

**State:** Arkansas **Filing Company:** Encompass Indemnity Company  
**TOI/Sub-TOI:** 19.0 Personal Auto/19.0000 Personal Auto Combinations  
**Product Name:** EI PPA  
**Project Name/Number:** Edge Auto Rate/Factor Changes/RITM00175528

## Filing at a Glance

Company: Encompass Indemnity Company  
 Product Name: EI PPA  
 State: Arkansas  
 TOI: 19.0 Personal Auto  
 Sub-TOI: 19.0000 Personal Auto Combinations  
 Filing Type: Rate/Rule  
 Date Submitted: 01/30/2015  
 SERFF Tr Num: ALSE-129904322  
 SERFF Status: Closed-Filed  
 State Tr Num:  
 State Status:  
 Co Tr Num: ER2620  
  
 Effective Date: 07/31/2015  
 Requested (New):  
 Effective Date: 07/31/2015  
 Requested (Renewal):  
 Author(s): Marisol Herrera, Andi Colosi  
 Reviewer(s): Alexa Grissom (primary)  
 Disposition Date: 03/02/2015  
 Disposition Status: Filed  
 Effective Date (New): 06/11/2015  
 Effective Date (Renewal):

State Filing Description:

**State:** Arkansas **Filing Company:** Encompass Indemnity Company  
**TOI/Sub-TOI:** 19.0 Personal Auto/19.0000 Personal Auto Combinations  
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### General Information

Project Name: Edge Auto Rate/Factor Changes      Status of Filing in Domicile:  
 Project Number: RITM00175528      Domicile Status Comments:  
 Reference Organization:      Reference Number:  
 Reference Title:      Advisory Org. Circular:  
 Filing Status Changed: 03/02/2015  
 State Status Changed:      Deemer Date:  
 Created By: Marisol Herrera      Submitted By: Andi Colosi  
 Corresponding Filing Tracking Number:

**Filing Description:**

With this filing, Encompass Indemnity Company is proposing an overall rate change of 5.9% to its Private Passenger Automobile Program. In order to achieve the overall rate level change, Encompass has revised the Automobile Rate Adjustment Factors, Excess Liability Rates, and Work Loss and Accidental Death Benefit Rates.

Encompass Indemnity Company is targeting an effective date for new and renewal business effective July 31, 2015 and subsequent.

### Company and Contact

**Filing Contact Information**

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

**Filing Company Information**

Encompass Indemnity Company      CoCode: 15130      State of Domicile: Illinois  
 2775 Sanders Rd.      Group Code: 8      Company Type: Property and  
 Suite A2-W      Group Name: Allstate      Casualty  
 Northbrook, IL 60062      FEIN Number: 59-2366357      State ID Number:  
 (847) 402-5000 ext. [Phone]

### Filing Fees

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

Company	Amount	Date Processed	Transaction #
Encompass Indemnity Company	\$100.00	01/30/2015	91863187

**SERFF Tracking #:**

ALSE-129904322

**State Tracking #:****Company Tracking #:**

ER2620

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Edge Auto Rate/Factor Changes/RITM00175528

## Correspondence Summary

### Dispositions

Status	Created By	Created On	Date Submitted
Filed	Alexa Grissom	03/02/2015	03/02/2015

### Objection Letters and Response Letters

#### Objection Letters

Status	Created By	Created On	Date Submitted
Pending Industry Response	Alexa Grissom	02/10/2015	02/10/2015

#### Response Letters

Responded By	Created On	Date Submitted
Andi Colosi	02/13/2015	02/13/2015

### Amendments

Schedule	Schedule Item Name	Created By	Created On	Date Submitted
Rate	Motor Vehicle Rate Pages	Andi Colosi	03/02/2015	03/02/2015
Rate	Motor Vehicle Rules Manual	Andi Colosi	03/02/2015	03/02/2015
Rate	Personal Umbrella Rules Manual	Andi Colosi	03/02/2015	03/02/2015

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## Disposition

Disposition Date: 03/02/2015

Effective Date (New): 06/11/2015

Effective Date (Renewal):

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 Indemnity Company	11.300%	5.900%	\$133,883	1,538	\$2,269,201	15.500%	2.800%

Schedule	Schedule Item	Schedule Item Status	Public Access
Supporting Document	A-1 Private Passenger Auto Abstract	Filed	Yes
Supporting Document (revised)	APCS-Auto Premium Comparison Survey	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	Supporting Documentation	Filed	Yes
Rate (revised)	Motor Vehicle Rate Pages	Filed	Yes
Rate	Motor Vehicle Rate Pages	Filed	Yes
Rate (revised)	Motor Vehicle Rules Manual	Filed	Yes
Rate	Motor Vehicle Rules Manual	Filed	Yes
Rate (revised)	Personal Umbrella Rules Manual	Filed	Yes
Rate	Personal Umbrella Rules Manual	Filed	Yes

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## Objection Letter

Objection Letter Status	Pending Industry Response
Objection Letter Date	02/10/2015
Submitted Date	02/10/2015
Respond By Date	

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Dear Andi Colosi,

**Introduction:**

*This will acknowledge receipt of the captioned filing. Please resubmit the APCS with only the 5 digit NAIC number.*

**Conclusion:**

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

*Arkansas does not allow the re-opening of closed filings for corrections, changes in effective dates, scrivener's errors, amendments or substantive changes. Please see the General Instructions for how these events will be handled after the effective date of the change."*

*Sincerely,*

*Alexa Grissom*

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## Response Letter

Response Letter Status

Submitted to State

Response Letter Date

02/13/2015

Submitted Date

02/13/2015

Dear Alexa Grissom,

**Introduction:**

Hi Alexa!

Thank you for your help with this filing. We've made the requested correction on the APCS document. Please let us know if you have any additional questions or concerns.

Have a good weekend,

Andi

**Response 1**

**Comments:**

Please find the corrected APCS attached

**Changed Items:**

Supporting Document Schedule Item Changes	
<b>Satisfied - Item:</b>	APCS-Auto Premium Comparison Survey
<b>Comments:</b>	
<b>Attachment(s):</b>	04. APCS EI Survey Form_ER2620.pdf 04. APCS EI Survey Form_ER2620.xls
<i>Previous Version</i>	
<b>Satisfied - Item:</b>	APCS-Auto Premium Comparison Survey
<b>Comments:</b>	
<b>Attachment(s):</b>	04. APCS EI Survey Form_ER2620.xls 04. APCS EI Survey Form_ER2620.pdf

No Form Schedule items changed.

No Rate/Rule Schedule items changed.

**Conclusion:**

**SERFF Tracking #:**

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Sincerely,  
Andi Colosi

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## Amendment Letter

Submitted Date: 03/02/2015

Comments:

Hi Alexa,

Thanks again for all of your help with this filing. As mentioned, we would like to bump the effective dates up to June 11, 2015. I have attached manual pages reflecting the new date in the header/footer. That is the only change we have made to the pages. A post-submission update with the new effective dates will follow this amendment.

Please let me know if you have any questions or concerns.

Thanks!

Andi

Changed Items:

*No Form Schedule Items Changed.*

Rate Schedule Item Changes					
Item No.	Exhibit Name	Rule # or Page #	Rate Action	Previous State Filing Number	Date Submitted
1	Motor Vehicle Rate Pages		Replacement		03/02/2015 By:
<i>Previous Version</i>					
1	Motor Vehicle Rate Pages		Replacement		01/30/2015 By: Andi Colosi
2	Motor Vehicle Rules Manual		Replacement		03/02/2015 By:
<i>Previous Version</i>					
2	Motor Vehicle Rules Manual		Replacement		01/30/2015 By: Andi Colosi
3	Personal Umbrella Rules Manual		Replacement		03/02/2015 By:
<i>Previous Version</i>					
3	Personal Umbrella Rules Manual		Replacement		01/30/2015 By: Andi Colosi

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*No Supporting Documents Changed.*

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## Post Submission Update Request Submitted On 03/02/2015

Status: Submitted  
Created By: Andi Colosi

### General Information:

Field Name	Requested Change	Prior Value
Effective Date Requested (New)	06/11/2015	07/31/2015
Effective Date Requested (Renew)	06/11/2015	07/31/2015

SERFF Tracking #:

ALSE-129904322

State Tracking #:

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State: Arkansas

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### 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: 07/31/2014

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 Indemnity Company	11.300%	5.900%	\$133,883	1,538	\$2,269,201	15.500%	2.800%

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## Rate/Rule Schedule

Item No.	Schedule Item Status	Exhibit Name	Rule # or Page #	Rate Action	Previous State Filing Number	Attachments
1	Filed 03/02/2015	Motor Vehicle Rate Pages		Replacement		08. 20150611_ar_edge_mv_rate s.pdf
2	Filed 03/02/2015	Motor Vehicle Rules Manual		Replacement		09. 20150611_ar_edge_mv.pdf
3	Filed 03/02/2015	Personal Umbrella Rules Manual		Replacement		10. 20150611_ar_edge_pu.pdf



**ARKANSAS USP PORTFOLIO**  
**MOTOR VEHICLE RATE PAGES**  
**ENCOMPASS INDEMNITY COMPANY**





**ARKANSAS USP PORTFOLIO  
ENCOMPASS INDEMNITY COMPANY  
MOTOR VEHICLE RATE PAGES**

**AUTO CUSTOMIZATION PREMIUM CALCULATION  
(ROUND TO THE NEAREST DOLLAR AFTER EACH STEP)**

STEP		COMP	COLL
1	TERRITORIAL BASE RATE		
2	RATE ADJUSTMENT FACTOR	x 0.968	x 0.969
3	MODEL YEAR FACTOR	x	x
4	EXP. GRP RATING FACTOR	x	x
5	DEDUCTIBLE BY SYMBOL FACTOR (Note: For Stated Amount coverage, use Price Group Symbol M deductible factors)	x	x
6	CUSTOMIZATION AMOUNT		
7	CUSTOMIZATION FACTOR	x	x
8	NEW CAR DISCOUNT	x	x
9	REPLACEMENT VALUE FACTOR		
10	COVERAGE OPTION FACTOR	x	x
11	AUTO RATING TIER FACTOR	x	x
12	AUTO RATING TIER ADJUSTMENT FACTOR	x	x
13	PRIOR AUTO INSURANCE FACTOR	x	x
14	DRIVER CLASSIFICATION FACTOR	x	x
15	MULTI-CAR RATING FACTOR	x	x
16	MERIT RATING FACTOR	x	x
17	MAJOR VIOLATION SURCHARGE		x
18	NON-VERIFIABLE DRIVING RECORD SURCHARGE	x	x
19	ANTI-THEFT DEVICE DISCOUNT	x	
20	DRIVER TRAINING DISCOUNT		x
21	GOOD STUDENT DISCOUNT	x	x
22	RESIDENT STUDENT DISCOUNT		x
23	MOTOR VEHICLE ACCIDENT PREV DISC		x
24	ACCIDENT/VIOLATION FREE DISCOUNT	x	x
25	POLICY LOSS FREE DISCOUNT		x
26	GOOD PAYER DISCOUNT	x	x
27	FUTURE EFFECTIVE DATE DISCOUNT	x	x
28	ENCOMPASS EASY PAY PLAN DISCOUNT	x	x
29	HOMEOWNERSHIP DISCOUNT	x	x
30	PREFERRED PROTECTION DISCOUNT	x	x
31	COLLEGE GRADUATE SCHOL ACHV DISC	x	x
32	CREDIT FOR EXISTING INSURANCE	x	x
33	TOTAL COVERAGE PREMIUM	=	=

**AUTO LOAN/LEASE PREMIUM CALCULATION  
(ROUND TO THE NEAREST DOLLAR AFTER EACH STEP)**

STEP		COMP	COLL
1	TERRITORIAL BASE RATE		
2	RATE ADJUSTMENT FACTOR	x 0.968	x 0.969
3	MODEL YEAR FACTOR	x	x
4	EXP. GRP RATING FACTOR	x	x
5	NEW CAR DISCOUNT	x	x
6	DEDUCTIBLE BY SYMBOL FACTOR (Note: For Stated Amount coverage, use Price Group Symbol M deductible factors)	x	x
7	COVERAGE OPTION FACTOR	x	x
8	AUTO RATING TIER FACTOR	x	x
9	AUTO RATING TIER ADJUSTMENT FACTOR	x	x
10	PRIOR AUTO INSURANCE FACTOR	x	x
11	DRIVER CLASSIFICATION FACTOR	x	x
12	MULTI-CAR RATING FACTOR	x	x
13	MERIT RATING FACTOR	x	x
14	MAJOR VIOLATION SURCHARGE		x
15	NON-VERIFIABLE DRIVING RECORD SURCHARGE	x	x
16	ANTI-THEFT DEVICE DISCOUNT	x	
17	DRIVER TRAINING DISCOUNT		x
18	GOOD STUDENT DISCOUNT	x	x
19	RESIDENT STUDENT DISCOUNT		x
20	MOTOR VEHICLE ACCIDENT PREV DISC		x
21	ACCIDENT/VIOLATION FREE DISCOUNT	x	x
22	POLICY LOSS FREE DISCOUNT		x
23	GOOD PAYER DISCOUNT	x	x
24	FUTURE EFFECTIVE DATE DISCOUNT	x	x
25	ENCOMPASS EASY PAY PLAN DISCOUNT	x	x
26	HOMEOWNERSHIP DISCOUNT	x	x
27	PREFERRED PROTECTION DISCOUNT	x	x
28	LOAN/LEASE DEFICIENCY COVERAGE FACTOR	x	x
29	CREDIT FOR EXISTING INSURANCE	x	x
30	TOTAL COVERAGE PREMIUM	=	=



**ARKANSAS USP PORTFOLIO  
ENCOMPASS INDEMNITY COMPANY  
MOTOR VEHICLE RATE PAGES**

**AUTO PERSONAL UMBRELLA PREMIUM CALCULATION  
(ROUND TO THE NEAREST DOLLAR AFTER EACH STEP)**

STEP		PP Autos, Pickups and Vans	Motorcycles	Dune Buggies	Other Misc. Types
1	BASE PREMIUM (\$500,000)				
2	RATE ADJUSTMENT FACTOR	x 1.514	x 1.514	x 1.514	x 1.514
3	PACKAGE DISCOUNT	x		x	
4	YOUTHFUL SURCHARGE	+	+	+	
5	SENIOR DISCOUNT	-			
6	INCREASED LIMIT FACTOR	x	x	x	x
7	MULTI-VEHICLE FACTOR	x			
8	POLICY LOSS FREE FACTOR	x	x	x	x
9	\$100/300 OR \$300,000 UNDERLYING SURCHARGES	+	+	+	+
10	CREDIT FOR EXISTING INSURANCE	x	x	x	x
11	TOTAL MOTOR VEHICLE UMBRELLA PREMIUM	=	=	=	=



**ARKANSAS USP PORTFOLIO  
ENCOMPASS INDEMNITY COMPANY  
MOTOR VEHICLE RATE PAGES**

**MOTOR HOME LIABILITY PREMIUM CALCULATION  
(ROUND TO THE NEAREST DOLLAR AFTER EACH STEP)**

STEP		BI	PD	MED
1	BASE RATE (FROM RULE 12)			
2	RATE ADJUSTMENT FACTOR (FROM RATE PAGES)	x 1.570	x 1.663	x 1.703
3	POLICY LOSS FREE FACTOR	x	x	x
4	MISCELLANEOUS VEHICLE LOSS SURCHARGE	x	x	x
5	ANTI-LOCK BRAKE DISCOUNT	x	x	
6	PASSIVE RESTRAINT DISCOUNT			x
7	FIXED EXPENSE PREMIUM	+	+	
8	CREDIT FOR EXISTING INSURANCE	x	x	x
9	TOTAL COVERAGE PREMIUM	=	=	=

**MOTOR HOME UM/UIM PREMIUM CALCULATION  
(ROUND TO THE NEAREST DOLLAR AFTER EACH STEP)**

STEP		UM/UIM BI	UM PD
1	BASE RATE (FROM AUTO RULE 9.A)		
2	RATE ADJUSTMENT FACTOR (FROM RATE PAGES)	x 1.389	x 1.389
3	CREDIT FOR EXISTING INSURANCE	x	x
4	TOTAL COVERAGE PREMIUM	=	=

Note: UM/UIM Premium is vehicle level based on the number of PP autos, vans, pickups, motor homes, motorcycles and antique autos on policy.

**MOTOR HOME/TRAILER PHYSICAL DAMAGE PREMIUM CALCULATION  
(ROUND TO THE NEAREST DOLLAR AFTER EACH STEP)**

STEP	MOTOR HOME/TRAILER PHYSICAL DAMAGE COVERAGE	COMP	COLL (MH/RecTrail)	COLL (AllOtherTrailer)
1	ACTUAL CASH VALUE (\$000) (Motor Home or Rec Trailer)			
2	ACTUAL CASH VALUE (\$00) (All Other Trailer)			
3	RATE PER VALUE	x	x	
4	INTERIM SUBTOTAL	=	=	
5	PREMIUM FOR COLLISION BASED ON ACTUAL CASH VALUE			=
6	DEDUCTIBLE BY SYMBOL (M) FACTOR	x	x	x
7	RATE ADJUSTMENT FACTOR (FROM RATE PAGES)	x 0.969	x 0.969	x 0.969
8	POLICY LOSS FREE FACTOR	x	x	x
9	MISCELLANEOUS VEHICLE LOSS SURCHARGE FACTOR	x	x	x
10	SUBTOTAL (USED FOR LOAN/LEASE COVERAGE)	=	=	=
11	FIXED EXPENSE PREMIUM (not applicable to Trailers)	+	+	
12	CREDIT FOR EXISTING INSURANCE	x	x	x
13	TOTAL COVERAGE PREMIUM	=	=	=

**MOTOR HOME LOAN/LEASE PREMIUM CALCULATION  
(ROUND TO THE NEAREST DOLLAR AFTER EACH STEP)**

STEP		COMP	COLL
	SUBTOTAL FROM MOTOR HOME PHYSICAL DAMAGE COVERAGE PREMIUM		
1	AUTO LOAN/LEASE FACTOR	x	x
2	CREDIT FOR EXISTING INSURANCE	x	x
3	TOTAL COVERAGE PREMIUM	=	=

**MOTOR HOME MISCELLANEOUS PREMIUM CALCULATION  
(ROUND TO THE NEAREST DOLLAR AFTER EACH STEP)**

STEP		Rate	CFEI	Total
1	ELECTRONIC EQUIPMENT PREMIUM		x	=
2	TOTAL MISC COVERAGES PREMIUM			=

<b>TOTAL ANNUAL PREMIUM</b>	<b>=</b>
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**ARKANSAS USP PORTFOLIO  
ENCOMPASS INDEMNITY COMPANY  
MOTOR VEHICLE RATE PAGES**

**MISCELLANEOUS VEHICLE LIABILITY PREMIUM CALCULATION**  
(ROUND TO THE NEAREST DOLLAR AFTER EACH STEP)

STEP		BI	PD	MED
1	TERRITORIAL BASE RATE			
2	RATE ADJUSTMENT FACTOR (FROM RATE PAGES)	x 1.344	x 1.360	x 1.429
3	INCREASED LIMIT FACTOR	x	x	x
4	MISCELLANEOUS VEHICLE LIABILITY FACTOR	x	x	x
5	POLICY LOSS FREE FACTOR	x	x	x
6	MISCELLANEOUS VEHICLE LOSS SURCHARGE	x	x	x
7	FIXED EXPENSE PREMIUM (ANTIQUE AUTOS ONLY)	+	+	
8	CREDIT FOR EXISTING INSURANCE	x	x	x
9	TOTAL COVERAGE PREMIUM	=	=	=

**MISCELLANEOUS VEHICLE UM/UIM PREMIUM CALCULATION**  
(ROUND TO THE NEAREST DOLLAR AFTER EACH STEP)

STEP	MOTORCYCLE UM/UIM COVERAGE	UM/UIM BI	UM PD
1	BASE RATE		
2	RATE ADJUSTMENT FACTOR (FROM RATE PAGES)	x 1.389	x 1.389
3	CREDIT FOR EXISTING INSURANCE	x	x
4	TOTAL COVERAGE PREMIUM	=	=

Note: UM/UIM Premium is vehicle level based on the number of PP autos, vans, pickups, motor homes, motorcycles and antique autos on policy.

**MISCELLANEOUS VEHICLE PHYSICAL DAMAGE PREMIUM CALCULATION**  
(ROUND TO THE NEAREST DOLLAR AFTER EACH STEP)

STEP		COMP	COLL
1	ACTUAL CASH VALUE OR STATED AMOUNT (\$00)		
2	RATE PER \$100 OF ACTUAL CASH VALUE OR STATED AMOUNT	x	x
3	DEDUCTIBLE BY SYMBOL (M) FACTOR	x	x
4	RATE ADJUSTMENT FACTOR (FROM RATE PAGES)	x 0.895	x 0.874
5	POLICY LOSS FREE FACTOR	x	x
6	MISCELLANEOUS VEHICLE LOSS SURCHARGE	x	x
7	FIXED EXPENSE PREMIUM (ANTIQUE AUTOS ONLY)	+	+
8	CREDIT FOR EXISTING INSURANCE	x	x
9	TOTAL COVERAGE PREMIUM	=	=

**MISCELLANEOUS VEHICLE MISCELLANEOUS PREMIUM CALCULATION \*\***  
(ROUND TO THE NEAREST DOLLAR AFTER EACH STEP)

STEP		Rate	CFEI	Total
1	EXTENDED TRANSPORTATION & RENTAL RE PREMIUM		x	+
2	TOWING & LABOR PREMIUM		x	+
3	ELECTRONIC EQUIPMENT PREMIUM		x	+
4	TOTAL MISC COVERAGES PREMIUM			=

\*\* These coverages are not available for snowmobiles, ATVs or dune buggies.



**ARKANSAS  
ENCOMPASS INDEMNITY COMPANY  
MOTOR VEHICLE RATE PAGES**

**COMPREHENSIVE DEDUCTIBLES BY SYMBOL & MODEL YEAR FACTORS**

<b>COMPREHENSIVE PRICE GROUP SYMBOL FACTORS</b>						
<b>PGS</b>	<b>\$100</b>	<b>\$150</b>	<b>\$250</b>	<b>\$500</b>	<b>\$1,000</b>	<b>\$2,500</b>
M	0.21	0.18	0.13	0.09	0.07	0.05
O	0.29	0.25	0.19	0.14	0.11	0.09
S	0.42	0.36	0.29	0.22	0.17	0.13
T	0.57	0.51	0.44	0.37	0.29	0.23
U	0.75	0.69	0.62	0.54	0.41	0.31
V	0.92	0.85	0.77	0.66	0.50	0.38
W	1.08	1.00	0.92	0.79	0.59	0.44
N	1.24	1.14	1.04	0.90	0.68	0.51
P	1.39	1.29	1.17	1.02	0.79	0.61
Q	1.52	1.42	1.30	1.15	0.92	0.74
R	1.66	1.56	1.44	1.29	1.06	0.87
G	1.87	1.76	1.63	1.46	1.22	1.02
I	2.15	2.02	1.89	1.69	1.42	1.19
K	2.48	2.34	2.19	1.97	1.66	1.40
C	3.01	2.85	2.67	2.41	2.05	1.74
D	3.69	3.49	3.27	2.95	2.50	2.12
E	4.29	4.04	3.76	3.37	2.80	2.33
F	5.02	4.72	4.40	3.94	3.27	2.71
H	5.75	5.40	5.04	4.51	3.74	3.10
J	6.47	6.08	5.67	5.08	4.21	3.49
L	7.20	6.76	6.31	5.65	4.68	3.88

<b>MODEL YEAR</b>	<b>COMP FACTOR</b>
<b>2015</b>	<b>1.503</b>
<b>2014</b>	<b>1.418</b>
<b>2013</b>	<b>1.338</b>
<b>2012</b>	<b>1.262</b>
<b>2011</b>	<b>1.191</b>
<b>2010</b>	<b>1.124</b>
<b>2009</b>	<b>1.060</b>
<b>2008</b>	<b>1.000</b>
<b>2007</b>	<b>0.971</b>
<b>2006</b>	<b>0.943</b>
<b>2005 &amp; Prior</b>	<b>0.915</b>
<b>2004 &amp; Prior</b>	<b>0.888</b>

Multiply by 6% for each subsequent model years not shown

<b>COMPREHENSIVE PRICE GROUP SYMBOL FACTORS FULL GLASS</b>						
<b>PGS</b>	<b>\$100</b>	<b>\$150</b>	<b>\$250</b>	<b>\$500</b>	<b>\$1,000</b>	<b>\$2,500</b>
M	0.24	0.22	0.19	0.14	0.11	0.09
O	0.32	0.29	0.24	0.20	0.13	0.08
S	0.46	0.43	0.35	0.29	0.20	0.14
T	0.63	0.56	0.47	0.40	0.30	0.23
U	0.80	0.73	0.62	0.53	0.41	0.32
V	0.96	0.91	0.79	0.67	0.53	0.42
W	1.15	1.07	0.95	0.82	0.63	0.48
N	1.27	1.21	1.09	0.93	0.70	0.53
P	1.40	1.34	1.21	1.02	0.77	0.58
Q	1.43	1.35	1.22	1.04	0.78	0.59
R	1.48	1.40	1.28	1.07	0.82	0.63
G	1.61	1.52	1.40	1.21	0.96	0.76
I	1.79	1.71	1.56	1.39	1.14	0.93
K	2.06	1.97	1.82	1.62	1.38	1.18
C	2.56	2.48	2.32	1.99	1.75	1.54
D	3.32	3.20	2.97	2.60	2.26	1.96
E	4.12	3.94	3.65	3.25	2.82	2.45
F	4.82	4.60	4.26	3.80	3.31	2.88
H	5.52	5.26	4.88	4.35	3.79	3.30
J	6.21	5.93	5.50	4.90	4.26	3.70
L	6.91	6.59	6.11	5.45	4.74	4.12



**ARKANSAS  
ENCOMPASS INDEMNITY COMPANY  
MOTOR VEHICLE RATE PAGES**

**COLLISION DEDUCTIBLES BY SYMBOL & MODEL YEAR FACTORS**

COLLISION PRICE GROUP SYMBOL FACTORS						
PGS	\$100	\$150	\$250	\$500	\$1,000	\$2,500
M	0.73	0.68	0.59	0.45	0.24	0.18
O	0.88	0.83	0.74	0.59	0.37	0.29
S	1.00	0.95	0.86	0.68	0.47	0.38
T	1.10	1.06	0.99	0.78	0.56	0.46
U	1.27	1.23	1.15	0.94	0.67	0.56
V	1.40	1.36	1.28	1.06	0.77	0.66
W	1.51	1.47	1.40	1.17	0.86	0.74
N	1.63	1.59	1.51	1.27	0.95	0.82
P	1.76	1.72	1.63	1.38	1.03	0.90
Q	1.91	1.85	1.73	1.49	1.12	0.97
R	2.06	1.99	1.85	1.59	1.21	1.04
G	2.22	2.14	1.99	1.71	1.33	1.14
I	2.40	2.32	2.18	1.87	1.51	1.31
K	2.62	2.54	2.38	2.06	1.68	1.46
C	2.97	2.88	2.69	2.37	1.91	1.68
D	3.40	3.28	3.05	2.69	2.12	1.85
E	3.55	3.44	3.23	2.79	2.22	1.93
F	3.96	3.85	3.62	3.13	2.49	2.18
H	4.38	4.26	4.00	3.46	2.76	2.41
J	4.81	4.67	4.38	3.79	3.03	2.64
L	5.23	5.08	4.78	4.14	3.29	2.88

MODEL YEAR	COLL FACTOR
<b>2015</b>	<b>1.714</b>
<b>2014</b>	1.587
<b>2013</b>	1.469
<b>2012</b>	1.360
<b>2011</b>	1.259
<b>2010</b>	1.166
<b>2009</b>	1.080
<b>2008</b>	1.000
<b>2007</b>	0.935
<b>2006</b>	0.873
<b>2005 &amp; Prior</b>	0.816
<b>2004 &amp; Prior</b>	<b>0.763</b>

Multiply by 8% for each subsequent model years not shown

**ARKANSAS  
ENCOMPASS INDEMNITY COMPANY  
MOTOR VEHICLE RULES**

B. Work Loss Coverage

(1). 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.

(2). Rates:

(a) All Eligible Motor Vehicles

- Charge [\\$8.38](#) per car, per year.
- The Classification and SDIP Rules do NOT apply.

C. Accidental Death Benefit

(1). Limits: Maximum per person--\$5,000.

(2). Rates:

(a) All Eligible Motor Vehicles

- Charge [\\$5.03](#) per car, per year.
- The Classification and SDIP Rules do NOT apply.

Q. Good Payer Discount

The Good Payer Discount rating factors on the Motor Vehicle Rate Pages will be applied to the otherwise applicable rates for Split Limit or Single Limit Liability, Medical Expenses, Comprehensive, and Collision coverages for all private passenger autos, vans and pickups on the policy when the policy meets the following eligibility requirements:

1. Initial Qualification: All private passenger autos, vans and pickups on the policy, written in Encompass Indemnity Company, will initially qualify for the discount for all policies with an effective date on or after January 25, 2010.
2. Subsequent Qualification: The policy will be evaluated prior to each renewal to determine whether the policy qualifies for the discount at such renewal. The discount will be removed from all private passenger autos, vans and pickups on the policy if a cancellation notice for non-payment of vehicle premiums was sent during the most recent prior 12-month period ending 45 days prior to the renewal effective date. Otherwise, the discount will apply to all private passenger autos, pickups and vans on the policy at renewal.

**ARKANSAS  
ENCOMPASS INDEMNITY COMPANY  
PERSONAL UMBRELLA RULES**

**5. ANNUAL RATES - BASIC LIMITS**

A. Motor Vehicle Liability (rates apply per vehicle)

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

<u>Classification</u>	<u>Class Code</u>	<u>BASIC LIMIT RATES</u>	<u>\$100/300 or \$300,000 UNDERLYING LIMIT FLAT CHARGE</u>
		<u>All Territories</u>	<u>All Territories</u>
All Operators	7010XX	\$97.00	<u>\$17.07</u>
Youthful Surcharge:			
Operators Under Age 21	7710XX	<u>\$27.01</u>	<u>\$2.84</u>
Operators Age 21 to 24	7510XX	<u>\$27.01</u>	<u>\$2.84</u>

Senior Discount:

Operators Age 50 and above	7310XX	<u>\$22.75</u>	<u>\$1.42</u>
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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)

If personal umbrella coverage is written on a package policy, apply a factor of 0.67 to the All Operators basic limit rate above. The definition of a package can be found in the General Rules.

(2) Other Miscellaneous Type Vehicles

<u>Vehicle</u>	<u>Class Code</u>	<u>BASIC LIMIT RATES</u>	<u>\$100/300 or \$300,000 UNDERLYING LIMIT FLAT CHARGE</u>
		<u>All Territories</u>	<u>All Territories</u>
Motor Homes	703000	\$22	<u>\$ 2.84</u>
Snowmobiles	704000	\$19	<u>\$ 2.84</u>
All-Terrain Vehicles	705000	\$19	<u>\$ 2.84</u>
Non-Registered Dune Buggies	706000	\$22	<u>\$ 2.84</u>
Golf Carts	707000	\$22	<u>\$ 2.84</u>
Antique Autos	708000	\$22	<u>\$ 2.84</u>

**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.

SERFF Tracking #:

ALSE-129904322

State Tracking #:

Company Tracking #:

ER2620

State: Arkansas

Filing Company:

Encompass Indemnity Company

TOI/Sub-TOI: 19.0 Personal Auto/19.0000 Personal Auto Combinations

Product Name: EI PPA

Project Name/Number: Edge Auto Rate/Factor Changes/RITM00175528

## Supporting Document Schedules

<b>Satisfied - Item:</b>	A-1 Private Passenger Auto Abstract
<b>Comments:</b>	
<b>Attachment(s):</b>	07. StateFilingFormA-1_ER2620.pdf
<b>Item Status:</b>	Filed
<b>Status Date:</b>	03/02/2015

<b>Satisfied - Item:</b>	APCS-Auto Premium Comparison Survey
<b>Comments:</b>	
<b>Attachment(s):</b>	04. APCS EI Survey Form_ER2620.pdf 04. APCS EI Survey Form_ER2620.xls
<b>Item Status:</b>	Filed
<b>Status Date:</b>	03/02/2015

<b>Satisfied - Item:</b>	NAIC loss cost data entry document
<b>Comments:</b>	
<b>Attachment(s):</b>	06. StateFilingFormRF-1_ER2620.pdf
<b>Item Status:</b>	Filed
<b>Status Date:</b>	03/02/2015

<b>Bypassed - Item:</b>	NAIC Loss Cost Filing Document for OTHER than Workers' Comp
<b>Bypass Reason:</b>	NA
<b>Attachment(s):</b>	
<b>Item Status:</b>	Filed
<b>Status Date:</b>	03/02/2015

<b>Satisfied - Item:</b>	Supporting Documentation
<b>Comments:</b>	
<b>Attachment(s):</b>	02. IndicationMemo_ER2620.pdf 03. IndicationExhibits_ER2620.pdf 05A. DUPP Memo_ER2620.pdf 05B. DUPP Exhibits_ER2620.pdf
<b>Item Status:</b>	Filed
<b>Status Date:</b>	03/02/2015

**SERFF Tracking #:**

ALSE-129904322

**State Tracking #:**

**Company Tracking #:**

ER2620

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**State:**

Arkansas

**Filing Company:**

Encompass Indemnity Company

**TOI/Sub-TOI:**

19.0 Personal Auto/19.0000 Personal Auto Combinations

**Product Name:**

EI PPA

**Project Name/Number:**

Edge Auto Rate/Factor Changes/RITM00175528

***Attachment 04. APCS EI Survey Form\_ER2620.xls is not a PDF document and cannot be reproduced here.***

ARKANSAS INSURANCE DEPARTMENT

FORM A-1 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 private passenger auto rate/rule submissions that do not alter the information contained herein need not include this form.

Company Name Encompass Indemnity Company

NAIC # (including group #) 008-15130

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

If yes, list the areas:

Blank lines for listing areas where insurance is not written.

- 2. Do you furnish a market for young drivers?  Yes  No
3. Do require collateral business to support a youthful driver?  Yes  No
4. Do you insure drivers with an international or foreign driver's license?  Yes  No

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

Table with 2 columns: Discount Type and Percentage. Includes Driver over 55 (10.000%), Good Student Discount (15.000%), Multi-car Discount (See S.F.), and Accident Free Discount\* (5.000%).

Please Specify Qualification for Discount:

5% discount applied to the total base premiums for BI, PD, CSL, Med, Comp, Coll. For initial qualification, all drivers on the

policy must be free of chargeable accidents and major violations during the 60 months immediately preceding the policy effective date.

Table with 2 columns: Discount Type and Percentage. Includes Anti-Theft Discount (15.000%) and Other (specify) Anit-Lock Brake/Passive Restraint (30.000%).

Multi-Car Discount varies based on # of Operators/# of Vehicles/Age of youngest operator

Table with 2 columns: Percentage. Shows blank lines for Multi-Car Discount percentages.

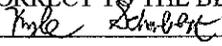
- 6. Do you have an installment payment plan for automobile insurance?  Yes  No
If so, what is the fee for installment payments?

For each installment, a \$5 charge shall be added

- 7. Does your company utilize a tiered rating plan?  Yes  No
If so, list the programs and percentage difference and current volume for each plan:

Table with 3 columns: Program, Percentage Difference, and Volume. Row 1: Encompass Indemnity Company, Comprised of 1024 tiers based on varying combinations, \$2,269,201 Program Written Premium.

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

	Signature
Kyle Schubert	Printed Name
Pricing Technician Analyst	Title
1-847-402-8692	Telephone Number
kyle.schubert@allstate.com	Email address

AID PC A-1 (1/06)



**NAIC LOSS COST DATA ENTRY DOCUMENT** (EFFECTIVE AUG. 16, 2004)

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

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

(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
TOTAL OVERALL EFFECT							

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

7.	
Expense Constants	Selected Provisions
A. Total Production Expense	
B. General Expense	
C. Taxes, License & Fees	
D. Underwriting Profit & Contingencies	
E. Other (explain)	
F. TOTAL	

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

ENCOMPASS INDEMNITY COMPANY  
PRIVATE PASSENGER AUTOMOBILE  
ARKANSAS

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**II. Auto Statewide Rate Level Indications**

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Adjustments to Premium in Detail  
Adjustments to Losses in Detail  
Catastrophe Adjustments in Detail  
Expense and Profit Provision Support

**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.

<b>Coverage*</b>	<b>Encompass Insurance Group Written Premium At CRL</b>	<b>Encompass Insurance Group Indicated Rate Level Change</b>	<b>Encompass Indemnity Company Written Premium At CRL</b>	<b>Encompass Indemnity Company Proposed Rate Level Change</b>
Bodily Injury	\$634,146	43.3%	\$529,249	12.0%
Property Damage	\$386,994	50.8%	\$318,453	16.5%
Medical Payments	\$4,453	375.6%	\$3,403	30.4%
Uninsured/Underinsured Motorists	\$241,124	21.9%	\$209,341	8.0%
<b>Liability Subtotal</b>	<b>1,266,717</b>	<b>42.7%</b>	<b>\$1,060,446</b>	<b>12.6%</b>
Collision	\$938,269	-20.9%	\$838,277	0.0%
Comprehensive	\$422,852	-11.4%	\$370,478	0.0%
<b>Physical Damage Subtotal</b>	<b>\$1,361,121</b>	<b>-17.9%</b>	<b>\$1,208,755</b>	<b>0.0%</b>
<b>Overall Total</b>	<b>\$2,627,838</b>	<b>11.3%</b>	<b>\$2,269,201</b>	<b>5.9%</b>

\*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 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:

***Rate Adjustment Factors***

The Rate Adjustment Factors have been revised in order to reach the desired impact shown above. Please refer to the Motor Vehicle Rate Pages for the revised factors.

***Work Loss Coverage***

Encompass has revised the rate for Work Loss Benefit Coverage with this filing in order to reach the desired impact shown above. Please reference Rule 9.P.2.B of the Motor Vehicle Rules Manual for the revised rate.

***Accidental Death Benefit Coverage***

The Accidental Death Benefit rate has been revised with this filing in order to reach the desired impact shown above. Please reference Rule 9.P.2.C of the Motor Vehicle Rules Manual for the revised rate.

***Comprehensive and Collision Model Year Factors***

Comprehensive and Collision Model Year Factors have been added for 2015 and per current Rule 6.D of

ENCOMPASS INDEMNITY COMPANY  
PRIVATE PASSENGER AUTOMOBILE  
ARKANSAS

Section I  
Page 2

the Motor Vehicle Rules Manual, the premiums for the eleventh preceding and earlier model years were adjusted to equal the premiums for the tenth preceding model year. Please refer to the Motor Vehicle Rate Pages for the revised factors. No current policyholders will be impacted as they are already receiving the correct rate.

***Excess Liability Rates***

The Excess Liability Rates have been revised in order to reach the desired impact shown above. Please refer to Rule 5.A of the Personal Umbrella 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, Collision and Comprehensive indications.

With this filing, Encompass is calculating the Indicated Provision for Loss and LAE for the Medical Payments coverage Indication using a relativity based on the Indicated Provision for Loss and LAE for the Bodily Injury Indication. Encompass believes that by applying a relativity to the Bodily Injury Indicated Provision for Loss and LAE, we can still reflect differences in the Medical Payments coverage Pure Premium (i.e. trends) while having the advantage of applying this to a more stable base being the Bodily Injury data. Ten years of Medical Payments coverage Unlimited Pure Premiums to Bodily Injury Unlimited Pure Premiums has 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 a Medical Payments coverage Indicated Provision for Loss and LAE. Please refer to **Exhibit 2.A** for the final complement of credibility for the Medical Payments coverage indication.

With this filing, Encompass will use a complement of credibility when determining the indication for Uninsured/Underinsured Motorists. 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 Uninsured/Underinsured Motorists 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 Uninsured/Underinsured Motorists 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 Uninsured/Underinsured Motorists Indicated Provision for Loss and LAE. Please refer to **Exhibit 2.A** for the final complement of credibility for Uninsured/Underinsured Motorists coverage indication.

The statewide rate level indication is based on data from 5 rolling accident years for Bodily Injury, Property Damage, Uninsured/Underinsured Motorists, Comprehensive and Collision coverage with losses ending December 31, 2013, evaluated as of March 31, 2014. The indication used in this filing has an average earned date of 04/16/2016. We recognize that this is different than the actual average date of 07/31/2016.

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. 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. Countrywide Encompass data has been considered in the selection of the loss development factors for Bodily Injury, Medical Payments, and Uninsured/Underinsured Motorists coverages. Encompass Insurance Group data has been considered in the selection of the loss development factors for all other coverages. 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 18.2%.

### EXPENSE & PROFIT PROVISION

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

#### General and Other Acquisition Expense

The provisions for general expense and other acquisition expense are based on countrywide data, 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.B** shows the derivation of the Factor to Adjust for Subsequent Change in Fixed Expense.

#### Commission and Brokerage Expense and Taxes

The proposed commission and brokerage expense provision has been developed from the actual calendar year 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. A provision for guaranty fund assessments is included, if applicable.

#### Underwriting Profit Provision

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.A & 11.B** 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.

#### Debt Provision

The cost of debt has been incorporated into the statewide rate level indication and is listed as a separate provision in the Variable Expense and Profit Ratio.

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Exhibit 1

Summary of Changes

<u>Coverage</u>	Encompass Insurance Group Written Premium At CRL	Encompass Insurance Group Indicated Rate Level Change	Encompass Indemnity Company Written Premium At CRL	Encompass Indemnity Company Proposed Rate Level Change
Bodily Injury	\$634,146	43.3%	\$529,249	12.0%
Property Damage	386,994	50.8%	\$318,453	16.5%
Medical Payments	4,453	375.6%	\$3,403	30.4%
Uninsured / Underinsured Motorist	241,124	21.9%	\$209,341	8.0%
<b>Liability Subtotal</b>	<b>1,266,717</b>	<b>42.7%</b>	<b>\$1,060,446</b>	<b>12.6%</b>
Collision	\$938,269	-20.9%	\$838,277	0.0%
Comprehensive	422,852	-11.4%	\$370,478	0.0%
<b>Physical Damage Subtotal</b>	<b>1,361,121</b>	<b>-17.9%</b>	<b>\$1,208,755</b>	<b>0.0%</b>
<b>TOTAL AUTOMOBILE</b>	<b>2,627,838</b>	<b>11.3%</b>	<b>2,269,201</b>	<b>5.9%</b>

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Exhibit 2.A.1

Development of Statewide Rate Level Indication - Bodily Injury

1)	Current Fixed Expense Ratio ( Exhibit 10.A )	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.B )	1.100
5)	Indicated Provision for Fixed Expense = [ (3) x (4) ]	\$22.24
6)	Variable Expense and Profit Ratio ( Exhibit 10.A )	26.5 %
7)	Indicated Provision for Loss and LAE ( Exhibit 4.1 )	\$152.89
8)	Indicated Average Premium = [ (7) + (5) ] / [ 1 - (6) ]	\$238.27
9)	Projected Average Earned Premium at Current Rates ( Exhibit 3.1 )	\$166.24
10)	Indicated Rate Level Change = [ (8) / (9) - 1 ]	43.3 %

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Exhibit 2.A.2

Development of Statewide Rate Level Indication - Property Damage

1)	Current Fixed Expense Ratio ( Exhibit 10.A )	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.B )	1.100
5)	Indicated Provision for Fixed Expense = [ (3) x (4) ]	\$14.45
6)	Variable Expense and Profit Ratio ( Exhibit 10.A )	26.5 %
7)	Indicated Provision for Loss and LAE ( Exhibit 4.2 )	\$95.78
8)	Indicated Average Premium = [ (7) + (5) ] / [ 1 - (6) ]	\$149.97
9)	Projected Average Earned Premium at Current Rates ( Exhibit 3.2 )	\$99.43
10)	Indicated Rate Level Change = [ (8) / (9) - 1 ]	50.8 %

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Exhibit 2.A.3

Development of Statewide Rate Level Indication - Medical Payments

1)	Current Fixed Expense Ratio ( Exhibit 10.A )	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.B )	1.100
5)	Indicated Provision for Fixed Expense = [ (3) x (4) ]	\$1.55
6)	Variable Expense and Profit Ratio ( Exhibit 10.A )	26.5 %
7)	Indicated Provision for Loss and LAE = {[Exhibit 2.A.1(7)] x [Exhibit 2.B]}	\$30.58
8)	Indicated Average Premium = [ (7) + (5) ] / [ 1 - (6) ]	\$43.71
9)	Projected Average Earned Premium at Current Rates ( Exhibit 3.3 )	\$9.19
10)	Indicated Rate Level Change = [ (8) / (9) - 1 ]	375.6 %

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Exhibit 2.A.4

Development of Statewide Rate Level Indication - Uninsured/Underinsured Motorist

1)	Current Fixed Expense Ratio ( Exhibit 10.A )	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.B )	1.100
5)	Indicated Provision for Fixed Expense = [ (3) x (4) ]	\$7.11
6)	Variable Expense and Profit Ratio ( Exhibit 10.A )	26.5 %
7)	Indicated Provision for Loss and LAE ( Exhibit 4.3 )	\$83.19
8)	Complement of Credibility = { [ Exhibit 2.A.1 (7) ] x [ Exhibit 2.B ] }	\$53.51
9)	Credibility ( Exhibit 2.C )	24.0 %
10)	Credibility Weighted Non-Cat Indicated Provision for Loss and LAE = [ (7) x (9) ] + [ (8) x [ 1 - (9) ] ]	\$60.63
11)	Indicated Average Premium = [ (10) + (5) ] / [ 1 - (6) ]	\$92.17
12)	Projected Average Earned Premium at Current Rates ( Exhibit 3.4 )	\$75.63
13)	Indicated Rate Level Change = [ (11) / (12) - 1 ]	21.9 %

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Exhibit 2.A.5

Development of Statewide Rate Level Indication - Collision

1)	Current Fixed Expense Ratio ( Exhibit 10.A )	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.B )	1.100
5)	Indicated Provision for Fixed Expense = [ (3) x (4) ]	\$42.98
6)	Variable Expense and Profit Ratio ( Exhibit 10.A )	28.6 %
7)	Indicated Provision for Loss and LAE ( Exhibit 4.4 )	\$163.09
8)	Indicated Average Premium = [ (7) + (5) ] / [ 1 - (6) ]	\$288.61
9)	Projected Average Earned Premium at Current Rates ( Exhibit 3.5 )	\$364.82
10)	Indicated Rate Level Change = [ (8) / (9) - 1 ]	-20.9 %

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Exhibit 2.A.6

Development of Statewide Rate Level Indication - Comprehensive

1)	Current Fixed Expense Ratio ( Exhibit 10.A )	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.B )	1.100
5)	Indicated Provision for Fixed Expense = [ (3) x (4) ]	\$20.89
6)	Variable Expense and Profit Ratio ( Exhibit 10.A )	28.6 %
7)	Indicated Provision for Loss and LAE ( Exhibit 4.5 )	\$69.92
8)	Indicated Average Premium = [ (7) + (5) ] / [ 1 - (6) ]	\$127.18
9)	Projected Average Earned Premium at Current Rates ( Exhibit 3.6 )	\$143.56
10)	Indicated Rate Level Change = [ (8) / (9) - 1 ]	-11.4 %

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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
12/31/2004	163.19	19.97	0.122
12/31/2005	388.77	1.94	0.005
12/31/2006	120.32	14.08	0.117
12/31/2007	93.41	0.00	0.000
12/31/2008	113.88	71.39	0.627
12/31/2009	121.74	72.26	0.594
12/31/2010	99.82	25.47	0.255
12/31/2011	71.60	20.83	0.291
12/31/2012	71.08	2.98	0.042
12/31/2013	183.05	20.26	0.111
		Straight Average	0.216
		Weighted Average	0.188
		<b>Selected Ratio</b>	<b>0.200</b>

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Uninsured/Underinsured vs. Bodily Injury Non-Cat Loss + ALAE Pure Premium Relativities

<b>Year Ending</b>	<b>Bodily Injury Pure Premium</b>	<b>Uninsured/Underinsured Pure Premium</b>	<b>Relativity</b>
12/31/2004	163.19	60.96	0.374
12/31/2005	388.77	3.30	0.008
12/31/2006	120.32	11.71	0.097
12/31/2007	93.41	31.26	0.335
12/31/2008	113.88	41.93	0.368
12/31/2009	121.74	81.87	0.673
12/31/2010	99.82	20.27	0.203
12/31/2011	71.60	18.88	0.264
12/31/2012	71.08	251.89	3.544
12/31/2013	183.05	19.64	0.107
		Straight Average	0.597
		Weighted Average	0.321
		<b>Selected Ratio</b>	<b>0.350</b>

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Determination of Statewide Credibility

	(1)	(2)	(3)
<u>Coverage</u>	<u>Claim Count</u>	<u>Full Credibility Standard</u>	<u>Statewide Credibility</u>
<b>UM/UIM</b>	123	1,984	24.0%

Encompass Insurance Group  
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Exhibit 3.1

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 <u>Ending</u>	<u>Earned Exposures</u>	<u>Earned Premium at Current Rates</u>	<u>Factor to Adjust to Projected Premium Level</u>	<u>Projected Earned Premium at Current Rates</u>	<u>Projected Average Earned Premium at Current Rates</u>	<u>Experience Year Weights</u>
12/31/2013	2,902	\$591,216	0.816	\$482,432	\$166.24	100 %
					(7) Projected Average Earned Premium At Current Rates \$166.24	

Encompass Insurance Group  
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Exhibit 3.2

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

	(1)	(2)	(3) (Exhibit 5.A)	(4) = (2) x (3)	(5) = (4) / (1)	(6)
Fiscal Year <u>Ending</u>	<u>Earned Exposures</u>	<u>Earned Premium at Current Rates</u>	<u>Factor to Adjust to Projected Premium Level</u>	<u>Projected Earned Premium at Current Rates</u>	<u>Projected Average Earned Premium at Current Rates</u>	<u>Experience Year Weights</u>
12/31/2013	2,901	\$364,194	0.792	\$288,442	\$99.43	100 %
					(7) Projected Average Earned Premium At Current Rates \$99.43	

Encompass Insurance Group  
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Exhibit 3.3

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

	(1)	(2)	(3) (Exhibit 5.A)	(4) = (2) x (3)	(5) = (4) / (1)	(6)
Fiscal Year <u>Ending</u>	<u>Earned Exposures</u>	<u>Earned Premium at Current Rates</u>	<u>Factor to Adjust to Projected Premium Level</u>	<u>Projected Earned Premium at Current Rates</u>	<u>Projected Average Earned Premium at Current Rates</u>	<u>Experience Year Weights</u>
12/31/2013	304	\$3,751	0.745	\$2,794	\$9.19	100 %

(7) Projected Average Earned Premium At Current Rates \$9.19

Encompass Insurance Group  
Private Passenger Auto  
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Exhibit 3.4

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

	(1)	(2)	(3) (Exhibit 5.A)	(4) = (2) x (3)	(5) = (4) / (1)	(6)
Fiscal Year <u>Ending</u>	<u>Earned Exposures</u>	<u>Earned Premium at Current Rates</u>	<u>Factor to Adjust to Projected Premium Level</u>	<u>Projected Earned Premium at Current Rates</u>	<u>Projected Average Earned Premium at Current Rates</u>	<u>Experience Year Weights</u>
12/31/2013	2,902	\$207,651	1.057	\$219,487	\$75.63	100 %
					(7) Projected Average Earned Premium At Current Rates \$75.63	

Encompass Insurance Group  
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Exhibit 3.5

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 <u>Ending</u>	<u>Earned Exposures</u>	<u>Earned Premium at Current Rates</u>	<u>Factor to Adjust to Projected Premium Level</u>	<u>Projected Earned Premium at Current Rates</u>	<u>Projected Average Earned Premium at Current Rates</u>	<u>Experience Year Weights</u>
12/31/2013	2,260	\$780,032	1.057	\$824,494	\$364.82	100 %
					(7) Projected Average Earned Premium At Current Rates \$364.82	

Encompass Insurance Group  
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Exhibit 3.6

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 <u>Ending</u>	<u>Earned Exposures</u>	<u>Earned Premium at Current Rates</u>	<u>Factor to Adjust to Projected Premium Level</u>	<u>Projected Earned Premium at Current Rates</u>	<u>Projected Average Earned Premium at Current Rates</u>	<u>Experience Year Weights</u>
12/31/2013	2,290	\$368,565	0.892	\$328,760	\$143.56	100 %
					(7) Projected Average Earned Premium At Current Rates \$143.56	

Encompass Insurance Group  
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Exhibit 4.1

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	<u>Earned Exposures</u>	Developed Limited Ex-Cat Losses and ALAE	<u>ULAE Provision</u>	Developed Limited Ex-Cat Losses and LAE	Excess Loss Provision	Factor to Adjust Losses for Pure Premium Trend	Projected Ultimate <u>Loss and LAE</u>	Projected Average <u>Loss and LAE</u>	Experience Year <u>Weights</u>
12/31/2009	5,814	\$781,170	0.146	\$895,221	1.300	0.815	\$948,487	\$163.14	20 %
12/31/2010	4,342	521,698	0.146	597,866	1.300	0.857	\$666,082	\$153.40	20
12/31/2011	3,209	270,686	0.146	310,206	1.300	0.902	\$363,748	\$113.35	20
12/31/2012	2,838	260,038	0.146	298,004	1.300	0.950	\$368,035	\$129.68	20
12/31/2013	2,902	399,074	0.146	457,339	1.300	1.000	\$594,541	\$204.87	20
								\$152.89	

(10) Indicated Provision for Loss and LAE

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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	<u>ULAE Provision</u>	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
12/31/2009	5,814	\$557,222	0.146	\$638,576	1.000	\$638,576	\$109.83	20 %
12/31/2010	4,342	430,283	0.146	493,104	1.000	493,104	113.57	20
12/31/2011	3,209	227,769	0.146	261,023	1.000	261,023	81.34	20
12/31/2012	2,837	236,265	0.146	270,760	1.000	270,760	95.44	20
12/31/2013	2,901	199,289	0.146	228,385	1.000	228,385	78.73	20
							(9) Indicated Provision for Loss and LAE	
							\$95.78	

Encompass Insurance Group  
Private Passenger Auto  
Arkansas

Exhibit 4.3

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	<u>Earned Exposures</u>	Developed Limited Ex-Cat Losses and ALAE	<u>ULAE Provision</u>	Developed Limited Ex-Cat Losses and LAE	Excess Loss Provision	Factor to Adjust Losses for Pure Premium Trend	<u>Projected Ultimate Loss and LAE</u>	<u>Projected Average Loss and LAE</u>	Experience Year <u>Weights</u>
12/31/2009	5,814	\$314,773	0.146	\$360,730	1.300	1.144	\$536,478	\$92.27	20 %
12/31/2010	4,342	87,483	0.146	100,256	1.300	1.122	\$146,233	\$33.68	20
12/31/2011	3,209	62,645	0.146	71,791	1.300	1.100	\$102,661	\$31.99	20
12/31/2012	2,838	387,092	0.146	443,607	1.300	1.078	\$621,670	\$219.05	20
12/31/2013	2,902	71,810	0.146	82,294	1.300	1.057	\$113,081	\$38.97	20
								\$83.19	

(10) Indicated Provision for Loss and LAE

Encompass Insurance Group  
Private Passenger Auto  
Arkansas

Exhibit 4.4

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
12/31/2009	3,973	\$679,839	0.146	\$779,095	1.000	\$779,095	\$196.10	20 %
12/31/2010	3,064	481,402	0.146	551,687	1.000	551,687	180.05	20
12/31/2011	2,321	286,182	0.146	327,965	1.000	327,965	141.30	20
12/31/2012	2,102	239,554	0.146	274,529	1.000	274,529	130.60	20
12/31/2013	2,260	330,173	0.146	378,378	1.000	378,378	167.42	20
							(9) Indicated Provision for Loss and LAE	\$163.09

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Exhibit 4.5

Development of Provision for Loss and LAE - Comprehensive

	(1)	(2)	(3) ( Exhibit 9 )	(4) = (2) x [1+(3)]	(5)	(6) = (4) * (1+ (5))	(7) ( Exhibit 8.A )	(8) = (6) x (7)	(9) = (8) / (1)	(10)
Fiscal Year Ending	Earned Exposures	Developed Ex-Cat Losses and ALAE	Average Catastrophe Factor	Developed Losses and ALAE	ULAE Provision	Developed Losses and LAE	Factor to Adjust Losses for Pure Premium Trend	Projected Ultimate Loss and LAE	Projected Average Loss and LAE	Experience Year Weights
12/31/2009	4,064	\$335,000	0.182	\$395,970	0.146	\$453,780	0.758	\$343,965	\$84.64	20 %
12/31/2010	3,129	153,614	0.182	181,572	0.146	208,082	0.789	164,177	52.47	20
12/31/2011	2,363	170,751	0.182	201,828	0.146	231,295	0.822	190,124	80.46	20
12/31/2012	2,131	156,140	0.182	184,557	0.146	211,502	0.856	181,046	84.96	20
12/31/2013	2,290	89,202	0.182	105,437	0.146	120,831	0.892	107,781	47.07	20

(11) Indicated Provision for Loss and LAE

\$69.92

Encompass Insurance Group  
Private Passenger Auto  
Arkansas

Exhibit 5.A

Calculation of Premium Trend Factor

<u>Coverage</u>	<u>Projected</u>
Bodily Injury	-7.00%
Property Damage	-8.00%
Medical Payments	-10.00%
Uninsured / Underinsured Motorist	2.00%
Collision	2.00%
Comprehensive	-4.00%

Calculation of Trend Period

	<u>Current Year</u>
1) Average Earned Date of Proposed Policy Period	4/16/2016
2) Mid-Point of Current Year's Experience Period	6/30/2013
3) Experience Period Ended	12/31/2013
4) Midpoint of Experience Period	6/30/2013
5) Historical: Number of Years from (4) to (2)	0.000
6) Projected: Number of Years from (2) to (1)	2.795

Factor to Adjust to Projected Premium Level

<u>Coverage</u>	<u>Current Year</u>
Bodily Injury	0.816
Property Damage	0.792
Medical Payments	0.745
Uninsured / Underinsured Motorist	1.057
Collision	1.057
Comprehensive	0.892

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

Encompass Insurance Group  
Private Passenger Auto  
Arkansas

Exhibit 5.B.1

Average Written Premium Trends - Bodily Injury

Year Ending	Average Written Premium @ CRL	Annual % Change	Exponential Curve of Best Fit (\$)		
			12 pt.	6 pt.	4 pt.
06/08	\$240.83	-8.1			
09/08	234.97	-7.8			
12/08	230.78	-7.1			
03/09	227.44	-6.8			
06/09	225.90	-6.2			
09/09	223.07	-5.1			
12/09	223.67	-3.1			
03/10	222.71	-2.1			
06/10	223.63	-1.0			
09/10	227.62	2.0			
12/10	229.43	2.6			
03/11	231.52	4.0			
06/11	228.66	2.3	230.44		
09/11	226.50	-0.5	226.63		
12/11	221.32	-3.5	222.89		
03/12	218.29	-5.7	219.21		
06/12	217.19	-5.0	215.59		
09/12	215.18	-5.0	212.03		
12/12	210.27	-5.0	208.52	210.05	
03/13	206.49	-5.4	205.08	205.94	
06/13	201.09	-7.4	201.69	201.92	201.10
09/13	197.08	-8.4	198.36	197.97	197.58
12/13	195.16	-7.2	195.09	194.10	194.12
03/14	190.21	-7.9	191.87	190.31	190.72
<b>Regression</b>			<b>12 pt.</b>	<b>6 pt.</b>	<b>4 pt.</b>
Avg Annual Percent Change Based on Best Fit:			-6.4 %	-7.6 %	-6.8 %

Encompass Insurance Group  
Private Passenger Auto  
Arkansas

Exhibit 5.B.2

Average Written Premium Trends - Property Damage

Year Ending	Average Written Premium @ CRL	Annual % Change	Exponential Curve of Best Fit (\$)		
			12 pt.	6 pt.	4 pt.
06/08	\$164.33	-5.9			
09/08	160.14	-6.5			
12/08	156.85	-6.7			
03/09	154.21	-7.2			
06/09	152.01	-7.5			
09/09	149.96	-6.4			
12/09	148.99	-5.0			
03/10	147.92	-4.1			
06/10	146.89	-3.4			
09/10	148.44	-1.0			
12/10	149.29	0.2			
03/11	149.47	1.1			
06/11	147.23	0.2	147.74		
09/11	145.07	-2.3	144.60		
12/11	141.06	-5.5	141.53		
03/12	137.37	-8.1	138.53		
06/12	136.43	-7.3	135.59		
09/12	133.70	-7.8	132.71		
12/12	130.21	-7.7	129.89	130.20	
03/13	127.77	-7.0	127.13	127.30	
06/13	123.80	-9.3	124.43	124.46	124.00
09/13	121.42	-9.2	121.79	121.69	121.46
12/13	119.63	-8.1	119.21	118.98	118.98
03/14	116.14	-9.1	116.67	116.33	116.55
<b>Regression</b>			<b>12 pt.</b>	<b>6 pt.</b>	<b>4 pt.</b>
Avg Annual Percent Change Based on Best Fit:			-8.2 %	-8.6 %	-7.9 %

Encompass Insurance Group  
Private Passenger Auto  
Arkansas

Exhibit 5.B.3

Average Written Premium Trends - Medical Payments

Year Ending	Average Written Premium @ CRL	Annual % Change	Exponential Curve of Best Fit (\$)		
			12 pt.	6 pt.	4 pt.
06/08	\$17.57	-1.9			
09/08	16.99	-6.3			
12/08	16.46	-4.4			
03/09	16.82	-3.1			
06/09	16.53	-5.9			
09/09	15.84	-6.8			
12/09	15.90	-3.4			
03/10	15.40	-8.4			
06/10	15.11	-8.6			
09/10	15.21	-4.0			
12/10	15.56	-2.1			
03/11	15.49	0.6			
06/11	15.82	4.7	16.13		
09/11	15.91	4.6	15.59		
12/11	14.93	-4.1	15.06		
03/12	14.53	-6.2	14.56		
06/12	14.25	-9.9	14.07		
09/12	13.45	-15.5	13.60		
12/12	13.27	-11.1	13.14	13.27	
03/13	13.06	-10.1	12.70	12.78	
06/13	12.09	-15.2	12.28	12.31	12.06
09/13	11.69	-13.1	11.86	11.86	11.74
12/13	11.42	-13.9	11.47	11.42	11.42
03/14	11.13	-14.8	11.08	11.00	11.11
<b>Regression</b>			<b>12 pt.</b>	<b>6 pt.</b>	<b>4 pt.</b>
Avg Annual Percent Change Based on Best Fit:			-12.8 %	-14.0 %	-10.3 %

Encompass Insurance Group  
Private Passenger Auto  
Arkansas

Exhibit 5.B.4

Average Written Premium Trends - Uninsured / Underinsured Motorist

Year Ending	Average Written Premium @ CRL	Annual % Change	Exponential Curve of Best Fit (\$)		
			12 pt.	6 pt.	4 pt.
06/08	\$64.50	-9.49			
09/08	63.33	-7.22			
12/08	63.28	-5.30			
03/09	63.69	-2.51			
06/09	63.75	-1.16			
09/09	64.22	1.41			
12/09	64.82	2.43			
03/10	65.40	2.68			
06/10	66.23	3.89			
09/10	67.51	5.12			
12/10	68.24	5.28			
03/11	68.10	4.13			
06/11	68.26	3.07	67.94		
09/11	68.23	1.07	68.33		
12/11	68.69	0.66	68.72		
03/12	68.78	1.00	69.11		
06/12	69.21	1.39	69.50		
09/12	69.68	2.13	69.90		
12/12	70.71	2.94	70.30	70.70	
03/13	71.03	3.27	70.70	70.98	
06/13	71.31	3.03	71.10	71.27	71.21
09/13	71.46	2.55	71.51	71.56	71.53
12/13	71.68	1.37	71.92	71.85	71.85
03/14	72.32	1.82	72.33	72.14	72.18
<b>Regression</b>			<b>12 pt.</b>	<b>6 pt.</b>	<b>4 pt.</b>
Avg Annual Percent Change Based on Best Fit:			2.3 %	1.6 %	1.8 %

Encompass Insurance Group  
Private Passenger Auto  
Arkansas

Exhibit 5.B.5

Average Written Premium Trends - Collision

Year Ending	Average Written Premium @ CRL	Annual % Change	Exponential Curve of Best Fit (\$)		
			12 pt.	6 pt.	4 pt.
06/08	\$340.93	6.6			
09/08	344.84	6.8			
12/08	341.91	3.3			
03/09	340.41	1.5			
06/09	341.16	0.1			
09/09	342.59	-0.7			
12/09	344.21	0.7			
03/10	347.99	2.2			
06/10	348.39	2.1			
09/10	346.75	1.2			
12/10	346.22	0.6			
03/11	349.19	0.3			
06/11	342.57	-1.7	341.74		
09/11	345.93	-0.2	341.67		
12/11	341.33	-1.4	341.61		
03/12	338.99	-2.9	341.55		
06/12	343.44	0.3	341.48		
09/12	339.23	-1.9	341.42		
12/12	339.17	-0.6	341.36	337.63	
03/13	339.21	0.1	341.29	338.92	
06/13	336.51	-2.0	341.23	340.22	337.93
09/13	341.88	0.8	341.17	341.52	340.45
12/13	344.46	1.6	341.10	342.83	342.98
03/14	344.07	1.4	341.04	344.14	345.54
<u>Regression</u>			<u>12 pt.</u>	<u>6 pt.</u>	<u>4 pt.</u>
Avg Annual Percent Change Based on Best Fit:			-0.1 %	1.5 %	3.0 %

Encompass Insurance Group  
Private Passenger Auto  
Arkansas

Exhibit 5.B.6

Average Written Premium Trends - Comprehensive

Year Ending	Average Written Premium @ CRL	Annual % Change	Exponential Curve of Best Fit (\$)		
			12 pt.	6 pt.	4 pt.
06/08	\$175.76	5.8			
09/08	176.77	5.5			
12/08	175.52	2.1			
03/09	174.75	0.9			
06/09	174.41	-0.8			
09/09	174.83	-1.1			
12/09	174.55	-0.6			
03/10	175.93	0.7			
06/10	173.73	-0.4			
09/10	171.04	-2.2			
12/10	167.11	-4.3			
03/11	167.07	-5.0			
06/11	164.07	-5.6	166.01		
09/11	164.09	-4.1	165.06		
12/11	163.98	-1.9	164.12		
03/12	163.17	-2.3	163.19		
06/12	163.72	-0.2	162.26		
09/12	163.02	-0.7	161.34		
12/12	161.44	-1.6	160.42	162.11	
03/13	160.64	-1.6	159.51	160.50	
06/13	158.85	-3.0	158.60	158.92	159.64
09/13	158.55	-2.7	157.70	157.35	157.67
12/13	156.30	-3.2	156.80	155.79	155.73
03/14	153.15	-4.7	155.91	154.25	153.81
<b>Regression</b>			<b>12 pt.</b>	<b>6 pt.</b>	<b>4 pt.</b>
Avg Annual Percent Change Based on Best Fit:			-2.3 %	-3.9 %	-4.8 %

Encompass Insurance Group  
Private Passenger Auto  
Arkansas

Exhibit 6.1.a

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
12/31/2000								183,553,612	202,224,421	202,339,686
12/31/2001								183,746,825	183,897,981	183,897,981
12/31/2002							182,703,770	183,217,842	183,496,431	183,626,777
12/31/2003						157,124,578	158,166,178	158,056,277	158,312,187	158,489,333
12/31/2004					136,355,537	138,264,478	138,563,346	138,833,162	139,235,614	139,170,793
12/31/2005				133,968,618	139,775,482	142,107,438	142,731,111	143,269,554	143,543,086	
12/31/2006			120,929,009	130,150,997	135,037,740	136,282,844	137,105,195	137,326,704		
12/31/2007		104,659,896	120,535,383	129,081,555	133,651,524	134,803,986	135,180,285			
12/31/2008	88,434,967	115,987,582	135,584,552	143,934,686	147,764,736	149,242,231				
12/31/2009	77,087,392	101,348,838	116,907,708	124,458,139	127,974,757					
12/31/2010	66,656,101	84,280,262	93,461,147	100,084,741						
12/31/2011	58,845,194	73,313,291	80,738,985							
12/31/2012	59,080,506	72,440,717								
12/31/2013	61,267,571									
				Link Ratios						
<u>Development</u>	<u>15 to 27</u>	<u>27 to 39</u>	<u>39 to 51</u>	<u>51 to 63</u>	<u>63 to 75</u>	<u>75 to 87</u>	<u>87 to 99</u>	<u>99 to 111</u>	<u>111 to 123</u>	
4th Prior	1.312	1.152	1.076	1.043	1.014	1.007	1.003	1.001	1.001	
3rd Prior	1.315	1.169	1.071	1.038	1.017	1.002	0.999	1.002	1.001	
2nd Prior	1.264	1.154	1.062	1.035	1.009	1.004	1.002	1.002	1.001	
1st Prior	1.246	1.109	1.065	1.027	1.009	1.006	1.004	1.003	1.001	
Latest	1.226	1.101	1.071	1.028	1.010	1.003	1.002	1.002	1.000	
4 Year Average: Selected:	1.263 1.263	1.133 1.133	1.067 1.067	1.032 1.032	1.011 1.011	1.004 1.004	1.002 1.000*	1.002 1.000*	1.001 1.000*	
Loss Development Period ( months ):	<u>15 - 123</u>	<u>27 - 123</u>	<u>39 - 123</u>	<u>51 - 123</u>	<u>63 - 123</u>	<u>75 - 123</u>	<u>87 - 123</u>	<u>99 - 123</u>	<u>111 - 123</u>	
Loss Development Factor:	1.599	1.266	1.118	1.048	1.015	1.004	1.000	1.000	1.000	

†Includes ALAE

\*Smoothing techniques were applied to LDF Selections.



Encompass Insurance Group  
Private Passenger Auto  
Arkansas

Exhibit 6.2

Incurred Loss + ALAE Development Factors - Property Damage

Fiscal Accident										
<u>Year Ending</u>	<u>15 Months</u>	<u>27 Months</u>	<u>39 Months</u>	<u>51 Months</u>	<u>63 Months</u>	<u>75 Months</u>	<u>87 Months</u>	<u>99 Months</u>	<u>111 Months</u>	<u>123 Months</u>
12/31/2000									1,371,703	1,371,703
12/31/2001								1,243,734	1,243,734	1,243,734
12/31/2002							1,060,937	1,060,937	1,060,937	1,060,937
12/31/2003						566,863	566,863	566,863	566,863	566,863
12/31/2004					376,196	376,196	376,196	376,196	376,196	376,196
12/31/2005				388,015	388,015	388,015	388,015	388,015	388,015	388,015
12/31/2006			446,524	446,524	446,524	446,524	446,524	446,524		
12/31/2007		460,373	461,113	452,513	452,513	452,513	452,513			
12/31/2008	404,122	416,491	422,445	422,445	422,445	422,445				
12/31/2009	541,500	557,099	557,221	557,221	557,221					
12/31/2010	373,870	426,723	431,283	430,283						
12/31/2011	222,013	228,915	228,915							
12/31/2012	215,738	235,793								
12/31/2013	185,731									
				Link Ratios						
<u>Development</u>	<u>15 to 27</u>	<u>27 to 39</u>	<u>39 to 51</u>	<u>51 to 63</u>	<u>63 to 75</u>	<u>75 to 87</u>	<u>87 to 99</u>	<u>99 to 111</u>	<u>111 to 123</u>	
4th Prior	1.031	1.002	1.000	1.000	1.000	1.000	1.000	1.000	1.000	
3rd Prior	1.029	1.014	0.981	1.000	1.000	1.000	1.000	1.000	1.000	
2nd Prior	1.141	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	
1st Prior	1.031	1.011	1.000	1.000	1.000	1.000	1.000	1.000	1.000	
Latest	1.093	1.000	0.998	1.000	1.000	1.000	1.000	1.000	1.000	
Volume Weighted 4 Yr Mean	1.071	1.007	0.995	1.000	1.000	1.000	1.000	1.000	1.000	
Selected:	1.071	1.007	0.995	1.000	1.000	1.000	1.000	1.000	1.000	
Loss Development Period ( months ):	<u>15 - 123</u>	<u>27 - 123</u>	<u>39 - 123</u>	<u>51 - 123</u>	<u>63 - 123</u>	<u>75 - 123</u>	<u>87 - 123</u>	<u>99 - 123</u>	<u>111 - 123</u>	
Loss Development Factor:	1.073	1.002	0.995	1.000	1.000	1.000	1.000	1.000	1.000	

†Includes ALAE

Encompass Insurance Group  
Private Passenger Auto  
Arkansas

Exhibit 6.3

Incurred Loss + ALAE Development Factors - Medical Payments

Fiscal Accident Year Ending	<u>15 Months</u>	<u>27 Months</u>	<u>39 Months</u>	<u>51 Months</u>	<u>63 Months</u>	<u>75 Months</u>	<u>87 Months</u>	<u>99 Months</u>	<u>111 Months</u>	<u>123 Months</u>	
12/31/2000									11,294,958	11,293,870	
12/31/2001								10,368,634	10,365,823	10,365,523	
12/31/2002							10,731,644	10,730,779	10,730,329	10,729,879	
12/31/2003						9,212,230	9,212,758	9,206,746	9,205,779	9,205,779	
12/31/2004					9,273,907	9,272,409	9,272,000	9,268,994	9,265,396	9,265,005	
12/31/2005				8,265,632	8,262,161	8,259,290	8,264,757	8,263,262	8,262,296		
12/31/2006			8,773,325	8,789,791	8,769,453	8,767,844	8,769,213	8,768,739			
12/31/2007		7,645,589	7,779,860	7,758,618	7,733,114	7,719,803	7,719,803				
12/31/2008	7,810,609	8,074,589	8,059,228	8,006,942	7,973,605	7,972,976					
12/31/2009	7,461,780	7,546,460	7,580,326	7,508,407	7,499,503						
12/31/2010	6,152,031	6,245,906	6,276,725	6,286,294							
12/31/2011	5,238,562	5,334,436	5,389,350								
12/31/2012	5,286,741	5,430,816									
12/31/2013	6,105,278										
				Link Ratios							
<u>Development</u>	<u>15 to 27</u>	<u>27 to 39</u>	<u>39 to 51</u>	<u>51 to 63</u>	<u>63 to 75</u>	<u>75 to 87</u>	<u>87 to 99</u>	<u>99 to 111</u>	<u>111 to 123</u>		
4th Prior	1.034	1.018	1.002	1.000	1.000	1.000	1.000	1.000	1.000		
3rd Prior	1.011	0.998	0.997	0.998	1.000	1.000	0.999	1.000	1.000		
2nd Prior	1.015	1.004	0.994	0.997	1.000	1.001	1.000	1.000	1.000		
1st Prior	1.018	1.005	0.991	0.996	0.998	1.000	1.000	1.000	1.000		
Latest	1.027	1.010	1.002	0.999	1.000	1.000	1.000	1.000	1.000		
4 Year Average:	1.018	1.004	0.996	0.998	1.000	1.000	1.000	1.000	1.000		
Selected:	1.018	1.004	0.996	0.998	1.000	1.000	1.000	1.000	1.000		
Loss Development Period ( months ):	<u>15 - 123</u>	<u>27 - 123</u>	<u>39 - 123</u>	<u>51 - 123</u>	<u>63 - 123</u>						
Loss Development Factor:	1.016	0.998	0.994	0.998	1.000						

†Includes ALAE

Encompass Insurance Group  
Private Passenger Auto  
Arkansas

Exhibit 6.4.a

Incurred Loss + ALAE Development Factors - Limited UM + UIM

Fiscal Accident Year Ending	<u>15 Months</u>	<u>27 Months</u>	<u>39 Months</u>	<u>51 Months</u>	<u>63 Months</u>	<u>75 Months</u>	<u>87 Months</u>	<u>99 Months</u>	<u>111 Months</u>	<u>123 Months</u>
12/31/2000									55,401,703	55,318,345
12/31/2001								48,880,921	48,992,366	48,949,914
12/31/2002							45,376,816	45,718,603	46,056,310	46,175,113
12/31/2003						39,105,203	39,388,415	39,793,443	39,890,172	40,043,092
12/31/2004					34,222,721	35,056,066	35,562,731	35,651,778	35,841,272	35,945,222
12/31/2005				36,175,227	37,594,960	38,598,727	39,700,846	39,911,772	40,079,874	
12/31/2006			34,596,029	37,077,251	38,239,387	38,831,871	39,388,225	39,571,451		
12/31/2007		30,020,731	34,751,191	37,535,682	38,813,069	39,709,287	39,760,557			
12/31/2008	22,716,513	30,349,110	36,012,233	38,354,807	39,033,846	39,637,714				
12/31/2009	19,641,271	27,377,338	31,309,314	32,567,297	33,463,894					
12/31/2010	15,751,569	20,303,247	23,575,083	26,662,326						
12/31/2011	13,853,340	18,076,712	20,774,924							
12/31/2012	14,326,328	18,521,509								
12/31/2013	13,147,048									

<u>Development</u>	Link Ratios								
	<u>15 to 27</u>	<u>27 to 39</u>	<u>39 to 51</u>	<u>51 to 63</u>	<u>63 to 75</u>	<u>75 to 87</u>	<u>87 to 99</u>	<u>99 to 111</u>	<u>111 to 123</u>
4th Prior	1.336	1.158	1.072	1.039	1.024	1.007	1.008	1.002	0.998
3rd Prior	1.394	1.187	1.080	1.031	1.027	1.014	1.010	1.007	0.999
2nd Prior	1.289	1.144	1.065	1.034	1.015	1.029	1.003	1.002	1.003
1st Prior	1.305	1.161	1.040	1.018	1.023	1.014	1.005	1.005	1.004
Latest	1.293	1.149	1.131	1.028	1.015	1.001	1.005	1.004	1.003
5 Year Average:	1.323	1.160	1.078	1.030	1.021	1.013	1.006	1.004	1.001
Selected:	1.323	1.160	1.078	1.030	1.000	1.000	1.000	1.000	1.000

Loss Development Period ( months ):	<u>15 - 123</u>	<u>27 - 123</u>	<u>39 - 123</u>	<u>51 - 123</u>	<u>63 - 123</u>	<u>75 - 123</u>	<u>87 - 123</u>	<u>99 - 123</u>	<u>111 - 123</u>
Loss Development Factor:	1.704	1.288	1.110	1.030	1.000	1.000	1.000	1.000	1.000

†Includes ALAE

\*Smoothing techniques were applied to LDF Selections.

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Exhibit 6.4.b

Incurred Loss + ALAE Development Factors - Unlimited UM + UIM

Fiscal Accident Year Ending	<u>15 Months</u>	<u>27 Months</u>	<u>39 Months</u>	<u>51 Months</u>	<u>63 Months</u>	<u>75 Months</u>	<u>87 Months</u>	<u>99 Months</u>	<u>111 Months</u>	<u>123 Months</u>
12/31/2000									66,392,667	66,309,309
12/31/2001								60,428,471	60,723,446	60,680,994
12/31/2002							61,769,442	62,401,228	63,131,814	63,333,116
12/31/2003						49,804,539	50,088,144	50,391,379	50,685,439	50,785,189
12/31/2004					42,745,097	43,672,457	44,989,123	45,015,669	45,205,163	45,384,113
12/31/2005				47,217,954	49,620,959	50,808,726	52,763,524	53,099,448	53,317,551	
12/31/2006			43,191,234	46,550,454	49,054,879	49,999,088	50,935,442	51,312,845		
12/31/2007		39,530,941	45,529,944	49,213,352	50,730,869	52,299,352	52,562,152			
12/31/2008	25,549,530	35,011,169	42,602,601	45,660,754	46,703,138	47,532,006				
12/31/2009	23,671,271	33,360,588	38,948,333	40,611,857	42,044,474					
12/31/2010	19,326,569	24,949,683	29,450,819	32,737,163						
12/31/2011	16,597,984	22,066,852	26,071,950							
12/31/2012	16,681,328	22,359,416								
12/31/2013	16,081,781									
				Link Ratios						
<u>Development</u>	<u>15 to 27</u>	<u>27 to 39</u>	<u>39 to 51</u>	<u>51 to 63</u>	<u>63 to 75</u>	<u>75 to 87</u>	<u>87 to 99</u>	<u>99 to 111</u>	<u>111 to 123</u>	
4th Prior	1.370	1.152	1.078	1.051	1.022	1.006	1.010	1.005	0.999	
3rd Prior	1.409	1.217	1.081	1.054	1.024	1.030	1.006	1.012	0.999	
2nd Prior	1.291	1.167	1.072	1.031	1.019	1.038	1.001	1.006	1.003	
1st Prior	1.329	1.180	1.043	1.023	1.031	1.019	1.006	1.004	1.002	
Latest	1.340	1.181	1.112	1.035	1.018	1.005	1.007	1.004	1.004	
5 Year Average:	1.348	1.179	1.077**	1.039	1.023	1.020	1.006	1.006	1.001	
Selected:	1.348	1.179	1.078	1.039	1.023	1.000*	1.000*	1.000*	1.000*	
Loss Development Period ( months):	<u>15 - 123</u>	<u>27 - 123</u>	<u>39 - 123</u>	<u>51 - 123</u>	<u>63 - 123</u>	<u>75 - 123</u>	<u>87 - 123</u>	<u>99 - 123</u>	<u>111 - 123</u>	
Loss Development Factor:	1.821	1.351	1.146	1.063	1.023	1.000	1.000	1.000	1.000	

†Includes ALAE

\*Smoothing techniques were applied to LDF Selections

\*\*This value is less than its limited LDF counterpart.

Selection was changed to match limited and unlimited LDF

†Includes ALAE

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Exhibit 6.5

Paid Loss + ALAE Development Factors - Collision

Fiscal Accident Year Ending	<u>15 Months</u>	<u>27 Months</u>	<u>39 Months</u>	<u>51 Months</u>	<u>63 Months</u>	<u>75 Months</u>	<u>87 Months</u>	<u>99 Months</u>	<u>111 Months</u>	<u>123 Months</u>
12/31/2000									1,987,845	1,987,845
12/31/2001								1,957,507	1,957,507	1,957,507
12/31/2002							1,215,256	1,215,256	1,215,256	1,215,256
12/31/2003						800,693	800,693	800,693	800,693	800,693
12/31/2004					543,119	543,119	543,119	543,119	543,119	543,119
12/31/2005				496,330	496,330	496,342	496,342	496,342	496,342	
12/31/2006			664,796	664,636	664,426	664,221	664,190	664,190		
12/31/2007		572,340	572,340	572,150	571,900	571,640	571,540			
12/31/2008	603,067	589,998	589,998	590,023	590,023	590,023				
12/31/2009	681,376	679,032	679,531	679,838	679,838					
12/31/2010	497,692	481,846	481,933	481,403						
12/31/2011	290,485	287,306	286,182							
12/31/2012	269,341	239,553								
12/31/2013	337,600									
				Link Ratios						
<u>Development</u>	<u>15 to 27</u>	<u>27 to 39</u>	<u>39 to 51</u>	<u>51 to 63</u>	<u>63 to 75</u>	<u>75 to 87</u>	<u>87 to 99</u>	<u>99 to 111</u>	<u>111 to 123</u>	
4th Prior	0.978	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000
3rd Prior	0.997	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000
2nd Prior	0.968	1.001	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000
1st Prior	0.989	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000
Latest	0.889	0.996	0.999	1.000	1.000	1.000	1.000	1.000	1.000	1.000
5 Yr Mean Ex-HiLo	0.978	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000
Selected:	0.978	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000
Loss Development Period ( months ):	<u>15 - 123</u>	<u>27 - 123</u>	<u>39 - 123</u>	<u>51 - 123</u>	<u>63 - 123</u>	<u>75 - 123</u>	<u>87 - 123</u>	<u>99 - 123</u>	<u>111 - 123</u>	
Loss Development Factor:	0.978	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	

†Includes ALAE

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Exhibit 6.6

Paid Loss + ALAE Development Factors - Comprehensive

Fiscal Accident											
<u>Year Ending</u>	<u>15 Months</u>	<u>27 Months</u>	<u>39 Months</u>	<u>51 Months</u>	<u>63 Months</u>	<u>75 Months</u>	<u>87 Months</u>	<u>99 Months</u>	<u>111 Months</u>	<u>123 Months</u>	
12/31/2000									1,022,867	1,022,867	
12/31/2001								1,016,232	1,016,232	1,016,232	
12/31/2002							730,381	730,381	730,381	730,381	
12/31/2003						549,265	549,265	549,265	549,265	549,265	
12/31/2004					209,389	209,354	209,354	209,354	209,354	209,354	
12/31/2005				222,793	222,793	222,793	222,793	222,793	222,793	222,793	
12/31/2006			255,238	255,238	255,238	255,238	255,778	255,778			
12/31/2007		283,695	283,695	283,925	283,925	283,925	283,925				
12/31/2008	331,009	315,035	315,083	314,483	314,483	314,483					
12/31/2009	333,452	335,000	335,000	335,000	335,000						
12/31/2010	154,085	153,614	153,614	153,614							
12/31/2011	170,853	170,740	170,751								
12/31/2012	152,702	156,140									
12/31/2013	89,650										
				Link Ratios							
<u>Development</u>	<u>15 to 27</u>	<u>27 to 39</u>	<u>39 to 51</u>	<u>51 to 63</u>	<u>63 to 75</u>	<u>75 to 87</u>	<u>87 to 99</u>	<u>99 to 111</u>	<u>111 to 123</u>		
4th Prior	0.952	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000		
3rd Prior	1.005	1.000	1.001	1.000	1.000	1.000	1.000	1.000	1.000		
2nd Prior	0.997	1.000	0.998	1.000	1.000	1.000	1.000	1.000	1.000		
1st Prior	0.999	1.000	1.000	1.000	1.000	1.002	1.000	1.000	1.000		
Latest	1.023	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000		
5 Year Average	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 ):	<u>15 - 123</u>	<u>27 - 123</u>	<u>39 - 123</u>	<u>51 - 123</u>	<u>63 - 123</u>	<u>75 - 123</u>	<u>87 - 123</u>	<u>99 - 123</u>	<u>111 - 123</u>		
Loss Development Factor:	0.995	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000		

†Includes ALAE

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Exhibit 7

Excess Loss Provision

**BODILY INJURY**

Fiscal Accident Year Ending	Ultimate Total Ex-Cat Losses + ALAE	Ultimate Limited Ex-Cat Losses + ALAE	Total/Limited
12/31/2004	2,807,655	1,664,927	1.69
12/31/2005	2,168,867	1,018,867	2.13
12/31/2006	784,635	689,635	1.14
12/31/2007	720,537	720,537	1.00
12/31/2008	886,884	886,884	1.00
12/31/2009	822,328	781,170	1.05
12/31/2010	529,165	521,698	1.01
12/31/2011	277,949	270,686	1.03
12/31/2012	271,335	260,038	1.04
12/31/2013	774,621	399,074	1.94
Weighted Average			1.39
Straight Average			1.30
Selected			1.30

**UNINSURED / UNDERINSURED MOTORIST**

Fiscal Accident Year Ending	Ultimate Total Ex-Cat Losses + ALAE	Ultimate Limited Ex-Cat Losses + ALAE	Total/Limited
12/31/2004	351,499	351,499	1.00
12/31/2005	17,730	17,730	1.00
12/31/2006	67,815	67,815	1.00
12/31/2007	198,714	198,714	1.00
12/31/2008	283,214	283,214	1.00
12/31/2009	475,463	314,773	1.51
12/31/2010	90,286	87,483	1.03
12/31/2011	64,677	62,645	1.03
12/31/2012	811,325	387,092	2.10
12/31/2013	76,741	71,810	1.07
Weighted Average			1.32
Straight Average			1.17
Selected			1.30

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Exhibit 8.A

Calculation of Pure Premium Trend Factor

<u>Coverage</u>	<u>Selected Annual Pure Premium Impacts</u>	
	<u>Historical</u>	<u>Projected</u>
Bodily Injury	-5.00%	0.00%
Property Damage	0.00%	0.00%
Medical Payments	0.00%	0.00%
Uninsured / Underinsured Motorist	2.00%	2.00%
Collision	0.00%	0.00%
Comprehensive	-4.00%	-4.00%

Calculation of Trend Period

	<u>4th Prior Year</u>	<u>3rd Prior Year</u>	<u>2nd Prior Year</u>	<u>1st Prior Year</u>	<u>Current Year</u>
1) Loss Trend Projection Date	4/16/2016	4/16/2016	4/16/2016	4/16/2016	4/16/2016
2) Mid-Point of Current Year's Experience Period	6/30/2013	6/30/2013	6/30/2013	6/30/2013	6/30/2013
3) Experience Period Ended	12/31/2009	12/31/2010	12/31/2011	12/31/2012	12/31/2013
4) Midpoint of Experience Period	6/30/2009	6/30/2010	6/30/2011	6/30/2012	6/30/2013
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)	2.795	2.795	2.795	2.795	2.795

Factor to Adjust Losses for Pure Premium Trend

<u>Coverage</u>	<u>4th Prior Year</u>	<u>3rd Prior Year</u>	<u>2nd Prior Year</u>	<u>1st Prior Year</u>	<u>Current Year</u>
Bodily Injury	0.815	0.857	0.903	0.950	1.000
Property Damage	1.000	1.000	1.000	1.000	1.000
Medical Payments	1.000	1.000	1.000	1.000	1.000
Uninsured / Underinsured Motorist	1.144	1.122	1.100	1.078	1.057
Collision	1.000	1.000	1.000	1.000	1.000
Comprehensive	0.758	0.789	0.822	0.856	0.892

(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)

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Exhibit 8.B.1

Pure Premium Trends - Bodily Injury

Year Ending	Actual Paid Pure Premium	Annual % Change	Exponential Curve of Best Fit (\$)		
			20 pt.	12 pt.	6 pt.
06/08	\$142.41	59.0			
09/08	80.39	-42.4			
12/08	104.36	-23.9			
03/09	108.74	-25.9			
06/09	113.10	-20.6	163.70		
09/09	155.38	93.3	157.64		
12/09	160.20	53.5	151.80		
03/10	152.51	40.3	146.18		
06/10	157.95	39.7	140.77		
09/10	163.77	5.4	135.56		
12/10	145.25	-9.3	130.54		
03/11	159.33	4.5	125.71		
06/11	153.60	-2.8	121.06	113.34	
09/11	107.09	-34.6	116.58	109.86	
12/11	109.95	-24.3	112.26	106.48	
03/12	110.96	-30.4	108.10	103.21	
06/12	75.50	-50.9	104.10	100.04	
09/12	80.60	-24.7	100.25	96.97	
12/12	76.40	-30.5	96.54	93.99	81.63
03/13	80.10	-27.8	92.96	91.11	84.18
06/13	94.47	25.1	89.52	88.31	86.81
09/13	97.73	21.3	86.21	85.60	89.53
12/13	102.09	33.6	83.02	82.97	92.33
03/14	81.39	1.6	79.94	80.42	95.22
<u>Regression</u>			<u>20 pt.</u>	<u>12 pt.</u>	<u>6 pt.</u>
Avg Annual Percent Change Based on Best Fit:			-14.0 %	-11.7 %	13.1 %

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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.
06/08	\$70.71	-9.1			
09/08	71.94	-2.8			
12/08	67.30	2.1			
03/09	66.05	-0.3			
06/09	70.35	-0.5	90.75		
09/09	81.42	13.2	89.53		
12/09	91.53	36.0	88.33		
03/10	96.04	45.4	87.14		
06/10	91.78	30.5	85.97		
09/10	96.38	18.4	84.81		
12/10	89.03	-2.7	83.67		
03/11	88.29	-8.1	82.54		
06/11	79.91	-12.9	81.43	82.54	
09/11	73.33	-23.9	80.33	81.10	
12/11	85.26	-4.2	79.25	79.68	
03/12	82.98	-6.0	78.19	78.29	
06/12	81.29	1.7	77.13	76.92	
09/12	80.93	10.4	76.10	75.58	
12/12	72.38	-15.1	75.07	74.26	70.61
03/13	72.93	-12.1	74.06	72.96	70.24
06/13	72.00	-11.4	73.07	71.69	69.88
09/13	60.30	-25.5	72.08	70.44	69.51
12/13	63.88	-11.7	71.11	69.21	69.15
03/14	78.29	7.4	70.15	68.00	68.79
<u>Regression</u>			<u>20 pt.</u>	<u>12 pt.</u>	<u>6 pt.</u>
Avg Annual Percent Change Based on Best Fit:			-5.3 %	-6.8 %	-2.1 %

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Exhibit 8.B.3

Pure Premium Trends - Medical Payments

Year Ending	Actual Paid Pure Premium	Annual % Change	Exponential Curve of Best Fit (\$)		
			20 pt.	12 pt.	6 pt.
06/08	\$8.80	203.5			
09/08	10.12	612.7			
12/08	52.57	890.0			
03/09	92.15	1,651.9			
06/09	107.64	1,123.2	99.38		
09/09	121.71	1,102.7	82.85		
12/09	86.91	65.3	69.07		
03/10	40.44	-56.1	57.58		
06/10	27.80	-74.2	48.01		
09/10	30.47	-75.0	40.02		
12/10	12.35	-85.8	33.37		
03/11	13.18	-67.4	27.82		
06/11	33.65	21.0	23.19	49.67	
09/11	23.35	-23.4	19.33	37.29	
12/11	55.78	351.7	16.12	27.99	
03/12	55.69	322.5	13.44	21.01	
06/12	40.18	19.4	11.20	15.77	
09/12	40.18	72.1	9.34	11.84	
12/12	.59	-98.9	7.79	8.89	1.05
03/13	3.03	-94.6	6.49	6.67	1.52
06/13	2.95	-92.7	5.41	5.01	2.20
09/13	2.69	-93.3	4.51	3.76	3.19
12/13	3.01	410.2	3.76	2.82	4.62
03/14	8.08	166.7	3.14	2.12	6.69
<b>Regression</b>			<b>20 pt.</b>	<b>12 pt.</b>	<b>6 pt.</b>
Avg Annual Percent Change Based on Best Fit:			-51.7 %	-68.2 %	340.5 %

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Exhibit 8.B.4

Pure Premium Trends - Uninsured / Underinsured Motorist

Year Ending	Actual Paid Pure Premium	Annual % Change	Exponential Curve of Best Fit (\$)		
			20 pt.	12 pt.	6 pt.
06/08	\$22.42	254.8			
09/08	28.72	76.3			
12/08	42.08	127.8			
03/09	38.65	64.5			
06/09	43.13	92.4	34.67		
09/09	60.27	109.9	35.06		
12/09	56.60	34.5	35.45		
03/10	52.63	36.2	35.85		
06/10	51.13	18.6	36.24		
09/10	34.88	-42.1	36.65		
12/10	28.26	-50.1	37.06		
03/11	25.15	-52.2	37.47		
06/11	27.18	-46.8	37.89	17.53	
09/11	13.26	-62.0	38.31	20.01	
12/11	27.05	-4.3	38.73	22.85	
03/12	29.01	15.4	39.17	26.08	
06/12	44.23	62.7	39.60	29.78	
09/12	38.94	193.7	40.04	33.99	
12/12	20.00	-26.1	40.49	38.81	17.56
03/13	33.31	14.8	40.94	44.30	26.04
06/13	14.79	-66.6	41.39	50.58	38.62
09/13	91.54	135.1	41.85	57.74	57.27
12/13	115.50	477.5	42.32	65.91	84.93
03/14	103.87	211.8	42.79	75.25	125.94
<b>Regression</b>			<b>20 pt.</b>	<b>12 pt.</b>	<b>6 pt.</b>
Avg Annual Percent Change Based on Best Fit:			4.5 %	69.8 %	383.6 %

Encompass Insurance Group  
Private Passenger Auto  
Arkansas

Exhibit 8.B.5

Pure Premium Trends - Collision

Year Ending	Actual Paid Pure Premium	Annual % Change	Exponential Curve of Best Fit (\$)		
			20 pt.	12 pt.	6 pt.
06/08	\$119.97	-16.5			
09/08	131.08	-1.2			
12/08	136.80	15.2			
03/09	132.68	5.2			
06/09	131.65	9.7	160.69		
09/09	155.71	18.8	157.84		
12/09	166.21	21.5	155.03		
03/10	178.35	34.4	152.28		
06/10	182.57	38.7	149.57		
09/10	181.65	16.7	146.91		
12/10	162.33	-2.3	144.30		
03/11	148.48	-16.8	141.74		
06/11	142.63	-21.9	139.22	111.54	
09/11	114.72	-36.9	136.74	113.05	
12/11	114.94	-29.2	134.31	114.58	
03/12	94.44	-36.4	131.93	116.12	
06/12	91.80	-35.6	129.58	117.69	
09/12	94.53	-17.6	127.28	119.28	
12/12	131.69	14.6	125.02	120.89	146.47
03/13	149.85	58.7	122.80	122.53	141.42
06/13	156.29	70.3	120.61	124.18	136.55
09/13	123.56	30.7	118.47	125.86	131.84
12/13	130.48	-0.9	116.36	127.56	127.30
03/14	117.33	-21.7	114.30	129.28	122.91
<u>Regression</u>			<u>20 pt.</u>	<u>12 pt.</u>	<u>6 pt.</u>
Avg Annual Percent Change Based on Best Fit:			-6.9 %	5.5 %	-13.1 %

Encompass Insurance Group  
Private Passenger Auto  
Arkansas

Exhibit 8.B.6

Pure Premium Trends - Comprehensive

Year Ending	Actual Paid Pure Premium	Annual % Change	Exponential Curve of Best Fit (\$)		
			20 pt.	12 pt.	6 pt.
06/08	\$67.36	10.4			
09/08	62.01	-1.2			
12/08	70.04	4.6			
03/09	80.90	44.4			
06/09	66.65	-1.1	76.04		
09/09	84.90	36.9	74.43		
12/09	81.33	16.1	72.85		
03/10	81.09	0.2	71.31		
06/10	80.86	21.3	69.79		
09/10	60.65	-28.6	68.32		
12/10	52.94	-34.9	66.87		
03/11	45.65	-43.7	65.45		
06/11	52.76	-34.8	64.06	69.01	
09/11	53.23	-12.2	62.71	66.97	
12/11	63.97	20.8	61.38	64.99	
03/12	72.31	58.4	60.08	63.07	
06/12	63.12	19.6	58.81	61.21	
09/12	77.22	45.1	57.56	59.40	
12/12	81.70	27.7	56.34	57.65	81.20
03/13	67.94	-6.0	55.15	55.95	69.10
06/13	65.13	3.2	53.98	54.30	58.80
09/13	50.78	-34.2	52.83	52.69	50.04
12/13	31.59	-61.3	51.71	51.14	42.58
03/14	43.93	-35.3	50.62	49.63	36.24
<u>Regression</u>			<u>20 pt.</u>	<u>12 pt.</u>	<u>6 pt.</u>
Avg Annual Percent Change Based on Best Fit:			-8.2 %	-11.3 %	-47.6 %

Encompass Insurance Group  
Private Passenger Auto  
Arkansas

Exhibit 9

Catastrophe Insurance Losses - Comprehensive

<u>Accident Year</u>	<u>Arkansas</u>		<u>Incurred Losses Excluding Catastrophes</u>
	<u>Total Incurred Losses</u>	<u>Catastrophe Losses</u>	
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	\$193,052	\$7,414	\$185,638
1995	\$210,903	\$22,328	\$188,575
1996	\$328,064	\$78,351	\$249,713
1997	\$211,271	\$42,498	\$168,773
1998	\$308,361	\$5,250	\$303,111
1999	\$908,648	\$204,275	\$704,373
2000	\$1,085,776	\$62,910	\$1,022,866
2001	\$1,047,220	\$38,331	\$1,008,889
2002	\$767,091	\$36,711	\$730,380
2003	\$567,998	\$18,734	\$549,264
2004	\$211,279	\$2,485	\$208,794
2005	\$222,792	\$0	\$222,792
2006	\$380,032	\$124,254	\$255,778
2007	\$296,155	\$12,230	\$283,925
2008	\$576,746	\$262,262	\$314,484
2009	\$408,755	\$73,755	\$335,000
2010	\$159,555	\$5,992	\$153,563
2011	\$435,394	\$264,644	\$170,750
2012	\$158,122	\$1,982	\$156,140
2013	\$89,675	\$0	\$89,675
		\$1,515,979	\$8,347,952

**Selected Catastrophe Provision:**

**18.2%**

Encompass Insurance Group  
Private Passenger Auto  
Arkansas

Exhibit 10.A

Summary of Expense Provisions

	Liability Expense Provision				Uninsured / Underinsured
	Percent Fixed	Bodily Injury	Property Damage	Medical Payments	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	1.6	1.6	1.6	1.6

	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	1.6	1.6

† State Taxes - Does not include Federal Income Tax

Encompass Insurance Group  
Private Passenger Auto  
Arkansas

Exhibit 10.B

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	4/16/2016
3) Number of Years from (1) to (2)	4.8
4) Selected Annual Impact	2.00 %
5) Factor to Adjust for Subsequent Change in Fixed Expense = [ 1 + (4) ] ^ (3)	1.100

\*For calendar years 2010-2012

Encompass Insurance Group  
Private Passenger Auto  
Arkansas

Exhibit 11.A

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
<b>Total</b>					98.0 %
<b>Expected Losses and Loss Expense Ratio</b>					62.6 %
<b>Present Value of Loss and Loss Expense Payments</b>					61.3 %
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		1.6 %	1.00	1.000	1.6 %
Profit		6.7 %	1.00	1.000	6.7 %
<b>Total Present Value of Outgo</b>					98.8 %
<b>Premiums</b>		100.0 %	0.71	1.004	100.4 %
<b>Difference, Present Value of Income Less Present Value of Outgo</b>					1.6 %

†Discount rate from Investment Department forecast

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

Encompass Insurance Group  
Private Passenger Auto  
Arkansas

Exhibit 11.B

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

<u>Years From Start of Policy Year</u>	<u>Cumulative Percent of Losses Paid</u>	<u>Yearly Percent of Losses Paid</u>	<u>Time from Start of Policy Year</u>	<u>Discounted‡ to Average Time of Profit @ 1.4%</u>	<u>Discounted Payments</u>
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
<b>Total</b>					100.2 %
<b>Expected Losses and Loss Expense Ratio</b>					60.4 %
<b>Present Value of Loss and Loss Expense Payments</b>					60.5 %
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		0.3 %	0.77	1.003	0.3 %
Commissions		15.1 %	0.58	1.006	15.2 %
Debt Provision		1.6 %	1.00	1.000	1.6 %
Profit		8.8 %	1.00	1.000	8.8 %
<b>Total Present Value of Outgo</b>					100.2 %
<b>Premiums</b>		100.0 %	0.71	1.004	100.4 %
<b>Difference, Present Value of Income Less Present Value of Outgo</b>					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**

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## **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."<sup>1</sup>

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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<sup>1</sup> *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."<sup>2</sup>

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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<sup>2</sup> 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:

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

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.  $\beta$  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."<sup>3</sup> 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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<sup>3</sup> 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 ( $\pi_s$ ) and value premium ( $\pi_h$ ).<sup>4</sup> 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.<sup>5</sup> 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:

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

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  $\varepsilon$ ). Similarly,  $r_m$  is the actual return of the equity market. The variables  $\pi_s$  and  $\pi_h$  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  $\alpha$  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  $\pi$ -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  $\beta_s$  and  $\beta_h$  are constrained to zero. Therefore, it must explain more stock-return variance than does the CAPM. In a subsequent paper<sup>6</sup>, Fama and French argued that the R-squared of their model is markedly

---

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

<sup>5</sup> 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>.

<sup>6</sup> 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  $\beta_s$  and  $\beta_h$  are significantly different from zero, even after controlling for the overall market.<sup>7</sup> 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.”<sup>8</sup>

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, *SBI 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.<sup>9</sup> 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

---

<sup>7</sup> 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.

<sup>8</sup> Fama, Eugene F. and Kenneth R. French, 1996, “Multifactor Explanations of Asset Pricing Anomalies,” *The Journal of Finance* 51: 56.

<sup>9</sup> 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.<sup>10</sup> In symbols, the sum-beta version of the Fama-French model is:

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

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.<sup>11</sup> 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

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<sup>10</sup> 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.

<sup>11</sup> 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)<sup>12</sup> model:

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

Subscript  $i$  indexes the actual companies, subscript  $j$  the industry segments. The independent variable  $\omega_{ij}$  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.

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<sup>12</sup> 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:

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

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:

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

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<sup>13</sup> 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.

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<sup>13</sup> 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<sup>14</sup> 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.

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<sup>14</sup> 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.”<sup>15</sup> Thus, a provision for underwriting profit is a portion of the actuarially developed rate, and is often expressed as a percentage of the rate.<sup>16</sup> 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.<sup>17</sup> 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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<sup>15</sup> *Actuarial Standards of Practice, No. 30*; page 2

<sup>16</sup> *Ibid*; page 2

<sup>17</sup> 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:  $\text{Income Needed by the Company} = \text{Income Due Shareholders} / [\text{Dividend Payout Ratio} - (1 - \text{Dividend Payout Ratio}) * \text{Market-to-book Ratio}]$ . This is the formula used to calculate the income needed by Allstate in Step 7.

#### **Step (8): Investment Income on Equity**

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.

#### **Step (9): Operating Income Needed:**

"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

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 (28-day)	2008	0.717	1.531	0.215	-0.176	0.246
	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 Bond (5-year)	2008	0.721	1.525	0.211	-0.175	0.246
	2009	0.522	1.581	0.696	-0.210	0.340
	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 Bond (20-year)	2008	0.723	1.523	0.211	-0.175	0.246
	2009	0.523	1.581	0.697	-0.210	0.340
	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

ALLSTATE CORPORATION

NAICS Code 524126

Allstate Compustat Data

*(\$ Million)*

Estimation Year	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	<b>0.717</b>
2009	<b>0.522</b>
2010	<b>0.650</b>
2011	<b>0.602</b>
2012	<b>0.585</b>
3-yr Avg	<b>0.612</b>
5-yr Avg	<b>0.615</b>
<b>Selected</b>	<b>0.612</b>

**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	<b>-0.189</b>
2009	1.582	-0.209	9.6876	<b>-0.443</b>
2010	1.679	-0.224	9.7502	<b>-0.505</b>
2011	1.795	-0.235	9.5362	<b>-0.446</b>
2012	1.380	-0.193	9.8706	<b>-0.525</b>
			3-yr Avg	<b>-0.492</b>
			5-yr Avg	<b>-0.422</b>
			<b>Selected</b>	<b>-0.492</b>

**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	<b>0.134</b>
2009	0.698	0.340	0.0351	<b>0.710</b>
2010	0.956	0.259	0.1029	<b>0.983</b>
2011	1.184	0.166	0.2987	<b>1.234</b>
2012	1.225	0.207	0.0615	<b>1.238</b>
			3-yr Avg	<b>1.152</b>
			5-yr Avg	<b>0.860</b>
			<b>Selected</b>	<b>1.152</b>

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	<b>0.721</b>
2009	<b>0.522</b>
2010	<b>0.646</b>
2011	<b>0.600</b>
2012	<b>0.582</b>
3-yr Avg	<b>0.609</b>
5-yr Avg	<b>0.614</b>
<b>Selected</b>	<b>0.609</b>

**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	<b>-0.185</b>
2009	1.581	-0.210	9.6876	<b>-0.453</b>
2010	1.677	-0.224	9.7502	<b>-0.507</b>
2011	1.793	-0.235	9.5362	<b>-0.448</b>
2012	1.378	-0.192	9.8706	<b>-0.517</b>
			3-yr Avg	<b>-0.491</b>
			5-yr Avg	<b>-0.422</b>
			<b>Selected</b>	<b>-0.491</b>

**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	<b>0.130</b>
2009	0.696	0.340	0.0351	<b>0.708</b>
2010	0.959	0.259	0.1029	<b>0.986</b>
2011	1.184	0.166	0.2987	<b>1.234</b>
2012	1.227	0.206	0.0615	<b>1.240</b>
			3-yr Avg	<b>1.153</b>
			5-yr Avg	<b>0.860</b>
			<b>Selected</b>	<b>1.153</b>

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

**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	1.523	-0.175	9.7733	<b>-0.187</b>
2009	1.581	-0.21	9.6876	<b>-0.453</b>
2010	1.677	-0.224	9.7502	<b>-0.507</b>
2011	1.793	-0.236	9.5362	<b>-0.458</b>
2012	1.380	-0.192	9.8706	<b>-0.515</b>
3-yr Avg				<b>-0.493</b>
5-yr Avg				<b>-0.424</b>
<b>Selected</b>				<b>-0.493</b>

**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	<b>0.130</b>
2009	0.697	0.340	0.0351	<b>0.709</b>
2010	0.963	0.259	0.1029	<b>0.990</b>
2011	1.186	0.166	0.2987	<b>1.236</b>
2012	1.229	0.206	0.0615	<b>1.242</b>
3-yr Avg				<b>1.156</b>
5-yr Avg				<b>0.861</b>
<b>Selected</b>				<b>1.156</b>

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

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)

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)
Time Period	<i>Annual Rate of Change</i>			Average
	Past 10 Years	Past 5 Years	Forecast	
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) <b>Selected Cost of Equity Capital</b>	<b>9.5%</b>	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

Arkansas  
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%	0.8%	App. 3, Exh. 5, Pg. 1
(13) After-tax U/W Profit Provision:	4.3%	5.7%	5.1%	=(11)-(12)
(14) Tax Rate:	35%	35%	35%	FIT***
(15) Pre-tax U/W Income Needed by Allstate:	6.6%	8.8%	7.8%	=(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
<b>Total</b>	<b>35,563</b>	<b>9,253</b>	<b>17,147</b>	<b>24,996</b>		<b>0.70</b>

Source: Allstate Annual Reports

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

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

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

ALLSTATE CORPORATION

Historical Market-to-book Ratios

Years	Allstate
Dec-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
<b>Selected:</b>	<b>1.30</b>

Source: MSN Online Reports

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

ENCOMPASS INSURANCE COMPANY

Private Passenger Auto

Calculation of Total Coverages Investment Income  
From Policy Cash Flow

	Investment Income	Weight*	Source
(1) Liability Coverages	1.6%	46.3%	App. 3, Exh. 5, Pg. 2
(2) Physical Damage Coverages	0.2%	53.7%	App. 3, Exh. 5, Pg. 3
(3) Total Coverages	<b>0.8%</b>	100.0%	Weighted Average

\*The weight given to the coverages comes from premium volume

ENCOMPASS INSURANCE COMPANY  
 PRIVATE PASSENGER AUTO - LIABILITY

Arkansas

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	Arkansas Cumulative Percent of Losses Paid	Arkansas 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					62.6%
Present Value of Loss and Loss Expense Payments					61.3%
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		1.6%	1.00	1.000	1.6%
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 COMPANY  
 PRIVATE PASSENGER AUTO - PHYSICAL DAMAGE

Arkansas

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

<u>Years From Start of Policy Year</u>	<u>Arkansas Cumulative Percent of Losses Paid</u>	<u>Arkansas Yearly Percent of Losses Paid</u>	<u>Time from Start of Policy Year</u>	<u>Discounted ** to avg time of profit @ 1.40%</u>	<u>Discounted Payments</u>
1	50.6%	50.6%	0.63	1.005	50.9%
2	100.3%	49.7%	1.16	0.998	49.6%
3	100.0%	-0.3%	2.31	0.982	-0.3%
4	100.0%	0.0%	3.41	0.967	0.0%
5	100.0%	0.0%	4.33	0.954	0.0%
6	100.0%	0.0%	5.38	0.941	0.0%
Subsequent	100.0%	0.0%	7.63	0.911	0.0%
Total		100.0%			100.2%
Expected Losses and Loss Expense Ratio					60.4%
Present Value of Loss and Loss Expense Payments					60.5%
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		0.3%	0.77	1.003	0.3%
Commissions		15.1%	0.58	1.006	15.2%
Debt Provision		1.6%	1.00	1.000	1.6%
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))

State: Arkansas

Filing Company:

Encompass Indemnity Company

TOI/Sub-TOI: 19.0 Personal Auto/19.0000 Personal Auto Combinations

Product Name: EI PPA

Project Name/Number: Edge Auto Rate/Factor Changes/RITM00175528

## Superseded Schedule Items

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

Creation Date	Schedule Item Status	Schedule	Schedule Item Name	Replacement Creation Date	Attached Document(s)
01/30/2015	Filed 03/02/2015	Rate	Motor Vehicle Rate Pages	03/02/2015	08. 20150731_ar_edge_mv_rates.pdf (Superseded)
01/30/2015	Filed 03/02/2015	Rate	Motor Vehicle Rules Manual	03/02/2015	09. 20150731_ar_edge_mv.pdf (Superseded)
01/30/2015	Filed 03/02/2015	Rate	Personal Umbrella Rules Manual	03/02/2015	10. 20150731_ar_edge_pu.pdf (Superseded)
01/30/2015	Filed 03/02/2015	Supporting Document	APCS-Auto Premium Comparison Survey	02/13/2015	04. APCS EI Survey Form_ER2620.xls (Superseded) 04. APCS EI Survey Form_ER2620.pdf (Superseded)

**SERFF Tracking #:**

ALSE-129904322

**State Tracking #:**

**Company Tracking #:**

ER2620

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**State:**

Arkansas

**Filing Company:**

Encompass Indemnity Company

**TOI/Sub-TOI:**

19.0 Personal Auto/19.0000 Personal Auto Combinations

**Product Name:**

EI PPA

**Project Name/Number:**

Edge Auto Rate/Factor Changes/RITM00175528

**Attachment 04. APCS EI Survey Form\_ER2620.xls is not a PDF document and cannot be reproduced here.**



**ARKANSAS USP PORTFOLIO**  
**MOTOR VEHICLE RATE PAGES**  
**ENCOMPASS INDEMNITY COMPANY**



**ARKANSAS USP PORTFOLIO  
ENCOMPASS INDEMNITY COMPANY  
MOTOR VEHICLE RATE PAGES**

**AUTO PREMIUM CALCULATION  
(ROUND TO THE NEAREST DOLLAR AFTER EACH STEP)**

STEP		BI	PD	MED	COMP	COLL
1	TERRITORIAL BASE RATE					
2	RATE ADJUSTMENT FACTOR (RAF)	x 1.479	x 1.524	x 1.544	x 0.968	x 0.969
3	INCREASED LIMIT FACTOR	x	x	x		
4	MODEL YEAR FACTOR				x	x
5	EXPERIENCE GROUP RATING FACTOR	x	x	x	x	x
6	NEW CAR DISCOUNT				x	x
7	REPLACEMENT VALUE FACTOR				x	x
8	STATED AMOUNT BASE PREMIUM					
9	DEDUCTIBLE BY SYMBOL FACTOR (Note: For Stated Amount Coverage, use Price Group Symbol M deductible factors)				x	x
10	COVERAGE OPTION FACTOR	x	x	x	x	x
11	AUTO RATING TIER FACTOR	x	x	x	x	x
12	PRIOR AUTO INSURANCE FACTOR	x	x	x	x	x
13	DRIVER CLASSIFICATION FACTOR	x	x	x	x	x
14	MULTI-CAR RATING FACTOR	x	x	x	x	x
15	MERIT RATING FACTOR	x	x	x	x	x
16	MAJOR VIOLATION SURCHARGE	x	x	x		x
17	NON-VERIFIABLE DRIVING RECORD SURCHARGE	x	x	x	x	x
18	PASSIVE RESTRAINT DISCOUNT			x		
19	ANTI-LOCK BRAKE DISCOUNT	x	x			
20	ANTI-THEFT DEVICE DISCOUNT				x	
21	DRIVER TRAINING DISCOUNT	x	x			x
22	GOOD STUDENT DISCOUNT	x	x	x	x	x
23	RESIDENT STUDENT DISCOUNT	x	x			x
24	MOTOR VEHICLE ACCIDENT PREV DISC	x	x	x		x
25	ACCIDENT/VIOLATION FREE DISCOUNT	x	x	x	x	x
26	POLICY LOSS FREE DISCOUNT	x	x	x	x	x
27	GOOD PAYER DISCOUNT	x	x	x	x	x
28	FUTURE EFFECTIVE DATE DISCOUNT	x	x	x	x	x
29	ENCOMPASS EASY PAY PLAN DISCOUNT	x	x	x	x	x
30	HOMEOWNERSHIP DISCOUNT	x	x	x	x	x
31	PREFERRED PROTECTION DISCOUNT	x	x	x	x	x
32	COLLEGE GRADUATE SCHOL ACHV DISC	x	x	x	x	x
33	ACCIDENTAL AIR BAG DEPLOYMENT				+	
34	FIXED EXPENSE PREMIUM	+	+		+	+
35	GROUP PROGRAM DISCOUNT	x	x	x	x	x
36	CREDIT FOR EXISTING INSURANCE	x	x	x	x	x
37	TOTAL COVERAGE PREMIUM	=	=	=	=	=

38	UM/UIM COVERAGE	Rate	RAF	CFEI	Total
	UM BI PREMIUM		x 1.389	x	
	UIM BI PREMIUM		x 1.389	x	+
	UM PD PREMIUM		x 1.389	x	+
	TOTAL UM/UIM COVERAGE PREMIUM				=

39	MISCELLANEOUS COVERAGES	Rate	Group Program Discount	Total
	EXTENDED TRANSPORTATION PREMIUM		x	+
	TOWING & LABOR PREMIUM		x	+
	ELECTRONIC EQUIPMENT PREMIUM		x	+
	CUSTOMIZATION COMP PREMIUM			+
	CUSTOMIZATION COLLISION PREMIUM			+
	AUTO LOAN/LEASE COMP PREMIUM			+
	AUTO LOAN/LEASE COLL PREMIUM			+
	WORK LOSS PREMIUM		x	+
	DEATH BENEFIT PREMIUM		x	+
	TOTAL MISC COVERAGES PREMIUM			=

40	TOTAL ANNUAL PREMIUM	=
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NOTES	
Territory:	
Limit:	
Ded(s):	
Model Yr:	
Symbol:	
Class:	
Tier:	
Other:	



**ARKANSAS USP PORTFOLIO  
ENCOMPASS INDEMNITY COMPANY  
MOTOR VEHICLE RATE PAGES**

**AUTO CUSTOMIZATION PREMIUM CALCULATION  
(ROUND TO THE NEAREST DOLLAR AFTER EACH STEP)**

STEP		COMP	COLL
1	TERRITORIAL BASE RATE		
2	RATE ADJUSTMENT FACTOR	x 0.968	x 0.969
3	MODEL YEAR FACTOR	x	x
4	EXP. GRP RATING FACTOR	x	x
5	DEDUCTIBLE BY SYMBOL FACTOR (Note: For Stated Amount coverage, use Price Group Symbol M deductible factors)	x	x
6	CUSTOMIZATION AMOUNT		
7	CUSTOMIZATION FACTOR	x	x
8	NEW CAR DISCOUNT	x	x
9	REPLACEMENT VALUE FACTOR		
10	COVERAGE OPTION FACTOR	x	x
11	AUTO RATING TIER FACTOR	x	x
12	AUTO RATING TIER ADJUSTMENT FACTOR	x	x
13	PRIOR AUTO INSURANCE FACTOR	x	x
14	DRIVER CLASSIFICATION FACTOR	x	x
15	MULTI-CAR RATING FACTOR	x	x
16	MERIT RATING FACTOR	x	x
17	MAJOR VIOLATION SURCHARGE		x
18	NON-VERIFIABLE DRIVING RECORD SURCHARGE	x	x
19	ANTI-THEFT DEVICE DISCOUNT	x	
20	DRIVER TRAINING DISCOUNT		x
21	GOOD STUDENT DISCOUNT	x	x
22	RESIDENT STUDENT DISCOUNT		x
23	MOTOR VEHICLE ACCIDENT PREV DISC		x
24	ACCIDENT/VIOLATION FREE DISCOUNT	x	x
25	POLICY LOSS FREE DISCOUNT		x
26	GOOD PAYER DISCOUNT	x	x
27	FUTURE EFFECTIVE DATE DISCOUNT	x	x
28	ENCOMPASS EASY PAY PLAN DISCOUNT	x	x
29	HOMEOWNERSHIP DISCOUNT	x	x
30	PREFERRED PROTECTION DISCOUNT	x	x
31	COLLEGE GRADUATE SCHOL ACHV DISC	x	x
32	CREDIT FOR EXISTING INSURANCE	x	x
33	TOTAL COVERAGE PREMIUM	=	=

**AUTO LOAN/LEASE PREMIUM CALCULATION  
(ROUND TO THE NEAREST DOLLAR AFTER EACH STEP)**

STEP		COMP	COLL
1	TERRITORIAL BASE RATE		
2	RATE ADJUSTMENT FACTOR	x 0.968	x 0.969
3	MODEL YEAR FACTOR	x	x
4	EXP. GRP RATING FACTOR	x	x
5	NEW CAR DISCOUNT	x	x
6	DEDUCTIBLE BY SYMBOL FACTOR (Note: For Stated Amount coverage, use Price Group Symbol M deductible factors)	x	x
7	COVERAGE OPTION FACTOR	x	x
8	AUTO RATING TIER FACTOR	x	x
9	AUTO RATING TIER ADJUSTMENT FACTOR	x	x
10	PRIOR AUTO INSURANCE FACTOR	x	x
11	DRIVER CLASSIFICATION FACTOR	x	x
12	MULTI-CAR RATING FACTOR	x	x
13	MERIT RATING FACTOR	x	x
14	MAJOR VIOLATION SURCHARGE		x
15	NON-VERIFIABLE DRIVING RECORD SURCHARGE	x	x
16	ANTI-THEFT DEVICE DISCOUNT	x	
17	DRIVER TRAINING DISCOUNT		x
18	GOOD STUDENT DISCOUNT	x	x
19	RESIDENT STUDENT DISCOUNT		x
20	MOTOR VEHICLE ACCIDENT PREV DISC		x
21	ACCIDENT/VIOLATION FREE DISCOUNT	x	x
22	POLICY LOSS FREE DISCOUNT		x
23	GOOD PAYER DISCOUNT	x	x
24	FUTURE EFFECTIVE DATE DISCOUNT	x	x
25	ENCOMPASS EASY PAY PLAN DISCOUNT	x	x
26	HOMEOWNERSHIP DISCOUNT	x	x
27	PREFERRED PROTECTION DISCOUNT	x	x
28	LOAN/LEASE DEFICIENCY COVERAGE FACTOR	x	x
29	CREDIT FOR EXISTING INSURANCE	x	x
30	TOTAL COVERAGE PREMIUM	=	=



**ARKANSAS USP PORTFOLIO  
ENCOMPASS INDEMNITY COMPANY  
MOTOR VEHICLE RATE PAGES**

**AUTO PERSONAL UMBRELLA PREMIUM CALCULATION**  
(ROUND TO THE NEAREST DOLLAR AFTER EACH STEP)

STEP		PP Autos, Pickups and Vans	Motorcycles	Dune Buggies	Other Misc. Types
1	BASE PREMIUM (\$500,000)				
2	RATE ADJUSTMENT FACTOR	x 1.514	x 1.514	x 1.514	x 1.514
3	PACKAGE DISCOUNT	x		x	
4	YOUTHFUL SURCHARGE	+	+	+	
5	SENIOR DISCOUNT	-			
6	INCREASED LIMIT FACTOR	x	x	x	x
7	MULTI-VEHICLE FACTOR	x			
8	POLICY LOSS FREE FACTOR	x	x	x	x
9	\$100/300 OR \$300,000 UNDERLYING SURCHARGES	+	+	+	+
10	CREDIT FOR EXISTING INSURANCE	x	x	x	x
11	TOTAL MOTOR VEHICLE UMBRELLA PREMIUM	=	=	=	=

**ARKANSAS USP PORTFOLIO  
ENCOMPASS INDEMNITY COMPANY  
MOTOR VEHICLE RATE PAGES**

**MOTOR HOME LIABILITY PREMIUM CALCULATION  
(ROUND TO THE NEAREST DOLLAR AFTER EACH STEP)**

STEP		BI	PD	MED
1	BASE RATE (FROM RULE 12)			
2	RATE ADJUSTMENT FACTOR (FROM RATE PAGES)	x 1.570	x 1.663	x 1.703
3	POLICY LOSS FREE FACTOR	x	x	x
4	MISCELLANEOUS VEHICLE LOSS SURCHARGE	x	x	x
5	ANTI-LOCK BRAKE DISCOUNT	x	x	
6	PASSIVE RESTRAINT DISCOUNT			x
7	FIXED EXPENSE PREMIUM	+	+	
8	CREDIT FOR EXISTING INSURANCE	x	x	x
9	TOTAL COVERAGE PREMIUM	=	=	=

**MOTOR HOME UM/UIM PREMIUM CALCULATION  
(ROUND TO THE NEAREST DOLLAR AFTER EACH STEP)**

STEP		UM/UIM BI	UM PD
1	BASE RATE (FROM AUTO RULE 9.A)		
2	RATE ADJUSTMENT FACTOR (FROM RATE PAGES)	x 1.389	x 1.389
3	CREDIT FOR EXISTING INSURANCE	x	x
4	TOTAL COVERAGE PREMIUM	=	=

Note: UM/UIM Premium is vehicle level based on the number of PP autos, vans, pickups, motor homes, motorcycles and antique autos on policy.

**MOTOR HOME/TRAILER PHYSICAL DAMAGE PREMIUM CALCULATION  
(ROUND TO THE NEAREST DOLLAR AFTER EACH STEP)**

STEP	MOTOR HOME/TRAILER PHYSICAL DAMAGE COVERAGE	COMP	COLL (MH/RecTrail)	COLL (AllOtherTrailer)
1	ACTUAL CASH VALUE (\$000) (Motor Home or Rec Trailer)			
2	ACTUAL CASH VALUE (\$00) (All Other Trailer)			
3	RATE PER VALUE	x	x	
4	INTERIM SUBTOTAL	=	=	
5	PREMIUM FOR COLLISION BASED ON ACTUAL CASH VALUE			=
6	DEDUCTIBLE BY SYMBOL (M) FACTOR	x	x	x
7	RATE ADJUSTMENT FACTOR (FROM RATE PAGES)	x 0.969	x 0.969	x 0.969
8	POLICY LOSS FREE FACTOR	x	x	x
9	MISCELLANEOUS VEHICLE LOSS SURCHARGE FACTOR	x	x	x
10	SUBTOTAL (USED FOR LOAN/LEASE COVERAGE)	=	=	=
11	FIXED EXPENSE PREMIUM (not applicable to Trailers)	+	+	
12	CREDIT FOR EXISTING INSURANCE	x	x	x
13	TOTAL COVERAGE PREMIUM	=	=	=

**MOTOR HOME LOAN/LEASE PREMIUM CALCULATION  
(ROUND TO THE NEAREST DOLLAR AFTER EACH STEP)**

STEP		COMP	COLL
1	SUBTOTAL FROM MOTOR HOME PHYSICAL DAMAGE COVERAGE PREMIUM		
2	AUTO LOAN/LEASE FACTOR	x	x
3	CREDIT FOR EXISTING INSURANCE	x	x
4	TOTAL COVERAGE PREMIUM	=	=

**MOTOR HOME MISCELLANEOUS PREMIUM CALCULATION  
(ROUND TO THE NEAREST DOLLAR AFTER EACH STEP)**

STEP		Rate	CFEI	Total
1	ELECTRONIC EQUIPMENT PREMIUM		x	=
2	TOTAL MISC COVERAGES PREMIUM			=

<b>TOTAL ANNUAL PREMIUM</b>	<b>=</b>
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**ARKANSAS USP PORTFOLIO  
ENCOMPASS INDEMNITY COMPANY  
MOTOR VEHICLE RATE PAGES**

**MISCELLANEOUS VEHICLE LIABILITY PREMIUM CALCULATION  
(ROUND TO THE NEAREST DOLLAR AFTER EACH STEP)**

STEP		BI	PD	MED
1	TERRITORIAL BASE RATE			
2	RATE ADJUSTMENT FACTOR (FROM RATE PAGES)	x 1.344	x 1.360	x 1.429
3	INCREASED LIMIT FACTOR	x	x	x
4	MISCELLANEOUS VEHICLE LIABILITY FACTOR	x	x	x
5	POLICY LOSS FREE FACTOR	x	x	x
6	MISCELLANEOUS VEHICLE LOSS SURCHARGE	x	x	x
7	FIXED EXPENSE PREMIUM (ANTIQUA AUTOS ONLY)	+	+	
8	CREDIT FOR EXISTING INSURANCE	x	x	x
9	TOTAL COVERAGE PREMIUM	=	=	=

**MISCELLANEOUS VEHICLE UM/UIM PREMIUM CALCULATION  
(ROUND TO THE NEAREST DOLLAR AFTER EACH STEP)**

STEP	MOTORCYCLE UM/UIM COVERAGE	UM/UIM BI	UM PD
1	BASE RATE		
2	RATE ADJUSTMENT FACTOR (FROM RATE PAGES)	x 1.389	x 1.389
3	CREDIT FOR EXISTING INSURANCE	x	x
4	TOTAL COVERAGE PREMIUM	=	=

Note: UM/UIM Premium is vehicle level based on the number of PP autos, vans, pickups, motor homes, motorcycles and antique autos on policy.

**MISCELLANEOUS VEHICLE PHYSICAL DAMAGE PREMIUM CALCULATION  
(ROUND TO THE NEAREST DOLLAR AFTER EACH STEP)**

STEP		COMP	COLL
1	ACTUAL CASH VALUE OR STATED AMOUNT (\$00)		
2	RATE PER \$100 OF ACTUAL CASH VALUE OR STATED AMOUNT	x	x
3	DEDUCTIBLE BY SYMBOL (M) FACTOR	x	x
4	RATE ADJUSTMENT FACTOR (FROM RATE PAGES)	x 0.895	x 0.874
5	POLICY LOSS FREE FACTOR	x	x
6	MISCELLANEOUS VEHICLE LOSS SURCHARGE	x	x
7	FIXED EXPENSE PREMIUM (ANTIQUA AUTOS ONLY)	+	+
8	CREDIT FOR EXISTING INSURANCE	x	x
9	TOTAL COVERAGE PREMIUM	=	=

**MISCELLANEOUS VEHICLE MISCELLANEOUS PREMIUM CALCULATION \*\*  
(ROUND TO THE NEAREST DOLLAR AFTER EACH STEP)**

STEP		Rate	CFEI	Total
1	EXTENDED TRANSPORTATION & RENTAL RE PREMIUM		x	+
2	TOWING & LABOR PREMIUM		x	+
3	ELECTRONIC EQUIPMENT PREMIUM		x	+
4	TOTAL MISC COVERAGES PREMIUM			=

\*\* These coverages are not available for snowmobiles, ATVs or dune buggies.



**ARKANSAS  
ENCOMPASS INDEMNITY COMPANY  
MOTOR VEHICLE RATE PAGES**

**COMPREHENSIVE DEDUCTIBLES BY SYMBOL & MODEL YEAR FACTORS**

<b>COMPREHENSIVE PRICE GROUP SYMBOL FACTORS</b>						
<b>PGS</b>	<b>\$100</b>	<b>\$150</b>	<b>\$250</b>	<b>\$500</b>	<b>\$1,000</b>	<b>\$2,500</b>
M	0.21	0.18	0.13	0.09	0.07	0.05
O	0.29	0.25	0.19	0.14	0.11	0.09
S	0.42	0.36	0.29	0.22	0.17	0.13
T	0.57	0.51	0.44	0.37	0.29	0.23
U	0.75	0.69	0.62	0.54	0.41	0.31
V	0.92	0.85	0.77	0.66	0.50	0.38
W	1.08	1.00	0.92	0.79	0.59	0.44
N	1.24	1.14	1.04	0.90	0.68	0.51
P	1.39	1.29	1.17	1.02	0.79	0.61
Q	1.52	1.42	1.30	1.15	0.92	0.74
R	1.66	1.56	1.44	1.29	1.06	0.87
G	1.87	1.76	1.63	1.46	1.22	1.02
I	2.15	2.02	1.89	1.69	1.42	1.19
K	2.48	2.34	2.19	1.97	1.66	1.40
C	3.01	2.85	2.67	2.41	2.05	1.74
D	3.69	3.49	3.27	2.95	2.50	2.12
E	4.29	4.04	3.76	3.37	2.80	2.33
F	5.02	4.72	4.40	3.94	3.27	2.71
H	5.75	5.40	5.04	4.51	3.74	3.10
J	6.47	6.08	5.67	5.08	4.21	3.49
L	7.20	6.76	6.31	5.65	4.68	3.88

<b>MODEL YEAR</b>	<b>COMP FACTOR</b>
<b>2015</b>	<b>1.503</b>
<b>2014</b>	<b>1.418</b>
<b>2013</b>	<b>1.338</b>
<b>2012</b>	<b>1.262</b>
<b>2011</b>	<b>1.191</b>
<b>2010</b>	<b>1.124</b>
<b>2009</b>	<b>1.060</b>
<b>2008</b>	<b>1.000</b>
<b>2007</b>	<b>0.971</b>
<b>2006</b>	<b>0.943</b>
<b>2005 &amp; Prior</b>	<b>0.915</b>
<b>2004 &amp; Prior</b>	<b>0.888</b>

Multiply by 6% for each subsequent model years not shown

<b>COMPREHENSIVE PRICE GROUP SYMBOL FACTORS FULL GLASS</b>						
<b>PGS</b>	<b>\$100</b>	<b>\$150</b>	<b>\$250</b>	<b>\$500</b>	<b>\$1,000</b>	<b>\$2,500</b>
M	0.24	0.22	0.19	0.14	0.11	0.09
O	0.32	0.29	0.24	0.20	0.13	0.08
S	0.46	0.43	0.35	0.29	0.20	0.14
T	0.63	0.56	0.47	0.40	0.30	0.23
U	0.80	0.73	0.62	0.53	0.41	0.32
V	0.96	0.91	0.79	0.67	0.53	0.42
W	1.15	1.07	0.95	0.82	0.63	0.48
N	1.27	1.21	1.09	0.93	0.70	0.53
P	1.40	1.34	1.21	1.02	0.77	0.58
Q	1.43	1.35	1.22	1.04	0.78	0.59
R	1.48	1.40	1.28	1.07	0.82	0.63
G	1.61	1.52	1.40	1.21	0.96	0.76
I	1.79	1.71	1.56	1.39	1.14	0.93
K	2.06	1.97	1.82	1.62	1.38	1.18
C	2.56	2.48	2.32	1.99	1.75	1.54
D	3.32	3.20	2.97	2.60	2.26	1.96
E	4.12	3.94	3.65	3.25	2.82	2.45
F	4.82	4.60	4.26	3.80	3.31	2.88
H	5.52	5.26	4.88	4.35	3.79	3.30
J	6.21	5.93	5.50	4.90	4.26	3.70
L	6.91	6.59	6.11	5.45	4.74	4.12



**ARKANSAS  
ENCOMPASS INDEMNITY COMPANY  
MOTOR VEHICLE RATE PAGES**

**COLLISION DEDUCTIBLES BY SYMBOL & MODEL YEAR FACTORS**

COLLISION PRICE GROUP SYMBOL FACTORS						
PGS	\$100	\$150	\$250	\$500	\$1,000	\$2,500
M	0.73	0.68	0.59	0.45	0.24	0.18
O	0.88	0.83	0.74	0.59	0.37	0.29
S	1.00	0.95	0.86	0.68	0.47	0.38
T	1.10	1.06	0.99	0.78	0.56	0.46
U	1.27	1.23	1.15	0.94	0.67	0.56
V	1.40	1.36	1.28	1.06	0.77	0.66
W	1.51	1.47	1.40	1.17	0.86	0.74
N	1.63	1.59	1.51	1.27	0.95	0.82
P	1.76	1.72	1.63	1.38	1.03	0.90
Q	1.91	1.85	1.73	1.49	1.12	0.97
R	2.06	1.99	1.85	1.59	1.21	1.04
G	2.22	2.14	1.99	1.71	1.33	1.14
I	2.40	2.32	2.18	1.87	1.51	1.31
K	2.62	2.54	2.38	2.06	1.68	1.46
C	2.97	2.88	2.69	2.37	1.91	1.68
D	3.40	3.28	3.05	2.69	2.12	1.85
E	3.55	3.44	3.23	2.79	2.22	1.93
F	3.96	3.85	3.62	3.13	2.49	2.18
H	4.38	4.26	4.00	3.46	2.76	2.41
J	4.81	4.67	4.38	3.79	3.03	2.64
L	5.23	5.08	4.78	4.14	3.29	2.88

MODEL YEAR	COLL FACTOR
<b>2015</b>	<b>1.714</b>
2014	1.587
2013	1.469
2012	1.360
2011	1.259
2010	1.166
2009	1.080
2008	1.000
2007	0.935
2006	0.873
<b>2005 &amp; Prior</b>	<b>0.816</b>
<b>2004 &amp; Prior</b>	<b>0.763</b>

Multiply by 8% for each subsequent model years not shown

**ARKANSAS  
ENCOMPASS INDEMNITY COMPANY  
MOTOR VEHICLE RULES**

B. Work Loss Coverage

(1). 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.

(2). Rates:

(a) All Eligible Motor Vehicles

- Charge [\\$8.38](#) per car, per year.
- The Classification and SDIP Rules do NOT apply.

C. Accidental Death Benefit

(1). Limits: Maximum per person--\$5,000.

(2). Rates:

(a) All Eligible Motor Vehicles

- Charge [\\$5.03](#) per car, per year.
- The Classification and SDIP Rules do NOT apply.

Q. Good Payer Discount

The Good Payer Discount rating factors on the Motor Vehicle Rate Pages will be applied to the otherwise applicable rates for Split Limit or Single Limit Liability, Medical Expenses, Comprehensive, and Collision coverages for all private passenger autos, vans and pickups on the policy when the policy meets the following eligibility requirements:

1. Initial Qualification: All private passenger autos, vans and pickups on the policy, written in Encompass Indemnity Company, will initially qualify for the discount for all policies with an effective date on or after January 25, 2010.
2. Subsequent Qualification: The policy will be evaluated prior to each renewal to determine whether the policy qualifies for the discount at such renewal. The discount will be removed from all private passenger autos, vans and pickups on the policy if a cancellation notice for non-payment of vehicle premiums was sent during the most recent prior 12-month period ending 45 days prior to the renewal effective date. Otherwise, the discount will apply to all private passenger autos, pickups and vans on the policy at renewal.

**ARKANSAS  
ENCOMPASS INDEMNITY COMPANY  
PERSONAL UMBRELLA RULES**

## 5. ANNUAL RATES - BASIC LIMITS

### A. Motor Vehicle Liability (rates apply per vehicle)

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

<u>Classification</u>	<u>Class Code</u>	<u>BASIC LIMIT RATES</u>		<u>\$100/300 or \$300,000</u>
		<u>All Territories</u>	<u>All Territories</u>	<u>UNDERLYING LIMIT FLAT CHARGE</u>
All Operators	7010XX	\$97.00		<u>\$17.07</u>
Youthful Surcharge:				
Operators Under Age 21	7710XX	<u>\$27.01</u>		<u>\$2.84</u>
Operators Age 21 to 24	7510XX	<u>\$27.01</u>		<u>\$2.84</u>
Senior Discount:				
Operators Age 50 and above	7310XX	<u>\$22.75</u>		<u>\$1.42</u>

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)

If personal umbrella coverage is written on a package policy, apply a factor of 0.67 to the All Operators basic limit rate above. The definition of a package can be found in the General Rules.

#### (2) Other Miscellaneous Type Vehicles

<u>Vehicle</u>	<u>Class Code</u>	<u>BASIC LIMIT RATES</u>		<u>\$100/300 or \$300,000</u>
		<u>All Territories</u>	<u>All Territories</u>	<u>UNDERLYING LIMIT FLAT CHARGE</u>
Motor Homes	703000	\$22		<u>\$ 2.84</u>
Snowmobiles	704000	\$19		<u>\$ 2.84</u>
All-Terrain Vehicles	705000	\$19		<u>\$ 2.84</u>
Non-Registered Dune Buggies	706000	\$22		<u>\$ 2.84</u>
Golf Carts	707000	\$22		<u>\$ 2.84</u>
Antique Autos	708000	\$22		<u>\$ 2.84</u>

**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.

## Private Passenger Auto Premium Comparison Survey Form

FORM APCS - last modified May 2012

NAIC Number:	008-15130
Company Name:	Encompass Indemnity Company
Contact Person:	Kyle Schubert
Telephone No.:	847-402-8692
Email Address:	kscj9@allstate.com
Effective Date:	31-Jul-15

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

DISCOUNTS OFFERED:

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

Vehicle	Coverages	Gender	Age	Fayetteville				Trumann				Little Rock				Lake Village				Pine Bluff			
				Female	Male	Male or Female	Male or Female	Female	Male	Male or Female	Male or Female	Female	Male	Male or Female	Male or Female	Female	Male	Male or Female	Male or Female	Female	Male	Male or Female	Male or Female
				18	18	40	66	18	18	40	66	18	18	40	66	18	18	40	66	18	18	40	66
2008 4.8L Chevrolet Silverado 1500 "LS" regular cab 119" WB	Minimum Liability			1,024	1,032	338	319	1,074	1,083	348	328	1,389	1,402	420	393	1,129	1,139	360	339	1,278	1,290	395	369
	Minimum Liability with Comprehensive and Collision			2,225	2,318	686	604	2,664	2,802	824	699	2,823	2,933	828	731	2,650	2,779	810	695	2,693	2,811	809	702
	100/300/50 Liability with Comprehensive and Collision			2,083	2,164	627	563	2,486	2,609	740	639	2,641	2,738	744	667	2,473	2,587	728	636	2,527	2,631	729	644
2009 Ford Explorer "XLT" 2WD, 4 door	Minimum Liability			889	896	306	290	932	939	315	298	1,142	1,207	376	352	927	935	326	307	1,104	1,114	351	333
	Minimum Liability with Comprehensive and Collision			2,052	2,138	639	567	2,397	2,518	747	641	2,547	2,704	771	684	2,352	2,466	741	643	2,449	2,555	739	651
	100/300/50 Liability with Comprehensive and Collision			1,911	1,986	587	530	2,227	2,334	674	590	2,420	2,509	694	625	2,235	2,335	669	591	2,287	2,379	672	599
2010 Honda Odyssey "EX"	Minimum Liability			849	855	297	282	889	897	306	289	1,140	1,150	363	340	937	944	316	298	1,052	1,062	339	322
	Minimum Liability with Comprehensive and Collision			2,371	2,479	727	641	2,783	2,935	858	730	2,984	3,114	877	773	2,786	2,930	849	730	2,805	2,938	839	733
	100/300/50 Liability with Comprehensive and Collision			2,176	2,173	652	584	2,553	2,686	757	656	2,736	2,849	772	690	2,554	2,679	749	655	2,582	2,699	747	659
2011 Toyota Camry 2.5L 4 door Sedan	Minimum Liability			980	987	326	308	1,027	1,035	336	316	1,317	1,329	402	376	1,084	1,093	348	319	1,216	1,227	375	355
	Minimum Liability with Comprehensive and Collision			2,986	3,126	886	778	3,462	3,651	1,036	881	3,764	3,932	1,077	946	3,484	3,664	1,020	855	3,507	3,675	1,020	888
	100/300/50 Liability with Comprehensive and Collision			2,712	2,833	774	689	3,146	3,311	894	772	3,416	3,562	926	823	3,162	3,319	889	774	3,197	3,343	886	779
2011 Cadillac Seville "CTS" AWD WAG 4 door 3.0L	Minimum Liability			906	913	310	293	895	957	319	301	1,217	1,227	380	356	1,001	1,009	330	303	1,123	1,134	355	336
	Minimum Liability with Comprehensive and Collision			3,847	4,057	1,136	975	4,648	5,005	1,412	1,161	4,765	5,012	1,364	1,176	4,637	4,920	1,376	1,106	4,543	4,801	1,327	1,125
	100/300/50 Liability with Comprehensive and Collision			3,445	3,626	962	837	4,223	4,490	1,184	987	4,263	4,477	1,141	995	4,158	4,406	1,154	974	4,085	4,310	1,120	958
2010 Hyundai Santa Fe SE 4X2	Minimum Liability			861	867	300	284	901	909	308	291	1,155	1,165	366	343	950	958	319	293	1,067	1,076	342	325
	Minimum Liability with Comprehensive and Collision			1,978	2,058	617	551	2,263	2,371	705	612	2,515	2,612	747	666	2,289	2,393	705	598	2,344	2,441	707	628
	100/300/50 Liability with Comprehensive and Collision			1,841	1,910	569	517	2,102	2,198	640	566	2,337	2,422	674	610	2,125	2,216	639	570	2,187	2,272	646	580