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Auditing the Audit

BY DONALD T. DeCARLO

Sadly, many of the nation's nearly six million small to mid-sized companies are buckling under the weight of exploding administrative costs. They are at a substantial competitive disadvantage to larger corporations that are able to achieve economies of scale for many of their administrative expenses or through insurance loss-sensitive programs available only to larger employers.

Hard-pressed, these smaller firms are constantly seeking new and innovative ways to contain costs and increase their bottom line. A new, highly effective tool in their arsenal is independent auditing of workers' compensation premiums.

For many employers, annual workers' comp premiums represent their largest insurance outlay. The fact that a single error in employee or workplace calculations can dramatically increase a company's workers' comp premiums has given rise to independent premiums auditing.

The logic is simple and seductive: Independent auditing firms reexamine employers' workers' comp calculation factors to verify the accuracy of their premiums.

If errors are found, the employer is guided through retroactive changes and refunds, with the auditing firm compensated on a contingency basis. Because these firms perform relatively few audits, they are highly focused and effective.

TMC/Premium Analysis is one of the more established independent audit firms.

Their 4,000 customers--which include small to mid-sized companies, municipal governments and hospitals -- demonstrate the need for such services.

TMC and similar firms hire auditors who were previously employed by major carriers, and use industry-standard auditing methods to achieve their results.

At first blush, the emergence of these firms seems like the bane of insurance carriers, given the explicit challenge to their revenues. But the long-term interests of client and carrier are well served by such firms.

For one thing, when premiums are overstated, it undermines the competitive ability of the major carriers themselves. In today's soft market, customers are more likely to revert to a premium carrier, or shop for a new one altogether, if it means saving money. Independent auditing firms, by keeping companies' workers' comp costs at appropriate levels, help carriers retain their competitive edge.

Second, cost-containment for workers' comp premiums keep companies competitive in an increasingly difficult environment.

Companies with excessive insurance burdens either fail or are unable to make new expansions in infrastructure, equipment and new personnel--the types of investments that would result in increased productivity and profits for the employer, and higher premiums and greater profits for insurance carriers.

Finally, premium disparities raise the unwanted specter of federal oversight of workers' comp audits. Frequent and dramatic premium fluctuations are a principal reason why the feds would be interested in regulatory authority. The current system works very well as an informal checks-and-balances mechanism that largely removes the need for federal oversight. This view is shared by the major carriers, and is reflected by the level of cooperation between insurance carriers, premium auditors and independent auditing firms.

Independent premium auditing firms are a sign of the times. Economic conditions and changes in the workplace have fostered the need to cut costs.

Setting fair and accurate workers' comp premiums is one way to do so without cutting corners.

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