

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 2005 - 2007 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.

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**

		<b>CALENDAR YEAR</b>		
		<b>2005</b>	<b>2006</b>	<b>2007</b>
<b>(1)</b>	Standard Earned Premium at Bureau Rate Level <u>including</u> Large Deductible on a <u>Net</u> Basis <u>excluding</u> Expense Constant Dollars	\$ 141,199,224	\$ 163,745,178	\$ 204,444,425
<b>(2)</b>	Standard Earned Premium at Bureau Level <u>including</u> Large Deductible on a <u>Gross</u> Basis <u>excluding</u> Expense Constant Dollars	208,124,775	218,395,795	288,567,971
<b>(3)</b>	Commission and Brokerage	\$ 10,650,594	\$ 11,155,946	\$ 13,287,468
<b>(3a)</b>	Reported Ratio { (3) / (1) }	0.0754	0.0681	0.0650
<b>(4)</b>	Other Acquisitions	\$ 6,063,278	\$ 6,933,521	\$ 8,691,252
<b>(4a)</b>	Reported Ratio { (4) / (2) }	0.0291	0.0317	0.0301
<b>(5)</b>	General Expense	\$ 6,843,474	\$ 8,114,648	\$ 10,094,043
<b>(5a)</b>	Reported Ratio { (5) / (2) }	0.0329	0.0372	0.0350

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	<b>Three Year Average (1)</b>	<b>Expense Constant Income (2)</b>	<b>Difference { (1) - (2) }</b>
COMMISSION AND BROKERAGE	0.0695	0.0042	0.0653
OTHER ACQUISITIONS	0.0303	0.0015	0.0288
TOTAL PRODUCTION	0.0998	0.0057	0.0941
GENERAL EXPENSE	0.0350	0.0053	0.0297

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

	<u>CALENDAR YEAR</u>		
	<u>2005</u>	<u>2006</u>	<u>2007</u>
(1) Standard Earned Premium at Bureau DSR Level <u>including</u> Large Deductible on a <u>Net</u> Basis	\$ 111,817,859	\$ 128,432,555	\$ 155,684,225
(2) Multiplier to Bring Premium to Bureau Rate Level	1.2678	1.2787	1.3171
(3) Standard Earned Premium at Bureau Rate Level <u>including</u> Large Deductible on a <u>Net</u> Basis { (1) * (2) }	\$ 141,762,682	\$ 164,226,708	\$ 205,051,693
(4) Large Deductible Adj. at Bureau DSR Level	50,108,978	40,992,062	61,878,298
(5) Multiplier to Bring L. D. Adj. to Bureau Rate Level	1.3356	1.3332	1.3595
(6) Large Deductible Adj. at Bureau Rate Level { (4) * (5) }	\$ 66,925,551	\$ 54,650,617	\$ 84,123,546
(7) Standard Earned Premium at Bureau Rate Level <u>including</u> Large Deductible on a <u>Gross</u> Basis { (3) + (6) }	208,688,233	218,877,325	289,175,239
(8) Expense Constant Removal Factor	0.9973	0.9978	0.9979
(9) Expense Constant Dollars { (7)[1 - (8)] }	\$ 563,458	\$ 481,530	\$ 607,268
(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) }	141,199,224	163,745,178	204,444,425
(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) }	208,124,775	218,395,795	288,567,971

**EXHIBIT II**

**EXPENSE CONSTANT INCOME - STOCK AGENCY COMPANIES**

**MANUAL YEAR 2006**

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<b>(1)</b> Number of Policies					11,540
<b>(2)</b> Expense Constant Income With Expense Constant @ Current Level = \$270					\$3,115,800
<b>(3)</b> Interstate Adjustment Factor					0.65
<b>(4)</b> Adjusted Expense Constant Income {(2) * (3)}					\$2,025,270

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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					216,684,822
<b>(5a)</b> Factor to Bring Premium to Current Level					0.6376
<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					138,158,243
<b>(6)</b> Standard Earned Premium <u>Excluding</u> Expense Constant <u>including</u> Large Deductible on a <u>Gross</u> Basis					332,454,105
<b>(6a)</b> Factor to Bring Premium to Current Level					0.6375
<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					211,939,492

  

<b>(7)</b> Distribution of Expense Constant Income					
		%	%	\$	Total Expense \$
(a) General Expense	55.8%			\$150.66	\$1,130,101
(b) Production	44.2%				
i) Commission			65.0%	77.57	581,860
ii) Other Acquisition			35.0%	41.77	313,309
Total	100.0%			\$270.00	\$2,025,270

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<b>(8)</b> Expense Constant Ratio for General Expense { (7a) / (6b) }	0.0053
<b>(9)</b> Expense Constant Ratio for Commission { (7b(i)) / (5b) }	0.0042
<b>(10)</b> Expense Constant Ratio for Other Acquisition { (7b(ii)) / (6b) }	0.0015

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

	<b>CALENDAR YEAR</b>		
	<b>2005</b>	<b>2006</b>	<b>2007</b>
<b>(1a)</b> Allocated Loss Adjustment Expense Incurred	\$ 13,681,539	\$ 18,776,755	\$ 14,514,063
<b>(1b)</b> Unallocated Loss Adjustment Expense Incurred	\$ 11,535,842	\$ 11,512,257	\$ 9,612,193
<b>(1c)</b> Total Loss Adjustment Expense Incurred on a Net Basis{(1a) + (1b)}	\$ 25,217,381	\$ 30,289,012	\$ 24,126,256
<b>(1d)</b> ALAE Deductible Adjustment	\$ 0	\$ 0	\$ 3,382,431
<b>(1e)</b> ULAE Deductible Adjustment	\$ 0	\$ 0	(\$142,411)
<b>(1f)</b> Total Loss Adjustment Expense Incurred on a Gross Basis{(1c)+(1d)+(1e)}	\$ 25,217,381	\$ 30,289,012	\$ 27,366,276
<b>(2)</b> Incurred Losses <u>including</u> Deductibles on a <u>Net</u> Basis	169,581,166	156,840,773	144,177,071
<b>(3)</b> Deductible Adjustment (Losses)	47,702,806	49,927,590	36,428,662
<b>(4)</b> Incurred Losses <u>including</u> Deductibles on a <u>Gross</u> Basis {(2) + (3)}	217,283,972	206,768,363	180,605,733
<b>(5a)</b> Ratio of Loss Adjustment Expense to Incurred Losses <u>including</u> Deductibles on a <u>Net</u> Basis {(1c) / (2)}	0.1487	0.1931	0.1673
<b>(5b)</b> Ratio of Allocated Loss Adjustment Expense to Incurred Losses <u>including</u> Deductibles on a <u>Net</u> Basis {(1a) / (2)}	0.0807	0.1197	0.1007
<b>(6a)</b> Ratio of Loss Adjustment Expense to Incurred Losses <u>including</u> Deductibles on a <u>Gross</u> Basis {(1f) / (4)}	0.1161	0.1465	0.1515
<b>(6b)</b> Ratio of Allocated Loss Adjustment Expense to Incurred Losses <u>including</u> Deductibles on a <u>Gross</u> Basis {(1a)+(1d) / (4)}	0.0630	0.0908	0.0991
<b>(7)</b> Three-Year Average of Loss Adjustment Expense Ratios to Direct Incurred Losses including Deductibles on a Net Basis {Line (5a)}			0.1697
<b>(8a)</b> Three-Year Average of Loss Adjustment Expense Ratios to Direct Incurred Losses including Deductibles on a Gross Basis {Line (6a)}			<b>0.1380</b>
<b>(8b)</b> Three-Year Average of Allocated Loss Adjustment Expense Ratios to Direct Incurred Losses including Deductibles on a Gross Basis {Line (6b)}			<b>0.0843</b>
<b>(8c)</b> Provision for Unallocated Loss Adjustment Expense {(8a) - (8b)}			<b>0.0537</b>

**EXHIBIT IV - A**

**SIZE OF RISKS - SCHEDULE Y COMPANIES**

**MANUAL YEAR 2006**

Intrastate Risks	Number of Risks	Intrastate SEP <u>excluding</u> Loss and Expense Constant
	(1)	(2)
Under \$10,000	12,183	26,501,194
\$10,000 - \$200,000	2,869	112,076,085
\$200,000 - \$1,750,000	186	87,833,983
Over \$1,750,000	10	26,035,065
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TOTAL	15,248	252,446,327

**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	12,183	26,501,194			
\$10,000 - \$200,000	2,869	28,690,000	83,386,085		
\$200,000 - \$1,750,000	186	1,860,000	35,340,000	50,633,983	
Over \$1,750,000	10	100,000	1,900,000	15,500,000	8,535,065
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TOTAL	15,248	57,151,194	120,626,085	66,133,983	8,535,065
PERCENTAGE		22.64%	47.78%	26.20%	3.38%

**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	22.64	0.0	0.00
Next \$190,000	47.78	9.1	4.35
Next \$1,550,000	26.20	11.3	2.96
Over \$1,750,000	3.38	12.3	0.42
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		<b>Premium Discount =</b>	<b>7.73</b>
<b>Intrastate Premium Discount</b>		<b>7.73</b>	
<b>Interstate Premium Discount</b>		<b>8.33</b>	

**EXHIBIT V**

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

Data as of 3/31/2009

<b>POLICY YEAR</b>	<b>(1) GROSS WRITTEN PREMIUM</b>	<b>(2) UNCOLLECTIBLE PREMIUM</b>	<b>(3)=(2)/(1) RATIO</b>
2000	2,390,600	11,718	0.49%
2001	3,987,174	14,752	0.37%
2002	16,291,490	229,285	1.41%
2003	23,777,746	298,373	1.25%
2004	34,288,788	435,875	1.27%
2005	39,621,561	838,317	2.12%
2006	33,159,221	1,262,561	3.81%
2007	21,604,448	785,064	3.63%
		All Year Average	1.79%
		Five Year Average	2.42%
		Three Year Average	3.19%
		Selected	3.00%

\* Data courtesy of NCCI, Inc.