Allstate
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October 3, 2014

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RE: Allstate Property and Casualty Insurance Company
PPA / Private Passenger Types (Autos Only)
Company File Number: R27632

Below is our response to the Michigan Department of Insurance inquiry dated September 19, 2014, with respect to the above captioned filing. The questions are restated below immediately followed by our response.

1. Please verify whether or not you are using price optimization for marketing purposes... we want to be sure that there is not a conflict with indicated relativities in a way that raises rates for policyholders it retains and reduces premiums for new business in order to attract those risks.

"Price Optimization" is a term that has been used to represent a variety of different practices. Rather than attempting to define the term here, this response will focus on how our rating plan in this filing is structured and what considerations are made. Complementary Group Rating (CGR) adds one additional rating calculation step to the existing filed rating structure. This step assigns a micro-segment to a Complementary Group for use in determining the insured's premium. This additional rating calculation step allows Allstate to update the premiums in a more efficient, rational, and consistent manner without extensive changes to the rating plan structure thereby significantly reducing technology costs. In this filing, CGR has allowed Allstate to use a new and significantly more predictive loss model in the development of rates without drastically overhauling the structure of the rating plan. The Complementary Group factor assigned for a micro-segment is determined based on the following:

- Expected loss costs
- Policyholder disruption

These considerations have always been a part of ratemaking as insurers have frequently tempered rate changes to minimize policyholder disruption, among other business considerations. The Casualty Actuarial Society's Statement of Principles on Property and Casualty Insurance Ratemaking has recognized that these types of business considerations are part of the ratemaking process since at least 1988. In the CGR rating plan structure, after adjusting for any overall rate change, any additional change in a micro-segment's rate is in the direction of the indicated rate relativity under the new loss model. So, Complementary Group Rating could not be used to raise premiums above the indicated level.

This type of constraint benefits policyholders by limiting extreme premium changes. It also benefits insurers by helping them retain customers and gives insurers the ability to better respond to a constantly changing marketplace environment. By helping insurers to be more competitive, this also benefits customers by enhancing competition in the marketplace.

2. Also, please verify that two people that represent the same risk would be identified as having the same rating classifications and thus would be rated in the exact same manner. In other words, we want to ensure that its new rating plan is not allowing discretion that could cause identical risks to be rated differently.

If two risks were truly identical, then they would receive the same rate or factor for every rating plan step based on the filed rates. This includes the CGR rating step, because identical risks would have the same rating territory, date of birth, and years with prior carrier, and thus would be part of the same micro-segment. So, two identical risks would receive the same premium. There is no aspect of the rating plan that would allow discretion to rate identical risks differently.