

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.

Please note that staff is introducing revised premium discount tables. These tables are consistent with the premium discount tables commonly used in many other jurisdictions. As shown on Exhibit IV-D, using the revised premium discount tables gives an average premium discount factor of 7.9%. Had we used the tables currently in effect, the premium discount factor would have been 9.8%.

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		
		2006	2007	2008
(1)	Standard Earned Premium at Company Rate Level <u>including</u> Large Deductible on aNet Basis <u>excluding</u> Expense Constant Dollars	\$ 2,922,711,661	\$ 3,144,292,329	\$ 2,955,247,996
(2)	Standard Earned Premium at Company Level <u>including</u> Large Deductible on aGross Basis <u>excluding</u> Expense Constant Dollars	\$ 3,630,113,517	\$ 3,950,756,453	\$ 3,661,326,494
(3)	Commission and Brokerage	\$ 144,898,414	\$ 154,618,521	\$ 144,707,924
(3a)	Reported Ratio { (3) / (1) }	0.0496	0.0492	0.0490
(4)	Other Acquisitions	\$ 100,527,057	\$ 105,402,996	\$ 102,554,484
(4a)	Reported Ratio { (4) / (2) }	0.0277	0.0267	0.0280
(5)	General Expense	\$ 141,592,989	\$ 163,020,815	\$ 148,404,577
(5a)	Reported Ratio { (5) / (2) }	0.0390	0.0413	0.0405

	Three Year Average (1)	Expense Constant Income (2)	Difference { (1) - (2) }
COMMISSION AND BROKERAGE	0.0493	0.0056	0.0437
OTHER ACQUISITIONS	0.0275	0.0027	0.0248
TOTAL PRODUCTION	0.0768	0.0083	0.0685
GENERAL EXPENSE	0.0403	0.0084	0.0319

**EXHIBIT I - A
ALL COMPANIES**

		<u>CALENDAR YEAR</u>		
		<u>2006</u>	<u>2007</u>	<u>2008</u>
(1)	Standard Earned Premium at Bureau DSR Level <u>including</u> Large Deductible on a <u>Net</u> Basis	\$ 2,064,816,119	\$ 2,221,569,304	\$ 2,096,634,249
(2)	Multiplier to Bring Premium to Company Rate Level	1.4336	1.4344	1.4293
(3)	Standard Earned Premium at Company Rate Lev <u>including</u> Large Deductible on a <u>Net</u> Basis { (1) * (2) }	\$ 2,960,120,388	\$ 3,186,619,010	\$ 2,996,719,332
(4)	Large Deductible Adj. at Bureau DSR Level	\$ 525,480,505	\$ 603,234,441	\$ 543,388,101
(5)	Multiplier to Bring L. D. Adj. to Company Rate Level	1.3462	1.3369	1.2994
(6)	Large Deductible Adj. at Company Rate Level { (4) * (5) }	\$ 707,401,856	\$ 806,464,124	\$ 706,078,498
(7)	Standard Earned Premium at Company Rate Level <u>including</u> Large Deductible on a <u>Gross</u> Basis { (3) + (6) }	\$ 3,667,522,244	\$ 3,993,083,134	\$ 3,702,797,830
(8)	Expense Constant Removal Factor	0.9898	0.9894	0.9888
(9)	Expense Constant Dollars { (7)[1 - (8)] }	\$ 37,408,727	\$ 42,326,681	\$ 41,471,336
(10)	Standard Earned Premium at Company Rate Level <u>including</u> Large Deductible on a <u>Net</u> Basis <u>excluding</u> Expense Constant Dollar: { (3) - (9) }	\$ 2,922,711,661	\$ 3,144,292,329	\$ 2,955,247,996
(11)	Standard Earned Premium at Company Level <u>including</u> Large Deductible on a <u>Gross</u> Basis <u>excluding</u> Expense Constant Dollar: { (7) - (9) }	\$ 3,630,113,517	\$ 3,950,756,453	\$ 3,661,326,494

EXHIBIT II

EXPENSE CONSTANT INCOME - ALL COMPANIES

MANUAL YEAR 2006

(1) Number of Policies				237,188
(2) Expense Constant Income With Expense Constant @ Current Level = \$ 270				\$ 64,040,760
(3) Interstate Adjustment Factor				0.90
(4) Adjusted Expense Constant Income {(2) * (3)}				\$ 57,636,684

(5) Standard Earned Premium <u>Excluding</u> Expense Constant <u>including</u> Large Deductible on a <u>Net</u> Basis				\$ 2,317,028,180
(5a) Factor to Bring Premium to Current Level				1.1755
(5b) Standard Earned Premium <u>Excluding</u> Expense Constant <u>including</u> Large Deductible on a <u>Net</u> Basis at Current Level				\$ 2,723,666,626
(6) Standard Earned Premium <u>Excluding</u> Expense Constant <u>including</u> Large Deductible on a <u>Gross</u> Basis				\$ 3,100,086,275
(6a) Factor to Bring Premium to Current Level				1.2359
(6b) Standard Earned Premium <u>Excluding</u> Expense Constant <u>including</u> Large Deductible on a <u>Gross</u> Basis at Current Level				\$ 3,831,396,627
(7) Distribution of Expense Constant Income				
	%	%	\$	Total Expense \$
(a) General Expense	55.8%		\$ 150.66	\$ 32,161,270
(b) Production	44.2%			
i) Commission		60.0%	\$ 71.60	\$ 15,285,249
ii) Other Acquisition		40.0%	\$ 47.74	\$ 10,190,166
Total	100.0%		\$ 270.00	\$ 57,636,685
(8) Expense Constant Ratio for General Expense { (7a) / (6b) }				0.0084
(9) Expense Constant Ratio for Commision { (7b(i)) / (5b) }				0.0056
(10) Expense Constant Ratio for Other Acquisition { (7b(ii)) / (6b) }				0.0027

EXHIBIT III

LOSS ADJUSTMENT EXPENSE RATIOS - ALL COMPANIES

	<u>CALENDAR YEAR</u>		
	<u>2006</u>	<u>2007</u>	<u>2008</u>
(1) Loss Adjustment Expense	\$ 344,665,508	\$ 330,176,728	\$ 271,579,196
(2) Incurred Losses <u>including</u> Large Deductible on a <u>Net</u> Basis	\$ 1,865,969,946	\$ 2,032,803,848	\$ 1,551,852,016
(3) Large Deductible Adjustment	\$ 517,625,087	\$ 384,513,028	\$ 424,628,606
(4) Incurred Losses <u>including</u> Large Deductible on a <u>Gross</u> Basis { (2) + (3) }	\$ 2,383,595,033	\$ 2,417,316,876	\$ 1,976,480,622
(5) Ratio of Loss Adjustment Expense to Incurred Losses <u>including</u> Large Deductible on a <u>Net</u> Basis { (1) / (2) }	0.1847	0.1624	0.1750
(6) Ratio of Loss Adjustment Expense to Incurred Losses <u>including</u> Large Deductible on a <u>Gross</u> Basis { (1) / (4) }	0.1446	0.1366	0.1374
Three-Year Average of Loss Adjustment Expense Ratios to Direct Incurred Losses including Large Deductible on a Net Basis			0.1740
Three-Year Average of Loss Adjustment Expense Ratios to Direct Incurred Losses including Large Deductible on a Gross Basis			0.1395

EXHIBIT IV - A

SIZE OF RISKS - SCHEDULE X COMPANIES

MANUAL YEAR 2006

<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 \$10,000	68,590	\$ 123,892,624
\$10,001 - \$200,000	10,440	\$ 381,614,103
\$200,001 - \$1,750,000	476	\$ 177,823,891
Over \$1,750,000	12	\$ 39,253,037
	<u>=====</u>	<u>=====</u>
TOTAL	79,518	\$ 722,583,655

DISTRIBUTION OF PREMIUM TO DISCOUNT BLOCK

<u>Size of Risk</u>	<u>Number of Risks</u>	<u>First \$10,000</u>	<u>Next \$190,000</u>	<u>Next \$1,550,000</u>	<u>Over \$1,750,000</u>
Up to \$10,000	68,590	\$ 123,892,624			
\$10,001 - \$200,000	10,440	\$ 104,400,000	\$ 277,214,103		
\$200,001 - \$1,750,000	476	\$ 4,760,000	\$ 90,440,000	\$ 82,623,891	
Over \$1,750,000	12	\$ 120,000	\$ 2,280,000	\$ 18,600,000	\$ 18,253,037
	<u>=====</u>	<u>=====</u>	<u>=====</u>	<u>=====</u>	<u>=====</u>
TOTAL	79,518	\$ 233,172,624	\$ 369,934,103	\$ 101,223,891	\$ 18,253,037
PERCENTAGE		32.27%	51.20%	14.01%	2.53%

EXHIBIT IV - B

SIZE OF RISKS - SCHEDULE Y COMPANIES

MANUAL YEAR 2006

<u>Intrastate Risks</u>	<u>Number of Risks</u>	<u>Intrastate SEP excluding Loss and Expense Constant</u>
	(1)	(2)
Up to \$10,000	127,232	\$ 261,508,747
\$10,001 - \$200,000	25,710	\$ 1,010,338,702
\$200,001 - \$1,750,000	2,283	\$ 1,088,733,020
Over \$1,750,000	158	\$ 677,071,217
TOTAL	155,383	\$ 3,037,651,686

DISTRIBUTION OF PREMIUM TO DISCOUNT BLOCK

<u>Size of Risk</u>	<u>Number of Risks</u>	<u>First \$10,000</u>	<u>Next \$190,000</u>	<u>Next \$1,550,000</u>	<u>Over \$1,750,000</u>
Up to \$10,000	127,232	\$ 261,508,747			
\$10,001 - \$200,000	25,710	\$ 257,100,000	\$ 753,238,702		
\$200,001 - \$1,750,000	2,283	\$ 22,830,000	\$ 433,770,000	\$ 632,133,020	
Over \$1,750,000	158	\$ 1,580,000	\$ 30,020,000	\$ 244,900,000	\$ 400,571,217
TOTAL	155,383	\$ 543,018,747	\$ 1,217,028,702	\$ 877,033,020	\$ 400,571,217
PERCENTAGE		17.88%	40.06%	28.87%	13.19%

EXHIBIT IV - C

AVERAGE COMPANY BUILD-BACK

SCHEDULE X COMPANIES

	Premium Distribution to Discount Block <u>(EXHIBIT IV - A)</u>	<u>Reduction from Manual</u>	<u>Weighted Reduction</u>
Up to \$10,000	32.27	0.0	0.00
\$10,001 - \$200,000	51.20	5.1	2.61
\$200,001 - \$1,750,000	14.01	6.5	0.91
Over \$1,750,000	2.53	7.5	0.19
			<hr/> <hr/>
		Build-Back	= 3.71
		Intrastate Build-Back	3.71
		Interstate Build-Back	4.21

SCHEDULE Y COMPANIES

	Premium Distribution to Discount Block <u>(EXHIBIT IV - B)</u>	<u>Reduction from Manual</u>	<u>Weighted Reduction</u>
Up to \$10,000	17.88	0.0	0.00
\$10,001 - \$200,000	40.06	9.1	3.65
\$200,001 - \$1,750,000	28.87	11.3	3.26
Over \$1,750,000	13.19	12.3	1.62
			<hr/> <hr/>
		Build-Back	= 8.53
		Intrastate Build-Back	8.53
		Interstate Build-Back	9.03

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	\$ 722,583,655	4.21
SCHEDULE Y	\$ 3,037,651,686	9.03
WEIGHTED AVERAGE		<u>8.1</u>

EXHIBIT V

DELAWARE POOL GROSS WRITTEN PREMIUM AND UNCOLLECTIBLE PREMIUM*

Data as of 3/31/2010

POLICY YEAR	(1) GROSS WRITTEN PREMIUM	(2) UNCOLLECTIBLE PREMIUM	(3)=(2)/(1) RATIO
2000	2,390,600	11,718	0.49%
2001	3,987,174	14,752	0.37%
2002	16,291,490	229,285	1.41%
2003	23,778,085	298,373	1.25%
2004	34,288,788	429,830	1.25%
2005	39,619,024	815,781	2.06%
2006	33,112,574	1,210,422	3.66%
2007	21,567,641	815,910	3.78%
2008	13,226,196	181,156	1.37%
		All Year Average	1.74%
		Five Year Average	2.42%
		Three Year Average	2.94%
		Selected	1.25%

* Data courtesy of NCCI, Inc.