

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 2004 - 2006 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 premium discount 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>2004</u>	<u>2005</u>	<u>2006</u>
(1)	Standard Earned Premium at Bureau Rate Level <u>including</u> Large Deductible on a <u>Net</u> Basis <u>excluding</u> Expense Constant Dollars	\$ 133,724,604	\$ 141,212,130	\$ 163,601,858
(2)	Standard Earned Premium at Bureau Level <u>including</u> Large Deductible on a <u>Gross</u> Basis <u>excluding</u> Expense Constant Dollars	194,009,091	208,147,703	218,241,756
(3)	Commission and Brokerage	\$ 9,601,478	\$ 10,650,594	\$ 11,155,946
(3a)	Reported Ratio { (3) / (1) }	0.0718	0.0754	0.0682
(4)	Other Acquisitions	\$ 4,963,694	\$ 6,063,278	\$ 6,933,521
(4a)	Reported Ratio { (4) / (2) }	0.0256	0.0291	0.0318
(5)	General Expense	\$ 7,471,377	\$ 6,843,474	\$ 8,114,648
(5a)	Reported Ratio { (5) / (2) }	0.0385	0.0329	0.0372

	Three Year Average (1)	Expense Constant Income (2)	Difference { (1) - (2) }
COMMISSION AND BROKERAGE	0.0718	0.0036	0.0682
OTHER ACQUISITIONS	0.0288	0.0012	0.0276
TOTAL PRODUCTION	0.1006	0.0048	0.0958
GENERAL EXPENSE	0.0362	0.0045	0.0317

EXHIBIT I - A
STOCK AGENCY COMPANIES

	<u>CALENDAR YEAR</u>		
	<u>2004</u>	<u>2005</u>	<u>2006</u>
(1) Standard Earned Premium at Bureau DSR Level <u>including</u> Large Deductible on a <u>Net</u> Basis	\$ 104,108,983	\$ 111,819,268	\$ 128,404,708
(2) Multiplier to Bring Premium to Bureau Rate Level	1.2897	1.2679	1.2782
(3) Standard Earned Premium at Bureau Rate Level <u>including</u> Large Deductible on a <u>Net</u> Basis { (1) * (2) }	\$ 134,269,355	\$ 141,775,650	\$ 164,126,898
(4) Large Deductible Adj. at Bureau DSR Level	44,242,248	50,108,978	40,990,171
(5) Multiplier to Bring L. D. Adj. to Bureau Rate Level	1.3626	1.3358	1.3330
(6) Large Deductible Adj. at Bureau Rate Level { (4) * (5) }	\$ 60,284,487	\$ 66,935,573	\$ 54,639,898
(7) Standard Earned Premium at Bureau Rate Level <u>including</u> Large Deductible on a <u>Gross</u> Basis { (3) + (6) }	194,553,842	208,711,223	218,766,796
(8) Expense Constant Removal Factor	0.9972	0.9973	0.9976
(9) Expense Constant Dollars { (7)[1 - (8)] }	\$ 544,751	\$ 563,520	\$ 525,040
(10) Standard Earned Premium at Bureau Rate Level <u>including</u> Large Deductible on a <u>Net</u> Basis <u>excluding</u> Expense Constant Dollars { (3) - (9) }	133,724,604	141,212,130	163,601,858
(11) Standard Earned Premium at Bureau Level <u>including</u> Large Deductible on a <u>Gross</u> Basis <u>excluding</u> Expense Constant Dollars { (7) - (9) }	194,009,091	208,147,703	218,241,756

EXHIBIT II

EXPENSE CONSTANT INCOME - STOCK AGENCY COMPANIES

MANUAL YEAR 2005

(1) Number of Policies	10,693
(2) Expense Constant Income With Expense Constant @ Current Level = \$270	\$2,887,110
(3) Interstate Adjustment Factor	0.65
(4) Adjusted Expense Constant Income {(2) * (3)}	\$1,876,622

(5) Standard Earned Premium <u>Excluding</u> Expense Constant <u>including</u> Large Deductible on a <u>Net</u> Basis	176,376,796
(5a) Factor to Bring Premium to Current Level	0.8592
(5b) Standard Earned Premium <u>Excluding</u> Expense Constant <u>including</u> Large Deductible on a <u>Net</u> Basis at Current Level	151,542,943
(6) Standard Earned Premium <u>Excluding</u> Expense Constant <u>including</u> Large Deductible on a <u>Gross</u> Basis	273,706,443
(6a) Factor to Bring Premium to Current Level	0.8588
(6b) Standard Earned Premium <u>Excluding</u> Expense Constant <u>including</u> Large Deductible on a <u>Gross</u> Basis at Current Level	235,059,093

(7) Distribution of Expense Constant Income				
	%	%	\$	Total Expense \$
(a) General Expense	55.8%		\$150.66	\$1,047,155
(b) Production	44.2%			
i) Commission		65.0%	77.57	539,153
ii) Other Acquisition		35.0%	41.77	290,313
Total	100.0%		\$270.00	\$1,876,621

(8) Expense Constant Ratio for General Expense { (7a) / (6b) }	0.0045
(9) Expense Constant Ratio for Commission { (7b(i)) / (5b) }	0.0036
(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>2004</u>	<u>2005</u>	<u>2006</u>
(1a) Allocated Loss Adjustment Expense Incurred	\$ 12,394,669	\$ 13,681,539	\$ 18,776,755
(1b) Unallocated Loss Adjustment Expense Incurred	\$ 8,378,862	\$ 11,535,842	\$ 11,512,257
(1) Total Loss Adjustment Expense Incurred $\{(1a) + (1b)\}$	\$ 20,773,531	\$ 25,217,381	\$ 30,289,012
(2) Incurred Losses <u>including</u> Deductibles on a <u>Net</u> Basis	149,994,853	169,581,166	156,840,773
(3) Deductible Adjustment	40,375,168	47,702,806	49,929,114
(4) Incurred Losses <u>including</u> Deductibles on a <u>Gross</u> Basis $\{(2) + (3)\}$	190,370,021	217,283,972	206,769,887
(5) Ratio of Loss Adjustment Expense to Incurred Losses <u>including</u> Deductibles on a <u>Net</u> Basis $\{(1) / (2)\}$	0.1385	0.1487	0.1931
(5a) Ratio of Allocated Loss Adjustment Expense to Incurred Losses <u>including</u> Deductibles on a <u>Net</u> Basis $\{(1a) / (2)\}$	0.0826	0.0807	0.1197
(6) Ratio of Loss Adjustment Expense to Incurred Losses <u>including</u> Deductibles on a <u>Gross</u> Basis $\{(1) / (4)\}$	0.1091	0.1161	0.1465
(6a) Ratio of Allocated Loss Adjustment Expense to Incurred Losses <u>including</u> Deductibles on a <u>Gross</u> Basis $\{(1a) / (4)\}$	0.0651	0.0630	0.0908
(7) Three-Year Average of Loss Adjustment Expense Ratios to Direct Incurred Losses including Deductibles on a Net Basis			0.1601
(8) Three-Year Average of Loss Adjustment Expense Ratios to Direct Incurred Losses including Deductibles on a Gross Basis			0.1239
(8a) Three-Year Average of Allocated Loss Adjustment Expense Ratios to Direct Incurred Losses including Deductibles on a Gross Basis			0.0730
(8b) Provision for Unallocated Loss Adjustment Expense $\{(8) - (8a)\}$			0.0509

EXHIBIT IV - A

SIZE OF RISKS - SCHEDULE Y COMPANIES

MANUAL YEAR 2005

Intrastate Risks	Number of Risks	Intrastate SEP excluding Loss and Expense Constant
	(1)	(2)
Under \$10,000	12,179	27,539,231
\$10,000 - \$200,000	3,040	121,047,219
\$200,000 - \$1,750,000	200	90,177,460
Over \$1,750,000	11	28,787,741
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TOTAL	15,430	267,551,651

DISTRIBUTION OF PREMIUM TO DISCOUNT BLOCK

Size of Risk	Number of Risks	First \$10,000	Next \$190,000	Next \$1,550,000	Over \$1,750,000
Under \$10,000	12,179	27,539,231			
\$10,000 - \$200,000	3,040	30,400,000	90,647,219		
\$200,000 - \$1,750,000	200	2,000,000	38,000,000	50,177,460	
Over \$1,750,000	11	110,000	2,090,000	17,050,000	9,537,741
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TOTAL	15,430	60,049,231	130,737,219	67,227,460	9,537,741
PERCENTAGE		22.44%	48.86%	25.13%	3.56%

EXHIBIT IV - B

AVERAGE COMPANY PREMIUM DISCOUNT

SCHEDULE Y COMPANIES

	<u>Premium Distribution to Discount Block (EXHIBIT IV - A)</u>	<u>Reduction from Manual</u>	<u>Weighted Reduction</u>
First \$10,000	22.44	0.0	0.00
Next \$190,000	48.86	9.1	4.45
Next \$1,550,000	25.13	11.3	2.84
Over \$1,750,000	3.56	12.3	0.44
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		Premium Discount =	7.73
Intrastate Premium Discount		7.73	
Interstate Premium Discount		8.33	

EXHIBIT V

DELAWARE POOL GROSS WRITTEN PREMIUM AND UNCOLLECTIBLE PREMIUM*

Data as of 3/31/2007

POLICY YEAR	(1) GROSS WRITTEN PREMIUM	(2) UNCOLLECTIBLE PREMIUM	(3)=(2)/(1) RATIO
2000	2,390,600	11,718	0.49%
2001	3,987,174	14,752	0.37%
2002	16,291,490	308,709	1.89%
2003	23,774,982	255,758	1.08%
2004	34,294,299	435,875	1.27%
2005	39,664,199	839,464	2.12%
2006	33,216,527	1,191,893	3.59%
2007 **	20,176,242	79,512	0.39%
		All Year Average (Excl PY 07)	1.54%
		Five Year Average (Excl PY 07)	1.99%
		Three Year Average (Excl PY 07)	2.33%
		Selected	2.00%

* Data courtesy of NCCI, Inc.

** Incomplete Policy Year