

<i>SERFF Tracking Number:</i>	<i>ALSE-127710787</i>	<i>State:</i>	<i>Pennsylvania</i>
<i>Filing Company:</i>	<i>Allstate Insurance Company</i>	<i>State Tracking Number:</i>	<i>B37926001</i>
<i>Company Tracking Number:</i>	<i>R24334: 25% INCREASE</i>		
<i>TOI:</i>	<i>04.0 Homeowners</i>	<i>Sub-TOI:</i>	<i>04.0000 Homeowners Sub-TOI Combinations</i>
<i>Product Name:</i>	<i>AIC HO</i>		
<i>Project Name/Number:</i>	<i>+25% Rate Increase/784694</i>		

Filing at a Glance

Company: Allstate Insurance Company

Product Name: AIC HO

TOI: 04.0 Homeowners

Sub-TOI: 04.0000 Homeowners Sub-TOI Combinations

Filing Type: Rate

SERFF Tr Num: ALSE-127710787

SERFF Status: Assigned

Co Tr Num: R24334: 25% INCREASE

Author: Bonnie Wittman

Date Submitted: 10/12/2011

State: Pennsylvania

State Tr Num: B37926001

State Status: Received Review in Progress

Reviewer(s): Ken Creighton (PC), Michael McKenney (PC)

Disposition Date:

Disposition Status:

Effective Date (New):

Effective Date (Renewal):

Effective Date Requested (New): 12/05/2011

Effective Date Requested (Renewal): 01/19/2012

State Filing Description:

General Information

Project Name: +25% Rate Increase

Project Number: 784694

Reference Organization:

Reference Title:

Filing Status Changed: 10/13/2011

State Status Changed: 10/17/2011

Created By: Bonnie Wittman

Corresponding Filing Tracking Number:

Filing Description:

With this filing, Allstate Insurance Company is proposing to update the Home and Auto Discount, the Claim Free Discount, the Fire Resistive Discount, and the Rate Adjustment Factor (RAF) for the Owners line in the State of Pennsylvania. An analysis of the premiums, losses, and expenses for this line of insurance resulted in a rate level indication of +33.6%. With the changes proposed in the filing, the overall proposed rate level change is +25.0%.

The changes proposed in this filing modify the variable portion of the policy premium. The variable package premium does not include additional coverages. The overall average change to the variable package premium is 25.4%. The impact information included in this filing is for the variable package premium only. Including the additional coverage premium would flatten the impacts to an overall average change of 25.0%.

Status of Filing in Domicile:

Domicile Status Comments:

Reference Number:

Advisory Org. Circular:

Deemer Date:

Submitted By: Bonnie Wittman

SERFF Tracking Number: ALSE-127710787 State: Pennsylvania
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The following attachments are included:

Attachment I: Summary of Disclosures
Attachment II: Summary of Rate Level Indication
Attachment III: Modeled Loss Provision
Attachment IV: Retained Risk Provision
Attachment V: Rate Level Indication Exhibits
Attachment VI: Home and Auto Discount
Attachment VII: Claim Free Discount
Attachment VIII: Fire Resistive Discount
Attachment IX: Impacts & Histograms
Attachment X: Summary of Manual Changes
Attachment XI: Current and Proposed Manual Pages

The exhibits contained in Attachment V have been included in an Excel format as Attachment XII. This Excel file displays the Indication exhibits in Excel format, with cell formulas, underlying data, and derivations. The exhibits provided in Attachment V were produced using a proprietary indication program that produces Excel exhibits that do not contain calculations. For Attachment XII, formulas and/or formula step descriptions have been added to demonstrate the calculations and how the exhibits tie together. While we have attempted to recreate exactly the formulas by which the figures are calculated, differences in rounding procedures between the proprietary program and these Excel exhibits may cause slight differences between the values in these exhibits and the values in the exhibits contained in Attachment V.

We are targeting an implementation date for these changes of 12/5/2011 for new business written and renewals processed on or after this date, with renewals being effective 01/19/2012.

Company and Contact

Filing Contact Information

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2775 Sanders Road 847-402-3144 [Phone] 23144 [Ext]
Suite A5 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 A5 Group Name: Allstate Casualty
State ID Number:

SERFF Tracking Number: ALSE-127710787 State: Pennsylvania
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Northbrook, IL 60062 FEIN Number: 36-0719665
(847) 402-5000 ext. [Phone]

Filing Fees

Fee Required? No
Retaliatory? No
Fee Explanation:
Per Company: Yes

COMPANY	AMOUNT	DATE PROCESSED	TRANSACTION #
Allstate Insurance Company	\$0.00	10/12/2011	

State Specific

*Filing Fee Amount: n/a
*Date Filing Fee Mailed: n/a
*Filing Fee Check Number: n/a
*Filing Fee Check Date: n/a
*NAIC Number: 19232

SERFF Tracking Number: ALSE-127710787
 Filing Company: Allstate Insurance Company
 Company Tracking Number: R24334: 25% INCREASE
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State: Pennsylvania
 State Tracking Number: B37926001
 Sub-TOI: 04.0000 Homeowners Sub-TOI Combinations

Rate Information

Rate data applies to filing.

Filing Method: Prior Approval
Rate Change Type: Increase
Overall Percentage of Last Rate Revision: 4.400%
Effective Date of Last Rate Revision: 10/18/2010
Filing Method of Last Filing: Prior Approval

Company Rate Information

Company Name:	Overall % Indicated Change:	Overall % Rate Impact:	Written Premium Change for this Program:	# of Policy Holders Affected for this Program:	Written Premium for this Program:	Maximum % Change (where required):	Minimum % Change (where required):
Allstate Insurance Company	33.600%	25.000%	\$46,634,401	239,811	\$186,537,602	80.000%	15.500%

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Rate/Rule Schedule

Schedule Item	Exhibit Name:	Rule # or Page #:	Rate Action	Previous State Filing Attachments Number:
	Checking List	R24334	New	CheckingListR24334.pdf
	Rate Pages 1 and 521	R24334	Replacement	ManualR24334.pdf

CHECKING LIST

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

HOMEOWNERS

RATE PAGE CALCULATION OPTIONS

Enclosed: Page 1 dated 10-1-2011

Withdrawn: Page 1 dated 10-1-2010

DELUXE PLUS

RATE PAGE CALCULATION OPTIONS

Enclosed: Page 521 dated 10-1-2011

Withdrawn: Page 521 dated 10-1-2010

The premium calculation should be done in the following order:

1. Determine the Package Premium:
 - a) Determine the appropriate \$250 deductible premium for the Coverage A limits shown on the Package Premium Pages.
 - b) Premiums for policies with Coverage A limits less than \$20,000 may be developed by subtracting \$1 per \$1,000 for the \$20,000 premium.
 - c) Multiply the appropriate \$250 deductible premium shown on the Package Premium Pages by a Rate Adjustment Factor of 1.539.
2. Claim Rating Factor – Multiply by the appropriate factor (Rule 21)
3. Claim Free Discount – Multiply by .90 (Rule 22)
4. Coverage BC - Building Codes - Multiply by 1.05 (Rule 4.A)
5. Dwellings in the Course of Construction - Multiply by .70 (Rule 4.B)
6. New/Renovated House Discount - Multiply by the appropriate factor (Rule 6)
7. Home Buyer Discount – Multiply by the appropriate factor (Rule 23)
8. Personal Property Reimbursement Provision - Multiply by 1.15 (Rule 4.A)
9. Fire Resistive Discount - Multiply by .95 (Rule 10)
10. Protective Device Discount - Multiply by the appropriate factor (Rule 16)
11. 55 and Retired Discount - Multiply by .90 (Rule 17)
12. Home and Auto Discount - Multiply by .70 (Rule 18)
13. The Good Hands People ® Discount - Multiply by .95 (Rule 19)
14. Apply the appropriate deductible factor, subject to any applicable maximum dollar credit.

The premium calculation should be done in the following order:

1. Determine the Package Premium:
 - a) Determine the appropriate \$250 deductible premium for the amounts shown on the Package Premium Pages.
 - b) Multiply the appropriate \$250 deductible premium shown on the Package Premium Pages by a Rate Adjustment Factor of 1.539.
2. Claim Rating Factor – Multiply by the appropriate factor (Rule 21)
3. Claim Free Discount – Multiply by .90 (Rule 22)
4. New/Renovated Home Discount - Multiply by the appropriate factor (Rule 6)
5. Home Buyer Discount – Multiply by the appropriate factor (Rule 23)
6. Fire Resistive Discount - Multiply by .95 (Rule 10)
7. Protective Device Discount - Multiply by the appropriate factor (Rule 16)
8. 55 and Retired Discount - Multiply by .90 (Rule 17)
9. Home and Auto Discount - Multiply by .70 (Rule 18)
10. The Good Hands People ® Discount - Multiply by .95 (Rule 19)
11. Apply the appropriate deductible factor, subject to any applicable maximum dollar credit.

<u>Deductible</u> <u>Option</u>	<u>Deductible</u> <u>Relativity</u>	<u>Maximum</u> <u>Deductible</u> <u>Credit*</u>
\$100	1.250	N/A
\$250	1.000	N/A
\$250/\$500 (W/H)	0.940	\$50
\$250/\$1000 (W/H)	0.900	\$70
\$500	0.850	\$125
\$500/1000 (W/H)	0.780	\$240
\$750	0.750	\$275
\$1000	0.700	\$400
\$1500	0.650	\$525
\$2000	0.610	\$600
\$3000	0.560	\$675
\$5000	0.490	\$775

* relative to the \$250 deductible premium

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Supporting Document Schedules

		Item Status:	Status Date:
Bypassed - Item:	Authorization to File (PC)		
Bypass Reason:	n/a		
Comments:			

		Item Status:	Status Date:
Satisfied - Item:	Actuarial Explanatory Memorandum & Supporting Exhibits (PC)		
Comments:			
Attachment:			
	FilingMemoPA-AIC-Owners-R24334.pdf		

		Item Status:	Status Date:
Satisfied - Item:	Excel Files		
Comments:			
Attachments:			
	PA AIC HO Attachments VI - VIII R24334 .xlsx		
	PA AIC HO Attachment IX R24334.xls		
	PA AIC HO Attachment XII R24334.xls		

**ALLSTATE INSURANCE COMPANY
OWNERS FORMS
PENNSYLVANIA**

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ATTACHMENT I

Summary of Disclosures

**ALLSTATE INSURANCE COMPANY
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DEFINITIONS

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

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

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

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ACTUARIAL STANDARDS OF PRACTICE

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

- Actuarial Standard of Practice No. 13, *Trending Procedures in Property/Casualty Insurance Ratemaking*
 - Attachment II, Page 1: Summary of the Development of Statewide Rate Level Indication
 - Attachment II, Page 4: Adjustments to Non-Weather Losses – Loss Trend
 - Attachment II, Page 6: Adjustments to Weather Losses – Severity Trend
 - Attachment II, Page 8: Modeled Losses (AIY’s)
 - Attachment II, Page 10: Expense Provisions – Fixed Expenses – Trend (Inflation)
 - Attachment II, Page 12: Retained Risk Provision (AIY’s)
 - Attachment II, Page 13: Adjustments to Premiums – Premium Trend
- Actuarial Standard of Practice No. 23, *Data Quality*
 - Attachment II, Page 1: Summary of the Development of Statewide Rate Level Indication
 - Attachment III, Page 1: Development of the Hurricane Provision Based on the 2010/09 AIR Version 12.0 Hurricane Model in the Statewide Rate Level Indication Explanatory Memorandum
 - Attachment IV, Page 2: Development of Retained Risk Provision Based On Modeled Exposure
- Actuarial Standard of Practice No. 25, *Credibility Procedures Applicable to Accident and Health, Group Term Life, and Property/Casualty Coverages*
 - Attachment II, Page 2: Adjustments to Non-Weather Losses – Accident Year Weights
 - Attachment II, Page 5: Adjustments to Weather Losses – Accident Year Weights
- Actuarial Standard of Practice No. 29, *Expense Provisions in Property/Casualty Insurance Ratemaking*
 - Attachment II, Page 9: Expense Provisions
- Actuarial Standard of Practice No. 30, *Treatment of Profit and Contingency Provisions and the Cost of Capital in Property/Casualty Insurance Ratemaking*
 - Attachment II, Page 11: Profit Provision, Debt Provision, and Contingency Factor – Variable Expenses – Underwriting Profit
- Actuarial Standard of Practice No. 38, *Using Models Outside the Actuary’s Area of Expertise (Property and Casualty)*
 - Attachment III, Page 1: Development of the Hurricane Provision Based on the 2010/09 AIR Version 12.0 Hurricane Model in the Statewide Rate Level Indication Explanatory Memorandum
 - Attachment IV, Page 1: Development of Retained Risk Provision Based On Modeled Exposure

- Actuarial Standard of Practice No. 39, *Treatment of Catastrophe Losses in Property/Casualty Insurance Ratemaking*
 - Attachment III, Page 1: Development of the Hurricane Provision Based on the 2010/09 AIR Version 12.0 Hurricane Model in the Statewide Rate Level Indication Explanatory Memorandum
 - Attachment IV, Page 1: Development of Retained Risk Provision Based On Modeled Exposure
- Actuarial Standard of Practice No. 41, *Actuarial Communications*
 - Applies to this filing in its entirety

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MATERIAL CHANGES IN SOURCES OF DATA, ASSUMPTIONS, OR METHODS

This document lists all material changes in sources of data, assumptions, or methods from the last Allstate Owners rate level indication filing. These changes are further described in the subsequent memos in compliance with Actuarial Standard of Practice No. 41, *Actuarial Communications*.

- Accident Year Loss Data
 - Accident year weights adjusted as described in Attachment II, Pages 2 and 5
- Modeled Hurricane Provision
 - Updated the hurricane model used in the development of the modeled hurricane provision to the 2010/09 AIR Version 12.0 Hurricane Model
- Retained Risk Provision
 - Retained Risk Provision included in calculating statewide rate level indication, as described in Attachment II, Page 12
- Weather / Non-Weather Analysis
 - Separation of Underlying Loss, Loss Trend and Loss Development by weather and non-weather losses, as described in Attachment II, Page 2 through Page 7

ATTACHMENT II

Summary of Rate Level Indication

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SUMMARY OF THE DEVELOPMENT OF STATEWIDE RATE LEVEL INDICATION

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

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. The adjustments have been applied to Pennsylvania's premium and loss experience in deriving the indicated rate level change.

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

	Premium Dist. at Current Rates	Indicated Change	Selected Change
Variable Package Premium	98.3%	NA	25.4%
Additional Coverages	1.7%	NA	N/C
Total Owners	100.0%	33.6%	25.0%

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ADJUSTMENTS TO NON-WEATHER LOSSES

Base Data

In developing rate level indications for Pennsylvania, data from fiscal accident years ending March 31, 2010, and 2011 was used. Each of these fiscal accident years is evaluated as of March 31, 2011. This filing defines non-weather losses as those whose primary cause of loss was Fire, Theft, Liability, or All Other perils. In previous filings, Allstate combined the loss data for all perils to calculate the indicated rate level. Allocated loss adjustment expense (ALAE) is included in the losses.

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 the appendix of the paper "Classical Partial Credibility with Application to Trend" (Proceedings of the Casualty Actuarial Society, Vol. LXXIII, 1986), by Venter. The analysis was completed using a k value of 0.075 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.

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

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

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

the indications of more than one method when estimating the loss and loss adjustment expense liability for a specific group of claims.”

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

For non-weather peril losses, liability and non-liability losses were developed separately for the link ratio method. For the additive method, the historical additive amounts per exposure calculated for all losses combined would be equivalent to the sum of the historical additive amounts per exposure calculated for liability and non-liability losses separately. Therefore, it is not necessary to develop liability and non-liability losses separately for the additive method.

For the additive loss development method, historical losses are first trended to today's price level using pure premium trends selected from Allstate Insurance Company data. This is done to avoid distortions due to changes in the underlying loss costs. Trended additive amounts per exposure are calculated, which represent trended loss development between different evaluation periods. An average of the historical trended additive amount per exposure is then used to estimate the ultimate trended level of paid losses. Trended age-to-ultimate additive amounts per exposure are multiplied by earned exposures for each accident year to calculate trended losses that have yet to emerge. A final step in the additive method is to detrend the trended losses yet to emerge. Losses are detrended because the application of trend is accounted for in a separate step in the ratemaking process. This method assumes that historical loss development patterns per exposure can be used to estimate future loss development on current immature claims.

Refer to **Exhibits 4.1 through 4.3 of Attachment V** for the loss development using both the link ratio and additive methods of loss development. A summary of the estimated ultimate losses using each method as well as the selected ultimate losses is shown on **Exhibit 5**. Please note that the actual five year average loss development factors and additive amounts per exposure were used for all non-weather perils.

Loss Trend

Using Allstate Insurance Company data for the state of Pennsylvania, the past changes in actual frequency and severity on a twelve-month-moving basis (evaluated at each quarter) over a five year period were examined. After considering past results, industry data, and actuarial judgment, annual pure premium trends were selected. The Allstate Insurance Company 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.

The selected trend is displayed in **Exhibit 7**. This annual selection is used to project the data from the average occurrence date of the experience period to the average occurrence date of the future policy period. The projection is also shown in **Exhibit 7**. Allstate Insurance Company trend data is included as **Exhibit 8**.

Selections were based on Allstate Insurance Company data. **Exhibit 8** displays the twenty-four-, twelve-, and six-point paid pure premium trends for Allstate Insurance Company in Pennsylvania.

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*.

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ADJUSTMENTS TO WEATHER LOSSES

The indicated provision for weather losses is determined based on individual frequency and severity components. We have 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.

Base Data

In developing rate level indications for Pennsylvania, data from fiscal accident years ending March 31, 2011 was used for the severity analysis. Each of these fiscal accident years is evaluated as of March 31, 2011. For the frequency analysis, fiscal accident years 1987 through 2010 were used; each fiscal accident year is evaluated as of December 31, 2010.

This filing defines weather losses 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.

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 the appendix of the paper "Classical Partial Credibility with Application to Trend" (Proceedings of the Casualty Actuarial Society, Vol. LXXIII, 1986), by Venter. The analysis was completed using a k value of 0.05 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.

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. As severities are not considered on a per-exposure basis, no additive loss development estimate is developed for the weather provision.

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 12.2 of Attachment V** for the weather severity loss development using the link ratio method. The estimated ultimate severity is shown on **Exhibit 3**. Please note that the actual five year average loss development factors were used.

Severity Trend

Using Allstate Insurance Company data for the state of Pennsylvania, the past changes in actual severity on a twelve-month-moving basis (evaluated at each quarter) over a five year period were examined. After considering past results, industry data, and actuarial judgment, annual severity trends were selected. The Allstate Insurance Company data has been adjusted as described below.

The selected trend is displayed in **Exhibit 10**. This annual selection is used to project the data from the average occurrence date of the experience period to the average occurrence date of the future policy period. The projection is also shown in **Exhibit 10**. Allstate Insurance Company trend data is included as **Exhibit 11**.

Selections were based on Allstate Insurance Company data. **Exhibit 11** displays the twenty-four-, twelve-, and six-point paid pure premium trends for Allstate Insurance Company in Pennsylvania.

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*.

Frequency Estimation

Allstate used 24 years of Allstate Insurance Group data to calculate the average frequency for Pennsylvania for the combined Wind and Water perils (i.e., weather). Each accident year's claim frequencies are developed to ultimate. The straight average across all years is used as the state estimate of future claims frequency. Note that no trend is applied to this frequency estimate.

Claim development factors were based on Allstate Insurance Group data. 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 12.1** of **Attachment V** for the weather frequency claim development using the link ratio method. The estimated ultimate frequency is shown on **Exhibit 12.1**. Please note that the actual five year average loss development factors were used.

**ALLSTATE INSURANCE COMPANY
OWNERS FORMS
PENNSYLVANIA**

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. All hurricane losses during the experience period were removed and then replaced with a provision to reflect expected modeled losses in Pennsylvania.

Attachment III describes the modeled provision in detail. **Attachment V, Exhibit 13, Development of Provisions for Modeled Loss and LAE and Retained Risk**, displays the total modeled provision used in Pennsylvania.

Please note that in developing the Provision for Modeled Loss and LAE, the Amount of Insurance Years (AIY's) are used as an exposure base. One AIY is equal to \$1,000 of Coverage in force for one year. The AIY's must be adjusted to represent the AIY's that we expect to be in force during the policy period. Selections were based on Allstate Insurance Company. **Exhibit 22** shows the twenty-four-, twelve-, and six-point average AIY trends for Pennsylvania. A 1.0% provision is selected 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*.

**ALLSTATE INSURANCE COMPANY
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EXPENSE PROVISIONS

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

Exhibit 14 shows the expense provisions used in developing the current fixed and variable expense ratios.

Fixed Expenses

General and Other Acquisition Expense

Provisions

The provisions for general expense and other acquisition expense are based on countrywide data. Since the methods and procedures that incur these expenses are uniform within each state, it is a reasonable assumption that these expense provisions are uniform across all states. To develop the provision for other acquisition and general expenses, a three-year average of countrywide, 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.

Rate Need Calculations

In developing the dollar provision for general and other acquisition expenses used in the calculation of our Pennsylvania rate level need, the three-year countrywide average expense ratio for general and other acquisition expenses is applied to the average earned group premium of Pennsylvania. The Pennsylvania 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.

The expense provisions for general and other acquisition expenses are developed on **Exhibits 15 and 16**.

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 Pennsylvania. The provision for licenses and fees is considered, along with the general and other acquisition expense provisions, to be a fixed expense and is shown on **Exhibit 14**.

Trend (Inflation)

The method used to calculate the fixed expense trend is similar to the method used by the Insurance Services Office (I.S.O.) and other competitors to determine a fixed expense trend. The method utilizes the CPI (Consumer Price Index) and the ECI (Employment Cost Index – Insurance Carriers, Agents, Brokers, & Service) and is discussed by Geoffrey Todd Werner, FCAS, MAAA in his paper *Incorporation of Fixed Expenses*, which was published in the *CAS Forum* (Winter 2004). Based on a review of the historical indices, an annual percentage change is selected for each index. These selected annual percent changes are then weighted together using the distribution of the Allstate expenditures in the latest calendar year for the two broad expense categories that these indices represent. This method is expected to produce stable and reasonable estimates of the true trend in fixed expenses and is consistent with the Current Practices and Alternatives detailed in *Appendix I – Background and Current Practices of Actuarial Standard of Practice No. 13, Trending Procedures in Property/Casualty Insurance Ratemaking*. This trend is applied to all fixed expenses. The factor to adjust for subsequent change in Fixed Expense is shown on **Exhibit 17**.

Variable Expenses

Commission and Brokerage Expense

The proposed commission and brokerage expense provision has been developed from the 2009 calendar year commission and brokerage incurred expense ratio in Pennsylvania. The provision is shown on **Exhibit 14**.

Taxes

The provision for taxes is determined by taking the currently prescribed Pennsylvania 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 ending 12/31/2009 in Pennsylvania. The provision is shown on **Exhibit 14**.

Unallocated Loss Adjustment Expenses

Allocated loss adjustment expense (ALAE) is 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 6**.

**ALLSTATE INSURANCE COMPANY
OWNERS FORMS
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PROFIT PROVISION, DEBT PROVISION AND CONTINGENCY FACTOR

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 10.00%, 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 on **Exhibit 18**. The expected investment yield rate (applied as a force of interest) used to discount losses and expenses includes anticipated net investment income and anticipated capital gains, both realized and unrealized. Operating cash flows are discounted to the average time of earnings of premium and profit for the policy year, rather than to the start of the policy year.

Please refer to the attached documented titled “The Development of the Underwriting Profit Provision” for more information.

The final pre-tax underwriting profit provision at present value is shown in **Exhibit 18** 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 on **Exhibit 14**.

Contingency Provision

As with previous Allstate filings, the contingency provision of 2% is shown on **Exhibit 14**. Please note that the contingency provision does not apply to the retained risk provision.

**ALLSTATE INSURANCE COMPANY
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RETAINED RISK PROVISION

With this filing, Allstate is introducing a retained risk provision in determining the rate level need in Pennsylvania. This provision is meant to provide appropriate returns on the high-layer retained hurricane exposure. **Attachment IV** describes the development of the retained risk provision per Amount of Insurance Year (AIY). **Exhibit 13**, Development of Provisions for Modeled Loss and LAE and Retained Risk, displays the retained risk provision per AIY used in Pennsylvania. Please note that in developing the Provision for Modeled 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. Selections were based on Allstate Insurance Company data. **Exhibit 22** shows the twenty-four-, twelve-, and six-point average AIY trends for Pennsylvania. We have selected a 1.0% provision to project the AIY's to the average earned date of the proposed policy period. This approach for selecting AIY projections is consistent with the Current Practices and Alternatives detailed in *Appendix I – Background and Current Practices of Actuarial Standard of Practice No. 13, Trending Procedures in Property/Casualty Insurance Ratemaking*. Since the retained risk provision represents 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>).

**ALLSTATE INSURANCE COMPANY
OWNERS FORMS
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ADJUSTMENTS TO PREMIUMS

Current Rate Level

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

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

Premium Trend

In addition to bringing premiums to current rate level, changes in the average written premium at the current premium level were reviewed. 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. A premium projection is still selected to account for shifts in the distribution of various underlying factors. Since the effects on losses caused by these shifts are reflected in the loss projections, it is important that Allstate also account for the anticipated future changes in premiums.

The projection was based on Allstate Insurance Company data. The selected projection is displayed in **Exhibit 20**. 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. Allstate Insurance Company premium trend data is included as **Exhibit 21**.

This approach for selecting 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*.

ATTACHMENT III

Modeled Loss Provision

**ALLSTATE INSURANCE GROUP
HOMEOWNERS FORMS
PENNSYLVANIA**

**DEVELOPMENT OF THE HURRICANE PROVISION
BASED ON THE 2010/09 AIR VERSION 12.0 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). The hurricane factor for the state is displayed on **Exhibit 13**. 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 12.

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:

2010/09 WSST Factors - Without Wind Pool	
<u>State</u>	<u>Factor</u>
PA	1.178

* 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 since 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	1.7%
ULAE	<u>18.5%</u>
Total	20.2%
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
OWNERS
PENNSYLVANIA**

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

With this filing, Allstate is introducing 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 2010/2009 AIR Version 12.0 Hurricane and Earthquake Model for Pennsylvania. 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 bonds in several different groups: 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 Pennsylvania 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 Pennsylvania'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 Pennsylvania 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

Rate Level Indication Exhibits

Allstate Insurance Company
Owners
Pennsylvania

Determination of Statewide Rate Level Indication

1) Indicated Provision for Loss and Loss Adjustment Expense [(a) + (b) + (c) + (d)]	\$678.09
a) Non-Weather Loss and LAE	\$308.14
b) Weather Loss and LAE	\$357.09
c) Low-Layer Retained and Ceded Hurricane Loss and LAE	\$7.07
d) High-Layer Retained Hurricane Loss and LAE	\$5.79
2) Current Fixed Expense Ratio	10.0 %
3) Three Year Average Earned Premium	\$692.99
4) Current Dollar Provision for Fixed Expense [(2) x (3)]	\$69.30
5) Factor to Adjust for Subsequent Change in Fixed Expense	1.074
6) Indicated Provision for Fixed Expense [(4) x (5)]	\$74.43
7) Variable Expense, Contingencies Ratio, and Profit Ratio [(a) + (b) + (c)]	25.2 %
a) Variable Expense Ratio (including Commissions, Taxes, and Debt Provision)	14.9 %
b) Contingencies Ratio	2.0 %
c) Profit Ratio	8.3 %
8) Indicated Retained Risk Provision	\$21.65
9) Indicated Average Premium [(a) + (b) + (c)]	\$1,030.71
a) Non-Weather Loss and LAE	\$998.30
Weather Loss and LAE	
Low-Layer Retained and Ceded Hurricane Loss and LAE	
Fixed Expense	
[(1a) + (1b) + (1c) + (6)] / [1 - (7 Total)]	
b) High-Layer Retained Hurricane Loss and LAE (1d) / [1 - (7a) - (7b)]	\$6.97
c) Retained Risk Provision (8) / [1 - (7a)]	\$25.44
10) Projected Average Earned Premium at Current Rates	\$771.75
11) Indicated Rate Level Change [(9 Total) / (10) - 1.0]	33.6 %

Allstate Insurance Company
Owners
Pennsylvania

Development of Provision for Non-Weather Loss and LAE
Non-Weather Peril excluding Earthquake

Fiscal Year Ending	(1) Earned Exposures	(2) Accident Year * Non-Weather Ultimate Loss	(3) Non-Weather Ultimate Loss and LAE	(4) Factor to Adjust Losses for Pure Premium Trend	(5) Projected Non- Weather Ultimate Loss and LAE	(6) Projected Average Non-Weather Loss and LAE	(7) Experience Year Weights
3/31/2010	277,981	61,341,000	\$71,155,560	1.225	87,165,561	313.57	44%
3/31/2011	253,672	58,038,000	\$67,324,080	1.145	77,086,072	303.88	56%
(8) Indicated Provision for Non-Weather Loss and LAE						\$308.14	

* Evaluated at 12 months

Allstate Insurance Company
Owners
Pennsylvania

Development of Provision for Weather Loss and LAE
Total Weather Peril

Accident Year* Ending	(1) Accident Year * Ultimate Severity	(2) Ultimate Severity incl. LAE	(3) Severity Trend Factor	(4) Projected Ultimate Severity incl. LAE	(7) Experience Year Weights
3/31/2011	\$4,447.78	\$5,159.42	1.210	6,242.90	100%
(8) Indicated Provision for Severity Including All LAE				\$6,242.90	
(9) Indicated Provision for Frequency				5.72%	
(10) Indicated Provision for Weather Loss and LAE				\$357.09	

* Evaluated at 12 months

Allstate Insurance Company
Owners
Pennsylvania

Calculation of Loss Development Factors
Non-Weather Peril excluding Earthquake

Fiscal Accident Year Ending 3/31	Incurred Losses †							Earned Exposures
	12 Months	24 Months	36 Months	48 Months	60 Months	72 Months	84 Months‡	
2000							43,686,931	305,393
2001						48,059,667	47,983,277	313,089
2002					48,754,520	49,217,198	49,355,784	326,866
2003				48,683,698	49,540,856	50,077,163	50,344,610	334,031
2004			54,777,537	56,129,275	56,104,641	56,378,637	56,413,925	350,365
2005		53,973,175	56,585,619	57,843,471	58,520,430	58,864,331	59,110,990	379,605
2006	53,551,778	60,273,396	63,310,914	64,655,781	65,225,198	65,128,153		394,239
2007	52,113,769	57,004,978	60,541,593	62,498,905	63,901,535			372,218
2008	52,009,369	58,613,032	60,330,621	61,485,826				341,183
2009	49,545,795	54,247,396	56,962,665					307,566
2010	52,142,092	56,637,489						277,981
2011	48,916,934							253,672
Selected Trend:								4.0%

Fiscal Accident Year Ending 3/31	Trended Incurred Losses						
	12 Months	24 Months	36 Months	48 Months	60 Months	72 Months	84 Months‡
2000							67,254,023
2001						71,140,047	71,026,972
2002					69,392,884	70,051,419	70,248,670
2003				66,627,002	67,800,082	68,534,055	68,900,075
2004			72,083,502	73,862,297	73,829,880	74,190,440	74,236,877
2005		68,293,285	71,598,860	73,190,444	74,047,013	74,482,158	74,794,260
2006	65,153,926	73,331,802	77,027,407	78,663,644	79,356,426	79,238,356	
2007	60,965,739	66,687,761	70,825,101	73,114,879	74,755,758		
2008	58,503,467	65,931,690	67,863,744	69,163,192			
2009	53,588,732	58,673,984	61,610,818				
2010	54,227,776	58,902,989					
2011	48,916,934						

Development	Trended Additive Amounts per Exposure					
	12 to 24	24 to 36	36 to 48	48 to 60	60 to 72	72 to 84
4th Prior	20,743	8,708	5,077	3,512	2,015	-0,361
3rd Prior	15,373	9,374	4,193	-0,093	2,197	0,603
2nd Prior	21,772	11,115	4,150	2,256	1,029	1,096
1st Prior	16,534	5,663	6,152	1,757	1,146	0,133
Latest	16,818	9,549	3,809	4,408	-0,299	0,822
3 Year Weighted Average:	18.55	8.82	4.72	2.78	0.60	0.68
5 Year Weighted Average:	18.36	8.92	4.68	2.37	1.16	0.47
5 Year Excluding High/Low Outliers:	18.31	9.19	4.45	2.46	1.38	0.53
Selected:	18.36	8.92	4.68	2.37	1.16	0.47

Selected Methodology	Additive Method					
Loss Development Period (months):	<u>12 - 84</u>	<u>24 - 84</u>	<u>36 - 84</u>	<u>48 - 84</u>	<u>60 - 84</u>	
Additive Amt per Exp:	35.96	17.60	8.68	4.00	1.63	
Selected Ultimate Loss & ALAE:	58,038,979	61,341,783	59,430,928	62,699,068	64,420,158	

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

Allstate Insurance Company						
Year	Trended Age-to-Ult Additive Amt Per Exposure	Earned Exposures	Trended Losses Yet To Emerge	De-Trended Losses Yet To Emerge	Incurred Loss & ALAE	Ultimate Loss & ALAE
2010	17.60	277,981	4,892,466	4,704,294	56,637,489	61,341,783
2011	35.96	253,672	9,122,045	9,122,045	48,916,934	58,038,979

Allstate Insurance Company
Owners
Pennsylvania

Calculation of Loss Development Factors

Liability
Incurred Losses †

Fiscal Accident Year Ending 3/31	12 Months	24 Months	36 Months	48 Months	60 Months	72 Months	84 Months‡
2000							8,219,176
2001						8,250,951	8,078,152
2002					7,552,677	7,591,114	7,722,438
2003				9,637,078	9,914,262	10,411,821	10,679,911
2004			9,690,170	11,069,854	11,036,162	11,206,465	11,188,314
2005		6,367,102	8,166,142	8,898,481	9,765,707	10,052,794	10,256,273
2006	5,098,874	8,142,782	10,352,181	12,112,957	12,619,523	12,634,437	
2007	4,110,035	5,932,074	8,664,364	10,464,380	11,817,589		
2008	2,942,728	5,647,377	6,860,984	8,139,609			
2009	2,868,973	5,143,715	7,532,205				
2010	2,945,017	4,976,242					
2011	2,635,192						

Link Ratios

Development	12 to 24	24 to 36	36 to 48	48 to 60	60 to 72	72 to 84
4th Prior	1.597	1.283	1.142	1.029	1.005	0.979
3rd Prior	1.443	1.271	1.090	0.997	1.050	1.017
2nd Prior	1.919	1.461	1.170	1.097	1.015	1.026
1st Prior	1.793	1.215	1.208	1.042	1.029	0.998
Latest	1.690	1.464	1.186	1.129	1.001	1.020
3 Year Average:	1.801	1.380	1.188	1.089	1.015	1.015
5 Year Average:	1.688	1.339	1.159	1.059	1.020	1.008
5 Year Excluding High/Low Outliers:	1.693	1.338	1.166	1.056	1.016	1.012
Selected:	1.688	1.339	1.159	1.059	1.020	1.008

Selected Methodology

Link Ratio Method

Loss Development Period (months):	12 - 84	24 - 84	36 - 84	48 - 84	60 - 84
Loss Development Factor:	2.852	1.690	1.262	1.089	1.028

†Includes ALAE

‡Includes supplemental reserves in addition to case reserves

Allstate Insurance Company

Year	Incurred Loss	Factor to Ultimate	Ultimate Loss & ALAE
2010	\$4,976,242	1.690	8,409,849
2011	\$2,635,192	2.852	7,515,568

Allstate Insurance Company
Owners
Pennsylvania

Calculation of Loss Development Factors
Non-Weather Excluding Liability
Incurred Losses †

Fiscal Accident Year Ending 3/31	12 Months	24 Months	36 Months	48 Months	60 Months	72 Months	84 Months‡
2000							35,467,755
2001						39,808,716	39,905,125
2002					41,201,843	41,626,084	41,633,346
2003				39,046,620	39,626,594	39,665,342	39,664,699
2004			45,087,367	45,059,421	45,068,479	45,172,172	45,225,611
2005		47,606,073	48,419,477	48,944,990	48,754,723	48,811,537	48,854,717
2006	48,452,904	52,130,614	52,958,733	52,542,824	52,605,675	52,493,716	
2007	48,003,734	51,072,904	51,877,229	52,034,525	52,083,946		
2008	49,066,641	52,965,655	53,469,637	53,346,217			
2009	46,676,822	49,103,681	49,430,460				
2010	49,197,075	51,661,247					
2011	46,281,742						
	Link Ratios						
Development	12 to 24	24 to 36	36 to 48	48 to 60	60 to 72	72 to 84	
4th Prior	1.076	1.017	0.999	1.015	1.010	1.002	
3rd Prior	1.064	1.016	1.011	1.000	1.001	1.000	
2nd Prior	1.079	1.016	0.992	0.996	1.002	1.000	
1st Prior	1.052	1.010	1.003	1.001	1.001	1.001	
Latest	1.050	1.007	0.998	1.001	0.998	1.001	
3 Year Average:	1.060	1.011	0.998	0.999	1.000	1.001	
5 Year Average:	1.064	1.013	1.001	1.003	1.002	1.001	
5 Year Excluding High/Low Outliers:	1.064	1.014	1.000	1.001	1.001	1.001	
Selected:	1.064	1.013	1.001	1.003	1.002	1.001	

Selected Methodology Link Ratio Method

Loss Development Period (months):	<u>12 - 84</u>	<u>24 - 84</u>	<u>36 - 84</u>	<u>48 - 84</u>	<u>60 - 84</u>
Loss Development Factor:	1.085	1.020	1.007	1.006	1.003

†Includes ALAE

‡Includes supplemental reserves in addition to case reserves

Allstate Insurance Company

Year	Incurred Loss	Factor to Ultimate	Ultimate Loss & ALAE
2010	\$51,661,247	1.020	52,694,472
2011	\$46,281,742	1.085	50,215,690

Allstate Insurance Company
Pennsylvania
Owners

Ultimate Losses & ALAE
Total Non-Weather Peril

Ultimate Losses & ALAE			
<u>Year</u>	<u>Link Ratio</u> <u>Estimate*</u>	<u>Additive</u> <u>Estimate</u>	<u>Selected</u>
2010	61,104,321	61,341,783	61,341,000
2011	57,731,258	58,038,979	58,038,000

* Link Ratio includes Liability and All Excluding Liability, excluding Earthquake.

ALLSTATE INSURANCE GROUP*

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

2007, 2008 & 2009

	<u>2007 - 2009**</u>
1. Direct Losses and Allocated Loss Adjustment Expense Incurred excluding Earthquake and Hurricane Losses	\$39,781,693
2. Direct Unallocated Loss Adjustment Expense Incurred excluding Earthquake and Hurricane	\$6,347,066
3. Ratio (2)/(1)	0.160
4. Proposed Provision	0.160

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

** Includes Personal Property Lines and Private Passenger Automobile Insurance

(000 Omitted)

Allstate Insurance Company
Owners
Pennsylvania

Calculation of Pure Premium Trend Factor

<u>Peril</u>	<u>Selected Annual Pure Premium Impacts</u>	
	<u>Historical</u>	<u>Projected</u>
Non-Weather Peril excluding Earthquake	7.00%	7.00%

	<u>1st Prior Year</u>	<u>Current Year</u>
1) Loss Trend Projection Date	10/1/2012	10/1/2012
2) Mid-Point of Current Year's Experience Period	9/30/2010	9/30/2010
3) Experience Period Ended	3/31/2010	3/31/2011
4) Midpoint of Experience Period	9/30/2009	9/30/2010
5) Historical: Number of Years from (4) to (2)	1.000	0.000
6) Projected: Number of Years from (2) to (1)	2.003	2.003

Calculation of Trend Factors

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

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

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

Allstate Insurance Company
Owners
Pennsylvania

Loss Trends - Pure Premium
Non-Weather Peril excluding Earthquake

Year Ending	Actual Paid Pure		Exponential Curve of Best Fit		
	Premium	Annual Change	24 pt.	12 pt.	6 pt.
06/05	148.60	-8.60 %	148.29		
09/05	154.36	-5.01	150.70		
12/05	154.79	-2.48	153.15		
03/06	155.09	0.86	155.63		
06/06	157.65	6.09	158.16		
09/06	155.71	0.87	160.73		
12/06	159.54	3.07	163.33		
03/07	167.36	7.91	165.98		
06/07	172.14	9.19	168.68		
09/07	180.43	15.88	171.42		
12/07	177.42	11.21	174.20		
03/08	172.28	2.94	177.03		
06/08	175.39	1.89	179.90	175.71	
09/08	176.77	-2.03	182.82	179.20	
12/08	185.64	4.63	185.79	182.77	
03/09	195.17	13.29	188.80	186.40	
06/09	190.05	8.36	191.87	190.11	
09/09	193.51	9.47	194.98	193.89	
12/09	194.36	4.70	198.15	197.75	190.04
03/10	191.50	-1.88	201.36	201.68	196.35
06/10	202.79	6.70	204.63	205.69	202.87
09/10	205.83	6.37	207.95	209.78	209.61
12/10	222.13	14.29	211.33	213.95	216.58
03/11	222.84	16.37	214.76	218.20	223.77
Regression			24 pt.	12 pt.	6 pt.
Avg Annual Percent Change Based on Best Fit:			6.65 %	8.19 %	13.97 %

Allstate Insurance Group
Owners
Pennsylvania

Provision for Weather Frequency

(1) Accident Year Ending	(2) Earned Exposures	(3) Accident Year * Paid Claims	(4) Accident Year Paid Frequency	(5) Accident Year Ultimate Paid Frequency
1987	194,071	9,224	4.75%	4.75%
1988	202,656	9,449	4.66%	4.66%
1989	213,016	11,357	5.33%	5.33%
1990	225,793	10,556	4.68%	4.68%
1991	234,430	12,159	5.19%	5.19%
1992	240,993	13,832	5.74%	5.74%
1993	247,596	16,688	6.74%	6.74%
1994	255,693	32,620	12.76%	12.76%
1995	267,673	14,631	5.47%	5.47%
1996	274,917	31,305	11.39%	11.39%
1997	283,863	13,115	4.62%	4.62%
1998	295,738	17,459	5.90%	5.90%
1999	305,973	16,380	5.35%	5.35%
2000	317,527	18,767	5.91%	5.91%
2001	332,016	14,659	4.42%	4.42%
2002	342,936	15,828	4.62%	4.62%
2003	356,187	19,819	5.56%	5.56%
2004	386,862	15,387	3.98%	3.98%
2005	412,203	14,625	3.55%	3.55%
2006	426,160	16,776	3.94%	3.94%
2007	438,348	17,173	3.92%	3.92%
2008	438,253	17,891	4.08%	4.08%
2009	437,045	21,678	4.96%	4.97%
2010	440,338	39,369	8.94%	9.75%
(6) Pennsylvania Weather Frequency Provision				5.72%

* Evaluated at 12 months

Allstate Insurance Company
Owners
Pennsylvania

Calculation of Weather Loss Severity Trend Factor

<u>Peril</u>	<u>Selected Annual Pure Premium Impacts</u>	
	<u>Historical</u>	<u>Projected</u>
Weather Peril	10.00%	10.00%

	<u>Current Year</u>
1) Loss Trend Projection Date	10/1/2012
2) Mid-Point of Current Year's Experience Period	9/30/2010
3) Experience Period Ended	3/31/2011
4) Midpoint of Experience Period	9/30/2010
5) Historical: Number of Years from (4) to (2)	0.000
6) Projected: Number of Years from (2) to (1)	2.003

Calculation of Trend Factors

- (a) Historical Weather Loss Severity Factors are the Annual Historical Impacts plus unity compounded for the number of years in (5)
- (b) Projected Weather Loss Severity Factors are the Annual Projected Impacts plus unity compounded for the number of years in (6)
- (c) Factor to Adjust Losses for Weather Loss Severity Trend = (a) x (b)

Allstate Insurance Company
Owners
Pennsylvania

Loss Trends - Severity
Total Weather Peril

Year Ending	Actual Paid		Exponential Curve of Best Fit		
	Severity	Annual Change	24 pt.	12 pt.	6 pt.
06/05	2,525.00	19.13 %	2,378.30		
09/05	2,557.62	13.35	2,421.40		
12/05	2,553.32	8.07	2,465.27		
03/06	2,502.14	3.67	2,509.94		
06/06	2,493.86	-1.23	2,555.42		
09/06	2,480.30	-3.02	2,601.73		
12/06	2,563.78	0.41	2,648.87		
03/07	2,739.87	9.50	2,696.87		
06/07	2,769.66	11.06	2,745.74		
09/07	2,920.40	17.74	2,795.49		
12/07	2,959.56	15.44	2,846.14		
03/08	2,825.69	3.13	2,897.71		
06/08	2,824.95	2.00	2,950.22	2,714.51	
09/08	2,770.31	-5.14	3,003.68	2,800.60	
12/08	2,850.15	-3.70	3,058.10	2,889.41	
03/09	2,924.24	3.49	3,113.52	2,981.05	
06/09	3,094.52	9.54	3,169.93	3,075.59	
09/09	3,263.19	17.79	3,227.37	3,173.12	
12/09	3,325.86	16.69	3,285.85	3,273.75	3,170.87
03/10	3,212.93	9.87	3,345.39	3,377.58	3,306.81
06/10	3,303.92	6.77	3,406.01	3,484.69	3,448.59
09/10	3,621.13	10.97	3,467.72	3,595.20	3,596.44
12/10	3,718.76	11.81	3,530.56	3,709.22	3,750.63
03/11	4,012.94	24.90	3,594.53	3,826.85	3,911.43
Regression			24 pt.	12 pt.	6 pt.
Avg Annual Percent Change Based on Best Fit:			7.45 %	13.30 %	18.28 %

Allstate Insurance Group
Owners
Pennsylvania

Calculation of Frequency Development Factors
Weather Peril
Paid Frequency

Accident Year Ending	12 Months	24 Months	36 Months	48 Months	60 Months	72 Months	84 Months
1999							5.35%
2000						5.91%	5.91%
2001						4.41%	4.41%
2002				4.61%	4.62%	4.62%	4.62%
2003			5.56%	5.56%	5.56%	5.56%	5.56%
2004		3.97%	3.97%	3.98%	3.98%	3.98%	3.98%
2005	3.27%	3.54%	3.55%	3.55%	3.55%	3.55%	
2006	3.66%	3.93%	3.93%	3.94%	3.94%		
2007	3.54%	3.91%	3.92%	3.92%			
2008	3.74%	4.07%	4.08%				
2009	4.53%	4.96%					
2010	8.94%						
Link Ratios							
<u>Development</u>	<u>12 to 24</u>	<u>24 to 36</u>	<u>36 to 48</u>	<u>48 to 60</u>	<u>60 to 72</u>	<u>72 to 84</u>	
4th Prior	1.083	1.002	1.000	1.000	1.000	1.000	
3rd Prior	1.074	1.002	1.000	1.000	1.000	1.000	
2nd Prior	1.103	1.002	1.000	1.000	1.000	1.000	
1st Prior	1.089	1.002	1.000	1.000	1.000	1.000	
Latest	1.094	1.002	1.000	1.000	1.000	1.000	
3 Year Average:	1.095	1.002	1.000	1.000	1.000	1.000	
5 Year Average:	1.089	1.002	1.000	1.000	1.000	1.000	
5 Year Excluding High/Low Outliers:	1.089	1.002	1.000	1.000	1.000	1.000	
Selected:	1.089	1.002	1.000	1.000	1.000	1.000	
Selected Methodology							
	Link Ratio Method						
Development Period (months):	<u>12 - 84</u>	<u>24 - 84</u>	<u>36 - 84</u>	<u>48 - 84</u>	<u>60 - 84</u>		
Frequency Development Factor:	1.091	1.002	1.000	1.000	1.000		
Selected Ultimate Frequency:	9.75%	4.97%	4.08%	3.92%	3.94%		

Allstate Insurance Group

Year	Paid Frequency	Factor to Ultimate	Ultimate Frequency
2010	8.94%	1.091	9.75%

Allstate Insurance Group
Owners
Pennsylvania

Calculation of Severity Development Factors
Weather Peril
Paid Severity

Fiscal Accident Year Ending 3/31	12 Months	24 Months	36 Months	48 Months	60 Months	72 Months	84 Months	
2000							1,752	
2001						1,724	1,724	
2002					1,925	1,937	1,984	
2003				2,306	2,316	2,317	2,321	
2004			2,208	2,218	2,217	2,221	2,222	
2005		2,471	2,539	2,546	2,548	2,548	2,548	
2006	2,370	2,568	2,627	2,647	2,670	2,671		
2007	2,683	2,936	3,009	3,039	3,045			
2008	2,728	2,938	3,014	3,033				
2009	2,906	3,292	3,354					
2010	3,117	3,484						
2011	3,951							
			Link Ratios					
<u>Development</u>	<u>12 to 24</u>	<u>24 to 36</u>	<u>36 to 48</u>	<u>48 to 60</u>	<u>60 to 72</u>	<u>72 to 84</u>		
4th Prior	1.084	1.027	1.004	1.005	1.006	1.000		
3rd Prior	1.094	1.023	1.003	1.000	1.000	1.024		
2nd Prior	1.077	1.025	1.008	1.001	1.001	1.002		
1st Prior	1.133	1.026	1.010	1.009	1.000	1.000		
Latest	1.118	1.019	1.006	1.002	1.000	1.000		
3 Year Average:	1.109	1.023	1.008	1.004	1.000	1.001		
5 Year Average:	1.101	1.024	1.006	1.003	1.001	1.005		
5 Year Excluding High/Low Outliers:	1.099	1.025	1.006	1.003	1.000	1.001		
Selected:	1.101	1.024	1.006	1.003	1.001	1.005		
Selected Methodology	Link Ratio Method							
Development Period (months):	<u>12 - 84</u>	<u>24 - 84</u>	<u>36 - 84</u>	<u>48 - 84</u>	<u>60 - 84</u>			
Severity Development Factor:	1.144	1.039	1.015	1.009	1.006			

Allstate Insurance Company
Owners
Pennsylvania

Development of Provision for Modeled Loss and LAE and Retained Risk

1) Hurricane Provision Per AIY Including All LAE	0.060
2) Retained Risk Provision Per AIY	0.101
3) Earned Exposures	253,672
4) Earned AIY	53,313,454
5) Average Earned AIY (4)/(3)	210.17
6) Factor to Adjust to Projected Average AIY Level	1.020
7) Average AIY Projected to 6/8/2011 (5)*(6)	214.37
8) Proportion of High-Layer Retained Modeled Losses to Total Modeled Losses	0.450
9) Expected Modeled Catastrophe Pure Premium (1)*(7)	\$12.86
a) Low-Layer Retained and Ceded Hurricane Pure Premium [1 - (8)]*(9 Total)	\$7.07
b) High-Layer Retained Hurricane Pure Premium (8)*(9 Total)	\$5.79
10) Expected Retained Risk Provision (2)*(7)	\$21.65

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

Allstate Insurance Company
Owners
Pennsylvania

Summary of Expense Provisions

	Percent Fixed	Expense Provision
Commissions	0 %	11.5 %
Taxes †	0	2.1
Licenses and Fees	100	0.1
Other Acquisition	100	5.1
General Expense	100	4.8
Debt Provision	0	1.3
Contingency Provision	0	2.0
Profit Provision	0	8.3

† State Taxes - Does not include Federal Income Tax

ALLSTATE INSURANCE GROUP*

Countrywide Experience for General Expenses

	General Expense**		
	2007	2008	2009
1. Direct Premium Earned Less Reinsurance Premium***	\$22,348,897	\$22,179,653	\$21,698,432
2. General Expense Incurred	1,037,950	1,103,876	1,011,399
3. Ratio (2)/(1)	0.0464	0.0498	0.0466
4. Three Year Average			0.048
5. Proposed Provision			0.048

* 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 GROUP*

Personal Property Lines

Countrywide Experience for Other Acquisition Expenses*

	Other Acquisition Expense		
	2007	2008	2009
1. Direct Premium Earned Less Reinsurance Premium**	\$22,348,897	\$22,179,653	\$21,698,432
2. Other Acquisition Expense Incurred	1,403,527	1,286,955	1,259,684
3. Ratio (2)/(1)	0.0628	0.0580	0.0581
4. Three Year Average			0.0596
5. Adjusted Three Year Average***			0.0513
6. Proposed Provision			0.051

* 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 Other Acquisition expenses. Therefore, direct premiums must be reduced by NCOR premiums to get the premium base upon which the other acquisition expense provision is 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

Allstate Insurance Company
Owners
Pennsylvania

Factor to Adjust for Subsequent Change in Fixed Expense
(For calendar years 2007-2009)

1) Average Earned Date of Experience Period	6/30/2008
2) Average Earned Date of Proposed Policy Period	10/1/2012
3) Number of Years from (1) to (2)	4.255
4) Selected Annual Impact	1.70%
5) Factor to Adjust for Subsequent Change in Fixed Expense [1.0 + (4)] ^ (3)	1.074

Allstate Insurance Company
Owners
Pennsylvania
Investment Income

Calculation of Present Value, as of the Average Earning Date of a Policy Year, of all Income and Outgo @ 2.4% †force of interest, assuming an Operating Profit of 7.10% 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 @ 2.4%	Discounted Payments
1	26.8 %	26.80 %	0.70	1.007	27.0 %
2	86.1	59.30	1.40	0.990	58.7
3	93.0	6.90	2.40	0.967	6.7
4	96.4	3.40	3.40	0.944	3.2
5	98.4	2.00	4.40	0.922	1.8
Subsequent	100.0	1.60	7.00	0.866	1.4
Total					98.8 %
Expected Losses and Loss Expense Ratio					64.8 %
Present Value of Loss and Loss Expense Payments					64.0 %
General Expense		4.8 %	0.75	1.006	4.8 %
Other Acquisition		5.1 %	0.63	1.009	5.1 %
Taxes		2.1 %	1.29	0.993	2.1 %
Licenses and Fees		0.1 %	1.29	0.993	0.1 %
Commissions		11.5 %	0.58	1.010	11.6 %
Debt Provision		1.3 %	1.00	1.000	1.3 %
Contingency Provision		2.0 %	1.00	1.000	2.0 %
Profit		8.3 %	1.00	1.000	8.3 %
Total Present Value of Outgo					99.3 %
Premiums		100.0 %	0.57	1.010	101.0 %
Difference, Present Value of Income Less Present Value of Outgo					1.7 %

†Discount rate from Investment Department forecast

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

Allstate Insurance Company
Owners
Pennsylvania

Development of Projected Average Earned Premium

Fiscal Year Ending	(1) Earned Exposures	(2) Earned Premium at Current Rates	(3) Factor to Adjust to Projected Premium Level	(4) Projected Earned Premium at Current Rates (2) x (3)	(5) Projected Average Earned Premium at Current Rates (4) / (1)	(6) Experience Year Weights
3/31/2011	253,672	\$193,833,549	1.010	\$195,771,884	\$771.75	100 %
		(7) Projected Average Earned Premium at Current Rates			\$771.75	

Allstate Insurance Company
Owners
Pennsylvania

Calculation of Premium Trend Factor

<u>Peril</u>	Selected Annual Premium Impacts <u>Projected</u>
Total All Peril excluding EQ	0.50%
	<u>Current Year</u>
1) Average Earned Date of Proposed Policy Period	10/1/2012
2) Mid-Point of Current Year's Experience Period	9/30/2010
3) Experience Period Ended	3/31/2011
4) Midpoint of Experience Period	9/30/2010
5) Historical: Number of Years from (4) to (2)	0.000
6) Projected: Number of Years from (2) to (1)	2.003

Calculation of Trend Factors

- (a) Historical Premium Factors are the Annual Historical Impacts plus unity compounded for the number of years in (5)
- (b) Projected Premium Factors are the Annual Projected Impacts plus unity compounded for the number of years in (6)
- (c) Factor to Adjust to Projected Premium Level = (a) x (b)

Allstate Insurance Company
Owners
Pennsylvania

Premium Trends

Year Ending	Average Written		Exponential Curve of Best Fit		
	Premium @ CRL	Annual Change	24 pt.	12 pt.	6 pt.
06/05	\$655.24	7.21 %	\$673.19		
09/05	665.67	6.00	677.81		
12/05	675.24	5.88	682.46		
03/06	683.43	6.13	687.14		
06/06	690.28	5.35	691.86		
09/06	695.72	4.51	696.61		
12/06	699.06	3.53	701.39		
03/07	704.81	3.13	706.21		
06/07	714.93	3.57	711.05		
09/07	726.17	4.38	715.93		
12/07	735.79	5.25	720.85		
03/08	741.49	5.20	725.80		
06/08	746.67	4.44	730.78	\$749.96	
09/08	751.66	3.51	735.79	751.65	
12/08	753.30	2.38	740.84	753.35	
03/09	753.39	1.60	745.93	755.06	
06/09	758.09	1.53	751.05	756.76	
09/09	761.52	1.31	756.20	758.48	
12/09	764.18	1.44	761.39	760.19	\$763.35
03/10	764.87	1.52	766.62	761.91	763.86
06/10	762.82	0.62	771.88	763.63	764.36
09/10	762.88	0.18	777.18	765.36	764.86
12/10	765.76	0.21	782.52	767.09	765.37
03/11	767.16	0.30	787.89	768.82	765.87
Regression			24 pt.	12 pt.	6 pt.
Avg Annual Percent Change Based on Best Fit:			2.77%	0.91%	0.26%

Allstate Insurance Company
Owners
Pennsylvania

AIY Trends

Exponential Curve of Best Fit

Year Ending	AIY	Annual Change	24 pt.	12 pt.	6 pt.
06/05	176.23	8.27 %	181.03		
09/05	179.88	7.38	182.44		
12/05	182.04	6.57	183.87		
03/06	184.01	6.27	185.30		
06/06	186.20	5.66	186.75		
09/06	188.19	4.62	188.21		
12/06	189.60	4.15	189.68		
03/07	191.30	3.96	191.16		
06/07	193.92	4.15	192.66		
09/07	196.87	4.61	194.16		
12/07	199.41	5.17	195.68		
03/08	200.96	5.05	197.21		
06/08	202.41	4.38	198.75	203.07	
09/08	203.78	3.51	200.30	203.87	
12/08	204.48	2.54	201.87	204.67	
03/09	205.02	2.02	203.44	205.47	
06/09	206.56	2.05	205.03	206.27	
09/09	207.97	2.06	206.64	207.08	
12/09	209.04	2.23	208.25	207.89	208.76
03/10	209.46	2.17	209.88	208.71	209.25
06/10	209.35	1.35	211.52	209.53	209.73
09/10	209.66	0.81	213.17	210.35	210.22
12/10	210.74	0.81	214.84	211.17	210.71
03/11	211.62	1.03	216.52	212.00	211.20
Regression			24 pt.	12 pt.	6 pt.
Avg Annual Percent Change Based on Best Fit:			3.16%	1.58%	0.93%

ATTACHMENT VI

Home and Auto Discount

**ALLSTATE INSURANCE COMPANY
OWNERS FORMS**

PENNSYLVANIA

HOME AND AUTO DISCOUNT

With this filing, we are revising the Home and Auto Discount for our Allstate Insurance Company (AIC) Owners program in Pennsylvania.

The Home and Auto Discount risk classification identifies policies that have both a Home and Auto policy with Allstate, and those that only have a Home policy with Allstate. This risk classification demonstrates material differences in the expected loss cost for their respective risk class. This approach in determining and setting rates for risk classifications is in accordance with the Actuarial Standard of Practice No. 12, *Risk Classification (for all Practice Areas)*.

Data

To analyze the Home and Auto Discount, premium and loss data from Allstate Insurance Group was used. Allstate Insurance Group consists of Allstate Insurance Company, Allstate Indemnity Company, and Allstate Property & Casualty Insurance Company. Five years of Pennsylvania specific Allstate Insurance Group experience was used in this analysis.

Methodology

A loss ratio based analysis was performed to develop the indicated factor for the Home and Auto Discount. Please refer to Attachment VI, Exhibit 1 for the complete analysis of the revised Home and Auto Discount with cell formulas and underlying data in Excel format. The adjusted loss ratios represent the ratio of incurred losses to adjusted earned premium. The earned premium was adjusted by removing the effect of the current Home and Auto Discount in use during this time period to bring the premium for both risk classes to a common rate level for the purposes of comparing the expected loss cost for their respective risk class. Adjusted loss ratio relativities were developed by dividing the adjusted loss ratio within each segment by the adjusted loss ratio of all segments combined. All adjusted loss ratio relativities were re-based to the segment without the Home and Auto Discount. The resulting value for the discount segment is the indicated discount factor.

Note that this is the same support that we filed with the Allstate Insurance Company filing R22770 that was approved in 2010. At that time the current discount factor was 0.80. We chose not to move all the way to the indicated factor and instead selected a discount factor of 0.85. We did this in order to mitigate disruptions to our monoline customers. At this time we are proposing to move all the way to the indicated factor as we believe this amount is representative of the risk that these rates are being proposed for.

Indicated and Proposed Rating Plan Factors

Based on this information we have elected to increase the discount from 20% to 30%. Current, indicated, and proposed rating plan factors are included below.

Current Home & Auto Discount Factor	Indicated Home & Auto Discount Factor	Proposed Home & Auto Discount Factor
0.80	0.70	0.70

Allstate Insurance Group
Owners
Pennsylvania

Home and Auto Discount Support*

	(1)	(2)	(3)	(4) = (2) / (3)	(5) = (1) / (4)	(6) = (5) / (5) Total	(7) = (6) / (6) Base	(8)
Home and Auto Discount Segment	Incurring Loss	Earned Premium	Current Factor*	Adjusted Earned Premium**	Adjusted Loss Ratio	Adjusted Loss Ratio Relativity	Indicated Factor***	Selected Factor
No Discount	\$ 234,141,937	\$ 497,206,318	1.00	\$ 497,206,318	0.471	1.255	1.00	1.00
With Discount	\$ 341,727,446	\$ 882,025,525	0.85	\$ 1,037,677,088	0.329	0.878	0.70	0.70
Grand Total	\$ 575,869,383	\$ 1,379,231,842		\$ 1,534,883,405	0.375			

*To analyze the Home and Auto Discount, premium and loss data from the Pennsylvania owners program in Allstate Insurance Company, Allstate Indemnity Company, and Allstate Property & Casualty Insurance Company was used. We analyzed the premiums and losses over the five year period from 2004 to 2008. The Current Discount Factor during this time period was 0.85.

**The Earned Premium was adjusted by removing the effect of the current Home and Auto Discount in use during this time period to bring the premium for both risk classes to a common rate level for the purposes of comparing the expected loss cost for their respective risk class.

***Adjusted loss ratio relativity reindexed to base segment (with no Home and Auto Discount)

ATTACHMENT VII

Claim Free Discount

**ALLSTATE INSURANCE COMPANY
OWNERS FORMS**

PENNSYLVANIA

CLAIM FREE DISCOUNT

With this filing, we are revising the Claim Free Discount for the Allstate Insurance Company Owners program.

The Claim Free Discount may be applied based upon a policyholder's chargeable claim experience. Please refer to Rule 22 – Claim Free Discount in the rules manual on file with the Department for additional details.

Data

To analyze the Claim Free Discount, premium and loss data from Allstate Insurance Company Pennsylvania Owners program was used. We looked at the policies that had the claim free discount in 2007 and analyzed their premiums and losses over the three year period from 2008 to 2010.

Methodology

A loss ratio based analysis was performed to develop the indicated factor for the Claim Free Discount. Please refer to Attachment VII, Exhibit 1 for the complete analysis of the revised Claim Free Discount with cell formulas and underlying data in Excel format. The adjusted loss ratios represent the ratio of incurred losses to adjusted earned premium. The earned premium was adjusted by removing the effect of the current Claim Free Discount to bring the premium for both risk classes to a common rate level for the purposes of comparing the expected loss cost for their respective risk class. Adjusted loss ratio relativities were developed by dividing the adjusted loss ratio within each segment by the adjusted loss ratio of all segments combined. All adjusted loss ratio relativities were re-based to the segment without the Claim Free Discount. The resulting value for the discount segment is the indicated discount factor.

Indicated and Proposed Rating Plan Factors

Based on this information, the analysis indicates a larger discount. We have elected to increase the discount from 5% to 10%. Moving the discount any further would result in higher impacts for the segment of business without the discount. The current, indicated, and proposed discount factors are included below.

Current Claim Free Discount Factor	Indicated Claim Free Discount Factor	Proposed Claim Free Discount Factor
0.95	0.63	0.90

Allstate Insurance Company
Owners
Pennsylvania

Claim Free Discount Support*

	(1)	(2)	(3)	(4) = (2) / (3)	(5) = (1) / (4)	(6) = (5) / (5) Total	(7) = (6) / (6) Base	(8)
Claim Free Discount Segment	Incurring Loss	Earned Premium	Current Factor	Adjusted Earned Premium**	Adjusted Loss Ratio	Adjusted Loss Ratio Relativity	Indicated Factor***	Selected Factor
No Discount	\$ 63,016,376	\$ 95,705,121	1.00	\$ 95,705,121	0.658	1.471	1.00	1.00
With Discount	\$ 277,692,337	\$ 632,146,243	0.95	\$ 665,417,098	0.417	0.932	0.63	0.95
Grand Total	\$ 340,708,713	\$ 727,851,364		\$ 761,122,219	0.448			

*To analyze the Claim Free Discount, premium and loss data from Allstate Insurance Company Pennsylvania owners program was used.

We looked at the policies that had the claim free discount in 2007 and analyzed their premiums and losses over the three year period from 2008 to 2010.

**The Earned Premium was adjusted by removing the effect of the current Claim Free Discount to bring the premium for both risk classes to a common rate level for the purposes of comparing the expected loss cost for their respective risk class.

***Adjusted loss ratio relativity reindexed to base segment (with no Claim Free Discount)

ATTACHMENT VIII

Fire Resistive Discount

**ALLSTATE INSURANCE COMPANY
OWNERS FORMS**

PENNSYLVANIA

FIRE RESISTIVE DISCOUNT

With this filing, we are revising the Fire Resistive Discount for our Allstate Insurance Company (AIC) Owners program in Pennsylvania.

The Fire Resistive Discount risk classification identifies policies that have a dwelling of fire resistive construction type, and those that do not. Fire resistive construction is defined as a building with all exterior walls, floors, roof and interior supports of brick or other non-combustible materials.

Data

To analyze the Fire Resistive Discount, premium and loss data from Allstate Insurance Company Pennsylvania Owners program was used. Due to data limitations the data is restricted to April 2009 to December 2010 evaluated as of March 31, 2011.

Methodology

A loss ratio based analysis was performed to develop the indicated factor for the Fire Resistive Discount. Please refer to Attachment VIII, Exhibit 1 for the complete analysis of the revised Fire Resistive Discount with cell formulas and underlying data in Excel format. The adjusted loss ratios represent the ratio of incurred losses to adjusted earned premium. The earned premium was adjusted by removing the effect of the current Fire Resistive Discount to bring the premium for both risk classes to a common rate level for the purposes of comparing the expected loss cost for their respective risk class. Adjusted loss ratio relativities were developed by dividing the adjusted loss ratio within each segment by the adjusted loss ratio of all segments combined. All adjusted loss ratio relativities were re-based to the segment without the Fire Resistive Discount. The resulting value for the discount segment is the indicated discount factor.

Indicated and Proposed Rating Plan Factors

Based on this information the analysis shows that a discount is no longer indicated. We have elected to reduce the discount from 15% to 5% in order to address the loss pressures in this segment while also reducing the disruption to these customers. We will continue to monitor this segment in the future. Current, Indicated, and Proposed rating plan factors are included below.

Current Fire Resistive Discount Factor	Indicated Fire Resistive Discount Factor	Proposed Fire Resistive Discount Factor
0.85	2.14	0.95

Allstate Insurance Company
Owners
Pennsylvania

Fire Resistive Discount Support*

	(1)	(2)	(3)	(4) = (2) / (3)	(5) = (1) / (4)	(6) = (5) / (5) Total	(7) = (6) / (6) Base	(8)
Fire Resistive Discount Segment	Incurred Loss	Earned Premium	Current Factor	Adjusted Earned Premium**	Adjusted Loss Ratio	Adjusted Loss Ratio Relativity	Indicated Factor***	Selected Factor
No Discount	\$ 296,882,128	\$ 449,093,439	1.00	\$ 449,093,439	0.661	0.996	1.00	1.00
With Discount	\$ 2,229,564	\$ 1,336,904	0.85	\$ 1,572,828	1.418	2.136	2.14	0.95
Grand Total	\$ 299,111,693	\$ 450,430,343		\$ 450,666,267	0.664			

*To analyze the Fire Resistive Discount, premium and loss data from Allstate Insurance Company Pennsylvania owners program was used.
Due to data limitations the data is restricted to April 2009 to December 2010 evaluated as of March 31, 2011.

**The Earned Premium was adjusted by removing the effect of the current Fire Resistive Discount to bring the premium for both risk classes to a common rate level for the purposes of comparing the expected loss cost for their respective risk class.

***Adjusted loss ratio relativity reindexed to base segment (with no Fire Resistive Discount)

ATTACHMENT IX

Impacts & Histograms

**ALLSTATE INSURANCE COMPANY
OWNERS FORMS
PENNSYLVANIA**

IMPACTS & HISTOGRAMS

With this filing, Allstate Insurance Company is proposing to update the Home and Auto Discount, the Claim Free Discount, the Fire Resistive Discount, and the Rate Adjustment Factor (RAF) for the Owners line in the State of Pennsylvania. An analysis of the premiums, losses, and expenses for this line of insurance resulted in a rate level indication of +33.6%. With the changes proposed in the filing, the overall proposed rate level change is +25.0%.

The changes proposed in this filing modify the variable portion of the policy premium. The variable package premium does not include additional coverages. The overall average change to the variable package premium is 25.4%. The impact information included in this filing is for the variable package premium only. Including the additional coverage premium would flatten the impacts to an overall average change of 25.0%.

Attachment IX, Exhibit 1 shows a histogram detailing the policyholder impacts proposed in this filing. Attachment IX, Exhibit 2 shows the average impact for policies with the Home and Auto Discount, and those without. Attachment IX, Exhibit 3 shows the average impact for policies with the Claim Free Discount, and those without. Attachment IX, Exhibit 4 shows the average impact for policies with the Fire Resistive Discount, and those without.

The overall rate increase is being achieved through changes to multiplicative factors. However, there are non-multiplicative elements of the rating plan, in particular the Maximum Deductible Credit which can be seen in the Rate Page Calculation Options. In the deductible step of the premium calculation process, a multiplicative factor is applied corresponding to the selected deductible. For deductible factors less than 1, the amount of premium reduction is subject to a Maximum Deductible Credit. Policies affected by the Maximum Deductible Credit are in effect having their premium reduced by a fixed dollar amount, rather than a multiplicative factor. For these policies, as the premium amount increases, the percentage of premium reduction from the deductible choice decreases. The result is that these policies will receive a higher than average impact from a premium increase.

The maximum impact any single policyholder will receive as a result of these proposed changes is +80.0%. The premium for that policy is currently \$1,055 and will receive an increase of \$844.

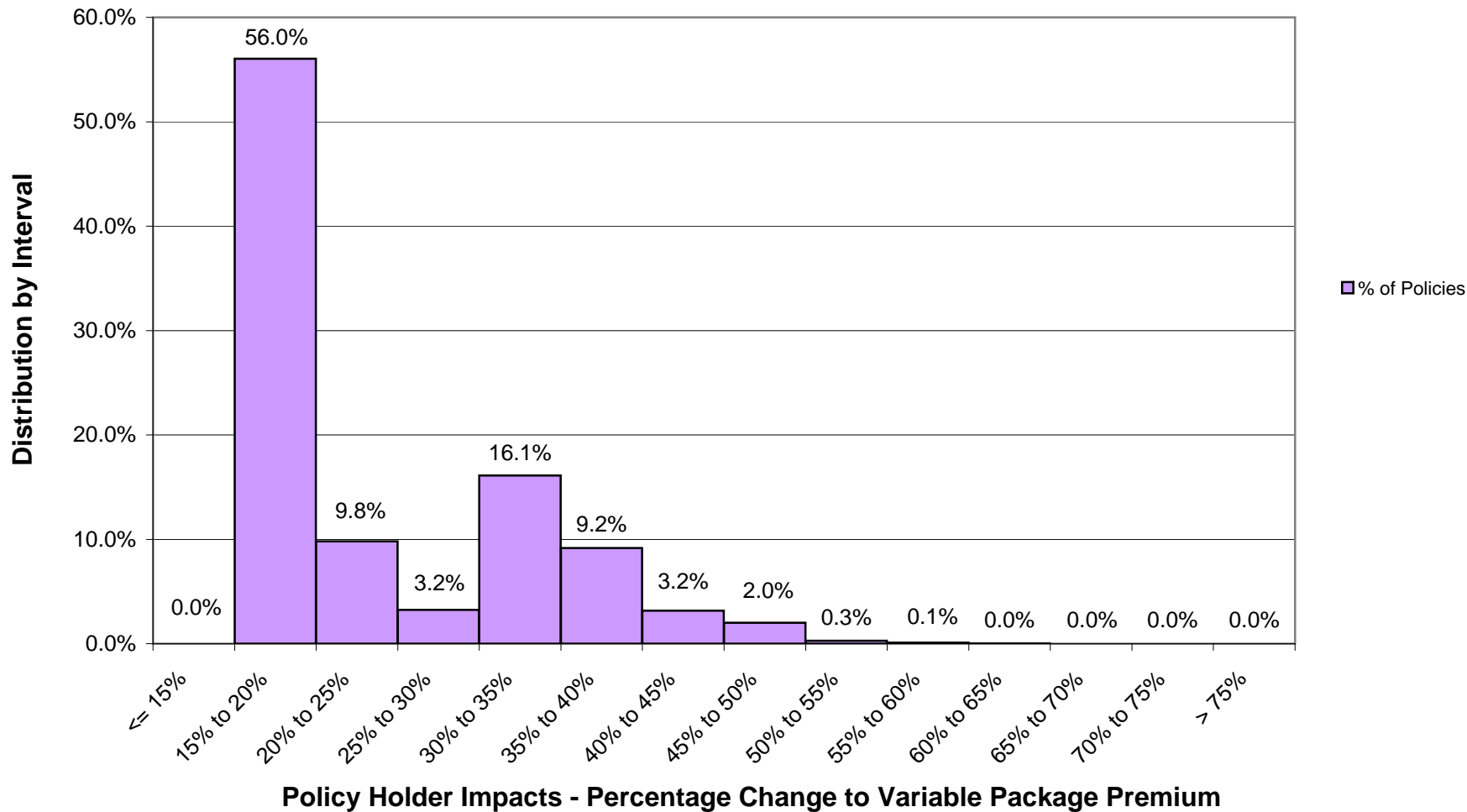
The minimum impact any single policyholder will receive as a result of these proposed changes is +15.5%. The premium for that policy is currently \$174 and will receive an increase of \$27.

When selecting proposed factors, Allstate took into account the number of policies that would exceed an impact greater than 25 percentage points above the average variable package premium

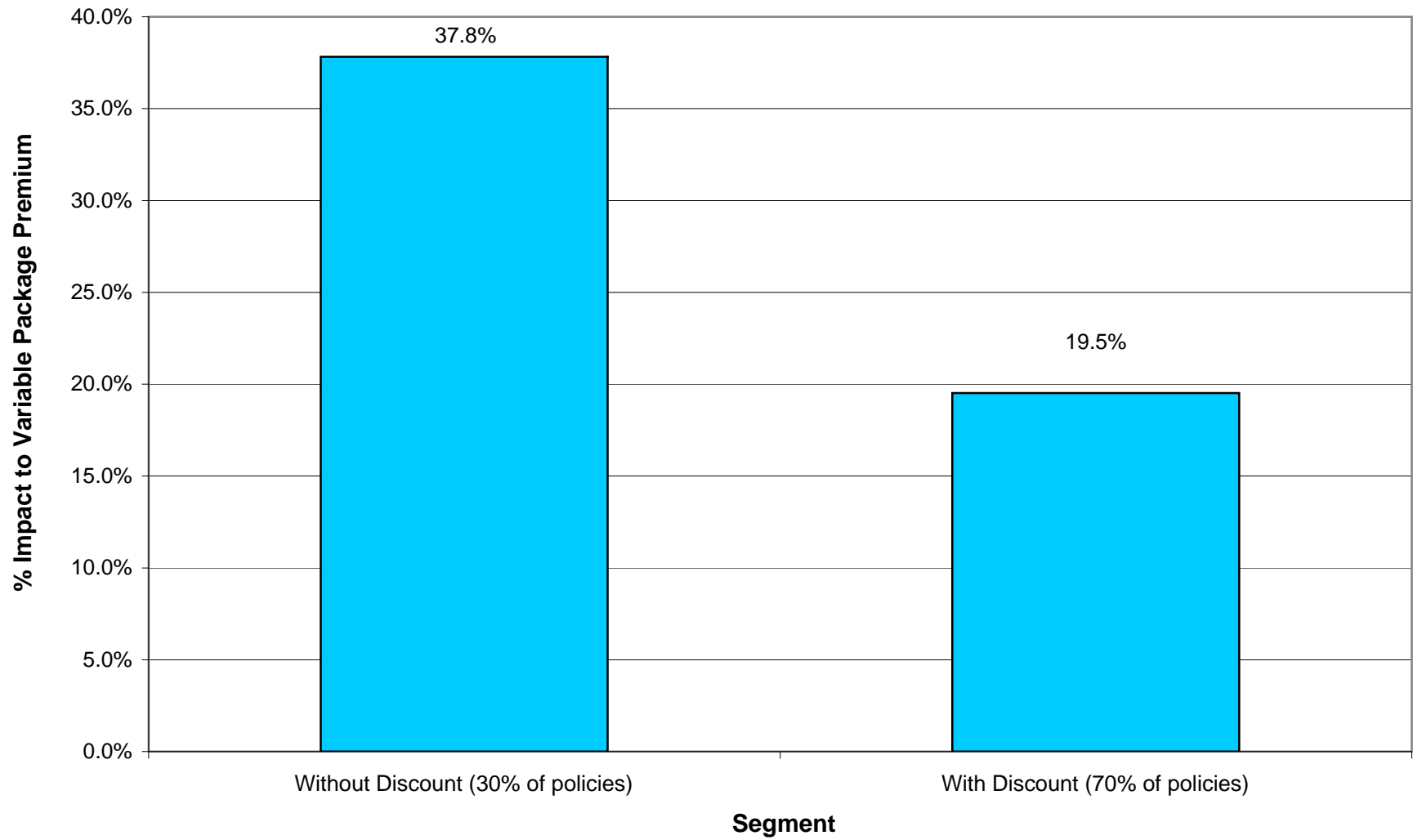
change of 25.4%. The changes proposed in this filing cause 968 policies to go above the 25% threshold. This represents approximately 0.4% of the total Allstate Insurance Company Owners policies.

Allstate Insurance Company Owners - Pennsylvania

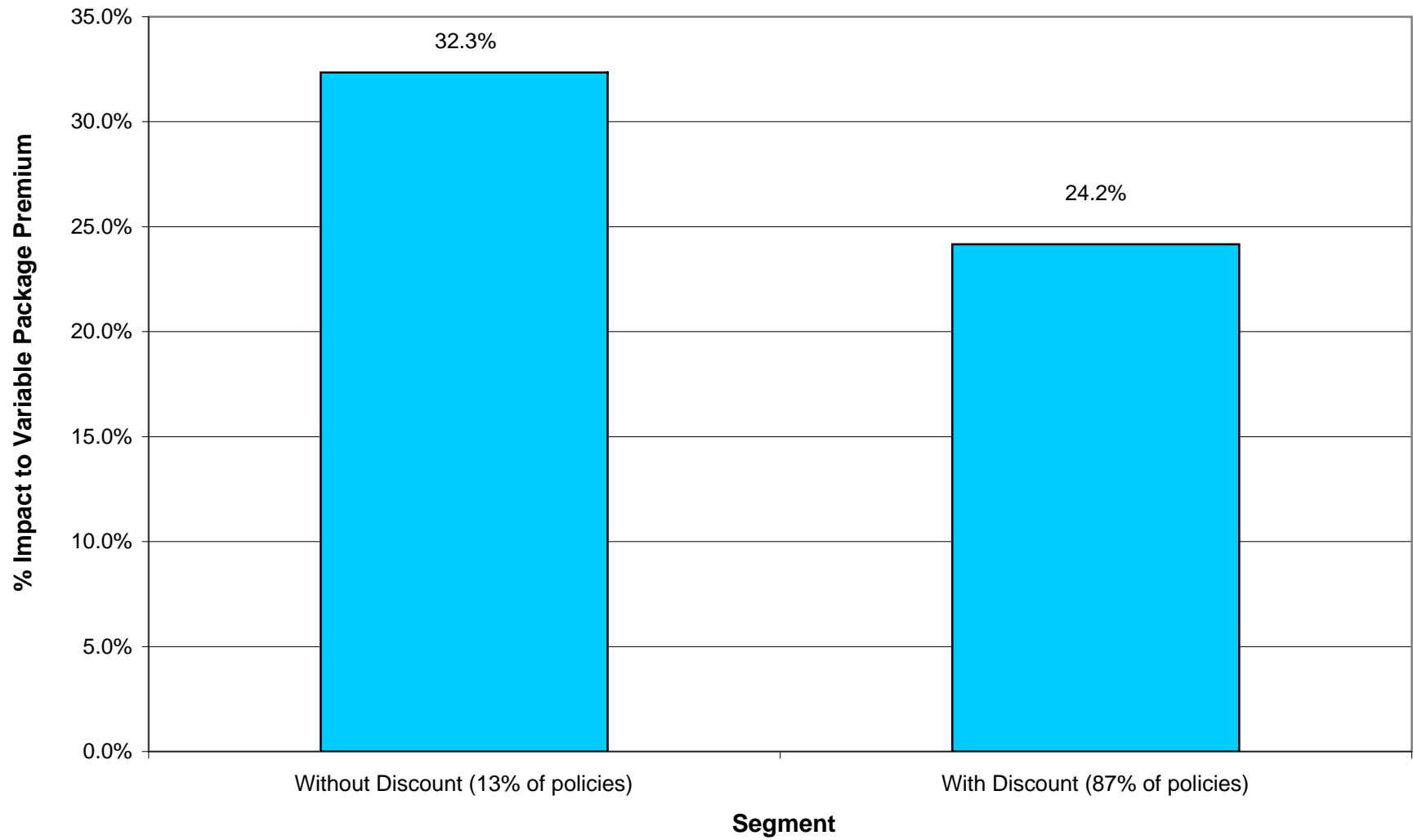
Policyholder Impacts Histogram



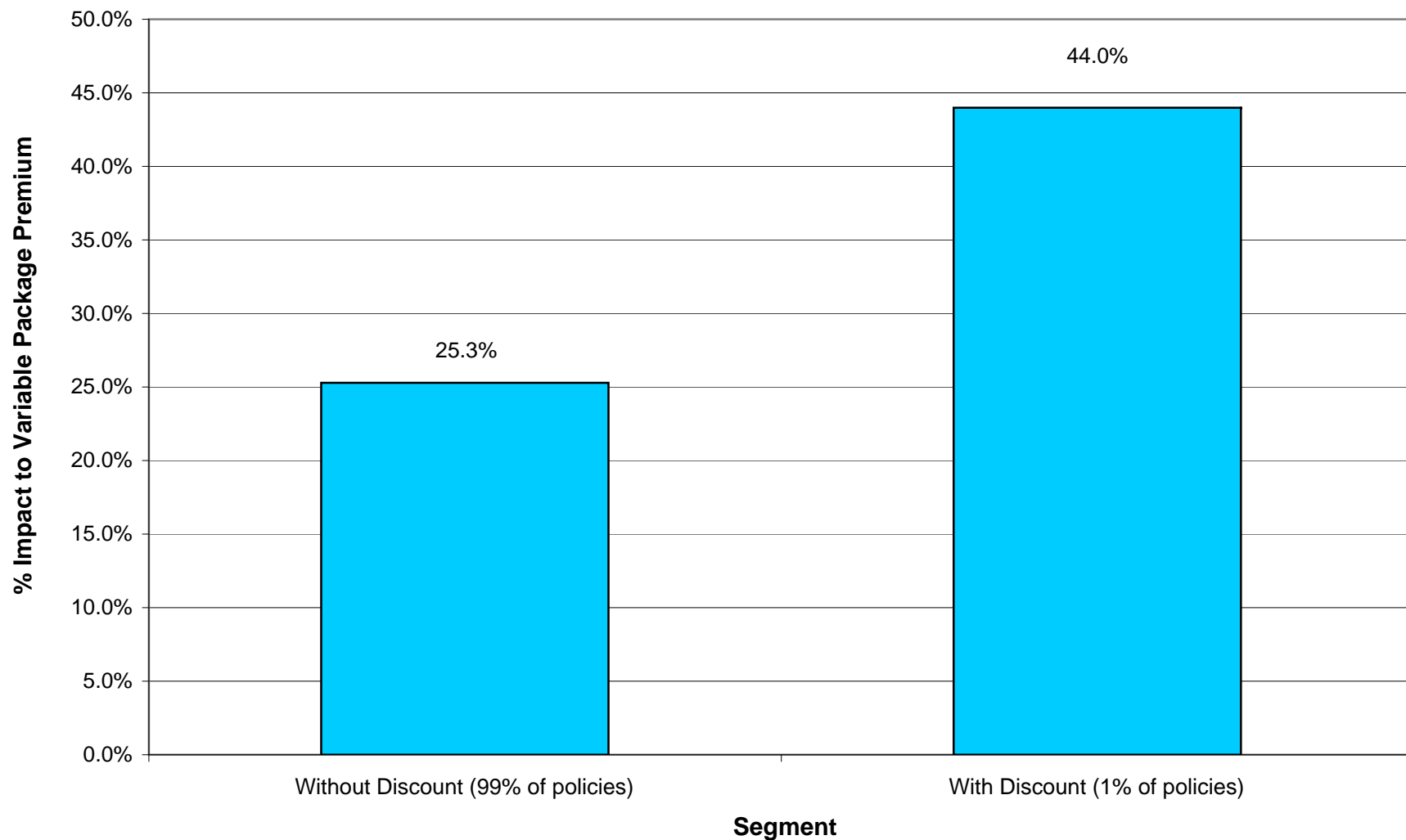
Allstate Insurance Company Owners - Pennsylvania Home & Auto Discount Impacts



Allstate Insurance Company Owners - Pennsylvania Claim Free Discount Impacts



Allstate Insurance Company Owners - Pennsylvania Fire Resistive Discount Impacts



ATTACHMENT X

Summary of Manual Changes

**ALLSTATE INSURANCE COMPANY
OWNERS FORMS
PENNSYLVANIA**

SUMMARY OF MANUAL CHANGES

RULES MANUAL

Homeowners Manual-Rate Page Calculation Options-Page 1

Updated the Age of Home Discount, the Claim Free Discount, the Fire Resistive Discount, and the Rate Adjustment Factor (RAF).

Deluxe Plus Manual-Rate Page Calculation Options-Page 521

Updated the Age of Home Discount, the Claim Free Discount, the Fire Resistive Discount, and the Rate Adjustment Factor (RAF).

ATTACHMENT XI

Current and Proposed Manual Pages

The premium calculation should be done in the following order:

1. Determine the Package Premium:
 - a) Determine the appropriate \$250 deductible premium for the Coverage A limits shown on the Package Premium Pages.
 - b) Premiums for policies with Coverage A limits less than \$20,000 may be developed by subtracting \$1 per \$1,000 for the \$20,000 premium.
 - c) Multiply the appropriate \$250 deductible premium shown on the Package Premium Pages by a Rate Adjustment Factor of 1.539.
2. Claim Rating Factor – Multiply by the appropriate factor (Rule 21)
3. Claim Free Discount – Multiply by .90 (Rule 22)
4. Coverage BC - Building Codes - Multiply by 1.05 (Rule 4.A)
5. Dwellings in the Course of Construction - Multiply by .70 (Rule 4.B)
6. New/Renovated House Discount - Multiply by the appropriate factor (Rule 6)
7. Home Buyer Discount – Multiply by the appropriate factor (Rule 23)
8. Personal Property Reimbursement Provision - Multiply by 1.15 (Rule 4.A)
9. Fire Resistive Discount - Multiply by .95 (Rule 10)
10. Protective Device Discount - Multiply by the appropriate factor (Rule 16)
11. 55 and Retired Discount - Multiply by .90 (Rule 17)
12. Home and Auto Discount - Multiply by .70 (Rule 18)
13. The Good Hands People ® Discount - Multiply by .95 (Rule 19)
14. Apply the appropriate deductible factor, subject to any applicable maximum dollar credit.

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The premium calculation should be done in the following order:

1. Determine the Package Premium:
 - a) Determine the appropriate \$250 deductible premium for the amounts shown on the Package Premium Pages.
 - b) Multiply the appropriate \$250 deductible premium shown on the Package Premium Pages by a Rate Adjustment Factor of **1.539**.
2. Claim Rating Factor – Multiply by the appropriate factor (Rule 21)
3. Claim Free Discount – Multiply by **.90** (Rule 22)
4. New/Renovated Home Discount - Multiply by the appropriate factor (Rule 6)
5. Home Buyer Discount – Multiply by the appropriate factor (Rule 23)
6. Fire Resistive Discount - Multiply by **.95** (Rule 10)
7. Protective Device Discount - Multiply by the appropriate factor (Rule 16)
8. 55 and Retired Discount - Multiply by .90 (Rule 17)
9. Home and Auto Discount - Multiply by **.70** (Rule 18)
10. The Good Hands People ® Discount - Multiply by .95 (Rule 19)
11. Apply the appropriate deductible factor, subject to any applicable maximum dollar credit.

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Deductible Option	Deductible Relativity	Maximum Deductible Credit*
\$100	1.250	N/A
\$250	1.000	N/A
\$250/\$500 (W/H)	0.940	\$50
\$250/\$1000 (W/H)	0.900	\$70
\$500	0.850	\$125
\$500/1000 (W/H)	0.780	\$240
\$750	0.750	\$275
\$1000	0.700	\$400
\$1500	0.650	\$525
\$2000	0.610	\$600
\$3000	0.560	\$675
\$5000	0.490	\$775

* relative to the \$250 deductible premium

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