

DELAWARE COMPENSATION RATING BUREAU, INC.

Expense Study

The following exhibits are used in the development of specific expense provisions to be used in the DCRB'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 2011 - 2013 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 DCRB 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.

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>2011</u>	<u>2012</u>	<u>2013</u>
(1) Standard Earned Premium at DCRB Rate Level <u>including</u> Large Deductible on a <u>Net</u> Basis <u>excluding</u> Expense Constant Dollars (Page 8.2, line (10))	\$ 105,823,972	\$ 124,638,778	\$ 147,490,803
(2) Standard Earned Premium at DCRB Rate Level <u>including</u> Large Deductible on a <u>Gross</u> Basis <u>excluding</u> Expense Constant Dollars (Page 8.2, line (11))	\$ 143,421,130	\$ 182,344,572	\$ 221,971,120
(3) Commission and Brokerage	\$ 7,985,785	\$ 7,357,739	\$ 9,087,455
(3a) Reported Ratio { (3) / (1) }	0.0755	0.0590	0.0616
(4) Other Acquisitions	\$ 4,423,571	\$ 5,155,199	\$ 6,416,119
(4a) Reported Ratio { (4) / (2) }	0.0308	0.0283	0.0289
(5) General Expense	\$ 5,823,739	\$ 7,354,938	\$ 7,271,280
(5a) Reported Ratio { (5) / (2) }	0.0406	0.0403	0.0328

	Three Year Average (1)	Expense Constant Income (Page 8.3) (2)	Difference { (1) - (2) }
COMMISSION AND BROKERAGE	0.0654	0.0040	0.0614
OTHER ACQUISITIONS	0.0293	0.0019	0.0274
TOTAL PRODUCTION	0.0947	0.0059	0.0888
GENERAL EXPENSE	0.0379	0.0059	0.0320

EXHIBIT I - A
STOCK AGENCY COMPANIES

	CALENDAR YEAR		
	2011	2012	2013
(1) Standard Earned Premium at DCRB DSR Level <u>including</u> Large Deductible on a <u>Net</u> Basis	\$ 82,424,568	\$ 95,807,446	\$ 109,908,063
(2) Multiplier to Bring Premium to DCRB Rate Level	1.2879	1.3057	1.3464
(3) Standard Earned Premium at DCRB Rate Level <u>including</u> Large Deductible on a <u>Net</u> Basis { (1) * (2) }	\$ 106,154,601	\$ 125,095,782	\$ 147,980,216
(4) Large Deductible Adj. at DCRB DSR Level	\$ 28,728,630	\$ 43,086,533	\$ 53,345,020
(5) Multiplier to Bring L. D. Adj. to DCRB Rate Level	1.3087	1.3393	1.3962
(6) Large Deductible Adj. at DCRB Rate Level { (4) * (5) }	\$ 37,597,158	\$ 57,705,794	\$ 74,480,317
(7) Standard Earned Premium at DCRB Rate Level <u>including</u> Large Deductible on a <u>Gross</u> Basis { (3) + (6) }	\$ 143,751,759	\$ 182,801,576	\$ 222,460,533
(8) Expense Constant Removal Factor	0.9977	0.9975	0.9978
(9) Expense Constant Dollars { (7)[1 - (8)] }	\$ 330,629	\$ 457,004	\$ 489,413
(10) Standard Earned Premium at DCRB Rate Level <u>including</u> Large Deductible on a <u>Net</u> Basis <u>excluding</u> Expense Constant Dollars { (3) - (9) }	\$ 105,823,972	\$ 124,638,778	\$ 147,490,803
(11) Standard Earned Premium at DCRB Rate Level <u>including</u> Large Deductible on a <u>Gross</u> Basis <u>excluding</u> Expense Constant Dollars { (7) - (9) }	\$ 143,421,130	\$ 182,344,572	\$ 221,971,120

EXHIBIT II

EXPENSE CONSTANT INCOME - STOCK AGENCY COMPANIES

MANUAL YEAR 2012

(1) Number of Policies	14,489
(2) Expense Constant Income With Expense Constant @ Current Level = \$290	\$4,201,810
(3) Interstate Adjustment Factor	0.65
(4) Adjusted Expense Constant Income {(2) * (3)}	\$2,731,177

(5) Standard Earned Premium Excluding Expense Constant including Large Deductible on a Net Basis \$144,708,857

(5a) Factor to Bring Premium to Current Level 1.2392

(5b) Standard Earned Premium Excluding Expense Constant including Large Deductible on a Net Basis at Current Level \$179,323,216

(6) Standard Earned Premium Excluding Expense Constant including Large Deductible on a Gross Basis \$208,239,081

(6a) Factor to Bring Premium to Current Level 1.2411

(6b) Standard Earned Premium Excluding Expense Constant including Large Deductible on a Gross Basis at Current Level \$258,445,523

(7) Distribution of Expense Constant Income

	%	%	\$	Total Expense \$
(a) General Expense	55.8%		\$161.82	\$1,523,996
(b) Production	44.2%			
i) Commission		59.0%	75.63	\$712,236
ii) Other Acquisition		41.0%	52.55	\$494,944
Total	100.0%		\$290.00	\$2,731,176

(8) Expense Constant Ratio for General Expense { (7a) / (6b) } 0.0059

(9) Expense Constant Ratio for Commission { (7b(i)) / (5b) } 0.0040

(10) Expense Constant Ratio for Other Acquisition { (7b(ii)) / (6b) } 0.0019

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

	CALENDAR YEAR		
	2011	2012	2013
(1a) Allocated Loss Adjustment Expense Incurred	\$ 16,237,750	\$ 17,577,382	\$ 16,938,916
(1b) Unallocated Loss Adjustment Expense Incurred	\$ 10,575,490	\$ 9,496,252	\$ 12,295,033
(1c) Total Loss Adjustment Expense Incurred on a Net Basis{(1a) + (1b)}	\$ 26,813,240	\$ 27,073,634	\$ 29,233,949
(1d) ALAE Deductible Adjustment	\$ 7,871,820	\$ 9,735,161	\$ 8,487,173
(1e) ULAE Deductible Adjustment	\$ 406,285	\$ 1,176,665	\$ 1,234,943
(1f) Total Loss Adjustment Expense Incurred on a Gross Basis{(1c)+(1d)+(1e)}	\$ 35,091,345	\$ 37,985,460	\$ 38,956,065
(2) Incurred Losses <u>including</u> Deductibles on a <u>Net</u> Basis	\$ 147,824,916	\$ 124,564,701	\$ 132,688,127
(3) Deductible Adjustment (Losses)	\$ 44,211,374	\$ 54,313,261	\$ 58,023,936
(4) Incurred Losses <u>including</u> Deductibles on a <u>Gross</u> Basis {(2) + (3)}	\$ 192,036,290	\$ 178,877,962	\$ 190,712,063
(5a) Ratio of Loss Adjustment Expense to Incurred Losses <u>including</u> Deductibles on a <u>Net</u> Basis {(1c) / (2)}	0.1814	0.2173	0.2203
(5b) Ratio of Allocated Loss Adjustment Expense to Incurred Losses <u>including</u> Deductibles on a <u>Net</u> Basis {(1a) / (2)}	0.1098	0.1411	0.1277
(6a) Ratio of Loss Adjustment Expense to Incurred Losses <u>including</u> Deductibles on a <u>Gross</u> Basis {(1f) / (4)}	0.1827	0.2124	0.2043
(6b) Ratio of Allocated Loss Adjustment Expense to Incurred Losses <u>including</u> Deductibles on a <u>Gross</u> Basis {((1a)+(1d)) / (4)}	0.1255	0.1527	0.1333
(7) Three-Year Average of Loss Adjustment Expense Ratios to Direct Incurred Losses including Deductibles on a Net Basis {Line (5a)}			0.2063
(8a) Three-Year Average of Loss Adjustment Expense Ratios to Direct Incurred Losses including Deductibles on a Gross Basis {Line (6a)}			0.1998
(8b) Three-Year Average of Allocated Loss Adjustment Expense Ratios to Direct Incurred Losses including Deductibles on a Gross Basis {Line (6b)}			0.1372
(8c) Provision for Unallocated Loss Adjustment Expense {(8a) - (8b)}			0.0626

EXHIBIT IV - A

SIZE OF RISKS - SCHEDULE Y COMPANIES

MANUAL YEAR 2012

Intrastate Risks	Number of Risks (1)	Intrastate SEP <u>excluding</u> Loss and Expense Constant (2)
Under \$10,000	11,606	24,366,326
\$10,000 - \$200,000	2,547	99,320,059
\$200,000 - \$1,750,000	200	90,265,162
Over \$1,750,000	18	61,733,454
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TOTAL	14,371	275,685,001

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	11,606	24,366,326			
\$10,000 - \$200,000	2,547	25,470,000	73,850,059		
\$200,000 - \$1,750,000	200	2,000,000	38,000,000	50,265,162	
Over \$1,750,000	18	180,000	3,420,000	27,900,000	30,233,454
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TOTAL	14,371	52,016,326	115,270,059	78,165,162	30,233,454
PERCENTAGE		18.87%	41.81%	28.35%	10.97%

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	18.87	0.0	0.00
Next \$190,000	41.81	9.1	3.80
Next \$1,550,000	28.35	11.3	3.20
Over \$1,750,000	10.97	12.3	1.35
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		Premium Discount =	8.35
Intrastate Premium Discount		8.35	
Interstate Premium Discount		8.95	

EXHIBIT V

DELAWARE POOL GROSS WRITTEN PREMIUM AND UNCOLLECTIBLE PREMIUM*

Data as of 3/31/2015

POLICY YEAR	(1) GROSS WRITTEN PREMIUM	(2) UNCOLLECTIBLE PREMIUM	(3)=(2)/(1) RATIO
2004	34,286,412	427,451	1.25%
2005	39,613,229	790,863	2.00%
2006	33,123,068	1,143,603	3.45%
2007	21,572,856	717,423	3.33%
2008	12,934,207	190,417	1.47%
2009	7,534,894	45,267	0.60%
2010	6,904,289	102,051	1.48%
2011	10,740,655	66,478	0.62%
2012	15,490,893	124,421	0.80%
2013	21,807,115	180,300	0.83%
		All Year Average	1.58%
		Five Year Average	0.87%
		Three Year Average	0.75%
		Selected	0.80%

* Data courtesy of NCCI, Inc.