

Auditing the Audit

2009 PAAS Annual Forum

Presented By:

Michele Ernst

Terri Hill

Greg Jensen

Richard Pope



Auditing the Premium Audit

A Primer On Premium Audit Recovery Companies:

- 1) What are they?
- 2) What are their objectives?
- 3) What lines of business are involved?
- 4) Exactly what services are provided?
- 5) How do they get in?
- 6) Who are they?

What are they?

- A typical “rebate company” is an enterprise involved in a myriad of services typically geared towards the policyholder for which remuneration is usually based upon a percentage of premium recovered by the rebate company from the carrier.
- Ironically, many rebate companies also offer services to insurance carriers as well
 - Loss Control
 - Experience Mod Review

What are their objectives?

- Despite hyperbole to the contrary, their goal is to make money for themselves at the expense of the insurance carrier.
- From one Premium Recovery Website:
 - “Using experience, ‘insider knowledge’, and proprietary software designed to detect incorrect experience rating and billing calculations, we are able to analyze past, and current policies, in search of overcharges and savings opportunities. ***There are many cost-saving strategies available for those who know the loopholes... and we are skilled at finding them.***”

What lines of business are involved?

- For the most part, rebate companies appear to target the workers' compensation arena
- This makes sense since comp is highly regulated and subject to more stringent rules and guidelines
- Non WC policies are typically tied to policy language that speaks of “company rules” when it comes to audits, classification, etc

Exactly what services are provided?

- 1) Premium overcharge recovery.
- 2) Audit dispute resolution.
- 3) Review of policy at issuance.
- 4) Conducting independent premium audits.
- 5) Classification reviews.
- 6) Negotiation.

The company may also offer other services related to claims, e-mod verification, retro formula review, scheduled rating formulas, etc.

What Rebate Companies Say!

Another rebate company quote

- "Bear in mind that the only adjustment allowed on the audit is payroll; any other change that the auditor might deem necessary, must be done by endorsement - and agreed to by both parties."

- This statement is in direct conflict with NCCI's Basic Manual, Part One – Rules, Rule 1F. Changes in Classifications.
- The statement also fails to recognize that for non WC lines of business (barring state insurance rules to the contrary) the policy language of the policy “contract” dictates that carriers audit per “carrier rules”.

What Rebate Companies Say!

Another rebate company quote:

- Determine what information to show the payroll auditor. Learn how to counter your insurance carrier's "aggressive auditing".

➤ Carriers audit per company, state, NCCI or ISO guidelines. They always err on the side of providing adequate premium to cover actuarial losses.

- These statutory rules or company guidelines may appear punitive but are not.
 - They require insureds to keep segregated records to allow proper allocation or all exposure is placed in the higher rated classification.
 - They have fairly stringent requirements for certain classifications to be used.
 - Executive Supervisor
 - Clerical

What Rebate Companies Say!

Another quote from the same rebate company.

- Always remember that, to the insurance company, premium auditing is a **profit center**.

➤ NOT..... this year!



Another major player claims:

What We Do:

- If your workers' compensation premium is wrong; if the insurance company's audit of your premium is wrong; if your classification is wrong, if your experience mod is wrong; if your high deductible is creating problems; if the definition of what is to be included in "payroll" is creating problems; if you are a PEO with any of these challenges including corporate combinations that affect e-mods; if your retro is wrong; if your scheduled rating is wrong; we will know it and more importantly, we will know how to make it right.
- Because we know every audit issue; we know every classification recorded; we know how every e-mod is to be calculated; we know the calculation of all high deductibles; we know all PEO issues as to workers compensation; we know the formulas for retrospective rating; we know the formulas for scheduled rating; we know "payroll"; we know how workers' compensation premium is rightfully calculated.


➤ **Why You Should Consider Us:
Because We Literally Wrote the Book on
These Issues.**

➤ **Yes, you could say we wrote the book:**

- On the Classification System;
- On the Experience Mod System;
- We authored and implemented the definition of “Payroll”;
- On all PEO workers comp issues, such as proper corporate combinations for e-mod calculations;
- On audits

- We wrote the descriptions for the 600+ Classifications in the Scopes Manual;
- We created and implemented the complex formulas for High Deductibles;
- We created and implemented the complex formulas for Retros;
- We created and implemented the complex formulas for Schedule Rating plans;
- We authored and filed some 500 statewide rate filings used throughout much of the U.S., setting the premium levels on about \$15 billion of workers compensation premium – every year;
- We gained regulatory approval to use all of the above formulas and rules.

Summary

- ❖ Most rebate companies imply that insurance carriers regularly and intentionally overcharge the insured.
 - ❖ They primarily deal with issues that the insured's agent should be handling.
 - ❖ Most of these issues, if brought up to the carrier at audit or shortly after, would be resolved amicably and fairly at no cost to the insured.
- 

How do they get in?

- They target certain industry groups
- They buy lists from Associations
- Obtain Letter of Authority from insured
 - Agency
 - Insurance Carrier
 - NCCI

Letter of Authority

Re: Hill Contracting –
WC 29395039
5/1/07-08

To Whom It May Concern:

This letter will serve as authorization for **Company A** d/b/a Premium Audit Recovery Group, located at P.O. Box 36351, Maitland, Florida 80237-0254, to consult with any employee of ***Name of Insurance Company*** regarding any and all aspects of our workers' compensation policies and to receive copies of such information as deemed necessary.

Please extend every courtesy to the employees or agents of Workers' Compensation Services, Inc.

Sincerely,
Terri Hill
Hill Contracting



Our best defense

- Know the rules (NCCI or Independent Bureau)
 - They often focus on a portion of the rule (the one that they choose)
- Auditor documentation
- Interview and exit interview at time of audit
- Don't be afraid to use PAAS &/or NCCI as a reference to test your understanding of the rule in question
- Understand the NCCI appeal process

Tips for dealing with rebate companies

- Validate who you are communicating with (there is often the implication that they are the agent)
- Create a policy for dealing with Rebate Companies

Keep in Mind!

- You may be talking to a rebate company and not know it, so to assist you, we offer the following:



Examples

- Let the stories begin!



Who are the rebate companies?

- **Apex Services, Ltd.**
- **WorkComp Professionals**
- **WorkCompAudits**
Website: www.cutworkcomp.com
- **Premium Review Associates**
- **Comp Cost Recovery Systems, LLC**
Website: www.compcostrecovery.com
- **Advanced Insurance Management LLC**
- Website: www.cutcomp.com
- **Comp Premium Wizards**
- Website: <http://www.comppremiumwizards.com>
- **Leahy's Premium Recovery Service**
Website: http://www.nyahsa.org/nyahsa_services/n00000008.cfm
- **AIVT**
- Website: <http://www.aivt.org>

More Rebate Companies

- **J&L Insurance Consultants Inc.**
Website: <http://www.cutcompcosts.com/index.html>
- **AccuComp USA**
Website: <http://www.accucompusa.com>
- **Work comp Premium Recovery Group**
Website: <http://www.workcompaudit.com/>
- **Workers' Comp Premium Recovery and Reduction LLC**
Website: <http://www.workerscomppremiumrecovery.com>
- **Reduce Your Workers com**
Website: <http://blog.reduceyourworkerscomp.com/>
- **The Oracle Consulting Group**
Website: <http://www.oracleconsultinggroup.com>
- **Corporate Cost Solutions**
Website: <http://www.corporatecost.com/>
- **Commercial Capital Resources**
Website: http://www.commcapresources.com/index/mn40091/What_is_it33

Auditing the Audit

2009 PAAS Annual Forum

