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AuditRate - Alper Services' INSURANCE Cost Watch

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To: Executives Seeking to Reduce Their Insurance Costs by 20% to 40%

What is a Machine Manufacturer?

A Client asked us to determine if their business was correctly classified for workers' comp insurance purposes. Like so many others, our Client had been led to believe that workers' comp class codes were assigned based on the operations within their business. Our Client manufactured machines, which other manufacturers used to produce products. The class code they were assigned to, was in-fact the class code commonly applied to manufacturers, in the business of manufacturing machines. As such, it appeared their class code assignment was correct.

However, looking further into the type of machines they manufactured, lead us to the conclusion that their business had been assigned to an incorrect higher rated class code. Our analysis determined that our Client manufactured machines which clean parts under high-pressure. We knew that the insurance manuals contained a short but important passage describing the manufacture of machines, that operate by using water under pressure, and we knew that class code was lower rated than the class code presently assigned.

Our work will cause this business to save over \$10,000 a year on their worker's compensation insurance, every year going forward.



What's the Hurry?

When people say to us "lets defer your audit a few months," they may be hurting themselves. Here's an example of how one Client overpaid, because they waited too long to engage our services.



For experience rating purposes, claims reported for the first time, cannot be reported to the rating bureau earlier than 18 months after the effective date of the policy. Experience modification factors evolve from year to year by using the three most recently completed policy years of payroll and loss information expiring one year prior to the effective date of the experience mod. Insurers have a three month window after the earliest reporting date to file reports with the rating bureau, and typically file "at the last minute." In the matter we were reviewing, we determined that the earliest filing date the insurer could report was 12/05/05. We discovered that the rating bureau had received the insurer payroll and loss information filing on 12/12/05. The insurer's 12/12/05 filing reported one of the incurred claims at an open reserve of \$175,630. We also discovered that two days after the insurer filed their information with the rating bureau, the insurer had issued a letter citing the insurer and claimant's agreement to close the \$175,630 claim at \$55,686. It is highly questionable that just two days after filing their information with the rating bureau, a letter magically appeared citing agreements to close the claim. When we asked (*over*)

Union Hall Employee Incurs Immediate Claim

One firm calls the union hall for an additional worker... worker arrives at the job... two hours latter files a WC claim (no blood). The claim estimate is over \$100,000. At the time, and before this firm was our Client, they were on a retro insurance plan. The

business was attempting to litigate a reduction for the substantial retro additional premium. The effort failed, mostly because the Client's attorney was not well versed in these areas. Now... after the attorney dug the hole in which their Client now finds itself, we were able to get the carrier to change their Unit Stat filings, and negotiated a reduced retro additional premium.

New Business Starts off Misclassified

A new business... in their third year of operation... asked us to review their workers' compensation insurance program. During the course of our work, we immediately noticed that the insurance company had incorrectly applied two governing classification codes to this business. While it is true that there are circumstances in which the assigning of more than one governing classification is allowed by the Rules of Insurance, this business did not meet that criteria.

The Controller had been exposed to workers' comp at a previous employer and knew that this wasn't right. When they brought this to the attention of the insurance company auditor, the auditor simply said "we are right unless you can prove us wrong." At that point the business manager was sunk; they did not have available to them a copy of the Insurance Manuals, nor did they know where to find them. Sometimes knowing and finding the error is not the most difficult part of the process, it is explaining the problem in a way that leaves the insurance company no choice but to correct the error.

The incorrect class code was 5½ times higher rated than the corrected code. We corrected the error by asking the regulator to survey this business and assign the one correct governing class code. The result of our work was a refund of \$30,000 back to this business. They will continue to realize this savings (and more as they continue to grow) every future year.

What's the Hurry? (continued from previous page)

the insurer to tell us the date when the decision was made to close the claim, the insurer would only tell us "the closing letter was issued on 12/14/05." When we asked for a copy of the 12/14/05 letter, the insurer told us they couldn't reproduce it. At that point, it was clear that still another business would suffer the financial consequence of insurance hocus pocus.

If we had been authorized to start our audit earlier, we would have been able to lower the reported value of the subject claim, which would have lowered our Client's 2006 experience modification factor, and saved them over \$50,000. Like anything else, time is of the essence.

What is AuditRate And How Can We Help You!

AuditRate is a premium sleuth and uncovers and recovers insurance premium overcharges. We search for, and find, recoverable premium overcharges for 40% of our Clients. Businesses are frequently overcharged by their insurance company (workers' compensation, liability, etc.) and do not realize it.

For 40 years we have been reporting actual situations like those found in this newsletter. Policy overcharges are an on-going business problem that won't go away. Buying an insurance policy is not like buying a finished product. It's a work in process, with countless pitfalls all along its route. AuditRate's Clients didn't realize they were overcharged until we identified where, when, and how they were overcharged.



Because we work on a contingency fee basis, You Have Everything to Gain and Nothing to Lose.

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