

If you have run a business and purchased workers compensation insurance, then you are probably pretty familiar with auditable insurance policies. When you buy an insurance policy with a rating basis like payroll or sales, which cannot be determined exactly until after the policy term is over, then the policy must be audited after expiration to determine how much premium the insurance company should actually charge you for that policy. If you overestimate the payroll at the beginning for the policy term, then you will be refunded your overpayment. If you underestimated the payroll, then you will owe an additional amount to the insurance company after the audit has been completed. Most business owners understand how this works and that understanding is leading them into a trap when it comes to one way audit policies.

So what is the one way audit? Well, that is the insurance slang term for a policy that has been modified so that if the audit reveals that the business overestimated the gross sales or payroll, then no refund will be allowed. However if the audit shows that the sales or payroll has been underestimated, then the policyholder must pay the additional premium generated by the audit. If this seems like an unfair way to set up an auditable insurance policy to you, then I think you would not be alone in that assessment. Our agency finds this kind of insurance practice repugnant and damaging to the industry as a whole, particularly because it uses the consumer's understanding of and past experience with insurance audits against them. I have never seen a policy that contained the one way audit wording try to overcome this default understanding of auditable insurance policies by putting wording on the front of the policy or including a brightly colored flyer with the policy to explain how this policy is different from all the other audited policies that one may have experienced in the past. Rather, the notification and explanation of this unusual auditing process is buried in the legal print deep in the policy.

So what does this one way audit problem have to do with liquor liability insurance? Well, sadly liquor liability insurance policies very often have one way audit clauses in them. Insurance companies will tell you that this clause protects them from those that underestimate their gross alcohol sales, then don't pay the corresponding additional premiums that are due after audit. I'm sure this happens but this solution punishes those that are trying to do the right thing and estimate their actual gross sales as accurately as possible, in order to subsidize the losses experienced by the bad actors. I find this kind of approach dishonorable and sneaky. And now that [South Carolina requires liquor liability insurance](#) to be purchased by bars and restaurants, even more business are likely to fall into this trap and not be able to receive refunds for overestimated gross sales, thus inflating the actual insurance rates that they pay for their SC liquor insurance.

Now that you know your liquor liability insurance policy may contain this dirty secret, how do you protect yourself from losing money to it? The obvious solution is to underestimate your gross

Does Your Liquor Insurance Policy Contain a One Way Audit Clause?

Friday, 15 September 2017 06:54

sales when purchasing liquor insurance. Your policy will show you the rate per \$1000 of gross alcohol sales so you will be able to know in advance what you should owe at the end of the policy term after the audit has been completed. If owing money at the end will create a cash flow crunch for your business, then put some money away in advance to prepare for it. The alternative is that your effective rate per \$1000 of alcohol sales will be far above what you will see on your policy. It is sad that the behavior of the insurance companies drives their own customers to behave somewhat dishonestly in order to protect themselves from being over charged.

Clinard Insurance Group has many years of experience writing and servicing liquor insurance for our bar and restaurant clients. We would love to help you navigate this complex policy and help you protect against the one way audit. Please feel free to call us at 877-687-7557 or visit us on the internet at www.clinardinsurance.com . If you are a South Carolina bar or restaurant facing the new [mandatory liquor insurance requirements](#) , we can help with that as well. We have more information about that at www.SCLiquorInsurance.com

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