

Delaware Compensation Rating Bureau, Inc.

Discussion of Alternative Rate Level Indications Based on Selected Datasets

The Delaware Compensation Rating Bureau, Inc. (DCRB) submits this commentary in response to the question presented via email on March 4, 2013 and restated below for ease of reference:

1. Provide an analysis and explanation of the differences between the Brown Book values provided for five largest carrier groups and all other carriers/groups combined. In particular, provide an analysis and explanation of the differences in the: (i) policy year loss and LAE ratios (Exhibit 1, Line (1a) to (1d)), (ii) Indicated Change in Voluntary Market Loss Costs (Exhibit 1, Line (10)), (iii) development factors (Exhibit VI) and (iv) trend factors (Exhibit VII).

DCRB previously prepared six separate sets of exhibits from the Brown Book at the request of the Task Force. Five of the datasets used to produce those exhibits were derived from each of the five largest carrier group writers of Delaware workers compensation insurance business in 2010. The remaining dataset was derived from the remainder of the Delaware writers after excluding the five carrier groups previously mentioned.

We present our review of the results shown in those respective exhibits below, addressing the datasets in descending order of the indicated voluntary market loss cost change reflected in Exhibit 1. DCRB finds the following sequence of discussion to be helpful in working through each dataset: reported paid and incurred losses, paid and incurred loss development factors, policy year loss and LAE ratios, trend factors and indicated change in voluntary market loss costs.

Group 6 – Indicated Voluntary Market Loss Cost Change +141.86 percent.

- Reported paid and incurred losses:

Group 6 has relatively low reported indemnity loss ratios, on both paid and incurred bases. Reported paid indemnity loss ratios rank either 5th or 6th among the six datasets for each of the seven most recent policy years except for the most recent policy year (2010) which ranks 3rd. Reported incurred indemnity loss ratios rank either 5th for most of the seven most recent policy years, with policy year 2005 ranking 6th and policy year 2010 ranking 4th.

Group 6 has reported medical loss ratios that vary across the spectrum from high to low within the six datasets. Reported paid medical loss ratio ranks range from 2nd to 6th within the seven most recent policy years, with policy year 2010 ranking 3rd. Reported incurred medical loss ratio ranks range from 1st to 6th over the

most recent seven policy years, with policy year 2010 ranking 1st (highest) of all the datasets.

- Paid and Incurred Loss Development Factors:

Group 6 has relatively benign indemnity loss development factors, with the paid and incurred development factors ranking 4th or 5th across the seven most recent available policy years.

Group 6 has relatively high medical loss development factors, with a consistent rank of 2nd for both paid and incurred loss development factors across the seven most recent available policy years.

- Policy Year Loss and LAE Ratios:

Group 6 produces indemnity loss and loss adjustment expense ratios that generally fall in the bottom half of the six datasets, with policy year 2010 being the exception and ranking third among the six datasets. The relatively high ranking for policy year 2010 arises primarily from Group 6's high reported paid indemnity loss ratio.

Group 6's medical loss and loss adjustment expense ratios rank anywhere from 5th to 2nd based on paid loss development and from 1st to 4th using incurred loss development. For both loss development approaches, policy year 2010 ranks as high as, or higher than, any other policy year ratio for Group 6. Those results are attributable to the combination of high reported medical loss ratios and medical loss development factors noted above.

- Trend Factors:

Group 6 shows relatively favorable claim frequency trend, ranking next to lowest among the six datasets (with all groups having negative claim frequency trends and "lower" thus being interpreted as "better").

Group 6 produces the worst claim severity trends, by significant margins, of any of the six datasets for both indemnity and medical benefits. The annual indemnity severity trend for Group 6 approaches a double-digit rate and their annual medical severity trend is well in excess of 20 percent. Group 6's severity trend rates are significantly impacted by their policy year 2010 loss and loss adjustment expense ratios, which are far and away the highest of any of Group 6's results over the most recent seen policy years.

- Indicated Change in Voluntary Market Loss Costs:

Group 6 produces the highest indicated change in voluntary market loss costs of any of the six datasets included in the recent replication of Brown Book exhibits. This position is primarily the result of Group 6's very high severity trend rates, and is also impacted by the very adverse policy year 2010 loss and loss adjustment expense ratio which is one of the four policy years used as a base for applying trend in deriving rating value change indications.

Group 2 – Indicated Voluntary Market Loss Cost Change +92.79 percent.

- Reported paid and incurred losses:

Group 2 has reported paid indemnity loss ratios that rank from 2nd to 6th across the six datasets, but the two most recent policy years both rank 6th. Reported incurred indemnity loss ratios for Group 2 rank from 2nd to 6th across the seven most recent policy years, with the two most recent three policy years ranking 6th among the datasets.

Group 2 has reported paid medical loss ratios that vary in rank from 2nd to 6th across the six datasets. The most recent policy year, 2010, ranks 6th. Reported incurred medical loss ratios are generally low for Group 2, ranking from 4th to 6th with only one exception for policy year 2006 which ranks 3rd.

- Paid and Incurred Loss Development Factors:

Group 2 has the highest development factors of any dataset, across paid and incurred methods and for both indemnity and medical, except for the paid indemnity loss development factor for 2009 which ranks 2nd.

- Policy Year Loss and LAE Ratios:

Group 2 produces indemnity loss and loss adjustment expense ratios that generally rank either 2nd or 1st across policy years 2004 through 2008. For 2009 and 2010 Group 2's policy year indemnity loss and loss adjustment expense ratios drop in rank to 4th to 6th depending on the year and development method.

Group 2's medical loss and loss adjustment expense ratios rank first except for policy year 2010's incurred development method estimate, which ranks 2nd.

- Trend Factors:

Group 2 shows the most favorable claim frequency trend of any dataset.

Group 2 produces an indemnity claim severity trend that is negative, one of three such results arising within the six datasets. Medical severity trend for Group 2 falls just into the top half of the datasets, ranking third among the six.

- Indicated Change in Voluntary Market Loss Costs:

Group 2 produces the second-highest indicated change in voluntary market loss costs of any of the six datasets included in the recent replication of Brown Book exhibits. This position is primarily the result of Group 2's very high loss development factors, which produce high policy year loss and loss adjustment expense ratios. Group 2's more favorable trend experience allows it to produce a lower voluntary market rate change than Group 6.

Group 5 – Indicated Voluntary Market Loss Cost Change +63.03 percent.

- Reported paid and incurred losses:

Among the six datasets included in this analysis, Group 5 has reported indemnity paid loss ratios that rank from 4th to 1st across the seven policy years 2004 through 2010. More recent policy years (2007 to 2010) all rank either 1st or 2nd. Rankings based on reported indemnity incurred loss ratios are identical to the paid indemnity loss ratio counterparts.

Ranks for Group 5's reported medical loss ratios also vary from 4th through 1st on both paid and incurred bases. Similar to the results for reported indemnity loss ratios, policy years 2008 to 2010 all rank either 1st or 2nd for Group 5.

- Paid and Incurred Loss Development Factors:

Indemnity loss development factors for Group 5 rank 6th (the lowest) among the six datasets for all policy years on a paid basis. Indemnity loss development factors for Group 5 rank 3rd among the six datasets for all policy years on an incurred basis except for 2004, which ranks 4th, and 2010, which ranks 2nd.

Medical loss development factors for Group 5 rank 6th (the lowest) among the six datasets for all policy years on a paid basis and are the 2nd lowest (ranking 5th) for all policy years on an incurred basis.

- Policy Year Loss and LAE Ratios:

Group 5 produces indemnity loss and loss adjustment expense ratios that fall in the mid-range of the six datasets, with rankings ranging from 4th to 2nd using the paid loss development approach and from 5th to 2nd using the incurred loss development approach. Loss ratios for policy years 2009 and 2010, however,

are the second highest among the six datasets studied using both the paid and incurred loss development approaches.

Group 5's medical loss and loss adjustment expense ratios rank anywhere from 6th to 2nd for the paid loss development approach and range from 6th to 4th for the incurred loss development approach. For the paid loss development method, Group 5's most recent policy years (2009 and 2010) have loss and loss adjustment expense ratios that rank 2nd and 3rd respectively.

- Trend Factors:

Group 5 has an average annual claim frequency trend ranking that is 2nd best among the six datasets (with all groups having negative claim frequency trends and "lower" thus being interpreted as "better").

Indemnity and medical claim severity trends for Group 5 both rank 2nd highest among the six datasets.

- Indicated Change in Voluntary Market Loss Costs:

Group 5 produces an indicated change in voluntary market loss costs that ranks 3rd highest of the six datasets included in the recent replication of Brown Book exhibits. This result is caused by relatively high reported loss ratios and loss and loss adjustment loss ratios posted by Group 5, and by the fact that more recent policy years for this group show particularly high values. This tendency for experience to become worse for more recent policy years has an adverse impact on claim severity trend calculations for Group 5. The impacts of these factors are mitigated to some extent by loss development factors for Group 5 being among the lowest of the six datasets studied.

Group 1 – Indicated Voluntary Market Loss Cost Change +35.73 percent.

- Reported paid and incurred losses:

Group 1 has generally high reported indemnity loss ratios, with five of the most recent seven policy years ranking 1st across the six datasets for both reported paid and reported incurred loss ratios. Reported paid indemnity loss ratios for policy years 2008 and 2010 rank 4th, while reported incurred indemnity loss ratios for those same two policy years rank 3rd.

Group 1 has reported paid medical loss ratios that rank 1st for the oldest three of the most recent seven policy years, then moderate such that the two most recent policy years rank 4th (policy year 2010) and 5th (policy year 2009). A similar pattern appears for reported incurred medical loss ratios, where policy year

2010's ratio for Group 1 ranks 4th and policy year 2009's ratio for Group 1 ranks 3rd.

- Paid and Incurred Loss Development Factors:

Group 1's indemnity loss development factors almost all rank 2nd across the datasets, with just two exceptions for the most recent seven policy years. Policy year 2009's paid indemnity loss development factor ranks 1st, while policy year 2010's incurred indemnity loss development factor ranks 3rd.

Group 1's medical loss development factors compare more favorably to the other datasets than do its indemnity loss development factors. Paid medical loss development factors rank from 5th to 3rd across the most recent seven policy years, with newer policy years ranking at the high end of that range. Incurred medical loss development factors for Group 1 rank from 4th to 3rd across the seven most recent policy years, with policy years after the two oldest of those seven policy years ranking 3rd among the six datasets.

- Policy Year Loss and LAE Ratios:

Group 1's indemnity loss and loss adjustment expense ratios rank 1st or second across the datasets for all of the seven most recent policy years. Group 1's medical loss and loss adjustment expense ratios fall into the upper half of the datasets for older policy years and into the mid- to lower range of the datasets for more recent policy years.

- Trend Factors:

Group 1 shows the least favorable claim frequency trend of any dataset, but that trend is still for an annual decrease in claim frequency of approximately 4 percent.

Group 1 produces negative claim severity trends for both indemnity and medical benefits, and is the only dataset to show a negative severity trend for medical.

- Indicated Change in Voluntary Market Loss Costs:

Group 1 produces the fourth-highest indicated change in voluntary market loss costs of the six datasets included in the recent replication of Brown Book exhibits. This is primarily the result of Group 1's relatively favorable severity trend values and moderate medical reported loss ratios and loss development experience offsetting high reported indemnity losses and high indemnity loss development factors.

Group 3 – Indicated Voluntary Market Loss Cost Change +18.60 percent.

- Reported paid and incurred losses:

Group 3 has reported indemnity paid loss ratios that rank from 6th to 2nd for the six datasets included in this analysis across the seven policy years 2004 through 2010. Policy years 2009 and 2010 have the poorest rankings for Group 3 at 3rd and 2nd respectively. Group 3's rankings based on reported indemnity incurred loss ratios are identical to their reported paid indemnity loss ratio counterparts.

Ranks for Group 3's reported medical loss ratios do not show any systematic pattern(s) and vary across the entire range of possible results (from 6th through 1st) on both the paid and incurred bases.

- Paid and Incurred Loss Development Factors:

Group 3 tends to have relatively favorable loss development factors compared with the other five datasets. Indemnity paid loss development factors for Group 3 rank 5th or 4th for all seven policy years, and Group 3's incurred loss development factors rank 6th (lowest) for all policy years.

Medical loss development factors for Group 3 fall in the mid- to lower range for both paid and incurred approaches, achieving ranks within the studied datasets of 5th to 3rd in all cases.

- Policy Year Loss and LAE Ratios:

Group 3 produces favorable indemnity loss and loss adjustment expense ratios, having rankings ranging from 6th to 4th for all policy years using both paid and incurred loss development approaches. These results are attributable in substantial part to the favorable indemnity loss development factors mentioned above.

Group 3's medical loss and loss adjustment expense ratios rank from 6th to 3rd among the six datasets using for the medical paid and incurred loss development approaches.

- Trend Factors:

Group 3 has an average annual claim frequency trend ranking that is 3rd highest among the six datasets (with all groups having negative claim frequency trends and "lower" thus being interpreted as "better").

Group 3 has an indemnity claim severity trend ranking that is the 3rd highest of the six datasets. Medical claim severity trend for Group 3 is ranked 4th, slightly lower than average.

- Indicated Change in Voluntary Market Loss Costs:

Although still producing a significant increase, Group 3 produces the second lowest indicated change in voluntary market loss costs of the six datasets included in the recent replication of Brown Book exhibits. Group 3 is one of only two of the studied datasets with an indicated change that is lower than the DCRB's filed statewide average indicated change in loss costs. The indicated change for Group 3 benefits from its relatively favorable loss development factors and the resulting loss and loss adjustment ratios that are better than average among the studied datasets.

Group 4 – Indicated Voluntary Market Loss Cost Change -25.68 percent.

- Reported paid and incurred losses:

Of the six datasets included in this analysis, Group 4 has reported indemnity paid loss ratios that rank in the upper mid-range for policy years 2004 through 2008 and then improve to more favorable rankings of 4th and 5th for policy years 2009 and 2010 respectively. Reported indemnity incurred loss ratios display similar patterns for Group 4 with mid-range rankings for policy years 2004 through 2008 followed by rankings of 4th and 5th for policy years 2009 and 2010.

Group 4 has reported medical paid loss ratios that rank from 2nd to 6th within the seven most recent policy years, with Group 4's policy years 2009 (6th) and 2010 (5th) comparing the most favorably to the other five datasets. Reported medical incurred loss ratios rank 4th through 6th for all policy years except 2008, for which Group 4's ranking was 2nd.

- Paid and Incurred Loss Development Factors:

Group 4 consistently has mid-range indemnity loss development factors in comparison to the other datasets studied. Paid indemnity development factors for Group 4 rank 3rd for all seven policy years and incurred indemnity development factors for Group 4 rank 4th for all policy years except 2004 (3rd) and 2010 (5th).

Medical loss development factors for Group 4 are in the lower mid-range (4th or 5th) for paid losses and rank 6th (the most favorable) for all policy years on an incurred loss basis.

- Policy Year Loss and LAE Ratios:

Group 4 produces indemnity loss and loss adjustment expense ratios that fall in the mid-range of the six datasets with rankings of 3rd or 4th for almost all policy years using either the paid or incurred loss development approach. The exceptions to this tendency arise for the most recent policy year, 2010, which ranks 5th for Group 4 using a paid loss development approach and 6th using an incurred loss development approach. The policy year 2010 loss and loss adjustment ratio rankings benefit from Group 4's favorable reported loss ratios discussed above.

Group 4's medical loss and loss adjustment expense ratios rank anywhere from 6th to 3rd based on paid loss development and either 6th or 5th using incurred loss development. For both loss development approaches Group 4 has the lowest loss and loss adjustment expense ratios among the studied datasets for each of the policy years 2007, 2009 and 2010.

- Trend Factors:

Group 4 shows an average annual claim frequency trend ranking of 4th lowest among the six datasets (with all groups having negative claim frequency trends and "lower" thus being interpreted as "better").

Group 4 has a negative (favorable) indemnity claim severity trend which ranks 4th among the six datasets. Group 4's medical claim severity trend is flat (0.0 percent), the second most favorable figure among the six groups studied. The favorable indemnity and medical severity trend results reflect improved loss and loss adjustment expense ratios in more recent policy years, particularly for policy years 2009 and 2010.

- Indicated Change in Voluntary Market Loss Costs:

Group 4 produces the lowest indicated change in voluntary market loss costs of any of the six datasets, and is the only group studied that has an indicated decrease in voluntary market loss costs. This position is primarily the result of Group 4's favorable reported loss ratios and loss and loss adjustment ratios, particularly for policy years 2009 and 2010 which further contribute to favorable severity trend factors. Policy years 2009 and 2010 loss and loss adjustment expense ratios are also two of the four policy years used as a base for applying trend in deriving rating value change indications.