Understanding and Managing Your Premium Audit

GUEST EDITORIAL
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Most companies in the work truck industry have General Liability policies that are auditable on an annual basis — and many dread the audit, both the process itself and the impending outcome of additional premium due. The following article will review the purpose of the audit, the audit process and how to possibly avoid an unwanted and unexpected bill from your insurer at the end of it all.

The purpose of the audit is for the insurer to collect premiums commensurate to your operation's exposure. Not unlike the Workers Compensation audit, the General Liability audit is a mechanism to show what your actual exposure was for the policy term. General Liability policies are written in the beginning of the policy term with an estimate, from you, of either:

- Your sales (used most commonly, and the example that will be used for the purpose of this article), or
- Payroll, depending on how your operations are classified.

Of course, there is no way for you to predict your exact sales or payrolls for the upcoming year. For example, as an upfitter, you likely sit with your agent at renewal time and estimate your sales for the coming year. The policy is rated and written based on those estimated sales. Then, at the end of the year, the insurer will inquire as to what your *actual* sales were for the term. If your sales were higher than you had estimated, you receive a bill for additional premium. Conversely, if your sales were lower than estimated, you get a return premium. (Note that not all insurers return premium when the latter occurs. Some insurers are auditable "upward" only. This is a good question to ask your agent before signing up with a particular insurer.)

The Process

The audit process typically will take one of two forms. One way is the written audit, during which the insurer sends you a form that you complete with your actual sales and return to the insurer. They then calculate the total, and you are informed of the outcome.

The more common way is an in-person audit, where an auditor comes to your facility, sits with you to review your books and completes the audit form based on the findings. The auditor then submits the form to the insurer for calculation, and you are informed of the outcome.

When you receive the final audit, after all calculations are made, you should end up with a form that basically says: "This is what you paid and this is what you should have paid." In a perfect world, this would result in a credit back to you each year. Unfortunately, though, it usually results in a bill for additional premium.

Take Control

There are ways to avoid being blindsided by a huge additional premium.

First, meet with your agent and discuss your estimated sales for the coming year at every renewal. The more involved you are in the process, the more control you will have over the outcome. Your sales estimates should be as accurate as possible to avoid additional premium due.

Second, understand exactly what information the insurer wants. Using the upfitter example again, the auditable sales are always based on gross revenue. This means that you cannot deduct your chassis cost from your sales figure. By doing so, you are essentially deducting your cost of goods sold and therefore providing the insurer with gross profit, not gross revenue. This will be caught at audit, and the additional premium generated by this type of mistake can be substantial.

Third, stay in contact with your agent through the year if your sales swing drastically in either direction. Your agent should be able to go to the insurer during the policy term and amend your estimated sales to your revised forecast. This can help you avoid a big bill at the end of the policy term by breaking up your additional premium in small amounts over your monthly installments. But, most importantly, if it seems as though your sales will be much higher than originally estimated, your rate/$1,000 could actually decrease. Many policies' rates are lowered as sales increase. So, by accurately amending your sales to a higher figure, your agent can often negotiate a lower *rate* for you. Then, even if you are still audited at the end of the year and receive an additional premium, the rate by which it is calculated is lower, which would result in a lower audit bill than if your agent had not negotiated a decreased rate.

Ultimately, the audit process is inevitable. But it doesn't have to be as painful as you think. Talk with your agent, learn the process and seize more control over the outcome.

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