

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 2007 - 2009 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

	CALENDAR YEAR		
	2007	2008	2009
(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	\$ 225,156,281	\$ 207,091,270	\$ 157,084,400
(2) Standard Earned Premium at Bureau Level <u>including</u> Large Deductible on a <u>Gross</u> Basis <u>excluding</u> Expense Constant Dollars	344,553,352	330,275,941	244,117,242
(3) Commission and Brokerage	\$ 13,538,717	\$ 10,296,206	\$ 7,107,298
(3a) Reported Ratio { (3) / (1) }	0.0601	0.0497	0.0452
(4) Other Acquisitions	\$ 8,864,332	\$ 6,680,958	\$ 6,094,244
(4a) Reported Ratio { (4) / (2) }	0.0257	0.0202	0.0250
(4b) Adjustment for Chancery Court Decision	0.9300	0.9300	0.9300
(4c) Adjusted Ratio { (4a) / (4b) }	0.0276	0.0217	0.0269
(5) General Expense	\$ 11,538,071	\$ 10,902,544	\$ 10,271,201
(5a) Reported Ratio { (5) / (2) }	0.0335	0.0330	0.0421
(5b) Adjustment for Chancery Court Decision	0.9300	0.9300	0.9300
(5c) Adjusted Ratio { (5a) / (5b) }	0.0360	0.0355	0.0453

	Three Year Average (1)	Expense Constant Income (2)	Difference { (1) - (2) }
COMMISSION AND BROKERAGE	0.0517	0.0037	0.0480
OTHER ACQUISITIONS	0.0254	0.0016	0.0238
TOTAL PRODUCTION	0.0771	0.0053	0.0718
GENERAL EXPENSE	0.0389	0.0051	0.0338

EXHIBIT I - A
STOCK AGENCY COMPANIES

	CALENDAR YEAR		
	2007	2008	2009
(1) Standard Earned Premium at Bureau DSR Level <u>including</u> Large Deductible on a <u>Net</u> Basis	\$ 171,446,495	\$ 158,625,421	\$ 121,117,752
(2) Multiplier to Bring Premium to Bureau Rate Level	1.3171	1.3095	1.3014
(3) Standard Earned Premium at Bureau Rate Level <u>including</u> Large Deductible on a <u>Net</u> Basis { (1) * (2) }	\$ 225,812,179	\$ 207,719,989	\$ 157,622,642
(4) Large Deductible Adj. at Bureau DSR Level	87,817,793	92,121,351	65,809,332
(5) Multiplier to Bring L. D. Adj. to Bureau Rate Level	1.3596	1.3372	1.3225
(6) Large Deductible Adj. at Bureau Rate Level { (4) * (5) }	\$ 119,397,071	\$ 123,184,671	\$ 87,032,842
(7) Standard Earned Premium at Bureau Rate Level <u>including</u> Large Deductible on a <u>Gross</u> Basis { (3) + (6) }	345,209,250	330,904,660	244,655,484
(8) Expense Constant Removal Factor	0.9981	0.9981	0.9978
(9) Expense Constant Dollars { (7)[1 - (8)] }	\$ 655,898	\$ 628,719	\$ 538,242
(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) }	225,156,281	207,091,270	157,084,400
(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) }	344,553,352	330,275,941	244,117,242

EXHIBIT II

EXPENSE CONSTANT INCOME - STOCK AGENCY COMPANIES

MANUAL YEAR 2008

(1) Number of Policies				12,920
(2) Expense Constant Income With Expense Constant @ Current Level = \$260				\$3,359,200
(3) Interstate Adjustment Factor				0.65
(4) Adjusted Expense Constant Income {(2) * (3)}				\$2,183,480

(5) Standard Earned Premium <u>Excluding</u> Expense Constant <u>including</u> Large Deductible on a <u>Net</u> Basis				192,099,917
(5a) Factor to Bring Premium to Current Level				0.8188
(5b) Standard Earned Premium <u>Excluding</u> Expense Constant <u>including</u> Large Deductible on a <u>Net</u> Basis at Current Level				157,291,412
(6) Standard Earned Premium <u>Excluding</u> Expense Constant <u>including</u> Large Deductible on a <u>Gross</u> Basis				292,766,900
(6a) Factor to Bring Premium to Current Level				0.8188
(6b) Standard Earned Premium <u>Excluding</u> Expense Constant <u>including</u> Large Deductible on a <u>Gross</u> Basis at Current Level				239,717,538

(7) Distribution of Expense Constant Income				
	%	%	\$	Total Expense \$
(a) General Expense	55.8%		\$145.08	\$1,218,382
(b) Production	44.2%			
i) Commission		60.0%	68.95	579,059
ii) Other Acquisition		40.0%	45.97	386,039
Total	100.0%		\$260.00	\$2,183,480

(8) Expense Constant Ratio for General Expense { (7a) / (6b) }	0.0051
(9) Expense Constant Ratio for Commission { (7b(i)) / (5b) }	0.0037
(10) Expense Constant Ratio for Other Acquisition { (7b(ii)) / (6b) }	0.0016

EXHIBIT III**LOSS ADJUSTMENT EXPENSE RATIOS - ALL COMPANIES**

		<u>CALENDAR YEAR</u>		
		<u>2007</u>	<u>2008</u>	<u>2009</u>
(1a)	Allocated Loss Adjustment Expense Incurred	\$ 15,243,542	\$ 15,168,020	\$ 13,425,928
(1b)	Unallocated Loss Adjustment Expense Incurred	\$ 10,526,620	\$ 11,532,212	\$ 10,429,511
(1c)	Total Loss Adjustment Expense Incurred on a Net Basis{(1a) + (1b)}	\$ 25,770,162	\$ 26,700,232	\$ 23,855,439
(1d)	ALAE Deductible Adjustment	\$ 5,163,764	\$ 8,639,781	\$ 9,095,428
(1e)	ULAE Deductible Adjustment	(\$142,411)	(\$271,033)	\$ 34,260
(1f)	Total Loss Adjustment Expense Incurred on a Gross Basis{(1c)+(1d)+(1e)}	\$ 30,791,515	\$ 35,068,980	\$ 32,985,127
(2)	Incurred Losses <u>including</u> Deductibles on a <u>Net</u> Basis	146,757,038	139,601,346	114,422,145
(3)	Deductible Adjustment (Losses)	48,576,467	66,973,311	56,526,084
(4)	Incurred Losses <u>including</u> Deductibles on a <u>Gross</u> Basis {(2) + (3)}	195,333,505	206,574,657	170,948,229
(5a)	Ratio of Loss Adjustment Expense to Incurred Losses <u>including</u> Deductibles on a <u>Net</u> Basis {(1c) / (2)}	0.1756	0.1913	0.2085
(5b)	Ratio of Allocated Loss Adjustment Expense to Incurred Losses <u>including</u> Deductibles on a <u>Net</u> Basis {(1a) / (2)}	0.1039	0.1087	0.1173
(6a)	Ratio of Loss Adjustment Expense to Incurred Losses <u>including</u> Deductibles on a <u>Gross</u> Basis {(1f) / (4)}	0.1576	0.1698	0.1930
(6b)	Ratio of Allocated Loss Adjustment Expense to Incurred Losses <u>including</u> Deductibles on a <u>Gross</u> Basis {(1a)+(1d) / (4)}	0.1045	0.1153	0.1317
(7)	Three-Year Average of Loss Adjustment Expense Ratios to Direct Incurred Losses including Deductibles on a Net Basis {Line (5a)}			0.1918
(8a)	Three-Year Average of Loss Adjustment Expense Ratios to Direct Incurred Losses including Deductibles on a Gross Basis {Line (6a)}			0.1735
(8b)	Three-Year Average of Allocated Loss Adjustment Expense Ratios to Direct Incurred Losses including Deductibles on a Gross Basis {Line (6b)}			0.1172
(8c)	Provision for Unallocated Loss Adjustment Expense {(8a) - (8b)}			0.0563

EXHIBIT IV - A

SIZE OF RISKS - SCHEDULE Y COMPANIES

MANUAL YEAR 2008

Intrastate Risks	Number of Risks	Intrastate SEP <u>excluding</u> Loss and Expense Constant
	(1)	(2)
Under \$10,000	11,951	23,566,792
\$10,000 - \$200,000	2,279	86,723,545
\$200,000 - \$1,750,000	160	81,882,864
Over \$1,750,000	9	27,930,653
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TOTAL	14,399	220,103,854

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	11,951	23,566,792			
\$10,000 - \$200,000	2,279	22,790,000	63,933,545		
\$200,000 - \$1,750,000	160	1,600,000	30,400,000	49,882,864	
Over \$1,750,000	9	90,000	1,710,000	13,950,000	12,180,653
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TOTAL	14,399	48,046,792	96,043,545	63,832,864	12,180,653
PERCENTAGE		21.83%	43.64%	29.00%	5.53%

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	21.83	0.0	0.00
Next \$190,000	43.64	9.1	3.97
Next \$1,550,000	29.00	11.3	3.28
Over \$1,750,000	5.53	12.3	0.68
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		Premium Discount =	7.93
Intrastate Premium Discount		7.93	
Interstate Premium Discount		8.53	

EXHIBIT V

DELAWARE POOL GROSS WRITTEN PREMIUM AND UNCOLLECTIBLE PREMIUM*

Data as of 3/31/2011

POLICY YEAR	(1) GROSS WRITTEN PREMIUM	(2) UNCOLLECTIBLE PREMIUM	(3)=(2)/(1) RATIO
2001	3,987,174	14,752	0.37%
2002	16,291,490	309,031	1.90%
2003	23,778,085	298,709	1.26%
2004	34,288,788	429,830	1.25%
2005	39,617,355	808,890	2.04%
2006	33,114,062	1,208,881	3.65%
2007	21,572,140	756,216	3.51%
2008	12,962,496	269,463	2.08%
2009	7,629,825	64,191	0.84%
		All Year Average	1.88%
		Five Year Average	2.42%
		Three Year Average	2.14%
		Selected	2.00%

* Data courtesy of NCCI, Inc.