

Insurance Premium Audits

More often than not, a large majority of commercial insurance is based upon a percentage of your sales and/or payroll for the year that the policy is effective for. Soon after your policy expires, you will be asked to provide a voluntary report from your sales/payroll records, or a field auditor will physically come in and review your bookkeeping. Basically, this indicates that the preliminary premium you are quoted is simply an estimate of your actual cost. You may encounter insurance agents who "lowball" your premium to make it seem that you're getting a deal. Unless you can confirm the actual percentage and payroll or sales figures being used, you may find some time later after the service year that you owe a large additional premium. The insurer and agent have done their part and now it is your turn to pay up. The majority of the time, insurance companies collect these premiums with ease; on the legal side, it is in their favor. On the other side of the spectrum, your actual figures are less than what is used to determine your initial premium. In this case, you should seek a refund. Premium AuditA premium audit is a review of a policyholder's records and operations to ensure that the coverage information is accurate. One of the conditions of your insurance contract is to provide the necessary information to complete an audit. The goal of the audit is to assess if your insurance premium accurately represents the proper risk exposure-no more, no less.

At the time your policy was issued, your premium was based on estimates you provided regarding information such as payroll or sales. Your insurance rates can vary based on this information, the audit determines what the correct premium should be based on your actual experience. The Premium Audit ProcessThe type of premium audit used is based on the size of your policy and/or the nature of your operations and may be one of the following:

- Physical Audit - generally conducted on-site or at an appropriate secondary location (e.g., an accountant's office). This audit may be completed by auditors.
- Phone Audit - a representative of an independent audit company hired by the insurance carrier contacts you over the phone to complete the audit. This type of audit is generally for small- to mid-sized accounts.
- Mail Audit - a voluntary audit form with instructions is mailed to you; the completed form is to be returned to my office and I will forward this to the carrier on your behalf. Mail audits are generally conducted for smaller accounts.

A premium audit may involve inspection of accounting records including payroll journals, disbursements journals, general ledgers, Social Security reports, state unemployment forms or other tax reports. It is advantageous to have a designated individual available to assist the auditor. Ideally, this would be someone who is familiar with the work done by all departments and employees and also familiar with the records needed to complete the audit. The Benefits of a Premium AuditA premium audit allows you to be awarded credits to which you are entitled and enables your insurance premium to accurately reflect your exposure.

Many insurance premiums are based on payroll, in other words total remuneration for services performed by employees. Remuneration includes money and money substitutes, e.g. bonuses, vacation pay, wages, commissions, payment for piece work, profit sharing plans, value of board and lodging, sick pay, holiday pay, overtime and other money substitutes.

A premium audit may reduce your insurance costs if your payroll records reflect:

- Overtime - in most states, the amount paid in excess of straight time pay can be deducted, if the excess can be verified in your records. You must maintain your records to show overtime pay separately by employee and summarized by classification of work by state.
- Division of Payroll - In general, one basic classification describes your business. However, certain classes known as standard exceptions may be broken out, such as clerical, sales or drivers. In the construction trade, a breakout of payroll between various trades is also permitted.

It is the policyholder's responsibility to keep payroll records on a time basis and to be sure that the hours in each classification are accurate. Percentages are not allowed. If accurate payroll breakout is not maintained, all payroll will be assigned to the higher classification.

- Subcontractors - Subcontractors without their own insurance coverage are treated as employees in most states. If a subcontractor is insured, obtain a copy of the insurance certificate; a written statement from the subcontractor is not adequate proof. Keep the certificate on file for the auditor to review. Premium Audit QuestionsFor questions concerning your insurance coverage, a premium audit, or for assistance in setting up your audit records, please contact your local independent insurance agent.