

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 2008 - 2010 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		
	2008	2009	2010
(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	\$ 207,091,183	\$ 156,915,554	\$ 118,769,500
(2) Standard Earned Premium at Bureau Level <u>including</u> Large Deductible on a <u>Gross</u> Basis <u>excluding</u> Expense Constant Dollars	\$ 330,321,914	\$ 243,915,491	\$ 171,793,510
(3) Commission and Brokerage	\$ 10,296,206	\$ 7,107,298	\$ 6,494,444
(3a) Reported Ratio { (3) / (1) }	0.0497	0.0453	0.0547
(4) Other Acquisitions	\$ 6,680,958	\$ 6,094,244	\$ 5,373,174
(4a) Reported Ratio { (4) / (2) }	0.0202	0.0250	0.0313
(4b) Adjustment for Chancery Court Decision	0.9440	0.9440	0.9440
(4c) Adjusted Ratio { (4a) / (4b) }	0.0214	0.0265	0.0332
(5) General Expense	\$ 8,650,200	\$ 7,498,647	\$ 6,412,553
(5a) Reported Ratio { (5) / (2) }	0.0262	0.0307	0.0373
(5b) Adjustment for Chancery Court Decision	0.9440	0.9440	0.9440
(5c) Adjusted Ratio { (5a) / (5b) }	0.0278	0.0325	0.0395

	Three Year Average (1)	Expense Constant Income (2)	Difference { (1) - (2) }
COMMISSION AND BROKERAGE	0.0499	0.0040	0.0459
OTHER ACQUISITIONS	0.0270	0.0018	0.0252
TOTAL PRODUCTION	0.0769	0.0058	0.0711
GENERAL EXPENSE	0.0333	0.0057	0.0276

EXHIBIT I - A
STOCK AGENCY COMPANIES

	<u>CALENDAR YEAR</u>		
	<u>2008</u>	<u>2009</u>	<u>2010</u>
(1) Standard Earned Premium at Bureau DSR Level <u>including</u> Large Deductible on a <u>Net</u> Basis	\$ 158,625,421	\$ 121,117,752	\$ 91,251,655
(2) Multiplier to Bring Premium to Bureau Rate Level	1.3095	1.2998	1.3059
(3) Standard Earned Premium at Bureau Rate Level <u>including</u> Large Deductible on a <u>Net</u> Basis { (1) * (2) }	\$ 207,719,989	\$ 157,428,854	\$ 119,165,536
(4) Large Deductible Adj. at Bureau DSR Level	\$ 92,121,351	\$ 65,809,332	\$ 40,024,162
(5) Multiplier to Bring L. D. Adj. to Bureau Rate Level	1.3377	1.3220	1.3248
(6) Large Deductible Adj. at Bureau Rate Level { (4) * (5) }	\$ 123,230,731	\$ 86,999,937	\$ 53,024,010
(7) Standard Earned Premium at Bureau Rate Level <u>including</u> Large Deductible on a <u>Gross</u> Basis { (3) + (6) }	\$ 330,950,720	\$ 244,428,791	\$ 172,189,546
(8) Expense Constant Removal Factor	0.9981	0.9979	0.9977
(9) Expense Constant Dollars { (7)[1 - (8)] }	\$ 628,806	\$ 513,300	\$ 396,036
(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) }	\$ 207,091,183	\$ 156,915,554	\$ 118,769,500
(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) }	\$ 330,321,914	\$ 243,915,491	\$ 171,793,510

EXHIBIT II

EXPENSE CONSTANT INCOME - STOCK AGENCY COMPANIES

MANUAL YEAR 2009

(1) Number of Policies				12,986
(2) Expense Constant Income With Expense Constant @ Current Level = \$270				\$3,506,220
(3) Interstate Adjustment Factor				0.65
(4) Adjusted Expense Constant Income {(2) * (3)}				\$2,279,043

(5) Standard Earned Premium <u>Excluding</u> Expense Constant <u>including</u> Large Deductible on a <u>Net</u> Basis				\$145,421,513
(5a) Factor to Bring Premium to Current Level				1.0373
(5b) Standard Earned Premium <u>Excluding</u> Expense Constant <u>including</u> Large Deductible on a <u>Net</u> Basis at Current Level				\$150,845,735
(6) Standard Earned Premium <u>Excluding</u> Expense Constant <u>including</u> Large Deductible on a <u>Gross</u> Basis				\$215,753,231
(6a) Factor to Bring Premium to Current Level				1.0372
(6b) Standard Earned Premium <u>Excluding</u> Expense Constant <u>including</u> Large Deductible on a <u>Gross</u> Basis at Current Level				\$223,779,251

(7) Distribution of Expense Constant Income				
	%	%	\$	Total Expense \$
(a) General Expense	55.8%		\$150.66	\$1,271,706
(b) Production	44.2%			
i) Commission		60.0%	71.60	\$604,402
ii) Other Acquisition		40.0%	47.74	\$402,935
Total	100.0%		\$270.00	\$2,279,043

(8) Expense Constant Ratio for General Expense { (7a) / (6b) }				0.0057
(9) Expense Constant Ratio for Commission { (7b(i)) / (5b) }				0.0040
(10) Expense Constant Ratio for Other Acquisition { (7b(ii)) / (6b) }				0.0018

EXHIBIT III

LOSS ADJUSTMENT EXPENSE RATIOS - ALL COMPANIES

		<u>CALENDAR YEAR</u>		
		<u>2008</u>	<u>2009</u>	<u>2010</u>
(1a)	Allocated Loss Adjustment Expense Incurred	\$ 15,168,020	\$ 13,425,928	\$ 15,938,819
(1b)	Unallocated Loss Adjustment Expense Incurred	\$ 11,532,212	\$ 10,429,511	\$ 11,257,093
(1c)	Total Loss Adjustment Expense Incurred on a Net Basis{(1a) + (1b)}	\$ 26,700,232	\$ 23,855,439	\$ 27,195,912
(1d)	ALAE Deductible Adjustment	\$ 8,639,781	\$ 9,095,428	\$ 8,552,425
(1e)	ULAE Deductible Adjustment	(\$271,033)	\$ 34,260	\$ 573,191
(1f)	Total Loss Adjustment Expense Incurred on a Gross Basis{(1c)+(1d)+(1e)}	\$ 35,068,980	\$ 32,985,127	\$ 36,321,528
(2)	Incurred Losses <u>including</u> Deductibles on a <u>Net</u> Basis	\$ 139,601,346	\$ 114,422,145	\$ 117,796,276
(3)	Deductible Adjustment (Losses)	\$ 66,973,311	\$ 56,526,084	\$ 50,473,800
(4)	Incurred Losses <u>including</u> Deductibles on a <u>Gross</u> Basis {(2) + (3)}	\$ 206,574,657	\$ 170,948,229	\$ 168,270,076
(5a)	Ratio of Loss Adjustment Expense to Incurred Losses <u>including</u> Deductibles on a <u>Net</u> Basis {(1c) / (2)}	0.1913	0.2085	0.2309
(5b)	Ratio of Allocated Loss Adjustment Expense to Incurred Losses <u>including</u> Deductibles on a <u>Net</u> Basis {(1a) / (2)}	0.1087	0.1173	0.1353
(6a)	Ratio of Loss Adjustment Expense to Incurred Losses <u>including</u> Deductibles on a <u>Gross</u> Basis {(1f) / (4)}	0.1698	0.1930	0.2159
(6b)	Ratio of Allocated Loss Adjustment Expense to Incurred Losses <u>including</u> Deductibles on a <u>Gross</u> Basis {(1a)+(1d) / (4)}	0.1153	0.1317	0.1455
(7)	Three-Year Average of Loss Adjustment Expense Ratios to Direct Incurred Losses including Deductibles on a Net Basis {Line (5a)}			0.2102
(8a)	Three-Year Average of Loss Adjustment Expense Ratios to Direct Incurred Losses including Deductibles on a Gross Basis {Line (6a)}			0.1929
(8b)	Three-Year Average of Allocated Loss Adjustment Expense Ratios to Direct Incurred Losses including Deductibles on a Gross Basis {Line (6b)}			0.1308
(8c)	Provision for Unallocated Loss Adjustment Expense {(8a) - (8b)}			0.0621

EXHIBIT IV - A

SIZE OF RISKS - SCHEDULE Y COMPANIES

MANUAL YEAR 2009

Intrastate Risks	Number of Risks	Intrastate SEP <u>excluding</u> Loss and Expense Constant
	(1)	(2)
Under \$10,000	11,467	23,621,192
\$10,000 - \$200,000	2,289	88,544,114
\$200,000 - \$1,750,000	167	81,691,728
Over \$1,750,000	16	45,031,238
	<u>13,939</u>	<u>238,888,272</u>
TOTAL	13,939	238,888,272

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	11,467	23,621,192			
\$10,000 - \$200,000	2,289	22,890,000	65,654,114		
\$200,000 - \$1,750,000	167	1,670,000	31,730,000	48,291,728	
Over \$1,750,000	16	160,000	3,040,000	24,800,000	17,031,238
	<u>13,939</u>	<u>48,341,192</u>	<u>100,424,114</u>	<u>73,091,728</u>	<u>17,031,238</u>
TOTAL	13,939	48,341,192	100,424,114	73,091,728	17,031,238
PERCENTAGE		20.24%	42.04%	30.60%	7.13%

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	20.24	0.0	0.00
Next \$190,000	42.04	9.1	3.83
Next \$1,550,000	30.60	11.3	3.46
Over \$1,750,000	7.13	12.3	0.88
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		Premium Discount =	8.17
Intrastate Premium Discount		8.17	
Interstate Premium Discount		8.77	

EXHIBIT V

DELAWARE POOL GROSS WRITTEN PREMIUM AND UNCOLLECTIBLE PREMIUM*

Data as of 3/31/2012

POLICY YEAR	(1) GROSS WRITTEN PREMIUM	(2) UNCOLLECTIBLE PREMIUM	(3)=(2)/(1) RATIO
2002	16,291,490	309,031	1.90%
2003	23,778,085	298,709	1.26%
2004	34,286,412	427,992	1.25%
2005	39,612,648	788,623	1.99%
2006	33,111,692	1,156,153	3.49%
2007	21,572,546	734,390	3.40%
2008	12,934,836	222,063	1.72%
2009	7,530,404	46,791	0.62%
2010	6,911,154	131,800	1.91%
		All Year Average	1.95%
		Five Year Average	2.23%
		Three Year Average	1.42%
		Selected	2.00%

* Data courtesy of NCCI, Inc.