

SERFF Tracking Number: ALSX-125319212 State: Arkansas
Filing Company: Encompass Insurance Company of America State Tracking Number: AR-PC-07-026379
Company Tracking Number: ER-0610
TOI: 04.0 Homeowners Sub-TOI: 04.0000 Homeowners Sub-TOI Combinations
Product Name: Other Than Auto
Project Name/Number: Rule and Rate Filing/ER-0610

Filing at a Glance

Company: Encompass Insurance Company of America

Product Name: Other Than Auto SERFF Tr Num: ALSX-125319212 State: Arkansas
TOI: 04.0 Homeowners SERFF Status: Closed State Tr Num: AR-PC-07-026379
Sub-TOI: 04.0000 Homeowners Sub-TOI Co Tr Num: ER-0610 State Status:
Combinations
Filing Type: Rate Co Status: Reviewer(s): Becky Harrington,
Betty Montesi, Brittany Yielding
Author: SPI AllState Disposition Date: 10/15/2007
Date Submitted: 10/10/2007 Disposition Status: Filed
Effective Date Requested (New): Effective Date (New):
Effective Date Requested (Renewal): 12/20/2007 Effective Date (Renewal):
12/20/2007

General Information

Project Name: Rule and Rate Filing Status of Filing in Domicile: Pending
Project Number: ER-0610 Domicile Status Comments:
Reference Organization: Reference Number:
Reference Title: Advisory Org. Circular:
Filing Status Changed: 10/15/2007
State Status Changed: 10/10/2007 Deemer Date:
Corresponding Filing Tracking Number:
Filing Description:
With this filing, we are proposing a 4.7% overall rate level increase for the Encompass Insurance Company of America Other Than Automobile Program. Please see the attached documentation for more information.

Company and Contact

Filing Contact Information

Carrie Deppe, Assistant State Filings Manager cdepp@allstate.com
2775 Sanders Road (847) 402-2774 [Phone]

SERFF Tracking Number: ALSX-125319212 State: Arkansas
Filing Company: Encompass Insurance Company of America State Tracking Number: AR-PC-07-026379
Company Tracking Number: ER-0610
TOI: 04.0 Homeowners Sub-TOI: 04.0000 Homeowners Sub-TOI Combinations
Product Name: Other Than Auto
Project Name/Number: Rule and Rate Filing/ER-0610

Northbrook, IL 60062 (847) 402-9757[FAX]

Filing Company Information

Encompass Insurance Company of America CoCode: 10071 State of Domicile: Illinois
2775 Sanders Road Group Code: 8 Company Type:
Suite A5
Northbrook, IL 60062 Group Name: Allstate State ID Number:
(847) 402-5000 ext. [Phone] FEIN Number: 36-3976913

SERFF Tracking Number: ALSX-125319212 State: Arkansas
Filing Company: Encompass Insurance Company of America State Tracking Number: AR-PC-07-026379
Company Tracking Number: ER-0610
TOI: 04.0 Homeowners Sub-TOI: 04.0000 Homeowners Sub-TOI Combinations
Product Name: Other Than Auto
Project Name/Number: Rule and Rate Filing/ER-0610

Filing Fees

Fee Required? Yes
Fee Amount: \$100.00
Retaliatory? No
Fee Explanation: Independent rate filing.
Per Company: No

COMPANY	AMOUNT	DATE PROCESSED	TRANSACTION #
Encompass Insurance Company of America	\$100.00	10/10/2007	16038239

SERFF Tracking Number: ALSX-125319212 State: Arkansas
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 Product Name: Other Than Auto
 Project Name/Number: Rule and Rate Filing/ER-0610

Correspondence Summary

Dispositions

Status	Created By	Created On	Date Submitted
Filed	Becky Harrington	10/15/2007	10/15/2007

Objection Letters and Response Letters

Objection Letters				Response Letters		
Status	Created By	Created On	Date Submitted	Responded By	Created On	Date Submitted
Pending Industry Response	Becky Harrington	10/10/2007	10/10/2007	SPI AllState	10/12/2007	10/12/2007
Pending Industry Response	Becky Harrington	10/10/2007	10/10/2007	SPI AllState	10/10/2007	10/10/2007

SERFF Tracking Number: ALSX-125319212 State: Arkansas
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 Product Name: Other Than Auto
 Project Name/Number: Rule and Rate Filing/ER-0610

Disposition

Disposition Date: 10/15/2007
 Effective Date (New):
 Effective Date (Renewal): 12/20/2007
 Status: Filed
 Comment:

Company Name:	Overall % Rate Impact:	Written Premium Change for this Program:	# of Policy Holders Affected for this Program:	Premium:	Maximum % Change (where required):	Minimum % Change (where required):	Overall % Indicated Change:
Encompass Insurance Company of America	4.600%	\$95,347	1,023	\$2,028,670	%	%	%

SERFF Tracking Number: ALSX-125319212 State: Arkansas
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 Company Tracking Number: ER-0610
 TOI: 04.0 Homeowners Sub-TOI: 04.0000 Homeowners Sub-TOI Combinations
 Product Name: Other Than Auto
 Project Name/Number: Rule and Rate Filing/ER-0610

Item Type	Item Name	Item Status	Public Access
Supporting Document	AR - NAIC P&C TRANSMITTAL DOCUMENT, AR - NAIC RATE RULE FILING SCHEDULE, StateFilingForm01-HPCS, StateFilingForm02- H-1 HO Abstract	Filed	Yes
Supporting Document	StateFilingForm01-HPCS	Filed	Yes
Supporting Document (revised)	Form RF-1 NAIC Loss Cost Data Entry Document--All P&C Lines	Filed	Yes
Supporting Document	Form RF-1 NAIC Loss Cost Data Entry Document--All P&C Lines		No
Supporting Document	ActSupportExh01		No
Supporting Document	SuppAttachI_ER-0610_10.12.07_Response.pdf	Filed	Yes
Supporting Document	SuppAttachII_ER-0610_10.12.07_A1_ActuarialSupport.pdf	Filed	Yes
Rate	ManualER06101	Filed	Yes
Rate	ManualER06102	Filed	Yes
Rate	ManualER06103	Filed	Yes
Rate	ER-0610A1_RevisedManualPages	Filed	Yes

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TOI: 04.0 Homeowners Sub-TOI: 04.0000 Homeowners Sub-TOI Combinations
Product Name: Other Than Auto
Project Name/Number: Rule and Rate Filing/ER-0610

Objection Letter

Objection Letter Status Pending Industry Response

Objection Letter Date 10/10/2007

Submitted Date 10/10/2007

Respond By Date

Dear Carrie Deppe,

This will acknowledge receipt of the captioned filing.

Objection 1

- ActSupportExh01 (Supporting Document)

Comment: Countrywide excess loss factor is 1.20 while the average is 1.15. Please explain.

Objection 2

- ActSupportExh01 (Supporting Document)

Comment: Exhibit 12 assumes an after-tax operating profit of 9.1%. Provide the after tax underwriting profit percentage and display the calculation of the estimate of investment income on net unearned premiums and loss reserves.

Objection 3

- ActSupportExh01 (Supporting Document)

Comment: The modeled hurricane catastrophe provision is not appropriate for Arkansas.

Objection 4

- ActSupportExh01 (Supporting Document)

Comment: The countrywide catastrophe ratio must exclude coastal states.

Please feel free to contact me if you have questions.

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

Sincerely,

Becky Harrington

Response Letter

Response Letter Status Submitted to State

Response Letter Date 10/12/2007

SERFF Tracking Number: *ALSX-125319212* *State:* *Arkansas*
Filing Company: *Encompass Insurance Company of America* *State Tracking Number:* *AR-PC-07-026379*
Company Tracking Number: *ER-0610*
TOI: *04.0 Homeowners* *Sub-TOI:* *04.0000 Homeowners Sub-TOI Combinations*
Product Name: *Other Than Auto*
Project Name/Number: *Rule and Rate Filing/ER-0610*

Submitted Date **10/12/2007**

SERFF Tracking Number: ALSX-125319212 State: Arkansas
Filing Company: Encompass Insurance Company of America State Tracking Number: AR-PC-07-026379
Company Tracking Number: ER-0610
TOI: 04.0 Homeowners Sub-TOI: 04.0000 Homeowners Sub-TOI Combinations
Product Name: Other Than Auto
Project Name/Number: Rule and Rate Filing/ER-0610

Dear Becky Harrington,

Comments:

Please see our attached response.

Response 1

Comments: The Countrywide Excess Loss Factor selection reflects the consideration of the more recent experience periods, as well as, inflationary effects resulting in a larger percentage of losses expected to exceed the \$100,000 over time.

Please reference Exhibit 4, Development of Adjusted Non-Catastrophe Incurred Losses + LAE, which incorporates the Arkansas state specific Excess Loss Factor. This factor was selected consistent with the weighted average. The Countrywide Excess Factor selection is included on Exhibit 8, for reference, and is not used in the rate level calculation.

Related Objection 1

Applies To:

- ActSupportExh01 (Supporting Document)

Comment:

Countrywide excess loss factor is 1.20 while the average is 1.15. Please explain.

Changed Items:

No Supporting Documents changed.

No Form Schedule items changed.

No Rate/Rule Schedule items changed.

Response 2

Comments: Please reference Supplemental Attachment I, which includes information to support the proposed use of a 9.1% pre-tax underwriting profit provision. Please reference Appendix 2, Exhibit 1 for the after tax underwriting profit percentage. Please reference Appendix 2, Exhibit 2, Pages 1 through 6, for specific information outlining the calculation of the estimate of investment income on net unearned premiums and loss reserves.

Related Objection 1

Applies To:

- ActSupportExh01 (Supporting Document)

Comment:

SERFF Tracking Number: ALSX-125319212 State: Arkansas
Filing Company: Encompass Insurance Company of America State Tracking Number: AR-PC-07-026379
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TOI: 04.0 Homeowners Sub-TOI: 04.0000 Homeowners Sub-TOI Combinations
Product Name: Other Than Auto
Project Name/Number: Rule and Rate Filing/ER-0610

Exhibit 12 assumes an after-tax operating profit of 9.1%. Provide the after tax underwriting profit percentage and display the calculation of the estimate of investment income on net unearned premiums and loss reserves.

Changed Items:

Supporting Document Schedule Item Changes

Satisfied -Name: SuppAttachI_ER-0610_10.12.07_Response.pdf

Comment:

No Form Schedule items changed.

No Rate/Rule Schedule items changed.

Response 3

Comments: The modeled hurricane catastrophe provision has been removed from the indication.

Please reference Supplemental Attachment II, which includes a revised proposal to be considered an amendment to the original filing.

Related Objection 1

Applies To:

- ActSupportExh01 (Supporting Document)

Comment:

The modeled hurricane catastrophe provision is not appropriate for Arkansas.

Changed Items:

Supporting Document Schedule Item Changes

Satisfied -Name: SuppAttachII_ER-0610_10.12.07_A1_ActuarialSupport.pdf

Comment:

No Form Schedule items changed.

No Rate/Rule Schedule items changed.

Response 4

Comments: In reference to the Countrywide Selected Catastrophe Factor, item (13) on Exhibit 10, used in development of the Non-Modeled Catastrophe Provision, it is Encompass' position that proximity to the coast does not warrant exclusion of loss data for the development of the load for non-modeled catastrophes. The catastrophes used in the

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Product Name: Other Than Auto
Project Name/Number: Rule and Rate Filing/ER-0610

development of the Non-Modeled Catastrophe Provision do not include hurricanes or earthquakes.

Related Objection 1

Applies To:

- ActSupportExh01 (Supporting Document)

Comment:

The countrywide catastrophe ratio must exclude coastal states.

Changed Items:

No Supporting Documents changed.

No Form Schedule items changed.

No Rate/Rule Schedule items changed.

Response 5

Comments: Revised manual pages.

Changed Items:

No Supporting Documents changed.

No Form Schedule items changed.

Rate/Rule Schedule Item Changes

Exhibit Name	Rule # or Page #	Rate Action	Previous State Filing #
ER-0610A1_RevisedManualPages	ER-0610 A1	Replacement	

Sincerely,

Carrie Deppe

Sincerely,
SPI AllState

SERFF Tracking Number: ALSX-125319212 State: Arkansas
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TOI: 04.0 Homeowners Sub-TOI: 04.0000 Homeowners Sub-TOI Combinations
Product Name: Other Than Auto
Project Name/Number: Rule and Rate Filing/ER-0610

Objection Letter

Objection Letter Status Pending Industry Response
Objection Letter Date 10/10/2007
Submitted Date 10/10/2007

Respond By Date
Dear Carrie Deppe,

This will acknowledge receipt of the captioned filing.

Objection 1

- Form RF-1 NAIC Loss Cost Data Entry Document--All P&C Lines (Supporting Document)

Comment: The attachment listed under the RF-1 is an H-1. Please submit an RF-1.

Objection 2

No Objections

Comment:

All request for rate changes submitted to the Department must include supporting actuarial data as required by Arkansas Code Annotated \AA 23-67-209 and Rule 23, Section 7.A.2. Rate changes are not acceptable without sufficient justification.

Please feel free to contact me if you have questions.

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

Sincerely,
Becky Harrington

Response Letter

Response Letter Status Submitted to State
Response Letter Date 10/10/2007
Submitted Date 10/10/2007

Dear Becky Harrington,

Comments:

SERFF Tracking Number: ALSX-125319212 State: Arkansas
Filing Company: Encompass Insurance Company of America State Tracking Number: AR-PC-07-026379
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TOI: 04.0 Homeowners Sub-TOI: 04.0000 Homeowners Sub-TOI Combinations
Product Name: Other Than Auto
Project Name/Number: Rule and Rate Filing/ER-0610

Please see the requested documents.

Response 1

Comments: Sorry for the error! Here are the requested documents.

Related Objection 1

Applies To:

- Form RF-1 NAIC Loss Cost Data Entry Document--All P&C Lines (Supporting Document)

Comment:

The attachment listed under the RF-1 is an H-1. Please submit an RF-1.

Related Objection 2

Comment:

All request for rate changes submitted to the Department must include supporting actuarial data as required by Arkansas Code Annotated \AE 23-67-209 and Rule 23, Section 7.A.2. Rate changes are not acceptable without sufficient justification.

Changed Items:

Supporting Document Schedule Item Changes

Satisfied -Name: Form RF-1 NAIC Loss Cost Data Entry Document--All P&C Lines

Comment:

Satisfied -Name: ActSupportExh01

Comment:

No Form Schedule items changed.

No Rate/Rule Schedule items changed.

Sincerely,

Carrie Deppe

Sincerely,

SPI AllState

<i>SERFF Tracking Number:</i>	<i>ALSX-125319212</i>	<i>State:</i>	<i>Arkansas</i>
<i>Filing Company:</i>	<i>Encompass Insurance Company of America</i>	<i>State Tracking Number:</i>	<i>AR-PC-07-026379</i>
<i>Company Tracking Number:</i>	<i>ER-0610</i>		
<i>TOI:</i>	<i>04.0 Homeowners</i>	<i>Sub-TOI:</i>	<i>04.0000 Homeowners Sub-TOI Combinations</i>
<i>Product Name:</i>	<i>Other Than Auto</i>		
<i>Project Name/Number:</i>	<i>Rule and Rate Filing/ER-0610</i>		

Rate Information

Rate data applies to filing.

Filing Method:	File and Use
Rate Change Type:	Increase
Overall Percentage of Last Rate Revision:	0.000%
Effective Date of Last Rate Revision:	06/01/2007
Filing Method of Last Filing:	File and Use

Company Rate Information

Company Name:	Overall % Indicated Change:	Overall % Rate Impact:	Written Premium Change for this Program:	# of Policy Holders Affected for this Program:	Premium:	Maximum % Change (where required):	Minimum % Change (where required):
Encompass Insurance Company of America	%	4.700%	\$95,347	1,023	\$2,028,670	%	%

SERFF Tracking Number: ALSX-125319212 State: Arkansas
 Filing Company: Encompass Insurance Company of America State Tracking Number: AR-PC-07-026379
 Company Tracking Number: ER-0610
 TOI: 04.0 Homeowners Sub-TOI: 04.0000 Homeowners Sub-TOI Combinations
 Product Name: Other Than Auto
 Project Name/Number: Rule and Rate Filing/ER-0610

Rate/Rule Schedule

Review Status:	Exhibit Name:	Rule # or Page #:	Rate Action	Previous State Filing Attachments Number:
Filed	ManualER06101	Home Rate Pages	Replacement	Home Rate Pages.PDF
Filed	ManualER06102	Home Rule	Replacement	Home Rule.PDF
Filed	ManualER06103	Dwelling Fire	Replacement	Dwelling Fire.PDF
Filed	ER-0610A1_RevisedManualPages	ER-0610 A1	Replacement	ER-0610 A1.PDF

H. Optional Excess Liability

To obtain the premium for excess liability, refer to the Excess Liability Section of this manual.

I. Reinsurance Charge

Charge to cover the net cost of reinsurance.

Determine the Reinsurance Charge as follows:

1. Determine the Base Reinsurance Charge using the applicable Base Reinsurance Charge tables in the rate pages.
2. Multiply by the Reinsurance Rate Adjustment Factor in the rate pages.
3. Multiply by the Reinsurance Limit Factor in the rate pages.

Amounts of insurance not shown on the rate pages may be obtained by interpolation.

Method for Interpolation (example): A Reinsurance Limit Factor is desired for a policy amount of \$83,000. Reinsurance Limit Factors are shown for \$80,000 and \$85,000 on the rate pages.

1.

Coverage Amounts Shown	Factors Shown
\$ 85,000	85
<u>\$ - 80,000</u>	<u>- 80</u>
\$ 5,000 (Difference – Amount)	5 (Difference - Factor)

2. $[\$3,000 \text{ (Additional Amount)} / \$5,000 \text{ (Difference – Amount)}] \times [5 \text{ (Difference – Factor)}] = 3.000$
 Round to Three Decimals
 80.000 (Factor for \$80,000)
+3.000 (Factor for Additional \$3,000)
 83.000 (Factor for \$83,000 Rounded to Three Decimals)

3. RENTERS COVERAGE

To determine the premium for Renters Coverage, apply a factor of 1.304 to the corresponding condominium rate found on the rate pages. This rule does not apply to occupants of cooperative apartments who are charged the condominium rates found on the rate pages.

B. Condominiums and Cooperative Apartments

- (1) Determine the contents coverage amount.
- (2) Determine the base premium using the corresponding condominium rate found on the State Rate Pages.
- (3) Reserved for Future Use.
- (4) Adjust the base premium by the occupancy factor determined in Rule 7.B, of this section.
- (5) For liability limits other than \$300,000 (\$5,000 Medical Expenses), refer to Rule 2.G in the Home Section of this manual.
- (6) For Reinsurance Charge, refer to Rule 2.I in the Home Section of this manual.

6. SEASONAL DWELLING DEFINITION

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

7. OCCUPANCY FACTORS

A. Dwellings

(1) Dwelling Factors

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

	<u>Territories 62-65</u>		<u>All Other Territories</u>	
	<u>Frame</u>	<u>Masonry</u>	<u>Frame</u>	<u>Masonry</u>
Secondary Seasonal	<u>0.71</u>	<u>0.75</u>	<u>0.76</u>	<u>0.76</u>
Secondary Non-Seasonal	<u>0.75</u>	<u>0.76</u>	<u>0.76</u>	<u>0.75</u>
Primary	<u>0.75</u>	<u>0.76</u>	<u>0.76</u>	<u>0.75</u>

(2) Additional Contents Factor

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

<u>Terr.</u>	<u>% of Dwelling Value for Contents Coverage</u>				
	<u>10%</u>	<u>20%</u>	<u>30%</u>	<u>40%</u>	<u>50%</u>
62-65	INC	.08	.15	.21	.24
All Others	INC	.09	.16	.21	.25

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

(3) Rental Factor

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

ARKANSAS USP PACKAGE PREMISES RATE PAGES

BASE RATES

Territory	Homes	Condos
30	1,215	367
31	1,352	367
32	1,445	367
36	1,148	367
39	1,343	367
40	932	367
41	1,176	367
44	983	367
60	1,214	367
61	1,028	367
62	1,469	367
63	1,456	367
64	1,396	367
65	1,263	367
66	975	367
67	1,187	367
68	1,195	367
71	1,307	367
72	1,016	367
100	1,037	367
101	1,364	367

Flat Charge	0	0
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ARKANSAS USP PACKAGE PREMISES RATE PAGES

BASE RATES

Territory	Homes	Condos
30	1,213	367
31	1,349	367
32	1,442	367
36	1,146	367
39	1,340	367
40	930	367
41	1,174	367
44	981	367
60	1,212	367
61	1,026	367
62	1,466	367
63	1,453	367
64	1,393	367
65	1,261	367
66	973	367
67	1,185	367
68	1,193	367
71	1,304	367
72	1,014	367
100	1,035	367
101	1,361	367

Flat Charge	0	0
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H. Optional Excess Liability

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I. Reinsurance Charge

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Determine the Reinsurance Charge as follows:

1. Determine the Base Reinsurance Charge using the applicable Base Reinsurance Charge tables in the rate pages.
2. Multiply by the Reinsurance Rate Adjustment Factor in the rate pages.
3. Multiply by the Reinsurance Limit Factor in the rate pages.

Amounts of insurance not shown on the rate pages may be obtained by interpolation.

Method for Interpolation (example): A Reinsurance Limit Factor is desired for a policy amount of \$83,000. Reinsurance Limit Factors are shown for \$80,000 and \$85,000 on the rate pages.

1.

Coverage Amounts Shown	Factors Shown
\$ 85,000	85
<u>\$ - 80,000</u>	<u>-80</u>
\$ 5,000 (Difference – Amount)	5 (Difference - Factor)

2.

[\$3,000 (Additional Amount) / \$5,000) Difference – Amount] x [5 (Difference – Factor)] = 3.000
 Round to Three Decimals)

80.000 (Factor for \$80,000)

+3.000 (Factor for Additional \$3,000)

83.000 (Factor for \$83,000 Rounded to Three Decimals)

3. RENTERS COVERAGE

To determine the premium for Renters Coverage, apply a factor of 1.304 to the corresponding condominium rate found on the rate pages. This rule does not apply to occupants of cooperative apartments who are charged the condominium rates found on the rate pages.

B. Condominiums and Cooperative Apartments

- (1) Determine the contents coverage amount.
- (2) Determine the base premium using the corresponding condominium rate found on the State Rate Pages.
- (3) Reserved for Future Use.
- (4) Adjust the base premium by the occupancy factor determined in Rule 7.B, of this section.
- (5) For liability limits other than \$300,000 (\$5,000 Medical Expenses), refer to Rule 2.G in the Home Section of this manual.
- (6) For Reinsurance Charge, refer to Rule 2.I in the Home Section of this manual.

6. SEASONAL DWELLING DEFINITION

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

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

	<u>Territories 62-65</u>		<u>All Other Territories</u>	
	<u>Frame</u>	<u>Masonry</u>	<u>Frame</u>	<u>Masonry</u>
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Secondary Non-Seasonal	<u>0.75</u>	<u>0.76</u>	<u>0.76</u>	<u>0.75</u>
Primary	<u>0.75</u>	<u>0.76</u>	<u>0.76</u>	<u>0.75</u>

(2) Additional Contents Factor

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<u>Terr.</u>	<u>% of Dwelling Value for Contents Coverage</u>				
	<u>10%</u>	<u>20%</u>	<u>30%</u>	<u>40%</u>	<u>50%</u>
62-65	INC	.08	.15	.21	.24
All Others	INC	.09	.16	.21	.25

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

(3) Rental Factor

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

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TOI: 04.0 Homeowners Sub-TOI: 04.0000 Homeowners Sub-TOI Combinations
Product Name: Other Than Auto
Project Name/Number: Rule and Rate Filing/ER-0610

Supporting Document Schedules

Satisfied -Name: AR - NAIC P&C TRANSMITTAL DOCUMENT, AR - NAIC RATE RULE FILING SCHEDULE, StateFilingForm01-HPCS, StateFilingForm02- H-1 HO Abstract
Review Status: Filed 10/15/2007

Comments:

Attachments:

AR - NAIC P&C TRANSMITTAL DOCUMENT.PDF
AR - NAIC RATE RULE FILING SCHEDULE.PDF
StateFilingForm01-HPCS.PDF
StateFilingForm02- H-1 HO Abstract.PDF

Satisfied -Name: StateFilingForm01-HPCS
Review Status: Filed 10/15/2007

Comments:

Attachment:

StateFilingForm01-HPCS.PDF

Satisfied -Name: Form RF-1 NAIC Loss Cost Data Entry Document--All P&C Lines
Review Status: Filed 10/15/2007

Comments:

Attachment:

NAIC Loss Cost Date Entry.PDF

Satisfied -Name: ActSupportExh01
Review Status: 10/10/2007

Comments:

Attachment:

ActSupportExh01.PDF

SERFF Tracking Number: ALSX-125319212 State: Arkansas
Filing Company: Encompass Insurance Company of America State Tracking Number: AR-PC-07-026379
Company Tracking Number: ER-0610
TOI: 04.0 Homeowners Sub-TOI: 04.0000 Homeowners Sub-TOI Combinations
Product Name: Other Than Auto
Project Name/Number: Rule and Rate Filing/ER-0610

Satisfied -Name: SuppAttachI_ER-0610_10.12.07_Response.pdf
Review Status: Filed 10/15/2007

Comments:

Attachment:

SuppAttachI_ER-0610_10_12_07_Response_pdf.PDF

Satisfied -Name: SuppAttachII_ER-0610_10.12.07_A1_ActuarialSupport.pdf
Review Status: Filed 10/15/2007

Comments:

Attachment:

SuppAttachII_ER-0610_10_12_07_A1_ActuarialSupport_pdf.PDF

Property & Casualty Transmittal Document

1. Reserved for Insurance Dept. Use Only	2. Insurance Department Use only a. Date the filing is received: b. Analyst: c. Disposition: d. Date of disposition of the filing: e. Effective date of filing: <table style="width: 100%; border: none;"> <tr> <td style="width: 50%; border: none;">New Business</td> <td style="border: none;"></td> </tr> <tr> <td style="border: none;">Renewal Business</td> <td style="border: none;"></td> </tr> </table> f. State Filing #: g. SERFF Filing #: h. Subject Codes	New Business		Renewal Business	
New Business					
Renewal Business					

3. Group Name	Group NAIC #
Allstate	008

4. Company Name(s)	Domicile	NAIC #	FEIN #	State #
Encompass Insurance Company of America	IL	10071	36-3976913	

5. Company Tracking Number	ER-0610
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Contact Info of Filer(s) or Corporate Officer(s) [include toll-free number]

6.	Name and address	Title	Telephone #s	FAX #	e-mail
	Carrie M. Deppe 2775 Sanders Road, Suite A5 Northbrook IL 60062	Assistant State Filings Manager	800-366-2958 Ext. 22774	847-402-9757	cdepp@allstate.com

7. Signature of authorized filer	
8. Please print name of authorized filer	Carrie M. Deppe

Filing Information (see General Instructions for descriptions of these fields)

9.	Type of Insurance (TOI)	04.0 Homeowners
10.	Sub-Type of Insurance (Sub-TOI)	04.0000 Homeowners Sub-TOI Combinations
11.	State Specific Product code(s) (if applicable) [See State Specific Requirements]	
12.	Company Program Title (Marketing Title)	Other Than Auto
13.	Filing Type	<input type="checkbox"/> Rate/Loss Cost <input type="checkbox"/> Rules <input checked="" type="checkbox"/> Rates/Rules <input type="checkbox"/> Forms <input type="checkbox"/> Combination Rates/Rules/Forms <input type="checkbox"/> Withdrawal <input type="checkbox"/> Other (give description)
14.	Effective Date(s) Requested	New: Not applicable Renewal: 12/20/2007
15.	Reference Filing?	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
16.	Reference Organization (if applicable)	Not applicable
17.	Reference Organization # & Title	Not applicable
18.	Company's Date of Filing	October 10, 2007
19.	Status of filing in domicile	<input checked="" type="checkbox"/> Not Filed <input type="checkbox"/> Pending <input type="checkbox"/> Authorized <input type="checkbox"/> Disapproved

Property & Casualty Transmittal Document

20.	This filing transmittal is part of Company Tracking #	ER-0610
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21.	Filing Description [This area can be used in lieu of a cover letter or filing memorandum and is free-form text]
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With this filing, we are proposing a 4.7% overall rate level increase for the Encompass Insurance Company of America Other Than Automobile Program. Please see the attached documentation for more information.

22.	Filing Fees (Filer must provide check # and fee amount if applicable.) [If a state requires you to show how you calculated your filing fees, place that calculation below]
	<p>Check #: Not applicable. Fee will be paid via Electronic Funds Transfer. Amount: \$100.00</p> <p>Independent rate filing.</p> <p>Refer to each state's checklist for additional state specific requirements or instructions on calculating fees.</p>

***Refer to each state's checklist for additional state specific requirements (i.e. # of additional copies required, other state specific forms, etc.)

PROPERTY & CASUALTY RATE/RULE FILING SCHEDULE

(This form must be provided ONLY when making a filing that includes rate-related items such as Rate; Rule; Rate & Rule; Reference; Loss Cost; Loss Cost & Rule or Rate, etc.)

(Do not refer to the body of the filing for the component/exhibit listing, unless allowed by state.)

1.	This filing transmittal is part of Company Tracking #	ER-0610
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2.	This filing corresponds to form filing number (Company tracking number of form filing, if applicable)	Not applicable
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Rate Increase Rate Decrease Rate Neutral (0%)

3.	Filing Method (Prior Approval, File & Use, Flex Band, etc.)	File and Use
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4a.	Rate Change by Company (As Proposed)
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Company Name	Overall % Indicated Change (when Applicable)	Overall % Rate Impact	Written Premium Change for this program	# of policyholders affected for this program	Written premium for this program	Maximum %Change (where required)	Minimum %Change (where required)
Encompass Insurance Company of America	4.7	4.7	95347	1023	2028670	0	0
		0	0	0	0	0	0

4b.	Rate Change by Company (As Accepted) For State Use Only
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Company Name	Overall % Indicated Change (when Applicable)	Overall % Rate Impact	Written Premium Change for this program	# of policyholders affected for this program	Written premium for this program	Maximum %Change (where required)	Minimum %Change (where required)

5. Overall Rate Information (Complete for Multiple Company Filings only)

		COMPANY USE	STATE USE
5a.	Overall percentage rate indication(when applicable)		
5b.	Overall percentage rate impact for this filing		
5c.	Effect of Rate Filing – Written premium change for this program		
5d.	Effect of Rate Filing - Number of policyholders affected		

6.	Overall percentage of last rate revision	0.0
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7.	Effective Date of last rate revision	06/01/2007
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8.	Filing Method of Last filing (Prior Approval, File & Use, Flex Band, etc.)	File and Use
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9.	Rule # or Page # Submitted for Review	Replacement or withdrawn?	Previous state filing number, if required by state
01	Base Rate 1(rate pages)	<input type="checkbox"/> New <input checked="" type="checkbox"/> Replacement <input type="checkbox"/> Withdrawn	
02	Home Rules Page 2	<input type="checkbox"/> New <input checked="" type="checkbox"/> Replacement <input type="checkbox"/> Withdrawn	
03	Dwelling Fire Rules Page 2	<input type="checkbox"/> New <input checked="" type="checkbox"/> Replacement <input type="checkbox"/> Withdrawn	

NAIC Number:	10071	Homeowners Premium Comparison Survey Form FORM HPCS – last modified August, 2005	Submit to:	Arkansas Insurance Department	
Company Name:	Encompass Insurance Company of America			1200 West Third Street	
Contact Person:	Carrie Deppe		USE THE APPROPRIATE FORM BELOW – IF NOT APPLICABLE, LEAVE BLANK		Little Rock, AR 72201-1904
Telephone No.:	1.800.366.2958			Telephone:	501-371-2800
Email Address:	cdepp@allstate.com				Email as an attachment insurance.pnc@arkansas.gov
Effective Date:	12-20-2007			You may also attach to a SERFF filing or submit on a cdr disk	

Survey Form for HO3 (Homeowners) – Use \$500 Flat Deductible (Covers risk of direct physical loss for dwelling and other structures; named perils for personal property, replacement cost on dwelling, actual cash value on personal property)																			
Public Protection Class	Dwelling Value	Washington		Baxter		Craighead		St. Francis		Desha		Union		Miller		Sebastian		Pulaski	
		Brick	Frame	Brick	Frame	Brick	Frame	Brick	Frame	Brick	Frame	Brick	Frame	Brick	Frame	Brick	Frame	Brick	Frame
3	\$80,000	615	682	799	890	886	994	977	1096	832	929	901	1011	683	759	774	860	893	1001
	\$120,000	842	941	1121	1255	1249	1398	1375	1537	1170	1309	1270	1421	944	1058	1082	1213	1259	1407
	\$160,000	1047	1173	1390	1554	1547	1729	1700	1900	1450	1620	1573	1757	1174	1314	1343	1503	1558	1740
6	\$80,000	798	898	1058	1197	1181	1333	1298	1468	1104	1248	1200	1356	890	1009	1021	1156	1188	1344
	\$120,000	1118	1266	1486	1676	1653	1864	1815	2048	1549	1748	1679	1895	1255	1419	1436	1620	1664	1876
	\$160,000	1388	1567	1836	2069	2040	2297	2239	2522	1913	2155	2073	2335	1554	1754	1774	2001	2054	2313
9	\$80,000	2168	2546	2853	3344	3167	3710	3472	4067	2972	3484	3218	3769	2424	2844	2761	3237	3188	3735
	\$120,000	3008	3525	3947	4620	4376	5121	4794	5610	4109	4810	4445	5202	3358	3933	3820	4472	4406	5155
	\$160,000	3695	4326	4841	5662	5365	6274	5877	6871	5039	5894	5450	6373	4122	4824	4686	5482	5401	6316

Survey Form for HO4 (Renters) – Use \$500 Flat Deductible (Named perils for personal property, actual cash value for loss, liability and medical payments for others included)																			
Public Protection Class	Dwelling Value	Washington		Baxter		Craighead		St. Francis		Desha		Union		Miller		Sebastian		Pulaski	
		Brick	Frame	Brick	Frame	Brick	Frame	Brick	Frame	Brick	Frame	Brick	Frame	Brick	Frame	Brick	Frame	Brick	Frame
3	\$80,000	600	600	600	600	600	600	600	600	600	600	600	600	600	600	600	600	600	600
	\$120,000	880	880	880	880	880	880	880	880	880	880	880	880	880	880	880	880	880	880
	\$160,000	1173	1173	1173	1173	1173	1173	1173	1173	1173	1173	1173	1173	1173	1173	1173	1173	1173	1173
6	\$80,000	657	657	657	657	657	657	657	657	657	657	657	657	657	657	657	657	657	657
	\$120,000	971	971	971	971	971	971	971	971	971	971	971	971	971	971	971	971	971	971
	\$160,000	1293	1293	1293	1293	1293	1293	1293	1293	1293	1293	1293	1293	1293	1293	1293	1293	1293	1293
9	\$80,000	893	893	893	893	893	893	893	893	893	893	893	893	893	893	893	893	893	893
	\$120,000	1320	1320	1320	1320	1320	1320	1320	1320	1320	1320	1320	1320	1320	1320	1320	1320	1320	1320
	\$160,000	1746	1746	1746	1746	1746	1746	1746	1746	1746	1746	1746	1746	1746	1746	1746	1746	1746	1746

Survey Form for DP-2 (Dwelling Fire) – Use \$500 Flat Deductible (Named perils for dwelling and personal property; replacement cost for dwelling, actual cash value for personal property, no liability coverage)																			
Public Protection Class	Dwelling Value	Washington		Baxter		Craighead		St. Francis		Desha		Union		Miller		Sebastian		Pulaski	
		Brick	Frame	Brick	Frame	Brick	Frame	Brick	Frame	Brick	Frame	Brick	Frame	Brick	Frame	Brick	Frame	Brick	Frame
3	\$80,000	417	469	542	610	600	674	664	728	572	627	609	685	464	521	525	591	603	679
	\$120,000	573	643	744	837	823	926	911	999	785	859	836	940	636	715	721	811	829	931
	\$160,000	700	787	910	1022	1005	1131	1113	1231	958	1050	1021	1150	777	875	881	992	1011	1139
6	\$80,000	542	615	705	800	780	885	863	955	743	821	791	899	602	683	683	775	784	891
	\$120,000	743	845	967	1098	1069	1223	1190	1330	1019	1127	1085	1244	827	938	937	1063	1075	1231
	\$160,000	908	1031	1187	1364	1325	1521	1481	1652	1257	1404	1348	1547	1010	1148	1145	1318	1335	1532
9	\$80,000	1411	1690	1875	2238	2088	2490	2326	2698	1983	2302	2122	2531	1584	1895	1813	2165	2102	2507
	\$120,000	1981	2364	2617	3116	2908	3460	3236	3745	2766	3203	2955	3516	2218	2645	2532	3015	2928	3484
	\$160,000	2448	2915	3225	3833	3580	4253	3980	4600	3405	3939	3637	4322	2736	3258	3119	3709	3604	4282

SPECIFY THE PERCENTAGE GIVEN FOR CREDITS OR DISCOUNTS FOR THE FOLLOWING:										EARTHQUAKE INSURANCE												
HO3 and HO4 only										IMPORTANT, homeowners insurance does NOT automatically cover losses from earthquakes. Ask your agent about this coverage.												
Fire Extinguisher	0	%	Deadbolt Lock	0	%	ARE YOU CURRENTLY WRITING EARTHQUAKE COVERAGE IN ARKANSAS?										No		(yes or no)				
Burglar Alarm(local/Police...)	2-5	%	Window Locks	0	%	WHAT IS YOUR PERCENTAGE DEDUCTIBLE?										N/A		%				
Smoke Alarm(local/Fire station)	2-5	%	\$1,000 Deductible	17	%																	
			Other (specify)												Zone		Brick		Frame			
			Protective Package-local fire alarm, dead bolt locks on all exterior doors, fire extinguisher																			
			Maximum Credit Allowed												WHAT IS YOUR PRICE PER \$1,000 OF COVERAGE?		Highest Risk		\$		\$	
															Lowest Risk		\$		\$			

ARKANSAS INSURANCE DEPARTMENT

FORM H-1 HOMEOWNERS ABSTRACT

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

Company Name	Encompass Insurance Company of America
NAIC # (including group #)	008-10071

1. If you have had an insurance to value campaign during the experience filing period, describe the campaign and estimate its impact.
Not Applicable

2. If you use a cost estimator (or some similar method) in order to make sure that dwellings (or contents) are insured at their value, state when this program was started in Arkansas and estimate its impact.
Agents can use any of the most current automated residential cost estimators available from Marshall & Swift, or BOECKH. The majority of agents use BOECKH and it's impact generally understates the costs by approximately 10% on average.

3. If you require a minimum relationship between the amount of insurance to be written and the replacement value of the dwelling (contents) in order to purchase insurance, describe the procedures that are used.
100% insurance to value (ITV) is required. Agents submit acceptable documentation estimating the replacement value of the home. If the agent is unable to provide an estimate, then an inspection is ordered to determine the accurate replacement value.

4. If you use an Inflation Guard form or similar type of coverage, describe the coverage(s) and estimate the impact.
Historically, Encompass has utilized the Marshall & Swift Inflation Guard Factors which are published every 6 months. The percent increase will range from 2% to 4%.

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

a. Fire Extinguisher	0 %
b. Burglar Alarm(Local, Police station, Central station reporting)	2-5 %
c. Smoke Alarm(Local, Fire station, Central station reporting)	2-5 %
d. Insured who has both homeowners and auto with your company	20 %
e. Deadbolt Locks	0 %
f. Window or Door Locks	0 %
g. Other (specify) Protective Package- A combination of a local fire alarm, dead bolt locks on all exterior doors, and a fire extinguisher in the residence.	5
	Automatic Sprinkler System 8-13 %

6. Are there any areas in the State of Arkansas In which your company will not write homeowners insurance? If so, state the areas and explain reason for not writing.
NO

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

Form	Premium Volume
Homeowners	\$1,848,858
Renters	\$18,897
Condo	\$36,065
Dwelling Fire	\$124,850

8. Do you write homeowner risks which have aluminium, steel or vinyl siding? Yes No

9. Is there a surcharge on risks with wood heat? NO
If yes, state the surcharge N/A
Does the surcharge apply to conventional fire places? N/A
If yes, state the surcharge N/A

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

Signature
Carrie Deppe

Printed Name
State Filer

Title
1-800-366-2958

Telephone Number
CDEPP@Allstate.com

Email address

NAIC Number:	10071	Homeowners Premium Comparison Survey Form FORM HPCS – last modified August, 2005	Submit to:	Arkansas Insurance Department	
Company Name:	Encompass Insurance Company of America			1200 West Third Street	
Contact Person:	Carrie Deppe		USE THE APPROPRIATE FORM BELOW – IF NOT APPLICABLE, LEAVE BLANK		Little Rock, AR 72201-1904
Telephone No.:	1.800.366.2958			Telephone:	501-371-2800
Email Address:	cdepp@allstate.com				Email as an attachment insurance.pnc@arkansas.gov
Effective Date:	12-20-2007			You may also attach to a SERFF filing or submit on a cdr disk	

Survey Form for HO3 (Homeowners) – Use \$500 Flat Deductible (Covers risk of direct physical loss for dwelling and other structures; named perils for personal property, replacement cost on dwelling, actual cash value on personal property)																			
Public Protection Class	Dwelling Value	Washington		Baxter		Craighead		St. Francis		Desha		Union		Miller		Sebastian		Pulaski	
		Brick	Frame	Brick	Frame	Brick	Frame	Brick	Frame	Brick	Frame	Brick	Frame	Brick	Frame	Brick	Frame	Brick	Frame
3	\$80,000	615	682	799	890	886	994	977	1096	832	929	901	1011	683	759	774	860	893	1001
	\$120,000	842	941	1121	1255	1249	1398	1375	1537	1170	1309	1270	1421	944	1058	1082	1213	1259	1407
	\$160,000	1047	1173	1390	1554	1547	1729	1700	1900	1450	1620	1573	1757	1174	1314	1343	1503	1558	1740
6	\$80,000	798	898	1058	1197	1181	1333	1298	1468	1104	1248	1200	1356	890	1009	1021	1156	1188	1344
	\$120,000	1118	1266	1486	1676	1653	1864	1815	2048	1549	1748	1679	1895	1255	1419	1436	1620	1664	1876
	\$160,000	1388	1567	1836	2069	2040	2297	2239	2522	1913	2155	2073	2335	1554	1754	1774	2001	2054	2313
9	\$80,000	2168	2546	2853	3344	3167	3710	3472	4067	2972	3484	3218	3769	2424	2844	2761	3237	3188	3735
	\$120,000	3008	3525	3947	4620	4376	5121	4794	5610	4109	4810	4445	5202	3358	3933	3820	4472	4406	5155
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Survey Form for HO4 (Renters) – Use \$500 Flat Deductible (Named perils for personal property, actual cash value for loss, liability and medical payments for others included)																			
Public Protection Class	Dwelling Value	Washington		Baxter		Craighead		St. Francis		Desha		Union		Miller		Sebastian		Pulaski	
		Brick	Frame	Brick	Frame	Brick	Frame	Brick	Frame	Brick	Frame	Brick	Frame	Brick	Frame	Brick	Frame	Brick	Frame
3	\$80,000	600	600	600	600	600	600	600	600	600	600	600	600	600	600	600	600	600	600
	\$120,000	880	880	880	880	880	880	880	880	880	880	880	880	880	880	880	880	880	880
	\$160,000	1173	1173	1173	1173	1173	1173	1173	1173	1173	1173	1173	1173	1173	1173	1173	1173	1173	1173
6	\$80,000	657	657	657	657	657	657	657	657	657	657	657	657	657	657	657	657	657	657
	\$120,000	971	971	971	971	971	971	971	971	971	971	971	971	971	971	971	971	971	971
	\$160,000	1293	1293	1293	1293	1293	1293	1293	1293	1293	1293	1293	1293	1293	1293	1293	1293	1293	1293
9	\$80,000	893	893	893	893	893	893	893	893	893	893	893	893	893	893	893	893	893	893
	\$120,000	1320	1320	1320	1320	1320	1320	1320	1320	1320	1320	1320	1320	1320	1320	1320	1320	1320	1320
	\$160,000	1746	1746	1746	1746	1746	1746	1746	1746	1746	1746	1746	1746	1746	1746	1746	1746	1746	1746

Survey Form for DP-2 (Dwelling Fire) – Use \$500 Flat Deductible (Named perils for dwelling and personal property; replacement cost for dwelling, actual cash value for personal property, no liability coverage)																			
Public Protection Class	Dwelling Value	Washington		Baxter		Craighead		St. Francis		Desha		Union		Miller		Sebastian		Pulaski	
		Brick	Frame	Brick	Frame	Brick	Frame	Brick	Frame	Brick	Frame	Brick	Frame	Brick	Frame	Brick	Frame	Brick	Frame
3	\$80,000	417	469	542	610	600	674	664	728	572	627	609	685	464	521	525	591	603	679
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	\$160,000	700	787	910	1022	1005	1131	1113	1231	958	1050	1021	1150	777	875	881	992	1011	1139
6	\$80,000	542	615	705	800	780	885	863	955	743	821	791	899	602	683	683	775	784	891
	\$120,000	743	845	967	1098	1069	1223	1190	1330	1019	1127	1085	1244	827	938	937	1063	1075	1231
	\$160,000	908	1031	1187	1364	1325	1521	1481	1652	1257	1404	1348	1547	1010	1148	1145	1318	1335	1532
9	\$80,000	1411	1690	1875	2238	2088	2490	2326	2698	1983	2302	2122	2531	1584	1895	1813	2165	2102	2507
	\$120,000	1981	2364	2617	3116	2908	3460	3236	3745	2766	3203	2955	3516	2218	2645	2532	3015	2928	3484
	\$160,000	2448	2915	3225	3833	3580	4253	3980	4600	3405	3939	3637	4322	2736	3258	3119	3709	3604	4282

SPECIFY THE PERCENTAGE GIVEN FOR CREDITS OR DISCOUNTS FOR THE FOLLOWING:										EARTHQUAKE INSURANCE												
HO3 and HO4 only										IMPORTANT, homeowners insurance does NOT automatically cover losses from earthquakes. Ask your agent about this coverage.												
Fire Extinguisher	0	%	Deadbolt Lock	0	%	ARE YOU CURRENTLY WRITING EARTHQUAKE COVERAGE IN ARKANSAS?										No		(yes or no)				
Burglar Alarm(local/Police...)	2-5	%	Window Locks	0	%	WHAT IS YOUR PERCENTAGE DEDUCTIBLE?										N/A		%				
Smoke Alarm(local/Fire station)	2-5	%	\$1,000 Deductible	17	%																	
			Other (specify)														Zone		Brick		Frame	
			Protective Package-local fire alarm, dead bolt locks on all exterior doors, fire extinguisher																			
			Maximum Credit Allowed	5	%	WHAT IS YOUR PRICE PER \$1,000 OF COVERAGE?										Highest Risk		\$				
				15	%											Lowest Risk		\$				

FORM RF-1 Rate Filing Abstract NAIC LOSS COST DATA ENTRY DOCUMENT

1.	This filing transmittal is part of Company Tracking #	ER-0610
2.	If filing is an adoption of an advisory organization loss cost filing, give name of Advisory Organization and Reference/ Item Filing Number	

Company Name		Company NAIC Number	
3.	A. Encompass Insurance Company of America	B.	008-10071

Product Coding Matrix Line of Business (i.e., Type of Insurance)		Product Coding Matrix Line of Insurance (i.e., Sub-type of Insurance)	
4.	A. 04.0 Homeowners	B.	04.0000 Homeowners Sub-TOI Combinations

5.

(A) COVERAGE (See Instructions)	(B) Indicated % Rate Level Change	(C) Requested % Rate Level Change	FOR LOSS COSTS ONLY			
			(D) Expected Loss Ratio	(E) Loss Cost Modification Factor	(F) Selected Loss Cost Multiplier	(G) Expense Constant (If Applicable)
Home	4.4%	4.4%				
Condo	4.2%	4.2%				
Renter	4.2%	4.2%				
Dwelling Fire	20.9%	14.0%				
Other Than Auto Balance	-8.6%	0.0%				
TOTAL OVERALL EFFECT	4.7%	4.7%				

6. 5 Year History Rate Change History

Year	Policy Count (Earned Exposures)	% of Change	Effective Date	State Earned Premium (000)	Incurred Losses (000)	State Loss Ratio	Countrywide Loss Ratio
2002	5125	13.1%	8/15	3466	1967	56.8%	39.5%
2003	4347	19.8%	8/15	3457	1375	39.8%	38.0%
2004	3338	12.3%	9/28	3348	851	25.4%	29.3%
2005	3323	19.8%	8/15	3202	508	15.9%	25.1%
2006	2428	13.1%	8/15	2646	649	24.5%	23.0%
2007 <small>* as of 6/30/07</small>	1205	9.0%	8/15	1503	176	11.7%	13.1%

7.

Expense Constants	Selected Provisions
A. Total Production Expense	16.8%
B. General Expense	7.6%
C. Taxes, License & Fees	2.8%
D. Underwriting Profit & Contingencies	9.1%
E. Other (explain)	Other Acq. 0.9%
F. TOTAL	34.4%

8. N Apply Lost Cost Factors to Future filings? (Y or N)
9. Home 4.4%
DFire 14.0% Estimated Maximum Rate Increase for any Insured (%). Territory (if applicable): N/A
10. N/A Estimated Maximum Rate Decrease for any Insured (%). Territory (if applicable): N/A

ENCOMPASS INSURANCE
ARKANSAS
OTHER THAN AUTOMOBILE

TABLE OF CONTENTS

I. Summary of Changes and Summary Exhibits

II. Homeowner Statewide Rate Level Indications

Overview of Homeowners Indication Methodology
Development of Statewide Rate Level Indication
Adjustments to Premium
Adjustments to Non-Catastrophe Losses
Non-Modeled Catastrophe Adjustments in Detail
Development of Modeled Catastrophe Losses
Expense and Profit Loads

SUMMARY OF CHANGES AND SUMMARY EXHIBITS

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

<u>Coverage</u>	<u>Adjusted Earned Premium Distribution</u>	<u>Indicated Rate Level Change</u>	<u>Proposed Rate Level Change</u>
Home	83.8%	+4.4%	+4.4%
Condo	2.1%	+4.2%	+4.2%
Renter	1.3%	+4.2%	+4.2%
Dwelling Fire	6.5%	+20.9%	+14.0%
OTA Balance	6.2%	-8.6%	+0.0%
Overall	100.0%	+4.7%	+4.7%

The filing contains the following revisions:

SUMMARY OF CHANGES AND SUMMARY EXHIBITS

HOME RATE PAGES

Base Premiums

Base premiums have been adjusted to reach a Homeowners impact of 4.4% and a Condos impact of 4.2%. Please see the rate pages for these changes.

HOME RULE PAGES

Renters Coverage (Rule 3)

The rental coverage factor has been adjusted to reach a renters impact of 4.2%. Please see the Home rule pages for these changes.

DWELLING FIRE RULE PAGES

Occupancy Factors (Rule 7)

Occupancy factors have been adjusted to reach a Dwelling Fire impact of 14.0%. Please see the Dwelling Fire rule pages for these changes.

The result of these changes is an overall Other Than Automobile impact of 4.7%.

METHODOLOGY

Exhibits 1 through 10 of this section show the Determination of Statewide Rate Level Indications for Arkansas. The objective of this process is to determine the indicated rate level need. This is done by evaluating the adequacy of our present rates to pay for our 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.

The statewide rate level indication is based on data from five 12 month rolling accident years, with losses evaluated as of March 31, 2007.

DEVELOPMENT OF STATEWIDE RATE LEVEL INDICATION (Exhibit 2)

1. Twelve-Month Experience Period:
2. Adjusted Earned Premium:
The calculation of adjusted earned premium is shown in **Exhibit 3** and takes into account the impact of current rate levels, premium trend, and other premium adjustments.
3. Non-Cat Adjusted Incurred Loss + LAE:
The calculation is detailed in **Exhibit 4** and includes the following factors: loss development, excess loss, loss trend, other loss adjustment, and unallocated loss adjustment expenses.
4. Non-Cat Adjusted Loss Ratio:
(3) / (2)
5. Formula Weights:
By weighting experience period results, an insurer can stabilize the indication while also taking into account any recent emerging trends in the data.
6. Non-Cat Ratemaking Loss Ratio:
Shows the formula non-cat adjusted loss ratio calculated using the formula weights in (5).
7. Claim Count:
Number of incurred claims in the experience periods used in the non-cat ratemaking loss ratio calculation.
8. Full Credibility Standard:
Number of incurred claims in the experience period to assign full credibility.
9. Credibility:
 $[(7) / (8)]^{0.5}$
10. Non-Cat Adjusted Prior Permissible Loss Ratio:
The prior company permissible loss ratio (reduced by fixed expenses, residual market load, and expected catastrophe provision) adjusted for annual net trend, trended from the date of the most recent non-zero rate change to the proposed effective date, is used as the complement of credibility. The calculation of the non-cat adjusted prior permissible loss ratio is shown in **Exhibit 2C**.
11. Credibility Weighted Non-Cat Ratemaking Loss Ratio:
 $[(6) * (9)] + [(10) * (1 - (9))]$
12. Non-Modeled Catastrophe Load:
The calculation of this provision for non-modeled catastrophes (as a percentage of incurred loss excluding catastrophes) is illustrated in **Exhibit 10**.
13. Adjusted Modeled Catastrophe Loss Ratio:
The development of this ratio for modeled catastrophes is shown at the bottom of **Exhibit 4**.

14. Catastrophe Ratemaking Loss Ratio:

$$[(18) - (16) - (17) - (13)] * [1 - 1 / (12)] + (13)$$

15. Total Ratemaking Loss Ratio:

$$[(11) + (14)]$$

16. Adjusted Fixed Expense Ratio:

100% of General Expenses, Other Acquisition Expenses, and Miscellaneous Taxes, Licenses and Fees are assumed to be a fixed percentage of current premium and do not change in proportion to rate level revisions. This fixed expense ratio is adjusted for loss trend, premium trend, and current rate level. Since historical losses are brought to prospective cost levels and historical premiums are adjusted to the current rate level, an adjustment to these expenses is necessary as well to adjust historical expenses to future expense levels.

17. Adjusted Residual Market Load:

Where applicable, a charge is included to reflect the cost incurred by the company as a result of residual market assignments. Similarly to the fixed expense ratio, this residual market load is adjusted for loss trend, premium trend, and current rate level.

18. Permissible Loss and LAE Ratio:

The permissible loss and LAE ratio calculation is shown in **Exhibit 12**.

19. Rate Level Indication:

$$[((15) + (16) + (17)) / (18)] - 1$$

ADJUSTMENTS TO PREMIUMS

Current Rate Level Factors

Earned premiums are adjusted to current rate levels to simulate premiums that would have resulted if present Encompass rates had been charged during the experience period. The adjustments are accomplished by applying the percentage effect of any rate level change during the experience period and are calculated using the parallelogram method. A detailed explanation of the parallelogram method is included in Foundations of Casualty Actuarial Science, Chapter 2, written by Charles L. McClenahan. The development of these factors is shown in **Exhibit 5**.

Premium Trend Factors

In addition to bringing premiums to current rate level, changes in the average written premium at the current premium level were reviewed. Based upon this review, historical premium trends were selected to account for shifts in the distribution of various rating characteristics such as driver classification, increased limits, model year and symbols. Since the effects on losses caused by these shifts are reflected in the loss trends, it is important that Encompass also account for the anticipated future changes in premiums. Therefore, projected premium trend was taken into consideration when calculating the rate level need by coverage. See **Exhibit 6A** for the support for these selections.

Selected annual premium trends and overall premium trend factors are shown in **Exhibit 6B**. The trend is projected for the period covering the average date of earning for each of the experience periods to the average date of earning for each of the proposed effective periods.

ADJUSTMENTS TO NON-CATASTROPHE LOSSES

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

Loss Development

The losses for a given accident year may not have been fully determined at the evaluation date of this review. As such, the losses must be adjusted to an ultimate settlement basis. This is accomplished by analyzing historical patterns of incurred loss development and selecting loss development factors. Encompass Group data has been considered in the selection of the loss development factors. Losses used in the analysis include ALAE but exclude catastrophes in order to minimize distortions. Age-to-age factors are selected for each coverage using total limits losses. Additional analysis of losses limited to \$100,000 per claim is performed to develop limited losses to ultimate for Homeowners coverage. The selected loss development factors that have been used in this filing are shown in **Exhibits 7.1 through 7.4**.

Excess Losses

An excess loss load is included to spread the effect of large, fortuitous losses. Total ultimate losses for Homeowners 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 Group data has been considered in the selection of the loss development factors. 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 8**.

Loss Trend

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

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. The trend selections and an illustrated calculation of the trend factors for both frequency and severity, accompanied by the data in graphical format, are displayed in **Exhibit 9A and 9B**.

NON-MODELED CATASTROPHE ADJUSTMENTS IN DETAIL

Encompass separately identifies and accounts for its exposure to loss due to the occurrence of catastrophic events within a state. In order to estimate our non-hurricane, non-earthquake catastrophe exposure, we develop a long-term relativity of each state to our countrywide catastrophe factor based on all years 1988 and beyond. We then apply this relativity to a countrywide catastrophe factor based on more recent data. By using this approach, we are able to balance the stability of a long-term estimate of catastrophe potential in Arkansas (needed because of the infrequent occurrence of catastrophes) and the responsiveness of more recent data (needed because of changing demographic conditions).

Within our method we incorporate two procedures designed to stabilize the results of individual states. The first procedure caps losses for years that are uncharacteristic for that state. Relativities above three standard deviations plus the mean for the state are capped. Impacted years are limited to the highest relativity below the cap.

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

A result of our capping and credibility process is that the average of all the statewide relativities may no longer equal a countrywide relativity of 1.000. In order to assure an adequate provision for catastrophes on a countrywide basis, the resulting state relativities are adjusted to achieve an overall countrywide relativity of 1.000. The off-balance adjustment is made in proportion to each state's variability as defined by its standard deviation. The final relativity is applied to the countrywide catastrophe factor to develop the Arkansas catastrophe factor.

Exhibit 10 displays the development of the total Homeowners non-modeled catastrophe load of 24.8% for Arkansas. The Homeowners non-modeled catastrophe load is used for Dwelling Fire.

The countrywide non-modeled catastrophe factor for the Other Than Automobile Balance is calculated using a 10-year average of the ratio of countrywide Other Than Automobile Balance non-modeled catastrophe losses to countrywide Other Than Automobile Balance ex-catastrophe losses. The resulting countrywide non-modeled catastrophe load of 1.9% is applied to the Other Than Automobile Balance experience for Arkansas.

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

DEVELOPMENT OF MODELED CATASTROPHE LOSSES (HURRICANE)

Explanation of Hurricane Provision

I. Introduction

Losses expected from a hurricane are significantly different than losses expected from other types of catastrophic events. Hurricanes are unique because of the large potential impact such storms can have on the company's solvency and because of the relatively less frequent pattern for such events than those accounted for in the basic catastrophe provision. Encompass has established a separate procedure to determine the magnitude and distribution of expected hurricane losses for use in its ratemaking process.

The significant variation in the frequency of different magnitudes of hurricanes diminishes the accuracy of historical hurricane loss experience for projecting anticipated future loss levels. Average expected recurrence periods for the larger, more severe storms are so long that many external variables will change in the time periods between occurrences. For example, the area of southern Florida hit by Hurricane Andrew in 1992 was last hit by a major hurricane, Hurricane Betsy, in 1965. The type, number, value, vulnerability and geographical distribution of exposed properties in the area impacted by Hurricane Andrew are very different than those of the exposed properties in 1965. Actual loss statistics from a hurricane that occurred many years ago are not easily adjusted for the type, number, value, and vulnerability of present day structures.

Since historical hurricane losses cannot be used to accurately estimate current hurricane loss potential, Encompass has contracted with an outside vendor, AIR Worldwide Corporation (AIR), which uses an alternative methodology based on Monte Carlo simulation to arrive at Encompass's expected annual hurricane losses. This approach involves the development of computer programs that describe in detail the frequency of hurricanes, their meteorological characteristics, and their effects on exposed properties. A high-speed computer then simulates a large set of hypothetical hurricanes and estimates the resulting property losses based on Encompass's exposure.

In order to estimate the long run loss potential from hurricanes, 100,000 years of hurricane experience are simulated. This large number of simulations attempts to ensure that the resulting probability distribution of losses converges to a stable representative distribution of hurricane losses.

The pattern of simulated hurricanes will match closely the pattern of historical losses because meteorological data on the actual events since 1900 were used to estimate the parameters of the AIR hurricane simulation model. The meteorological sources used to develop the model are the most complete and accurate databases available from various agencies of the National Weather Service and the National Oceanographic and Atmospheric Administration (NOAA), including the National Hurricane Center.

This explanatory memorandum incorporates text taken directly from documents supplied to Encompass by AIR Worldwide Corporation (AIR) and should not be copied or distributed without the express, written permission of AIR.

DEVELOPMENT OF MODELED CATASTROPHE LOSSES (HURRICANE)

II. Hurricane Parameters and Wind Speed Estimation

Hurricane Parameters

The primary characteristics of hurricanes used to simulate each storm and resulting wind speeds are:

1. Hurricane Frequency
2. Landfall Location
3. Central Pressure
4. Radius of Maximum Winds
5. Forward Speed
6. Storm Track
7. Track Angle at Landfall

The probability distributions of these variables are estimated for coastal segments of equal length from Texas to Maine. Numbers are generated from the probability distributions of these random variables to assign values to the variables for each simulated hurricane.

1. Hurricane Frequency

More than one hundred years of history, spanning the period 1900-2004, were used to estimate the parameters of the annual frequency distribution.

2. Landfall Location

There are 3,100 possible landfall points in the AIR hurricane simulation model. The cumulative distribution of landfall locations is developed for fifty nautical mile lengths of coastline. The actual number of occurrences for each segment is then smoothed based on climatological studies relating storm paths and orientation of the coastline to historical landfall sites.

3. Central Pressure

Central pressure is the lowest sea-level pressure at the center of the hurricane. This variable is the primary determinant of hurricane wind speed. All else being equal, wind speeds increase as the central pressure decreases, or more precisely, as the difference between the central and peripheral pressure increases. Distributions are first fitted to historical central pressure data for each hundred nautical mile coastal segment. Separate distributions are then estimated for larger regions defined based on broad meteorological differences. The final distribution used for each segment is a combination, with appropriate weights applied, of the regional distributions and the segment distribution.

DEVELOPMENT OF MODELED CATASTROPHE LOSSES (HURRICANE)

4. Radius of Maximum Winds

Radius of Maximum Winds (R_{max}) is the distance from the storm's center (eye) to the point where the strongest winds are found. The radius of maximum winds (R_{max}) of stochastic events is estimated using a procedure that explicitly relates the radius of maximum winds to the central pressure of the storm and to latitude.

5. Forward Speed

Forward Speed is the speed at which a hurricane moves from point to point. The parameters of the distribution of forward speed are estimated for 100 nautical mile coastal segments. The lower bound of the distribution of forward speed is four nautical miles. The upper bound is dependent on latitude.

6. Storm Track

The track direction of each simulated hurricane has the capability to curve and recurve on a fully probabilistic basis. Thus, the AIR hurricane simulation model has the ability to propagate a storm track that more accurately imitates actual storm motion.

7. Track Angle at Landfall

Track Angle at Landfall is the angle between track direction and due north at landfall location. Separate distributions for track angle at landfall are estimated for segments of coastline that are variable in length with length dependent on general orientation of coastline.

Hurricane Wind Speed Estimation

Once the key parameters have been generated, the meteorological relationships among them are used to calculate the following for each simulated hurricane:

1. Maximum Wind Speeds
2. Asymmetry Factor
3. Filling Equations
4. Relative Wind Speeds
5. Adjustment of Wind Speeds for Surface Friction

1. Maximum Wind Speeds

The generated maximum wind speed is based on central and peripheral pressures, as well as radius of maximum winds and meteorological coefficients accounting for air density and latitude coordinates. This wind represents the maximum associated wind speed attainable over water.

DEVELOPMENT OF MODELED CATASTROPHE LOSSES (HURRICANE)

2. Asymmetry Factor

An asymmetry factor is calculated based on the forward speed of the hurricane and the relationship between the track direction and the surface wind direction. This factor is added to the wind speeds calculated to the right of the hurricane track and is subtracted to those calculated to the left of the hurricane track. This accounts for the additional wind speed contributed by the forward speed of the hurricane due to the counterclockwise movement of winds relative to the hurricane track.

3. Filling Equations

Once over land, the hurricane moves away from its source of energy, i.e., warm ocean water. As a result, the eye “fills” and winds degrade as the time since landfall increases. Filling equations used in the AIR model give the reduction in over water wind speed as a function of time since landfall, rather than distance. A faster moving storm will cause hurricane force winds further inland than a slow moving storm with the same initial intensity (wind speed). The equations vary by coastal region and smoothing is performed to ensure that there are no sudden jumps between regions.

4. Relative Wind Speeds

The wind speed in any five-digit zip code is dependent on the distance of the zip code centroid from the eye of the storm. The relative wind speed calculated is dependent on the maximum wind speed at each hour, the radius of maximum winds, and the distance between the eye of the storm and the centroid of the zip code area.

5. Adjustment of Wind Speeds for Surface Friction

Differences in surface terrain also affect wind speeds. A friction coefficient is calculated to capture surface roughness at each affected site and the associated decrease in wind speed that results from surface friction. Estimates of surface roughness are derived from digital USGS land use/land cover data. Each terrain type has a different “roughness value” that will lead to different frictional effects on wind speeds. In general, the rougher the terrain the larger the frictional effect on wind speeds.

As soon as the storm crosses the coastline, there is an immediate reduction in wind speed. The reduction factors reach their equilibrium values when the terrain has been of the same type for a sufficiently long distance such that the boundary layer is in equilibrium with the surface winds.

III. Damage Estimation

AIR engineers have developed damage functions that describe the interaction between buildings, (including both structural and nonstructural components) and their contents, and the local wind speeds to which they are exposed. These functions relate the mean damage level as well as the variability of damage to wind speed at each location. Because different structural types will experience different degrees of damage, the damage functions vary according to construction class, occupancy, and height.

DEVELOPMENT OF MODELED CATASTROPHE LOSSES (HURRICANE)

The model estimates a complete distribution around the mean level of damage for each local wind speed and each structural type. Losses are calculated by applying the appropriate damage function to the replacement value of the insured property.

The AIR damage functions capture the effects of wind duration as well as the effect of peak wind speed. The longer a property experiences severe wind speeds, the greater the damage. The hurricane damageability relationships incorporate well-documented engineering studies published by wind engineers and other experts outside of AIR. They also incorporate the results of post-hurricane field surveys performed by AIR engineers. These relationships are continually refined and validated based on actual client companies' loss data.

After any major catastrophic event, increased demand for materials and services to repair and rebuild damaged property can put pressure on costs, resulting in higher than expected costs. Therefore, AIR applies aggregate demand surge functions to loss estimates in a way that takes into account the combined effects of events clustered in both time and geography.

IV. Loss Calculation

Encompass Exposure Detail

Encompass has supplied AIR with a detailed exposure database containing insured values by zip code for each line of business, construction, and deductible combination. Damage functions relating wind speed and wind duration to the percentage of property damaged for varying types of coverage and construction are used to produce loss estimates by zip code for each simulated hurricane.

Modeled Loss Estimates

Losses estimated from 100,000 years of simulated hurricane experience are summed and divided by 100,000 to produce the expected annual losses from all hurricanes for each zip code. Zip code loss estimates are then aggregated to produce expected annual loss by county and state.

Adjustments to Modeled Loss Estimates

As advances in science and changes in claim payment behaviors evolve, Encompass re-evaluates how it currently reflects modeled catastrophe losses in ratemaking. At times it is necessary to adjust the modeled losses to more accurately estimate the Property and Casualty industry's risk to catastrophes. Note that all adjustments made to the modeled losses are under continual development and may change in the future as Encompass learns more about the changing risk environment.

DEVELOPMENT OF MODELED CATASTROPHE LOSSES (HURRICANE)

Climate Cycle Adjustment

Meteorological research has identified correlations between naturally occurring climate cycles and hurricane activity. The active 2004 and 2005 hurricane seasons have heightened Encompass's awareness of such relationships, particularly the observed link between the Atlantic Multidecadal Oscillation (AMO) and increased hurricane activity. Scientists have concluded that the atmosphere is presently undergoing a warm cycle of the AMO, which is believed to persist for at least another decade and is expected to result in increased hurricane activity in the United States.

Because modeled hurricane losses provided by AIR do not reflect this correlation when estimating the long run potential from hurricanes, Encompass has adjusted the modeled losses to appropriately reflect its short-term loss potential from hurricanes. Encompass has relied on the published research of prominent NOAA hurricane experts, Stanley B. Goldenberg and Christopher Landsea, to develop regional climate cycle adjustments to apply to the modeled losses from AIR's long-run model (*Reference: "The Recent Increase in Atlantic Hurricane Activity: Causes and Implications." S.B. Goldenberg, C.W. Landsea, Science Vol 23, 20 July 2001*).

The applied Climate Cycle Factors for all lines of business are as follows:

The Gulf Region: 1.28

The Atlantic Region: 1.41

The Gulf Region is defined as TX, LA, MS, AL.

The Atlantic Region is defined as FL, GA, SC, NC, VA, MD, DE, PA, NJ, CT, NY, VT, NH, ME, RI, DC.

Mold Adjustment

Encompass has historically paid claims for losses from mold spawned by the wind-driven rains of a hurricane. Because Encompass provides AIR with historical hurricane claims data for use in calibrating the hurricane model, mold losses are implicitly incorporated in the modeled loss results. However, based on the heightened social awareness of mold exposure from recent hurricane seasons, Encompass believes that insureds will increasingly seek mold remediation following future hurricane events. Because the AIR model does not fully capture the expected increase in future mold losses, Encompass has made an adjustment to the modeled losses to appropriately reflect future additional exposure to mold loss.

The applied Mold Adjustment Factor for all lines of business for all states where we model hurricane losses is 1.02.

DEVELOPMENT OF MODELED CATASTROPHE LOSSES (HURRICANE)

Additional Living Expense (ALE) Due to Mandatory Evacuations Adjustment

The mandatory evacuations in the wake of Hurricane Katrina's landfall increased the amount of Encompass paid losses for Additional Living Expense. Based on observations of evacuation activity during the 2005 hurricane season, Encompass believes that government officials are likely to enforce an increased number of mandatory evacuations in the future. Because the AIR model currently does not account for ALE claims arising from mandatory evacuations and because Encompass believes mandatory evacuations will be more common in the future, Encompass has made adjustments to the modeled losses to reflect prospective increased ALE losses.

The applied ALE factor for the Renters line of business for all states is: 1.03.

The applied ALE factor for all other lines of business is 1.00.

Loss Adjustment Expenses (LAE)

Loss Adjustment Expenses (LAE) represent the costs of adjusting, investigating and settling losses. Modeled hurricane losses provided by AIR do not include LAE. In order to account for the loss adjustment expenses associated with hurricane losses, we have applied a factor of 1.149 to the modeled losses for all property lines. The selection of this provision was based on a study of the LAE associated with hurricane losses.

V. Actuarial Standards of Practice

The rules and procedures as set forth in ASOP23-Data Quality and ASOP38-Using Models Outside the Actuary's Area of Expertise (Property and Casualty) were applied in reviewing the modeled losses.

VI. Adjusted Modeled Catastrophe Loss Ratio

The loss ratio shown at the bottom of **Exhibit 4** is derived by dividing these modeled catastrophe losses by in-force premiums as of 3/31/2007. This underlying modeled loss is then adjusted by applying an AIY trend to the modeled hurricane loss. The underlying in-force premiums are then adjusted to CRL and trended with the prospective premium trend from **Exhibit 6**.

EXPENSE AND PROFIT LOADS

General Expense, Other Acquisition Expense, Loss Adjustment Expense

Exhibit 11 shows the premium, expenses and losses incurred for calendar years 2004 and 2005. Using these two years of data, expense ratios, as a percentage of direct earned premiums are selected for the general expense and other acquisition expense. Similarly, the provision for unallocated loss adjustment expense (ULAE) is based on a two-year average of ULAE to incurred loss.

Commission and Brokerage Expense

The proposed commission and brokerage expense provision has been developed from the actual calendar year 2005 commission and brokerage incurred expense ratio in Arkansas. The provision is shown in **Exhibits 12**.

Taxes, Licenses and Fees

Premium and Other Taxes reflect the actual state premium tax and, where applicable, other premium-related taxes such as Fire Marshall taxes and Municipal taxes. Miscellaneous Taxes, Licenses and fees reflect a fixed load for non-premium-based taxes such as State and Local taxes and Insurance Department Licenses and Fees. A provision for guaranty fund assessments is included if applicable. **Exhibit 12** displays these expenses as a percent of premium.

Underwriting Profit/Operating Profit

The methodology underlying the cost of equity capital (which is used in developing the after-tax operating profit provision) has been updated to reflect 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). After the cost of equity is calculated, it is first adjusted to reflect the total return to the firm and is subsequently combined with the cost of debt to calculate the total cost of capital, or the "Weighted Average Cost of Capital" (WACC). The cost is then translated into an underwriting profit provision after taking leverage and investment income into account, as recommended in Actuarial Standard of Practice No. 30, Treatment of Profit and Contingency Provisions and the Cost of Capital in Property/Casualty Insurance Ratemaking. Consideration is given to the investment income from insurance operations and investment income on capital. The resulting underwriting profit provisions reflect a targeted after-tax operating profit of **9.01%**.

A discounted cash flow methodology based on projected insurance cash flows is used to calculate the investment income from insurance operations (also known as investment income on policyholder-supplied funds) that leads to the after-tax operating profit provision of **9.01%**. The methodology to determine the after-tax operating profit provision has been changed to reflect the timing of the investment return on equityholder-supplied funds. Reconciliation of the after-tax operating profit provision is found in **Exhibit 12**.

The calculations detailing the discounted cash flow methodology are found in **Exhibit 12**. The discounted cash flow model has been modified with this filing. Specifically, operating cash flows are now being discounted to the average time of earnings of premium and profit for the policy year, rather than to the start of the policy year. In addition, the expected rate of investment return (which is the rate used to discount the losses and expenses) is applied as a force of interest for discounting purposes, since the rate is developed as a ratio to average assets held during a period, not the assets at the beginning of the period. The expected investment yield rate (applied as a force of interest) applied to the insurance cash flows in deriving the investment income from insurance operations (and ultimately the after-tax operating profit) is **3.95%**. This yield comprehends anticipated net investment income and anticipated capital gains, both realized and unrealized.

**ENCOMPASS INSURANCE
ARKANSAS
OTHER THAN AUTOMOBILE**

Table Of Contents

Exhibit 1 -	Summary of Changes
Exhibit 2 -	Rate Level Indication 2A - Development of Rate Level Indication 2B - Development of Rate Level Indication Supplement I 2C - Development of Rate Level Indication Supplement II
Exhibit 3 -	Development of Adjusted Earned Premium
Exhibit 4 -	Development of Adjusted Non-Catastrophe Incurred Losses + LAE

Adjustments to Earned Premium

Exhibit 5 -	Current Rate Level Factors
Exhibit 6 -	Premium Trend Factors 6A - Written Premium Trend 6B - Development of Premium Trend Factors

Adjustments to Incurred Losses

Exhibit 7 -	Incurred Loss +ALAE Development Factors
Exhibit 8 -	Excess Loss Factor
Exhibit 9 -	Loss Trend Factors
Exhibit 10 -	Non-Modeled Catastrophe Load

Expenses & Permissible Loss Ratio

Exhibit 11 -	Expenses
Exhibit 12 -	Permissible Loss Ratio

EMCOMPASS INSURANCE
 ARKANSAS
 OTHER THAN AUTOMOBILE

EXHIBIT 1

Summary Of Rate Changes

Coverage	12/05-12/06 Adjusted EP		Rate Level Change	
	\$000s	%	Indicated	Filed
Homeowners All Forms	2,406	87.2%	4.4%	4.4%
Home			4.4%	4.4%
Condo			4.2%	4.2%
Renter			4.2%	4.2%
Dwelling Fire	180	6.5%	20.9%	14.0%
Total Residence	2,586	93.7%	5.5%	5.1%
Excess Liability	26	0.9%		0.0%
Scheduled Personal Property	91	3.3%		0.0%
Boat	55	2.0%		0.0%
Workers Compensation	0	0.0%		0.0%
OTA Balance	172	6.3%	-8.6%	0.0%
TOTAL OTHER THAN AUTOMOBILE	2,758	100.0%	4.7%	4.7%

ENCOMPASS INSURANCE
 ARKANSAS
 OTHER THAN AUTOMOBILE
 Development of Rate Level Indication

(1) Experience Period	(2) Adjusted Earned Premium (\$'000)	(3) Non-Cat Incurred Loss + LAE (\$'000)	(4) Non-Cat Adjusted Loss Ratio	(5) Formula Variance	(6) Non-Cat Rate-Making Loss Ratio	(7) Claim Count	(8) Full Credibility Standard	(9) W/Factor 4.5	(10) Non-Cat Adjusted Prior Permissible Loss Ratio	(11) Credibility Weighted Non-Cat Rate-Making Loss Ratio	(12) Ordinary Catastrophe Load	(13) Adjusted Modelled Catastrophe Loss Ratio	(14) Catastrophe Rate-Making Loss Ratio	(15) Total Rate-Making Loss Ratio	(16) Adjusted Fixed Expense Ratio*	(17) Adjusted Residual Market Load**	(18) Permissible Loss + LAE Ratio	(19) Role Level Indication
HOMEOWNERS ALL FORMS																		
12/01-12/02	5,548	3,336	60.1%	0.20	46.3%	989	1,677	76.8%	71.2%	52.1%	1,248	0.2%	12.4%	64.5%	8.8%	0.0%	70.3%	4.4%
12/02-12/03	4,756	2,347	49.3%	0.20	46.3%			76.8%	71.2%	52.1%	1,248	0.0%	12.4%	64.5%	8.8%	0.0%	70.3%	4.4%
12/03-12/04	3,787	1,601	42.3%	0.20	46.3%			76.8%	71.2%	52.1%	1,248	0.0%	12.2%	64.3%	8.8%	0.0%	70.3%	4.2%
12/04-12/05	2,984	1,002	33.6%	0.20	46.3%			76.8%	71.2%	52.1%	1,248	0.0%	12.2%	64.3%	8.8%	0.0%	70.3%	4.2%
12/05-12/06	2,406	1,115	46.3%	0.20	46.3%													
Overall	2,312	***			46.3%													
HOME																		
CONDO	59	***			46.3%													
RENTER	35	***			46.3%													
DWELLING FIRE																		
12/01-12/02	309	135	43.9%	0.20	27.4%	44	1,488	17.1%	71.2%	63.7%	1,248	0.2%	12.4%	76.0%	8.8%	0.0%	70.3%	20.9%
12/02-12/03	271	97	35.8%	0.20														
12/03-12/04	282	82	29.1%	0.20														
12/04-12/05	276	27	9.8%	0.20														
12/05-12/06	180	54	30.0%	0.20														
Overall					27.4%													
OTA BALANCE																		
12/01-12/02	363	119	32.9%	0.20	78.4%	60	1,589	19.5%	62.5%	53.9%	1,019	0.0%	1.1%	55.1%	9.2%	0.0%	70.3%	-8.5%
12/02-12/03	326	39	11.9%	0.20														
12/03-12/04	279	26	9.4%	0.20														
12/04-12/05	220	35	16.1%	0.20														
12/05-12/06	172	37	21.6%	0.20														
Overall					78.4%													
TOTAL OTA																		
12/01-12/02	6,305	3,727	59.1%		45.4%					52.0%			14.2%	66.3%			70.3%	4.7%
12/02-12/03	5,434	2,609	48.0%															
12/03-12/04	4,367	1,769	40.5%															
12/04-12/05	3,465	1,156	33.4%															
12/05-12/06	2,807	1,284	45.7%															

* Fixed expense ratios and residual market loads are adjusted for expense trend, premium trend and current rate level.
 ** See Exhibit 2B for earthquake rate-making loss ratio development.
 *** Estimated earned premium based on in-force premium @ 3/31/07.

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Development of Rate Level Indication Supplement 1

NET TREND DEVELOPMENT										
Coverage	(1) Frequency Prospective Annual Trend	(2) Severity Prospective Annual Trend	(3) (See Note 2) Prospective Annual Loss Trend	(4) Prospective Annual Premium Trend	(5) (See Note 2) Net Trend	(6) Most Recent Non-Zero PRE-SRM Effective Date	(7) Actual PRE-SRM Earned Premium (\$000s)	(8) (See Note 2) Trend Start Date 1	(9) Effective Date	(10) (See Note 2) Trend Period
ALL						09-28-2004	2,743	12-20-2007	3.23	
HOME	3.0%	11.0%	14.3%	1.0%	49.2%					
DWELLING FIRE	3.0%	11.0%	14.3%	1.0%	49.2%					
OTA BALANCE	0.0%	2.0%	2.0%	0.0%	6.6%					

¹ The Trend Start Date is the most recent non-zero effective date for our PRE-SRM program.

² Field Derivations

(3)	Prospective Annual Trend	$[1+(1)]^{[1+(2)]}-1$
(5)	Net Trend	$[(1+(3))/(1+(4))]^{(10)}$
(8)	Trend Start Date	(6)
(10)	Trend Period	$[(9)-(8)]/365$

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ARKANSAS
OTHER THAN AUTOMOBILE**

EXHIBIT 2C

Development of Rate Level Indication Supplement 2

NON-CATASTROPHE ADJUSTED PRIOR PERMISSIBLE LOSS RATIO DEVELOPMENT

<u>Coverage</u>	(1)	(2) (Exhibit 2A)	(3) (Exhibit 2A)	(4) (Exhibit 2A)	(5) (Exhibit 2B)	(6) [(1)-(2)-(3)-(4)] *[1+(5)]
	<u>Prior Permissible Loss Ratio</u>	<u>Adjusted Fixed Expense Ratio*</u>	<u>Adjusted Residual Market Load*</u>	<u>Catastrophe Ratemaking Loss Ratio</u>	<u>Net Trend</u>	<u>Non-Cat Adjusted Prior Permissible Loss Ratio</u>
HOMEOWNERS ALL FORMS	69.0%	8.9%	0.0%	12.4%	49.2%	71.2%
DWELLING FIRE	69.0%	8.9%	0.0%	12.4%	49.2%	71.2%
OTA BALANCE	69.0%	9.2%	0.0%	1.1%	6.6%	62.6%

* Fixed expense ratios and residual market loads are adjusted for expense trend, premium trend and current rate level.

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OTHER THAN AUTOMOBILE**

EXHIBIT 3

Development of Adjusted Earned Premium

<u>Coverage</u>	(1) <u>Experience Period</u>	(2) Actual PRE-SRM Earned Premium (\$000s)	(3) (Exhibit 5A) PRE-SRM Current Rate Level Factor	(4) (2)*(3) Earned Premium @ CRL (\$000s)	(5) (Exhibit 6) Premium Trend Factor	(6) Other Premium Adjustment	(7) (4)*(5)*(6) Adjusted Earned Premium (\$000s)
HOMEOWNERS ALL FORMS	12/01-12/02	3,123	1.665	5,200	1.067	1.000	5,548
	12/02-12/03	3,168	1.422	4,504	1.056	1.000	4,758
	12/03-12/04	3,072	1.179	3,622	1.046	1.000	3,787
	12/04-12/05	2,783	1.036	2,882	1.035	1.000	2,984
	12/05-12/06	2,347	1.000	2,347	1.025	1.000	2,406
DWELLING FIRE	12/01-12/02	174	1.665	289	1.067	1.000	308
	12/02-12/03	180	1.422	256	1.056	1.000	271
	12/03-12/04	188	1.179	222	1.046	1.000	232
	12/04-12/05	190	1.036	197	1.035	1.000	204
	12/05-12/06	175	1.000	175	1.025	1.000	180
OTA BALANCE	12/01-12/02	363	1.000	363	1.000	1.000	363
	12/02-12/03	326	1.000	326	1.000	1.000	326
	12/03-12/04	279	1.000	279	1.000	1.000	279
	12/04-12/05	220	1.000	220	1.000	1.000	220
	12/05-12/06	172	1.000	172	1.000	1.000	172

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EXHIBIT 4

Development of Adjusted Non-Catastrophe Incurred Losses + LAE

<u>Coverage</u>	(1) Experience Period	(2) (Exhibit 7) Limited Ex-Cat Inc Losses + ALAE (\$000s)	(3) (Exhibit 7) Losses Dev Factor (Limited)	(4) (Exhibit 8) Excess Loss Factor	(5) (Exhibit 9) Loss Trend Factor	(6) Other Loss Adjustment	(7) (Exhibit 11) ULAE Load	(8) [(2)*(3)*(4)* (5)*(6)*(7)] Non-Catastrophe Adjusted Inc Losses + LAE (\$000s)
HOMEOWNERS ALL FORMS	12/01-12/02	1,877	1.002	1.110	1.392	1.000	1.148	3,336
	12/02-12/03	1,318	1.003	1.110	1.393	1.000	1.148	2,347
	12/03-12/04	898	1.004	1.110	1.394	1.000	1.148	1,601
	12/04-12/05	558	1.010	1.110	1.396	1.000	1.148	1,002
	12/05-12/06	582	1.076	1.110	1.398	1.000	1.148	1,115
DWELLING FIRE	12/01-12/02	85	1.000	1.000	1.392	1.000	1.148	135
	12/02-12/03	61	1.000	1.000	1.393	1.000	1.148	97
	12/03-12/04	20	1.000	1.000	1.394	1.000	1.148	32
	12/04-12/05	17	1.000	1.000	1.396	1.000	1.148	27
	12/05-12/06	33	1.025	1.000	1.398	1.000	1.148	54
OTA BALANCE	12/01-12/02	91	1.000	1.000	1.137	1.000	1.148	119
	12/02-12/03	30	1.000	1.000	1.115	1.000	1.148	39
	12/03-12/04	21	1.000	1.000	1.093	1.000	1.148	26
	12/04-12/05	29	1.000	1.000	1.072	1.000	1.148	35
	12/05-12/06	30	1.024	1.000	1.051	1.000	1.148	37

			<u>Home</u>	<u>Condo</u>	<u>Renter</u>	<u>Dwelling Fire</u>	<u>OTA Balance</u>
(a)	Mod Cat LR	=	0.2% @3/31/07	0.0% @3/31/07	0.0% @3/31/07	0.2% @3/31/07	0.0% @3/31/07
(b)	AIY Trend To 12/20/08	×	1.043	1.043	1.043	1.043	1.000
(c)	Premium Trend To 12/20/08	+	1.017	1.017	1.017	1.017	NA
(d)	Current Rate Level Factor	+	1.000	1.000	1.000	1.000	1.000
(e)	Adj Mod Cat LR [(a)*(b)/(c)/(d)]	=	0.2%	0.0%	0.0%	0.2%	0.0%

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EXHIBIT 5

Development of PSRM Current Rate Level Factors

Rate Changes			
<u>Effective Date</u>	<u>Residence</u>	<u>Dwelling Fire</u>	<u>OTA Balance</u>
07/15/00	7.40%	11.10%	0.00%
08/15/01	10.90%	10.90%	0.00%
08/15/02	17.90%	17.90%	0.00%
08/15/03	22.90%	22.90%	0.00%
09/28/04	14.20%	14.20%	0.00%

Cumulative Rate Indices (1)			
<u>Effective Date</u>	<u>Residence</u>	<u>Dwelling Fire</u>	<u>OTA Balance</u>
07/15/00	1.074	1.111	1.000
08/15/01	1.191	1.232	1.000
08/15/02	1.404	1.453	1.000
08/15/03	1.726	1.785	1.000
09/28/04	1.971	2.039	1.000

Average Rate Index (2)			
<u>Experience Period</u>	<u>Residence</u>	<u>Dwelling Fire</u>	<u>OTA Balance</u>
12/01-12/02	1.184	1.224	1.000
12/02-12/03	1.386	1.434	1.000
12/03-12/04	1.672	1.729	1.000
12/04-12/05	1.903	1.969	1.000
12/05-12/06	1.971	2.039	1.000

Current Rate Level Factor (3)			
<u>Experience Period</u>	<u>Residence</u>	<u>Dwelling Fire</u>	<u>OTA Balance</u>
	1.971	2.039	1.000
12/01-12/02	1.665	1.665	1.000
12/02-12/03	1.422	1.422	1.000
12/03-12/04	1.179	1.179	1.000
12/04-12/05	1.036	1.036	1.000
12/05-12/06	1.000	1.000	1.000

- (1) Cumulative product of [1 + (Rate Change)]
 (2) Average rate level in experience period using parallelogram method and (1).
 (3) (Latest cumulative rate index) / (2)

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EXHIBIT 6A

Written Premium Trend

<u>Year Ending</u>	<u>Average Written Premium @ CRL</u>	<u>Exponential Curve of Best Fit</u>		
		<u>16 pt.</u>	<u>12 pt.</u>	<u>8 pt.</u>
12/02	1,433			
03/03	1,460	1,503		
06/03	1,493	1,509		
09/03	1,532	1,515		
12/03	1,544	1,521		
03/04	1,547	1,527		
06/04	1,544	1,533	1,539	
09/04	1,568	1,539	1,543	
12/04	1,574	1,545	1,547	
03/05	1,533	1,551	1,551	
06/05	1,552	1,557	1,555	1,526
09/05	1,535	1,563	1,559	1,537
12/05	1,535	1,569	1,563	1,547
03/06	1,570	1,575	1,568	1,558
06/06	1,580	1,581	1,572	1,568
09/06	1,594	1,587	1,576	1,579
12/06	1,607	1,593	1,580	1,590
Regression		<u>16 pt.</u>	<u>12 pt.</u>	<u>8 pt.</u>
Avg Annual Percent Change Based on Best Fit:		1.6%	1.0%	2.8%

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EXHIBIT 6B

Development of Premium Trend Factors

Selected Historical Premium Trend	Selected Prospective Premium Trend
1.0%	1.0%
1.0%	1.0%

Homeowners Annual Premium Trend Effect
Dwelling Fire Annual Premium Trend Effect

Homeowners

Experience Period	Historical Trend Period (1)	Historical # Of Years (2)	Prospective Trend Period (3)	Prospective # Of Years (4)	Homeowners Premium Trend Factor
12/01-12/02	07/02-07/06	4.0	07/06-12/08	2.5	$(1.010)^{4.0} * (1.010)^{2.5} = 1.067$
12/02-12/03	07/03-07/06	3.0	07/06-12/08	2.5	$(1.010)^{3.0} * (1.010)^{2.5} = 1.056$
12/03-12/04	07/04-07/06	2.0	07/06-12/08	2.5	$(1.010)^{2.0} * (1.010)^{2.5} = 1.046$
12/04-12/05	07/05-07/06	1.0	07/06-12/08	2.5	$(1.010)^{1.0} * (1.010)^{2.5} = 1.035$
12/05-12/06	07/06-07/06	0.0	07/06-12/08	2.5	$(1.010)^{0.0} * (1.010)^{2.5} = 1.025$

Dwelling Fire

Experience Period	Historical Trend Period (1)	Historical # Of Years (2)	Prospective Trend Period (3)	Prospective # Of Years (4)	Dwelling Fire Premium Trend Factor
12/01-12/02	07/02-07/06	4.0	07/06-12/08	2.5	$(1.010)^{4.0} * (1.010)^{2.5} = 1.067$
12/02-12/03	07/03-07/06	3.0	07/06-12/08	2.5	$(1.010)^{3.0} * (1.010)^{2.5} = 1.056$
12/03-12/04	07/04-07/06	2.0	07/06-12/08	2.5	$(1.010)^{2.0} * (1.010)^{2.5} = 1.046$
12/04-12/05	07/05-07/06	1.0	07/06-12/08	2.5	$(1.010)^{1.0} * (1.010)^{2.5} = 1.035$
12/05-12/06	07/06-07/06	0.0	07/06-12/08	2.5	$(1.010)^{0.0} * (1.010)^{2.5} = 1.025$

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EXHIBIT 7.1

Incurred Loss + LAE Development Factors - Property Limited Homeowners

CUMULATIVE EXPERIENCE TRIANGLE

DEVELOPMENT PERIOD	1Q1997 4Q1997	1Q1998 4Q1998	1Q1999 4Q1999	1Q2000 4Q2000	1Q2001 4Q2001	1Q2002 4Q2002	1Q2003 4Q2003	1Q2004 4Q2004	1Q2005 4Q2005	1Q2006 4Q2006	4Q2006 1Q2007
15 MONTHS	1,677	1,167	1,448	1,943	2,106	1,819	1,253	937	787	1,109	
27 MONTHS	1,797	1,217	1,504	2,287	2,284	1,941	1,319	953	847		
39 MONTHS	1,790	1,293	1,527	2,342	2,288	1,884	1,318	968			
51 MONTHS	1,781	1,296	1,539	2,316	2,312	1,877	1,318				
63 MONTHS	1,782	1,296	1,570	2,322	2,296	1,877					
75 MONTHS	1,782	1,296	1,579	2,343	2,296						
87 MONTHS	1,782	1,296	1,579	2,343							
99 MONTHS	1,782	1,296	1,579								
111 MONTHS	1,782	1,296									
123 MONTHS	1,782										

AGE TO AGE FACTORS

DEVELOPMENT PERIOD	1Q1997 4Q1997	1Q1998 4Q1998	1Q1999 4Q1999	1Q2000 4Q2000	1Q2001 4Q2001	1Q2002 4Q2002	1Q2003 4Q2003	1Q2004 4Q2004	1Q2005 4Q2005	1Q2006 4Q2006	4Q2006 1Q2007
15 To 27	1.0713	1.0431	1.0388	1.1768	1.0843	1.0673	1.0531	1.0178	1.0759		
27 To 39	0.9960	1.0620	1.0150	1.0240	1.0019	0.9706	0.9989	1.0156			
39 To 51	0.9950	1.0025	1.0079	0.9892	1.0105	0.9962	1.0004				
51 To 63	1.0007	1.0000	1.0000	1.0200	1.0023	0.9931	1.0000				
63 To 75	1.0000	1.0000	1.0058	1.0094	1.0000						
75 To 87	1.0000	1.0000	1.0000	1.0000							
87 To 99	1.0000	1.0000	1.0000								
99 To 111	1.0000	1.0000									
111 To 123	1.0000										

MEAN AGE TO AGE FACTORS

DEVELOPMENT PERIOD	Volume Weighted 2 Yr Mean	Volume Weighted 3 Yr Mean	Volume Weighted 4 Yr Mean	5 Year Mean Ex-HiLo	Country-wide Selected	Country-wide Selected	Factor To Ultimate
15 To 27	1.0443	1.0480	1.0553	1.0654	1.0654	1.0653	1.0758
27 To 39	1.0059	0.9897	0.9940	1.0055	1.0055	1.0194	1.0097
39 To 51	0.9979	1.0032	0.9990	1.0015	1.0015	1.0070	1.0042
51 To 63	0.9962	0.9984	1.0025	1.0008	1.0008	1.0036	1.0027
63 To 75	1.0047	1.0050	1.0041	1.0019	1.0019	1.0022	1.0019
75 To 87	1.0000	1.0000	1.0000	1.0000	1.0000	1.0008	1.0000
87 To 99	1.0000	1.0000	1.0000	1.0000	1.0000	1.0007	1.0000
99 To 111	1.0000	1.0000	1.0000	1.0000	1.0000	1.0006	1.0000
111 To 123	1.0000	1.0000	1.0000	1.0000	1.0000	1.0007	1.0000

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EXHIBIT 7.2

Incurred Loss + ALAE Development Factors - Dwelling Fire

CUMULATIVE EXPERIENCE TRIANGLE

DEVELOPMENT PERIOD	1Q1997 4Q1997	1Q1998 4Q1998	1Q1999 4Q1999	1Q2000 4Q2000	1Q2001 4Q2001	1Q2002 4Q2002	1Q2003 4Q2003	1Q2004 4Q2004	1Q2005 4Q2005	1Q2006 4Q2006	4Q2006 1Q2007
15 MONTHS	17	98	41	56	35	84	58	20	196	274	
27 MONTHS	17	95	42	64	35	85	61	20	200		
39 MONTHS	17	95	42	68	35	85	61	20			
51 MONTHS	17	95	42	68	35	85	61				
63 MONTHS	17	95	42	68	35	85					
75 MONTHS	17	95	42	68	35						
87 MONTHS	17	95	42	68							
99 MONTHS	17	95	42								
111 MONTHS	17	95									
123 MONTHS	17										

AGE TO AGE FACTORS

DEVELOPMENT PERIOD	1Q1997 4Q1997	1Q1998 4Q1998	1Q1999 4Q1999	1Q2000 4Q2000	1Q2001 4Q2001	1Q2002 4Q2002	1Q2003 4Q2003	1Q2004 4Q2004	1Q2005 4Q2005	1Q2006 4Q2006	4Q2006 1Q2007
15 To 27	1.0000	0.9767	1.0019	1.1410	1.0000	1.0027	1.0375	1.0000	1.0237		
27 To 39	1.0000	0.9986	1.0000	1.0640	1.0000	1.0000	1.0000	1.0000			
39 To 51	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000				
51 To 63	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000					
63 To 75	1.0000	1.0000	1.0000	1.0000	1.0000						
75 To 87	1.0000	1.0000	1.0000	1.0000							
87 To 99	1.0000	1.0000	1.0000								
99 To 111	1.0000	1.0000									
111 To 123	1.0000										

MEAN AGE TO AGE FACTORS

DEVELOPMENT PERIOD	Volume Weighted 2 Yr Mean	Volume Weighted 3 Yr Mean	Volume Weighted 4 Yr Mean	5 Year Mean Ex-HiLo	Country-wide Selected	Country-wide Selected	Factor To Ultimate
15 To 27	1.0214	1.0249	1.0196	1.0088	1.0249	1.0887	1.0251
27 To 39	1.0000	1.0000	1.0000	1.0000	1.0000	1.0288	1.0003
39 To 51	1.0000	1.0000	1.0000	1.0000	1.0000	1.0083	1.0003
51 To 63	1.0000	1.0000	1.0000	1.0000	1.0000	1.0099	1.0003
63 To 75	1.0000	1.0000	1.0000	1.0000	1.0000	1.0022	1.0003
75 To 87	1.0000	1.0000	1.0000	1.0000	1.0000	1.0025	1.0003
87 To 99	1.0000	1.0000	1.0000	1.0000	1.0000	1.0032	1.0003
99 To 111	1.0000	1.0000	1.0000	1.0000	1.0000	0.9984	1.0003
111 To 123	1.0002	1.0002	1.0002	1.0000	1.0002	1.0000	1.0002

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EXHIBIT 7.4

Incurred Loss + ALAE Development Factors - Property Unlimited Homeowners

CUMULATIVE EXPERIENCE TRIANGLE

DEVELOPMENT PERIOD	1Q1997 4Q1997	1Q1998 4Q1998	1Q1999 4Q1999	1Q2000 4Q2000	1Q2001 4Q2001	1Q2002 4Q2002	1Q2003 4Q2003	1Q2004 4Q2004	1Q2005 4Q2005	1Q2006 4Q2006	4Q2006 1Q2007
15 MONTHS	2,171	1,180	1,484	1,943	2,284	1,856	1,253	1,978	807	1,115	
27 MONTHS	2,296	1,231	1,540	2,297	2,461	1,979	1,338	2,109	878		
39 MONTHS	2,214	1,306	1,563	2,352	2,466	1,922	1,337	1,940			
51 MONTHS	2,205	1,309	1,575	2,326	2,490	1,919	1,337				
63 MONTHS	2,207	1,309	1,606	2,332	2,474	1,919					
75 MONTHS	2,158	1,309	1,615	2,353	2,474						
87 MONTHS	2,158	1,309	1,615	2,353							
99 MONTHS	2,158	1,309	1,615								
111 MONTHS	2,158	1,309									
123 MONTHS	2,158										

AGE TO AGE FACTORS

DEVELOPMENT PERIOD	1Q1997 4Q1997	1Q1998 4Q1998	1Q1999 4Q1999	1Q2000 4Q2000	1Q2001 4Q2001	1Q2002 4Q2002	1Q2003 4Q2003	1Q2004 4Q2004	1Q2005 4Q2005	1Q2006 4Q2006	4Q2006 1Q2007
15 To 27	1.0575	1.0426	1.0378	1.1820	1.0775	1.0660	1.0678	1.0666	1.0880		
27 To 39	0.9644	1.0613	1.0147	1.0239	1.0018	0.9712	0.9989	0.9200			
39 To 51	0.9960	1.0024	1.0078	0.9892	1.0098	0.9984	1.0004				
51 To 63	1.0009	1.0000	1.0195	1.0023	0.9936	1.0000					
63 To 75	0.9779	1.0000	1.0057	1.0093	1.0000						
75 To 87	1.0000	1.0000	1.0000	1.0000							
87 To 99	1.0000	1.0000	1.0000								
99 To 111	1.0000	1.0000									
111 To 123	1.0000										

MEAN AGE TO AGE FACTORS

DEVELOPMENT PERIOD	Volume Weighted 2 Yr Mean	Volume Weighted 3 Yr Mean	Volume Weighted 4 Yr Mean	5 Year Mean Ex-HiLo	Country-wide Selected	Country-wide Selected	Factor To Ultimate
15 To 27	1.0728	1.0712	1.0696	1.0706	1.0706	1.0804	1.0657
27 To 39	0.9507	0.9581	0.9718	0.9906	0.9906	1.0294	0.9954
39 To 51	0.9992	1.0038	0.9995	1.0022	1.0022	1.0095	1.0048
51 To 63	0.9964	0.9984	1.0024	1.0008	1.0008	1.0047	1.0027
63 To 75	1.0045	1.0048	1.0040	1.0019	1.0019	1.0040	1.0019
75 To 87	1.0000	1.0000	1.0000	1.0000	1.0000	1.0008	1.0000
87 To 99	1.0000	1.0000	1.0000	1.0000	1.0000	1.0010	1.0000
99 To 111	1.0000	1.0000	1.0000	1.0000	1.0000	1.0005	1.0000
111 To 123	1.0000	1.0000	1.0000	1.0000	1.0000	1.0006	1.0000

ENCOMPASS INSURANCE
ARKANSAS
OTHER THAN AUTOMOBILE

EXHIBIT 8

Excess Loss Factor

HOME						
<u>Experience Period</u>	ARKANSAS			COUNTRYWIDE		
	<u>Ultimate Total Ex- Cat</u>	<u>Ultimate Limited Ex- Cat</u>	<u>Total / Limited</u>	<u>Ultimate Total Ex- Cat</u>	<u>Ultimate Limited Ex- Cat</u>	<u>Total / Limited</u>
	<u>Losses + ALAE</u>	<u>Losses + ALAE</u>		<u>Losses + ALAE</u>	<u>Losses + ALAE</u>	
	12/96-12/97	2,158	1,782	1.21	194,977	179,439
12/97-12/98	1,309	1,296	1.01	198,252	179,005	1.11
12/98-12/99	1,615	1,579	1.02	235,696	209,814	1.12
12/99-12/00	2,353	2,343	1.00	277,767	244,048	1.14
12/00-12/01	2,474	2,296	1.08	287,607	251,780	1.14
12/01-12/02	1,922	1,880	1.02	244,092	216,937	1.13
12/02-12/03	1,341	1,322	1.01	215,406	184,585	1.17
12/03-12/04	1,879	902	2.08	172,209	141,988	1.21
12/04-12/05	586	563	1.04	154,201	128,515	1.20
12/05-12/06	620	626	0.99	141,320	115,772	1.22
	Weighted Average		1.11	Weighted Average		1.15
	Straight Average		1.15	Straight Average		1.15
	Selected		1.11	CW Selected		1.20

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ARKANSAS
OTHER THAN AUTOMOBILE

EXHIBIT 9A

Loss Trend Factors - Property (All Forms Ex DF)

Quarters Ending	PAID FREQUENCY		ANNUAL CHANGE		PAID SEVERITY (Closed with pay)		ANNUAL CHANGE	
	Encompass	Fast Track	Encompass	Fast Track	Encompass	Fast Track	Encompass	Fast Track
4Q_2002	0.11630	0.07320			4,815	3,988		
1Q_2003	0.11120	0.06930			5,155	4,201		
2Q_2003	0.10230	0.06420			5,723	4,526		
3Q_2003	0.10070	0.06180			5,526	4,864		
4Q_2003	0.09410	0.05750	-19.1%	-21.4%	6,050	4,859	25.6%	21.8%
1Q_2004	0.09300	0.05330	-16.4%	-23.1%	5,099	4,832	-1.1%	15.0%
2Q_2004	0.08690	0.05030	-15.1%	-21.7%	7,692	4,984	34.4%	10.1%
3Q_2004	0.07530	0.04580	-25.2%	-25.9%	7,931	5,044	43.5%	3.7%
4Q_2004	0.07310	0.04460	-22.3%	-22.4%	7,944	5,161	31.3%	6.2%
1Q_2005	0.06750	0.04390	-27.4%	-17.6%	8,174	5,442	60.3%	12.6%
2Q_2005	0.06630	0.04390	-23.7%	-12.7%	4,741	5,536	-38.4%	11.1%
3Q_2005	0.05150	0.04410	-31.6%	-3.7%	5,496	5,719	-30.7%	13.4%
4Q_2005	0.04850	0.04420	-33.7%	-0.9%	8,483	6,102	8.8%	18.2%
1Q_2006	0.05780	0.04510	-14.4%	2.7%	7,799	6,246	-4.6%	14.8%
2Q_2006	0.06240	0.04710	-5.9%	7.3%	7,519	6,362	58.6%	14.9%
3Q_2006	0.07970	0.04750	54.8%	7.7%	7,473	6,304	36.0%	10.2%
4Q_2006	0.08340	0.04600	72.0%	4.1%	5,591	6,476	-34.1%	6.1%
1Q_2007	0.07690		33.0%		5,892		-24.5%	

Fitted Line 1	17pt Exp Trend	-11.4%	-10.9%	17pt Exp Trend	4.6%	12.2%
Fitted Line 2	8pt Exp Trend	27.0%	4.6%	8pt Exp Trend	5.8%	11.1%

SELECTED HISTORICAL ANNUAL TREND	-10.0%	11.0%
SELECTED PROSPECTIVE ANNUAL TREND	3.0%	11.0%

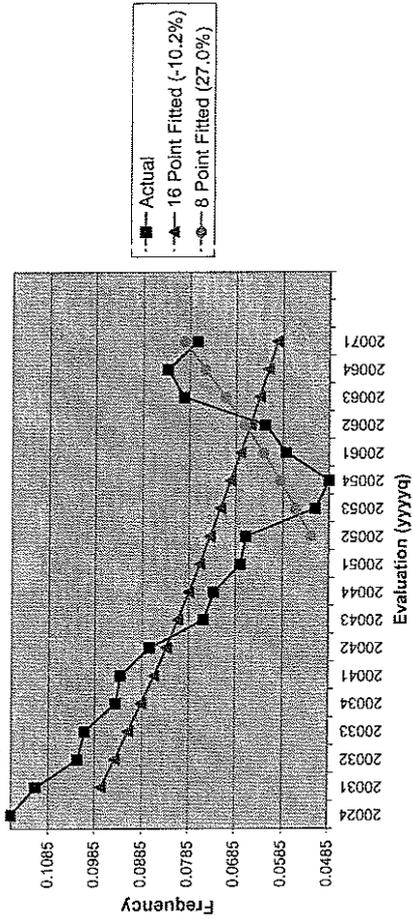
Experience Period	Historical Trend Period (1)	Historical # Of Years (2)	Prospective Trend Period (3)	Prospective # Of Years (4)	Frequency Trend Factor (5)	Severity Trend Factor (6)
12/01-12/02	07/02-07/06	4.0	07/06-12/08	2.5	$(0.900)^{4.0} * (1.030)^{2.5} = 0.706$	$(1.110)^{4.0} * (1.110)^{2.5} = 1.971$
12/02-12/03	07/03-07/06	3.0	07/06-12/08	2.5	$(0.900)^{3.0} * (1.030)^{2.5} = 0.785$	$(1.110)^{3.0} * (1.110)^{2.5} = 1.775$
12/03-12/04	07/04-07/06	2.0	07/06-12/08	2.5	$(0.900)^{2.0} * (1.030)^{2.5} = 0.872$	$(1.110)^{2.0} * (1.110)^{2.5} = 1.599$
12/04-12/05	07/05-07/06	1.0	07/06-12/08	2.5	$(0.900)^{1.0} * (1.030)^{2.5} = 0.969$	$(1.110)^{1.0} * (1.110)^{2.5} = 1.441$
12/05-12/06	07/06-07/06	0.0	07/06-12/08	2.5	$(0.900)^{0.0} * (1.030)^{2.5} = 1.077$	$(1.110)^{0.0} * (1.110)^{2.5} = 1.298$

Experience Period	RLI Loss Trend Factor (7)
12/01-12/02	1.392
12/02-12/03	1.393
12/03-12/04	1.394
12/04-12/05	1.396
12/05-12/06	1.398

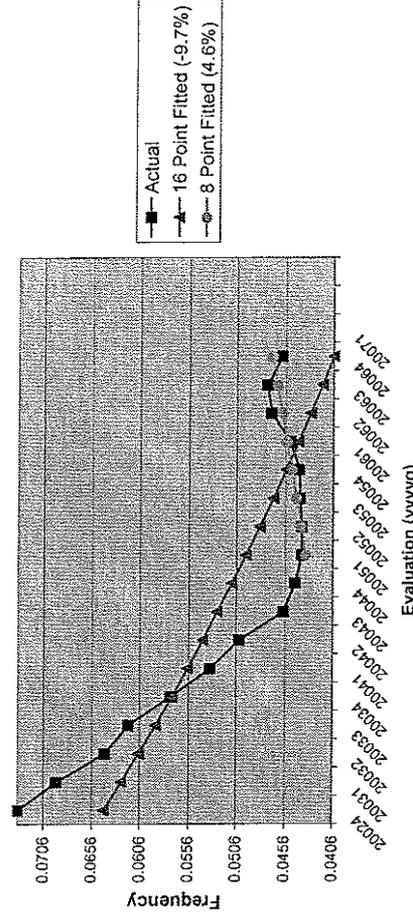
(1) Midpoint of experience period to midpoint of latest historical period.
(2) (1) # of years.
(3) Midpoint of latest historical period to 1 year beyond effective date of 12/20/07.
(4) (3) # of years.

PRE-SRM PROPERTY LOSS TREND
 ARKANSAS
 PROPERTY (ALL FORMS EX DF)

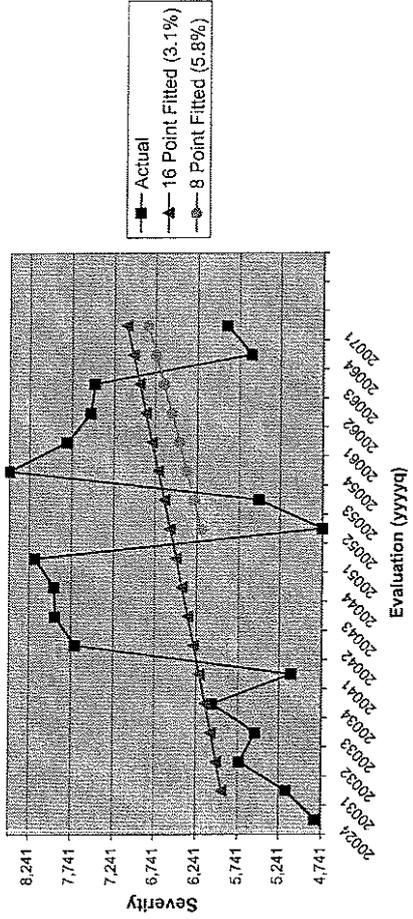
Encompass Frequency



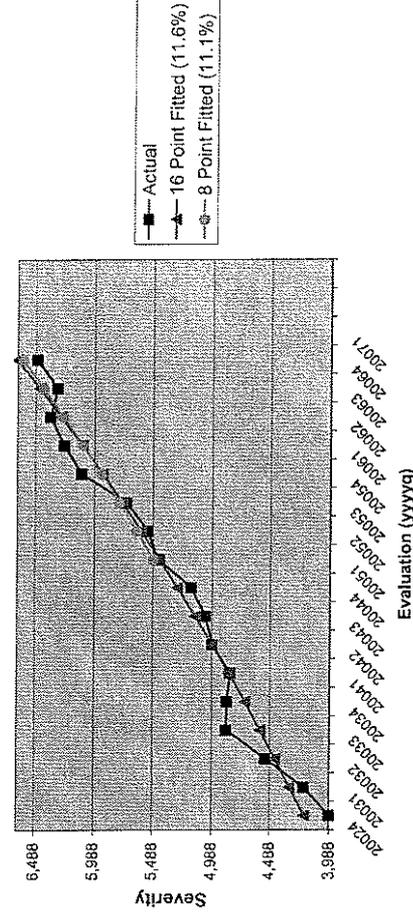
ISO Frequency



Encompass Severity



ISO Severity



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 ARKANSAS
 OTHER THAN AUTOMOBILE

EXHIBIT 10

Non-Modeled Catastrophe Load

(1)	(2)	(3)	(4)	(5)	(6)	(7)
CALENDAR YEAR	EX-CAT INCURRED LOSS+ALAE	CATASTROPHE INCURRED LOSS+ALAE	STATE CATASTROPHE FACTOR	COUNTRYWIDE CATASTROPHE FACTOR	RELATIVITIES	RELATIVITIES ADJUSTED FOR CAP OF 5.786
1984	2,630,793	832,389	0.316	0.146	2.164	2.164
1985	1,619,367	222,020	0.137	0.126	1.087	1.087
1986	1,615,849	205,922	0.127	0.081	1.568	1.568
1987	1,384,238	60,578	0.044	0.058	0.759	0.759
1988	1,579,834	37,017	0.023	0.088	0.261	0.261
1989	1,849,550	1,388,113	0.751	0.230	3.265	3.265
1990	1,008,317	351,471	0.349	0.233	1.498	1.498
1991	1,454,400	205,277	0.141	0.340	0.415	0.415
1992	903,216	26,211	0.029	0.275	0.105	0.105
1993	765,411	23,921	0.031	0.388	0.080	0.080
1994	879,397	63,772	0.073	0.321	0.227	0.227
1995	1,538,192	129,161	0.084	0.192	0.438	0.438
1996	1,628,586	1,115,444	0.685	0.502	1.365	1.365
1997	2,158,348	924,507	0.428	0.160	2.675	2.675
1998	1,309,290	284,964	0.218	0.544	0.401	0.401
1999	1,614,850	2,449,515	1.517	0.247	6.142 **	3.265 **
2000	2,353,497	1,039,955	0.442	0.255	1.733	1.733
2001	2,473,753	46,576	0.019	0.198	0.096	0.096
2002	1,918,701	191,549	0.100	0.150	0.667	0.667
2003	1,337,002	422,683	0.316	0.203	1.557	1.557
2004	1,940,473	77,354	0.040	0.162	0.247	0.247
2005	878,097	0	0.000	0.134	0.000	0.000
2006	1,114,862	422,543	0.379	0.201	1.886	1.886
(8) Average Relativity					1.214	1.062
(9) Standard Deviation					1.524	1.088
(10) Credibility						0.836
(11) Credibility Weighted Relativity						1.052
(12) Relativity Balanced to Countrywide						1.102
(13) Countrywide Selected Catastrophe Factor						0.225
(14) ARKANSAS Catastrophe Factor						0.248

** Relativity has been capped

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ARKANSAS
OTHER THAN AUTOMOBILE**

EXHIBIT 11

Expenses

<u>Item</u>	<u>Dollars</u>
(1) Avg Direct Premiums Earned*	705,627,960
(2) Avg Incurred Loss*	365,901,910
(3) Avg General Expenses*	53,883,572
(4) Avg Other Acquisition*	6,586,361
(5) Avg Unallocated Claim Expense*	54,088,070

<u>Item</u>	<u>Percentage</u>
(6) General Expenses***	7.6%
(7) Other Acquisition ***	0.9%
(8) Unallocated Claim Expense****	14.8%
(9) Profit	9.1%
(10) Permissible Loss Ratio*****	70.3%

Notes

- * Average of 2004 and 2005
- ** Excludes Hagerty Agency and Involuntary Business.
- *** Ratio to Premium
- **** Ratio to Incurred Loss
- ***** Includes contingency load of 1.0%
- (4) Other Acquisition includes: Marketing, MVR ordering costs, Special Funds and Assessments, Writeoffs and Payment Fees (which are a contra-expense).

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ARKANSAS
OTHER THAN AUTOMOBILE

EXHIBIT 12

Permissible Loss Ratio

Calculation of Present Value, as of the Average Earning Date
of a Policy year, of all Income and Outgo @ 3.95%
force of interest, assuming an Operating Profit of 9.01%
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 @ 3.95%	Discounted Payments
1	23.8%	23.8%	0.81	1.0073	23.9%
2	78.4%	54.6%	1.53	0.9792	53.5%
3	90.5%	12.1%	2.39	0.9467	11.4%
4	94.9%	4.4%	3.45	0.9077	4.0%
5	97.0%	2.1%	4.46	0.8723	1.9%
6	98.5%	1.5%	5.46	0.8385	1.3%
Subsequent	100.0%	1.5%	7.94	0.7602	1.1%
Total		100.0%			97.1%
Expected Losses and Loss Expense Ratio					62.8%
Present Value of Loss and Loss Expense Payments					61.0%
Taxes		2.8%	0.72	1.0111	2.9%
Commissions		16.8%	0.58	1.0167	17.1%
Other Acquisition		0.9%	0.63	1.0147	0.9%
General Expense		7.6%	0.75	1.0099	7.7%
Residual Market/Guarantee Fund		0.0%	1.00	1.0000	0.0%
Profit		9.1%	1.00	1.0000	9.1%
Total Present Value of Outgo					98.6%
Premiums		100.0%	0.57	1.0171	101.7%
Difference, Present Value of Income Less Present Value of Outgo					3.1%

*exp (0.0395 x (timing of profit being earned - timing of cash flow))



DETERMINATION OF THE UNDERWRITING PROFIT PROVISION

ALLSTATE INSURANCE GROUP

April, 2007

Table of Contents

Section 1: The Fair and Reasonable Return	Pg 2
<i>Standards For Fair Return</i>	Pg 2
<i>Return on Equity</i>	Pg 3
<i>Cost of Equity Capital</i>	Pg 4
<i>Estimating the Cost of Equity Capital</i>	Pg 6
<i>Full Information Betas</i>	Pg 10
<i>Allstate's Cost of Equity Capital</i>	Pg 12
<i>Allstate's Fair Return</i>	Pg 14
<i>Weighted Average Cost of Capital</i>	Pg 15
Section 2: Converting Cost of Equity Capital to Return on Equity	Pg 16
Section 3: Development the Underwriting Profit Provision From a Given Weighted Average	
Cost of Capital	Pg 19
<i>Step (1): Weighted Average Cost of Capital</i>	Pg 20
<i>Step (2): Estimated Investment Income on Equity to Total Capital</i>	Pg 20
Dividend Payout Ratio	Pg 21
Return on GAAP Equity	Pg 22
Investment Income on Average Equity Funds	Pg 22
Ratio of Year-end GAAP Equity to Total Capital	Pg 23
<i>Step (3): After-tax Operating Profit to Total Capital</i>	Pg 23
<i>Step (4): Ratio of Premium to Total Capital</i>	Pg 23
<i>Step (5): Total After-tax Operating Profit to Premium</i>	Pg 24
<i>Step (6) Investment Gain From Policy Cash Flow</i>	Pg 24
<i>Step (7): After-tax Underwriting Profit Provision (at Present Value)</i>	Pg 25
<i>Step (8): Tax Rate</i>	Pg 25
<i>Step (9): Pre-tax Underwriting Profit Provision (at Present Value)</i>	Pg 25

Section 1: The Fair and Reasonable Return

Standards for Fair Returns

The level of return that constitutes a fair return for regulated business is a legal question that the Supreme Court of the United States has ruled on 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 explained in its decision:

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

In the Bluefield Waterworks case, the court recognized and applied the Relative Risk Standard, stating that a regulated enterprise is entitled to such rates as will permit it to earn the same return as other businesses having corresponding risks. The court explained:

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

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

Accordingly, for a return to be a fair return, it must meet the following standards that have been promulgated 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.

Return on Equity

The return to the firm is measured by the return on its equity and is equal to net income divided by the book value of the firm's equity. The book value of a firm's equity is calculated in accordance with Generally Accepted Accounting Principles (GAAP). Publicly held companies are required to report financial statements in accordance with GAAP. Federal regulations mandate that financial

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

statements be prepared in accordance with GAAP so that all who are interested in the financial condition of the firm, equity owners, creditors, customers, and particularly those who are making investment decisions whether to buy or sell the firm's capital stock, have adequate information.

It is essential that in making such decisions the financial condition of the firm can be compared with the financial condition of other companies. For that reason, it is essential that financial statements used for this purpose, i.e. to measure the value of the firm as an ongoing business enterprise, be stated on a comparable accounting basis. Similarly for such purposes, independent auditors are required to certify that the financial statements are prepared in accordance with GAAP.

Cost of Equity Capital

Whereas the return on equity is an accounting concept, the cost of equity capital is a market-based concept. A firm's cost of equity capital is the rate of return that investors expect to earn on the market value of the investment.

The cost of equity capital differs from the historic rate of return on equity in two fundamental ways.

1. The numerator of a historic rate of return reflects the income that actually materialized in a specific accounting period. The actual, historic income may be significantly different from the income that investors expected and that was the basis for the investment decision.
2. The base for calculating a rate of return on equity is the book value of the firm (GAAP), whereas the base for the cost of equity capital is the market value of the firm. The market value of the average firm usually exceeds its book value by significant amounts.

As will be shown later in this paper, the return on equity for a firm is simply a function of the cost of equity capital, the market-to-book ratio, the firm's dividend payout ratio, and the return to the shareholders on income retained by the firm. If all earnings were paid out in dividends, then the

ratio of the return on equity to the cost of equity capital would equal the market-to-book ratio. This makes intuitive sense, since the return on equity is a return on the book value, and the cost of equity capital is a return on the market value; if the market value exceeds the book value, then the return on equity must exceed the cost of equity capital. When the dividend payout ratio is less than 100%, the relationship is more complicated, but essentially remains the same. In general, because the market value of the average firm exceeds its book value, a fair rate of return on market value cannot equal a fair rate of return on book value.

It is sometimes claimed that it is inappropriate for a firm to earn a greater return (return on equity) than is earned by the investor (cost of equity capital). However, it must be reiterated that the firm's goal is to provide the appropriate return to the investor; if it cannot do this, then it will have trouble raising capital. Recall that the first item in the list of standards for a fair return to the firm promulgated by the Supreme Court was that it should be "sufficient to attract capital."

The disconnect between a return on the book value of the firm and a return on the market value of the firm is more obvious in some non-insurance companies. For example, some web-based companies that provide a service rather than a product (eBay for example) have very few physical assets and consequently have a comparatively miniscule book value. A firm such as this might have a market value that is ten times larger than its book value; for it to target the same return on book value that the firm needs to provide on market value would result in a drastic shortage in a return to the investors and the inability to provide the cost of equity capital.

This issue, while less drastic in the insurance industry, is still present and needs to be accounted for. The degree to which the market value exceeds the book value dictates the degree to which the return on equity exceeds the cost of equity capital.

Also, it should be noted that, although the return on equity appears to be larger than the cost of equity capital, the actual dollar value being earned by the investor is greater than that being earned by the firm if the firm's market-to-book ratio exceeds 1.00, due to the extra return to the shareholder on income retained by the company. For example, if a firm with a market-to-book

ratio of 1.50 earns \$1,000 and pays 50% of earnings in dividends, then the \$1,000 of income for the firm becomes \$1,250 (see the Appendix for an explanation of this calculation) for the investor. If the firm's book value is \$10,000, this would translate to a return on equity of 10% ($=1,000/10,000$) and a return to the shareholder of 8.33% ($=1,250/15,000$). The shareholder's return appears smaller because of the larger denominator in the calculation, but on a dollar-basis, the return is actually larger. Thus, it should not be perceived that the firm is attempting to earn more than is calculated to be the necessary cost of equity capital, but rather it is a consequence of mathematics and differing definitions of returns that results in the seeming disparity.

Estimating the Cost of Equity Capital

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.

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.

The capital asset pricing model (CAPM) has been widely used to estimate the cost of equity capital. CAPM is intuitively appealing and simple in its logic. 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. β 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 using a multifactor asset pricing model. The most widely recognized multifactor model is the "Fama-French three-factor model."³ Fama and French have shown that from the 1960's both small stocks and value stocks have returned more than what the traditional CAPM has predicted. In addition to the usual market-risk premium ($r_m - r_f$), they utilize two other variables: size premium (π_s) and value premium (π_h).⁴

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

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

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

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

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

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

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 ε). Similarly, r_m is the actual return of the equity market. The variables π_s and π_h measure by how much small-cap stocks outperformed large-cap stocks, and by how much high book-to-market stocks outperformed low ones. Negative values indicate underperformance. Though an intercept term α is estimated, economic theory states that in the long run it should be zero. Hence, in predicting stock returns it is ignored.

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

The Fama-French model is a multi-factor model that reduces to the CAPM if β_s and β_h are constrained to zero. Therefore, it must explain more stock-return variance than does the CAPM. In a subsequent paper⁶, Fama and French argued that the R-squared of their model is markedly better than that for CAPM, and that β_s and β_h are significantly different from zero, even after

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

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

controlling for the overall market.⁷ Extensive research since 1992 has shown that factors other than the CAPM market systematic risk factor play an important role in explaining the cross-section of expected stock returns. As Fama and French note:

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

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

In estimating the beta coefficients of asset pricing models such as the CAPM and Fama-French models, it is often important to utilize a technique known as the sum-beta adjustment (Ibbotson, *SBBI Valuation Edition 2004*, 109-114). The sum-beta method is used to obtain unbiased estimates of the beta coefficients of the risk factors of asset pricing models, when either the individual stock and/or some of the stocks that comprise the risk factors are infrequently traded. Research shows that there is a downward bias in the estimate of the risk factors for shares that trade infrequently.⁹ Although Allstate's stock is frequently traded, we cannot directly compare Allstate's estimated risk factors to those of other companies without first adjusting for the amount of trading in each firm's stock. The adjustment is quite simple – unbiased estimates of the beta coefficients are obtained – in the case of the Fama-French model, by regressing the excess return of the stock on the contemporaneous risk factors and the previous month's factors.¹⁰ In symbols, the sum-beta version of the Fama-French model is:

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

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

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

¹⁰ In applying the sum-beta method, it is important for reasons of consistency to apply the model to stocks that trade frequently as

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

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

Until now Allstate has estimated its beta by comparison with, and adjustment of, the betas of other property/casualty insurers. As Ibbotson remarks (*SBBI Valuation Edition 2004*, 115f):

“Unfortunately, this type of analysis includes only the “pure play” companies in the calculation of beta. Many of the largest companies in the United States are conglomerates, making it difficult or impossible to include these companies in the industry average. ... One solution to the conglomerate problem is the full information approach developed by Kaplan and Peterson. The full information approach seeks to include in the calculation of the industry beta data from all companies participating in a given industry. The full information approach is a cross-sectional regression that solves for betas for a variety of industries based on the exposure a given company has to that industry.”

well as to infrequently traded stocks. In the former case, the sum-beta adjustment does not significantly affect the cost of capital estimates.

Allstate follows the lead of Cummins and Phillips in their application of the full-information adjustment to the Fama-French model.¹¹ From the CRSP data, betas are estimated for rolling sixty-month periods for the thousands of companies in the CRSP database. For more than five thousand of these companies, the S&P/Compustat database provides sales figures by North American Industry Classification System (NAICS) segment. This allows us to define 26 high-level, homogenous business segments, one of which is property/casualty insurance. Each firm can then be treated as a unique mixture of these business segments. In other words, we can decompose the Fama-French betas of the companies in the sample into Fama-French betas of idealized business segments, in particular, those of the property/casualty segment. The details of this procedure are given in the earlier cited working paper of Cummins and Phillips, but in brief, we estimate the industry-segment betas of the following seemingly-unrelated-regression (SUR)¹² model:

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

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

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

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

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

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 I 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. 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 II 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 III summarizes the same elements of Allstate's reported financial statements. But 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 IV summarizes the Fama-French model estimates of the market-risk, size-risk, and value-risk betas. Calculations are shown for rolling, five-year periods ending June 2002 through June 2006. 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.

The cost of equity capital is a determinant of the underwriting profit provision used by Allstate for ratemaking purposes.

Allstate's Fair Return

As previously discussed, there are important differences between a firm's cost of equity capital and a fair return on equity. One of those differences arises because the cost of equity capital is in relation to the firm's market value and a return on equity is in relation to the firm's book value (GAAP).

The calculation of the fair rate of return to the firm (the return on equity) requires, in addition to the investors' cost of equity capital, the firm's dividend payout ratio, its expected ratio of market value to book value, and the return to investors on income retained by the company.

The dividend payout ratio is the proportion of net income that is paid to shareholders in the form of dividends and stock repurchases. Dividends paid and stock repurchases made by the company in a given year are based on the previous year's net income. Therefore, the dividend payout ratio is the ratio of the sum of dividends and stock repurchases to the previous year's net income. Appendix 1, Exhibit V displays Allstate's dividend payout ratio for each year since 1997, which is based on the net income from 1996, the first year Allstate was fully independent of Sears.

Property/casualty insurers also have market values that exceed book values. For example, the median market-to-book ratio for the Fire, Marine and Casualty Insurance Industry in Ibbotson's 2006 Cost of Capital Yearbook was 1.49.

Appendix 1, Exhibit VI presents historical market-to-book ratios for Allstate Corporation, and the 10-year moving average has been calculated. Market-to-book ratios can fluctuate dramatically from year to year, so Allstate selected the 10-year average as an estimate of the expected market-to-book ratio.

Appendix 1, Exhibit VII displays the calculation of Allstate's fair rate of return.

Allstate believes that it needs to earn the rate of return on GAAP equity calculated in Appendix 1, Exhibit VII at this point in time. We believe that this rate of return is implied by theory, supported by data, and is reasonable in light of the returns that other comparable firms earn. Further, this rate of return is consistent with the standards of fair returns that have been enunciated by the U. S. Supreme Court.

Weighted Average Cost of Capital

Insurance operations are not entirely financed by equity capital; debt is also used as a vehicle to raise funds. Therefore the cost of both equity and debt must be incorporated into the methodology. Once the appropriate cost of equity capital is determined and converted to a book-value basis, it is combined with the cost of debt, and the Weighted Average Cost of Capital (WACC) is determined.

Appendix 1, Exhibit VIII displays the calculation of the Weighted Average Cost of Capital. In this calculation, the cost of equity capital is converted to a return on the book value of equity, which is then combined with the cost of debt.

Section 2: Converting Cost of Equity Capital to Return on Equity

Investors purchase shares of a firm and expect to receive a return on their investment that is commensurate with the risk involved. This return is paid to the shareholders in two ways: dividends issued and change in share value. When the firm earns income during a year, there are two things that the firm can do with that income: issue dividends to shareholders or reinvest the income in the business for the purposes of growth. Thus, it is the reinvestment of income in the business that must provide for the change in share value.

The return demanded by the shareholder is a return on share price and thus is based on the market value of the firm. However, the equity available to the firm is the Generally Accepted Accounting Principles (GAAP) valuation of the equity, or the “book value” of the equity. The market value generally exceeds the book value of the firm due to several intangible valuables such as brand image, personnel expertise, and the growth opportunities of the firm. Therefore, it is necessary to calculate the return on the book value of equity that the firm must earn in order to provide the necessary return on market value for the shareholder.

Let E_i equal the net expected income to the *firm* in year i ,
 I_i equal the net expected income to the *shareholders* in year i ,
 Z equal the ratio of the growth in market value to the income retained,
 d equal the dividend payout ratio,
 r_i equal the return on the book value of equity in year i ,
 k_i equal the return on the market value of equity (a.k.a. cost of equity capital) in year i ,
 BV_i equal the book value of equity at the end of year i ,
 MV_i equal the market value of equity at the end of year i ,
and m_i equal the ratio of market value to book value at the end of year i .

The return on equity is equal to the income received by the firm in a given year divided by the beginning-of-year GAAP book value of equity:

$$r_i = \frac{E_i}{BV_{i-1}}$$

or:

$$E_i = r_i * BV_{i-1} \quad (1)$$

The cost of equity capital is equal to the income received by the shareholders in a given year divided by the market value of the equity, or:

$$k_i = \frac{I_i}{MV_{i-1}}$$

The income received by the shareholders in a given year is equal to the dividends received plus some return (the Z factor will be discussed below) on the income retained by the firm, or

$$I_i = d(E_i) + (1-d)E_i * Z$$

Using these two formulas, we can derive the following equation:

$$E_i = \frac{MV_{i-1} * k_i}{Z + d(1-Z)} \quad (2)$$

By setting equations (1) and (2) equal to each other, we get:

$$r_i * BV_{i-1} = \frac{MV_{i-1} * k_i}{Z + d(1-Z)}$$

After much rearranging and substituting m for MV/BV we get:

$$r_i = \frac{m_{i-1} * k_i}{d + (1-d)Z} \quad (3)$$

With this equation we can calculate the needed return on the book value of equity to produce the appropriate return to shareholders on the market value of equity. Equation (3) shows that the return

on equity is a function of the cost of equity capital, the dividend payout ratio, the ratio of market value to book value, and the return to shareholders on income retained by the firm.

It is difficult to determine what the appropriate factor for “Z” should be, since the change in share value due to retained earnings by the firm is a function of anticipated growth opportunities by investors. Allstate believes that the most appropriate estimate of this ratio is the expected future ratio of market value to book value, since this ratio already takes into account the present value of anticipated growth opportunities. Given this assumption, equation (3) becomes:

$$r = \frac{m * k}{d + (1 - d) * m} \quad (4)$$

This is the equation that Allstate uses to determine the appropriate return on equity for a given cost of equity capital. Notably, equation (4) can likewise be derived by application of the Dividend Discount Model (discussed in many Finance textbooks), given appropriate assumptions.

Section 3: Development of the Underwriting Profit Provision **From a Given Weighted Average Cost of Capital**

Underwriting profit is defined in *Actuarial Standards of Practice, No. 30* as “Premiums less losses, loss adjustment expenses, underwriting expenses, and policyholder dividends.”¹³ Thus, a provision for underwriting profit is a portion of the actuarially developed rate, and is often expressed as a percentage of the rate.¹⁴ 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.¹⁵ This approach, however, was not based on financial theory and neglected investment income and income taxes. As pricing techniques have become more sophisticated in the incorporation of financial theory, the development of the underwriting profit provision has become more complicated and increasingly 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 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 the investor’s cost of capital was calculated and converted to Allstate Corporation’s needed Weighted Average Cost of Capital (WACC). In order to obtain the needed WACC, Allstate must include an appropriate underwriting profit provision in its ratemaking methodology. The development of the appropriate underwriting profit provision is shown below.

¹³ *Actuarial Standards of Practice, No. 30*; page 2

¹⁴ *Ibid*; page 2

¹⁵ The notable exception is Workers Compensation, which used a 2.5% profit load (Robbin, 1992)

Appendix 2, Exhibit 1 displays the flow of calculations from a given WACC 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 WACC. Please see the exhibits attached in Appendix 2 for supporting data used in the calculation of the underwriting profit provision, as catalogued in Appendix 2, Exhibit 1.

Detail Supporting the Underwriting Profit Calculations

Step (1): Weighted Average Cost of Capital

The targeted Weighted Average Cost of Capital (WACC) for the Allstate Corporation is based on the calculated cost of equity to the investor and the cost of debt. The cost of equity is first converted into a return on the book value of equity (ROE), and the ROE is then combined with the cost of debt to get the WACC. Refer to Section 1: *The Fair and Reasonable Return* above for the explanation and derivation of the WACC.

Step (2): Estimated Investment Income on Equity to Total Capital

The equity of an insurance company, while designated for other specific purposes, earns investment income while it is held by the company. The percentage used in the calculations represents the anticipated net investment income and anticipated capital gains, both realized and unrealized, as a ratio to year-end GAAP equity. Henceforth, unless otherwise noted, the term “equity” will refer to the equity of the Allstate Corporation as a whole. Funds raised through the issuing of debt are assumed to have been used for insurance operations and growth opportunities and are not considered available for investment purposes.

Appendix 2, Exhibit 2, Page 1 outlines the procedure that was used to calculate the estimated investment income as a ratio to total capital. Investment income returns are generally calculated on an average-equity basis, thus requiring an adjustment to be relative to year-end equity. This procedure assumes that the difference between the starting equity and the ending equity is the return on equity, less dividends. The average of the starting equity and the ending equity is then

determined, and a ratio of the average equity to the ending equity is calculated and applied to the average equity investment income return.

In addition to investment income from Allstate's equity portfolio, net income from Allstate Financial is included. Since Allstate Financial is a subsidiary of Allstate Insurance Company, it is therefore an investment of Allstate Insurance Company, and its income should be included with other investment income.

Because the WACC calculations are relative to total capital (equity and debt), the investment income on GAAP equity must be converted to a percentage relative to total capital. This number, found in line (12), is the estimated investment income as a percent of total capital.

This procedure requires five important numbers: the dividend payout ratio, the return on GAAP equity, the investment income on average equity funds, income from Allstate Financial, and the ratio of year-end GAAP equity to total capital. The sources of these five inputs are described below.

Dividend Payout Ratio

Appendix 1, Exhibit 5 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.

Return on GAAP Equity

As mentioned in Step (1) above, the Return on GAAP Equity is calculated to obtain the appropriate cost of equity for the investor. The details of this procedure were outlined above in Section 1: *The Fair and Reasonable Return*.

Investment Income on Average Equity Funds, Income from Allstate Financial

Appendix 2, Exhibit 2, Page 2 is a summary of the various sources of investment income that, when totaled, equal the estimated investment income rate of return on average equity funds. Percentages are broken out by source between investment income and capital gains; realized and unrealized capital gains are combined.

The WACC calculated above in Section 1: *The Fair and Reasonable Return* is a return to investors in Allstate Corporation, and the calculation is performed using data from the insurance industry and from Allstate Corporation as a whole. Therefore, income from all components of Allstate Corporation is considered in the determination of the target underwriting profit provision; Property-liability operations, corporate investments, and Allstate Financial are included. Consideration of income from all components of Allstate Corporation recognizes the fact that Allstate Insurance Company need not provide all required income for the corporation. The target underwriting profit provision is thus offset by income produced by other sources.

Appendix 2, Exhibit 2, Page 3 details the calculation of the estimated investment income rate of return on average equity funds for each source of income. Property-liability operations and corporate investments are listed separately. The percentages shown are calculated by taking the ratio of the investment income to the average total asset base. The asset base includes both equity and policyholder supplied funds. It is difficult to calculate separate returns for equity and policyholder supplied funds, therefore the investment income percent for each is assumed to be equal to the investment income percent for the asset base as a whole.

Appendix 2, Exhibit 2, Page 6 details the calculation of the year-end and average total asset base. The calculated asset base is the sum of the equity with bonds at market value, unearned premium

reserves, and loss reserves, less premium installments receivable and deferred policy acquisition costs. Premium installments receivable are booked premiums that have not yet been received by the company; deferred policy acquisition costs are an asset that are allowed for accounting and tax purposes under the Generally Accepted Accounting Principles (GAAP) to be carried forward in order to spread the up-front costs of business acquisition over the tenure of the business being acquired. In both cases, the asset is not something that can be invested by the company and thus is not included in the asset base.

Appendix 2, Exhibit 2, Page 4 shows the inclusion of Allstate Financial income. A 3-year weighted average of the ratio of after-tax Allstate Financial income to the beginning-of-year total capital is used. This denominator is used so that the resulting percentage can be appropriately added to the investment income percentage, which is also relative to beginning-of-year total capital.

Ratio of GAAP Equity to Total Capital

Appendix 2, Exhibit 2, Page 5 shows the breakdown of total capital between equity and debt.

The ratio of equity to total capital is used to convert investment income on equity to a percentage relative to total capital.

Step (3): After-tax Operating Profit to Total Capital

Actuarial Standards of Practice, No. 30 defines Operating Profit as “The sum of underwriting profit, miscellaneous (non-investment) income from insurance operations, and investment income from insurance operations.”¹⁶ Consequently, the amount of income required from insurance operations is reduced by the estimated investment income from equity.

Step (4): Ratio of Premium to Total Capital

The WACC, as discussed in Section 1: *The Fair and Reasonable Return*, is a weighted average of the cost of equity and the cost of debt, and is thus the needed return on total capital.

Therefore, in order to remain mathematically consistent, the ratio of premium to total capital must be used to convert the needed return on total capital to a return on premium. This ratio should not be confused with the commonly quoted premium-to-equity ratio (or “leverage ratio”) that often serves as a measure of the relative amount of risk to which capital is exposed. Even a

¹⁶ *Actuarial Standards of Practice, No. 30*; page 2

highly-leveraged, riskier company with small amounts of equity can have a ratio of premium to total capital near 1.00.

We calculate the total capital for the Allstate Insurance Group as a whole, except that Allstate New Jersey (ANJ), Allstate Floridian Group (AFIC) and California (CA) are not included in the Allstate Insurance Group number, and each has a separately calculated premium to total capital ratio. The different premium-to-capital ratios are used due to unique capital situations in New Jersey, Florida, and California. Regardless of the specific ratio used, all target the same return on capital – the WACC for Allstate Corporation.

Appendix 2, Exhibit 3, Page 1 lists the most recent four years of premium-to-total-capital ratios for Allstate Insurance Group. Allstate believes that the most recent year's ratio is the best estimate of the expected future ratio. Appendix 2, Exhibit 3, Page 2 shows the calculation of the ratio of premium to total capital for Allstate Insurance Group excluding ANJ, AFIC, and CA.

Step (5): Total After-tax Operating Profit to Premium

The after-tax operating profit in Step (3) is expressed as a percentage of total capital; for ratemaking purposes, the operating profit is converted into a percent of premium. Since the operating profit needed is expressed as a percent of *total capital*, but is built into the rates as a percent of *premium*, the percent needs to be adjusted by the ratio of premium to total capital.

For example, if a company had \$1,000 of capital and required a 10% return on capital, or \$100, that it needed from insurance operations, and the company had \$2,000 of premium, then a 5% charge on premium ($\$100/\2000) would be sufficient. Thus, a 10% return on capital would require a $(10\%)/(\$2,000/\$1,000) = 5\%$ charge on premium.

Step (6): Investment Gain from Policy Cash Flow

Premiums are collected, expenses are incurred, and losses are paid in different time frames. Generally the differences in cash flow timing work favorably for the insurance company: 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. Because of this additional income, the amount of income needed from insurance operations through underwriting profit can be reduced.

Allstate uses a discounted cash flow (DCF) method to calculate the impact of cash flow timing differences.¹⁷ This method uses the investment income rate on average equity, discussed previously in Step (2) and shown on line (7) of Appendix 2, Exhibit 2, Page 2, to calculate a discounted present value of premiums received, and losses and expenses paid. Note that premiums, expenses, and losses are all discounted to the *average time that the profit is being earned*, which is the average time that the policies for a given year are in force. For example, for a line of business with 6-month policy terms, a given policy year will have policies in effect from time = 0 to time = 1.5, since policies written on the last day of the year are in effect for 6 months after the end of the year. Thus the average earned time is at time = .75. Similarly, for a line of business with a 12-month policy term, the average earned time would be at time = 1.00.

Step (7): After-tax Underwriting Profit Provision (at Present Value)

As mentioned in Step 6 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 policy cash flows are subtracted from the total after-tax operating profit to get the after-tax underwriting profit provision.

Step (8): Tax Rate

The standard federal income tax rate for corporations is 35%.

Step (9): Pre-tax Underwriting Profit Provision (at Present Value)

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.

¹⁷ DCF 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).

Appendix 1

The Fair and Reasonable Return

FAMA-FRENCH RISK PREMIA

Monthly Avg until June	Market-Risk Premium*	Small-Stock Premium*	Value-Stock Premium*
1997	8.16%	2.69%	4.75%
1998	8.34%	2.53%	4.81%
1999	8.43%	2.34%	4.52%
2000	8.41%	2.61%	4.12%
2001	8.03%	2.65%	4.70%
2002	7.67%	2.78%	4.92%
2003	7.61%	2.80%	4.76%
2004	7.76%	2.94%	4.80%
2005	7.75%	2.91%	4.92%
2006	7.74%	2.92%	4.96%

All time series commence from July 1926.

*The risk premia have been annualized.

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

PROPERTY/CASUALTY INDUSTRY SEGMENT

Betas

60 Months ending June	Market-Risk Beta	Allstate Small- Stock Beta	Allstate Value- Stock Beta	Market-Value Coefficient	Book-to-Market Coefficient
1998	1.087	1.897	0.704	-0.214	0.317
1999	1.165	1.753	1.018	-0.184	0.269
2000	1.292	1.404	1.153	-0.158	0.452
2001	1.192	1.756	1.321	-0.182	0.313
2002	0.938	1.500	1.118	-0.167	0.243
2003	0.770	1.400	0.838	-0.158	0.128
2004	0.742	1.154	0.654	-0.145	0.212
2005	0.575	1.562	0.582	-0.173	0.264
2006	0.747	1.435	0.344	-0.153	0.343

ALLSTATE CORPORATION

NAICS Code 524126

Allstate Compustat Data

(\$ Million)

Report Date	Market Value	Book Value	Total Sales	Prop/Cas Sales	Prop/Cas Portion	Log Market Value	Log Book-to-Market
Dec-97	\$38,462.50	\$15,280	\$24,914	\$21,137	84.84%	10.5574	-0.9231
Dec-98	31,588.79	16,953	25,795	21,836	84.65%	10.3606	-0.6224
Dec-99	19,379.84	15,824	24,188	20,112	83.15%	9.8720	-0.2027
Dec-00	31,857.39	17,009	26,791	21,871	81.64%	10.3690	-0.6275
Dec-01	24,029.08	16,519	27,395	22,197	81.03%	10.0870	-0.3748
Dec-02	26,002.34	16,841	28,780	23,361	81.17%	10.1659	-0.4344
Dec-03	30,267.75	20,766	30,129	24,677	81.90%	10.3178	-0.3768
Dec-04	35,490.89	21,684	33,837	28,354	83.80%	10.4770	-0.4927
Dec-05	35,072.02	19,510	35,244	29,346	83.27%	10.4652	-0.5865

Source: Standard & Poor's/Compustat

ALLSTATE CORPORATION

Betas

Market Risk Component:

(1) Period	(2) Prop/Cas Market Beta
2002	0.938
2003	0.770
2004	0.742
2005	0.575
2006	0.747
3-yr Avg	0.688
5-yr Avg	0.754
Selected	0.688

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
2002	1.500	-0.167	10.0870	-0.185
2003	1.400	-0.158	10.1659	-0.206
2004	1.154	-0.145	10.3178	-0.342
2005	1.562	-0.173	10.4770	-0.251
2006	1.435	-0.153	10.4652	-0.166
3-yr Avg				-0.253
5-yr Avg				-0.230
Selected				-0.253

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
2002	1.118	0.243	-0.3748	1.027
2003	0.838	0.128	-0.4344	0.782
2004	0.654	0.212	-0.3768	0.574
2005	0.582	0.264	-0.4927	0.452
2006	0.344	0.343	-0.5865	0.143
3-yr Avg				0.390
5-yr Avg				0.596
Selected				0.390

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

ALLSTATE CORPORATION

Estimated Cost of Equity Capital

Cost of Equity Capital:

	Value	Source
(1) Long-term Average Market Risk Premium:	7.74%	App. 1, Exh. 1
(2) Selected Beta:	0.688	App. 1, Exh. 4, Pg. 1
(3) P/C Industry Market Risk Premium:	5.33%	=(1) * (2)
(4) Long-term Size Risk Premium:	2.92%	App. 1, Exh. 1
(5) Selected Size Beta:	-0.253	App. 1, Exh. 4, Pg. 1
(6) Allstate Size Risk Premium:	-0.74%	=(4) * (5)
(7) Long-term Value Risk Premium:	4.96%	App. 1, Exh. 1
(8) Selected Value Beta:	0.390	App. 1, Exh. 4, Pg. 1
(9) Allstate Value Risk Premium:	1.93%	=(7) * (8)
(10) Total Risk Premium:	6.52%	=(3) + (6) + (9)
(11) Risk-free Return:	5.247%	BPD*
(12) Cost of Equity Capital:	11.77%	=(10) + (11)

*The risk-free return is the 28-day Treasury bill rate (secondary market), according to the Bureau of Public Debt, as of March 22, 2007 (CUSIP 912795ZC8, Investment Rate)
<http://www.publicdebt.treas.gov/AI/OFBills>

ALLSTATE CORPORATION

Dividend Payout Ratio

(1) Year	(2) Prior Year GAAP Net Income*	(3) Dividends	(4) Stock Repurchases (Net)	(5) = (3)+(4) Total Payout	(6) = (5)/(2) Total Payout Ratio
1997	\$2,075	417	1,277	1,694	0.82
1998	3,105	450	1,400	1,850	0.60
1999	3,294	482	864	1,346	0.41
2000	2,720	506	1,385	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	1,111	1,890	0.70
2005	3,181	846	2,203	3,049	0.96
2006	1,765	885	1,516	1,765	** 1.00
Total	23,348	6,154	10,703	16,221	0.69

Source: 2006 Allstate Annual Report - page 110

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

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

ALLSTATE CORPORATION

Historical Market-to-book Ratios

Years	Allstate
Dec-97	2.35
Dec-98	1.75
Dec-99	1.08
Dec-00	1.74
Dec-01	1.38
Dec-02	1.47
Dec-03	1.47
Dec-04	1.62
Dec-05	1.73
Dec-06	1.85
10-yr Avg:	1.64
Selected:	1.64

Source: MSN Online Reports

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

ALLSTATE CORPORATION

Fair Return to the Firm

The relationship between the cost of equity capital and the fair return to the firm is as follows:

$$r_i = \frac{m_{i-1} * k_i}{d + (1 - d) * m_{i-1}}$$

where,

	Amount	Source
k = Cost of equity capital =	11.77%	App. 1, Exh. 4, Pg. 2
d = Dividend payout ratio =	0.69	App. 1, Exh. 5
m = Selected market to book ratio =	1.64	App. 1, Exh. 6
r = Fair return to firm,	16.10%	Calculated

ALLSTATE CORPORATION

Weighted Average Cost of Capital

(1) Pre-tax Cost of Debt (millions)*	322.0
(2) Tax Rate	35%
(3) After-tax Cost of Debt (millions) $(=(1)*(1-(2)))$	209.3
(4) Book Value of Debt (millions)**	4,662
(5) Cost of Debt $(=(3)/(4))$	4.49%
(6) Book Value of Equity (millions)***	21,846
(7) Return on Equity (from App. 1, Exh. 7)	16.10%
(8) Total Capital $(=(4)+(6))$	26,508
(9) Weighted Average Cost of Capital $(= [(4)*(5)+(6)*(7)]/(8))$	14.06%

Source: Allstate Corporation 2006 Annual Report

*Page 163: Notes on Debt Outstanding

**Page 162: Total Debt Outstanding, 2006

***Page 10: "Total Shareholders' Equity"

Appendix 2

Development of the Underwriting Profit Provision
From a Given Weighted Average Cost of Capital

ENCOMPASS INSURANCE COMPANY

Arkansas
OTA

Development of the Underwriting Profit
Provision from a Given Weighted Average Cost of Capital

	Total	Source
(1) Weighted Average Cost of Capital	14.06%	App. i, Exh. 8
(2) Estimated Investment Income on Equity to Total Capital*	4.78%	App. 2, Exh. 2, Pg. 1
(3) After-tax Operating Profit to Total Capital*	9.28%	=(1) - (2)
(4) Ratio of Premium to Total Capital*	1.03	App. 2, Exh. 3, Pg. 2
(5) After-tax Operating Profit to Premium	9.01%	=(3)/ (4)
(6) Investment Gain from Policy Cash Flow	3.13%	App. 2, Exh. 4, Pg. 1
(7) After-tax Underwriting Profit Provision (at Present Value)	5.88%	=(5) - (6)
(8) Tax Rate	35%	FIT**
(9) Pre-tax Underwriting Profit Provision (at Present Value)	9.1%	=(7)/[1-(8)]

*Total Capital = Equity + Debt

**This is the standard federal income tax rate for corporations

ALLSTATE INSURANCE GROUP

Calculation of Investment Income on Equity to Total Capital

	Amount	Source
(1) Dividend Payout Ratio	69%	App. 1, Exh. 5
(2) Return on GAAP Equity	16.10%	App. 1, Exh. 7
(3) Beginning of Year Equity to Beginning of Year Equity	100%	Given
(4) Portion of Return on GAAP Equity Paid Out in Dividends	11.11%	=(1)*(2)
(5) End of Year Equity to Beginning of Year Equity	105.0%	=(3) + [(2)-(4)]
(6) Avg Equity	102.5%	=[(3)+(5)]/2
(7) Investment Income on Average Equity Funds	3.95%	App. 2, Exh. 2, Pg. 2
(8) Investment Income on Average Equity Funds to Beginning of Year Equity	4.05%	=(6)*(7)
(9) Ratio GAAP equity to total capital	82.41%	App. 2, Exh. 2, Pg. 5
(10) Investment Income on equity as a percent of total capital	3.34%	=(8)*(9)
(11) Allstate Financial Income as a percent of total capital	1.44%	App. 2, Exh. 2, Pg. 4
<u>(12) Total Investment Income on equity as a percent of total capital</u>	<u>4.78%</u>	=(10)+(11)

ALLSTATE INSURANCE GROUP

Projected After-tax Net Rate of Return to Average Asset Base

<u>Source</u>	<u>After Tax</u> <u>Rate of Return</u>	<u>Source</u>
Net Capital Gains	0.46%	
P/L Operations	0.46%	App. 2, Exh. 2, Pg. 3
Corporate	0.00%	App. 2, Exh. 2, Pg. 3
Net Investment Income	3.49%	
P/L Operations	3.27%	App. 2, Exh. 2, Pg. 3
Corporate	0.22%	App. 2, Exh. 2, Pg. 3
<u>Total</u>	3.95%	

ALLSTATE INSURANCE GROUP

Investment Income Projections

(\$ In Thousands)

	Annualized Investment Plan Return on Average Invested Assets* (1)	2006 Average Asset Base (2)	Percent Return On Asset Base (3)=(1)/(2)
Property-Liability Operations			
After-tax investment income net of investment expense	1,485,742		3.27%
After-tax capital gains, realized & unrealized	210,564		0.46%
Total	1,696,307	45,499,277	3.73%
Corporate Investments			
After-tax investment income net of investment expense	101,851		0.22%
After-tax capital gains, realized & unrealized	58		0.00%
Total	101,909	45,499,277	0.22%

*From Investment Department, 2007 forecast

ALLSTATE INSURANCE GROUP

After-tax Allstate Financial Income to Average Asset Base

(\$ In Millions)

(1)	(2)	(3)	(4)
<u>Year</u>	<u>Beginning of Year Total Capital</u>	<u>After-tax Allstate Financial Income**</u>	<u>(3) / (2)</u>
2004	\$25,641.0	\$246	0.96%
2005	\$27,157.0	\$416	1.53%
2006	\$25,486.0	\$464	1.82%
Total	\$78,284.0	\$1,126	1.44%

** The Allstate Corporation 2006 Annual Statement, page 10

ALLSTATE INSURANCE GROUP

Total Capital

(\$ In Millions)

	2006	% of Total Capital
(1) GAAP Equity*	\$21,846	82.41%
(2) Debt**	\$4,662	17.59%
(3) Total Capital [(1)+(2)]	\$26,508	100.00%

Source: Allstate Corporation 2006 Annual Report

*Page 10: Shareholders' Equity

**Page 162: Debt Outstanding

ALLSTATE INSURANCE GROUP

Asset Base
2003-2006

(\$ In Millions)

(1) Year	(2) Equity with Bonds at Market Value	(3) Unearned Premium Reserves	(4) Loss Reserves	(5) Premium Installments Receivable	(6) Deferred Policy Acquisition Costs	(7) (2)+(3)+(4)- (5)-(6) Asset Base with Bonds at Market Value	(8) [prior year(7) +(7)]/2 Average Asset Base with Bonds at Market Value
2003	\$20,565.0	\$9,048.9	\$17,713.8	\$4,302.8	\$1,325.5	\$41,699.4	\$43,195.0
2004	\$21,823.0	\$9,624.3	\$19,337.7	\$4,635.0	\$1,459.5	\$44,690.5	\$45,404.7
2005	\$20,186.0	\$9,978.2	\$22,116.6	\$4,678.3	\$1,483.6	\$46,118.9	\$45,499.3
2006	\$21,846.0	\$10,380.5	\$18,865.7	\$4,727.9	\$1,484.6	\$44,879.7	

Note: Market value includes an adjustment for federal income taxes.
From the Allstate Corporation and Subsidiary Combining Statement of Financial Position: 12/31/06

ALLSTATE INSURANCE GROUP

Group Ratio of Premium to Total Capital

(\$ In Millions)

<u>Year</u>	<u>Earned Premium</u>	<u>GAAP Equity</u>	<u>Debt</u>	<u>Total Capital*</u>	<u>Premium to Total Capital Ratio</u>
2003	\$24,677	\$20,565	\$5,076	\$25,641	0.96
2004	\$25,989	\$21,823	\$5,334	\$27,157	0.96
2005	\$27,039	\$20,186	\$5,300	\$25,486	1.06
2006	\$27,369	\$21,846	\$4,662	\$26,508	1.03
	Latest Year	1.03			

*Total Capital = GAAP Equity + Debt

Sources: The Allstate Corporation 2006 Annual Report

ALLSTATE INSURANCE GROUP

Entity Ratio of Premium to Total Capital

(\$ In Millions)

Entity	GAAP Equity*	Debt	Total Capital	Earned Premium	Premium to Total Capital Ratio
Total Group	21,846,000,000	4,662,000,000	26,508,000,000	27,369,000,000	1.03
ANJ/AFIC/CA	3,313,545,151	707,120,182	4,020,665,333	4,158,562,645	1.03
Remainder	18,532,454,849	3,954,879,818	22,487,334,667	23,210,437,355	1.03

*As of 12/31/06

ENCOMPASS INSURANCE COMPANY
OTA

Arkansas

Calculation of Present Value, as of the Average Earning Date
of a Policy year, of all Income and Outgo @ 3.95%
force of interest, assuming an Operating Profit of 9.01%
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 @ 3.95%	Discounted Payments
1	23.8%	23.8%	0.81	1.0073	23.9%
2	78.4%	54.6%	1.53	0.9792	53.5%
3	90.5%	12.1%	2.39	0.9467	11.4%
4	94.9%	4.4%	3.45	0.9077	4.0%
5	97.0%	2.1%	4.46	0.8723	1.9%
6	98.5%	1.5%	5.46	0.8385	1.3%
Subsequent	100.0%	1.5%	7.94	0.7602	1.1%
Total		100.0%			97.1%
Expected Losses and Loss Expense Ratio					62.9%
Present Value of Loss and Loss Expense Payments					61.0%
Taxes		2.8%	0.72	1.0111	2.8%
Commissions		16.8%	0.58	1.0167	17.1%
Other Acquisition		0.9%	0.63	1.0147	0.9%
General Expense		7.6%	0.75	1.0099	7.7%
Residual Market/Guarantee Fund		0.0%	1.00	1.0000	0.0%
Profit		9.1%	1.00	1.0000	9.1%
Total Present Value of Outgo					98.6%
Premiums		100.0%	0.57	1.0171	101.7%
Difference, Present Value of Income Less Present Value of Outgo					3.1%

*exp (0.0395 x (timing of profit being earned - timing of cash flow))

ENCOMPASS INSURANCE
ARKANSAS
OTHER THAN AUTOMOBILE

TABLE OF CONTENTS

I. Summary of Changes and Summary Exhibits

II. Homeowner Statewide Rate Level Indications

Overview of Homeowners Indication Methodology
Development of Statewide Rate Level Indication
Adjustments to Premium
Adjustments to Non-Catastrophe Losses
Non-Modeled Catastrophe Adjustments in Detail
Development of Modeled Catastrophe Losses
Expense and Profit Loads

SUMMARY OF CHANGES AND SUMMARY EXHIBITS

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

<u>Coverage</u>	<u>Adjusted Earned Premium Distribution</u>	<u>Indicated Rate Level Change</u>	<u>Proposed Rate Level Change</u>
Home	83.8%	+4.2%	+4.2%
Condo	2.1%	+4.2%	+4.2%
Renter	1.3%	+4.2%	+4.2%
Dwelling Fire	6.5%	+20.5%	+14.0%
OTA Balance	6.2%	-8.6%	+0.0%
Overall	100.0%	+4.7%	+4.6%

The filing contains the following revisions:

SUMMARY OF CHANGES AND SUMMARY EXHIBITS

HOME RATE PAGES

Base Premiums

Base premiums have been adjusted to reach a Homeowners impact of 4.2% and a Condos impact of 4.2%. Please see the rate pages for these changes.

HOME RULE PAGES

Renters Coverage (Rule 3)

The rental coverage factor has been adjusted to reach a renters impact of 4.2%. Please see the Home rule pages for these changes.

DWELLING FIRE RULE PAGES

Occupancy Factors (Rule 7)

Occupancy factors have been adjusted to reach a Dwelling Fire impact of 14.0%. Please see the Dwelling Fire rule pages for these changes.

The result of these changes is an overall Other Than Automobile impact of 4.6%.

OVERVIEW OF HOMEOWNERS INDICATION METHODOLOGY

Exhibits 1 through 12 of this section show the Determination of Statewide Rate Level Indications for Arkansas. The objective of this process is to determine the indicated rate level need. This is done by evaluating the adequacy of our present rates to pay for our 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.

The statewide rate level indication is based on data from five 12 month rolling accident years, with losses evaluated as of March 31, 2007.

DEVELOPMENT OF STATEWIDE RATE LEVEL INDICATION (Exhibit 2)

1. Twelve-Month Experience Period:
2. Adjusted Earned Premium:
The calculation of adjusted earned premium is shown in **Exhibit 3** and takes into account the impact of current rate levels, premium trend, and other premium adjustments.
3. Non-Cat Adjusted Incurred Loss + LAE:
The calculation is detailed in **Exhibit 4** and includes the following factors: loss development, excess loss, loss trend, other loss adjustment, and unallocated loss adjustment expenses.
4. Non-Cat Adjusted Loss Ratio:
(3) / (2)
5. Formula Weights:
By weighting experience period results, an insurer can stabilize the indication while also taking into account any recent emerging trends in the data.
6. Non-Cat Ratemaking Loss Ratio:
Shows the formula non-cat adjusted loss ratio calculated using the formula weights in (5).
7. Claim Count:
Number of incurred claims in the experience periods used in the non-cat ratemaking loss ratio calculation.
8. Full Credibility Standard:
Number of incurred claims in the experience period to assign full credibility.
9. Credibility:
 $[(7) / (8)]^{0.5}$
10. Non-Cat Adjusted Prior Permissible Loss Ratio:
The prior company permissible loss ratio (reduced by fixed expenses, residual market load, and expected catastrophe provision) adjusted for annual net trend, trended from the date of the most recent non-zero rate change to the proposed effective date, is used as the complement of credibility. The calculation of the non-cat adjusted prior permissible loss ratio is shown in **Exhibit 2C**.
11. Credibility Weighted Non-Cat Ratemaking Loss Ratio:
 $[(6) * (9)] + [(10) * (1 - (9))]$
12. Non-Modeled Catastrophe Load:
The calculation of this provision for non-modeled catastrophes (as a percentage of incurred loss excluding catastrophes) is illustrated in **Exhibit 10**.
13. Adjusted Modeled Catastrophe Loss Ratio:
Not Applicable.

14. Catastrophe Ratemaking Loss Ratio:

$$[(18) - (16) - (17) - (13)] * [1 - 1 / (12)] + (13)$$

15. Total Ratemaking Loss Ratio:

$$[(11) + (14)]$$

16. Adjusted Fixed Expense Ratio:

100% of General Expenses, Other Acquisition Expenses, and Miscellaneous Taxes, Licenses and Fees are assumed to be a fixed percentage of current premium and do not change in proportion to rate level revisions. This fixed expense ratio is adjusted for loss trend, premium trend, and current rate level. Since historical losses are brought to prospective cost levels and historical premiums are adjusted to the current rate level, an adjustment to these expenses is necessary as well to adjust historical expenses to future expense levels.

17. Adjusted Residual Market Load:

Where applicable, a charge is included to reflect the cost incurred by the company as a result of residual market assignments. Similarly to the fixed expense ratio, this residual market load is adjusted for loss trend, premium trend, and current rate level.

18. Permissible Loss and LAE Ratio:

The permissible loss and LAE ratio calculation is shown in **Exhibit 11**.

19. Rate Level Indication:

$$[((15) + (16) + (17)) / (18)] - 1$$

ADJUSTMENTS TO PREMIUMS

Current Rate Level Factors

Earned premiums are adjusted to current rate levels to simulate premiums that would have resulted if present Encompass rates had been charged during the experience period. The adjustments are accomplished by applying the percentage effect of any rate level change during the experience period and are calculated using the parallelogram method. A detailed explanation of the parallelogram method is included in Foundations of Casualty Actuarial Science, Chapter 2, written by Charles L. McClenahan. The development of these factors is shown in **Exhibit 5**.

Premium Trend Factors

In addition to bringing premiums to current rate level, changes in the average written premium at the current premium level were reviewed. Since the effects on losses caused by these shifts are reflected in the loss trends, it is important that Encompass also account for the anticipated future changes in premiums. Therefore, projected premium trend was taken into consideration when calculating the rate level need by coverage. See **Exhibit 6A** for the support for these selections.

Selected annual premium trends and overall premium trend factors are shown in **Exhibit 6B**. The trend is projected for the period covering the average date of earning for each of the experience periods to the average date of earning for each of the proposed effective periods.

ADJUSTMENTS TO NON-CATASTROPHE LOSSES

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

Loss Development

The losses for a given accident year may not have been fully determined at the evaluation date of this review. As such, the losses must be adjusted to an ultimate settlement basis. This is accomplished by analyzing historical patterns of incurred loss development and selecting loss development factors. Encompass Group data has been considered in the selection of the loss development factors. Losses used in the analysis include ALAE but exclude catastrophes in order to minimize distortions. Age-to-age factors are selected for each coverage using total limits losses. Additional analysis of losses limited to \$100,000 per claim is performed to develop limited losses to ultimate for Homeowners coverage. The selected loss development factors that have been used in this filing are shown in **Exhibits 7.1 through 7.4**.

Excess Losses

An excess loss load is included to spread the effect of large, fortuitous losses. Total ultimate losses for Homeowners 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 Group data has been considered in the selection of the loss development factors. 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 8**.

Loss Trend

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

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. The trend selections and an illustrated calculation of the trend factors for both frequency and severity, accompanied by the data in graphical format, are displayed in **Exhibit 9A and 9B**.

NON-MODELED CATASTROPHE ADJUSTMENTS IN DETAIL

Encompass separately identifies and accounts for its exposure to loss due to the occurrence of catastrophic events within a state. In order to estimate our non-hurricane, non-earthquake catastrophe exposure, we develop a long-term relativity of each state to our countrywide catastrophe factor based on all years 1988 and beyond. We then apply this relativity to a countrywide catastrophe factor based on more recent data. By using this approach, we are able to balance the stability of a long-term estimate of catastrophe potential in Arkansas (needed because of the infrequent occurrence of catastrophes) and the responsiveness of more recent data (needed because of changing demographic conditions).

Within our method we incorporate two procedures designed to stabilize the results of individual states. The first procedure caps losses for years that are uncharacteristic for that state. Relativities above three standard deviations plus the mean for the state are capped. Impacted years are limited to the highest relativity below the cap.

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

A result of our capping and credibility process is that the average of all the statewide relativities may no longer equal a countrywide relativity of 1.000. In order to assure an adequate provision for catastrophes on a countrywide basis, the resulting state relativities are adjusted to achieve an overall countrywide relativity of 1.000. The off-balance adjustment is made in proportion to each state's variability as defined by its standard deviation. The final relativity is applied to the countrywide catastrophe factor to develop the Arkansas catastrophe factor.

Exhibit 10 displays the development of the total Homeowners non-modeled catastrophe load of 24.8% for Arkansas. The Homeowners non-modeled catastrophe load is used for Dwelling Fire.

The countrywide non-modeled catastrophe factor for the Other Than Automobile Balance is calculated using a 10-year average of the ratio of countrywide Other Than Automobile Balance non-modeled catastrophe losses to countrywide Other Than Automobile Balance ex-catastrophe losses. The resulting countrywide non-modeled catastrophe load of 1.9% is applied to the Other Than Automobile Balance experience for Arkansas.

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

EXPENSE AND PROFIT LOADS

General Expense, Other Acquisition Expense, Loss Adjustment Expense

Exhibit 11 shows the premium, expenses and losses incurred for calendar years 2004 and 2005. Using these two years of data, expenses ratios, as a percentage of direct earned premiums are selected for the general expense and other acquisition expense. Similarly, the provision for unallocated loss adjustment expense (ULAE) is based on a two-year average of ULAE to incurred loss.

Commission and Brokerage Expense

The proposed commission and brokerage expense provision has been developed from the actual calendar year 2005 commission and brokerage incurred expense ratio in Arkansas. The provision is shown in **Exhibits 12**.

Taxes, Licenses and Fees

Premium and Other Taxes reflect the actual state premium tax and, where applicable, other premium-related taxes such as Fire Marshall taxes and Municipal taxes. Miscellaneous Taxes, Licenses and fees reflect a fixed load for non-premium-based taxes such as State and Local taxes and Insurance Department Licenses and Fees. A provision for guaranty fund assessments is included if applicable. **Exhibit 12** displays these expenses as a percent of premium.

Underwriting Profit/Operating Profit

The methodology underlying the cost of equity capital (which is used in developing the after-tax operating profit provision) has been updated to reflect 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). After the cost of equity is calculated, it is first adjusted to reflect the total return to the firm and is subsequently combined with the cost of debt to calculate the total cost of capital, or the "Weighted Average Cost of Capital" (WACC). The cost is then translated into an underwriting profit provision after taking leverage and investment income into account, as recommended in Actuarial Standard of Practice No. 30, Treatment of Profit and Contingency Provisions and the Cost of Capital in Property/Casualty Insurance Ratemaking. Consideration is given to the investment income from insurance operations and investment income on capital. The resulting underwriting profit provisions reflect a targeted after-tax operating profit of **9.01%**.

A discounted cash flow methodology based on projected insurance cash flows is used to calculate the investment income from insurance operations (also known as investment income on policyholder-supplied funds) that leads to the after-tax operating profit provision of **9.01%**. The methodology to determine the after-tax operating profit provision has been changed to reflect the timing of the investment return on equityholder-supplied funds. Reconciliation of the after-tax operating profit provision is found in **Exhibit 12**.

ENCOMPASS INSURANCE
ARKANSAS
OTHER THAN AUTOMOBILE

Section II
Page 8

The calculations detailing the discounted cash flow methodology are found in **Exhibit 12**. The discounted cash flow model has been modified with this filing. Specifically, operating cash flows are now being discounted to the average time of earnings of premium and profit for the policy year, rather than to the start of the policy year. In addition, the expected rate of investment return (which is the rate used to discount the losses and expenses) is applied as a force of interest for discounting purposes, since the rate is developed as a ratio to average assets held during a period, not the assets at the beginning of the period. The expected investment yield rate (applied as a force of interest) applied to the insurance cash flows in deriving the investment income from insurance operations (and ultimately the after-tax operating profit) is **3.95%**. This yield comprehends anticipated net investment income and anticipated capital gains, both realized and unrealized.

**EMCOMPASS INSURANCE
ARKANSAS
OTHER THAN AUTOMOBILE**

EXHIBIT 1

Summary Of Rate Changes

<u>Coverage</u>	<u>12/05-12/06 Adjusted EP</u>		<u>Rate Level Change</u>	
	<u>\$000s</u>	<u>%</u>	<u>Indicated</u>	<u>Filed</u>
Homeowners All Forms	2,406	87.2%	4.2%	4.2%
Home			4.2%	4.2%
Condo			4.2%	4.2%
Renter			4.2%	4.2%
Dwelling Fire	180	6.5%	20.5%	14.0%
<u>Total Residence</u>	<u>2,586</u>	<u>93.7%</u>	<u>5.5%</u>	<u>4.9%</u>
Excess Liability	26	0.9%		0.0%
Scheduled Personal Property	91	3.3%		0.0%
Boat	55	2.0%		0.0%
Workers Compensation	0	0.0%		0.0%
<u>OTA Balance</u>	<u>172</u>	<u>6.3%</u>	<u>-8.6%</u>	<u>0.0%</u>
TOTAL OTHER THAN AUTOMOBILE	2,758	100.0%	4.7%	4.6%

ENCOMPASS INSURANCE
ARKANSAS
OTHER THAN AUTOMOBILE

Development of Rate Level Indication

(1) Experience Period	(2) Amount \$	(3) Amount \$	(4) Loss Ratio	(5) Formula Method	(6) Non-Cat Retention Loss Ratio	(7) Claim Count	(8) Credibility	(9) Credibility	(10) Non-Cat Adjusted Prior Permissible Loss Ratio	(11) Credibility Weighted Non-Cat Retention Loss Ratio	(12) Ordinary Catastrophe Loss	(13) Adjusted Modified Catastrophe Loss Ratio	(14) Catastrophe Retention Loss Ratio	(15) Total Retention Loss Ratio	(16) Adjusted Road Expense Ratio	(17) Adjusted Residual Market Loss	(18) Permissible Loss + LAE Ratio	(19) Rate Level Indication
HOMEOWNERS ALL PERILS																		
12/01-12/02	3,376	3,376	66.1%	Overall	46.3%	889	76.8%		52.1%	52.1%	1,248	0.2%	12.4%	8.9%	0.0%	70.3%	4.4%	
12/03-12/04	2,341	2,341	48.3%	Overall	46.3%		78.8%		52.1%	52.1%	1,248	0.2%	12.4%	8.9%	0.0%	70.3%	4.4%	
12/05-12/06	2,408	2,408	48.3%	Overall	46.3%		76.8%		52.1%	52.1%	1,248	0.0%	12.2%	8.8%	0.0%	70.3%	4.2%	
HOME	2,312	2,312	48.3%	Overall	46.3%		76.8%		52.1%	52.1%	1,248	0.2%	12.4%	8.9%	0.0%	70.3%	4.4%	
CONDO	59	59	48.3%	Overall	46.3%		78.8%		52.1%	52.1%	1,248	0.0%	12.2%	8.8%	0.0%	70.3%	4.2%	
RENTER	35	35	48.3%	Overall	46.3%		76.8%		52.1%	52.1%	1,248	0.0%	12.2%	8.8%	0.0%	70.3%	4.2%	
DWELLING FIRE																		
12/01-12/02	308	308	43.9%	Overall	27.4%	44	17.1%		63.7%	63.7%	1,246	0.2%	12.4%	8.9%	0.0%	70.3%	20.3%	
12/03-12/04	271	271	35.8%	Overall	27.4%		17.1%		63.7%	63.7%	1,246	0.2%	12.4%	8.9%	0.0%	70.3%	20.3%	
12/05-12/06	220	220	14.0%	Overall	27.4%		17.1%		63.7%	63.7%	1,246	0.0%	12.2%	8.8%	0.0%	70.3%	20.3%	
OTA BALANCE																		
12/01-12/02	363	363	32.0%	Overall	18.6%	60	19.6%		53.0%	53.0%	1,619	0.0%	1.1%	9.2%	0.0%	70.3%	4.7%	
12/03-12/04	273	273	11.9%	Overall	18.6%		19.6%		53.0%	53.0%	1,619	0.0%	1.1%	9.2%	0.0%	70.3%	4.7%	
12/05-12/06	220	220	9.4%	Overall	18.6%		19.6%		53.0%	53.0%	1,619	0.0%	1.1%	9.2%	0.0%	70.3%	4.7%	
TOTAL OTA	8,305	8,305	21.0%	Overall	18.6%	60	19.6%		53.0%	53.0%	1,619	0.0%	1.1%	9.2%	0.0%	70.3%	4.7%	

* Paced uprate rates and residual market loss are adjusted for expense trend, premium trend and current rate level.
 ** See Case for underwriting rating loss ratio determination.
 *** Estimated earned premium based on policy premium @ \$0.007.

ENCOMPASS INSURANCE
 ARKANSAS
 OTHER THAN AUTOMOBILE

Development of Rate Level Indication Supplement 1

Coverage	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
	Frequency Prospective Annual Trend	Severity Prospective Annual Trend	(See Note 2) Prospective Annual Loss Trend	Prospective Annual Premium Trend	(See Note 2) Net Trend	Most Recent Non-Zero PRE-SRM Effective Date	Actual PRE-SRM Earned Premium (\$000s)	(See Note 2) Trend Start Date 1	Effective Date	(See Note 2) Trend Period
ALL						09-28-2004	2,743	09-28-2004	12-20-2007	3.23
HOME	3.0%	11.0%	14.3%	1.0%	49.2%					
DWELLING FIRE	3.0%	11.0%	14.3%	1.0%	49.2%					
OTA BALANCE	0.0%	2.0%	2.0%	0.0%	6.6%					

1 The Trend Start Date is the most recent non-zero effective date for our PRE-SRM program.

2 Field Derivations

(3)	Prospective Annual Trend	$[(1+(1))^{(1)+(2)}]-1$
(5)	Net Trend	$[(1+(3))/(1+(4))]^{(10)}$
(6)	Trend Start Date	(6)
(10)	Trend Period	$[(9)-(8)]/365$

ENCOMPASS INSURANCE
ARKANSAS
OTHER THAN AUTOMOBILE

EXHIBIT 2C

Development of Rate Level Indication Supplement 2

NON-CATASTROPHE ADJUSTED PRIOR PERMISSIBLE LOSS RATIO DEVELOPMENT

<u>Coverage</u>	(1)	(2) (Exhibit 2A)	(3) (Exhibit 2A)	(4) (Exhibit 2A)	(5) (Exhibit 2B)	(6) [(1)-(2)-(3)-(4)] *[1+(5)]
	Prior Permissible Loss Ratio	Adjusted Fixed Expense Ratio*	Adjusted Residual Market Load*	Catastrophe Ratemaking Loss Ratio	Net Trend	Non-Cat Adjusted Prior Permissible Loss Ratio
HOMEOWNERS ALL FORMS	69.0%	8.9%	0.0%	12.4%	49.2%	71.2%
DWELLING FIRE	69.0%	8.9%	0.0%	12.4%	49.2%	71.2%
OTA BALANCE	69.0%	9.2%	0.0%	1.1%	6.6%	62.6%

* Fixed expense ratios and residual market loads are adjusted for expense trend, premium trend and current rate level.

**ENCOMPASS INSURANCE
ARKANSAS
OTHER THAN AUTOMOBILE**

EXHIBIT 3

Development of Adjusted Earned Premium

	(1)	(2)	(3)	(4)	(5)	(6)	(7)
		Actual PRE-SRM Earned Premium (\$000s)	(Exhibit 5A) PRE-SRM Current Rate Level Factor	(2)*(3) Earned Premium @ CRL (\$000s)	(Exhibit 6) Premium Trend Factor	Other Premium Adjustment	(4)*(5)*(6) Adjusted Earned Premium (\$000s)
<u>Coverage</u>	<u>Experience Period</u>						
HOMEOWNERS ALL FORMS	12/01-12/02	3,123	1.665	5,200	1.067	1.000	5,548
	12/02-12/03	3,168	1.422	4,504	1.056	1.000	4,758
	12/03-12/04	3,072	1.179	3,622	1.046	1.000	3,787
	12/04-12/05	2,783	1.036	2,882	1.035	1.000	2,984
	12/05-12/06	2,347	1.000	2,347	1.025	1.000	2,406
DWELLING FIRE	12/01-12/02	174	1.665	289	1.067	1.000	308
	12/02-12/03	180	1.422	256	1.056	1.000	271
	12/03-12/04	188	1.179	222	1.046	1.000	232
	12/04-12/05	190	1.036	197	1.035	1.000	204
	12/05-12/06	175	1.000	175	1.025	1.000	180
OTA BALANCE	12/01-12/02	363	1.000	363	1.000	1.000	363
	12/02-12/03	326	1.000	326	1.000	1.000	326
	12/03-12/04	279	1.000	279	1.000	1.000	279
	12/04-12/05	220	1.000	220	1.000	1.000	220
	12/05-12/06	172	1.000	172	1.000	1.000	172

**ENCOMPASS INSURANCE
ARKANSAS
OTHER THAN AUTOMOBILE**

EXHIBIT 4

Development of Adjusted Non-Catastrophe Incurred Losses + LAE

<u>Coverage</u>	(1) Experience Period	(2) (Exhibit 7) Limited Ex-Cat Inc Losses + ALAE (\$000s)	(3) (Exhibit 7) Losses Dev Factor (Limited)	(4) (Exhibit 8) Excess Loss Factor	(5) (Exhibit 9) Loss Trend Factor	(6) Other Loss Adjustment	(7) (Exhibit 11) ULAE Load	(8) [(2)*(3)*(4)* (5)*(6)*(7)] Non-Catastrophe Adjusted Inc Losses + LAE (\$000s)
HOMEOWNERS ALL FORMS	12/01-12/02	1,877	1.002	1.110	1.392	1,000	1.148	3,336
	12/02-12/03	1,318	1.003	1.110	1.393	1,000	1.148	2,347
	12/03-12/04	898	1.004	1.110	1.394	1,000	1.148	1,601
	12/04-12/05	558	1.010	1.110	1.396	1,000	1.148	1,002
	12/05-12/06	582	1.076	1.110	1.398	1,000	1.148	1,115
DWELLING FIRE	12/01-12/02	85	1.000	1.000	1.392	1,000	1.148	135
	12/02-12/03	61	1.000	1.000	1.393	1,000	1.148	97
	12/03-12/04	20	1.000	1.000	1.394	1,000	1.148	32
	12/04-12/05	17	1.000	1.000	1.396	1,000	1.148	27
	12/05-12/06	33	1.025	1.000	1.398	1,000	1.148	54
OTA BALANCE	12/01-12/02	91	1.000	1.000	1.137	1,000	1.148	119
	12/02-12/03	30	1.000	1.000	1.115	1,000	1.148	39
	12/03-12/04	21	1.000	1.000	1.093	1,000	1.148	26
	12/04-12/05	29	1.000	1.000	1.072	1,000	1.148	35
	12/05-12/06	30	1.024	1.000	1.051	1,000	1.148	37

**ENCOMPASS INSURANCE
ARKANSAS
OTHER THAN AUTOMOBILE**

EXHIBIT 5

Development of PSRM Current Rate Level Factors

Rate Changes			
<u>Effective Date</u>	<u>Residence</u>	<u>Dwelling Fire</u>	<u>OTA Balance</u>
07/15/00	7.40%	11.10%	0.00%
08/15/01	10.90%	10.90%	0.00%
08/15/02	17.90%	17.90%	0.00%
08/15/03	22.90%	22.90%	0.00%
09/28/04	14.20%	14.20%	0.00%

Cumulative Rate Indices (1)			
<u>Effective Date</u>	<u>Residence</u>	<u>Dwelling Fire</u>	<u>OTA Balance</u>
07/15/00	1.074	1.111	1.000
08/15/01	1.191	1.232	1.000
08/15/02	1.404	1.453	1.000
08/15/03	1.726	1.785	1.000
09/28/04	1.971	2.039	1.000

Average Rate Index (2)			
<u>Experience Period</u>	<u>Residence</u>	<u>Dwelling Fire</u>	<u>OTA Balance</u>
12/01-12/02	1.184	1.224	1.000
12/02-12/03	1.386	1.434	1.000
12/03-12/04	1.672	1.729	1.000
12/04-12/05	1.903	1.969	1.000
12/05-12/06	1.971	2.039	1.000

Current Rate Level Factor (3)			
<u>Experience Period</u>	<u>Residence</u>	<u>Dwelling Fire</u>	<u>OTA Balance</u>
	1.971	2.039	1.000
12/01-12/02	1.665	1.665	1.000
12/02-12/03	1.422	1.422	1.000
12/03-12/04	1.179	1.179	1.000
12/04-12/05	1.036	1.036	1.000
12/05-12/06	1.000	1.000	1.000

- (1) Cumulative product of [1 + (Rate Change)]
 (2) Average rate level in experience period using parallelogram method and (1).
 (3) (Latest cumulative rate index) / (2)

**ENCOMPASS INSURANCE
ARKANSAS
OTHER THAN AUTOMOBILE**

EXHIBIT 6A

Written Premium Trend

<u>Year Ending</u>	<u>Average Written Premium @ CRL</u>	<u>Exponential Curve of Best Fit</u>		
		<u>16 pt.</u>	<u>12 pt.</u>	<u>8 pt.</u>
12/02	1,433			
03/03	1,460	1,503		
06/03	1,493	1,509		
09/03	1,532	1,515		
12/03	1,544	1,521		
03/04	1,547	1,527		
06/04	1,544	1,533	1,539	
09/04	1,568	1,539	1,543	
12/04	1,574	1,545	1,547	
03/05	1,533	1,551	1,551	
06/05	1,552	1,557	1,555	1,526
09/05	1,535	1,563	1,559	1,537
12/05	1,535	1,569	1,563	1,547
03/06	1,570	1,575	1,568	1,558
06/06	1,580	1,581	1,572	1,568
09/06	1,594	1,587	1,576	1,579
12/06	1,607	1,593	1,580	1,590
	Regression	<u>16 pt.</u>	<u>12 pt.</u>	<u>8 pt.</u>
	Avg Annual Percent Change Based on Best Fit:	1.6%	1.0%	2.8%

**ENCOMPASS INSURANCE
ARKANSAS
OTHER THAN AUTOMOBILE**

EXHIBIT 6B

Development of Premium Trend Factors

Homeowners Annual Premium Trend Effect
Dwelling Fire Annual Premium Trend Effect

Selected Historical Premium Trend	Selected Prospective Premium Trend
1.0%	1.0%
1.0%	1.0%

Homeowners

Experience Period	Historical Trend Period (1)	Historical # Of Years (2)	Prospective Trend Period (3)	Prospective # Of Years (4)	Homeowners Premium Trend Factor
12/01-12/02	07/02-07/06	4.0	07/06-12/08	2.5	$(1.010)^{4.0} * (1.010)^{2.5} = 1.067$
12/02-12/03	07/03-07/06	3.0	07/06-12/08	2.5	$(1.010)^{3.0} * (1.010)^{2.5} = 1.056$
12/03-12/04	07/04-07/06	2.0	07/06-12/08	2.5	$(1.010)^{2.0} * (1.010)^{2.5} = 1.046$
12/04-12/05	07/05-07/06	1.0	07/06-12/08	2.5	$(1.010)^{1.0} * (1.010)^{2.5} = 1.035$
12/05-12/06	07/06-07/06	0.0	07/06-12/08	2.5	$(1.010)^{0.0} * (1.010)^{2.5} = 1.025$

Dwelling Fire

Experience Period	Historical Trend Period (1)	Historical # Of Years (2)	Prospective Trend Period (3)	Prospective # Of Years (4)	Dwelling Fire Premium Trend Factor
12/01-12/02	07/02-07/06	4.0	07/06-12/08	2.5	$(1.010)^{4.0} * (1.010)^{2.5} = 1.067$
12/02-12/03	07/03-07/06	3.0	07/06-12/08	2.5	$(1.010)^{3.0} * (1.010)^{2.5} = 1.056$
12/03-12/04	07/04-07/06	2.0	07/06-12/08	2.5	$(1.010)^{2.0} * (1.010)^{2.5} = 1.046$
12/04-12/05	07/05-07/06	1.0	07/06-12/08	2.5	$(1.010)^{1.0} * (1.010)^{2.5} = 1.035$
12/05-12/06	07/06-07/06	0.0	07/06-12/08	2.5	$(1.010)^{0.0} * (1.010)^{2.5} = 1.025$

ENCOMPASS INSURANCE
 ARKANSAS
 OTHER THAN AUTOMOBILE

EXHIBIT 7.2

Incurred Loss + ALAE Development Factors - Dwelling Fire

CUMULATIVE EXPERIENCE TRIANGLE

DEVELOPMENT PERIOD	1Q1997 4Q1997	1Q1998 4Q1998	1Q1999 4Q1999	1Q2000 4Q2000	1Q2001 4Q2001	1Q2002 4Q2002	1Q2003 4Q2003	1Q2004 4Q2004	1Q2005 4Q2005	1Q2006 4Q2006	4Q2006 1Q2007
15 MONTHS	17	98	41	56	35	84	58	20	196	274	
27 MONTHS	17	95	42	64	35	85	61	20	200		
39 MONTHS	17	95	42	68	35	85	61	20			
51 MONTHS	17	95	42	68	35	85	61				
63 MONTHS	17	95	42	68	35	85					
75 MONTHS	17	95	42	68	35						
87 MONTHS	17	95	42	68							
99 MONTHS	17	95	42								
111 MONTHS	17	95									
123 MONTHS	17										

AGE TO AGE FACTORS

DEVELOPMENT PERIOD	1Q1997 4Q1997	1Q1998 4Q1998	1Q1999 4Q1999	1Q2000 4Q2000	1Q2001 4Q2001	1Q2002 4Q2002	1Q2003 4Q2003	1Q2004 4Q2004	1Q2005 4Q2005	1Q2006 4Q2006	4Q2006 1Q2007
15 To 27	1.0000	0.9767	1.0019	1.1410	1.0000	1.0027	1.0375	1.0000	1.0237		
27 To 39	1.0000	0.9986	1.0000	1.0640	1.0000	1.0000	1.0000	1.0000			
39 To 51	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000				
51 To 63	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000					
63 To 75	1.0000	1.0000	1.0000	1.0000	1.0000						
75 To 87	1.0000	1.0000	1.0000	1.0000							
87 To 99	1.0000	1.0000	1.0000								
99 To 111	1.0000	1.0000									
111 To 123	1.0000										

MEAN AGE TO AGE FACTORS

DEVELOPMENT PERIOD	Volume Weighted 2 Yr Mean	Volume Weighted 3 Yr Mean	Volume Weighted 4 Yr Mean	5 Year Mean Ex-HiLo	Country-wide Selected	Factor To Ultimate
15 To 27	1.0214	1.0249	1.0196	1.0088	1.0249	1.0251
27 To 39	1.0000	1.0000	1.0000	1.0000	1.0000	1.0003
39 To 51	1.0000	1.0000	1.0000	1.0000	1.0000	1.0003
51 To 63	1.0000	1.0000	1.0000	1.0000	1.0000	1.0003
63 To 75	1.0000	1.0000	1.0000	1.0000	1.0000	1.0003
75 To 87	1.0000	1.0000	1.0000	1.0000	1.0000	1.0003
87 To 99	1.0000	1.0000	1.0000	1.0000	1.0000	1.0003
99 To 111	1.0000	1.0000	1.0000	1.0000	1.0000	0.9984
111 To 123	1.0002	1.0002	1.0002	1.0000	1.0002	1.0002

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EXHIBIT 8

Excess Loss Factor

HOME						
<u>Experience Period</u>	ARKANSAS			COUNTRYWIDE		
	<u>Ultimate Total Ex- Cat</u>	<u>Ultimate Limited Ex- Cat</u>	<u>Total / Limited</u>	<u>Ultimate Total Ex- Cat</u>	<u>Ultimate Limited Ex- Cat</u>	<u>Total / Limited</u>
	<u>Losses + ALAE</u>	<u>Losses + ALAE</u>		<u>Losses + ALAE</u>	<u>Losses + ALAE</u>	
	12/96-12/97	2,158	1,782	1.21	194,977	179,439
12/97-12/98	1,309	1,296	1.01	198,252	179,005	1.11
12/98-12/99	1,615	1,579	1.02	235,696	209,814	1.12
12/99-12/00	2,353	2,343	1.00	277,767	244,048	1.14
12/00-12/01	2,474	2,296	1.08	287,607	251,780	1.14
12/01-12/02	1,922	1,880	1.02	244,092	216,937	1.13
12/02-12/03	1,341	1,322	1.01	215,406	184,585	1.17
12/03-12/04	1,879	902	2.08	172,209	141,988	1.21
12/04-12/05	586	563	1.04	154,201	128,515	1.20
12/05-12/06	620	626	0.99	141,320	115,772	1.22
	Weighted Average		1.11	Weighted Average		1.15
	Straight Average		1.15	Straight Average		1.15
	Selected		1.11	CW Selected		1.20

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EXHIBIT 9A

Loss Trend Factors - Property (All Forms Ex DP)

4 Quarters Ending	PAID FREQUENCY		ANNUAL CHANGE		PAID SEVERITY (Closed with pay)		ANNUAL CHANGE	
	Encompass	Fast Track	Encompass	Fast Track	Encompass	Fast Track	Encompass	Fast Track
	4Q_2002	0.11630	0.07320			4,815	3,988	
1Q_2003	0.11120	0.06930			5,165	4,201		
2Q_2003	0.10230	0.06420			5,723	4,528		
3Q_2003	0.10070	0.06180			5,528	4,864		
4Q_2003	0.09410	0.05750	-19.1%	-21.4%	6,050	4,859	25.6%	21.8%
1Q_2004	0.09300	0.05330	-16.4%	-23.1%	5,099	4,832	-1.1%	15.0%
2Q_2004	0.08690	0.05030	-15.1%	-21.7%	7,692	4,984	34.4%	10.1%
3Q_2004	0.07530	0.04580	-25.2%	-25.9%	7,931	5,044	43.5%	3.7%
4Q_2004	0.07310	0.04460	-22.3%	-22.4%	7,944	5,161	31.3%	6.2%
1Q_2005	0.06750	0.04390	-27.4%	-17.6%	8,174	5,442	60.3%	12.6%
2Q_2005	0.06630	0.04390	-23.7%	-12.7%	4,741	5,536	-38.4%	11.1%
3Q_2005	0.05150	0.04410	-31.6%	-3.7%	5,496	5,719	-30.7%	13.4%
4Q_2005	0.04850	0.04420	-33.7%	-0.9%	8,483	6,102	6.8%	18.2%
1Q_2006	0.05780	0.04510	-14.4%	2.7%	7,799	6,246	-4.6%	14.8%
2Q_2006	0.06240	0.04710	-5.9%	7.3%	7,519	6,362	58.6%	14.9%
3Q_2006	0.07970	0.04750	54.6%	7.7%	7,473	6,304	36.0%	10.2%
4Q_2006	0.08340	0.04600	72.0%	4.1%	5,591	6,476	-34.1%	6.1%
1Q_2007	0.07690		33.0%		5,892		-24.5%	

Fitted Line 1	17pt Exp Trend	-11.4%	-10.9%	17pt Exp Trend	4.6%	12.2%
Fitted Line 2	8pt Exp Trend	27.0%	4.6%	8pt Exp Trend	5.8%	11.1%

SELECTED HISTORICAL ANNUAL TREND	-10.0%	11.0%
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SELECTED PROSPECTIVE ANNUAL TREND	3.0%	11.0%
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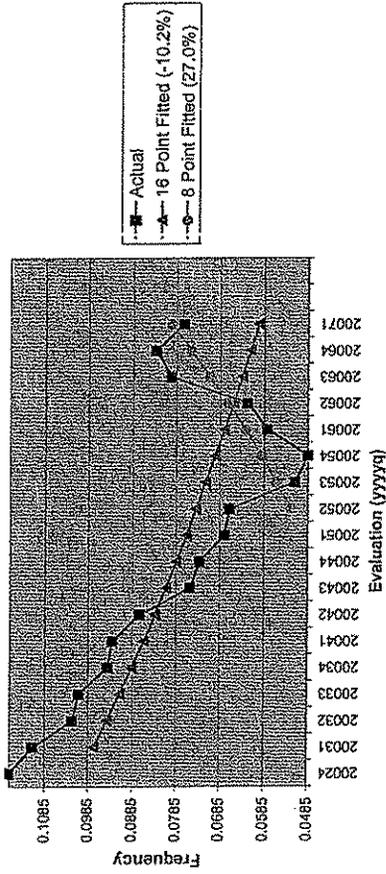
Experience Period	Historical Trend Period (1)	Historical # Of Years (2)	Prospective Trend Period (3)	Prospective # Of Years (4)	Frequency Trend Factor (5)	Severity Trend Factor (6)
12/01-12/02	07/02-07/06	4.0	07/06-12/08	2.5	$(0.900)^{4.0} * (1.030)^{2.5} = 0.706$	$(1.110)^{4.0} * (1.110)^{2.5} = 1.971$
12/02-12/03	07/03-07/06	3.0	07/06-12/08	2.5	$(0.900)^{3.0} * (1.030)^{2.5} = 0.785$	$(1.110)^{3.0} * (1.110)^{2.5} = 1.775$
12/03-12/04	07/04-07/06	2.0	07/06-12/08	2.5	$(0.900)^{2.0} * (1.030)^{2.5} = 0.872$	$(1.110)^{2.0} * (1.110)^{2.5} = 1.599$
12/04-12/05	07/05-07/06	1.0	07/06-12/08	2.5	$(0.900)^{1.0} * (1.030)^{2.5} = 0.969$	$(1.110)^{1.0} * (1.110)^{2.5} = 1.441$
12/05-12/06	07/06-07/06	0.0	07/06-12/08	2.5	$(0.900)^{0.0} * (1.030)^{2.5} = 1.077$	$(1.110)^{0.0} * (1.110)^{2.5} = 1.298$

Experience Period	RLI Loss Trend Factor (7)
12/01-12/02	1.392
12/02-12/03	1.393
12/03-12/04	1.394
12/04-12/05	1.396
12/05-12/06	1.398

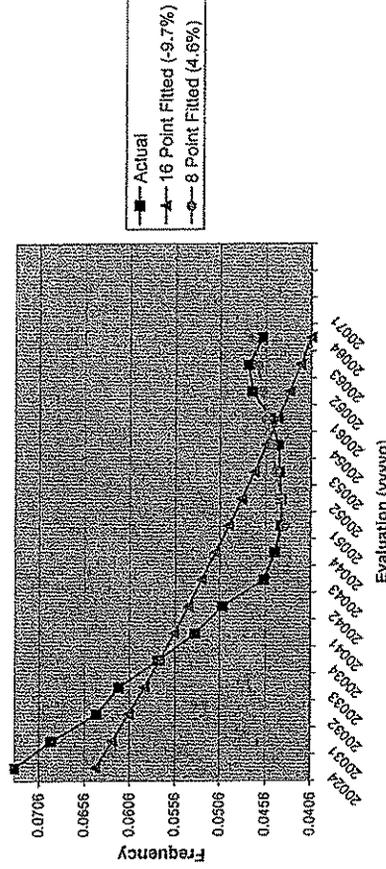
(1) Midpoint of experience period to midpoint of latest historical period.
(2) (1) # of years.
(3) Midpoint of latest historical period to 1 year beyond effective date of 12/20/07.
(4) (3) # of years.

PRE-SRM PROPERTY LOSS TREND
 ARKANSAS
 PROPERTY (ALL FORMS EX DF)

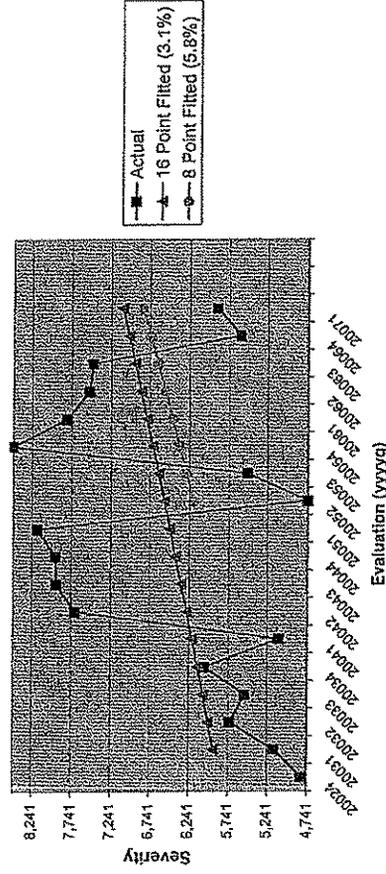
Encompass Frequency



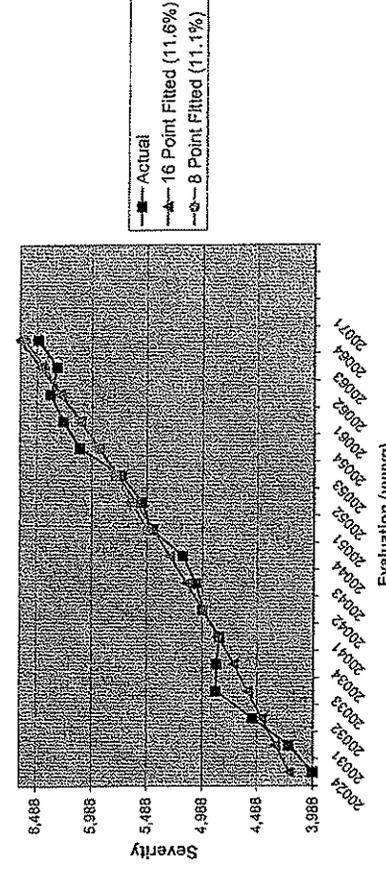
ISO Frequency



Encompass Severity



ISO Severity



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EXHIBIT 10

Non-Modeled Catastrophe Load

(1)	(2)	(3)	(4)	(5)	(6)	(7)
<u>CALENDAR YEAR</u>	<u>EX-CAT INCURRED LOSS+ALAE</u>	<u>CATASTROPHE INCURRED LOSS+ALAE</u>	<u>STATE CATASTROPHE FACTOR</u>	<u>COUNTRYWIDE CATASTROPHE FACTOR</u>	<u>RELATIVITIES</u>	<u>RELATIVITIES ADJUSTED FOR CAP OF 5.786</u>
1984	2,630,793	832,389	0.316	0.146	2.164	2.164
1985	1,619,367	222,020	0.137	0.126	1.087	1.087
1986	1,613,849	205,922	0.127	0.081	1.368	1.568
1987	1,384,238	60,578	0.044	0.058	0.759	0.759
1988	1,579,834	37,017	0.023	0.088	0.261	0.261
1989	1,849,550	1,388,113	0.751	0.230	3.265	3.265
1990	1,008,317	351,471	0.349	0.233	1.498	1.498
1991	1,454,400	205,277	0.141	0.340	0.415	0.415
1992	903,216	26,211	0.029	0.275	0.105	0.105
1993	765,411	23,921	0.031	0.388	0.080	0.080
1994	879,397	63,772	0.073	0.321	0.227	0.227
1995	1,538,192	129,161	0.084	0.192	0.438	0.438
1996	1,628,586	1,115,444	0.685	0.502	1.365	1.365
1997	2,158,348	924,507	0.428	0.160	2.675	2.675
1998	1,309,290	284,964	0.218	0.544	0.401	0.401
1999	1,614,850	2,449,515	1.517	0.247	6.142 **	3.265 **
2000	2,353,497	1,039,955	0.442	0.255	1.733	1.733
2001	2,473,753	46,576	0.019	0.198	0.096	0.096
2002	1,918,701	191,549	0.100	0.150	0.667	0.667
2003	1,337,002	422,683	0.316	0.203	1.557	1.557
2004	1,940,473	77,354	0.040	0.162	0.247	0.247
2005	878,097	0	0.000	0.134	0.000	0.000
2006	1,114,862	422,543	0.379	0.201	1.886	1.886
(8) Average Relativity					1.214	1.062
(9) Standard Deviation					1.524	1.088
(10) Credibility						0.836
(11) Credibility Weighted Relativity						1.052
(12) Relativity Balanced to Countrywide						1.102
(13) Countrywide Selected Catastrophe Factor						0.225
(14) ARKANSAS Catastrophe Factor						0.248

** Relativity has been capped

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EXHIBIT 11

Expenses

Item	Dollars
(1) Avg Direct Premiums Earned*	705,627,960
(2) Avg Incurred Loss*	365,901,910
(3) Avg General Expenses*	53,883,572
(4) Avg Other Acquisition*	6,586,361
(5) Avg Unallocated Claim Expense*	54,088,070

Item	Percentage
(6) General Expenses***	7.6%
(7) Other Acquisition ***	0.9%
(8) Unallocated Claim Expense****	14.8%
(9) Profit	9.1%
(10) Permissible Loss Ratio*****	70.3%

Notes

* Average of 2004 and 2005

** Excludes Hagerty Agency and Involuntary Business.

*** Ratio to Premium

**** Ratio to Incurred Loss

***** Includes contingency load of 1.0%

(4) Other Acquisition includes: Marketing, MVR ordering costs, Special Funds and Assessments, Writeoffs and Payment Fees (which are a contra-expense).

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EXHIBIT 12

Permissible Loss Ratio

Calculation of Present Value, as of the Average Earning Date
of a Policy year, of all Income and Outgo @ 3.95%
force of interest, assuming an Operating Profit of 9.01%
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 @ 3.95%	Discounted Payments
1	23.8%	23.8%	0.81	1.0073	23.9%
2	78.4%	54.6%	1.53	0.9792	53.5%
3	90.5%	12.1%	2.39	0.9467	11.4%
4	94.9%	4.4%	3.45	0.9077	4.0%
5	97.0%	2.1%	4.46	0.8723	1.9%
6	98.5%	1.5%	5.46	0.8385	1.3%
Subsequent	100.0%	1.5%	7.94	0.7602	1.1%
Total		100.0%			97.1%
Expected Losses and Loss Expense Ratio					62.8%
Present Value of Loss and Loss Expense Payments					61.0%
Taxes		2.8%	0.72	1.0111	2.9%
Commissions		16.8%	0.58	1.0167	17.1%
Other Acquisition		0.9%	0.63	1.0147	0.9%
General Expense		7.6%	0.75	1.0099	7.7%
Residual Market/Guarantee Fund		0.0%	1.00	1.0000	0.0%
Profit		9.1%	1.00	1.0000	9.1%
Total Present Value of Outgo					98.6%
Premiums		100.0%	0.57	1.0171	101.7%
Difference, Present Value of Income Less Present Value of Outgo					3.1%

*exp (0.0395 x (timing of profit being earned - timing of cash flow))

ARKANSAS INSURANCE DEPARTMENT

FORM H-1 HOMEOWNERS ABSTRACT

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

Company Name	Encompass Insurance Company of America
NAIC # (including group #)	008-10071

1. If you have had an insurance to value campaign during the experience filing period, describe the campaign and estimate its impact.
Not Applicable

2. If you use a cost estimator (or some similar method) in order to make sure that dwellings (or contents) are insured at their value, state when this program was started in Arkansas and estimate its impact.
Agents can use any of the most current automated residential cost estimators available from Marshall & Swift, or BOECKH. The majority of agents use BOECKH and it's impact generally understates the costs by approximately 10% on average.

3. If you require a minimum relationship between the amount of insurance to be written and the replacement value of the dwelling (contents) in order to purchase insurance, describe the procedures that are used.
100% insurance to value (ITV) is required. Agents submit acceptable documentation estimating the replacement value of the home. If the agent is unable to provide an estimate, then an inspection is ordered to determine the accurate replacement value.

4. If you use an Inflation Guard form or similar type of coverage, describe the coverage(s) and estimate the impact.
Historically, Encompass has utilized the Marshall & Swift Inflation Guard Factors which are published every 6 months. The percent increase will range from 2% to 4%.

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

a. Fire Extinguisher	0 %
b. Burglar Alarm(Local, Police station, Central station reporting)	2-5 %
c. Smoke Alarm(Local, Fire station, Central station reporting)	2-5 %
d. Insured who has both homeowners and auto with your company	20 %
e. Deadbolt Locks	0 %
f. Window or Door Locks	0 %
g. Other (specify) Protective Package- A combination of a local fire alarm, dead bolt locks on all exterior doors, and a fire extinguisher in the residence.	5
	Automatic Sprinkler System 8-13 %

6. Are there any areas in the State of Arkansas In which your company will not write homeowners insurance? If so, state the areas and explain reason for not writing.
NO

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

Form	Premium Volume
Homeowners	\$1,848,858
Renters	\$18,897
Condo	\$36,065
Dwelling Fire	\$124,850

8. Do you write homeowner risks which have aluminium, steel or vinyl siding? Yes No

9. Is there a surcharge on risks with wood heat? NO
If yes, state the surcharge N/A
Does the surcharge apply to conventional fire places? N/A
If yes, state the surcharge N/A

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

Signature
Carrie Deppe

Printed Name
State Filer

Title
1-800-366-2958

Telephone Number
CDEPP@Allstate.com

Email address