

DELAWARE COMPENSATION RATING BUREAU, INC.

Delaware Insurance Plan

The following pages present a review of the experience for the Delaware Insurance Plan.

Page 19.1 compares the reported loss ratio for a five-year period of the assigned risk and voluntary markets by the premium size range. The second page shows similar detail but by year rather than premium size.

The bottom portion of page 19.2 also shows the calculation of a manual rate offset for a residual market surcharge program applicable to rated Residual Market risks with debit experience modification factors. It is contemplated that these risks would be subject to a surcharge ranging from 0 to +50%, with a maximum set at the value of the modification factor less unity, and that the surcharge would be calculated by multiplying 50% times the complement of the risk's experience rating credibility. The offset is applicable to voluntary market risks.

The residual market share calculation is given on page 19.3.

Page 19.4 contains the calculation of the average surcharge based on the above methodology.

The assigned risk subsidy is derived as shown on page 19.5.

DELAWARE INSURANCE PLAN EXPERIENCE
Manual Years 1996 - 2000

| SIZE OF STANDARD PREMIUM | STATEWIDE | | | DIP | | | STATEWIDE - DIP | | |
|--------------------------|---------------|-------------|------------|---------------|------------|------------|-----------------|-------------|------------|
| | TOTAL PREMIUM | TOTAL LOSS | LOSS RATIO | TOTAL PREMIUM | TOTAL LOSS | LOSS RATIO | TOTAL PREMIUM | TOTAL LOSS | LOSS RATIO |
| 1-500 | 7,581,389 | 4,177,710 | 55.1 | 697,470 | 265,359 | 38.0 | 6,883,919 | 3,912,351 | 56.8 |
| 501-1000 | 10,050,863 | 5,699,956 | 56.7 | 1,207,180 | 800,250 | 66.3 | 8,843,683 | 4,899,706 | 55.4 |
| 1001-1500 | 9,326,974 | 6,318,987 | 67.7 | 973,597 | 1,585,615 | 162.9 | 8,353,377 | 4,733,372 | 56.7 |
| 1501-2000 | 8,640,917 | 5,458,694 | 63.2 | 785,332 | 424,508 | 54.1 | 7,855,585 | 5,034,186 | 64.1 |
| 2001-2500 | 8,018,640 | 5,616,514 | 70.0 | 652,538 | 716,809 | 109.8 | 7,366,102 | 4,899,705 | 66.5 |
| 2501-3000 | 7,407,108 | 2,186,850 | 29.5 | 577,667 | 298,191 | 51.6 | 6,829,441 | 1,888,659 | 27.7 |
| 3001-3500 | 6,936,100 | 3,816,002 | 55.0 | 509,362 | 627,178 | 123.1 | 6,426,738 | 3,188,824 | 49.6 |
| 3501-4000 | 6,726,267 | 3,044,387 | 45.3 | 481,679 | 330,993 | 68.7 | 6,244,588 | 2,713,394 | 43.5 |
| 4001-4500 | 6,882,829 | 3,073,275 | 44.7 | 451,503 | 476,036 | 105.4 | 6,431,326 | 2,597,239 | 40.4 |
| 4501-5000 | 6,475,935 | 3,243,711 | 50.1 | 377,985 | 413,412 | 109.4 | 6,097,950 | 2,830,299 | 46.4 |
| 5001 AND OVER | 689,230,741 | 350,059,064 | 50.8 | 22,177,693 | 14,968,010 | 67.5 | 667,053,048 | 335,091,054 | 50.2 |
| TOTALS | 767,277,763 | 392,695,150 | 51.2 | 28,892,006 | 20,906,361 | 72.4 | 738,385,757 | 371,788,789 | 50.4 |

| SIZE OF STANDARD PREMIUM | INDICATED SURCHARGE FACTOR DIP/(SW-DIP) |
|--------------------------|--|
| 1-500 | 0.669 |
| 501-1000 | 1.197 |
| 1001-1500 | 2.873 |
| 1501-2000 | 0.844 |
| 2001-2500 | 1.651 |
| 2501-3000 | 1.863 |
| 3001-3500 | 2.482 |
| 3501-4000 | 1.579 |
| 4001-4500 | 2.609 |
| 4501-5000 | 2.358 |
| 5001 AND OVER | 1.345 |
| TOTALS | 1.437 |

DELAWARE INSURANCE PLAN EXPERIENCE
Manual Years 1996 - 2000

| MANUAL YEAR | STATEWIDE | | | DIP | | | STATEWIDE - DIP | | |
|-------------|---------------------------------|------------------------|------------|---------------------------------|------------------------|------------|---------------------------------|------------------------|------------|
| | STANDARD PREMIUM WITH CONSTANTS | REPORTED INCURRED LOSS | LOSS RATIO | STANDARD PREMIUM WITH CONSTANTS | REPORTED INCURRED LOSS | LOSS RATIO | STANDARD PREMIUM WITH CONSTANTS | REPORTED INCURRED LOSS | LOSS RATIO |
| 1996 | 135,251,213 | 79,866,449 | 59.1 | 11,410,822 | 8,749,466 | 76.7 | 123,840,391 | 71,116,983 | 57.4 |
| 1997 | 150,439,399 | 75,191,797 | 50.0 | 6,171,596 | 4,422,697 | 71.7 | 144,267,803 | 70,769,100 | 49.1 |
| 1998 | 167,376,292 | 78,273,223 | 46.8 | 4,679,057 | 1,960,402 | 41.9 | 162,697,235 | 76,312,821 | 46.9 |
| 1999 | 155,415,762 | 87,752,525 | 56.5 | 2,159,178 | 2,397,443 | 111.0 | 153,256,584 | 85,355,082 | 55.7 |
| 2000 | 158,795,097 | 71,611,156 | 45.1 | 4,471,353 | 3,376,353 | 75.5 | 154,323,744 | 68,234,803 | 44.2 |
| TOTALS | 767,277,763 | 392,695,150 | 51.2 | 28,892,006 | 20,906,361 | 72.4 | 738,385,757 | 371,788,789 | 50.4 |

| MANUAL YEAR | MARKET SHARE DIP/SW | INDICATED SURCHARGE FACTOR DIP/(SW-DIP) |
|-------------------|---------------------|---|
| 1996 | 0.084 | 1.336 |
| 1997 | 0.041 | 1.460 |
| 1998 | 0.028 | 0.893 |
| 1999 | 0.014 | 1.993 |
| 2000 | 0.028 | 1.708 |
| TOTAL 1996 - 2000 | 0.038 | 1.437 |

INDICATED MANUAL LOSS COST OFFSET

LOSS RATIO DIFFERENTIAL (for DARSKSUB)

| | | | |
|--|--------|-------------------------------|-------|
| (1) D I P MARKET SHARE | 0.1313 | (4) D I P LOSS RATIO | 72.4 |
| (2) AVERAGE SURCHARGE | 0.086 | (5) VOLUNTARY MKT LOSS RATIO | 50.4 |
| (3) MANUAL LOSS COST OFFSET APPLICABLE TO VOLUNTARY MARKET RISKS [1 - (1)*{1+(2)}] / [1 - (1)] | 0.9870 | (6) D I P SURCHARGE FACTOR | 1.086 |
| | | (7) L R D [(4) / (5)] / (6) | 1.32 |

RESIDUAL MARKET SHARE (using financial data)

Policy Year Accumulated Standard Earned Premium @ 12/31/02

Residual Market Share excluding Large Deductible

| Policy Year | (1) <u>Call #1</u> | (2) <u>Call #12</u> | (3) = (1) - (2) <u>Difference</u> | (4) <u>LCM</u> | (5) = (3) * (4) <u>VM @ RM DSR Level</u> | (6) = (2)+(5) <u>Total @ DSR</u> | (7) = (2) / (6) <u>Ratio</u> |
|-------------|-----------------------|------------------------|--------------------------------------|-------------------|---|-------------------------------------|---------------------------------|
| 1995 | 88,800,880 | 16,621,331 | 72,179,549 | 1.4000 | 101,051,369 | 117,672,700 | 0.1413 |
| 1996 | 91,981,336 | 14,391,411 | 77,589,925 | 1.4000 | 108,625,895 | 123,017,306 | 0.1170 |
| 1997 | 93,625,345 | 8,075,853 | 85,549,492 | 1.3700 | 117,202,804 | 125,278,657 | 0.0645 |
| 1998 | 100,545,807 | 5,245,663 | 95,300,144 | 1.3086 | 124,709,768 | 129,955,431 | 0.0404 |
| 1999 | 91,607,330 | 2,793,890 | 88,813,440 | 1.2888 | 114,462,761 | 117,256,651 | 0.0238 |
| 2000 | 95,567,315 | 5,809,782 | 89,757,533 | 1.2796 | 114,853,739 | 120,663,521 | 0.0481 |
| 2001 | 97,978,170 | 13,962,178 | 84,015,992 | 1.2637 | 106,171,009 | 120,133,187 | 0.1162 |
| 2002 | 62,473,948 | 12,668,215 | 49,805,733 | 1.3623 | 67,850,350 | 80,518,565 | 0.1573 |

Residual Market Share including Large Deductible (net basis)

| Policy Year | (8) <u>Call #8</u> | (9) = (8) * (4) <u>VM @ RM DSR Level</u> | (10)=(6)+(9) <u>Total @ DSR</u> | (11)=(2)/(10) <u>Ratio</u> |
|-------------|-----------------------|---|------------------------------------|-------------------------------|
| 1995 | 8,599,733 | 12,039,626 | 129,712,326 | 0.1281 |
| 1996 | 9,620,575 | 13,468,805 | 136,486,111 | 0.1054 |
| 1997 | 10,217,967 | 13,998,615 | 139,277,272 | 0.0580 |
| 1998 | 12,138,271 | 15,884,141 | 145,839,572 | 0.0360 |
| 1999 | 6,673,498 | 8,600,804 | 125,857,455 | 0.0222 |
| 2000 | 10,738,330 | 13,740,767 | 134,404,288 | 0.0432 |
| 2001 | 14,388,699 | 18,182,999 | 138,316,186 | 0.1009 |
| 2002 | 11,724,062 | 15,971,690 | 96,490,255 | 0.1313 |

**DELAWARE COMPENSATION RATING BUREAU, INC.
DELAWARE INSURANCE PLAN**

**CALCULATION OF AVERAGE SURCHARGE
0.50 * (1 - C), max = Mod Factor Less Unity**

| | <u>Risk Count</u> | <u>Premium 2000</u> | <u>% Total Count</u> | <u>% Total Premium</u> |
|-----------------------------------|-----------------------|-------------------------------|------------------------------|----------------------------|
| 1 Risks with Credit Mod (<= 1.0) | 132 | 1,627,687 | 14.73% | 31.73% |
| 2 Risks with Debit Mod (> 1.0) | 80 | 2,150,367 | 8.93% | 41.93% |
| 3 Total - Rated Risks | 212 | 3,778,054 | 23.66% | 73.66% |
| 4 Non-Rated Risks | 684 | 1,350,971 | 76.34% | 26.34% |
| 5 Total - All Assigned Risks | 896 | 5,129,025 | 100.00% | 100.00% |
| | | <u>Surcharged Premium</u> | <u>Average Surcharge</u> | <u>% Total Premium</u> |
| 1 Risks with Credit Mod (<= 1.0) | | 1,627,687 | 0.000 | 29.23% |
| 2 Risks with Debit Mod (> 1.0) | | 2,590,186 | 0.205 | 46.51% |
| 3 Total - Rated Risks | | 4,217,873 | 0.116 | 75.74% |
| 4 Non-Rated Risks | | 1,350,971 | 0.000 | 24.26% |
| 5 Total - All Assigned Risks | | 5,568,844 | 0.086 | 100.00% |

Surcharge = 50% * (1 - cred), not exceeding the modification factor less unity and applies to risks with debit modification factors.

DELAWARE INSURANCE PLAN
ASSIGNED RISK SUBSIDY

Calculation of residual market subsidy multiplier to be added to Retro Rating Plan tax multiplier.

| | | | |
|---|------|--------------------------------------|--------|
| 1 | ARMS | Delaware Insurance Plan Market Share | 0.1313 |
| 2 | VMS | Voluntary Market Share (1 - ARMS) | 0.8687 |
| 3 | LRD | Loss Ratio Differential | 1.32 |
| 4 | PLR | Permissible Loss Ratio | 0.6121 |
| 5 | ARLR | Assigned Risk Loss Ratio | |
| 6 | VLR | Voluntary Loss Ratio | |
| 7 | S | Subsidy | |

$$\text{ARLR} * \text{ARMS} + \text{VLR} * \text{VMS} = \text{PLR}$$

$$\text{VLR} * 1.32 * 0.1313 + \text{VLR} * 0.8687 = 0.6121$$

$$\text{VLR} = 0.5874$$

$$\text{ARLR} = 1.32 * \text{VLR} = 0.7754$$

$$\text{DIFF} = \text{ARLR} - \text{VLR} = 0.188$$

$$S = (0.8) * (\text{ARLR} - \text{VLR}) * (\text{ARMS} / \text{VMS})$$

$$= (0.8) * (18.8\%) * (0.1313 / 0.8687)$$

$$= (0.8) * (18.8\%) * (0.1511)$$

$$= 2.27\%$$