Filing at a Glance

Company: Allstate Indemnity Company

Product Name: Homeowners
TOI: 04.0 Homeowners
Sub-TOI: 04.0000 Homeowners Sub-TOI Combinations
Filing Type: Rate

SERFF Tr Num: ALSX-126098323
SERFF Status: Closed
Co Tr Num: R21074
Co Status:
Author: SPI AllState
Date Submitted: 04/01/2009

State: Arkansas
State Tr Num: EFT $100
State Status: Fees verified and received
Reviewer(s): Betty Montesi, Becky Harrington, Brittany Yielding
Disposition Date: 05/08/2009
Disposition Status: Filed
Effective Date (New): 06/01/2009
Effective Date (Renewal): 07/16/2009

Effective Date Requested (New): 06/01/2009
Effective Date Requested (Renewal): 07/16/2009

State Filing Description:

waiting on BL 4/3/09

General Information

Project Name: 2009 - Rule and Rate Change
Project Number: R21074
Reference Organization: N/A
Reference Title:
Filing Status Changed: 05/08/2009
State Status Changed: 04/01/2009
Corresponding Filing Tracking Number:

Status of Filing in Domicile: Authorized
Domicile Status Comments:
Reference Number: N/A
Advisory Org. Circular:

Deemer Date:

Filing Description:

AR AI Owners Rate Change

With this filing, Allstate Indemnity Company (AI) is proposing a 20.3% rate level increase for the Owners insurance program in the state of Arkansas. This does not include the Renters or Condominium programs. With this change, Allstate is revising the rate adjustment factor and the Home & Auto Discount. The rate adjustment factor will not vary by

territory.

The 20.3% rate level change will result in approximately $2.7 million of additional premium.

For additional information please refer to the following attachments:

Attachment I: Summary of Disclosures
Attachment II: Summary of Arkansas Rate Level Indication
Attachment III: Non-Modeled Catastrophe Provision
Attachment IV: Contingency Factor Support Explanatory Memorandum
Attachment V: Rate Level Indication Exhibits
Attachment VI: Revisions to the Home and Auto Discount
Attachment VII: Rate Level Impact of Revisions
Attachment VIII: Miscellaneous Rule Revisions
Attachment IX: Summary of Manual Changes

Effective Date:
New business written and renewals processed on or after June 1, 2009, with renewals effective on or after July 16, 2009.

Company and Contact

Filing Contact Information

Celeste Mrdak, Senior State Filings Analyst oscmrda@allstate.com
2775 Sanders Road (847) 402-5000 [Phone]
Northbrook, IL 60062 (847) 402-9757[FAX]

Filing Company Information

Allstate Indemnity Company CoCode: 19240 State of Domicile: Illinois

2775 Sanders Road
Suite A5
Northbrook, IL 60062
(847) 402-5000 ext. [Phone]

Group Code: 8

Group Name: Allstate
FEIN Number: 36-6115679

Company Type:

State ID Number:

Filing Fees

Fee Required?	Yes
Fee Amount:	$100.00
Retaliatory?	No
Fee Explanation:	Filing and review of independent rates: $100
Per Company:	No

COMPANY	AMOUNT	DATE PROCESSED	TRANSACTION #
Allstate Indemnity Company	$100.00	04/01/2009	26876081

Correspondence Summary

Dispositions

Status	Created By	Created On	Date Submitted
Filed	Becky Harrington	05/08/2009	05/08/2009

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	04/27/2009	04/27/2009	SPI AllState	04/30/2009	04/30/2009
Pending Industry Response	Becky Harrington	04/10/2009	04/13/2009	SPI AllState	04/21/2009	04/21/2009

Filing Notes

Subject	Note Type	Created By	Created On	Date Submitted
Response to May 1, 2009 Note To Filer	Note To Reviewer	SPI AllState	05/04/2009	05/04/2009
Revised Filing Forms	Note To Filer	Becky Harrington	05/01/2009	05/01/2009

Disposition

Disposition Date: 05/08/2009
Effective Date (New): 06/01/2009
Effective Date (Renewal): 07/16/2009
Status: Filed
Comment:

Company Name:	**Overall % Indicated Change:**	**Overall % Rate Impact:**	**Written Premium Change for this Program:**	**# of Policy Holders Affected for this Program:**	**Written Premium for this Program:**	**Maximum % Change (where required):**	**Minimum % Change (where required):**
Allstate Indemnity Company	18.600%	18.600%	$2,491,717	14,410	$13,396,328	30.000%	14.300%

SERFF Tracking Number:	*ALSX-126098323*	*State:*	*Arkansas*
Filing Company:	*Allstate Indemnity Company*	*State Tracking Number:*	*EFT $100*
Company Tracking Number:	*R21074*		
TOI:	*04.0 Homeowners*	*Sub-TOI:*	*04.0000 Homeowners Sub-TOI Combinations*
Product Name:	*Homeowners*		
Project Name/Number:	*2009 - Rule and Rate Change/R21074*		

Item Type	Item Name	Item Status	Public Access
Supporting Document	Form RF-2 Loss Costs Only (not for workers' compensation)		Yes
Supporting Document	HPCS-Homeowners Premium Comparison Survey	Filed	Yes
Supporting Document	NAIC loss cost data entry document	Filed	Yes
Supporting Document	ActuarialIndMemo01, ActuarialIndMemo02	Filed	Yes
Supporting Document	H-1 Homeowners Abstract	Filed	Yes
Supporting Document	04.13.09 OBJ Response	Filed	Yes
Supporting Document	04.27.09 OBJ Response	Filed	Yes
Rate *(revised)*	Manual_R21074	Filed	Yes
Rate	Manual_R21074	Filed	Yes
Rate *(revised)*	CheckingList_R21074	Filed	Yes
Rate	CheckingList_R21074	Filed	Yes

Objection Letter

Objection Letter Status	Pending Industry Response
Objection Letter Date	04/27/2009
Submitted Date	04/27/2009
Respond By Date	

Dear Celeste Mrdak,

This will acknowledge receipt of the captioned filing.

Objection 1

- 04.13.09 OBJ Response (Supporting Document)

Comment: Please amend the filing to cap increases at 30%.

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	04/30/2009
Submitted Date	04/30/2009

Dear Becky Harrington,

Comments:

Response to April 27, 2009 objection letter

Response 1

Comments: Please see attached.

Related Objection 1

Applies To:

- 04.13.09 OBJ Response (Supporting Document)

Comment:

Please amend the filing to cap increases at 30%.

Changed Items:

Supporting Document Schedule Item Changes

Satisfied -Name: 04.27.09 OBJ Response

Comment: 04/27/09 OBJ Response

No Form Schedule items changed.

Rate/Rule Schedule Item Changes

Exhibit Name	Rule # or Page #	Rate Action	Previous State Filing #
Manual_R21074	R21074	Replacement	
Previous Version			
Manual_R21074	*R21074*	*Replacement*	
CheckingList_R21074	R21074	New	
Previous Version			
CheckingList_R21074	*R21074*	*New*	

Sincerely,

Celeste P. Mrdak
Sr. State Filings Analyst
800-366-2958 ext. 27328

Sincerely,
SPI AllState

Objection Letter

Objection Letter Status	Pending Industry Response
Objection Letter Date	04/10/2009
Submitted Date	04/13/2009
Respond By Date	

Dear Celeste Mrdak,

This will acknowledge receipt of the captioned filing.

Objection 1

- ActuarialIndMemo01, ActuarialIndMemo02 (Supporting Document)

Comment: Please explain the decision to move from a loss ratio to pure premium methodology for calculating rate need. Were the indications calculated both ways? How would they compare?

Objection 2

- ActuarialIndMemo01, ActuarialIndMemo02 (Supporting Document)

Comment: The data supporting the contingency factor appears outdated, 1996-2003. Please include more current data. Identify the type of losses actually incurred in AR.

Objection 3

- ActuarialIndMemo01, ActuarialIndMemo02 (Supporting Document)

Comment: The CAT provision appears excessive. It is noted that changes in the development of this provision were made from previous filings. Compare the developed factor to what it would have been if calculated using previous methods.

Objection 4

- ActuarialIndMemo01, ActuarialIndMemo02 (Supporting Document)

Comment: Provide a breakdown on the number of insureds receiving more than a 20% increase.

Objection 5

No Objections

Comment: Pursuant to ACA 23-67-211(d), if an insurer writing private passenger automobile, homeowners multi-peril, or dwelling fire insurance revises its rates and the revision results in a premium increase on a renewal policy and the insured will receive a rate increase other than due to a change in the nature of the risk insured, then the insurer shall mail or deliver to the insured and the agent of record not less than thirty (30) calendar days prior to the effective date of renewal a notice specifically stating the insurer's intention to increase the rate for the renewal.

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	04/21/2009
Submitted Date	04/21/2009

Dear Becky Harrington,

Comments:
Response to April 13, 2009 objection letter

Response 1

Comments: Please see attached.

Related Objection 1

Applies To:

- ActuarialIndMemo01, ActuarialIndMemo02 (Supporting Document)

Comment:
Please explain the decision to move from a loss ratio to pure premium methodology for calculating rate need. Were the indications calculated both ways? How would they compare?

Related Objection 2

Applies To:

- ActuarialIndMemo01, ActuarialIndMemo02 (Supporting Document)

Comment:
The data supporting the contingency factor appears outdated, 1996-2003. Please include more current data. Identify the type of losses actually incurred in AR.

Related Objection 3

Applies To:

- ActuarialIndMemo01, ActuarialIndMemo02 (Supporting Document)

Comment:

The CAT provision appears excessive. It is noted that changes in the development of this provision were made from previous filings. Compare the developed factor to what it would have been if calculated using previous methods.

Related Objection 4

Applies To:

- ActuarialIndMemo01, ActuarialIndMemo02 (Supporting Document)

Comment:

Provide a breakdown on the number of insureds receiving more than a 20% increase.

Related Objection 5

Comment:

Pursuant to ACA 23-67-211(d), if an insurer writing private passenger automobile, homeowners multi-peril, or dwelling fire insurance revises its rates and the revision results in a premium increase on a renewal policy and the insured will receive a rate increase other than due to a change in the nature of the risk insured, then the insurer shall mail or deliver to the insured and the agent of record not less than thirty (30) calendar days prior to the effective date of renewal a notice specifically stating the insurer's intention to increase the rate for the renewal.

Changed Items:

Supporting Document Schedule Item Changes

Satisfied -Name: 04.13.09 OBJ Response

Comment: 04/13/09 OBJ Response attached.

No Form Schedule items changed.

No Rate/Rule Schedule items changed.

Sincerely,

Celeste P. Mrdak

Sr. State Filings Analyst

800-366-2958 ext. 27328

Sincerely,

SPI AllState

SERFF Tracking Number:	*ALSX-126098323*	*State:*	*Arkansas*
Filing Company:	*Allstate Indemnity Company*	*State Tracking Number:*	*EFT $100*
Company Tracking Number:	*R21074*		
TOI:	*04.0 Homeowners*	*Sub-TOI:*	*04.0000 Homeowners Sub-TOI Combinations*
Product Name:	*Homeowners*		
Project Name/Number:	*2009 - Rule and Rate Change/R21074*		

Note To Reviewer

Created By:

SPI AllState on 05/04/2009 05:08 PM

Last Edited By:

Becky Harrington

Submitted On:

05/08/2009 10:30 AM

Subject:

Response to May 1, 2009 Note To Filer

Comments:

Per your request, attached are a revised RF-1 and HPCS.

NAIC LOSS COST DATA ENTRY DOCUMENT

1.	This filing transmittal is part of Company Tracking #	**R21074A#2**

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.**	**Allstate Indemnity Company**	**B.**	**19240**

		Product Coding Matrix Line of Business (i.e., Type of Insurance)		Product Coding Matrix Line of Insurance (i.e., Sub-type of Insurance)
4.	**A.**	**Homeowners**	**B.**	**Owners**

5.

(A) COVERAGE (See Instructions)	(B) Indicated % Rate Level Change	(C) Requested % Rate Level Change	FOR LOSS COSTS ONLY (D) Expected Loss Ratio	(E) Loss Cost Modification Factor	(F) Selected Loss Cost Multiplier	(G) Expense Constant (If Applicable)	(H) Co. Current Loss Cost Multiplier
Deluxe and Standard	**18.6%**	**18.6%**					
Deluxe Plus	**18.6%**	**18.6%**					
TOTAL OVERALL EFFECT	**18.6%**	**18.6%**					

6. 5 Year History — Rate Change History

Year	Policy Count	% of Change	Effective Date	State Earned Premium (000)	Incurred Losses (000)	State Loss Ratio	Countrywide Loss Ratio
2004	**18,039**	**0.0%**	**8/23/04**	**14,128,429**	**5,220,647**	**0.37**	**0.54**
2005	**24,243**	**N/A**	**N/A**	**18,549,578**	**6,534,606**	**0.35**	**1.12**
2006	**25,229**	**N/A**	**N/A**	**18,810,568**	**18,402,363**	**0.98**	**0.49**
2007	**21,835**	**17.8%**	**8/27/07**	**17,706,420**	**7,347,167**	**0.41**	**0.56**
2008	**17,756**	**N/A**	**N/A**	**16,387,291**	**23,706,669**	**1.45**	**0.79**

7.

Expense Constants	Selected Provisions
A. Total Production Expense	**5.0%**
B. General Expense	**3.5%**
C. Taxes, License & Fees	**3.1%**
D. Underwriting Profit & Contingencies & Debt	**11.55%**
E. 1)Commissions	**12.6%**
2) Contingency	**1.0%**
F. TOTAL	**36.8%**

8. **N** Apply Lost Cost Factors to Future filings? (Y or N)
9. **30.0%** Estimated Maximum Rate Increase for any Insured (%). Territory (if applicable): 3
10. **14.3%** Estimated Maximum Rate Decrease for any Insured (%) Territory (if applicable): 3

NAIC Number:	19240
Company Name:	Allstate Indemnity Company
Contact Person:	Celeste Mrdak
Telephone No.:	(847) 402-7328
Email Address:	oscmrda@allstate.com
Effective Date:	6/1/2009

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

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

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

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

Public Protection Class	Dwelling Value	Washington		Baxter		Craighead		St. Francis		Desha		Union		Miller		Sebastian		Pulaski	
		Brick	*Frame*	*Brick*	*Frame*	*Brick*	*Frame*	*Brick*	*Frame*	*Brick*	*Frame*	*Brick*	*Frame*	*Brick*	*Frame*	*Brick*	*Frame*	*Brick*	*Frame*
3	*$80,000*	$436.81	$510.57	$442.60	$516.36	$627.73	$731.87	$783.93	$944.48	$783.93	$944.48	$593.02	$692.81	$553.96	$645.09	$549.63	$662.44	$655.21	$763.69
	$120,000	$611.27	$713.96	$619.95	$721.19	$877.40	$1,022.03	$1,095.80	$1,318.53	$1,095.80	$1,318.53	$829.67	$967.07	$776.15	$903.43	$768.92	$925.13	$932.36	$1,087.12
	$160,000	$817.55	$953.50	$827.67	$963.63	$1,171.90	$1,364.27	$1,461.17	$1,757.68	$1,461.17	$1,757.68	$1,106.82	$1,290.50	$1,035.95	$1,205.17	$1,025.82	$1,234.10	$1,270.26	$1,478.53
6	*$80,000*	$480.20	$566.98	$485.99	$572.77	$689.92	$811.42	$944.48	$1,063.08	$944.48	$1,063.08	$652.32	$768.03	$607.48	$715.96	$662.44	$746.33	$718.85	$847.57
	$120,000	$672.02	$792.06	$680.69	$800.74	$964.18	$1,134.85	$1,318.53	$1,484.87	$1,318.53	$1,484.87	$910.66	$1,072.66	$849.92	$1,001.78	$925.13	$1,042.28	$1,022.03	$1,205.72
	$160,000	$897.10	$1,057.64	$908.67	$1,069.21	$1,287.61	$1,513.24	$1,757.68	$1,977.52	$1,757.68	$1,977.52	$1,215.29	$1,430.80	$1,135.74	$1,335.34	$1,234.10	$1,391.75	$1,391.75	$1,639.07
9	*$80,000*	$1,495.54	$1,752.99	$1,512.90	$1,774.69	$2,133.38	$2,515.22	$2,843.54	$3,533.45	$2,843.54	$3,533.45	$2,017.67	$2,366.24	$1,886.05	$2,212.93	$1,964.16	$2,387.94	$2,224.50	$2,639.60
	$120,000	$2,083.65	$2,451.03	$2,109.69	$2,484.29	$3,057.05	$3,645.71	$4,101.32	$5,061.69	$4,101.32	$5,061.69	$2,871.92	$3,428.76	$2,663.64	$3,184.33	$2,788.03	$3,466.37	$3,266.77	$3,890.15
	$160,000	$2,830.87	$3,381.93	$2,869.92	$3,426.77	$4,188.99	$4,970.02	$5,577.49	$6,854.62	$5,577.49	$6,854.62	$3,943.11	$4,683.65	$3,665.41	$4,358.22	$3,830.30	$4,731.37	$4,565.04	$5,411.16

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

Public Protection Class	Property Value	Washington		Baxter		Craighead		St. Francis		Arkansas		Union		Miller		Sebastian		Pulaski	
		Brick	*Frame*	*Brick*	*Frame*	*Brick*	*Frame*	*Brick*	*Frame*	*Brick*	*Frame*	*Brick*	*Frame*	*Brick*	*Frame*	*Brick*	*Frame*	*Brick*	*Frame*
3	*$5,000*	$50.56	$50.56	$50.56	$50.56	$50.56	$50.56	$50.56	$50.56	$50.56	$50.56	$50.56	$50.56	$50.56	$50.56	$50.56	$50.56	$50.56	$50.56
	$15,000	$90.89	$90.89	$90.89	$90.89	$90.89	$90.89	$90.89	$90.89	$90.89	$90.89	$90.89	$90.89	$90.89	$90.89	$90.89	$90.89	$90.89	$90.89
	$25,000	$126.15	$126.15	$126.15	$126.15	$126.15	$126.15	$126.15	$126.15	$126.15	$126.15	$126.15	$126.15	$126.15	$126.15	$126.15	$126.15	$126.15	$126.15
6	*$5,000*	$60.56	$60.56	$60.56	$60.56	$60.56	$60.56	$60.56	$60.56	$60.56	$60.56	$60.56	$60.56	$60.56	$60.56	$60.56	$60.56	$60.56	$60.56
	$15,000	$106.89	$106.89	$106.89	$106.89	$106.89	$106.89	$106.89	$106.89	$106.89	$106.89	$106.89	$106.89	$106.89	$106.89	$106.89	$106.89	$106.89	$106.89
	$25,000	$148.15	$148.15	$148.15	$148.15	$148.15	$148.15	$148.15	$148.15	$148.15	$148.15	$148.15	$148.15	$148.15	$148.15	$148.15	$148.15	$148.15	$148.15
9	*$5,000*	$70.56	$70.56	$70.56	$70.56	$70.56	$70.56	$70.56	$70.56	$70.56	$70.56	$70.56	$70.56	$70.56	$70.56	$70.56	$70.56	$70.56	$70.56
	$15,000	$125.89	$125.89	$125.89	$125.89	$125.89	$125.89	$125.89	$125.89	$125.89	$125.89	$125.89	$125.89	$125.89	$125.89	$125.89	$125.89	$125.89	$125.89
	$25,000	$175.15	$175.15	$175.15	$175.15	$175.15	$175.15	$175.15	$175.15	$175.15	$175.15	$175.15	$175.15	$175.15	$175.15	$175.15	$175.15	$175.15	$175.15

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

Public Protection Class	Dwelling Value	Washington		Baxter		Craighead		St. Francis		Arkansas		Union		Miller		Sebastian		Pulaski	
		Brick	*Frame*	*Brick*	*Frame*	*Brick*	*Frame*	*Brick*	*Frame*	*Brick*	*Frame*	*Brick*	*Frame*	*Brick*	*Frame*	*Brick*	*Frame*	*Brick*	*Frame*
3	*$80,000*	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
	$120,000	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
	$160,000	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
6	*$80,000*	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
	$120,000	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
	$160,000	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
9	*$80,000*	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
	$120,000	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
	$160,000	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

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

HO3 and HO4 only

Fire Extinquisher	5	%	*Deadbolt Lock*	5	%
Burglar Alarm	5	%	*Window Locks*	*N/A*	%
Smoke Alarm	5	%	*$1,000 Deductible*	25	%
			Other (specify)		
			Complete Central Burglar	10	%
			Maximum Credit Allowed		%

EARTHQUAKE INSURANCE

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

ARE YOU CURRENTLY WRITING EARTHQUAKE COVERAGE IN ARKANSAS?	No	*(yes or no)*
WHAT IS YOUR PERCENTAGE DEDUCTIBLE?	N/A	%

	Zone	Brick	Frame
WHAT IS YOUR PRICE PER $1,000 OF COVERAGE?	Highest Risk	$ N/A	$ N/A
	Lowest Risk	$ N/A	$ N/A

Note To Filer

Created By:

Becky Harrington on 05/01/2009 09:37 AM

Last Edited By:

Becky Harrington

Submitted On:

05/08/2009 10:30 AM

Subject:

Revised Filing Forms

Comments:

Please submit a revised RF-1 and HPCS so I may close the filing.

Rate Information

Rate data applies to filing.

Filing Method:	File and Use
Rate Change Type:	Increase
Overall Percentage of Last Rate Revision:	-0.710%
Effective Date of Last Rate Revision:	08/25/2008
Filing Method of Last Filing:	File and Use

Company Rate Information

Company Name:	Overall % Indicated Change:	Overall % Rate Impact:	Written Premium Change for this Program:	# of Policy Holders Affected for this Program:	Written Premium for this Program:	Maximum % Change (where required):	Minimum % Change (where required):
Allstate Indemnity Company	20.300%	20.300%	$2,719,455	14,410	$13,396,328	65.300%	7.800%

Rate/Rule Schedule

Review Status:	Exhibit Name:	Rule # or Page #:	Rate Action	Previous State Filing Number:	Attachments
Filed	Manual_R21074	R21074	Replacement		R21074.PDF
Filed	Manual_R21074	R21074	Replacement		R21074.PDF
Filed	CheckingList_R21074	R21074	New		R21074.PDF
Filed	CheckingList_R21074	R21074	New		R21074.PDF

RULE 17 - HOME AND AUTO DISCOUNT

If the following criteria are met, multiply the otherwise applicable Package Premium (as shown in the Rate Page Calculation Options Page) by the factor below:

1. Either the Named Insured or Spouse must also be a Named Insured under an Allstate Insurance Company or Allstate Property and Casualty Insurance Company private passenger automobile policy.

2. The insured premises must be the principal residence of the Named Insured.

		Allstate Indemnity Company only – Line 70 HOMEOWNERS
Rating group *		Discount Factor
6A		**.80**
6B		**.80**
6C		**.80**
6D		**.80**
6E		**.80**
6F		**.80**
6G		**.80**

		Allstate Indemnity Company only – Line 71 RENTERS
Rating group **		Discount Factor
7A		**.90**
7B		**.90**
7C		**.90**
7D		**.90**
7E		**.90**

* As defined in Rule 24 – Rating Group Classification for Standard and Deluxe
** As defined in Rule 33 – Rating Group Classification for Renters

Rounding:

Unless otherwise noted, all premium calculations shall be rounded to the nearest dollar. A premium of $0.50 or more shall be rounded to the next whole dollar.
The Reinsurance Charge as well as the final premium shall be rounded to the nearest penny. Amounts of $0.005 or more shall be rounded to the next whole penny.

1. Determine the Package Premium:

   a) Determine the appropriate $250 deductible premium for the Coverage A limits shown on the Package Premium Pages.

   b) Multiply the appropriate $250 deductible premium by a Rate Adjustment Factor of 1.682.

2. Claim Rating Factor – Multiply by the appropriate factor (Rule 25)

3. Claim Free Discount – Multiply by .85 (Rule 26)

4. Coverage BC - Building Codes - Multiply by 1.05 (Rule 4.A.1)

5. Dwellings in the Course of Construction - Multiply by .70 (Rule 4.B.2)

6. Age of Home Discount - Multiply by the appropriate factor (Rule 23)

7. Partially Renovated Home Discount - Multiply by the appropriate factor (Rule 27)

8. Home Buyer Discounts - Multiply by the appropriate factor (Rule 28)

9. Personal Property Reimbursement Provision - Multiply by 1.15 (Rule 4.A.16)

10. Fire Resistive Discount - Multiply by .85 (Rule 10)

11. Protective Device Discount - Multiply by the appropriate factor (Rule 15)

12. 55 and Retired Discount - Multiply by .90 (Rule 16)

13. Home and Auto Discount - Multiply by the appropriate factor (Rule 17)

14. The Good Hands People® Discount - Multiply by .95 (Rule 22)

The premium calculation should be done in the following order:

1. Multiply the appropriate $250 deductible premium shown on the Package Premium Pages by a Rate Adjustment Factor of 1.668.
2. Claim Rating Factor – Multiply by the appropriate factor (Rule 25)
3. Claim Free Discount – Multiply by .85 (Rule 26)
4. Age of Home Discount - Multiply by the appropriate factor (Rule 23)
5. Partially Renovated Home Discount - Multiply by the appropriate factor (Rule 27)
6. Home Buyer Discounts - Multiply by the appropriate factor (Rule 28)
7. Fire Resistive Discount - Multiply by .85 (Rule 10)
8. Protective Device Discount - Multiply by the appropriate factor (Rule 15)
9. 55 and Retired Discount - Multiply by .90 (Rule 16)
10. Home and Auto Discount - Multiply by appropriate factor (Rule 17)
11. The Good Hands People® Discount - Multiply by .95 (Rule 22)

1. Excess Dwelling Coverage

   This optional endorsement provides coverage up to 125% of the limit of liability applicable to Coverage A - Dwelling Protection or Coverage B - Other Structures Protection.

2. Dwelling in the Course of Construction

   A provisional Coverage A limit equal to the expected completed value of the dwelling is provided with the use of this endorsement. Coverage C will be provided at 25% of Coverage A. This endorsement is available for Deluxe Policies only

3. Coverage CA - Extended Coverage on Cameras

4. Coverage DC - Home Day Care

   The minimum limit of liability on Coverage DC is $100,000. The limit of liability purchased for Coverage DC must match Coverage X limits. However if the Coverage X limit exceeds $300,000 then the only Coverage DC limit available is $300,000.

5. Coverage E - Earthquake Damage

   The deductible applicable to this coverage is defined on the Supplementary Rate Pages.

6. Coverage MI - Extended Coverage on Musical Instruments

7. Coverage SP - Extended Coverage on Sports Equipment

8. Additional Insured - Nonrelatives

9. Engaged Couples

   The premiums shall be based on the rates applicable to the bride's residence. This endorsement is available for Renters policies only.

10. Scheduled Personal Property

    Refer to Scheduled Personal Property Manual.

11. Waterbed Liability – This endorsement is available for the Renters policy only.

12. Coverage IT – Identity Theft Expenses

    Coverage IT is not available for Standard Homeowners policies.

RULE 17 - HOME AND AUTO DISCOUNT

If the following criteria are met, multiply the otherwise applicable Package Premium (as shown in the Rate Page Calculation Options Page) by the factor below:

1. Either the Named Insured or Spouse must also be a Named Insured under an Allstate Insurance Company or Allstate Property and Casualty Insurance Company private passenger automobile policy.

2. The insured premises must be the principal residence of the Named Insured.

		Allstate Indemnity Company only – Line 70 HOMEOWNERS
Rating group *		Discount Factor
6A		**.65**
6B		**.65**
6C		**.65**
6D		**.65**
6E		**.65**
6F		**.65**
6G		**.65**

		Allstate Indemnity Company only – Line 71 RENTERS
Rating group **		Discount Factor
7A		**.90**
7B		**.90**
7C		**.90**
7D		**.90**
7E		**.90**

* As defined in Rule 24 – Rating Group Classification for Standard and Deluxe
** As defined in Rule 33 – Rating Group Classification for Renters

TERRITORIAL ZONES

Zone 2 - Counties of:

Remainder of Garland
Grant
Hot Springs

Zone 3 - Counties of:

Clay
Cleburne
Remainder of Fulton
Green
Independence
Remainder of Izard
Jackson
Lawrence
Randolph
Remainder of Sharp
Stone
Remainder of Van Buren

Zone 6 - Counties of:

Bradley
Calhoun
Clark
Cleveland
Columbia
Dallas
Drew
Lincoln
Ouachita
Union

Zone 7 - County of:

Crawford

Zone 8 - Counties of:

Baxter
Boone
Remainder of Carroll
Conway
Franklin
Faulkner
Johnson
Logan
Madison
Marion
Newton
Pope
Searcy
Yell

Zone 10 - Counties of:

Remainder of Lonoke
Perry
Remainder of Saline
Remainder of Pulaski

Zone 14 - Counties of:

Ashley
Chicot
Cross
Desha
Lee
Monroe
Phillips
Poinsett
Prairie
St. Francis
White
Woodruff

Zone 16 - County of:

Craighead

Zone 18 - The following Zip Codes in Pulaski County:

72023	72116	72207	72211
72076	72118	72208	72212
72113	72120	72210	72223
			72227

The following Zip Codes in Lonoke County:

72007	72023	72076	72176

The following Zip Codes in Saline County:

72015	72022	72167

Zone 19 - Counties of:

Arkansas Jefferson

Zone 20 - Counties of:

Remainder of Benton Washington

Zone 21 - Counties of:

Hempstead	Little River	Nevada	Scott
Howard	Miller	Pike	Sevier
Lafayette	Montgomery	Polk	

Zone 22 - Counties of

Crittenden Mississippi

Zone 23 - The following Zip Codes in the following counties:

71909 in Garland and Saline Counties
72088 in Van Buren County
72512 in Izard County
72525 in Fulton and Sharp Counties
72529 in Fulton and Sharp County
72631, 72632 in Carroll County
72714, 72715, 72739 in Benton County

Zone 27 - County of:

Sebastian

When a ZIP code is added by the U.S. Post Office in Arkansas by dividing an existing ZIP code into two or more new ZIP codes, the rating zone assigned to the existing ZIP code should be used. For example, if ZIP code 12345 in rating zone 1 is divided into two new ZIP codes, 22345 and 33345, policies in the new ZIP codes should still be rated in zone 1. Note that this is not the "Remainder of" zone, unless the existing ZIP code was in the "Remainder of" zone.

ZIP codes may refer to post offices rather than geographical locations. ZIP codes assigned to post office boxes rather than geographical locations should not be used for rating purposes.

CONSTRUCTION TYPES

Brick	-	A dwelling with walls of brick or brick veneered construction.
Frame	-	A dwelling with walls of frame or metal-sheathed or stuccoed frame construction, or with walls of metal or metal lath and plaster on combustible supports. Walls with aluminum or plastic siding over frame are also classified as frame construction.
Fire Resistive	-	A building with all exterior walls, floors, roof, and interior supports of brick or other non-combustible material.

Rounding:

Unless otherwise noted, all premium calculations shall be rounded to the nearest dollar. A premium of $0.50 or more shall be rounded to the next whole dollar.
The Reinsurance Charge as well as the final premium shall be rounded to the nearest penny. Amounts of $0.005 or more shall be rounded to the next whole penny.

1. Determine the Package Premium:

   a) Determine the appropriate $250 deductible premium for the Coverage A limits shown on the Package Premium Pages.

   b) Multiply the appropriate $250 deductible premium by a Rate Adjustment Factor of 1.912.

2. Claim Rating Factor – Multiply by the appropriate factor (Rule 25)

3. Claim Free Discount – Multiply by .85 (Rule 26)

4. Coverage BC - Building Codes - Multiply by 1.05 (Rule 4.A.1)

5. Dwellings in the Course of Construction - Multiply by .70 (Rule 4.B.2)

6. Age of Home Discount - Multiply by the appropriate factor (Rule 23)

7. Partially Renovated Home Discount - Multiply by the appropriate factor (Rule 27)

8. Home Buyer Discounts - Multiply by the appropriate factor (Rule 28)

9. Personal Property Reimbursement Provision - Multiply by 1.15 (Rule 4.A.16)

10. Fire Resistive Discount - Multiply by .85 (Rule 10)

11. Protective Device Discount - Multiply by the appropriate factor (Rule 15)

12. 55 and Retired Discount - Multiply by .90 (Rule 16)

13. Home and Auto Discount - Multiply by the appropriate factor (Rule 17)

14. The Good Hands People® Discount - Multiply by .95 (Rule 22)

Rounding:

Unless otherwise noted, all premium calculations shall be rounded to the nearest dollar. A premium of $0.50 or more shall be rounded to the next whole dollar.
The Reinsurance Charge as well as the final premium shall be rounded to the nearest penny. Amounts of $0.005 or more shall be rounded to the next whole penny.

The following discounts, credits, and surcharges should be applied in the order listed.

1. Multiply the appropriate premium from the rate pages by a Rate Adjustment Factor of 1.169. (Note: Premiums for policies with Coverage C limits less than $6,000 may be developed by subtracting $1 per $1,000 from the $6,000 premium and then applying the Rate Adjustment Factor.)

2. $50, $500 or $1,000 Deductible - Multiply $100 Deductible premium by 1.111, .778, or .700

3. $250 Theft Deductible - Multiply $50 or $100 Deductible premium by .95

4. Personal Property Reimbursement Provision - Multiply by 1.25 (Rule 4.A.16)

5. Protective Device Discount - Multiply by the appropriate factor (Rule 15)

6. 55 and Retired Discount - Multiply by .75 (Rule 16)

7. Home and Auto Discount - Multiply by the appropriate factor for Renters (Rule 17)

8. The Good Hands People® Discount - Multiply by .95 (Rule 18)

9. Rating Group Classification: Renters - Multiply by the appropriate factor (Rule 33)

10. Add the Fixed Expense Policy Fee shown on the Supplementary Rate Page

11. Add the appropriate Reinsurance Charge. Determine the charge as follows:

    a. Determine the appropriate Base Reinsurance Charge from the Reinsurance Charge Pages.

    b. Multiply the appropriate charge by a Reinsurance Rate Adjustment Factor of 0.000 (round to three decimals).

    c. Multiply by the appropriate Coverage C Reinsurance Limit Factor as shown in the Reinsurance Charge Pages (penny round).

12. Add the additional premium applicable for increased limits or additional coverage and subtract any applicable credit for reduced coverage.

The premium calculation should be done in the following order:

1. Multiply the appropriate $250 deductible premium shown on the Package Premium Pages by a Rate Adjustment Factor of 1.963
2. Claim Rating Factor – Multiply by the appropriate factor (Rule 25)
3. Claim Free Discount – Multiply by .85 (Rule 26)
4. Age of Home Discount - Multiply by the appropriate factor (Rule 23)
5. Partially Renovated Home Discount - Multiply by the appropriate factor (Rule 27)
6. Home Buyer Discounts - Multiply by the appropriate factor (Rule 28)
7. Fire Resistive Discount - Multiply by .85 (Rule 10)
8. Protective Device Discount - Multiply by the appropriate factor (Rule 15)
9. 55 and Retired Discount - Multiply by .90 (Rule 16)
10. Home and Auto Discount - Multiply by appropriate factor (Rule 17)
11. The Good Hands People® Discount - Multiply by .95 (Rule 22)

RULE 4 - ADDITIONAL COVERAGES

All optional coverages and other endorsements as listed under **Rule 4 -Additional Coverages** in the INDEMNITY HOMEOWNERS MANUAL and applicable to the Deluxe Homeowners Policy are also applicable to the INDEMNITY SELECT VALUE HOMEOWNERS MANUAL with the following exceptions:

A. Optional Coverages

Coverage BC - Building Codes is not available.

Coverage BP - Increased Coverage on Business Property is not available for the Standard Policy.

B. Other Endorsements

Excess Dwelling Coverage is not available.

The Dwelling in the Course of Construction Endorsement is not available.

Coverage IT – Identity Theft Expenses is not available.

CHECKING LIST

Printing dates are shown on each page to facilitate identification of different editions, but have no direct connection with the effective date of the page.

HOMEOWNERS RULES

Enclosed: Page IH17-1 dated 6-3-2009
Page IHRC-1 dated 6-3-2009

Withdrawn: Page IH17-1 dated 6-1-2009
Page IHRC-1 dated 6-2-2009

DELUXE PLUS HOMEOWNERS

Enclosed: Page DPRC-1 dated 6-3-2009

Withdrawn: Page DPRC-1 dated 6-2-2009

CHECKING LIST

Printing dates are shown on each page to facilitate identification of different editions, but have no direct connection with the effective date of the page.

HOMEOWNERS RULES

Enclosed: Page IH4-3 dated 6-1-2009
Page IH17-1 dated 6-1-2009
Page IHRC-1 dated 6-1-2009
Page IHRRC-1 dated 6-1-2009

Withdrawn: Page IH4-3 dated 5-15-2005
Page IH17-1 dated 5-13-2002
Page IHRC-1 dated 7-1-2007
Page IHRRC-1 dated 9-1-2008

TERRITORIAL DEFINITIONS

Enclosed: Page TD-1 through TD-3 dated 6-1-2009

DELUXE PLUS HOMEOWNERS

Enclosed: Page DPRC-1 dated 6-1-2009

Withdrawn: Page DPRC-1 dated 9-1-2007

SELECT VALUE HOMEOWNER

Enclosed: Page SV4-1 dated 6-1-2009

Withdrawn: Page SV4-1 dated 5-15-2005

Supporting Document Schedules

Satisfied -Name: HPCS-Homeowners Premium Comparison Survey

Review Status: Filed 05/08/2009

Comments:

Attachments:

HPCS-Homeowners Premium Comparison Survey.PDF

HPCS-Homeowners Premium Comparison Survey.XLS

Satisfied -Name: NAIC loss cost data entry document

Review Status: Filed 05/08/2009

Comments:

Attachment:

NAIC loss cost data entry document.PDF

Satisfied -Name: ActuarialIndMemo01, ActuarialIndMemo02

Review Status: Filed 05/08/2009

Comments:

Attachments:

ActuarialIndMemo01.PDF

ActuarialIndMemo02.PDF

Satisfied -Name: H-1 Homeowners Abstract

Review Status: Filed 05/08/2009

Comments:

Attachment:

AR - HOMEOWNERS ABSTRACT FORM H 1.PDF

Satisfied -Name: 04.13.09 OBJ Response

Review Status: Filed 05/08/2009

Comments:

04/13/09 OBJ Response attached.

Attachment:

04_13_09 OBJ Response.PDF

Review Status:

Satisfied -Name: 04.27.09 OBJ Response

Filed 05/08/2009

Comments:

04/27/09 OBJ Response

Attachment:

04_27_09 OBJ Response.PDF

NAIC Number:	19240
Company Name:	Allstate Indemnity Company
Contact Person:	Celeste Mrdak
Telephone No.:	(847) 402-7328
Email Address:	oscmrda@allstate.com
Effective Date:	6/1/2009

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

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

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

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

Public Protection Class	Dwelling Value	Washington		Baxter		Craighead		St. Francis		Desha		Union		Miller		Sebastian		Pulaski	
		Brick	*Frame*	*Brick*	*Frame*	*Brick*	*Frame*	*Brick*	*Frame*	*Brick*	*Frame*	*Brick*	*Frame*	*Brick*	*Frame*	*Brick*	*Frame*	*Brick*	*Frame*
3	*$80,000*	$487.42	$571.27	$493.99	$577.84	$704.44	$822.82	$882.01	$1,064.51	$882.01	$1,064.51	$664.98	$778.43	$620.59	$724.17	$615.66	$743.90	$735.68	$858.99
	$120,000	$685.68	$802.42	$695.55	$810.64	$988.20	$1,152.61	$1,236.47	$1,489.66	$1,236.47	$1,489.66	$933.95	$1,090.14	$873.11	$1,017.80	$864.89	$1,042.46	$1,050.68	$1,226.60
	$160,000	$920.12	$1,074.67	$931.63	$1,086.18	$1,322.93	$1,541.60	$1,651.76	$1,988.80	$1,651.76	$1,988.80	$1,248.94	$1,457.75	$1,168.38	$1,360.74	$1,156.87	$1,393.63	$1,434.73	$1,671.48
6	*$80,000*	$536.74	$635.39	$543.32	$641.97	$775.14	$913.25	$1,064.51	$1,199.33	$1,064.51	$1,199.33	$732.39	$863.92	$681.42	$804.73	$743.90	$839.26	$808.02	$954.35
	$120,000	$754.74	$891.20	$764.60	$901.06	$1,086.85	$1,280.86	$1,489.66	$1,678.74	$1,489.66	$1,678.74	$1,026.02	$1,210.16	$956.96	$1,129.60	$1,042.46	$1,175.63	$1,152.61	$1,361.42
	$160,000	$1,010.55	$1,193.04	$1,023.70	$1,206.20	$1,454.46	$1,710.94	$1,988.80	$2,238.71	$1,988.80	$2,238.71	$1,372.25	$1,617.23	$1,281.83	$1,508.72	$1,393.63	$1,572.84	$1,572.84	$1,853.98
9	*$80,000*	$1,690.92	$1,983.57	$1,710.65	$2,008.24	$2,415.98	$2,850.03	$3,223.25	$4,007.50	$3,223.25	$4,007.50	$2,284.45	$2,680.69	$2,134.83	$2,506.41	$2,223.62	$2,705.35	$2,519.56	$2,991.43
	$120,000	$2,359.41	$2,777.01	$2,389.00	$2,814.83	$3,465.90	$4,135.06	$4,652.96	$5,744.67	$4,652.96	$5,744.67	$3,255.46	$3,888.45	$3,018.70	$3,610.59	$3,160.10	$3,931.19	$3,704.30	$4,412.92
	$160,000	$3,208.75	$3,835.16	$3,253.14	$3,886.13	$4,752.58	$5,640.41	$6,330.95	$7,782.71	$6,330.95	$7,782.71	$4,473.08	$5,314.87	$4,157.41	$4,944.95	$4,344.84	$5,369.13	$5,180.06	$6,141.87

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

Public Protection Class	Property Value	Washington		Baxter		Craighead		St. Francis		Arkansas		Union		Miller		Sebastian		Pulaski	
		Brick	*Frame*	*Brick*	*Frame*	*Brick*	*Frame*	*Brick*	*Frame*	*Brick*	*Frame*	*Brick*	*Frame*	*Brick*	*Frame*	*Brick*	*Frame*	*Brick*	*Frame*
3	*$5,000*	$50.56	$50.56	$50.56	$50.56	$50.56	$50.56	$50.56	$50.56	$50.56	$50.56	$50.56	$50.56	$50.56	$50.56	$50.56	$50.56	$50.56	$50.56
	$15,000	$90.89	$90.89	$90.89	$90.89	$90.89	$90.89	$90.89	$90.89	$90.89	$90.89	$90.89	$90.89	$90.89	$90.89	$90.89	$90.89	$90.89	$90.89
	$25,000	$126.15	$126.15	$126.15	$126.15	$126.15	$126.15	$126.15	$126.15	$126.15	$126.15	$126.15	$126.15	$126.15	$126.15	$126.15	$126.15	$126.15	$126.15
6	*$5,000*	$60.56	$60.56	$60.56	$60.56	$60.56	$60.56	$60.56	$60.56	$60.56	$60.56	$60.56	$60.56	$60.56	$60.56	$60.56	$60.56	$60.56	$60.56
	$15,000	$106.89	$106.89	$106.89	$106.89	$106.89	$106.89	$106.89	$106.89	$106.89	$106.89	$106.89	$106.89	$106.89	$106.89	$106.89	$106.89	$106.89	$106.89
	$25,000	$148.15	$148.15	$148.15	$148.15	$148.15	$148.15	$148.15	$148.15	$148.15	$148.15	$148.15	$148.15	$148.15	$148.15	$148.15	$148.15	$148.15	$148.15
9	*$5,000*	$70.56	$70.56	$70.56	$70.56	$70.56	$70.56	$70.56	$70.56	$70.56	$70.56	$70.56	$70.56	$70.56	$70.56	$70.56	$70.56	$70.56	$70.56
	$15,000	$125.89	$125.89	$125.89	$125.89	$125.89	$125.89	$125.89	$125.89	$125.89	$125.89	$125.89	$125.89	$125.89	$125.89	$125.89	$125.89	$125.89	$125.89
	$25,000	$175.15	$175.15	$175.15	$175.15	$175.15	$175.15	$175.15	$175.15	$175.15	$175.15	$175.15	$175.15	$175.15	$175.15	$175.15	$175.15	$175.15	$175.15

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

Public Protection Class	Dwelling Value	Washington		Baxter		Craighead		St. Francis		Arkansas		Union		Miller		Sebastian		Pulaski	
		Brick	*Frame*	*Brick*	*Frame*	*Brick*	*Frame*	*Brick*	*Frame*	*Brick*	*Frame*	*Brick*	*Frame*	*Brick*	*Frame*	*Brick*	*Frame*	*Brick*	*Frame*
3	*$80,000*	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
	$120,000	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
	$160,000	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
6	*$80,000*	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
	$120,000	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
	$160,000	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
9	*$80,000*	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
	$120,000	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
	$160,000	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

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

HO3 and HO4 only

Fire Extinguisher	5	%	*Deadbolt Lock*	5	%
Burglar Alarm	5	%	*Window Locks*	*N/A*	%
Smoke Alarm	5	%	*$1,000 Deductible*	25	%
			Other (specify)		
			Complete Central Burglar	10	%
			Maximum Credit Allowed		%

EARTHQUAKE INSURANCE

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

ARE YOU CURRENTLY WRITING EARTHQUAKE COVERAGE IN ARKANSAS?	No	*(yes or no)*
WHAT IS YOUR PERCENTAGE DEDUCTIBLE?	N/A	%

	Zone	Brick	Frame
WHAT IS YOUR PRICE PER $1,000 OF COVERAGE?	Highest Risk	$ N/A	$ N/A
	Lowest Risk	$ N/A	$ N/A

NAIC LOSS COST DATA ENTRY DOCUMENT

1.	This filing transmittal is part of Company Tracking #	**R21074**

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.**	**Allstate Indemnity Company**	**B.**	**19240**

		Product Coding Matrix Line of Business (i.e., Type of Insurance)		Product Coding Matrix Line of Insurance (i.e., Sub-type of Insurance)
4.	**A.**	**Homeowners**	**B.**	**Owners**

5.

(A) COVERAGE (See Instructions)	(B) Indicated % Rate Level Change	(C) Requested % Rate Level Change	FOR LOSS COSTS ONLY (D) Expected Loss Ratio	(E) Loss Cost Modification Factor	(F) Selected Loss Cost Multiplier	(G) Expense Constant (If Applicable)	(H) Co. Current Loss Cost Multiplier
Deluxe and Standard	**20.3%**	**20.3%**					
Deluxe Plus	**20.3%**	**20.3%**					
TOTAL OVERALL EFFECT	**20.3%**	**20.3%**					

6. 5 Year History — Rate Change History

Year	Policy Count	% of Change	Effective Date	State Earned Premium (000)	Incurred Losses (000)	State Loss Ratio	Countrywide Loss Ratio
2004	**18,039**	**0.0%**	**8/23/04**	**14,128,429**	**5,220,647**	**0.37**	**0.54**
2005	**24,243**	**N/A**	**N/A**	**18,549,578**	**6,534,606**	**0.35**	**1.12**
2006	**25,229**	**N/A**	**N/A**	**18,810,568**	**18,402,363**	**0.98**	**0.49**
2007	**21,835**	**17.8%**	**8/27/07**	**17,706,420**	**7,347,167**	**0.41**	**0.56**
2008	**17,756**	**N/A**	**N/A**	**16,387,291**	**23,706,669**	**1.45**	**0.79**

7.

Expense Constants	Selected Provisions
A. Total Production Expense	**5.0%**
B. General Expense	**3.5%**
C. Taxes, License & Fees	**3.1%**
D. Underwriting Profit & Contingencies & Debt	**11.55%**
E. 1)Commissions	**12.6%**
2) Contingency	**2.0%**
F. TOTAL	**37.8%**

8. **N** Apply Lost Cost Factors to Future filings? (Y or N)
9. **65.3%** Estimated Maximum Rate Increase for any Insured (%). Territory (if applicable): 3
10. **7.8%** Estimated Maximum Rate Decrease for any Insured (%) Territory (if applicable): 3

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ATTACHMENT I

Summary of Disclosures

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DEFINITIONS

Please note that throughout this filing, the following terms and their definitions are used:

Owners Policy – a policy which covers a freestanding dwelling or townhome that is not classified as a manufactured home.

Homeowners Policy – An owners, condo, co-op, or renters policy.

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ACTUARIAL STANDARDS OF PRACTICE

This document confirms compliance with the following Actuarial Standards of Practices that are applicable to the preparation of statewide rate filings performed by casualty actuaries as stated in "Applicability Guidelines for Actuarial Standards of Practice" (American Academy of Actuaries, September 2004). In addition, references to relevant sections of this filing are included, where applicable.

- Actuarial Standard of Practice No. 9, *Documentation and Disclosure in Property and Casualty Insurance Ratemaking, Loss Reserving, and Valuations*
  - Attachment I, Page 4: Material Changes in Sources of Data, Assumptions, or Methods
  - Attachment II, Pages 1-10: Summary of the Development of Statewide Rate Level Indication
- Actuarial Standard of Practice No. 12, *Risk Classification (for all Practice Areas)*
  - This ASOP is not applicable to this rate filing as risk classification systems were not designed, reviewed, or changed.
- Actuarial Standard of Practice No. 13, *Trending Procedures in Property/Casualty Insurance Ratemaking*
  - Attachment II, Page 4: Adjustment to Losses – Loss Trend
  - Attachment II, Page 5: Adjustment to Losses – Catastrophes (AIY's)
  - Attachment II, Page 7: Expenses, Profit Provision, and Contingency Factor – Fixed Expenses – Trend (Inflation)
  - Attachment II, Page 10: Adjustments to Premiums – Premium Trend
- Actuarial Standard of Practice No. 23, *Data Quality*
  - Attachment II, Pages 1-10: Summary of the Development of Statewide Rate Level Indication
- Actuarial Standard of Practice No. 25, *Credibility Procedures Applicable to Accident and Health, Group Term Life, and Property/Casualty Coverages*
  - Attachment II, Page 2: Base Data – Accident Year Weights
  - Attachment II, Page 4: Base Data – Adjustment to Losses – Loss Trend
- Actuarial Standard of Practice No. 29, *Expense Provisions in Property/Casualty Insurance Ratemaking*
  - Attachment II, Pages 6-9: Expenses, Profit Provision, and Contingency Factor
- Actuarial Standard of Practice No. 30, *Treatment of Profit and Contingency Provisions and the Cost of Capital in Property/Casualty Insurance Ratemaking*
  - Attachment II, Pages 8-9: Expenses, Profit Provision, and Contingency Factor – Variable Expenses – Underwriting Profit
  - Attachment IV, Pages 1-3: Contingency Factor Support Explanatory Memorandum
- Actuarial Standard of Practice No. 38, *Using Models Outside the Actuary's Area of Expertise (Property and Casualty)*
  - This ASOP is not applicable to this rate filing.

- Actuarial Standard of Practice No. 39, *Treatment of Catastrophe Losses in Property/Casualty Insurance Ratemaking*
  - Attachment III: Summary of the Total Non-Modeled Catastrophe Adjustment
- Actuarial Standard of Practice No. 41, *Actuarial Communications*
  - Applies to this filing in its entirety

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MATERIAL CHANGES IN SOURCES OF DATA, ASSUMPTIONS, OR METHODS

This document lists all material changes in sources of data, assumptions, or methods from the last Allstate rate level indication filing. These changes are further described in the subsequent memos in compliance with Actuarial Standard of Practice No. 9, *Documentation and Disclosure in Property and Casualty Insurance Ratemaking, Loss Reserving, and Valuations.*

- Rate Level Indication
  - Use of Pure Premium methodology, rather than Loss Ratio methodology, as described in Attachment II, Page 1
- ULAE Provision
  - Use of three-year average, rather than two-year average, as described in Attachment II, Page 4
- Contingency Provision
  - Contingency Provision updated as described in Attachment IV
- Underwriting Profit Provision
  - Update to methodology as described in Attachment II, Page 8
- Catastrophe Adjustment
  - Catastrophe provision adjusted as described in Attachment III
- Accident Year Weights
  - Accident year weights adjusted as described in Attachment II, Page 2

ATTACHMENT II

Summary of Rate Level Indication

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SUMMARY OF THE DEVELOPMENT OF STATEWIDE RATE LEVEL INDICATION

The data used in the calculation of the rate level indication was selected in accordance with the considerations listed in Section 3.2 of Actuarial Standard of Practice No. 23, *Data Quality*. The calculation of the rate level indication is consistent with the Statement of Principles Regarding Property and Casualty Insurance Ratemaking contained in Appendix 1 of Actuarial Standard of Practice No. 9, *Documentation and Disclosure in Property and Casualty Insurance Ratemaking, Loss Reserving, and Valuations*.

A rate level indication is a test of the adequacy of expected revenues versus expected costs during the future policy period. Therefore, to derive the indicated rate level need accurately, Allstate's historical premium and loss experience needs to be adjusted. In accordance with Section 5.3 of Actuarial Standard of Practice No. 13, *Trending Procedures in Property/Casualty Insurance Ratemaking,* Allstate trends the underlying historical experience for premiums, losses, and fixed expenses to appropriately reflect historical and projected changes in these components of the rate level indications. In addition, historical premiums must be adjusted to reflect the current rate level; and historical losses must be adjusted to reflect expected development over time. All actual catastrophe losses during the experience period were removed and then replaced with a provision to reflect expected catastrophe losses. Details of these necessary adjustments to the historical data used in the rate level indication are described in this memorandum. The adjustments have been applied to Arkansas's premium and loss experience in deriving the indicated rate level change. The Development of the Provision for Non-Cat Loss and Loss Adjustment Expense is shown on **Exhibit 2 of Attachment V**. The Development of Projected Average Earned Premium is shown on **Exhibit 17 of Attachment V**.

With this filing, Allstate is changing from a Loss Ratio method to a Pure Premium method when developing the indicated provision for loss and loss adjustment expense.

The table below summarizes the indicated rate change, and the actual rate level change being proposed. The determination of the overall indicated change is included in **Attachment V, Exhibit 1**, and described in detail on **Pages 1 through 10**.

	Premium Dist. at Current Rates	**Indicated Change****	**Selected Change**
Fixed Expense Premium	7.2%	N/C	N/C
Variable Package Premium	92.0%	22.1%	22.1%
Total Owners Package*	**99.2%**	**20.5%**	**20.5%**
Additional Coverages	0.8%	N/C	N/C
Total Owners	**100.0%**	**20.3%**	**20.3%**

*Includes premium from Standard, Deluxe, Deluxe Plus, Standard Select Value, and Deluxe Select Value Policies. Please reference Rule Manual for more details.
**We implicitly assume no indicated change for fixed expenses and additional coverages.

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BASE DATA

In developing rate level indications for Arkansas, data from fiscal accident years ending September 30, 2004, 2005, 2006, 2007, and 2008 was used. Each of these fiscal accident years is evaluated as of December 31, 2008.

Accident Year Weights

In order to develop a credible measure of the indicated rate level, it is sometimes necessary to use more than one year of historical loss experience. The number of years needed to determine the formula rate level indication is derived from a credibility procedure based upon the number of paid claims. This method also allows us to determine the weight to apply to each year of experience in order to appropriately consider responsiveness and stability. The credibility procedure that was used is more fully described in the paper "On the Credibility of the Pure Premium" (Proceedings of the Casualty Actuarial Society, Vol. LV, 1968) by Mayerson, Jones and Bowers.

In developing the rate level indication for Arkansas, data from each fiscal accident year was given 20% weight.

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ADJUSTMENTS TO LOSSES

Loss Development

As with past filings, Allstate determines ultimate accident year losses (including allocated loss adjustment expense) after analyzing ultimate incurred loss estimates arising from two methods: the link ratio method and the additive method.

While the link ratio method assumes that future development is proportional to losses that have already emerged as of a given evaluation date, the additive method assumes that future development is proportional to the number of earned exposures in the accident period, where the expected development per exposure is based on historical development patterns per exposure, adjusted to account for differences in frequency and severity over time. Allstate believes the approach of considering two loss development procedures when estimating ultimate losses better upholds the suggestion contained in the *Statement of Principles Regarding Property and Casualty Loss and Loss Adjustment Expense Reserves* that "Ordinarily the actuary will examine the indications of more than one method when estimating the loss and loss adjustment expense liability for a specific group of claims."

Due to the limited amount of Allstate Indemnity Company data, loss development factors and additive amounts were based on Allstate Indemnity Company and Allstate Insurance Company combined data. Loss development patterns for Allstate Indemnity Company and Allstate Insurance Company are expected to be similar, since claims settlement practices are the same for each company.

To calculate estimated ultimate losses using the link ratio method, historical age-to-age link ratios are calculated, which represent loss development between different evaluation periods. An average of the historical link ratios is then used to estimate the ultimate level of paid losses to be used in ratemaking. This method assumes that historical loss development patterns can be used to estimate future loss development on current immature claims.

For the additive loss development method, historical losses are first trended to today's price level using pure premium trends selected from Allstate Insurance Company and Allstate Indemnity Company data. This is done to avoid distortions due to changes in the underlying loss costs. Please note that due to the different lengths of trend periods in each analysis, the selected pure premium trend that is used in loss development often differs from the selected trend that applies to the underlying data. Trended additive amounts per exposures are calculated, which represent trended loss development between different evaluation periods. An average of the historical trended additive amount per exposure is then used to estimate the ultimate trended level of paid losses. Trended age-to-ultimate additive amounts per exposure are multiplied by earned exposures for each accident year to calculate trended losses that have yet to emerge. A final step in the additive method is to detrend the trended losses yet to emerge. Losses are detrended

because the application of trend is accounted for in a separate step in the ratemaking process. This method assumes that historical loss development patterns per exposure can be used to estimate future loss development on current immature claims.

Refer to **Exhibit 3, Pages 2 and 3**, of **Attachment V** for the loss development using both the link ratio and additive methods of loss development. A summary of the estimated ultimate losses using each method as well as the selected ultimate losses is shown on **Exhibit 3, Page 1**. Please note that a five year average of loss development factors and additive amounts per exposure excluding high and low values were used.

Loss Adjustment Expenses

Losses in the experience period have been adjusted to account for non-hurricane unallocated loss adjustment expenses (ULAE). A provision is developed using countrywide Allstate Insurance Group homeowners data. A three-year average of the ratios of countrywide calendar year non-hurricane ULAE to countrywide calendar year non-hurricane incurred losses and allocated loss adjustment expense is used to determine the ULAE provision.

The average ratio is then applied to the losses for each year used in the formula calculation. The ULAE ratio that used in this filing is shown in **Exhibit 4 of Attachment V**.

Loss Trend

Using adjusted Allstate Indemnity Company data for the state of Arkansas, the past changes in actual frequency and severity on a twelve-month-moving basis (evaluated at each quarter) over a five year period were examined. After considering past results, knowledge of changes in various inflation indices relating to insurance, countrywide Allstate data, credibility level of Allstate data, industry data, and actuarial judgment, annual pure premium trends were selected.

Frequency and severity amounts are calculated using the methodology in "The Effect of changing Exposure Levels on Calendar Year Loss Trends" (*Casualty Actuarial Society Forum,* Winter 2005) by Chris Styrsky. This methodology helps to more consistently match losses and claims paid with the exposures that produced the claims.

The selected trends are displayed in **Exhibit 5 of Attachment V.** These 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 projection is also shown in **Exhibit 5**. Allstate Indemnity Company trend data is included as **Exhibit 6 of Attachment V**.

Selections were based on Allstate Indemnity Company data. **Exhibit 6** displays the twenty-, twelve-, and six-point paid pure premium trends for Allstate Indemnity Company in Arkansas.

This approach for selecting pure premium trends and projections is consistent with the Current Practices and Alternatives detailed in Section 4 of Actuarial Standards of Practice No. 13, *Trending Procedures in Property/Casualty Insurance Ratemaking.*

Catastrophes

Allstate separately identifies and accounts for its exposure to loss due to the occurrence of catastrophic events within a state. All actual catastrophe losses during the experience period were removed and then replaced with a provision to reflect expected catastrophe losses in Arkansas.

The catastrophe provision is described in detail in **Attachment III**. **Exhibit 7 of Attachment V**, Development of Provision for Catastrophe Loss and LAE, displays the total catastrophe provision used in Arkansas.

Please note that in developing the Provision for Catastrophe Loss and LAE, the Amount of Insurance Years (AIY's) are used as an exposure base. One AIY is equal to $1,000 of Coverage in force for one year. The AIY's must be adjusted to represent the AIY's that we expect to be in force during the policy period. Selections were based on Allstate Indemnity Company data with considerations to the state Property Insurance Adjustment. **Exhibit 11 of Attachment V** shows the twenty-, twelve-, and six-point average AIY trends for Arkansas. We have selected a 2.0% provision to project the AIY's to the average earned date of the proposed policy period.

This approach for selecting AIY projections is consistent with the Current Practices and Alternatives detailed in Section 4 of Actuarial Standards of Practice No. 13, *Trending Procedures in Property/Casualty Insurance Ratemaking.*

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EXPENSES, PROFIT PROVISION & CONTINGENCY FACTOR

The expense provisions described below were derived in accordance to Section 3.2, Determining Expense Provisions, of Actuarial Standard of Practice No 29, *Expense Provisions in Property/Casualty Insurance Ratemaking*.

Exhibit 12 of Attachment V shows the expense provisions used in developing the current fixed and variable expense ratios, as well as the underwriting profit and debt provisions.

Fixed Expenses

General and Other Acquisition Expense

Provisions

The provisions for general expense and other acquisition expense are based on countrywide data. Since the methods and procedures that incur these expenses are uniform within each state, it is a reasonable assumption that these expense provisions are uniform across all states. To develop the provision for other acquisition and general expenses, a three-year average of countrywide calendar year incurred expense divided by countrywide calendar year direct earned premium was calculated. Because premiums charged for the net cost of reinsurance (NCOR) do not include provisions for general and other acquisition expenses, the earned premium used in the development of the general and other acquisition expenses is countrywide direct earned premium less countrywide NCOR premium. The expense figures are derived from the Insurance Expense Exhibit. The provision for other acquisition expense has been reduced by the amount of installment fees and policy fees collected. In addition, the provision has been adjusted for premiums written off. The General Expense has been reduced to account for anticipated salary savings resulting from a workforce-reduction initiative that Allstate completed in early 2006.

Rate Need Calculations

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

Trend (Inflation)
The method used to calculate the fixed expense trend is similar to the method used by the Insurance Services Office (I.S.O.) and other competitors to determine a fixed expense trend. The method utilizes the CPI (Consumer Price Index) and the ECI (Employment Cost Index – Insurance Carriers, Agents, Brokers, & Service) and is discussed by Geoffrey Todd Werner, FCAS, MAAA in his paper *Incorporation of Fixed Expenses*, which was published in the *CAS Forum* (Winter 2004). Based on a review of the historical indices, an annual percentage change is selected for each index. These selected annual percent changes are then weighted together using the distribution of the Allstate expenditures in the latest calendar year for the two broad expense categories that these indices represent. This method is expected to produce stable and reasonable estimates of the true trend in fixed expenses and is consistent with the Current Practices and Alternatives detailed in Section 4 of Actuarial Standards of Practice No. 13, *Trending Procedures in Property/Casualty Insurance Ratemaking*. This trend is applied only to general and other acquisition expenses. The factor to adjust for subsequent change in Fixed Expense is shown on **Exhibit 14 of Attachment V.**

The expense provisions for other acquisition and general expenses are shown in **Exhibit 13 of Attachment V.**

Licenses & Fees

A provision for licenses and fees that do not vary by premium size is determined by taking the arithmetic average ratio of these licenses and fees from the latest three calendar years in Arkansas. The provision for licenses and fees is considered, along with the general and other acquisition expense provisions, to be a fixed expense and is shown on **Exhibit 12 of Attachment V**.

Variable Expenses

Commission and Brokerage Expense

The proposed commission and brokerage expense provision has been developed from the latest calendar year commission and brokerage incurred expense ratio in Arkansas. The provision is shown on **Exhibit 12 of Attachment V**.

Taxes

The provision for taxes is determined by taking the currently prescribed Arkansas premium tax ratio and adding to that the arithmetic average ratio of other assessments that vary by the size of the premium from the latest three or five calendar years in Arkansas. The provision is shown on **Exhibit 12 of Attachment V**.

Contingency Provision

Allstate has updated the contingency provision to 2% with this filing. Please see **Attachment IV** for further explanation.

Underwriting Profit Provision

Prior to September, 2008, Allstate relied solely on the Fama-French Three-factor (FF3F) Model to estimate its cost of equity. The methodology underlying this cost of equity reflects developments in the field of financial economics as published in the *Casualty Actuarial Society Forum*, Winter, 2004 and in *Journal of Risk and Insurance, Vol. 72, No. 3, September 2005* ("Estimating the Cost of Equity Capital For Property-Liability Insurers" by J. David Cummins and Richard D. Phillips).

In September, 2008, Allstate incorporated the use of a second methodology – a Discounted Cash Flow (DCF) analysis – into the estimation of its cost of equity. A DCF analysis estimates the expected future cash flows to investors in order to gauge the proper cost of equity. Once both the DCF and FF3F estimates had been calculated, Allstate selected a cost of equity of 10.00%, which reflected the outcomes of both analyses.

In addition, previously both the cost of equity and the cost of debt were used to develop the underwriting profit provision. With this filing, we will be developing the underwriting profit provision using only the cost of equity. Since the cost of debt represents expected, quantifiable future payments to be made to bondholders, confusion can result from including it in the derivation of the underwriting profit provision. Therefore, the cost of debt has been removed from the development of the underwriting profit provision and incorporated as a separate provision. Note that the resulting rate level is unaffected by this change; it is simply a matter of clarity of presentation.

An analysis of premium, loss and expense cash flows is used to calculate the investment income on policyholder supplied funds (PHSF). This methodology is one of the two examples given in Actuarial Standard of Practice, No. 30, *Treatment of Profit and Contingency Provisions and the Cost of Capital in Property/Casualty Insurance Ratemaking,* as appropriate methods for recognizing investment income from insurance operations (page 4).

The calculations detailing this investment income analysis are found on **Exhibit 15 of Attachment V.** The expected investment yield rate (applied as a force of interest) used to discount losses and expenses includes anticipated net investment income and anticipated capital gains, both realized and unrealized. Operating cash flows are discounted to the average time of earnings of premium and profit for the policy year, rather than to the start of the policy year.

Please refer to the document in **Appendix 1 of Attachment V** titled "The Development of the Underwriting Profit Provision" for more information.

The final pre-tax underwriting profit provision at present value is shown in **Exhibit 15 of Attachment V** as well.

Debt Provision

The cost of debt is listed as a separate provision in the Variable Expense and Profit Ratio. The debt provision amount is shown on **Exhibit 12 of Attachment V.**

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ADJUSTMENTS TO PREMIUMS

Current Rate Level

All premiums in the experience period were adjusted to current rate level in Arkansas. Allstate uses the "Miller-Davis-Karlinski" method since it more accurately calculates factors to current rate level in instances when exposures are changing throughout the year, whether through growth, shrinkage or seasonality. When exposures are, in fact, written uniformly throughout the year, this method produces approximately the same answers as the parallelogram method.

We also use the Miller-Davis-Karlinski method to bring premiums to current rate level prior to calculating the changes in average premium (the premium trends).

Premium Trend

In addition to bringing premiums to current rate level, changes in the average written premium at the current premium level were reviewed on a state basis. Based upon this review, historical premium trends were selected to account for shifts in the distribution of various underlying factors. Since the effects on losses caused by these shifts are reflected in the loss trends, it is important that Allstate also account for the anticipated future changes in premiums. Therefore, projected premium trend was taken into consideration when calculating the rate level need.

Please note that we have selected trend and projection factors separately. Selections were based on Allstate Indemnity Company data. The selected trends are displayed in **Exhibit 18 of Attachment V.** These 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. This projection is also shown in **Exhibit 18 of Attachment V**. Allstate Indemnity Company trend dat is included as **Exhibit 19 of Attachment V**.

This approach for selecting premium trends and projections is consistent with the Current Practices and Alternatives detailed in Section 4 of Actuarial Standards of Practice No. 13, *Trending Procedures in Property/Casualty Insurance Ratemaking.*

ATTACHMENT III

Summary of Non-Modeled Catastrophe Provision

ALLSTATE INSURANCE GROUP
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SUMMARY OF THE TOTAL NON-MODELED CATASTROPHE ADJUSTMENT

Allstate separately identifies and accounts for its exposure to loss due to the occurrence of catastrophic events within a state. The adjustment to account for non-modeled catastrophes described below is consistent with the Analysis of Issues and Recommended Practices detailed in Section 3.4 of Actuarial Standards of Practice No. 39, *Treatment of Catastrophe Losses in Property/Casualty Insurance Ratemaking.*

An estimation of our non-earthquake catastrophe exposure is first developed on a total company statewide level. Subsequent relativities are used to estimate our catastrophe exposure by line and by company.

At this time, Allstate is in the process of revising our method for estimating our non-earthquake catastrophe exposure at a statewide level. With this filing, we are implementing a change to our previous method. Two long-term Amount of Insurance Year (AIY)-weighted averages of state-specific ratios of Catastrophe Incurred Loss to AIYs are calculated, one including data from calendar years 1981-2008 and one including data from calendar years 1993-2008. A total non-earthquake catastrophe provision is selected with consideration given to both averages. Allstate is moving towards this simplified method in order to better reflect state-specific catastrophe experience in our rate level indications.

Exhibit 8 of Attachment V displays the Development of the total non-earthquake catastrophe provision Arkansas. The total non-earthquake catastrophe provision has also been adjusted to account for the difference in the average catastrophe ratio between Owners and Homeowners as well as the difference in the average amount of insurance between Allstate Indemnity Company and Allstate Insurance Group.

Exhibit 9 of Attachment V displays the development of the Allstate Insurance Group line-specific (Owners, Renters, Condo) non-earthquake, catastrophe provision. Allstate Insurance Group Homeowner data is used to develop a non-earthquake catastrophe provision for the state. Line specific loss data is used to develop catastrophe ratio relativities by line. These relativities are then re-indexed using the most recent year's AIYs and then are applied to the state-specific non-earthquake catastrophe provision for each line.

Exhibit 10 of Attachment V displays the development of the total Allstate Indemnity Company Owners catastrophe provision from the line specific, non-earthquake catastrophe provision.

This provision is the final non-modeled Catastrophe provision per AIY used in the Development of the Provision for Catastrophe Loss and Loss Adjustment Expense shown on **Exhibit 7 of Attachment V.**

ATTACHMENT IV

Contingency Factor Support Explanatory Memorandum

ALLSTATE INDEMNITY COMPANY
OWNERS FORMS
ARKANSAS

CONTINGENCY FACTOR SUPPORT
EXPLANATORY MEMORANDUM

This memo provides explanation regarding Allstate's methodology for calculating a contingency provision to be used in its Homeowner rate level.

Background

Actuarial Standard of Practice #30 (ASOP #30), Treatment of Profit and Contingency Provisions and the Cost of Capital in Property/Casualty Insurance Ratemaking, defines the contingency provision for ratemaking purposes as follows: A provision for the expected differences, if any, between the estimated costs and the average actual costs, that cannot be eliminated by changes in other components of the ratemaking process. ASOP #30 goes on to state that:

- The actuary should include a contingency provision in the rates if assumptions used in ratemaking produce cost estimates that are not expected to equal average actual costs, and if the difference cannot be eliminated by changes in other components of the ratemaking process.

- While estimated costs are intended to equal average actual costs over time, differences between estimated and actual risk transfer costs may be expected in any given year. If a difference persists, the difference should be reflected in the ratemaking calculations as a contingency provision. The contingency provision is not intended to measure the variability of results and is not expected to contribute to profit.

Thus, even if the actuary has available relevant, credible data and uses the best, state-of-the-art actuarial techniques, there may still be instances where estimated future costs differ from actual future costs. The factors causing this situation to occur are outside the actuary's ability to predict and the insurer's ability to control. Examples would include (but not be limited to) court decisions, legislative action and media influence on the public's behavior.

In spite of the inability to foresee specific events, an insurer may look back at recent history and identify past events that triggered unexpected payments. Given the highly regulated nature of the property and casualty insurance industry and the large amounts of money that flow through an insurance organization, it is reasonable to assume that adverse court decisions and similar unexpected events will occur again in the future. Courts and regulatory bodies are likely to continue to respond to lawsuits and other attempts at unexpected application of an insurance policy's coverage. As outlined in the

Actuarial Standard of Practice referenced above, these events should be accounted for in ratemaking in the form of a contingency provision.

In his paper Contingency Margins in Rate Calculations, Steven Lehmann argues that the difference between the targeted underwriting profit and the realized underwriting profit can be used as a basis for calculating a contingency provision. He writes that the difference between targeted and realized profit can be caused by many things including court and legislative issues (as mentioned above) and also by dramatic inflation, inadequate residual market rates and other events. There are a couple of reasons why Allstate is not following the specific methodology outlined in Mr. Lehmann's paper. First, the difference between targeted and realized underwriting profit is also influenced by the occurrence of catastrophes during the time period for which the difference is calculated. Mr. Lehmann mentions that one element of a contingency provision should be catastrophe events not adequately anticipated in the ratemaking. Because Allstate does calculate an adequate catastrophe load (theoretically sound and calculated over a sufficiently long period of time), the calculations described in Contingency Margins in Rate Calculations could result in "double-counting" some catastrophe events. This occurs if the calculations are made over a relatively short time period that also contains a significant catastrophe event. Addressing this problem by extending the contingency calculation too far into the past could lead to a provision that might not reflect the current environment. A second reason to depart from Mr. Lehmann's methodology is that we have data resources today that were not available at the time Mr. Lehmann's paper was published (1985). Sophisticated programs allow Allstate to review our claim file narratives to identify specific types of claims that are appropriate to include in support for a contingency provision because they can be representative of unforeseeable events. Taking advantage of advances in computing and data coding, Allstate can exclude claims that are not appropriate to a contingency provision, such as normal catastrophes and regulatory delay situations (regulatory delay can usually be priced for by adjusting assumptions regarding length of time the rates will be in effect). The effect of inflation (which should be captured in pure premium trend selections) is also excluded. For these reasons, Allstate has calculated a contingency provision using a methodology different from (but not inconsistent with) the methodology outlined in Mr. Lehmann's paper.

Allstate Homeowners Contingency Provision calculation

With this filing, Allstate is presenting a method of calculating a contingency provision that allows more specificity around the type of events that are included. We have reviewed experience over approximately a 20-year period and have identified a number of representative events that are appropriate to a contingency provision, due to their unanticipated nature. Considered events include the following: court decisions redefining the cause of loss for earth movement- and landslide-related loss, sinkholes, failure to disclose (in connection with sale of a home), oil tank leakage, foundation slab losses, mold, methamphetamine lab damage, legislated exceptions to policy language, flooding, lead paint poisoning, imminent collapse, terrorism, radiant floor heating systems and dog bites.

Some of these losses are too old to obtain reliable loss data at the claim level of detail. Some events are excluded because, even with sophisticated computer programs, losses are not specifically tracked and so can't be separated from other loss data for inclusion in Allstate's computations. Some events simply did not produce a frequency of loss to materially impact our calculations. However, each event mentioned above illustrates that unforeseen loss does occur. This can be the case when a legislative or court decision expands the scope of Allstate's policy coverage, or when the media unexpectedly focuses attention on a health issue or other item of public concern. Other as-yet-unknown influences that Allstate cannot predict or price for will also likely affect claims payments in the future.

In order to estimate an appropriate contingency provision, we have used a recent group of events (including oil tanks, slab losses, mold and flooding) for which we can obtain more reliable loss data. Issues which triggered payments over several years cannot be considered "unexpected" for an indefinite period of time. In these cases, we have judgmentally included losses from the first 3 years following the initial event. After 3 years we assume that these losses are present in our indications data and that we have priced sufficiently for the event's exposure in our rates. Some events are of shorter duration and so fewer than 3 years of losses are included in the calculations. Note also that data includes some catastrophe losses. As mentioned above, catastrophe losses are more appropriately accounted for in a catastrophe provision rather than in a contingency provision. However, the legislative, media and other influences that generate unexpected losses can also affect catastrophe losses. Therefore, catastrophe losses are included in our analysis when they stem from one of the issues in question. Losses are included for Allstate's Owners, Renters and Condo forms.

Exhibit 16 of Attachment V shows the sum of all claims divided by countrywide homeowners accident year losses from 1996 – 2003 (adjusted for expected catastrophe levels) and adjusted for expense provisions. This time period was chosen to match the time period of losses readily available to us (our claim files older than 1996 cannot be effectively reviewed to extract specific losses). Losses for some events have been adjusted downward to reflect the fact that, despite the sophistication of our analysis, some claims unrelated to the issue in question can be unintentionally included in the loss totals.

ATTACHMENT V

Rate Level Indication Exhibits

Allstate Indemnity Company
Owners Forms
Arkansas

Determination of Statewide Rate Level Indication

1) Indicated Provision for Loss and Loss Adjustment Expense	$759.19
1a) Indicated Provision for Non-Catastrophe Loss and Loss Adjustment Expense	$489.03
1b) Expected Catastrophe Pure Premium	$270.16
2) Current Fixed Expense Ratio	8.6 %
3) Three Year Average Earned Premium	$741.99
4) Current Dollar Provision for Fixed Expense [(2) x (3)]	$63.81
5) Factor to Adjust for Subsequent Change in Fixed Expense	1.123
6) Indicated Provision for Fixed Expense [(4) x (5)]	$71.66
7) Variable Expense, Contingencies Ratio and Profit Ratio	29.2 %
8) Indicated Average Premium [(1) + (6)] / [1 - (7)]	$1,173.52
9) Projected Average Earned Premium at Current Rates	$975.47
10) Indicated Rate Level Change [(8) / (9) - 1.0]	20.3 %

Allstate Indemnity Company
Owners Forms
Arkansas

Development of Provision for Non-Cat Loss and LAE
Total All Perils excluding Earthquake

Development of Provision for Non-Cat Loss and LAE

Fiscal Year Ending	(1) Earned Exposures	(2) Accident Year Non-Catastrophe Ultimate Loss	(3) Non-Cat Ultimate Loss and LAE	(4) Factor to Adjust Losses for Pure Premium Trend	(5) Projected Non-Cat. Ultimate Loss and LAE	(6) Projected Average Non-Cat. Loss and LAE (5) / (1)	(7) Experience Year Weights
9/30/2004	18,057	$3,481,000	$4,041,441	2.040	$8,244,540	$456.58	20 %
9/30/2005	24,308	4,929,000	5,722,569	1.822	10,426,521	428.93	20
9/30/2006	25,344	7,785,000	9,038,385	1.627	14,705,452	580.23	20
9/30/2007	21,888	5,499,000	6,384,339	1.452	9,270,060	423.52	20
9/30/2008	17,756	6,555,000	7,610,355	1.297	9,870,630	555.90	20
		(8) Indicated Provision for Non-Cat Loss and LAE				$489.03	

Allstate Indemnity Company
Arkansas
Owners Forms

Ultimate Losses

Coverage	Year	Ultimate Losses: Link Ratio Estimate	Ultimate Losses: Additive Estimate	Ultimate Losses: Selected
Total All Perils Excluding Earthquake	2004	3,480,871	3,481,192	3,481,000
	2005	4,922,300	4,929,419	4,929,000
	2006	7,779,440	7,784,807	7,785,000
	2007	5,490,040	5,498,790	5,499,000
	2008	6,663,370	6,554,901	6,555,000

Allstate Insurance and Indemnity Companies
Owners Forms
Arkansas

Calculation of Loss Development Factors - Link Ratio Method
Total All Perils excluding Earthquake

Incurred Losses †

Fiscal Accident Year Ending	15 Months	27 Months	39 Months	51 Months	63 Months	75 Months	87 Months‡
9/30/1997							6,470,563
9/30/1998						7,235,779	7,235,779
9/30/1999					9,343,185	9,346,204	9,337,735
9/30/2000				8,404,926	8,400,030	8,401,148	8,401,148
9/30/2001			8,895,218	8,894,586	8,794,717	8,795,173	8,793,785
9/30/2002		9,037,086	9,110,572	9,072,883	9,094,844	9,094,907	9,106,003
9/30/2003	8,883,032	9,335,573	9,419,354	9,442,265	9,765,092	9,783,061	
9/30/2004	9,673,157	9,825,683	9,878,333	9,901,511	9,913,242		
9/30/2005	8,960,511	9,393,233	9,393,729	9,398,369			
9/30/2006	12,701,766	13,374,148	13,554,522				
9/30/2007	9,723,391	10,088,223					
9/30/2008	11,090,407						

Link Ratios

Development	15 to 27	27 to 39	39 to 51	51 to 63	63 to 75	75 to 87
4th Prior	1.051	1.008	1.000	0.999	1.000	1.000
3rd Prior	1.016	1.009	0.996	0.989	1.000	0.999
2nd Prior	1.048	1.005	1.002	1.002	1.000	1.000
1st Prior	1.053	1.000	1.002	1.034	1.000	1.000
Latest	1.038	1.013	1.000	1.001	1.002	1.001

Age-to-Age Link Ratios

5 Year Average Excluding High and Low Values:	1.046	1.007	1.001	1.001	1.000	1.000
Selected:	1.046	1.007	1.001	1.001	1.000	1.000

Age-to-Ultimate Link Ratios

	15-Ult	27-Ult	39-Ult	51-Ult	63-Ult	75-Ult
5 Year Average Excluding High and Low Values:	1.055	1.009	1.002	1.001	1.000	1.000
Selected:	1.055	1.009	1.002	1.001	1.000	1.000

Allstate Indemnity Company

Year	Incurred Loss	Factor to Ultimate	Ultimate Loss
2004	$3,480,871	1.000	3,480,871
2005	4,922,300	1.000	4,922,300
2006	7,771,668	1.001	7,779,440
2007	5,440,989	1.009	5,490,040
2008	6,313,419	1.055	6,663,370

†Includes ALAE
‡Includes supplemental reserves in addition to case reserves

Allstate Insurance and Indemnity Companies
Owners Forms
Arkansas

Calculation of Loss Development Factors - Additive Method
Total All Perils excluding Earthquake

Incurred Losses †

Fiscal Accident Year Ending	15 Months	27 Months	39 Months	51 Months	63 Months	75 Months	87 Months‡	Earned Exposures
9/30/1997							6,470,563	38,039
9/30/1998						7,235,779	7,235,779	38,272
9/30/1999					9,343,185	9,346,204	9,337,735	37,991
9/30/2000				8,404,926	8,400,030	8,401,148	8,401,148	37,682
9/30/2001			8,895,218	8,894,586	8,794,717	8,795,173	8,793,785	37,347
9/30/2002		9,037,086	9,110,572	9,072,883	9,094,844	9,094,907	9,106,003	30,388
9/30/2003	8,883,032	9,335,573	9,419,334	9,442,265	9,765,092	9,783,061		37,346
9/30/2004	9,673,157	9,825,683	9,878,333	9,901,511	9,913,242			44,626
9/30/2005	8,960,511	9,393,233	9,393,729	9,398,369				48,039
9/30/2006	12,701,766	13,374,148	13,554,522					46,362
9/30/2007	9,723,391	10,088,223						40,853
9/30/2008	11,090,407							34,668
Selected Trend:		3.00%						

Trended Incurred Losses

Fiscal Accident Year Ending	15 Months	27 Months	39 Months	51 Months	63 Months	75 Months	87 Months‡
9/30/1997							8,956,772
9/30/1998						9,724,282	9,724,282
9/30/1999					12,190,737	12,194,676	12,183,626
9/30/2000				10,647,109	10,640,907	10,642,323	10,642,323
9/30/2001			10,939,996	10,939,219	10,816,393	10,816,953	10,815,246
9/30/2002		10,790,753	10,878,499	10,833,497	10,859,719	10,859,795	10,873,044
9/30/2003	10,297,869	10,822,488	10,919,613	10,946,173	11,320,418	11,341,249	
9/30/2004	10,887,223	11,058,893	11,118,151	11,144,238	11,157,441		
9/30/2005	9,791,392	10,264,239	10,264,781	10,269,852			
9/30/2006	13,475,304	14,188,634	14,379,992				
9/30/2007	10,015,093	10,390,876					
9/30/2008	11,090,407						

Trended Additive Amounts per Exposure

Development	15 to 27	27 to 39	39 to 51	51 to 63	63 to 75	75 to 87
4th Prior	14.050	2.890	-0.020	-0.160	0.100	0.000
3rd Prior	3.850	2.600	-1.480	-3.290	0.040	-0.290
2nd Prior	9.840	1.330	0.710	0.860	0.010	0.000
1st Prior	15.390	0.010	0.580	10.020	0.000	-0.050
Latest	9.200	4.130	0.110	0.300	0.560	0.440
5 Year Average Excluding High and Low Values:	10.88	2.17	0.23	0.30	0.04	-0.02
Selected:	10.88	2.17	0.23	0.30	0.04	-0.02

Loss Development Period (months):	15 - 87	27 - 87	39 - 87	51 - 87	63 - 87
Additive Amt per Exp:	13.60	2.72	0.55	0.32	0.02
Selected Ultimate Losses:	6,555,000	5,499,000	7,785,000	4,929,000	3,481,000

†Includes ALAE
‡Includes supplemental reserves in addition to case reserves

Allstate Indemnity Company

Year	Trended Age-to-Ultimate Additive Amount Per Exposure	Earned Exposures	Trended Losses Yet To Emerge	De-Trended Losses Yet To Emerge	Incurred Loss	Ultimate Loss
2004	$0.02	18,057	$361	$321	$3,480,871	$3,481,192
2005	0.32	24,308	7,779	7,119	4,922,300	4,929,419
2006	0.55	25,344	13,939	13,139	7,771,668	7,784,807
2007	2.72	21,888	59,535	57,801	5,440,989	5,498,790
2008	13.60	17,756	241,482	241,482	6,313,419	6,554,901

ALLSTATE INSURANCE GROUP*

Personal Property Lines

Countrywide Expense Experience - Unallocated (Adjusting and Other Expense) Factors

2005, 2006, 2007

		2005 - 2007
1.	Direct Losses and Allocated Loss Adjustment Expense Incurred excluding Earthquake and Hurricane Losses	$8,328,816
2.	Direct Unallocated Loss Adjustment Expense Incurred excluding Earthquake and Hurricane	$1,342,046
3.	Ratio (2)/(1)	0.161
4	Proposed Provision	0.161

* Allstate Insurance Company, Allstate Indemnity Company, Allstate Property and Casualty Insurance Company Allstate County Mutual Insurance Company and Allstate Fire & Casualty.

SOURCE: FDW
(000 Omitted)

Allstate Indemnity Company
Owners Forms
Arkansas

Calculation of Pure Premium Trend Factor

Peril	Selected Annual Pure Premium Impacts Historical	Projected
Total All Perils excluding Earthquake	12.00 %	12.00 %

	4th Prior Year	3rd Prior Year	2nd Prior Year	1st Prior Year	Current Year
1) Loss Trend Projection Date	7/16/2010	7/16/2010	7/16/2010	7/16/2010	7/16/2010
2) Mid-Point of Current Year's Experience Period	3/31/2008	3/31/2008	3/31/2008	3/31/2008	3/31/2008
3) Experience Period Ended	9/30/2004	9/30/2005	9/30/2006	9/30/2007	9/30/2008
4) Midpoint of Experience Period	3/31/2004	3/31/2005	3/31/2006	3/31/2007	3/31/2008
5) Historical: Number of Years from (4) to (2)	4.000	3.000	2.000	1.000	0.000
6) Projected: Number of Years from (2) to (1)	2.293	2.293	2.293	2.293	2.293

Calculation of Trend Factors

(a) Historical Pure Premium Factors are the Annual Historical Impacts plus unity compounded for the number of years in (5)

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

(c) Factor to Adjust Losses for Pure Premium Trend = (a) x (b)

Allstate Indemnity Company
Owners Forms
Arkansas

Loss Trends - Pure Premium
Total All Perils excluding Earthquake

			Exponential Curve of Best Fit		
Year Ending	Actual Paid Pure Premium	Annual Change	20 pt.	12 pt.	6 pt.
03/04	$97.86	-65.97 %	$145.06		
06/04	116.67	-60.17	151.37		
09/04	180.92	-8.83	157.96		
12/04	169.00	-11.62	164.83		
03/05	184.12	88.15	172.00		
06/05	189.06	62.05	179.48		
09/05	191.40	5.79	187.29		
12/05	219.01	29.59	195.44		
03/06	231.81	25.90	203.94	$249.75	
06/06	268.60	42.07	212.81	252.09	
09/06	283.42	48.08	222.07	254.46	
12/06	272.95	24.63	231.73	256.84	
03/07	262.04	13.04	241.81	259.25	
06/07	232.13	-13.58	252.33	261.69	
09/07	236.75	-16.47	263.30	264.14	$243.75
12/07	259.07	-5.09	274.76	266.62	253.25
03/08	266.85	1.84	286.71	269.12	263.13
06/08	274.37	18.20	299.18	271.65	273.39
09/08	285.63	20.65	312.20	274.20	284.05
12/08	290.23	12.03	325.78	276.77	295.13

Regression	20 pt.	12 pt.	6 pt.
Avg Annual Percent Change Based on Best Fit:	18.57 %	3.81 %	16.53 %

Allstate Indemnity Company
Owners Forms
Arkansas

Development of Provision for Catastrophe Loss and LAE

1) Catastrophe Provision Per AIY	1.431
2) Catastrophe Provision Per AIY Including all LAE	1.661
3) Earned Exposures	17,756
4) Earned AIY*	2,761,021
5) Average Earned AIY (4)/(3)	155.50
6) Factor to Adjust to Projected Average AIY Level	1.046
7) Average AIY Projected to 7/16/2010 (5)*(6)	162.65
8) Expected Catastrophe Pure Premium (2)*(7)	$270.16

*1 AIY = One Amount of Insurance Years = $1000 of Coverage in Force for One Year

Allstate Insurance Group
Homeowners
Arkansas

Development of Catastrophe Provision

(1) CALENDAR YEAR	(2) AMOUNT OF INSURANCE YEARS	(3) CATASTROPHE INCURRED LOSS	(4)=(3)/(2) CATASTROPHE RATIO
1981	2,644,282	$1,003,000	0.379
1982	2,308,405	2,313,000	1.002
1983	1,892,706	1,268,000	0.670
1984	1,886,371	3,387,000	1.796
1985	2,022,557	822,000	0.406
1986	2,386,042	1,999,000	0.838
1987	2,706,082	922,000	0.341
1988	2,819,207	2,406,000	0.853
1989	2,996,467	5,639,000	1.882
1990	3,153,771	902,000	0.286
1991	3,171,794	1,314,000	0.414
1992	2,996,917	554,000	0.185
1993	2,859,375	95,000	0.033
1994	2,802,859	2,207,000	0.787
1995	2,887,538	1,651,000	0.572
1996	2,980,889	17,106,000	5.739
1997	3,144,832	2,733,000	0.869
1998	3,303,648	244,000	0.074
1999	3,332,183	10,286,000	3.087
2000	3,420,427	6,984,000	2.042
2001	3,588,393	1,054,000	0.294
2002	3,938,995	822,000	0.209
2003	4,482,591	1,801,000	0.402
2004	5,278,462	1,135,000	0.215
2005	6,206,937	868,000	0.140
2006	7,323,099	19,722,000	2.693
2007	8,763,300	2,999,000	0.342
2008	9,599,267	52,789,000	5.499

Catastrophe Provision*, 1981-2008	1.383
Catastrophe Provision*, 1993-2008	1.657
Selected Catastrophe Provision:	**1.400**

*Ratio of Aggregate Catastrophe Incurred Losses to Aggregate AIYs

Allstate Insurance Group
Owners Forms
Arkansas

Development of Owners Catastrophe Provisions by Line

CONDOMINIUM

(1a) Calendar Year	(2a) Amount of Insurance Years	(3a) Catastrophe Incurred Loss	(4a) State Catastrophe Ratio
1994	14,507	673	0.046
1995	14,250	1,590	0.112
1996	13,957	8,518	0.610
1997	14,057	0	0.000
1998	13,653	1,434	0.105
1999	13,888	600	0.043
2000	14,412	1,500	0.104
2001	15,503	5,583	0.360
2002	15,920	0	0.000
2003	16,757	0	0.000
2004	18,491	0	0.000
2005	21,423	2,696	0.126
2006	23,262	3,174	0.136
2007	26,602	-117	-0.004
2008	28,000	22,082	0.789

RENTERS

(1b) Calendar Year	(2b) Amount of Insurance Years	(3b) Catastrophe Incurred Loss	(4b) State Catastrophe Ratio
1994	63,989	3,468	0.054
1995	61,888	255	0.004
1996	64,401	7,265	0.113
1997	70,457	7,869	0.112
1998	80,618	2,193	0.027
1999	89,088	37,481	0.421
2000	92,644	10,485	0.113
2001	92,068	27,019	0.293
2002	91,871	-103	-0.001
2003	89,879	11,291	0.126
2004	91,411	-144	-0.002
2005	95,186	0	0.000
2006	101,562	21,015	0.207
2007	103,108	1,426	0.014
2008	110,813	50,344	0.454

OWNERS

(1c) Calendar Year	(2c) Amount of Insurance Years	(3c) Catastrophe Incurred Loss	(4c) State Catastrophe Ratio
1994	2,724,363	2,203,334	0.809
1995	2,811,400	1,648,764	0.586
1996	2,902,531	17,089,860	5.888
1997	3,060,318	2,724,698	0.890
1998	3,209,377	240,242	0.075
1999	3,229,207	10,247,990	3.174
2000	3,313,371	6,971,764	2.104
2001	3,480,822	1,021,480	0.293
2002	3,831,204	821,699	0.214
2003	4,375,955	1,789,355	0.409
2004	5,168,560	1,134,831	0.220
2005	6,090,328	865,386	0.142
2006	7,198,275	19,697,982	2.736
2007	8,633,590	2,998,006	0.347
2008	9,460,454	52,716,628	5.572

HOMEOWNERS

(1d) Calendar Year	(2d) Amount of Insurance Years	(3d) Catastrophe Incurred Loss	(4d) State Catastrophe Ratio
1994	2,802,859	2,207,475	0.788
1995	2,887,538	1,650,609	0.572
1996	2,980,889	17,105,643	5.738
1997	3,144,832	2,732,567	0.869
1998	3,303,648	243,869	0.074
1999	3,332,183	10,286,071	3.087
2000	3,420,427	6,983,749	2.042
2001	3,588,393	1,054,082	0.294
2002	3,938,995	821,596	0.209
2003	4,482,591	1,800,646	0.402
2004	5,278,462	1,134,687	0.215
2005	6,206,937	868,082	0.140
2006	7,323,099	19,722,171	2.693
2007	8,763,300	2,999,315	0.342
2008	9,599,267	52,789,054	5.499

	(5) Average State Catastrophe Ratio	(6) Line To Homeowners* Ratio	(7) 2008 Amount Of Insurance	(8) 2008 Weighted Line to Homeowners* Ratio	(9) Ratio Balanced To Homeowners*	(10) Line Specific Catastrophe Factor
Owners	1.564	1.022	9,460,454	1.022	1.013	1.419
Renters	0.129	0.084	110,813	0.084	0.083	0.117
Condominium	0.162	0.106	28,000	0.106	0.105	0.147
Homeowners	1.531	1.000	9,599,267	1.008	1.000	1.400

* Includes Owners, Renters and Condominium lines

Allstate Indemnity Company
Owners Forms
Arkansas

Development of Owners Catastrophe Provisions by Company

Company	Earned Exposures	Projected Average AIYs	Expected Catastrophe Loss Relativity	Expected Catastrophe Loss Per Policy	Indicated Catastrophe Provision
AIC	16,913	136.04	0.940	207.81	1.528
AI	**17,756**	**162.65**	**1.053**	**232.79**	**1.431**
AP&C	24,322	191.73	1.178	260.42	1.358
Total	58,990	167.01	1.072	236.99	1.419

Allstate Indemnity Company
Owners Forms
Arkansas

AIY Trends

			Exponential Curve of Best Fit		
Year Ending	AIY Trends	Annual Change	20 pt.	12 pt.	6 pt.
03/04	126.3	6.04 %	131.37		
06/04	129.58	7.76	132.75		
09/04	132.42	8.13	134.14		
12/04	135.29	9.09	135.55		
03/05	137.16	8.60	136.97		
06/05	139.47	7.63	138.41		
09/05	142.36	7.51	139.86		
12/05	143.40	5.99	141.32		
03/06	144.56	5.40	142.80	147.13	
06/06	146.20	4.83	144.30	147.95	
09/06	148.28	4.16	145.82	148.78	
12/06	150.00	4.60	147.34	149.61	
03/07	151.93	5.10	148.89	150.44	
06/07	153.70	5.13	150.45	151.28	
09/07	154.92	4.48	152.03	152.13	155.46
12/07	155.53	3.69	153.62	152.97	155.03
03/08	154.84	1.92	155.23	153.83	154.59
06/08	154.31	0.40	156.86	154.69	154.16
09/08	153.39	-0.99	158.50	155.55	153.72
12/08	153.27	-1.45	160.17	156.42	153.29

Regression	20 pt.	12 pt.	6 pt.
Avg Annual Percent Change Based on Best Fit:	4.26 %	2.25 %	-1.12 %

Allstate Indemnity Company
Owners Forms
Arkansas

Summary of Expense Provisions

	Percent Fixed	Expense Provision
Commissions	0 %	12.6 %
Taxes †	0	3.0
Licenses and Fees	100	0.1
Other Acquisition	100	5.0
General Expense	100	3.5
Contingency Provision	0	2.0
Debt Provision	0	1.24
Profit Provision	0	10.31

† State Taxes - Does not include Federal Income Tax

ALLSTATE INSURANCE GROUP*

Personal Property Lines Excluding Earthquake
Countrywide Expense Experience For Other Acquisition and General Expenses

	Other Acquisition Expense		
	2005	2006	2007
1. Direct Premium Earned Less Reinsurance Premium****	$5,499,808	$5,889,250	$6,128,779
2. Other Acquisition Expense Incurred**	241,685	294,631	338,762
3. Ratio (2)/(1)	0.0439	0.0500	0.0553
4. Three Year Average			0.050
5. Proposed Provision			0.050

	General Expense		
	2005	2006	2007
1. Direct Premium Earned Less Reinsurance Premium****	$5,499,808	$5,889,250	$6,128,779
2. General Expense Incurred	208,035	221,185	204,960
3. Ratio (2)/(1)	0.0378	0.0376	0.0334
4. Three Year Average			0.036
5. Proposed Provision***			0.035

* Allstate Insurance Company, Allstate Property and Casualty Insurance Company, Allstate Indemnity Company, Allstate Fire & Casualty and Allstate County Mutual

** Expenses are reduced by the amount of Payment Fees collected and includes Premium Write offs.

***Reduction in force adjustment included

****Premiums for Net Cost of Reinsurance (NCOR) do not include provisions for General and Other Acquisition expenses. Therefore, direct premiums must be reduced by NCOR premiums to get the premium base upon which general and other acquisition expense provisions are applied.

(000's) omitted

Allstate Indemnity Company
Owners Forms
Arkansas

Factor to Adjust for Subsequent Change in Fixed Expense
(For calendar years 2005-2007)

1) Average Earned Date of Experience Period	6/30/2006
2) Average Earned Date of Proposed Policy Period	7/16/2010
3) Number of Years from (1) to (2)	4.044
4) Selected Annual Impact	2.90 %
5) Factor to Adjust for Subsequent Change in Fixed Expense [1.0 + (4)] ^ (3)	1.123

ALLSTATE INDEMNITY COMPANY
OWNERS FORMS

Arkansas

Calculation of Present Value, as of the Average Earning Date
of a Policy year, of all Income and Outgo @ 1.95%*
force of interest, given an Operating Profit of 7.62%
and twelve month Policy Terms

Years From Start of Policy Year	Arkansas Cumulative Percent of Losses Paid	Arkansas Yearly Percent of Losses Paid	Time from Start of Policy Year	Discounted ** to avg time of profit @ 1.95%	Discounted Payments
1	30.7%	30.7%	0.70	1.0059	30.88%
2	95.1%	64.4%	1.40	0.9922	63.90%
3	100.5%	5.4%	2.30	0.9750	5.27%
4	100.0%	-0.5%	3.60	0.9506	-0.48%
5	100.3%	0.3%	4.60	0.9322	0.28%
Subsequent	100.0%	-0.3%	6.60	0.8966	-0.27%
Total		100.0%			99.58%
Expected Losses and Loss Expense Ratio					62.25%
Present Value ~~of~~ Loss and Loss Expense Payments					61.99%
Taxes, Licenses and Fees		3.10%	0.70	1.0059	3.12%
Commissions		12.60%	0.58	1.0082	12.70%
Other Acquisition		5.00%	0.63	1.0072	5.04%
General Expense		3.50%	0.75	1.0049	3.52%
Contingency Provision		2.00%	1.00	1.0000	2.00%
Debt Provision		1.24%	1.00	1.0000	1.24%
Profit		10.31%	1.00	1.0000	10.31%
Total Present Value of Outgo					99.92%
Premiums		100.0%	0.57	1.0084	100.84%
Difference, Present Value of Income Less Present Value of Outgo					0.92%

*Discount rate from Investments Department forecast

**exp (0.0195 x (timing of profit being earned - timing of cash flow))

Allstate Indemnity Company
Owners Forms
Arkansas

Contingency Factor Support*

Total estimated loss from unexpected events:	$388,265,584
Total countrywide ex-cat accident year losses:	$14,082,669,021
Indicated contingency provision as percentage of ex-cat loss:	2.8%
Indicated contingency provision as percentage of total loss:	2.1%
Indicated contingency provision adjusted for expenses:	1.9%
Selected contingency provision:	**2.0%**

*Allstate Insurance Company Homeowners Data, Accident Years 1996-2003

Allstate Indemnity Company
Owners Forms
Arkansas

Development of Projected Average Earned Premium

Development of Projected Average Earned Premium at Current Rates

Fiscal Year Ending	(1) Earned Exposures	(2) Earned Premium at Current Rates	(3) Factor to Adjust to Projected Premium Level	(4) Projected Earned Premium at Current Rates (2) x (3)	(5) Projected Average Earned Premium at Current Rates (4) / (1)	(6) Experience Year Weights
9/30/2004	18,057	$14,626,460	1.204	$17,610,258	$975.26	20 %
9/30/2005	24,308	20,054,061	1.169	23,443,197	964.42	20
9/30/2006	25,344	21,391,736	1.135	24,279,620	958.00	20
9/30/2007	21,888	19,550,228	1.102	21,544,351	984.30	20
9/30/2008	17,756	16,517,563	1.070	17,673,792	995.37	20

(7) Projected Average Earned Premium at Current Rates $975.47

Allstate Indemnity Company
Owners Forms
Arkansas

Calculation of Premium Trend Factor

Peril	Selected Annual Premium Impacts Historical	Selected Annual Premium Impacts Projected
Total All Peril excluding EQ	3.00 %	3.00 %

	4th Prior Year	3rd Prior Year	2nd Prior Year	1st Prior Year	Current Year
1)Average Earned Date of Proposed Policy Period	7/16/2010	7/16/2010	7/16/2010	7/16/2010	7/16/2010
2) Mid-Point of Current Year's Experience Period	3/31/2008	3/31/2008	3/31/2008	3/31/2008	3/31/2008
3) Experience Period Ended	9/30/2004	9/30/2005	9/30/2006	9/30/2007	9/30/2008
4) Midpoint of Experience Period	3/31/2004	3/31/2005	3/31/2006	3/31/2007	3/31/2008
5) Historical: Number of Years from (4) to (2)	4.000	3.000	2.000	1.000	0.000
6) Projected: Number of Years from (2) to (1)	2.293	2.293	2.293	2.293	2.293

Calculation of Trend Factors

(a) Historical Premium Factors are the Annual Historical Impacts plus unity compounded for the number of years in (5)

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

(c) Factor to Adjust to Projected Premium Level = (a) x (b)

Allstate Indemnity Company
Owners Forms
Arkansas

Premium Trends

Year Ending	Average Written Premium @ CRL	Annual Change	Exponential Curve of Best Fit 20 pt.	12 pt.	6 pt.
03/04	$811.28	-1.19 %	$801.65		
06/04	817.87	0.52	808.63		
09/04	820.16	1.38	815.68		
12/04	826.34	2.59	822.78		
03/05	827.26	1.97	829.95		
06/05	827.17	1.14	837.18		
09/05	835.37	1.85	844.48		
12/05	843.35	2.06	851.83		
03/06	843.92	2.01	859.25	$855.11	
06/06	856.32	3.52	866.74	863.36	
09/06	868.18	3.93	874.29	871.69	
12/06	875.86	3.85	881.91	880.10	
03/07	893.95	5.93	889.59	888.58	
06/07	908.30	6.07	897.34	897.15	
09/07	923.63	6.39	905.16	905.81	$928.03
12/07	931.73	6.38	913.05	914.54	928.67
03/08	929.83	4.01	921.00	923.36	929.32
06/08	932.38	2.65	929.02	932.27	929.96
09/08	934.13	1.14	937.12	941.26	930.61
12/08	926.18	-0.60	945.28	950.34	931.25

Regression	20 pt.	12 pt.	6 pt.
	3.53 %	3.91 %	0.28 %

Allstate

APPENDIX A

DETERMINATION OF THE UNDERWRITING PROFIT PROVISION

ALLSTATE INSURANCE GROUP

September, 2008

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Section 1: The Fair and Reasonable Return

Standards for Fair Returns

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

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

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

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

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

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

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

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

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

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

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

Cost of Equity Capital

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

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

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

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

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

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

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

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

tends to exceed the risk-free return by 5%; and when the return on the market portfolio is 10% less than the risk-free return, the return on the security tends to be 5% less than the risk-free return. Thus, a beta less than one indicates less than average risk.

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

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

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. ß measures the riskiness of the stock's return relative to that of the equity market.

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

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

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

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

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

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

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 paper[6], Fama and French argued that the R-squared of their model is markedly

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Full-Information Betas

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

and value components of the cost of capital will be tailored to Allstate within the property/casualty insurance segment.

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

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

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

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

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

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

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

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

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

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

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

As shown in equation (2) above, calculating cost of capital entails collecting data and developing computational procedures to estimate the two components on the right hand side of the equal sign – the expected first year dividend yield and the expected growth rate in dividends. The approach taken by Allstate in the estimation of these two components was derived largely from the hearings of the Federal Energy Regulatory Commission (FERC), which produced a substantial amount of testimony relating to the implementation of the DCF model[13].

The first component of the DCF equation, D_1/P_0, is the anticipated dividend yield in the coming year. It is the estimated total cash dividends to be declared over the next 12 months divided by the

[13] We relied heavily on a series of these FERC orders, including orders 420, 442, 442A, 461, and 489 in developing the estimation procedures used in the analysis herein.

current price of the stock. This value is reported directly in the data source[14] upon which we rely, and hence requires no specific calculation.

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

Regarding the dividend/earnings data, the composite earnings and dividend growth rates are calculated as the average of five-year and ten-year historical growth rates and analysts forecasts of such growth rates in the future. Details of these calculations can be found on Appendix 2, Exhibit 3, Pages 1 and 2. The average of the dividend growth rate[15] and the earnings growth rate[16] is called the "Growth Forecast."

The second method, "fundamental analysis" (also known as the "sustainable growth model", the "internal growth model" or the "plowback method"), is a method of estimating expected future dividend growth that depends solely on the firm's own financing activities: the retention and reinvestment of earnings and the issuance of new stock. The underlying premise of this approach is that sustainable growth in the future depends on the firm's ability to generate such growth internally. Thus, the fundamental analysis computes the expected growth rate as the sum of the earnings retained to common equity and a stock issuance adjustment factor, as follows:

Fundamental growth = e + s*v

e= earnings retained to common equity
s= fraction of shares to be issued
v= (market/book) - 1.

The first component of the sum above – the earnings retained to common equity – represents the growth in dividends arising from the reinvestment of retained earnings; for example, if 60% of

[14] Value Line Investment Survey
[15] Appendix 2, Exhibit 3, Page 1: Column (5)
[16] Appendix 2, Exhibit 3, Page 2: Column (5)

earnings are retained and reinvested within the firm, and the rate of return on investment is expected to be 15%, then earnings and dividends should grow 9% (=60% * 15%), because the reinvested earnings will produce profits that can be used to pay higher dividends in the future. The second component of the sum above represents an estimate of the growth in dividends that can arise if a firm sells new stock at prices above book value. Details regarding the calculation of the fundamental analysis can be found on Appendix 2, Exhibit 4, Pages 1 and 2.

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

Allstate's Cost of Equity Capital Selection

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

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

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

Underwriting profit is defined in *Actuarial Standards of Practice, No. 30* as "Premiums less losses, loss adjustment expenses, underwriting expenses, and policyholder dividends."[17] Thus, a provision for underwriting profit is a portion of the actuarially developed rate, and is often expressed as a percentage of the rate.[18] 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.[19] This approach, however, was not based on financial theory and neglected investment income and income taxes. As pricing techniques have become more sophisticated through the incorporation of financial theory, the development of the underwriting profit provision has become more rigorous and the need for financial soundness more important. Allstate's method of determining the appropriate underwriting profit provision, which is described in detail in this paper, involves determining the *total* profit needed to meet the demand of investors and then subtracting out the profit received from investment income to arrive at the underwriting profit needed from insurance operations and, ultimately, from the premium collected.

Section 1: *The Fair and Reasonable Return* describes the step-by-step process by which Allstate's cost of equity was calculated. In order to obtain the needed cost of equity, Allstate must include an appropriate underwriting profit provision in its ratemaking methodology. The development of the appropriate underwriting profit provision is shown below.
Appendix 3, Exhibit 1, Page 2 displays the flow of calculations from a given cost of equity to the underwriting profit provision; below is a detailed discussion of each step in the process of

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

calculating an underwriting profit provision based on a given cost of equity. Please see the exhibits attached in Appendix 3 for supporting data used in the calculation of the underwriting profit provision, as catalogued in Appendix 3, Exhibit 1, Page 2.

Detail Supporting the Underwriting Profit Calculations

Step (1): Average Market Value of Equity

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

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

Step (2): Cost of Equity (%)

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

Step (3): Cost of Equity ($)

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

Step (4): Dividend Payout Ratio

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

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

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

Step (6): Income Due Shareholders

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

Step (7): Income Needed by Allstate

The amount of income that Allstate must earn in order to pay shareholders is not necessarily equal to the amount of income due to the shareholders. Given Allstate's dividend payout ratio

and market-to-book ratio, we can calculate the amount of income that Allstate must earn in order to provide the cost of capital to shareholders.

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

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

Step (8): Investment Income on Equity

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

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

Step (9): Operating Income Needed:

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

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

Step (10): Earned Premium

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

Step (11): Operating Ratio

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

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

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

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

outflow allows the insurer to earn investment income on the premium supplied by the policyholder.

A cash-flow analysis is one of the two examples given in Actuarial Standards of Practice, No. 30 as appropriate methods for recognizing investment income from insurance operations (page 4). This methodology also allows us to differentiate the amount of expected investment income by line of business and by state. Therefore, lines of business and states with longer-tailed losses are estimated to have higher than average investment income, and vice versa.

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

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

Step (13): After-tax Underwriting Profit Provision

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

Step (14): Tax Rate

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

Step (15): Pre-tax Underwriting Profit Provision

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

Appendix 1

The Fama-French Three-factor Model

FAMA-FRENCH RISK PREMIA

Annual Avg until December	Market-Risk Premium	Small-Stock Premium	Value-Stock Premium
2003	8.26%	3.79%	5.16%
2004	8.30%	3.81%	5.21%
2005	8.25%	3.73%	5.26%
2006	8.29%	3.69%	5.37%
2007	8.22%	3.54%	5.15%

All time series commence from 1926.

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

PROPERTY/CASUALTY INDUSTRY SEGMENT
Betas

60 Months ending December	Market-Risk Beta	Prop/Cas Small-Stock Beta	Prop/Cas Value-Stock Beta	Market-Value Coefficient	Book-to-Market Coefficient
2003	0.576	1.230	0.706	-0.148	0.259
2004	0.648	1.104	0.658	-0.133	0.239
2005	0.511	1.601	0.451	-0.166	0.345
2006	0.845	1.408	0.229	-0.145	0.219
2007	1.198	1.453	0.076	-0.184	0.321

ALLSTATE CORPORATION

NAICS Code 524126

Allstate Compustat Data

Estimation Year	Market Value ($ Million)	Book Value ($ Million)	Log Market Value	Log Book-to-Market
2003	30,268	20,565	10.3178	-0.3865
2004	35,491	21,823	10.4770	-0.4863
2005	35,072	20,186	10.4652	-0.5524
2006	40,690	21,846	10.6137	-0.6220
2007	29,809	21,851	10.3025	-0.3105

Source: Standard & Poor's/Compustat

ALLSTATE CORPORATION
Betas

Market Risk Component:

(1) Period	(2) Prop/Cas Market Beta
2003	**0.576**
2004	**0.648**
2005	**0.511**
2006	**0.845**
2007	**1.198**
3-yr Avg	**0.851**
5-yr Avg	**0.756**
Selected	**0.851**

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**
2003	1.230	-0.148	10.3178	**-0.297**
2004	1.104	-0.133	10.4770	**-0.289**
2005	1.601	-0.166	10.4652	**-0.136**
2006	1.408	-0.145	10.6137	**-0.131**
2007	1.453	-0.184	10.3025	**-0.443**
			3-yr Avg	**-0.237**
			5-yr Avg	**-0.259**
			Selected	**-0.237**

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**
2003	0.706	0.259	-0.3865	**0.606**
2004	0.658	0.239	-0.4863	**0.542**
2005	0.451	0.345	-0.5524	**0.260**
2006	0.229	0.219	-0.6220	**0.093**
2007	0.076	0.321	-0.3105	**-0.024**
			3-yr Avg	**0.110**
			5-yr Avg	**0.295**
			Selected	**0.110**

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

ALLSTATE CORPORATION
Estimated Cost of Equity Capital

Cost of Equity Capital:

		Value	Source
(1)	Long-term Average Market Risk Premium:	8.22%	App. 1, Exh. 1
(2)	Selected Beta:	0.851	App. 1, Exh. 4, Pg. 1
(3)	P/C Industry Market Risk Premium:	7.00%	=(1) * (2)
(4)	Long-term Size Risk Premium:	3.54%	App. 1, Exh. 1
(5)	Selected Size Beta:	-0.237	App. 1, Exh. 4, Pg. 1
(6)	Allstate Size Risk Premium:	-0.84%	=(4) * (5)
(7)	Long-term Value Risk Premium:	5.15%	App. 1, Exh. 1
(8)	Selected Value Beta:	0.110	App. 1, Exh. 4, Pg. 1
(9)	Allstate Value Risk Premium:	0.57%	=(7) * (8)
(10)	Total Risk Premium:	6.73%	=(3) + (6) + (9)
(11)	Risk-free Return:	1.88%	US Treasury*
(12)	Fama-French Cost of Equity Capital:	8.61%	=(10) + (11)

*The risk-free return is the investment return on a 28-day Treasury bill, as of June 16, 2008
http://www.ustreas.gov/offices/domestic-finance/debt-management/interest-rate/daily_treas_bill_rates_historical.shtml

Appendix 2

The Discounted Cash Flow Model

ALLSTATE CORPORATION
Discounted Cash Flow Analysis
Summary

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
Time Period	Estimated Dividend Yield	Dividend Component	Earnings Component	Growth Forecast	Earnings Retention	Stock Issuance Factor	Fundamental Analysis	Dividend Growth Rate	Cost of Capital
4th Quarter 2007	2.90	11.00	10.83	10.92	11.49	(0.90)	10.59	10.75	13.65
3rd Quarter 2007	2.60	11.00	11.50	11.25	10.99	(0.90)	10.09	10.67	13.27
2nd Quarter 2007	2.60	11.67	6.33	9.00	10.00	(0.09)	9.91	9.45	12.05
1st Quarter 2007	2.30	11.83	6.83	9.33	9.90	(0.06)	9.84	9.58	11.88
4th Quarter 2006	2.40	11.67	8.00	9.83	8.60	(0.03)	8.57	9.20	11.60
3rd Quarter 2006	2.60	11.67	8.00	9.83	9.10	(0.04)	9.06	9.44	12.04
2nd Quarter 2006	2.60	11.67	7.17	9.42	9.87	(0.36)	9.50	9.46	12.06
1st Quarter 2006	2.50	13.33	11.67	12.50	10.70	(0.90)	9.80	11.15	13.65
4th Quarter 2005	2.40	13.33	11.67	12.50	10.70	(0.90)	9.80	11.15	13.55
3rd Quarter 2005	2.20	15.17	9.33	12.25	10.70	(0.99)	9.71	10.98	13.18
2nd Quarter 2005	2.40	15.17	9.00	12.08	10.26	(1.43)	8.83	10.45	12.85
1st Quarter 2005	2.30	15.50	10.83	13.17	10.76	(1.69)	9.07	11.12	13.42
4th Quarter 2004	2.30	15.50	10.33	12.92	9.76	(0.37)	9.39	11.15	13.45
3rd Quarter 2004	2.50	15.50	10.17	12.83	9.76	(0.28)	9.48	11.16	13.66
2nd Quarter 2004	2.50	7.33	3.67	5.50	10.06	(0.55)	9.51	7.51	10.01
1st Quarter 2004	2.20	6.83	3.67	5.25	10.24	(0.56)	9.67	7.46	9.66
4th Quarter 2003	2.50	6.83	3.67	5.25	10.24	(0.46)	9.78	7.52	10.02
3rd Quarter 2003	2.50	6.83	3.17	5.00	10.57	(0.50)	10.07	7.53	10.03
2nd Quarter 2003	2.80	6.83	6.17	6.50	10.57	(0.50)	10.07	8.28	11.08
1st Quarter 2003	2.20	7.00	5.83	6.42	10.74	(0.60)	10.14	8.28	10.48

Sources (within Appendix 2):
(2): Exhibit 2, Column (2)
(3): Exhibit 3, Page 1, average of Columns (2)-(4)
(4): Exhibit 3, Page 2, average of Columns (2)-(4)
(5): Average of Columns (3)-(4)
(6): Exhibit 4, Page 1, average of Columns (2)-(4)
(7): Exhibit 4, Page 2, Column (5)
(8): Sum of column (6) and column (7)
(9): Average of Columns (5) and (8)
(10): Sum of column (2) and column (9)

ALLSTATE CORPORATION
Discounted Cash Flow Analysis
Estimated Dividend Yield

(1)	(2)
Time Period	Estimated Dividend Yield
4th Quarter 2007	2.90
3rd Quarter 2007	2.60
2nd Quarter 2007	2.60
1st Quarter 2007	2.30
4th Quarter 2006	2.40
3rd Quarter 2006	2.60
2nd Quarter 2006	2.60
1st Quarter 2006	2.50
4th Quarter 2005	2.40
3rd Quarter 2005	2.20
2nd Quarter 2005	2.40
1st Quarter 2005	2.30
4th Quarter 2004	2.30
3rd Quarter 2004	2.50
2nd Quarter 2004	2.50
1st Quarter 2004	2.20
4th Quarter 2003	2.50
3rd Quarter 2003	2.50
2nd Quarter 2003	2.80
1st Quarter 2003	2.20

Sources:
Value Line Investment Surveys, Part 3, The Ratings & Reports
Various editions from 1994 to 2008

ALLSTATE CORPORATION
Discounted Cash Flow Analysis
Dividends Per Share Experience

(1)	(2)	(3)	(4)	(5)
	Annual Rate of Change			
Time Period	Past 10 Years	Past 5 Years	Forecast	Average
4th Quarter 2007	12.50	13.00	7.50	11.00
3rd Quarter 2007	12.50	13.00	7.50	11.00
2nd Quarter 2007	13.50	12.50	9.00	11.67
1st Quarter 2007	13.50	12.50	9.50	11.83
4th Quarter 2006	13.50	12.50	9.00	11.67
3rd Quarter 2006	13.50	12.50	9.00	11.67
2nd Quarter 2006	13.50	12.50	9.00	11.67
1st Quarter 2006	18.50	12.50	9.00	13.33
4th Quarter 2005	18.50	12.50	9.00	13.33
3rd Quarter 2005	25.00	11.50	9.00	15.17
2nd Quarter 2005	25.00	11.50	9.00	15.17
1st Quarter 2005	25.00	11.50	10.00	15.50
4th Quarter 2004	25.00	11.50	10.00	15.50
3rd Quarter 2004	25.00	11.50	10.00	15.50
2nd Quarter 2004	NA	12.00	10.00	11.00
1st Quarter 2004	NA	12.00	8.50	10.25
4th Quarter 2003	NA	12.00	8.50	10.25
3rd Quarter 2003	NA	12.00	8.50	10.25
2nd Quarter 2003	NA	11.50	9.00	10.25
1st Quarter 2003	NA	11.50	9.50	10.50

Sources:
Value Line Investment Surveys, Part 3, The Ratings & Reports
Various editions from 1994 to 2008

ALLSTATE CORPORATION
Discounted Cash Flow Analysis
Earnings Per Share Experience

(1)	(2)	(3)	(4)	(5)
	Annual Rate of Change			
Time Period	Past 10 Years	Past 5 Years	Forecast	Average
4th Quarter 2007	11.00	12.50	9.00	10.83
3rd Quarter 2007	11.50	13.50	9.50	11.50
2nd Quarter 2007	10.00	1.00	8.00	6.33
1st Quarter 2007	10.00	1.00	9.50	6.83
4th Quarter 2006	10.00	1.00	13.00	8.00
3rd Quarter 2006	10.00	1.00	13.00	8.00
2nd Quarter 2006	10.00	1.00	10.50	7.17
1st Quarter 2006	22.50	0.50	12.00	11.67
4th Quarter 2005	22.50	0.50	12.00	11.67
3rd Quarter 2005	19.50	-3.50	12.00	9.33
2nd Quarter 2005	19.50	-3.50	11.00	9.00
1st Quarter 2005	19.50	-3.50	16.50	10.83
4th Quarter 2004	19.50	-3.50	15.00	10.33
3rd Quarter 2004	19.50	-3.50	14.50	10.17
2nd Quarter 2004	NA	-1.50	12.50	5.50
1st Quarter 2004	NA	-1.50	12.50	5.50
4th Quarter 2003	NA	-1.50	12.50	5.50
3rd Quarter 2003	NA	-1.50	11.00	4.75
2nd Quarter 2003	NA	10.00	8.50	9.25
1st Quarter 2003	NA	10.00	7.50	8.75

Sources:
Value Line Investment Surveys, Part 3, The Ratings & Reports
Various editions from 1994 to 2008

ALLSTATE CORP
Discounted Cash Flow Analysis
Average Earnings Retention Rates

(1)	(2)	(3)	(4)	(5)
Time Period	10-year Average	5-Year Average	Forecast	Average
4th Quarter 2007	11.46	10.50	12.50	11.49
3rd Quarter 2007	11.46	10.50	11.00	10.99
2nd Quarter 2007	11.47	10.52	8.00	10.00
1st Quarter 2007	11.37	10.32	8.00	9.90
4th Quarter 2006	10.83	7.46	7.50	8.60
3rd Quarter 2006	10.83	7.46	9.00	9.10
2nd Quarter 2006	11.60	8.50	9.50	9.87
1st Quarter 2006	11.60	8.50	12.00	10.70
4th Quarter 2005	11.60	8.50	12.00	10.70
3rd Quarter 2005	11.60	8.50	12.00	10.70
2nd Quarter 2005	10.72	9.06	11.00	10.26
1st Quarter 2005	10.72	9.06	12.50	10.76
4th Quarter 2004	10.72	9.06	9.50	9.76
3rd Quarter 2004	10.72	9.06	9.50	9.76
2nd Quarter 2004	10.69	9.00	10.50	10.06
1st Quarter 2004	10.65	10.56	9.50	10.24
4th Quarter 2003	10.65	10.56	9.50	10.24
3rd Quarter 2003	10.65	10.56	10.50	10.57
2nd Quarter 2003	10.65	10.56	10.50	10.57
1st Quarter 2003	9.80	12.42	10.00	10.74

Sources:
Value Line Investment Surveys, Part 3, The Ratings & Reports
Various editions from 1994 to 2008

ALLSTATE CORP
Discounted Cash Flow Analysis
Stock Issuance Adjustment Factor

(1)	(2)	(3)	(4)	(5)
Time Period	Current Shares	Forecast Shares	Forecast Market/ Book	Stock Issuance Adjustment Factor
4th Quarter 2007	575.00	525.00	1.40	(0.90)
3rd Quarter 2007	575.00	525.00	1.40	(0.90)
2nd Quarter 2007	622.00	600.00	1.10	(0.09)
1st Quarter 2007	620.00	610.00	1.15	(0.06)
4th Quarter 2006	625.00	610.00	1.05	(0.03)
3rd Quarter 2006	625.00	600.00	1.04	(0.04)
2nd Quarter 2006	630.00	600.00	1.30	(0.36)
1st Quarter 2006	645.00	600.00	1.50	(0.90)
4th Quarter 2005	645.00	600.00	1.50	(0.90)
3rd Quarter 2005	650.00	600.00	1.50	(0.99)
2nd Quarter 2005	683.00	600.00	1.45	(1.43)
1st Quarter 2005	680.00	600.00	1.55	(1.69)
4th Quarter 2004	690.00	650.00	1.25	(0.37)
3rd Quarter 2004	690.00	660.00	1.25	(0.28)
2nd Quarter 2004	690.00	660.00	1.50	(0.55)
1st Quarter 2004	701.00	670.00	1.50	(0.56)
4th Quarter 2003	695.00	670.00	1.50	(0.46)
3rd Quarter 2003	695.00	670.00	1.55	(0.50)
2nd Quarter 2003	695.00	670.00	1.55	(0.50)
1st Quarter 2003	700.00	670.00	1.55	(0.60)

Sources:
(1)-(3): Value Line Investment Surveys, Part 3, The Ratings & Reports
Various editions from 1994 to 2008
(5) = [(4) - 1] x [((3) / (2)) exp(t) - 1] x 100,
where t is 0.25 for forecasts.

Appendix 3

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

ALLSTATE CORPORATION
Estimated Cost of Equity Capital

Allstate Corporation Cost of Equity Capital Estimates

		Value	Source
(1)	Fama-French Three-factor Model	8.61%	App. 1, Exh. 4, Pg. 2
(2)	Discounted Cash Flow Model	13.65%	App. 2, Exh. 1
(3)	**Selected Cost of Equity Capital**	**10.00%**	Selection

ALLSTATE INSURANCE GROUP

Arkansas
Homeowners

Development of the Underwriting Profit

			Total	Source
(1)	Average Market Value of Equity:	$	32,528	App. 3, Exh. 2
(2)	Cost of Equity (%):		10.00%	App. 3, Exh. 1, Pg. 1
(3)	Cost of Equity ($):	$	3,253	=(1)*(2)
(4)	Dividend Payout Ratio:		0.73	App. 3, Exh. 3
(5)	Average Market-to-book Ratio:		1.55	App. 3, Exh. 4
(6)	Income Due Shareholders:	$	3,253	=(3)
(7)	Income Needed by Allstate:	$	2,832	=(6)/[(4)+(1-(4))*(5)]
(8)	Investment Income on Equity:	$	852	IDF*
(9)	Operating Income Needed:	$	1,980	=(7)-(8)
(10)	Earned Premium:	$	25,972	App. 3, Exh. 2
(11)	Operating Ratio:		7.62%	=(9)/(10)
(12)	Investment Income from PHSF**:		0.92%	App. 3, Exh. 5, Pg. 1
(13)	After-tax U/W Profit Provision:		6.70%	=(11)-(12)
(14)	Tax Rate:		35%	FIT***
(15)	Pre-tax U/W Income Needed by Allstate:		10.31%	=(13)/(1-(14))

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

Dollar values are in millions

ALLSTATE INSURANCE GROUP

Enterprise Valuation

($ In Millions)

Entity	GAAP Book Value*	Earned Premium	Imputed Market Value**
Total Group	21,851	27,233	33,869
ANJ/AFIC	865	1,261	1,371
Group Less ANJ/AFIC	20,986	25,972	32,528

*As of 12/31/07

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

ALLSTATE CORPORATION

Dividend Payout Ratio

(1) Year	(2) Prior Year GAAP Net Income*	(3) Dividends	(4) Stock Repurchases (Net)	(5) = (3)+(4) Total Payout		(6) = (5)/(2) Total Payout Ratio
1997	$2,075	417	1,277	1,694		0.82
1998	$3,105	450	1,400	1,850		0.60
1999	3,294	482	864	1,346		0.41
2000	2,720	506	1385	1,891		0.70
2001	2,211	547	612	1,159		0.52
2002	1,158	594	383	977		0.84
2003	1,134	648	-48	600		0.53
2004	2,705	779	1111	1,890		0.70
2005	3,181	846	2,203	3,049		0.96
2006	1,765	885	1,516	1,765	**	1.00
2007	4,993	901	3,483	4,384		0.88
Total	28,341	7,055	14,186	20,605		**0.73**

Source: 2007 Allstate Annual Report - pages 11, 117

*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-98	1.76
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
Dec-07	1.35
10-yr Avg:	1.55
Selected:	**1.55**

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

ALLSTATE INDEMNITY COMPANY
OWNERS FORMS

Arkansas

Calculation of Present Value, as of the Average Earning Date
of a Policy year, of all Income and Outgo @ 1.95%*
force of interest, given an Operating Profit of 7.62%
and twelve month Policy Terms

Years From Start of Policy Year	Arkansas Cumulative Percent of Losses Paid	Arkansas Yearly Percent of Losses Paid	Time from Start of Policy Year	Discounted ** to avg time of profit @ 1.95%	Discounted Payments
1	30.7%	30.7%	0.70	1.0059	30.88%
2	95.1%	64.4%	1.40	0.9922	63.90%
3	100.5%	5.4%	2.30	0.9750	5.27%
4	100.0%	-0.5%	3.60	0.9506	-0.48%
5	100.3%	0.3%	4.60	0.9322	0.28%
Subsequent	100.0%	-0.3%	6.60	0.8966	-0.27%
Total		100.0%			99.58%
Expected Losses and Loss Expense Ratio					62.25%
Present Value of Loss and Loss Expense Payments					61.99%
Taxes, Licenses and Fees		3.10%	0.70	1.0059	3.12%
Commissions		12.60%	0.58	1.0082	12.70%
Other Acquisition		5.00%	0.63	1.0072	5.04%
General Expense		3.50%	0.75	1.0049	3.52%
Contingency Provision		2.00%	1.00	1.0000	2.00%
Debt Provision		1.24%	1.00	1.0000	1.24%
Profit		10.31%	1.00	1.0000	10.31%
Total Present Value of Outgo					99.92%
Premiums		100.0%	0.57	1.0084	100.84%
Difference, Present Value of Income Less Present Value of Outgo					0.92%

*Discount rate from Investments Department forecast

**exp (0.0195 x (timing of profit being earned - timing of cash flow))

ATTACHMENT VI

Revisions to the Home and Auto Discount

ALLSTATE INDEMNITY COMPANY
OWNERS FORMS
ARKANSAS

REVISIONS TO THE HOME AND AUTO DISCOUNT – RULE 17

With this filing, Allstate is proposing a revision to the Home and Auto Discount. The current discount is 20%. The proposed discount is 35%.

In addition, a clerical revision is being made which relates to the Rule. The Home and Auto Discount percentages listed in the Rate Page Calculation Options for the Owners Forms and Renters Forms were inadvertently switched. With this filing, we are removing the references to discount factors in the Rate Page Calculation Options for Owners and Renters; the discount factors listed in Rule 17 are accurate.

Please see Attachment IX, Summary of Manual Changes, for additional detail.

ATTACHMENT VII

Rate Level Impact of Revisions

ALLSTATE INDEMNITY COMPANY
OWNERS FORMS
ARKANSAS

RATE LEVEL IMPACT OF REVISIONS

Rate Level Impact due to the Revision to Home and Auto Discount

The rate level impact of the above rating plan revision detailed in **Attachment VI** is shown below. The impacts have been measured using an extension of exposures method and a recent snapshot of policyholders in AI. Please note that these impacts are not the total impacts. The total rate level impacts by policy form are shown in the Summary subsection of this attachment.

Policy Form	Rate Level Impact
Standard and Deluxe	-10.7%
Deluxe Plus	-14.2%
Combined	**-12.4%**

Revision of Rate Adjustment Factors

To achieve the selected rate level change for the rating program, Rate Adjustment Factors (RAF) will be revised for both the Standard/Deluxe and Deluxe Plus policy forms. These selections along with the revision to the Home and Auto Discount Factor shown above will achieve the selected rate level change shown in **Attachment II.**

Policy Form	Current RAF	Proposed RAF	Rate Level Impact
Standard and Deluxe	1.399	1.912	36.7%
Deluxe Plus	1.399	1.963	42.3%
Combined			**39.4%**

Summary of Rate Level Impact

The combined impact of the rating plan factor revisions and RAF revisions is shown below.

Policy Form	Home and Auto Discount Factor Changes	RAF Change	Total Rate Level Impact
Standard and Deluxe	-10.7%	36.7%	22.1%
Deluxe Plus	-14.2%	42.3%	22.1%
Combined	**-12.4%**	**39.4%**	**22.1%**

ATTACHMENT VIII

Miscellaneous Rule Revision

ALLSTATE INDEMNITY COMPANY
OWNERS FORMS
ARKANSAS

MISCELLANEOUS RULE REVISIONS

Excess Dwelling Coverage

With this filing, the Building Structure Reimbursement Extended Limits (BSREL) Endorsement described in Rule 4 – Additional Coverages, in the Homeowners Manual, is being revised to be called Excess Dwelling Coverage. This revision will make the name of this endorsement consistent with the endorsement form. This is a clerical revision only; no coverage changes will occur with this filing. The name change will also take place in the Supplementary Rate Pages included in the Homeowners Manual.

In addition, the reference to the BSREL Endorsement in Rule 4 – Additional Coverages, in the Select Value Homeowners Rule will be replaced with a reference to Excess Dwelling Coverage.

Territory Definitions

With this filing, we are adding the Arkansas Allstate Indemnity (AI) Company territorial definitions to the Rule pages. The AI territorial definitions are currently the same as the Arkansas Allstate Insurance Company (AIC) territorial definitions which are listed in the AIC Homeowners Manual. Adding the territorial definitions to the AI Homeowners Manual will provide additional clarity.

Please see Attachment IX, Summary of Manual Changes, for additional detail.

ATTACHMENT IX

Summary of Manual Changes

ALLSTATE INDEMNITY COMPANY
OWNERS FORMS
ARKANSAS

SUMMARY OF MANUAL CHANGES

Rule 4, Page IH4-3 – Additional Coverages

Revised the Building Structure Reimbursement Extended Limits Endorsement to be called Excess Dwelling Coverage

Rule 17, Page IH17-1 – Home and Auto Discount

Revised the discount factors listed in the Rule

Page IHRC-1 – Rate Calculation

- Revised Rate Adjustment Factor in Step 1
- Removed discount reference in Step 13

Page IHRRC-1 – Renters Rate Calculation

Removed discount reference in Step 7

Page TD-1 through TD-3

Added territorial definition pages to Rules Manual

Page DPRC-1 – Deluxe Plus Rate Calculation

- Revised Rate Adjustment Factor in Step 1

Rule 4, Page SV4-1 – Additional Coverages

Replaced reference to Building Structure Reimbursement Extended Limits Endorsement with reference to Excess Dwelling Coverage

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	Allstate Indemnity Company
NAIC # (including group #)	008-19240

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

2. If you use a cost estimator (or some similar method) in order to make sure that dwellings (or contents) are insured at their value, state when this program was started in Arkansas and estimate its impact.
The company began using the Boeckh index in 1979. However, its imapct cannot be estimated.

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.
The company requires 100% insurance to value.

4. If you use an Inflation Guard form or similar type of coverage, describe the coverage(s) and estimate the impact.
A Boeckh index is employed for the area. Its impact is included in estimating changes for amounts of insurance at approximately 2.5%.

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

a. Fire Extinguisher		5	%
b. Burglar Alarm		5	%
c. Smoke Alarm		5	%
d. Insured who has both homeowners and auto with your company		35	%
e. Deadbolt Locks		5	%
f. Window or Door Locks		N/A	%
g. Other (specify)	Complete Central Burglar Alarm	10	%
	Complete Central Fire Alarm	10	%
	Central Home Sprinkler System	10	%

6. Are there any areas in the State of Arkansas In which your company will not write homeowners insurance? If so, state the areas and explain reason for not writing.
N/A. No new business is written in this company.

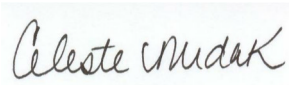
7. Specify the form(s) utilized in writing homeowners insurance. Indicate the Arkansas premium volume for each form.

Form	Premium Volume
Homeowners	$13,396,328

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

Celeste P. Mrdak
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ALLSTATE INDEMNITY COMPANY
OWNERS FORMS
ARKANSAS

Response to letter dated April 13, 2009 regarding Filing #R21074

1. **Please explain the decision to move from a loss ratio to a pure premium methodology for calculating rate need. Were the indications calculated both ways? How would they compare?**

Allstate chose to move to a pure premium method for the Homeowners line of business mainly to be consistent with the method currently used for Private Passenger Automobile ratemaking. There are several benefits to using each method; for instance, in a pure premium method, there is not a need to make as many adjustments to the premium. This simplification also drove the decision to move to the pure premium method.

The indication corresponding to R21074 was calculated using a pure premium methodology. No corresponding loss ratio indication was calculated since as illustrated in actuarial literature, both a loss ratio and a pure premium methodology for calculating rate need produce the same results when consistent data and assumptions are used.

The **pure premium method** develops indicated rates, while a **loss ratio method** develops indicated rate changes directly. Allstate then compares the indicated rate calculated using its pure premium methodology to the projected average premium to determine the indicated change.

Indicated rates can be calculated using the following formula:

$R = (P+F)/(1-V-Q)$, where:
R is the (indicated) rate per unit of exposure;
P is pure premium (average loss per exposure);
F is fixed expense per exposure;
V is variable expense factor;
Q is profit and contingency factor.

For reference, the **loss ratio method** uses the following formulas:

$R = A*R_0$, where
R is the (indicated) rate per unit of exposure;
R_0 is the current rate;
A is an adjustment factor, which is equal to W/T where
W is the experience loss ratio;
T is the target loss ratio.

$T = (1-V-Q)/(1+G)$, where:
V is the premium-related expense factor;
Q is profit and contingency factor;
G is ratio of non-premium-related expenses to losses.

$W = L/(E*R_0)$, where:
L is experience losses;

E is experience period earned exposures;
R_0 is the current rate.

As stated above, the pure premium and loss ratio methods will produce identical rates when applied to identical data and when consistent assumptions are used.

It can be derived that the indicated rate under a loss ratio method is as follows:

$$R = A*R_0 = (W/T)* R_0 = [L/(E* R_0)]*[(1-V-Q)/(1+G)]* R_0 = [L*(1+G)]/[E*(1-V-Q)]$$

Pure premium is defined as experience losses per experience period earned exposures. Therefore, P = L/E or L=E*P.

As above, G is the ratio of non-premium-related expenses to loss; therefore G = (E*F)/L. When combined with the above equation for pure premium, it can be shown that G = (E*F)/(E*P) = F/P.

By substituting for L and G in the loss ratio method formula derived above, it can be shown that R = (E*P)*(1+F/P) / [E*(1-V-Q)] = (P+F)/(1-V-Q), which is the formula for the pure premium method.

For more detail, please reference Chapter 3 of "Ratemaking," from *Foundations of Casualty Actuarial Science* by C.L. McClenahan.

2. **The data supporting the contingency factor appears outdated, the most recent year being 2003. Please include more current data. Identify the type of losses actually incurred in AR.**

Please refer to the attached Exhibit I for Arkansas specific mold losses from 2003-2007. Quantitative information on countrywide losses from unexpected events past 2003 is not available at this time. Qualitatively, increases in foreclosures, abandonments, and vacancies have caused more losses from unexpected events countrywide; additionally, current drivers of contingent countrywide losses include use of Chinese drywall and back-ups of sewer and drains.

Given this and the existing support, Allstate feels that a 2% contingency provision is appropriate and justified. However, we propose to reduce the contingency provision to 1%, consistent with the approved provision in other Arkansas lines of business.

The revised overall indicated rate need resulting from this change is 18.6%. A revised copy of the Summary of Proposed Changes and the revised Rate Adjustment Factor are included in Exhibit II. In addition, Manual Pages reflecting this change are included with this response. Upon approval, updated filing forms and rating examples will be provided.

3. **The CAT provision appears excessive. It is noted that changes in the development of this provision were made from previous filings. Compare the developed factor to what it would have been if calculated using previous methods.**

The approach for calculating the catastrophe provision in past filings used relativities of state damage ratios* to countrywide damage ratios*. As a result, the state catastrophe provision was susceptible to variation due to catastrophe activities in other parts of the country. In

addition, to achieve an adequate overall countrywide catastrophe provision using the previous approach, capped losses among all states were distributed back to each state using an allocation method which could potentially increase State X's catastrophe provision though no capped losses occurred in State X.

In order to more appropriately match state-specific rates with state-specific risk, Allstate has proposed a change in the development of the catastrophe provision. In the proposed method, two averages are considered before making a selection. Allstate selected a catastrophe provision on the low end of the range provided in recognition of the impact of this change. Also, by selecting closer to the longer term average, less weight is given to the 2008 catastrophe ratio. Allstate acknowledges that 2008 catastrophe incurred losses were significant. However, given the number of years within the last three decades with corresponding catastrophe provisions substantially above 1.000, Allstate believes its selected provision of 1.400 is a reasonable estimate of expected catastrophe losses per AIY in Arkansas.

*Catastrophe incurred losses divided by earned Amount of Insurance Years (AIYs)

4. **Provide a breakdown on the numbers of insureds receiving more than a 20% increase.**

Allstate has estimated 4,546 insureds will receive more than a 20% increase with our revised rate level change. This corresponds to 31.0% of the total Allstate Indemnity Company book of business in Arkansas. The table below shows a breakdown of the number of insureds by percent of increase.

Percent Increase	Number of Insureds
Under 10%	5066
10%-20%	5034
20%-30%	294
30%-40%	3920
40%-50%	287
Over 50%	45

5. **Pursuant to ACA 23-67-211(d), if an insurer writing private passenger automobile, homeowners multi-peril, or dwelling fire insurance revises its rates and the revision results in a premium increase on a renewal policy and the insured will receive a rate increase other than due to a change in the nature of the risk insured, then the insurer shall mail or deliver to the insured and the agent of record not less than thirty (30) calendar days prior to the effective date of renewal a notice specifically stating the insurer's intention to increase the rate for the renewal.**

Acknowledged. Allstate ensures that it will be compliant with this Arkansas Code.

Allstate Insurance Group
Arkansas

Contingency Factor Support
Mold Claims Excluding Catastrophes

Year	Losses
2003	$46,444.42
2004	24,345.56
2005	58,493.36
2006	63,759.22
2007	155,465.37
Total	**348,507.93**

ALLSTATE INDEMNITY COMPANY
OWNERS FORMS
ARKANSAS

Revised Summary of Proposed Changes

	Premium Dist. at Current Rates	Indicated Change**	Selected Change
Fixed Expense Premium	7.2%	N/C	N/C
Variable Package Premium	92.0%	20.2%	20.2%
Total Owners Package*	**99.2%**	**18.8%**	**18.8%**
Additional Coverages	0.8%	N/C	N/C
Total Owners	**100.0%**	**18.6%**	**18.6%**

*Includes premium from Standard, Deluxe, Deluxe Plus, Standard Select Value, and Deluxe Select Value Policies. Please reference Rule Manual for more details.
**We implicitly assume no indicated change for fixed expenses and additional coverages.

Revised Rate Adjustment Factor

Policy Form	Current Rate Adjustment Factor	Original Proposed Rate Adjustment Factor	New Proposed Rate Adjustment Factor
Standard and Deluxe	1.399	1.912	1.882
Deluxe Plus	1.399	1.963	1.933

ALLSTATE INSURANCE COMPANY
ALLSTATE INDEMNITY COMPANY
ALLSTATE PROPERTY AND CASUALTY INSURANCE COMPANY
OWNERS FORMS
ARKANSAS

Response to letter dated April 27, 2009 regarding Filings #R21073, #R21074, and #R21075

1. **Please amend the filing to cap increases at 30%.**

   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.

   The Allstate Insurance Company (AIC) and Allstate Indemnity Company (AI) filings have been amended so that no expected policyholder impact exceeds 30.0%. As such, the revision to the Home and Auto Discount percentage has been removed for each company. In addition, the Rate Adjustment Factor has been revised for each company. Manual Pages reflecting these changes are included with this response. Upon approval, updated filing forms and rating examples will be provided for AIC and AI. The Total Owners rate level change for AIC remains at 18.4%, and the Total Owners rate level change for AI remains at 18.6%.

   Allstate has noted the concern that the rate increases be capped at 30%. The Total Owners proposed rate level change of 48.1% for Allstate Property and Casualty Insurance Company (APC), based on its credibility weighted indication, is markedly above your requested cap. Though Allstate believes that the original proposed change is actuarially justified, Allstate has amended its APC filing so that the expected policyholder impacts do not exceed 30.0%. To do so, all rating plan revisions presented in the original filing have been removed. Rating plan revisions removed include changes to the Home and Auto Discount factor, Age of Home Discount factors, Town Class factors, and Claim Rating and Rating Group factors. In addition, the Rate Adjustment Factor has been revised to achieve the Total Owners rate level change of 27.7%. Note that estimated policyholder impacts resulting from the amended overall flat change of 27.7% do not exceed 30.0%, though some may be slightly higher than the overall 27.7% change due to the impact of the Fixed Expense Policy Fee which varies across each policy. Manual Pages reflecting the changes described above are included with this response. Upon approval, updated filing forms and rating examples will be provided for APC.