

SERFF Tracking Number: ALSE-128487427 State: Arkansas
Filing Company: Allstate Indemnity Company State Tracking Number:
Company Tracking Number: R25202
TOI: 04.0 Homeowners Sub-TOI: 04.0002 Mobile Homeowners
Product Name: AR AI MFH Rate Change (+8.7%)
Project Name/Number: Rate Change (8.7%)/995736

Filing at a Glance

Company: Allstate Indemnity Company

Product Name: AR AI MFH Rate Change (+8.7%) SERFF Tr Num: ALSE-128487427 State: Arkansas

TOI: 04.0 Homeowners

SERFF Status: Closed-Filed

State Tr Num:

Sub-TOI: 04.0002 Mobile Homeowners

Co Tr Num: R25202

State Status:

Filing Type: Rate

Reviewer(s): Becky Harrington

Author: Andi Colosi

Disposition Date: 07/02/2012

Date Submitted: 06/18/2012

Disposition Status: Filed

Effective Date Requested (New): 09/10/2012

Effective Date (New): 09/10/2012

Effective Date Requested (Renewal): 10/25/2012

Effective Date (Renewal):

10/25/2012

State Filing Description:

referred to commissioner for review on 6/29/12

General Information

Project Name: Rate Change (8.7%)

Status of Filing in Domicile:

Project Number: 995736

Domicile Status Comments:

Reference Organization:

Reference Number:

Reference Title:

Advisory Org. Circular:

Filing Status Changed: 07/02/2012

Deemer Date:

State Status Changed: 06/29/2012

Submitted By: Andi Colosi

Created By: Andi Colosi

Corresponding Filing Tracking Number:

Filing Description:

With this filing, Allstate is proposing an 8.7% rate level increase based on an 8.7% indication to the Arkansas Allstate Indemnity Company Manufactured Home program. The rate increase will be achieved through a flat increase to the base rates.

State Narrative:

Company and Contact

Filing Contact Information

Andi Colosi, State Filings Project Manager andi.colosi@allstate.com

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2775 Sanders Road 847-402-5000 [Phone] 21839 [Ext]
 Suite A2-W 847-402-9757 [FAX]
 Northbrook, IL 60062

Filing Company Information

| | | |
|-----------------------------|-------------------------|-------------------------------------|
| Allstate Indemnity Company | CoCode: 19240 | State of Domicile: Illinois |
| 2775 Sanders Rd. | Group Code: 8 | Company Type: Property and Casualty |
| Suite A2-W | Group Name: Allstate | State ID Number: |
| Northbrook, IL 60062 | FEIN Number: 36-6115679 | |
| (847) 402-5000 ext. [Phone] | | |

Filing Fees

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

| COMPANY | AMOUNT | DATE PROCESSED | TRANSACTION # |
|----------------------------|----------|----------------|---------------|
| Allstate Indemnity Company | \$100.00 | 06/18/2012 | 60210710 |

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Correspondence Summary

Dispositions

| Status | Created By | Created On | Date Submitted |
|--------|------------------|------------|----------------|
| Filed | Becky Harrington | 07/02/2012 | 07/02/2012 |
| Filed | Becky Harrington | 06/29/2012 | 06/29/2012 |

Objection Letters and Response Letters

| Objection Letters | | | | Response Letters | | |
|---------------------------|------------------|------------|----------------|------------------|------------|----------------|
| Status | Created By | Created On | Date Submitted | Responded By | Created On | Date Submitted |
| No response necessary | Becky Harrington | 06/29/2012 | 06/29/2012 | | | |
| Pending Industry Response | Becky Harrington | 06/18/2012 | 06/18/2012 | Andi Colosi | 06/28/2012 | 06/28/2012 |

SERFF Tracking Number: ALSE-128487427

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Disposition

Disposition Date: 07/02/2012

Effective Date (New): 09/10/2012

Effective Date (Renewal): 10/25/2012

Status: Filed

Comment: corrected overall amount

| Company Name: | Overall % Indicated Change: | Overall % Rate Impact: | Written Premium Change for this Program: | # of Policy Holders Affected for this Program: | Written Premium for this Program: | Maximum % Change (where required): | Minimum % Change (where required): |
|-------------------------------|-----------------------------------|---------------------------|--|---|---|--|--|
| Allstate Indemnity Company | 6.700% | 6.700% | \$ | 1,798 | \$1,455,322 | % | % |

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| Schedule | Schedule Item | Schedule Item Status | Public Access |
|---------------------|---|----------------------|---------------|
| Supporting Document | NAIC loss cost data entry document | | Yes |
| Supporting Document | NAIC Loss Cost Filing Document for OTHER than Workers' Comp | Filed | Yes |
| Supporting Document | Actuarial Support | Filed | Yes |
| Supporting Document | Objection Response - 6/28/12 | Filed | Yes |
| Rate | CheckingList | Filed | Yes |
| Rate | ManualR25202 | Filed | Yes |

SERFF Tracking Number: ALSE-128487427

State: Arkansas

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Product Name: AR AI MFH Rate Change (+8.7%)

Project Name/Number: Rate Change (8.7%)/995736

Disposition

Disposition Date: 06/29/2012

Effective Date (New): 09/10/2012

Effective Date (Renewal): 10/25/2012

Status: Filed

Comment:

| Company Name: | Overall % Indicated Change: | Overall % Rate Impact: | Written Premium Change for this Program: | # of Policy Holders Affected for this Program: | Written Premium for this Program: | Maximum % Change (where required): | Minimum % Change (where required): |
|-------------------------------|-----------------------------------|---------------------------|--|---|---|--|--|
| Allstate Indemnity Company | 8.700% | 8.700% | \$126,613 | 1,798 | \$1,455,322 | 8.900% | 3.200% |

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| Supporting Document | NAIC loss cost data entry document | | Yes |
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| Rate | CheckingList | Filed | Yes |
| Rate | ManualR25202 | Filed | Yes |

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Project Name/Number: Rate Change (8.7%)/995736

Objection Letter

Objection Letter Status No response necessary
Objection Letter Date 06/29/2012
Submitted Date 06/29/2012
Respond By Date

Dear Andi Colosi,

This will acknowledge receipt of the recent response.

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

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

SERFF Tracking Number: ALSE-128487427 State: Arkansas
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Project Name/Number: Rate Change (8.7%)/995736

Objection Letter

Objection Letter Status Pending Industry Response

Objection Letter Date 06/18/2012

Submitted Date 06/18/2012

Respond By Date

Dear Andi Colosi,

This will acknowledge receipt of the captioned filing.

Objection 1

- Actuarial Support (Supporting Document)

Comment: 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 2

- Actuarial Support (Supporting Document)

Comment: 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 3

- Actuarial Support (Supporting Document)

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

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

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Project Name/Number: Rate Change (8.7%)/995736

Response Letter

Response Letter Status Submitted to State
Response Letter Date 06/28/2012
Submitted Date 06/28/2012

Dear Becky Harrington,

Comments:

Hi Becky: Thank you for your help with this filing. Please see the attached response document and let us know if you have any other questions.

Response 1

Comments: Please see the attached response document

Related Objection 1

Applies To:

- Actuarial Support (Supporting Document)

Comment:

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:

Supporting Document Schedule Item Changes

Satisfied -Name: Objection Response - 6/28/12

Comment:

No Form Schedule items changed.

No Rate/Rule Schedule items changed.

Response 2

Comments: Please see the attached response document

Related Objection 1

SERFF Tracking Number: ALSE-128487427 State: Arkansas
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Project Name/Number: Rate Change (8.7%)/995736

Applies To:

- Actuarial Support (Supporting Document)

Comment:

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 3

Comments: Please see the attached response document

Related Objection 1

Applies To:

- Actuarial Support (Supporting Document)

Comment:

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.

Sincerely,
Andi Colosi

SERFF Tracking Number: ALSE-128487427

State: Arkansas

Filing Company: Allstate Indemnity Company

State Tracking Number:

Company Tracking Number: R25202

TOI: 04.0 Homeowners

Sub-TOI: 04.0002 Mobile Homeowners

Product Name: AR AI MFH Rate Change (+8.7%)

Project Name/Number: Rate Change (8.7%)/995736

Rate Information

Rate data applies to filing.

Filing Method:

File and Use

Rate Change Type:

Increase

Overall Percentage of Last Rate Revision:

10.000%

Effective Date of Last Rate Revision:

02/21/2011

Filing Method of Last Filing:

File and Use

Company Rate Information

| Company Name: | Overall % Indicated Change: | Overall % Rate Impact: | Written Premium Change for this Program: | # of Policy Holders Affected for this Program: | Written Premium for this Program: | Maximum % Change (where required): | Minimum % Change (where required): |
|-------------------------------|-----------------------------------|---------------------------|---|---|---|--|--|
| Allstate Indemnity Company | 8.700% | 8.700% | \$126,613 | 1,798 | \$1,455,322 | 8.900% | 3.200% |

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Rate/Rule Schedule

| Schedule Item | Exhibit Name: | Rule # or Page | Rate Action | Previous State Filing Attachments |
|------------------|---------------|----------------|-------------|-----------------------------------|
| Status: | | #: | | Number: |
| Filed 06/29/2012 | CheckingList | | New | CheckingList - R25202.pdf |
| Filed 06/29/2012 | ManualR25202 | | Replacement | Manual - R25202.pdf |

CHECKING LIST FOR MANUFACTURED HOME

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

RATE FACTOR PAGE

Enclosed: Page RFP-1 dated 9-1-2012

Withdrawn: Page RFP-1 dated 2-1-2011

**ALLSTATE INDEMNITY COMPANY
ARKANSAS MANUFACTURED HOMES
RATE FACTOR PAGES**

**Order in
Calculation**

1 Base Rates:

| Zone | Base Rate |
|------|-----------|
| 1 | 1072.71 |
| 2 | 1101.85 |
| 3 | 1069.69 |
| 4 | 1069.69 |
| 5 | 942.88 |
| 6 | 1169.64 |
| 7 | 1262.41 |
| 8 | 1191.14 |

2 Tied Down Status:

| Tie Down Status | Factor |
|-----------------|--------|
| Yes | 0.900 |
| No | 1.000 |

3 Park Size:

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

4 Amount of Insurance:

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

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Supporting Document Schedules

| | Item Status: | Status Date: |
|--|--------------|--------------|
| Bypassed - Item: NAIC loss cost data entry document Bypass Reason: NA Comments: | | |
| Satisfied - Item: NAIC Loss Cost Filing Document for OTHER than Workers' Comp Comments: Attachment: AR MH AI - State Filing Form.pdf | Filed | 06/29/2012 |
| Satisfied - Item: Actuarial Support Comments: Attachment: ActuarialSupport.pdf | Filed | 06/29/2012 |
| Satisfied - Item: Objection Response - 6/28/12 Comments: Attachment: AR MH AI 6 18 12 Objection Response.pdf | Filed | 06/29/2012 |

NAIC LOSS COST DATA ENTRY DOCUMENT

| | | |
|-----------|---|---------------|
| 1. | This filing transmittal is part of Company Tracking # | R25202 |
|-----------|---|---------------|

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

| | | | |
|-----------|--------------|-----------------------------------|---------------------|
| | Company Name | | Company NAIC Number |
| 3. | A. | Allstate Indemnity Company | B. |
| | | | 19240 |

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

| | | | | | | | |
|--------------------------------|-------------------------------------|---|------------------------|-------------------------------------|-------------------------------------|--|--|
| 5. | | | FOR LOSS COSTS ONLY | | | | |
| (A) | (B) | (C) | (D) | (E) | (F) | (G) | (H) |
| COVERAGE (See Instructions) | Indicated % Rate Level Change | Requested % Rate Level Change | Expected Loss Ratio | Loss Cost Modification Factor | Selected Loss Cost Multiplier | Expense Constant (If Applicable) | Co. Current Loss Cost Multiplier |
| Mobilehome | 8.7% | 8.7% | | | | | |
| | |  | | | | | |
| | | | | | | | |
| | | | | | | | |
| | | | | | | | |
| TOTAL OVERALL EFFECT | | | | | | | |

| | | | | | | | |
|-------------------|---------------------------------------|---------------------|-------------------|----------------------------------|-----------------------------|---------------------|----------------------------|
| 6. | 5 Year History | Rate Change History | | | | | |
| Year | Policy Count (Earned Exposures) | % of Change | Effective Date | State Earned Premium (000) | Incurred Losses (000) | State Loss Ratio | Countrywide Loss Ratio^ |
| 12/31/2011 | 1,702 | 10.0% | 2/21/11 | \$1,341 | \$1,336 | 99.6% | 113.0% |
| 12/31/2010 | 1,677 | N/A | N/A | \$1,292 | \$683 | 52.9% | 84.1% |
| 12/31/2009 | 1,602 | N/A | N/A | \$1,228 | \$1,705 | 138.8% | 99.1% |
| 12/31/2008 | 1,417 | 28.0% | 4/21/08 | \$952 | \$1,963 | 206.2% | 97.3% |
| 12/31/2007 | 1,009 | N/A | N/A | \$644 | \$427 | 66.2% | 75.4% |
| | | | | | | | |
| | | | | | | | |

| | |
|---|------------------------|
| Expense Constants | Selected Provisions |
| A. Other Acquisition | 5.3 |
| B. General Expense | 4.8 |
| C. Taxes, License & Fees | 3.2 |
| D. Underwriting Profit, Debt & Contingencies | 12.2 |
| E. Commissions | 11.7 |
| F. TOTAL | 37.2 |

- 8.** N Apply Lost Cost Factors to Future filings? (Y or N)
- 9.** 8.9% Estimated Maximum Rate Increase for any Insured (%). Territory (if applicable): _____
- 10.** N/A Estimated Maximum Rate Decrease for any Insured (%) Territory (if applicable): _____

**ALLSTATE INDEMNITY COMPANY
MANUFACTURED HOME
ARKANSAS**

INDEX OF ATTACHMENTS

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**ALLSTATE INDEMNITY COMPANY
MANUFACTURED HOME
ARKANSAS**

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| | |
|-------------------------|--|
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ATTACHMENT I

Summary of Disclosures

**ALLSTATE INDEMNITY COMPANY
MANUFACTURED HOME
ARKANSAS**

DEFINITIONS

Please note that within 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 INDEMNITY COMPANY
MANUFACTURED HOME
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, Pages 3-4: Adjustments to Losses – Loss Trend
 - Attachment II, Page 4: Adjustments to Losses – Catastrophes (AIY’s)
 - Attachment II, Page 5: Retained Risk Provision (AIY’s)
 - Attachment II, Page 7: Expense Provisions – Fixed Expenses – Trend (Inflation)
 - Attachment II, Page 11: 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 V, Pages 1-4: Development of Retained Risk Provision due to Catastrophe Exposure
- Actuarial Standard of Practice No. 25, *Credibility Procedures Applicable to Accident and Health, Group Term Life, and Property/Casualty Coverages*
 - Attachment II, Page 2: Base Data – Accident Year Weights
 - Attachment II, Pages 3-4: Adjustments to Losses – Loss Trend
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- Actuarial Standard of Practice No. 29, *Expense Provisions in Property/Casualty Insurance Ratemaking*
 - Attachment II, Pages 6-8: 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, Pages 9-10: Profit Provision, Debt Provision, and Contingency Factor
- Actuarial Standard of Practice No. 38, *Using Models Outside the Actuary’s Area of Expertise (Property and Casualty)*
 - Attachment IV, Pages 1-9: Development of the Hurricane Provision Based on the 2011/10 AIR Version 13.0 Hurricane Model in the Statewide Rate Level Indication Explanatory Memorandum
 - Attachment V, Pages 1-4: Development of Retained Risk Provision due to Catastrophe Exposure
- Actuarial Standard of Practice No. 39, *Treatment of Catastrophe Losses in Property/Casualty Insurance Ratemaking*
 - Attachment III, Page 1: Summary of the Total Non-Modeled Catastrophe Adjustment

- Attachment IV, Pages 1-9: Development of the Hurricane Provision Based on the 2011/10 AIR Version 13.0 Hurricane Model in the Statewide Rate Level Indication Explanatory Memorandum
- Attachment V, Pages 1-4: Development of Retained Risk Provision due to Catastrophe Exposure
- Actuarial Standard of Practice No. 41, *Actuarial Communications*
 - Applies to this filing in its entirety

**ALLSTATE INDEMNITY COMPANY
MANUFACTURED HOME
ARKANSAS**

MATERIAL CHANGES IN SOURCES OF DATA, ASSUMPTIONS, OR METHODS

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

- **ULAE Provision**
 - Use of **three**-year average, rather than **two**-year average, as described in Attachment II, Page 8
 - Use of combined-lines expense data, rather than expense data separated out by line of business, as described in Attachment II, Page 8
- **Provision for General and Other Acquisition Expenses**
 - Use of combined-lines expense data, rather than expense data separated out by line of business, as described in Attachment II, Page 6
- **Modeled Hurricane Provision**
 - Updated the hurricane model used in the development of the modeled hurricane provision to the 2011/10 AIR Version 13.0 Hurricane Model as described in Attachment IV, Pages 1-9
- **Retained Risk Provision**
 - Retained Risk Provision included in calculating statewide rate level indication, as described in Attachment II, Page 5

ATTACHMENT II

Summary of Rate Level Indication

**ALLSTATE INDEMNITY COMPANY
MANUFACTURED HOME
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 actual catastrophe losses during the experience period were removed and then replaced with a provision to reflect expected catastrophe 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.

The table below 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.

| | Premium Dist. at Current Rates | Indicated Change | Selected Change* |
|--------------------------------|---------------------------------------|-------------------------|-------------------------|
| Variable Package Premium | 97.3% | N/A | 8.9% |
| Additional Coverages | 2.7% | N/A | N/C |
| Total Manufactured Home | 100.0% | 8.7% | 8.7% |

*We implicitly assume no indicated change for additional coverages.

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BASE DATA

In developing rate level indications for Arkansas, non-catastrophe loss data from fiscal accident years ending September 30, 2007, 2008, 2009, 2010, and 2011 for Allstate Insurance Company and Allstate Indemnity Company combined was used. Each of these fiscal accident years is evaluated as of December 31, 2011. Allocated loss adjustment expense (ALAE) is included in the losses. **Attachment VI, Exhibit 2** shows the development of the provision for non-catastrophe loss and LAE.

Please note that Allstate Indemnity Company was introduced for Arkansas Manufactured on 05/30/05. Therefore, losses from both Allstate Indemnity Company and Allstate Insurance Company are used in the development of the provision for non-catastrophe loss and LAE.

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

Earned premium data from fiscal calendar period ending September 30, 2011 for Allstate Indemnity Company was used in developing the rate level indication. **Attachment VI, Exhibit 18** shows the development of the projected average earned premium.

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. Data for up to five accident years is combined to determine the indicated provision for loss and loss adjustment expense. The number of years needed to determine the formula rate level indication is derived from a credibility procedure based upon the number of paid claims and the distribution of claims. The credibility procedure that was used is more fully described in the paper "On the Credibility of the Pure Premium" (Proceedings of the Casualty Actuarial Society, Vol. LV, 1968) by Mayerson, Jones and Bowers. The analysis was completed using a k value of 0.10 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 .

The weights applied to the loss experience for the accident years are determined by the distribution of earned exposures over those years. The weights are based on the exposure distribution rather than the claim distribution in order to lessen the impact of volatility that can occur in the claim distribution. The initial calculated weight for a given year is limited to the weight for the subsequent year and the final weights are calculated proportionate to the limited weights to total 100%.

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*.

**ALLSTATE INDEMNITY COMPANY
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ADJUSTMENTS TO LOSSES

Loss Development

Allstate has developed accident year losses (including allocated loss adjustment expense) to ultimate settlement levels using the Link Ratio method. The link ratio method assumes that future development is proportional to losses that have already emerged as of a given evaluation date.

Due to the limited amount of Allstate Indemnity Company data, loss development factors were based on Countrywide Allstate Insurance Company and Allstate Indemnity Company combined data. Loss development patterns for Allstate Insurance Company and Allstate Indemnity Company are expected to be similar, since claims settlement practices are the same for each company.

To calculate estimated ultimate losses using the link ratio 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 **Attachment VI, Exhibit 4** for the Countrywide loss development using the Link Ratio Method. Please note that the actual five year average loss development factors were selected to project current losses to ultimate settlement level.

Loss Trend

Using Countrywide Allstate Indemnity Company data, 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. The Allstate Indemnity Company data has been adjusted as described below. After considering past results, countrywide Allstate data, credibility level of Allstate data, and actuarial judgment, annual pure premium trends were selected.

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 6**. 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 6**. Countrywide Allstate Indemnity Company trend data is included as **Attachment VI, Exhibit 7**.

Selections were based on Allstate Indemnity Company data. **Attachment VI, Exhibit 7** displays the Countrywide twenty-, twelve-, and six-point paid pure premium trends for Allstate Indemnity Company. 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 Standards of Practice No. 13, *Trending Procedures in Property/Casualty Insurance Ratemaking*.

Credibility for Losses

The available accident year data used in the indication is not fully credible. Therefore, we determine the partial credibility of the provision for non-catastrophe loss and LAE using the credibility procedure referenced in the Accident Year Weight section in **Attachment II, Page 2**. State accident year data is given a minimum weight of 50%. The non-catastrophe loss and LAE is then weighted with a credibility complement, the development of which is included on **Attachment VI, Exhibit 3**.

Catastrophes

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

The catastrophe provision is composed of a non-modeled catastrophe provision and a modeled catastrophe provision. The non-modeled catastrophe provision is described in detail in **Attachment III**. The modeled catastrophe provision is described in detail in **Attachment IV, Attachment VI, Exhibit 8**, Development of Provisions for Catastrophe Loss and LAE and Retained Risk, displays the total catastrophe provision used in Arkansas.

Please note that in developing the Provision for Catastrophe 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 Indemnity Company. **Attachment VI, Exhibit 12** shows the twenty-, twelve-, and six-point average AIY trends for Arkansas. We have selected a 1.5% 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 Standards of Practice No. 13, *Trending Procedures in Property/Casualty Insurance Ratemaking*.

**ALLSTATE INDEMNITY COMPANY
MANUFACTURED HOME
ARKANSAS**

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 catastrophe exposure. **Attachment V** describes the development of the retained risk provision per Amount of Insurance Year (AIY). **Attachment VI, Exhibit 8**, Development of Provisions for Catastrophe Loss and LAE and Retained Risk, displays the retained risk provision per AIY used in Arkansas. Similar to the Provision for Catastrophe Loss and LAE, AIY's are used as an exposure base. Additionally, the same methodology was used to project the AIY's to the average earned date of the proposed policy period and ultimately to calculate the expected retained risk provision in dollars. This approach 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 catastrophe 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>).

**ALLSTATE INSURANCE GROUP
MANUFACTURED HOME
ARKANSAS**

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 13 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 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.

In previous filings, expense data had been separated out by line of business, as is done in the Insurance Expense Exhibit, to determine the general and other acquisition expense provisions by line. Moving forward, Allstate has opted to leave the expense data in combined-lines form since the allocation of general and other acquisition expenses by line of business is done by accounting formula rather than pricing analysis. However, company- and line-specific adjustments to other acquisition expenses continue to be made, such as the reduction by the amount of installment fees collected and the adjustment for premiums written off.

Rate Need Calculations

In developing the dollar provision for fixed expenses used in the calculation of our Arkansas rate level need, the three-year average expense ratio for fixed 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 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 14 and 15**.

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 13**.

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 Standards of Practice No. 13, *Trending Procedures in Property/Casualty Insurance Ratemaking*. This trend is applied only to all fixed expenses. The factor to adjust for subsequent change in Fixed Expense is shown on **Attachment VI, Exhibit 16**.

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 13**.

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 13**.

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. In previous filings, expense data had been separated out by line of business, as is done in the Insurance Expense Exhibit, to determine the ULAE provisions by line. Moving forward, Allstate has opted to leave the ULAE data in combined-lines form since the allocation of ULAE by line of business is done by accounting formula rather than pricing analysis.

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 5**.

**ALLSTATE INSURANCE GROUP
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ARKANSAS**

PROFIT PROVISION, DEBT PROVISION AND CONTINGENCY FACTOR

Attachment VI, Exhibit 13 shows the underwriting profit and debt provisions.

Underwriting Profit Provision

In 2009, disruptions in the financial market caused several of the inputs that typically are used in Allstate's profit provision calculations – risk-free rates, capital levels, and earnings projections – to dip to abnormal values compared to historic norms. Because we expected these values to return to traditional levels, and to minimize fluctuations in policyholder rates, we selected a target operating profit lower than, but near, the target operating profit from 2008. Since then, some of these abnormal levels have reverted to previous levels. As a result, we will return to using our standard methodology for determination of the profit provision.

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

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

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 17**. 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 17** as well.

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

Debt Provision

As with previous Allstate filings, the debt provision amount is shown on **Attachment VI, Exhibit 13**.

Contingency Provision

As with previous Allstate filings, the contingency provision of 2% is shown on **Attachment VI, Exhibit 13**. Please note that the contingency provision does not apply to the retained risk provision.

**ALLSTATE INDEMNITY COMPANY
MANUFACTURED HOME
ARKANSAS**

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 uses 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.

We also use the Miller-Davis-Karlinski method 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 statewide 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 is based on Allstate Indemnity Company data. The selected projection is displayed in **Attachment VI, Exhibit 19**. 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 Indemnity Company trend data is included as **Attachment VI, Exhibit 20**.

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

Summary of Non-Modeled Catastrophe Provision

**ALLSTATE INDEMNITY COMPANY
MANUFACTURED HOME
ARKANSAS**

**DEVELOPMENT OF THE NON-MODELED CATASTROPHE PROVISION
EXPLANATORY MEMORANDUM**

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

Allstate Indemnity Company was introduced for Arkansas Manufactured Home on May 30, 2005. The catastrophe provision for Allstate Indemnity Company Manufactured Home is determined using the catastrophe provision for Allstate Insurance Company Mobilehome. Since the Allstate Insurance Company Mobilehome catastrophe loss data is only available since 1987, the Allstate Insurance Company Mobilehome data does not, in itself, provide a sufficiently credible basis for determining a catastrophe provision. Thus, the catastrophe provision is developed using the state's historical Allstate Insurance Company Mobilehome catastrophe data and the Allstate Insurance Group Homeowners catastrophe provision.

The catastrophe provision is the product of the Allstate Insurance Group Homeowners catastrophe provision [and](#) the Allstate Insurance [Company Mobilehome](#) to Allstate Insurance Group Homeowners catastrophe ratio, [and the adjustment factor for the difference in average AIY's between Allstate Insurance Company Mobilehome and Allstate Indemnity Company Manufactured Home](#). The development of the [Arkansas Allstate Indemnity Company Manufactured Home](#) catastrophe provision is shown on [Attachment VI, Exhibit 9](#).

**ALLSTATE INSURANCE GROUP
HOMEOWNERS FORMS
ARKANSAS**

SUMMARY OF THE TOTAL NON-MODELED CATASTROPHE ADJUSTMENT

Allstate separately identifies and accounts for its exposure to loss due to the occurrence of catastrophic events within a state. The adjustment to account for non-modeled catastrophes described below is consistent with the Analysis of Issues and Recommended Practices detailed in Section 3.4 of Actuarial Standard of Practice No. 39, *Treatment of Catastrophe Losses in Property/Casualty Insurance Ratemaking*.

An estimation of our non-hurricane, non-earthquake catastrophe exposure is first developed on a total company statewide level. Subsequent relativities are used to estimate our catastrophe exposure by line and by company.

In order to estimate our non-hurricane, non-earthquake catastrophe exposure at a state-wide level, we develop a long-term relativity of each state to our countrywide catastrophe factor for the latest fifteen years of data. We then apply this relativity to a countrywide catastrophe factor based on the most recent ten calendar years of data ending 12/31/2011. By using this approach, we are able to balance the stability of a long-term estimate of catastrophe potential in Arkansas (needed because of the infrequent occurrence of catastrophes) and the responsiveness of more recent data (needed because of changing demographic conditions).

Within our method we incorporated a credibility procedure designed to stabilize the results of individual states. The credibility is based on the standard (Buhlmann/Bayesian) credibility method as described in *Loss Models*, by Klugman, Panjer and Willmot, chapter 5, pages 436 to 441. The credibility reflects the confidence we have in the state's average relativity. In order to develop the credibility, we consider the number of years used to determine the relativity as well as the variance of all states' relativities to countrywide.* The complement of credibility is applied to a relativity of 1.000.

The final relativity is applied to the countrywide catastrophe factor to develop the Arkansas catastrophe factor.

Attachment VI, Exhibit 10 displays the Development of the Homeowners Total non-hurricane, non-earthquake, catastrophe provision of **1.388** for Arkansas.

* Note: The number of years is used rather than exposures (as recommended in the standard model) because increased exposures does not necessarily lead to more stable estimates for catastrophes, particularly when the exposures are geographically concentrated.

ATTACHMENT IV

Summary of Modeled Catastrophe Provision

**ALLSTATE INSURANCE GROUP
MANUFACTURED HOME
ARKANSAS**

**DEVELOPMENT OF THE HURRICANE PROVISION
BASED ON THE 2011/10 AIR VERSION 13.0 HURRICANE MODEL
IN THE STATEWIDE RATE LEVEL INDICATION
EXPLANTATORY 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 segment. 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 (GWRP)

The model uses a stochastic GWRP, 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 GWRP 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. 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 (GWRP) 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 GWRP 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 12**. 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.

Allstate removes the wind pool policies from the factor calculations to be consistent with the Hurricane Factor Methodology. The impact of removing wind pool losses had minimal to no impact to the WSST factors.

Data:

| 2011/10 WSST Factor | |
|---------------------|---------------|
| <u>State</u> | <u>Factor</u> |
| AR | 1.111 |

* 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 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 | <u>18.5%</u> |
| Total | 20.2% |
| Selected: | 17.0% |

IV. ACTUARIAL STANDARDS OF PRACTICE

The rules and procedures as set forth in ASOP38-Using Models Outside the Actuary's Area of Expertise (Property and Casualty) were applied in reviewing the modeled losses.

ATTACHMENT V

Retained Risk Provision

**ALLSTATE INSURANCE GROUP
MANUFACTURED HOME
ARKANSAS**

**DEVELOPMENT OF RETAINED RISK PROVISION DUE TO
CATASTROPHE 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 catastrophe 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 2011/2010 AIR Version 13.0 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 next step is to apply these profit multiples to the amount of catastrophe losses retained by Allstate. To do this, the amount of retained catastrophe 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 catastrophe exposure.

These calculations are performed using annual aggregate catastrophe losses since Allstate's surplus is exposed to multiple events in the same year. The aggregate annual occurrence probabilities are determined by using all catastrophe 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 catastrophe loss in the 500th largest year (1% of 50,000), the 1-in-250-year loss (0.4% probability) is the amount of catastrophe loss in the 200th 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.

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.

ATTACHMENT VI

Rate Level Indication Exhibits

Allstate Indemnity Company
 Manufactured Home
 Arkansas

Determination of Statewide Rate Level Indication

| | |
|--|----------|
| 1) Credibility Weighted Indicated Provision for Loss and LAE [(a) + (b) + (c) + (d)] | \$559.33 |
| a) Credibility Weighted Non-Catastrophe Loss and LAE | \$434.02 |
| b) Non-Modeled Catastrophe Loss and LAE | \$117.89 |
| c) Low-Layer Retained and Ceded Hurricane Catastrophe Loss and LAE | \$1.07 |
| d) High-Layer Retained Hurricane Catastrophe Loss and LAE | \$6.35 |
| 2) Current Fixed Expense Ratio | 10.2 % |
| 3) Three Year Average Earned Premium | \$624.85 |
| 4) Current Dollar Provision for Fixed Expense [(2) x (3)] | \$63.73 |
| 5) Factor to Adjust for Subsequent Change in Fixed Expense | 1.070 |
| 6) Indicated Provision for Fixed Expense [(4) x (5)] | \$68.19 |
| 7) Variable Expense, Contingencies Ratio, and Profit Ratio [(a) + (b) + (c)] | 27.0 % |
| a) Variable Expense Ratio (including Commissions, Taxes, and Debt Provision) | 16.2 % |
| b) Contingencies Ratio | 2.0 % |
| c) Profit Ratio | 8.8 % |
| 8) Indicated Retained Risk Provision | \$16.13 |
| 9) Indicated Average Premium [(a) + (b) + (c)] | \$877.93 |
| a) Credibility Weighted Loss and LAE | \$850.92 |
| Non-Modeled Catastrophe Loss and LAE | |
| Low-Layer Retained and Ceded Hurricane Catastrophe Loss and LAE | |
| Fixed Expense | |
| [(1a) + (1b) + (1c) + (6)] / [1 - (7 Total)] | |
| b) High-Layer Retained Hurricane Catastrophe Loss and LAE (1d) / [1 - (7a) - (7b)] | \$7.76 |
| c) Retained Risk Provision (8) / [1 - (7a)] | \$19.25 |
| 10) Projected Average Earned Premium at Current Rates | \$807.62 |
| 11) Indicated Rate Level Change [(9 Total) / (10) - 1.0] | 8.7 % |

Allstate Indemnity Company
 Manufactured Home
 Arkansas

Development of Provision for Non-Cat Loss and LAE
 Total All Perils excluding Earthquake & Flood

| Fiscal Year Ending | (1) Earned Exposures | (2) Accident Year * Non-Catastrophe Ultimate Loss | (3) Ultimate Loss and LAE | (4) Factor to Adjust Losses for Pure Premium Trend | (5) Projected Non-Cat. Ultimate Loss and LAE | (6) Projected Average Non-Cat. Loss and LAE (6) / (1) | (7) Experience Year Weights |
|---|-------------------------|--|---------------------------------|---|---|---|-----------------------------------|
| 9/30/2007 | 2,662 | \$1,029,031 | \$1,185,444 | 1.000 | \$1,185,444 | \$445.32 | 20% |
| 9/30/2008 | 2,911 | 1,332,617 | 1,535,175 | 1.000 | 1,535,175 | 527.37 | 20 |
| 9/30/2009 | 2,986 | 1,376,559 | 1,585,796 | 1.000 | 1,585,796 | 531.08 | 20 |
| 9/30/2010 | 2,975 | 1,193,694 | 1,375,135 | 1.000 | 1,375,135 | 462.23 | 20 |
| 9/30/2011 | 2,892 | 881,162 | 1,015,099 | 1.000 | 1,015,099 | 351.00 | 20 |
| (8) Indicated Provision for Non-Cat Loss and LAE | | | | | | \$463.40 | |
| (9) State Indication Credibility | | | | | | 50% | |
| (10) Complement of Credibility | | | | | | \$404.64 | |
| (11) Credibility Weighted Provision for Non-Cat Loss and LAE | | | | | | \$434.02 | |

* Evaluated at 15 months

Allstate Indemnity Company
Manufactured Home
Arkansas

Determination of Complement of Credibility

| | |
|--|----------|
| (1) Current Permissible Loss & Fixed Expense Ratio | 73.0 % |
| (2) Current Average Premium @ CRL | \$807.62 |
| (3) Current Average Fixed Expense | \$63.73 |
| (4) Current Expected Catastrophe Pure Premium | \$121.19 |
| (5) Loss Project Selection | 0.0% |
| (6) Loss Projection Factor: $[1 + (5)]^{2.249}$ | 1.000 |
| (7) Complement of Credibility: $[(1) \times (2)] - (3) - (4) \times (6)$ | \$404.64 |

Allstate Insurance Group
Manufactured Home
Countrywide

Calculation of Loss Development Factors - Link Ratio Method (avg with exclusions)
Total All Perils excluding Earthquake & Flood

| Fiscal Accident Year Ending | Incurred Losses † | | | | | | |
|--------------------------------|-------------------|------------|------------|------------|------------|------------|------------|
| | 15 Months | 27 Months | 39 Months | 51 Months | 63 Months | 75 Months | 87 Months‡ |
| 9/30/2000 | | | | | | | 44,457,595 |
| 9/30/2001 | | | | | | 48,255,165 | 48,362,367 |
| 9/30/2002 | | | | | 41,516,506 | 41,559,416 | 41,602,326 |
| 9/30/2003 | | | | 32,935,383 | 32,890,432 | 32,911,539 | 32,996,745 |
| 9/30/2004 | | | 31,916,546 | 32,131,302 | 32,078,948 | 32,101,557 | 32,138,341 |
| 9/30/2005 | | 30,918,550 | 31,098,857 | 31,075,746 | 31,210,077 | 31,220,814 | 31,384,830 |
| 9/30/2006 | 31,936,412 | 33,489,620 | 33,989,890 | 33,956,284 | 33,948,289 | 33,945,590 | |
| 9/30/2007 | 37,570,152 | 38,646,371 | 38,635,684 | 39,042,956 | 39,067,966 | | |
| 9/30/2008 | 44,590,420 | 46,078,467 | 47,345,279 | 47,559,493 | | | |
| 9/30/2009 | 53,808,180 | 55,335,039 | 56,099,464 | | | | |
| 9/30/2010 | 55,409,606 | 57,044,429 | | | | | |
| 9/30/2011 | 51,467,658 | | | | | | |

| Development | Link Ratios | | | | | |
|-------------|-------------|----------|----------|----------|----------|----------|
| | 15 to 27 | 27 to 39 | 39 to 51 | 51 to 63 | 63 to 75 | 75 to 87 |
| 4th Prior | 1.049 | 1.006 | 1.007 | 0.999 | 1.001 | 1.002 |
| 3rd Prior | 1.029 | 1.015 | 0.999 | 0.998 | 1.001 | 1.001 |
| 2nd Prior | 1.033 | 1.000 | 0.999 | 1.004 | 1.001 | 1.003 |
| 1st Prior | 1.028 | 1.027 | 1.011 | 1.000 | 1.000 | 1.001 |
| Latest | 1.030 | 1.014 | 1.005 | 1.001 | 1.000 | 1.005 |
| Average: | 1.034 | 1.012 | 1.004 | 1.000 | 1.001 | 1.002 |
| Selected: | 1.034 | 1.012 | 1.004 | 1.000 | 1.001 | 1.002 |

| | | | | | |
|--|----------------|----------------|----------------|----------------|----------------|
| Loss Development Period (months): | <u>15 - 87</u> | <u>27 - 87</u> | <u>39 - 87</u> | <u>51 - 87</u> | <u>63 - 87</u> |
| Loss Development Factor: | 1.054 | 1.019 | 1.007 | 1.003 | 1.003 |

† Includes ALAE

‡ Includes supplemental reserves in addition to case reserves

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 Indemnity Company
 Manufactured Home
 Arkansas

Calculation of Pure Premium Trend Factor

| <u>Peril</u> | Selected Annual Pure Premium Impacts | |
|---|--------------------------------------|------------------|
| | <u>Historical</u> | <u>Projected</u> |
| Total All Perils excluding Earthquake & Flood | 0.00% | 0.00% |

| | <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 | 6/30/2013 | 6/30/2013 | 6/30/2013 | 6/30/2013 | 6/30/2013 |
| 2) Mid-Point of Current Year's Experience Period | 3/31/2011 | 3/31/2011 | 3/31/2011 | 3/31/2011 | 3/31/2011 |
| 3) Experience Period Ended | 9/30/2007 | 9/30/2008 | 9/30/2009 | 9/30/2010 | 9/30/2011 |
| 4) Midpoint of Experience Period | 3/31/2007 | 3/31/2008 | 3/31/2009 | 3/31/2010 | 3/31/2011 |
| 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) | 2.249 | 2.249 | 2.249 | 2.249 | 2.249 |

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 Indemnity Company
Manufactured Home
Countrywide

Loss Trends - Pure Premium
Total All Perils excluding Earthquake & Flood

| Year Ending | Actual Paid Pure | | Exponential Curve of Best Fit | | |
|--|------------------|---------------|-------------------------------|----------|----------|
| | Premium | Annual Change | 20 pt. | 12 pt. | 6 pt. |
| 03/07 | \$306.24 | 125.23 % | \$325.89 | | |
| 06/07 | 300.52 | 56.90 | 326.81 | | |
| 09/07 | 302.88 | 2.79 | 327.74 | | |
| 12/07 | 308.67 | 6.85 | 328.66 | | |
| 03/08 | 353.41 | 15.40 | 329.59 | | |
| 06/08 | 334.79 | 11.40 | 330.53 | | |
| 09/08 | 386.48 | 27.60 | 331.46 | | |
| 12/08 | 366.48 | 18.73 | 332.40 | | |
| 03/09 | 332.08 | -6.04 | 333.34 | \$343.71 | |
| 06/09 | 336.84 | 0.61 | 334.29 | 342.53 | |
| 09/09 | 346.06 | -10.46 | 335.23 | 341.35 | |
| 12/09 | 333.39 | -9.03 | 336.18 | 340.18 | |
| 03/10 | 334.69 | 0.79 | 337.13 | 339.01 | |
| 06/10 | 353.49 | 4.94 | 338.09 | 337.85 | |
| 09/10 | 348.95 | 0.84 | 339.04 | 336.69 | \$354.89 |
| 12/10 | 354.41 | 6.30 | 340.00 | 335.53 | 346.89 |
| 03/11 | 338.56 | 1.16 | 340.97 | 334.38 | 339.06 |
| 06/11 | 328.68 | -7.02 | 341.93 | 333.23 | 331.41 |
| 09/11 | 330.34 | -5.33 | 342.90 | 332.09 | 323.93 |
| 12/11 | 312.09 | -11.94 | 343.87 | 330.95 | 316.62 |
| Regression | | | 20 pt. | 12 pt. | 6 pt. |
| Avg Annual Percent Change Based on Best Fit: | | | 1.14% | -1.37% | -8.72% |

Allstate Indemnity Company
 Manufactured Home
 Arkansas

Development of Provision for Catastrophe Loss and LAE and Retained Risk

| | |
|--|----------|
| 1) Non-Modeled Catastrophe Provision Per AIY* | 1.434 |
| 2) Non-Modeled Catastrophe Provision Per AIY Including All LAE | 1.652 |
| 3) Hurricane Provision Per AIY Including All LAE | 0.104 |
| 4) Retained Risk Provision Per AIY | 0.226 |
| 5) Earned Exposures | 1,763 |
| 6) Earned AIY | 121,666 |
| 7) Average Earned AIY (6)/(5) | 69.01 |
| 8) Factor to Adjust to Projected Average AIY Level | 1.034 |
| 9) Average AIY Projected to 6/30/2013 (7)*(8) | 71.36 |
| 10) Expected Non-Modeled Catastrophe Pure Premium (2)*(9) | \$117.89 |
| 11) Proportion of High-Layer Retained Modeled Losses to Total Modeled Losses | 0.856 |
| 12) Expected Modeled Catastrophe Pure Premium (3)*(9) | \$7.42 |
| a) Low-Layer Retained and Ceded Hurricane Catastrophe Pure Premium [1 - (11)]*(12 Total) | \$1.07 |
| b) High-Layer Retained Hurricane Catastrophe Pure Premium (11)*(12 Total) | \$6.35 |
| 13) Expected Retained Risk Provision (4)*(9) | \$16.13 |

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

Allstate Insurance Group
 Manufactured Home
 Arkansas

Development of Catastrophe Provision by Line

| (1) Year | <u>Mobile Home</u> | | | <u>Homeowners</u> | | |
|-------------|--------------------|-----------------------------|-------------------|-------------------|-----------------------------|-------------------|
| | (2) AIY | (3) Incurred CAT Loss | (4) Loss / AIY | (5) AIY | (6) Incurred CAT Loss | (7) Loss / AIY |
| 1987 | 69,427 | \$45,135 | 0.650 | 2,706,082 | \$922,000 | 0.341 |
| 1988 | 56,163 | 176,644 | 3.145 | 2,752,991 | 2,406,000 | 0.874 |
| 1989 | 49,921 | 132,403 | 2.652 | 2,886,147 | 5,028,427 | 1.742 |
| 1990 | 43,780 | 110,861 | 2.532 | 3,132,827 | 1,633,117 | 0.521 |
| 1991 | 37,215 | 32,848 | 0.883 | 3,165,386 | 1,312,693 | 0.415 |
| 1992 | 31,502 | 2,645 | 0.084 | 2,960,559 | 567,087 | 0.192 |
| 1993 | 27,412 | 586 | 0.021 | 2,813,549 | 95,038 | 0.034 |
| 1994 | 24,728 | 25,731 | 1.041 | 2,802,859 | 2,207,475 | 0.788 |
| 1995 | 22,854 | 7,560 | 0.331 | 2,887,538 | 1,650,611 | 0.572 |
| 1996 | 22,772 | 55,988 | 2.459 | 2,980,889 | 17,105,645 | 5.738 |
| 1997 | 24,601 | 86,207 | 3.504 | 3,144,832 | 2,732,569 | 0.869 |
| 1998 | 31,187 | 21,063 | 0.675 | 3,303,648 | 243,869 | 0.074 |
| 1999 | 40,837 | 222,278 | 5.443 | 3,332,183 | 10,286,072 | 3.087 |
| 2000 | 48,728 | 228,961 | 4.699 | 3,420,427 | 6,983,750 | 2.042 |
| 2001 | 57,388 | 146,880 | 2.559 | 3,588,393 | 1,054,085 | 0.294 |
| 2002 | 57,064 | 38,463 | 0.674 | 3,938,995 | 812,384 | 0.206 |
| 2003 | 58,082 | 217,739 | 3.749 | 4,482,591 | 1,801,296 | 0.402 |
| 2004 | 61,109 | 45,357 | 0.742 | 5,278,462 | 1,134,688 | 0.215 |
| 2005 | 61,566 | 1,540 | 0.025 | 6,206,937 | 162,095 | 0.026 |
| 2006 | 54,497 | 228,272 | 4.189 | 7,323,099 | 19,814,071 | 2.706 |
| 2007 | 48,216 | 27,784 | 0.576 | 8,763,300 | 2,974,969 | 0.339 |
| 2008 | 42,637 | 769,253 | 18.042 | 9,599,267 | 45,474,047 | 4.737 |
| 2009 | 38,542 | 467,199 | 12.122 | 10,120,691 | 36,239,590 | 3.581 |
| 2010 | 35,321 | 84,586 | 2.395 | 9,927,108 | 9,269,233 | 0.934 |
| 2011 | 32,463 | 311,587 | 9.598 | 9,655,146 | 40,538,229 | 4.199 |
| Average | | | 3.235 | | | 1.753 |

- 8) Ratio of Mobilehome to Homeowners 1.845
- 9) Homeowners Catastrophe Provision 1.388
- 10) Arkansas Mobilehome Catastrophe Provision (8) x (9) x Adjustment Factor 1.434

**ALLSTATE INSURANCE GROUP
HOMEOWNERS INSURANCE
ARKANSAS
BASIC CATASTROPHE PROVISION**

| (1) | (2) | (3) | (4) | (5) | (6) |
|--|--|--|--|--|---------------------|
| <u>CALENDAR YEAR</u> | <u>AMOUNT OF INSURANCE YEARS</u> | <u>CATASTROPHE INCURRED LOSS</u> | <u>STATE CATASTROPHE RATIO</u> | <u>COUNTRYWIDE CATASTROPHE RATIO</u> | <u>RELATIVITIES</u> |
| 1997 | 3,144,832 | 2,733,000 | 0.869 | 0.247 | 3.518 |
| 1998 | 3,303,648 | 244,000 | 0.074 | 0.430 | 0.172 |
| 1999 | 3,332,183 | 10,286,000 | 3.087 | 0.431 | 7.162 |
| 2000 | 3,420,427 | 6,984,000 | 2.042 | 0.600 | 3.403 |
| 2001 | 3,588,393 | 1,054,000 | 0.294 | 0.513 | 0.573 |
| 2002 | 3,938,995 | 812,000 | 0.206 | 0.369 | 0.558 |
| 2003 | 4,482,591 | 1,801,000 | 0.402 | 0.689 | 0.583 |
| 2004 | 5,278,462 | 1,135,000 | 0.215 | 0.236 | 0.911 |
| 2005 | 6,206,937 | 162,000 | 0.026 | 0.203 | 0.128 |
| 2006 | 7,323,099 | 19,814,000 | 2.706 | 0.453 | 5.974 |
| 2007 | 8,763,300 | 2,975,000 | 0.339 | 0.529 | 0.641 |
| 2008 | 9,599,267 | 45,474,000 | 4.737 | 0.774 | 6.120 |
| 2009 | 10,120,691 | 36,240,000 | 3.581 | 0.844 | 4.243 |
| 2010 | 9,927,108 | 9,269,000 | 0.934 | 0.972 | 0.961 |
| 2011 | 9,655,146 | 40,538,000 | 4.199 | 1.454 | 2.888 |
| (7) Average Relativity | | | | | 2.522 |
| (8) Standard Deviation | | | | | 2.427 |
| (9) Credibility | | | | | 0.753 |
| (10) Credibility Weighted Relativity | | | | | 2.146 |
| (11) Countrywide Selected Catastrophe Factor | | | | | 0.647 |
| (12) Arkansas Catastrophe Factor | | | | | 1.388 |

Allstate Indemnity Company
Manufactured Home
Arkansas

Development of the Hurricane Catastrophe Factor

| WRITTEN AMOUNT OF INSURANCE YEARS @ 12/10* | EXPECTED ANNUAL HURRICANE LOSSES | HURRICANE CATASTROPHE FACTOR EXCLUDING LAE | HURRICANE CATASTROPHE FACTOR |
|---|---|---|---|
| 123,931 | \$11,065 | 0.089 | 0.104 |

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

Allstate Indemnity Company
Manufactured Home
Arkansas

AIY Trends

Exponential Curve of Best Fit

| Year Ending | AIY | Annual Change | 20 pt. | 12 pt. | 6 pt. |
|-------------|-------|---------------|--------|--------|-------|
| 03/07 | 66.33 | 7.59 % | 66.23 | | |
| 06/07 | 66.51 | 6.91 | 66.40 | | |
| 09/07 | 66.59 | 4.31 | 66.57 | | |
| 12/07 | 66.76 | 2.08 | 66.74 | | |
| 03/08 | 66.71 | 0.57 | 66.92 | | |
| 06/08 | 66.87 | 0.54 | 67.09 | | |
| 09/08 | 66.99 | 0.60 | 67.26 | | |
| 12/08 | 67.30 | 0.81 | 67.44 | | |
| 03/09 | 67.21 | 0.75 | 67.61 | 67.80 | |
| 06/09 | 67.96 | 1.63 | 67.79 | 67.95 | |
| 09/09 | 68.37 | 2.06 | 67.96 | 68.10 | |
| 12/09 | 68.47 | 1.74 | 68.14 | 68.25 | |
| 03/10 | 68.83 | 2.41 | 68.31 | 68.40 | |
| 06/10 | 68.67 | 1.04 | 68.49 | 68.55 | |
| 09/10 | 68.74 | 0.54 | 68.67 | 68.70 | 68.59 |
| 12/10 | 68.69 | 0.32 | 68.84 | 68.86 | 68.75 |
| 03/11 | 68.71 | -0.17 | 69.02 | 69.01 | 68.92 |
| 06/11 | 69.12 | 0.66 | 69.20 | 69.16 | 69.09 |
| 09/11 | 69.34 | 0.87 | 69.38 | 69.31 | 69.27 |
| 12/11 | 69.46 | 1.12 | 69.56 | 69.47 | 69.44 |

Regression

20 pt.

12 pt.

6 pt.

Avg Annual Percent Change Based on Best Fit:

1.04%

0.89%

0.99%

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 | 8.8 |

† State Taxes - Does not include Federal Income Tax

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 Group
Manufactured Home
Countrywide

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 | 6/30/2013 |
| 3) Number of Years from (1) to (2) | 4.000 |
| 4) Selected Annual Impact | 1.70% |
| 5) Factor to Adjust for Subsequent Change in Fixed Expense [1.0 + (4)] ^ (3) | 1.070 |

Allstate Indemnity Company
Manufactured Home
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 | 38.1 % | 38.10 % | 0.70 | 1.008 | 38.4 % |
| 2 | 94.0 | 55.90 | 1.40 | 0.990 | 55.3 |
| 3 | 97.9 | 3.90 | 2.40 | 0.964 | 3.8 |
| 4 | 99.1 | 1.20 | 3.40 | 0.940 | 1.1 |
| 5 | 99.6 | 0.50 | 4.40 | 0.915 | 0.5 |
| Subsequent | 100.0 | 0.40 | 6.70 | 0.862 | 0.3 |
| Total | | | | | 99.4 % |
| Expected Losses and Loss Expense Ratio | | | | | 62.8 % |
| Present Value of Loss and Loss Expense Payments | | | | | 62.4 % |
| | | | | | |
| 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 | | 8.8 % | 1.00 | 1.000 | 8.8 % |
| Total Present Value of Outgo | | | | | 99.8 % |
| Premiums | | 100.0 % | 0.57 | 1.011 | 101.1 % |
| Difference, Present Value of Income Less Present Value of Outgo | | | | | 1.3 % |

†Discount rate from Investment Department forecast

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

Allstate Indemnity Company
 Manufactured Home
 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 |
|--------------------|-------------------------|---|--|---|---|-----------------------------------|
| 9/30/2011 | 1,763 | \$1,423,842 | 1.000 | \$1,423,842 | \$807.62 | 100 % |
| | | | | | (7) Projected Average Earned Premium at Current Rates \$807.62 | |

Calculation of Premium Trend Factor

| <u>Peril</u> | Selected Annual Premium Impacts | |
|--|---------------------------------|---------------------|
| | <u>Projected</u> | <u>Current Year</u> |
| Total All Peril excluding EQ | 0.00% | |
| 1) Average Earned Date of Proposed Policy Period | | 6/30/2013 |
| 2) Mid-Point of Current Year's Experience Period | | 3/31/2011 |
| 3) Experience Period Ended | | 9/30/2011 |
| 4) Midpoint of Experience Period | | 3/31/2011 |
| 5) Historical: Number of Years from (4) to (2) | 0.000 | |
| 6) Projected: Number of Years from (2) to (1) | 2.249 | |

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 Indemnity Company
 Manufactured Home
 Arkansas

Premium Trends

| Year Ending | Average Written Premium @ CRL | Annual Change | Exponential Curve of Best Fit | | |
|--|----------------------------------|---------------|-------------------------------|---------------|--------------|
| | | | 20 pt. | 12 pt. | 6 pt. |
| 03/07 | \$872.06 | 7.77 % | \$879.04 | | |
| 06/07 | 864.92 | 4.43 | 874.47 | | |
| 09/07 | 868.29 | 1.77 | 869.93 | | |
| 12/07 | 872.23 | 2.14 | 865.41 | | |
| 03/08 | 870.45 | -0.18 | 860.92 | | |
| 06/08 | 874.65 | 1.12 | 856.45 | | |
| 09/08 | 862.22 | -0.70 | 852.00 | | |
| 12/08 | 847.74 | -2.81 | 847.57 | | |
| 03/09 | 837.44 | -3.79 | 843.17 | \$834.87 | |
| 06/09 | 831.79 | -4.90 | 838.79 | 831.64 | |
| 09/09 | 828.92 | -3.86 | 834.44 | 828.42 | |
| 12/09 | 827.28 | -2.41 | 830.10 | 825.21 | |
| 03/10 | 824.23 | -1.58 | 825.79 | 822.01 | |
| 06/10 | 815.26 | -1.99 | 821.50 | 818.83 | |
| 09/10 | 812.95 | -1.93 | 817.23 | 815.66 | \$810.13 |
| 12/10 | 808.36 | -2.29 | 812.99 | 812.50 | 808.93 |
| 03/11 | 805.54 | -2.27 | 808.77 | 809.35 | 807.74 |
| 06/11 | 804.78 | -1.29 | 804.57 | 806.22 | 806.55 |
| 09/11 | 803.78 | -1.13 | 800.39 | 803.09 | 805.37 |
| 12/11 | 807.51 | -0.11 | 796.23 | 799.98 | 804.18 |
| Regression | | | 20 pt. | 12 pt. | 6 pt. |
| Avg Annual Percent Change Based on Best Fit: | | | -2.06% | -1.54% | -0.59% |

ATTACHMENT VII

Summary of Manual Changes

**ALLSTATE INDEMNITY COMPANY
MANUFACTURED HOME
ARKANSAS**

SUMMARY OF MANUAL CHANGES

Rate Page RFP-1

Updating Base Rates

**ALLSTATE INDEMNITY COMPANY
MANUFACTURED HOME
ARKANSAS**

SUMMARY OF BASE RATE CHANGES

With this filing, Allstate is proposing an 8.9% flat increase to the base rates across all territories to achieve the overall 8.7% rate increase. Please see the chart below for proposed rates.

| Territory | Base Rate | |
|-----------|------------|------------|
| | Current | Proposed |
| 1 | \$985.04 | \$1,072.71 |
| 2 | \$1,011.80 | \$1,101.85 |
| 3 | \$982.27 | \$1,069.69 |
| 4 | \$982.27 | \$1,069.69 |
| 5 | \$865.82 | \$ 942.88 |
| 6 | \$1,074.05 | \$1,169.64 |
| 7 | \$1,159.24 | \$1,262.41 |
| 8 | \$1,093.79 | \$1,191.14 |

June 28, 2012
Allstate Indemnity Company
Manufactured Home
Arkansas
Company Filing Number: R25202

Response to 6/18/2012 Objections

Objection 1:

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.

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 **Attachment A**.

Objection 2:

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 **Attachment B** of this response for an explanation of Allstate's methodology for calculating a contingency provision to be used in its Manufactured Home rate level. **Attachment B** includes the Contingency Factor Support Explanatory Memorandum, which has historically been provided to the Arkansas Insurance Department, 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.

Objection 3:

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.

Because hurricane events are dissimilar to the types of events that are included in the non-modeled catastrophe provision, Allstate believes a separate provision should be incorporated in the indication to appropriately reflect the unique nature of hurricanes and associated risk. Furthermore, because of the

nature of hurricane activity, Allstate believes that using historical data is not the most predictive method 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.

The current methodology that Allstate uses reflects the differences between (1) non-catastrophe expected losses; (2) low frequency, high severity events including, but not limited to, tornados, wind/hailstorms, and wildfires; and (3) hurricanes. These groups of losses have different characteristics and should therefore be handled in different ways. Hurricanes that cause damage in Arkansas have a significantly lower frequency than the non-modeled catastrophes in group (2) above and the potential for a significantly higher severity. Note that due to the inclusion of the Modeled Hurricane Provision, hurricane losses have been removed from the analysis performed to develop the Non-Modeled Catastrophe Provision.

Because of the lower stability of non-modeled catastrophes compared to non-catastrophe expected losses, Allstate believes by using a longer period of time described in **Attachment III** of the original filing, a credible provision can be obtained. However, because of the low frequency and high severity nature of hurricane activity, Allstate believes that including hurricane losses in the development of the non-modeled catastrophe provision inaccurately reflects the risk associated with both hurricanes and non-modeled catastrophes. Although non-modeled catastrophes have lower frequencies and higher severities than non-catastrophe expected losses, they generally have a lower variance than hurricanes.

Allstate believes fifteen years is a reasonable timeframe for non-modeled catastrophes, but not nearly enough for a credible hurricane provision. Historical hurricane activity, specifically in Arkansas, has little credibility due to the extremely low frequency and thus should not use the period of time outlined **Attachment III** of the original filing. To appropriately incorporate hurricanes into the non-modeled catastrophe provision, far more years of actual hurricane loss experience would be required to be included in the analysis. However, adding multiple years would not appropriately reflect the current exposure Allstate faces due to the evolution of building codes, population shifts, and other exposure concentration differences.

As shown on **Attachment VI, Exhibit 11** of the filing, the resulting Modeled Hurricane Provision per AIY for Arkansas Allstate Property and Casualty Insurance Company Owners is 0.104. 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 0.126, which would increase the indication. The development of the Hurricane Provision per AIY based on actual loss experience can be found on **Attachment A, 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.

Attachment A

Allstate Indemnity Company
 Manufactured Home
 Arkansas

Determination of Statewide Rate Level Indication

| | |
|--|----------|
| 1) Credibility Weighted Indicated Provision for Loss and LAE [(a) + (b) + (c) + (d)] | \$560.90 |
| a) Credibility Weighted Non-Catastrophe Loss and LAE | \$434.02 |
| b) Non-Modeled Catastrophe Loss and LAE | \$117.89 |
| c) Hurricane Catastrophe Loss and LAE | \$8.99 |
| | |
| 2) Current Fixed Expense Ratio | 10.2 % |
| | |
| 3) Three Year Average Earned Premium | \$624.85 |
| | |
| 4) Current Dollar Provision for Fixed Expense [(2) x (3)] | \$63.73 |
| | |
| 5) Factor to Adjust for Subsequent Change in Fixed Expense | 1.070 |
| | |
| 6) Indicated Provision for Fixed Expense [(4) x (5)] | \$68.19 |
| | |
| 7) Variable Expense, Contingencies Ratio, and Profit Ratio [(a) + (b) + (c)] | 27.0 % |
| a) Variable Expense Ratio (including Commissions, Taxes, and Debt Provision) | 16.2 % |
| b) Contingencies Ratio | 2.0 % |
| c) Profit Ratio | 8.8 % |
| | |
| 8) Indicated Retained Risk Provision | \$16.13 |
| | |
| 9) Indicated Average Premium [(a) + (b) + (c)] | \$861.77 |
| a) Credibility Weighted Loss and LAE | \$861.77 |
| Non-Modeled Catastrophe Loss and LAE | |
| Hurricane Catastrophe Loss and LAE | |
| Fixed Expense | |
| [(1) + (6)] / [1 -(7 Total)] | |
| c) Retained Risk Provision (8) / [1 - (7a)] | \$0.00 |
| | |
| 10) Projected Average Earned Premium at Current Rates | \$807.62 |
| | |
| 11) Indicated Rate Level Change [(9 Total) / (10) - 1.0] | 6.7 % |

Allstate Indemnity Company
 Manufactured Home
 Arkansas

Development of Provision for Catastrophe Loss and LAE and Retained Risk

| | |
|--|----------|
| 1) Non-Modeled Catastrophe Provision Per AIY* | 1.434 |
| 2) Non-Modeled Catastrophe Provision Per AIY Including All LAE | 1.652 |
| 3) Hurricane Provision Per AIY Including All LAE | 0.126 |
| 4) Retained Risk Provision Per AIY | 0.000 |
| 5) Earned Exposures | 1,763 |
| 6) Earned AIY | 121,666 |
| 7) Average Earned AIY (6)/(5) | 69.01 |
| 8) Factor to Adjust to Projected Average AIY Level | 1.034 |
| 9) Average AIY Projected to 6/30/2013 (7)*(8) | 71.36 |
| 10) Expected Non-Modeled Catastrophe Pure Premium (2)*(9) | \$117.89 |
| 11) Proportion of High-Layer Retained Modeled Losses to Total Modeled Losses | N/A |
| 12) Expected Hurricane Pure Premium (3)*(9) | \$8.99 |
| a) Low-Layer Retained and Ceded Hurricane Catastrophe Pure Premium [1 - (11)]*(12) | \$0.00 |
| b) High-Layer Retained Hurricane Catastrophe Pure Premium (11)*(12 Total) | \$0.00 |
| 13) Expected Retained Risk Provision (4)*(9) | \$0.00 |

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

Allstate Insurance Group
Mobilehome
Arkansas

Calculation of Hurricane Factor Per AIY

| (1) Calendar <u>Year</u> | (2) Amount of Insurance <u>Years</u> | (3) Hurricane Incurred <u>Losses</u> | (4) Hurricane Damage <u>Ratio</u> |
|--------------------------------|---|---|--|
| 1987 | 69,427 | 0 | 0.000 |
| 1988 | 56,163 | 0 | 0.000 |
| 1989 | 49,921 | 0 | 0.000 |
| 1990 | 43,780 | 0 | 0.000 |
| 1991 | 37,215 | 0 | 0.000 |
| 1992 | 31,502 | 0 | 0.000 |
| 1993 | 27,412 | 0 | 0.000 |
| 1994 | 24,728 | 0 | 0.000 |
| 1995 | 22,854 | 0 | 0.000 |
| 1996 | 22,772 | 0 | 0.000 |
| 1997 | 24,601 | 0 | 0.000 |
| 1998 | 31,187 | 0 | 0.000 |
| 1999 | 40,837 | 0 | 0.000 |
| 2000 | 48,728 | 0 | 0.000 |
| 2001 | 57,388 | 0 | 0.000 |
| 2002 | 57,064 | 0 | 0.000 |
| 2003 | 58,082 | 0 | 0.000 |
| 2004 | 61,109 | 0 | 0.000 |
| 2005 | 67,417 | 26,910 | 0.399 |
| 2006 | 90,739 | -7,645 | -0.084 |
| 2007 | 117,857 | -1,282 | -0.011 |
| 2008 | 141,146 | 221,370 | 1.568 |
| 2009 | 151,485 | -51,480 | -0.340 |
| 2010 | 154,840 | -9,385 | -0.061 |
| 2011 | 154,752 | -1,459 | -0.009 |
| Total | 1,643,006 | 177,030 | 0.108 |

(5) Hurricane Provision Per AIY 0.108

(6) Hurricane Provision Per AIY Including LAE 0.126

Attachment B

**ALLSTATE INDEMNITY 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

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 catastrophes 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 catastrophe losses. Catastrophe losses are more appropriately accounted for in a catastrophe provision rather than in a contingency provision, and Allstate does calculate an adequate catastrophe load (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 catastrophe losses. Therefore, catastrophe losses are included in our analysis when they stem from one of the issues in question. Losses are included for Allstate's Owners, Renters and Condo forms. While we do not have sufficient data to calculate a contingency factor using only Manufactured Home data, it is our belief that the provision developed using Allstate's Owners, Renters and Condo forms is appropriate for the Manufactured Home form as well.

Attachment B, Exhibit 1 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.

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% |

| | |
|--|-------------|
| Selected Contingency Provision: | 2.0% |
|--|-------------|