

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 2018 – 2020 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		
		2018	2019	2020
(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))	\$ 186,764,879	\$ 162,389,983	\$ 164,198,722
(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))	\$ 277,000,153	\$ 252,786,958	\$ 259,397,301
(3)	Commission and Brokerage	\$ 11,427,509	\$ 10,377,479	\$ 9,160,803
(3a)	Reported Ratio { (3) / (1) }	0.0612	0.0639	0.0558
(4)	Other Acquisition	\$ 6,076,951	\$ 5,078,168	\$ 4,416,977
(4a)	Reported Ratio { (4) / (2) }	0.0219	0.0201	0.0170
(5)	General Expense	\$ 8,142,590	\$ 9,169,423	\$ 9,241,635
(5a)	Reported Ratio { (5) / (2) }	0.0294	0.0363	0.0356
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		Three Year Average (1)	Expense Constant Income (Page 8.3) (2)	Difference { (1) - (2) }
COMMISSION AND BROKERAGE		0.0603	0.0120	0.0483
OTHER ACQUISITION		0.0197	0.0040	0.0157
TOTAL PRODUCTION		0.0800	0.0160	0.0640
GENERAL EXPENSE		0.0338	0.0090	0.0248

EXHIBIT I - A
STOCK AGENCY COMPANIES

	CALENDAR YEAR		
	2018	2019	2020
(1) Standard Earned Premium at DCRB DSR Level <u>including</u> Large Deductible on a <u>Net</u> Basis	\$ 138,920,176	\$ 124,566,878	\$ 124,457,659
(2) Multiplier to Bring Premium to DCRB Rate Level	1.3482	1.3075	1.3237
(3) Standard Earned Premium at DCRB Rate Level <u>including</u> Large Deductible on a <u>Net</u> Basis { (1) * (2) }	\$ 187,292,181	\$ 162,871,193	\$ 164,744,603
(4) Large Deductible Adj. at DCRB DSR Level	\$ 65,383,142	\$ 67,942,108	\$ 70,716,520
(5) Multiplier to Bring L. D. Adj. to DCRB Rate Level	1.3801	1.3305	1.3462
(6) Large Deductible Adj. at DCRB Rate Level { (4) * (5) }	\$ 90,235,274	\$ 90,396,975	\$ 95,198,579
(7) Standard Earned Premium at DCRB Rate Level <u>including</u> Large Deductible on a <u>Gross</u> Basis { (3) + (6) }	\$ 277,527,455	\$ 253,268,168	\$ 259,943,182
(8) Expense Constant Removal Factor	0.9981	0.9981	0.9979
(9) Expense Constant Dollars { (7)[1 - (8)] }	\$ 527,302	\$ 481,210	\$ 545,881
(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) }	\$ 186,764,879	\$ 162,389,983	\$ 164,198,722
(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) }	\$ 277,000,153	\$ 252,786,958	\$ 259,397,301

EXHIBIT II**EXPENSE CONSTANT INCOME - STOCK AGENCY COMPANIES****MANUAL YEAR 2019**

(1)	Number of Policies				20,006
(2)	Expense Constant Income With Expense Constant @ Current Level = \$330				\$6,601,980
(3)	Interstate Adjustment Factor				0.65
(4)	Adjusted Expense Constant Income {(2) * (3)}				\$4,291,287
(5)	Standard Earned Premium <u>Excluding</u> Expense Constant <u>including</u> Large Deductible on a <u>Net</u> Basis				\$209,171,311
(5a)	Factor to Bring Premium to Current Level				0.6418
(5b)	Standard Earned Premium <u>Excluding</u> Expense Constant <u>including</u> Large Deductible on a <u>Net</u> Basis at Current Level				\$134,246,147
(6)	Standard Earned Premium <u>Excluding</u> Expense Constant <u>including</u> Large Deductible on a <u>Gross</u> Basis				\$322,570,665
(6a)	Factor to Bring Premium to Current Level				0.6428
(6b)	Standard Earned Premium <u>Excluding</u> Expense Constant <u>including</u> Large Deductible on a <u>Gross</u> Basis at Current Level				\$207,348,423
(7)	Distribution of Expense Constant Income				
		%	%	\$	Total Expense \$
	(a) General Expense	43.3%		\$142.89	\$1,858,127
	(b) Production	56.7%			
	i) Commission		66.0%	\$123.49	\$1,605,885
	ii) Other Acquisition		34.0%	\$63.62	\$827,274
	Total	100.0%		\$330.00	\$4,291,286
(8)	Expense Constant Ratio for General Expense { (7a) / (6b) }				0.0090
(9)	Expense Constant Ratio for Commission { (7b(i)) / (5b) }				0.0120
(10)	Expense Constant Ratio for Other Acquisition { (7b(ii)) / (6b) }				0.0040

EXHIBIT III

LOSS ADJUSTMENT EXPENSE RATIOS - ALL COMPANIES

	<u>CALENDAR YEAR</u>		
	<u>2018</u>	<u>2019</u>	<u>2020</u>
(1a) Allocated Loss Adjustment Expense Incurred	\$ 13,321,824	\$ 9,301,860	\$ 10,839,715
(1b) Unallocated Loss Adjustment Expense Incurred	\$ 7,235,589	\$ 8,280,284	\$ 9,159,163
(1c) Total Loss Adjustment Expense Incurred on a Net Basis{(1a) + (1b)}	\$ 20,557,413	\$ 17,582,144	\$ 19,998,878
(1d) ALAE Deductible Adjustment	\$ 10,460,207	\$ 10,338,103	\$ 9,108,657
(1e) ULAE Deductible Adjustment	\$ 164,493	(\$11,405)	\$ 135,735
(1f) Total Loss Adjustment Expense Incurred on a Gross Basis{(1c)+(1d)+(1e)}	\$ 31,182,113	\$ 27,908,842	\$ 29,243,270
(2) Incurred Losses <u>including</u> Deductibles on a <u>Net</u> Basis	\$ 54,331,023	\$ 58,888,536	\$ 74,743,186
(3) Deductible Adjustment (Losses)	\$ 54,759,544	\$ 41,533,187	\$ 45,587,411
(4) Incurred Losses <u>including</u> Deductibles on a <u>Gross</u> Basis {(2) + (3)}	\$ 109,090,567	\$ 100,421,723	\$ 120,330,597
(5a) Ratio of Loss Adjustment Expense to Incurred Losses <u>including</u> Deductibles on a <u>Net</u> Basis {(1c) / (2)}	0.3784	0.2986	0.2676
(5b) Ratio of Allocated Loss Adjustment Expense to Incurred Losses <u>including</u> Deductibles on a <u>Net</u> Basis {(1a) / (2)}	0.2452	0.1580	0.1450
(6a) Ratio of Loss Adjustment Expense to Incurred Losses <u>including</u> Deductibles on a <u>Gross</u> Basis {(1f) / (4)}	0.2858	0.2779	0.2430
(6b) Ratio of Allocated Loss Adjustment Expense to Incurred Losses <u>including</u> Deductibles on a <u>Gross</u> Basis {(1a)+(1d)) / (4)}	0.2180	0.1956	0.1658
(7) Three-Year Average of Loss Adjustment Expense Ratios to Direct Incurred Losses including Deductibles on a Net Basis {Line (5a)}			0.3149
(8a) Three-Year Average of Loss Adjustment Expense Ratios to Direct Incurred Losses including Deductibles on a Gross Basis {Line (6a)}			0.2689
(8b) Three-Year Average of Allocated Loss Adjustment Expense Ratios to Direct Incurred Losses including Deductibles on a Gross Basis {Line (6b)}			0.1931
(8c) Provision for Unallocated Loss Adjustment Expense {(8a) - (8b)}			0.0758

EXHIBIT IV - A

SIZE OF RISKS - SCHEDULE Y COMPANIES

MANUAL YEAR 2019

Intrastate Risks	Number of Risks	Intrastate SEP <u>excluding</u> Loss and Expense Constant
	(1)	(2)
Under \$10,000	16,069	23,456,592
\$10,000 - \$200,000	2,017	77,937,323
\$200,000 - \$1,750,000	160	69,975,272
Over \$1,750,000	9	27,074,720
TOTAL	18,255	198,443,907

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	16,069	23,456,592			
\$10,000 - \$200,000	2,017	20,170,000	57,767,323		
\$200,000 - \$1,750,000	160	1,600,000	30,400,000	37,975,272	
Over \$1,750,000	9	90,000	1,710,000	13,950,000	11,324,720
TOTAL	18,255	45,316,592	89,877,323	51,925,272	11,324,720
PERCENTAGE		22.84%	45.29%	26.17%	5.71%

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	22.84	0.0	0.00
Next \$190,000	45.29	9.1	4.12
Next \$1,550,000	26.17	11.3	2.96
Over \$1,750,000	5.71	12.3	0.70
			<u> </u>
		Premium Discount	= 7.78
Intrastate Premium Discount		7.78	
Interstate Premium Discount		8.38	

EXHIBIT V

DELAWARE POOL GROSS WRITTEN PREMIUM AND UNCOLLECTIBLE PREMIUM*

Data as of 3/31/2022

POLICY YEAR	(1) GROSS WRITTEN PREMIUM	(2) UNCOLLECTIBLE PREMIUM	(3)=(2)/(1) RATIO
2011	10,743,905	70,755	0.66%
2012	15,488,876	122,935	0.79%
2013	22,238,637	566,173	2.55%
2014	17,272,716	176,957	1.02%
2015	17,967,649	142,633	0.79%
2016	16,603,141	437,076	2.63%
2017	15,638,470	478,151	3.06%
2018	13,552,589	316,868	2.34%
2019	10,099,811	275,712	2.73%
2020	10,082,448	237,424	2.35%
All Year Average			1.89%
Five Year Average			2.62%
Three Year Average			2.47%
Selected			2.62%

* Data courtesy of NCCI, Inc.
Excludes Audit Noncompliance Charge premium