

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 PCRBR'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 PCRBR 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. Please note that the selection of an uncollectible premium provision recognizes the fact that in the residual market, collection problems would be more prevalent than in the market as a whole. The data used is courtesy of NCCI, Inc.

EXHIBIT I
ALL COMPANIES

	CALENDAR YEAR		
	2011	2012	2013
(1) Standard Earned Premium at Company Rate Level <u>including</u> Large Deductible on a <u>Net</u> Basis <u>excluding</u> Expense Constant Dollars (Page 3.2, line (10))	\$ 2,735,817,000	\$ 2,976,410,357	\$ 2,681,608,229
(2) Standard Earned Premium at Company Level <u>including</u> Large Deductible on a <u>Gross</u> Basis <u>excluding</u> Expense Constant Dollars (Page 3.2, line (11))	\$ 3,563,433,919	\$ 3,918,672,288	\$ 3,438,896,839
(3) Commission and Brokerage	\$ 155,781,585	\$ 172,541,623	\$ 175,672,679
(3a) Reported Ratio { (3) / (1) }	0.0569	0.0580	0.0655
(4) Other Acquisition	\$ 96,171,738	\$ 101,321,391	\$ 99,318,346
(4a) Reported Ratio { (4) / (2) }	0.0270	0.0259	0.0289
(5) General Expense	\$ 155,572,172	\$ 155,675,005	\$ 144,876,881
(5a) Reported Ratio { (5) / (2) }	0.0437	0.0397	0.0421

	Three Year Average (1)	Expense Constant Income (Page 3.3) (2)	Difference { (1) - (2) }
COMMISSION AND BROKERAGE	0.0601	0.0069	0.0532
OTHER ACQUISITION	0.0273	0.0033	0.0240
TOTAL PRODUCTION	0.0874	0.0102	0.0772
GENERAL EXPENSE	0.0418	0.0108	0.0310

EXHIBIT I - A
ALL COMPANIES

	<u>CALENDAR YEAR</u>		
	<u>2011</u>	<u>2012</u>	<u>2013</u>
(1) Standard Earned Premium at PCRB DSR Level <u>including</u> Large Deductible on a <u>Net</u> Basis	\$ 1,918,213,104	\$ 2,044,802,700	\$ 1,783,644,757
(2) Multiplier to Bring Premium to Company Rate Level	1.4528	1.4834	1.5334
(3) Standard Earned Premium at Company Rate Level <u>including</u> Large Deductible on a <u>Net</u> Basis { (1) * (2) }	\$ 2,786,779,997	\$ 3,033,260,325	\$ 2,735,040,870
(4) Large Deductible Adj. at PCRB DSR Level	\$ 648,348,546	\$ 731,853,927	\$ 585,683,380
(5) Multiplier to Bring L. D. Adj. to Company Rate Level	1.2765	1.2875	1.2930
(6) Large Deductible Adj. at Company Rate Level { (4) * (5) }	\$ 827,616,919	\$ 942,261,931	\$ 757,288,610
(7) Standard Earned Premium at Company Rate Level <u>including</u> Large Deductible on a <u>Gross</u> Basis { (3) + (6) }	\$ 3,614,396,916	\$ 3,975,522,256	\$ 3,492,329,480
(8) Expense Constant Removal Factor	0.9859	0.9857	0.9847
(9) Expense Constant Dollars { (7)[1 - (8)] }	\$ 50,962,997	\$ 56,849,968	\$ 53,432,641
(10) Standard Earned Premium at Company Rate Level <u>including</u> Large Deductible on a <u>Net</u> Basis <u>excluding</u> Expense Constant Dollars { (3) - (9) }	\$ 2,735,817,000	\$ 2,976,410,357	\$ 2,681,608,229
(11) Standard Earned Premium at Company Level <u>including</u> Large Deductible on a <u>Gross</u> Basis <u>excluding</u> Expense Constant Dollars { (7) - (9) }	\$ 3,563,433,919	\$ 3,918,672,288	\$ 3,438,896,839

EXHIBIT II

EXPENSE CONSTANT INCOME - ALL COMPANIES

MANUAL YEAR 2011

(1) Number of Policies				248,697
(2) Expense Constant Income With Expense Constant @ Current Level = \$ 295				\$ 73,365,615
(3) Interstate Adjustment Factor				0.90
(4) Adjusted Expense Constant Income {(2) * (3)}				\$ 66,029,054

(5) Standard Earned Premium <u>Excluding</u> Expense Constant <u>including</u> Large Deductible on a <u>Net</u> Basis				\$ 2,209,828,765
(5a) Factor to Bring Premium to Current Level				1.1805
(5b) Standard Earned Premium <u>Excluding</u> Expense Constant <u>including</u> Large Deductible on a <u>Net</u> Basis at Current Level				\$ 2,608,702,857
(6) Standard Earned Premium <u>Excluding</u> Expense Constant <u>including</u> Large Deductible on a <u>Gross</u> Basis				\$ 2,974,707,321
(6a) Factor to Bring Premium to Current Level				1.1427
(6b) Standard Earned Premium <u>Excluding</u> Expense Constant <u>including</u> Large Deductible on a <u>Gross</u> Basis at Current Level				\$ 3,399,198,056
(7) Distribution of Expense Constant Income				
	%	%	\$	Total Expense \$
(a) General Expense	55.8%		\$ 164.55	\$ 36,831,679
(b) Production	44.2%			
i) Commission		62.0%	\$ 80.88	\$ 18,102,372
ii) Other Acquisition		38.0%	\$ 49.57	\$ 11,095,002
Total	100.0%		\$ 295.00	\$ 66,029,053

(8) Expense Constant Ratio for General Expense { (7a) / (6b) }	0.0108
(9) Expense Constant Ratio for Commission { (7b(i)) / (5b) }	0.0069
(10) Expense Constant Ratio for Other Acquisition { (7b(ii)) / (6b) }	0.0033

EXHIBIT III

LOSS ADJUSTMENT EXPENSE RATIOS - ALL COMPANIES

	<u>CALENDAR YEAR</u>		
	<u>2011</u>	<u>2012</u>	<u>2013</u>
(1) Loss Adjustment Expense	\$ 275,237,327	\$ 310,471,941	\$ 317,099,250
(2) Incurred Losses <u>including</u> Large Deductible on a <u>Net</u> Basis	\$ 1,454,538,166	\$ 1,512,847,600	\$ 1,485,059,322
(3) Large Deductible Adjustment	\$ 562,963,902	\$ 607,351,212	\$ 450,394,543
(4) Incurred Losses <u>including</u> Large Deductible on a <u>Gross</u> Basis { (2) + (3) }	\$ 2,017,502,068	\$ 2,120,198,812	\$ 1,935,453,865
(5) Ratio of Loss Adjustment Expense to Incurred Losses <u>including</u> Large Deductible on a <u>Net</u> Basis { (1) / (2) }	0.1892	0.2052	0.2135
(6) Ratio of Loss Adjustment Expense to Incurred Losses <u>including</u> Large Deductible on a <u>Gross</u> Basis { (1) / (4) }	0.1364	0.1464	0.1638
Three-Year Average of Loss Adjustment Expense Ratios to Direct Incurred Losses including Large Deductible on a Net Basis			0.2026
Three-Year Average of Loss Adjustment Expense Ratios to Direct Incurred Losses including Large Deductible on a Gross Basis			0.1489

EXHIBIT IV - A

SIZE OF RISKS - SCHEDULE X COMPANIES

MANUAL YEAR 2011

<u>Intrastate Risks</u>	<u>Number of Risks</u>	<u>Intrastate SEP excluding Loss and Expense Constant</u>
	(1)	(2)
Up to \$10,000	77,303	\$ 110,879,491
\$10,001 - \$200,000	7,558	\$ 277,407,948
\$200,001 - \$1,750,000	418	\$ 185,566,855
Over \$1,750,000	27	\$ 112,189,533
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TOTAL	85,306	\$ 686,043,827

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	77,303	\$ 110,879,491			
\$10,001 - \$200,000	7,558	\$ 75,580,000	\$ 201,827,948		
\$200,001 - \$1,750,000	418	\$ 4,180,000	\$ 79,420,000	\$ 101,966,855	
Over \$1,750,000	27	\$ 270,000	\$ 5,130,000	\$ 41,850,000	\$ 64,939,533
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TOTAL	85,306	\$ 190,909,491	\$ 286,377,948	\$ 143,816,855	\$ 64,939,533
PERCENTAGE		27.83%	41.74%	20.96%	9.47%

EXHIBIT IV - B

SIZE OF RISKS - SCHEDULE Y COMPANIES

MANUAL YEAR 2011

<u>Intrastate Risks</u>	<u>Number of Risks</u>	<u>Intrastate SEP excluding Loss and Expense Constant</u>
	(1)	(2)
Up to \$10,000	135,267	\$ 261,902,319
\$10,001 - \$200,000	23,498	\$ 913,621,490
\$200,001 - \$1,750,000	1,886	\$ 892,318,494
Over \$1,750,000	132	\$ 572,589,785
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TOTAL	160,783	\$ 2,640,432,088

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	135,267	\$ 261,902,319			
\$10,001 - \$200,000	23,498	\$ 234,980,000	\$ 678,641,490		
\$200,001 - \$1,750,000	1,886	\$ 18,860,000	\$ 358,340,000	\$ 515,118,494	
Over \$1,750,000	132	\$ 1,320,000	\$ 25,080,000	\$ 204,600,000	\$ 341,589,785
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TOTAL	160,783	\$ 517,062,319	\$ 1,062,061,490	\$ 719,718,494	\$ 341,589,785
PERCENTAGE		19.58%	40.22%	27.26%	12.94%

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	27.83	0.0	0.00
\$10,001 - \$200,000	41.74	5.1	2.13
\$200,001 - \$1,750,000	20.96	6.5	1.36
Over \$1,750,000	9.47	7.5	0.71
		Build-Back	= 4.20
	Intrastate Build-Back	4.20	
	Interstate Build-Back	4.70	

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	19.58	0.0	0.00
\$10,001 - \$200,000	40.22	9.1	3.66
\$200,001 - \$1,750,000	27.26	11.3	3.08
Over \$1,750,000	12.94	12.3	1.59
		Build-Back	= 8.33
	Intrastate Build-Back	8.33	
	Interstate Build-Back	8.83	

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	\$ 686,043,827	4.70
SCHEDULE Y	\$ 2,640,432,088	8.83
WEIGHTED AVERAGE		<u>7.98</u>

EXHIBIT V

DELAWARE POOL GROSS WRITTEN PREMIUM AND UNCOLLECTIBLE PREMIUM*

Data as of 3/31/2015

<u>POLICY YEAR</u>	<u>(1) GROSS WRITTEN PREMIUM</u>	<u>(2) UNCOLLECTIBLE PREMIUM</u>	<u>(3)=(2)/(1) RATIO</u>
2004	34,286,412	427,451	1.25%
2005	39,613,229	790,863	2.00%
2006	33,123,068	1,143,603	3.45%
2007	21,572,856	717,423	3.33%
2008	12,934,207	190,417	1.47%
2009	7,534,894	45,267	0.60%
2010	6,904,289	102,051	1.48%
2011	10,740,655	66,478	0.62%
2012	15,490,893	124,421	0.80%
2013	21,807,115	180,300	0.83%
		All Year Average	1.58%
		Five Year Average	0.87%
		Three Year Average	0.75%
		Selected	0.40%

* Data courtesy of NCCI, Inc.