

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, and premium discount.

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 1999-2001 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 build-back for Schedule Y companies.

**EXHIBIT I**  
**STOCK AGENCY COMPANIES**

	<u>CALENDAR YEAR</u>		
	<u>1999</u>	<u>2000</u>	<u>2001</u>
<b>(1)</b> Standard Earned Premium at Bureau Rate Level including Large Deductible on a <u>Net</u> Basis excluding Expense Constant Dollars	\$ 89,094,955	\$ 75,325,702	\$ 93,610,195
<b>(2)</b> Standard Earned Premium at Bureau Level including Large Deductible on a <u>Gross</u> Basis excluding Expense Constant Dollars	146,635,790	114,586,787	151,967,985
<b>(3)</b> Commission and Brokerage	\$ 5,654,331	\$ 5,889,479	\$ 6,847,411
<b>(3a)</b> Reported Ratio { (3) / (1) }	0.0635	0.0782	0.0731
<b>(4)</b> Other Acquisitions	\$ 2,986,704	\$ 2,585,921	\$ 3,112,825
<b>(4a)</b> Reported Ratio { (4) / (2) }	0.0204	0.0226	0.0205
<b>(5)</b> General Expense	\$ 7,447,798	\$ 5,314,035	\$ 4,738,162
<b>(5a)</b> Reported Ratio { (5) / (2) }	0.0508	0.0464	0.0312

	<b>Three Year Average (1)</b>	<b>Expense Constant Income (2)</b>	<b>Difference { (1) - (2) }</b>
COMMISSION AND BROKERAGE	0.0716	0.0022	0.0694
OTHER ACQUISITIONS	0.0212	0.0009	0.0203
TOTAL PRODUCTION	0.0928	0.0031	0.0897
GENERAL EXPENSE	0.0428	0.0045	0.0383

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

	<u>CALENDAR YEAR</u>		
	<u>1999</u>	<u>2000</u>	<u>2001</u>
(1) Standard Earned Premium at Bureau DSR Level including Large Deductible on a <u>Net</u> Basis	\$ 70,174,633	\$ 59,407,523	\$ 74,877,670
(2) Multiplier to Bring Premium to Bureau Rate Level	1.2715	1.2693	1.2518
(3) Standard Earned Premium at Bureau Rate Level including Large Deductible on a <u>Net</u> Basis { (1) * (2) }	\$ 89,227,046	\$ 75,405,969	\$ 93,731,867
(4) Large Deductible Adj. at Bureau DSR Level	44,999,480	30,780,937	46,063,454
(5) Multiplier to Bring L. D. Adj. to Bureau Rate Level	1.2787	1.2755	1.2669
(6) Large Deductible Adj. at Bureau Rate Level { (4) * (5) }	\$ 57,540,835	\$ 39,261,085	\$ 58,357,790
(7) Standard Earned Premium at Bureau Rate Level including Large Deductible on a <u>Gross</u> Basis { (3) + (6) }	146,767,881	114,667,054	152,089,657
(8) Expense Constant Removal Factor	0.9991	0.9993	0.9992
(9) Expense Constant Dollars { (7)[1 - (8)] }	\$ 132,091	\$ 80,267	\$ 121,672
(10) Standard Earned Premium at Bureau Rate Level including Large Deductible on a <u>Net</u> Basis excluding Expense Constant Dollars { (3) - (9) }	89,094,955	75,325,702	93,610,195
(11) Standard Earned Premium at Bureau Level including Large Deductible on a <u>Gross</u> Basis excluding Expense Constant Dollars { (7) - (9) }	146,635,790	114,586,787	151,967,985

**EXHIBIT II**

**EXPENSE CONSTANT INCOME - STOCK AGENCY COMPANIES**

**MANUAL YEAR 2000**

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(1) Number of Policies	10,034
(2) Expense Constant Income With Expense Constant @ Current Level = \$230	\$2,307,820
(3) Interstate Adjustment Factor	0.65
(4) Adjusted Expense Constant Income {(2) * (3)}	\$1,500,083

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(5) Standard Earned Premium <u>Excluding</u> Expense Constant <u>including</u> Large Deductible on a <u>Net</u> Basis	131,706,224
(5a) Factor to Bring Premium to Current Level	1.2179
(5b) Standard Earned Premium <u>Excluding</u> Expense Constant <u>including</u> Large Deductible on a <u>Net</u> Basis at Current Level	160,405,010
(6) Standard Earned Premium <u>Excluding</u> Expense Constant <u>including</u> Large Deductible on a <u>Gross</u> Basis	174,403,007
(6a) Factor to Bring Premium to Current Level	1.2179
(6b) Standard Earned Premium <u>Excluding</u> Expense Constant <u>including</u> Large Deductible on a <u>Gross</u> Basis at Current Level	212,405,422

(7) Distribution of Expense Constant Income

	%	%	\$	Total Expense \$
(a) General Expense	63.9%		\$146.97	\$958,553
(b) Production	36.1%			
i) Commission		65.0%	53.97	351,994
ii) Other Acquisition		35.0%	29.06	189,535
Total	100.0%		\$230.00	\$1,500,082

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(8) Expense Constant Ratio for General Expense { (7a) / (6b) }	0.0045
(9) Expense Constant Ratio for Commision { (7b(i)) / (5b) }	0.0022
(10) Expense Constant Ratio for Other Acquisition { (7b(ii)) / (6b) }	0.0009

**EXHIBIT III**

**LOSS ADJUSTMENT EXPENSE RATIOS - ALL COMPANIES**

	<b><u>CALENDAR YEAR</u></b>		
	<b><u>1999</u></b>	<b><u>2000</u></b>	<b><u>2001</u></b>
<b>(1)</b> Loss Adjustment Expense	\$ 17,454,317	\$ 13,413,717	\$ 16,327,891
<b>(2)</b> Incurred Losses <u>including</u> Large Deductible on a <u>Net</u> Basis	69,927,884	66,564,475	85,763,463
<b>(3)</b> Large Deductible Adjustment	21,348,303	28,452,598	34,983,104
<b>(4)</b> Incurred Losses <u>including</u> Large Deductible on a <u>Gross</u> Basis { (2) + (3) }	91,276,187	95,017,073	120,746,567
<b>(5)</b> Ratio of Loss Adjustment Expense to Incurred Losses <u>including</u> Large Deductible on a <u>Net</u> Basis { (1) / (2) }	0.2496	0.2015	0.1904
<b>(6)</b> Ratio of Loss Adjustment Expense to Incurred Losses <u>including</u> Large Deductible on a <u>Gross</u> Basis { (1) / (4) }	0.1912	0.1412	0.1352
<b>Three-Year Average of Loss Adjustment Expense Ratios to Direct Incurred Losses including Large Deductible on a Net Basis</b>			0.2138
<b>Three-Year Average of Loss Adjustment Expense Ratios to Direct Incurred Losses including Large Deductible on a Gross Basis</b>			0.1559

**EXHIBIT IV - A**

**SIZE OF RISKS - SCHEDULE Y COMPANIES**

**MANUAL YEAR 2000**

Intrastate Risks	Number of Risks	Intrastate SEP <u>excluding</u> Loss and Expense Constant
	<b>(1)</b>	<b>(2)</b>
Under \$5,000	9,148	12,484,826
\$5,000 - \$100,000	3,685	75,756,075
\$100,000 - \$500,000	329	63,605,306
Over \$500,000	41	40,451,136
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TOTAL	13,203	192,297,343

**DISTRIBUTION OF PREMIUM TO DISCOUNT BLOCK**

Size of Risk	Number of Risks	First \$5,000	Next \$95,000	Next \$400,000	Over \$500,000
Under \$5,000	9,148	12,484,826			
\$5,000 - \$100,000	3,685	18,425,000	57,331,075		
\$100,000 - \$500,000	329	1,645,000	31,255,000	30,705,306	
Over \$500,000	41	205,000	3,895,000	16,400,000	19,951,136
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TOTAL	13,203	32,759,826	92,481,075	47,105,306	19,951,136
PERCENTAGE		17.04%	48.09%	24.50%	10.38%

**EXHIBIT IV - B**

**AVERAGE COMPANY BUILD-BACK**

**SCHEDULE Y COMPANIES**

	Premium Distribution to Discount Block <b><u>(EXHIBIT IV - A)</u></b>	Reduction from Manual <u>                    </u>	Weighted Reduction <u>                    </u>
First \$5,000	17.04	0.0	0.00
Next \$95,000	48.09	10.9	5.24
Next \$400,000	24.50	12.6	3.09
Over \$500,000	10.38	14.4	1.49
		<b>Build-Back</b>	<b>= 9.82</b>
	<b>Intrastate Build-Back</b>	9.82	
	<b>Interstate Build-Back</b>	10.42	