Phi Kappa Sigma International Fraternity
Liability Insurance Methodology
Dec 2010 – Dec 2011 Policy Period

Improvements Outline

Introduction

In keeping with a pledge of the Executive Committee at Grand Chapter 2006, specifically to continue to improve the communication of the International Fraternity with chapters, we once again are issuing this summary to keep you informed.

The good news is only one change is being made to the overall Liability Insurance Billing Methodology for the upcoming 2010-2011 policy period. The Executive Committee recently approved these Insurance Committee recommendations.

Suffice it to say, for the most part, chapters continue to perform well when it comes to improving their performance on Insurance Methodology surcharge/credit criteria AND just as importantly, making their insurance payments on time.

As a direct result of that chapter performance, the methodology is being tweaked slightly to BOTH continue to reward chapters for improved performance (ie. lower risk) and incent them to improve (ie. focus on problems) areas that have shown to increase the level of risk associated with operating a chapter.

Below is a summary of where the methodology stands for the upcoming 2010-2011 policy period

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Liability Insurance Methodology Change Overview

#1 – Deductible Fund Collection Amount – Remains at $40,000

Recommendation is to retain same amount for the policy period 2010-2011. **Rationale**: Our overarching goal for the collection process is to do our utmost to provide **base rate stability over the long term** for our chapters. Now that our deductible account is well-funded for actual deductible exposure, we need to add to it to cover expenses and position it in the event we have a major claim in the future. By following this strategy, it is possible that a major future claim might not force us to increase the base rate (something we know chapters would not be happy about.) Time, experience, and a continued strong payment history will be the best indicators of predicting whether this could be possible though in the future.

#2 - Surcharge/Credit Criteria (*detailed category descriptions are available on the WEB*.)

5-Year Claim History – No change
Rationale: Only 4 chapters remain where a portion of the actual incurred claim expense is being recouped. While not recouping all incurred expense, this category does allow a portion of recovery which keeps chapter members vigilant of past major claim history/impact.

House/No House – Increase surcharge from 15% to 20%
Rationale: Chapters in a "chapter house" continue to show higher risk elements and are in need of greater attention from a risk management perspective than chapters who are not in a "chapter house". This surcharge increase reflects that risk. It should be noted that chapters incurring this surcharge are in essence taking on more of the insurance costs (ie. shifting a portion of the cost away from chapters who are not in a "chapter house".)

Property Program - No change
Rationale: 1 Chapter remains with an 'owned' chapter house that is not on the PKS Property Program. 'Owned' chapter houses procuring their property insurance through the PKS program

have a strong, highly reputable insurance carrier supporting them and a comprehensive property insurance product. Our property claims experience to date has also been excellent both in terms of insurer responsiveness and coverage payments.

<u>*Inspection/Loss Control*</u> *– No change*
Rationale: Chapters in any house (owned or otherwise) are benefiting from the inspection reports received every two years and are responding to the changes requested thus improving chapter member safety while also keeping claims low. We are pleased to report that no inspected houses received a 'Poor' rating the last inspection period. A first since we started this program. We hope that continues in the upcoming inspections.

<u>*Chapter Financial Status*</u> *– No change*
Rationale: Chapters have performed well paying off back debt and therefore, it is reasonable to maintain the changes implemented in the past.

<u>*Grand Chapter Attendance*</u> *– No change*
Rationale: Chapters understand the value of sending the required delegate to Grand Chapter. Retaining a surcharge will incent a chapter to comply as, depending on the size of a chapter, the trip expense involved will more than likely be less than the surcharge.

<u>*Mitchell Chapter Standards (MCS)*</u> *– No change*
Rationale: # of Chapters submitting their MCS and achieving the minimum score of 70 can still be improved.

<u>*Risk Management Fine*</u> *– No change*
Rationale: Chapters "On Probation" continues to be an issue. This surcharge allows us to recoup a small portion of the cost of the added administrative burden of handling incidents directly from the offending chapter.

<u>*GPA (Chapter Annual Average)*</u> *– No change*
Rationale: While chapters should always be focusing on academics as their #1 priority, it is clear that retaining incentives helps keep chapters focused on this area.

<u>*GreekLife Edu*</u> *– No Change*
Rationale: State of the art delivery mechanisms and reputable education on the topics of alcohol, hazing, and sexual assault will help improve our member's knowledge base and lead to improved decision making when it comes to these areas. However, completion of the program is obviously vital and therefore, surcharge and/or credit incentives have been continued for New Members.

<u>#3 - Liability Insurance Payment Options</u>

Objective: ***1-Payment & 2-Payment Options***
Based primarily on chapter's strong payment history in the past, and their need for an improved cash flow process relative to Fall Fee billings, we are retaining the 2-payment option for liability insurance.

Description: One invoice (not 2!) will still be issued using the same roster process, timeline, and calculation methodology as is done today (ie. final rosters are due 7/31, bills are issued 9/15, and payments are due 11/1.)

The chapter would then make a decision whether to employ the 1-<u>payment</u> or 2-<u>payment</u> option. A 2^{nd} invoice is NOT issued for chapters choosing the 2-payment option! It is the chapter's responsibility to make the 2^{nd} payment on time.

Under the 1-payment option, which would be the <u>default option</u>, no change would ensue. Chapters would make their full liability insurance payment by 11/1.

Under the 2-payment option, the chapter would make a 50% payment plus 4% interest (rate used is for an unsecured, short-term loan based on a 16% per annum market rate) **by 11/1**. The 2nd 50% payment would then be due on or before 2/1 of the following calendar year. The interest rate chosen recoups the interest we'd lose from the loan needed to make the full insurance payment on time while also reflecting the risk associated with the unsecured nature of the loan to chapters.

It is important to note under the 2-payment option that no changes would be allowed to the premium calculation nor would any premium changes be allowed as a result of roster changes during the loan time period AND any delinquent payment would trigger the normal Late Fee/Charter Suspension process we have in place today.

Example #1: under the 2-payment option, a chapter not making the required 50% payment plus 4% interest by 11/1 would automatically be subject to the $300 Late Fee and full payment due by 12/1 or charter suspension would result (as is done today).

Example #2: A chapter having made the full 11/1 payment as prescribed under the 2-payment option but not making the required 50% payment by 2/1 would automatically be subject to the $300 Late Fee and full payment due by 3/1 or charter suspension would result.

Rationale: Feedback from chapters indicates this would be a definitive benefit to their cash flow processes. Since chapter payment history has been strong, and we wouldn't expect that all chapters would take advantage of this (to save the interest charge), our projections are that we could afford to take a loan (to make up the difference) in the event enough cash isn't collected by 11/1 to make the premium payment to our insurance company (since the need to still make our full payment on time will not change.)