

State: Arkansas **Filing Company:** Allstate Insurance Company
TOI/Sub-TOI: 04.0 Homeowners/04.0002 Mobile Homeowners
Product Name: AIC MH
Project Name/Number: Rate Change +9.9%/1428445

Filing at a Glance

Company: Allstate Insurance Company
Product Name: AIC MH
State: Arkansas
TOI: 04.0 Homeowners
Sub-TOI: 04.0002 Mobile Homeowners
Filing Type: Rate
Date Submitted: 09/11/2013
SERFF Tr Num: ALSE-129199136
SERFF Status: Closed-Filed
State Tr Num:
State Status:
Co Tr Num: R26335
Effective Date: 12/09/2013
Requested (New):
Effective Date: 01/23/2014
Requested (Renewal):
Author(s): Marisol Herrera, Andi Colosi
Reviewer(s): Becky Harrington (primary)
Disposition Date: 10/18/2013
Disposition Status: Filed
Effective Date (New): 12/09/2013
Effective Date (Renewal): 01/23/2014

State Filing Description:

referred to commissioner; reviewed 10/7/13

State: Arkansas **Filing Company:** Allstate Insurance Company
TOI/Sub-TOI: 04.0 Homeowners/04.0002 Mobile Homeowners
Product Name: AIC MH
Project Name/Number: Rate Change +9.9%/1428445

General Information

Project Name: Rate Change +9.9% Status of Filing in Domicile:
 Project Number: 1428445 Domicile Status Comments:
 Reference Organization: Reference Number:
 Reference Title: Advisory Org. Circular:
 Filing Status Changed: 10/18/2013
 State Status Changed: 10/07/2013 Deemer Date:
 Created By: Marisol Herrera Submitted By: Marisol Herrera
 Corresponding Filing Tracking Number:

Filing Description:

This filing proposes a 9.9% rate increase for the Arkansas Mobilehome line of business in the Allstate Insurance Company based on an overall 32.7% indicated rate level need. This rate will be accomplished by implementing the Rate Adjustment Factor.

With this filing, Allstate is removing qualifying criteria from the 55 and Retired Discount rule.

We are targeting an implementation date of December 9, 2013 for new business written and renewals processed on or after December 9, 2013 and renewal business effective on or after January 23, 2014.

Company and Contact

Filing Contact Information

Marisol Herrera, State Filings Analyst mherrera@allstate.com
 2775 Sanders Road 847-402-7351 [Phone] 27351 [Ext]
 Suite A2-W 847-402-9757 [FAX]
 Northbrook, IL 60062

Filing Company Information

Allstate Insurance Company	CoCode: 19232	State of Domicile: Illinois
2775 Sanders Road	Group Code: 8	Company Type: Property and
Suite A2-W	Group Name: Allstate	Casualty
Northbrook, IL 60062	FEIN Number: 36-0719665	State ID Number:
(847) 402-5000 ext. [Phone]		

Filing Fees

Fee Required? Yes
 Fee Amount: \$100.00
 Retaliatory? No
 Fee Explanation: rate filing \$100
 Per Company: No

Company	Amount	Date Processed	Transaction #
Allstate Insurance Company	\$100.00	09/11/2013	73918665

SERFF Tracking #:

ALSE-129199136

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

R26335

State:

Arkansas

Filing Company:

Allstate Insurance Company

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04.0 Homeowners/04.0002 Mobile Homeowners

Product Name:

AIC MH

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Rate Change +9.9%/1428445

Correspondence Summary

Dispositions

Status	Created By	Created On	Date Submitted
Filed	Becky Harrington	10/18/2013	10/18/2013

Objection Letters and Response Letters

Objection Letters

Status	Created By	Created On	Date Submitted
Pending Industry Response	Becky Harrington	10/07/2013	10/07/2013
No response necessary	Becky Harrington	09/25/2013	09/25/2013
Pending Industry Response	Becky Harrington	09/13/2013	09/13/2013

Response Letters

Responded By	Created On	Date Submitted
Marisol Herrera	10/18/2013	10/18/2013
Andi Colosi	09/24/2013	09/24/2013

State: Arkansas
TOI/Sub-TOI: 04.0 Homeowners/04.0002 Mobile Homeowners
Product Name: AIC MH
Project Name/Number: Rate Change +9.9%/1428445

Filing Company: Allstate Insurance Company

Disposition

Disposition Date: 10/18/2013
 Effective Date (New): 12/09/2013
 Effective Date (Renewal): 01/23/2014
 Status: Filed

Comment:

Company Name:	Overall % Indicated Change:	Overall % Rate Impact:	Written Premium Change for this Program:	# of Policy Holders Affected for this Program:	Written Premium for this Program:	Maximum % Change (where req'd):	Minimum % Change (where req'd):
Allstate Insurance Company	32.700%	5.000%	\$26,997	934	\$539,943	5.400%	1.200%

Schedule	Schedule Item	Schedule Item Status	Public Access
Supporting Document	NAIC loss cost data entry document	Filed	Yes
Supporting Document	NAIC Loss Cost Filing Document for OTHER than Workers' Comp		Yes
Supporting Document	Actuarial Support	Filed	Yes
Supporting Document	Rate/Rule Schedule	Filed	Yes
Rate (revised)	Manual Pages	Filed	Yes
Rate (revised)	CheckingList	Filed	Yes
Rate	Manual Pages		Yes
Rate	CheckingList		Yes

State: Arkansas **Filing Company:** Allstate Insurance Company
TOI/Sub-TOI: 04.0 Homeowners/04.0002 Mobile Homeowners
Product Name: AIC MH
Project Name/Number: Rate Change +9.9%/1428445

Objection Letter

Objection Letter Status	Pending Industry Response
Objection Letter Date	10/07/2013
Submitted Date	10/07/2013
Respond By Date	

Dear Marisol Herrera,

Introduction:

The requested increase has been reviewed by the Commissioner.

Please amend the overall increase amount to 5%.

Indicate revised effective dates if needed to meet programming constraints.

Conclusion:

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

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

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

Sincerely,

Becky Harrington

State: Arkansas **Filing Company:** Allstate Insurance Company
TOI/Sub-TOI: 04.0 Homeowners/04.0002 Mobile Homeowners
Product Name: AIC MH
Project Name/Number: Rate Change +9.9%/1428445

Objection Letter

Objection Letter Status	No response necessary
Objection Letter Date	09/25/2013
Submitted Date	09/25/2013
Respond By Date	

Dear Marisol Herrera,

Introduction:

This will acknowledge receipt of the recent response.

This filing is being referred to the Commissioner for review due to the requested increase amount being greater than 6%. Please do not respond at this time.

Conclusion:

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

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

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

Sincerely,
Becky Harrington

State: Arkansas **Filing Company:** Allstate Insurance Company
TOI/Sub-TOI: 04.0 Homeowners/04.0002 Mobile Homeowners
Product Name: AIC MH
Project Name/Number: Rate Change +9.9%/1428445

Objection Letter

Objection Letter Status	Pending Industry Response
Objection Letter Date	09/13/2013
Submitted Date	09/13/2013
Respond By Date	

Dear Marisol Herrera,

Introduction:

This will acknowledge receipt of the captioned filing.

Objection 1

Comments: Please identify the area of damage due to hurricane in 2012. It is still the Department's position that hurricane losses are not appropriate in AR. Damage may be related to wind/water from the remnants of a hurricane, but the storms are not classified as "hurricanes" in AR. Losses associated with remnants of hurricanes may be included with other loss categories such as "wind".

Conclusion:

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

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

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

SERFF Tracking #:

ALSE-129199136

State Tracking #:

Company Tracking #:

R26335

State:

Arkansas

Filing Company:

Allstate Insurance Company

TOI/Sub-TOI:

04.0 Homeowners/04.0002 Mobile Homeowners

Product Name:

AIC MH

Project Name/Number:

Rate Change +9.9%/1428445

Response Letter

Response Letter Status	Submitted to State
Response Letter Date	10/18/2013
Submitted Date	10/18/2013

Dear Becky Harrington,

Introduction:

Response to objection dated October 7, 2013.

Response 1

Comments:

With this amendment, Allstate has reduced the Rate Adjustment Factor to 1.054 to accomplish an overall 5.0% rate increase for the Arkansas Mobilehome line of business in the Allstate Insurance Company. The required filers are attached. Additionally, a rate and rule schedule has been submitted to show updated impacts.

Changed Items:

Supporting Document Schedule Item Changes	
Satisfied - Item:	Rate/Rule Schedule
Comments:	
Attachment(s):	Rate Rule Schedule - AR AIC MH_A#1.pdf

No Form Schedule items changed.

SERFF Tracking #:

ALSE-129199136

State Tracking #:

Company Tracking #:

R26335

State: Arkansas

Filing Company:

Allstate Insurance Company

TOI/Sub-TOI: 04.0 Homeowners/04.0002 Mobile Homeowners

Product Name: AIC MH

Project Name/Number: Rate Change +9.9%/1428445

Rate Schedule Item Changes

Item No.	Exhibit Name	Rule # or Page #	Rate Action	Previous State Filing Number	Date Submitted
1	Manual Pages	Page 7 through Page 9	Replacement		10/18/2013 By: Marisol Herrera
<i>Previous Version</i>					
1	Manual Pages	Page 7 through Page 9	Replacement		09/11/2013 By: Marisol Herrera
2	CheckingList		New		10/18/2013 By: Marisol Herrera
<i>Previous Version</i>					
2	CheckingList		New		09/11/2013 By: Marisol Herrera

Conclusion:

Sincerely,
Marisol Herrera

State: Arkansas **Filing Company:** Allstate Insurance Company
TOI/Sub-TOI: 04.0 Homeowners/04.0002 Mobile Homeowners
Product Name: AIC MH
Project Name/Number: Rate Change +9.9%/1428445

Response Letter

Response Letter Status	Submitted to State
Response Letter Date	09/24/2013
Submitted Date	09/24/2013

Dear Becky Harrington,

Introduction:

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

Thanks!
Andi

Response 1

Comments:

The area of damage due to hurricane in 2012 for the Allstate Insurance Groups Manufactured Home / Mobile Home line of business is as a result of Hurricane Isaac and was localized to the following zip codes:

-72002 Alexander, AR
-72167 Traskwood, AR
-72210 Little Rock, AR

Prior to its entry into Arkansas, Hurricane Isaac was classified as a tropical storm on August 29, 2012. After crossing into southern Arkansas, Isaac was then reclassified as a tropical depression on August 31, 2012.

Related Objection 1

Comments: Please identify the area of damage due to hurricane in 2012. It is still the Department's position that hurricane losses are not appropriate in AR. Damage may be related to wind/water from the remnants of a hurricane, but the storms are not classified as "hurricanes" in AR. Losses associated with remnants of hurricanes may be included with other loss categories such as "wind".

Changed Items:

No Supporting Documents changed.

No Form Schedule items changed.

No Rate/Rule Schedule items changed.

Conclusion:

Sincerely,
Andi Colosi

SERFF Tracking #:

ALSE-129199136

State Tracking #:

Company Tracking #:

R26335

State:

Arkansas

Filing Company:

Allstate Insurance Company

TOI/Sub-TOI:

04.0 Homeowners/04.0002 Mobile Homeowners

Product Name:

AIC MH

Project Name/Number:

Rate Change +9.9%/1428445

Rate Information

Rate data applies to filing.

Filing Method:

File and Use

Rate Change Type:

Increase

Overall Percentage of Last Rate Revision:

7.600%

Effective Date of Last Rate Revision:

02/21/2011

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 req'd):	Minimum % Change (where req'd):
Allstate Insurance Company	32.700%	9.900%	\$53,454	934	\$539,943	10.600%	2.400%

SERFF Tracking #:

ALSE-129199136

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

R26335

State:

Arkansas

Filing Company:

Allstate Insurance Company

TOI/Sub-TOI:

04.0 Homeowners/04.0002 Mobile Homeowners

Product Name:

AIC MH

Project Name/Number:

Rate Change +9.9%/1428445

Rate/Rule Schedule

Item No.	Schedule Item Status	Exhibit Name	Rule # or Page #	Rate Action	Previous State Filing Number	Attachments
1	Filed 10/18/2013	Manual Pages	Page 7 through Page 9	Replacement		R26335A#1 - manual.pdf
2	Filed 10/18/2013	CheckingList		New		R26335A#1 - CheckingList.pdf

RULE 10 - CLASSIFICATION

Mobile Homes are classified either Class 1 or Class 2.

1. Class 1 rates and premiums apply to owner-occupied one-family Mobile Home which meet the following requirements:
 - a. Principal residence of occupant
 - b. Used exclusively for residential purposes
2. All other mobile homes are Class 2. Premiums are determined by applying the factor shown on the Supplementary Rate Page.

RULE 11 - PREMIUM DETERMINATION

The premium calculations should be done in the following order.

- A. Determine the Package Premium for Class 1 Mobile Home from the State Rate Pages according to the Territorial Zone, type of policy, tie down status, deductible, park size, premium group, and purchase price.
- B. Multiply the appropriate Package Premium amount by a Rate Adjustment Factor of 1.054.
- C. Apply the deductible factor, if applicable.
- D. Apply the Out-of-Park Surcharge, if applicable.
- E. Apply the original owner discount, if applicable.
- F. Apply the protective device discount, if applicable.
- G. Apply the 55 and retired discount, if applicable.
- H. For Class 2 Mobile Home, apply the Class 2 factor.
- I. Apply The Good Hands People ® discount, if applicable.
- J. 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).

CHECKING LIST FOR MOBILEHOME

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.

RULES

Enclosed: Page 8 dated 12-2-2013

Withdrawn: Page 8 dated 12-1-2013

SERFF Tracking #:

ALSE-129199136

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

R26335

State:

Arkansas

Filing Company:

Allstate Insurance Company

TOI/Sub-TOI:

04.0 Homeowners/04.0002 Mobile Homeowners

Product Name:

AIC MH

Project Name/Number:

Rate Change +9.9%/1428445

Supporting Document Schedules

Satisfied - Item:	NAIC loss cost data entry document
Comments:	
Attachment(s):	AR MH AIC - StateFilingForm01.pdf
Item Status:	Filed
Status Date:	10/18/2013

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

Satisfied - Item:	Actuarial Support
Comments:	
Attachment(s):	ActuarialSupport.pdf
Item Status:	Filed
Status Date:	10/18/2013

Satisfied - Item:	Rate/Rule Schedule
Comments:	
Attachment(s):	Rate Rule Schedule - AR AIC MH_A#1.pdf
Item Status:	Filed
Status Date:	10/18/2013

NAIC LOSS COST DATA ENTRY DOCUMENT

1.	This filing transmittal is part of Company Tracking #	R26335
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2.	If filing is an adoption of an advisory organization loss cost filing, give name of Advisory Organization and Reference/ Item Filing Number	
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Company Name		Company NAIC Number		
3.	A.	Allstate Insurance Company	B.	19232

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.	Mobilehome

5.			FOR LOSS COSTS ONLY				
(A) COVERAGE (See Instructions)	(B) Indicated % Rate Level Change	(C) Requested % Rate Level Change	(D) Expected Loss Ratio	(E) Loss Cost Modification Factor	(F) Selected Loss Cost Multiplier	(G) Expense Constant (If Applicable)	(H) Co. Current Loss Cost Multiplier
Mobilehome	32.7%	9.9%					
TOTAL OVERALL EFFECT	32.7%	9.9%					

6.		Rate Change History	7.						
Year	5 Year History Policy Count (Earned Exposure s)	% of Change	Effective Date	State Earned Premium (000)	Incurred Losses (000)	State Loss Ratio	Countrywide Loss Ratio^	Expense Constants	Selected Provisions
12/31/2012	969	N/A	N/A	\$575	\$144	25%	53.9%	A. Other Acquisition	5.5
12/31/2011	1,060	7.6%	2/21/2011	\$598	\$474	79.3%	59.3%	B. General Expense	4.9
12/31/2010	1,168	N/A	N/A	\$639	\$484	75.8%	89.3%	C. Taxes, License & Fees	3.3
12/31/2009	1,285	N/A	N/A	\$696	\$593	85.2%	61.8%	D. Underwriting Profit, Debt, & Contingencies	11.6
12/31/2008	1,371	N/A	N/A	\$762	\$921	120.8%	76.1%	E. Commissions	11.7
								F. TOTAL	37.0

8. N Apply Lost Cost Factors to Future filings? (Y or N)
9. 10.6% Estimated Maximum Rate Increase for any Insured (%). Territory (if applicable): _____
10. N/A Estimated Maximum Rate Decrease for any Insured (%) Territory (if applicable): _____

**ALLSTATE INSURANCE COMPANY
MOBILEHOME
ARKANSAS**

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Attachment III – Page 1	Modeled Loss Provision Development of the Hurricane Provision Based on the 2011/2010 AIR Version 13.0 Hurricane Model in the Statewide Rate Level Indication Explanatory Memorandum
Attachment IV – Page 1	Retained Risk Provision Development of Retained Risk Provision Based On Modeled Exposure
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**ALLSTATE INSURANCE COMPANY
MOBILEHOME
ARKANSAS**

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ATTACHMENT I

Summary of Disclosures

**ALLSTATE INSURANCE COMPANY
MOBILEHOME
ARKANSAS**

ACTUARIAL STANDARDS OF PRACTICE

This document confirms compliance with the Actuarial Standards of Practice 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).

ATTACHMENT II

Summary of Rate Level Indication

**ALLSTATE INSURANCE COMPANY
MOBILEHOME
ARKANSAS**

SUMMARY OF THE DEVELOPMENT OF STATEWIDE RATE LEVEL INDICATION

The calculation of the rate level indication is consistent with the Statement of Principles Regarding Property and Casualty Insurance Ratemaking.

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 3.1 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 hurricane losses during the experience period were removed and replaced with a provision to reflect those expected losses. Details of these necessary adjustments to the historical data used in the rate level indication are described in this memorandum.

Attachment VI, Exhibit 1.0 summarizes the indicated and proposed rate changes. The determination of the overall indicated change is included in **Exhibit 1.1**, and described in detail throughout this filing.

**ALLSTATE INSURANCE COMPANY
MOBILEHOME
ARKANSAS**

ADJUSTMENTS TO NON-WEATHER LOSSES

Underlying Data

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*. Please reference **Exhibit 2** for the fiscal accident years used in developing the rate level indications.

Non-weather losses are defined as those whose primary cause of loss was Fire, Theft, Liability, or All Other perils. Allocated loss adjustment expense (ALAE) is included in the losses.

Please note that Non-Weather losses from both Allstate Insurance Company and Allstate Indemnity Company are used in the development of the provision for Non-Weather losses and LAE since the Allstate Insurance Company data does not, in itself, provide a sufficiently credible basis for evaluation.

The Allstate Indemnity Company Non-Weather accident year losses are adjusted using a modification factor, to account for the inherent average loss difference between companies. The modification factor is the ratio of the Countrywide Allstate Insurance Company average Non-Weather losses to the Allstate Indemnity Company average Non-Weather losses for the most recent calendar year. This adjustment provides an estimate of the Non-Weather losses that would have been experienced had all business been written into Allstate Insurance Company for the accident period which we are evaluating.

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. A maximum of five accident years is combined to determine the indicated provision for loss and loss adjustment expense. The number of years used and the credibility per year is based upon a credibility procedure from the paper "On the Credibility of the Pure Premium" (Proceedings of the Casualty Actuarial Society, Vol. LV, 1968), by Mayerson, Jones and Bowers, and actuarial judgment. The analysis was completed using a k value of 0.100 and a P value of 90.0%; these parameters reflect the desire that the observed pure premium should be within 100k% of the expected pure premium with probability P . Assuming a Poisson frequency, an empirical review of the severity size of loss curve provides a gauge of credibility based on the number of claims closed with a payment.

The weights applied to the loss experience for the accident years are determined by the distribution of earned exposures over those years. The weights are based on the exposure distribution rather than the claim distribution in order to lessen the impact of volatility that can occur in the claim distribution. The initial calculated weight for a given year is limited to the weight for the subsequent year and the final weights are calculated proportionate to the limited weights to total 100%.

This approach for incorporating credibility in determination of the accident year weights is consistent with the Current Practices and Alternatives detailed in Section 3 of Actuarial Standard of Practice No. 25, *Credibility Procedures Applicable to Accident and Health, Group Term Life, and Property/Casualty Coverages*.

Loss Development

Allstate has developed accident year losses (including allocated loss adjustment expense) to ultimate settlement levels using the Link Ratio method. The link ratio method assumes that future development is proportional to losses that have already emerged as of a given evaluation date.

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.

Loss development factors were based on Countrywide Allstate Insurance Group data. Loss development patterns for Allstate Insurance Company and Allstate Indemnity Company are expected to be similar since claims settlement practices are the same for each company.

Refer to **Exhibits 3.1-3.2** for the loss development using the Link Ratio method of loss development.

Loss Adjustment Expenses

Allocated loss adjustment expenses (ALAE) are included in the losses. 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 data. A three-year average of the ratios of countrywide, combined-lines, calendar year non-hurricane ULAE to countrywide, combined-lines, 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 has been used in this filing is shown in **Exhibit 5**.

Loss Trend

The past changes in actual frequency and severity on a twelve-month-moving basis (evaluated at each quarter) were analyzed. The data has been adjusted as described below.

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.

Exhibits 7 displays the paid pure premium trends. The credibility level of Allstate loss trend

data was analyzed based on the number of claims paid in the latest experience year, which is consistent with the criteria for selecting a credibility procedure outlined in Section 3 of Actuarial Standard of Practice No. 25, *Credibility Procedures Applicable to Accident and Health, Group Term Life, and Property/Casualty Coverages*.

After considering past results, credibility level of Allstate data, and actuarial judgment, annual pure premium trends were selected. The selected trends and projections are displayed in **Exhibit 6**. 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 approach for selecting pure premium trends and projections is consistent with the Current Practices and Alternatives detailed in *Appendix 1 – Background and Current Practices of Actuarial Standard of Practice No. 13, Trending Procedures in Property/Casualty Insurance Ratemaking*.

Credibility for Losses
State Credibility:

The available accident year data used in the indication is not fully credible. Therefore, we determine the partial credibility of the provision for Non-Weather loss and LAE using the credibility procedure referenced in the Accident Year Weight section in **Attachment II, Page 2**. State accident year data is given a minimum weight of 50%. The Non-Weather loss and LAE is then weighted with a credibility complement, the development of which is included on **Exhibit 9**.

**ALLSTATE INSURANCE COMPANY
MOBILEHOME
ARKANSAS**

ADJUSTMENTS TO WEATHER LOSSES

The indicated provision for weather losses is determined based on individual frequency and severity components. Allstate has found that separate analyses of frequency and severity for weather losses provide a better estimate of pure premium given the inherent complication of process variance in these losses. The specific base data and methodology for weather losses is explained in detail below.

Underlying Data

Weather losses are defined as those whose primary cause of loss was Water, Wind, Hail, or Lightning perils. Allocated loss adjustment expense (ALAE) is included in the losses. Please note that although Water claims arise from both weather and non-weather events, data limitations currently prevent separate classifications of claims within this peril. All Water claims have been classified as weather events for purposes of this analysis. Please reference **Exhibit 2** for the fiscal accident years used for the severity analysis.

Please note that Weather losses from both Allstate Insurance Company and Allstate Indemnity Company are used in the development of the provision for Weather losses and LAE since the Allstate Insurance Company data does not, in itself, provide a sufficiently credible basis for evaluation.

The Allstate Indemnity Company Weather accident year losses are adjusted using a modification factor, to account for the inherent average loss difference between companies. The modification factor is the ratio of the Countrywide Allstate Insurance Company average Weather losses to the Allstate Indemnity Company average Weather losses for the most recent calendar year. This adjustment provides an estimate of the Weather losses that would have been experienced had all business been written into Allstate Insurance Company for the accident period which we are evaluating.

Severity Accident Year Weights

A maximum of five accident years is combined to determine the indicated weather severity provision. The number of years used and the credibility per year is based upon a credibility procedure from the paper "On the Credibility of the Pure Premium" (Proceedings of the Casualty Actuarial Society, Vol. LV, 1968), by Mayerson, Jones and Bowers, and actuarial judgment. The analysis was completed using a k value of 0.100 and a P value of 90.0%; these parameters reflect the desire that the observed severity should be within 100k% of the expected severity with probability P. Unlike its non-weather counterpart, this analysis does not rely on a frequency assumption; rather, an empirical review of the severity size of loss curve provided a gauge of credibility based on the number of claims closed with a payment.

The weights applied to the loss experience for the accident years are determined by the distribution of earned exposures over those years. The weights are based on the exposure

distribution rather than the claim distribution in order to lessen the impact of volatility that can occur in the claim distribution. The initial calculated weight for a given year is limited to the weight for the subsequent year and the final weights are calculated proportionate to the limited weights to total 100%.

This approach for incorporating credibility in determination of the accident year weights is consistent with the Current Practices and Alternatives detailed in Section 3 of Actuarial Standard of Practice No. 25, *Credibility Procedures Applicable to Accident and Health, Group Term Life, and Property/Casualty Coverages*.

Severity Development

Allstate determines ultimate accident year weather severity using the Link Ratio method, which assumes that future development is proportional to losses that have already emerged as of a given evaluation date.

Loss development factors were based on Countrywide Allstate Insurance Group data. Loss development patterns for Allstate Insurance Company and Allstate Indemnity Company are expected to be similar, since claims settlement practices are the same for each company.

To calculate estimated ultimate severities 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.

Refer to **Exhibit 4.2** for the weather severity loss development using the Link Ratio method. The estimated ultimate severity is shown in **Exhibit 2**.

Severity Trend

The past changes in actual severity on a twelve-month-moving basis (evaluated at each quarter) were analyzed.

Exhibit 7 displays the paid severity trends. The credibility level of Allstate loss trend data was analyzed based on the number of claims paid in the latest experience year, which is consistent with the criteria for selecting a credibility procedure outlined in Section 3 of Actuarial Standard of Practice No. 25, *Credibility Procedures Applicable to Accident and Health, Group Term Life, and Property/Casualty Coverages*.

After considering past results, credibility level of Allstate data, and actuarial judgment, annual severity trends were selected. The selected trends and projections are displayed in **Exhibit 6**. 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 approach for selecting severity trends and projections is consistent with the Current Practices and Alternatives detailed in *Appendix 1 – Background and Current Practices of*

Actuarial Standard of Practice No. 13, *Trending Procedures in Property/Casualty Insurance Ratemaking*.

Credibility for Losses
State Credibility:

The available accident year data used in the indication is not fully credible. Therefore, we determine the partial credibility of the provision for Weather loss and LAE using the credibility procedure referenced in the Accident Year Weight section in **Attachment II, Page 5**. The Weather loss and LAE is then weighted with a credibility complement, the development of which is included on **Attachment VI, Exhibit 9**.

Frequency Estimation

Exhibit 8 displays the number of years of data used to calculate the average frequency for Arkansas for the combined Water, Wind, Hail, and Lightning perils (i.e., weather). Each accident year's claim frequencies are developed to ultimate. The straight average is used as the state estimate of future claims frequency. Note that no trend is applied to this frequency estimate.

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

Refer to **Exhibit 4.1** for the weather frequency claim development using the Link Ratio method. The estimated ultimate frequency is shown in **Exhibit 2**.

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MODELED LOSSES

Allstate separately identifies and accounts for its exposure to loss due to the occurrence of hurricane or other modeled events within a state. Allstate does not believe that available historical data for hurricane losses accurately represents the exposure to expected hurricane loss in Arkansas. As such, in accordance with Actuarial Standard of Practice No. 39, *Treatment of Catastrophe Losses in Property/Casualty Insurance Ratemaking*, it is Allstate's standard practice to use a model which is based on a combination of historical insurance and non-insurance data. **Attachment III** describes the modeled provision in detail.

More specifically, given the low frequency, high severity nature of hurricane activity, Allstate believes that using historical data is not the most predictive approach of developing a Hurricane Provision per Amount of Insurance Year (AIY). Using a model provides a more stable result as it mitigates the volatility found in historical insurance data.

However, to be consistent with past Arkansas filings and with the hope of expediting the review of this filing, Allstate has selected its hurricane provision based on actual hurricane loss experience. Note that because of the Hurricane Provision, hurricane losses have been removed from the analysis performed to develop the Weather Loss and LAE.

Attachment V, Exhibit 20 displays the development of the Allstate Insurance Group Manufactured Home hurricane provision in Arkansas.

Please note that in developing the Provision for Hurricane 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. **Exhibit 19** shows the average AIY trend for Arkansas. The selected projection is displayed in **Exhibit 18**. This annual selection is used 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 *Appendix 1 – Background and Current Practices* of Actuarial Standard of Practice No. 13, *Trending Procedures in Property/Casualty Insurance Ratemaking*.

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EXPENSES AND PROFIT PROVISION

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

Exhibit 11 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

Provisions

General and Other Acquisition Expenses

The provisions for general expense and other acquisition expense are based on countrywide data. To develop the provision for general and other acquisition expenses, a three-year average of countrywide, combined-lines, calendar year incurred expense divided by countrywide calendar year direct earned premium was calculated. Because premiums charged for the net cost of reinsurance (NCOR) do not include provisions for general and other acquisition expenses, the earned premium used in the development of the general and other acquisition expenses is countrywide direct earned premium less countrywide NCOR premium. The provision for other acquisition expense has been reduced by the amount of installment fees collected. In addition, the provision has been adjusted for premiums written off.

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 in **Exhibit 11**.

The expense provisions for general and other acquisition expenses are developed on **Exhibits 12** and **13**.

Rate Need Calculations

In developing the dollar provision for general and other acquisition expenses used in the calculation of the rate level need, the three-year average expense ratio is applied to the average earned group premium of Arkansas. The 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 fixed expense trend utilized in the calculation of the indicated fixed expense provision consists of two components – a trend for General & Other Acquisition expenses and a trend for Licenses & Fees.

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

In addition to the General & Other Acquisition expenses, Licenses & Fees are also considered as fixed expenses. Licenses & fees are generally constant in the absence of state action; therefore, the fixed expense trend should only be applied to the General & Other Acquisition portions of the fixed expenses. To accomplish this, Allstate calculates a weighted average of two trends: the fixed expense trend for general and other acquisition (as calculated using the method described in the paragraph above) and a 0.0% trend for licenses and fees. This weighted-average trend can then be applied to the entire fixed expense provision. The factor to adjust for subsequent change in Fixed Expense is shown in **Exhibit 14**.

Variable Expenses

Commission and Brokerage Expense

The proposed commission and brokerage expense provision has been developed from the most recent calendar year commission and brokerage incurred expense ratio in Arkansas. The provision is shown in **Exhibit 11**.

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. The provision is shown in **Exhibit 11**.

Underwriting Profit Provision

Allstate performs two separate cost of capital analyses in the estimation of its cost of equity. The first uses the Fama-French Three-factor Model (FF3F), which reflects developments in the field of financial economics as published in the *Casualty Actuarial Society Forum*, Winter, 2004 and in *Journal of Risk and Insurance*, Vol. 72, No. 3, September 2005 (“Estimating the Cost of

Equity Capital For Property-Liability Insurers” by J. David Cummins and Richard D. Phillips). The second is a Discounted Cash Flow (DCF) analysis, which estimates the expected future cash flows to investors in order to gauge the proper cost of equity. Once both the DCF and FF3F estimates had been calculated, Allstate selected a cost of equity of 9.5%, which reflected the outcomes of both analyses.

An analysis of premium, loss and expense cash flows is used to calculate the investment income on policyholder supplied funds (PHSF). This methodology is one of the two examples given in Actuarial Standard of Practice, No. 30, *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 in **Exhibit 16**. 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.

The final pre-tax underwriting profit provision at present value is shown in **Exhibit 11** as well.

The underwriting profit provision will not apply to the retained risk provision or the high-layer retained hurricane losses.

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 in **Exhibit 11**.

Contingency Provision

The contingency provision of 2% is shown in **Exhibit 11**. Please note that the contingency provision does not apply to the retained risk provision.

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RETAINED RISK PROVISION

Allstate calculated a retained risk provision in determining the rate level need in Arkansas. This provision is meant to provide appropriate returns on the high-layer retained hurricane and fire following earthquake exposure. **Attachment IV** describes the development of the retained risk provision per Amount of Insurance Year (AIY). **Exhibit 10** displays the retained risk provision per AIY used in Arkansas. Please note that in developing the Provision for Hurricane Loss and LAE and Retained Risk, 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. **Exhibit 19** shows the average AIY trend. The selected projection is displayed in **Exhibit 18**. This annual selection is used 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 *Appendix 1 – Background and Current Practices* of Actuarial Standard of Practice No. 13, *Trending Procedures in Property/Casualty Insurance Ratemaking*. Due to the retained risk provision representing an appropriate return for this high-layer retained hurricane exposure, the underwriting profit provision for the corresponding loss and LAE is not applied.

The methodology used to develop this retained risk provision is based upon the approach detailed in the presentation “Quantifying Risk Load for Property Catastrophe Exposure” by David Appel from the 2010 Casualty Actuarial Society Ratemaking and Product Management Seminar (<http://www.casact.org/education/rpm/2010/handouts/RR3-Appel.pdf>).

However, Allstate proposes to remove the retained risk provision for this filing in order to comply with comments from the Arkansas Insurance Department. The selected retained risk provision of 0.00 can be found on **Exhibit 10**.

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ADJUSTMENTS TO PREMIUMS

Current Rate Level

All premiums in the experience period were adjusted to current rate level. Allstate applies the “Miller-Davis-Karlinski” method to adjust premiums 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.

The Miller-Davis-Karlinski method is also used to bring premiums to current rate level prior to calculating the changes in average premium used in 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. Unlike losses, premium is relatively stable. Only the latest year of premium is used in the calculation of the indication, which eliminates the need for premium trend. Premium projections are still selected to account for shifts in the distribution of various underlying factors. Given that the effects on losses caused by these shifts are reflected in the loss projections, it is important that Allstate also account for the anticipated future changes in premiums.

The projected average earned premium as well as the calculation of the premium projection factor is displayed in **Exhibits 17** and **18**, respectively. This annual projection is used to project the data from the average occurrence date of the most recent experience period to the average occurrence date of the future policy period. Premium trend data is provided in **Exhibit 19**.

This approach for selecting a premium projection is consistent with the Current Practices and Alternatives detailed in *Appendix 1 – Background and Current Practices* of Actuarial Standard of Practice No. 13, *Trending Procedures in Property/Casualty Insurance Ratemaking*.

ATTACHMENT III

Modeled Loss Provision

**ALLSTATE INSURANCE GROUP
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**DEVELOPMENT OF THE HURRICANE PROVISION
BASED ON THE 2011/2010 AIR VERSION 13.0 HURRICANE MODEL
IN THE STATEWIDE RATE LEVEL INDICATION
EXPLANATORY MEMORANDUM**

I. INTRODUCTION

The Casualty Actuarial Society Statement of Principles Regarding Property and Casualty Ratemaking defines a rate as “...an estimate of the expected value of future costs” and further states that “a rate provides for all costs associated with the transfer of risk”. Rates are therefore an estimate of the costs for the policies to which the rates will apply. In our property ratemaking we assume that the proposed rates will apply to the policies written for one year from the effective date of the rates. Each provision of the rate is based on an estimate of the costs associated with those policies.

Losses expected from a hurricane are significantly different than losses expected from other types of loss events. Hurricanes are unique because of the large potential impact such storms can have on the company's solvency and because of the relatively low frequency of such events.

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

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

In order to estimate the potential loss from hurricanes, 100,000 scenario years of potential hurricanes are simulated. This large number of simulations attempts to ensure that the resulting

probability distribution of losses converges to a stable representative distribution of potential annual hurricane loss.

The pattern of simulated hurricanes is representative of what has occurred historically because meteorological data on the actual events since 1900 were used to estimate the parameters of the AIR hurricane simulation model. The meteorological sources used to develop the model are the most complete and accurate databases available from various agencies of the National Weather Service and the National Oceanic and Atmospheric Administration (NOAA), including the National Hurricane Center.

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

II. HURRICANE PARAMETERS AND WIND SPEED ESTIMATION

HURRICANE PARAMETERS

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

1. Hurricane Frequency
2. Landfall Location
3. Central Pressure
4. Radius of Maximum Winds
5. Forward Speed
6. Track Angle at Landfall
7. Storm Track
8. Gradient Wind Reduction Factor
9. Peak Weighting Factor

The probability distributions for several of these variables (2-6) are estimated for coastal segments of equal length from Texas to Maine. Random samples are generated from the probability distributions of these input variables to assign values to the variables for each simulated hurricane.

1. Hurricane Frequency

More than one hundred years of history, spanning the period 1900-2008, were used to estimate the parameters of the annual frequency distribution.

2. Landfall Location

There are 62 segments of fifty nautical miles in the AIR hurricane simulation model, totaling 3,100 nautical miles of coastline. Of these, segment 29 in Southern Florida is split into two parts, one of which represents Key West in Florida. Historical landfalls are

tabulated by the 62 segments and the frequencies are then smoothed to produce an estimate of the landfall probability for each segment. A cumulative probability distribution of landfall locations is developed for the entire coastline. Once a landfall segment has been selected from this distribution, the exact landfall location is selected from a uniform distribution within the segment.

3. Central Pressure

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

4. Radius of Maximum Winds

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

5. Forward Speed

Forward Speed is the speed at which a hurricane moves from point to point. The parameters of the distribution of forward speed at landfall are estimated for each coastal segments. The lower bound of the distribution of forward speed is three nautical miles. The upper bound is dependent on latitude. Forward speed is allowed to vary after landfall based on historical distributions.

6. Track Angle at Landfall

Track Angle at Landfall is the angle between track direction and due north at landfall location. Separate distributions for track angle at landfall are estimated for segments of coastline that have variable orientation.

7. Storm Track

A times-series model is employed to reflect dependent variables in the historical data to produce simulated storm tracks. The track direction of each simulated hurricane has the capability to curve and recurve on a fully probabilistic basis using conditional probability matrices. Thus, the AIR hurricane simulation model has the ability to propagate a storm track that accurately imitates actual storm motion.

8. Gradient Wind Reduction Factor (GWRF)

The model uses a stochastic GWRF, which varies from storm to storm according to a probability distribution. The probability distribution is developed based on dropsonde data for the period 2002-2005 along with published literature.

9. Peak Weighting Factor (PWF)

The PWF is a stochastic parameter used to reflect the vertical slant of the hurricane eye. The PWF and GWRF are generated jointly using a bounded Bivariate Normal distribution.

HURRICANE WIND SPEED ESTIMATION

Once the key parameters have been generated, the meteorological relationships among them are used to develop a complete time profile of wind speeds for each location affected by the storm. This involves the following calculations for each simulated hurricane:

1. Gradient-Level Wind Speed
2. Adjustment to surface (10-meter) level
3. Storm Asymmetry
4. Storm Decay (Filling)
5. Radial Decay (Storm Center-Relative Wind Speed)
6. Adjustment of Wind Speed for Surface Friction and Averaging Time

1. Maximum Gradient-Level Wind Speed

A maximum upper-level (or gradient-level) wind speed is determined based on central and peripheral pressures, as well as radius of maximum winds and latitude coordinates. The upper level wind is then determined above the location of interest by adjusting the maximum value based on the distance of location from the eye of the storm. This is done using an expected radial gradient wind profile derived from the scientific literature. This wind, called the gradient-level wind speed, is estimated over a 10-minute averaging time.

2. Adjustment to surface (10-meter) level

The gradient-level wind is then reduced to a 10-meter height level through application of a scaling factor and a spatial relationship adjustment. The gradient-wind adjustment factor (GWRF) that is used is a variable factor that represents the observed relationship between gradient-level winds and those measured at a 10-m height. The spatial adjustment accounts for differences in the GWRF relationship between the core and the periphery of the storm. The resulting wind represents the surface-level (10-meter) wind speed over an open water surface.

3. Storm Asymmetry

An asymmetry factor is calculated based on the forward speed of the hurricane and the relationship between the track direction and the surface wind direction. Since storms in the Northern Hemisphere rotate counterclockwise, this factor is added to the wind speeds calculated to the right of the hurricane track and is subtracted from those calculated to the left of the hurricane track. The wind field's asymmetry is therefore a function of how quickly the storm is propagating.

4. Storm Decay (Filling)

Once over land, the hurricane moves away from its source of energy, i.e., warm ocean water. Central pressure rises and as a result, the eye "fills" and winds degrade. Filling equations used in the AIR model estimate the reduction in over-land wind speed as a function of time since landfall, rather than distance. A fast moving storm can produce damaging winds further inland than a slow moving storm with the same landfall intensity (wind speed). Some storms can also reintensify after landfall, in accordance with historical data, but central pressure cannot be lower than the central pressure at landfall. The filling equations vary by coastal region and smoothing is performed to ensure that there are no unrealistic jumps between regions.

5. Radial Decay (Storm Center-Relative Wind Speed)

The wind speed in any five-digit zip code is dependent on the distance of the zip code centroid from the eye of the storm. The estimated wind speed at any point within the hurricane is dependent on the radius of maximum winds (R_{max}), the distance between the eye of the storm and the centroid of the zip code area, the translational factor between upper-level winds and surface-level wind speeds, and the vertical slant in the eye of a hurricane. As a zip code centroid lies farther from the eyewall, the winds decay until they reach an ambient level at the periphery of the storm.

6. Adjustment of Wind Speeds for Surface Friction and Averaging Time

Differences in surface terrain also affect wind speeds. The roughness of the underlying surface induces friction which tends to slow down the winds, and induces turbulence effects which tend to generate short-lived gusts. The friction and gust effects are estimated based on the roughness of the surface over which the wind passes and from which direction the winds are coming.

A friction factor is calculated to capture surface roughness at each affected site and the associated decrease in wind speed that results from surface obstacles. Estimates of surface roughness are derived from digital US Geological Survey (USGS) land use/land cover data. Each terrain type has a different "roughness value" that will lead to different frictional effects on wind speeds at different locations. In general, the rougher the terrain the larger the effect of friction on wind speeds.

As soon as a storm crosses the coastline, there is an immediate reduction in wind speed. The reduction factors reach equilibrium values when the terrain is homogeneous over sufficiently large areas such that the surface winds come in balance with the surface. Thus, most local variability occurs when the underlying surface is diverse.

A gust factor is calculated to capture the effects of surface turbulence and is also associated with the roughness of the terrain. Smooth surfaces impart only a small turbulent effect. The adjustment for rougher surfaces is more substantial since rough surfaces tend to generate short-lived gusts which will translate to a stronger maximum 1-minute sustained wind speed. The gust factor is computed using the same USGS land use data set as is used for the friction calculation. The final adjusted wind represents a 1-minute at a 10-meter height that accounts for the impacts of the local environment and the forward motion of the storm.

III. DAMAGE ESTIMATION AND DEMAND SURGE

AIR engineers have developed damage functions that describe the interaction between buildings, (including both structural and nonstructural components) and their contents, and the local wind speeds to which they are exposed. These functions relate the mean damage level as well as the variability of damage to wind speed at each location. Because different structural types will experience different degrees of damage, the damage functions vary according to construction class, occupancy, and height. The model estimates a complete distribution around the mean level of damage for each local wind speed and each structural type. Losses are calculated by applying the appropriate damage function to the replacement value of the insured property.

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

Any major hurricane event causes an increase in demand for materials and services to repair and rebuild damaged property. This can put pressure on costs, resulting in higher than expected costs. Therefore, AIR applies aggregate demand surge functions to loss estimates to take into account the combined effects of events clustered in both time and geography.

IV. LOSS CALCULATION

ALLSTATE EXPOSURE DETAIL

Allstate has supplied AIR with a detailed exposure database containing insured values by policy level and ZIP Code for each line of business, construction, and deductible combination. Damage functions relating wind speed and wind duration to the percentage of property damaged for

varying types of coverage and construction are used to produce loss estimates by zip code for each simulated hurricane.

MODELED LOSS ESTIMATES

Losses estimated from 100,000 years of simulated potential hurricanes are summed and divided by 100,000 to produce the expected annual losses from all hurricanes for each ZIP Code. ZIP Code loss estimates are then aggregated to produce expected annual loss by county and state.

Hurricane factors are then calculated as the total loss estimate for a given ZIP Code, county, or state divided by the total insured value in thousands of dollars (amount of insurance years). This factor is applied to the expected average amount of insurance years in the determination of the overall rate level indication.

ADJUSTMENTS TO MODELED LOSS ESTIMATES

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

1. Atlantic Warm Sea Surface Temperature
2. Loss Adjustment Expenses

1. Atlantic Warm Sea Surface Temperature Adjustment

Meteorological research has identified correlations between naturally varying ocean temperatures and hurricane activity originating in the Atlantic that affects both the Gulf and the Atlantic coastlines. The active 2004 and 2005 hurricane seasons have heightened Allstate's awareness of such relationships. Scientists have concluded that the climate is presently undergoing a cycle of warmer than average sea surface temperatures which is expected to result in increased hurricane activity in the United States. It is well known that the ocean is able to retain heat for very long periods of time, a physical characteristic known as persistence. Due to the ocean's long-term persistence and the associated ocean current cycle known as the Atlantic Thermohaline Circulation, most scientists believe that the Atlantic Ocean is likely to remain warmer than average for the next several years.

Methodology:

The AIR WSST hurricane catalog (using 50,000 years of simulations) is a catalog developed to account for the impact of warm sea surface temperatures in the Atlantic Ocean on hurricane landfall activity. The WSST catalog is based on AIR's standard hurricane catalog with adjustments made to landfall frequencies by region to reflect the

expected impact of warmer-than-average sea surface temperatures. All of the model components aside from the catalog are that of the AIR Atlantic Tropical Cyclone Model, Version 13.

The AIR WSST catalog was used to calculate an Average Annual Loss net of deductible and gross of reinsurance (referred to as “Gross AAL”). In addition, the AIR standard hurricane catalog (using the first 50,000 years of simulations) was used to calculate a Gross AAL. The WSST Factor was developed by taking the ratio of the Gross AAL from the WSST hurricane catalog to the Gross AAL from the standard hurricane model.

$$\text{Indicated WSST Factor} = \frac{\text{Gross AAL from AIR WSST hurricane catalog}}{\text{Gross AAL from AIR standard hurricane catalog}}$$

The WSST Factors were calculated for each state and line of business and rounded to 3 decimals.

Allstate removes the wind pool policies from the factor calculations to be consistent with the Hurricane Factor Methodology. The impact of removing wind pool losses had minimal to no impact to the WSST factors.

Data:

2011/2010 WSST Factors - Without Wind Pool	
<u>State</u>	<u>Factor</u>
Arkansas	1.111

* Uses 50,000 Years

2. Loss Adjustment Expenses

Loss Adjustment Expenses (LAE), both allocated and unallocated, represent the costs of adjusting, investigating and settling losses due to the hurricane peril. Allocated expenses are incurred while investigating and settling claims and are considered allocated because they can be linked directly to a claim file. Unallocated expenses are associated with processing claims but cannot be linked directly to a claim file. Modeled hurricane losses provided by AIR do not include LAE. Therefore it is necessary to develop a LAE provision to be applied to these losses for use in pricing and hurricane exposure management. In order to account for the LAEs associated with hurricane losses, we have applied a factor of 1.17 to the modeled losses for all property lines. The selection of this provision was based on a study of the LAE associated with hurricane losses for Allstate.

Methodology:

Allocated Loss Adjustment Expense (ALAE)

Loss and allocated loss adjustment expense data for hurricane events from 1998 through 2010 was analyzed. Tropical storms are not included in the LAE analysis, as they are not

simulated in the modeled loss data. A ratio of allocated loss adjustment expenses to losses was developed.

Unallocated Loss Adjustment Expense (ULAE)

Loss and unallocated loss adjustment expense data for hurricane events from the time period of 1998 through 2010 was analyzed. A ratio of unallocated loss adjustment expenses to losses was developed.

Allstate Insurance Group Allstate Personal and Commercial Lines Combined Loss Adjustment Expense Analysis - Hurricane Peril	
ALAE	1.8%
ULAE	<u>16.4%</u>
Total	18.2%
Selected:	17.0%

V. ACTUARIAL STANDARDS OF PRACTICE

The rules and procedures as set forth in Actuarial Standard of Practice No. 38, *Using Models Outside the Actuary's Area of Expertise (Property and Casualty)* were applied in reviewing the modeled losses.

ATTACHMENT IV

Retained Risk Provision

**ALLSTATE INSURANCE GROUP
MOBILEHOME
ARKANSAS**

**DEVELOPMENT OF RETAINED RISK PROVISION BASED ON MODELED
EXPOSURE**

Allstate includes a provision in the rates to cover the risk of exposing its capital to large catastrophic events. This retained risk provision (RRP) is intended to provide appropriate compensation to Allstate relative to its retained, high-layer modeled risk. The provision described below is consistent with the rules and procedures set forth in the Actuarial Standard of Practice No. 38, *Using Models Outside the Actuary's Area of Expertise (Property and Casualty)* and Actuarial Standard of Practice No. 39, *Treatment of Catastrophe Losses in Property/Casualty Insurance Ratemaking*.

The procedure for developing the RRP calls for identifying the portion of catastrophic losses that will be retained by Allstate and then estimating the cost to Allstate of holding the capital required to pay such losses. To measure the amount of retained losses, Allstate's actual reinsurance contracts are applied to the modeled losses based on the 2011/2010 AIR Version 13.0 Hurricane and Earthquake Model for Arkansas. This provides an estimate of the portion of the losses that will be covered by Allstate's reinsurance contracts and the amounts that will be retained by Allstate. Once the retained losses in excess of a 1-in-5-year event (i.e., 20% annual occurrence probability) have been determined, we then calculate the appropriate compensation for exposure to such losses by using data from capital markets – specifically the market for catastrophe bonds. The details of the procedures used to determine the magnitude of retained losses at various occurrence probabilities, and the investor-required compensation for bearing the risk of those losses, are explained in more detail below.

Catastrophe bonds are one of a class of financial instruments known collectively as “insurance linked securities (ILS).” ILS have payoffs conditional on future contingent events, such as the occurrence of hurricanes. While there are a variety of ILS traded in today's capital markets, the most common and prominent of these are catastrophe bonds, which are bonds that may default on both principal and interest if a specific catastrophic event occurs.

Typically a catastrophe bond is issued by an insurance company with a provision that if a specified catastrophic event (e.g., hurricane in Florida, earthquake in California, winter storm in Europe, etc.) of a particular magnitude occurs, the issuer may default on the payment of principal and/or interest on the bond. In that respect, the bond functions similarly to reinsurance – once the “attachment point” is breached, the insurer receives a benefit that at maximum is equal to the face amount of the bond. When catastrophe bonds are sold, investors naturally demand a yield premium as compensation for the risk of default.

Mechanically, when catastrophe bonds are sold, the issuer deposits the proceeds of the sale into a segregated account which pays interest at the risk free rate. However, because of the default risk, the yields on such bonds must be higher than the risk free rate. Thus, the interest in excess of the risk free rate is an excellent basis for measuring the risk premium that the marketplace has established for bearing catastrophe exposure. Furthermore, since insurers face the same risk of catastrophic loss as investors, the risk premiums paid in capital markets provide an appropriate measure of the compensation required for the insurer as well.

There are several reasons why this is a particularly useful way to quantify a RRP in ratemaking. First, the data are drawn directly from capital markets, meaning they reflect the consensus of all investors as to the compensation required for bearing catastrophe risk. Second, they reflect exactly the types of risks to which insurers are exposed when they write property coverage in catastrophe prone states; as such they represent an appropriate estimate of the return demanded for the catastrophe exposure. Third, the entire analysis is free of assumptions regarding insurer-specific factors such as cost of capital, leverage, and investment income. Finally, the data required to adapt this information to insurance ratemaking is readily available and reported regularly at annual (or more frequent) intervals.

The data used in the calculation of the rate retained risk provision was selected in accordance with the considerations listed in Section 3.2 of Actuarial Standard of Practice No. 23, *Data Quality*. As regards the data, the sources Allstate relies upon are the annual publications of Lane Financial LLC, the most prominent analyst of the ILS market in the US. Annually, Lane Financial provides a summary of all newly issued catastrophe bonds, which includes information on the following critical variables:

- Face amount of bond
- Insured peril
- Yield spread to risk free rate (the excess return or risk premium on the bond)
- Probability of first loss (the probability that the insured event will cause any loss of principal or interest)
- Probability of exhaustion (the probability that the loss will be large enough to exhaust the entire principal of the bond)
- Expected value of loss (the annual average loss given the probability of attachment and exhaustion, expressed as a percent of the face amount of the bond)

Allstate uses this data to develop the appropriate RRP by state, line, and company in the following manner. First, profit multiples are calculated, which are obtained by subtracting the expected value of loss from the excess return on the bond, and then dividing that quantity by the expected loss. This profit multiple is essentially a measure of the profit an investor expects per dollar of expected loss on the bond. However, as might be expected, the amount of profit that investors require per dollar of loss depends on the riskiness of the losses themselves. For bonds that are extremely risky (i.e., that have very low probabilities of attachment) the profit multiples are considerably higher than for less risky instruments. Therefore, when the data are compiled, the profit multiples are computed for each bond, and a regression curve is fit to the profit multiple data. The average profit multiples for each layer are then determined using the fitted curve, for the following layers: those with attachment probabilities of 20% - 10%, 10% - 5%, 5% - 2%, 2% - 1%, 1% - 0.4%, and less than 0.4%. As expected, these profit multiples increase as the attachment probabilities decrease.

The next step is to apply these profit multiples to the amount of modeled losses retained by Allstate. To do this, the amount of retained modeled losses are compiled by layer, where the layers are defined by occurrence probabilities in the same ranges as the profit multiples described above. Given the expected retained losses within each layer and the required profit per dollar of loss as measured by the profit multiples, the RRP (in dollars) is calculated by multiplying the expected retained losses within each layer by the corresponding profit multiple and summing across the layers. This result can be used to estimate the appropriate compensation to Allstate for its retained modeled exposure.

These calculations are performed using annual aggregate modeled losses since Allstate's surplus is exposed to multiple events in the same year. The aggregate annual occurrence probabilities are determined by using all modeled losses in Arkansas using the AIR model event sets.

The AIR model produces 50,000 years of modeled losses, which are initially ranked from high to low. The loss sizes are determined for each of the occurrence probabilities that are used to define the loss layers (0.4%, 1%, 2%, 5%, 10%, and 20%). For example, the 1-in-100-year loss (1% probability) is the amount of modeled loss in the 500th largest year (1% of 50,000), the 1-in-250-year loss (0.4% probability) is the amount of modeled loss in the 200th largest year, etc. Once the loss sizes are determined for the boundaries of each layer, all expected losses from the AIR model are distributed into these layers of loss.

Next, the amount of losses in each layer that are covered by Allstate's reinsurance contracts is determined by applying Allstate's reinsurance contracts to the modeled losses. The following items need to be considered when applying Allstate's reinsurance contracts:

- For events that impact more than one state, the reinsured losses are allocated to each affected state proportional to those events' expected losses in each state.
- Allstate's nationwide (excluding New Jersey and Florida) reinsurance contract is a per occurrence excess-of-loss contract that covers catastrophe losses in a year, subject to the terms and limits of that contract.
- The reinsurance coverage provided by the nationwide contract is applied to each state proportional to each state's expected losses in the reinsured layer.
- Some states have multiple reinsurance contracts that provide coverage for various types of catastrophe losses – these may include state-specific reinsurance contracts in addition to the nationwide contract.
- Additional considerations are required when there are multiple events in a year to ensure that the reinsured losses are allocated properly to each state.

Allstate's retained losses for each event are derived by subtracting the losses covered by reinsurance from the total expected losses. In some years, the retained losses exceed the total amount of Allstate's statutory surplus. Those years with retained losses in excess of Allstate's surplus are identified and Arkansas's portion of the excess losses is determined proportional to the retained losses in that year. The losses in excess of Allstate's statutory surplus are subtracted from the retained losses to determine the exposed losses covered by Allstate's surplus.

The indicated RRP is then developed by applying the profit multiple indicated by capital markets to the exposed Arkansas losses covered by surplus in each layer. The dollars of RRP are summed across the layers, and a diversification factor is applied to account for the fact that Allstate is a multi-line, multi-state company, to determine the total RRP.

Finally, the dollars of calculated RRP are divided by Amount of Insurance Years (AIYs) to develop a per-AIY charge that is included in the rate level indication.

ATTACHMENT V

Contingency Factor Support Explanatory Memorandum

**ALLSTATE INSURANCE GROUP
HOMEOWNERS
ARKANSAS**

**CONTINGENCY FACTOR SUPPORT
EXPLANATORY MEMORANDUM**

Definitions

Please note that within 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.

Contingency Factor

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

Actuarial Standard of Practice (ASOP) No. 30, *Treatment of Profit and Contingency Provisions and the Cost of Capital in Property/Casualty Insurance Ratemaking*, defines the contingency provision for ratemaking purposes as follows: A provision for the expected differences, if any, between the estimated costs and the average actual costs, that cannot be eliminated by changes in other components of the ratemaking process. ASOP No. 30 goes on to state that:

- The actuary should include a contingency provision in the rates if assumptions used in ratemaking produce cost estimates that are not expected to equal average actual costs, and if the difference cannot be eliminated by changes in other components of the ratemaking process.
- While estimated costs are intended to equal average actual costs over time, differences between estimated and actual risk transfer costs may be expected in any given year. If a difference persists, the difference should be reflected in the ratemaking calculations as a contingency provision. The contingency provision is not intended to measure the variability of results and is not expected to contribute to profit.

Estimating the impact of costs that “cannot be eliminated by changes in other components of the ratemaking process” can be a challenge, and there has not yet emerged an ideal methodology for it.¹ Steven G. Lehmann, in his paper titled *Contingency Margins in Rate Calculations* notes, “How do you measure the ‘unmeasurable’? Some may argue that measurement of the contingency factor is impossible because, by their very nature, contingencies are events which are not susceptible to treatment in the normal ratemaking approach – things you cannot plan for” (pg 227). As a result, historically, some actuaries have simply built in a provision that seemed “reasonable” using actuarial judgment. Conversely, Allstate has completed two different

¹ CAS literature has been surprisingly quiet on contingency provision methodology. The most recent paper addressing the issue was written in 1985 by Steven G Lehmann.

analyses intended to help give guidance as to what is a reasonable contingency provision. One approach is to determine what portion of historical losses came from events that were not intended to be covered. The other approach is to compare expected losses to actual losses over a long period of time to see if a difference persists. Each approach is described in detail below.

Unexpected Loss Analysis

Even if an 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.

The unexpected loss methodology for calculating a contingency provision allows for more specificity around the type of events that are included. We have reviewed loss experience 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, dog bites, and drug cartel wars. Identifying these events through Allstate claim file narratives allows us to exclude claims that are not appropriate to a contingency provision, such as normal low frequency, high severity events and regulatory delay situations. The effect of inflation is also excluded.

Some of these losses are too old to obtain reliable loss data at the claim level of detail. Some of these losses are too new to have worked into our data yet. Some events are excluded because, even with sophisticated computer programs, losses are not specifically tracked and so can't be separated from other loss data for inclusion in 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 selected a group of events from the above list of considered events (including oil tanks, slab losses, mold and flooding) for

which we can obtain more detailed loss data. It is not our intention to price these specifically named events, but to use these events as a proxy for unforeseen events occurring in the future. Issues which triggered payments over several years cannot be considered “unexpected” for an indefinite period of time. In these cases, we have judgmentally included losses from the first three years following the initial event. After three years we assume that these losses are present in our indications data and that we have priced sufficiently for the event’s exposure in our rates. Some events are of shorter duration and so fewer than three years of losses are included in the calculations. Note also that data includes some low frequency, high severity losses. Such losses are more appropriately accounted for with a long-term provision rather than in a contingency provision, and Allstate does calculate an adequate weather provision (theoretically sound and calculated over a sufficiently long period of time). However, the legislative, media and other influences that generate unexpected losses can also affect such losses. Therefore, these 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. While we do not have sufficient data to calculate a contingency factor using only Mobilehome data, it is our belief that the provision developed using Allstate’s Owners, Renters and Condo forms is appropriate for the Mobilehome form as well.

Attachment VI, Exhibit 15 shows the sum of all claims divided by countrywide homeowners accident year non-catastrophe losses from 1996 – 2003, adjusted for expense provisions. This time period was chosen to match the time period of losses readily available to us (our claim files older than 1996 cannot be effectively reviewed to extract specific losses). Our analysis was completed in 2004, and due to systems modifications since then, retrieving data at this level of detail would require extensive effort. Losses for some events have been adjusted downward to reflect the fact that, despite the sophistication of our analysis, some claims unrelated to the issue in question can be unintentionally included in the loss totals.

Expected Loss Versus Actual Loss Analysis

As noted above, ASOP 30 states: “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.” Thus, the goal of Allstate’s second analysis is to determine if there is a persistent difference between actual and expected losses.

In this approach, Allstate’s rate-level indication methodology was replicated for historical non-catastrophe losses, and the estimate of a future year’s losses is compared to the actual losses for that year. For example, data from 1997, 1998, and 1999 is used to calculate an estimate of losses for the year 2000. This estimate is then compared to the actual losses for the year 2000. This process was repeated using data going back to 1992. However, note that, we have opted to allow the actual losses to develop for three additional years in order to have an actual loss value that is close to its ultimate value. As a result, the most recent data used in the analysis will always lag behind the current year by approximately three years.

Attachment VI, Exhibit 15 shows the results of the historical comparison of expected and actual losses. This long-term difference is then divided by total losses to get a percentage, and is then adjusted for expense provisions.

ATTACHMENT VI

Rate Level Indication Exhibits

**ALLSTATE INSURANCE COMPANY
MOBILEHOME
ARKANSAS**

SUMMARY OF RATE LEVEL CHANGES

	Premium Dist. at Current Rates	Indicated Change	Selected Change*
Variable Package Premium	93.3%	N/A	10.6%
Total Mobilehome Package	93.3%	N/A	10.6%
Additional Coverages	6.7%	N/A	N/C
Total Mobilehome	100.0%	32.7%	9.9%
*Implicitly assumes no indicated change for additional coverages.			

**ALLSTATE INSURANCE COMPANY
MOBILEHOME
ARKANSAS**

DETERMINATION OF STATEWIDE RATE LEVEL INDICATION

1) Indicated Provision for Loss and Loss Adjustment Expense	\$483.06
[(a) + (b) + (c)]	
a) Non-Weather Loss and LAE	\$162.38
b) Weather Loss and LAE	\$314.70
c) Hurricane Loss and LAE	\$5.98
2) Current Fixed Expense Ratio	10.5 %
3) Three Year Average Earned Premium	\$656.26
4) Current Dollar Provision for Fixed Expense	\$68.91
[(2) x (3)]	
5) Factor to Adjust for Subsequent Change in Fixed Expense	1.099
6) Indicated Provision for Fixed Expense	\$75.73
[(4) x (5)]	
7) Variable Expense, Contingencies Ratio, and Profit Ratio	26.5 %
[(a) + (b) + (c)]	
a) Variable Expense Ratio (including Commissions, Taxes, and Debt Provision)	16.3 %
b) Contingencies Ratio	2.0 %
c) Profit Ratio	8.2 %
8) Selected Retained Risk Provision	\$0.00
9) Indicated Average Premium	\$760.26
[(a) + (b)]	
a) Non-Weather Loss and LAE	\$760.26
Weather Loss and LAE	
Low-Layer Retained and Ceded Hurricane Loss and LAE	
Fixed Expense	
[(1a) + (1b) + (1c) + (6)] / [1 -(7 Total)]	
b) Retained Risk Provision	\$0.00
(8) / [1 - (7a)]	
10) Projected Average Earned Premium at Current Rates	\$572.84
11) Indicated Rate Level Change	32.7 %
[(9 Total) / (10) - 1.0]	

**ALLSTATE INSURANCE COMPANY
MOBILEHOME
ARKANSAS**

DEVELOPMENT OF PROVISION FOR LOSS AND LAE

Non-Weather Peril excluding Earthquake

Data: Arkansas Allstate Insurance Group

Fiscal Accident Year* Ending	<u>9/30/2008</u>	<u>9/30/2009</u>	<u>9/30/2010</u>	<u>9/30/2011</u>	<u>9/30/2012</u>
1) Earned Exposures	2,911	2,987	2,975	2,894	2,818
2) Accident Year* Non-Weather Ultimate Loss	536,989	644,138	482,180	263,129	205,016
3) Non-Weather Ultimate Loss and LAE	\$615,926	\$738,826	\$553,060	\$301,809	\$235,153
4) Factor to Adjust Losses for Pure Premium Trend	1.136	1.113	1.091	1.070	1.049
5) Projected Non-Weather Ultimate Loss and LAE [(3) x (4)]	\$699,692	\$822,313	\$603,388	\$322,936	\$246,675
6) Projected Average Non-Weather Loss and LAE [(5) / (1)]	\$240.36	\$275.30	\$202.82	\$111.59	\$87.54
7) Non-Weather Experience Year Weights	20%	20%	20%	20%	20%
8) Indicated Provision for Non-Weather Loss and LAE $\Sigma [(6) \times (7)]$					\$183.52
9) State Non-Weather Credibility					50%
10) Non-Weather Complement of Credibility					\$141.25
11) Credibility-Weighted Indicated Provision for Non-Weather Loss and LAE [(8) x (9) + [1 - (9)] x (10)]					\$162.38

Weather Peril

Data: Arkansas Allstate Insurance Group

Fiscal Accident Year* Ending	<u>9/30/2008</u>	<u>9/30/2009</u>	<u>9/30/2010</u>	<u>9/30/2011</u>	<u>9/30/2012</u>
12) Accident Year* Weather Ultimate Severity	\$3,363.62	\$1,878.14	\$3,260.37	\$2,681.04	\$2,282.36
13) Weather Ultimate Severity incl. LAE	\$3,858.07	\$2,154.23	\$3,739.64	\$3,075.15	\$2,617.87
14) Weather Severity Trend Factor	1.453	1.371	1.294	1.220	1.151
15) Projected Weather Ultimate Severity incl. LAE [(13) x (14)]	\$5,605.78	\$2,953.45	\$4,839.09	\$3,751.68	\$3,013.17
16) Weather Experience Year Weights	20%	20%	20%	20%	20%
17) Indicated Provision for Severity Including All LAE $\Sigma [(15) \times (16)]$					\$4,032.63
18) Indicated Provision for Frequency					7.84%
19) Indicated Provision for Weather Loss and LAE [(17) x (18)]					\$316.16
20) State Weather Credibility					98%
21) Weather Complement of Credibility					\$243.43
22) Credibility-Weighted Indicated Provision for Weather Loss and LAE [(19) x (20) + [1 - (20)] x (21)]					\$314.70

* Evaluated at 15 months

**ALLSTATE INSURANCE COMPANY
MOBILEHOME
ARKANSAS**

CALCULATION OF LOSS DEVELOPMENT FACTORS

Liability Peril

Data: Countrywide Allstate Insurance Group

Incurred Losses †

Fiscal Accident Year Ending 09/30	15 Months	27 Months	39 Months	51 Months	63 Months	75 Months	87 Months‡
2001							2,780,162
2002						3,252,690	3,274,715
2003					2,747,869	2,783,436	2,772,302
2004				2,276,750	2,246,896	2,304,353	2,284,346
2005			2,396,611	2,472,101	2,544,868	2,554,017	2,594,672
2006		1,729,432	1,795,407	1,877,538	1,882,078	1,883,252	1,902,752
2007	2,037,528	2,268,853	2,280,046	2,314,093	2,317,777	2,337,729	
2008	2,214,610	2,427,224	2,890,355	2,901,915	2,981,298		
2009	2,046,827	2,730,671	3,026,634	3,160,132			
2010	3,134,978	3,505,609	3,445,691				
2011	2,491,529	2,713,873					
2012	2,079,444						

Link Ratios

Development	15 to 27	27 to 39	39 to 51	51 to 63	63 to 75	75 to 87
4th Prior	1.114	1.038	1.031	0.987	1.013	1.007
3rd Prior	1.096	1.005	1.046	1.029	1.026	0.996
2nd Prior	1.334	1.191	1.015	1.002	1.004	0.991
1st Prior	1.118	1.108	1.004	1.002	1.001	1.016
Latest	1.089	0.983	1.044	1.027	1.009	1.010
5 Year Average:	1.150	1.065	1.028	1.009	1.011	1.004

Loss Development Period (months):	<u>15 - 87</u>	<u>27 - 87</u>	<u>39 - 87</u>	<u>51 - 87</u>	<u>63 - 87</u>
Loss Development Factor:	1.289	1.121	1.053	1.024	1.015

†Includes ALAE

‡Includes supplemental reserves in addition to case reserves

CALCULATION OF ULTIMATE LOSS

Liability Peril

Data: Countrywide Allstate Insurance Group

Year	(1) Modified Inc. Loss	(2) Factor to Ultimate	(3) Ultimate Loss & ALAE
2008	\$27,049	1.015	\$27,454
2009	\$107,874	1.024	\$110,463
2010	\$394	1.053	\$415
2011	\$3,089	1.121	\$3,462
2012	\$4,461	1.289	\$5,750

**ALLSTATE INSURANCE COMPANY
MOBILEHOME
ARKANSAS**

CALCULATION OF LOSS DEVELOPMENT FACTORS

Non-Weather Excluding Liability
Data: Countrywide Allstate Insurance Group

Incurred Losses †							
Fiscal Accident Year Ending 09/30	<u>15 Months</u>	<u>27 Months</u>	<u>39 Months</u>	<u>51 Months</u>	<u>63 Months</u>	<u>75 Months</u>	<u>87 Months ‡</u>
2001							23,606,877
2002						19,611,236	19,608,410
2003					15,128,881	15,142,971	15,164,025
2004				16,508,423	16,490,369	16,491,917	16,491,547
2005			14,298,868	14,300,172	14,304,912	14,298,462	14,298,353
2006		17,390,133	17,412,879	17,188,569	17,181,419	17,177,241	17,176,780
2007	20,818,829	21,145,342	21,374,357	21,375,660	21,387,147	21,387,675	
2008	25,589,495	26,658,398	26,924,916	26,849,742	26,715,805		
2009	32,446,042	32,616,485	32,578,820	32,574,063			
2010	30,920,211	31,344,866	31,245,140				
2011	32,202,333	32,147,787					
2012	21,681,798						
Link Ratios							
<u>Development</u>	<u>15 to 27</u>	<u>27 to 39</u>	<u>39 to 51</u>	<u>51 to 63</u>	<u>63 to 75</u>	<u>75 to 87</u>	
4th Prior	1.016	1.001	1.000	0.999	1.001	1.000	
3rd Prior	1.042	1.011	0.987	1.000	1.000	1.001	
2nd Prior	1.005	1.010	1.000	1.000	1.000	1.000	
1st Prior	1.014	0.999	0.997	1.001	1.000	1.000	
Latest	0.998	0.997	1.000	0.995	1.000	1.000	
5 Year Average:	1.015	1.004	0.997	0.999	1.000	1.000	
Loss Development Period (months):	<u>15 - 87</u>	<u>27 - 87</u>	<u>39 - 87</u>	<u>51 - 87</u>	<u>63 - 87</u>		
Loss Development Factor:	1.015	1.000	0.996	0.999	1.000		

†Includes ALAE

‡Includes supplemental reserves in addition to case reserves

CALCULATION OF ULTIMATE LOSS

Non-Weather Excluding Liability
Data: Countrywide Allstate Insurance Group

Year	(1)	(2)	(3)
	Modified Inc. Loss	Factor to Ultimate	Ultimate Loss & ALAE
2008	\$509,535	1.000	\$509,535
2009	\$534,209	0.999	\$533,675
2010	\$483,700	0.996	\$481,765
2011	\$259,667	1.000	\$259,667
2012	\$196,321	1.015	\$199,266

**ALLSTATE INSURANCE COMPANY
MOBILEHOME
ARKANSAS**

CALCULATION OF FREQUENCY DEVELOPMENT FACTORS

Weather Peril

Data: Countrywide Allstate Insurance Group

Paid Frequency

Fiscal Accident Year Ending 09/30	<u>15 Months</u>	<u>27 Months</u>	<u>39 Months</u>	<u>51 Months</u>	<u>63 Months</u>	<u>75 Months</u>	<u>87 Months</u>
2001							5.77%
2002						5.17%	5.17%
2003					5.37%	5.38%	5.38%
2004				4.22%	4.22%	4.22%	4.22%
2005			3.87%	3.87%	3.87%	3.87%	3.87%
2006		4.46%	4.46%	4.46%	4.46%	4.47%	4.47%
2007	4.33%	4.34%	4.34%	4.34%	4.34%	4.34%	
2008	6.00%	6.02%	6.02%	6.02%	6.02%		
2009	6.97%	7.00%	7.00%	7.00%			
2010	6.21%	6.23%	6.23%				
2011	9.99%	10.01%					
2012	6.87%						

Link Ratios

<u>Development</u>	<u>15 to 27</u>	<u>27 to 39</u>	<u>39 to 51</u>	<u>51 to 63</u>	<u>63 to 75</u>	<u>75 to 87</u>
4th Prior	1.002	1.000	1.000	1.000	1.002	1.000
3rd Prior	1.003	1.000	1.000	1.000	1.000	1.000
2nd Prior	1.004	1.000	1.000	1.000	1.000	1.000
1st Prior	1.003	1.000	1.000	1.000	1.002	1.000
Latest	1.002	1.000	1.000	1.000	1.000	1.000
5 Year Average:	1.003	1.000	1.000	1.000	1.001	1.000

Loss Development Period (months):	<u>15 - 87</u>	<u>27 - 87</u>	<u>39 - 87</u>	<u>51 - 87</u>	<u>63 - 87</u>
Frequency Development Factor:	1.004	1.001	1.001	1.001	1.000

CALCULATION OF ULTIMATE FREQUENCY

Weather Peril

Data: Arkansas Allstate Insurance Group

Year	(1) Paid Frequency	(2) Factor to Ultimate	(3) Ultimate Frequency
2008	15.18%	1.000	15.18%
2009	12.25%	1.001	12.26%
2010	5.68%	1.001	5.69%
2011	12.65%	1.001	12.66%
2012	3.76%	1.004	3.78%

**ALLSTATE INSURANCE COMPANY
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CALCULATION OF SEVERITY DEVELOPMENT FACTORS

Weather Peril

Data: Countrywide Allstate Insurance Group

Paid Severity

Fiscal Accident Year Ending 09/30	<u>15 Months</u>	<u>27 Months</u>	<u>39 Months</u>	<u>51 Months</u>	<u>63 Months</u>	<u>75 Months</u>	<u>87 Months</u>
2001							1,597.70
2002						1,684.04	1,684.42
2003					1,723.11	1,722.99	1,722.99
2004				1,658.68	1,659.35	1,659.41	1,659.41
2005			1,880.21	1,880.52	1,880.84	1,880.84	1,880.84
2006		2,208.00	2,208.23	2,208.45	2,208.27	2,209.20	2,209.20
2007	2,409.94	2,430.00	2,430.71	2,431.22	2,431.22	2,431.41	
2008	2,669.14	2,678.98	2,679.17	2,682.39	2,685.22		
2009	2,760.01	2,768.79	2,771.81	2,771.76			
2010	3,003.58	3,011.99	3,016.27				
2011	3,513.71	3,520.86					
2012	2,931.52						

Link Ratios

<u>Development</u>	<u>15 to 27</u>	<u>27 to 39</u>	<u>39 to 51</u>	<u>51 to 63</u>	<u>63 to 75</u>	<u>75 to 87</u>
4th Prior	1.008	1.000	1.000	1.000	1.000	1.000
3rd Prior	1.004	1.000	1.000	1.000	1.000	1.000
2nd Prior	1.003	1.000	1.000	1.000	1.000	1.000
1st Prior	1.003	1.001	1.001	1.000	1.000	1.000
Latest	1.002	1.001	1.000	1.001	1.000	1.000
5 Year Average:	1.004	1.000	1.000	1.000	1.000	1.000

Development Period (months):	<u>15 - 87</u>	<u>27 - 87</u>	<u>39 - 87</u>	<u>51 - 87</u>	<u>63 - 87</u>
Severity Development Factor:	1.004	1.000	1.000	1.000	1.000

CALCULATION OF ULTIMATE SEVERITY

Weather Peril

Data: Countrywide Allstate Insurance Group

<u>Year</u>	(1) <u>Modified Paid Severity</u>	(2) <u>Factor to Ultimate</u>	(3) <u>Ultimate Severity</u>
2008	\$3,363.62	1.000	\$3,363.62
2009	\$1,878.14	1.000	\$1,878.14
2010	\$3,260.37	1.000	\$3,260.37
2011	\$2,681.04	1.000	\$2,681.04
2012	\$2,273.27	1.004	\$2,282.36

**ALLSTATE INSURANCE COMPANY
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EXPENSE EXPERIENCE - UNALLOCATED (ADJUSTING AND OTHER EXPENSE) FACTORS

Data: Countrywide Allstate Insurance Group*

	<u>2009 - 2011</u>
1) Direct Losses and Allocated Loss Adjustment Expense Incurred excluding Earthquake and Hurricane Losses	\$ 43,201,888
2) Direct Unallocated Loss Adjustment Expense Incurred excluding Earthquake and Hurricane	\$ 6,356,078
3) Ratio (2)/(1)	0.147
4) Proposed Provision	0.147

* Allstate Insurance Company, Allstate Indemnity Company, Allstate Property and Casualty Insurance Company, Allstate County Mutual Insurance Company, Allstate Fire & Casualty, Northbrook Indemnity, and Allstate Texas Lloyds. Data includes Personal Property Lines and Private Passenger Automobile Insurance

(000 Omitted)

**ALLSTATE INSURANCE COMPANY
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CALCULATION OF LOSS TREND FACTORS

<u>Peril</u>	Selected Annual Impacts*	
	<u>Historical</u>	<u>Projected</u>
Non-Weather Peril excluding Earthquake Data: Countrywide Allstate Insurance Company	2.0%	2.0%
Weather Peril Data: Countrywide Allstate Insurance Company	6.0%	6.0%

	<u>4th PriorYear</u>	<u>3rd PriorYear</u>	<u>2nd PriorYear</u>	<u>1st PriorYear</u>	<u>Current Year</u>
1) Loss Trend Projection Date	8/31/2014	8/31/2014	8/31/2014	8/31/2014	8/31/2014
2) Mid-Point of Current Year's Experience Period	3/31/2012	3/31/2012	3/31/2012	3/31/2012	3/31/2012
3) Experience Period Ended	9/30/2008	9/30/2009	9/30/2010	9/30/2011	9/30/2012
4) Midpoint of Experience Period	3/31/2008	4/30/2009	4/30/2010	4/30/2011	3/31/2012
5) Historical: Number of Years from (4) to (2)	4.000	3.000	2.000	1.000	0.000
6) Projected: Number of Years from (2) to (1)	2.418	2.418	2.418	2.418	2.418

Calculation of Trend Factors

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

(b) Projected 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)

*Loss trend data on Exhibit 7

**ALLSTATE INSURANCE COMPANY
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LOSS TREND DATA

Non-Weather Peril excluding Earthquake

Data: Countrywide Allstate Insurance Company

Year Ending	Actual Paid Pure		Exponential Curve of Best Fit		
	Premium	Annual Change	24 pt.	20 pt.	12 pt.
03/07	\$77.03	-2.98%	\$85.30		
06/07	\$80.52	2.22%	\$85.89		
09/07	\$78.79	-1.83%	\$86.48		
12/07	\$81.37	0.95%	\$87.07		
03/08	\$87.80	13.98%	\$87.67	\$94.30	
06/08	\$88.08	9.40%	\$88.27	\$94.39	
09/08	\$88.64	12.51%	\$88.87	\$94.47	
12/08	\$88.15	8.33%	\$89.48	\$94.55	
03/09	\$95.53	8.80%	\$90.09	\$94.63	
06/09	\$98.35	11.65%	\$90.71	\$94.72	
09/09	\$99.44	12.18%	\$91.33	\$94.80	
12/09	\$108.50	23.09%	\$91.96	\$94.88	
03/10	\$101.02	5.75%	\$92.59	\$94.96	\$101.60
06/10	\$102.15	3.87%	\$93.23	\$95.05	\$100.52
09/10	\$101.96	2.54%	\$93.86	\$95.13	\$99.44
12/10	\$94.70	-12.72%	\$94.51	\$95.21	\$98.38
03/11	\$94.89	-6.08%	\$95.16	\$95.30	\$97.33
06/11	\$90.47	-11.44%	\$95.81	\$95.38	\$96.30
09/11	\$96.55	-5.31%	\$96.47	\$95.46	\$95.27
12/11	\$100.69	6.33%	\$97.13	\$95.54	\$94.25
03/12	\$96.42	1.62%	\$97.79	\$95.63	\$93.25
06/12	\$97.29	7.54%	\$98.46	\$95.71	\$92.25
09/12	\$90.94	-5.80%	\$99.14	\$95.79	\$91.27
12/12	\$84.04	-16.54%	\$99.82	\$95.88	\$90.30
Regression			24 pt.	20 pt.	12 pt.
Avg Annual Percent Change Based on Best Fit:			2.77 %	0.35 %	-4.20 %

Weather Peril

Data: Countrywide Allstate Insurance Company

Year Ending	Actual Paid		Exponential Curve of Best Fit		
	Severity	Annual Change	24 pt.	20 pt.	12 pt.
03/07	\$2,159.99	15.23%	\$2,225.27		
06/07	\$2,235.65	14.10%	\$2,258.56		
09/07	\$2,324.96	15.34%	\$2,292.36		
12/07	\$2,342.21	13.95%	\$2,326.66		
03/08	\$2,340.81	8.37%	\$2,361.48	\$2,373.80	
06/08	\$2,414.42	8.00%	\$2,396.81	\$2,408.24	
09/08	\$2,426.23	4.36%	\$2,432.68	\$2,443.19	
12/08	\$2,474.26	5.64%	\$2,469.08	\$2,478.64	
03/09	\$2,456.93	4.96%	\$2,506.03	\$2,514.60	
06/09	\$2,468.54	2.24%	\$2,543.53	\$2,551.09	
09/09	\$2,539.29	4.66%	\$2,581.59	\$2,588.11	
12/09	\$2,553.22	3.19%	\$2,620.22	\$2,625.66	
03/10	\$2,690.79	9.52%	\$2,659.43	\$2,663.76	\$2,805.45
06/10	\$2,781.25	12.67%	\$2,699.22	\$2,702.41	\$2,824.73
09/10	\$2,830.04	11.45%	\$2,739.61	\$2,741.63	\$2,844.15
12/10	\$2,891.84	13.26%	\$2,780.60	\$2,781.41	\$2,863.71
03/11	\$2,892.79	7.51%	\$2,822.21	\$2,821.77	\$2,883.40
06/11	\$2,973.66	6.92%	\$2,864.44	\$2,862.71	\$2,903.22
09/11	\$3,012.56	6.45%	\$2,907.31	\$2,904.25	\$2,923.18
12/11	\$3,043.96	5.26%	\$2,950.81	\$2,946.39	\$2,943.28
03/12	\$3,089.66	6.81%	\$2,994.96	\$2,989.15	\$2,963.51
06/12	\$3,052.16	2.64%	\$3,039.78	\$3,032.52	\$2,983.89
09/12	\$2,882.70	-4.31%	\$3,085.27	\$3,076.52	\$3,004.40
12/12	\$2,844.64	-6.55%	\$3,131.43	\$3,121.16	\$3,025.06
Regression			24 pt.	20 pt.	12 pt.
Avg Annual Percent Change Based on Best Fit:			6.12 %	5.93 %	2.78 %

**ALLSTATE INSURANCE COMPANY
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PROVISION FOR WEATHER FREQUENCY

Weather Peril

Data: Arkansas Allstate Insurance Group

(1) Accident Year* Ending 09/30	(2) Earned Exposures	(3) Accident Year* Paid Claims	(4) Accident Year* Paid Frequency	(5) Accident Year* Ultimate Paid Frequency
1988	3,453	111	3.21%	3.21%
1989	2,996	338	11.28%	11.28%
1990	2,617	183	6.99%	6.99%
1991	2,227	212	9.52%	9.52%
1992	1,864	145	7.78%	7.78%
1993	1,598	92	5.76%	5.76%
1994	1,379	138	10.01%	10.01%
1995	1,259	77	6.12%	6.12%
1996	1,172	135	11.52%	11.52%
1997	1,185	83	7.00%	7.00%
1998	1,337	73	5.46%	5.46%
1999	1,568	192	12.24%	12.24%
2000	1,889	133	7.04%	7.04%
2001	2,024	283	13.98%	13.98%
2002	2,135	115	5.39%	5.39%
2003	2,155	120	5.57%	5.57%
2004	2,177	82	3.77%	3.77%
2005	2,228	83	3.73%	3.73%
2006	2,407	171	7.10%	7.10%
2007	2,661	79	2.97%	2.97%
2008	2,911	442	15.18%	15.18%
2009	2,987	366	12.25%	12.26%
2010	2,975	169	5.68%	5.69%
2011	2,894	366	12.65%	12.66%
2012	2,818	106	3.76%	3.78%
(6) Arkansas Weather Frequency Provision				7.84%
Straight Average of Column (5)				

* Evaluated at 15 months

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COMPLEMENT OF CREDIBILITY FOR LOSSES

Data: Arkansas Allstate Insurance Company

	<u>All Perils Ex EQ</u>	
1) Current Permissible Loss and Fixed Expense Ratio	73.5%	
2) Current Average Premium @ CRL	\$572.84	
3) Current Average Fixed Expense	\$68.91	
4) Current Expected Hurricane Pure Premium	\$5.98	
	<u>Non-Weather Peril Excluding Earthquake</u>	<u>Total Weather Peril</u>
5) Provision for Loss and LAE	\$183.52	\$316.16
6) Loss Trend Project Selection	2.0%	6.0%
7) Loss Trend Factor	1.049	1.151
8) Expected Pure Premium (5) / (7)	\$174.95	\$274.68
9) Expected Proportion of Pure Premium [(8) / (8 Total)]	38.9%	61.1%
10) Complement of Credibility [[(1) x (2) - (3) - (4)] x (7) x (9)]	\$141.25	\$243.43

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DEVELOPMENT OF PROVISION FOR HURRICANE LOSS AND RETAINED RISK

Data: Arkansas Allstate Insurance Company

1) Hurricane Provision Per AIY Including All LAE	0.202
2) Retained Risk Provision Per AIY	0.273
3) Earned Exposures	1,030
4) Earned AIY	30,507
5) Average Earned AIY	29.62
[(4)/(3)]	
6) Factor to Adjust to Projected Average AIY Level	1.000
7) Average AIY Projected to 8/31/2014	29.62
[(5) x (6)]	
8) Expected Hurricane Pure Premium	\$5.98
[(1) x (7)]	
9) Expected Retained Risk Provision	\$8.09
[(2) x (7)]	
10) Selected Retained Risk Provision	\$0.00

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

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SUMMARY OF EXPENSE PROVISIONS

Data: Arkansas Allstate Insurance Group

	<u>Percent Fixed</u>	<u>Expense Provision</u>
Commissions	0 %	11.7%
Taxes †	0	3.2%
Licenses and Fees	100	0.1%
Profit Provision	0	8.2%

Data: Countrywide Allstate Insurance Group

	<u>Percent Fixed</u>	<u>Expense Provision</u>
Other Acquisition	100 %	5.5%
General Expense	100	4.9%
Debt Provision	0	1.4%
Contingency Provision	0	2.0%

† State Taxes - Does not include Federal Income Tax

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EXPERIENCE FOR GENERAL EXPENSES

Data: Countrywide Allstate Insurance Group*

	General Expense		
	2009	2010	2011
1. Direct Premium Earned Less Reinsurance Premium**	\$21,698,432	\$21,675,897	\$21,446,209
2. General Expense Incurred	\$1,011,399	\$1,018,249	\$1,124,614
3. Ratio (2)/(1)	0.0466	0.0470	0.0524
4. Three Year Average			0.0487
5. Proposed Provision			0.049

* Allstate Insurance Company, Allstate Property and Casualty Insurance Company, Allstate Indemnity Company, Northbrook Indemnity Company, Allstate Fire & Casualty Insurance Company and Allstate County Mutual. Data includes Personal Property Lines (excluding Earthquake) and Private Passenger Automobile Insurance

** Premiums for Net Cost of Reinsurance (NCOR) do not include provisions for General Expenses. Therefore, direct premiums must be reduced by NCOR premiums to get the premium base upon which the general expense provision is applied.

(000's) omitted

**ALLSTATE INSURANCE COMPANY
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EXPERIENCE FOR OTHER ACQUISITION EXPENSES

Data: Countrywide Allstate Insurance Group*

	Other Acquisition Expense		
	2009	2010	2011
1. Direct Premium Earned Less Reinsurance Premium**	\$21,698,432	\$21,675,897	\$21,446,209
2. Other Acquisition Expense Incurred	\$1,259,684	\$1,459,795	\$1,369,771
3. Ratio (2)/(1)	0.0581	0.0673	0.0639
4. Three Year Average			0.0631
5. Adjusted Three Year Average***			0.0548
6. Proposed Provision			0.055

* Allstate Insurance Company, Allstate Property and Casualty Insurance Company, Allstate Indemnity Company, Northbrook Indemnity Company, Allstate Fire & Casualty and Allstate County Mutual. Data includes Personal Property Lines and Private Passenger Automobile Insurance

** 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.

*** Reduced by 1.01% to reflect the amount of Installment Fees collected for Allstate Insurance Group Personal Property Lines and includes a 0.18% provision for Allstate Insurance Group Personal Property Lines premiums written off.

(000's) omitted

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FACTOR TO ADJUST FOR SUBSEQUENT CHANGE IN FIXED EXPENSE

Data: Countrywide Allstate Insurance Group*

	<u>2009 - 2011</u>
1) Average Earned Date of Experience Period	6/30/2010
2) Average Earned Date of Proposed Policy Period	8/31/2014
3) Number of Years from (1) to (2)	4.170
4) Selected Annual Impact	2.30%
5) Factor to Adjust for Subsequent Change in Fixed Expense [1.0 + (4)] ^ (3)	1.099

* Allstate Insurance Company, Allstate Property and Casualty Insurance Company, Allstate Indemnity Company, Northbrook Indemnity Company, Allstate Fire & Casualty Insurance Company and Allstate County Mutual. Data includes Personal Property Lines (excluding Earthquake) and Private Passenger Automobile Insurance

**ALLSTATE INSURANCE COMPANY
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CONTINGENCY PROVISION ANALYSIS

Data: Countrywide Allstate Insurance Group

Unexpected Event Analysis (1996 - 2003)

1) Total estimated loss from unexpected events:	\$388,265,584
2) Total countrywide ex-cat accident year losses:	\$14,082,669,021
3) Indicated contingency provision as percentage of ex-cat loss:	2.8%
4) Indicated contingency provisions as percentage of total loss:	2.1%
5) Indicated contingency provision adjusted for expenses:	1.8%

Variance From Expectation Analysis (1992 - 2008)

1) Total expected losses:	\$27,812,571,837
2) Total actual losses:	\$29,008,300,190
3) Difference of actual loss and expected loss:	\$1,195,728,354
4) Percentage difference of actual loss and expected loss:	4.1%
5) Percent difference adjusted for expenses	3.6%

Selected Contingency Provision: 2.0%

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INVESTMENT INCOME

Data: Arkansas Allstate Insurance Group

Calculation of Present Value, as of the Average Earning Date of a Policy Year, of all Income and Outgo @ 1.7% †force of interest, assuming an Operating Profit of 6.2% and twelve month Policy Terms

Years From Start of Policy Year	Cumulative Percent of Losses Paid	Yearly Percent of Losses Paid	Time from Start of Policy Year	Discounted‡ to Average Time of Profit @ 1.7%	Discounted Payments
1	33.2%	33.2%	0.60	1.007	33.4%
2	93.9%	60.7%	1.40	0.993	60.3%
3	97.8%	3.9%	2.40	0.976	3.8%
4	99.1%	1.3%	3.40	0.960	1.2%
5	99.6%	0.5%	4.40	0.944	0.5%
Subsequent	100.0%	0.4%	7.00	0.903	0.4%
Total					99.6%
Expected Losses and Loss Expense Ratio					63.0%
Present Value of Loss and Loss Expense Payments					62.7%
General Expense		4.9%	0.75	1.004	4.9%
Other Acquisition		5.5%	0.63	1.006	5.5%
Taxes †		3.2%	0.76	1.004	3.2%
Licenses and Fees		0.1%	0.76	1.004	0.1%
Commissions		11.7%	0.58	1.007	11.8%
Debt Provision		1.4%	1.00	1.000	1.4%
Contingency Provision		2.0%	1.00	1.000	2.0%
Profit		8.2%	1.00	1.000	8.2%
Total Present Value of Outgo					99.8%
Premiums		100.0%	0.57	1.007	100.7%
Difference, Present Value of Income Less Present Value of Outgo					0.9%

†Discount rate from Investment Department forecast

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

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DEVELOPMENT OF PROJECTED AVERAGE EARNED PREMIUM

Data: Arkansas Allstate Insurance Company

Fiscal Year Ending	<u>9/30/2012</u>
1) Earned Exposures	1,030
2) Earned Premium at Current Rates	590,030
3) Factor to Adjust to Projected Premium Level	1.000
4) Projected Earned Premium at Current Rates (2) x (3)	\$590,030
5) Projected Average Earned Premium at Current Rates (4) / (1)	\$572.84
6) Experience Year Weights	100%
7) Projected Average Earned Premium at Current Rates (5) x (6)	\$572.84

**ALLSTATE INSURANCE COMPANY
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CALCULATION OF PREMIUM AND AIY TREND FACTORS

Data: Arkansas Allstate Insurance Company

	<u>Projected</u>
Selected Annual Premium Impacts*	0.00%
Selected Annual AIY Impacts*	0.00%
	<u>Current Year</u>
1) Average Earned Date of Proposed Policy Period	8/31/2014
2) Mid-Point of Current Year's Experience Period	3/31/2012
3) Experience Period Ended	9/30/2012
4) Midpoint of Experience Period	3/31/2012
5) Historical: Number of Years from (4) to (2)	0.000
6) Projected: Number of Years from (2) to (1)	2.418

Calculation of Premium and AIY Trend Factors

Factor to Adjust to Projected Premium Level = Annual Projected Impacts plus unity compounded for the number of years in (6)

Factor to Adjust to Projected AIY Level = Annual Projected Impacts plus unity compounded for the number of years in (6)

*Premium and AIY trend data on Exhibit 19

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PREMIUM TRENDS

Data: Arkansas Allstate Insurance Company

Year Ending	Average Written Premium @ CRL	Annual Change	Exponential Curve of Best Fit		
			12 pt.	6 pt.	4 pt.
03/10	\$562.26	0.57%	\$565.11		
06/10	\$565.87	0.68%	\$566.07		
09/10	\$567.69	0.93%	\$567.03		
12/10	\$567.16	0.62%	\$567.99		
03/11	\$570.63	1.49%	\$568.95		
06/11	\$569.65	0.67%	\$569.91		
09/11	\$572.36	0.82%	\$570.88	\$574.01	
12/11	\$574.85	1.36%	\$571.85	\$573.85	
03/12	\$574.05	0.60%	\$572.81	\$573.69	\$574.84
06/12	\$575.81	1.08%	\$573.78	\$573.53	\$574.02
09/12	\$572.00	-0.06%	\$574.76	\$573.37	\$573.20
12/12	\$572.59	-0.39%	\$575.73	\$573.21	\$572.38
Regression			12 pt.	6 pt.	4 pt.
Avg Annual Percent Change Based on Best Fit:			0.68%	-0.11%	-0.57%

AIY TRENDS

Data: Arkansas Allstate Insurance Company

Year Ending	AIY	Annual Change	Exponential Curve of Best Fit		
			12 pt.	6 pt.	4 pt.
03/10	28.89	0.45%	29.01		
06/10	29.09	0.90%	29.08		
09/10	29.14	0.80%	29.16		
12/10	29.16	0.86%	29.24		
03/11	29.40	1.77%	29.31		
06/11	29.36	0.93%	29.39		
09/11	29.60	1.58%	29.47	29.67	
12/11	29.71	1.89%	29.54	29.68	
03/12	29.74	1.16%	29.62	29.68	29.74
06/12	29.74	1.29%	29.70	29.69	29.71
09/12	29.63	0.10%	29.78	29.69	29.69
12/12	29.69	-0.07%	29.85	29.70	29.66
Regression			12 pt.	6 pt.	4 pt.
Avg Annual Percent Change Based on Best Fit:			1.05%	0.08%	-0.35%

**ALLSTATE INSURANCE COMPANY
MOBILEHOME
ARKANSAS**

DEVELOPMENT OF THE HURRICANE PROVISION USING ACTUAL LOSS

Data: Arkansas Allstate Insurance Group

(1) Calendar Year	(2) Amount of Insurance Years	(3) Hurricane Incurred Loss
1988	56,163	0
1989	49,921	0
1990	43,780	0
1991	37,215	0
1992	31,502	0
1993	27,412	0
1994	24,728	0
1995	22,854	0
1996	22,772	0
1997	24,601	0
1998	31,187	0
1999	40,837	0
2000	48,728	0
2001	57,388	0
2002	57,064	0
2003	58,082	0
2004	61,109	0
2005	67,417	26,910
2006	90,739	-7,645
2007	117,857	-1,282
2008	141,146	221,370
2009	151,485	-51,480
2010	154,840	-9,385
2011	154,752	-1,459
2012	156,225	84,020
Total	1,511,223	261,050

(4) Hurricane Provision Per AIY 0.173

(5) Hurricane Provision Per AIY Including LAE 0.202

ATTACHMENT VII

Summary of Manual Changes

**ALLSTATE INSURANCE COMPANY
MOBILEHOME
ARKANSAS**

SUMMARY OF MANUAL CHANGES

RULE PAGES

Page 7

Removed qualifying criteria from the 55 and Retired Discount

Page 8

Implemented the Rate Adjustment Factor

Page 9

Renumbered premium calculation steps

SERFF RATE/RULE SCHEDULE

*Please fill out all applicable fields

Rate Action	Increase
Filing Method	File and Use

Rate Change by Company							
Company Name	% Indicated Change	Overall % Rate Impact	Written premium change for this program	# of policyholders affected for this program	Written Premium for this program	Maximum % Change (Proposed)	Minimum % Change (Proposed)
Allstate Insurance Company	32.7%	5.0%	\$26,997	934	\$539,943	5.4%	1.2%
TOTAL:	32.7%	5.0%	\$26,997	934	\$539,943	5.4%	1.2%

Details of Previous Rate Filing	
Overall percentage of last revision	7.6%
Effective date of last revision	2/21/2011
Filing Method of last filing	File and Use

	Document Title	Rule # or Page #	Action	Previous filing number
01	Rules	Page 8	Replaced	
02			New	
03			New	
04			New	
05			New	
06			New	
07			New	
08			New	

SERFF Tracking #:

ALSE-129199136

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

R26335

State:

Arkansas

Filing Company:

Allstate Insurance Company

TOI/Sub-TOI:

04.0 Homeowners/04.0002 Mobile Homeowners

Product Name:

AIC MH

Project Name/Number:

Rate Change +9.9%/1428445

Superseded Schedule Items

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

Creation Date	Schedule Item Status	Schedule	Schedule Item Name	Replacement Creation Date	Attached Document(s)
09/11/2013		Rate	Manual Pages	10/18/2013	R26335 - Manual.pdf (Superseded)
09/11/2013		Rate	CheckingList	10/18/2013	R26335 - CheckingList.pdf (Superseded)

RULE 8 - PROTECTIVE DEVICES

A discount to the Package Premiums is allowed for the installation of burglary and/or fire alarm systems in the residence in accordance with the following schedule:

	<u>Protective Devices</u>	<u>Discount</u>
1.	All of the following: Smoke detector, fire extinguisher, dead-bolt locks on all exterior doors	5%
2.	*Complete local burglar alarm	5
3.	Both 1. and 2.	10
4.	*Complete burglar alarm reporting to police station or central station	10
5.	Fire alarm reporting to fire station or central station	10
6.	Both 1. and 4.	15
7.	Both 1. and 5.	15
8.	Both 4. and 5.	15

*Complete is defined as covering all accessible exterior doors and windows.

RULE 9 - 55 AND RETIRED DISCOUNT

If the following criteria are met, reduce the otherwise applicable Standard or Deluxe Policy Package Premium by 10%.

1. One of the Named Insureds must be age 55 or older.
2. Both the Named Insured and Spouse, if any, are not presently gainfully employed full-time or actively seeking full-time gainful employment.
3. The Insured Residence must be the Principal Residence of the Applicant.

RULE 10 - CLASSIFICATION

Mobile Homes are classified either Class 1 or Class 2.

1. Class 1 rates and premiums apply to owner-occupied one-family Mobile Home which meet the following requirements:
 - a. Principal residence of occupant
 - b. Used exclusively for residential purposes
2. All other mobile homes are Class 2. Premiums are determined by applying the factor shown on the Supplementary Rate Page.

RULE 11 - PREMIUM DETERMINATION

The premium calculations should be done in the following order.

- A. Determine the Package Premium for Class 1 Mobile Home from the State Rate Pages according to the Territorial Zone, type of policy, tie down status, deductible, park size, premium group, and purchase price.
- B. Multiply the appropriate Package Premium amount by a Rate Adjustment Factor of 1.106.
- C. Apply the deductible factor, if applicable.
- D. Apply the Out-of-Park Surcharge, if applicable.
- E. Apply the original owner discount, if applicable.
- F. Apply the protective device discount, if applicable.
- G. Apply the 55 and retired discount, if applicable.
- H. For Class 2 Mobile Home, apply the Class 2 factor.
- I. Apply The Good Hands People ® discount, if applicable.
- J. 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 A Reinsurance Limit Factor as shown in the Reinsurance Charge Pages (penny round).

- K. The policy limits for Improvements and Coverage B of Section I and Coverages X or Y of Section II may be increased for an additional premium. Additional optional coverage may also be purchased using the rates and premiums as shown on the Supplementary Rate Page. Add the additional premium applicable for increased limits or additional coverages and subtract any applicable credit for reduced coverage.
- L. Unless otherwise noted, all premium calculations shall be rounded to the nearest dollar. A premiums of \$.50 or more shall be rounded to the next higher 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 increased.
- M. A minimum premium of \$25.00 per year shall be charged for each policy.

Package Premium

Note: The premium for a policy amount not shown in the Package Premium tables may be obtained by interpolation. The premium adjustment for additional amounts of coverages for Section I of the policy may also be interpolated.

Method for Interpolation (example): A premium is desired for a policy amount of \$15,500. Premiums are shown for \$15,000 and \$16,000 in the premium table.

- 1.

<u>Policy Amounts Shown</u>	<u>Premiums Shown</u>
\$16,000	\$66
<u>15,000</u>	<u>62</u>
\$ 1,000 (difference in amounts)	\$ 4 (difference in premiums)
- 2.

<u>\$ 500 (additional amount)</u>
\$1,000 (difference in amounts)
= 0.5000 (round to four decimals)
- 3. (Step 2 Result) x \$4 (difference in premiums)

= \$2.0

\$ 62.0 (premium for \$15,000)
2.0 (premium for additional \$500)
\$ 64.0 (Package premium for \$15,500)

CHECKING LIST FOR MOBILEHOME

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.

RULES

Enclosed: Page 7 dated 12-01-2013

Page 8 dated 12-01-2013

Page 9 dated 12-01-2013

Withdrawn: Page 7 dated 02-01-2011

Page 8 dated 09-01-2008

Page 9 dated 02-01-2011