

DELAWARE COMPENSATION RATING BUREAU, INC.

Expense Study

The following exhibits are used in the development of specific expense provisions to be used in the Bureau's proposed filing. The provisions are for commission & brokerage, other acquisition, general and loss adjustment expense, premium discount and uncollectible premium.

Exhibit I of the attachment presents summary figures for standard earned premium, general expense, and total production costs from the last three calendar years. The data is obtained from Financial Call #2 submissions for 2000-2002 for stock agency companies only, and has been adjusted to include the experience for large deductible policies.

Exhibit I-A develops standard earned premium on both net and gross bases after adjusting for large deductible policies and removing expense constant dollars.

Exhibit II shows the development of the expense constant offset that is carried forward to Exhibit I.

Exhibit III shows the calculation of the loss adjustment expense provision as a function of incurred losses. The loss adjustment expense factor is based on all-company experience and is developed from the same source of data as Exhibit I above. We selected a three-year average of loss adjustment expense ratios to direct incurred losses including large deductible losses on a gross basis.

Exhibit IV-A shows the development of an average provision for premium discount based upon the Schedule Y premium discount table. The data used by the Bureau for this purpose is Unit Statistical Plan data. This exhibit forms the basis for Exhibits IV-B, which develops the average interstate build-back for Schedule Y companies.

Exhibit V develops the provision for uncollectible premium based on the ratio of uncollectible premium to gross written premium. The data used is courtesy of NCCI, Inc.

EXHIBIT I
STOCK AGENCY COMPANIES

	<u>CALENDAR YEAR</u>		
	<u>2000</u>	<u>2001</u>	<u>2002</u>
(1) Standard Earned Premium at Bureau Rate Level including Large Deductible on a <u>Net</u> Basis excluding Expense Constant Dollars	\$ 75,125,542	\$ 93,242,555	\$ 102,580,242
(2) Standard Earned Premium at Bureau Level including Large Deductible on a <u>Gross</u> Basis excluding Expense Constant Dollars	114,389,705	151,563,494	158,384,230
(3) Commission and Brokerage	\$ 5,889,479	\$ 6,847,411	\$ 7,395,422
(3a) Reported Ratio { (3) / (1) }	0.0784	0.0734	0.0721
(4) Other Acquisitions	\$ 2,585,921	\$ 3,112,825	\$ 4,645,289
(4a) Reported Ratio { (4) / (2) }	0.0226	0.0205	0.0293
(5) General Expense	\$ 5,314,035	\$ 4,738,162	\$ 5,351,246
(5a) Reported Ratio { (5) / (2) }	0.0465	0.0313	0.0338

	Three Year Average (1)	Expense Constant Income (2)	Difference { (1) - (2) }
COMMISSION AND BROKERAGE	0.0746	0.0033	0.0713
OTHER ACQUISITIONS	0.0241	0.0012	0.0229
TOTAL PRODUCTION	0.0987	0.0045	0.0942
GENERAL EXPENSE	0.0372	0.0060	0.0312

EXHIBIT I - A
STOCK AGENCY COMPANIES

	<u>CALENDAR YEAR</u>		
	<u>2000</u>	<u>2001</u>	<u>2002</u>
(1) Standard Earned Premium at Bureau DSR Level including Large Deductible on a <u>Net</u> Basis	\$ 59,407,523	\$ 74,877,670	\$ 80,711,542
(2) Multiplier to Bring Premium to Bureau Rate Level	1.2667	1.2479	1.2737
(3) Standard Earned Premium at Bureau Rate Level including Large Deductible on a <u>Net</u> Basis { (1) * (2) }	\$ 75,251,509	\$ 93,439,844	\$ 102,802,291
(4) Large Deductible Adj. at Bureau DSR Level	30,780,937	46,063,454	42,062,251
(5) Multiplier to Bring L. D. Adj. to Bureau Rate Level	1.2756	1.2661	1.3267
(6) Large Deductible Adj. at Bureau Rate Level { (4) * (5) }	\$ 39,264,163	\$ 58,320,939	\$ 55,803,988
(7) Standard Earned Premium at Bureau Rate Level including Large Deductible on a <u>Gross</u> Basis { (3) + (6) }	114,515,672	151,760,783	158,606,279
(8) Expense Constant Removal Factor	0.9989	0.9987	0.9986
(9) Expense Constant Dollars { (7)[1 - (8)] }	\$ 125,967	\$ 197,289	\$ 222,049
(10) Standard Earned Premium at Bureau Rate Level including Large Deductible on a <u>Net</u> Basis excluding Expense Constant Dollars { (3) - (9) }	75,125,542	93,242,555	102,580,242
(11) Standard Earned Premium at Bureau Level including Large Deductible on a <u>Gross</u> Basis excluding Expense Constant Dollars { (7) - (9) }	114,389,705	151,563,494	158,384,230

EXHIBIT II

EXPENSE CONSTANT INCOME - STOCK AGENCY COMPANIES

MANUAL YEAR 2001

(1) Number of Policies	10,034
(2) Expense Constant Income With Expense Constant @ Current Level = \$235	\$2,357,990
(3) Interstate Adjustment Factor	0.65
(4) Adjusted Expense Constant Income {(2) * (3)}	\$1,532,694

(5) Standard Earned Premium <u>Excluding</u> Expense Constant <u>including</u> Large Deductible on a <u>Net</u> Basis	90,872,696
(5a) Factor to Bring Premium to Current Level	1.2032
(5b) Standard Earned Premium <u>Excluding</u> Expense Constant <u>including</u> Large Deductible on a <u>Net</u> Basis at Current Level	109,338,028
(6) Standard Earned Premium <u>Excluding</u> Expense Constant <u>including</u> Large Deductible on a <u>Gross</u> Basis	135,408,269
(6a) Factor to Bring Premium to Current Level	1.2016
(6b) Standard Earned Premium <u>Excluding</u> Expense Constant <u>including</u> Large Deductible on a <u>Gross</u> Basis at Current Level	162,706,576

(7) Distribution of Expense Constant Income

	%	%	\$	Total Expense \$
(a) General Expense	63.9%		\$150.17	\$979,391
(b) Production	36.1%			
i) Commission		65.0%	55.14	359,647
ii) Other Acquisition		35.0%	29.69	193,656
Total	100.0%		\$235.00	\$1,532,694

(8) Expense Constant Ratio for General Expense { (7a) / (6b) }	0.0060
(9) Expense Constant Ratio for Commision { (7b(i)) / (5b) }	0.0033
(10) Expense Constant Ratio for Other Acquisition { (7b(ii)) / (6b) }	0.0012

EXHIBIT III

LOSS ADJUSTMENT EXPENSE RATIOS - ALL COMPANIES

	<u>CALENDAR YEAR</u>		
	<u>2000</u>	<u>2001</u>	<u>2002</u>
(1) Loss Adjustment Expense	\$ 13,413,717	\$ 16,327,891	\$ 16,826,909
(2) Incurred Losses <u>including</u> Large Deductible on a <u>Net</u> Basis	66,565,475	85,763,463	102,453,723
(3) Large Deductible Adjustment	28,452,598	34,983,104	47,352,286
(4) Incurred Losses <u>including</u> Large Deductible on a <u>Gross</u> Basis { (2) + (3) }	95,018,073	120,746,567	149,806,009
(5) Ratio of Loss Adjustment Expense to Incurred Losses <u>including</u> Large Deductible on a <u>Net</u> Basis { (1) / (2) }	0.2015	0.1904	0.1642
(6) Ratio of Loss Adjustment Expense to Incurred Losses <u>including</u> Large Deductible on a <u>Gross</u> Basis { (1) / (4) }	0.1412	0.1352	0.1123
Three-Year Average of Loss Adjustment Expense Ratios to Direct Incurred Losses including Large Deductible on a Net Basis			0.1854
Three-Year Average of Loss Adjustment Expense Ratios to Direct Incurred Losses including Large Deductible on a Gross Basis			0.1296

EXHIBIT IV - A

SIZE OF RISKS - SCHEDULE Y COMPANIES

MANUAL YEAR 2001

Intrastate Risks	Number of Risks	Intrastate SEP <u>excluding</u> Loss and Expense Constant
	(1)	(2)
Under \$5,000	8,975	12,193,233
\$5,000 - \$100,000	3,596	74,591,964
\$100,000 - \$500,000	285	56,255,603
Over \$500,000	56	51,503,895
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TOTAL	12,912	194,544,695

DISTRIBUTION OF PREMIUM TO DISCOUNT BLOCK

Size of Risk	Number of Risks	First \$5,000	Next \$95,000	Next \$400,000	Over \$500,000
Under \$5,000	8,975	12,193,233			
\$5,000 - \$100,000	3,596	17,980,000	56,611,964		
\$100,000 - \$500,000	285	1,425,000	27,075,000	27,755,603	
Over \$500,000	56	280,000	5,320,000	22,400,000	23,503,895
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TOTAL	12,912	31,878,233	89,006,964	50,155,603	23,503,895
PERCENTAGE		16.39%	45.75%	25.78%	12.08%

EXHIBIT IV - B

AVERAGE COMPANY BUILD-BACK

SCHEDULE Y COMPANIES

	Premium Distribution to Discount Block <u>(EXHIBIT IV - A)</u>	Reduction from Manual <u> </u>	Weighted Reduction <u> </u>
First \$5,000	16.39	0.0	0.00
Next \$95,000	45.75	10.9	4.99
Next \$400,000	25.78	12.6	3.25
Over \$500,000	12.08	14.4	1.74
		Build-Back	= 9.98
	Intrastate Build-Back	9.98	
	Interstate Build-Back	10.58	

EXHIBIT V

DELAWARE POOL GROSS WRITTEN PREMIUM AND UNCOLLECTIBLE PREMIUM*

Data as of 3/31/2004

POLICY YEAR	(1) GROSS WRITTEN PREMIUM	(2) UNCOLLECTIBLE PREMIUM	(3)=(2)/(1) RATIO
1997	6,799,645	110,262	1.62%
1998	4,443,310	90,832	2.04%
1999	1,694,985	15,933	0.94%
2000	2,391,013	11,718	0.49%
2001	3,987,283	21,285	0.53%
2002	16,530,425	246,173	1.49%
		All Year Average	1.19%
		Five Year Average	1.10%
		Three Year Average	0.84%
		Selected	1.00%

* Data courtesy of NCCI, Inc.