



COVERAGE INSIGHTS

Provided by Associates Insurance Agency

Understanding Premium Audits

Audits can be daunting for businesses. An IRS or insurance audit or a vendor needing records can be a stressful experience. However, as long as you're prepared, there is no need to dread an insurance premium audit.

This article discusses what a premium audit is, which insurance policies commonly include premium audits, the audit process, how to prepare and what happens after the audit is completed.

What Is a Premium Audit?

The purpose of a premium audit—which is conducted by either your insurance carrier or an independent auditing firm—is to calculate your business's final premium. Since most original premiums are based on an estimate, an audit will examine records to reconcile your business's estimated exposure with its actual exposure to verify that your premium accurately reflects the levels of risk. It's common for an insurance premium audit to be completed after an insurance policy expires or is canceled. Such audits may result in a change of premium or classifications for your business.

Which Policies Have Premium Audits?

Premium audits are most common for these insurance policies:

- **General liability**—A general liability insurance policy uses annual gross sales to determine a premium. In addition, projected revenue over the next 12 months may also be factored in. Your revenue will be verified during the audit process, and your premium may be adjusted accordingly.

- **Workers' compensation**—Workers' compensation premiums are based on the number of employees you have, their classifications and payroll data. Workers' compensation audits may happen quarterly or monthly.
- **Liquor liability**—Liquor liability insurance premiums are typically based on gross sales—including alcohol gross sales, nonalcoholic beverage and food sales—and some operations information.

Other forms of commercial insurance, such as commercial auto, cargo and freight, and certain property policies, may also be subject to premium audits.

How Premium Audits Are Performed

For certain insurance policies, initial premiums are based on estimated costs that businesses submit for review to an agent or broker. At the beginning of a policy period, insurance carriers will review data in order to determine the premium for the full policy term.

Within 90 days of the policy period expiration date, you'll be asked to either fill out a self-reported audit worksheet—typically online—or complete a physical field audit. Some states and insurance companies may require some or all of the audit to be performed in person.

During the audit, you must provide supporting documentation to report on the previous year's revenue and gross sales. Based on that information, your premium may be adjusted, and the policy may



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be amended.

How to Prepare for a Premium Audit

The following are ways your business can prepare for a successful premium audit:

- **Make sure company records are organized and accurate.** An auditor will likely need to review the following documents:
 - Payroll records
 - Overtime pay records
 - Sales records
 - Job duties and employee classification codes
 - Description of company services
 - Cash expenses
 - General company ledger
 - W-2 and 1099 forms for all employees and contractors
 - Company federal tax return forms
 - Certificates of insurance for all subcontractors
- **Be ready to discuss recordkeeping procedures.** Since recordkeeping procedures can impact your premium, knowing how your business operates is important.
- **Prepare any questions.** There shouldn't be any confusion regarding what is needed or expected from you for a premium audit.
- **Assign a designated contact with the insurer or auditor.** Designating a primary contact to work with the insurer or auditor can ensure communication and the overall process goes smoothly and efficiently. The primary contact should be familiar with the audit process and the entirety of your business.

- **Review the original policy.** This may help you understand how the initial policy premium was calculated.
- **Analyze any publicly available information about the company.** Industry databases, association listings, search engine results and your website should all be analyzed to catch and correct any inaccuracies.

After the Audit

Once the audit is complete, the auditor will send your business a report detailing their findings. From there, you will know if your business must pay more premium charges or will receive a premium refund. If you agree with the auditor's findings, it's best to take any necessary actions immediately.

On the other hand, if you disagree with the auditor's report, you can file a dispute. Make sure you contact your insurance company directly for instructions on how to properly dispute a premium audit. Most insurers require you to send audit disputes in writing within a specified period of time, describe the problem in detail (with adequate reasoning) and suggest an alternative solution. The insurance company will then carefully review your dispute and determine whether an audit revision is necessary.

Conclusion

Overall, it's crucial for your business to have a clear understanding of the premium audit process and how it can impact your insurance costs. More than anything, make sure your business is fully prepared for an audit—never ignore an insurer's audit request. For more guidance, contact us today.