

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 five calendar years. The data is obtained from Financial Call #2 submissions for 2019 – 2023 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				
		2019	2020	2021	2022	2023
(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))	\$ 162,648,276	\$ 164,480,866	\$ 150,646,681	\$ 140,709,089	\$ 114,892,609
(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))	\$ 253,031,662	\$ 259,632,830	\$ 224,529,595	\$ 228,423,500	\$ 177,234,546
(3)	Commission and Brokerage	\$ 10,377,479	\$ 9,160,803	\$ 10,393,711	\$ 9,725,849	\$ 9,455,724
(3a)	Reported Ratio { (3) / (1) }	0.0638	0.0557	0.0690	0.0691	0.0823
(4)	Other Acquisition	\$ 5,078,168	\$ 4,416,977	\$ 4,624,196	\$ 4,339,245	\$ 4,125,120
(4a)	Reported Ratio { (4) / (2) }	0.0201	0.0170	0.0206	0.0190	0.0233
(5)	General Expense	\$ 9,169,423	\$ 9,241,635	\$ 8,736,346	\$ 7,640,567	\$ 7,454,404
(5a)	Reported Ratio { (5) / (2) }	0.0362	0.0356	0.0389	0.0334	0.0421

	5 Year Average	3 Year Average	Selected (1)	Expense Constant Income (Page 8.3) (2)	Difference { (1) - (2) }
COMMISSION AND BROKERAGE	0.0680	0.0735	0.0735	0.0195	0.0540
OTHER ACQUISITION	0.0200	0.0210	0.0210	0.0054	0.0156
TOTAL PRODUCTION	0.0880	0.0945	0.0945	0.0249	0.0696
GENERAL EXPENSE	0.0372	0.0381	0.0381	0.0094	0.0287

EXHIBIT I - A
STOCK AGENCY COMPANIES

	<u>CALENDAR YEAR</u>				
	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>
(1) Standard Earned Premium at DCRB DSR Level <u>including</u> Large Deductible on a <u>Net</u> Basis	\$ 124,755,239	\$ 124,632,655	\$ 111,642,107	\$ 102,396,924	\$ 86,014,019
(2) Multiplier to Bring Premium to DCRB Rate Level	1.3076	1.3239	1.3532	1.3784	1.3407
(3) Standard Earned Premium at DCRB Rate Level <u>including</u> Large Deductible on a <u>Net</u> Basis { (1) * (2) }	\$ 163,129,951	\$ 165,001,172	\$ 151,074,099	\$ 141,143,920	\$ 115,318,995
(4) Large Deductible Adj. at DCRB DSR Level	\$67,942,108	\$70,671,393	\$ 53,721,307	\$ 62,572,700	\$ 45,853,146
(5) Multiplier to Bring L. D. Adj. to DCRB Rate Level	1.3303	1.3464	1.3753	1.4018	1.3596
(6) Large Deductible Adj. at DCRB Rate Level { (4) * (5) }	\$90,383,386	\$95,151,964	\$ 73,882,914	\$ 87,714,411	\$ 62,341,937
(7) Standard Earned Premium at DCRB Rate Level <u>including</u> Large Deductible on a <u>Gross</u> Basis { (3) + (6) }	\$ 253,513,337	\$ 260,153,136	\$ 224,957,013	\$ 228,858,331	\$ 177,660,932
(8) Expense Constant Removal Factor	0.9981	0.9980	0.9981	0.9981	0.9976
(9) Expense Constant Dollars { (7)[1 - (8)] }	\$ 481,675	\$ 520,306	\$ 427,418	\$ 434,831	\$ 426,386
(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) }	\$ 162,648,276	\$ 164,480,866	\$ 150,646,681	\$ 140,709,089	\$ 114,892,609
(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) }	\$ 253,031,662	\$ 259,632,830	\$ 224,529,595	\$ 228,423,500	\$ 177,234,546

EXHIBIT II

EXPENSE CONSTANT INCOME - STOCK AGENCY COMPANIES

MANUAL YEAR 2022

(1)	Number of Policies				17,698
(2)	Expense Constant Income With Expense Constant @ Current Level = \$375				\$6,636,750
(3)	Interstate Adjustment Factor				0.65
(4)	Adjusted Expense Constant Income $\{(2) * (3)\}$				\$4,313,888
(5)	Standard Earned Premium <u>Excluding</u> Expense Constant <u>including</u> Large Deductible on a <u>Net</u> Basis				\$156,186,137
(5a)	Factor to Bring Premium to Current Level				0.6358
(5b)	Standard Earned Premium <u>Excluding</u> Expense Constant <u>including</u> Large Deductible on a <u>Net</u> Basis at Current Level				\$99,303,146
(6)	Standard Earned Premium <u>Excluding</u> Expense Constant <u>including</u> Large Deductible on a <u>Gross</u> Basis				\$252,330,785
(6a)	Factor to Bring Premium to Current Level				0.6364
(6b)	Standard Earned Premium <u>Excluding</u> Expense Constant <u>including</u> Large Deductible on a <u>Gross</u> Basis at Current Level				\$160,583,312
(7)	Distribution of Expense Constant Income				
		%	%	\$	Total Expense \$
	(a) General Expense	35.0%		\$131.25	\$1,509,861
	(b) Production	65.0%			
	i) Commission		69.0%	\$168.19	\$1,934,779
	ii) Other Acquisition		31.0%	\$75.56	\$869,248
	Total	100.0%		\$375.00	\$4,313,888
(8)	Expense Constant Ratio for General Expense $\{ (7a) / (6b) \}$				0.0094
(9)	Expense Constant Ratio for Commission $\{ (7b(i)) / (5b) \}$				0.0195
(10)	Expense Constant Ratio for Other Acquisition $\{ (7b(ii)) / (6b) \}$				0.0054

EXHIBIT III

LOSS ADJUSTMENT EXPENSE RATIOS - ALL COMPANIES

	<u>CALENDAR YEAR</u>				
	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>
(1a) Allocated Loss Adjustment Expense Incurred	\$ 9,301,860	\$ 10,839,715	\$ 12,187,504	\$ 8,252,045	\$ 9,952,119
(1b) Unallocated Loss Adjustment Expense Incurred	\$ 8,280,284	\$ 9,152,948	\$ 7,370,299	\$ 8,254,131	\$ 7,729,506
(1c) Total Loss Adjustment Expense Incurred on a Net Basis{(1a) + (1b)}	\$ 17,582,144	\$ 19,992,663	\$ 19,557,803	\$ 16,506,176	\$ 17,681,625
(1d) ALAE Deductible Adjustment	\$ 12,423,559	\$ 9,150,915	\$ 10,433,515	\$ 10,110,299	\$ 12,006,236
(1e) ULAE Deductible Adjustment	(\$8,527)	\$ 135,735	\$ 228,164	\$ 7,513	\$ 157,538
(1f) Total Loss Adjustment Expense Incurred on a Gross Basis{(1c)+(1d)+(1e)}	\$ 29,997,176	\$ 29,279,313	\$ 30,219,482	\$ 26,623,988	\$ 29,845,399
(2) Incurred Losses <u>including</u> Deductibles on a <u>Net</u> Basis	\$ 58,888,536	\$ 74,744,663	\$ 73,231,895	\$ 51,235,895	\$ 68,538,735
(3) Deductible Adjustment (Losses)	\$ 41,457,397	\$ 43,932,700	\$ 52,327,774	\$ 45,356,672	\$ 54,369,567
(4) Incurred Losses <u>including</u> Deductibles on a <u>Gross</u> Basis {(2) + (3)}	\$ 100,345,933	\$ 118,677,363	\$ 125,559,669	\$ 96,592,567	\$ 122,908,302
(5a) Ratio of Loss Adjustment Expense to Incurred Losses <u>including</u> Deductibles on a <u>Net</u> Basis {(1c) / (2)}	0.2986	0.2675	0.2671	0.3222	0.2580
(5b) Ratio of Allocated Loss Adjustment Expense to Incurred Losses <u>including</u> Deductibles on a <u>Net</u> Basis {(1a) / (2)}	0.1580	0.1450	0.1664	0.1611	0.1452
(6a) Ratio of Loss Adjustment Expense to Incurred Losses <u>including</u> Deductibles on a <u>Gross</u> Basis {(1f) / (4)}	0.2989	0.2467	0.2407	0.2756	0.2428
(6b) Ratio of Allocated Loss Adjustment Expense to Incurred Losses <u>including</u> Deductibles on a <u>Gross</u> Basis {((1a)+(1d)) / (4)}	0.2165	0.1684	0.1802	0.1901	0.1787
			<u>5 Year Average</u>	<u>3 Year Average</u>	<u>Selected</u>
(7) Average of Loss Adjustment Expense Ratios to Direct Incurred Losses including Deductibles on a Net Basis {Line (5a)}			0.2827	0.2824	0.2827
(8a) Average of Loss Adjustment Expense Ratios to Direct Incurred Losses including Deductibles on a Gross Basis {Line (6a)}			0.2609	0.2530	0.2609
(8b) Average of Allocated Loss Adjustment Expense Ratios to Direct Incurred Losses including Deductibles on a Gross Basis {Line (6b)}			0.1868	0.1830	0.1868
(8c) Provision for Unallocated Loss Adjustment Expense {Lines (8a) - (8b)}			0.0741	0.0700	0.0741

EXHIBIT IV - A**SIZE OF RISKS - SCHEDULE Y COMPANIES****MANUAL YEAR 2022**

Intrastate Risks	Number of Risks	Intrastate SEP <u>excluding</u> Loss and Expense Constant
	(1)	(2)
Under \$10,000	14,672	15,995,159
\$10,000 - \$200,000	1,237	48,264,008
\$200,000 - \$1,750,000	64	24,801,088
Over \$1,750,000	4	18,034,500
TOTAL	15,977	107,094,755

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	14,672	15,995,159			
\$10,000 - \$200,000	1,237	12,370,000	35,894,008		
\$200,000 - \$1,750,000	64	640,000	12,160,000	12,001,088	
Over \$1,750,000	4	40,000	760,000	6,200,000	11,034,500
TOTAL	15,977	29,045,159	48,814,008	18,201,088	11,034,500
PERCENTAGE		27.12%	45.58%	17.00%	10.30%

EXHIBIT IV - B

AVERAGE COMPANY PREMIUM DISCOUNT

SCHEDULE Y COMPANIES

	Premium Distribution to Discount Block <u>(EXHIBIT IV - A)</u>	Reduction from Manual	Weighted Reduction
First \$10,000	27.12	0.0	0.00
Next \$190,000	45.58	9.1	4.15
Next \$1,550,000	17.00	11.3	1.92
Over \$1,750,000	10.30	12.3	1.27
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Premium Discount =			7.34
Intrastate Premium Discount		7.34	
Interstate Premium Discount		7.94	

EXHIBIT V

DELAWARE POOL GROSS WRITTEN PREMIUM AND UNCOLLECTIBLE PREMIUM*

Data as of 3/31/2025

POLICY YEAR	(1) GROSS WRITTEN PREMIUM	(2) UNCOLLECTIBLE PREMIUM	(3)=(2)/(1) RATIO
2014	17,275,389	176,207	1.02%
2015	17,976,555	132,283	0.74%
2016	16,601,625	367,595	2.21%
2017	15,625,855	473,139	3.03%
2018	13,426,699	327,345	2.44%
2019	9,990,343	324,968	3.25%
2020	9,866,408	113,869	1.15%
2021	8,903,892	253,488	2.85%
2022	9,251,711	706,460	7.64%
2023	7,286,499	396,858	5.45%
All Year Average			2.98%
Five Year Average			4.07%
Three Year Average			5.31%
Selected			4.07%

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