

# Phi Kappa Sigma International Fraternity

## Insurance Billing Methodology

The Phi Kappa Sigma International Fraternity Executive Board implores each chapter to thoroughly review the attached methodology and plan now to affect any necessary changes. The methodology is being distributed early in the process so that all Chapters will have time to understand the risk factors and make the necessary changes in their current operations to reduce these risks. The information contained within this communication is vital for your chapter to review, understand, and affect as it impacts how your Liability Insurance Costs will be computed for the next policy year (2009-2010). Failure to respond to this information could result in a higher costs being billed. Please review the information and table below for an explanation (and comparison) of next year's billing methodology.

### PROCESS

In an effort to bring more objectivity to the Phi Kappa Sigma Liability Insurance billing process, the Phi Kappa Sigma Executive Board chose specific criteria that, in consultation with our insurance underwriters, reflected greater or less risk, depending on the behavior of our chapters. In particular, how our premium is allocated amongst the chapters.

When we speak of objectivity in terms of allocating the premium the fraternity pays for Liability Insurance, we are referring to the various surcharges (some that could be in the form of credits) that a chapter could be subject to. It is by way of being subject to one or more surcharges that chapters can affect exactly what their total cost will be, relative to a certain insurance base rate. These surcharges are intended to reflect the level of risk associated with the fraternity carrying Liability Insurance coverage for all chapters participating in the National Program. The Executive Board believes these categories to be objective measures of the level of risk across all chapters.

### ACTION ITEMS

Enclosed in this communication are educational materials and an **ESTIMATE** of what your cost might be for your chapter given the information we have on file at Headquarters today. Therefore, we need you to take action on several items.

- 1) Review the educational materials to ensure you understand for each surcharge category, the Definition, Risk Element, Surcharge Trigger, and Actions to Reduce/Eliminate the Surcharge.
- 2) Review each surcharge category for applicable impacts to your chapter. If you are unsure of why you are being surcharged in a particular category, please call HQ for a current status. If you believe a surcharge should be adjusted, please provide documentation supporting your request.
- 3) Review the estimate for the number of active brothers you will have for the 2009-2010 policy year (create and use an anticipated Fall 2009 active roster). **Please provide HQ with your anticipated Fall 2009 active roster no later than July 31, 2009!** Failure to make any corrections by this date will result in a higher cost being billed.

**==> NOTE: Per our insurance carrier's requirements, only active, initiated members on the Headquarters' active roster, and registered new members, are covered under our liability insurance policy!**

4) Based on your review of the projected number of active brothers, adding 25% to account for projected future New Members, and surcharge impacts, modify your chapter's budget NOW, plus 15% to anticipate the Liability Insurance billing due to be issued in September 2009. This is vital as our premium for 2009-2010 has NOT been determined/provided by James R. Favor, LLC. as of this writing. It could go up depending on the state of the fraternal and insurance markets in general. It is also possible that your chapter's surcharges could change between now and when the bills are produced, thus effecting the calculations

An updated impact assessment will be provided again at least twice, in April and June 2009, before the bills will be produced in September 2009.

We trust you will take the opportunity now to address all areas of impact as well as to budget appropriately for your anticipated liability insurance costs.

Thank you for your attention to this most important matter.

Phi Kappa Sigma Executive Committee

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### Methodology Overview

	Past Years	1 <sup>st</sup> Year of Implementation (‘02-‘03)	Last 6 Years and Next Year (Next = ‘09-‘10)
<b>Billable Membership #</b>	3 Year Average	Actual # of Active Members as reported by Chapters (or 3 year avg. if not reported) plus 25% for New Member target	Actual # of Active Members as reported by Chapters (or 3 year avg. if not reported) plus 25% for projected New Members
<b>Rate Determination</b> (See attached descriptions for more information)	1 rate for “High Risk” Chapters  1 rate for “Average Risk” Chapters	Based on Risk Factors <ul style="list-style-type: none"> <li>○ 5 year Claim History</li> <li>○ House / No House</li> <li>○ Level of Risk</li> </ul>	<b><i>Based on Risk Factors</i></b> <ul style="list-style-type: none"> <li>○ <b><i>5 year Claim History</i></b></li> <li>○ <b><i>House / No House</i></b></li> <li>○ <b><i>Property Program</i></b></li> <li>○ <b><i>Inspection / Loss Control</i></b></li> <li>○ <b><i>Financial Status</i></b></li> <li>○ <b><i>GPA Status</i></b></li> <li>○ <b><i>MCS Status</i></b></li> <li>○ <b><i>Level of Risk</i></b></li> <li>○ <b><i>GreekLife Edu Completion (NEW)</i></b></li> <li>○ <b><i>Grand Chapter Attendance (in Grand Chapter Years)</i></b></li> </ul>
<b>Invoice Payment Due Date</b>	November 1 <sup>st</sup> (Late Fee \$250)	November 1 <sup>st</sup> (Late Fee \$250)	November 1 <sup>st</sup> (Late Fee \$300)
<b>Who is Covered</b>	<ul style="list-style-type: none"> <li>○ Active / New Members</li> <li>○ Chapter Advisors</li> <li>○ Phi Kappa Sigma Executive Board</li> </ul>	<ul style="list-style-type: none"> <li>○ Active / New Members on the Intl. Headquarters Membership Lists</li> <li>○ Named Housing Corporations</li> <li>○ Named Alumni Board Organizations</li> <li>○ Chapter Advisors</li> <li>○ Phi Kappa Sigma Executive Board</li> </ul>	<ul style="list-style-type: none"> <li>○ Active / New Members on the Intl. HQ’s Roster submitted by chapter</li> <li>○ Named Housing Corporations</li> <li>○ Named Alumni Board Organizations</li> <li>○ Chapter Advisors</li> <li>○ Phi Kappa Sigma Executive Board</li> </ul>
<b>Who Developed</b>		Developed by an Executive Board Committee (Grand Beta, Grand Sigma, and Grand Thetae) with approval from the Executive Board	Executive Board committee with undergraduate and alumni representation.

### RATIONALE

We are continuing to improve the billing methodology for many reasons. However, for these changes to be effective, we must rely on your timely and accurate reporting of active and new member information and changes. **This is critical to the success of this approach.**

- Once again, only active members on the Headquarters roster lists, and new members paid for and reported to the Headquarters on a timely basis will be covered.
  - No change for 2009-2010.
- Due to the uncertainty around the number of and when New Members are initiated in any given year, and a need to reflect the cost of New Members in the Insurance Billing Methodology, the Committee decided to set a conservative targeted growth percentage as representative of the average New Member growth anticipated among all Chapters. How Chapters in turn recover those charges from their New Members is a local Chapter decision.
  - New Member Target remains at 25% for 2009-2010.
- Refining the surcharge categories based on additional objective measures is always a goal to further improve the determination of which rate a Chapter is billed based on measures that were deemed to correlate with Risk.
  - Added GreekLife Edu alcohol, hazing, and sexual assault program. Requires specific chapter participation levels and full completion for 2009-2010.

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- The methodology does not penalize Chapters that are doing the right things to reduce risk (e.g. follow policy, manage their operations properly, and perform well on Mitchell Chapter Standards). Chapters that are not working to reduce risk will incur surcharges and ultimately pay higher per-man costs.

If you have any questions or concerns regarding risk management or the insurance methodology, please contact the International Headquarters at any time by calling 610-469-3282.

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### Frequently Asked Questions

1) Why do our insurance costs seem so expensive?

Data provided to chapters locally and at Grand Chapter 2002 showed we had remitted to the insurance company about \$1.2M between 1990 and 2000 while the amount the insurance company paid out in claims/expenses during that same time was \$3.5M (the insurance company paid out almost double what they collected.) In addition, the insurance market for fraternities as well as the insurance market in general has not improved to date. This all adds up to positioning us where we are today. However, it should be noted that the Base Rate for Phi Kappa Sigma the last five years prior to this past policy year had dropped or stayed the same. A minimal increase was approved this past policy year due to a serious incident at a chapter.

**\*\* Since September 1, 2002, the Base Rate has decreased from \$215 to \$170 per man (almost a 21% reduction!!)**

2) What are you doing to reduce this cost?

The Fraternity's Executive Board is working multiple strategies to affect the cost. First, we have been working with our insurance carrier James R. Favor on an extensive Risk Management program that includes the development of a Risk Management Manual (see [www.pks.org](http://www.pks.org)), the further inclusion of those chapters owning a house to join the fraternity's property program, and the creation of a multitude of communication materials regarding the inherent risks on college campuses today along with possible solutions. Second, we have been using an objective cost allocation methodology with the help of undergraduate volunteers to better allocate the costs to those chapters who exhibit high risk behaviors and reward those chapters who are lowering their level of risk. Finally, we are stepping up efforts to manage claims more efficiently by encouraging prompt reporting, full disclosure, and working to negotiate potential settlements/restitutions much more quickly than in the past.

Of late, we have been recommending the voluntary implementation of "membership agreements" in an attempt to better communicate the expectations we all have of each other. We also have implemented GreekLife Edu to provide state of the art educational programming on the risks related to alcohol, hazing, and sexual assault.

We believe these measures will greatly impact our collective ability to manage our risks.

3) What are these so-called surcharge categories and why so many?

The insurance premium charged by our carrier is a fee based on the anticipated level of risk associated with the covered entity. Given the nature of our entity (an International Fraternal organization), we must devise a way to fairly and adequately collect that cost from our members. While many attempts have been carried out in the past, some more successful than others, we believe the current methodology satisfies all of the desired criteria for objectivity, fairness, and equity. Based on the successful implementation and results of several years now of using this approach, we are not changing the strategy in the hopes that it continues to drive behaviors that we believe are related to low risk.

4) Why have claim and expense levels been factored in when assessing a surcharge for "5 Year Claim History"?

Part of the reality we are faced with is that things can and will happen relative to insurance claims. When these incidents occur, we want to encourage prompt and accurate reporting so that we can minimize any eventual cost. Insurance industry data shows that this is one of the best ways to manage one's expenses. The question becomes then at what point does it warrant surcharging a chapter as a result of a claim. That

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is a very difficult question to answer and in fact, there probably is no perfect answer. However, for this year's purpose (as was done in past years), the Board decided to implement surcharge levels for indemnity claims over \$1,000, or expense claims over \$5,000 paid within the past 5 years. This is based on our experience with claims over the past 15+ years.

5) Why does having a "chapter house" result in a surcharge?

As previously discussed, the intent of our program is to drive costs based on higher and lower risk behaviors. Insurance industry data shows that chapters living together in a so called "chapter house" have a higher incident rate than chapters that don't live together in a house.

6) Help me understand why things like GPA, Mitchell Chapter Standards, and Chapter Financial condition relate to risk management.

We agree that factors like these don't immediately seem to relate to levels of risk. However, when one considers the entire chapter operation and its effect on the chapter's level of risk, one can begin to surmise that indicators of a "well run" chapter might in fact lead to lower levels of risk. The theory being that if a chapter manages its operations efficiently by running proper meetings, following up on actions items, budgeting properly, collecting its revenues efficiently, paying it's bills on time, conducting effective officer transitions, etc., that in fact the chapter will be more aware of its responsibilities and therefore, more aware of its level of risk. These categories are the Board's attempt at defining categories it believes might be indicative of those behaviors.

7) You say you are trying to drive costs based on risk behaviors. So why are those chapters in an "owned" house being "encouraged" to join James R. Favor's Property Insurance Program? I thought the International organization only provided a Liability Program. Isn't this just rewarding that company with more business?

Admittedly, this obviously rewards our current carrier with additional business. However, we believe there are also significant benefits to our chapters.

First, upon reviewing many of the property policies our chapters carried on their houses, we found most of them to be woefully deficient in terms of proper coverage's. In particular, we found many houses with inadequate replacement cost coverage (needed should a house suffer a catastrophic loss.)

Secondly, chapters that participate in our property program undergo frequent house inspections. Inspections done during the past several years have turned up a number of inadequacies that could have resulted in potential losses to both property and possibly human life. Participating in our program ensures that all chapters will undergo life safety house inspections and in turn, remain cognizant of those risks. This in turn leads to a reduction in claims on the liability side!

In summary, what happens on the property side affects the liability side. Therefore, we believe it is prudent risk management to provide for and encourage both programs.