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Cost Watch

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To: Executives Seeking to Reduce Their Insurance Costs by 20% to 40%

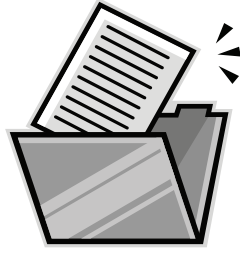

Incorrect Filing Costs

In the course of reviewing the Experience Modification for a Client, we noted there were three unusually large claims. While researching the history of these claims, we discovered that they are what the Insurance Manuals describe as "Catastrophic." This definition of catastrophic is two or more workplace injuries arising from one accident. In this case,  three employees had been injured in the same accident. The manuals treat these injuries different from individual occurrences in the sense that they are limited as a group, rather than individually. While this had been represented correctly on the 2006 Experience Mod, our analysis discovered the claims were not reported correctly in the development of the 2007 Experience Mod. This error artificially inflated their 2007 Experience Mod by 9 points. Our work corrected this error which saved this business over \$21,000.

Over-Reserved Claims Hurt Your Experience Mod

We were recently reviewing the workers' compensation program of a Client, and our analysis turned up a troubling pattern. We found that year after year, this business had large, open claims on their experience mod. This was not the issue, because accidents happen. The problem was, these claims later closed for significantly lower amounts. For example, one claim for \$24,576 (which occurred during the 03-04 policy period), appeared open on the 2005, 2006 and 2007 Experience Mods. Shortly after it's last year on the Experience Mod, the claim closed for \$3,315. The over-reserve on just this one claim alone, cost this business over \$6,000 premium during these three years. While this particular (*over*)

Erroneous Report

An insurance company was asked to describe what information they needed to complete their final audit. Our Client took that information, and produced an elaborate report listing the names and payroll totals for everyone employed during the period of a policy. The insurance company applied the information reflected in our Client's report, and generated a \$45,000 additional premium charge. AuditRate was asked to review the matter after our Client ran out of options ... realizing that the payroll totals reflected on the audit invoice were identical to the totals reflected in the report they gave the insurance company.  AuditRate found that when the insurance company was asked to describe what they needed to compete the final audit, the insurance company gave our Client a cursory explanation. Unfortunately, the policyholder didn't know better, and developed their report exactly as they were told. When the insurance company came in to audit the records, instead of making their own audit, they took the Client's report and left. AuditRate conducted a proper audit, which changed the the \$45,000 additional premium charge to a \$3,000 credit! 

Classification Code Corrected

A client has been operating their business and producing the same products, the same way, since the business began many years ago. Their insurance provider classified their business by looking at the process in which their product was manufactured. In terms of Workers Compensation insurance, businesses should be assigned to the class code that "best describes the nature of their business." (*over*)

