

PREMIUM AUDIT GUIDE

General Liability



Alliance
Insurance Agency
We've got you covered

Introduction

At Alliance Insurance, we believe in providing our commercial clients with the highest level of broker service. A key element of commercial insurance includes general liability audits by carriers to ensure that you are only paying premiums for your business's actual exposure to loss. Since premiums are initially based on your best estimate of the rating base (which is comprised of payroll, sales, total cost, etc.) for the policy term, it is important to stay vigilant of any differences between your estimates and your actual exposures. Carriers oftentimes audit clients for a variety of reasons. In order to prepare your company for an audit, we have compiled this audit guide to help explain what is included, why, and what you need in order to go through your carrier audit with ease.

Rating Base Elements

Gross Sales

When carriers look at gross sales, what they are looking for is the total amount that your business, concessionaires of your business, or others trading under your business's name made for all goods or products sold or distributed, or operations performed during the policy period, rentals, and dues or fees.

Inclusions

- foreign exchange discounts
- freight allowance to customers
- total sales of consigned goods and warehouse receipts
- trade or cash discounts
- bad debts
- repossession of items sold on installments (collected amount)

Exclusions

- sales or excise taxes (which are collected and submitted to a governmental division)
- credits for repossessed merchandise and products returned (allowances for damaged and spoiled goods)
- finance charges for items sold on installments
- freight charges on sales (if freight is charged as a separate item on customers' invoice)
- royalty income from patent or copyrights (which are not product sales)

Intra-Company Sales

This term refers to any sales that are made between many different locations within one company, corporation, or legal entity. For example, if you have multiple locations and one store sells products to another store or vice versa. Since only charges made to the public are considered chargeable exposures, no charge is subsequently made in this case.

Inter-Company Sales

This term is used to describe sales between more than one company, corporation, or legal entity. An example is that company AAA Corp sells products to BBB Inc. Since these are both legal entities, they are able to sue each other even though they are on the same policy. An exposure like this should be picked up on an audit, but there is an exclusion for coverage of this nature. Talk to your Alliance Team regarding such a situation.

Payroll

The remuneration inclusions and exclusions for payroll can be found in our Premium Audit Guide for Workers' Compensation. With very few exceptions, the payroll portion of the liability follows the same rules as Workers' Compensation.

Total Cost

When an auditor delves into total cost, they are assessing the cost of all work (let or sublet) associated with each specific project. This includes labor; materials, equipment furnished, used or delivered in order to complete the work; and all fees, bonuses, or commissions made, paid or due.

Each

The basic assessment of any liability premium is per person. As such, your business documentation needs to give an accurate account of any and all individuals actively employed during the term of the policy. Included in this documentation should be any required tax forms, hire dates, and termination dates.

Admissions

If your business is event based, the admissions criteria might be considered in the audit. In these cases, the term admissions conveys the total number of people admitted to any and all events conducted on the premises whether they paid admission or received complimentary tickets.

Employee Classifications

Officers

When it comes to General Liability, officer treatment is assessed on the basis of premium or policy coverage. As such, it is crucial to alert your broker of any changes in officers during the policy term as it could potentially influence your exposures for class code reporting. Below you will find a summary of office treatment by basis of premium. It is important to note that just because you might have an individual that possesses a title, someone is only considered an officer if they are listed in the Articles of Incorporation.

Sales-Based – In this case, the gross sales covers the risk.

Payroll-Based – With this situation, the active officers of your company are included in the coverage for a flat amount per officer or, depending on state and entity type, subject to special minimums and maximums.

Number of Employees (Auto Service VOP Program) – Here, your owners, officers, partners, and/or members are typically considered to be full time if they are actively involved with the business, regardless of their scope of responsibilities and hours worked. This is also inclusive of any above listed individuals performing clerical sales as well.

Artisan BOP – This category includes all active owners, officers, partners, and/or members regardless of the job duties which they perform.

Garage Liability (Hazard I) – In this category, the active owners, officers, partners, and/or members of your company are included at a rating factor of 1.00.

Garage Liability (Hazard II) – This category covers all active owners, officers, partners, and/or members at a set rate of \$100 per week. However, if they are inactive, 100% clerical or managerial, they will be excluded.

Employee Classification

When classifying employees, auditors base their designation on the definition of each class code(s) as well as the job duties or services that each employee performs. From that classification, the corresponding payroll amount is subsequently reported for each class code(s).

Leased Employees

Any payroll burden of leased workers utilized by your company through a labor leasing firm or contracting agency will be included in the General Liability exposure which is applied in the same way had the individuals been direct employees of the company. Should the payroll be unavailable, the full amount (100%) of the total cost of the contract for the leased workers will be used as the payroll amount.

Temporary Labor

Uninsured Temporary Labor

If you hire a laborer without insurance, their work will be charged based on the nature of the work performed. If they have clear records that indicate a different charged amount for labor versus materials, uninsured subcontractors will be charged at the total cost.

Insured Temporary Labor

If you would like the total amount paid to a temporary laborer to fall into your subcontractor code, you must obtain a valid Certificate of Liability Insurance which covers the audit period in its entirety and shows the full total paid to the laborer.

Certificates of Liability Insurance

A Certificate of Liability Insurance serve the singular purpose to prove that a subcontractor has their own liability insurance coverage. It is important to note that depending on the audit period, two separate certificates (each for an individual year) might be required.

Auto Service (BOP) Program

While the number of full time employees determine most auto service programs, sales are the basis for car was operations.

Officer Inclusion

If you have executive officers, sole proprietors, or partners, they will be included at 1.0 regardless of the duties they perform or the amount of time that they work (if active in the business). These individuals will be included in the audit at this 1.0 rate even if they are simply doing clerical functions.

Clerical Employees

If you have clerical employees that don't operate a vehicle in the scope of their job responsibilities, they will not be included in the audit. Additionally, any employees that you retain for the purpose of keeping your books (clerical work) must work in an area that is physically separate from the rest of the operations.

Additional Information

Incomplete Audits

Premium audits are a routine part of carrying insurance for your company and are provisioned in the policy. Failure to comply or complete a premium audit may result in your policy not being renewed, which can have severe impacts on your business.

Current Term Endorsement

Should your company's exposures increase significantly as the result of an audit, your Alliance Risk Advisor will be contacted in order to increase the current policy's premium base, even if you are in the middle of your policy term.

Frequently Asked Questions

What kinds of records do I need to give the auditor?

Payroll Records:

- payroll journal and summary
- check book
- Federal Tax Reports (941's) for the audit period
- State unemployment reports (and individual earning records)
- All overtime payments shown by individual employee

Cash Disbursement Journals (or Checkbook) Showing:

- Payments to temporary labor
- Materials
- Casual/contract labor

Employee Records:

- Job description (a detailed explanation of the job duties of each employee)
- Documentation of the number of full time/part time/seasonal employees
- Hours, hourly rate, days, or weeks worked annually

Certificates of Insurance

- For all subcontractors
- For all independent contractors

If I hire temporary labor what do I need to do?

Should you hire any temporary labor, reach out to your Risk Advisor so that they can provide you with what information you will need to request from your new hire (such as Certificates of Insurance or Independent Contractor's Statements).

What additional information might be required of a contractor?

Any contractor or subcontractor you hire will need to provide you with Certificates of Insurance that are valid for the full audit period. Failure to obtain these will result in the individuals being deemed employees therefore increasing your exposures, so be sure to do your due diligence in the collection of these documents.

Do I have to provide the information requested?

Yes! When you obtain an insurance policy, it is considered a legally binding contract. The standard practice of performing audits is part of the industry standards included in policies. If you decide not to provide the information to your carrier, there could be serious consequences for your company. If you have questions about what you are being asked for, don't hesitate to give your broker a call and they will be happy to explain.

What happens after I provide the information requested?

Once you provide the information that your carriers requests, they will simply process it through a computer program to determine what your company's exposures are, which then determines the premium computations.