

PENNSYLVANIA COMPENSATION RATING BUREAU
F CLASS FILING

Expense Study

The following exhibits are used in the development of specific expense provisions to be used in the Bureau's proposed F-Class filing. The provisions are for Commission & Brokerage, General and Loss Adjustment Expense, and Premium Discount.

Exhibit I of the attachment presents summary figures for Standard Earned Premium, General Expenses, and Total Production Costs from the last three calendar years. The data is drawn from Pennsylvania Expense 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.

Exhibits IV-A and IV-B show the development of an average provision for premium discount based upon the Schedule X and Schedule Y premium discount tables, respectively. The data used by the Bureau for this purpose is Unit Statistical Plan data. These exhibits form the basis for Exhibits IV-C and IV-D, which develop the average interstate build-back both for Schedule X and Y companies separately and on an All Company basis.

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
ALL COMPANIES

	CALENDAR YEAR		
	2000	2001	2002
(1) Standard Earned Premium at Market Rate Level <u>including</u> Large Deductible on a <u>Net</u> Basis <u>excluding</u> Expense Constant Dollars	\$ 1,834,414,143	\$ 2,076,443,936	\$ 2,285,767,419
(2) Standard Earned Premium at Market Level <u>including</u> Large Deductible on a <u>Gross</u> Basis <u>excluding</u> Expense Constant Dollars	\$ 2,424,316,503	\$ 2,914,287,050	\$ 3,269,972,110
(3) Commission and Brokerage	\$ 114,247,247	\$ 132,839,498	\$ 135,025,229
(3a) Reported Ratio { (3) / (1) }	0.0623	0.0640	0.0591
(4) Other Acquisitions	\$ 73,978,575	\$ 72,739,238	\$ 81,797,198
(4a) Reported Ratio { (4) / (2) }	0.0305	0.0250	0.0250
(5) General Expense	\$ 118,831,517	\$ 104,988,434	\$ 110,812,499
(5a) Reported Ratio { (5) / (2) }	0.0490	0.0360	0.0339

	Three Year Average (1)	Expense Constant Income (2)	Difference { (1) - (2) }
COMMISSION AND BROKERAGE	0.0618	0.0041	0.0577
OTHER ACQUISITIONS	0.0268	0.0018	0.0250
TOTAL PRODUCTION	0.0886	0.0059	0.0827
GENERAL EXPENSE	0.0396	0.0086	0.0310

EXHIBIT I - A
ALL COMPANIES

	CALENDAR YEAR		
	2000	2001	2002
(1) Standard Earned Premium at Bureau DSR Level <u>including</u> Large Deductible on a <u>Net</u> Basis	\$ 1,755,949,052	\$ 1,849,523,764	\$ 1,837,797,500
(2) Multiplier to Bring Premium to Market Rate Level	1.0599	1.1407	1.2650
(3) Standard Earned Premium at Market Rate Level <u>including</u> Large Deductible on a <u>Net</u> Basis { (1) * (2) }	\$ 1,861,130,400	\$ 2,109,751,758	\$ 2,324,813,838
(4) Large Deductible Adj. at Bureau DSR Level	\$ 501,745,649	\$ 693,406,533	\$ 771,743,661
(5) Multiplier to Bring L. D. Adj. to Market Rate Level	1.1757	1.2083	1.2753
(6) Large Deductible Adj. at Market Rate Level { (4) * (5) }	\$ 589,902,360	\$ 837,843,114	\$ 984,204,691
(7) Standard Earned Premium at Market Rate Level <u>including</u> Large Deductible on a <u>Gross</u> Basis { (3) + (6) }	\$ 2,451,032,760	\$ 2,947,594,872	\$ 3,309,018,529
(8) Expense Constant Removal Factor	0.9891	0.9887	0.9882
(9) Expense Constant Dollars { (7)[1 - (8)] }	\$ 26,716,257	\$ 33,307,822	\$ 39,046,419
(10) Standard Earned Premium at Market Rate Level <u>including</u> Large Deductible on a <u>Net</u> Basis <u>excluding</u> Expense Constant Dollars { (3) - (9) }	\$ 1,834,414,143	\$ 2,076,443,936	\$ 2,285,767,419
(11) Standard Earned Premium at Market Level <u>including</u> Large Deductible on a <u>Gross</u> Basis <u>excluding</u> Expense Constant Dollars { (7) - (9) }	\$ 2,424,316,503	\$ 2,914,287,050	\$ 3,269,972,110

EXHIBIT II

EXPENSE CONSTANT INCOME - ALL COMPANIES

MANUAL YEAR 2000

(1) Number of Policies	228,393
(2) Expense Constant Income With Expense Constant @ Current Level = \$ 220	\$ 50,246,460
(3) Interstate Adjustment Factor	0.90
(4) Adjusted Expense Constant Income {(2) * (3)}	\$ 45,221,814

(5) Standard Earned Premium <u>Excluding</u> Expense Constant <u>including</u> Large Deductible on a <u>Net</u> Basis	\$ 1,823,825,196
(5a) Factor to Bring Premium to Current Level	1.3575
(5b) Standard Earned Premium <u>Excluding</u> Expense Constant <u>including</u> Large Deductible on a <u>Net</u> Basis at Current Level	\$ 2,475,842,704
(6) Standard Earned Premium <u>Excluding</u> Expense Constant <u>including</u> Large Deductible on a <u>Gross</u> Basis	\$ 2,477,650,209
(6a) Factor to Bring Premium to Current Level	1.3582
(6b) Standard Earned Premium <u>Excluding</u> Expense Constant <u>including</u> Large Deductible on a <u>Gross</u> Basis at Current Level	\$ 3,365,144,514

(7) Distribution of Expense Constant Income	%	%	\$	Total Expense \$
(a) General Expense	63.9%		\$ 140.58	\$ 28,896,739
(b) Production	36.1%			
i) Commission		62.0%	\$ 49.24	\$ 10,121,546
ii) Other Acquisition		38.0%	\$ 30.18	\$ 6,203,528
Total	100.0%		\$ 220.00	\$ 45,221,813

(8) Expense Constant Ratio for General Expense { (7a) / (6b) }	0.0086
(9) Expense Constant Ratio for Commision { (7b(i)) / (5b) }	0.0041
(10) Expense Constant Ratio for Other Acquisition { (7b(ii)) / (6b) }	0.0018

EXHIBIT III

LOSS ADJUSTMENT EXPENSE RATIOS - ALL COMPANIES

	<u>CALENDAR YEAR</u>		
	<u>2000</u>	<u>2001</u>	<u>2002</u>
(1) Loss Adjustment Expense	\$ 239,944,572	\$ 250,456,096	\$ 285,495,012
(2) Incurred Losses <u>including</u> Large Deductible on a <u>Net</u> Basis	\$ 1,100,821,329	\$ 1,522,103,948	\$ 1,649,808,829
(3) Large Deductible Adjustment	\$ 307,016,355	\$ 570,881,354	\$ 920,321,237
(4) Incurred Losses <u>including</u> Large Deductible on a <u>Gross</u> Basis { (2) + (3) }	\$ 1,407,837,684	\$ 2,092,985,302	\$ 2,570,130,066
(5) Ratio of Loss Adjustment Expense to Incurred Losses <u>including</u> Large Deductible on a <u>Net</u> Basis { (1) / (2) }	0.2180	0.1645	0.1730
(6) Ratio of Loss Adjustment Expense to Incurred Losses <u>including</u> Large Deductible on a <u>Gross</u> Basis { (1) / (4) }	0.1704	0.1197	0.1111

Three-Year Average of Loss Adjustment Expense Ratios to Direct Incurred Losses including Large Deductible on a Net Basis

0.1852

Three-Year Average of Loss Adjustment Expense Ratios to Direct Incurred Losses including Large Deductible on a Gross Basis

0.1337

EXHIBIT IV - A

SIZE OF RISKS - SCHEDULE X COMPANIES

MANUAL YEAR 2000

<u>Intrastate Risks</u>	<u>Number of Risks</u>	<u>Intrastate SEP excluding Loss and Expense Constant</u>
	<u>(1)</u>	<u>(2)</u>
Up to \$5,000	8,687	\$ 10,529,674
\$5,001 - \$100,000	4,305	\$ 114,549,495
\$100,001 - \$500,000	818	\$ 170,410,696
Over \$500,000	121	\$ 148,712,199
	<u> </u>	<u> </u>
TOTAL	13,931	\$ 444,202,064

DISTRIBUTION OF PREMIUM TO DISCOUNT BLOCK

<u>Size of Risk</u>	<u>Number of Risks</u>	<u>First \$5,000</u>	<u>Next \$95,000</u>	<u>Next \$400,000</u>	<u>Over \$500,000</u>
Up to \$5,000	8,687	\$ 10,529,674			
\$5,001 - \$100,000	4,305	\$ 21,525,000	\$ 93,024,495		
\$100,001 - \$500,000	818	\$ 4,090,000	\$ 77,710,000	\$ 88,610,696	
Over \$500,000	121	\$ 605,000	\$ 11,495,000	\$ 48,400,000	\$ 88,212,199
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
TOTAL	13,931	\$ 36,749,674	\$ 182,229,495	\$ 137,010,696	\$ 88,212,199
PERCENTAGE		8.27%	41.02%	30.84%	19.86%

EXHIBIT IV - B

SIZE OF RISKS - SCHEDULE Y COMPANIES

MANUAL YEAR 2000

<u>Intrastate Risks</u>	<u>Number of Risks</u>	<u>Intrastate SEP excluding Loss and Expense Constant</u>
	<u>(1)</u>	<u>(2)</u>
Up to \$5,000	137,667	\$ 178,944,480
\$5,001 - \$100,000	47,407	\$ 948,392,366
\$100,001 - \$500,000	3,626	\$ 719,097,299
Over \$500,000	617	\$ 881,879,100
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TOTAL	189,317	\$ 2,728,313,245

DISTRIBUTION OF PREMIUM TO DISCOUNT BLOCK

<u>Size of Risk</u>	<u>Number of Risks</u>	<u>First \$5,000</u>	<u>Next \$95,000</u>	<u>Next \$400,000</u>	<u>Over \$500,000</u>
Up to \$5,000	137,667	\$ 178,944,480			
\$5,001 - \$100,000	47,407	\$ 237,035,000	\$ 711,357,366		
\$100,001 - \$500,000	3,626	\$ 18,130,000	\$ 344,470,000	\$ 356,497,299	
Over \$500,000	617	\$ 3,085,000	\$ 58,615,000	\$ 246,800,000	\$ 573,379,100
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TOTAL	189,317	\$ 437,194,480	\$ 1,114,442,366	\$ 603,297,299	\$ 573,379,100
PERCENTAGE		16.02%	40.85%	22.11%	21.02%

EXHIBIT IV - C

AVERAGE COMPANY BUILD-BACK

SCHEDULE X COMPANIES

	Premium Distribution to Discount Block <u>(EXHIBIT IV - A)</u>	Reduction from Manual <u> </u>	Weighted Reduction <u> </u>
Up to \$5,000	8.27	0.0	0.00
\$5,001 - \$100,000	41.02	3.5	1.44
\$100,001 - \$500,000	30.84	5.0	1.54
Over \$500,000	19.86	7.0	1.39
			<u> </u>
		Build-Back	= 4.37
Intrastate Build-Back		4.37	
Interstate Build-Back		4.87	

**SCHEDULE Y COMPANIES
F - CLASS BUSINESS ONLY**

	Premium Distribution to Discount Block <u>(EXHIBIT IV - B)</u>	Reduction from Manual <u> </u>	Weighted Reduction <u> </u>
Up to \$5,000	16.02	0.0	0.00
\$5,001 - \$100,000	40.85	10.9	4.45
\$100,001 - \$500,000	22.11	12.6	2.79
Over \$500,000	21.02	14.4	3.03
			<u> </u>
		Build-Back	= 10.27
Intrastate Build-Back		10.27	
Interstate Build-Back		10.77	

EXHIBIT IV - D

AVERAGE COMPANY BUILD-BACK

ALL COMPANIES

	<u>Intrastate SEP excluding Loss and Expense Constant</u>	<u>Interstate Build-Back</u>
SCHEDULE X	\$ 444,202,064	4.87
SCHEDULE Y	\$ 2,728,313,245	10.77
WEIGHTED AVERAGE		<u>9.94</u>

EXHIBIT V

DELAWARE POOL GROSS WRITTEN PREMIUM AND UNCOLLECTED PREMIUM*

Data as of 3/31/2004

<u>POLICY YEAR</u>	<u>(1) GROSS WRITTEN PREMIUM</u>	<u>(2) UNCOLLECTIBLE PREMIUM</u>	<u>(3)=(2)/(1) RATIO</u>
1997	6,799,645	110,262	1.62%
1998	4,443,310	90,832	2.04%
1999	1,694,985	15,933	0.94%
2000	2,391,013	11,718	0.49%
2001	3,987,283	21,285	0.53%
2002	16,530,425	246,173	1.49%
		All Year Average	1.19%
		Five Year Average	1.10%
		Three Year Average	0.84%
		Selected	0.50%

* Data courtesy of NCCI, Inc.