

TARGET EXAMINATION
DELAWARE COMPENSATION RATING BUREAU
AS OF
DECEMBER 31, 2011

Karen Weldin Stewart, CIR-ML
Commissioner



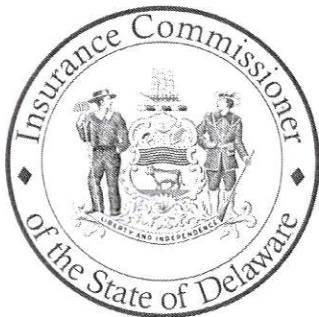
Delaware Department of Insurance

I, Gene T. Reed, Deputy Insurance Commissioner of the State of Delaware, do hereby certify that the attached REPORT ON EXAMINATION, made as of December 31, 2011 on

DELAWARE COMPENSATION RATING BUREAU

is a true and correct copy of the document filed with this Department.

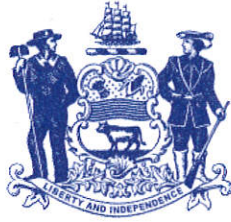
Attest By:



In Witness Whereof, I have hereunto set my hand and affixed the official seal of this Department at the City of Dover.

Gene T. Reed
Deputy Commissioner

Karen Weldin Stewart, CIR-ML
Commissioner



Delaware Department of Insurance

REPORT ON EXAMINATION
OF THE
DELAWARE COMPENSATION RATING BUREAU

AS OF

December 31, 2011

The above-captioned Report was completed by examiners of the Delaware Department of Insurance.

Consideration has been duly given to the comments, conclusions and recommendations of the examiners regarding the status of the Company as reflected in the Report.

This Report is hereby accepted, adopted and filed as an official record of this Department.

A handwritten signature in cursive script, reading "Gene T. Reed", written over a horizontal line.

Gene T. Reed
Deputy Commissioner

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SALUTATION

December 17, 2012

Honorable Karen Weldin Stewart, CIR-ML
Commissioner
Delaware Department of Insurance
Rodney Building
841 Silver Lake Boulevard
Dover, Delaware 19904

Dear Commissioner:

In compliance with instructions and pursuant to statutory provisions contained in Certificate of Authority No. 12.910, dated October 24, 2012, a target examination has been made of the

DELAWARE COMPENSATION RATING BUREAU

hereinafter referred to as the “Company” or “DCRB”, a domestic non-stock, non-profit corporation. The Company’s administrative offices are located at 30 South 17th Street, Philadelphia, PA 19103. The report of examination thereon is respectfully submitted.

SCOPE

The scope of examination includes, but is not limited to, a review of the reporting and application of credits to claim amounts reported by member insurers in their statistical reporting to the Company as of December 31, 2011. We will document our understanding of the process used by the Company to accumulate and aggregate data. The target examination will include a review of the intake process at the DCRB to ensure that credits to claim amounts are received from the member insurers and a review of the aggregation of claim data to ensure that credits to the claim amounts are reflected properly in the database used for the actuarial ratemaking analysis.

SUMMARY OF SIGNIFICANT FINDINGS

There were no significant findings resulting from the target examination.

DCRB ACCUMULATION and DATA AGGREGATION

Call System

The DCRB collects detailed policy, statistical and aggregate financial information from each of its member carriers. This data is edited for validity, completeness, and reasonableness, and is then summarized. The summarized data is used to make filings and reports to the Delaware Insurance Department.

Annually the DCRB requests its members to submit detailed premium and loss data. The data contains reporting and application of credits to claim amounts reported from member insurers on a "net" basis (reduction of incurred losses for credits). These requests for summary financial information are referred to as "Calls." In January 2012, the DCRB made calls for data as of December 31, 2011, to be received by various due dates. All call submissions are filed electronically. A response is expected from every member even if there is no workers compensation activity during the year in question. The data submitted is reviewed by the DCRB staff for completeness and accuracy and is reconciled to the carrier's Annual Statement Page 14 "Statutory Page," which is required to be filed along with the supporting information. A final review is made to determine that all schedules and supporting schedules agree and reconcile. The examiners reconciled a sample of Call Summary Data to the Statutory Page 14 data without error.

Adjustments to Call Data

The next step in the process is a review of submitted data. During the review process, if an adjustment to the data call is required, the DCRB obtains an explanation from the carrier. If the DCRB does not obtain an adequate explanation by the time a report is due to the Insurance Department, two types of adjustments can be made. The carrier's statistics can be deleted from the summary used in preparing the Insurance Department annual rate filing or the DCRB could evaluate and adjust the current year's discrepancy based upon prior periods or other information.

A sample of call submissions submitted by member insurers was made to select call submissions to be reviewed. The call submissions reviewed indicated that each call underwent thorough reviews by the DCRB with various edit failures being documented and corrected by the

DCRB. The DCRB was able to support adjustments made for selected sample items. The adjustments appeared to be reasonable. No issues or concerns were noted. Data was accumulated and verified to the Table 1 unlimited loss data as filed, page 5 Table 1-D “Policy year data accumulated to end of calendar year Indemnity paid losses” (as of 2011), and page 6 Table 1-D “Policy year data accumulated to end of calendar year Medical paid losses” (as of 2011, see Actuarial Summary) as listed on the DCRB web-site.

ACTUARIAL SUMMARY

The actuarial analysis for developing an indicated rate level change rests upon the data included in the DCRB’s annual rate filing under “Table 1 Limited Losses.” The documentation to this point has examined the process from receipt of carrier data to aggregation of the data into “Table 1 Unlimited Losses.” The process of transitioning the data from “Table 1 Unlimited Losses” to “Table 1 Limited Losses” involves essentially one adjustment step for the indemnity data and two distinct adjustment steps for the medical data.

For the medical data, the first adjustment is to restate the unlimited losses to a pre-Senate Bill 1 (SB1) basis. The purpose is to allow for the determination of actuarial factors on a consistent basis so that the policy years before SB1’s implementation and the policy years after its implementation can be appropriately combined in the analysis. The adjustments are performed on a calendar year basis by policy year. The examination team reviewed the derivation and application of these adjustments and found them to be appropriately calculated and appropriately applied.

The second adjustment to the medical data, and the only adjustment to the indemnity data, is the loss limitation itself. For both the medical data and the indemnity data, the losses are limited on a per claim basis before entering the ratemaking analysis. This follows the generally accepted actuarial ratemaking practice of limiting the losses and replacing the highly random amounts removed with an excess factor derived from a longer view of the experience period, to allow for more stability in the rates. The amount of limitation varies by year to account for inflation. The examination team reviewed the actual amounts in excess of the loss limitation, as displayed in the DCRB Filing No. 1201 Exhibit 1b and sampled the results from Call #4 to affirm that the excess losses were properly calculated.

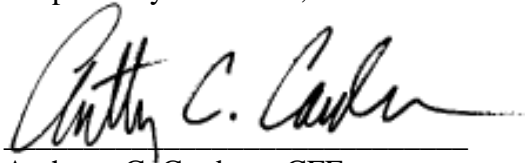
The calculations for the indemnity loss limitation were reviewed to affirm that data appearing on “Table 1 Limited Losses” were properly derived from the data on “Table 1 Unlimited Losses”. Similarly for medical, the adjustment to pre-SB1 and the loss limitation calculations were reviewed to affirm that data appearing on “Table 1 Limited Losses” were properly derived from the data on “Table 1 Unlimited Losses.” No errors were noted.

CONCLUSION

Based upon our understanding of the intake process, the reporting and application of credits to claim amounts reported from member insurers is included in the statistical reporting to the Company as of December 31, 2011. Member data identifies that a credit to claims has been taken. This ensures that credits to the claim amounts are reflected properly in the database used for the actuarial ratemaking analysis. Examiners reviewed Page 14 reconciliations and subsequent adjustment of data and found no issues or concerns. Examiners and actuaries were able to reconcile DCRB data to Table 1 data on a limited and unlimited basis. It appears that the data used for ratemaking analysis is accurate based upon information provided from member companies.

The assistance of Delaware's consulting actuarial firm, INS Consultants, Inc. is acknowledged. In addition, the assistance and cooperation of the Company's management and staff were appreciated and are acknowledged.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Anthony C. Cardone", written over a horizontal line.

Anthony C. Cardone, CFE
Examiner-In-Charge
State of Delaware