policy Form</b>	<b>Current RAF</b>	<b>Proposed RAF</b>	<b>Total Owners Rate Level Impact</b>
Standard and Deluxe	1.732	2.098	19.6%
Deluxe Plus	1.722	2.066	19.6%
<b>Combined</b>			<b>19.6%</b>

An impact distribution chart has been provided on Page 2 of this Attachment.

**ALLSTATE INSURANCE COMPANY  
OWNERS FORMS  
ARKANSAS**

**IMPACT DISTRIBUTION CHART**



# **ATTACHMENT X**

## **Summary of Manual Changes**

**ALLSTATE INSURANCE COMPANY  
OWNERS FORMS  
ARKANSAS**

**SUMMARY OF MANUAL CHANGES**

**RATE PAGE CALULATION OPTIONS**

Homeowners Page HORC-1  
Revised Rate Adjustment Factor

Homeowners Page HORC-2  
Revised Reinsurance Rate Adjustment Factor

Deluxe Plus Homeowners Page DPRC-1  
Revised Rate Adjustment Factor

Deluxe Plus Homeowners Page DPRC-2  
Revised Reinsurance Rate Adjustment Factor

June 21, 2012

RE: Allstate Insurance Company  
Arkansas  
Company File #R24980

Please find below our responses to your questions submitted on June 4, 2012 in reviewing the current Arkansas Owners Rate Filing for Allstate Insurance Company.

### **1. HPCS-Homeowners Premium Comparison Survey (Supporting Document)**

**The form has been altered. Please re-submit using the Department's form without ANY changes, additions, etc.**

Please see the attached HPCS-Homeowners Premium Comparison Survey.

### **2 Act. Support Memo (Supporting Document)**

**The retained risk provision proposed does not comply with Arkansas Code Ann. 23-67-209 which required past loss experience to be considered in rating. In addition, Arkansas Code Ann. 23-67-210 requires classes to be based on actual differences in experience and expenses and they must have a probable effect on future losses or expenses. Please amend the filing to remove this provision. (Please refer to ASLE-127090547)**

The retained risk provision that Allstate proposes to introduce in the determination of its indicated rate level need is specifically meant to provide an appropriate return on its high-layer retained hurricane and fire following earthquake catastrophe exposure. It is not a provision to account for future expected losses. Arkansas Code Ann. 23-67-207(d) states that rate may contain "an allowance for permitting a reasonable profit". Allstate believes its retained risk provision provides this for its high-layer retained hurricane and fire following earthquake catastrophe exposure, while the underwriting profit provision remains appropriate for the remaining exposures.

Allstate continues to believe its retained risk provision is appropriate given the fire following earthquake and hurricane catastrophe exposure that it retains in the state of Arkansas. This provision is intended to provide Allstate an appropriate return commensurate with the risks that it retains. Please note that this methodology has been filed by Allstate in several states across the country. Allstate believes that the combination of the profit provision and the retained risk provision provide the correct return for Allstate based on the risk of its portfolio of business.

First, note that in Allstate's ratemaking calculations, in the portion of the rate that is for hurricane catastrophe risk, the typical underwriting profit provision is replaced by the retained risk provision. It is not included in addition to the underwriting profit provision.

Second, Allstate's current cost of capital estimation methodology includes the use of the Fama-French Three-Factor Method (FF3F), which is similar to the Capital Asset Pricing Model (CAPM) in that it calculates betas for a given company, reflecting the relationship of that company's returns to the returns for the overall market. Theoretically, betas can be calculated

for each specific company. However, in practice there tends to be a significant amount of volatility in the results when a single company's information is used to calculate betas.

Thus, in Allstate's approach, betas are calculated using information from the entire P&C industry. This helps give the beta calculations more stability. However, in doing so, it also generalizes the results in some ways. Instead of reflecting risks and expectations of Allstate specifically, the betas are more reflective of the P&C industry as a whole (not counting the portions of FF3F that take into account company-specific information).

Allstate's portfolio of risks represents a unique distribution of lines and states (as do all companies'). Allstate writes almost 25% of its business in homeowners line, some of which is highly volatile coastal business. Many of Allstate's biggest and most comparable multi-line competitors are mutual companies and are, as such, not included in the FF3F P&C industry composite. As a result, Allstate has a much higher proportion of business in the homeowners line than most of the companies included in the P&C composite.

Because of this, the betas calculated using industry information fail to completely reflect the volatility and risk associated with Allstate's mix of business, particularly as it relates to its homeowners business. Therefore, again, Allstate believes that the retained risk provision is appropriate in combination with its underwriting profit provision.

However, Allstate proposes to remove the retained risk provision from this filing in order to comply with comments from the Arkansas Insurance Department. Additionally, Allstate hopes that the removal of the retained risk provision from the filing will help expedite the filing review process. The portions of the filing that were adjusted with the removal of the retained risk provision are included in **Exhibit 1**.

### **3 Act. Support Memo (Supporting Document)**

#### **Explain why the shake portion of adjustment for earthquake is appropriate in AR giving Allstate does not provide coverage.**

The claim adjustment factor that Allstate includes in its Reinsurance calculations is the factor that the Nationwide contract covers. Thus, Allstate must modify the modeled losses and apply the applicable factors before calculating the expected recoveries for the Nationwide contract. Please see the table below for these factors. Although Allstate does not have any Earthquake – Shake exposures in Arkansas, Allstate does have Earthquake Fire Following exposures in Arkansas that are covered by the Nationwide contract.

Please refer to **Exhibit 2** for the Earthquake Shake allocations. This exhibit shows that there are no recoveries or costs allocated for Earthquake – Shake in Arkansas for the Owners line of business.

ADJUSTMENT	ADJUSTMENT FACTOR
Claim Adjustment Fee (Contract Year 2011)	
Earthquake (Shake & Fire Following)	1.170
Hurricane	1.160

#### **4 Act. Support Memo (Supporting Document)**

**Please remove the hurricane provision and recalculate your indicated rate need. We do not allow hurricane provisions or modeling in Arkansas.**

Allstate does not believe that available historical data for hurricane losses accurately represents the exposure to expected hurricane loss in Arkansas. As such, in accordance with Actuarial Standard of Practice No. 39- Treatment of Catastrophe Losses in Property/Casualty Insurance Ratemaking, Allstate has chosen to use a model which is based on a combination of historical insurance and non-insurance data.

Prior to this filing, Allstate had included actual hurricane losses in Arkansas in the development of their Non-Modeled Catastrophe Provision. However, Allstate no longer develops a Non-Modeled Catastrophe Provision. Rather, non-modeled catastrophe losses are allocated appropriately into the development of the Non-Weather Loss and LAE and the Weather Loss and LAE. Because of the low frequency, high severity nature of hurricane activity, Allstate believes that including hurricane losses in the development of the Weather Loss and LAE is not the most predictive form of understanding Weather Loss and LAE potential. Additionally, because of the nature of hurricane activity, Allstate believes that using historical data is not the most predictive form of developing a Hurricane Provision per Amount of Insurance Year (AIY). Using a model provides a more stable result as it mitigates the volatility found in historical insurance data.

Note that because of the Modeled Hurricane Provision, hurricane losses have been removed from the analysis performed to develop the Weather Loss and LAE.

As shown on **Attachment VI, Exhibit 13** of the filing, the resulting Modeled Hurricane Provision per AIY for Arkansas Allstate Insurance Company Owners is 0.034. Note that if no Modeled Hurricane Provision is used and we instead rely on only actual loss experienced, the Hurricane Provision per AIY would be 0.070, which would increase the indication. The development of the Hurricane Provision per AIY based on actual loss experience can be found on **Exhibit 3** of this response. The portions of the filing that were adjusted by using actual hurricane losses instead of the Modeled Hurricane Provision are included in **Exhibit 1**.

Based on the above support and additional information, Allstate believes the use of a Modeled Hurricane Provision is appropriate and justified. However, we propose to remove the Modeled Hurricane Provision and include actual loss experience for the development of the Hurricane Provision per AIY to be consistent with past Arkansas filings and with the hope of expediting the review of the filing.

#### **5 Act. Support Memo (Supporting Document)**

**Supporting documentation regarding the contingency factor has not changed from previous filings and absent any new additional supporting documentation, the 2% factor remains unacceptable. Please reduce the factor to 1%.**

The objection from the Arkansas Insurance Department is accurate, in that Allstate has not provided any new supporting documentation for its 2% contingency factor. Please see **Exhibit 4** of this response for an explanation of Allstate's methodology for calculating a contingency

provision to be used in its Homeowner rate level. **Exhibit 4** includes the Unexpected Loss Analysis, which was already included in the filing, as well as an Expected Loss Versus Actual Loss Analysis, which has not been previously provided to the Arkansas Insurance Department. Allstate believes that with the additional support provided to the Arkansas Insurance Department, it remains appropriate to use a 2% contingency factor.

**6 Act. Support Memo (Supporting Document)**

**Please provide the average dollar impact for an insured as a result of the change in the reinsurance rate adjustment factor.**

The average dollar impact for an insured as a result of the change in the reinsurance rate adjustment factor for Allstate Insurance Company is \$3.87.

Allstate Insurance Company  
Owners Forms  
Arkansas

Determination of Statewide Rate Level Indication

1) Indicated Provision for Loss and Loss Adjustment Expense [ (a) + (b) + (c) ]	\$832.92
a) Non-Weather Loss and LAE	\$244.95
b) Weather Loss and LAE	\$578.71
c) Hurricane Catastrophe Loss and LAE	\$9.26
2) Current Fixed Expense Ratio	10.2 %
3) Three Year Average Earned Premium	\$871.85
4) Current Dollar Provision for Fixed Expense [ (2) x (3) ]	\$88.93
5) Factor to Adjust for Subsequent Change in Fixed Expense	1.074
6) Indicated Provision for Fixed Expense [ (4) x (5) ]	\$95.51
7) Variable Expense, Contingencies Ratio, and Profit Ratio [ (a) + (b) + (c) ]	26.9 %
a) Variable Expense Ratio (including Commissions, Taxes, and Debt Provision)	16.2 %
b) Contingencies Ratio	2.0 %
c) Profit Ratio	8.7 %
8) Indicated Retained Risk Provision	\$0.00
9) Indicated Average Premium [ (a) + (b) ]	\$1,270.08
a) Non-Weather Loss and LAE	\$1,270.08
Weather Loss and LAE	
Hurricane Loss and LAE	
Fixed Expense	
[ (1a) + (1b) + (1c) + (6) ] / [ 1 - (7 Total) ]	
b) Retained Risk Provision (8) / [ 1 - (7a) ]	\$0.00
10) Projected Average Earned Premium at Current Rates	\$1,015.64
11) Indicated Rate Level Change [ (9 Total) / (10) - 1.0 ]	25.1 %

Allstate Insurance Company  
Owners Forms  
Arkansas

Development of Provision for Hurricane Loss and LAE and Retained Risk

1) Hurricane Provision Per AIY Including All LAE**	0.070
2) Retained Risk Provision Per AIY***	0.000
3) Earned Exposures	12,003
4) Earned AIY	1,551,936
5) Average Earned AIY (4)/(3)	129.30
6) Factor to Adjust to Projected Average AIY Level	1.023
7) Average AIY Projected to 9/27/2013 (5)*(6)	132.27
8) Expected Hurricane Catastrophe Pure Premium (1)*(7)**	\$9.26
9) Expected Retained Risk Provision (2)*(7)	\$0.00

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

\*\* Based on actual hurricane loss experience

\*\*\* Retained Risk Provision is removed to comply with the Arkansas Department of Insurance

**Allstate Insurance Group**  
**Nationwide Reinsurance Cover (95% Placed)\***  
**Effective: June 1, 2011**

**Expected Loss Recoveries**

State	Brand	Line of Business	EQ -Fire Following	EQ Shake	Hurricane	Total	Percent of Total	Percent of State
Arkansas	APL	Auto	\$0	\$6,828	\$1,942	\$8,770		7.27%
Arkansas	APL	Mobile Home	\$314	\$0	\$2,149	\$2,464		2.04%
Arkansas	APL	Res Fire	\$0	\$0	\$0	\$0		0.00%
Arkansas	APL	Homeowners	\$54,767	\$0	\$44,552	\$99,318		82.36%
Arkansas	APL	Renters	\$848	\$0	\$273	\$1,121		0.93%
Arkansas	APL	LPP	\$5,024	\$0	\$3,715	\$8,739		7.25%
Arkansas	APL	Condos	\$45	\$0	\$131	\$177		0.15%
	APL	NorthLight Homeowners	\$0	\$0	\$0	\$0		0.00%
	APL	NorthLight LPP	\$0	\$0	\$0	\$0		0.00%
	<b>APL</b>	<b>Total</b>	<b>\$60,998</b>	<b>\$6,828</b>	<b>\$52,762</b>	<b>\$120,589</b>	<b>0.14%</b>	<b>100.00%</b>
Arkansas	EPL	Auto	\$0	\$105	\$70	\$175		4.27%
Arkansas	EPL	Res Fire	\$13	\$0	\$62	\$75		1.83%
Arkansas	EPL	Homeowners	\$1,324	\$0	\$2,477	\$3,801		92.69%
Arkansas	EPL	Renters	\$3	\$0	\$10	\$12		0.30%
Arkansas	EPL	Condos	\$5	\$0	\$33	\$38		0.91%
	<b>EPL</b>	<b>Total</b>	<b>\$1,345</b>	<b>\$105</b>	<b>\$2,651</b>	<b>\$4,100</b>	<b>0.00%</b>	<b>100.00%</b>
<b>Arkansas</b>	<b>Total</b>		<b>\$62,343</b>	<b>\$6,933</b>	<b>\$55,413</b>	<b>\$124,689</b>	<b>0.14%</b>	
Other (x-FL, NJ & AR)	APL	Auto	\$0	\$382,436	\$4,182,820	\$4,565,256		
Other (x-FL, NJ & AR)	APL	Mobile Home	\$13,835	\$2,333	\$1,007,471	\$1,023,639		
Other (x-FL, NJ & AR)	APL	Res Fire	\$2,260	\$11	\$76,030	\$78,301		
Other (x-FL, NJ & AR)	APL	Homeowners	\$7,317,718	\$164,264	\$60,875,693	\$68,357,676		
Other (x-FL, NJ & AR)	APL	Renters	\$193,726	\$1,539	\$750,457	\$945,722		
Other (x-FL, NJ & AR)	APL	LPP	\$758,724	\$9,092	\$2,696,254	\$3,464,070		
Other (x-FL, NJ & AR)	APL	Condos	\$218,557	\$1,071	\$1,112,296	\$1,331,924		
	APL	NorthLight Homeowners	\$474	\$0	\$426,268	\$426,742		
	APL	NorthLight LPP	\$0	\$0	\$1,663	\$1,663		
	<b>APL</b>	<b>Total</b>	<b>\$8,505,293</b>	<b>\$560,747</b>	<b>\$71,128,952</b>	<b>\$80,194,992</b>		
Other (x-FL, NJ & AR)	EPL	Auto	\$0	\$23,983	\$126,503	\$150,486		
Other (x-FL, NJ & AR)	EPL	Res Fire	\$62,423	\$488	\$250,807	\$313,718		
Other (x-FL, NJ & AR)	EPL	Homeowners	\$417,526	\$24,356	\$4,785,805	\$5,227,687		
Other (x-FL, NJ & AR)	EPL	Renters	\$4,172	\$149	\$35,771	\$40,092		
Other (x-FL, NJ & AR)	EPL	Condos	\$12,764	\$403	\$96,188	\$109,355		
	<b>EPL</b>	<b>Total</b>	<b>\$496,885</b>	<b>\$49,380</b>	<b>\$5,295,073</b>	<b>\$5,841,338</b>		
<b>Other (x-FL, NJ &amp; AR)</b>	<b>Total</b>		<b>\$9,002,178</b>	<b>\$610,127</b>	<b>\$76,424,025</b>	<b>\$86,036,330</b>		
<b>Total</b>	<b>Total</b>		<b>\$9,064,521</b>	<b>\$617,060</b>	<b>\$76,479,439</b>	<b>\$86,161,020</b>		

\* Nationwide is divided into 6 layers with layer 1 through 5 placed at 95% and layer 6 placed at 47.5%

\* Excluding Florida and New Jersey

\*AIR v12 50K WSSTwDS Catalog

Allstate Insurance Group  
Owners Forms  
Arkansas

Calculation of Hurricane Provision Per AIY

(1) Calendar <u>Year</u>	(2) Amount of Insurance <u>Years</u>	(3) Hurricane Incurred <u>Loss</u>	(4) Hurricane Damage <u>Ratio</u>
1992	2,863,273	1,606	0.001
1993	2,727,049	0	0.000
1994	2,724,363	0	0.000
1995	2,811,400	0	0.000
1996	2,902,531	0	0.000
1997	3,060,318	0	0.000
1998	3,209,377	0	0.000
1999	3,229,207	0	0.000
2000	3,313,371	0	0.000
2001	3,480,822	0	0.000
2002	3,831,204	7,984	0.002
2003	4,375,955	580	0.000
2004	5,168,560	0	0.000
2005	6,090,328	469,009	0.077
2006	7,198,275	70,583	0.010
2007	8,633,590	56,944	0.007
2008	9,460,454	4,993,336	0.528
2009	9,970,261	521,406	0.052
2010	9,773,260	93,529	0.010
2011	9,493,760	4,946	0.001
Total	104,317,358	6,219,923	0.060

**(5) Hurricane Provision Per AIY** 0.060

**(6) Hurricane Provision Per AIY Including LAE** 0.070

**ALLSTATE INSURANCE COMPANY  
OWNERS FORMS  
ARKANSAS**

**CONTINGENCY FACTOR SUPPORT  
EXPLANATORY MEMORANDUM**

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

Actuarial Standard of Practice (ASOP) No. 30, *Treatment of Profit and Contingency Provisions and the Cost of Capital in Property/Casualty Insurance Ratemaking*, defines the contingency provision for ratemaking purposes as follows: A provision for the expected differences, if any, between the estimated costs and the average actual costs, that cannot be eliminated by changes in other components of the ratemaking process. ASOP No. 30 goes on to state that:

- The actuary should include a contingency provision in the rates if assumptions used in ratemaking produce cost estimates that are not expected to equal average actual costs, and if the difference cannot be eliminated by changes in other components of the ratemaking process.
- While estimated costs are intended to equal average actual costs over time, differences between estimated and actual risk transfer costs may be expected in any given year. If a difference persists, the difference should be reflected in the ratemaking calculations as a contingency provision. The contingency provision is not intended to measure the variability of results and is not expected to contribute to profit.

Estimating the impact of costs that “cannot be eliminated by changes in other components of the ratemaking process” can be a challenge, and there has not yet emerged an ideal methodology for it.<sup>1</sup> Steven G. Lehmann, in his paper titled *Contingency Margins in Rate Calculations* notes, “How do you measure the ‘unmeasurable’? Some may argue that measurement of the contingency factor is impossible because, by their very nature, contingencies are events which are not susceptible to treatment in the normal ratemaking approach – things you cannot plan for” (pg 227). As a result, historically, some actuaries have simply built in a provision that seemed “reasonable” using actuarial judgment. Conversely, Allstate has completed two different analyses intended to help give guidance as to what is a reasonable contingency provision. One approach is to determine what portion of historical losses came from events that were not intended to be covered. The other approach is to compare expected losses to actual losses over a long period of time to see if a difference persists. Each approach is described in detail below.

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<sup>1</sup> CAS literature has been surprisingly quiet on contingency provision methodology. The most recent paper addressing the issue was written in 1985 by Steven G Lehmann.

### Unexpected Loss Analysis

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

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

The unexpected loss methodology for calculating a contingency provision allows for more specificity around the type of events that are included. We have reviewed loss experience and have identified a number of representative events that are appropriate to a contingency provision, due to their unanticipated nature. Considered events include the following: court decisions redefining the cause of loss for earth movement- and landslide-related loss, sinkholes, failure to disclose (in connection with sale of a home), oil tank leakage, foundation slab losses, mold, methamphetamine lab damage, legislated exceptions to policy language, flooding, lead paint poisoning, imminent collapse, terrorism, radiant floor heating systems, dog bites, and drug cartel wars. Identifying these events through Allstate claim file narratives allows us to exclude claims that are not appropriate to a contingency provision, such as normal low frequency, high severity events and regulatory delay situations. The effect of inflation is also excluded.

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

In order to estimate an appropriate contingency provision, we have selected a group of events from the above list of considered events (including oil tanks, slab losses, mold and

flooding) for which we can obtain more detailed loss data. It is not our intention to price these specifically named events, but to use these events as a proxy for unforeseen events occurring in the future. Issues which triggered payments over several years cannot be considered “unexpected” for an indefinite period of time. In these cases, we have judgmentally included losses from the first three years following the initial event. After three years we assume that these losses are present in our indications data and that we have priced sufficiently for the event’s exposure in our rates. Some events are of shorter duration and so fewer than three years of losses are included in the calculations. Note also that data includes some low frequency, high severity losses. Such losses are more appropriately accounted for with a long-term provision rather than in a contingency provision, and Allstate does calculate an adequate weather provision (theoretically sound and calculated over a sufficiently long period of time). However, the legislative, media and other influences that generate unexpected losses can also affect such losses. Therefore, these losses are included in our analysis when they stem from one of the issues in question. Losses are included for Allstate’s Owners, Renters and Condo forms.

Page 5 of this exhibit shows the sum of all claims divided by countrywide homeowners accident year non-catastrophe losses from 1996 – 2003, adjusted for expense provisions. This time period was chosen to match the time period of losses readily available to us (our claim files older than 1996 cannot be effectively reviewed to extract specific losses). Our analysis was completed in 2004, and due to systems modifications since then, retrieving data at this level of detail would require extensive effort. Losses for some events have been adjusted downward to reflect the fact that, despite the sophistication of our analysis, some claims unrelated to the issue in question can be unintentionally included in the loss totals.

#### Expected Loss Versus Actual Loss Analysis

As noted above, ASOP 30 states: “While estimated costs are intended to equal average actual costs over time, differences between estimated and actual risk transfer costs may be expected in any given year. If a difference persists, the difference should be reflected in the ratemaking calculations as a contingency provision.” Thus, the goal of Allstate’s second analysis is to determine if there is a persistent difference between actual and expected losses.

In this approach, Allstate’s rate-level indication methodology was replicated for historical countrywide homeowners non-catastrophe losses, and the estimate of a future year’s losses is compared to the actual losses for that year. For example, data from 1997, 1998, and 1999 is used to calculate an estimate of losses for the year 2000. This estimate is then compared to the actual losses for the year 2000. This process was repeated using data going back to 1992. However, note that, we have opted to allow the actual losses to develop for three additional years in order to have an actual loss value that is close to its ultimate value. As a result, the most recent data used in the analysis will always lag behind the current year by approximately three years.

Page 5 of this exhibit shows the results of the historical comparison of expected and actual losses. This long-term difference is then divided by total losses to get a percentage, and is then adjusted for expense provisions.

ALLSTATE INSURANCE GROUP

Personal Property Lines  
Contingency Provision Analysis

**Unexpected Event Analysis (1996 - 2003)**

1) Total estimated loss from unexpected events:	\$388,265,584
2) Total countrywide ex-cat accident year losses:	\$14,082,669,021
3) Indicated contingency provision as percentage of ex-cat loss:	2.8%
4) Indicated contingency provisions as percentage of total loss:	2.1%
5) Indicated contingency provision adjusted for expenses:	1.9%

**Variance From Expectation Analysis (1992 - 2008)**

1) Total expected losses:	\$27,812,571,837
2) Total actual losses:	\$29,008,300,190
3) Difference of actual loss and expected loss:	\$1,195,728,354
4) Percentage difference of actual loss and expected loss:	4.1%
5) Percent difference adjusted for expenses	3.6%

<b>Selected Contingency Provision:</b>	<b>2.0%</b>
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July 18, 2012

RE: Allstate Insurance Company  
Arkansas  
Company File #R24980

Please find below our responses to your questions submitted on June 29, 2012 in reviewing the current Arkansas Owners Rate Filing for Allstate Insurance Company.

**1. Please amend the overall increase amount to 20% with individual increases limited to no more than 25%.**

In order to resolve this filing, Allstate is limiting individual increases to 25% for the next renewal period.

Please see **Exhibit 1, Page 1** for the proposed changes, **Page 2** for the rate level impact, and **Page 3** for the impact distribution chart. Revised Rules manuals with updated Rate Adjustment Factors are also attached. Please note that the indicated change shown on **Exhibit 1, Page 1** represents the amended indicated amount as a result of the amendment submitted by Allstate on June 21, 2012, with the Retained Risk Provision removed and actual hurricane losses used instead of the Modeled Hurricane Provision. Revised Rules manuals with updated Rate Adjustment Factors are also attached.

Also attached are HPCS, H-1, and RF-1 forms.

**ALLSTATE INSURANCE COMPANY  
OWNERS FORMS  
ARKANSAS**

**PROPOSED RATE LEVEL CHANGE**

<b>Table 1: Allstate Insurance Company</b>			
	<b>Premium Dist. at Current Rates</b>	<b>Adjusted Indicated Change</b>	<b>Proposed Change**</b>
Fixed Expense Premium	6.5%	NA	N/C
Variable Package Premium	93.0%	NA	21.1%
<b>Total Owners Package*</b>	<b>99.5%</b>	<b>NA</b>	<b>19.7%</b>
Additional Coverages	0.5%	NA	N/C
<b>Total Owners</b>	<b>100.0%</b>	<b>25.1%</b>	<b>19.6%</b>
*Includes premium from Standard, Deluxe, Deluxe Plus, Standard Select Value, and Deluxe Select Value Policies. Please reference Rule Manual for more details.			
**Implicitly assumes no indicated change for fixed expenses and additional coverages.			

<b>Table 2: Allstate Insurance Company</b>			
	<b>Premium Distribution</b>	<b>Adjusted Indicated Change</b>	<b>Proposed Change</b>
Premium Underlying Indicated Rates	99.7%	25.1%	19.6%
Reinsurance Charges	0.3%	136.4%	136.4%
<b>Total</b>	<b>100.0%</b>	<b>25.4%</b>	<b>19.9%</b>

**ALLSTATE INSURANCE COMPANY  
OWNERS FORMS  
ARKANSAS**

**RATE LEVEL IMPACT OF REVISIONS**

The impacts shown below have been measured using an extension of exposures method and a snapshot of policyholders in Allstate Insurance Company.

**Revision of the Rate Adjustment Factor**

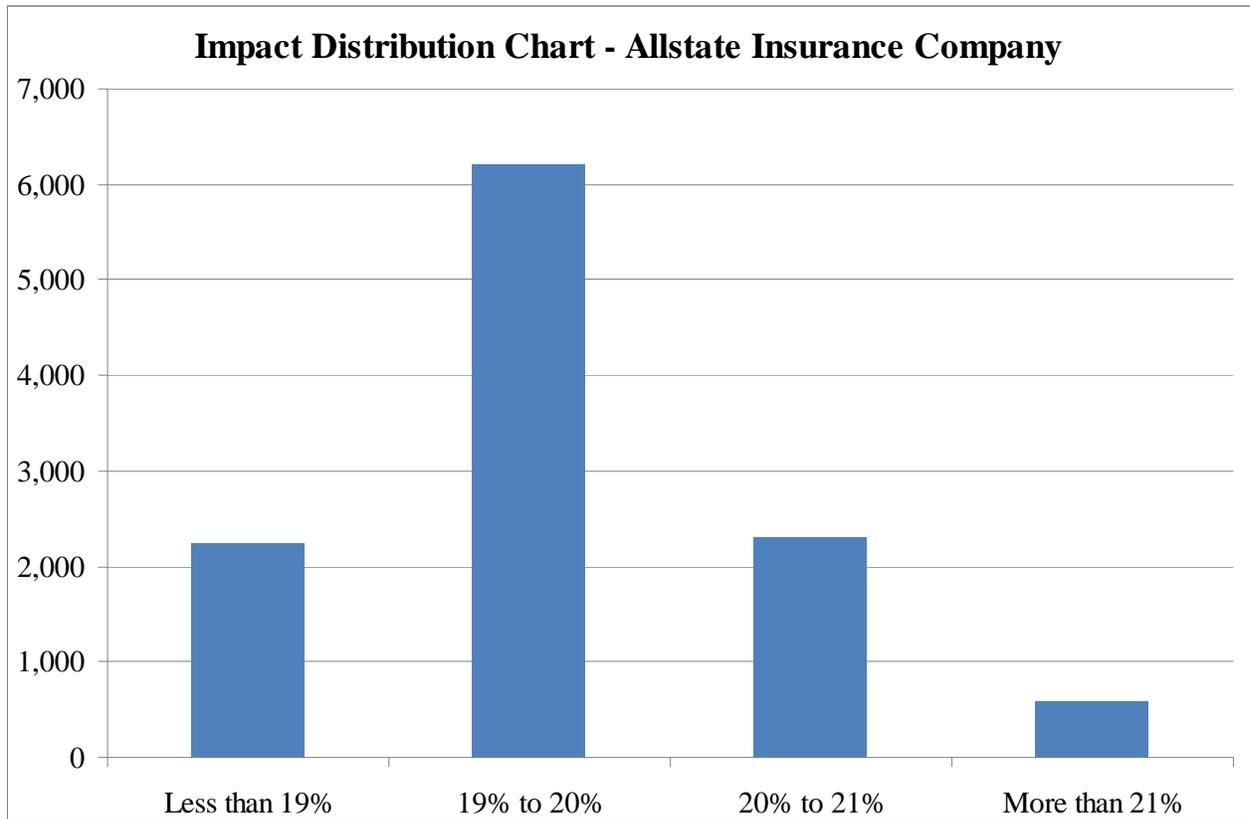
To achieve the proposed rate level change for the rating program, the Rate Adjustment Factors (RAF) will be revised. The proposed Rate Adjustment Factors will achieve the selected rate level change on a variable package premium basis as shown on Page 1 of this attachment.

<b>Policy Form</b>	<b>Current RAF</b>	<b>Proposed RAF</b>	<b>Total Owners Rate Level Impact</b>
Standard and Deluxe	1.732	2.098	19.6%
Deluxe Plus	1.722	2.066	19.6%
<b>Combined</b>			<b>19.6%</b>

An impact distribution chart has been provided on Page 3 of this Attachment.

**ALLSTATE INSURANCE COMPANY  
OWNERS FORMS  
ARKANSAS**

**IMPACT DISTRIBUTION CHART**



<b>SERFF Tracking #:</b>	ALSE-128442190	<b>State Tracking #:</b>		<b>Company Tracking #:</b>	R24980
<b>State:</b>	Arkansas	<b>Filing Company:</b>	Allstate Insurance Company		
<b>TOI/Sub-TOI:</b>	04.0 Homeowners/04.0003 Owner Occupied Homeowners				
<b>Product Name:</b>	AR AIC HO Rate Change (+19.9%)				
<b>Project Name/Number:</b>	Rate Change (+19.9%)/981335				

## Superceded Schedule Items

Please note that all items on the following pages are items, which have been replaced by a newer version. The newest version is located with the appropriate schedule on previous pages. These items are in date order with most recent first.

Creation Date	Schedule	Schedule Item Name	Replacement Creation Date	Attached Document(s)
06/21/2012	Supporting Document	HPCS-Homeowners Premium Comparison Survey	07/19/2012	HO Survey FORM HPCS.pdf (Superceded) HO Survey FORM HPCS.xls (Superceded)
06/01/2012	Rate	ManualR24890	07/19/2012	Manual - R24980.pdf (Superceded)
06/01/2012	Supporting Document	H-1 Homeowners Abstract	07/19/2012	FORM H-1 Homewoner's abstract_AIC.pdf (Superceded)
06/01/2012	Supporting Document	HPCS-Homeowners Premium Comparison Survey	06/21/2012	HO Survey FORM HPCS.xls (Superceded) HO Survey FORM HPCS.pdf (Superceded)
06/01/2012	Supporting Document	NAIC loss cost data entry document	07/19/2012	FORM RF-1 Rate Filing Abstract.pdf (Superceded)