

DELAWARE COMPENSATION RATING BUREAU, INC.

Indicated Residual Market Rate Change

Page 1 presents the overall indicated changes in rates and loss costs.

Derivation of the indemnity and medical trend factors and trended loss ratios shown on page 1 is presented on pages 2 and 3.

Page 4 shows the derivation of overall frequency trend factors for each of the latest four policy years.

For the 2011 Filing, the Bureau has made an adjustment to the frequency trend to recognize the pattern shown in the most recent DCRB data. Frequency trend prior to 1/1/2009 and subsequent to 12/31/09 is based on a 7 point (2002 – 2008) exponential trend of -8.6% per year. For the period 1/1/09 – 12/31/09, frequency trend is equal to +1.5%.

Due to the impact of Senate Bill 1 and consistent with an adjustment to medical severity trend that was a part of the compromise reached with the Insurance Department for the 2009 Filing, medical severity trend is separated between pre-Senate Bill 1 and Post Senate Bill 1 trends. The difference between the two trend rates is a reduction of 1.8 points in medical trend attributed in the resolution of the 2009 filing to effects of the implementation of a medical fee schedule which was substantially operational beginning 9/1/2008.

INDICATED CHANGE IN RATE LEVEL

	<u>Indemnity</u>	<u>Medical</u>	<u>Total</u>
(1a) Policy Year 2006 Loss and Loss Adjustment Expense Ratio	0.3673	0.5729	0.9402
(1b) Policy Year 2007 Loss and Loss Adjustment Expense Ratio	0.3824	0.6664	1.0488
(1c) Policy Year 2008 Loss and Loss Adjustment Expense Ratio	0.3266	0.6348	0.9614
(1d) Policy Year 2009 Loss and Loss Adjustment Expense Ratio	0.3474	0.6735	1.0209
(1e) Average (Midpoint = 7/1/2008)	0.3559	0.6369	0.9928
(2a) Policy Year 2006 Loss and LAE Ratio Trended to 12/1/2012	0.2783	0.5640	
(2b) Policy Year 2007 Loss and LAE Ratio Trended to 12/1/2012	0.3091	0.6615	
(2c) Policy Year 2008 Loss and LAE Ratio Trended to 12/1/2012	0.2816	0.6354	
(2d) Policy Year 2009 Loss and LAE Ratio Trended to 12/1/2012	0.2877	0.6121	
(2e) Average at 12/1/2012	0.2892	0.6183	0.9075
(3a) Senate Bill 1 Adjustment	1.0000	0.8260	
(3b) Average Trended Loss and LAE Ratio Post-SB1 (2e)*(3a)	0.2892	0.5107	0.7999
(4a) Excess Loss Factor at \$2,221,303 (Post-SB1 Basis) *			0.0747
(4b) Provision for Excess Loss (5a)-(3b)			0.0646
(5a) Total Trended Loss and LAE Ratio (3b)/(1.0-(4a))	0.2942	0.5703	0.8645
(5b) Percentage of Total	34.0%	66.0%	
(6) Permissible Loss and Loss Adjustment Ratio			0.7101
(7) Indicated Change in Rates (5a) / (6)			1.2174
(8) Estimated Effect of the 7/1/12 Benefit Change			1.0046
(9) Indicated Change in Residual Market Rate Level (7) * (8)			1.2230
(9a) Factor to Adjust for Compromise With Insurance Department			0.9525
(9b) Change in Residual Market Rate Level to Reflect Compromise (9) * (9a)			1.165
(10) Indicated Change in Voluntary Market Loss Costs (9) * [0.7343 / 0.7688]			1.1681
(10a) Factor to Adjust for Compromise With Insurance Department			0.9525
(10b) Change in Voluntary Market Loss Cost Level to Reflect Compromise (10) * (10a)			1.113

CHANGES IN MANUAL PREMIUM LEVEL BY INDUSTRY GROUP

	Mfg.	Cont.	Other	Total
(11) Current Collectible Premium Ratio	1.0354	1.0186	0.9301	
(12) Proposed Collectible Premium Ratio	0.8690	0.9585	0.8402	
(13) Change in Collectible Premium Ratio (12) / (11)	0.8393	0.9410	0.9033	0.9023
(14) Change in Residual Market Manual Rate Level (9b) * (13)	0.9778	1.0963	1.0523	1.0512
(15) Change in Voluntary Market Manual Loss Cost Level (10b) * (13)	0.9341	1.0473	1.0054	1.0043
(16) Current Offset for Residual Market Surcharge				0.9954
(17) Proposed Offset for Residual Market Surcharge				0.9955
(18) Adjusted Change in Voluntary Market Manual Loss Cost Level (15) * (17)/(16)	0.9342	1.0474	1.0055	1.0044

* \$2,630,000 on a pre-Senate Bill 1 basis.

DETERMINATION OF TREND

INDEMNITY

Policy Year	2003	2004	2005	2006	2007	2008	2009
Actual Loss Ratio	0.4945	0.4196	0.3956	0.3673	0.3824	0.3266	0.3474
Normalized Frequency	0.6732	0.5941	0.5320	0.5008	0.4660	0.4113	0.4173
Severity Loss Ratio	0.7346	0.7063	0.7436	0.7334	0.8206	0.7941	0.8325
x	1	2	3	4	5	6	7
y	0.7346	0.7063	0.7436	0.7334	0.8206	0.7941	0.8325

7 Point Exponential Regression: $y = 0.691500 * 1.025615 ^ x$

Selected Annual Trend Factor **2.6%**

Policy Year	Fitted Value @ Midpoint of PY (1)	Fitted Value @ 12/1/11 (2)	Severity Trend Factor (3) = (2)/(1)	Frequency Trend Factor (4) #
2006	0.7651	0.8886	1.1614	0.6523
2007	0.7847	0.8886	1.1324	0.7137
2008	0.8048	0.8886	1.1041	0.7808
2009	0.8254	0.8886	1.0766	0.7693

Trended Loss Ratio

Policy Year	Actual Loss Ratio (5)	Combined Trend Factor (6) = (3)*(4)	Trended Loss Ratio (7) = (5)*(6)
2006	0.3673	0.7576	0.2783
2007	0.3824	0.8082	0.3091
2008	0.3266	0.8621	0.2816
2009	0.3474	0.8282	0.2877
Average			0.2892

See Page 12.4 for column (4).

DETERMINATION OF TREND

MEDICAL

Policy Year	2003	2004	2005	2006	2007	2008	2009
Actual Loss Ratio	0.6791	0.6555	0.6280	0.5729	0.6664	0.6348	0.6735
Normalized Frequency	0.6732	0.5941	0.5320	0.5008	0.4660	0.4113	0.4173
Severity Loss Ratio	1.0088	1.1033	1.1805	1.1440	1.4300	1.5434	1.6139
x	1	2	3	4	5	6	7
y	1.0088	1.1033	1.1805	1.1440	1.4300	1.5434	1.6139

7 Point Exponential Regression: $y = 0.918522 * 1.084555908 ^ x$

Selected Annual Trend Factor to 9/1/08 = 8.5%

Annual Senate Bill I Adjustment to Severity Trend = -1.8%
Based on Compromise from 2009 Filing

Selected Annual Trend Factor 9/1/08 to 12/1/12 = 6.7%
8.5% - 1.8% = 6.7%

Policy Year	Trend Factor to 9/1/08 (1)	Trend Factor 9/1/08-12/1/12 (2)	Severity Trend Factor (3) = (1)*(2)	Frequency Trend Factor (4) #
2006	1.1456	1.3173	1.5091	0.6523
2007	1.0559	1.3173	1.3909	0.7137
2008	0.9732	1.3173	1.2820	0.7808
2009	0.8969	1.3173	1.1815	0.7693

Trended Loss Ratio

Policy Year	Actual Loss Ratio (5)	Combined Trend Factor (6) = (3)*(4)	Trended Loss Ratio (7) = (5)*(6)
2006	0.5729	0.9844	0.5640
2007	0.6664	0.9927	0.6615
2008	0.6348	1.0010	0.6354
2009	0.6735	0.9089	0.6121
Average			0.6183

DETERMINATION OF TREND

Claim Frequency

Policy Year Frequency per \$1 million of Expected Losses
{1 = PY 1997, 13 = PY 2009}

Policy Year	Claim Frequency	Normalized Frequency
1997	28.18	1.0000
1998	25.09	0.8903
1999	24.79	0.8797
2000	22.49	0.7981
2001	19.61	0.6959
2002	19.86	0.7048
2003	18.97	0.6732
2004	16.74	0.5941
2005	14.99	0.5320
2006	14.11	0.5008
2007	13.13	0.4660
2008	11.59	0.4113
2009	11.76	0.4173

Policy Year	2002	2003	2004	2005	2006	2007	2008	2009
x	1	2	3	4	5	6	7	
y	0.7048	0.6732	0.5941	0.5320	0.5008	0.4660	0.4113	0.4173

7 Point (2002 - 2008) Exponential Regression: $y = 0.782303 * 0.9138552 ^ x$

Selected Frequency Trend Factor to 1/1/09 = -8.6%
Selected Frequency Trend Factor from 1/1/09 to 1/1/10 = 1.5%
Selected Frequency Trend Factor 1/1/10 to 12/1/12 = -8.6%

Policy Year	Frequency Trend to 1/1/09 (1)	Frequency Trend 1/1/09 to 1/1/10 (2)	Frequency Trend 1/1/10 to 12/1/12 (3)	Total Frequency Trend to 12/1/12 (4) = (1)*(2)*(3)
2006	0.8354	1.0150	0.7693	0.6523
2007	0.9140	1.0150	0.7693	0.7137
2008	N/A	1.0150	0.7693	0.7808
2009	N/A	N/A	0.7693	0.7693