

**State:** Arkansas **Filing Company:** Encompass Insurance Company of America  
**TOI/Sub-TOI:** 04.0 Homeowners/04.0000 Homeowners Sub-TOI Combinations  
**Product Name:** EICA OTA  
**Project Name/Number:** Rate Factor Revisions (OTA PSRM)/1170682

### Filing at a Glance

Company: Encompass Insurance Company of America  
 Product Name: EICA OTA  
 State: Arkansas  
 TOI: 04.0 Homeowners  
 Sub-TOI: 04.0000 Homeowners Sub-TOI Combinations  
 Filing Type: Rate  
 Date Submitted: 12/20/2012  
 SERFF Tr Num: ALSE-128821399  
 SERFF Status: Closed-Filed  
 State Tr Num:  
 State Status:  
 Co Tr Num: ER-2179: RATE FACTOR REVISIONS (OTA PSRM)

Effective Date Requested (New):  
 Effective Date 06/14/2013  
 Requested (Renewal):  
 Author(s): Andi Colosi  
 Reviewer(s): Becky Harrington (primary)  
 Disposition Date: 01/11/2013  
 Disposition Status: Filed  
 Effective Date (New):  
 Effective Date (Renewal): 06/14/2013

State Filing Description:

**State:** Arkansas **Filing Company:** Encompass Insurance Company of America  
**TOI/Sub-TOI:** 04.0 Homeowners/04.0000 Homeowners Sub-TOI Combinations  
**Product Name:** EICA OTA  
**Project Name/Number:** Rate Factor Revisions (OTA PSRM)/1170682

## General Information

Project Name: Rate Factor Revisions (OTA PSRM)	Status of Filing in Domicile:
Project Number: 1170682	Domicile Status Comments:
Reference Organization:	Reference Number:
Reference Title:	Advisory Org. Circular:
Filing Status Changed: 01/11/2013	
State Status Changed:	Deemer Date:
Created By: Celeste Vanduch	Submitted By: Celeste Vanduch
Corresponding Filing Tracking Number:	

### Filing Description:

With this filing, Encompass is proposing an overall rate change of 5.0%. In order to achieve the overall rate level change, Encompass has revised the Home Base Rates and the Condo Base Rates. Please reference the Home Rate Manual for the proposed changes.

Encompass is targeting a renewal business effective date of June 14, 2013.

Effective Date:  
 New Business: N/A  
 Renewals: 6/14/2013

## Company and Contact

### Filing Contact Information

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

### Filing Company Information

Encompass Insurance Company of America	CoCode: 10071	State of Domicile: Illinois
2775 Sanders Road	Group Code: 8	Company Type: Property and Casualty
Suite A2-W	Group Name: Allstate	State ID Number:
Northbrook, IL 60062	FEIN Number: 36-3976913	
(847) 402-5000 ext. [Phone]		

## Filing Fees

Fee Required?	Yes
Fee Amount:	\$100.00
Retaliatory?	No
Fee Explanation:	Filing and review of independent rate filings - \$100
Per Company:	No

SERFF Tracking #: ALSE-128821399 State Tracking #:

Company Tracking #: ER-2179: RATE FACTOR REVISIONS (OTA PSRM...

State: Arkansas Filing Company: Encompass Insurance Company of America  
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Company	Amount	Date Processed	Transaction #
Encompass Insurance Company of America	\$100.00	12/20/2012	65929373

**SERFF Tracking #:**

ALSE-128821399

**State Tracking #:****Company Tracking #:**ER-2179: RATE FACTOR REVISIONS  
(OTA PSRM...**State:**

Arkansas

**Filing Company:**

Encompass Insurance Company of America

**TOI/Sub-TOI:**

04.0 Homeowners/04.0000 Homeowners Sub-TOI Combinations

**Product Name:**

EICA OTA

**Project Name/Number:**

Rate Factor Revisions (OTA PSRM)/1170682

## Correspondence Summary

### Dispositions

Status	Created By	Created On	Date Submitted
Filed	Becky Harrington	01/11/2013	01/11/2013

### Objection Letters and Response Letters

#### Objection Letters

Status	Created By	Created On	Date Submitted
Pending Industry Response	Becky Harrington	01/09/2013	01/09/2013
Pending Industry Response	Becky Harrington	01/02/2013	01/02/2013

#### Response Letters

Responded By	Created On	Date Submitted
Andi Colosi	01/11/2013	01/11/2013
Andi Colosi	01/07/2013	01/07/2013

SERFF Tracking #:

ALSE-128821399

State Tracking #:

Company Tracking #:

ER-2179: RATE FACTOR REVISIONS  
(OTA PSRM...)

**State:** Arkansas  
**TOI/Sub-TOI:** 04.0 Homeowners/04.0000 Homeowners Sub-TOI Combinations  
**Product Name:** EICA OTA  
**Project Name/Number:** Rate Factor Revisions (OTA PSRM)/1170682

**Filing Company:** Encompass Insurance Company of America

## Disposition

Disposition Date: 01/11/2013  
 Effective Date (New):  
 Effective Date (Renewal): 06/14/2013  
 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	41.400%	5.000%	\$27,864	229	\$557,274	6.700%	3.100%

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 (revised)	Actuarial Support	Filed	Yes
Supporting Document	Actuarial Support		Yes
Rate	ManualHomeRates	Filed	Yes

State: Arkansas Filing Company: Encompass Insurance Company of America  
TOI/Sub-TOI: 04.0 Homeowners/04.0000 Homeowners Sub-TOI Combinations  
Product Name: EICA OTA  
Project Name/Number: Rate Factor Revisions (OTA PSRM)/1170682

**Objection Letter**

Objection Letter Status Pending Industry Response  
Objection Letter Date 01/09/2013  
Submitted Date 01/09/2013  
Respond By Date

Dear Andi Colosi,

**Introduction:**

This will acknowledge receipt of the recent response.

**Objection 1**

Comments: The private passenger auto reference is on Exhibit 1, page 9 of the ROE Update Summary ER-2179 attachment.

**Conclusion:**

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

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

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

Sincerely,  
Becky Harrington

State: Arkansas Filing Company: Encompass Insurance Company of America  
TOI/Sub-TOI: 04.0 Homeowners/04.0000 Homeowners Sub-TOI Combinations  
Product Name: EICA OTA  
Project Name/Number: Rate Factor Revisions (OTA PSRM)/1170682

**Objection Letter**

Objection Letter Status Pending Industry Response  
Objection Letter Date 01/02/2013  
Submitted Date 01/02/2013  
Respond By Date

Dear Andi Colosi,

**Introduction:**

This will acknowledge receipt of the captioned filing.

**Objection 1**

- Actuarial Support (Supporting Document)

Comments: Exhibit 1 references Private Passenger Auto. Please explain.

**Conclusion:**

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

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

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

Sincerely,  
Becky Harrington

State: Arkansas Filing Company: Encompass Insurance Company of America  
TOI/Sub-TOI: 04.0 Homeowners/04.0000 Homeowners Sub-TOI Combinations  
Product Name: EICA OTA  
Project Name/Number: Rate Factor Revisions (OTA PSRM)/1170682

## Response Letter

Response Letter Status Submitted to State  
Response Letter Date 01/11/2013  
Submitted Date 01/11/2013

Dear Becky Harrington,

**Introduction:**

Thanks for your help, Becky! We apologize for missing that PPA reference. Please see our response below and let us know if you need any additional information.

Have a good day,  
Andi

**Response 1**

**Comments:**

Private Passenger Auto Exhibit 1 was inadvertently included with this filing. Please reference the attached revised ROE Update Summary Document.

**Related Objection 1**

Comments: The private passenger auto reference is on Exhibit 1, page 9 of the ROE Update Summary ER-2179 attachment.

**Changed Items:**

<b>State:</b> Arkansas	<b>Filing Company:</b> Encompass Insurance Company of America
<b>TOI/Sub-TOI:</b> 04.0 Homeowners/04.0000 Homeowners Sub-TOI Combinations	
<b>Product Name:</b> EICA OTA	
<b>Project Name/Number:</b> Rate Factor Revisions (OTA PSRM)/1170682	

### Supporting Document Schedule Item Changes

Satisfied - Item:	Actuarial Support
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Comments:

Attachment(s):

- 02. OTA Indication Memo ER-2179.pdf
- 03. Indication Exhibits ER-2179.pdf
- 04. Attachment\_A\_Contingency Memo ER-2179.pdf
- 01. ROE Update Summary ER-2179.pdf

*Previous Version*

<i>Satisfied - Item:</i>	<i>Actuarial Support</i>
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*Comments:*

*Attachment(s):*

- 02. OTA Indication Memo ER-2179.pdf*
- 03. Indication Exhibits ER-2179.pdf*
- 04. Attachment\_A\_Contingency Memo ER-2179.pdf*
- 05. ROE Update Summary ER-2179.pdf*

No Form Schedule items changed.

No Rate/Rule Schedule items changed.

**Conclusion:**

Sincerely,  
Andi Colosi

State: Arkansas Filing Company: Encompass Insurance Company of America  
TOI/Sub-TOI: 04.0 Homeowners/04.0000 Homeowners Sub-TOI Combinations  
Product Name: EICA OTA  
Project Name/Number: Rate Factor Revisions (OTA PSRM)/1170682

## Response Letter

Response Letter Status Submitted to State  
Response Letter Date 01/07/2013  
Submitted Date 01/07/2013

Dear Becky Harrington,

**Introduction:**

Hi Becky: Thanks for your help with this filing. Please let us know if you have any additional questions or concerns.

Thanks,  
Andi

**Response 1**

**Comments:**

We apologize, however, we do not see a reference to Private Passenger Auto. Can you point us in the right direction, or perhaps this was confused with another filing?

**Related Objection 1**

Applies To:

- Actuarial Support (Supporting Document)

Comments: Exhibit 1 references Private Passenger Auto. Please explain.

**Changed Items:**

No Supporting Documents changed.

No Form Schedule items changed.

No Rate/Rule Schedule items changed.

**Conclusion:**

Sincerely,  
Andi Colosi

SERFF Tracking #:

ALSE-128821399

State Tracking #:

Company Tracking #:

ER-2179: RATE FACTOR REVISIONS  
(OTA PSRM...

State:

Arkansas

Filing Company:

Encompass Insurance Company of America

TOI/Sub-TOI:

04.0 Homeowners/04.0000 Homeowners Sub-TOI Combinations

Product Name:

EICA OTA

Project Name/Number:

Rate Factor Revisions (OTA PSRM)/1170682

### Rate Information

Rate data applies to filing.

Filing Method:

File & Use

Rate Change Type:

Increase

Overall Percentage of Last Rate Revision:

3.000%

Effective Date of Last Rate Revision:

01/17/2013

Filing Method of Last Filing:

File & 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	41.400%	5.000%	\$27,864	229	\$557,274	6.700%	3.100%

State: Arkansas      Filing Company: Encompass Insurance Company of America  
 TOI/Sub-TOI: 04.0 Homeowners/04.0000 Homeowners Sub-TOI Combinations  
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## Rate/Rule Schedule

Item No.	Schedule Item Status	Exhibit Name	Rule # or Page #	Rate Action	Previous State Filing Number	Attachments
1	Filed 01/11/2013	ManualHomeRates	Home Base Premiums, Condo Base Rates	Replacement		10. Home Rates Manual ER-2179.pdf

ARKANSAS USP PACKAGE PREMISES RATE PAGES

**BASE RATES**

Territory	Homes	Condos
30	<u>1443</u>	<u>447</u>
31	<u>1608</u>	<u>447</u>
32	<u>1718</u>	<u>447</u>
36	<u>1365</u>	<u>447</u>
39	<u>1598</u>	<u>447</u>
40	<u>1108</u>	<u>447</u>
41	<u>1398</u>	<u>447</u>
44	<u>1169</u>	<u>447</u>
60	<u>1442</u>	<u>447</u>
61	<u>1221</u>	<u>447</u>
62	<u>1747</u>	<u>447</u>
63	<u>1731</u>	<u>447</u>
64	<u>1660</u>	<u>447</u>
65	<u>1502</u>	<u>447</u>
66	<u>1158</u>	<u>447</u>
67	<u>1412</u>	<u>447</u>
68	<u>1422</u>	<u>447</u>
71	<u>1555</u>	<u>447</u>
72	<u>1208</u>	<u>447</u>
100	<u>1232</u>	<u>447</u>
101	<u>1622</u>	<u>447</u>

State: Arkansas Filing Company: Encompass Insurance Company of America  
 TOI/Sub-TOI: 04.0 Homeowners/04.0000 Homeowners Sub-TOI Combinations  
 Product Name: EICA OTA  
 Project Name/Number: Rate Factor Revisions (OTA PSRM)/1170682

## Supporting Document Schedules

		Item Status:	Status Date:
Satisfied - Item:	H-1 Homeowners Abstract	Filed	01/11/2013
Comments:			
Attachment(s):	08. H-1 ER-2179.pdf 09. StateFilingForm_H-1_Response To Question 5_ER-2179.pdf		

		Item Status:	Status Date:
Satisfied - Item:	HPCS-Homeowners Premium Comparison Survey	Filed	01/11/2013
Comments:			
Attachment(s):	07. StateFilingForm_HO Survey FORM HPCS_ER2179_V1.xls 07. StateFilingForm_HO Survey FORM HPCS_ER2179_V1.pdf		

		Item Status:	Status Date:
Satisfied - Item:	NAIC loss cost data entry document	Filed	01/11/2013
Comments:			
Attachment(s):	06. StateFilingForm_FORM RF-1 Rate Filing Abstract_ER2179.pdf		

		Item Status:	Status Date:
Satisfied - Item:	Actuarial Support	Filed	01/11/2013
Comments:			
Attachment(s):	02. OTA Indication Memo ER-2179.pdf 03. Indication Exhibits ER-2179.pdf 04. Attachment_A_Contingency Memo ER-2179.pdf 01. ROE Update Summary ER-2179.pdf		

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 costs 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 29 %

company

- 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	\$518,354
Condo/Renter	\$9,524
Dwelling Fire	\$29,396

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.

aking@allstate.com Digitally signed by aking@allstate.com  
DN: cn=aking@allstate.com  
Date: 2012.12.18 14:33:30 -0600

---

Signature

Andrew King

---

Printed Name

Technician Analyst

---

Title

847-402-5218

---

Telephone Number

aking@allstate.com

---

Email address

**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:	10071
Company Name:	Encompass Insurance Company of America
Contact Person:	Andrew King
Telephone No.:	847-402-5812
Email Address:	aking@allstate.com
Effective Date:	6/14/2013

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

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

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

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	\$813.00	\$903.00	\$1,071.00	\$1,202.00	\$1,197.00	\$1,343.00	\$1,319.00	\$1,478.00	\$1,120.00	\$1,256.00	\$1,218.00	\$1,364.00	\$905.00	\$1,011.00	\$1,035.00	\$1,162.00	\$1,206.00	\$1,351.00
	\$120,000	\$1,133.00	\$1,271.00	\$1,507.00	\$1,686.00	\$1,680.00	\$1,880.00	\$1,847.00	\$2,064.00	\$1,574.00	\$1,760.00	\$1,709.00	\$1,909.00	\$1,272.00	\$1,425.00	\$1,458.00	\$1,631.00	\$1,692.00	\$1,892.00
	\$160,000	\$1,407.00	\$1,575.00	\$1,863.00	\$2,081.00	\$2,075.00	\$2,318.00	\$2,278.00	\$2,544.00	\$1,944.00	\$2,172.00	\$2,108.00	\$2,354.00	\$1,577.00	\$1,763.00	\$1,803.00	\$2,014.00	\$2,089.00	\$2,332.00
6	\$80,000	\$1,070.00	\$1,214.00	\$1,425.00	\$1,610.00	\$1,590.00	\$1,796.00	\$1,749.00	\$1,974.00	\$1,488.00	\$1,682.00	\$1,615.00	\$1,825.00	\$1,203.00	\$1,361.00	\$1,378.00	\$1,558.00	\$1,601.00	\$1,808.00
	\$120,000	\$1,506.00	\$1,506.00	\$1,992.00	\$1,992.00	\$2,218.00	\$2,218.00	\$2,436.00	\$2,436.00	\$2,079.00	\$2,079.00	\$2,253.00	\$2,253.00	\$1,687.00	\$1,687.00	\$1,927.00	\$1,927.00	\$2,234.00	\$2,234.00
	\$160,000	\$1,862.00	\$2,101.00	\$2,456.00	\$2,765.00	\$2,731.00	\$3,075.00	\$2,997.00	\$3,373.00	\$2,563.00	\$2,884.00	\$2,774.00	\$3,124.00	\$2,083.00	\$2,348.00	\$2,377.00	\$2,679.00	\$2,750.00	\$3,096.00
9	\$80,000	\$2,906.00	\$3,409.00	\$3,814.00	\$4,467.00	\$4,237.00	\$4,962.00	\$4,643.00	\$5,434.00	\$3,976.00	\$4,657.00	\$4,304.00	\$5,037.00	\$3,243.00	\$3,801.00	\$3,694.00	\$4,328.00	\$4,266.00	\$4,993.00
	\$120,000	\$4,023.00	\$4,711.00	\$5,267.00	\$6,162.00	\$5,848.00	\$6,840.00	\$6,403.00	\$7,487.00	\$5,490.00	\$6,423.00	\$5,937.00	\$6,945.00	\$4,484.00	\$5,250.00	\$5,103.00	\$5,971.00	\$5,884.00	\$6,883.00
	\$160,000	\$4,935.00	\$5,775.00	\$6,454.00	\$7,547.00	\$7,163.00	\$8,374.00	\$7,840.00	\$9,166.00	\$6,727.00	\$7,865.00	\$7,272.00	\$8,502.00	\$5,499.00	\$6,433.00	\$6,253.00	\$7,313.00	\$7,209.00	\$8,428.00

**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	\$384.00	\$384.00	\$384.00	\$384.00	\$384.00	\$384.00	\$384.00	\$384.00	\$384.00	\$384.00	\$384.00	\$384.00	\$384.00	\$384.00	\$384.00	\$384.00	\$384.00	\$384.00
6	\$5,000																		
	\$15,000																		
	\$25,000	\$384.00	\$384.00	\$384.00	\$384.00	\$384.00	\$384.00	\$384.00	\$384.00	\$384.00	\$384.00	\$384.00	\$384.00	\$384.00	\$384.00	\$384.00	\$384.00	\$384.00	\$384.00
9	\$5,000																		
	\$15,000																		
	\$25,000	\$384.00	\$384.00	\$384.00	\$384.00	\$384.00	\$384.00	\$384.00	\$384.00	\$384.00	\$384.00	\$384.00	\$384.00	\$384.00	\$384.00	\$384.00	\$384.00	\$384.00	\$384.00

**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	\$492.00	\$554.00	\$641.00	\$721.00	\$709.00	\$799.00	\$786.00	\$862.00	\$676.00	\$742.00	\$720.00	\$811.00	\$547.00	\$617.00	\$621.00	\$699.00	\$714.00	\$804.00
	\$120,000	\$674.00	\$760.00	\$878.00	\$988.00	\$973.00	\$1,095.00	\$1,077.00	\$1,182.00	\$926.00	\$1,016.00	\$988.00	\$1,112.00	\$750.00	\$844.00	\$851.00	\$959.00	\$979.00	\$1,103.00
	\$160,000	\$824.00	\$927.00	\$1,072.00	\$1,207.00	\$1,188.00	\$1,350.00	\$1,326.00	\$1,467.00	\$1,131.00	\$1,242.00	\$1,206.00	\$1,373.00	\$916.00	\$1,031.00	\$1,039.00	\$1,170.00	\$1,195.00	\$1,359.00
6	\$80,000	\$641.00	\$727.00	\$833.00	\$947.00	\$923.00	\$1,049.00	\$1,022.00	\$1,132.00	\$879.00	\$973.00	\$937.00	\$1,065.00	\$713.00	\$810.00	\$808.00	\$919.00	\$930.00	\$1,056.00
	\$120,000	\$878.00	\$997.00	\$1,142.00	\$1,306.00	\$1,270.00	\$1,461.00	\$1,422.00	\$1,588.00	\$1,206.00	\$1,346.00	\$1,291.00	\$1,486.00	\$977.00	\$1,110.00	\$1,107.00	\$1,262.00	\$1,279.00	\$1,472.00
	\$160,000	\$1,071.00	\$1,218.00	\$1,413.00	\$1,624.00	\$1,581.00	\$1,815.00	\$1,767.00	\$1,969.00	\$1,500.00	\$1,674.00	\$1,607.00	\$1,844.00	\$1,192.00	\$1,368.00	\$1,366.00	\$1,571.00	\$1,592.00	\$1,827.00
9	\$80,000	\$1,687.00	\$2,019.00	\$2,236.00	\$2,668.00	\$2,492.00	\$2,972.00	\$2,776.00	\$3,217.00	\$2,367.00	\$2,746.00	\$2,532.00	\$3,018.00	\$1,891.00	\$2,259.00	\$2,163.00	\$2,583.00	\$2,510.00	\$2,991.00
	\$120,000	\$2,363.00	\$2,818.00	\$3,115.00	\$3,708.00	\$3,468.00	\$4,124.00	\$3,856.00	\$4,459.00	\$3,295.00	\$3,815.00	\$3,521.00	\$4,188.00	\$2,642.00	\$3,148.00	\$3,016.00	\$3,590.00	\$3,489.00	\$4,150.00
	\$160,000	\$2,914.00	\$3,470.00	\$3,834.00	\$4,557.00	\$4,264.00	\$5,064.00	\$4,737.00	\$5,476.00	\$4,054.00	\$4,688.00	\$4,329.00	\$5,143.00	\$3,256.00	\$3,874.00	\$3,713.00	\$4,414.00	\$4,291.00	\$5,097.00

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

**HO3 and HO4 only**

Fire Extinguisher	<input type="text"/>	%	Deadbolt Lock	<input type="text"/>	%
Burglar Alarm	2 to 5	%	Window Locks	<input type="text"/>	%
Smoke Alarm	2 to 5	%	\$1,000 Deductible	17	%
			Other (specify)	<input type="text"/>	%
			Maximum Credit Allowed	<input type="text"/>	%

**EARTHQUAKE INSURANCE**

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

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

WHAT IS YOUR PERCENTAGE DEDUCTIBLE?  %

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

Zone	Brick	Frame
Highest Risk	\$ <input type="text"/>	\$ <input type="text"/>
Lowest Risk	\$ <input type="text"/>	\$ <input type="text"/>

### NAIC LOSS COST DATA ENTRY DOCUMENT

<b>1.</b>	This filing transmittal is part of Company Tracking #	<b>ER-2179</b>
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<b>2.</b>	If filing is an adoption of an advisory organization loss cost filing, give name of Advisory Organization and Reference/ Item Filing Number	
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Company Name		Company NAIC Number		
<b>3.</b>	<b>A.</b>	<b>Encompass Insurance Company of America</b>	<b>B.</b>	<b>008-10071</b>

Product Coding Matrix Line of Business (i.e., Type of Insurance)		Product Coding Matrix Line of Insurance (i.e., Sub-type of Insurance)		
<b>4.</b>	<b>A.</b>	<b>Homeowners 4.0</b>	<b>B.</b>	<b>N/A</b>

<b>5.</b>			<b>FOR LOSS COSTS ONLY</b>				
(A) COVERAGE (See Instructions)	(B) Indicated % Rate Level Change	(C) Requested % Rate Level Change	(D) Expected Loss Ratio	(E) Loss Cost Modification Factor	(F) Selected Loss Cost Multiplier	(G) Expense Constant (If Applicable)	(H) Co. Current Loss Cost Multiplier
<b>Homeowners</b>	<b>39.8%</b>	<b>5.0%</b>					
<b>Dwelling Fire</b>	<b>89.5%</b>	<b>5.0%</b>					
<b>Condo/Renters</b>	<b>21.2%</b>	<b>5.0%</b>					
<b>TOTAL OVERALL EFFECT</b>	<b>41.4%</b>	<b>5.0%</b>					

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

<b>7.</b>	
Expense Constants	Selected Provisions
A. Total Production Expense	<b>15.5%</b>
B. General Expense	<b>8.4%</b>
C. Taxes, License & Fees	<b>3.1%</b>
D. Underwriting Profit & Contingencies	<b>8.9%</b>
E. Other (Debt Provision)	<b>1.4%</b>
<b>F. TOTAL</b>	<b>37.3%</b>

- 8.**   N   Apply Lost Cost Factors to Future filings? (Y or N)
- 9.**   6.7%   Estimated Maximum Rate Increase for any Insured (%). Territory (if applicable):   30
- 10.**            Estimated Maximum Rate Decrease for any Insured (%) Territory (if applicable):

Encompass Insurance Company of America  
Other Than Automobile  
Arkansas

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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.

<u>Coverage</u>	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 Selected Rate Level Change
Home	\$2,093,825	39.8%	\$518,354	5.0%
Dwelling Fire	\$85,465	89.5%	\$29,396	5.0%
Condo/Renters	\$40,684	21.2%	\$9,524	5.0%
<b>Total Other Than Automobile</b>	<b>\$2,219,974</b>	<b>41.4%</b>	<b>\$557,274</b>	<b>5.0%</b>

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:

**Home Rate Manual**

***Home Base Rates***

With this filing, Encompass is revising the Home Base rates to achieve the overall selected rate level. Please reference the Home Rate Manual for the revised rates.

***Condo Base Rates***

With this filing, Encompass is revising the Condo Base rates to achieve the overall selected rate level. Please reference the Home Rate Manual for the revised rates.

## **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 pure premium 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, Dwelling Fire, and Condo/Renters with losses ending **March 31, 2012**, evaluated as of **June 30, 2012**.

### **Experience Year Weights**

In order to develop a credible measure of the indicated rate level, it is sometimes necessary to use more than one year of historical loss experience. Data for up to five 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 because of limited Arkansas specific historical data. 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, Dwelling Fire, and Condo/Renters. 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** and Industry trend data is included in **Exhibit 8.C**. 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-hurricane, 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 non-modeled 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.

#### **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 expenses, other acquisition expenses, and licenses and 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 2011 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**.

Contingency Provision

Encompass selected a 1% Contingency Provision. Please reference **Attachment A** for further information.

Underwriting Profit/Operating Profit

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

<u>Coverage</u>	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 Selected Rate Level Change
Home	\$2,093,825	39.8%	\$518,354	5.0%
Dwelling Fire	\$85,465	89.5%	\$29,396	5.0%
Condo/Renters	\$40,684	21.2%	\$9,524	5.0%
<b>Total Other Than Automobile</b>	<b>\$2,219,974</b>	<b>41.4%</b>	<b>\$557,274</b>	<b>5.0%</b>

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Exhibit 2.A.1

Development of Statewide Rate Level Indication - Home

1)	Current Fixed Expense Ratio ( Exhibit 10.A )	9.5 %
2)	Three Year Average Earned Premium	\$1,622.54
3)	Current Dollar Provision for Fixed Expense = [ (1) x (2) ]	\$154.14
4)	Factor to Adjust for Subsequent Change in Fixed Expense ( Exhibit 10.B )	1.094
5)	Indicated Provision for Fixed Expense = [ (3) x (4) ]	\$168.63
6)	Variable Expense and Profit Ratio ( Exhibit 11 )	27.8 %
7)	Home Non-Cat Indicated Provision for Loss and LAE ( Exhibit 4.1 )	\$1,210.48
8)	Average Non-Modeled Catastrophe Factor ( Exhibit 9.A )	0.339
9)	Indicated Provision for Loss and LAE = [ (7) x [1 + (8)] ]	\$1,620.83
10)	Indicated Average Premium = [ (9) + (5) ] / [ 1 - (6) ]	\$2,478.48
11)	Projected Average Earned Premium at Current Rates ( Exhibit 3.1 )	\$1,772.76
12)	Indicated Rate Level Change = [ (10) / (11) - 1 ]	39.8 %

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Exhibit 2.A.2

Development of Statewide Rate Level Indication - Dwelling Fire

1)	Current Fixed Expense Ratio ( Exhibit 10.A )	9.5 %
2)	Three Year Average Earned Premium	\$1,054.14
3)	Current Dollar Provision for Fixed Expense = [ (1) x (2) ]	\$100.14
4)	Factor to Adjust for Subsequent Change in Fixed Expense ( Exhibit 10.B )	1.094
5)	Indicated Provision for Fixed Expense = [ (3) x (4) ]	\$109.55
6)	Variable Expense and Profit Ratio ( Exhibit 11 )	27.8 %
7)	Dwelling Fire Non-Cat Indicated Provision for Loss and LAE = { [ Exhibit 2.A.1 (7) ] x [ Exhibit 2.B ] }	\$907.86
8)	Average Non-Modeled Catastrophe Factor ( Exhibit 9.A )	0.339
9)	Indicated Provision for Loss and LAE = [ (7) x [1 + (8)] ]	\$1,215.62
10)	Indicated Average Premium = [ (9) + (5) ] / [ 1 - (6) ]	\$1,835.42
11)	Projected Average Earned Premium at Current Rates ( Exhibit 3.2 )	\$968.31
12)	Indicated Rate Level Change = [ (10) / (11) - 1 ]	89.5 %

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Exhibit 2.A.3

Development of Statewide Rate Level Indication - Condo/Renters

1)	Current Fixed Expense Ratio ( Exhibit 10.A )	9.5 %
2)	Three Year Average Earned Premium	\$460.39
3)	Current Dollar Provision for Fixed Expense = [ (1) x (2) ]	\$43.74
4)	Factor to Adjust for Subsequent Change in Fixed Expense ( Exhibit 10.B )	1.094
5)	Indicated Provision for Fixed Expense = [ (3) x (4) ]	\$47.85
6)	Variable Expense and Profit Ratio ( Exhibit 11 )	27.8 %
7)	Condo/Renters Non-Cat Indicated Provision for Loss and LAE = { [ Exhibit 2.A.1 (7) ] x [ Exhibit 2.B ] }	\$266.31
8)	Average Non-Modeled Catastrophe Factor ( Exhibit 9.A )	0.339
9)	Indicated Provision for Loss and LAE = [ (7) x [1 + (8)] ]	\$356.59
10)	Indicated Average Premium = [ (9) + (5) ] / [ 1 - (6) ]	\$560.17
11)	Projected Average Earned Premium at Current Rates ( Exhibit 3.3 )	\$462.26
12)	Indicated Rate Level Change = [ (10) / (11) - 1 ]	21.2 %

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
2003 Q1	523	316	0.603
2004 Q1	410	280	0.682
2005 Q1	227	717	3.157
2006 Q1	337	914	2.714
2007 Q1	515	158	0.306
2008 Q1	1140	688	0.604
2009 Q1	865	656	0.758
2010 Q1	1085	382	0.352
2011 Q1	779	109	0.140
2012 Q1	684	159	0.232
		Straight Average	0.955
		Weighted Average	0.756
		<b>Selected Ratio</b>	<b>0.750</b>

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
2003 Q1	523	115	0.220
2004 Q1	410	119	0.290
2005 Q1	227	3	0.012
2006 Q1	337	121	0.359
2007 Q1	515	9	0.018
2008 Q1	1140	100	0.087
2009 Q1	865	692	0.800
2010 Q1	1085	21	0.019
2011 Q1	779	82	0.105
2012 Q1	684	21	0.030
		Straight Average	0.194
		Weighted Average	0.234
		<b>Selected Ratio</b>	<b>0.220</b>

Encompass Insurance Group  
Other Than Automobile  
Arkansas

Exhibit 3.1

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 <u>Ending</u>	<u>Earned Exposures</u>	<u>Earned Premium at Current Rates</u>	<u>Factor to Adjust to Projected Premium Level</u>	<u>Projected Earned Premium at Current Rates</u>	<u>Projected Average Earned Premium at Current Rates</u>	<u>Experience Weights</u>
3/31/2012	1,239	\$2,196,447	1.000	\$2,196,447	\$1,772.76	100 %
					(7) Projected Average Earned Premium At Current Rates \$1,772.76	

Encompass Insurance Group  
Other Than Automobile  
Arkansas

Exhibit 3.2

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 <u>Ending</u>	<u>Earned Exposures</u>	<u>Earned Premium at Current Rates</u>	<u>Factor to Adjust to Projected Premium Level</u>	<u>Projected Earned Premium at Current Rates</u>	<u>Projected Average Earned Premium at Current Rates</u>	<u>Experience Year Weights</u>
3/31/2012	89	\$93,572	0.921	\$86,180	\$968.31	100 %
					(7) Projected Average Earned Premium At Current Rates \$968.31	

Encompass Insurance Group  
Other Than Automobile  
Arkansas

Exhibit 3.3

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 <u>Ending</u>	<u>Earned Exposures</u>	<u>Earned Premium at Current Rates</u>	<u>Factor to Adjust to Projected Premium Level</u>	<u>Projected Earned Premium at Current Rates</u>	<u>Projected Average Earned Premium at Current Rates</u>	<u>Experience Year Weights</u>
3/31/2012	104	\$50,766	0.947	\$48,075	\$462.26	100 %
					(7) Projected Average Earned Premium At Current Rates \$462.26	

Encompass Insurance Group  
Other Than Automobile  
Arkansas

Exhibit 4.1

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
3/31/2008	2,310	\$1,520,485	0.138	\$1,730,312	1.22	1.301	\$2,746,386	\$1,188.91	20 %
3/31/2009	2,103	1,285,456	0.138	1,462,849	1.22	1.251	\$2,232,629	\$1,061.64	20
3/31/2010	1,797	1,754,994	0.138	1,997,183	1.22	1.203	\$2,931,186	\$1,631.16	20
3/31/2011	1,459	1,054,520	0.138	1,200,044	1.22	1.156	\$1,692,446	\$1,160.00	20
3/31/2012	1,239	811,121	0.138	923,056	1.22	1.112	\$1,252,255	\$1,010.70	20
								\$1,210.48	

(10) Non-Cat Indicated Provision for Loss and LAE

Encompass Insurance Group  
Other Than Automobile  
Arkansas

Exhibit 5.A

Calculation of Premium Trend Factors

<u>Coverage</u>	<u>Selected Annual Premium Impacts</u>
	<u>Projected</u>
Home	0.0%
Dwelling Fire	-3.0%
Condo/Renters	-2.0%

	<u>Calculation of Premium Trend Period</u>
	<u>Current Year</u>
1) Average Earned Date of Proposed Policy Period	6/14/2014
2) Mid-Point of Current Year's Experience Period	9/30/2011
3) Experience Period Ended	3/31/2012
4) Midpoint of Experience Period	9/30/2011
5) Historical: Number of Years from (4) to (2)	0.000
6) Projected: Number of Years from (2) to (1)	2.704

	<u>Factor to Adjust to Projected Premium Level</u>
<u>Coverage</u>	<u>Current Year</u>
Home	1.000
Dwelling Fire	0.921
Condo/Renters	0.947

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

Encompass Insurance Group  
Other Than Automobile  
Arkansas

Exhibit 5.B.1

Premium Trends - Homeowners

Year Ending	Average Written Premium @ CRL	Annual % Change	Exponential Curve of Best Fit (\$)		
			20 pt.	12 pt.	6 pt.
09/07	\$1,821.55	-3.9 %	1,802.87		
12/07	1,818.39	-3.5	1,802.97		
03/08	1,781.33	-5.9	1,803.06		
06/08	1,818.38	-2.1	1,803.16		
09/08	1,794.65	-1.5	1,803.25		
12/08	1,784.40	-1.9	1,803.35		
03/09	1,781.64	0.0	1,803.45		
06/09	1,790.90	-1.5	1,803.54		
09/09	1,799.36	0.3	1,803.64	1,811.98	
12/09	1,815.21	1.7	1,803.74	1,811.09	
03/10	1,807.03	1.4	1,803.83	1,810.20	
06/10	1,800.60	0.5	1,803.93	1,809.31	
09/10	1,805.79	0.4	1,804.02	1,808.42	
12/10	1,827.89	0.7	1,804.12	1,807.54	
03/11	1,829.00	1.2	1,804.22	1,806.65	1,819.46
06/11	1,819.07	1.0	1,804.31	1,805.76	1,813.62
09/11	1,806.47	0.0	1,804.41	1,804.88	1,807.80
12/11	1,774.90	-2.9	1,804.50	1,803.99	1,802.01
03/12	1,786.16	-2.3	1,804.60	1,803.11	1,796.23
06/12	1,814.41	-0.3	1,804.70	1,802.22	1,790.46
<b>Regression</b>			<b>20 pt.</b>	<b>12 pt.</b>	<b>6 pt.</b>
Avg Annual Percent Change Based on Best Fit:			0.0 %	-0.2 %	-1.3 %

Encompass Insurance Group  
Other Than Automobile  
Arkansas

Exhibit 5.B.2

Premium Trends - Dwelling Fire

Year Ending	Average Written Premium @ CRL	Annual % Change	Exponential Curve of Best Fit (\$)		
			20 pt.	12 pt.	6 pt.
09/07	1,208.44	9.2 %	1232.96		
12/07	1,181.33	7.7	1224.26		
03/08	1,167.14	2.9	1215.62		
06/08	1,241.77	7.0	1207.04		
09/08	1,145.68	-5.2	1198.52		
12/08	1,227.87	3.9	1190.06		
03/09	1,190.17	2.0	1181.66		
06/09	1,177.28	-5.2	1173.32		
09/09	1,199.67	4.7	1165.04	1216.74	
12/09	1,181.98	-3.7	1156.81	1199.95	
03/10	1,225.08	2.9	1148.65	1183.39	
06/10	1,208.97	2.7	1140.54	1167.06	
09/10	1,155.60	-3.7	1132.49	1150.95	
12/10	1,068.28	-9.6	1124.50	1135.07	
03/11	1,092.48	-10.8	1116.56	1119.40	1123.69
06/11	1,107.83	-8.4	1108.68	1103.95	1107.66
09/11	1,125.37	-2.6	1100.86	1088.72	1091.87
12/11	1,102.71	3.2	1093.09	1073.70	1076.29
03/12	1,062.06	-2.8	1085.37	1058.88	1060.95
06/12	1,017.44	-8.2	1077.71	1044.27	1045.82
<b>Regression</b>			<b>20 pt.</b>	<b>12 pt.</b>	<b>6 pt.</b>
Avg Annual Percent Change Based on Best Fit:			-2.8 %	-5.4 %	-5.6 %

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.
09/07	\$559.81	-14.6 %	535.97		
12/07	541.03	-12.6	532.70		
03/08	533.62	-7.9	529.45		
06/08	520.57	-12.7	526.21		
09/08	494.83	-11.6	523.00		
12/08	497.37	-8.1	519.81		
03/09	505.45	-5.3	516.64		
06/09	498.27	-4.3	513.48		
09/09	516.35	4.4	510.35	524.45	
12/09	495.14	-0.5	507.23	519.42	
03/10	517.12	2.3	504.14	514.44	
06/10	508.43	2.0	501.06	509.51	
09/10	500.11	-3.2	498.00	504.62	
12/10	537.69	8.6	494.96	499.79	
03/11	505.64	-2.2	491.94	494.99	512.96
06/11	516.60	1.6	488.94	490.25	500.72
09/11	499.35	-0.2	485.95	485.55	488.78
12/11	448.35	-16.6	482.99	480.89	477.12
03/12	469.09	-7.2	480.04	476.28	465.74
06/12	462.32	-10.5	477.11	471.72	454.63
<b>Regression</b>			<b>20 pt.</b>	<b>12 pt.</b>	<b>6 pt.</b>
Avg Annual Percent Change Based on Best Fit:			-2.4 %	-3.8 %	-9.2 %

Encompass Insurance Group  
Other Than Automobile  
Arkansas

Exhibit 6.1.a

Incurred Loss + ALAE Development Factors - Home Limited

Fiscal Accident <u>Year Ending</u>	<u>15 Months</u>	<u>27 Months</u>	<u>39 Months</u>	<u>51 Months</u>	<u>63 Months</u>	<u>75 Months</u>	<u>87 Months</u>	<u>99 Months</u>	<u>111 Months</u>	<u>123 Months</u>
3/31/1999									609,582	609,582
3/31/2000								1,549,817	1,555,196	1,555,196
3/31/2001							2,475,533	2,475,533	2,475,533	2,475,533
3/31/2002						2,062,508	2,062,508	2,062,508	2,062,508	2,062,508
3/31/2003					1,736,131	1,736,131	1,736,131	1,736,131	1,736,131	1,736,131
3/31/2004				1,202,996	1,202,996	1,202,996	1,202,996	1,202,996	1,202,996	
3/31/2005			1,050,057	1,052,540	1,052,540	1,052,540	1,052,540	1,052,540		
3/31/2006		787,651	787,651	787,651	787,651	787,651	787,651			
3/31/2007	1,221,203	1,245,676	1,236,943	1,236,932	1,247,504	1,247,603				
3/31/2008	1,440,372	1,490,986	1,503,215	1,506,922	1,506,922					
3/31/2009	1,250,471	1,263,211	1,267,456	1,267,706						
3/31/2010	1,602,019	1,710,435	1,715,537							
3/31/2011	999,241	1,013,962								
3/31/2012	731,397									
				Link Ratios						
<u>Development</u>	<u>15 to 27</u>	<u>27 to 39</u>	<u>39 to 51</u>	<u>51 to 63</u>	<u>63 to 75</u>	<u>75 to 87</u>	<u>87 to 99</u>	<u>99 to 111</u>	<u>111 to 123</u>	
4th Prior	1.020	1.000	1.002	1.000	1.000	1.000	1.000	1.003	1.000	
3rd Prior	1.035	0.993	1.000	1.000	1.000	1.000	1.000	1.000	1.000	
2nd Prior	1.010	1.008	1.000	1.000	1.000	1.000	1.000	1.000	1.000	
1st Prior	1.068	1.003	1.002	1.009	1.000	1.000	1.000	1.000	1.000	
Latest	1.015	1.003	1.000	1.000	1.000	1.000	1.000	1.000	1.000	
5 Yr Mean Ex-HiLo	1.023	1.002	1.001	1.000	1.000	1.000	1.000	1.000	1.000	
Volume Weighted 5 Yr Mean	1.032	1.002	1.001	1.002	1.000	1.000	1.000	1.001	1.000	
Volume Weighted 4 Yr Mean	1.035	1.002	1.001	1.002	1.000	1.000	1.000	1.000	1.000	
Volume Weighted 3 Yr Mean	1.035	1.005	1.001	1.003	1.000	1.000	1.000	1.000	1.000	
Average:	1.030	1.001	1.001	1.002	1.000	1.000	1.000	1.001	1.000	
Selected Countrywide:	1.067	1.016	1.009	1.005	1.004	1.002	1.001	1.001	1.001	
Loss Development Period ( months ):	<u>15 - 123</u>	<u>27 - 123</u>	<u>39 - 123</u>	<u>51 - 123</u>	<u>63 - 123</u>	<u>75 - 123</u>	<u>87 - 123</u>	<u>99 - 123</u>	<u>111 - 123</u>	
Loss Development Factor:	1.109	1.040	1.023	1.014	1.009	1.005	1.003	1.002	1.001	

Encompass Insurance Group  
Other Than Automobile  
Arkansas

Exhibit 6.1.b

Incurred Loss + ALAE Development Factors - Home Unlimited

Fiscal Accident <u>Year Ending</u>	<u>15 Months</u>	<u>27 Months</u>	<u>39 Months</u>	<u>51 Months</u>	<u>63 Months</u>	<u>75 Months</u>	<u>87 Months</u>	<u>99 Months</u>	<u>111 Months</u>	<u>123 Months</u>
3/31/1999									609,582	609,582
3/31/2000								1,585,847	1,591,227	1,591,227
3/31/2001							2,485,533	2,485,533	2,485,533	2,485,533
3/31/2002						2,240,158	2,240,158	2,240,158	2,240,158	2,240,158
3/31/2003					1,777,961	1,777,961	1,777,961	1,777,961	1,777,961	1,777,961
3/31/2004				1,221,500	1,221,500	1,221,500	1,221,500	1,221,500	1,221,500	1,221,500
3/31/2005			2,022,485	2,174,121	2,174,121	2,174,121	2,174,121	2,174,121		
3/31/2006		818,924	818,924	818,924	818,924	818,924	818,924			
3/31/2007	1,228,840	1,253,313	1,244,581	1,244,570	1,255,141	1,255,240				
3/31/2008	2,337,735	2,525,760	2,537,988	2,541,696	2,541,696					
3/31/2009	1,734,828	1,740,317	1,744,562	1,744,812						
3/31/2010	1,721,955	1,868,763	1,873,865							
3/31/2011	1,066,172	1,080,893								
3/31/2012	734,698									
				Link Ratios						
<u>Development</u>	<u>15 to 27</u>	<u>27 to 39</u>	<u>39 to 51</u>	<u>51 to 63</u>	<u>63 to 75</u>	<u>75 to 87</u>	<u>87 to 99</u>	<u>99 to 111</u>	<u>111 to 123</u>	
4th Prior	1.020	1.000	1.075	1.000	1.000	1.000	1.000	1.003	1.000	
3rd Prior	1.080	0.993	1.000	1.000	1.000	1.000	1.000	1.000	1.000	
2nd Prior	1.003	1.005	1.000	1.000	1.000	1.000	1.000	1.000	1.000	
1st Prior	1.085	1.002	1.001	1.008	1.000	1.000	1.000	1.000	1.000	
Latest	1.014	1.003	1.000	1.000	1.000	1.000	1.000	1.000	1.000	
5 Yr Mean Ex-HiLo	1.038	1.002	1.000	1.000	1.000	1.000	1.000	1.000	1.000	
Volume Weighted 5 Yr Mean	1.047	1.002	1.019	1.001	1.000	1.000	1.000	1.001	1.000	
Volume Weighted 4 Yr Mean	1.052	1.002	1.001	1.002	1.000	1.000	1.000	1.000	1.000	
Volume Weighted 3 Yr Mean	1.037	1.004	1.001	1.002	1.000	1.000	1.000	1.000	1.000	
Average:	1.040	1.001	1.015	1.002	1.000	1.000	1.000	1.001	1.000	
Selected Countrywide:	1.070	1.016	1.012	1.008	1.010	1.003	1.001	1.001	1.001	
Loss Development Period ( months ):	<u>15 - 123</u>	<u>27 - 123</u>	<u>39 - 123</u>	<u>51 - 123</u>	<u>63 - 123</u>	<u>75 - 123</u>	<u>87 - 123</u>	<u>99 - 123</u>	<u>111 - 123</u>	
Loss Development Factor:	1.127	1.053	1.036	1.024	1.016	1.006	1.003	1.002	1.001	

Encompass Insurance Group  
Other Than Automobile  
Arkansas

Exhibit 7

Excess Loss Provision

**HOMEOWNERS**

Fiscal Accident Year Ending	Ultimate Total Ex-Cat Losses + ALAE	Ultimate Limited Ex-Cat Losses + ALAE	Total/Limited
3/31/2003	1,777,961	1,736,131	1.02
3/31/2004	1,222,721	1,204,199	1.02
3/31/2005	2,178,469	1,054,645	2.07
3/31/2006	821,383	790,016	1.04
3/31/2007	1,262,773	1,253,842	1.01
3/31/2008	2,582,363	1,520,485	1.70
3/31/2009	1,786,689	1,285,456	1.39
3/31/2010	1,941,324	1,754,994	1.11
3/31/2011	1,138,181	1,054,520	1.08
3/31/2012	828,007	811,121	1.02
			Weighted Average 1.25
			Straight Average 1.25
			<b>Selected 1.22</b>

Encompass Insurance Group  
Other Than Automobile  
Arkansas

Exhibit 8.A

Calculation of Pure Premium Trend Factor

<u>Coverage</u>	<u>Selected Annual Pure Premium Impacts</u>	
	<u>Historical</u>	<u>Projected</u>
Home	4.0%	4.0%

	<u>Calculation of Trend Period</u>				
	<u>4th Prior Year</u>	<u>3rd Prior Year</u>	<u>2nd Prior Year</u>	<u>1st Prior Year</u>	<u>Current Year</u>
1) Loss Trend Projection Date	6/14/2014	6/14/2014	6/14/2014	6/14/2014	6/14/2014
2) Mid-Point of Current Year's Experience Period	9/30/2011	9/30/2011	9/30/2011	9/30/2011	9/30/2011
3) Experience Period Ended	3/31/2008	3/31/2009	3/31/2010	3/31/2011	3/31/2012
4) Midpoint of Experience Period	9/30/2007	9/30/2008	9/30/2009	9/30/2010	9/30/2011
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)	2.704	2.704	2.704	2.704	2.704

	<u>Factor to Adjust Losses for Pure Premium Trend</u>				
<u>Coverage</u>	<u>4th Prior Year</u>	<u>3rd Prior Year</u>	<u>2nd Prior Year</u>	<u>1st Prior Year</u>	<u>Current Year</u>
Home	1.301	1.251	1.203	1.156	1.112

(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)

Encompass Insurance Group  
Other Than Automobile  
Arkansas

Exhibit 8.B.1

Pure Premium Loss Trends - Homeowners

Year Ending	Actual Paid Pure Premium	Annual % Change	Exponential Curve of Best Fit (\$)		
			20 pt.	12 pt.	6 pt.
09/06	\$526.97	66.2 %			
12/06	477.40	37.0			
03/07	468.18	21.4			
06/07	546.71	27.8			
09/07	431.19	-18.2	632.83		
12/07	529.18	10.9	641.15		
03/08	526.66	12.5	649.59		
06/08	690.43	26.3	658.14		
09/08	727.22	68.7	666.81		
12/08	802.57	51.7	675.58		
03/09	895.42	70.0	684.47		
06/09	721.96	4.6	693.48		
09/09	827.80	13.8	702.61	861.19	
12/09	858.76	7.0	711.86	842.99	
03/10	820.44	-8.4	721.23	825.18	
06/10	900.35	24.7	730.72	807.75	
09/10	756.92	-8.6	740.34	790.68	
12/10	635.78	-26.0	750.08	773.97	
03/11	753.27	-8.2	759.95	757.62	838.18
06/11	811.77	-9.8	769.96	741.61	796.34
09/11	770.21	1.8	780.09	725.94	756.59
12/11	841.16	32.3	790.36	710.60	718.82
03/12	746.77	-0.9	800.76	695.59	682.94
06/12	543.72	-33.0	811.30	680.89	648.85
<b>Regression</b>			<b>20 pt.</b>	<b>12 pt.</b>	<b>6 pt.</b>
Avg Annual Percent Change Based on Best Fit:			5.4 %	-8.2 %	-18.5 %

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Exhibit 8.C

Pure Premium Loss Trends - Homeowners

Year Ending	Actual Paid Pure Premium	Annual % Change	Exponential Curve of Best Fit (\$)		
			20 pt.	12 pt.	6 pt.
09/06	\$320.15	17.0 %			
12/06	322.85	11.2			
03/07	331.23	10.8			
06/07	324.73	2.8	340.16		
09/07	327.98	2.5	351.47		
12/07	328.73	1.8	363.16		
03/08	333.12	0.6	375.23		
06/08	368.41	13.5	387.70		
09/08	400.95	22.3	400.59		
12/08	439.47	33.7	413.90		
03/09	468.44	40.6	427.66		
06/09	487.30	32.3	441.88	511.97	
09/09	531.70	32.6	456.57	516.84	
12/09	532.29	21.1	471.75	521.76	
03/10	539.17	15.1	487.43	526.72	
06/10	560.33	15.0	503.63	531.73	
09/10	518.92	-2.4	520.37	536.79	
12/10	515.09	-3.2	537.67	541.90	525.43
03/11	539.45	0.1	555.54	547.05	535.55
06/11	540.38	-3.6	574.01	552.26	545.88
09/11	575.59	10.9	593.09	557.51	556.40
12/11	586.10	13.8	612.81	562.81	567.12
03/12	553.13	2.5	633.18	568.17	578.06
<u>Regression</u>			<u>20 pt.</u>	<u>12 pt.</u>	<u>6 pt.</u>
Avg Annual Percent Change Based on Best Fit:			14.0 %	3.9 %	7.9 %

**ENCOMPASS INSURANCE GROUP  
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ARKANSAS  
NON-MODELED CATASTROPHE FACTOR**

(1)	(2)	(3)	(4)	(5)	(6)
<b>ACCIDENT YEAR</b>	<b>EX-CAT INCURRED LOSS+ALAE</b>	<b>CATASTROPHE INCURRED LOSS+ALAE</b>	<b>STATE CATASTROPHE FACTOR</b>	<b>COUNTRYWIDE CATASTROPHE FACTOR</b>	<b>RELATIVITIES</b>
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					<b>0.339</b>

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Exhibit 10.A

Summary of Expense Provisions

	<u>Percent Fixed</u>	<u>Expense Provision</u>
General Expense	100 %	8.4 %
Other Acquisition	100	0.9
Licenses and Fees	100	0.2
Commissions	0	14.6
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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Exhibit 10.B

Factor to Adjust for Subsequent Change in Fixed Expense\*

1) Average Earned Date of Experience Period	6/30/2010
2) Average Earned Date of Proposed Policy Period	6/14/2014
3) Number of Years from (1) to (2)	3.956
4) Selected Annual Impact	2.30%
5) Factor to Adjust for Subsequent Change in Fixed Expense = [ 1 + (4) ] ^ (3)	1.094

\* For Calendar Years 2009-2011

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Exhibit 11

**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	Cumulative Percent of Losses Paid	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					62.7%
Present Value of Loss and Loss Expense Payments					61.6%
General Expense		8.4%	0.75	1.007	8.5%
Other Acquisition		0.9%	0.63	1.010	0.9%
Taxes		2.9%	0.63	1.010	2.9%
Commissions		14.6%	0.58	1.011	14.8%
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 (2.6% 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:	<b>1.0%</b>

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

## 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%

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.<sup>1</sup> The current difference is over four percentage points.<sup>2</sup> 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.<sup>3</sup> 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%,<sup>4</sup> 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:

---

<sup>1</sup> Source: Ibbotson 2011 SBBI Valuation Yearbook.

<sup>2</sup> As of year-end 2010: Long-term (4.14%) – Short-term (0.08%) = 4.06%.

<sup>3</sup> 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.

<sup>4</sup> <http://www.treasury.gov/resource-center/data-chart-center/interest-rates/Pages/TextView.aspx?data=yieldYear&year=2011>

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

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.

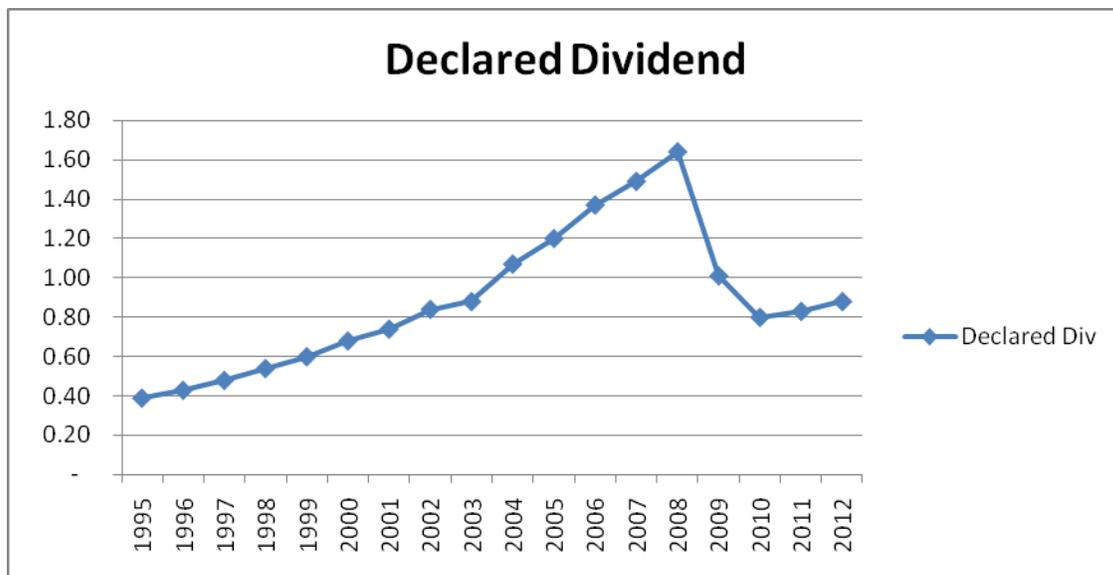
### ***Discounted Cash Flow***

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 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%.<sup>5</sup> 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.<sup>6</sup> 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:



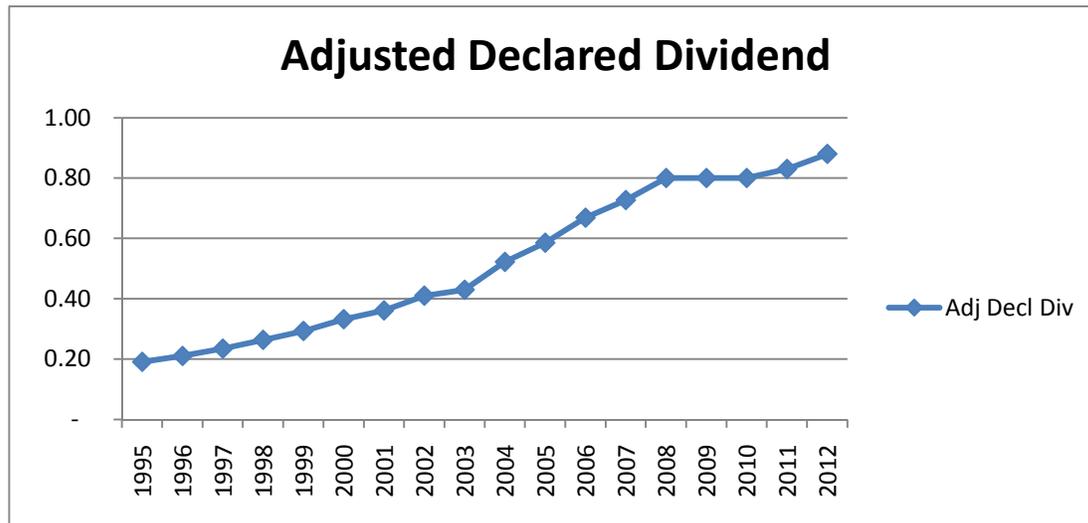
Recall that the DCF methodology states that the value of a share of a company’s stock is equal to the present value of all future dividends. To make the estimates mathematically feasible, assumptions are made regarding the existence of a constant growth rate for dividends. With this assumption being 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* 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.

<sup>5</sup> 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.

<sup>6</sup> ValueLine rounds its results to the nearest half-percent. Also note: the Earnings Per Share projections suffer from the same issue.

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%<sup>7</sup>; 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%.<sup>8</sup> 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 when evaluating the output of a methodology for which so many adjustments have been made.<sup>9</sup>

### ***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

<sup>7</sup> 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.

<sup>8</sup> As of Second Quarter, 2011

<sup>9</sup> 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.

would suggest that additional, external data be considered. A good source for this is Ibbotson's Cost of Capital Yearbook, where multiple analyses are performed 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<sup>10</sup>:

	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 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

<sup>10</sup> Source: Ibbotson Cost of Capital Yearbooks, 2006 to 2010

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  
Other Than Automobile

## Development of the Underwriting Profit

	Total	Source
(1) Average Market Value of Equity:	\$ 23,995	Exh. 2
(2) Cost of Equity (%):	9.5%	Exh. 1, Pg. 1
(3) Cost of Equity (\$):	\$ 2,279	=(1)*(2)
(4) Dividend Payout Ratio:	0.70	Exh. 3
(5) Average Market-to-book Ratio:	1.35	Exh. 4
(6) Income Due Shareholders:	\$ 2,279	=(3)
(7) Income Needed by Allstate:	\$ 2,062	=(6)/[(4)+(1-(4))*(5)]
(8) Investment Income on Equity:	\$ 486	IDF*
(9) Operating Income Needed:	\$ 1,576	=(7)-(8)
(10) Earned Premium:	\$ 25,589	Exh. 2
(11) Operating Ratio:	6.2%	=(9)/(10)
(12) Investment Income from PHSF**:	1.3%	Exh. 5
(13) After-tax U/W Profit Provision:	4.9%	=(11)-(12)
(14) Tax Rate:	35%	FIT***
(15) Pre-tax U/W Income Needed by Allstate:	7.5%	=(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*

## ALLSTATE INSURANCE GROUP

## Enterprise Valuation

(\$ In Millions)

Entity	GAAP Book Value*	Earned Premium*	Imputed Market Value**
Total Group	18,674	27,016	25,210
Allstate New Jersey Group	762	1,165	1,029
Castle Key Insurance Group	138	262	187
ANJ/CK	900	1,427	1,215
Group Less ANJ/CK	17,774	25,589	23,995

\*As of 12/31/11

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

## ALLSTATE CORPORATION

## Dividend Payout Ratio

(1)	(2)	(3)	(4)	(5) = (3)+(4)	(6) = (5)/(2)	
Year	Prior Year GAAP Net Income*	Dividends	Stock Repurchases (Net)	Total Payout	Total Payout Ratio	
1997	\$2,075	417	1,277	1,694	0.82	
1998	\$3,105	450	1,400	1,850	0.60	
1999	3,294	482	864	1,346	0.41	
2000	2,720	506	1385	1,891	0.70	
2001	2,211	547	612	1,159	0.52	
2002	1,158	594	383	977	0.84	
2003	1,134	648	-48	600	0.53	
2004	2,705	779	1111	1,890	0.70	
2005	3,181	846	2,203	3,049	0.96	
2006	1,765	885	1,516	1,765	**	1.00
2007	4,993	901	3,483	4,384		0.88
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
2011	928	436	885	928	**	1.00
Total	34,759	8,821	16,434	24,226		<b>0.70</b>

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, the dividend payout ratio is concerned with percentage of income paid towards dividends and stock repurchases. Therefore, the payout ratio is capped at 1.00.

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

## ALLSTATE CORPORATION

## Historical Market-to-book Ratios

Years	Allstate
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
Dec-11	0.74
10-yr Avg:	1.35
<b>Selected:</b>	<b>1.35</b>

Source: MSN Online Reports

<http://investing.money.msn.com/investments/key-ratios?symbol=ALL&page=TenYearSummary>

Encompass Insurance Group  
Other Than Automobile  
Arkansas

Exhibit 5

**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	Cumulative Percent of Losses Paid	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					62.7%
Present Value of Loss and Loss Expense Payments					61.6%
General Expense		8.4%	0.75	1.007	8.5%
Other Acquisition		0.9%	0.63	1.010	0.9%
Taxes		2.9%	0.63	1.010	2.9%
Commissions		14.6%	0.58	1.011	14.8%
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 (2.6% x (timing of profit being earned - timing of cash flow))

**SERFF Tracking #:**

ALSE-128821399

**State Tracking #:****Company Tracking #:**ER-2179: RATE FACTOR REVISIONS  
(OTA PSRM...**State:**

Arkansas

**Filing Company:**

Encompass Insurance Company of America

**TOI/Sub-TOI:**

04.0 Homeowners/04.0000 Homeowners Sub-TOI Combinations

**Product Name:**

EICA OTA

**Project Name/Number:**

Rate Factor Revisions (OTA PSRM)/1170682

## Superseded Schedule Items

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

Creation Date	Schedule Item Status	Schedule	Schedule Item Name	Replacement Creation Date	Attached Document(s)
12/20/2012		Supporting Document	Actuarial Support	01/11/2013	02. OTA Indication Memo ER-2179.pdf 03. Indication Exhibits ER-2179.pdf 04. Attachment_A_Contingency Memo ER-2179.pdf 05. ROE Update Summary ER-2179.pdf (Superseded)

## 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%

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.<sup>1</sup> The current difference is over four percentage points.<sup>2</sup> 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.<sup>3</sup> 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%,<sup>4</sup> 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:

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<sup>1</sup> Source: Ibbotson 2011 SBBI Valuation Yearbook.

<sup>2</sup> As of year-end 2010: Long-term (4.14%) – Short-term (0.08%) = 4.06%.

<sup>3</sup> 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.

<sup>4</sup> <http://www.treasury.gov/resource-center/data-chart-center/interest-rates/Pages/TextView.aspx?data=yieldYear&year=2011>

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

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.

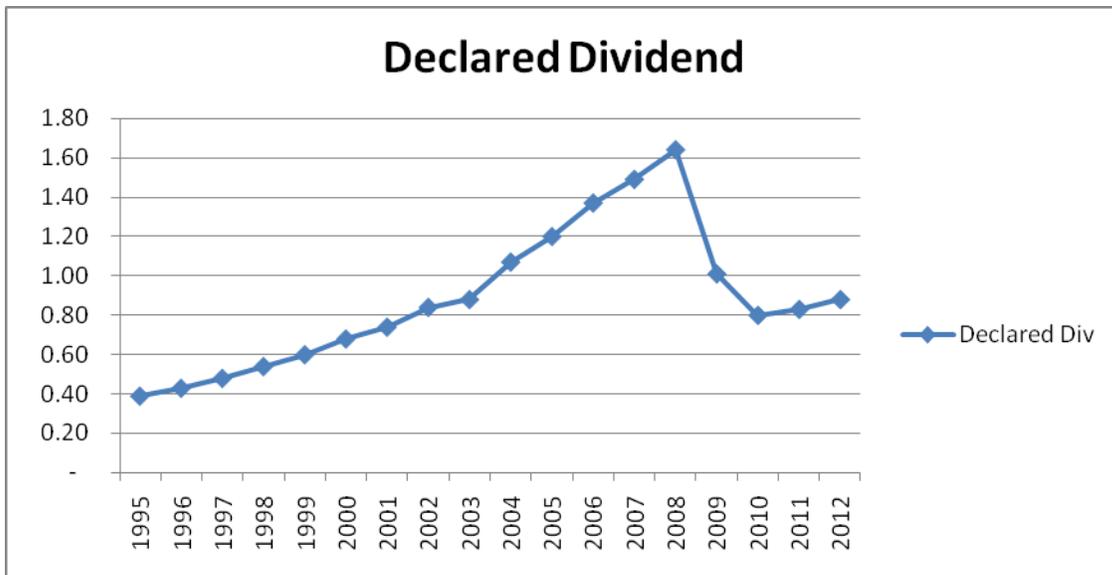
### ***Discounted Cash Flow***

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 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%.<sup>5</sup> 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.<sup>6</sup> 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:



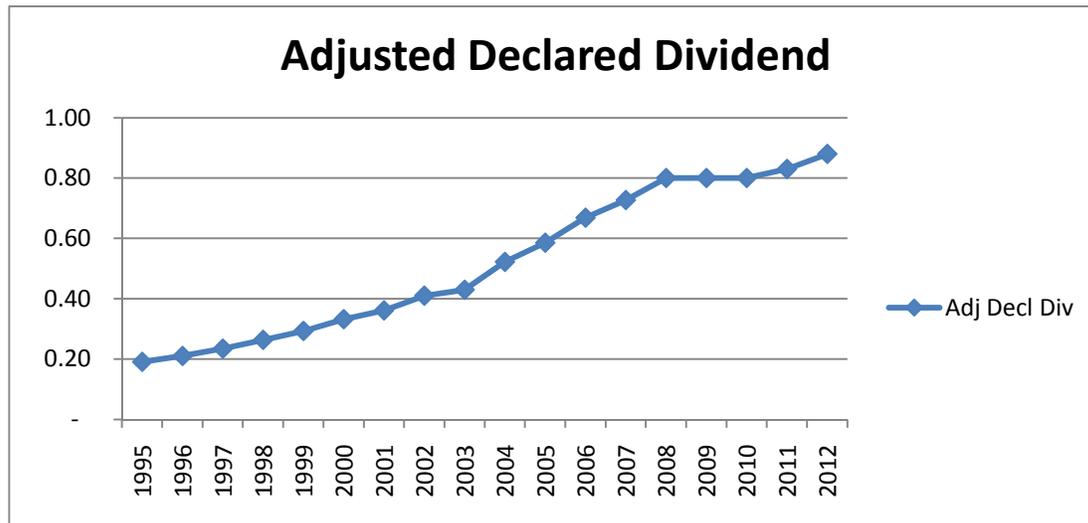
Recall that the DCF methodology states that the value of a share of a company’s stock is equal to the present value of all future dividends. To make the estimates mathematically feasible, assumptions are made regarding the existence of a constant growth rate for dividends. With this assumption being 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* 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.

<sup>5</sup> 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.

<sup>6</sup> ValueLine rounds its results to the nearest half-percent. Also note: the Earnings Per Share projections suffer from the same issue.

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%<sup>7</sup>; 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%.<sup>8</sup> 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 when evaluating the output of a methodology for which so many adjustments have been made.<sup>9</sup>

### **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

<sup>7</sup> 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.

<sup>8</sup> As of Second Quarter, 2011

<sup>9</sup> 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.

would suggest that additional, external data be considered. A good source for this is Ibbotson's Cost of Capital Yearbook, where multiple analyses are performed 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<sup>10</sup>:

	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 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

<sup>10</sup> Source: Ibbotson Cost of Capital Yearbooks, 2006 to 2010

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  
Private Passenger Auto

## Development of the Underwriting Profit

	Liability	Physical Damage	Total	Source
(1) Average Market Value of Equity:			\$ 25,562	Exh. 2
(2) Cost of Equity (%):			10.0%	
(3) Cost of Equity (\$):			\$ 2,556	=(1)*(2)
(4) Dividend Payout Ratio:			0.69	Exh. 3
(5) Average Market-to-book Ratio:			1.41	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	Exh. 2
(11) Operating Ratio:			7.0%	=(9)/(10)
(12) Investment Income from PHSF**:	3.2%	0.5%	1.8%	Exh. 5, Pg. 1
(13) After-tax U/W Profit Provision:	3.8%	6.5%	5.2%	=(11)-(12)
(14) Tax Rate:	35%	35%	35%	FIT***
(15) Pre-tax U/W Income Needed by Allstate:	5.8%	10.0%	8.0%	=(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*

## 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

## ALLSTATE CORPORATION

## Dividend Payout Ratio

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

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.

## 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
<b>Selected:</b>	<b>1.41</b>

Source: MSN Online Reports

<http://moneycentral.msn.com/investor/invsub/results/compare.asp?Page=TenYearSummary&Symbol=ALL>

Encompass Insurance Group  
Other Than Automobile  
Arkansas

Exhibit 5

**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	Cumulative Percent of Losses Paid	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					62.7%
Present Value of Loss and Loss Expense Payments					61.6%
General Expense		8.4%	0.75	1.007	8.5%
Other Acquisition		0.9%	0.63	1.010	0.9%
Taxes		2.9%	0.63	1.010	2.9%
Commissions		14.6%	0.58	1.011	14.8%
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 (2.6% x (timing of profit being earned - timing of cash flow))