



Audit Season: Food for Thought

By Patrick Deem, Sr. CIC, WC Risk Management Consultant

The number one renewal date for commercial lines accounts is January 1. Once those renewals are completed, the next item on the agenda will be 2017 policy audits. Below are three key points to remember and discuss with the insured, as these audits progress.

1. Payroll classification

For insureds who have multiple classifications on their policy, with obviously varying rates, it is vital to prevent any difficulty for the auditor in determining which employee payroll applies to which class. If the records are unclear, all the payroll must be applied to the highest rated classification, which can easily lead to a large additional premium. This problem can occur when contractors have their records organized based on job costs to their client rather than actual payroll of their employees. To eliminate this problem, the records should be organized so that the auditor can easily recognize the name of the employee, the duties of the job, and how much they were paid. This sounds simple, but too often it is not done correctly—or at all—and the auditor is forced to determine (or guess) what the payroll is and to which employee it is applicable.

As an example, a small contractor recently had an audit dispute due to the payroll records being submitted as job tickets, for lack of a better phrase. Each record indicated the client, the job or contract number, the employees by name, job duties, and the total job cost, which, in reality, was the billing to the client. However, the payroll records never separated the payroll per function of the employees, and in some cases, the employee actually performed work that qualified for four different classifications. This left the auditor to apply all the payroll to one classification—the highest one, and as a result, the amount of disputed premium involved in the audits was in excess of \$900,000.

This was a small contractor who grew considerably in the course of four short years and whose operations changed in the process. Unfortunately, the agent neglected to get involved with the auditor or the client until it was too late and anger dominated the situation. By working together

with the audit department and the insured and making sure everything was done correctly, the agent could have eliminated this problem before it ever even became one.

2. Classifications for renewals

Businesses and contractors often renew “as is,” without evaluating any changes that may have occurred within the business during the previous year. Any time a business finds themselves performing new functions, whether as the result of growth or simple adjustments and changes, it is important to consider whether this affects their renewal status. Neglecting to do so can create classification issues and disputes, as in the example above.

The insured, the carrier, and the agent all have the ability to order an inspection from the NCCI to determine appropriate classifications. The inspection is not free and can cost up to \$160 per hour, but with NCCI making the classification decisions, disputes can be avoided.

3. Independent contractors

Many insureds claim that they have very few employees because they use independent contractors, and they issue a 1099 form for any payments made to those independent contractors. The problem is that issuing a 1099 form to someone as indication of the amount paid for services rendered does not create “independent contractor” status. What does create this status is the workers compensation law of Texas, which, since 1991, has had separate definitions of “independent contractor” for residential and small commercial construction contractors, and all other construction contractors and industries.

A workers compensation carrier has the right to charge a premium for any employee for whom the carrier would be required to pay a claim under the workers compensation law; under this law, an uninsured subcontractor is considered an employee of the hiring contractor (the insured). Being an independent contractor requires a Certificate of Insurance from the subcontractor issued in favor of the hiring contractor.

A true independent contractor, one that meets the definition in the workers compensation law, and all their employees are still considered employees of the hiring contractor unless the hiring contractor can produce a Certificate of Insurance, not just a 1099 form, indicating workers compensation coverage for the independent contractor. Furthermore, the full contract

cost becomes the payroll for audit purposes for the uninsured employees. This is another issue that can easily be avoided by communicating with the insured before it becomes a problem.

Bottom line: Communication with the insured before these problems develop can save everyone involved from stressful disputes and needless frustration.

Management Involvement to Achieve Sustainable Safety Excellence

By Tipton Scruggs Loss Control Supervisor

“Give a man a fish and you feed him for a day. Teach a man to fish and you feed him for a lifetime.” This rings true in almost every aspect of life and can likewise be applied to achieving sustainable safety excellence.

Many policyholders rely on their insurance carrier or independent consultant to visit their facilities and conduct hazard assessments throughout the year, but this typically only results in a temporary focus on safety related improvements. Policyholders must be taught how to maintain safety precautions long-term. Even for those who do an excellent job of implementing safety regulations, there is always room for improvement, and management involvement is the key.

One of the best management efforts is conducting routine hazard assessments, or safety walkarounds, on a monthly basis. These assessments demonstrate management’s commitment to improving safety and health by identifying and abating hazards. They allow management to determine how effective the existing safety program is and the impact these efforts have on preventing potential work-related injuries.

There are three primary components to conducting an effective safety walkaround or assessment:

Pre-assessment activities

- Gather historical information, such as incident investigation reports, historical assessment reports, and near-miss incident reports, to identify the most hazardous areas
- Talk to department supervisors/managers about their safety observations and concerns
- Acquire all PPE needed prior to the walkaround to set the example for employees
- Acquire or create an inspection checklist applicable to the exposures and/or departments you intend to assess

On-site inspection activities

- Make sure the appropriate PPE is being worn correctly prior to entering the work areas
- Look for easily observable hazards, such as tripping hazards, blocked exits, and frayed electrical wires
- Look for property damage that could have been caused by forklift operations
- Talk to employees about the hazards they work with – an excellent way to ascertain potential safety improvements
- Ask open-ended questions
- Seek out and visit with new hires to gauge their understanding of the safety program
- Observe employees as they perform their job duties, looking for safe and unsafe work behaviors
- Try to find solutions “on the spot”
- Make a list of hazards that need to be addressed and prioritize them according to potential severity

Post-assessment activities

- Prepare an abatement plan containing a list of hazards found, corrective actions needed, and a reasonable timeline for implementation
- Assign responsibilities for abatement activities with a target completion date
- Identify complex hazards that may need further evaluation, study, or engineering work, and develop interim controls to be implemented until a permanent solution is found
- Share results with owners, senior executives, management, and line employees

When visiting policyholders for safety assessments, maintain a focus on teaching long-term implementation, not just finding a quick fix.

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Question:

I just started a new job in a fast-paced agency, and I realized that most of the people I work with are simply sad souls. Any attempt to insert joy or lightheartedness is received like the flu. One of my coworkers shared recently that she was concerned about showing too much joy because it would give the impression that she wasn't a hard worker or didn't have enough to do. Isn't it better for employees to come to work and try to be happy?

Answer:

I cannot imagine spending so much of my life at work and not enjoying the journey. Yes, it is absolutely better for employees to come to work happy, and there are ample studies that support this idea. Below I have shared some thoughts on being happy at work in the hope of providing you with encouragement at your new job.

Happiness is about connectivity

Happiness can mean different things to different people. It can refer to optimism (the way we think), emotion (joy, pleasure, gratitude), or a way of life (philosophy). Regardless of your definition, research indicates that the quickest way to happiness is through development of relationships. It's about people, not money or looks—simply the extension of our personal relationships and building those networks. The office is a natural environment for connectivity, leading to the development of an extended family. The more you can build work relationships, the more you contribute to your personal enjoyment at work.

Gallup's research supports the idea that employees who have a good friend at work are more engaged because they have a sense of belonging and being part of a group.

Happiness is contagious

We have all experienced the co-worker who comes to work with their own special brand of bad mood. They spread their negativity as they move through the office, and we watch as the mood is transferred one by one. The good news is happiness may be just as contagious, and maybe even more so. Studies from the University of California have found that happiness can spread by association. Having a happy coworker directly influences your emotional position. The more you surround yourself with joyful people, the more likely you will find yourself transforming—for the better.

Happiness increases productivity

The positive endorphins that come with joy also promote improved productivity at work and at home. Endorphins put you in a more relaxed state, allowing you to focus more clearly and potentially resolve problems and overcome challenges more quickly.

Here is a fun fact about endorphins: smiling is the easiest way to release the hormone. The simple movement of stretching your facial muscles triggers the brain to produce endorphins. It does not have to be a sincere smile. Even a fake smile will trigger endorphin production. The expression "fake it till you make it" works in this scenario. Keep smiling!

Happiness is healthier

It is difficult to sustain stress and happiness at the same time, so it is no surprise that there seems to be a correlation between lower medical costs and content employees. Medical studies have postulated for years that happiness has a direct positive impact on our immune system, mental health, stress, and coping skills.

Happiness may be the path to success

When we think of the qualities of a successful leader, we normally move toward adjectives such as charismatic, commanding, and extroverted. Research now indicates that although these traits are important, the number one component to seek in hiring practices is the individual who displays happiness and positivity. These individuals normally lead through inspiration and motivation, creating challenging opportunities and spending time encouraging and mentoring employees. We might say that leadership success could be the byproduct of being happy. Numerous studies indicate that this success also crosses over into marriage, friendships, income, and possibly even contributes to longer life.

We go to work every day knowing that we have no control over the crisis or drama that may be waiting for us. But we can control how we embrace the day. We can choose to be happy, to view life through a different lens, to replace the negative with the positive, and assume the best rather than the worst. Everyone has the responsibility to contribute to a positive work environment, and being happy is a good place to start.



Service American
Indemnity Company

Service Lloyds Insurance Co. Parent, Service Insurance Holdings, Inc., Acquires American Healthcare Indemnity Co.

Longtime Texas workers compensation provider sees new opportunity and augmented reach with acquisition

AUSTIN, March 19, 2018 (GLOBE NEWSWIRE) – Building on a mainstay practice area while expanding its geographic reach, privately held Service Insurance Holdings, Inc. (SIHI), parent of Texas-based Service Lloyds Insurance Company, announced today the acquisition of American Healthcare Indemnity Company (AHIC), an Oklahoma-based insurer. The new entity will be rebranded as Service American Indemnity Company.

A primary goal of the acquisition is the augmentation and gradual expansion of Service Lloyds' business geographically. The acquisition will allow the new company to write workers compensation insurance in up to 48 states. The newly formed Service American Indemnity Company will also identify and introduce new programs that will create significant opportunities for growth and profitability.

“The new company, integrated with Service Lloyds, represents one of the first steps in our strategy to execute measured, organic growth into targeted areas over the next few years,” said J. Kelly Gray, CEO of SIHI. “It will allow us to continue our tradition of unparalleled service in the workers compensation market, as well as be responsive to the growing needs of customers and stakeholders.”

The acquisition will result in a planned pooling and reinsurance agreement under SIHI, and will result in the addition of significant new resources. The business will remain headquartered in Austin.

About Service Lloyds

Service Lloyds is proud to be a Texas-owned and operated carrier offering workers compensation to Texas employers since 1982, and in other jurisdictions more recently via strategic partnerships.

The company's customer approach involves not only providing agents and policyholders with a quality workers compensation product, but also with the support and personal service that makes Service Lloyds a leader in customer service in the industry. Every day the company delivers on its promise that “Service is more than our name...It is our way of doing business.”