

October 22, 1959

SUBJECT: INSURANCE

TO ALL MUTUAL AND PARTICIPATING STOCK CASUALTY INSURERS AUTHORIZED TO DO BUSINESS
IN NEW YORK

SUBJECT: Safety Group Dividend Classifications

From time to time the Insurance Department is presented with questions relating to safety group dividend plans which are subject to approval by the Superintendent under Sections 314 and 323 of the Insurance Law. For your information there are summarized below the general principles which have guided the Department in recent consideration of these matters:

The Department recognizes that certain risks presenting like exposures to loss may be appropriately grouped together as a class for dividend purposes in a safety dividend group, provided such grouping is limited to those participating in a realistic accident prevention and loss reduction program.

Like any other dividend classification, a safety group classification is subject to the applicable sections of the Insurance Law relating to dividends. The declaration of dividends remains within the discretion of the Board of Directors subject to compliance with law. By adoption of a dividend plan no carrier can obligate itself to return to an assured any portion of the premium.

The proposed method for the computation of dividends is necessarily an adjunct of the method of classifying policy-holders for dividend purposes. When a proposed safety group classification is submitted to the Department, it must be accompanied by the proposed method of determining the amounts available for dividends which may be declared thereunder. Any subsequent change thereafter proposed in such method must be submitted to the Department.

After approval of the classification plan, the insurance carrier must see that each safety group thereunder is properly established and maintained. Currently, the Department considers that the following minimum criteria must be met for any safety group to be validly established as a class for dividend purposes:

1. A safety program must be spelled out as an integral part of the safety group dividend plan. The general operation of the program or its minimum requirements should be out-lined as part of the plan. The program must be calculated to effect a difference in the loss experience of the group in comparison to like risks not included in the group. Each assured must be committed to participate in and comply with the program.
2. Eligibility must be limited to assureds who have like exposures to the hazards insured against. Common business interests are not enough.
3. A group must be open to all eligible risks. Special benefits should not be afforded members of a trade association, or like organization, nor should there be any condition which would require the assured to be a member of such an organization.
4. The classes of risks and coverage grouped must be limited to those for which the experience can be

significantly affected by common safety measures and regulations.

5. Records of the activities embracing the safety program of the dividend group must be maintained.

6. Appropriately detailed financial and experience records for each safety dividend group must be maintained.

As experience with existing plans is developed, it may be necessary to require modification or withdrawal of a particular plan, and of course, an insurer's management may conclude that changes should be made. Sections 314 and 323 of the Insurance Law provide for such modification or withdrawal.

Very truly yours,

S/ THOMAS THACHER

Superintendent of Insurance