

UNKNOWN INSURANCE COMPANY
Agency Contingent Compensation
Homeowners Loss Ratio Calculation
ABC Insurance Agent

(1)	Accident Year Ending	12/31/98
(2)	Homeowners Earned Premium	500,000
(3)	Loss Limit ¹	25,000
(4)	Percent Charge ²	15.6%
(5) = (2) x (4)	Large Loss Dollar Charge	78,000
(6)	Accident Year Case Incurred Losses excluding wind and hail	225,000
(7)	Limited Case Incurred Losses	175,000
(8) = (5)	Total Large Loss Charge	78,000
(9) = (7) + (8)	Adjusted Case Incurred Losses excluding wind and hail	253,000
(10) = (9) / (2)	Adjusted Case Loss Ratio	50.6%
(11)	Wind and Hail Factor ³	4.8%
(12)	IBNR Load	2.7%
(13) = (10)+(11)+(12)	Ultimate Accident Year Loss Ratio	58.1%

¹ 5% of total Homeowners earned premium

² From Exhibit 3

³ From Exhibit 4

Numbers are for illustrative purposes only.

UNKNOWN INSURANCE COMPANY

Homeowners

**Projection of IBNR Load
(\$000's)**

<u>Accident Year</u>	<u>Indicated Ultimate Losses</u>	<u>Losses as of 12 Months</u>	<u>Indicated IBNR</u>	<u>IBNR as a % of Ultimate</u>	<u>IBNR * as a % of Premium</u>
1991	13,886	12,672	1,214	8.7%	5.2%
1992	13,451	12,728	723	5.4%	3.2%
1993	15,444	14,452	992	6.4%	3.9%
1994	23,607	22,729	878	3.7%	2.2%
1995	15,957	15,238	719	4.5%	2.7%
1996	18,074	17,232	842	4.7%	2.8%
1997	17,856	17,077	779	4.4%	2.6%
Total	118,275	112,127	6,148	5.2%	3.1%
				Select	2.7%

* Multiplied by expected loss ratio of 60%

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**UNKNOWN INSURANCE COMPANY
Calculation of Losses in Excess of Limits**

Homeowners

<u>Size of Loss</u>	<u>1997 Percent * Excess of</u>	<u>1996 Percent * Excess of</u>	<u>1995 Percent * Excess of</u>	<u>1994 Percent * Excess of</u>	<u>1993 Percent * Excess of</u>	<u>Average</u>	<u>Average x hi/lo</u>	<u>As a % of Losses</u>	<u>As a % of Premium</u>
5,000	40.00%	50.00%	37.50%	42.50%	39.20%	41.84%	40.57%	41.00%	24.60%
10,000	30.00%	37.50%	27.50%	32.50%	29.40%	31.38%	30.63%	30.00%	18.00%
25,000	25.00%	31.25%	22.50%	27.50%	24.50%	26.15%	25.67%	26.00%	15.60%
50,000	20.00%	25.00%	17.50%	22.50%	19.60%	20.92%	20.70%	21.00%	12.60%
100,000	7.00%	8.75%	4.50%	9.50%	6.86%	7.32%	7.54%	7.50%	4.50%
250,000	0.00%	4.38%	0.00%	2.50%	0.00%	1.38%	0.83%	1.00%	0.60%

* After applying trend

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Summary for Wind and Hail Paid Losses for Homeowners
(OOO's)

<u>Accident Year</u>	<u>Total of Wind & Hail Paid</u>	<u>Total Losses Paid</u>	<u>Wind/Hail Ratio</u>
1978	3,158	432,277	0.73%
1979	15,350	445,245	3.45%
1980	13,452	458,602	2.93%
1981	2,504	472,361	0.53%
1982	138,745	486,531	28.52%
1983	13,694	501,127	2.73%
1984	125,867	516,161	24.39%
1985	16,983	531,646	3.19%
1986	13,765	547,595	2.51%
1987	16,873	564,023	2.99%
1988	13,978	580,944	2.41%
1989	18,886	598,372	3.16%
1990	139,797	616,323	22.68%
1991	13,594	634,813	2.14%
1992	198,637	653,857	30.38%
1993	6,873	673,473	1.02%
1994	19,798	693,677	2.85%
1995	39,783	714,488	5.57%
1996	18,675	735,922	2.54%
1997	98,735	758,000	13.03%
Total	929,147	11,615,440	8.00%
		Average	7.89%
		Selected	8.00%
		Expected Loss Ratio	60%
		Factor to apply to premium	4.8%

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Agency Contingent Compensation
Expense Flattening Calculation

(1)	(2)	(3)	(4)	(5)	(6)	(7)
<u>Territory</u>	<u>Total Expense Ratio</u>	<u>Loss Adj. Expense Ratio</u>	<u>Other Variable Expenses</u>	<u>General Expense Ratio</u>	<u>Adjusted ELR, LAE & Variable Ratio</u>	<u>Earned Premium Adjustment</u>
1	44.5%	15.0%	5.0%	24.5%	75.50%	0.944
2	43.5%	15.0%	5.0%	23.5%	76.50%	0.956
3	42.5%	15.0%	5.0%	22.5%	77.50%	0.969
4	41.5%	15.0%	5.0%	21.5%	78.50%	0.981
5	40.5%	15.0%	5.0%	20.5%	79.50%	0.994
6	39.5%	15.0%	5.0%	19.5%	80.50%	1.006
7	38.5%	15.0%	5.0%	18.5%	81.50%	1.019
8	37.5%	15.0%	5.0%	17.5%	82.50%	1.031
9	36.5%	15.0%	5.0%	16.5%	83.50%	1.044
10	35.5%	15.0%	5.0%	15.5%	84.50%	1.056
Statewide	40.0%	15.0%	5.0%	20.0%	80.00%	1.000

(2) = (3)+(4)+(5)

(6) = 1 - (5)

(7) = (6) / statewide (6)

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Homeowners' Loss Ratio Payout Levels

Expected Company Loss Ratio = Goal

Confidence Level	Payout Dollars	Payout % of Premium
10%	\$314,248	0.83%
20%	338,313	0.90%
30%	355,020	0.94%
40%	368,255	0.98%
50%	379,237	1.00%
60%	391,968	1.04%
70%	404,397	1.07%
80%	421,885	1.12%
90%	444,624	1.18%
Expected	\$380,004	1.01%
95th Percentile	463,537	1.23%

Assumptions:

Normal Distribution

Mean 60%
CV 0.300

Payout Level	Loss Ratio	Payout %
Maximum	55%	2.00%
Minimum	65%	0.00%

Total Premium \$37,750,000

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Homeowners' Loss Ratio Payout Levels Expected Company Loss Ratio = Maximum Payout Level

Confidence Level	Payout Dollars	Payout % of Premium
10%	\$406,289	1.08%
20%	429,137	1.14%
30%	442,501	1.17%
40%	457,170	1.21%
50%	469,082	1.24%
60%	480,210	1.27%
70%	492,157	1.30%
80%	507,881	1.35%
90%	528,889	1.40%
Expected	\$467,865	1.24%
95th Percentile	546,003	1.45%

Assumptions:
 Normal Distribution
 Mean 55%
 CV 0.300

Payout Level	Loss Ratio	Payout %
Maximum	55%	2.00%
Minimum	65%	0.00%

Total Premium \$37,750,000

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Homeowners' Loss Ratio Payout Levels Expected Company Loss Ratio = Minimum Payout Level

Confidence Level	Payout Dollars	Payout % of Premium
10%	\$238,535	0.63%
20%	262,439	0.70%
30%	279,074	0.74%
40%	291,334	0.77%
50%	303,593	0.80%
60%	314,401	0.83%
70%	328,519	0.87%
80%	345,205	0.91%
90%	369,771	0.98%
Expected	\$304,168	0.81%
95th Percentile	390,972	1.04%

Assumptions:
 Normal Distribution
 Mean 65%
 CV 0.300

Payout Level	Loss Ratio	Payout %
Maximum	55%	2.00%
Minimum	65%	0.00%

Total Premium \$37,750,000

Michigan Insurance Code

Section 2116 (2)

With respect to automobile insurance or home insurance, an insurer shall not penalize an individual agent by paying less than normal commissions or normal compensation or salary because of the expected or actual experience produced by the agent's business or because of the geographic location of business written by the agent.