



Loss-Sensitive Dividend Plan

Each year, the CBIA Comp. Services, Inc. Board of Directors may declare a dividend based on the results of the prior fiscal year. That dividend will be distributed to the 50% of the companies (determined by premium, not number of companies) in the program in the prior year with the best loss ratios. Because the dividend will be distributed to many members, it is expected that the dividend, as a percent of premium, will be relatively modest (0% to 15% depending on results).

How will it work?

Following is an example that explains how the Loss-Sensitive Dividend Plan will work.

Say that based on the financial results of the prior year, the Board declares a dividend of \$15,000 for the 20XX policy year.

1. Assume the program consists of 8 accounts with \$325,000 of premium expiring in 20XX. Losses for all eligible accounts are valued as of a common date using appropriate development factors. A policy (company B) with \$25,000 of premium cancelled prior to the expiration date, making it ineligible for a dividend.

Company	Exp. Date	Cancel Date	Premium	Developed Losses	Loss Ratio
A	12/31/20XX		40,000	0	0%
B	6/30/20XX	3/31/20XX	25,000	16,000	64%
C	11/30/20XX		50,000	30,000	60%
D	5/31/20XX		15,000	25,000	167%
E	12/31/20XX		25,000	0	0%
F	9/30/20XX		20,000	6,000	30%
G	12/31/20XX		65,000	12,000	18%
H	2/28/20XX		85,000	74,000	87%
Total			325,000	163,000	50%

2. The ineligible account is removed from the account list. Accounts are then sorted by loss ratio, from low to high.

Company	Exp. Date	Cancel Date	Premium	Developed Losses	Loss Ratio
A	12/31/20XX		40,000	0	0%
E	12/31/20XX		25,000	0	0%
G	12/31/20XX		65,000	12,000	18%
F	9/30/20XX		20,000	6,000	30%
C	11/30/20XX		50,000	30,000	60%
H	2/28/20XX		85,000	74,000	87%
D	5/31/20XX		15,000	25,000	167%
Total			300,000	147,000	

3. The 50% of the book with the lowest loss ratios will earn a dividend.

Company	Exp. Date	Cancel Date	Premium	Developed Losses	Loss Ratio
A	12/31/20XX		40,000	0	0%
E	12/31/20XX		25,000	0	0%
G	12/31/20XX		65,000	12,000	18%
F	9/30/20XX		20,000	6,000	30%
Sub-total			150,000		
C	11/30/20XX		50,000	30,000	60%
H	2/28/20XX		85,000	74,000	87%
D	5/31/20XX		15,000	25,000	167%
Sub-total			150,000		

4. This results in a 10% dividend to those accounts. (\$15,000/\$150,000)

Company	Exp. Date	Cancel Date	Premium	Dividend %	Dividend
A	12/31/20XX		40,000	10%	4,000
E	12/31/20XX		25,000	10%	2,500
G	12/31/20XX		65,000	10%	6,500
F	9/30/20XX		20,000	10%	2,000
Total			150,000		15,000