

DELAWARE COMPENSATION RATING BUREAU, INC.  
F CLASS FILING

Expense Study

The following exhibits are used in the development of specific expense provisions to be used in the DCRB's proposed F-Class 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 expenses, and total production costs from the last three calendar years for stock agency companies only. The data is drawn from the Delaware Calendar Year Expense Data Call submissions. The data has been adjusted to include the experience for large deductible policies.

Exhibit I-A develops standard earned premium at 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 the 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 deductibles on a gross basis.

Exhibit IV-A shows the development of an average provision for premium discount based upon the experience of companies using 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 Exhibit 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>2013</u>	<u>2014</u>	<u>2015</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 3.2, line (10))	\$ 133,571,197	\$ 156,631,881	\$ 178,118,859
(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 3.2, line (11))	\$ 200,401,903	\$ 230,813,935	\$ 264,656,839
(3) Commission and Brokerage	\$ 8,099,991	\$ 9,744,010	\$ 9,709,662
(3a) Reported Ratio { (3) / (1) }	0.0606	0.0622	0.0545
(4) Other Acquisition	\$ 5,717,032	\$ 6,199,443	\$ 6,159,549
(4a) Reported Ratio { (4) / (2) }	0.0285	0.0269	0.0233
(5) General Expense	\$ 7,579,916	\$ 8,981,667	\$ 9,200,879
(5a) Reported Ratio { (5) / (2) }	0.0378	0.0389	0.0348

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	<b>Three Year Average (1)</b>	<b>Expense Constant Income (Page 3.3) (2)</b>	<b>Difference { (1) - (2) }</b>
COMMISSION AND BROKERAGE	0.0591	0.0053	0.0538
OTHER ACQUISITION	0.0262	0.0023	0.0239
TOTAL PRODUCTION	0.0853	0.0076	0.0777
GENERAL EXPENSE	0.0372	0.0046	0.0326

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

	<u>CALENDAR YEAR</u>		
	<u>2013</u>	<u>2014</u>	<u>2015</u>
(1) Standard Earned Premium at DCRB DSR Level <u>including</u> Large Deductible on a <u>Net</u> Basis	\$ 99,631,015	\$ 117,067,810	\$ 132,225,780
(2) Multiplier to Bring Premium to DCRB Rate Level	1.3457	1.3429	1.3525
(3) Standard Earned Premium at DCRB Rate Level <u>including</u> Large Deductible on a <u>Net</u> Basis { (1) * (2) }	\$ 134,073,457	\$ 157,210,362	\$ 178,835,367
(4) Large Deductible Adj. at DCRB DSR Level	\$ 47,883,289	\$ 53,264,920	\$ 61,892,419
(5) Multiplier to Bring L. D. Adj. to DCRB Rate Level	1.3957	1.3927	1.3982
(6) Large Deductible Adj. at DCRB Rate Level { (4) * (5) }	\$ 66,830,706	\$ 74,182,054	\$ 86,537,980
(7) Standard Earned Premium at DCRB Rate Level <u>including</u> Large Deductible on a <u>Gross</u> Basis { (3) + (6) }	\$ 200,904,163	\$ 231,392,416	\$ 265,373,347
(8) Expense Constant Removal Factor	0.9975	0.9975	0.9973
(9) Expense Constant Dollars { (7)[1 - (8)] }	\$ 502,260	\$ 578,481	\$ 716,508
(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) }	\$ 133,571,197	\$ 156,631,881	\$ 178,118,859
(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) }	\$ 200,401,903	\$ 230,813,935	\$ 264,656,839

**EXHIBIT II**

**EXPENSE CONSTANT INCOME - STOCK AGENCY COMPANIES**

**MANUAL YEAR 2014**

(1) Number of Policies				15,214	
(2) Expense Constant Income With Expense Constant @ Current Level = \$295 *				\$4,488,130	
(3) Interstate Adjustment Factor				0.65	
(4) Adjusted Expense Constant Income {(2) * (3)}				\$2,917,285	
(5) Standard Earned Premium <u>Excluding</u> Expense Constant <u>including</u> Large Deductible on a <u>Net</u> Basis				\$195,958,446	
(5a) Factor to Bring Premium to Current Level				0.9733	
(5b) Standard Earned Premium <u>Excluding</u> Expense Constant <u>including</u> Large Deductible on a <u>Net</u> Basis at Current Level				\$190,726,355	
(6) Standard Earned Premium <u>Excluding</u> Expense Constant <u>including</u> Large Deductible on a <u>Gross</u> Basis				\$283,872,479	
(6a) Factor to Bring Premium to Current Level				0.9740	
(6b) Standard Earned Premium <u>Excluding</u> Expense Constant <u>including</u> Large Deductible on a <u>Gross</u> Basis at Current Level				\$276,491,795	
(7) Distribution of Expense Constant Income					
		%	%	\$	Total Expense \$
(a) General Expense	43.3%			\$127.84	\$1,264,177
(b) Production	56.7%				
i) Commission			61.0%	\$101.97	\$1,008,395
ii) Other Acquisition			39.0%	\$65.19	\$644,712
Total	100.0%			\$295.00	\$2,917,284
(8) Expense Constant Ratio for General Expense { (7a) / (6b) }					0.0046
(9) Expense Constant Ratio for Commission { (7b(i)) / (5b) }					0.0053
(10) Expense Constant Ratio for Other Acquisition { (7b(ii)) / (6b) }					0.0023

\* \$295 = Current Expense Constant for Delaware Statewide Filing

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

	<u>CALENDAR YEAR</u>		
	<u>2013</u>	<u>2014</u>	<u>2015</u>
<b>(1a)</b> Allocated Loss Adjustment Expense Incurred	\$ 15,435,185	\$ 16,190,022	\$ 17,830,612
<b>(1b)</b> Unallocated Loss Adjustment Expense Incurred	\$ 11,240,075	\$ 11,681,065	\$ 12,137,771
<b>(1c)</b> Total Loss Adjustment Expense Incurred on a Net Basis{(1a) + (1b)}	\$ 26,675,260	\$ 27,871,087	\$ 29,968,383
<b>(1d)</b> ALAE Deductible Adjustment	\$ 7,485,851	\$ 8,854,570	\$ 9,909,596
<b>(1e)</b> ULAE Deductible Adjustment	\$ 181,985	\$ 967,100	\$ 672,549
<b>(1f)</b> Total Loss Adjustment Expense Incurred on a Gross Basis{(1c)+(1d)+(1e)}	\$ 34,343,096	\$ 37,692,757	\$ 40,550,528
<b>(2)</b> Incurred Losses <u>including</u> Deductibles on a <u>Net</u> Basis	\$ 119,674,131	\$ 127,624,893	\$ 114,599,211
<b>(3)</b> Deductible Adjustment (Losses)	\$ 53,301,554	\$ 56,280,722	\$ 67,670,977
<b>(4)</b> Incurred Losses <u>including</u> Deductibles on a <u>Gross</u> Basis {(2) + (3)}	\$ 172,975,685	\$ 183,905,615	\$ 182,270,188
<b>(5a)</b> Ratio of Loss Adjustment Expense to Incurred Losses <u>including</u> Deductibles on a <u>Net</u> Basis {(1c) / (2)}	0.2229	0.2184	0.2615
<b>(5b)</b> Ratio of Allocated Loss Adjustment Expense to Incurred Losses <u>including</u> Deductibles on a <u>Net</u> Basis {(1a) / (2)}	0.1290	0.1269	0.1556
<b>(6a)</b> Ratio of Loss Adjustment Expense to Incurred Losses <u>including</u> Deductibles on a <u>Gross</u> Basis {(1f) / (4)}	0.1985	0.2050	0.2225
<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)}	0.1325	0.1362	0.1522
<b>(7)</b> Three-Year Average of Loss Adjustment Expense Ratios to Direct Incurred Losses including Deductibles on a Net Basis {Line (5a)}			0.2343
<b>(8a)</b> Three-Year Average of Loss Adjustment Expense Ratios to Direct Incurred Losses including Deductibles on a Gross Basis {Line (6a)}			<b>0.2087</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>0.1403</b>
<b>(8c)</b> Provision for Unallocated Loss Adjustment Expense {(8a) - (8b)}			<b>0.0684</b>

**EXHIBIT IV - A**

**SIZE OF RISKS - SCHEDULE Y COMPANIES**

**MANUAL YEAR 2014**

Intrastate Risks	Number of Risks <b>(1)</b>	Intrastate SEP excluding Loss and Expense Constant <b>(2)</b>
Under \$10,000	12,036	25,021,507
\$10,000 - \$200,000	2,619	103,616,413
\$200,000 - \$1,750,000	195	81,491,444
Over \$1,750,000	12	31,138,968
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TOTAL	14,862	241,268,332

**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	12,036	25,021,507			
\$10,000 - \$200,000	2,619	26,190,000	77,426,413		
\$200,000 - \$1,750,000	195	1,950,000	37,050,000	42,491,444	
Over \$1,750,000	12	120,000	2,280,000	18,600,000	10,138,968
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TOTAL	14,862	53,281,507	116,756,413	61,091,444	10,138,968
PERCENTAGE		22.08%	48.39%	25.32%	4.20%

**EXHIBIT IV - B**

**AVERAGE COMPANY PREMIUM DISCOUNT**

**SCHEDULE Y COMPANIES**

	Premium Distribution to Discount Block <b><u>(EXHIBIT IV - A)</u></b>	<u>Reduction from Manual</u>	<u>Weighted Reduction</u>
First \$10,000	22.08	0.0	0.00
Next \$190,000	48.39	9.1	4.40
Next \$1,550,000	25.32	11.3	2.86
Over \$1,750,000	4.20	12.3	0.52
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		<b>Premium Discount =</b>	7.78
	<b>Intrastate Premium Discount</b>	7.78	
	<b>Interstate Premium Discount</b>	8.38	

**EXHIBIT V**

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

Data as of 3/31/2017

<b><u>POLICY YEAR</u></b>	<b><u>(1) GROSS WRITTEN PREMIUM</u></b>	<b><u>(2) UNCOLLECTIBLE PREMIUM</u></b>	<b><u>(3)=(2)/(1) RATIO</u></b>
2006	33,123,068	1,137,553	3.43%
2007	21,572,856	713,646	3.31%
2008	12,934,207	190,417	1.47%
2009	7,536,169	45,267	0.60%
2010	6,906,022	102,051	1.48%
2011	10,740,630	61,518	0.57%
2012	15,490,200	123,061	0.79%
2013	22,212,072	572,671	2.58%
2014	17,235,817	156,424	0.91%
2015	17,968,674	105,945	0.59%
		All Year Average	1.57%
		Five Year Average	1.09%
		Three Year Average	1.36%
		Selected	1.10%

\* Data courtesy of NCCI, Inc.