

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 2001-2003 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 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

	<u>CALENDAR YEAR</u>		
	<u>2001</u>	<u>2002</u>	<u>2003</u>
(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	\$ 88,080,394	\$ 95,550,633	\$ 106,390,653
(2) Standard Earned Premium at Bureau Level <u>including</u> Large Deductible on a <u>Gross</u> Basis <u>excluding</u> Expense Constant Dollars	139,321,833	146,265,077	153,810,188
(3) Commission and Brokerage	\$ 6,670,776	\$ 7,141,476	\$ 8,841,080
(3a) Reported Ratio { (3) / (1) }	0.0757	0.0747	0.0831
(4) Other Acquisitions	\$ 2,887,549	\$ 4,205,792	\$ 4,083,530
(4a) Reported Ratio { (4) / (2) }	0.0207	0.0288	0.0265
(5) General Expense	\$ 4,627,690	\$ 5,137,483	\$ 5,782,679
(5a) Reported Ratio { (5) / (2) }	0.0332	0.0351	0.0376

	Three Year Average (1)	Expense Constant Income (2)	Difference { (1) - (2) }
COMMISSION AND BROKERAGE	0.0778	0.0028	0.0750
OTHER ACQUISITIONS	0.0253	0.0011	0.0242
TOTAL PRODUCTION	0.1031	0.0039	0.0992
GENERAL EXPENSE	0.0353	0.0053	0.0300

EXHIBIT I - A
STOCK AGENCY COMPANIES

	<u>CALENDAR YEAR</u>		
	<u>2001</u>	<u>2002</u>	<u>2003</u>
(1) Standard Earned Premium at Bureau DSR Level including Large Deductible on a <u>Net</u> Basis	\$ 70,665,931	\$ 74,720,932	\$ 82,038,949
(2) Multiplier to Bring Premium to Bureau Rate Level	1.2490	1.2821	1.3004
(3) Standard Earned Premium at Bureau Rate Level including Large Deductible on a <u>Net</u> Basis { (1) * (2) }	\$ 88,261,748	\$ 95,799,707	\$ 106,683,449
(4) Large Deductible Adj. at Bureau DSR Level	40,465,481	38,263,501	34,752,316
(5) Multiplier to Bring L. D. Adj. to Bureau Rate Level	1.2663	1.3254	1.3645
(6) Large Deductible Adj. at Bureau Rate Level { (4) * (5) }	\$ 51,241,439	\$ 50,714,444	\$ 47,419,535
(7) Standard Earned Premium at Bureau Rate Level including Large Deductible on a <u>Gross</u> Basis { (3) + (6) }	139,503,187	146,514,151	154,102,984
(8) Expense Constant Removal Factor	0.9987	0.9983	0.9981
(9) Expense Constant Dollars { (7)[1 - (8)] }	\$ 181,354	\$ 249,074	\$ 292,796
(10) Standard Earned Premium at Bureau Rate Level including Large Deductible on a <u>Net</u> Basis excluding Expense Constant Dollars { (3) - (9) }	88,080,394	95,550,633	106,390,653
(11) Standard Earned Premium at Bureau Level including Large Deductible on a <u>Gross</u> Basis excluding Expense Constant Dollars { (7) - (9) }	139,321,833	146,265,077	153,810,188

EXHIBIT II

EXPENSE CONSTANT INCOME - STOCK AGENCY COMPANIES

MANUAL YEAR 2002

(1) Number of Policies				10,389
(2) Expense Constant Income With Expense Constant @ Current Level = \$240				\$2,493,360
(3) Interstate Adjustment Factor				0.65
(4) Adjusted Expense Constant Income {(2) * (3)}				\$1,620,684

(5) Standard Earned Premium <u>Excluding</u> Expense Constant <u>including</u> Large Deductible on a <u>Net</u> Basis				119,938,004
(5a) Factor to Bring Premium to Current Level				1.1138
(5b) Standard Earned Premium <u>Excluding</u> Expense Constant <u>including</u> Large Deductible on a <u>Net</u> Basis at Current Level				133,586,949
(6) Standard Earned Premium <u>Excluding</u> Expense Constant <u>including</u> Large Deductible on a <u>Gross</u> Basis				174,752,854
(6a) Factor to Bring Premium to Current Level				1.1140
(6b) Standard Earned Premium <u>Excluding</u> Expense Constant <u>including</u> Large Deductible on a <u>Gross</u> Basis at Current Level				194,674,679

(7) Distribution of Expense Constant Income				
	%	%	\$	Total Expense \$
(a) General Expense	63.9%		\$153.36	\$1,035,617
(b) Production	36.1%			
i) Commission		65.0%	56.32	380,294
ii) Other Acquisition		35.0%	30.32	204,773
Total	100.0%		\$240.00	\$1,620,684

(8) Expense Constant Ratio for General Expense { (7a) / (6b) }	0.0053
(9) Expense Constant Ratio for Commision { (7b(i)) / (5b) }	0.0028
(10) Expense Constant Ratio for Other Acquisition { (7b(ii)) / (6b) }	0.0011

EXHIBIT III

LOSS ADJUSTMENT EXPENSE RATIOS - ALL COMPANIES

	<u>CALENDAR YEAR</u>		
	<u>2001</u>	<u>2002</u>	<u>2003</u>
(1) Loss Adjustment Expense	\$ 15,174,714	\$ 16,434,655	\$ 20,142,294
(2) Incurred Losses <u>including</u> Large Deductible on a <u>Net</u> Basis	83,654,499	99,441,022	147,181,353
(3) Large Deductible Adjustment	34,280,263	42,504,033	35,873,184
(4) Incurred Losses <u>including</u> Large Deductible on a <u>Gross</u> Basis { (2) + (3) }	117,934,762	141,945,055	183,054,537
(5) Ratio of Loss Adjustment Expense to Incurred Losses <u>including</u> Large Deductible on a <u>Net</u> Basis { (1) / (2) }	0.1814	0.1653	0.1369
(6) Ratio of Loss Adjustment Expense to Incurred Losses <u>including</u> Large Deductible on a <u>Gross</u> Basis { (1) / (4) }	0.1287	0.1158	0.1100
Three-Year Average of Loss Adjustment Expense Ratios to Direct Incurred Losses including Large Deductible on a Net Basis			0.1612
Three-Year Average of Loss Adjustment Expense Ratios to Direct Incurred Losses including Large Deductible on a Gross Basis			0.1182

EXHIBIT IV - A

SIZE OF RISKS - SCHEDULE Y COMPANIES

MANUAL YEAR 2002

Intrastate Risks	Number of Risks	Intrastate SEP <u>excluding</u> Loss and Expense Constant
	(1)	(2)
Under \$5,000	9,120	13,258,133
\$5,000 - \$100,000	4,207	90,127,650
\$100,000 - \$500,000	368	73,818,804
Over \$500,000	72	69,422,388
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TOTAL	13,767	246,626,975

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	9,120	13,258,133			
\$5,000 - \$100,000	4,207	21,035,000	69,092,650		
\$100,000 - \$500,000	368	1,840,000	34,960,000	37,018,804	
Over \$500,000	72	360,000	6,840,000	28,800,000	33,422,388
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TOTAL	13,767	36,493,133	110,892,650	65,818,804	33,422,388
PERCENTAGE		14.80%	44.96%	26.69%	13.55%

EXHIBIT IV - B

AVERAGE COMPANY BUILD-BACK

SCHEDULE Y COMPANIES

	Premium Distribution to Discount Block <u>(EXHIBIT IV - A)</u>	Reduction from Manual <u> </u>	Weighted Reduction <u> </u>
First \$5,000	14.80	0.0	0.00
Next \$95,000	44.96	10.9	4.90
Next \$400,000	26.69	12.6	3.36
Over \$500,000	13.55	14.4	1.95
		Build-Back =	<u> </u> 10.21
	Intrastate Build-Back	10.21	
	Interstate Build-Back	10.81	

EXHIBIT V

DELAWARE POOL GROSS WRITTEN PREMIUM AND UNCOLLECTIBLE PREMIUM*

Data as of 3/31/2004

POLICY YEAR	(1) GROSS WRITTEN PREMIUM	(2) UNCOLLECTIBLE PREMIUM	(3)=(2)/(1) RATIO
1998	4,443,412	90,832	2.04%
1999	1,695,141	15,933	0.94%
2000	2,390,917	11,718	0.49%
2001	3,987,174	14,752	0.37%
2002	16,285,013	281,393	1.73%
2003	23,961,330	283,974	1.19%
2004	30,247,037	28,012	0.09%
		All Year Average (Excl PY 04)	1.13%
		Five Year Average (Excl PY 04)	0.94%
		Three Year Average (Excl PY 04)	1.10%
		Selected	1.00%

* Data courtesy of NCCI, Inc.