



Automatic Data Processing
Insurance Agency, Inc.



Business perspectives on workers' compensation administration

Best practices for small and mid-size business owners managing their insurance policies to positively impact their business.



Introduction

Most small and mid-size business owners are aware of the necessity of business insurance, particularly workers' compensation insurance. Almost all states require businesses with employees who are not owners to purchase workers' comp coverage, although requirements vary from state to state. Businesses that fail to provide requisite workers' comp coverage for their employees can face severe and costly repercussions.

Automatic Data Processing Insurance Agency, Inc., (ADPIA®), an affiliate of ADP®, Inc., sponsored a study to evaluate small and mid-size business owners' understanding of business insurance, with a focus on workers' compensation coverage. In it, ADPIA also gathered additional perspectives from select insurance companies to help identify knowledge gaps that impact small and mid-size businesses. Owners can use these results to benchmark their own insurance challenges and successes against their peers' and gain insight into key business insurance best practices.

Executive summary

For some companies that have business insurance, such as workers' comp coverage, administration of their policies, including reporting responsibilities, is complicated and time consuming. Some take advantage of opportunities to improve how they manage their insurance to protect and positively impact their business, relying heavily on their insurance agent and other trusted advisors for guidance when determining their insurance needs, selecting the right insurance carrier, classifying workers, and adopting tools to make insurance tasks more efficient and premium payments more accurate.





Key findings



Insurance carrier selection: A bit **more than half** of business owners said they sought input from agents or other trusted advisors when selecting an insurance carrier. Cost was the primary reason for selecting their insurance company for about half of respondents, while about one-third pointed to referrals from agents or advisors.



Carrier satisfaction and loyalty: About **three-quarters** of businesses have not changed their workers' comp carrier within the last three years. During that time, a similar share has stayed with their carrier for other business insurance.



Insurance coverage selection: Having appropriate workers' comp and general business coverage is a key concern among business owners. **Nearly half** of business owners spoke to their insurance agent to select appropriate coverage.



Underinsurance and overlooked risk: **Two-thirds** of business owners reviewed their general business insurance in the last six months, and about half plan to conduct a preemptive review to address new risks. Carrier conversations uncovered possible gaps in ancillary coverage, cybersecurity being the most overlooked risk.



Worker classification: Close to **half** of respondents had assistance from their insurance company with worker classification, either when coverage was first established or each time, they added a new worker. Nearly one-fifth indicated they had employees change job function in the last year. Among those respondents, about **4 in 10** said they needed to change a worker's classification for workers' comp coverage.



Claims: Although the majority of business owner respondents said they have never had a workers' comp claim, nearly one-fifth said they have had a claim within the past two years. Of those that have had a claim challenged or denied by their carrier, close to a quarter attributed the issue to inadequate documentation and nearly one-fifth to misclassification of the worker's role.



Audits and premium accuracy: The process for gathering reports for the year-end audit for the majority of business owners took a few hours or less, however **22%** said the process took a few days. After their last audit, about twice as many respondents were charged an increase in premium as those who saw a decrease in premium.



Administrative solutions: Around **4 in 10** use pay-as-you-go solutions to spread workers' comp premium payments across the policy term to help make more accurate payments; at least one-third were not aware of that option.

Insurance carrier and coverage selection

Purchasing business insurance can be confusing, but it is a necessary business expense to protect the business and its owners, employees and other stakeholders. Finding the right business insurance can be a challenge. Most business owners know that they need certain types of insurance, including workers' comp coverage, but don't know how to select the right carrier and coverage.

Agents and advisors guide carrier selection

Business owners often tap advisors for assistance when choosing an insurance company for workers' comp and other business insurance. A bit more than half (**53%**) said they got the most help from an advisor such as an insurance agent (**27%**), accountant (**15%**), payroll provider (**6%**) or attorney (**5%**). Many (**47%**) made their selection through their own independent research.

Ultimately, cost is the top reason for insurance carrier choice — nearly half of the survey respondents (**48%**) named price as the determining factor. About one-third were most influenced by referrals from an insurance agent (**13%**) or other trusted advisor (**19%**).

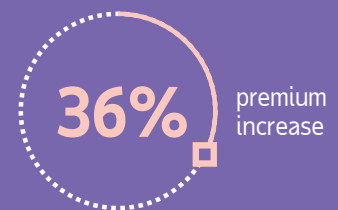
Businesses are loyal insurance clients — up to a point

The large majority of businesses have never changed their carrier for workers' comp coverage (**78%**) or other business insurance (**82%**). When they do switch, it's typically due to a premium increase. Agent recommendations also drive change for workers' comp insurance, while frustration over service problems is the primary factor for many in the broader business insurance arena. More than half (**55%**) of survey respondents feel satisfied with their insurance company's or insurance agent's service.

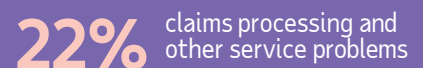
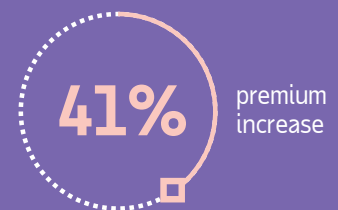


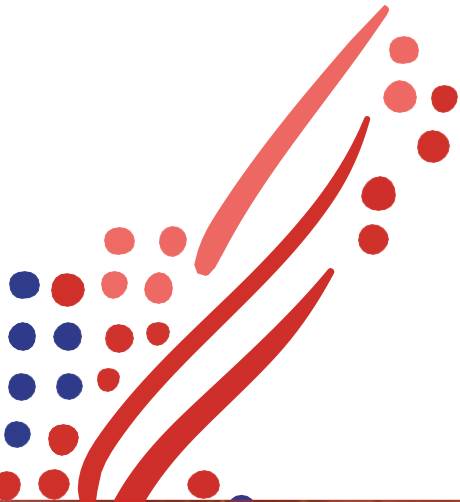
What drives companies to change insurance carriers?

Workers' compensation



Other business insurance





Many need help evaluating and managing their coverage

While nearly **4 in 10** business owners find it somewhat complicated to very complicated to determine their insurance needs, most describe it as easy (**37%**) to very easy (**25%**). When evaluating coverage, about half (**49%**) rely on their insurance agent and about one-fifth (**19%**) speak directly to an insurance company representative. Others do their own research and make selections using resources on the insurer's website (**30%**).

Once coverage is in place, **two-thirds** of business owners prefer to go directly to their agent or carrier, rather than use self-serve options (**18%**) for answers to policy or coverage questions.

Policy reviews reveal underinsurance, overlooked risks

Changes in government regulations, workforce adjustments, new services or offerings, and other internal or external reasons can impact coverage needs. When business owners regularly review their policies, they can be confident they have the coverage they need — or understand where there are gaps to fill to mitigate risk.

Our survey showed that in the six months prior, **one-third** of businesses had not reviewed their general business coverage needs to ensure their insurance was adequate, though about half (**53%**) had plans to review their policies to address potential new risks such as cyberattacks, property damage and employee error.

Most insurance companies we queried said that business owners most often underestimate the need for property and casualty insurance, compared with coverage such as theft prevention and employment practices liability insurance (EPLI). Looking at other forms of risk mitigation, carriers most often identified cybersecurity insurance as the most overlooked type of business insurance.

Worker classifications

About one-fifth (**21%**) of business owners are unsure of the process for classifying workers — the kind of knowledge gap insurance companies identified as the primary reason a company may misclassify its workers. Getting help may reduce classification errors, which in turn may reduce audit preparation time, variances, and potential fines and penalties.

To that end, about one-fifth (**22%**) of business owners get initial assistance from their insurance company to classify employees accurately. And nearly a quarter (**24%**) look to their carrier every time they add a worker. Carriers indicated getting assistance from agents and brokers in classifying workers is also part of this best-practice process.

Business owners are wise to keep classification top of mind. Nearly one-fifth (**19%**) indicated they had employees change job function in the last 12 months; of those, **38%** said they needed to change a workers' classification for workers' comp coverage.

Workers' comp claims

The point of workers' comp insurance is to protect businesses and employees should a workplace incident occur. The policies work as intended when claims and coverage are accurate.

Why workers' comp claims get challenged

Although most workers' comp claims are processed without incident, some are challenged or denied by the carrier. Business owners told us that the top factors are employee misclassification and inadequate documentation. Carriers agreed and also pointed to the incident having occurred outside of the course of employment as a common reason.



The challenges of submitting workers' comp claims



of respondents who made workers' comp claims had them challenged or denied due to misclassification



of respondents who made workers' comp claims had them challenged or denied due to inadequate documentation



of respondents who made workers' comp claims did not have them challenged





Close to one-fifth (**18%**) of businesses said they had filed a workers' comp claim within the past two years. Carriers we spoke with generally noted an increase in such claims in that time frame. They also indicated that businesses benefit from faster resolution when filing a claim as close to the incident as possible. One noted that in addition to quick reporting, compliance with state law could reduce the time and expense of handling claims.

Workers' comp audit

All workers' comp policies require annual audits — in some states, they're required by law. The audit looks at actual payroll and scope of work for your business to see if they align with your coverage and premium payments. This helps ensure that you paid the right amount for the coverage you received.

Audit prep is time well spent

The time needed to prepare audit documentation can vary widely. **Six in 10** survey respondents find year-end audit preparations take just a few hours or less, but **22%** say completing the task took a few days. Businesses that monitor, document and report employee changes during the policy term have more reason to be confident that they have accurate coverage — and that they'll have an easier time getting through their audit.

The importance of preparing for an audit becomes clear when you understand the potential impact of the carrier's assessment. An audit that uncovers a discrepancy may mean having to pay additional premium — or may mean the carrier owes a refund.


Premium variances are common after audits

While around half (**54%**) of business owners reported no change in premium after an audit, about one-fifth (**22%**) said they couldn't recall. Since several carriers told us more than half the audits they conducted in the past year resulted in a variance to be reconciled, that gap in business owners' recollection could mean they haven't established processes to keep a variance from happening again. And that might be bad news for their cash flow.

Sixteen percent of businesses said they were charged a premium increase after their last year-end audit; the majority of responding carriers said the average variance resulted in a 10–20% increase in premium. A smaller share of businesses (**8%**) said their last audit resulted in a premium decrease — meaning they had overpaid for their coverage, tying up cash unnecessarily during the policy term.

Using tools to improve accuracy and efficiency

About 4 in 10 (**42%**) survey respondents participated in a “pay-as-you-go” premium payment solution. This option allows workers' comp premiums to be paid throughout the policy term, and, when based on real-time payroll data and carrier rates, can result in more efficient, accurate premium payments and less variance at audit time. Approximately one-third (**34%**) were not aware they could pay their premiums this way.



Audit prep time can vary widely, from a few hours or less to a few days.

Conclusion

Determining insurance coverage needs and administering and maintaining policies are important business functions. While many business owners may feel self-sufficient in this regard, they may not be aware of best practices and opportunities available for managing their insurance policies to positively impact their business. Also, as businesses change, so do their insurance needs. Many businesses still need to establish protocols, such as regular reviews and use of administrative tools, to help ensure their insurance coverage keeps pace. Business owners can lean on their insurance companies and licensed agents for help evaluating insurance needs, guidance on selecting the right coverage from a range of products, efficient administrative solutions, and assistance in managing their policies.

Methodology

ADPIA commissioned a survey to understand the small and mid-size business perspectives and experiences with workers' compensation and other business insurance products. Retirement Insights, LLC developed and conducted an online survey that collected data from a national sample of 500 small and mid-size business leaders with 50 or fewer employees across a wide range of industry verticals. A group of insurance carriers were asked corresponding questions to help identify knowledge gaps and trends. The study was completed in May 2022.

About ADP, Inc.

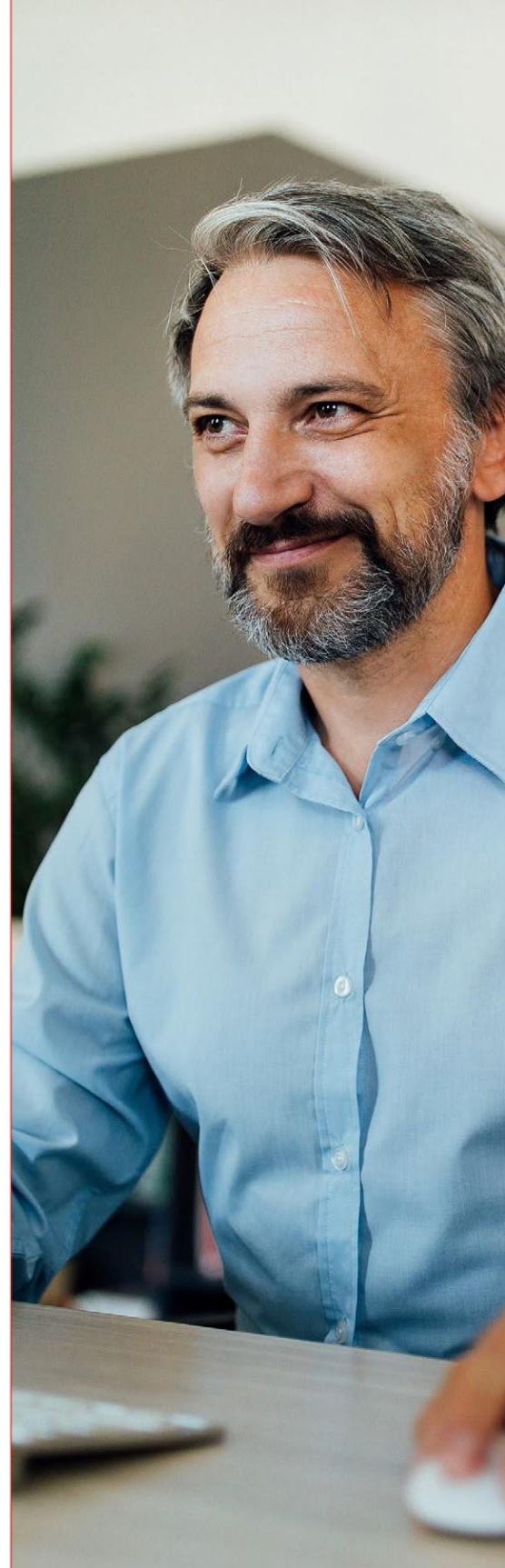
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Providing access to workers' compensation, business and health insurance, ADPIA is dedicated to meeting the insurance and benefits needs of small and midsized businesses. ADPIA is an affiliate of ADP, Inc.

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