

DELAWARE COMPENSATION RATING BUREAU, INC.

Delaware Insurance Plan

The following pages present a review of the experience for the Delaware Insurance Plan.

Page 19.1 compares the reported loss ratio for a five-year period of the assigned risk and voluntary markets by the premium size range. The second page shows similar detail but by year rather than premium size.

The bottom portion of page 19.2 also shows the calculation of a manual rate offset for a residual market surcharge program applicable to rated Residual Market risks with debit experience modification factors. It is contemplated that these risks would be subject to a surcharge ranging from 0 to +50%, with a maximum set at the value of the modification factor less unity, and that the surcharge would be calculated by multiplying 50% times the complement of the risk's experience rating credibility. The offset is applicable to voluntary market risks.

The residual market share calculation is given on page 19.3.

Page 19.4 contains the calculation of the average surcharge based on the above methodology.

The assigned risk subsidy is derived as shown on page 19.5.

DELAWARE INSURANCE PLAN EXPERIENCE  
Manual Years 1997 - 2001

SIZE OF STANDARD PREMIUM	STATEWIDE			DIP			STATEWIDE - DIP		
	TOTAL PREMIUM	TOTAL LOSS	LOSS RATIO	TOTAL PREMIUM	TOTAL LOSS	LOSS RATIO	TOTAL PREMIUM	TOTAL LOSS	LOSS RATIO
1-500	7,655,707	4,042,482	52.8	548,544	112,427	20.5	7,107,163	3,930,055	55.3
501-1000	10,141,559	5,992,472	59.1	961,587	600,781	62.5	9,179,972	5,391,691	58.7
1001-1500	9,450,748	5,404,679	57.2	829,471	1,743,197	210.2	8,621,277	3,661,482	42.5
1501-2000	8,689,568	5,285,897	60.8	695,183	492,916	70.9	7,994,385	4,792,981	60.0
2001-2500	8,213,827	5,248,803	63.9	539,420	545,625	101.2	7,674,407	4,703,178	61.3
2501-3000	7,491,424	1,956,137	26.1	528,327	102,222	19.3	6,963,097	1,853,915	26.6
3001-3500	7,238,900	4,064,447	56.1	506,616	457,551	90.3	6,732,284	3,606,896	53.6
3501-4000	6,868,110	4,189,522	61.0	453,587	330,679	72.9	6,414,523	3,858,843	60.2
4001-4500	7,068,604	3,994,448	56.5	396,554	533,428	134.5	6,672,050	3,461,020	51.9
4501-5000	6,639,742	3,468,582	52.2	292,328	302,401	103.4	6,347,414	3,166,181	49.9
5001 AND OVER	716,352,842	384,602,526	53.7	19,572,923	12,206,438	62.4	696,779,919	372,396,088	53.4
TOTALS	795,811,031	428,249,995	53.8	25,324,540	17,427,665	68.8	770,486,491	410,822,330	53.3

SIZE OF STANDARD PREMIUM	INDICATED SURCHARGE FACTOR DIP/(SW-DIP)
1-500	0.371
501-1000	1.065
1001-1500	4.946
1501-2000	1.182
2001-2500	1.651
2501-3000	0.726
3001-3500	1.685
3501-4000	1.211
4001-4500	2.592
4501-5000	2.072
5001 AND OVER	1.169
TOTALS	1.291

DELAWARE INSURANCE PLAN EXPERIENCE  
Manual Years 1997 - 2001

MANUAL YEAR	STATEWIDE			DIP			STATEWIDE - DIP		
	STANDARD PREMIUM WITH CONSTANTS	REPORTED INCURRED LOSS	LOSS RATIO	STANDARD PREMIUM WITH CONSTANTS	REPORTED INCURRED LOSS	LOSS RATIO	STANDARD PREMIUM WITH CONSTANTS	REPORTED INCURRED LOSS	LOSS RATIO
1997	149,047,873	77,964,200	52.3	6,157,782	4,449,684	72.3	142,890,091	73,514,516	51.4
1998	166,008,520	82,683,671	49.8	4,648,133	1,843,586	39.7	161,360,387	80,840,085	50.1
1999	154,304,499	95,744,709	62.0	2,140,479	2,404,137	112.3	152,164,020	93,340,572	61.3
2000	159,516,922	95,278,093	59.7	4,369,226	3,908,939	89.5	155,147,696	91,369,154	58.9
2001	166,933,217	76,579,322	45.9	8,008,920	4,821,319	60.2	158,924,297	71,758,003	45.2
TOTALS	795,811,031	428,249,995	53.8	25,324,540	17,427,665	68.8	770,486,491	410,822,330	53.3

MANUAL YEAR	MARKET SHARE DIP/SW	INDICATED SURCHARGE FACTOR DIP/(SW-DIP)
1997	0.041	1.407
1998	0.028	0.792
1999	0.014	1.832
2000	0.027	1.520
2001	0.048	1.332
TOTAL 1997 - 2001	0.032	1.291

INDICATED MANUAL LOSS COST OFFSET

LOSS RATIO DIFFERENTIAL (for DARSKSUB)

(1) D I P MARKET SHARE	0.1621	(4) D I P LOSS RATIO	68.8
(2) AVERAGE SURCHARGE	0.112	(5) VOLUNTARY MKT LOSS RATIO	53.3
(3) MANUAL LOSS COST OFFSET APPLICABLE TO VOLUNTARY MARKET RISKS [ 1 - (1)*{1+(2)} ] / [ 1 - (1) ]	0.9783	(6) D I P SURCHARGE FACTOR	1.112
		(7) L R D [ (4) / (5) ] / (6)	1.16

**RESIDUAL MARKET SHARE (using financial data)**

Policy Year Accumulated Standard Earned Premium @ 12/31/03

Residual Market Share excluding Large Deductible

Policy	(1)	(2)	(3) = (1) - (2)	(4)	(5) = (3) * (4)	(6) = (2)+(5)	(7) = (2) / (6)
<u>Year</u>	<u>Call #1</u>	<u>Call #12</u>	<u>Difference</u>	<u>LCM</u>	<u>VM @ RM DSR Level</u>	<u>Total @ DSR</u>	<u>Ratio</u>
1995	92,227,214	16,635,270	75,591,944	1.4000	105,828,722	122,463,992	0.1358
1996	95,673,493	15,057,308	80,616,185	1.4000	112,862,659	127,919,967	0.1177
1997	98,799,645	8,346,027	90,453,618	1.3685	123,785,776	132,131,803	0.0632
1998	108,925,984	5,427,512	103,498,472	1.3080	135,376,001	140,803,513	0.0385
1999	98,636,769	3,058,208	95,578,561	1.2886	123,162,534	126,220,742	0.0242
2000	101,944,138	5,555,605	96,388,533	1.2796	123,338,767	128,894,372	0.0431
2001	104,089,359	10,905,378	93,183,981	1.2658	117,952,283	128,857,661	0.0846
2002	122,594,961	29,783,337	92,811,624	1.3625	126,455,838	156,239,175	0.1906
2003	69,159,635	18,110,974	51,048,661	1.3729	70,084,707	88,195,681	0.2053

Residual Market Share including Large Deductible (net basis)

Policy	(8)	(9) = (8) * (4)	(10) = (6) + (9)	(11) = (2) / (10)
<u>Year</u>	<u>Call #8</u>	<u>VM @ RM DSR Level</u>	<u>Total @ DSR</u>	<u>Ratio</u>
1995	15,211,111	21,295,555	143,759,547	0.1157
1996	16,032,402	22,445,363	150,365,330	0.1001
1997	16,225,251	22,204,256	154,336,059	0.0541
1998	19,142,908	25,038,924	165,842,437	0.0327
1999	14,775,123	19,039,223	145,259,965	0.0211
2000	17,093,184	21,872,438	150,766,810	0.0368
2001	25,551,633	32,343,257	161,200,918	0.0677
2002	28,992,651	39,502,487	195,741,662	0.1522
2003	17,124,127	23,509,714	111,705,395	0.1621

**DELAWARE COMPENSATION RATING BUREAU, INC.  
DELAWARE INSURANCE PLAN**

**CALCULATION OF AVERAGE SURCHARGE  
0.50 \* ( 1 - C ), max = Mod Factor Less Unity**

	<u>Risk Count</u>	<u>Premium 2002</u>	<u>% Total Count</u>	<u>% Total Premium</u>
1 Risks with Credit Mod ( <= 1.0)	365	6,702,031	19.51%	26.11%
2 Risks with Debit Mod ( > 1.0)	265	15,042,747	14.16%	58.60%
3 Total - Rated Risks	630	21,744,778	33.67%	84.71%
4 Non-Rated Risks	1,241	3,923,919	66.33%	15.29%
5 Total - All Assigned Risks	1,871	25,668,697	100.00%	100.00%

  

	<u>Surcharged Premium</u>	<u>Average Surcharge</u>	<u>% Total Premium</u>
1 Risks with Credit Mod ( <= 1.0)	6,702,031	0.000	23.49%
2 Risks with Debit Mod ( > 1.0)	17,906,271	0.190	62.76%
3 Total - Rated Risks	24,608,302	0.132	86.25%
4 Non-Rated Risks	3,923,919	0.000	13.75%
5 Total - All Assigned Risks	28,532,221	0.112	100.00%

Surcharge = 50% \* (1 - cred), not exceeding the modification factor less unity and applies to risks with debit modification factors.

DELAWARE INSURANCE PLAN  
ASSIGNED RISK SUBSIDY

Calculation of residual market subsidy multiplier to be added to Retro Rating Plan tax multiplier.

1	ARMS	Delaware Insurance Plan Market Share	0.1621
2	VMS	Voluntary Market Share (1 - ARMS)	0.8379
3	LRD	Loss Ratio Differential	1.16
4	PLR	Permissible Loss Ratio	0.6454
5	ARLR	Assigned Risk Loss Ratio	
6	VLR	Voluntary Loss Ratio	
7	S	Subsidy	

$$\text{ARLR} * \text{ARMS} + \text{VLR} * \text{VMS} = \text{PLR}$$

$$\text{VLR} * 1.16 * 0.1621 + \text{VLR} * 0.8379 = 0.6454$$

$$\text{VLR} = 0.6291$$

$$\text{ARLR} = 1.16 * \text{VLR} = 0.7298$$

$$\text{DIFF} = \text{ARLR} - \text{VLR} = 0.1007$$

$$S = (0.8) * (\text{ARLR} - \text{VLR}) * (\text{ARMS} / \text{VMS})$$

$$= (0.8) * (10.07\%) * (0.1621 / 0.8379)$$

$$= (0.8) * (10.07\%) * (0.1935)$$

$$= 1.56\%$$