State:	*Arkansas*	**Filing Company:**	*Encompass Insurance Company of America*
TOI/Sub-TOI:	*19.0 Personal Auto/19.0001 Private Passenger Auto (PPA)*		
Product Name:	*EICA PPA*		
Project Name/Number:	*PSRM Auto Rate Factor/1519855*		

Filing at a Glance

Company:	Encompass Insurance Company of America
Product Name:	EICA PPA
State:	Arkansas
TOI:	19.0 Personal Auto
Sub-TOI:	19.0001 Private Passenger Auto (PPA)
Filing Type:	Rate/Rule
Date Submitted:	12/24/2013
SERFF Tr Num:	ALSE-129350890
SERFF Status:	Closed-Filed
State Tr Num:	
State Status:	
Co Tr Num:	ER-2417
Effective Date Requested (New):	
Effective Date Requested (Renewal):	06/14/2014
Author(s):	Kelly Urban, Andi Colosi
Reviewer(s):	Alexa Grissom (primary)
Disposition Date:	01/14/2014
Disposition Status:	Filed
Effective Date (New):	
Effective Date (Renewal):	06/14/2014

State Filing Description:

General Information

Project Name: PSRM Auto Rate Factor
Project Number: 1519855
Reference Organization: N/A
Reference Title:
Filing Status Changed: 01/14/2014
State Status Changed:
Created By: Claire Hunter
Corresponding Filing Tracking Number: N/A

Status of Filing in Domicile:
Domicile Status Comments:
Reference Number:
Advisory Org. Circular:

Deemer Date:
Submitted By: Kelly Urban

Filing Description:

We are filing to revise the Motor Vehicle Base Rates, in addition, Uninsured/Underinsured Motorist Coverage Rates, Excess Liability Rates, the Work Loss Coverage Rate, and the Accidental Death Benefit Rate. The Comprehensive and Collision Model Year Factors have been added through 2014.

These revisions propose an overall rate change of 5.0%. Further details of our filing are enclosed in Attachments/Exhibits.

Company and Contact

Filing Contact Information

Andi Colosi, State Filings Project Manager
2775 Sanders Road
Suite A2-W
Northbrook, IL 60062

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

Filing Company Information

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

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

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

Filing Fees

Fee Required?	Yes
Fee Amount:	$100.00
Retaliatory?	No
Fee Explanation:	Rate/loss cost—changes to loss cost multiplier or independent rate filing $100
Per Company:	No

Company	Amount	Date Processed	Transaction #
Encompass Insurance Company of America	$100.00	12/24/2013	77782956

Correspondence Summary

Dispositions

Status	Created By	Created On	Date Submitted
Filed	Alexa Grissom	01/14/2014	01/14/2014

Disposition

Disposition Date: 01/14/2014
Effective Date (New):
Effective Date (Renewal): 06/14/2014
Status: Filed

Comment:

Company Name:	Overall % Indicated Change:	Overall % Rate Impact:	Written Premium Change for this Program:	Number 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	7.600%	5.000%	$20,382	184	$407,638	10.300%	2.800%

Schedule	Schedule Item	Schedule Item Status	Public Access
Supporting Document	A-1 Private Passenger Auto Abstract	Filed	Yes
Supporting Document	APCS-Auto Premium Comparison Survey	Filed	Yes
Supporting Document	NAIC loss cost data entry document	Filed	Yes
Supporting Document	NAIC Loss Cost Filing Document for OTHER than Workers' Comp	Filed	Yes
Supporting Document	Indication Memorandum and Exhibits	Filed	Yes
Supporting Document	Determination of the Underwriting Profit Provision Exhibits	Filed	Yes
Rate	Motor Vehicle Rate Pages	Filed	Yes
Rate	Motor Vehicle Rules Manual	Filed	Yes
Rate	Excess Liability Rules	Filed	Yes

State:	Arkansas	**Filing Company:**	Encompass Insurance Company of America
TOI/Sub-TOI:	19.0 Personal Auto/19.0001 Private Passenger Auto (PPA)		
Product Name:	EICA PPA		
Project Name/Number:	PSRM Auto Rate Factor/1519855		

Rate Information

Rate data applies to filing.

Filing Method:	File and Use
Rate Change Type:	Increase
Overall Percentage of Last Rate Revision:	5.000%
Effective Date of Last Rate Revision:	06/14/2013
Filing Method of Last Filing:	File and Use

Company Rate Information

Company Name:	Overall % Indicated Change:	Overall % Rate Impact:	Written Premium Change for this Program:	Number 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	7.600%	5.000%	$20,382	184	$407,638	10.300%	2.800%

State: Arkansas **Filing Company:** Encompass Insurance Company of America
TOI/Sub-TOI: 19.0 Personal Auto/19.0001 Private Passenger Auto (PPA)
Product Name: EICA PPA
Project Name/Number: PSRM Auto Rate Factor/1519855

Rate/Rule Schedule

Item No.	Schedule Item Status	Exhibit Name	Rule # or Page #	Rate Action	Previous State Filing Number	Attachments
1	Filed 01/14/2014	Motor Vehicle Rate Pages		Replacement	ALSE-128821535	10._ER-2417_Motor_Vehicle_Rate_Pages.pdf
2	Filed 01/14/2014	Motor Vehicle Rules Manual		Replacement	ALSE-128821535	11._ER-2417_Motor_Vehicle_Rules_Manual.pdf
3	Filed 01/14/2014	Excess Liability Rules		Replacement	ALSE-128821535	09._ER-2417_Excess_Liability_Rules_Manual.pdf

BASE RATES

Territory	$100/300 BI	$50,000 PD	$250 ded. COMP	$250 ded. COLL	$5,000 MED
3	357	258	50	298	39
4	584	425	43	309	41
5	657	474	43	309	41
9	448	342	50	322	39
10	419	311	40	292	31
31	509	369	47	294	41
32	549	401	43	288	43
33	435	301	54	312	31
34	467	323	46	301	35
35	425	298	60	308	35
36	416	286	53	307	39
37	404	288	57	307	39
38	425	289	60	305	39
89	493	371	77	335	39
90	455	337	69	308	39
91	365	304	53	260	39
92	419	282	52	273	41

COMPREHENSIVE MODEL YEAR/SYMBOL FACTORS

Symbol	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997	1996	1995	1994	1993	1992	1990-91	1989 & Prior
1	1.185	1.128	1.074	1.023	1.153	1.098	1.046	0.996	0.949	0.904	0.861	0.820	0.780	0.740	0.700	0.670	0.630	0.600	0.580	0.550	0.510	0.490	0.470	0.440	0.239
2	1.452	1.383	1.317	1.254	1.478	1.408	1.341	1.277	1.216	1.158	1.103	1.050	1.000	0.950	0.900	0.860	0.810	0.770	0.740	0.700	0.660	0.630	0.600	0.570	0.239
3	1.796	1.710	1.629	1.551	1.788	1.703	1.622	1.545	1.471	1.401	1.334	1.270	1.210	1.150	1.090	1.040	0.980	0.930	0.900	0.850	0.800	0.760	0.730	0.690	0.239
4	2.216	2.111	2.010	1.914	2.027	1.930	1.838	1.750	1.667	1.588	1.512	1.440	1.370	1.300	1.230	1.180	1.110	1.050	1.010	0.960	0.900	0.860	0.820	0.780	0.239
5	2.522	2.402	2.287	2.178	2.279	2.170	2.067	1.969	1.875	1.786	1.701	1.620	1.540	1.460	1.390	1.320	1.250	1.190	1.140	1.080	1.020	0.970	0.920	0.880	0.296
6	2.789	2.656	2.530	2.410	2.533	2.412	2.297	2.188	2.084	1.985	1.890	1.800	1.710	1.620	1.540	1.470	1.390	1.320	1.270	1.200	1.130	1.080	1.030	0.970	0.445
7	3.095	2.948	2.807	2.674	2.757	2.626	2.501	2.382	2.269	2.161	2.058	1.960	1.870	1.780	1.680	1.610	1.510	1.440	1.380	1.310	1.230	1.180	1.120	1.070	0.570
8	3.324	3.166	3.015	2.872	3.011	2.868	2.731	2.601	2.477	2.359	2.247	2.140	2.040	1.940	1.840	1.750	1.650	1.570	1.510	1.430	1.350	1.290	1.220	1.160	0.740
10	3.592	3.421	3.258	3.103	3.292	3.135	2.986	2.844	2.709	2.580	2.457	2.340	2.230	2.120	2.010	1.920	1.810	1.720	1.650	1.560	1.470	1.400	1.340	1.270	0.930
11	3.821	3.639	3.466	3.301	3.602	3.430	3.267	3.111	2.963	2.822	2.688	2.560	2.440	2.320	2.200	2.100	1.980	1.880	1.810	1.710	1.610	1.540	1.460	1.390	1.110
12	4.050	3.857	3.674	3.499	3.955	3.767	3.588	3.417	3.254	3.099	2.951	2.810	2.680	2.550	2.410	2.300	2.170	2.060	1.980	1.880	1.770	1.690	1.610	1.530	1.320
13	4.241	4.039	3.847	3.664	4.306	4.101	3.906	3.720	3.543	3.374	3.213	3.060	2.910	2.760	2.620	2.500	2.360	2.240	2.150	2.040	1.920	1.830	1.750	1.660	1.600
14	4.432	4.221	4.020	3.829	4.699	4.475	4.262	4.059	3.866	3.682	3.507	3.340	3.180	3.020	2.860	2.730	2.580	2.450	2.350	2.230	2.100	2.000	1.910	1.810	1.910
15	4.662	4.440	4.228	4.027	5.193	4.946	4.710	4.486	4.272	4.069	3.875	3.690	3.510	3.330	3.160	3.020	2.840	2.700	2.600	2.460	2.320	2.210	2.110	2.000	2.270
16	4.853	4.622	4.401	4.192	5.644	5.375	5.119	4.875	4.643	4.422	4.211	4.010	3.820	3.630	3.440	3.290	3.090	2.940	2.830	2.670	2.520	2.410	2.290	2.180	2.640
17	5.082	4.840	4.609	4.390	6.093	5.803	5.527	5.264	5.013	4.774	4.547	4.330	4.120	3.910	3.710	3.540	3.340	3.170	3.050	2.880	2.720	2.600	2.470	2.350	3.070
18	5.311	5.058	4.817	4.588	6.514	6.204	5.909	5.628	5.360	5.105	4.862	4.630	4.410	4.190	3.970	3.790	3.570	3.400	3.260	3.090	2.910	2.780	2.650	2.510	3.560
19	5.502	5.240	4.991	4.753	7.051	6.715	6.395	6.090	5.800	5.524	5.261	5.010	4.770	4.530	4.290	4.100	3.860	3.670	3.530	3.340	3.150	3.010	2.860	2.720	4.130
20	5.693	5.422	5.164	4.918	7.656	7.291	6.944	6.613	6.298	5.998	5.712	5.440	5.180	4.920	4.660	4.450	4.200	3.990	3.830	3.630	3.420	3.260	3.110	2.950	4.820
21	5.884	5.604	5.337	5.083	8.343	7.946	7.568	7.208	6.865	6.538	6.227	5.930	5.650	5.370	5.090	4.860	4.580	4.350	4.180	3.960	3.730	3.560	3.390	3.220	(c)
22	6.075	5.786	5.511	5.248	9.232	8.792	8.373	7.974	7.594	7.232	6.888	6.560	6.250	5.940	5.630	5.380	5.060	4.810	4.630	4.380	4.130	3.940	3.750	3.560	
23	6.266	5.968	5.684	5.413	10.160	9.676	9.215	8.776	8.358	7.960	7.581	7.220	6.880	6.540	6.190	5.920	5.570	5.300	5.090	4.820	4.540	4.330	4.130	3.920	
24	6.457	6.150	5.857	5.578	11.553	11.003	10.479	9.980	9.505	9.052	8.621	8.210	7.820	7.430	7.040	6.730	6.330	6.020	5.790	5.470	5.160	4.930	4.690	4.460	
25	6.648	6.332	6.030	5.743	13.523	12.879	12.266	11.682	11.126	10.596	10.091	9.610	9.150	8.690	8.240	7.870	7.410	7.050	6.770	6.410	6.040	5.760	5.490	5.220	
26	6.801	6.477	6.169	5.875	15.590	14.848	14.141	13.468	12.827	12.216	11.634	11.080	10.550	10.020	9.500	9.070	8.550	8.120	7.810	7.390	6.960	6.650	6.330	6.010	
27	6.992	6.659	6.342	6.040	(b)	(b)	(b)	(b)	(b)	(b)	(b)	(b)	(b)	(b)	(b)	(b)	(b)	(b)	(b)	(b)	(b)	(b)	(b)	(b)	
28	7.183	6.841	6.516	6.205																					
29	7.336	6.987	6.654	6.337																					
30	7.527	7.169	6.827	6.502																					
31	7.718	7.351	7.001	6.667																					
32	7.871	7.496	7.139	6.799																					
33	8.024	7.642	7.278	6.931																					
34	8.215	7.824	7.451	7.097																					
35	8.368	7.969	7.590	7.229																					
36	8.597	8.188	7.798	7.427																					
37	8.865	8.443	8.041	7.658																					
38	9.132	8.697	8.283	7.889																					
39	9.361	8.916	8.491	8.087																					
40	9.629	9.170	8.734	8.318																					
41	9.858	9.389	8.942	8.516																					
42	10.126	9.643	9.184	8.747																					
43	10.355	9.862	9.392	8.945																					
44	10.622	10.116	9.635	9.176																					
45	10.852	10.335	9.843	9.374																					
46	11.119	10.590	10.085	9.605																					
47	11.425	10.881	10.363	9.869																					
48	11.730	11.172	10.640	10.133																					
49	12.036	11.463	10.917	10.397																					
50	12.304	11.718	11.160	10.628																					
51	12.609	12.009	11.437	10.892																					
52	12.915	12.300	11.714	11.156																					
53	13.182	12.555	11.957	11.387																					
54	13.641	12.991	12.373	11.783																					
55	14.214	13.537	12.893	12.279																					
56	14.825	14.119	13.447	12.807																					
57	15.437	14.702	14.002	13.335																					
58	16.392	15.611	14.868	14.160																					
59	17.653	16.812	16.012	15.249																					
60	18.952	18.050	17.190	16.371																					
61	20.289	19.323	18.403	17.527																					
62	21.665	20.633	19.651	18.715																					
63	23.079	21.980	20.933	19.936																					
64	24.492	23.326	22.215	21.157																					
65	25.868	24.636	23.463	22.346																					
66	27.970	26.638	25.369	24.161																					
67	30.797	29.331	27.934	26.604																					
68	33.621	32.020	30.495	29.043																					
69	36.376	34.643	32.994	31.423																					
70	39.203	37.336	35.558	33.865																					
71	42.031	40.029	38.123	36.308																					
72	44.858	42.722	40.688	38.750																					
73	47.686	45.415	43.252	41.193																					
74	50.513	48.108	45.817	43.635																					
75	53.341	50.801	48.382	46.078																					
98	(a)	(a)	(a)	(a)																					

(a) Add 2.444 to Symbol 70 relativity for each $10,000 or fraction of $10,000 above $150,000 of original cost.
(b) Add 1.500 to Symbol 26 relativity for each $10,000 or fraction of $10,000 above $80,000 of original cost.
(c) Add 1.500 to Symbol 20 relativity for each $10,000 or fraction of $10,000 above $65,000 of original cost.

Original Cost means:
(1) Original F.O.B. list price for autos built in U.S.
(2) Original cost new in U.S. for specially built autos.
(3) Original cost new in U.S. for imported autos.

COLLISION MODEL YEAR/SYMBOL FACTORS

Symbol	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997	1996	1995	1994	1993	1992	1990-91	1989 & Prior
1	1.179	1.123	1.070	1.019	1.295	1.233	1.174	1.118	1.065	1.014	0.966	0.920	0.880	0.830	0.770	0.730	0.670	0.620	0.580	0.550	0.510	0.480	0.450	0.420	0.288
2	1.474	1.404	1.337	1.273	1.478	1.408	1.341	1.277	1.216	1.158	1.103	1.050	1.000	0.940	0.880	0.830	0.760	0.700	0.660	0.620	0.580	0.550	0.510	0.480	0.288
3	1.796	1.710	1.629	1.551	1.604	1.528	1.455	1.386	1.320	1.257	1.197	1.140	1.090	1.020	0.960	0.900	0.830	0.760	0.720	0.680	0.630	0.600	0.560	0.520	0.288
4	2.064	1.966	1.872	1.783	1.717	1.635	1.557	1.483	1.412	1.345	1.281	1.220	1.160	1.090	1.020	0.960	0.880	0.810	0.770	0.720	0.670	0.640	0.590	0.560	0.288
5	2.198	2.093	1.994	1.899	1.802	1.716	1.634	1.556	1.482	1.411	1.344	1.280	1.220	1.150	1.070	1.010	0.930	0.850	0.810	0.760	0.710	0.670	0.620	0.590	0.355
6	2.278	2.170	2.067	1.968	1.886	1.796	1.710	1.629	1.551	1.477	1.407	1.340	1.280	1.200	1.130	1.060	0.970	0.900	0.840	0.790	0.740	0.700	0.650	0.610	0.422
7	2.359	2.246	2.139	2.038	1.998	1.903	1.812	1.726	1.644	1.566	1.491	1.420	1.350	1.270	1.190	1.120	1.030	0.950	0.890	0.840	0.780	0.740	0.690	0.650	0.480
8	2.466	2.349	2.237	2.130	2.097	1.997	1.902	1.811	1.725	1.643	1.565	1.490	1.420	1.330	1.250	1.180	1.080	0.990	0.940	0.880	0.820	0.780	0.720	0.680	0.540
10	2.573	2.451	2.334	2.223	2.196	2.091	1.991	1.896	1.806	1.720	1.638	1.560	1.490	1.400	1.310	1.240	1.130	1.040	0.980	0.920	0.860	0.820	0.760	0.720	0.600
11	2.680	2.553	2.431	2.315	2.308	2.198	2.093	1.993	1.898	1.808	1.722	1.640	1.560	1.470	1.370	1.290	1.190	1.090	1.030	0.970	0.900	0.860	0.800	0.750	0.660
12	2.761	2.629	2.504	2.385	2.421	2.306	2.196	2.091	1.991	1.896	1.806	1.720	1.640	1.540	1.440	1.360	1.250	1.150	1.080	1.020	0.950	0.900	0.840	0.790	0.730
13	2.841	2.706	2.577	2.454	2.548	2.427	2.311	2.201	2.096	1.996	1.901	1.810	1.720	1.620	1.510	1.430	1.310	1.200	1.140	1.070	1.000	0.950	0.880	0.830	0.810
14	2.895	2.757	2.626	2.501	2.688	2.560	2.438	2.322	2.211	2.106	2.006	1.910	1.820	1.710	1.600	1.510	1.380	1.270	1.200	1.130	1.060	1.000	0.930	0.870	0.900
15	2.975	2.834	2.699	2.570	2.870	2.733	2.603	2.479	2.361	2.249	2.142	2.040	1.940	1.820	1.710	1.610	1.470	1.360	1.280	1.200	1.130	1.070	0.990	0.930	1.010
16	3.029	2.885	2.747	2.616	3.027	2.883	2.746	2.615	2.490	2.371	2.258	2.150	2.050	1.930	1.800	1.700	1.560	1.440	1.350	1.270	1.190	1.130	1.050	0.980	1.130
17	3.109	2.961	2.820	2.686	3.194	3.042	2.897	2.759	2.628	2.503	2.384	2.270	2.160	2.030	1.900	1.790	1.640	1.510	1.430	1.340	1.250	1.190	1.100	1.040	1.220
18	3.190	3.038	2.893	2.755	3.350	3.190	3.038	2.893	2.755	2.624	2.499	2.380	2.270	2.130	2.000	1.880	1.730	1.590	1.500	1.410	1.320	1.250	1.160	1.090	1.320
19	3.270	3.114	2.966	2.825	3.532	3.364	3.204	3.051	2.906	2.768	2.636	2.510	2.390	2.250	2.100	1.980	1.820	1.670	1.580	1.480	1.390	1.310	1.220	1.150	1.440
20	3.324	3.165	3.015	2.871	3.701	3.525	3.357	3.197	3.045	2.900	2.762	2.630	2.500	2.350	2.200	2.080	1.900	1.750	1.650	1.550	1.450	1.380	1.280	1.200	1.580
21	3.404	3.242	3.088	2.941	3.857	3.673	3.498	3.331	3.172	3.021	2.877	2.740	2.610	2.450	2.300	2.170	1.980	1.830	1.720	1.620	1.510	1.440	1.330	1.250	(f)
22	3.484	3.319	3.161	3.010	4.067	3.873	3.689	3.513	3.346	3.187	3.035	2.890	2.750	2.590	2.420	2.280	2.090	1.930	1.820	1.710	1.600	1.510	1.400	1.320	
23	3.565	3.395	3.233	3.080	4.306	4.101	3.906	3.720	3.543	3.374	3.213	3.060	2.910	2.740	2.560	2.420	2.210	2.040	1.920	1.800	1.690	1.600	1.480	1.400	
24	3.619	3.446	3.282	3.126	4.644	4.423	4.212	4.011	3.820	3.638	3.465	3.300	3.140	2.950	2.760	2.610	2.390	2.200	2.070	1.950	1.820	1.730	1.600	1.510	
25	3.699	3.523	3.355	3.195	5.179	4.932	4.697	4.473	4.260	4.057	3.864	3.680	3.500	3.290	3.080	2.910	2.660	2.450	2.310	2.170	2.030	1.930	1.790	1.680	
26	3.753	3.574	3.404	3.242	5.686	5.415	5.157	4.911	4.677	4.454	4.242	4.040	3.850	3.620	3.390	3.200	2.930	2.700	2.540	2.390	2.230	2.120	1.960	1.850	
27	3.806	3.625	3.452	3.288	(e)	(e)	(e)	(e)	(e)	(e)	(e)	(e)	(e)	(e)	(e)	(e)	(e)	(e)	(e)	(e)	(e)	(e)	(e)	(e)	
28	3.887	3.701	3.525	3.357																					
29	3.940	3.753	3.574	3.404																					
30	4.021	3.829	3.647	3.473																					
31	4.074	3.880	3.695	3.519																					
32	4.128	3.931	3.744	3.566																					
33	4.208	4.008	3.817	3.635																					
34	4.262	4.059	3.866	3.682																					
35	4.315	4.110	3.914	3.728																					
36	4.396	4.187	3.987	3.797																					
37	4.476	4.263	4.060	3.867																					
38	4.557	4.340	4.133	3.936																					
39	4.610	4.391	4.182	3.983																					
40	4.691	4.467	4.255	4.052																					
41	4.744	4.518	4.303	4.098																					
42	4.825	4.595	4.376	4.168																					
43	4.878	4.646	4.425	4.214																					
44	4.932	4.697	4.473	4.260																					
45	4.986	4.748	4.522	4.307																					
46	5.066	4.825	4.595	4.376																					
47	5.146	4.901	4.668	4.446																					
48	5.200	4.952	4.717	4.492																					
49	5.280	5.029	4.789	4.561																					
50	5.361	5.105	4.862	4.631																					
51	5.441	5.182	4.935	4.700																					
52	5.495	5.233	4.984	4.747																					
53	5.575	5.310	5.057	4.816																					
54	5.682	5.412	5.154	4.909																					
55	5.816	5.539	5.276	5.024																					
56	5.977	5.693	5.422	5.163																					
57	6.138	5.846	5.567	5.302																					
58	6.406	6.101	5.811	5.534																					
59	6.728	6.407	6.102	5.812																					
60	7.049	6.714	6.394	6.090																					
61	7.451	7.097	6.759	6.437																					
62	7.934	7.556	7.196	6.854																					
63	8.390	7.990	7.610	7.247																					
64	8.872	8.450	8.047	7.664																					
65	9.328	8.884	8.461	8.058																					
66	10.025	9.547	9.093	8.660																					
67	10.963	10.441	9.944	9.470																					
68	11.901	11.334	10.794	10.280																					
69	12.839	12.228	11.645	11.091																					
70	13.750	13.096	12.472	11.878																					
71	14.688	13.989	13.323	12.688																					
72	15.627	14.883	14.174	13.499																					
73	16.565	15.776	15.025	14.309																					
74	17.771	16.925	16.119	15.351																					
75	18.441	17.563	16.727	15.930																					
98	(d)	(d)	(d)	(d)																					

(d) Add .810 to Symbol 70 relativity for each $10,000 or fraction of $10,000 above $150,000 of original cost.
(e) Add .500 to Symbol 26 relativity for each $10,000 or fraction of $10,000 above $80,000 of original cost.
(f) Add .500 to Symbol 20 relativity for each $10,000 or fraction of $10,000 above $65,000 of original cost.

Original Cost means:
(1) Original F.O.B. list price for autos built in U.S.
(2) Original cost new in U.S. for specially built autos.
(3) Original cost new in U.S. for imported autos.

USP PORTFOLIO ARKANSAS: MOTOR VEHICLE RULES

Denotes Change

9. MISCELLANEOUS COVERAGES

A. Uninsured Motorists Coverage

This form of auto insurance for Bodily Injury must be offered up to the policy's selected third party Personal Liability Limits, and at limits not less than the financial responsibility limits under every liability policy issued or delivered to the owner of the motor vehicle registered or principally garaged in Arkansas.

Exceptions:

(1) If Bodily Injury Uninsured Motorists Coverage is purchased, the named insured shall be provided an opportunity to include Property Damage Uninsured Motorists Coverage, subject to a $200 deductible.

(2) The named insured has the right to reject Bodily Injury and Property Damage Uninsured Motorists Coverage or reject the Property Damage portion only, in writing.

(3) Subsequent continuation, renewal, reinstatement, or replacement policies issued by the same insurer need not provide the rejected coverage unless the named insured requests such coverage in writing.

(4) Whenever a new application is submitted in connection with any renewal, reinstatement, or replacement policy, the provisions of this rule shall apply in the same manner as if a new policy is being issued.

(5) This coverage does not apply to snowmobiles, all-terrain vehicles, non-registered dune buggies and golf carts.

(6) The named insured not electing to purchase the higher limits can reject the higher limits in writing and elect a limit not less than Arkansas minimum requirement.

If Uninsured Motorists Coverage is provided:

(1) The limit for this coverage may be purchased up to the policy's Personal Liability Limit, but may not exceed it.

(2) Uninsured Motorists Coverage must apply to all vehicles insured under the policy.

Rates:

The rates for this coverage apply on a per policy basis depending upon the number of vehicles on the policy. The rates are not subject to classification rating or modification by any rating plan except credit for existing insurance if applicable.

(1) Single Limit Uninsured Motorists Coverage

(a) Bodily Injury Only

		Rate per Policy	
Single Limit	**Single Vehicle Policies**	**Two-Vehicle Policies**	**Three-or-More Vehicle Policies**
$ 50,000	44.00	68.45	102.68
$100,000	70.89	113.68	169.91
$300,000	100.23	158.91	242.03
$500,000	127.12	204.14	306.82

(b) Bodily Injury and Property Damage

In order to purchase Single Limit Uninsured Motorists Bodily Injury and Property Damage coverage, add the following charge to the Uninsured Motorists rate as shown above. Property Damage is subject to a $200 deductible.

	Additional Charge per Policy			
BI and PD Limit	**Single Vehicle Policies**	**Two-Vehicle Policies**	**Three-or-More Vehicle Policies**	
$ 75,000	$12.23	$20.78	$33.00	(add to $ 50,000 Uninsured rate)
$100,000	14.66	23.23	36.68	(add to $100,000 Uninsured rate)
$300,000	19.56	28.11	47.68	(add to $300,000 Uninsured rate)
$500,000	20.78	35.45	51.34	(add to $500,000 Uninsured rate)

(2) Split Limit Uninsured Motorists Coverage

(a) Bodily Injury Only

		Rate per Policy	
Split Limit	**Single Vehicle Policies**	**Two-Vehicle Policies**	**Three-or-More Vehicle Policies**
$ 25/ 50	$26.89	$46.45	$66.01
$ 50/100	51.34	79.46	123.46
$100/300	74.57	119.80	180.91
$250/500	102.68	162.58	245.69

(b) Bodily Injury and Property Damage

Add the following charge to the Split Limit Uninsured Motorists Bodily Injury rate above. Property Damage is subject to a $200 deductible.

	Additional Charge per Policy		
PD Limit	**Single Vehicle Policies**	**Two-Vehicle Policies**	**Three-or-More Vehicle Policies**
$ 25,000	$12.23	$19.56	$28.11
$ 50,000	14.66	23.23	36.68
$100,000	15.89	26.89	40.34

B. Underinsured Motorists Coverage

This form of coverage shall be offered under every liability policy issued or delivered to the owner of the motor vehicle registered or principally garaged in Arkansas.

Exceptions:

(1) If the named insured does not elect Underinsured Motorists Coverage, the coverage must be rejected in writing.

(2) Underinsured Motorists Coverage shall not be provided and must be rejected in writing if the named insured has rejected Bodily Injury Uninsured Motorists Coverage.

(3) Subsequent renewal, reinstatement, substitute, amended, or replacement policies issued by the insurer need not provide the rejected coverage unless the named insured requests such coverage.

(4) This coverage does not apply to snowmobiles, all-terrain vehicles, non-registered dune buggies and golf carts.

If Underinsured Motorists Coverage is provided:

(1) The coverage must apply to all vehicles insured under the policy.

(2) Uninsured Motorists Coverage and Underinsured Motorists Coverage must be provided at the same limits.

For Underinsured Motorists Coverage, add the following charges to the Uninsured Motorists rate:

(1) Single Limit Underinsured Motorists Coverage

		Rate per Policy	
Single Limit	Single Vehicle Policies	Two-Vehicle Policies	Three-or-More Vehicle Policies
$ 50,000	$47.68	$72.12	$102.68
$100,000	68.45	101.46	149.14
$300,000	99.01	155.25	229.81
$500,000	114.91	182.14	264.03

(2) Split Limit Underinsured Motorists Coverage

		Rate per Policy	
Split Limit	Single Vehicle Policies	Two-Vehicle Policies	Three-or-More Vehicle Policies
$ 25/ 50	$33.00	$50.12	$70.89
$ 50/100	50.12	74.57	107.57
$100/300	70.89	107.57	157.69
$250/500	99.01	150.35	223.69

C. Vehicles Equipped With Anti-Theft Devices

To qualify for a discount on Comprehensive Coverage only, the vehicle must be equipped with (1) a hood lock which can only be released from inside the vehicle, and (2) a device meeting the criteria of either paragraph (1), (2) or (3) below. If a vehicle is equipped with more than one qualifying device, only the single lowest factor shall apply.

Refer to Company for required evidence of installation of anti-theft devices meeting the following criteria prior to granting a discount.

(1) Alarm ONLY and Active Disabling Devices

Apply a factor of .95 to the Comprehensive Premium on vehicles equipped with (1) alarm only devices which sound an audible alarm that can be heard at a distance of at least 300 feet for a minimum of three minutes, or (2) active disabling devices which disable the vehicle by making the fuel, ignition or starting system inoperative. A disabling device is categorized as active if a separate manual step IS required to engage the device.

(2) Passive Disabling Devices and Retrieval Systems

Apply a factor of .85 to the Comprehensive Premium on vehicles equipped with either of the following:

a. a passive disabling device which disables the vehicle by making the fuel, ignition or starting system inoperative. A disabling device is categorized as passive if a separate manual step is NOT required to engage the device; or

b. a retrieval system which incorporates a device installed on the vehicle which emits a signal to allow for the vehicle's tracking and retrieval.

b. Rates:

(1) Use the base rates for Medical Expenses Insurance.

(2) The Classifications and SDIP Rules apply.

2. Work Loss Coverage

a. Limits: Maximum per person--

(1) For an Income Earner--$140 per week for 52 weeks.

(2) For a Non-Income Earner--$70 per week for 52 weeks.

b. Rates:

(1) All Eligible Motor Vehicles

- Charge $6.33 per car, per year.
- The Classification and SDIP Rules do NOT apply.

3. Accidental Death Benefit

a. Limits: Maximum per person--$5,000.

b. Rates:

(1) All Eligible Motor Vehicles

- Charge $3.79 per car, per year.
- The Classification and SDIP Rules do NOT apply.

P. Accidental Air Bag Deployment Coverage

For a premium charge of $10 per vehicle, coverage is available for the accidental deployment of an air bag. This coverage provides up to $2,500 for the cost of reinstalling a factory installed air bag if it deploys when not caused by Collision or Comprehensive loss. This coverage is available for private passenger autos which carry both Comprehensive and Collision Coverage.

10. RESERVED FOR FUTURE USE

11. EXTENDED NON-OWNED AUTOMOBILE COVERAGE

A. Liability Coverage-Liability coverage may be extended to an individual described below:

The insured named in the policy, the spouse, a resident of the same household, or a resident relative who is furnished an auto for regular use but is NOT employed by a garage.

1. When no primary Liability insurance is in effect on the auto, charge 50% of the corresponding Liability premium found on the State Rate Pages.

2. If a corporation, co-partnership or unincorporated association provides insurance coverage on an auto for its business use only, charge 50% of the corresponding Liability premium found on the State Rate Pages.

3. When there is Primary Liability insurance in effect on the auto, charge 15% of the corresponding Liability premium found on the State Rate Pages.

B. Medical Expense Coverage-Medical Expense Coverage is only available if Liability Coverage is extended. Charge the applicable rate found on the State Rate Pages.

C. Optional Excess Liability-Refer to the Excess Liability Section of this manual.

Note: These rates are not subject to modification by the provisions of any rating plans or other rating rules, except Credit for Existing Insurance.

C. Motor Homes (Class Code 943700)

A motor home is a self-propelled motor vehicle with a living area that is an integral part of the vehicle chassis, or a pickup with a permanently attached camper body. The living area or camper body must consist of facilities for cooking and sleeping. The value of various property items (such as awnings, cabanas or equipment designed to create additional living facilities) should be included in the value of the motor home.

The following coverages are included at no additional charge, provided Comprehensive coverage is purchased.

- Vacation Liability Coverage
- Temporary Substitute Motorhome
- Trip Interruption Coverage
- Fire Department Service Charge
- Towing and Labor

LIABILITY AND MEDICAL EXPENSES

COVERAGE	LIMIT	RATE
Bodily Injury	$ 25/50	$ 37.35
	$ 50/100	$ 43.38
	$100/300	$ 54.22
	$250/500	$ 60.25
Property Damage	$ 25,000	$ 49.69
	$ 50,000	$ 52.06
	$100,000	$ 54.43
CSL	$ 75,000	$ 98.62
	$100,000	$ 99.78
	$300,000	$ 113.54
	$500,000	$ 121.56
Medical Expenses	$ 1,000	$ 3.52
	$ 2,500	$ 4.70
	$ 5,000	$ 7.03
	$ 10,000	$ 8.21
	$ 25,000	$ 11.73
	$ 50,000	$ 12.90

UNINSURED/UNDERINSURED MOTORISTS

There is one charge per policy for this coverage. Refer to Rule 9 of this section.

PHYSICAL DAMAGE

Comprehensive

Actual Cash Value	$250 Deductible Rate Per $1,000
$ 0 – $10,499	$5.05
10,500 – 20,499	4.95
20,500 – 30,499	4.85
30,500 – 40,499	4.70
40,500 – 50,499	4.60
50,500 and over	4.50

For other deductibles, apply the Comprehensive deductible factors. Refer to Rule 12.A. of this section for applicable loss surcharges. Add the appropriate Fixed Expense Premium, according to Rule 3, Premium Determination.

USP PORTFOLIO ARKANSAS: EXCESS LIABILITY RULES

Denotes Change

5. ANNUAL RATES—BASIC LIMITS AND $100/300 OR $300,000 MINIMUM UNDERLYING LIMITS FLAT CHARGE

A. Motor Vehicle Liability (rates apply per vehicle)

(1) Autos, pickups, vans and registered dune buggies

Classification	Class Code	Basic Limit Rates All Territories	$100/300 or $300,000 Underlying Limit Flat Charge
All Operators	7010XX	$113.12	$7.72
Youthful Surcharge:			
Operators Under Age 21	7710XX	$33.43	$2.58
Operators Age 21 to 24	7510XX	$33.43	$2.58
Silver Select Surcharge	N/A	$47.57	$2.58
Senior Discount:			
Operators Age 50 and Above	7310XX	$28.28	$1.29

If two or more vehicles above are insured under the same policy, apply a factor of 0.80 to the above rates. (Class Code: Single Car XXXX01, Multi Car XXXX02)

(2) Other Miscellaneous Type Vehicles

Vehicle	Class Code	Basic Limit Rates All Territories	$100/300 or $300,000 Underlying Limit Flat Charge
Motor Homes	703000	$30.97	$2.29
Snowmobiles	704000	$26.38	$2.29
All-Terrain Vehicles	705000	$26.38	$2.29
Non-Registered Dune Buggies	706000	$30.97	$2.29
Golf Carts	707000	$30.97	$2.29
Antique Autos	708000	$30.97	$2.29

Note: The youthful surcharge should be added for each youthful operator for which coverage is to apply. The senior discount is then applied to any remaining vehicles. The number of youthful surcharges and senior discounts should not exceed the number of motor vehicles on the policy.

B. Home and Dwelling Fire Personal Liability

Type	Class Code	Basic Limit Rates All Territories	$300,000 Underlying Limit Flat Charge
(1) Primary Residence	001	$30	$9
(2) Other Residence Premises and Residences Rented to Others	002	$6	N/A
(3) Extended Liability Exposures: Permitted Business Exposures and Incidental Farming	N/A	$10 (one charge per residence)	N/A
(4) HomeWork Supplement	N/A	$37	N/A

Supporting Document Schedules

Satisfied - Item:	A-1 Private Passenger Auto Abstract
Comments:	
Attachment(s):	08_ER-2417_StateFilingFortmA-1.pdf
Item Status:	Filed
Status Date:	01/14/2014

Satisfied - Item:	APCS-Auto Premium Comparison Survey
Comments:	
Attachment(s):	05._ER-2417_APCS_Survey_Form.pdf 05._ER-2417_APCS_Survey_Form.xls
Item Status:	Filed
Status Date:	01/14/2014

Satisfied - Item:	NAIC loss cost data entry document
Comments:	
Attachment(s):	07._ER-2417_StateFilingFormRF-1.pdf
Item Status:	Filed
Status Date:	01/14/2014

Bypassed - Item:	NAIC Loss Cost Filing Document for OTHER than Workers' Comp
Bypass Reason:	N/A
Attachment(s):	
Item Status:	Filed
Status Date:	01/14/2014

Satisfied - Item:	Indication Memorandum and Exhibits
Comments:	
Attachment(s):	03._ER-2417_Auto_Indication_Memo.pdf 04._ER-2417_Auto_Indication_Exhibits.pdf
Item Status:	Filed
Status Date:	01/14/2014

Satisfied - Item:	Determination of the Underwriting Profit Provision Exhibits
Comments:	
Attachment(s):	06._ER-2417_DUPP_Exhibits.pdf

State:	Arkansas	**Filing Company:**	Encompass Insurance Company of America
TOI/Sub-TOI:	19.0 Personal Auto/19.0001 Private Passenger Auto (PPA)		
Product Name:	EICA PPA		
Project Name/Number:	PSRM Auto Rate Factor/1519855		

Item Status:	Filed
Status Date:	01/14/2014

ARKANSAS INSURANCE DEPARTMENT

FORM A-1
Rev. 4/98

PRIVATE PASSENGER AUTOMOBILE 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 submission that do not alter the information contained herein need not include this form.

Company Name Encompass Insurance Company of America
NAIC No. 10071 Group No. 008

1. Are there any areas in the State of Arkansas in which your company will not write automobile insurance?
No

2. Do you furnish a market for young drivers? Yes
Over age 65 drivers? Yes

3. Do you require collateral business to support a youthful driver risk? Yes

4. Do you insure driver with an international or foreign driver's license? Yes

5. Specify the percentage you allow in credit or discounts for the following:

a. Driver Over 55 — 10 %
b. Good Student Discount — 10-14 %
c. Multi-car Discount*
* Assuming clean driving record, married 25-49, pleasure use — 25 %
d. Accident Free Discount* — 5-10 %
* 5% discount applied to the total base premiums for BI, PD, CSL, Med and Coll Coverages of any policy that has been both free of accidents and major violations (of 2 or more points) for the last three years. Discount increases 1% for every consecutive year in addition to 3 years for up to a 10% discount.
e. Anti-theft Discount — 5-15 %
f. Other (specify) — %
Anti-Lock Braking / Passive Restraint — 5-30 %
— %
— %

6. Do you have an installment payment plan for automobile insurance? Yes
If so, what is the fee for installment payments? For each installment, a $5 charge shall be added.

7. Does you company utilize a tiered rating plan? Yes If so, list the programs and percentage difference. State the current volume for each program.

Program	Percentage Difference	Volume (Policies)
Platinum Plus	0.80	115
Platinum	1.00	19
Gold	1.25	1
Silver Select	1.70	49

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

Richard Yates
Signature
Technician Analyst
Title
(847)402-5812
Telephone Number

Private Passenger Auto Premium Comparision Survey Form
FORM APCS - last modified May 2012

NAIC Number:	10071
Company Name:	Encompass Insurance Company of America
Contact Person:	Rich Yates
Telephone No.:	847-402-9329
Email Address:	ryatf@allstate.com
Effective Date:	14-Jun-14

DISCOUNTS OFFERED:

PASSIVE RESTRAINT/AIRBAG	5- 30	%
AUTO/HOMEOWNERS	20	%
GOOD STUDENT	10- 14	%
ANTI-THEFT DEVICE	5- 15	%
Over 55 Defensive Driver Discount	10	%
$250/$500 Deductible Comp./Coll.	0/13	%

Assumptions to Use:
1. ***Liability -Minimum $25,000 per person***
2. ***Bodily Injury $50,000 per accident***
   $25,000 per accident
3. ***Property Damage $100 deductible per accident***
4. ***Comprehensive & Collision $250 deductible per accident***
5. ***The insured has elected to accept:***
   Uninsured motorist property and bodily injury equal to liability coverage
   Underinsured bodily injury equal to liability coverage
6. ***Personal Injury Protection of $5,000 for medical, loss wages according to statute and $5,000 accidental death***
7. ***If male and female rates are different, use the highest of the two***

Submit to: *Arkansas Insurance Department*
1200 West Third Street
Little Rock, AR 72201-1904
Telephone: *501-371-2800*
Email as an attachment t insurance.pnc@arkansas.gov
You may also attach to a SERFF filing or submit on a compact disk

Vehicle	Coverages	Fayetteville				Trumann				Little Rock				Lake Village				Pine Bluff			
	Gender / Age	Female 18	Male 18	Male or Female 40	Male or Female 66	Female 18	Male 18	Male or Female 40	Male or Female 66	Female 18	Male 18	Male or Female 40	Male or Female 66	Female 18	Male 18	Male or Female 40	Male or Female 66	Female 18	Male 18	Male or Female 40	Male or Female 66
2008 4.8L Chevrolet Silverado 1500 "LS" regular cab 119" WB	Minimum Liability	$1,254	$1,821	$457	$421	$1,755	$2,567	$611	$560	$2,695	$3,967	$903	$822	$1,755	$2,567	$611	$560	$2,298	$3,377	$780	$711
	Minimum Liability with Comprehensive and Collision	$2,807	$4,128	$954	$870	$3,801	$5,607	$1,262	$1,147	$4,641	$6,858	$1,521	$1,380	$3,801	$5,607	$1,262	$1,147	$4,134	$6,104	$1,364	$1,239
	100/300/50 Liability with Comprehensive and Collision	$3,160	$4,611	$1,124	$1,033	$4,283	$6,280	$1,472	$1,345	$5,339	$7,854	$1,798	$1,639	$4,283	$6,280	$1,472	$1,345	$4,732	$6,951	$1,610	$1,470
2009Ford Explorer 'XLT' 2WD, 4 door	Minimum Liability	$1,543	$2,251	$545	$501	$1,755	$2,567	$611	$560	$2,695	$3,967	$903	$822	$1,755	$2,567	$611	$560	$2,298	$3,377	$780	$711
	Minimum Liability with Comprehensive and Collision	$3,577	$5,273	$1,192	$1,085	$3,902	$5,758	$1,294	$1,177	$4,738	$7,002	$1,552	$1,407	$3,902	$5,758	$1,294	$1,177	$4,225	$6,239	$1,393	$1,264
	100/300/50 Liability with Comprehensive and Collision	$3,997	$5,854	$1,384	$1,267	$4,384	$6,431	$1,504	$1,375	$5,436	$7,998	$1,829	$1,666	$4,384	$6,431	$1,504	$1,375	$4,823	$7,086	$1,639	$1,495
2010 Honda Odyssey "EX"	Minimum Liability	$1,543	$2,251	$545	$501	$1,755	$2,567	$611	$560	$2,695	$3,967	$903	$822	$1,755	$2,567	$611	$560	$2,298	$3,377	$780	$711
	Minimum Liability with Comprehensive and Collision	$3,796	$5,600	$1,261	$1,147	$4,136	$6,107	$1,368	$1,242	$4,954	$7,326	$1,619	$1,468	$4,136	$6,107	$1,368	$1,242	$4,430	$6,546	$1,457	$1,322
	100/300/50 Liability with Comprehensive and Collision	$4,216	$6,181	$1,453	$1,329	$4,618	$6,780	$1,578	$1,440	$5,652	$8,322	$1,896	$1,727	$4,618	$6,780	$1,578	$1,440	$5,028	$7,393	$1,703	$1,553
2011 Toyota Camry 2.5L 4 door Sedan	Minimum Liability	$1,543	$2,251	$545	$501	$1,755	$2,567	$611	$560	$2,695	$3,967	$903	$822	$1,755	$2,567	$611	$560	$2,298	$3,377	$780	$711
	Minimum Liability with Comprehensive and Collision	$4,715	$6,968	$1,548	$1,405	$5,109	$7,557	$1,672	$1,517	$5,873	$8,695	$1,907	$1,726	$5,109	$7,557	$1,672	$1,517	$5,298	$7,839	$1,728	$1,566
	100/300/50 Liability with Comprehensive and Collision	$5,135	$7,549	$1,740	$1,587	$5,591	$8,230	$1,882	$1,715	$6,571	$9,691	$2,184	$1,985	$5,591	$8,230	$1,882	$1,715	$5,896	$8,686	$1,974	$1,797
2011 Cadillac Seville "CTS" AWD WAG 4 door 3.0L	Minimum Liability	$1,543	$2,251	$545	$501	$1,755	$2,567	$611	$560	$2,695	$3,967	$903	$822	$1,755	$2,567	$611	$560	$1,860	$2,721	$644	$590
	Minimum Liability with Comprehensive and Collision	$5,509	$8,151	$1,796	$1,629	$5,949	$8,807	$1,935	$1,754	$6,672	$9,883	$2,156	$1,950	$5,949	$8,807	$1,935	$1,754	$4,865	$7,190	$1,594	$1,447
	100/300/50 Liability with Comprehensive and Collision	$5,929	$8,732	$1,988	$1,811	$6,431	$9,480	$2,145	$1,952	$7,370	$10,879	$2,433	$2,209	$6,431	$9,480	$2,145	$1,952	$5,361	$7,885	$1,809	$1,649
2010 Hyundai Santa Fe SE 4X2	Minimum Liability	$1,543	$2,251	$545	$501	$1,755	$2,567	$611	$560	$2,695	$3,967	$903	$822	$1,755	$2,567	$611	$560	$2,298	$3,377	$780	$711
	Minimum Liability with Comprehensive and Collision	$4,218	$6,229	$1,393	$1,266	$4,592	$6,785	$1,511	$1,372	$5,369	$7,943	$1,749	$1,586	$4,592	$6,785	$1,511	$1,372	$4,824	$7,133	$1,580	$1,434
	100/300/50 Liability with Comprehensive and Collision	$4,638	$6,810	$1,585	$1,448	$5,074	$7,458	$1,721	$1,570	$6,067	$8,939	$2,026	$1,845	$5,074	$7,458	$1,721	$1,570	$5,422	$7,980	$1,826	$1,665

NAIC LOSS COST DATA ENTRY DOCUMENT

1.	This filing transmittal is part of Company Tracking #	**ER-2417**

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

		Company Name	Company NAIC Number	
3.	**A.**	**ENCOMPASS INSURANCE COMPANY OF AMERICA**	**B.**	**10071**

		Product Coding Matrix Line of Business (i.e., Type of Insurance)	Product Coding Matrix Line of Insurance (i.e., Sub-type of Insurance)	
4.	**A.**	**Auto- Liability 19.0, Auto- Physical Damage 21.0**	**B.**	

5.

(A) COVERAGE (See Instructions)	(B) Indicated % Rate Level Change	(C) Requested % Rate Level Change	FOR LOSS COSTS ONLY (D) Expected Loss Ratio	(E) Loss Cost Modification Factor	(F) Selected Loss Cost Multiplier	(G) Expense Constant (If Applicable)	(H) Co. Current Loss Cost Multiplier
Bodily Injury	**21.0%**	**8.7%**					
Property Damage	**26.1%**	**8.7%**					
Medical Payments	**246.4%**	**8.6%**					
Uninsured/Underinsured	**51.8%**	**8.7%**					
Collision	**-18.0%**	**0.0%**					
Comprehensive	**-4.2%**	**0.0%**					
TOTAL OVERALL EFFECT	**7.6%**	**5.0%**					

6. 5 Year History Rate Change History

Year	Policy Count	% of Change	Effective Date	State Earned Premium (000)	Incurred Losses (000)	State Loss Ratio	Countrywide Loss Ratio
2008	**655**	**0**	**0**	**1,300**	**813**	**62.5%**	**48.0%**
2009	**473**	**9.8%**	**3/5/09**	**1,051**	**233**	**22.1%**	**52.8%**
2010	**362**	**0**	**0**	**742**	**113**	**15.2%**	**50.1%**
2011	**278**	**0**	**0**	**609**	**335**	**55.0%**	**51.5%**
2012	**278**	**3.0%**	**6/14/12**	**469**	**63**	**13.4%**	**55.3%**

7.

Expense Constants	Selected Provisions
A. Total Production Expense	**16.6%**
B. General Expense	**9.2%**
C. Taxes, License & Fees	**Liab: 3.3%** **Phys Dmg: 3.4%**
D. Underwriting Profit & Contingencies	**Liab: 6.7%** **Phys Dmg: 8.8%**
E. Other (explain) **Debt Provision**	**1.4%**
F. TOTAL	**Liab: 37.2%** **Phys Dmg: 39.4%**

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

9. __+10.3%_ Estimated Maximum Rate Increase for any Insured (%). Territory (if applicable): ____________________________

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

Encompass Insurance Company of America
Private Passenger 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. For purposes of this memorandum, Encompass Insurance Group contains data elements from Encompass Indemnity Company and Encompass Insurance Company of America.

Coverage*	Encompass Insurance Group Written Premium at CRL	Encompass Insurance Company of America Written Premium at CRL	Encompass Insurance Group Indicated Rate Level Change	Encompass Insurance Company of America Proposed Rate Level Change
Bodily Injury	$593,804	$118,673	21.0%	8.7%
Property Damage	$365,721	$78,055	26.1%	8.7%
Medical Payment	$3,997	$1,150	246.4%	8.6%
Uninsured/Underinsured Motorists	$215,305	$36,655	51.8%	8.7%
Liability Subtotal	**$1,178,827**	**$234,533**	**29.0%**	**8.7%**
Collision	$812,642	$113,046	-18.0%	0.0%
Comprehensive	$381,783	$60,059	-4.2%	0.0%
Physical Damage Subtotal	**$1,194,425**	**$173,105**	**-13.6%**	**0.0%**
Overall	**$2,373,252**	**$407,638**	**7.6%**	**5.0%**

*In order to calculate the total indicated rate level need for Arkansas, premium and loss information for Motor Vehicle Personal Umbrella Liability coverage is included with the premium and loss information for the Bodily Injury coverage. Additionally, premium and loss information for miscellaneous coverages and vehicles are included with the premium and loss information for their corresponding coverages.

The filing contains the following revisions:

Motor Vehicle Base Rates
Encompass has revised the Motor Vehicle Base Rates in order to reach the desired impact shown above. Please refer to the Motor Vehicle Rate Pages for the proposed rates.

Comprehensive and Collision Model Year Factors
The Comprehensive and Collision Model Year Factors have been revised to add factors through 2014. Please refer to the Motor Vehicle Rate Pages for the revised factors.

Uninsured Motorist and Underinsured Motorist Coverage
Encompass has revised the Uninsured Motorist and Underinsured Motorist rates for Bodily Injury and Property Damage in order to reach the desired impacts shown above. Please refer to Rule 9.A of the Motor Vehicle Rules Manual for the revised rates.

Work Loss Coverage
The rate for Work Loss Coverage has been revised with this filing in order to reach the desired impact shown above. Please refer to Rule 9.O.B.2 of the Motor Vehicle Rules Manual for the revised rate.

Accidental Death Benefit Coverage
Encompass has revised the rate for Accidental Death Benefit Coverage in order to reach the desired impact shown above. Please refer to Rule 9.O.B.3 of the Motor Vehicle rules Manual for the revised rate.

Motor Home Base Rates
The Motor Home Base Rates have been revised in order to reach the desired impact shown above. Please refer to Rule 12.C of the Motor Vehicle Rules Manual for the revised rates.

Excess Liability Rates
The Excess Liability rates have been revised with this filing in order to reach the desired impact shown above. Please refer to Rule 5.A of the Excess Liability Rules Manual for the revised rates.

OVERVIEW OF AUTO INDICATION METHODOLOGY

Exhibits 1 – 11 of this section show the determination of the statewide rate level indication 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 is utilizing a combined company indication methodology for its Private Passenger Auto 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 Insurance Group. The aggregation of underlying data should provide a more stable, responsive, and credible basis for evaluation; as such, a complement of credibility will not be used for the Bodily Injury, Property Damage, Uninsured/Underinsured Motorists, Comprehensive, and Collision indications.

With this filing, Encompass will use a complement of credibility when determining the indications for Medical Payments. The complement of credibility is obtained by applying a relativity to the Bodily Injury Indicated Provision for Loss and LAE. By doing this, Encompass can still reflect differences in the Medical Payments Pure Premium (i.e. trends) compared to the Bodily Injury Pure Premium, while having the advantage of applying the relativity to a more stable base of the Bodily Injury data, which Encompass feels is an appropriate complement. Ten years of Medical Payments Unlimited Pure Premiums to Bodily Injury Unlimited Pure Premiums have been reviewed and a relativity was 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 Bodily Injury Indicated Provision for Loss and LAE to develop the complement of credibility for the Medical Payments Indicated Provision for Loss and LAE. Please refer to **Exhibit 2.A** for the final complement of credibility for the Medical Payments indications.

The statewide rate level indication is based on data from five rolling accident years for Bodily Injury coverage, five rolling accident years for Property Damage coverage, five rolling accident years for Medical Payments coverage, five rolling accident years for Uninsured/Underinsured Motorists coverage, five rolling accident years for Comprehensive coverage, and five rolling accident years for Collision coverage with losses ending June 30, 2013, evaluated as of September 30, 2013.

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 for each coverage. 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 for each coverage. 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 coverage.

ADJUSTMENTS TO PREMIUMS

Current Rate Level Factors

Encompass uses a 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 driver classification, increased limits, model year and price group symbols (PGS) / Insurance Services Office (ISO) symbols**.** 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 all coverages are shown in **Exhibit 5.A**. Encompass Insurance Group trend data is included as **Exhibit 5.B** to this attachment.

ADJUSTMENTS TO LOSSES

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 for liability coverage and paid loss development for physical damage coverages and selecting loss development factors. Encompass Insurance Group data has been considered in the selection of the loss development factors. Losses used in the analysis include allocated loss adjustment expenses but exclude catastrophes in order to minimize distortions. Age-to-age factors are selected for each coverage using total limits losses and are then used to calculate loss development factors. Additional analysis of losses limited to $100,000 per claim is performed to develop limited losses to ultimate for Bodily Injury coverage and Uninsured/Underinsured Motorists coverage. 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 for Bodily Injury coverage and Uninsured/Underinsured Motorists coverage 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 factors used in this filing are 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 (ALAE) to an ultimate settlement basis, they do not reflect the prospective rate of change in the occurrence of accidents (frequency) or in the cost of accidents (severity). 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.

For each coverage, the annual selections are used to project the data from the average occurrence date of the experience period to the average occurrence date of the future policy period. These selected trends are displayed in **Exhibit 8.A.** The calculations of loss trend factors are also shown in **Exhibit 8.A**. Encompass Insurance Group trend data is included in **Exhibit 8.B.** Please note that Encompass has selected trend and projection factors separately for each coverage.

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**.

Allocated loss adjustment expenses are included in both incurred losses and paid losses.

CATASTROPHE ADJUSTMENTS

In order to more appropriately account for catastrophes with Comprehensive coverage, all actual catastrophe losses during the experience period were removed. A catastrophe loss provision based upon 25 years of data in Arkansas is used to account for catastrophes, as shown in **Exhibit 4**. This catastrophe loss provision was calculated by dividing total catastrophe losses by total Comprehensive coverage incurred losses excluding catastrophes over the 25-year period. As developed in **Exhibit 9**, the resulting catastrophe provision is 18.0%.

EXPENSE & PROFIT PROVISION

Exhibit 10.1 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, excluding involuntary business. 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. 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.

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

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 fixed expense trend utilized in the calculation of the indicated fixed expense provision consists of two components – a trend for General & Other Acquisition expenses and a trend for Licenses & Fees.

The method used to calculate the fixed expense trend for General & Other Acquisition expenses 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 General & Other Acquisition 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*.

In addition to the General & Other Acquisition expenses, Licenses & Fees are also considered as fixed expenses. Licenses & fees are generally constant in the absence of state action; therefore, the fixed expense trend should only be applied to the General & Other Acquisition portions of the fixed expenses. To accomplish this, Encompass calculates a weighted average of two trends: the fixed expense trend for general and other acquisition (as calculated using the method described in the paragraph above) and a 0.0% trend for licenses and fees. This weighted-average trend can then be applied to the entire fixed expense provision.

Exhibit 10.2 shows the derivation of the Factor to Adjust for Subsequent Change in Fixed Expense.

<u>Commission and Brokerage Expense and Taxes</u>

The proposed commission and brokerage expense provision has been developed from the actual calendar year 2012 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.

<u>Underwriting Profit Provision</u>

Encompass performs two separate cost of capital analyses in the estimation of its cost of equity. The first uses the Fama-French Three-factor Model (FF3F), which reflects developments in the field of financial economics as published in the Casualty Actuarial Society Forum, Winter, 2004 and in Journal of Risk and Insurance, Vol. 72, No. 3, September 2005 (“Estimating the Cost of Equity Capital For Property-Liability Insurers” by J. David Cummins and Richard D. Phillips). The second is a Discounted Cash Flow (DCF) analysis, which estimates the expected future cash flows to investors in order to gauge the proper cost of equity. Once both the DCF and FF3F estimates had been calculated, Encompass selected a cost of equity of 9.5%, 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 **Exhibits 11.1 & 11.2** for liability and physical damage coverages, respectively. 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.

Encompass Insurance Group
Private Passenger Auto
Arkansas

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Exhibit 1

Encompass Insurance Group
Private Passenger Auto
Arkansas

Summary of Changes

Coverage	Encompass Insurance GroupWritten Premium At CRL	Encompass Insurance Company of America Written Premium At CRL	Encompass Insurance Group Indicated Rate Level Change	Encompass Indemnity Company Proposed Rate Level Change
Bodily Injury	$593,804	$118,673	21.0%	8.7%
Property Damage	365,721	78,055	26.1%	8.7%
Medical Payments	3,997	1,150	246.4%	8.6%
Uninsured / Underinsured Motorist	215,305	36,655	51.8%	8.7%
Liability Subtotal	**1,178,827**	**234,533**	**29.0%**	**8.7%**
Collision	$812,642	$113,046	-18.0%	0.0%
Comprehensive	381,783	60,059	-4.2%	0.0%
Physical Damage Subtotal	**1,194,425**	**173,105**	**-13.6%**	**0.0%**
TOTAL AUTOMOBILE	**$2,373,252**	**$407,638**	**7.6%**	**5.0%**

Encompass Insurance Group
Private Passenger Auto
Arkansas

Development of Statewide Rate Level Indication - Bodily Injury

1)	Current Fixed Expense Ratio (Exhibit 10.1)	10.9 %
2)	Three Year Average Earned Premium	$185.53
3)	Current Dollar Provision for Fixed Expense = [(1) x (2)]	$20.22
4)	Factor to Adjust for Subsequent Change in Fixed Expense (Exhibit 10.2)	1.081
5)	Indicated Provision for Fixed Expense = [(3) x (4)]	$21.86
6)	Variable Expense and Profit Ratio (Exhibit 10.1)	26.3 %
7)	Indicated Provision for Loss and LAE (Exhibit 4.1)	$144.50
8)	Indicated Average Premium = [(7) + (5)] / [1 - (6)]	$225.73
9)	Projected Average Earned Premium at Current Rates (Exhibit 3.1)	$186.58
10)	Indicated Rate Level Change = [(8) / (9) -1]	21.0 %

Encompass Insurance Group
Private Passenger Auto
Arkansas

Development of Statewide Rate Level Indication - Property Damage

1)	Current Fixed Expense Ratio (Exhibit 10.1)	10.9 %
2)	Three Year Average Earned Premium	$120.52
3)	Current Dollar Provision for Fixed Expense = [(1) x (2)]	$13.14
4)	Factor to Adjust for Subsequent Change in Fixed Expense (Exhibit 10.2)	1.081
5)	Indicated Provision for Fixed Expense = [(3) x (4)]	$14.20
6)	Variable Expense and Profit Ratio (Exhibit 10.1)	26.3 %
7)	Indicated Provision for Loss and LAE (Exhibit 4.2)	$88.02
8)	Indicated Average Premium = [(7) + (5)] / [1 - (6)]	$138.70
9)	Projected Average Earned Premium at Current Rates (Exhibit 3.2)	$110.01
10)	Indicated Rate Level Change = [(8) / (9) -1]	26.1 %

Exhibit 2.A.3

Encompass Insurance Group
Private Passenger Auto
Arkansas

Development of Statewide Rate Level Indication - Medical Payments

1)	Current Fixed Expense Ratio (Exhibit 10.1)	10.9 %
2)	Three Year Average Earned Premium	$12.97
3)	Current Dollar Provision for Fixed Expense = [(1) x (2)]	$1.41
4)	Factor to Adjust for Subsequent Change in Fixed Expense (Exhibit 10.2)	1.081
5)	Indicated Provision for Fixed Expense = [(3) x (4)]	$1.52
6)	Variable Expense and Profit Ratio (Exhibit 10.1)	26.3 %
7)	Indicated Provision for Loss and LAE (Exhibit 4.3)	$32.35
8)	Complement of Credibility = { [Exhibit 2.A.1 (7)] x [Exhibit 2.B] }	$28.90
9)	Credibility (Exhibit 2.C)	15.0 %
10)	Credibility Weighted Non-Cat Indicated Provision for Loss and LAE = [(7) x (9)] + [(8) x [1 - (9)]]	$29.42
11)	Indicated Average Premium = [(10) + (5)] / [1 - (6)]	$41.98
12)	Projected Average Earned Premium at Current Rates (Exhibit 3.3)	$12.12
13)	Indicated Rate Level Change = [(11) / (12) -1]	246.4 %

Exhibit 2.A.4

Encompass Insurance Group
Private Passenger Auto
Arkansas

Development of Statewide Rate Level Indication - Uninsured/Underinsured Motorist

1)	Current Fixed Expense Ratio (Exhibit 10.1)	10.9 %
2)	Three Year Average Earned Premium	$59.26
3)	Current Dollar Provision for Fixed Expense = [(1) x (2)]	$6.46
4)	Factor to Adjust for Subsequent Change in Fixed Expense (Exhibit 10.2)	1.081
5)	Indicated Provision for Fixed Expense = [(3) x (4)]	$6.98
6)	Variable Expense and Profit Ratio (Exhibit 10.1)	26.3 %
7)	Indicated Provision for Loss and LAE (Exhibit 4.4)	$75.81
8)	Indicated Average Premium = [(7) + (5)] / [1 - (6)]	$112.33
9)	Projected Average Earned Premium at Current Rates (Exhibit 3.5)	$74.02
10)	Indicated Rate Level Change = [(8) / (9) -1]	51.8 %

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Development of Statewide Rate Level Indication - Collision

1)	Current Fixed Expense Ratio (Exhibit 10.1)	11.0 %
2)	Three Year Average Earned Premium	$355.14
3)	Current Dollar Provision for Fixed Expense = [(1) x (2)]	$39.07
4)	Factor to Adjust for Subsequent Change in Fixed Expense (Exhibit 10.2)	1.081
5)	Indicated Provision for Fixed Expense = [(3) x (4)]	$42.23
6)	Variable Expense and Profit Ratio (Exhibit 10.1)	28.4 %
7)	Indicated Provision for Loss and LAE (Exhibit 4.5)	$156.63
8)	Indicated Average Premium = [(7) + (5)] / [1 - (6)]	$277.74
9)	Projected Average Earned Premium at Current Rates (Exhibit 3.5)	$338.76
10)	Indicated Rate Level Change = [(8) / (9) -1]	-18.0 %

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Private Passenger Auto
Arkansas

Exhibit 2.A.6

Development of Statewide Rate Level Indication - Comprehensive

1)	Current Fixed Expense Ratio (Exhibit 10.1)	11.0 %
2)	Three Year Average Earned Premium	$172.61
3)	Current Dollar Provision for Fixed Expense = [(1) x (2)]	$18.99
4)	Factor to Adjust for Subsequent Change in Fixed Expense (Exhibit 10.2)	1.081
5)	Indicated Provision for Fixed Expense = [(3) x (4)]	$20.53
6)	Variable Expense and Profit Ratio (Exhibit 10.1)	28.4 %
7)	Indicated Provision for Loss and LAE (Exhibit 4.6)	$86.06
8)	Indicated Average Premium = [(7) + (5)] / [1 - (6)]	$148.87
9)	Projected Average Earned Premium at Current Rates (Exhibit 3.6)	$155.42
10)	Indicated Rate Level Change = [(8) / (9) -1]	-4.2 %

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Medical Payments vs. Bodily Injury Non-Cat Loss + ALAE Pure Premium Relativities

Year Ending	**Bodily Injury Pure Premium**	**Medical Payments Pure Premium**	**Relativity**
6/30/2004	75	9	0.118
6/30/2005	284	1	0.002
6/30/2006	355	16	0.045
6/30/2007	136	0	0.000
6/30/2008	95	40	0.424
6/30/2009	111	80	0.722
6/30/2010	119	23	0.193
6/30/2011	116	45	0.388
6/30/2012	59	4	0.068
6/30/2013	110	3	0.028
		Straight Average	0.199
		Weighted Average	0.161
		Selected Ratio	**0.200**

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Determination of Statewide Credibility

Coverage	(1) Claim Count	(2) Full Credibility Standard	(3) Statewide Credibility
MED	21	687	15.0%

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Development of Projected Average Earned Premium at Current Rates - Bodily Injury

	(1)	(2)	(3) **(Exhibit 5.A)**	(4) **= (2) x (3)**	(5) **= (4) / (1)**	(6)
Fiscal Year Ending	Earned Exposures	Earned Premium at Current Rates	Factor to Adjust to Projected Premium Level	Projected Earned Premium at Current Rates	Projected Average Earned Premium at Current Rates	Experience Year Weights
6/30/2013	2,812	$594,872	0.882	$524,677	$186.58	100 %

(7) Projected Average Earned Premium At Current Rates $186.58

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Development of Projected Average Earned Premium at Current Rates - Property Damage

	(1)	(2)	(3)	(4)	(5)	(6)
			(Exhibit 5.A)	**= (2) x (3)**	**= (4) / (1)**	
Fiscal Year Ending	Earned Exposures	Earned Premium at Current Rates	Factor to Adjust to Projected Premium Level	Projected Earned Premium at Current Rates	Projected Average Earned Premium at Current Rates	Experience Year Weights
6/30/2013	2,811	$369,460	0.837	$309,238	$110.01	100 %

(7) Projected Average Earned Premium At Current Rates $110.01

Exhibit 3.3

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Arkansas

Development of Projected Average Earned Premium at Current Rates - Medical Payments

Fiscal Year Ending	(1) Earned Exposures	(2) Earned Premium at Current Rates	(3) **(Exhibit 5.A)** Factor to Adjust to Projected Premium Level	(4) **= (2) x (3)** Projected Earned Premium at Current Rates	(5) **= (4) / (1)** Projected Average Earned Premium at Current Rates	(6) Experience Year Weights
6/30/2013	255	$3,504	0.882	$3,091	$12.12	100 %

(7) Projected Average Earned Premium At Current Rates $12.12

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Arkansas

Development of Projected Average Earned Premium at Current Rates - Uninsured/Underinsured Motorist

Fiscal Year Ending	(1) Earned Exposures	(2) Earned Premium at Current Rates	(3) **(Exhibit 5.A)** Factor to Adjust to Projected Premium Level	(4) **= (2) x (3)** Projected Earned Premium at Current Rates	(5) **= (4) / (1)** Projected Average Earned Premium at Current Rates	(6) Experience Year Weights
6/30/2013	2,812	$198,232	1.050	$208,144	$74.02	100 %

(7) Projected Average Earned Premium At Current Rates $74.02

Exhibit 3.5

Encompass Insurance Group
Private Passenger Auto
Arkansas

Development of Projected Average Earned Premium at Current Rates - Collision

	(1)	(2)	(3) **(Exhibit 5.A)**	(4) **= (2) x (3)**	(5) **= (4) / (1)**	(6)
Fiscal Year Ending	Earned Exposures	Earned Premium at Current Rates	Factor to Adjust to Projected Premium Level	Projected Earned Premium at Current Rates	Projected Average Earned Premium at Current Rates	Experience Year Weights
6/30/2013	2,131	$730,674	0.988	$721,906	$338.76	100 %

(7) Projected Average Earned Premium At Current Rates $338.76

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Private Passenger Auto
Arkansas

Development of Projected Average Earned Premium at Current Rates - Comprehensive

	(1)	(2)	(3) (Exhibit 5.A)	(4) = (2) x (3)	(5) = (4) / (1)	(6)
Fiscal Year Ending	Earned Exposures	Earned Premium at Current Rates	Factor to Adjust to Projected Premium Level	Projected Earned Premium at Current Rates	Projected Average Earned Premium at Current Rates	Experience Year Weights
6/30/2013	2,158	$352,308	0.952	$335,397	$155.42	100 %

(7) Projected Average Earned Premium At Current Rates $155.42

Exhibit 4.1

Encompass Insurance Group
Private Passenger Auto
Arkansas

Development of Provision for Loss and LAE - Bodily Injury

	(1)	(2)	(3)	(4) = (2) * (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 Ex-Cat Losses and ALAE	ULAE Provision	Developed Limited Ex-Cat Losses and LAE	Excess Loss Provision	Factor to Adjust Losses for Pure Premium Trend	Projected Ultimate Loss and LAE	Projected Average Loss and LAE	Experience Year Weights
6/30/2009	6,473	$823,478	0.146	$943,706	1.250	0.748	$882,365	$136.31	20 %
6/30/2010	5,085	645,331	0.146	739,549	1.250	0.804	$743,246	$146.16	20
6/30/2011	3,666	486,839	0.146	557,917	1.250	0.865	$603,248	$164.55	20
6/30/2012	2,947	186,612	0.146	213,857	1.250	0.930	$248,609	$84.36	20
6/30/2013	2,812	375,194	0.146	429,972	1.250	1.000	$537,465	$191.13	20

(10) Indicated Provision for Loss and LAE $144.50

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Arkansas

Exhibit 4.2

Development of Provision for Loss and LAE - Property Damage

	(1)	(2)	(3)	(4) = (2) * (1+ (3))	(5) (Exhibit 8.A)	(6) = (4) x (5)	(7) = (6) / (1)	(8)
Fiscal Year Ending	Earned Exposures	Developed Ex-Cat Losses and ALAE	ULAE Provision	Developed Ex-Cat Losses and LAE	Factor to Adjust Losses for Pure Premium Trend	Projected Ultimate Loss and LAE	Projected Average Loss and LAE	Experience Year Weights
6/30/2009	6,473	$502,586	0.146	$575,964	0.922	$531,039	$82.04	20 %
6/30/2010	5,085	565,961	0.146	648,591	0.941	610,324	120.02	20
6/30/2011	3,666	222,270	0.146	254,721	0.960	244,532	66.70	20
6/30/2012	2,946	222,314	0.146	254,772	0.980	249,677	84.75	20
6/30/2013	2,811	212,417	0.146	243,430	1.000	243,430	86.60	20

(9) Indicated Provision for Loss and LAE $88.02

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Private Passenger Auto
Arkansas

Exhibit 4.3

Development of Provision for Loss and LAE - Medical Payments

	(1)	(2)	(3)	(4) = (2) * (1+ (3))	(5) (Exhibit 8.A)	(6) = (4) x (5)	(7) = (6) / (1)	(8)
Fiscal Year Ending	Earned Exposures	Developed Ex-Cat Losses and ALAE	ULAE Provision	Developed Ex-Cat Losses and LAE	Factor to Adjust Losses for Pure Premium Trend	Projected Ultimate Loss and LAE	Projected Average Loss and LAE	Experience Year Weights
6/30/2009	505	$46,729	0.146	$53,551	0.748	$40,056	$79.32	20 %
6/30/2010	400	10,555	0.146	12,096	0.804	9,725	24.31	20
6/30/2011	296	15,000	0.146	17,190	0.865	14,869	50.23	20
6/30/2012	256	1,065	0.146	1,220	0.930	1,135	4.43	20
6/30/2013	255	768	0.146	880	1.000	880	3.45	20

(9) Indicated Provision for Loss and LAE $32.35

Encompass Insurance Group
Private Passenger Auto
Arkansas

Exhibit 4.4

Development of Provision for Loss and LAE - Uninsured / Underinsured Motorist

	(1)	(2)	(3)	(4) = (2) * (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 Ex-Cat Losses and ALAE	ULAE Provision	Developed Limited Ex-Cat Losses and LAE	Excess Loss Provision	Factor to Adjust Losses for Pure Premium Trend	Projected Ultimate Loss and LAE	Projected Average Loss and LAE	Experience Year Weights
6/30/2009	6,473	$216,377	0.146	$247,968	1.220	1.000	$302,521	$46.74	20 %
6/30/2010	5,085	251,782	0.146	288,542	1.220	1.000	$352,021	$69.23	20
6/30/2011	3,666	40,936	0.146	46,913	1.220	1.000	$57,234	$15.61	20
6/30/2012	2,947	98,253	0.146	112,598	1.220	1.000	$137,370	$46.61	20
6/30/2013	2,812	403,943	0.146	462,919	1.220	1.000	$564,761	$200.84	20

(10) Indicated Provision for Loss and LAE $75.81

Exhibit 4.5

Encompass Insurance Group
Private Passenger Auto
Arkansas

Development of Provision for Loss and LAE - Collision

	(1)	(2)	(3)	(4) **= (2) * (1+ (3))**	(5) **(Exhibit 8.A)**	(6) **= (4) x (5)**	(7) **= (6) / (1)**	(8)
Fiscal Year Ending	Earned Exposures	Developed Ex-Cat Losses and ALAE	ULAE Provision	Developed Ex-Cat Losses and LAE	Factor to Adjust Losses for Pure Premium Trend	Projected Ultimate Loss and LAE	Projected Average Loss and LAE	Experience Year Weights
6/30/2009	4,368	$597,394	0.146	$684,614	0.945	$646,960	$148.11	20 %
6/30/2010	3,518	691,676	0.146	792,661	0.964	764,125	217.20	20
6/30/2011	2,639	319,363	0.146	365,990	0.984	360,134	136.47	20
6/30/2012	2,140	224,437	0.146	257,205	1.004	258,234	120.67	20
6/30/2013	2,131	291,574	0.146	334,144	1.025	342,498	160.72	20

(9) Indicated Provision for Loss and LAE $156.63

Encompass Insurance Group
Private Passenger Auto
Arkansas

Exhibit 4.6

Development of Provision for Loss and LAE - Comprehensive

Fiscal Year Ending	(1) Earned Exposures	(2) Developed Ex-Cat Losses and ALAE	(3) (Exhibit 9) Average Catastrophe Factor	(4) = (2) x [1+(3)] Developed Losses and ALAE	(5) ULAE Provision	(6) = (4) * (1+ (5)) Developed Losses and LAE	(7) (Exhibit 8.A) Factor to Adjust Losses for Pure Premium Trend	(8) = (6) x (7) Projected Ultimate Loss and LAE	(9) = (8) / (1) Projected Average Loss and LAE	(10) Experience Year Weights
6/30/2009	4,471	$317,390	0.18	$374,520	0.146	$429,200	0.922	$395,722	$88.51	20 %
6/30/2010	3,595	263,223	0.18	310,603	0.146	355,951	0.941	334,950	93.17	20
6/30/2011	2,690	158,104	0.18	186,563	0.146	213,801	0.960	205,249	76.30	20
6/30/2012	2,174	125,509	0.18	148,101	0.146	169,724	0.980	166,330	76.51	20
6/30/2013	2,158	152,858	0.18	180,372	0.146	206,706	1.000	206,706	95.79	20

(11) Indicated Provision for Loss and LAE $86.06

Encompass Insurance Group
Private Passenger Auto
Arkansas

Exhibit 5.A

Calculation of Premium Trend Factor

Coverage	Selected Annual Premium Impacts Projected
Bodily Injury	-5.00%
Property Damage	-7.00%
Medical Payments	-5.00%
Uninsured / Underinsured Motorist	2.00%
Collision	-0.50%
Comprehensive	-2.00%

	Calculation of Trend Period Current Year
1) Average Earned Date of Proposed Policy Period	6/14/2015
2) Mid-Point of Current Year's Experience Period	12/31/2012
3) Experience Period Ended	6/30/2013
4) Midpoint of Experience Period	12/31/2012
5) Historical: Number of Years from (4) to (2)	0.000
6) Projected: Number of Years from (2) to (1)	2.452

Coverage	Factor to Adjust to Projected Premium Level Current Year
Bodily Injury	0.882
Property Damage	0.837
Medical Payments	0.882
Uninsured / Underinsured Motorist	1.050
Collision	0.988
Comprehensive	0.952

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

Exhibit 5.B.1

Encompass Insurance Group
Private Passenger Auto
Arkansas

Average Written Premium Trends - Bodily Injury

Year Ending	Average Written Premium @ CRL	Annual % Change	Exponential Curve of Best Fit ($) 20 pt.	12 pt.	6 pt.
12/07	$248.37	-12.4			
03/08	243.97	-10.4			
06/08	240.83	-8.1			
09/08	234.97	-7.8			
12/08	230.78	-7.1	233.49		
03/09	227.44	-6.8	232.05		
06/09	225.90	-6.2	230.62		
09/09	223.07	-5.1	229.20		
12/09	223.67	-3.1	227.79		
03/10	222.71	-2.1	226.39		
06/10	223.63	-1.0	224.99		
09/10	227.62	2.0	223.60		
12/10	229.43	2.6	222.23	234.48	
03/11	231.52	4.0	220.86	231.13	
06/11	228.66	2.3	219.50	227.83	
09/11	226.50	-0.5	218.14	224.58	
12/11	221.32	-3.5	216.80	221.37	
03/12	218.29	-5.7	215.46	218.21	
06/12	217.19	-5.0	214.14	215.09	218.52
09/12	215.18	-5.0	212.82	212.02	214.15
12/12	210.27	-5.0	211.51	208.99	209.87
03/13	206.49	-5.4	210.20	206.00	205.67
06/13	201.09	-7.4	208.91	203.06	201.56
09/13	197.08	-8.4	207.62	200.16	197.53

Regression	20 pt.	12 pt.	6 pt.
Avg Annual Percent Change Based on Best Fit:	-2.4 %	-5.6 %	-7.8 %

Exhibit 5.B.2

Encompass Insurance Group
Private Passenger Auto
Arkansas

Average Written Premium Trends - Property Damage

			Exponential Curve of Best Fit ($)		
Year Ending	Average Written Premium @ CRL	Annual % Change	20 pt.	12 pt.	6 pt.
12/07	$168.05	-9.7			
03/08	166.12	-7.5			
06/08	164.33	-5.9			
09/08	160.14	-6.5			
12/08	156.85	-6.7	158.98		
03/09	154.21	-7.2	157.11		
06/09	152.01	-7.5	155.25		
09/09	149.96	-6.4	153.42		
12/09	148.99	-5.0	151.61		
03/10	147.92	-4.1	149.82		
06/10	146.89	-3.4	148.06		
09/10	148.44	-1.0	146.31		
12/10	149.29	0.2	144.58	152.31	
03/11	149.47	1.1	142.88	149.32	
06/11	147.23	0.2	141.19	146.39	
09/11	145.07	-2.3	139.53	143.52	
12/11	141.06	-5.5	137.88	140.70	
03/12	137.37	-8.1	136.25	137.94	
06/12	136.43	-7.3	134.65	135.23	136.67
09/12	133.70	-7.8	133.06	132.58	133.46
12/12	130.21	-7.7	131.49	129.98	130.32
03/13	127.77	-7.0	129.94	127.42	127.26
06/13	123.80	-9.3	128.40	124.92	124.27
09/13	121.42	-9.2	126.89	122.47	121.35

Regression	20 pt.	12 pt.	6 pt.
Avg Annual Percent Change Based on Best Fit:	-4.6 %	-7.6 %	-9.1 %

Exhibit 5.B.3

Encompass Insurance Group
Private Passenger Auto
Arkansas

Average Written Premium Trends - Medical Payments

			Exponential Curve of Best Fit ($)		
Year Ending	Average Written Premium @ CRL	Annual % Change	20 pt.	12 pt.	6 pt.
12/07	$17.22	-13.5			
03/08	17.36	-6.6			
06/08	17.57	-1.9			
09/08	16.99	-6.3			
12/08	16.46	-4.4	17.16		
03/09	16.82	-3.1	16.89		
06/09	16.53	-5.9	16.63		
09/09	15.84	-6.8	16.37		
12/09	15.90	-3.4	16.12		
03/10	15.40	-8.4	15.87		
06/10	15.11	-8.6	15.62		
09/10	15.21	-4.0	15.38		
12/10	15.56	-2.1	15.14	16.43	
03/11	15.49	0.6	14.91	15.98	
06/11	15.82	4.7	14.68	15.54	
09/11	15.91	4.6	14.45	15.12	
12/11	14.93	-4.1	14.23	14.70	
03/12	14.53	-6.2	14.01	14.30	
06/12	14.25	-9.9	13.79	13.91	14.23
09/12	13.45	-15.5	13.58	13.52	13.70
12/12	13.27	-11.1	13.37	13.15	13.19
03/13	13.06	-10.1	13.16	12.79	12.70
06/13	12.09	-15.2	12.95	12.44	12.23
09/13	11.69	-13.1	12.75	12.10	11.77

Regression	20 pt.	12 pt.	6 pt.
Avg Annual Percent Change Based on Best Fit:	-6.1 %	-10.5 %	-14.1 %

Exhibit 5.B.4

Encompass Insurance Group
Private Passenger Auto
Arkansas

Average Written Premium Trends - Uninsured / Underinsured Motorist

			Exponential Curve of Best Fit ($)		
Year Ending	Average Written Premium @ CRL	Annual % Change	20 pt.	12 pt.	6 pt.
12/07	$66.82	-14.68			
03/08	65.33	-13.37			
06/08	64.50	-9.49			
09/08	63.33	-7.22			
12/08	63.28	-5.30	63.48		
03/09	63.69	-2.51	63.90		
06/09	63.75	-1.16	64.32		
09/09	64.22	1.41	64.75		
12/09	64.82	2.43	65.17		
03/10	65.40	2.68	65.61		
06/10	66.23	3.89	66.04		
09/10	67.51	5.12	66.48		
12/10	68.24	5.28	66.91	67.58	
03/11	68.10	4.13	67.36	67.92	
06/11	68.26	3.07	67.80	68.26	
09/11	68.23	1.07	68.25	68.60	
12/11	68.69	0.66	68.70	68.95	
03/12	68.78	1.00	69.16	69.29	
06/12	69.21	1.39	69.61	69.64	69.39
09/12	69.68	2.13	70.07	69.99	69.86
12/12	70.71	2.94	70.54	70.34	70.33
03/13	71.03	3.27	71.00	70.69	70.80
06/13	71.31	3.03	71.47	71.04	71.27
09/13	71.46	2.55	71.94	71.40	71.75

Regression	20 pt.	12 pt.	6 pt.
Avg Annual Percent Change Based on Best Fit:	2.7 %	2.0 %	2.7 %

Exhibit 5.B.5

Encompass Insurance Group
Private Passenger Auto
Arkansas

<u>Average Written Premium Trends - Collision</u>

Year Ending	Average Written Premium @ CRL	Annual % Change	Exponential Curve of Best Fit ($) 20 pt.	12 pt.	6 pt.
12/07	$330.85	4.6			
03/08	335.52	5.6			
06/08	340.93	6.6			
09/08	344.84	6.8			
12/08	341.91	3.3	345.26		
03/09	340.41	1.5	345.00		
06/09	341.16	0.1	344.75		
09/09	342.59	-0.7	344.49		
12/09	344.21	0.7	344.24		
03/10	347.99	2.2	343.98		
06/10	348.39	2.1	343.73		
09/10	346.75	1.2	343.47		
12/10	346.22	0.6	343.22	346.22	
03/11	349.19	0.3	342.96	345.44	
06/11	342.57	-1.7	342.71	344.66	
09/11	345.93	-0.2	342.46	343.89	
12/11	341.33	-1.4	342.20	343.11	
03/12	338.99	-2.9	341.95	342.34	
06/12	343.44	0.3	341.70	341.57	341.04
09/12	339.23	-1.9	341.44	340.80	340.58
12/12	339.17	-0.6	341.19	340.03	340.13
03/13	339.21	0.1	340.94	339.27	339.67
06/13	336.51	-2.0	340.69	338.50	339.22
09/13	341.88	0.8	340.43	337.74	338.77

Regression	20 pt.	12 pt.	6 pt.
Avg Annual Percent Change Based on Best Fit:	-0.3 %	-0.9 %	-0.5 %

Encompass Insurance Group
Private Passenger Auto
Arkansas

Average Written Premium Trends - Comprehensive

			Exponential Curve of Best Fit ($)		
Year Ending	Average Written Premium @ CRL	Annual % Change	20 pt.	12 pt.	6 pt.
12/07	$171.87	5.6			
03/08	173.14	5.2			
06/08	175.76	5.8			
09/08	176.77	5.5			
12/08	175.52	2.1	177.19		
03/09	174.75	0.9	176.14		
06/09	174.41	-0.8	175.09		
09/09	174.83	-1.1	174.04		
12/09	174.55	-0.6	173.01		
03/10	175.93	0.7	171.98		
06/10	173.73	-0.4	170.95		
09/10	171.04	-2.2	169.94		
12/10	167.11	-4.3	168.92	167.00	
03/11	167.07	-5.0	167.92	166.26	
06/11	164.07	-5.6	166.92	165.52	
09/11	164.09	-4.1	165.92	164.78	
12/11	163.98	-1.9	164.93	164.05	
03/12	163.17	-2.3	163.95	163.32	
06/12	163.72	-0.2	162.98	162.59	163.85
09/12	163.02	-0.7	162.01	161.87	162.71
12/12	161.44	-1.6	161.04	161.15	161.59
03/13	160.64	-1.6	160.08	160.43	160.47
06/13	158.85	-3.0	159.13	159.72	159.36
09/13	158.55	-2.7	158.18	159.00	158.25

Regression	20 pt.	12 pt.	6 pt.
Avg Annual Percent Change Based on Best Fit:	-2.4 %	-1.8 %	-2.7 %

Encompass Insurance Group
Private Passenger Auto
Arkansas

Incurred Loss + ALAE Development Factors - Limited Bodily Injury

Fiscal Accident Year Ending	15 Months	27 Months	39 Months	51 Months	63 Months	75 Months	87 Months	99 Months	111 Months	123 Months
6/30/2000									1,849,191	1,849,191
6/30/2001								2,128,199	2,128,199	2,128,199
6/30/2002							1,610,181	1,610,248	1,610,248	1,610,248
6/30/2003						887,343	887,343	887,343	887,343	887,343
6/30/2004					578,296	593,992	597,911	597,911	597,911	597,911
6/30/2005				1,723,924	1,686,849	1,731,275	1,731,275	1,731,275	1,731,275	
6/30/2006			966,218	951,837	931,066	931,066	931,066	931,066		
6/30/2007		786,637	807,942	823,394	833,815	833,815	833,815			
6/30/2008	538,345	721,873	760,735	757,879	773,857	761,894				
6/30/2009	667,304	705,128	758,502	798,200	808,124					
6/30/2010	519,289	614,767	606,954	612,849						
6/30/2011	356,019	361,183	433,130							
6/30/2012	153,146	145,223								
6/30/2013	230,605									

Link Ratios

Development	15 to 27	27 to 39	39 to 51	51 to 63	63 to 75	75 to 87	87 to 99	99 to 111	111 to 123
4th Prior	1.341	1.027	0.985	0.978	1.027	1.000	1.000	1.000	1.000
3rd Prior	1.057	1.054	1.019	0.978	1.026	1.007	1.000	1.000	1.000
2nd Prior	1.184	1.076	0.996	1.013	1.000	1.000	1.000	1.000	1.000
1st Prior	1.015	0.987	1.052	1.021	1.000	1.000	1.000	1.000	1.000
Latest	0.948	1.199	1.010	1.012	0.985	1.000	1.000	1.000	1.000
Volume Weighted 4 Yr Mean	1.077	1.065	1.020	1.005	1.008	1.001	1.000	1.000	1.000
Countrywide selected:	1.266	1.143	1.068	1.033	1.013	1.006	1.000	1.000	1.000

Loss Development Period (months):	15 - 123	27 - 123	39 - 123	51 - 123	63 - 123	75 - 123	87 - 123	99 - 123	111 - 123
Loss Development Factor:	1.627	1.285	1.124	1.053	1.019	1.006	1.000	1.000	1.000

†Includes ALAE

Encompass Insurance Group
Private Passenger Auto
Arkansas

Incurred Loss + ALAE Development Factors - Unlimited Bodily Injury

Fiscal Accident Year Ending	15 Months	27 Months	39 Months	51 Months	63 Months	75 Months	87 Months	99 Months	111 Months	123 Months
6/30/2000									1,874,191	1,874,191
6/30/2001								2,278,199	2,278,199	2,278,199
6/30/2002							1,610,181	1,610,248	1,610,248	1,610,248
6/30/2003						887,343	887,343	887,343	887,343	887,343
6/30/2004					578,296	593,992	597,911	597,911	597,911	597,911
6/30/2005				2,866,652	2,829,577	2,874,003	2,874,003	2,874,003	2,874,003	
6/30/2006			2,116,218	2,101,837	2,081,066	2,081,066	2,081,066	2,081,066		
6/30/2007		811,637	902,942	918,394	928,815	928,815	928,815			
6/30/2008	538,345	721,873	760,735	757,879	773,857	761,894				
6/30/2009	667,304	705,128	758,502	798,200	808,124					
6/30/2010	584,289	649,767	641,954	647,849						
6/30/2011	356,019	361,183	433,130							
6/30/2012	153,146	145,223								
6/30/2013	230,605									

Link Ratios

Development	15 to 27	27 to 39	39 to 51	51 to 63	63 to 75	75 to 87	87 to 99	99 to 111	111 to 123
4th Prior	1.341	1.112	0.993	0.987	1.027	1.000	1.000	1.000	1.000
3rd Prior	1.057	1.054	1.017	0.990	1.016	1.007	1.000	1.000	1.000
2nd Prior	1.112	1.076	0.996	1.011	1.000	1.000	1.000	1.000	1.000
1st Prior	1.015	0.988	1.052	1.021	1.000	1.000	1.000	1.000	1.000
Latest	0.948	1.199	1.009	1.012	0.985	1.000	1.000	1.000	1.000
Volume Weighted 4 Yr Mean	1.057	1.064	1.019	1.003	1.005	1.001	1.000	1.000	1.000
Countrywide selected:	1.298	1.164	1.085	1.038	1.022	1.008	1.000	1.000	1.000

Loss Development Period (months):	15 - 123	27 - 123	39 - 123	51 - 123	63 - 123	75 - 123	87 - 123	99 - 123	111 - 123
Loss Development Factor:	1.753	1.350	1.160	1.069	1.030	1.008	1.000	1.000	1.000

†Includes ALAE

Exhibit 6.2

Encompass Insurance Group
Private Passenger Auto
Arkansas

Incurred Loss + ALAE Development Factors - Property Damage

Fiscal Accident Year Ending	15 Months	27 Months	39 Months	51 Months	63 Months	75 Months	87 Months	99 Months	111 Months	123 Months
6/30/2000									1,236,420	1,236,420
6/30/2001								1,336,940	1,336,940	1,336,940
6/30/2002							1,194,300	1,194,300	1,194,300	1,194,300
6/30/2003						891,241	891,241	891,241	891,241	891,241
6/30/2004					374,885	374,885	374,885	374,885	374,885	374,885
6/30/2005				400,677	400,677	400,677	400,677	400,677	400,677	
6/30/2006			397,139	398,888	398,888	398,888	398,888	398,888		
6/30/2007		467,986	467,986	467,986	467,986	467,986	467,986			
6/30/2008	436,715	456,548	447,948	447,948	447,948	447,948				
6/30/2009	457,738	499,628	502,585	502,585	502,585					
6/30/2010	516,232	565,960	565,960	565,960						
6/30/2011	218,555	223,271	222,271							
6/30/2012	222,770	221,870								
6/30/2013	200,772									

Link Ratios

Development	15 to 27	27 to 39	39 to 51	51 to 63	63 to 75	75 to 87	87 to 99	99 to 111	111 to 123
4th Prior	1.045	1.000	1.004	1.000	1.000	1.000	1.000	1.000	1.000
3rd Prior	1.092	0.981	1.000	1.000	1.000	1.000	1.000	1.000	1.000
2nd Prior	1.096	1.006	1.000	1.000	1.000	1.000	1.000	1.000	1.000
1st Prior	1.022	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000
Latest	0.996	0.996	1.000	1.000	1.000	1.000	1.000	1.000	1.000
Volume Weighted 3 Yr Mean	1.056	1.002	1.000	1.000	1.000	1.000	1.000	1.000	1.000
Selected:	1.056	1.002	1.000	1.000	1.000	1.000	1.000	1.000	1.000

Loss Development Period (months):	15 - 123	27 - 123	39 - 123	51 - 123	63 - 123	75 - 123	87 - 123	99 - 123	111 - 123
Loss Development Factor:	1.058	1.002	1.000	1.000	1.000	1.000	1.000	1.000	1.000

†Includes ALAE

Encompass Insurance Group
Private Passenger Auto
Arkansas

Incurred Loss + ALAE Development Factors - Medical Payments

Fiscal Accident Year Ending	15 Months	27 Months	39 Months	51 Months	63 Months	75 Months	87 Months	99 Months	111 Months	123 Months
6/30/2000									15,647	15,647
6/30/2001								10,940	10,940	10,940
6/30/2002							5,721	5,721	5,721	5,721
6/30/2003						13,714	13,714	13,714	13,714	13,714
6/30/2004					5,288	5,288	5,288	5,288	5,288	5,288
6/30/2005				5,299	5,299	5,299	5,299	5,299	5,299	
6/30/2006			8,014	8,014	8,014	8,014	8,014	8,014		
6/30/2007		5,000	0	0	0	0	0			
6/30/2008	0	21,126	21,126	23,886	23,886	23,886				
6/30/2009	48,514	46,729	46,729	46,729	46,729					
6/30/2010	11,000	10,555	10,555	10,555						
6/30/2011	15,000	15,000	15,000							
6/30/2012	1,065	1,065								
6/30/2013	751									

Link Ratios

Development	15 to 27	27 to 39	39 to 51	51 to 63	63 to 75	75 to 87	87 to 99	99 to 111	111 to 123
4th Prior	1.000	0.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000
3rd Prior	0.963	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000
2nd Prior	0.960	1.000	1.131	1.000	1.000	1.000	1.000	1.000	1.000
1st Prior	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000
Latest	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000
Volume Weighted 4 Yr Mean	0.970	1.000	1.035	1.000	1.000	1.000	1.000	1.000	1.000
Countrywide selected:	1.022	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000

Loss Development Period (months):	15 - 123	27 - 123	39 - 123	51 - 123	63 - 123	75 - 123	87 - 123	99 - 123	111 - 123
Loss Development Factor:	1.022	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000

†Includes ALAE

Exhibit 6.4.a

Encompass Insurance Group
Private Passenger Auto
Arkansas

Incurred Loss + ALAE Development Factors - Limited UM + UIM

Fiscal Accident Year Ending	15 Months	27 Months	39 Months	51 Months	63 Months	75 Months	87 Months	99 Months	111 Months	123 Months
6/30/2000									381,933	381,933
6/30/2001								455,943	467,943	467,943
6/30/2002							372,179	372,179	372,179	372,179
6/30/2003						466,553	466,553	466,553	466,553	466,553
6/30/2004					525,217	545,988	547,388	547,388	547,388	547,388
6/30/2005				100,091	100,091	100,091	100,091	100,091	100,091	
6/30/2006			27,774	27,774	27,774	27,774	27,774	27,774		
6/30/2007		154,445	197,243	185,320	185,320	185,320	185,320			
6/30/2008	168,201	296,564	258,564	306,730	283,374	283,374				
6/30/2009	257,766	220,549	209,818	210,481	209,060					
6/30/2010	152,785	236,860	236,860	236,860						
6/30/2011	20,478	35,845	35,845							
6/30/2012	77,446	75,233								
6/30/2013	236,225									

Link Ratios

Development	15 to 27	27 to 39	39 to 51	51 to 63	63 to 75	75 to 87	87 to 99	99 to 111	111 to 123
4th Prior	1.763	1.277	1.000	1.000	1.040	1.000	1.000	1.026	1.000
3rd Prior	0.856	0.872	0.940	1.000	1.000	1.003	1.000	1.000	1.000
2nd Prior	1.550	0.951	1.186	1.000	1.000	1.000	1.000	1.000	1.000
1st Prior	1.750	1.000	1.003	0.924	1.000	1.000	1.000	1.000	1.000
Latest	0.971	1.000	1.000	0.993	1.000	1.000	1.000	1.000	1.000
Volume Weighted 3 Yr Mean	1.388	0.978	1.069	0.965	1.000	1.000	1.000	1.000	1.000
Countrywide selected:	1.309	1.144	1.074	1.027	1.022	1.013	1.000	1.000	1.000

Loss Development Period (months):	15 - 123	27 - 123	39 - 123	51 - 123	63 - 123	75 - 123	87 - 123	99 - 123	111 - 123
Loss Development Factor:	1.710	1.306	1.142	1.063	1.035	1.013	1.000	1.000	1.000

†Includes ALAE

Encompass Insurance Group
Private Passenger Auto
Arkansas

Incurred Loss + ALAE Development Factors - Unlimited UM + UIM

Fiscal Accident Year Ending	15 Months	27 Months	39 Months	51 Months	63 Months	75 Months	87 Months	99 Months	111 Months	123 Months
6/30/2000									381,933	381,933
6/30/2001								455,943	467,943	467,943
6/30/2002							372,179	372,179	372,179	372,179
6/30/2003						516,553	516,553	516,553	516,553	516,553
6/30/2004					525,217	545,988	547,388	547,388	547,388	547,388
6/30/2005				100,091	100,091	100,091	100,091	100,091	100,091	
6/30/2006			27,774	27,774	27,774	27,774	27,774	27,774		
6/30/2007		154,445	197,243	185,320	185,320	185,320	185,320			
6/30/2008	168,201	296,564	258,564	306,730	283,374	283,374				
6/30/2009	257,766	220,549	209,818	210,481	209,060					
6/30/2010	302,785	386,860	386,860	386,860						
6/30/2011	20,478	35,845	35,845							
6/30/2012	77,446	75,233								
6/30/2013	536,225									

Link Ratios

Development	15 to 27	27 to 39	39 to 51	51 to 63	63 to 75	75 to 87	87 to 99	99 to 111	111 to 123
4th Prior	1.763	1.277	1.000	1.000	1.040	1.000	1.000	1.026	1.000
3rd Prior	0.856	0.872	0.940	1.000	1.000	1.003	1.000	1.000	1.000
2nd Prior	1.278	0.951	1.186	1.000	1.000	1.000	1.000	1.000	1.000
1st Prior	1.750	1.000	1.003	0.924	1.000	1.000	1.000	1.000	1.000
Latest	0.971	1.000	1.000	0.993	1.000	1.000	1.000	1.000	1.000
Volume Weighted 3 Yr Mean	1.243	0.983	1.057	0.965	1.000	1.000	1.000	1.000	1.000
Countrywide selected:	1.307	1.153	1.082	1.037	1.026	1.013	1.000	1.000	1.000

Loss Development Period (months):	15 - 123	27 - 123	39 - 123	51 - 123	63 - 123	75 - 123	87 - 123	99 - 123	111 - 123
Loss Development Factor:	1.757	1.345	1.166	1.078	1.039	1.013	1.000	1.000	1.000

†Includes ALAE

Encompass Insurance Group
Private Passenger Auto
Arkansas

Paid Loss + ALAE Development Factors - Collision

Fiscal Accident Year Ending	15 Months	27 Months	39 Months	51 Months	63 Months	75 Months	87 Months	99 Months	111 Months	123 Months
6/30/2000									1,624,923	1,624,923
6/30/2001								2,319,268	2,319,268	2,319,268
6/30/2002							1,443,927	1,443,927	1,443,927	1,443,927
6/30/2003						955,548	955,548	955,548	955,548	955,548
6/30/2004					663,357	663,357	663,357	663,357	663,357	663,357
6/30/2005				544,853	544,853	544,853	544,865	544,865	544,865	
6/30/2006			593,554	593,554	593,554	593,554	593,554	593,554		
6/30/2007		644,348	644,458	644,278	644,063	643,921	643,921			
6/30/2008	523,199	530,561	531,396	531,121	530,871	530,706				
6/30/2009	606,237	594,928	597,060	597,392	597,392					
6/30/2010	704,997	707,713	692,027	691,676						
6/30/2011	339,137	319,719	319,364							
6/30/2012	224,435	224,435								
6/30/2013	293,039									

Link Ratios

Development	15 to 27	27 to 39	39 to 51	51 to 63	63 to 75	75 to 87	87 to 99	99 to 111	111 to 123
4th Prior	1.014	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000
3rd Prior	0.981	1.002	1.000	1.000	1.000	1.000	1.000	1.000	1.000
2nd Prior	1.004	1.004	0.999	1.000	1.000	1.000	1.000	1.000	1.000
1st Prior	0.943	0.978	1.001	1.000	1.000	1.000	1.000	1.000	1.000
Latest	1.000	0.999	0.999	1.000	1.000	1.000	1.000	1.000	1.000
5 Yr Mean Ex-HiLo	0.995	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000
Selected:	0.995	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000

Loss Development Period (months):	15 - 123	27 - 123	39 - 123	51 - 123	63 - 123	75 - 123	87 - 123	99 - 123	111 - 123
Loss Development Factor:	0.995	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000

†Includes ALAE

Exhibit 6.6

Encompass Insurance Group
Private Passenger Auto
Arkansas

Paid Loss + ALAE Development Factors - Comprehensive

Fiscal Accident Year Ending	15 Months	27 Months	39 Months	51 Months	63 Months	75 Months	87 Months	99 Months	111 Months	123 Months
6/30/2000									791,682	791,682
6/30/2001								1,201,448	1,201,448	1,201,448
6/30/2002							904,968	904,968	904,968	904,968
6/30/2003						526,075	526,075	526,075	526,075	526,075
6/30/2004					415,838	415,838	415,803	415,803	415,803	415,803
6/30/2005				183,548	183,548	183,548	183,548	183,548	183,548	
6/30/2006			212,404	212,404	212,404	212,404	212,404	212,404		
6/30/2007		316,742	316,742	316,742	316,971	316,971	317,511			
6/30/2008	277,778	289,468	289,468	289,468	289,468	289,468				
6/30/2009	310,195	318,001	317,389	317,389	317,389					
6/30/2010	263,487	263,853	263,223	263,223						
6/30/2011	145,579	158,104	158,104							
6/30/2012	126,648	125,635								
6/30/2013	149,568									

Link Ratios

Development	15 to 27	27 to 39	39 to 51	51 to 63	63 to 75	75 to 87	87 to 99	99 to 111	111 to 123
4th Prior	1.042	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000
3rd Prior	1.025	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000
2nd Prior	1.001	0.998	1.000	1.001	1.000	1.000	1.000	1.000	1.000
1st Prior	1.086	0.998	1.000	1.000	1.000	1.000	1.000	1.000	1.000
Latest	0.992	1.000	1.000	1.000	1.000	1.002	1.000	1.000	1.000
Volume Weighted 4 Yr Mean	1.023	0.999	1.000	1.000	1.000	1.000	1.000	1.000	1.000
Selected:	1.023	0.999	1.000	1.000	1.000	1.000	1.000	1.000	1.000

Loss Development Period (months):	15 - 123	27 - 123	39 - 123	51 - 123	63 - 123	75 - 123	87 - 123	99 - 123	111 - 123
Loss Development Factor:	1.022	0.999	1.000	1.000	1.000	1.000	1.000	1.000	1.000

†Includes ALAE

Encompass Insurance Group
Private Passenger Auto
Arkansas

Excess Loss Provision

BODILY INJURY

Fiscal Accident Year Ending	Ultimate Total Ex-Cat Losses + ALAE	Ultimate Limited Ex-Cat Losses + ALAE	Total/Limited
6/30/2004	597,910	597,910	1.00
6/30/2005	2,874,002	1,731,274	1.66
6/30/2006	2,081,067	931,067	2.24
6/30/2007	928,817	833,817	1.11
6/30/2008	767,989	766,465	1.00
6/30/2009	832,368	823,478	1.01
6/30/2010	692,552	645,331	1.07
6/30/2011	502,432	486,839	1.03
6/30/2012	196,051	186,612	1.05
6/30/2013	404,251	375,194	1.08
	Weighted Average		1.34
	Straight Average		1.23
	Selected		1.25

UNINSURED / UNDERINSURED MOTORIST

Fiscal Accident Year Ending	Ultimate Total Ex-Cat Losses + ALAE	Ultimate Limited Ex-Cat Losses + ALAE	Total/Limited
6/30/2004	547,388	547,388	1.00
6/30/2005	100,092	100,092	1.00
6/30/2006	27,774	27,774	1.00
6/30/2007	185,319	185,319	1.00
6/30/2008	287,058	287,058	1.00
6/30/2009	217,213	216,377	1.00
6/30/2010	417,035	251,782	1.66
6/30/2011	41,796	40,936	1.02
6/30/2012	101,187	98,253	1.03
6/30/2013	942,146	403,943	2.33
	Weighted Average		1.33
	Straight Average		1.20
	Selected		1.22

Encompass Insurance Group
Private Passenger Auto
Arkansas

Exhibit 8.A

Calculation of Pure Premium Trend Factor

Coverage	Selected Annual Pure Premium Impacts: Historical	Projected
Bodily Injury	-7.00%	0.00%
Property Damage	-2.00%	0.00%
Medical Payments	-7.00%	0.00%
Uninsured / Underinsured Motorist	0.00%	0.00%
Collision	-2.00%	1.00%
Comprehensive	-2.00%	0.00%

Calculation of Trend Period

	4th Prior Year	3rd Prior Year	2nd Prior Year	1st Prior Year	Current Year
1) Loss Trend Projection Date	6/14/2015	6/14/2015	6/14/2015	6/14/2015	6/14/2015
2) Mid-Point of Current Year's Experience Period	12/31/2012	12/31/2012	12/31/2012	12/31/2012	12/31/2012
3) Experience Period Ended	6/30/2009	6/30/2010	6/30/2011	6/30/2012	6/30/2013
4) Midpoint of Experience Period	12/31/2008	12/31/2009	12/31/2010	12/31/2011	12/31/2012
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)	2.452	2.452	2.452	2.452	2.452

Factor to Adjust Losses for Pure Premium Trend

Coverage	4th Prior Year	3rd Prior Year	2nd Prior Year	1st Prior Year	Current Year
Bodily Injury	0.748	0.804	0.865	0.930	1.000
Property Damage	0.922	0.941	0.960	0.980	1.000
Medical Payments	0.748	0.804	0.865	0.930	1.000
Uninsured / Underinsured Motorist	1.000	1.000	1.000	1.000	1.000
Collision	0.945	0.964	0.984	1.004	1.025
Comprehensive	0.922	0.941	0.960	0.980	1.000

(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
Private Passenger Auto
Arkansas

Pure Premium Trends - Bodily Injury

Year Ending	Actual Paid Pure Premium	Annual % Change	Exponential Curve of Best Fit ($) 20 pt.	12 pt.	6 pt.
12/07	$137.16	-41.1			
03/08	146.64	-31.7			
06/08	142.41	59.0			
09/08	80.39	-42.4			
12/08	104.36	-23.9	151.71		
03/09	108.74	-25.9	147.51		
06/09	113.10	-20.6	143.43		
09/09	155.38	93.3	139.46		
12/09	160.20	53.5	135.60		
03/10	152.51	40.3	131.84		
06/10	157.95	39.7	128.19		
09/10	163.77	5.4	124.64		
12/10	145.25	-9.3	121.19	143.15	
03/11	159.33	4.5	117.84	135.07	
06/11	153.60	-2.8	114.58	127.44	
09/11	107.09	-34.6	111.40	120.24	
12/11	109.95	-24.3	108.32	113.45	
03/12	110.96	-30.4	105.32	107.04	
06/12	75.50	-50.9	102.40	101.00	73.53
09/12	80.60	-24.7	99.57	95.29	77.44
12/12	76.40	-30.5	96.81	89.91	81.56
03/13	80.10	-27.8	94.13	84.84	85.90
06/13	94.47	25.1	91.53	80.04	90.47
09/13	97.73	21.3	88.99	75.52	95.28

Regression	20 pt.	12 pt.	6 pt.
Avg Annual Percent Change Based on Best Fit:	-10.6 %	-20.7 %	23.0 %

Encompass Insurance Group
Private Passenger Auto
Arkansas

Exhibit 8.B.2

Pure Premium Trends - Property Damage

Year Ending	Actual Paid Pure Premium	Annual % Change	Exponential Curve of Best Fit ($) 20 pt.	12 pt.	6 pt.
12/07	$65.91	-18.6			
03/08	66.25	-20.2			
06/08	70.71	-9.1			
09/08	71.94	-2.8			
12/08	67.30	2.1	83.07		
03/09	66.05	-0.3	82.67		
06/09	70.35	-0.5	82.27		
09/09	81.42	13.2	81.87		
12/09	91.53	36.0	81.47		
03/10	96.04	45.4	81.08		
06/10	91.78	30.5	80.68		
09/10	96.38	18.4	80.29		
12/10	89.03	-2.7	79.90	89.01	
03/11	88.29	-8.1	79.52	86.86	
06/11	79.91	-12.9	79.13	84.76	
09/11	73.33	-23.9	78.75	82.71	
12/11	85.26	-4.2	78.37	80.70	
03/12	82.98	-6.0	77.99	78.75	
06/12	81.29	1.7	77.61	76.85	83.18
09/12	80.93	10.4	77.23	74.99	78.93
12/12	72.38	-15.1	76.86	73.17	74.89
03/13	72.93	-12.1	76.48	71.40	71.07
06/13	72.00	-11.4	76.11	69.68	67.43
09/13	60.30	-25.5	75.74	67.99	63.99

Regression	20 pt.	12 pt.	6 pt.
Avg Annual Percent Change Based on Best Fit:	-1.9 %	-9.3 %	-18.9 %

Exhibit 8.B.3

Encompass Insurance Group
Private Passenger Auto
Arkansas

Pure Premium Trends - Medical Payments

Year Ending	Actual Paid Pure Premium	Annual % Change	Exponential Curve of Best Fit ($) 20 pt.	12 pt.	6 pt.
12/07	$5.31	-67.1			
03/08	5.26	-35.0			
06/08	8.80	203.5			
09/08	10.12	612.7			
12/08	52.57	890.0	123.80		
03/09	92.15	1,651.9	103.70		
06/09	107.64	1,123.2	86.86		
09/09	121.71	1,102.7	72.76		
12/09	86.91	65.3	60.95		
03/10	40.44	-56.1	51.05		
06/10	27.80	-74.2	42.76		
09/10	30.47	-75.0	35.82		
12/10	12.35	-85.8	30.00	43.43	
03/11	13.18	-67.4	25.13	34.38	
06/11	33.65	21.0	21.05	27.22	
09/11	23.35	-23.4	17.63	21.55	
12/11	55.78	351.7	14.77	17.06	
03/12	55.69	322.5	12.37	13.51	
06/12	40.18	19.4	10.36	10.70	21.79
09/12	40.18	72.1	8.68	8.47	12.41
12/12	.59	-98.9	7.27	6.70	7.06
03/13	3.03	-94.6	6.09	5.31	4.02
06/13	2.95	-92.7	5.10	4.20	2.29
09/13	2.69	-93.3	4.27	3.33	1.30

Regression	20 pt.	12 pt.	6 pt.
Avg Annual Percent Change Based on Best Fit:	-50.8 %	-60.7 %	-89.5 %

Exhibit 8.B.4

Encompass Insurance Group
Private Passenger Auto
Arkansas

Pure Premium Trends - Uninsured / Underinsured Motorist

			Exponential Curve of Best Fit ($)		
Year Ending	Actual Paid Pure Premium	Annual % Change	20 pt.	12 pt.	6 pt.
12/07	$18.47	148.6			
03/08	23.49	173.1			
06/08	22.42	254.8			
09/08	28.72	76.3			
12/08	42.08	127.8	44.09		
03/09	38.65	64.5	43.01		
06/09	43.13	92.4	41.96		
09/09	60.27	109.9	40.94		
12/09	56.60	34.5	39.94		
03/10	52.63	36.2	38.96		
06/10	51.13	18.6	38.01		
09/10	34.88	-42.1	37.08		
12/10	28.26	-50.1	36.17	22.29	
03/11	25.15	-52.2	35.29	23.34	
06/11	27.18	-46.8	34.43	24.44	
09/11	13.26	-62.0	33.59	25.58	
12/11	27.05	-4.3	32.77	26.79	
03/12	29.01	15.4	31.97	28.05	
06/12	44.23	62.7	31.19	29.37	31.14
09/12	38.94	193.7	30.42	30.75	32.27
12/12	20.00	-26.1	29.68	32.19	33.43
03/13	33.31	14.8	28.96	33.71	34.64
06/13	14.79	-66.6	28.25	35.29	35.89
09/13	91.54	135.1	27.56	36.95	37.19

Regression	20 pt.	12 pt.	6 pt.
Avg Annual Percent Change Based on Best Fit:	-9.4 %	20.2 %	15.3 %

Exhibit 8.B.5

Encompass Insurance Group
Private Passenger Auto
Arkansas

Pure Premium Trends - Collision

Year Ending	Actual Paid Pure Premium	Annual % Change	Exponential Curve of Best Fit ($) 20 pt.	12 pt.	6 pt.
12/07	$118.76	-15.8			
03/08	126.14	-11.0			
06/08	119.97	-16.5			
09/08	131.08	-1.2			
12/08	136.80	15.2	157.17		
03/09	132.68	5.2	154.88		
06/09	131.65	9.7	152.62		
09/09	155.71	18.8	150.39		
12/09	166.21	21.5	148.19		
03/10	178.35	34.4	146.03		
06/10	182.57	38.7	143.90		
09/10	181.65	16.7	141.80		
12/10	162.33	-2.3	139.73	129.90	
03/11	148.48	-16.8	137.69	128.94	
06/11	142.63	-21.9	135.68	127.99	
09/11	114.72	-36.9	133.70	127.05	
12/11	114.94	-29.2	131.75	126.11	
03/12	94.44	-36.4	129.83	125.18	
06/12	91.80	-35.6	127.93	124.25	97.65
09/12	94.53	-17.6	126.06	123.33	106.77
12/12	131.69	14.6	124.22	122.42	116.73
03/13	149.85	58.7	122.41	121.52	127.63
06/13	156.29	70.3	120.62	120.62	139.54
09/13	123.56	30.7	118.86	119.73	152.57

Regression	20 pt.	12 pt.	6 pt.
Avg Annual Percent Change Based on Best Fit:	-5.7 %	-2.9 %	42.9 %

Exhibit 8.B.6

Encompass Insurance Group
Private Passenger Auto
Arkansas

Pure Premium Trends - Comprehensive

Year Ending	Actual Paid Pure Premium	Annual % Change	Exponential Curve of Best Fit ($) 20 pt.	12 pt.	6 pt.
12/07	$66.99	46.9			
03/08	56.03	-3.8			
06/08	67.36	10.4			
09/08	62.01	-1.2			
12/08	70.04	4.6	73.14		
03/09	80.90	44.4	72.41		
06/09	66.65	-1.1	71.70		
09/09	84.90	36.9	70.99		
12/09	81.33	16.1	70.29		
03/10	81.09	0.2	69.60		
06/10	80.86	21.3	68.91		
09/10	60.65	-28.6	68.23		
12/10	52.94	-34.9	67.56	53.49	
03/11	45.65	-43.7	66.89	54.83	
06/11	52.76	-34.8	66.23	56.20	
09/11	53.23	-12.2	65.58	57.61	
12/11	63.97	20.8	64.93	59.05	
03/12	72.31	58.4	64.29	60.53	
06/12	63.12	19.6	63.66	62.05	75.96
09/12	77.22	45.1	63.03	63.61	72.19
12/12	81.70	27.7	62.41	65.20	68.60
03/13	67.94	-6.0	61.79	66.84	65.20
06/13	65.13	3.2	61.18	68.51	61.96
09/13	50.78	-34.2	60.58	70.23	58.88

Regression	20 pt.	12 pt.	6 pt.
Avg Annual Percent Change Based on Best Fit:	-3.9 %	10.4 %	-18.4 %

Exhibit 9

Encompass Insurance Group
Private Passenger Auto
Arkansas

Catastrophe Insurance Losses - Comprehensive

	Arkansas		
Accident Year	Total Incurred Losses	Catastrophe Losses	Incurred Losses Excluding Catastrophes
1988	$166,983	$0	$166,983
1989	$474,358	$185,136	$289,222
1990	$216,650	$12,351	$204,299
1991	$270,041	$37,037	$233,004
1992	$162,071	$12,092	$149,979
1993	$173,924	$4,957	$168,967
1994	$193,051	$7,414	$185,638
1995	$210,902	$22,328	$188,575
1996	$328,063	$78,351	$249,713
1997	$211,270	$42,498	$168,773
1998	$308,361	$5,250	$303,111
1999	$914,285	$204,275	$704,373
2000	$1,085,777	$62,910	$1,022,866
2001	$1,054,563	$38,331	$1,016,232
2002	$767,092	$36,711	$730,380
2003	$567,999	$18,734	$549,264
2004	$211,839	$2,485	$209,354
2005	$222,793	$0	$222,792
2006	$379,493	$124,254	$255,778
2007	$296,155	$12,230	$283,925
2008	$576,745	$262,262	$314,484
2009	$408,755	$73,755	$335,000
2010	$159,606	$5,992	$153,613
2011	$432,832	$264,644	$170,739
2012	$154,710	$1,982	$152,728
		$1,515,979	$8,429,790

Selected Catastrophe Provision: **18.0%**

Encompass Insurance Group
Private Passenger Auto
Arkansas

Exhibit 10.1

Summary of Expense Provisions

		Liability Expense Provision			
	Percent Fixed	Bodily Injury	Property Damage	Medical Payments	Uninsured / Underinsured Motorist
Commissions	0 %	15.1 %	15.1 %	15.1 %	15.1 %
Taxes †	0	3.1	3.1	3.1	3.1
Licenses and Fees	100	0.2	0.2	0.2	0.2
Other Acquisition	100	1.5	1.5	1.5	1.5
General Expense	100	9.2	9.2	9.2	9.2
Profit Provision	0	6.7	6.7	6.7	6.7
Debt Provision	0	1.4	1.4	1.4	1.4

		Physical Damage Expense Provision	
	Percent Fixed	Collision	Comprehensive
Commissions	0 %	15.1 %	15.1 %
Taxes †	0	3.1	3.1
Licenses and Fees	100	0.3	0.3
Other Acquisition	100	1.5	1.5
General Expense	100	9.2	9.2
Profit Provision	0	8.8	8.8
Debt Provision	0	1.4	1.4

† State Taxes - Does not include Federal Income Tax

Encompass Insurance Group
Private Passenger Auto
Arkansas

Exhibit 10.2

Factor to Adjust for Subsequent Change in Fixed Expense*

1) Average Earned Date of Experience Period	6/30/2011
2) Average Earned Date of Proposed Policy Period	6/14/2015
3) Number of Years from (1) to (2)	4.0
4) Selected Annual Impact	2.00 %
5) Factor to Adjust for Subsequent Change in Fixed Expense = [1 + (4)] ^ (3)	1.081

*For calendar years 2010-2012

Encompass Insurance Group
Private Passenger Auto
Arkansas

Exhibit 11.1

Investment Income - Liability Coverages

Calculation of Present Value, as of the Average Earning Date of a Policy Year, of all Income and Outgo @ 1.4% †force of interest, assuming an Operating Profit of 5.90% and twelve month Policy Terms

Years From Start of Policy Year	Cumulative Percent of Losses Paid	Yearly Percent of Losses Paid	Time from Start of Policy Year	Discounted‡ to Average Time of Profit @ 1.4%	Discounted Payments
1	14.7 %	14.7 %	0.68	1.004	14.8 %
2	51.3	36.6	1.39	0.995	36.4
3	70.5	19.2	2.46	0.980	18.8
4	82.8	12.3	3.46	0.966	11.9
5	91.2	8.4	4.45	0.953	8.0
6	95.5	4.3	5.42	0.940	4.0
Subsequent	100.0	4.5	7.45	0.914	4.1
Total					98.0 %
Expected Losses and Loss Expense Ratio					62.8 %
Present Value of Loss and Loss Expense Payments					61.5 %
General Expense		9.2 %	0.75	1.004	9.2 %
Other Acquisition		1.5 %	0.63	1.005	1.5 %
Taxes		3.1 %	0.77	1.003	3.1 %
Licenses and Fees		0.2 %	0.77	1.003	0.2 %
Commissions		15.1 %	0.58	1.006	15.2 %
Debt Provision		1.4 %	1.00	1.000	1.4 %
Profit		6.7 %	1.00	1.000	6.7 %
Total Present Value of Outgo					98.8 %
Premiums		100.0 %	0.71	1.004	100.4 %
Difference, Present Value of Income Less Present Value of Outgo					1.6 %

†Discount rate from Investment Department forecast
‡exp (force of interest x (timing of profit being earned – timing of cash flow))

Exhibit 11.2

Encompass Insurance Group
Private Passenger Auto
Arkansas

Investment Income - Physical Damage Coverages

Calculation of Present Value, as of the Average Earning Date of a Policy Year, of all Income and Outgo @ 1.4% †force of interest, assuming an Operating Profit of 5.90% and twelve month Policy Terms

Years From Start of Policy Year	Cumulative Percent of Losses Paid	Yearly Percent of Losses Paid	Time from Start of Policy Year	Discounted‡ to Average Time of Profit @ 1.4%	Discounted Payments
1	50.6 %	50.6 %	0.65	1.005	50.9 %
2	100.3	49.7	1.16	0.998	49.6
Subsequent	100.0	-0.3	2.31	0.982	-0.3
Total					100.2 %
Expected Losses and Loss Expense Ratio					60.6 %
Present Value of Loss and Loss Expense Payments					60.7 %
General Expense		9.2 %	0.75	1.004	9.2 %
Other Acquisition		1.5 %	0.63	1.005	1.5 %
Taxes		3.1 %	0.77	1.003	3.1 %
Licenses and Fees		0.3 %	0.77	1.003	0.3 %
Commissions		15.1 %	0.58	1.006	15.2 %
Debt Provision		1.4 %	1.00	1.000	1.4 %
Profit		8.8 %	1.00	1.000	8.8 %
Total Present Value of Outgo					100.2 %
Premiums		100.0 %	0.71	1.004	100.4 %
Difference, Present Value of Income Less Present Value of Outgo					0.2 %

†Discount rate from Investment Department forecast
‡exp (force of interest x (timing of profit being earned – timing of cash flow))

DETERMINATION OF THE UNDERWRITING PROFIT PROVISION

ALLSTATE GROUP

October, 2012

Table of Contents

Section 1: The Fair and Reasonable Return

Standards for Fair Returns

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

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

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

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

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

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

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

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

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

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

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

Cost of Equity Capital

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

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

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

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

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

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

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

According to traditional capital market theory, the return on any given stock is partly driven by the return on the overall market and partly driven by idiosyncratic factors that are not correlated with the overall market. The relationship or co-variability between a given stock's return and the return on the market is measured by a statistic called "beta". Equilibrium returns, according to theory, are linearly related to risk as measured by beta. Intuitively, beta is a measure of the tendency of the return on a stock to move with the market portfolio and provides an indication of the volatility of a security's return relative to the market as a whole. A security with a beta of one is a security with average market risk. A beta of 1.5 indicates that when the return on the market portfolio exceeds the risk-free return by 10%, then the return on the security tends to exceed the risk-free return by 15%; and when the return on the market is 10% less than the risk-free return, the return on the security tends to be 15% less than the risk-free return. Thus, a beta value that is greater than 1.00 indicates a greater than average risk. A beta of 0.5, on the other hand, indicates that when the return on the market portfolio exceeds the risk-free return by 10%, then the return on the security tends to exceed the risk-free return by 5%; and when the return on the market portfolio is 10% less than the risk-free return, the return on the security tends to be 5% less than the risk-free return. Thus, a beta less than one indicates less than average risk.

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

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

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

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

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[3] Fama, Eugene F., and Kenneth R. French, 1992, "The Cross-Section of Expected Stock Returns," *Journal of Finance* 47: 427-465.

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

Fama, Eugene F., and Kenneth R. French, 1996, "Size and Book-to-Market Factors in Earnings and Returns," *Journal of Finance* 50: 131-155.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Full-Information Betas

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

As shown in equation (2) above, calculating cost of capital entails collecting data and developing computational procedures to estimate the two components on the right hand side of the equal sign – the expected first year dividend yield and the expected growth rate in dividends. The first component of the DCF equation, D_1/ P_0, is the anticipated dividend yield in the coming year. It is the estimated total cash dividends to be declared over the next 12 months divided by the current price of the stock. This value is reported directly in the data source[13] upon which we rely, and hence requires no specific calculation.

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

[13] Value Line Investment Survey

The dividend growth rates are calculated as the average of five-year and ten-year historical growth rates and analysts forecasts of such growth rates in the future. In recent quarters, Value Line's dividend growth rate projection formula, which uses a three-year average for the "current" dividend, has been abnormally impacted by Allstate's dividend cut in March, 2009. Because of this, a dividend growth rate that reflects Value Line's actual expected growth from today's dividend rate is more reflective of the true projection. This is especially true given that the current dividend rate is used in the determination of the dividend yield in the DCF calculations. In addition, calculation of historical dividend growth rates will be misleading if the dividend cut is not accounted for. Therefore, in the calculation of the dividend growth rate, the dividends prior to the dividend cut have been adjusted to post-cut levels to make the calculations more appropriate. Additional details of these calculations can be found on Appendix 2, Exhibit 3. The average of the historical and projected dividend growth rates[14] and is called the "Growth Forecast."

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

Allstate's Cost of Equity Capital Selection

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

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

[14] Appendix 2, Exhibit 3: Column (5)

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

Underwriting profit is defined in *Actuarial Standards of Practice, No. 30* as "Premiums less losses, loss adjustment expenses, underwriting expenses, and policyholder dividends."[15] Thus, a provision for underwriting profit is a portion of the actuarially developed rate, and is often expressed as a percentage of the rate.[16] The underwriting profit provision is an estimate of future profits; because actual losses and expenses can differ from those expected, the actual realized underwriting profit may not equal the target profit provision.

In the past, development of the underwriting profit provision for insurance companies was a task that involved no underlying theory, but rather constituted the simple task of selecting a round number. From 1921 until the 1960's, a 5% underwriting profit provision was used for most lines.[17] This approach, however, was not based on financial theory and neglected investment income and income taxes. As pricing techniques have become more sophisticated through the incorporation of financial theory, the development of the underwriting profit provision has become more rigorous and the need for financial soundness more important. Allstate's method of determining the appropriate underwriting profit provision, which is described in detail in this paper, involves determining the *total* profit needed to meet the demand of investors and then subtracting out the profit received from investment income to arrive at the underwriting profit needed from insurance operations and, ultimately, from the premium collected.

Section 1: *The Fair and Reasonable Return* describes the step-by-step process by which Allstate's cost of equity was calculated. In order to obtain the needed cost of equity, Allstate must include an appropriate underwriting profit provision in its ratemaking methodology. The development of the appropriate underwriting profit provision is shown below.

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

Appendix 3, Exhibit 1, Page 2 displays the flow of calculations from a given cost of equity to the underwriting profit provision; below is a detailed discussion of each step in the process of calculating an underwriting profit provision based on a given cost of equity. Please see the exhibits attached in Appendix 3 for supporting data used in the calculation of the underwriting profit provision, as catalogued in Appendix 3, Exhibit 1, Page 2.

Detail Supporting the Underwriting Profit Calculations

Step (1): Average Market Value of Equity

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

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

Step (2): Cost of Equity (%)

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

Step (3): Cost of Equity ($)

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

Step (4): Dividend Payout Ratio

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

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

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

Step (6): Income Due Shareholders

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

Step (7): Income Needed by Allstate

The amount of income that Allstate must earn in order to pay shareholders is not necessarily equal to the amount of income due to the shareholders. Given Allstate's dividend payout ratio and market-to-book ratio, we can calculate the amount of income that Allstate must earn in order to provide the cost of capital to shareholders.

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

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

<u>Step (8): Investment Income on Equity</u>

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

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

<u>Step (9): Operating Income Needed:</u>

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

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

Step (10): Earned Premium

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

Step (11): Operating Ratio

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

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

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

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

A cash-flow analysis is one of the two examples given in Actuarial Standards of Practice, No. 30 as appropriate methods for recognizing investment income from insurance operations (page 4).

This methodology also allows us to differentiate the amount of expected investment income by line of business and by state. Therefore, lines of business and states with longer-tailed losses are estimated to have higher than average investment income, and vice versa.

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

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

Step (13): After-tax Underwriting Profit Provision

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

Step (14): Tax Rate

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

Step (15): Pre-tax Underwriting Profit Provision

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

Appendix 1

The Fama-French Three-factor Model

Appendix 1
Exhibit 1

FAMA-FRENCH RISK PREMIA

Annual Avg until December	Market-Risk Premium - ST*	Market-Risk Premium - IT**	Market-Risk Premium - LT***	Small-Stock Premium	Value-Stock Premium
2008	7.67%	6.74%	6.16%	3.55%	5.14%
2009	7.92%	6.97%	6.37%	3.61%	5.01%
2010	8.03%	7.08%	6.46%	3.73%	4.91%
2011	7.94%	6.99%	6.36%	3.61%	4.77%
2012	8.04%	7.09%	6.44%	3.58%	4.81%

All time series commence from 1926.

*Relative to a short-term (28-day) government bond

**Relative to an intermediate-term (5-year) government bond

***Relative to a long-term (20-year) government bond

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

PROPERTY/CASUALTY INDUSTRY SEGMENT
Betas

Risk-free Rate Basis	60 Months Ending December	Market-Risk Beta	Prop/Cas Small-Stock Beta	Prop/Cas Value-Stock Beta	Market-Value Coefficient	Book-to-Market Coefficient
Short-term Bond	2008	0.717	1.531	0.215	-0.176	0.246
(28-day)	2009	0.522	1.582	0.698	-0.209	0.340
	2010	0.650	1.679	0.956	-0.224	0.259
	2011	0.602	1.795	1.184	-0.235	0.166
	2012	0.585	1.380	1.225	-0.193	0.207
Intermediate-term	2008	0.721	1.525	0.211	-0.175	0.246
Bond	2009	0.522	1.581	0.696	-0.210	0.340
(5-year)	2010	0.646	1.677	0.959	-0.224	0.259
	2011	0.600	1.793	1.184	-0.235	0.166
	2012	0.582	1.378	1.227	-0.192	0.206
Long-term	2008	0.723	1.523	0.211	-0.175	0.246
Bond	2009	0.523	1.581	0.697	-0.210	0.340
(20-year)	2010	0.642	1.677	0.963	-0.224	0.259
	2011	0.598	1.793	1.186	-0.236	0.166
	2012	0.580	1.380	1.229	-0.192	0.206

Appendix 1
Exhibit 3

ALLSTATE CORPORATION

NAICS Code 524126

Allstate Compustat Data

Estimation Year	($ Million) Market Value	Book Value	Log Market Value	Log Book-to-Market
2008	17,558	12,641	9.7733	-0.3286
2009	16,116	16,692	9.6876	0.0351
2010	17,157	19,016	9.7502	0.1029
2011	13,852	18,674	9.5362	0.2987
2012	19,353	20,580	9.8706	0.0615

Source: Standard & Poor's/Compustat

ALLSTATE CORPORATION
Betas - Short Term Risk-Free Rate

Market Risk Component:

(1) Period	(2) Prop/Cas Market Beta
2008	**0.717**
2009	**0.522**
2010	**0.650**
2011	**0.602**
2012	**0.585**
3-yr Avg	**0.612**
5-yr Avg	**0.615**
Selected	**0.612**

Size Risk Component:

(3) Period	(4) Prop/Cas Size Beta	(5) Market Value Coefficient	(6) Log Market Value	(7)=(4) + (5)*(6) Size Risk Beta
2008	1.531	-0.176	9.7733	**-0.189**
2009	1.582	-0.209	9.6876	**-0.443**
2010	1.679	-0.224	9.7502	**-0.505**
2011	1.795	-0.235	9.5362	**-0.446**
2012	1.380	-0.193	9.8706	**-0.525**
			3-yr Avg	**-0.492**
			5-yr Avg	**-0.422**
			Selected	**-0.492**

Value Risk Component:

(8) Period	(9) Prop/Cas Value Beta	(10) Book-to-Mkt Coefficient	(11) Log Book-to-Market	(12)=(9)+(10)*(11) Value Risk Beta
2008	0.215	0.246	-0.3286	**0.134**
2009	0.698	0.340	0.0351	**0.710**
2010	0.956	0.259	0.1029	**0.983**
2011	1.184	0.166	0.2987	**1.234**
2012	1.225	0.207	0.0615	**1.238**
			3-yr Avg	**1.152**
			5-yr Avg	**0.860**
			Selected	**1.152**

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

ALLSTATE CORPORATION
Betas - Intermediate Term Risk-free Rate

Market Risk Component:

(1) Period	(2) Prop/Cas Market Beta
2008	**0.721**
2009	**0.522**
2010	**0.646**
2011	**0.600**
2012	**0.582**
3-yr Avg	**0.609**
5-yr Avg	**0.614**
Selected	**0.609**

Size Risk Component:

(3) Period	(4) Prop/Cas Size Beta	(5) Market Value Coefficient	(6) Log Market Value	(7)=(4) + (5)*(6) Size Risk Beta
2008	1.525	-0.175	9.7733	**-0.185**
2009	1.581	-0.210	9.6876	**-0.453**
2010	1.677	-0.224	9.7502	**-0.507**
2011	1.793	-0.235	9.5362	**-0.448**
2012	1.378	-0.192	9.8706	**-0.517**
			3-yr Avg	**-0.491**
			5-yr Avg	**-0.422**
			Selected	**-0.491**

Value Risk Component:

(8) Period	(9) Prop/Cas Value Beta	(10) Book-to-Mkt Coefficient	(11) Log Book-to-Market	(12)=(9)+(10)*(11) Value Risk Beta
2008	0.211	0.246	-0.3286	**0.130**
2009	0.696	0.340	0.0351	**0.708**
2010	0.959	0.259	0.1029	**0.986**
2011	1.184	0.166	0.2987	**1.234**
2012	1.227	0.206	0.0615	**1.240**
			3-yr Avg	**1.153**
			5-yr Avg	**0.860**
			Selected	**1.153**

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

ALLSTATE CORPORATION
Betas - Long-term Risk-free Rate

Market Risk Component:

(1)	(2)
Period	**Prop/Cas Market Beta**
2008	**0.723**
2009	**0.523**
2010	**0.642**
2011	**0.598**
2012	**0.580**
3-yr Avg	**0.607**
5-yr Avg	**0.613**
Selected	**0.607**

Size Risk Component:

(3)	(4)	(5)	(6)	(7)=(4) + (5)*(6)
Period	Prop/Cas Size Beta	Market Value Coefficient	Log Market Value	**Size Risk Beta**
2008	1.523	-0.175	9.7733	**-0.187**
2009	1.581	-0.21	9.6876	**-0.453**
2010	1.677	-0.224	9.7502	**-0.507**
2011	1.793	-0.236	9.5362	**-0.458**
2012	1.380	-0.192	9.8706	**-0.515**
			3-yr Avg	**-0.493**
			5-yr Avg	**-0.424**
			Selected	**-0.493**

Value Risk Component:

(8)	(9)	(10)	(11)	(12)=(9)+(10)*(11)
Period	Prop/Cas Value Beta	Book-to-Mkt Coefficient	Log Book-to-Market	**Value Risk Beta**
2008	0.211	0.246	-0.3286	**0.130**
2009	0.697	0.340	0.0351	**0.709**
2010	0.963	0.259	0.1029	**0.990**
2011	1.186	0.166	0.2987	**1.236**
2012	1.229	0.206	0.0615	**1.242**
			3-yr Avg	**1.156**
			5-yr Avg	**0.861**
			Selected	**1.156**

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

ALLSTATE CORPORATION
Estimated Cost of Equity Capital

Cost of Equity Capital:

		Value (ST)*	Value (IT)**	Value (LT)***	Source
(1)	Average Market Risk Premium:	8.04%	7.09%	6.44%	App. 1, Exh. 1
(2)	Selected Beta:	0.612	0.609	0.607	App. 1, Exh. 4, Pg. 1-3
(3)	P/C Industry Market Risk Premium:	4.92%	4.32%	3.91%	=(1) * (2)
(4)	Size Risk Premium:	3.58%	3.58%	3.58%	App. 1, Exh. 1
(5)	Selected Size Beta:	-0.492	-0.491	-0.493	App. 1, Exh. 4, Pg. 1-3
(6)	Allstate Size Risk Premium:	-1.76%	-1.76%	-1.76%	=(4) * (5)
(7)	Value Risk Premium:	4.81%	4.81%	4.81%	App. 1, Exh. 1
(8)	Selected Value Beta:	1.152	1.153	1.156	App. 1, Exh. 4, Pg. 1-3
(9)	Allstate Value Risk Premium:	5.54%	5.55%	5.56%	=(7) * (8)
(10)	Total Risk Premium:	8.70%	8.11%	7.71%	=(3) + (6) + (9)
(11)	Risk-free Return:	0.05%	1.05%	2.95%	US Treasury
(12)	Fama-French Cost of Equity Capital:	8.75%	9.16%	10.66%	=(10) + (11)

*Relative to a short-term (28-day) government bond, as of June 5, 2013
**Relative to an intermediate-term (5-year) government bond, as of June 5, 2013
***Relative to a long-term (20-year) government bond, as of June 5, 2013
http://www.treasury.gov/resource-center/data-chart-center/interest-rates/Pages/TextView.aspx?data=billrates

Appendix 2

The Discounted Cash Flow Model

Appendix 2
Exhibit 1

ALLSTATE CORPORATION
Discounted Cash Flow Analysis
Summary

(1)	(2)	(3)	(4)
Time Period	Estimated Dividend Yield	Growth Forecast	Cost of Equity
2nd Quarter 2013	2.1	7.0	9.1
2nd Quarter 2012	2.7	7.0	9.7
2nd Quarter 2011	2.8	8.5	11.3
2nd Quarter 2010	2.7	8.5	11.2
2nd Quarter 2009	3.1	9.5	12.6
2nd Quarter 2008	3.4	10.8	14.2
2nd Quarter 2007	2.6	11.7	14.3
2nd Quarter 2006	2.6	11.7	14.3
2nd Quarter 2005	2.4	15.2	17.6

Sources (within Appendix 2):
(2): Exhibit 2, Column (2)
(3): Exhibit 3, average of Columns (2)-(4)
(4): Sum of column (2) and column (3)

Appendix 2
Exhibit 2

ALLSTATE CORPORATION
Discounted Cash Flow Analysis
Estimated Dividend Yield

(1)	(2)
Time Period	Estimated Dividend Yield
2nd Quarter 2013	2.1
2nd Quarter 2012	2.7
2nd Quarter 2011	2.8
2nd Quarter 2010	2.7
2nd Quarter 2009	3.1
2nd Quarter 2008	3.4
2nd Quarter 2006	2.6
2nd Quarter 2005	2.4

Sources:
Value Line Investment Surveys, Part 3, The Ratings & Reports

ALLSTATE CORPORATION
Discounted Cash Flow Analysis
Dividends Per Share Experience

(1)	(2)	(3)	(4)	(5)
	Annual Rate of Change			
Time Period	Past 10 Years	Past 5 Years	Forecast	Average
2nd Quarter 2013*	8.5	5.0	7.5	7.0
2nd Quarter 2012*	9.5	6.5	5.0	7.0
2nd Quarter 2011*	10.5	9.5	5.5	8.5
2nd Quarter 2010*	11.5	11.5	2.5	8.5
2nd Quarter 2009*	12.0	13.0	3.5	9.5
2nd Quarter 2008	12.0	12.5	8.0	10.8
2nd Quarter 2007	13.5	12.5	9.0	11.7

Sources:
Value Line Investment Surveys, Part 3, The Ratings & Reports

*Note: the Value-Line numbers for 2009 - 2013 have been adjusted
to account for the dividend cut in 2009.

Appendix 3

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

ALLSTATE CORPORATION
Estimated Cost of Equity Capital

Allstate Corporation Cost of Equity Capital Estimates

		Value	Source
(1)	Fama-French Three-factor Model	9.5%	App. 1, Exh. 4, Pg. 2-4*
(2)	Discounted Cash Flow Model	9.1%	App. 2, Exh. 1
(3)	**Selected Cost of Equity Capital**	**9.5%**	Selection

Industry Data - Cost of Equity Capital - SIC Code 633 - Fire, Marine, and Casualty Insurance (41 companies)**

MEDIAN

	2008	2009	2010	2011	2012	Avg
CAPM	10.25	9.44	10.15	9.15	7.71	9.34
CAPM + Size Prem	12.05	11.72	12.82	11.36	10.03	11.60
FF3F	11.72	11.63	9.83	8.74	7.69	9.92
1-Stage DCF	12.29	14.35	11.06	12.06	10.54	12.06
3-Stage DCF	12.00	17.75	17.50	19.48	NMF	16.68

SIC COMPOSITE

	2008	2009	2010	2011	2012	Avg
CAPM	10.70	11.99	11.22	9.86	8.40	10.43
CAPM + Size Prem	11.62	11.99	12.30	9.86	8.40	10.83
FF3F	12.01	11.68	11.02	9.48	8.14	10.47
1-Stage DCF	9.78	10.37	11.27	7.03	8.55	9.40
3-Stage DCF	20.00	3.90	13.58	8.36	NMF	11.46

LARGE COMPOSITE

	2008	2009	2010	2011	2012	Avg
CAPM	10.87	10.48	11.61	9.55	8.01	10.10
CAPM + Size Prem	10.87	10.48	11.61	9.55	8.01	10.10
FF3F	12.33	10.35	11.11	9.03	7.66	10.10
1-Stage DCF	10.00	10.50	9.74	5.49	7.97	8.74
3-Stage DCF	22.50	24.90	11.81	NMF	NMF	19.74

*Average of the short-term, intermediate-term, and long-term results
**Source: Ibbotson Cost of Capital Yearbooks, 2008-2012

ALLSTATE INSURANCE GROUP

Countrywide
Private Passenger Auto

Development of the Underwriting Profit

		Liability	Physical Damage	Total	Source
(1)	Average Market Value of Equity:			$ 24,752	App. 3, Exh. 2
(2)	Cost of Equity (%):			9.5%	App. 3, Exh. 1, Pg. 1
(3)	Cost of Equity ($):			$ 2,351	=(1)*(2)
(4)	Dividend Payout Ratio:			0.70	App. 3, Exh. 3
(5)	Average Market-to-book Ratio:			1.30	App. 3, Exh. 4
(6)	Income Due Shareholders:			$ 2,351	=(3)
(7)	Income Needed by Allstate:			$ 2,157	=(6)/[(4)+(1-(4))*(5)]
(8)	Investment Income on Equity:			$ 647	IDF*
(9)	Operating Income Needed:			$ 1,510	=(7)-(8)
(10)	Earned Premium:			$ 25,386	App. 3, Exh. 2
(11)	Operating Ratio:			5.9%	=(9)/(10)
(12)	Investment Income from PHSF**:	1.6%	0.2%	0.9%	App. 3, Exh. 5, Pg. 1
(13)	After-tax U/W Profit Provision:	4.3%	5.7%	5.0%	=(11)-(12)
(14)	Tax Rate:	35%	35%	35%	FIT***
(15)	Pre-tax U/W Income Needed by Allstate:	6.7%	8.8%	7.7%	=(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	20,580	27,794	26,754
Allstate New Jersey Group	727	1,151	945
Castle Key Insurance Group	151	258	196
Canada	663	999	861
Group Less ANJ/CK/Canada	19,040	25,386	24,752

*As of 12/31/12

**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	*-1,542*	*432*	*-27*	*405*	***	*-0.26*
2010	888	433	82	515		0.58
2011	911	436	885	911	**	1.00
2012	787	432	713	787	**	1.00
Total	35,563	9,253	17,147	24,996		**0.70**

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.

Appendix 3
Exhibit 4

ALLSTATE CORPORATION

Historical Market-to-book Ratios

Years	Allstate
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	0.76
Dec-12	0.93
10-yr Avg:	1.30
Selected:	**1.30**

Source: MSN Online Reports
http://investing.money.msn.com/investments/key-ratios?symbol=ALL&page=TenYearSummary

ENCOMPASS INSURANCE GROUP

Private Passenger Auto

Calculation of Total Coverages Investment Income
From Policy Cash Flow

	Investment Income	Weight*	Source
(1) Liability Coverages	1.6%	49.7%	App. 3, Exh. 5, Pg. 2
(2) Physical Damage Coverages	0.2%	50.3%	App. 3, Exh. 5, Pg. 3
(3) Total Coverages	**0.9%**	100.0%	Weighted Average

*The weight given to the coverages comes from premium volume

ENCOMPASS INSURANCE GROUP
PRIVATE PASSENGER AUTO - LIABILITY

Countrywide

Calculation of Present Value, as of the Average Earning Date
of a Policy year, of all Income and Outgo @ 1.4%*
force of interest, given an Operating Profit of 5.9%
and twelve-month Policy Terms

Years From Start of Policy Year	Countrywide Cumulative Percent of Losses Paid	Countrywide Yearly Percent of Losses Paid	Time from Start of Policy Year	Discounted ** to avg time of profit @ 1.4%	Discounted Payments
1	14.7%	14.7%	0.68	1.004	14.8%
2	51.3%	36.6%	1.39	0.995	36.4%
3	70.5%	19.2%	2.46	0.980	18.8%
4	82.8%	12.3%	3.46	0.966	11.9%
5	91.2%	8.4%	4.45	0.953	8.0%
6	95.5%	4.3%	5.42	0.940	4.0%
Subsequent	100.0%	4.5%	7.45	0.914	4.1%
Total		100.0%			98.0%
Expected Losses and Loss Expense Ratio					62.8%
Present Value of Loss and Loss Expense Payments					61.5%
General Expense		9.2%	0.75	1.004	9.2%
Other Acquisition		1.5%	0.63	1.005	1.5%
Taxes		3.1%	0.77	1.003	3.1%
Licenses and Fees		0.2%	0.77	1.003	0.2%
Commissions		15.1%	0.58	1.006	15.2%
Debt Provision		1.4%	1.00	1.000	1.4%
Profit Provision		6.7%	1.00	1.000	6.7%
Total Present Value of Outgo					98.8%
Premiums		100.0%	0.71	1.004	100.4%
Difference, Present Value of Income Less Present Value of Outgo					1.6%

*Discount rate from Investments Department forecast

**exp (0.014 x (timing of profit being earned - timing of cash flow))

ENCOMPASS INSURANCE GROUP
PRIVATE PASSENGER AUTO - PHYSICAL DAMAGE

Countrywide

Calculation of Present Value, as of the Average Earning Date
of a Policy year, of all Income and Outgo @ 1.4%*
force of interest, given an Operating Profit of 5.9%
and twelve-month Policy Terms

Years From Start of Policy Year	Countrywide Cumulative Percent of Losses Paid	Countrywide Yearly Percent of Losses Paid	Time from Start of Policy Year	Discounted ** to avg time of profit @ 1.40%	Discounted Payments
1	50.6%	50.6%	0.65	1.005	50.9%
2	100.3%	49.7%	1.16	0.998	49.6%
Subsequent	100.0%	-0.3%	2.31	0.982	-0.3%
Total		100.0%			100.2%
Expected Losses and Loss Expense Ratio					60.6%
Present Value of Loss and Loss Expense Payments					60.7%
General Expense		9.2%	0.75	1.004	9.2%
Other Acquisition		1.5%	0.63	1.005	1.5%
Taxes		3.1%	0.77	1.003	3.1%
Licenses and Fees		0.3%	0.77	1.003	0.3%
Commissions		15.1%	0.58	1.006	15.2%
Debt Provision		1.4%	1.00	1.000	1.4%
Profit Provision		8.8%	1.00	1.000	8.8%
Total Present Value of Outgo					100.2%
Premiums		100.0%	0.71	1.004	100.4%
Difference, Present Value of Income Less Present Value of Outgo					0.2%

*Discount rate from Investments Department forecast

*exp (0.014 x (timing of profit being earned - timing of cash flow))