

Carrier Test Audit Performance

How the Test Audit Program Works

- Each carrier or carrier group has a predetermined quota for policies to be audited which is established on a yearly basis. This quota is based upon a formula that encompasses the total number of policies written and the amount of premium written by the carrier in New York State.
- The quota is adjusted based upon a review of the carrier's last four years of audit results. The quota will increase if the carrier's results are worse than the industry as a whole or decrease if the results are better than the industry.

How the Test Audit Program Works

- The selection of policies includes Physical Audits, Policyholder Statements, Estimates, Telephone Audits and Electronic Data Interface Audits. It also includes all industry groups, such as Manufacturing, Contracting and Stores, etc. Policies written on a Per Capita or any other basis of premium other than payroll are excluded from the program. The total payroll for the policies selected is generally not more than \$1,000,000 or less than \$50,000.
- Carriers will be notified on a monthly basis of the policies selected and are required to respond to the request within thirty (30) days.

Audit Differences

- If a Rating Board audit result produces a premium difference of \$150 or less (plus or minus) it falls within the acceptability range and is considered non-re-billable.
- Any audit producing a premium difference of more than \$400 is considered re-billable and the carrier is required to make a premium adjustment. Whether a return or additional premium is the result.
- An audit that produces a premium difference between \$150 and \$400 will be considered re-billable if 5% of the carrier premium is less than the premium difference determined by the audit. It is non re-billable if 5% of the carrier premium is more than the premium determined by the audit.
- For all re-billable audits the carrier has thirty (30) days to respond either by submitting a revised premium billing or by submitting a letter explaining the reason the carrier does not agree with the Rating Board audit results. Failure to respond will result in the carrier being assessed fines for non-compliance. A revised unit statistical report must also be submitted to the Rating Board along with any revised premium billing.

Compliance

- Carrier performance will be reviewed on a quarterly basis and will be based upon four (4) consecutive quarters of results.
- Any carrier that exceeds the minimum standard audit ratio of 25% for four consecutive quarters will be subject to the provisions of the program.
- Any carrier that achieves a performance standard of less than 15% for four consecutive quarters will be exempt from the Program for eight consecutive quarters.

Administration of the Program

- We administer the program. An Audit Review Committee, established by the Governing Committee and consisting of three (3) member carriers, is empowered to discuss a carrier's audit results, the carrier's audit program and any remedial actions necessary to improve the carrier's performance.

- The Board will:
 - 1. Notify carriers, on a monthly basis, which policies are subject to audit.
 - 2. Report individual audit results, quarterly reports and annual reports to the carrier.

Administration of the Program

- If the test audit performance of a carrier has exceeded the minimum standard for four (4) consecutive quarters the following steps are followed:
- The carrier is required to meet with the Manager of Field Services and the Vice President of Underwriting and Field Services to discuss the carriers audit proficiency.
 - At this meeting the carrier is to provide a detailed explanation of any remedial measures it has or proposes to implement in the future to improve its audit proficiency.
 - Any carrier who meets with the Board will be advised that continued failure to meet the minimum standard for audit proficiency will have additional policies selected for audit, beyond their established quota, at a cost of \$1,000 each.

Administration of the Program

- ▣ Following the meeting with the Board the carrier's performance will be measured again after three quarters.
 - If the carrier has failed to achieve the minimum standard an officer of the carrier will be required to meet with the Audit Review Committee to present the carrier's plan to achieve audit proficiency.
 - The Committee will establish the number of additional audits to be performed in the next two quarters and inform the carrier that \$1,000 per audit will be charged to offset the cost of performing the additional audits.

Administration of the Program

- Any carrier that fails to meet the minimum standards after the additional audits are performed will be reported to the Governing Committee for further action.
 - An officer of the carrier will then have to meet with the Governing Committee to explain its plan to improve proficiency failed.
 - The Governing Committee may then impose additional fines or report the carrier to the Insurance Department.
 - The Rating Board President will inform the carrier of any action taken by the Governing Committee.

Exclusions from the Calculation of the Error Ratio

- Special audits performed by the Rating Board that fall outside the parameters of the Test Audit Program.
- Carrier final premium billings that were based on policyholder statements.
- Carrier final premium billings that were based upon estimates in situations such as if the insured was uncooperative in complying with carrier requests for a payroll statement or refused the carrier access to conduct a physical audit. In these cases, the carrier is required to provide documentation to the Rating Board to show that the carrier made a reasonable effort to obtain an audit.

Exclusions from the Calculation of the Error Ratio

□ Note:

- Carrier final premium billings based upon policyholder statements or estimates will be excluded from the error ratio calculation if the audit difference between the Rating Board audit and the carrier final premium billing is based solely upon differences in remuneration or the assignment of a classification to an individual employee.
 - Premium differences based upon other factors such as the incorrect classification of the business, experience modifications, deviations, New York State Assessment, etc., will be considered errors.
- These situations will be reviewed by the Rating Board on a case-by-case basis.



Payroll Limitation

Payroll Limitation

- Governor George Pataki signed into law, effective October 1, 1999, the Payroll Limitation Law which is intended to provide a more equitable distribution of premium between high wage paying and low wage paying employers in the construction industry. Work performed in the construction, remodeling, maintenance or repair of one or two-family residential housing are excluded from the provisions contained in this Law.
- Since the Payroll Limitation Law may reduce an employer's workers compensation insurance costs, proper record keeping is important in order for an employer to receive full advantage of the benefits provided by this Law.

Payroll Limitation

- The law created three geographic rating territories that are used in calculating premium for employers subject to this law. An individual employer's overall premium may increase or decrease depending upon the geographic territories in which the employer's employees worked and/or the applicable payroll limitations.

