

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 2002-2004 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>2002</u>	<u>2003</u>	<u>2004</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	\$ 94,970,581	\$ 114,511,987	\$ 121,445,140
(2) Standard Earned Premium at Bureau Level <u>including</u> Large Deductible on a <u>Gross</u> Basis <u>excluding</u> Expense Constant Dollars	133,983,113	164,794,256	179,172,124
(3) Commission and Brokerage	\$ 6,581,366	\$ 10,750,550	\$ 8,404,470
(3a) Reported Ratio { (3) / (1) }	0.0693	0.0939	0.0692
(4) Other Acquisitions	\$ 4,562,017	\$ 4,547,164	\$ 4,526,358
(4a) Reported Ratio { (4) / (2) }	0.0340	0.0276	0.0253
(5) General Expense	\$ 5,330,524	\$ 6,178,207	\$ 6,653,441
(5a) Reported Ratio { (5) / (2) }	0.0398	0.0375	0.0371

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	<b>Three Year Average (1)</b>	<b>Expense Constant Income (2)</b>	<b>Difference { (1) - (2) }</b>
COMMISSION AND BROKERAGE	0.0775	0.0026	0.0749
OTHER ACQUISITIONS	0.0290	0.0009	0.0281
TOTAL PRODUCTION	0.1065	0.0035	0.1030
GENERAL EXPENSE	0.0381	0.0046	0.0335

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

	<u>CALENDAR YEAR</u>		
	<u>2002</u>	<u>2003</u>	<u>2004</u>
(1) Standard Earned Premium at Bureau DSR Level <u>including</u> Large Deductible on a <u>Net</u> Basis	\$ 74,246,405	\$ 88,276,518	\$ 94,452,296
(2) Multiplier to Bring Premium to Bureau Rate Level	1.2822	1.3015	1.2913
(3) Standard Earned Premium at Bureau Rate Level <u>including</u> Large Deductible on a <u>Net</u> Basis { (1) * (2) }	\$ 95,198,740	\$ 114,891,888	\$ 121,966,250
(4) Large Deductible Adj. at Bureau DSR Level	29,387,971	36,844,925	42,355,994
(5) Multiplier to Bring L. D. Adj. to Bureau Rate Level	1.3275	1.3647	1.3629
(6) Large Deductible Adj. at Bureau Rate Level { (4) * (5) }	\$ 39,012,532	\$ 50,282,269	\$ 57,726,984
(7) Standard Earned Premium at Bureau Rate Level <u>including</u> Large Deductible on a <u>Gross</u> Basis { (3) + (6) }	134,211,272	165,174,157	179,693,234
(8) Expense Constant Removal Factor	0.9983	0.9977	0.9971
(9) Expense Constant Dollars { (7)[1 - (8)] }	\$ 228,159	\$ 379,901	\$ 521,110
(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) }	94,970,581	114,511,987	121,445,140
(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) }	133,983,113	164,794,256	179,172,124

**EXHIBIT II**

**EXPENSE CONSTANT INCOME - STOCK AGENCY COMPANIES**

**MANUAL YEAR 2003**

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<b>(1)</b> Number of Policies				10,415
<b>(2)</b> Expense Constant Income With Expense Constant @ Current Level = \$250				\$2,603,750
<b>(3)</b> Interstate Adjustment Factor				0.65
<b>(4)</b> Adjusted Expense Constant Income {(2) * (3)}				\$1,692,438

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<b>(5)</b> Standard Earned Premium <u>Excluding</u> Expense Constant <u>including</u> Large Deductible on a <u>Net</u> Basis				131,216,387
<b>(5a)</b> Factor to Bring Premium to Current Level				1.1468
<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				150,478,953
<b>(6)</b> Standard Earned Premium <u>Excluding</u> Expense Constant <u>including</u> Large Deductible on a <u>Gross</u> Basis				203,768,349
<b>(6a)</b> Factor to Bring Premium to Current Level				1.1465
<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				233,620,412

  

<b>(7)</b> Distribution of Expense Constant Income				
	%	%	\$	Total Expense \$
(a) General Expense	63.9%		\$159.75	\$1,081,468
(b) Production	36.1%			
i) Commission		65.0%	58.66	397,130
ii) Other Acquisition		35.0%	31.59	213,839
Total	100.0%		\$250.00	\$1,692,437

  

<b>(8)</b> Expense Constant Ratio for General Expense { (7a) / (6b) }	0.0046
<b>(9)</b> Expense Constant Ratio for Commission { (7b(i)) / (5b) }	0.0026
<b>(10)</b> 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>2002</u></b>	<b><u>2003</u></b>	<b><u>2004</u></b>
<b>(1)</b> Loss Adjustment Expense	\$ 16,667,889	\$ 20,170,624	\$ 20,178,770
<b>(2)</b> Incurred Losses <u>including</u> Large Deductible on a <u>Net</u> Basis	104,522,542	143,329,652	147,589,648
<b>(3)</b> Large Deductible Adjustment	32,373,934	38,637,677	39,495,895
<b>(4)</b> Incurred Losses <u>including</u> Large Deductible on a <u>Gross</u> Basis { (2) + (3) }	136,896,476	181,967,329	187,085,543
<b>(5)</b> Ratio of Loss Adjustment Expense to Incurred Losses <u>including</u> Large Deductible on a <u>Net</u> Basis { (1) / (2) }	0.1595	0.1407	0.1367
<b>(6)</b> Ratio of Loss Adjustment Expense to Incurred Losses <u>including</u> Large Deductible on a <u>Gross</u> Basis { (1) / (4) }	0.1218	0.1108	0.1079
<b>Three-Year Average of Loss Adjustment Expense Ratios to Direct Incurred Losses including Large Deductible on a Net Basis</b>			0.1456
<b>Three-Year Average of Loss Adjustment Expense Ratios to Direct Incurred Losses including Large Deductible on a Gross Basis</b>			0.1135

**EXHIBIT IV - A**

**SIZE OF RISKS - SCHEDULE Y COMPANIES**

**MANUAL YEAR 2003**

Intrastate Risks	Number of Risks	Intrastate SEP excluding Loss and Expense Constant
	<b>(1)</b>	<b>(2)</b>
Under \$5,000	9,451	15,046,173
\$5,000 - \$100,000	4,821	105,577,682
\$100,000 - \$500,000	454	91,433,054
Over \$500,000	78	92,713,848
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TOTAL	14,804	304,770,757

**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	9,451	15,046,173			
\$5,000 - \$100,000	4,821	24,105,000	81,472,682		
\$100,000 - \$500,000	454	2,270,000	43,130,000	46,033,054	
Over \$500,000	78	390,000	7,410,000	31,200,000	53,713,848
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TOTAL	14,804	41,811,173	132,012,682	77,233,054	53,713,848
PERCENTAGE		13.72%	43.32%	25.34%	17.62%

**EXHIBIT IV - B**

**AVERAGE COMPANY BUILD-BACK**

**SCHEDULE Y COMPANIES**

	Premium Distribution to Discount Block <b><u>(EXHIBIT IV - A)</u></b>	<b><u>Reduction from Manual</u></b>	<b><u>Weighted Reduction</u></b>
First \$5,000	13.72	0.0	0.00
Next \$95,000	43.32	10.9	4.72
Next \$400,000	25.34	12.6	3.19
Over \$500,000	17.62	14.4	2.54
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		<b>Build-Back</b>	= 10.45
	<b>Intrastate Build-Back</b>	10.45	
	<b>Interstate Build-Back</b>	11.05	

**EXHIBIT V**

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

Data as of 3/31/2006

<b>POLICY YEAR</b>	<b>(1) GROSS WRITTEN PREMIUM</b>	<b>(2) UNCOLLECTIBLE PREMIUM</b>	<b>(3)=(2)/(1) RATIO</b>
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	16,296,149	307,048	1.88%
2003	23,810,443	267,001	1.12%
2004	34,442,345	358,644	1.04%
2005 **	35,724,101	148,857	0.42%
		All Year Average (Excl PY 05)	1.13%
		Five Year Average (Excl PY 05)	0.98%
		Three Year Average (Excl PY 05)	1.35%
		Selected	1.00%

\* Data courtesy of NCCI, Inc.

\*\* Incomplete Policy Year