Filing at a Glance

Company:	Encompass Insurance Company of America
Product Name:	AR EICA OTA Rate Filing (3.0%)
State:	Arkansas
TOI:	04.0 Homeowners
Sub-TOI:	04.0000 Homeowners Sub-TOI Combinations
Filing Type:	Rate/Rule
Date Submitted:	08/14/2012
SERFF Tr Num:	ALSE-128640191
SERFF Status:	Closed-Filed
State Tr Num:	
State Status:	
Co Tr Num:	ER-2092
Effective Date Requested (New):	
Effective Date Requested (Renewal):	01/17/2013
Author(s):	Andi Colosi
Reviewer(s):	Becky Harrington (primary)
Disposition Date:	08/17/2012
Disposition Status:	Filed
Effective Date (New):	
Effective Date (Renewal):	01/17/2013

State Filing Description:

General Information

Project Name: PSRM OTA Rate Factor Revision
Project Number: 1051647
Reference Organization:
Reference Title:
Filing Status Changed: 08/17/2012
State Status Changed:
Created By: Andi Colosi
Corresponding Filing Tracking Number:

Status of Filing in Domicile:
Domicile Status Comments:
Reference Number:
Advisory Org. Circular:
Deemer Date:
Submitted By: Andi Colosi

Filing Description:

Encompass Insurance Company of America is proposing an overall rate change of 3.0% to its Other Than Automobile program in Arkansas. This filing proposes revisions to the Home Base Rates, Condo Base Rates, Maximum Premium Credits, Building Ordinance Increased Costs, and the Building Additions and Alterations rate. In addition, editorial revisions were made to the Construction Definitions, Building Additions and Alterations, and the Condominium and Cooperative Occupancy Factors.

Company and Contact

Filing Contact Information

Andi Colosi, State Filings Project Manager
2775 Sanders Road
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Northbrook, IL 60062

andi.colosi@allstate.com
847-402-5000 [Phone] 21839 [Ext]
847-402-9757 [FAX]

Filing Company Information

Encompass Insurance Company of America
2775 Sanders Road
Suite A2-W
Northbrook, IL 60062
(847) 402-5000 ext. [Phone]

CoCode: 10071
Group Code: 8
Group Name: Allstate
FEIN Number: 36-3976913

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

Filing Fees

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

Company	Amount	Date Processed	Transaction #
Encompass Insurance Company of America	$100.00	08/14/2012	61670459

Correspondence Summary

Dispositions

Status	Created By	Created On	Date Submitted
Filed	Becky Harrington	08/17/2012	08/17/2012

Filing Notes

Subject	Note Type	Created By	Created On	Date Submitted
Re: New Business	Note To Reviewer	Andi Colosi	08/15/2012	08/15/2012
New Business	Note To Filer	Becky Harrington	08/15/2012	08/15/2012

State:	*Arkansas*	**Filing Company:**	*Encompass Insurance Company of America*
TOI/Sub-TOI:	*04.0 Homeowners/04.0000 Homeowners Sub-TOI Combinations*		
Product Name:	*AR EICA OTA Rate Filing (3.0%)*		
Project Name/Number:	*PSRM OTA Rate Factor Revision/1051647*		

Disposition

Disposition Date: 08/17/2012
Effective Date (New):
Effective Date (Renewal): 01/17/2013
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 req'd):	Minimum % Change (where req'd):
Encompass Insurance Company of America	39.400%	3.000%	$16,610	238	$553,683	3.300%	1.100%

Schedule	Schedule Item	Schedule Item Status	Public Access
Supporting Document	Form RF-2 Loss Costs Only (not for workers' compensation)		Yes
Supporting Document	H-1 Homeowners Abstract	Filed	Yes
Supporting Document	HPCS-Homeowners Premium Comparison Survey	Filed	Yes
Supporting Document	NAIC loss cost data entry document	Filed	Yes
Supporting Document	Supporting Documentation	Filed	Yes
Rate	HomeRateManual	Filed	Yes
Rate	HomeRuleManual	Filed	Yes
Rate	DwellingFireRuleManual	Filed	Yes

Note To Reviewer

Created By:

Andi Colosi on 08/15/2012 08:37 PM

Last Edited By:

Becky Harrington

Submitted On:

08/17/2012 06:53 AM

Subject:

Re: New Business

Comments:

Hi Becky!

Thank you for your note. This is to confirm that we are not writing new business in Encompass Insurance Company of America.

Thanks!
Andi

State:	Arkansas	**Filing Company:**	Encompass Insurance Company of America
TOI/Sub-TOI:	04.0 Homeowners/04.0000 Homeowners Sub-TOI Combinations		
Product Name:	AR EICA OTA Rate Filing (3.0%)		
Project Name/Number:	PSRM OTA Rate Factor Revision/1051647		

Note To Filer

Created By:

Becky Harrington on 08/15/2012 10:14 AM

Last Edited By:

Becky Harrington

Submitted On:

08/17/2012 06:53 AM

Subject:

New Business

Comments:

Is new business being written in this company?

State:	Arkansas	**Filing Company:**	Encompass Insurance Company of America
TOI/Sub-TOI:	04.0 Homeowners/04.0000 Homeowners Sub-TOI Combinations		
Product Name:	AR EICA OTA Rate Filing (3.0%)		
Project Name/Number:	PSRM OTA Rate Factor Revision/1051647		

Rate Information

Rate data applies to filing.

Filing Method:	File and Use
Rate Change Type:	Increase
Overall Percentage of Last Rate Revision:	5.000%
Effective Date of Last Rate Revision:	06/14/2012
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 req'd):	Minimum % Change (where req'd):
Encompass Insurance Company of America	39.400%	3.000%	$16,610	238	$553,683	3.300%	1.100%

Rate/Rule Schedule

Item No.	Schedule Item Status	Exhibit Name	Rule # or Page #	Rate Action	Previous State Filing Number	Attachments
1	Filed 08/17/2012	HomeRateManual		Replacement		11.HomeRateManual_ER2092.pdf
2	Filed 08/17/2012	HomeRuleManual		Replacement		12.HomeRuleManual_ER2092.pdf
3	Filed 08/17/2012	DwellingFireRuleManual		Replacement		13.DwellingFireRuleManual_ER2092.pdf

ARKANSAS USP PACKAGE PREMISES RATE PAGES

BASE RATES

Territory	Homes	Condos
30	1380	428
31	1537	428
32	1642	428
36	1304	428
39	1527	428
40	1059	428
41	1337	428
44	1118	428
60	1379	428
61	1167	428
62	1670	428
63	1655	428
64	1587	428
65	1436	428
66	1107	428
67	1350	428
68	1360	428
71	1486	428
72	1155	428
100	1178	428
101	1550	428

USP PORTFOLIO ARKANSAS: HOME RULES

Denotes Change

6. CONSTRUCTION DEFINITIONS

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

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

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

D. **Superior Construction.**

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

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

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

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

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

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

E. **Log Construction** – rate as frame; [for reinsurance charge, rate as all other]

12. DEDUCTIBLES

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

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

Apply the following factors to the residence premium portion of Universal Security:

Deductible	Factors		Maximum Premium Credit	
Amount	Dwelling	Condo/Renter	Dwelling	Condo/Renter
$ 250	1.00	1.00	-	-
500	.90	.85	$ 136	$ 134
1,000	.75	.70	407	403
2,500	.65	.50	1,222	1,211
5,000	.55	.35	2,579	2,559

15. MISCELLANEOUS COVERAGES

A. Backup of Sewers or Drain Coverage

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

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

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

B. Personal Home Computer and Data Records

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

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

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

This coverage is subject to the property deductible.

C. Loss Assessment Coverage

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

Elite	$50,000
Deluxe	$ 5,000
Special	$ 1,000

Optional limits are available at the following additional premium charge:

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

D. Building Ordinance Increased Costs

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

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

Dwellings	- Apply a factor of 1.10
Renters/Condos	- Charge $3.54

E. Misplaced or Lost Jewelry Coverage

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

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

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

F. Home Day Care Operations

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

(1) Property Coverage:

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

(2) Liability Coverage:

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

$100,000 Per Occurrence	$300,000 Per Occurrence	$500,000 Per Occurrence
$100,000 Annual Aggregate	$300,000 Annual Aggregate	$500,000 Annual Aggregate
$ 5,000 Med Expenses	$ 5,000 Med Expenses	$ 5,000 Med Expenses
$119	$152	$168

G. HomeWork Supplement

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

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

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

H. Lifestyle Coverage Endorsement

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

I. Theft of Building Materials and Builder's Risk

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

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

J. Identity Fraud Expense Coverage Endorsement

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

Note: This coverage is not available for Special or for Dwelling Fire policies.

16. BUILDING ADDITIONS AND ALTERATIONS

For condominiums or residences rented to the insured with Special or Dwelling Fire coverage—coverage is automatically included at separate limits equal to 10% of the tangible personal property limit. For each additional $1,000 of replacement cost of the addition or alteration, charge $3.54.

For condominiums or residences rented to the insured with Elite or Deluxe coverage—coverage is automatically included in the property location limits as 10% of the tangible personal property limit. For each additional $1,000 of replacement cost of the addition or alteration, charge $3.54.

U.S.P. PORTFOLIO: DWELLING FIRE RULES

Denotes Change

B. Condominiums and Cooperative Apartments

(1) Determine the contents coverage amount.

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

(3) Reserved for Future Use.

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

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

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

6. SEASONAL DWELLING DEFINITION

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

7. OCCUPANCY FACTORS

A. Dwellings

(1) Dwelling Factors

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

	Territories 62-65		**All Other Territories**	
	Frame	**Masonry**	**Frame**	**Masonry**
Secondary Seasonal	0.71	0.75	0.76	0.76
Secondary Non-Seasonal	0.75	0.76	0.76	0.75
Primary	0.75	0.76	0.76	0.75

(2) Additional Contents Factor

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

	% of Dwelling Value for Contents Coverage				
Terr.	**10%**	**20%**	**30%**	**40%**	**50%**
62-65	INC	0.08	0.15	0.21	0.24
All Others	INC	0.09	0.16	0.21	0.25

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

(3) Rental Factor

For dwellings owned by the insured and rented to others, add 0.10 to the total obtained in (1) and (2) above.

B. Condominiums and Cooperatives

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

	Contents Coverage Amount			
	~~$5,000 -~~ $10,000 or Less		Over $10,000	
Territory	**Seasonal**	**Non-Seasonal**	**Seasonal**	**Non-Seasonal**
All	0.59	0.49	1.08	0.98

8. FAIR RENTAL VALUE

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

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

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

$4 per $1,000

♦ 9. LOSS SETTLEMENT OPTIONS-DWELLINGS

A. Real Property Basic Replacement Cost Coverage

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

B. Actual Cash Value

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

Apply a factor of 0.87 to the dwelling premium.

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

10. DEDUCTIBLES

All policies are subject to a deductible that applies to loss from all perils covered under the policy on an accident basis, which is subject to a separate deductible provision. The deductible on the dwelling fire exposure does not have to be the same as the deductible on the primary residence.

Refer to Rule 12 in the Home Section of this manual for deductibles, deductible factors and maximum premium credits.

11. PROTECTIVE DEVICES

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

12. RESERVED FOR FUTURE USE

13. RESERVED FOR FUTURE USE

14. BUILDING ORDINANCE INCREASED COSTS

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

Dwellings	- Apply a factor of 1.10
Condominiums	- Charge $3.54

15. LOSS ASSESSMENT COVERAGE

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

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

16. BACKUP OF SEWER OR DRAIN COVERAGE

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

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

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

17. PERSONAL HOME COMPUTER AND DATA RECORDS

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

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

This coverage is subject to the dwelling deductible.

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

State:	*Arkansas*	**Filing Company:**	*Encompass Insurance Company of America*
TOI/Sub-TOI:	*04.0 Homeowners/04.0000 Homeowners Sub-TOI Combinations*		
Product Name:	*AR EICA OTA Rate Filing (3.0%)*		
Project Name/Number:	*PSRM OTA Rate Factor Revision/1051647*		

Supporting Document Schedules

		Item Status:	**Status Date:**
Satisfied - Item:	H-1 Homeowners Abstract	Filed	08/17/2012
Comments:			
Attachment(s):			
02.StateFilingForm_H-1_ER2092.pdf 03.StateFilingForm_H-1_Response To Question 5_ER2092.pdf			

		Item Status:	**Status Date:**
Satisfied - Item:	HPCS-Homeowners Premium Comparison Survey	Filed	08/17/2012
Comments:			
Attachment(s):			
05.StateFilingForm_HO Survey FORM HPCS_ER2092.pdf 05.StateFilingForm_HO Survey FORM HPCS_ER2092.xls			

		Item Status:	**Status Date:**
Satisfied - Item:	NAIC loss cost data entry document	Filed	08/17/2012
Comments:			
Attachment(s):			
04.StateFilingForm_FORM RF-1 Rate Filing Abstract_ER2092.pdf			

		Item Status:	**Status Date:**
Satisfied - Item:	Supporting Documentation	Filed	08/17/2012
Comments:			
Attachment(s):			

06.IndicationMemo_ER2092.pdf
07.IndicationExhibits_ER2092.pdf
08.Attachment_A_ER2092.pdf
09.DevelopmentOfTheUnderwritingProfitProvision_ER2092.pdf
10.DevelopmentOfTheUnderwritingProfitProvision_Exhibits_ER2092.pdf

Reset Form

ARKANSAS INSURANCE DEPARTMENT

FORM H-1 HOMEOWNERS ABSTRACT

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

Company Name: Encompass Insurance Company of America

NAIC # (including group #): 10071 (008)

1. If you have had an insurance to value campaign during the experience filing period, describe the campaign and estimate its impact.

N/A

2. If you use a cost estimator (or some similar method) in order to make sure that dwellings (or contents) are insured at their value, state when this program was started in Arkansas and estimate its impact.

Agents can use any of the most current automated residential cost estimators available from Marshall & Swift or BOECKH. The majority of agents use BOECKH and its impact generally understates the cost by approximately 10% on average.

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

100% insurance to value (ITV) is required. Agents submit acceptable documentation estimating the replacement value of the home. If the agent is unable to provide an estimate, then an inspection is ordered to determine the accurate replacement value.

4. If you use an Inflation Guard form or similar type of coverage, describe the coverage(s) and estimate the impact.

Historically, Encompass has utilized the Marshall & Swift Inflation Guard Factors which are published every 6 months. The percent increase will range from 2% to 4%.

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

a. Fire Extinguisher	0-5 %
b. Burglar Alarm	2-5 %
c. Smoke Alarm	2-5 %
d. Insured who has both homeowners and auto with your company	29 %
e. Deadbolt Locks	0-5 %
f. Window or Door Locks	0 %
g. Other (specify)	8-13 %
	%
	%

6. Are there any areas in the State of Arkansas In which your company will not write homeowners insurance? If so, state the areas and explain reason for not writing.

N/A

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

Form	Premium Volume
Homeowners	$493,683
Condo/Renters	$11,114
Dwelling Fire	$48,886

8. Do you write homeower risks which have aluminum, steel or vinyl siding? ☒ Yes ☐ No

9. Is there a surcharge on risks with wood heat? No

If yes, state the surcharge N/A

Does the surcharge apply to conventional fire places? No

If yes, state the surcharge N/A

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

Hemant Patel

Digitally signed by Hemant Patel
DN: cn=Hemant Patel, o=Encompass Insurance, ou=Pricing, email=hemant.patel@allstate.com, c=US
Date: 2012.07.31 13:39:32 -05'00'

Signature

Hemant Patel

Printed Name

Technician Analyst

Title

847-402-9327

Telephone Number

Hemant.Patel@allstate.com

Email address

AID PC H-1 (1/06)

Encompass Insurance Company of America
Other Than Automobile
Arkansas

Form H-1 Homeowners Abstract Response

5. Specify the percentage given for credit or discounts for the following:
f. Other (Specify)

As indicated on Form H-1 Homeowners Abstract, Encompass Insurance Company of America is providing an 8-13% discount on eligible homes that have an *Automatic Sprinkler System*.

NAIC Number:	008-10071
Company Name:	Encompass Insurance Company of America
Contact Person:	Hemant Patel
Telephone No.:	847-402-9327
Email Address:	Hemant.Patel@allstate.com
Effective Date:	1/17/2013

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

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

Submit to: *Arkansas Insurance Department*
1200 West Third Street
Little Rock, AR 72201-1904

Telephone: *501-371-2800*

Email as an attachment to: insurance.pnc@arkansas.gov

You may also attach to a SERFF filing or submit on a cdr disk

Survey Form for HO3 (Homeowners) - Use $500 Flat Deductible (Covers risk of direct physical loss for dwelling and other structures; named perils for personal property, replacement cost on dwelling, actual cash value on personal property)

Public Protection Class	Dwelling Value	Washington		Baxter		Craighead		St. Francis		Desha		Union		Miller		Sebastian		Pulaski	
		Brick	Frame	Brick	Frame	Brick	Frame	Brick	Frame	Brick	Frame	Brick	Frame	Brick	Frame	Brick	Frame	Brick	Frame
3	$80,000	$777.00	$863.00	$1,019.00	$1,145.00	$1,140.00	$1,278.00	$1,257.00	$1,408.00	$1,066.00	$1,197.00	$1,159.00	$1,299.00	$864.00	$963.00	$985.00	$1,106.00	$1,148.00	$1,288.00
	$120,000	$1,079.00	$1,210.00	$1,436.00	$1,607.00	$1,602.00	$1,792.00	$1,761.00	$1,970.00	$1,499.00	$1,679.00	$1,628.00	$1,820.00	$1,211.00	$1,358.00	$1,389.00	$1,555.00	$1,612.00	$1,803.00
	$160,000	$1,340.00	$1,501.00	$1,776.00	$1,986.00	$1,978.00	$2,210.00	$2,174.00	$2,428.00	$1,854.00	$2,072.00	$2,010.00	$2,245.00	$1,502.00	$1,682.00	$1,719.00	$1,922.00	$1,992.00	$2,225.00
6	$80,000	$1,019.00	$1,154.00	$1,358.00	$1,536.00	$1,515.00	$1,712.00	$1,668.00	$1,882.00	$1,418.00	$1,603.00	$1,539.00	$1,739.00	$1,145.00	$1,297.00	$1,314.00	$1,485.00	$1,526.00	$1,723.00
	$120,000	$1,435.00	$1,435.00	$1,900.00	$1,900.00	$2,115.00	$2,115.00	$2,324.00	$2,324.00	$1,984.00	$1,984.00	$2,149.00	$2,149.00	$1,607.00	$1,607.00	$1,840.00	$1,840.00	$2,130.00	$2,130.00
	$160,000	$1,776.00	$2,003.00	$2,343.00	$2,641.00	$2,606.00	$2,935.00	$2,861.00	$3,220.00	$2,445.00	$2,753.00	$2,646.00	$2,981.00	$1,986.00	$2,241.00	$2,269.00	$2,556.00	$2,623.00	$2,954.00
9	$80,000	$2,774.00	$3,253.00	$3,642.00	$4,267.00	$4,045.00	$4,736.00	$4,434.00	$5,191.00	$3,798.00	$4,448.00	$4,107.00	$4,810.00	$3,097.00	$3,631.00	$3,528.00	$4,135.00	$4,073.00	$4,769.00
	$120,000	$3,840.00	$4,498.00	$5,032.00	$5,889.00	$5,583.00	$6,531.00	$6,116.00	$7,153.00	$5,244.00	$6,136.00	$5,669.00	$6,632.00	$4,283.00	$5,015.00	$4,876.00	$5,706.00	$5,620.00	$6,576.00
	$160,000	$4,712.00	$5,515.00	$6,167.00	$7,213.00	$6,840.00	$7,999.00	$7,491.00	$8,756.00	$6,426.00	$7,514.00	$6,945.00	$8,120.00	$5,253.00	$6,145.00	$5,976.00	$6,989.00	$6,885.00	$8,051.00

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

Public Protection Class	Property Value	Washington		Baxter		Craighead		St. Francis		Arkansas		Union		Miller		Sebastian		Pulaski	
		Brick	Frame	Brick	Frame	Brick	Frame	Brick	Frame	Brick	Frame	Brick	Frame	Brick	Frame	Brick	Frame	Brick	Frame
3	$5,000																		
	$15,000																		
	$25,000	$369.00	$369.00	$369.00	$369.00	$369.00	$369.00	$369.00	$369.00	$369.00	$369.00	$369.00	$369.00	$369.00	$369.00	$369.00	$369.00	$369.00	$369.00
6	$5,000																		
	$15,000																		
	$25,000	$369.00	$369.00	$369.00	$369.00	$369.00	$369.00	$369.00	$369.00	$369.00	$369.00	$369.00	$369.00	$369.00	$369.00	$369.00	$369.00	$369.00	$369.00
9	$5,000																		
	$15,000																		
	$25,000	$369.00	$369.00	$369.00	$369.00	$369.00	$369.00	$369.00	$369.00	$369.00	$369.00	$369.00	$369.00	$369.00	$369.00	$369.00	$369.00	$369.00	$369.00

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

Public Protection Class	Dwelling Value	Washington		Baxter		Craighead		St. Francis		Arkansas		Union		Miller		Sebastian		Pulaski	
		Brick	Frame	Brick	Frame	Brick	Frame	Brick	Frame	Brick	Frame	Brick	Frame	Brick	Frame	Brick	Frame	Brick	Frame
3	$80,000	$471.00	$529.00	$612.00	$689.00	$678.00	$763.00	$752.00	$824.00	$646.00	$708.00	$689.00	$775.00	$523.00	$589.00	$593.00	$668.00	$683.00	$769.00
	$120,000	$645.00	$725.00	$840.00	$945.00	$930.00	$1,047.00	$1,031.00	$1,130.00	$886.00	$972.00	$943.00	$1,063.00	$717.00	$807.00	$815.00	$916.00	$936.00	$1,053.00
	$160,000	$787.00	$887.00	$1,025.00	$1,154.00	$1,135.00	$1,284.00	$1,262.00	$1,397.00	$1,081.00	$1,185.00	$1,153.00	$1,306.00	$876.00	$986.00	$994.00	$1,119.00	$1,142.00	$1,293.00
6	$80,000	$612.00	$696.00	$797.00	$906.00	$882.00	$1,003.00	$978.00	$1,082.00	$841.00	$931.00	$896.00	$1,018.00	$680.00	$774.00	$773.00	$878.00	$888.00	$1,009.00
	$120,000	$839.00	$953.00	$1,093.00	$1,243.00	$1,209.00	$1,391.00	$1,353.00	$1,513.00	$1,153.00	$1,280.00	$1,228.00	$1,413.00	$932.00	$1,060.00	$1,059.00	$1,202.00	$1,218.00	$1,400.00
	$160,000	$1,024.00	$1,164.00	$1,346.00	$1,548.00	$1,505.00	$1,728.00	$1,683.00	$1,876.00	$1,427.00	$1,594.00	$1,529.00	$1,756.00	$1,139.00	$1,303.00	$1,301.00	$1,496.00	$1,515.00	$1,741.00
9	$80,000	$1,607.00	$1,923.00	$2,132.00	$2,546.00	$2,376.00	$2,833.00	$2,648.00	$3,069.00	$2,257.00	$2,619.00	$2,413.00	$2,879.00	$1,802.00	$2,155.00	$2,063.00	$2,464.00	$2,392.00	$2,853.00
	$120,000	$2,251.00	$2,687.00	$2,973.00	$3,541.00	$3,307.00	$3,935.00	$3,680.00	$4,257.00	$3,145.00	$3,642.00	$3,359.00	$3,996.00	$2,520.00	$3,004.00	$2,879.00	$3,428.00	$3,329.00	$3,962.00
	$160,000	$2,779.00	$3,311.00	$3,661.00	$4,352.00	$4,068.00	$4,834.00	$4,523.00	$5,228.00	$3,869.00	$4,476.00	$4,130.00	$4,908.00	$3,107.00	$3,697.00	$3,545.00	$4,216.00	$4,095.00	$4,867.00

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

HO3 and HO4 only

Fire Extinguisher		%	*Deadbolt Lock*		%
Burglar Alarm	2 to 5	%	*Window Locks*		%
Smoke Alarm	2 to 5	%	*$1,000 Deductible*	17	%
			Other (specify)		%
			Maximum Credit Allowed		%

EARTHQUAKE INSURANCE

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

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

WHAT IS YOUR PERCENTAGE DEDUCTIBLE? %

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

Zone	Brick	Frame
Highest Risk	$	$
Lowest Risk	$	$

State:	*Arkansas*	**Filing Company:**	*Encompass Insurance Company of America*
TOI/Sub-TOI:	*04.0 Homeowners/04.0000 Homeowners Sub-TOI Combinations*		
Product Name:	*AR EICA OTA Rate Filing (3.0%)*		
Project Name/Number:	*PSRM OTA Rate Factor Revision/1051647*		

Supporting Document Schedules

NAIC LOSS COST DATA ENTRY DOCUMENT

1.	This filing transmittal is part of Company Tracking #	**ER-2092**

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.**	**Encompass Insurance Company of America**	**B.**	**008-10071**

		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 4.0**	**B.**	**N/A**

5.

(A) COVERAGE (See Instructions)	(B) Indicated % Rate Level Change	(C) Requested % Rate Level Change	FOR LOSS COSTS ONLY (D) Expected Loss Ratio	(E) Loss Cost Modification Factor	(F) Selected Loss Cost Multiplier	(G) Expense Constant (If Applicable)	(H) Co. Current Loss Cost Multiplier
Homeowners	**38.0%**	**3.0%**					
Dwelling Fire	**49.3%**	**3.0%**					
Condo/Renters	**87.0%**	**2.9%**					
TOTAL OVERALL EFFECT	**39.4%**	**3.0%**					

6. 5 Year History Rate Change History

Year	Policy Count	% of Change	Effective Date	State Earned Premium (000)	Incurred Losses (000)	State Loss Ratio	Countrywide Loss Ratio
2007	**824**	**4.6%**	**12/20/07**	**1879**	**459**	**24.4%**	**37.8%**
2008	**607**	**-0.6%**	**6/5/08**	**635**	**1384**	**218.1%**	**52.1%**
2009	**468**	**N/A**	**N/A**	**1846**	**369**	**20.0%**	**49.4%**
2010	**374**	**8.6%**	**4/23/10**	**829**	**199**	**24.1%**	**47.6%**
2011	**238**	**N/A**	**N/A**	**724**	**558**	**77.1%**	**60.7%**

7.

Expense Constants	Selected Provisions
A. Total Production Expense	**15.2%**
B. General Expense	**7.8%**
C. Taxes, License & Fees	**3.1%**
D. Underwriting Profit & Contingencies	**8.9%**
E. Other (Debt Provision)	**1.4%**
F. TOTAL	**36.4%**

8. ___**N**___Apply Lost Cost Factors to Future filings? (Y or N)
9. __**3.3%**___ Estimated Maximum Rate Increase for any Insured (%). Territory (if applicable): ____72_______
10. __**N/A**___ Estimated Maximum Rate Decrease for any Insured (%) Territory (if applicable): ___________

Encompass Insurance Group
Other Than Automobile
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SUMMARY OF CHANGES AND SUMMARY EXHIBITS

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

Coverage	Encompass Insurance Group Written Premium At CRL	Encompass Insurance Group Indicated Rate Level Change	Encompass Insurance Company of America Written Premium At CRL	Encompass Insurance Company of America Proposed Rate Level Change
Home	$2,006,398	38.0%	$493,683	3.0%
Dwelling Fire	84,553	49.3%	48,886	3.0%
Condo/Renters	42,370	87.0%	11,114	2.9%
Overall	**$2,133,321**	**39.4%**	**$553,683**	**3.0%**

Please note that although Encompass believes our methodologies are appropriate and justified, in this filing we have calculated the indicated rate level change with several adjustments as requested by the Arkansas Department of Insurance with past filings. The contingency provision was capped at 1.0%, and the indication was calculated without the Retained Risk Provision. The Hurricane Provision for Loss and LAE was also removed, and actual historical hurricane losses were included in the development of the Non-Modeled CAT provision (referred to in the CAT adjustments section of this memo).

The filing contains the following revisions:

The following rates are being revised in order to reach the overall rate impact shown above:
- Home Base Rates
- Maximum Premium Credits
- Condo Base Rates
- Building Ordinance Increased Costs
- Building Additions and Alterations

Editorial Rule Revisions
Editorial revisions were made to the following rules in the Home Rule Manual:
- Rule 6.E. Log Construction to state that log construction needs to be rated as frame.
- Rule 16. Building Additions and Alterations to clarify language for Special, Special Value, or Dwelling Fire vs. Elite or Deluxe coverages.

Editorial revisions were made to the following rule in the Dwelling Fire Rule Manual:
- Rule 7.B. Condominiums and Cooperatives Occupancy Factors to clarify that contents coverage amount should be “$10,000 or Less” and not “$5,000 - $10,000.”

OVERVIEW OF HOMEOWNERS INDICATION METHODOLOGY

Exhibits 1 - 11 of this section show the Determination of Statewide Rate Level Indications for Arkansas. The objective of this process is to determine the indicated rate level need. This is done by evaluating the adequacy of the present rates to pay for Encompass' best estimate of losses and expenses, including a reasonable profit margin, that will be incurred from annual policies written in the year after the proposed effective date.

Encompass has run a combined company Other Than Automobile indication which represents the rate need for the state of Arkansas as a whole. The statewide rate level indication has been developed using combined data elements from Encompass Indemnity Company and Encompass Insurance Company of America.

With this filing, Encompass is calculating the Non Cat Indicated Provision for Loss and LAE for the Dwelling Fire and Condo/Renters Indications using a relativity based on the Non Cat Indicated Provision for Loss and LAE for the Homeowners Indication. Encompass believes that by applying a relativity to the Homeowners Non Cat Indicated Provision for Loss and LAE, Encompass can still reflect differences in the Dwelling Fire or Condo/Renters Pure Premium (i.e. trends) while having the advantage of applying this to a more stable base being the Homeowners data. Ten years of Dwelling Fire or Condo/Renters Unlimited Pure Premiums to Homeowners Unlimited Pure Premiums has been reviewed and a relativity has been selected based off of this. The data to support the relativity selection is shown in **Exhibit 2.B**. The selected relativity is then applied to the Homeowners Non Cat Indicated Provision for Loss and LAE to develop a Dwelling Fire or Condo/Renters Non Cat Indicated Provision for Loss and LAE. Please refer to **Exhibit 2.A** for more info on the relativity method of the Dwelling Fire and Condo/Renters indications.

The statewide rate level indication is based on data from five rolling accident years for Homeowners with losses ending **December 31, 2011**, evaluated as of **March 31, 2012**.

<u>Experience Year Weights</u>

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 experience years is combined to determine the indicated provision for loss and loss adjustment expense by line. The number of years needed to determine the rate level indication for each coverage is derived from a credibility procedure based upon the number of paid claims and the distribution of claims by line. This method also allows us to determine the weight to apply to each year of experience. 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 for each coverage was completed using a k value of 10.0% and a P value of 90.0%; these parameters reflect the desire that the observed pure premium should be within k of the expected pure premium with probability P.

The weights applied to the loss experience for the experience years are determined for each coverage 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%. Please refer to **Exhibit 4** for the experience year weights shown by line.

ADJUSTMENTS TO PREMIUMS

Current Rate Level Factors

Encompass uses an updated methodology that assumes that exposures are written uniformly by quarter, using a procedure described in a discussion by Frank Karlinski of the paper entitled “A Refined Model for Premium Adjustment”, by David Miller and George Davis. (Mr. Karlinski's discussion appeared in the Proceedings of the Casualty Actuarial Society (PCAS), Vol. LXIV, 1977, and the paper by Miller and Davis appeared in the PCAS, Vol LXIII, 1976). This method (which is referred to as "Miller-Davis-Karlinski"), 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.)

Premium Trend Factors

In addition to bringing premiums to current rate level, changes in the average written premium at the current rate level were reviewed. Unlike losses, premium is relatively stable. As the statewide rate level indication is developed using a Pure Premium methodology, only the latest year of premium is used as a basis for determining the indicated rate level change, which eliminates the need for historical annual premium trends. Prospective annual premium trends are still selected to account for expected shifts in the distribution of various rating characteristics such as increasing amounts of insurance and deductible drift. Since the effects on losses caused by these shifts are reflected in the loss projections, it is important that Encompass also account for the anticipated future changes in premiums. These selections are used to project the data from the average earned date of the experience period to the average earned date of the future policy period. Selected annual premium trends and overall premium trend factors for each line are shown in **Exhibit 5.A**. Encompass Insurance Group trend data is included as **Exhibit 5.B** to this attachment.

ADJUSTMENTS TO NON-CATASTROPHE LOSSES

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

Loss Development

The losses for a given accident year may not have been fully determined at the evaluation date of this review. As such, the losses must be adjusted to an ultimate settlement basis. This is accomplished by analyzing historical patterns of incurred loss development and selecting loss development factors. Because of limited Arkansas specific historical data, countrywide data has been considered in the selection of the loss development factors. Losses used in the analysis include ALAE but exclude catastrophes in order to minimize distortions. Age-to-age factors are selected for each coverage using total limits losses. Additional analysis of losses limited to $100,000 per claim is performed to develop limited losses to ultimate for Homeowners. The selected loss development factors that have been used in this filing are shown in **Exhibit 6**.

Excess Loss Provision

An excess loss provision is included to account for the expected exposure to large, fortuitous losses. Total ultimate losses are estimated by multiplying losses capped at $100,000 per claim by a limited loss development factor and then by an excess loss factor. Encompass Insurance Group data has been considered in the selection of the excess loss provision. The excess loss factor is the selected ratio of ultimate unlimited losses to ultimate limited losses. The selected excess loss factor for each line is shown in **Exhibit 7**.

Loss Trend

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

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 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. These selected trends are displayed in **Exhibit 8.A.** The calculations of loss trend factors are also shown in **Exhibit 8.A**. Encompass Insurance Group trend data is included in **Exhibit 8.B.** Please note that Encompass has selected both trend and projection factors.

Loss Adjustment Expenses

Losses in the experience period for each coverage have been adjusted to account for unallocated loss adjustment expenses (ULAE). A provision is developed using countrywide Encompass Insurance Group data in combined-lines form.

A three-year average of the ratios of countrywide, combined-lines, calendar year ULAE to countrywide, combined-lines, calendar year incurred losses is used to determine the ULAE provision. The average ratio is then applied to the losses for each coverage for each year used in the formula calculation. The ULAE ratio that has been used in this filing is shown in **Exhibit 4**.

CATASTROPHE ADJUSTMENTS IN DETAIL

Encompass separately identifies and accounts for its exposure to loss due to the occurrence of catastrophic events within a state. In order to estimate its non-earthquake catastrophe exposure, Encompass develops a long-term relativity of each state to the countrywide catastrophe factor based on all years 1988 and beyond. Encompass then applies this relativity to a countrywide catastrophe factor based on more recent data. By using this approach, Encompass is 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).

Encompass applies credibility to the resulting relativities for each state to stabilize the results. 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 Encompass has in the state's average relativity. In order to develop the credibility, Encompass considers 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.

Encompass typically uses this methodology to account for Non-Modeled Catastrophes and then accounts for Modeled Catastrophes through a separate provision. Given previous concerns of the Arkansas Department of Insurance, Encompass has removed the Hurricane Provision for Loss and LAE and included actual historical hurricane loss experience with the development of the catastrophe factor.

Exhibit 9.A displays the development of the total Homeowners catastrophe factor of 33.9% for Arkansas.

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

EXPENSE AND PROFIT PROVISIONS

Exhibit 10.A shows the expense provisions used in developing the current fixed and variable expense provisions.

General and Other Acquisition Expense

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

Licenses and 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.

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 Section 4 of Actuarial Standard of Practice No. 13, Trending Procedures in Property/Casualty Insurance Ratemaking. This trend is applied to general, other acquisition expenses, and licenses & fees. **Exhibit 10.B** shows the derivation of the Factor to Adjust for Subsequent Change in Fixed Expense.

Commission and Brokerage Expense and Taxes

The proposed commission and brokerage expense provision has been developed from the actual calendar year 2010 commission and brokerage incurred expense ratio in Arkansas. The provision for taxes reflects the actual state premium tax and, where applicable, other premium-related taxes such as Fire Marshall taxes and Municipal taxes. A provision for guaranty fund assessments is included if applicable. The provisions are shown in **Exhibit 11**.

<u>Contingency Provision</u>

Encompass selected a 1% contingency provision. Please see **Attachment A** for further explanation.

<u>Underwriting Profit/Operating Profit</u>

Encompass performs two separate cost of capital analyses in the estimation of its cost of equity. The first uses the Fama-French Three-factor Model (FF3F), which reflects developments in the field of financial economics as published in the Casualty Actuarial Society Forum, Winter, 2004 and in Journal of Risk and Insurance, Vol. 72, No. 3, September 2005 ("Estimating the Cost of Equity Capital For Property-Liability Insurers" by J. David Cummins and Richard D. Phillips). The second is a Discounted Cash Flow (DCF) analysis, which estimates the expected future cash flows to investors in order to gauge the proper cost of equity. Once both the DCF and FF3F estimates had been calculated, Encompass 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 as appropriate methods for recognizing investment income from insurance operations (page 4).

The calculations detailing this investment income analysis are found in **Exhibit 11**. The 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.

Please refer to the attached documented titled "The Development of the Underwriting Profit Provision" for more information.

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Exhibit 1

Summary of Changes

Coverage	Encompass Insurance Group Written Premium At CRL	Encompass Insurance Group Indicated Rate Level Change	Encompass Insurance Company of America Written Premium at CRL	Encompass Insurance Company of America Proposed Rate Level Change
Home	$2,006,398	38.0%	$493,683	3.0%
Dwelling Fire	84,553	49.3%	48,886	3.0%
Condo/Renters	42,370	87.0%	11,114	2.9%
Total Other Than Automobile	**$2,133,321**	**39.4%**	**$553,683**	**3.0%**

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Development of Statewide Rate Level Indication - Home

1)	Current Fixed Expense Ratio (Exhibit 10.A)	8.7 %
2)	Three Year Average Earned Premium	$1,575.10
3)	Current Dollar Provision for Fixed Expense = [(1) x (2)]	$137.03
4)	Factor to Adjust for Subsequent Change in Fixed Expense (Exhibit 10.B)	1.080
5)	Indicated Provision for Fixed Expense = [(3) x (4)]	$147.99
6)	Variable Expense and Profit Ratio (Exhibit 11)	27.7 %
7)	Home Non-Cat Indicated Provision for Loss and LAE (Exhibit 4.1)	$1,188.13
8)	Average Catastrophe Factor (Exhibit 9.A)	0.339
9)	Indicated Provision for Loss and LAE = [(7) x [1 + (8)]]	$1,590.91
10)	Indicated Average Premium = [(9) + (5)] / [1 - (6)]	$2,405.11
11)	Projected Average Earned Premium at Current Rates (Exhibit 3.1)	$1,743.08
12)	Indicated Rate Level Change = [(10) / (11) -1]	38.0 %

Encompass Insurance Group
Other Than Automobile
Arkansas

Development of Statewide Rate Level Indication - Dwelling Fire

1)	Current Fixed Expense Ratio (Exhibit 10.A)	8.7 %
2)	Three Year Average Earned Premium	$1,045.36
3)	Current Dollar Provision for Fixed Expense = [(1) x (2)]	$90.95
4)	Factor to Adjust for Subsequent Change in Fixed Expense (Exhibit 10.B)	1.080
5)	Indicated Provision for Fixed Expense = [(3) x (4)]	$98.23
6)	Variable Expense and Profit Ratio (Exhibit 11)	27.7 %
7)	Dwelling Fire Non-Cat Indicated Provision for Loss and LAE = { [Exhibit 2.A.1 (7)] x [Exhibit 2.B] }	$900.60
8)	Average Catastrophe Factor (Exhibit 9.A)	0.339
9)	Indicated Provision for Loss and LAE = [(7) x [1 + (8)]]	$1,025.73
10)	Indicated Average Premium = [(9) + (5)] / [1 - (6)]	$1,554.57
11)	Projected Average Earned Premium at Current Rates (Exhibit 3.1)	$1,040.98
12)	Indicated Rate Level Change = [(10) / (11) -1]	49.3 %

Encompass Insurance Group
Other Than Automobile
Arkansas

Development of Statewide Rate Level Indication - Condo/Renters

1)	Current Fixed Expense Ratio (Exhibit 10.A)	8.7 %
2)	Three Year Average Earned Premium	$450.32
3)	Current Dollar Provision for Fixed Expense = [(1) x (2)]	$39.18
4)	Factor to Adjust for Subsequent Change in Fixed Expense (Exhibit 10.B)	1.080
5)	Indicated Provision for Fixed Expense = [(3) x (4)]	$42.31
6)	Variable Expense and Profit Ratio (Exhibit 11)	27.7 %
7)	Condo/Renters Non-Cat Indicated Provision for Loss and LAE = { [Exhibit 2.A.1 (7)] x [Exhibit 2.B] }	$393.27
8)	Average Catastrophe Factor (Exhibit 9.A)	0.339
9)	Indicated Provision for Loss and LAE = [(7) x [1 + (8)]]	$585.67
10)	Indicated Average Premium = [(9) + (5)] / [1 - (6)]	$868.57
11)	Projected Average Earned Premium at Current Rates (Exhibit 3.1)	$464.40
12)	Indicated Rate Level Change = [(10) / (11) -1]	87.0 %

Encompass Insurance Group
Other Than Automobile
Arkansas

Dwelling Fire vs. Homeowners Non-Cat Loss + ALAE Pure Premium Relativities

Year Ending	Homeowners Pure Premium	Dwelling Fire Pure Premium	Relativity
2002 Q4	551	259	0.470
2003 Q4	419	481	1.149
2004 Q4	325	79	0.243
2005 Q4	356	754	2.122
2006 Q4	497	1074	2.162
2007 Q4	1010	553	0.547
2008 Q4	983	702	0.714
2009 Q4	971	311	0.320
2010 Q4	623	130	0.208
2011 Q4	977	256	0.262

Straight Average	0.820
Weighted Average	0.758
Selected Ratio	**0.758**

Encompass Insurance Group
Other Than Automobile
Arkansas

Condo/Renters vs. Homeowners Non-Cat Loss + ALAE Pure Premium Relativities

Year Ending	Homeowners Pure Premium	Condo/Renters Pure Premium	Relativity
2002 Q4	551	125	0.227
2003 Q4	419	142	0.339
2004 Q4	325	0	0.000
2005 Q4	356	68	0.191
2006 Q4	497	63	0.128
2007 Q4	1010	583	0.577
2008 Q4	983	677	0.688
2009 Q4	971	104	0.107
2010 Q4	623	40	0.064
2011 Q4	977	79	0.081
		Straight Average	0.240
		Weighted Average	0.331
		Selected Ratio	**0.331**

Encompass Insurance Group
Other Than Automobile
Arkansas

Development of Projected Average Earned Premium at Current Rates - Home

	(1)	(2)	(3) **(Exhibit 5.A)**	(4) **= (2) x (3)**	(5) **= (4) / (1)**	(6)
Fiscal Year Ending	Earned Exposures	Earned Premium at Current Rates	Factor to Adjust to Projected Premium Level	Projected Earned Premium at Current Rates	Projected Average Earned Premium at Current Rates	Experience Weights
12/31/2011	1,270	$2,213,715	1.000	$2,213,715	$1,743.08	100 %

(7) Projected Average Earned Premium At Current Rates $1,743.08

Exhibit 3.2

Encompass Insurance Group
Other Than Automobile
Arkansas

Development of Projected Average Earned Premium at Current Rates - Dwelling Fire

	(1)	(2)	(3) (Exhibit 5.A)	(4) = (2) x (3)	(5) = (4) / (1)	(6)
Fiscal Year Ending	Earned Exposures	Earned Premium at Current Rates	Factor to Adjust to Projected Premium Level	Projected Earned Premium at Current Rates	Projected Average Earned Premium at Current Rates	Experience Year Weights
12/31/2011	89	$92,647	1.000	$92,647	$1,040.98	100 %

(7) Projected Average Earned Premium At Current Rates $1,040.98

Exhibit 3.3

Encompass Insurance Group
Other Than Automobile
Arkansas

Development of Projected Average Earned Premium at Current Rates - Condo/Renters

	(1)	(2)	(3) **(Exhibit 5.A)**	(4) **= (2) x (3)**	(5) **= (4) / (1)**	(6)
Fiscal Year Ending	Earned Exposures	Earned Premium at Current Rates	Factor to Adjust to Projected Premium Level	Projected Earned Premium at Current Rates	Projected Average Earned Premium at Current Rates	Experience Year Weights
12/31/2011	111	$54,261	0.950	$51,548	$464.40	100 %

(7) Projected Average Earned Premium At Current Rates $464.40

Exhibit 4.1

Encompass Insurance Group
Other Than Automobile
Arkansas

Development of Non-Cat Provision for Loss and LAE - Home

	(1)	(2)	(3)	(4) = (2) x (1 + (3))	(5) (Exhibit 7)	(6) (Exhibit 8.A)	(7) = (4) x (5) x (6)	(8) = (7) / (1)	(9)
Fiscal Year Ending	Earned Exposures	Developed Limited Non-Cat Losses and ALAE	ULAE Provision	Developed Limited Non-Cat Losses and LAE	Excess Loss Provision	Factor to Adjust Losses for Pure Premium Trend	Projected Ultimate Non-Cat Losses and LAE	Projected Average Non-Cat Loss and LAE	Experience Year Weights
12/31/2007	2,363	$1,269,198	0.136	$1,441,809	1.22	1.293	$2,274,396	$962.50	20 %
12/31/2008	2,169	1,561,945	0.136	1,774,370	1.22	1.243	$2,690,761	$1,240.55	20
12/31/2009	1,873	1,628,523	0.136	1,850,002	1.22	1.195	$2,697,118	$1,440.00	20
12/31/2010	1,549	924,644	0.136	1,050,396	1.22	1.149	$1,472,424	$950.56	20
12/31/2011	1,270	1,117,087	0.136	1,269,011	1.22	1.105	$1,710,754	$1,347.05	20

(10) Non-Cat Indicated Provision for Loss and LAE $1,188.13

Encompass Insurance Group
Other Than Automobile
Arkansas

Exhibit 5.A

Calculation of Premium & AIY Trend Factors

Coverage	Selected Annual Premium Impacts Projected	Selected Annual AIY Impacts Projected
Home	0.0%	2.5%
Dwelling Fire	0.0%	8.0%
Condo/Renters	-2.0%	4.0%

	Calculation of Premium Trend Period Current Year	Calculation of AIY Trend Period Current Year
1) Average Earned Date of Proposed Policy Period	1/17/2014	1/17/2014
2) Mid-Point of Current Year's Experience Period	6/30/2011	6/30/2011
3) Experience Period Ended	12/31/2011	12/31/2011
4) Midpoint of Experience Period	6/30/2011	6/30/2011
5) Historical: Number of Years from (4) to (2)	0.000	0.000
6) Projected: Number of Years from (2) to (1)	2.551	2.551

Coverage	Factor to Adjust to Projected Premium Level Current Year	Factor to Adjust to Projected AIY Level Current Year
Home	1.000	1.065
Dwelling Fire	1.000	1.217
Condo/Renters	0.950	1.105

(a) Projected Premium and AIY Factors are the Annual Projected Impacts plus unity compounded for the number of years in (6)

Exhibit 5.B.1

Encompass Insurance Group
Other Than Automobile
Arkansas

Premium Trends - Homeowners

Year Ending	Average Written Premium @ CRL	Annual % Change	Exponential Curve of Best Fit ($) 20 pt.	12 pt.	6 pt.
06/07	$1,803.19	-1.6 %	1,760.94		
09/07	1,768.55	-3.9	1,760.13		
12/07	1,765.46	-3.5	1,759.32		
03/08	1,729.45	-5.9	1,758.52		
06/08	1,765.42	-2.1	1,757.71		
09/08	1,742.40	-1.5	1,756.91		
12/08	1,732.43	-1.9	1,756.11		
03/09	1,729.74	0.0	1,755.30		
06/09	1,738.75	-1.5	1,754.50	1,755.70	
09/09	1,746.91	0.3	1,753.69	1,755.13	
12/09	1,762.30	1.7	1,752.89	1,754.55	
03/10	1,754.36	1.4	1,752.09	1,753.98	
06/10	1,748.18	0.5	1,751.29	1,753.41	
09/10	1,753.21	0.4	1,750.49	1,752.83	
12/10	1,774.66	0.7	1,749.68	1,752.26	1,781.32
03/11	1,775.70	1.2	1,748.88	1,751.69	1,770.54
06/11	1,766.08	1.0	1,748.08	1,751.11	1,759.82
09/11	1,753.85	0.0	1,747.28	1,750.54	1,749.17
12/11	1,723.20	-2.9	1,746.48	1,749.97	1,738.59
03/12	1,734.14	-2.3	1,745.68	1,749.40	1,728.07

Regression	20 pt.	12 pt.	6 pt.
Avg Annual Percent Change Based on Best Fit:	-0.2 %	-0.1 %	-2.4 %

Exhibit 5.B.2

Encompass Insurance Group
Other Than Automobile
Arkansas

Premium Trends - Dwelling Fire

Year Ending	Average Written Premium @ CRL	Annual % Change	Exponential Curve of Best Fit ($) 20 pt.	12 pt.	6 pt.
06/07	1,127.15	5.8 %	1183.78		
09/07	1,173.27	9.2	1177.62		
12/07	1,146.94	7.7	1171.50		
03/08	1,133.15	2.9	1165.40		
06/08	1,205.59	7.0	1159.34		
09/08	1,112.30	-5.2	1153.31		
12/08	1,192.13	3.9	1147.32		
03/09	1,155.54	2.0	1141.35		
06/09	1,143.02	-5.2	1135.41	1176.29	
09/09	1,164.75	4.7	1129.51	1163.53	
12/09	1,147.58	-3.7	1123.63	1150.90	
03/10	1,189.42	2.9	1117.79	1138.41	
06/10	1,173.72	2.7	1111.98	1126.05	
09/10	1,121.93	-3.7	1106.19	1113.83	
12/10	1,037.17	-9.6	1100.44	1101.74	1059.97
03/11	1,060.66	-10.8	1094.72	1089.79	1060.41
06/11	1,075.56	-8.4	1089.02	1077.96	1060.85
09/11	1,092.61	-2.6	1083.36	1066.26	1061.29
12/11	1,070.60	3.2	1077.73	1054.69	1061.73
03/12	1,031.13	-2.8	1072.12	1043.24	1062.17

Regression	20 pt.	12 pt.	6 pt.
Avg Annual Percent Change Based on Best Fit:	-2.1 %	-4.3 %	0.2 %

Encompass Insurance Group
Other Than Automobile
Arkansas

Exhibit 5.B.3

Premium Trends - Condo/Renters

Year Ending	Average Written Premium @ CRL	Annual % Change	Exponential Curve of Best Fit ($) 20 pt.	12 pt.	6 pt.
06/07	$579.43	-10.8 %	532.15		
09/07	543.87	-14.6	528.39		
12/07	525.62	-12.6	524.67		
03/08	518.43	-7.9	520.97		
06/08	505.76	-12.7	517.29		
09/08	480.70	-11.6	513.64		
12/08	483.19	-8.1	510.02		
03/09	491.06	-5.3	506.42		
06/09	484.04	-4.3	502.85	503.61	
09/09	501.64	4.4	499.30	500.40	
12/09	481.02	-0.5	495.78	497.21	
03/10	502.36	2.3	492.29	494.03	
06/10	493.91	2.0	488.81	490.88	
09/10	485.83	-3.2	485.37	487.75	
12/10	522.35	8.6	481.94	484.63	519.59
03/11	491.20	-2.2	478.54	481.54	503.81
06/11	501.85	1.6	475.17	478.47	488.51
09/11	485.05	-0.2	471.82	475.41	473.67
12/11	435.42	-16.6	468.49	472.38	459.29
03/12	455.59	-7.3	465.19	469.36	445.34

Regression	20 pt.	12 pt.	6 pt.
Avg Annual Percent Change Based on Best Fit:	-2.8 %	-2.5 %	-11.6 %

Exhibit 5.C.1

Encompass Insurance Group
Other Than Automobile
Arkansas

AIY Trends - Homeowners

Year Ending	AIY	Annual % Change	Exponential Curve of Best Fit 12 pt.	6 pt.	4 pt.
06/07	269.13	7.1 %			
09/07	268.92	4.3			
12/07	274.08	5.3			
03/08	275.36	4.2			
06/08	280.48	4.2			
09/08	283.29	5.3			
12/08	284.02	3.6			
03/09	283.52	3.0			
06/09	288.78	3.0	290.37		
09/09	290.45	2.5	292.14		
12/09	295.12	3.9	293.92		
03/10	295.52	4.2	295.71		
06/10	296.62	2.7	297.52		
09/10	300.51	3.5	299.33		
12/10	302.99	2.7	301.16	304.41	
03/11	306.92	3.9	303.00	305.10	
06/11	306.36	3.3	304.85	305.79	305.83
09/11	306.60	2.0	306.71	306.47	306.42
12/11	305.07	0.7	308.58	307.16	307.02
03/12	308.87	0.6	310.46	307.86	307.62

Regression	12 pt.	6 pt.	4 pt.
Avg Annual Percent Change Based on Best Fit:	2.5 %	0.9 %	0.8 %

Exhibit 5.C.2

Encompass Insurance Group
Other Than Automobile
Arkansas

AIY Trends - Dwelling Fire

			Exponential Curve of Best Fit		
Year Ending	AIY	Annual % Change	12 pt.	6 pt.	4 pt.
06/07	161.59	15.1 %			
09/07	172.20	1.0			
12/07	173.87	4.0			
03/08	172.02	1.8			
06/08	187.64	-5.7			
09/08	173.96	5.7			
12/08	180.83	2.1			
03/09	175.15	7.6			
06/09	176.90	12.8	178.84		
09/09	183.79	7.7	182.74		
12/09	184.61	5.3	186.72		
03/10	188.48	11.9	190.80		
06/10	199.62	14.3	194.96		
09/10	197.92	18.0	199.21		
12/10	194.47	8.5	203.56	207.10	
03/11	210.90	2.2	208.00	210.33	
06/11	228.20	0.0	212.54	213.60	231.18
09/11	233.63	0.0	217.17	216.93	224.97
12/11	211.06	0.0	221.91	220.31	218.92
03/12	215.57	0.0	226.75	223.74	213.04

Regression	12 pt.	6 pt.	4 pt.
Avg Annual Percent Change Based on Best Fit:	9.0 %	6.4 %	-10.3 %

Exhibit 5.C.3

Encompass Insurance Group
Other Than Automobile
Arkansas

AIY Trends - Condo/Renters

Year Ending	AIY	Annual % Change	Exponential Curve of Best Fit 12 pt.	6 pt.	4 pt.
06/07	63.72	-4.2 %			
09/07	63.51	-4.8			
12/07	61.92	-4.5			
03/08	61.52	0.8			
06/08	61.69	-3.2			
09/08	58.94	-7.2			
12/08	59.89	-3.3			
03/09	62.63	1.8			
06/09	61.41	-0.5	63.75		
09/09	65.03	10.3	64.45		
12/09	63.64	6.3	65.17		
03/10	66.73	6.6	65.89		
06/10	67.00	9.1	66.62		
09/10	67.94	4.5	67.35		
12/10	72.23	13.5	68.10	71.16	
03/11	68.53	2.7	68.85	70.81	
06/11	71.92	7.3	69.61	70.46	71.42
09/11	72.08	6.1	70.38	70.12	70.64
12/11	65.72	-9.0	71.16	69.77	69.88
03/12	71.52	4.4	71.95	69.43	69.12

Regression	12 pt.	6 pt.	4 pt.
Avg Annual Percent Change Based on Best Fit:	4.5 %	-2.0 %	-4.3 %

Exhibit 6.1.a

Encompass Insurance Group
Other Than Automobile
Arkansas

Incurred Loss + ALAE Development Factors - Home Limited

Fiscal Accident Year Ending	15 Months	27 Months	39 Months	51 Months	63 Months	75 Months	87 Months	99 Months	111 Months	123 Months
12/31/1998									243,676	243,676
12/31/1999								1,517,832	1,523,211	1,523,211
12/31/2000							2,339,604	2,339,604	2,339,604	2,339,604
12/31/2001						2,277,137	2,277,137	2,277,137	2,277,137	2,277,137
12/31/2002					1,852,504	1,852,504	1,852,504	1,852,504	1,852,504	1,852,504
12/31/2003				1,292,150	1,292,150	1,292,150	1,292,150	1,292,150	1,292,150	
12/31/2004			967,096	969,579	969,579	969,579	969,579	969,579		
12/31/2005		834,159	828,749	828,749	828,749	828,749	828,749			
12/31/2006	1,081,255	1,146,512	1,148,307	1,143,467	1,144,261	1,144,360				
12/31/2007	1,202,998	1,233,496	1,285,636	1,257,877	1,257,877					
12/31/2008	1,478,198	1,533,475	1,537,365	1,538,860						
12/31/2009	1,529,760	1,587,631	1,591,909							
12/31/2010	842,592	885,674								
12/31/2011	1,013,690									

Link Ratios

Development	15 to 27	27 to 39	39 to 51	51 to 63	63 to 75	75 to 87	87 to 99	99 to 111	111 to 123
4th Prior	1.060	0.994	1.003	1.000	1.000	1.000	1.000	1.004	1.000
3rd Prior	1.025	1.002	1.000	1.000	1.000	1.000	1.000	1.000	1.000
2nd Prior	1.037	1.042	0.996	1.000	1.000	1.000	1.000	1.000	1.000
1st Prior	1.038	1.003	0.978	1.001	1.000	1.000	1.000	1.000	1.000
Latest	1.051	1.003	1.001	1.000	1.000	1.000	1.000	1.000	1.000
5 Yr Mean Ex-HiLo	1.042	1.003	0.999	1.000	1.000	1.000	1.000	1.000	1.000
Volume Weighted 5 Yr Mean	1.041	1.009	0.995	1.000	1.000	1.000	1.000	1.001	1.000
Volume Weighted 4 Yr Mean	1.037	1.011	0.994	1.000	1.000	1.000	1.000	1.000	1.000
Volume Weighted 3 Yr Mean	1.041	1.014	0.992	1.000	1.000	1.000	1.000	1.000	1.000
Average:	1.042	1.009	0.996	1.000	1.000	1.000	1.000	1.001	1.000
Selected:	1.056	1.020	1.008	1.006	1.004	1.002	1.001	1.001	1.001

Loss Development Period (months):	15 - 123	27 - 123	39 - 123	51 - 123	63 - 123	75 - 123	87 - 123	99 - 123	111 - 123
Loss Development Factor:	1.102	1.044	1.023	1.015	1.009	1.005	1.003	1.002	1.001

Exhibit 6.1.b

Encompass Insurance Group
Other Than Automobile
Arkansas

Incurred Loss + ALAE Development Factors - Home Unlimited

Fiscal Accident Year Ending	15 Months	27 Months	39 Months	51 Months	63 Months	75 Months	87 Months	99 Months	111 Months	123 Months
12/31/1998									243,676	243,676
12/31/1999								1,553,863	1,559,243	1,559,243
12/31/2000							2,349,604	2,349,604	2,349,604	2,349,604
12/31/2001						2,454,787	2,454,787	2,454,787	2,454,787	2,454,787
12/31/2002					1,894,334	1,894,334	1,894,334	1,894,334	1,894,334	1,894,334
12/31/2003				1,310,654	1,310,654	1,310,654	1,310,654	1,310,654	1,310,654	
12/31/2004			1,939,524	2,091,160	2,091,160	2,091,160	2,091,160	2,091,160		
12/31/2005		865,432	860,022	860,022	860,022	860,022	860,022			
12/31/2006	1,087,075	1,152,332	1,154,127	1,149,286	1,150,081	1,150,180				
12/31/2007	1,870,030	2,270,087	2,338,727	2,294,468	2,294,468					
12/31/2008	1,930,119	2,010,581	2,014,471	2,015,965						
12/31/2009	1,581,528	1,745,959	1,750,237							
12/31/2010	842,592	885,674								
12/31/2011	1,083,923									

Link Ratios

Development	15 to 27	27 to 39	39 to 51	51 to 63	63 to 75	75 to 87	87 to 99	99 to 111	111 to 123
4th Prior	1.060	0.994	1.078	1.000	1.000	1.000	1.000	1.003	1.000
3rd Prior	1.214	1.002	1.000	1.000	1.000	1.000	1.000	1.000	1.000
2nd Prior	1.042	1.030	0.996	1.000	1.000	1.000	1.000	1.000	1.000
1st Prior	1.104	1.002	0.981	1.001	1.000	1.000	1.000	1.000	1.000
Latest	1.051	1.002	1.001	1.000	1.000	1.000	1.000	1.000	1.000
5 Yr Mean Ex-HiLo	1.072	1.002	0.999	1.000	1.000	1.000	1.000	1.000	1.000
Volume Weighted 5 Yr Mean	1.103	1.009	1.013	1.000	1.000	1.000	1.000	1.001	1.000
Volume Weighted 4 Yr Mean	1.111	1.011	0.993	1.000	1.000	1.000	1.000	1.000	1.000
Volume Weighted 3 Yr Mean	1.066	1.013	0.991	1.000	1.000	1.000	1.000	1.000	1.000
Average:	1.094	1.006	1.011	1.000	1.000	1.000	1.000	1.001	1.000
Selected:	1.061	1.020	1.011	1.008	1.007	1.006	1.001	1.001	1.001
Loss Development Period (months):	15 - 123	27 - 123	39 - 123	51 - 123	63 - 123	75 - 123	87 - 123	99 - 123	111 - 123
Loss Development Factor:	1.121	1.056	1.035	1.024	1.016	1.009	1.003	1.002	1.001

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Excess Loss Provision

HOMEOWNERS

Fiscal Accident Year Ending	Ultimate Total Ex-Cat Losses + ALAE	Ultimate Limited Ex-Cat Losses + ALAE	Total/Limited
12/31/2002	1,894,334	1,852,504	1.02
12/31/2003	1,311,966	1,293,443	1.01
12/31/2004	2,095,342	971,518	2.16
12/31/2005	862,603	831,236	1.04
12/31/2006	1,160,534	1,150,084	1.01
12/31/2007	2,331,179	1,269,198	1.84
12/31/2008	2,064,351	1,561,946	1.32
12/31/2009	1,811,495	1,628,523	1.11
12/31/2010	935,273	924,645	1.01
12/31/2011	1,215,079	1,117,087	1.09
	Weighted Average		1.24
	Straight Average		1.26
	Selected		1.22

Exhibit 8.A

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Calculation of Pure Premium Trend Factor

Coverage	Selected Annual Pure Premium Impacts: Historical	Projected
Home	4.0%	4.0%

Calculation of Trend Period

	4th Prior Year	3rd Prior Year	2nd Prior Year	1st Prior Year	Current Year
1) Loss Trend Projection Date	1/17/2014	1/17/2014	1/17/2014	1/17/2014	1/17/2014
2) Mid-Point of Current Year's Experience Period	6/30/2011	6/30/2011	6/30/2011	6/30/2011	6/30/2011
3) Experience Period Ended	12/31/2007	12/31/2008	12/31/2009	12/31/2010	12/31/2011
4) Midpoint of Experience Period	6/30/2007	6/30/2008	6/30/2009	6/30/2010	6/30/2011
5) Historical: Number of Years from (4) to (2)	4.000	3.000	2.000	1.000	0.000
6) Projected: Number of Years from (2) to (1)	2.551	2.551	2.551	2.551	2.551

Factor to Adjust Losses for Pure Premium Trend

Coverage	4th Prior Year	3rd Prior Year	2nd Prior Year	1st Prior Year	Current Year
Home	1.293	1.243	1.195	1.149	1.105

(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)

Exhibit 8.B.1

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Pure Premium Loss Trends - Homeowners

Year Ending	Actual Paid Pure Premium	Annual % Change	Exponential Curve of Best Fit ($) 20 pt.	12 pt.	6 pt.
06/06	$427.79	0.9 %			
09/06	526.97	66.2			
12/06	477.40	37.0			
03/07	468.18	21.4			
06/07	546.71	27.8	585.44		
09/07	431.19	-18.2	598.04		
12/07	529.18	10.9	610.91		
03/08	526.66	12.5	624.06		
06/08	690.43	26.3	637.50		
09/08	727.22	68.7	651.22		
12/08	802.57	51.7	665.24		
03/09	895.42	70.0	679.56		
06/09	721.96	4.6	694.19	799.42	
09/09	827.80	13.8	709.13	796.60	
12/09	858.76	7.0	724.40	793.80	
03/10	820.44	-8.4	739.99	791.00	
06/10	900.35	24.7	755.92	788.22	
09/10	756.92	-8.6	772.19	785.44	
12/10	635.78	-26.0	788.81	782.68	700.59
03/11	753.27	-8.2	805.79	779.92	722.61
06/11	811.77	-9.8	823.14	777.18	745.32
09/11	770.21	1.8	840.86	774.44	768.74
12/11	841.16	32.3	858.96	771.71	792.90
03/12	746.77	-0.9	877.45	769.00	817.82

Regression	20 pt.	12 pt.	6 pt.
Avg Annual Percent Change Based on Best Fit:	8.9 %	-1.4 %	13.2 %

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CATASTROPHE FACTOR

(1) ACCIDENT YEAR	(2) EX-CAT INCURRED LOSS+ALAE	(3) CATASTROPHE INCURRED LOSS+ALAE	(4) STATE CATASTROPHE FACTOR	(5) COUNTRYWIDE CATASTROPHE FACTOR	(6) RELATIVITIES
1984	2,630,793	832,389	0.316	0.112	2.821
1985	1,619,367	222,020	0.137	0.104	1.317
1986	1,615,849	205,922	0.127	0.043	2.953
1987	1,384,238	60,578	0.044	0.040	1.100
1988	1,579,834	37,017	0.023	0.048	0.479
1989	1,849,550	1,388,113	0.751	0.156	4.814
1990	1,008,317	351,471	0.349	0.178	1.961
1991	1,454,400	205,277	0.141	0.267	0.528
1992	903,216	26,211	0.029	0.152	0.191
1993	1,189,006	23,921	0.020	0.216	0.093
1994	802,038	63,772	0.080	0.376	0.213
1995	1,538,192	129,161	0.084	0.143	0.587
1996	1,616,672	1,115,444	0.690	0.491	1.405
1997	2,006,585	1,070,468	0.533	0.122	4.369
1998	1,309,287	284,965	0.218	0.389	0.560
1999	1,615,209	2,583,898	1.600	0.207	7.729
2000	2,353,497	1,040,216	0.442	0.150	2.947
2001	2,474,959	46,576	0.019	0.084	0.226
2002	1,920,755	191,548	0.100	0.156	0.641
2003	1,337,002	422,683	0.316	0.193	1.637
2004	2,092,108	77,354	0.037	0.134	0.276
2005	872,261	20,617	0.024	0.121	0.198
2006	1,162,738	426,593	0.367	0.182	2.016
2007	2,414,756	48,328	0.020	0.184	0.109
2008	2,162,287	1,429,890	0.661	0.216	3.060
2009	1,770,996	903,687	0.510	0.174	2.931
2010	892,740	492,408	0.552	0.397	1.390
2011	1,091,666	1,557,870	1.427	0.376	3.795

(7) Average Relativity	1.756
(8) Standard Deviation	1.926
(9) Credibility	0.785
(10) Credibility Weighted Relativity	1.593
(11) Countrywide Selected Catastrophe Factor	0.213
(12) Arkansas Catastrophe Factor	0.339

Exhibit 10.A

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Summary of Expense Provisions

	Percent Fixed	Expense Provision
General Expense	100 %	7.8 %
Other Acquisition	100	0.7
Licenses and Fees	100	0.2
Commissions	0	14.5
Taxes †	0	2.9
Contingency Provision	0	1.0
Profit Provision	0	7.9
Debt Provision	0	1.4

† State Taxes - Does not include Federal Income Tax

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Factor to Adjust for Subsequent Change in Fixed Expense*

1) Average Earned Date of Experience Period	6/30/2009
2) Average Earned Date of Proposed Policy Period	1/17/2014
3) Number of Years from (1) to (2)	4.551
4) Selected Annual Impact	1.70%
5) Factor to Adjust for Subsequent Change in Fixed Expense = [1 + (4)] ^ (3)	1.080

* For Calendar Years 2008-2010

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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, given an Operating Profit of 7.0%
and twelve-month Policy Terms

Years From Start of Policy Year	Arkansas Cumulative Percent of Losses Paid	Arkansas Yearly Percent of Losses Paid	Time from Start of Policy Year	Discounted ** to avg time of profit @ 2.6%	Discounted Payments
1	25.7%	25.7%	0.70	1.008	25.9%
2	78.6%	52.9%	1.40	0.990	52.4%
3	89.8%	11.2%	2.40	0.964	10.8%
4	93.9%	4.1%	3.50	0.937	3.8%
5	96.3%	2.4%	4.50	0.913	2.2%
Subsequent	100.0%	3.7%	6.90	0.858	3.2%
Total		100.0%			98.3%
Expected Losses and Loss Expense Ratio					63.6%
Present Value of Loss and Loss Expense Payments					62.5%
General Expense		7.8%	0.75	1.007	7.9%
Other Acquisition		0.7%	0.63	1.010	0.7%
Taxes		2.9%	0.63	1.010	2.9%
Commissions		14.5%	0.58	1.011	14.7%
Debt Provision		1.4%	1.00	1.000	1.4%
Profit Provision		7.9%	1.00	1.000	7.9%
Contingency Provision		1.0%	1.00	1.000	1.0%
Licenses and Fees		0.2%	0.63	1.010	0.2%
Total Present Value of Outgo					99.2%
Premiums		100.0%	0.57	1.011	101.1%
Difference, Present Value of Income Less Present Value of Outgo					1.9%

*Discount rate from Investments Department forecast
**exp (0.026 x (timing of profit being earned - timing of cash flow))

Attachment A

Contingency Support

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Contingency Factor Support
Explanatory Memorandum

This memo provides explanation regarding Encompass'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.

Encompass Homeowners Contingency Provision calculation

With this filing, Encompass 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

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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 Encompass 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 Encompass'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 Encompass'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 Encompass 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 Encompass 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 Encompass's Owners, Renters and Condo forms.

Page 3 of this attachment 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.

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Total estimated loss from unexpected events:	$388,265,584
Total countrywide ex-cat accident year losses:	$14,082,669,021
Indicated contingency provision as percentage of ex-cat loss:	2.8%
Indicated contingency provision as percentage of total loss:	2.1%
Indicated contingency provision adjusted for expenses:	1.9%
Selected contingency provision:	**1.0%**

Note: the information presented above represents Allstate Insurance Company data from accident years 1996-2003

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

Explanatory Memorandum

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2011 Cost of Equity Update Summary

Allstate's traditional approach to determining the necessary underwriting profit provision begins with two different analyses – the Fama-French Three-factor method (FF3F) and the Discounted Cash Flow method (DCF) – that are performed in order to estimate Allstate's cost of equity capital. The details and reasoning behind this approach can be found in Allstate's paper titled "Development of the Underwriting Profit Provision." Allstate always seeks to utilize sound actuarial and financial theory in its profit provision calculations and has put forth a considerable effort in order to establish an approach that utilizes appropriate methodologies and produces reasonable and meaningful results. However, even the best methodologies require an oversight of actuarial judgment in order to ensure proper application and to know when circumstances require an adjustment. Allstate believes that, due to certain current circumstances, actuarial judgment calls for caution to be used in the interpretation and application of its FF3F and DCF results. Each will be discussed in detail below.

Fama-French
The FF3F approach is similar to the Capital Asset Pricing Model (CAPM) in that it estimates the cost of equity for a given firm by starting with a risk-free rate and adding a risk premium (or risk premiums) to it, relative to the risk of that firm. As such, the result is greatly dependent on the risk-free rate. Allstate's historical risk-premium data is reported relative to the 28-day government bond rate, so in order to be consistent, we have utilized the 28-day government bond rate as the risk-free rate in the FF3F calculations.

Unfortunately, since the financial havoc in the market that began in 2008, the Federal Reserve has been actively and artificially suppressing the short-term interest rates. The table below shows the FF3F calculations for Allstate for the past eleven years. Note that Allstate's risk premium, particularly recently, has not varied greatly over time, whereas the risk-free rate has.

Year	Risk Premium	Risk-free Rate	FF3F Cost of Equity
2000	8.7%	5.7%	14.4%
2001	10.1%	5.5%	15.6%
2002	6.9%	5.4%	12.3%
2003	6.7%	3.7%	10.4%
2004	12.7%	1.1%	13.8%
2005	12.2%	2.7%	14.9%
2006	7.8%	4.8%	12.6%
2007	6.5%	5.3%	11.8%
2008	6.7%	1.9%	8.6%
2009	6.9%	0.1%	7.1%
2010	6.8%	0.1%	6.9%

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Over the last five years, Allstate's risk premium has remained consistent while the risk-free rate has plummeted, resulting in a large decrease in Allstate's (and other companies') calculated cost of equity. However, there are several reasons why we believe that this is not an accurate reflection of a true risk-free rate, and therefore not an accurate reflection of Allstate's cost of equity. The Federal Reserve has artificially lowered the short-term rate to almost zero in an attempt to encourage borrowing and jump-start the economy. Evidence for this artificial rate suppression can be seen by comparing the difference between the current long-term bond yields and the 28-day bond yield. Historically, the average difference between the long-term bond yield and the 28-day bond yield has been 1.6 percentage points.[1] The current difference is over four percentage points.[2] In fact, prior to 2009, there have been only two years since 1926 where the difference between the long- and short-term bond yields has been as big as it is right now, and one of those years is 2003, when the Federal Reserve was employing a similar strategy in order to encourage borrowing in the housing market.[3] Long-term bond yields are much less impacted by Federal Reserve action because they represent the average short-term bond yield over a longer period of time. While long-term bond yields may contain a small risk premium for liquidity risk, significant difference between the long-term and short-term bond yields suggests that interest rates are expected to rise, and as noted above, the current difference is as big as it's ever been.

As mentioned above, Allstate's risk premium data has typically been calculated relative to the 28-day government bond yield. However, this data can be restated to be relative to a long-term bond yield. In fact, many analysts, including Ibbotson in its Cost of Capital Yearbook, prefer to use long-term bond yields in CAPM or FF3F calculations as the results tend to be smoother and freer from Federal Reserve machinations. Using data through 2010, Allstate's risk premium relative to the 28-day bond yield was 6.8%. When the historical risk premium data is restated to be relative to a long-term government bond yield, Allstate's risk premium drops to 5.4%. Combining this risk premium with a long-term-bond-based risk-free rate, which has been recently hovering around 4%,[4] results in a cost of equity between 9% and 10%, which is in line with Allstate's historical cost of equity of 10%.

In addition to the interest rate issues, it is worth noting that the value beta within the FF3F methodology has also been on the rise lately:

---

[1] Source: Ibbotson 2011 SBBI Valuation Yearbook.
[2] As of year-end 2010: Long-term (4.14%) – Short-term (0.08%) = 4.06%.
[3] As of year-end 2010, the difference was 4.06%. In 2003 the difference was 4.09%, and in 1994 the difference was 4.08%. Essentially, the current difference is about as high as it has ever been. For comparison, note that prior to 2009, the difference has only been greater than 3 percentage points nine times since 1926.
[4] http://www.treasury.gov/resource-center/data-chart-center/interest-rates/Pages/TextView.aspx?data=yieldYear&year=2011

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Value Risk Component:				
(8)	(9)	(10)	(11)	(12)=(9)+(10)*(11)
	Prop/Cas	Book-to-Mkt	Log Book-	**Value Risk**
Period	Value Beta	Coefficient	to-Market	**Beta**
2006	0.201	0.213	-0.6220	**0.069**
2007	0.209	0.335	-0.3105	**0.105**
2008	0.215	0.221	-0.3286	**0.142**
2009	0.738	0.308	0.0351	**0.749**
2010	0.975	0.236	0.1029	**0.999**
			3-yr Avg	**0.630**
			5-yr Avg	**0.413**
			Selected	**0.630**

This suggests that the difference in returns required by “value” stocks compared to “growth” stocks is larger in the current market than it was prior to the recent market crash. The impact of this is muted by Allstate’s use of a three-year average to determine betas in the FF3F calculations. But when considering the future expectation of the FF3F result, it seems likely that Allstate’s risk premium would only increase as this change is further reflected in the data.

In summary, Allstate believes that the 28-day government bond yield is artificially low, and the restatement of Allstate’s data to be relative to the long-term bond yield produces a cost of capital comparable to Allstate’s historical value of 10%. In addition, Allstate’s value beta appears to be on the rise and could be expected to increase in the near future. All of this suggests that a cost of equity of 10% is still appropriate for Allstate.

Discounted Cash Flow

In order to perform the DCF calculations, Allstate relies on data from the ValueLine Investment Survey. The most difficult DCF input to estimate is the growth rate of dividends (g), and several elements of the ValueLine data are typically used in Allstate’s estimation of this value: dividend per share growth (10-year average, 5-year average, and analyst forecast) and earnings per share growth (10-year average, 5-year average, and analyst forecast). Unfortunately, due to both recent events (Allstate’s dividend cut) and the nature of the ValueLine calculations, Allstate believes that both the historical averages and the analyst forecast numbers are misleading and require adjustment in order to be relevant.

To derive the projected growth rate for its dividend forecast, ValueLine compares a three-year average of historical dividends paid to a projected amount anywhere from four to six years into the future (depending on the timing of the report). This approach is taken so as to provide an element of stability in the results over time. However, in certain instances, such as Allstate’s case, it can be misleading. In early 2009, Allstate announced that its dividend would be cut from $1.64 to $0.80. From the current value of $0.83, ValueLine expects the dividend to grow to $1.10 by the year 2015. However, in their formula, the

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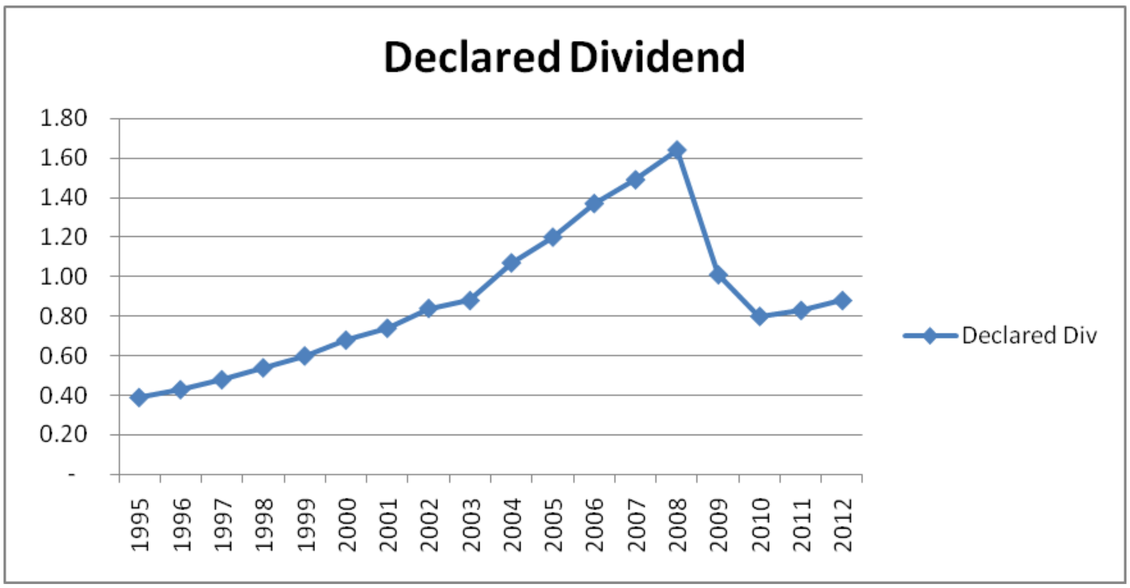
three-year average of "current" dividends was from 2008 to 2010, which were $1.64, $1.01, and $0.80 respectively. The average of these values is $1.15. Therefore, ValueLine's "projected" amount of dividend growth was calculated as ($1.10/$1.15)^(1/6) – 1, which is equal to -1%.[5] This calculation, however, is not appropriate because it is clear that ValueLine expects Allstate's dividend to grow from $0.83 in 2011 to $1.10 in 2015, which is actually 7.5% (=($1.10/$0.83)^(1/4) – 1) growth.[6] It is particularly important to recognize the growth from the current $0.83 level because it is the $0.83 dividend that is used to calculate the dividend yield in other portions of the DCF analysis. If the growth is gauged based on the $1.15 dividend, then the dividend yield should also be, which would significantly increase that value.

In addition, Allstate's dividend cut has caused significant impact to the historical dividend growth rates. Allstate's dividend growth was steady and constant prior to the dividend cut (and continues to be after the cut), but the one-time cut dramatically affects the historical calculations:



Recall that the DCF methodology states that the value of a share of a company's stock is equal to the present value of all future dividends. To make the estimates mathematically feasible, assumptions are made regarding the existence of a constant growth rate for dividends. With this assumption being made, the DCF formula can be rearranged in order to solve for the company cost of equity, given that the current stock price and dividend rate are known and the dividend growth rate (g) can be estimated. The point, however, is that there is a connection between the current stock price and the *future*

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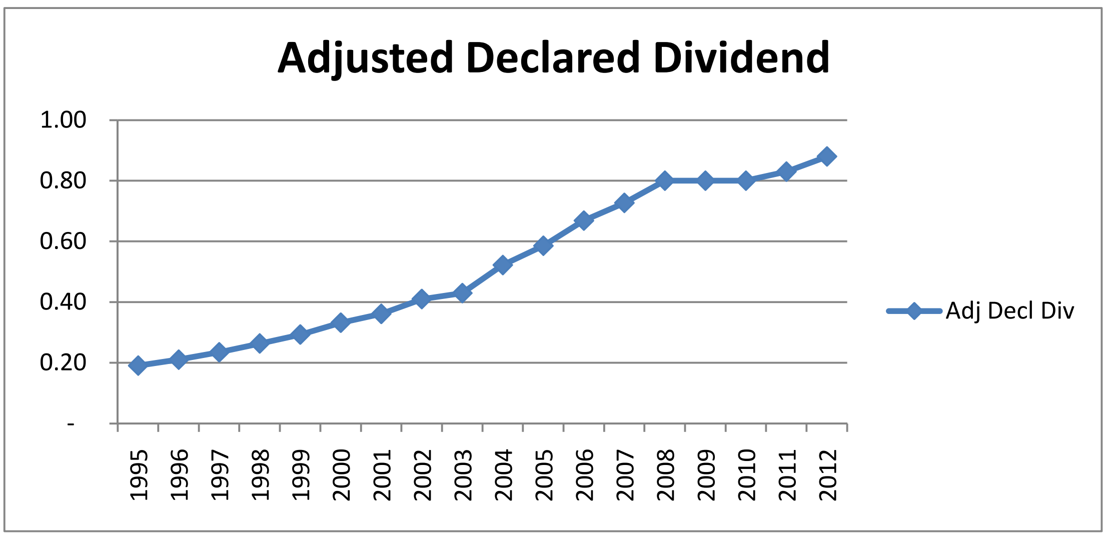
[5] Note: the calculation is to the (1/6) power because the average years in comparison are 2009 and 2015, which is a six-year span.
[6] ValueLine rounds its results to the nearest half-percent. Also note: the Earnings Per Share projections suffer from the same issue.

dividend stream; this is entirely a forward-looking calculation. According to DCF theory, the current stock price already reflects the fact that Allstate has cut its dividend (and Allstate's stock price is down since the cut). What's important is where the dividend is expected to go from here.

In the past, Allstate has included historical growth rates in its estimate of g, but historical growth rates are only helpful in as much as they provide a reasonable estimate of future growth. Based on the steady growth of the dividend before and after the cut, Allstate believes that the historical calculations do not reflect a reasonable estimate. Two years ago, the calculation of the 5-year historical growth rate yielded a result of 13%[7]; this year, with the dividend cut data being included, that estimate has dropped to 2%.

One option for trying to remedy this situation would be to adjust all of the pre-dividend-cut data to be on post-dividend-cut levels. The resulting data would be much smoother and easier to fit a historical trend to:



Based on this data, a historical trend for the last 10 years would equal an annual growth rate of 10.5%, and for the last 5 years would equal a rate of 9%. When the DCF formula is rearranged, we find that the cost of equity is equal to the sum of the current dividend yield rate and the dividend growth rate. Allstate's current dividend yield rate is 2.8%.[8] The adjusted historical and forecast numbers for dividend growth, as described above, range from 7.5% to 10.5%. Based on these numbers, it would seem that a cost of equity in the range of 10% to 13% would be reasonable. However, caution should be exercised

[7] Note: because of the nature of the ValueLine calculations (similar to the projection calculations), it took a couple years for the cut dividend data to be incorporated into the historical calculations.
[8] As of Second Quarter, 2011

when evaluating the output of a methodology for which so many adjustments have been made.[9]

Industry Data

Given that both of Allstate's primary methodologies for estimating its cost of equity have been impacted circumstantially, and therefore require adjustment, actuarial prudence would suggest that additional, external data be considered. A good source for this is Ibbotson's Cost of Capital Yearbook, where multiple analyses are perform on industries as a whole, as well as sub-sections of those industries. The Ibbotson analysis includes CAPM, CAPM plus Size (a methodology half-way between CAPM and FF3F), FF3F, one-stage DCF, and three-stage DCF calculations. These analyses, performed on the entire cohort of SIC Code 633 – Fire, Marine, and Casualty Insurance – yields the following results[10]:

	2006	2007	2008	2009	2010		Avg	Std Dev
CAPM	9.02	9.79	10.70	11.99	11.22		10.54	1.17
CAPM + Size Prem	10.04	10.76	11.62	11.99	12.30		11.34	0.93
FF3F	9.84	10.19	12.01	11.68	11.02		10.95	0.93
1-Stage DCF	10.57	10.76	9.78	10.37	11.27		10.55	0.55
3-Stage DCF	12.60	15.20	20.00	3.90	13.58		13.06	5.86

These calculations are also performed on subsets of the industry, including the median company, a small-company composite, and a large-company composite. The most appropriate comparison for Allstate would be the large-company composite, whose results are as follows:

	2006	2007	2008	2009	2010		Avg	Std Dev
CAPM	9.08	10.06	10.87	10.48	11.61		10.42	0.94
CAPM + Size Prem	9.08	10.06	10.87	10.48	11.61		10.42	0.94
FF3F	9.98	10.42	12.33	10.35	11.11		10.84	0.93
1-Stage DCF	10.59	10.84	10.00	10.50	9.74		10.33	0.45
3-Stage DCF	14.50	16.90	22.50	24.90	11.81		18.12	5.47

These results reflect the cost of equity for the average company in the industry, or the average large company in the industry. It is likely that Allstate is above average in risk in each of these categories. 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 the 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

[9] Often, when analysts are performing DCF calculations for a whole industry, they will remove the data for any company that has had a dividend cut, as the impact of that data can be substantial and harmful to the overall result.

[10] Source: Ibbotson Cost of Capital Yearbooks, 2006 to 2010

such, not included in the 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 industry composite. Therefore, we would expect Allstate's cost of capital to be at least as much as the average company (or average large company) in the industry composite.

Conclusion

For the last several years, Allstate has sought to achieve a cost of equity of 10% based on the results of the FF3F and DCF analyses. Allstate continues to believe in the validity of these actuarial methodologies, but this year, due to various circumstances, we believe that the output of the FF3F and DCF calculations is misleading. After making what we believe to be reasonable and appropriate adjustments to both of the methodologies, each justifies the selection of a 10% cost of equity. In addition, calculations performed on both the entire property/casualty insurance industry, plus a subsection of the largest companies within that industry, across a range of methodologies, suggest that a cost of equity of 10% is certainly reasonable, and even a higher return could perhaps be justified. Nevertheless, based on both actuarial judgment and the benefit of the stability of rates, Allstate believes that a continued target cost of equity of 10% is reasonable and justified.

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

Exhibits

ALLSTATE INSURANCE GROUP

Arkansas
Homeowners

Development of the Underwriting Profit

			Total	Source
(1)	Average Market Value of Equity:	$	25,562	App. 3, Exh. 2
(2)	Cost of Equity (%):		10.0%	App. 3, Exh. 1, Pg. 1
(3)	Cost of Equity ($):	$	2,556	=(1)*(2)
(4)	Dividend Payout Ratio:		0.69	App. 3, Exh. 3
(5)	Average Market-to-book Ratio:		1.41	App. 3, Exh. 4
(6)	Income Due Shareholders:	$	2,556	=(3)
(7)	Income Needed by Allstate:	$	2,268	=(6)/[(4)+(1-(4))*(5)]
(8)	Investment Income on Equity:	$	476	IDF*
(9)	Operating Income Needed:	$	1,792	=(7)-(8)
(10)	Earned Premium:	$	25,605	App. 3, Exh. 2
(11)	Operating Ratio:		7.0%	=(9)/(10)
(12)	Investment Income from PHSF**:		1.9%	App. 3, Exh. 5, Pg. 1
(13)	After-tax U/W Profit Provision:		5.1%	=(11)-(12)
(14)	Tax Rate:		35%	FIT***
(15)	Pre-tax U/W Income Needed by Allstate:		7.9%	=(13)/(1-(14))

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

Exhibit 2

ALLSTATE INSURANCE GROUP

Enterprise Valuation

($ In Millions)

Entity	GAAP Book Value*	Earned Premium*	Imputed Market Value**
Total Group	19,015	27,015	26,812
Allstate New Jersey Group	734	1,180	1,035
Castle Key Insurance Group	153	231	216
ANJ/CK	887	1,410	1,250
Group Less ANJ/CK	18,129	25,605	25,562

*As of 12/31/10

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

Exhibit 3

ALLSTATE CORPORATION

Dividend Payout Ratio

(1) Year	(2) Prior Year GAAP Net Income*	(3) Dividends	(4) Stock Repurchases (Net)	(5) = (3)+(4) Total Payout		(6) = (5)/(2) Total Payout Ratio
1997	$2,075	417	1,277	1,694		0.82
1998	$3,105	450	1,400	1,850		0.60
1999	3,294	482	864	1,346		0.41
2000	2,720	506	1385	1,891		0.70
2001	2,211	547	612	1,159		0.52
2002	1,158	594	383	977		0.84
2003	1,134	648	-48	600		0.53
2004	2,705	779	1111	1,890		0.70
2005	3,181	846	2,203	3,049		0.96
2006	1,765	885	1,516	1,765	**	1.00
2007	4,993	901	3,483	4,384		0.88
2008	4,636	897	1,281	2,178		0.47
2009	*-1,679*	*432*	*-27*	*405*	***	*-0.24*
2010	854	433	82	515		0.60
Total	33,831	8,385	15,549	23,298		**0.69**

Source: Allstate Annual Reports

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

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

***2009 was not included in the total due to the irregularity of the results.

Exhibit 4

ALLSTATE CORPORATION

Historical Market-to-book Ratios

Years	Allstate
Dec-01	1.38
Dec-02	1.47
Dec-03	1.47
Dec-04	1.62
Dec-05	1.73
Dec-06	1.85
Dec-07	1.35
Dec-08	1.39
Dec-09	0.97
Dec-10	0.89
10-yr Avg:	1.41
Selected:	**1.41**

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

Exhibit 5

Encompass Insurance Group
Other Than Automobile
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, given an Operating Profit of 7.0%
and twelve-month Policy Terms

Years From Start of Policy Year	Arkansas Cumulative Percent of Losses Paid	Arkansas Yearly Percent of Losses Paid	Time from Start of Policy Year	Discounted ** to avg time of profit @ 2.6%	Discounted Payments
1	25.7%	25.7%	0.70	1.008	25.9%
2	78.6%	52.9%	1.40	0.990	52.4%
3	89.8%	11.2%	2.40	0.964	10.8%
4	93.9%	4.1%	3.50	0.937	3.8%
5	96.3%	2.4%	4.50	0.913	2.2%
Subsequent	100.0%	3.7%	6.90	0.858	3.2%
Total		100.0%			98.3%
Expected Losses and Loss Expense Ratio					63.6%
Present Value of Loss and Loss Expense Payments					62.5%
General Expense		7.8%	0.75	1.007	7.9%
Other Acquisition		0.7%	0.63	1.010	0.7%
Taxes		2.9%	0.63	1.010	2.9%
Commissions		14.5%	0.58	1.011	14.7%
Debt Provision		1.4%	1.00	1.000	1.4%
Profit Provision		7.9%	1.00	1.000	7.9%
Contingency Provision		1.0%	1.00	1.000	1.0%
Licenses and Fees		0.2%	0.63	1.010	0.2%
Total Present Value of Outgo					99.2%
Premiums		100.0%	0.57	1.011	101.1%
Difference, Present Value of Income Less Present Value of Outgo					1.9%

*Discount rate from Investments Department forecast
**exp (0.026 x (timing of profit being earned - timing of cash flow))