



CBIA Comp. Services, Inc.

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 a large number of 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