


# Insurance Cost Watch

Insurance Cost Reduction Strategies for Executives Seeking to Reduce Their Insurance Costs by 20%–40%

May, 2009


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## Inter-company Sales

AuditRate was asked to examine a General Liability audit for our Client. The audit identified exposures relating to Inter-company sales which led to an increase in their insurance premium. The auditor's workpapers and the Client's sales records indicated how the Client operated two separate entities, but provided insurance coverage for both under one General Liability Policy. Inter-company sales are quite common between entities under this arrangement. Because their premium was based on their total combined sales, we first reviewed their policy and confirmed the policy carried the Inter-company Sales Exclusion Endorsement. Because the policy did carry this exclusion, the exposures identified in the audit did not exist, because the insurance company was already charging premium based on the total sales from both companies. Because the audit neglected to exclude inter-company sales in their assessment, the Client would have been "Double Charged" for the General Liability premium related to those sales. After reviewing our findings with the insurance company audit department, we were able to secure a refund of \$7,898 for our Client. 

## Payroll

Those dealing with insurance company auditors are often unaware of exclusions which can help produce more favorable premiums. While direct involvement in the process can help, businesses can't depend on insurance companies to divulge these exclusions.


While most insurance auditors understand how to exclude the premium portion of overtime and limit the payroll of executive officers, these common exclusions are often overlooked. While reviewing a Client's past WC Policy, AuditRate interviewed the individual responsible for managing the payroll records and the insurance audits. We learned that there were individuals on the payroll who were not actively involved in day-to-day operations. As company founders, their names simply provided brand equity. This misclassification resulted in a \$2302 overcharge. Worse, the error was missed because the question was never asked. 



## Certificate of Insurance Management is Key

In the State of Illinois, in order to meet their statutory obligation of workers' compensation insurance, uninsured subcontractors are considered employees of the contracting company. Even if certificates are provided, these certificates need to be verified. Lines of coverage and the policy period must be reviewed. If there are deficiencies in the certificate, a premium auditor will find them and assign that payroll to the appropriate Classification Code.

We ran into this situation when a Client approached us with a bill for an additional \$20,000 in premium.

After reviewing the audit paperwork, we immediately identified the problem. The contractor submitted a certificate of insurance they had received from their subcontractor to the insurance company auditor. However, the certificate expired only a few months into their policy period, leaving the sub uninsured for most of the policy period. Seeing only the expired certificate, the auditor picked up the payroll exposure of the labor provided by the sub. Once the problem was identified, we simply obtained and submitted a current certificate of insurance for the subcontractor. The \$20,000 additional premium then became a return premium. The lesson? Never leave anything open to question or scrutiny. 

## Classification Revisions Cause Confusion

In October of 2007 the National Council on Compensation Insurance (NCCI) revised the way in which Not For Profit Organizations were to be classified.

Prior to this revision, these types of organizations were classified using two codes:

*Code 8861—Charitable Or Welfare Organizations Professional Employees and Clerical.*

*Code 9110—Charitable of Welfare Organization—All Other Employees & Drivers.*


Since the revision, only one code is used to classify these businesses:

*Code 8864—Social Service Organization—All Employees & Salespersons, Drivers.*

Most would look at this and think that things were simplified. However, many insurance company auditors and underwriters have taken the phrase "All Employees" to mean exactly that. By knowing the Rules and Procedures of classifying an organization, you would see very important exceptions.

For example, how should Clerical Office Employees be classified? Since the Classification Phraseology does not specifically identify Clerical Office Employees, they could fall under the "All Employees" category. However, standard classification exceptions for specific employees groups still exist and are allowed to be separately rated. Clerical staff can still use the following code:

*Code 8810—Clerical Office Employees.*

In this example, Code 8864 carries an Advisory Rate of \$2.53, but Code 8810 carries an Advisory Rate of \$0.35. If your clerical staff are not properly classified, they would be assigned a \$2.53 rate versus the \$0.35 rate. Examples like this illustrate why attention to detail is so critical when it comes to classification. 



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## 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 over 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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