

DELAWARE COMPENSATION RATING BUREAU, INC.

Expense Study

The following exhibits are used in the development of specific expense provisions to be used in the DCRB'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 2010 - 2012 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 DCRB 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**

	<b>CALENDAR YEAR</b>		
	<b>2010</b>	<b>2011</b>	<b>2012</b>
<b>(1)</b> Standard Earned Premium at DCRB Rate Level <u>including</u> Large Deductible on a <u>Net</u> Basis <u>excluding</u> Expense Constant Dollars (Page 8.2, line (10))	\$ 118,844,553	\$ 105,815,749	\$ 124,762,627
<b>(2)</b> Standard Earned Premium at DCRB Rate Level <u>including</u> Large Deductible on a <u>Gross</u> Basis <u>excluding</u> Expense Constant Dollars (Page 8.2, line (11))	\$ 171,884,574	\$ 143,412,907	\$ 182,517,433
<b>(3)</b> Commission and Brokerage	\$ 6,494,444	\$ 7,985,785	\$ 7,378,192
<b>(3a)</b> Reported Ratio { (3) / (1) }	0.0546	0.0755	0.0591
<b>(4)</b> Other Acquisitions	\$ 5,373,174	\$ 4,423,571	\$ 5,155,224
<b>(4a)</b> Reported Ratio { (4) / (2) }	0.0313	0.0308	0.0282
<b>(5)</b> General Expense	\$ 6,412,553	\$ 5,823,739	\$ 7,366,495
<b>(5a)</b> Reported Ratio { (5) / (2) }	0.0373	0.0406	0.0404

	<b>Three Year Average (1)</b>	<b>Expense Constant Income (Page 8.3) (2)</b>	<b>Difference { (1) - (2) }</b>
COMMISSION AND BROKERAGE	0.0631	0.0034	0.0597
OTHER ACQUISITIONS	0.0301	0.0016	0.0285
TOTAL PRODUCTION	0.0932	0.0050	0.0882
GENERAL EXPENSE	0.0394	0.0050	0.0344

**EXHIBIT I - A**  
**STOCK AGENCY COMPANIES**

	<u>CALENDAR YEAR</u>		
	<u>2010</u>	<u>2011</u>	<u>2012</u>
(1) Standard Earned Premium at DCRB DSR Level <u>including</u> Large Deductible on a <u>Net</u> Basis	\$ 91,247,155	\$ 82,424,568	\$ 95,875,183
(2) Multiplier to Bring Premium to DCRB Rate Level	1.3066	1.2878	1.3055
(3) Standard Earned Premium at DCRB Rate Level <u>including</u> Large Deductible on a <u>Net</u> Basis { (1) * (2) }	\$ 119,223,533	\$ 106,146,359	\$ 125,165,051
(4) Large Deductible Adj. at DCRB DSR Level	\$ 40,024,163	\$ 28,728,630	\$ 43,116,690
(5) Multiplier to Bring L. D. Adj. to DCRB Rate Level	1.3252	1.3087	1.3395
(6) Large Deductible Adj. at DCRB Rate Level { (4) * (5) }	\$ 53,040,021	\$ 37,597,158	\$ 57,754,806
(7) Standard Earned Premium at DCRB Rate Level <u>including</u> Large Deductible on a <u>Gross</u> Basis { (3) + (6) }	\$ 172,263,554	\$ 143,743,517	\$ 182,919,857
(8) Expense Constant Removal Factor	0.9978	0.9977	0.9978
(9) Expense Constant Dollars { (7)[1 - (8)] }	\$ 378,980	\$ 330,610	\$ 402,424
(10) Standard Earned Premium at DCRB Rate Level <u>including</u> Large Deductible on a <u>Net</u> Basis <u>excluding</u> Expense Constant Dollars { (3) - (9) }	\$ 118,844,553	\$ 105,815,749	\$ 124,762,627
(11) Standard Earned Premium at DCRB Rate Level <u>including</u> Large Deductible on a <u>Gross</u> Basis <u>excluding</u> Expense Constant Dollars { (7) - (9) }	\$ 171,884,574	\$ 143,412,907	\$ 182,517,433

**EXHIBIT II****EXPENSE CONSTANT INCOME - STOCK AGENCY COMPANIES****MANUAL YEAR 2011**

<b>(1)</b> Number of Policies				14,009	
<b>(2)</b> Expense Constant Income With Expense Constant @ Current Level = \$290				\$4,062,610	
<b>(3)</b> Interstate Adjustment Factor				0.65	
<b>(4)</b> Adjusted Expense Constant Income {(2) * (3)}				\$2,640,697	
<b>(5)</b> Standard Earned Premium <u>Excluding</u> Expense Constant <u>including</u> Large Deductible on a <u>Net</u> Basis				\$124,879,510	
<b>(5a)</b> Factor to Bring Premium to Current Level				1.6391	
<b>(5b)</b> Standard Earned Premium <u>Excluding</u> Expense Constant <u>including</u> Large Deductible on a <u>Net</u> Basis at Current Level				\$204,690,005	
<b>(6)</b> Standard Earned Premium <u>Excluding</u> Expense Constant <u>including</u> Large Deductible on a <u>Gross</u> Basis				\$181,272,743	
<b>(6a)</b> Factor to Bring Premium to Current Level				1.6391	
<b>(6b)</b> Standard Earned Premium <u>Excluding</u> Expense Constant <u>including</u> Large Deductible on a <u>Gross</u> Basis at Current Level				\$297,124,153	
<b>(7)</b> Distribution of Expense Constant Income					
		%	%	\$	Total Expense \$
(a) General Expense		55.8%		\$161.82	\$1,473,509
(b) Production		44.2%			
i) Commission			59.0%	75.63	\$688,641
ii) Other Acquisition			41.0%	52.55	\$478,547
Total		100.0%		\$290.00	\$2,640,697
<b>(8)</b> Expense Constant Ratio for General Expense { (7a) / (6b) }					0.0050
<b>(9)</b> Expense Constant Ratio for Commission { (7b(i)) / (5b) }					0.0034
<b>(10)</b> Expense Constant Ratio for Other Acquisition { (7b(ii)) / (6b) }					0.0016

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

	<u>CALENDAR YEAR</u>		
	<u>2010</u>	<u>2011</u>	<u>2012</u>
<b>(1a)</b> Allocated Loss Adjustment Expense Incurred	\$ 15,938,975	\$ 16,237,750	\$ 17,577,382
<b>(1b)</b> Unallocated Loss Adjustment Expense Incurred	\$ 11,257,105	\$ 10,575,490	\$ 9,496,252
<b>(1c)</b> Total Loss Adjustment Expense Incurred on a Net Basis{(1a) + (1b)}	\$ 27,196,080	\$ 26,813,240	\$ 27,073,634
<b>(1d)</b> ALAE Deductible Adjustment	\$ 8,558,810	\$ 7,871,820	\$ 9,735,161
<b>(1e)</b> ULAE Deductible Adjustment	\$ 573,191	\$ 406,285	\$ 1,176,665
<b>(1f)</b> Total Loss Adjustment Expense Incurred on a Gross Basis{(1c)+(1d)+(1e)}	\$ 36,328,081	\$ 35,091,345	\$ 37,985,460
<b>(2)</b> Incurred Losses <u>including</u> Deductibles on a <u>Net</u> Basis	\$ 117,796,560	\$ 147,824,916	\$ 124,564,701
<b>(3)</b> Deductible Adjustment (Losses)	\$ 50,467,414	\$ 44,211,374	\$ 54,313,110
<b>(4)</b> Incurred Losses <u>including</u> Deductibles on a <u>Gross</u> Basis {(2) + (3)}	\$ 168,263,974	\$ 192,036,290	\$ 178,877,811
<b>(5a)</b> Ratio of Loss Adjustment Expense to Incurred Losses <u>including</u> Deductibles on a <u>Net</u> Basis {(1c) / (2)}	0.2309	0.1814	0.2173
<b>(5b)</b> Ratio of Allocated Loss Adjustment Expense to Incurred Losses <u>including</u> Deductibles on a <u>Net</u> Basis {(1a) / (2)}	0.1353	0.1098	0.1411
<b>(6a)</b> Ratio of Loss Adjustment Expense to Incurred Losses <u>including</u> Deductibles on a <u>Gross</u> Basis {(1f) / (4)}	0.2159	0.1827	0.2124
<b>(6b)</b> Ratio of Allocated Loss Adjustment Expense to Incurred Losses <u>including</u> Deductibles on a <u>Gross</u> Basis {(1a)+(1d) / (4)}	0.1456	0.1255	0.1527
<b>(7)</b> Three-Year Average of Loss Adjustment Expense Ratios to Direct Incurred Losses including Deductibles on a Net Basis {Line (5a)}			0.2099
<b>(8a)</b> Three-Year Average of Loss Adjustment Expense Ratios to Direct Incurred Losses including Deductibles on a Gross Basis {Line (6a)}			<b>0.2037</b>
<b>(8b)</b> Three-Year Average of Allocated Loss Adjustment Expense Ratios to Direct Incurred Losses including Deductibles on a Gross Basis {Line (6b)}			<b>0.1413</b>
<b>(8c)</b> Provision for Unallocated Loss Adjustment Expense {(8a) - (8b)}			<b>0.0624</b>

**EXHIBIT IV - A**

**SIZE OF RISKS - SCHEDULE Y COMPANIES**

**MANUAL YEAR 2011**

Intrastate Risks	Number of Risks	Intrastate SEP <u>excluding</u> Loss and Expense Constant
	<b>(1)</b>	<b>(2)</b>
Under \$10,000	11,333	26,031,569
\$10,000 - \$200,000	2,952	116,816,443
\$200,000 - \$1,750,000	231	106,849,406
Over \$1,750,000	24	83,099,525
	=====	=====
TOTAL	14,540	332,796,943

**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	11,333	26,031,569			
\$10,000 - \$200,000	2,952	29,520,000	87,296,443		
\$200,000 - \$1,750,000	231	2,310,000	43,890,000	60,649,406	
Over \$1,750,000	24	240,000	4,560,000	37,200,000	41,099,525
	=====	=====	=====	=====	=====
TOTAL	14,540	58,101,569	135,746,443	97,849,406	41,099,525
PERCENTAGE		17.46%	40.79%	29.40%	12.35%

**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	17.46	0.0	0.00
Next \$190,000	40.79	9.1	3.71
Next \$1,550,000	29.40	11.3	3.32
Over \$1,750,000	12.35	12.3	1.52
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		<b>Premium Discount</b>	<b>= 8.55</b>
	<b>Intrastate Premium Discount</b>	8.55	
	<b>Interstate Premium Discount</b>	9.15	

**EXHIBIT V**

**DELAWARE POOL GROSS WRITTEN PREMIUM AND UNCOLLECTIBLE PREMIUM\***

Data as of 3/31/2014

<b>POLICY YEAR</b>	<b>(1) GROSS WRITTEN PREMIUM</b>	<b>(2) UNCOLLECTIBLE PREMIUM</b>	<b>(3)=(2)/(1) RATIO</b>
2003	23,778,085	298,709	1.26%
2004	34,286,412	427,451	1.25%
2005	39,613,229	790,863	2.00%
2006	33,123,068	1,133,864	3.42%
2007	21,572,856	719,606	3.34%
2008	12,934,422	210,417	1.63%
2009	7,539,272	45,267	0.60%
2010	6,891,275	102,051	1.48%
2011	10,735,991	70,154	0.65%
2012	15,721,671	127,772	0.81%
		All Year Average	1.64%
		Five Year Average	1.03%
		Three Year Average	0.98%
		Selected	1.00%

\* Data courtesy of NCCI, Inc.