

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 premium discount for Schedule Y companies.

Please note that staff is introducing a revised premium discount table. This table is consistent with the premium discount table most commonly used in NCCI jurisdictions. As shown on Exhibit IV-B, this table shows a 0.0% reduction for the first \$10,000, 9.1% reduction for the next \$190,000, 11.3% reduction for the next \$1,550,000 and 12.3% reduction for over \$1,750,000 and gives an average interstate premium discount factor of 8.89%. Had we used the table currently in effect, i.e., 0% reduction for the first \$5,000, 10.9% reduction for the next \$95,000, 12.6% reduction for the next \$400,000 and 14.4% reduction for over \$500,000, the interstate premium discount factor would have been 11.41%.

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>2003</u>	<u>2004</u>	<u>2005</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	\$ 115,284,641	\$ 125,144,852	\$ 132,809,421
(2)	Standard Earned Premium at Bureau Level <u>including</u> Large Deductible on a <u>Gross</u> Basis <u>excluding</u> Expense Constant Dollars	166,223,785	182,574,448	197,139,337
(3)	Commission and Brokerage	\$ 10,759,097	\$ 8,291,452	\$ 9,396,703
(3a)	Reported Ratio { (3) / (1) }	0.0933	0.0663	0.0708
(4)	Other Acquisitions	\$ 4,434,015	\$ 4,516,775	\$ 5,710,798
(4a)	Reported Ratio { (4) / (2) }	0.0267	0.0247	0.0290
(5)	General Expense	\$ 6,106,481	\$ 6,624,696	\$ 6,070,617
(5a)	Reported Ratio { (5) / (2) }	0.0367	0.0363	0.0308

	Three Year Average (1)	Expense Constant Income (2)	Difference { (1) - (2) }
COMMISSION AND BROKERAGE	0.0768	0.0029	0.0739
OTHER ACQUISITIONS	0.0268	0.0011	0.0257
TOTAL PRODUCTION	0.1036	0.0040	0.0996
GENERAL EXPENSE	0.0346	0.0040	0.0306

EXHIBIT I - A
STOCK AGENCY COMPANIES

	<u>CALENDAR YEAR</u>		
	<u>2003</u>	<u>2004</u>	<u>2005</u>
(1) Standard Earned Premium at Bureau DSR Level <u>including</u> Large Deductible on a <u>Net</u> Basis	\$ 88,865,886	\$ 97,506,291	\$ 105,084,675
(2) Multiplier to Bring Premium to Bureau Rate Level	1.3016	1.2889	1.2691
(3) Standard Earned Premium at Bureau Rate Level <u>including</u> Large Deductible on a <u>Net</u> Basis { (1) * (2) }	\$ 115,667,837	\$ 125,675,858	\$ 133,362,961
(4) Large Deductible Adj. at Bureau DSR Level	37,326,258	42,147,069	48,169,162
(5) Multiplier to Bring L. D. Adj. to Bureau Rate Level	1.3647	1.3626	1.3355
(6) Large Deductible Adj. at Bureau Rate Level { (4) * (5) }	\$ 50,939,144	\$ 57,429,596	\$ 64,329,916
(7) Standard Earned Premium at Bureau Rate Level <u>including</u> Large Deductible on a <u>Gross</u> Basis { (3) + (6) }	166,606,981	183,105,454	197,692,877
(8) Expense Constant Removal Factor	0.9977	0.9971	0.9972
(9) Expense Constant Dollars { (7)[1 - (8)] }	\$ 383,196	\$ 531,006	\$ 553,540
(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) }	115,284,641	125,144,852	132,809,421
(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) }	166,223,785	182,574,448	197,139,337

EXHIBIT II

EXPENSE CONSTANT INCOME - STOCK AGENCY COMPANIES

MANUAL YEAR 2004

(1) Number of Policies	10,645
(2) Expense Constant Income With Expense Constant @ Current Level = \$260	\$2,767,700
(3) Interstate Adjustment Factor	0.65
(4) Adjusted Expense Constant Income {(2) * (3)}	\$1,799,005

(5) Standard Earned Premium <u>Excluding</u> Expense Constant <u>including</u> Large Deductible on a <u>Net</u> Basis	142,059,512
(5a) Factor to Bring Premium to Current Level	1.2445
(5b) Standard Earned Premium <u>Excluding</u> Expense Constant <u>including</u> Large Deductible on a <u>Net</u> Basis at Current Level	176,793,063
(6) Standard Earned Premium <u>Excluding</u> Expense Constant <u>including</u> Large Deductible on a <u>Gross</u> Basis	203,768,349
(6a) Factor to Bring Premium to Current Level	1.2449
(6b) Standard Earned Premium <u>Excluding</u> Expense Constant <u>including</u> Large Deductible on a <u>Gross</u> Basis at Current Level	253,671,218

(7) Distribution of Expense Constant Income

	%	%	\$	Total Expense \$
(a) General Expense	55.8%		\$145.03	\$1,003,485
(b) Production	44.2%			
i) Commission		65.0%	74.73	517,088
ii) Other Acquisition		35.0%	40.24	278,432
Total	100.0%		\$260.00	\$1,799,005

(8) Expense Constant Ratio for General Expense { (7a) / (6b) }	0.0040
(9) Expense Constant Ratio for Commission { (7b(i)) / (5b) }	0.0029
(10) Expense Constant Ratio for Other Acquisition { (7b(ii)) / (6b) }	0.0011

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

	CALENDAR YEAR		
	2003	2004	2005
(1a) Allocated Loss Adjustment Expense Incurred	\$ 11,898,871	\$ 12,215,583	\$ 13,697,966
(1b) Unallocated Loss Adjustment Expense Incurred	\$ 8,288,554	\$ 7,924,808	\$ 11,034,700
(1) Total Loss Adjustment Expense Incurred $\{(1a) + (1b)\}$	\$ 20,187,425	\$ 20,140,391	\$ 24,732,666
(2) Incurred Losses <u>including</u> Large Deductible on a <u>Net</u> Basis	143,329,652	147,593,679	164,709,883
(3) Large Deductible Adjustment	38,666,741	39,718,942	47,064,878
(4) Incurred Losses <u>including</u> Large Deductible on a <u>Gross</u> Basis $\{(2) + (3)\}$	181,996,393	187,312,621	211,774,761
(5) Ratio of Loss Adjustment Expense to Incurred Losses <u>including</u> Large Deductible on a <u>Net</u> Basis $\{(1) / (2)\}$	0.1408	0.1365	0.1502
(5a) Ratio of Allocated Loss Adjustment Expense to Incurred Losses <u>including</u> Large Deductible on a <u>Net</u> Basis $\{(1a) / (2)\}$	0.0830	0.0828	0.0832
(6) Ratio of Loss Adjustment Expense to Incurred Losses <u>including</u> Large Deductible on a <u>Gross</u> Basis $\{(1) / (4)\}$	0.1109	0.1075	0.1168
(6a) Ratio of Allocated Loss Adjustment Expense to Incurred Losses <u>including</u> Large Deductible on a <u>Gross</u> Basis $\{(1a) / (4)\}$	0.0654	0.0652	0.0647
(7) Three-Year Average of Loss Adjustment Expense Ratios to Direct Incurred Losses including Large Deductible on a Net Basis			0.1425
(8) Three-Year Average of Loss Adjustment Expense Ratios to Direct Incurred Losses including Large Deductible on a Gross Basis			0.1117
(8a) Three-Year Average of Allocated Loss Adjustment Expense Ratios to Direct Incurred Losses including Large Deductible on a Gross Basis			0.0651
(8b) Provision for Unallocated Loss Adjustment Expense $\{(8) - (8a)\}$			0.0466

EXHIBIT IV - A

SIZE OF RISKS - SCHEDULE Y COMPANIES

MANUAL YEAR 2004

Intrastate Risks	Number of Risks	Intrastate SEP excluding Loss and Expense Constant
	(1)	(2)
Under \$10,000	11,379	29,274,965
\$10,000 - \$200,000	3,731	147,040,387
\$200,000 - \$1,750,000	299	138,151,992
Over \$1,750,000	22	64,306,547
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TOTAL	15,431	378,773,891

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	11,379	29,274,965			
\$10,000 - \$200,000	3,731	37,310,000	109,730,387		
\$200,000 - \$1,750,000	299	2,990,000	56,810,000	78,351,992	
Over \$1,750,000	22	220,000	4,180,000	34,100,000	25,806,547
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TOTAL	15,431	69,794,965	170,720,387	112,451,992	25,806,547
PERCENTAGE		18.43%	45.07%	29.69%	6.81%

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	18.43	0.0	0.00
Next \$190,000	45.07	9.1	4.10
Next \$1,550,000	29.69	11.3	3.35
Over \$1,750,000	6.81	12.3	0.84
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		Premium Discount =	8.29
Intrastate Premium Discount		8.29	
Interstate Premium Discount		8.89	

EXHIBIT V

DELAWARE POOL GROSS WRITTEN PREMIUM AND UNCOLLECTIBLE PREMIUM*

Data as of 3/31/2007

POLICY YEAR	(1) GROSS WRITTEN PREMIUM	(2) UNCOLLECTIBLE PREMIUM	(3)=(2)/(1) RATIO
1999	1,695,141	15,933	0.94%
2000	2,390,600	11,718	0.49%
2001	3,987,174	14,752	0.37%
2002	16,291,490	307,132	1.89%
2003	23,792,778	264,866	1.11%
2004	34,275,755	402,439	1.17%
2005	39,777,156	764,049	1.92%
2006 **	30,525,815	51,448	0.17%
		All Year Average (Excl PY 06)	1.13%
		Five Year Average (Excl PY 06)	1.29%
		Three Year Average (Excl PY 06)	1.40%
		Selected	1.25%

* Data courtesy of NCCI, Inc.

** Incomplete Policy Year