

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 2015 – 2017 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 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

	CALENDAR YEAR		
	2015	2016	2017
(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))	\$ 173,887,948	\$ 167,055,453	\$ 186,432,774
(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))	\$ 257,074,001	\$ 241,241,764	\$ 279,415,302
(3) Commission and Brokerage	\$ 9,661,653	\$ 10,691,558	\$ 11,636,752
(3a) Reported Ratio { (3) / (1) }	0.0556	0.0640	0.0624
(4) Other Acquisition	\$ 6,121,405	\$ 6,609,145	\$ 5,838,287
(4a) Reported Ratio { (4) / (2) }	0.0238	0.0274	0.0209
(5) General Expense	\$ 9,151,329	\$ 10,827,353	\$ 8,391,359
(5a) Reported Ratio { (5) / (2) }	0.0356	0.0449	0.0300

	Three Year Average (1)	Expense Constant Income (Page 8.3) (2)	Difference { (1) - (2) }
COMMISSION AND BROKERAGE	0.0607	0.0064	0.0543
OTHER ACQUISITION	0.0240	0.0026	0.0214
TOTAL PRODUCTION	0.0847	0.0090	0.0757
GENERAL EXPENSE	0.0368	0.0052	0.0316

EXHIBIT I - A
STOCK AGENCY COMPANIES

	<u>CALENDAR YEAR</u>		
	<u>2015</u>	<u>2016</u>	<u>2017</u>
(1) Standard Earned Premium at DCRB DSR Level <u>including</u> Large Deductible on a <u>Net</u> Basis	\$ 129,139,675	\$ 123,072,156	\$ 135,678,947
(2) Multiplier to Bring Premium to DCRB Rate Level	1.3519	1.3617	1.3782
(3) Standard Earned Premium at DCRB Rate Level <u>including</u> Large Deductible on a <u>Net</u> Basis { (1) * (2) }	\$ 174,583,927	\$ 167,587,355	\$ 186,992,725
(4) Large Deductible Adj. at DCRB DSR Level	\$ 59,439,838	\$ 52,666,698	\$ 65,443,784
(5) Multiplier to Bring L. D. Adj. to DCRB Rate Level	1.3995	1.4086	1.4208
(6) Large Deductible Adj. at DCRB Rate Level { (4) * (5) }	\$ 83,186,053	\$ 74,186,311	\$ 92,982,528
(7) Standard Earned Premium at DCRB Rate Level <u>including</u> Large Deductible on a <u>Gross</u> Basis { (3) + (6) }	\$ 257,769,980	\$ 241,773,666	\$ 279,975,253
(8) Expense Constant Removal Factor	0.9973	0.9978	0.9980
(9) Expense Constant Dollars { (7)[1 - (8)] }	\$ 695,979	\$ 531,902	\$ 559,951
(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) }	\$ 173,887,948	\$ 167,055,453	\$ 186,432,774
(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) }	\$ 257,074,001	\$ 241,241,764	\$ 279,415,302

EXHIBIT II**EXPENSE CONSTANT INCOME - STOCK AGENCY COMPANIES****MANUAL YEAR 2016**

(1)	Number of Policies				17,085
(2)	Expense Constant Income With Expense Constant @ Current Level = \$305				\$5,210,925
(3)	Interstate Adjustment Factor				0.65
(4)	Adjusted Expense Constant Income {(2) * (3)}				\$3,387,101
(5)	Standard Earned Premium <u>Excluding</u> Expense Constant <u>including</u> Large Deductible on a <u>Net</u> Basis				\$223,879,328
(5a)	Factor to Bring Premium to Current Level				0.8315
(5b)	Standard Earned Premium <u>Excluding</u> Expense Constant <u>including</u> Large Deductible on a <u>Net</u> Basis at Current Level				\$186,155,661
(6)	Standard Earned Premium <u>Excluding</u> Expense Constant <u>including</u> Large Deductible on a <u>Gross</u> Basis				\$336,464,325
(6a)	Factor to Bring Premium to Current Level				0.8315
(6b)	Standard Earned Premium <u>Excluding</u> Expense Constant <u>including</u> Large Deductible on a <u>Gross</u> Basis at Current Level				\$279,770,086
(7)	Distribution of Expense Constant Income				
		%	%	\$	Total Expense \$
	(a) General Expense	43.3%		\$132.07	\$1,466,615
	(b) Production	56.7%			
	i) Commission		62.0%	\$107.22	\$1,190,702
	ii) Other Acquisition		38.0%	\$65.72	\$729,785
	Total	100.0%		\$305.00	\$3,387,102
(8)	Expense Constant Ratio for General Expense { (7a) / (6b) }				0.0052
(9)	Expense Constant Ratio for Commission { (7b(i)) / (5b) }				0.0064
(10)	Expense Constant Ratio for Other Acquisition { (7b(ii)) / (6b) }				0.0026

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

	<u>CALENDAR YEAR</u>		
	<u>2015</u>	<u>2016</u>	<u>2017</u>
(1a) Allocated Loss Adjustment Expense Incurred	\$ 17,717,766	\$ 18,870,907	\$ 12,594,931
(1b) Unallocated Loss Adjustment Expense Incurred	\$ 12,004,057	\$ 12,413,709	\$ 7,077,488
(1c) Total Loss Adjustment Expense Incurred on a Net Basis{(1a) + (1b)}	\$ 29,721,823	\$ 31,284,616	\$ 19,672,419
(1d) ALAE Deductible Adjustment	\$ 10,056,201	\$ 10,115,506	\$ 10,189,694
(1e) ULAE Deductible Adjustment	\$ 675,806	\$ 17,032	\$ 14,733
(1f) Total Loss Adjustment Expense Incurred on a Gross Basis{(1c)+(1d)+(1e)}	\$ 40,453,830	\$ 41,417,154	\$ 29,876,846
(2) Incurred Losses <u>including</u> Deductibles on a <u>Net</u> Basis	\$ 115,602,473	\$ 121,741,654	\$ 63,438,330
(3) Deductible Adjustment (Losses)	\$ 68,131,596	\$ 62,213,094	\$ 45,828,707
(4) Incurred Losses <u>including</u> Deductibles on a <u>Gross</u> Basis {(2) + (3)}	\$ 183,734,069	\$ 183,954,748	\$ 109,267,037
(5a) Ratio of Loss Adjustment Expense to Incurred Losses <u>including</u> Deductibles on a <u>Net</u> Basis {(1c) / (2)}	0.2571	0.2570	0.3101
(5b) Ratio of Allocated Loss Adjustment Expense to Incurred Losses <u>including</u> Deductibles on a <u>Net</u> Basis {(1a) / (2)}	0.1533	0.1550	0.1985
(6a) Ratio of Loss Adjustment Expense to Incurred Losses <u>including</u> Deductibles on a <u>Gross</u> Basis {(1f) / (4)}	0.2202	0.2251	0.2734
(6b) Ratio of Allocated Loss Adjustment Expense to Incurred Losses <u>including</u> Deductibles on a <u>Gross</u> Basis {((1a)+(1d)) / (4)}	0.1512	0.1576	0.2085
(7) Three-Year Average of Loss Adjustment Expense Ratios to Direct Incurred Losses including Deductibles on a Net Basis {Line (5a)}			0.2747
(8a) Three-Year Average of Loss Adjustment Expense Ratios to Direct Incurred Losses including Deductibles on a Gross Basis {Line (6a)}			0.2396
(8b) Three-Year Average of Allocated Loss Adjustment Expense Ratios to Direct Incurred Losses including Deductibles on a Gross Basis {Line (6b)}			0.1724
(8c) Provision for Unallocated Loss Adjustment Expense {(8a) - (8b)}			0.0672

EXHIBIT IV - A

SIZE OF RISKS - SCHEDULE Y COMPANIES

MANUAL YEAR 2016

Intrastate Risks	Number of Risks (1)	Intrastate SEP excluding Loss and Expense Constant (2)
Under \$10,000	13,195	24,475,210
\$10,000 - \$200,000	2,492	98,437,034
\$200,000 - \$1,750,000	209	97,806,558
Over \$1,750,000	9	30,542,707
	<hr/> <hr/>	
TOTAL	15,905	251,261,509

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	13,195	24,475,210			
\$10,000 - \$200,000	2,492	24,920,000	73,517,034		
\$200,000 - \$1,750,000	209	2,090,000	39,710,000	56,006,558	
Over \$1,750,000	9	90,000	1,710,000	13,950,000	14,792,707
	<hr/> <hr/>				
TOTAL	15,905	51,575,210	114,937,034	69,956,558	14,792,707
PERCENTAGE		20.53%	45.74%	27.84%	5.89%

EXHIBIT IV - B

AVERAGE COMPANY PREMIUM DISCOUNT

SCHEDULE Y COMPANIES

	Premium Distribution to Discount Block <u>(EXHIBIT IV - A)</u>	Reduction from Manual <u> </u>	Weighted Reduction <u> </u>
First \$10,000	20.53	0.0	0.00
Next \$190,000	45.74	9.1	4.16
Next \$1,550,000	27.84	11.3	3.15
Over \$1,750,000	5.89	12.3	0.72
			<u> </u>
		Premium Discount =	8.03
Intrastate Premium Discount		8.03	
Interstate Premium Discount		8.63	

EXHIBIT V

DELAWARE POOL GROSS WRITTEN PREMIUM AND UNCOLLECTIBLE PREMIUM*

Data as of 3/31/2019

POLICY YEAR	(1) GROSS WRITTEN PREMIUM	(2) UNCOLLECTIBLE PREMIUM	(3)=(2)/(1) RATIO
2008	12,934,207	190,417	1.47%
2009	7,536,169	48,615	0.65%
2010	6,971,475	218,938	3.14%
2011	10,743,905	73,045	0.68%
2012	15,490,200	121,840	0.79%
2013	22,239,462	571,370	2.57%
2014	17,268,661	172,833	1.00%
2015	17,974,780	79,916	0.44%
2016	16,595,843	412,729	2.49%
2017	15,868,398	603,384	3.80%
		All Year Average	1.70%
		Five Year Average	2.06%
		Three Year Average	2.24%
		Selected	2.00%

* Data courtesy of NCCI, Inc.