ReSourcePro INSIGHTS

Advisory consulting

RESEARCH REPORT

Sealing the Premium Leakage Drain

Identifying causes, risk factors, and solutions to reduce revenue loss

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Dan oversees the entire learning and development operations while working closely with the Field Support Mentor Team at Lowry & Associates, a ReSource Pro company. As Sr. Practice Director of L&D, he implements best practices within the different teams and departments of the company to foster enhanced synergy and cohesion.

After graduating with a Bachelor of Arts from the University of Utah in Communications, Dan began working with LAI as a field auditor in 2006. In 2017, he moved into a field mentor position, then a year later was appointed Director of Learning and Development before coming into his current role. Dan has been the driving force behind LAI's E-Learning and onboarding platform, revolutionizing auditor development and the onboarding process. He also implemented a new field support and mentoring program, including virtual mentoring sessions for field auditors.

Dan and his wife, Amy, have two daughters and enjoy spending time as a family, playing sports, and being outdoors.

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As the current Director of Quality Assurance at ReSource Pro, Salina oversees the quality assurance reviewers and field support mentors. Her journey with Lowry and ReSource Pro began in 2016, and through the years, she has grown in various roles, including field auditor, quality assurance reviewer, field support mentor, and senior reviewer. With over 28 years of experience in the premium audit industry, Salina brings a wealth of knowledge to her work. Outside of her professional life, Salina has two adult sons and enjoys spending time at the beach, being outdoors, and playing sports, with softball being a particular passion of hers.

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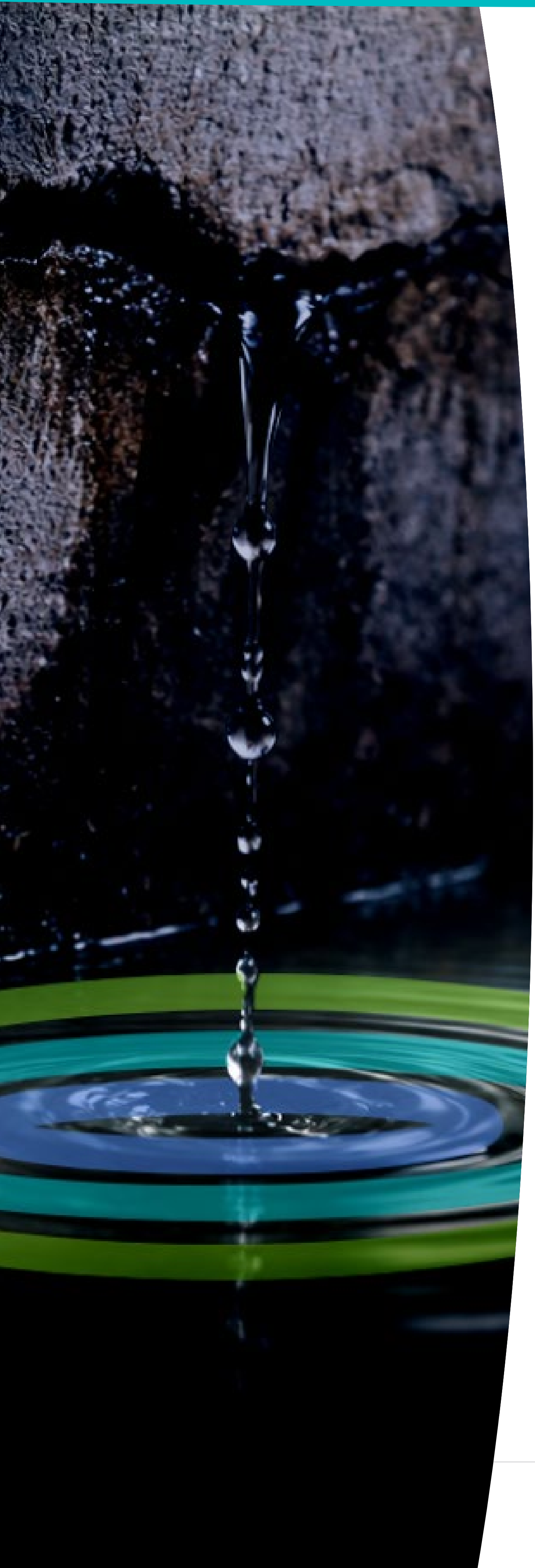
ReSource Pro Insights offers a broad range of research and observations on the insurance industry. We provide substantial studies, analysis and perspectives on business and technology strategies and plans across the P&C ecosystem, covering retail agencies and brokers, MGA/wholesalers, carriers, and tech vendors. Our coverage includes distribution, underwriting, policy servicing, billing/payments, and claims business areas, as well as cross-enterprise areas such as strategic initiatives, digital transformation, innovation, customer experience, and talent.



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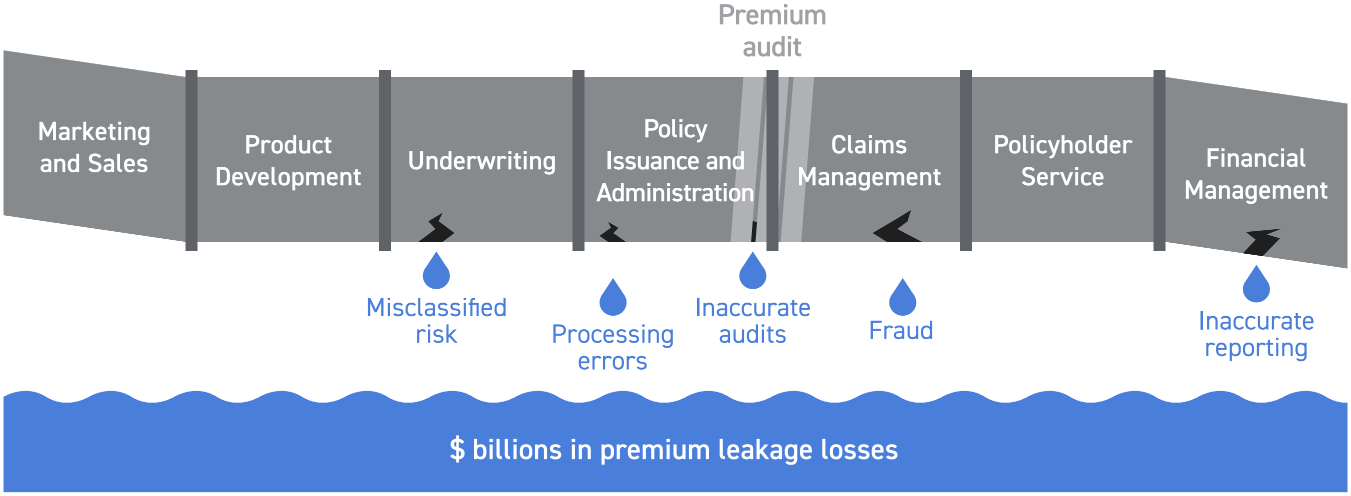
What is premium leakage?

Depending on where you sit in the industry – whether in underwriting, claims, or another department – your answer to the question "what is premium leakage?" may be a little different. However, no matter how you dice it, premium leakage in all cases boils down to the loss of revenue that occurs when insurers do not collect accurate premium due to the misclassification or underrepresentation of risk, fraud, or processing errors.

According to estimates from Verisk, auto insurers alone lose about 14% of premium due to leakage. While industrywide figures vary, most sources suggest that property and casualty insurers lose more than $30 billion annually, excluding fraud. As shown in Figure 1, these losses ripple throughout the insurance value chain.

Figure 1. Scope of premium leakage



The figure above underscores how premium leakage is not isolated to one function but spans multiple sources and touchpoints across the lifecycle of a policy.

Risk implications

When premium leakage is systemic, it not only impacts a carrier's financials but other facets as well – it distorts portfolio performance, weakens underwriting discipline, erodes data quality, and adversely affects customer experience. Higher combined ratios can negatively impact stock prices and ratemaking, and in extreme cases, chronic leakage can contribute to insolvency risk. It also exposes the carrier to potential litigation, from coverage disputes and bad-faith allegations to class action lawsuits. Therefore, addressing premium leakage presents an immediate opportunity for insurers to capture lost premium but also mitigate a range of underlying risks.

About this report

For this report, we interviewed numerous industry leaders at P&C insurance carriers with roles in underwriting, premium audit, and claims. Their insights have contributed to this report, where we will cover the common causes of premium leakage, ways to identify issues, and strategies to prevent leakage before it happens as well as sealing gaps after they are identified.

Identifying premium leakage

As emphasized in the previous section, premium leakage can occur at any point in the insurance lifecycle, in any line of business, and from multiple parties, such as underwriters, policyholders, agents, claims adjusters, etc. For carriers, identifying premium leakage as early as possible is critical to prevent the erosion of profitability. In this section, we cover a few of the most common causes of premium leakage as well as other culprits.

> **"Measuring premium leakage is difficult. We are working with an unknown number that we are trying to reduce. We know it exists, and the challenge is finding where it exists and reducing or eliminating it."**
>
> **-Rosemary Bravetti, senior corporate underwriter, Merchants Insurance Group**

Common causes

Premium leakage in insurance can stem from a single or a combination of multiple factors. Figure 2 highlights examples of several common causes and functions where they arise. Below the graphic, we dive deeper into a few of the root issues.

Figure 2. Mapping the causes of premium leakage

Operational inefficiency

- **Underwriting:** Slow processes, misclassification of risk, ripple effects from errors
- **Claims:** Excessive processing time
- **Policy Mismanagement:** Turnover, lapses, cancellations

Knowledge and Communication

- **Underwriting:** Misjudgment of risks, not verifying eligible discounts, failure to ask right questions
- **Agents:** Insufficient data discovery (obtaining inaccurate/ incomplete insured information), incorrect application of discounts

Fraud and Ethical Conduct

- **Fraud:** Ghost policies, unreported employees, false claims
- **Agents:** Abusing discounts, swapping ZIP Codes, downpayment manipulation

Data Integrity and Accuracy

- **Underwriting:** Incorrect risk assessment, missing/ incomplete data
- **Claims:** Misreporting or delay in reporting, overpayments

- **UNDERWRITING ERRORS**
  Underwriting errors can cause premium leakage when an underwriter underprices accounts, relies on incomplete or incorrect data, or misclassifies exposures, such as using the wrong class codes. Due to a few factors, such as automatic renewals, smaller accounts can be more prone to misclassification; in contrast, middle-market accounts are less susceptible to premium leakage due to more thorough underwriting processes and more frequent auditing.
- **FRAUD**
  The Coalition Against Insurance Fraud estimates insurance fraud costs $45 billion annually in property & casualty lines alone, not including auto theft. Separately, workers' comp fraud costs the industry about $34 billion every year. While most fraud is typically considered to transpire during claims, there is also considerable fraud that occurs during the underwriting process. This may be due to purposeful misclassification of risk as previously discussed, or it may be due to rate evasion. Misrepresentation of risks at the point of rating, such as omitting employees, can result in a lower, more favorable premium for the policyholder. For example, an audit by the California Employment Development Department (EDD) examined over 6,000 businesses and discovered approximately 18,359 unreported employees, resulting in over $914 million in unreported wages.
- **TRAINING AND KNOWLEDGE GAPS**
  Unintentional leakage can occur through knowledge gaps among less seasoned staff. Underwriters and agents/brokers may misjudge risk exposures because they fail to ask sufficient or the right questions about the insured, such as employee duties and business operations. This lack of understanding can lead to misclassification, incorrect exposures, inadequate limits, or improper premium pricing, as well as the application of incorrect discounts or failing to verify discount eligibility. In addition, inefficient or overly automated renewal processes that bypass proper review can perpetuate existing errors, compounding leakage over time.
- **CLAIMS**
  Today, rising claim costs, compounded by inflation, exacerbates leakage risk in the claims process. Oftentimes, leakage in claims shows up as a mismatch between the risk that was priced and the actual cost of claims, resulting in overpayment based on a policy's limits, coverage terms, or actual damages. Inefficient and inconsistent claims handling likewise can contribute to leakage, such as improperly applying deductibles, exclusions, or conditions. Fraud is also a significant contributor to premium leakage through the claims process. In workers' comp, staged or fabricated injuries, while rare, do occur. More commonly, claim inflation, such as stretching recovery times, higher disability ratings, and excessive treatment durations, give rise to excessive claims payouts. Ultimately, it is important for carriers to not treat claims leakage as a separate issue and instead recognize how the outcome of claims directly undermines proper underwriting and pricing.
- **PROCESS INEFFICIENCIES**
  Every step of the policy lifecycle carries the risk of premium leakage. Manual, error-prone workflows, fragmented systems and data, poor communication, and inadequate validation/controls can all contribute to leakage. For example, leakage can occur when changes during the policy period – increases/decreases in payroll, sales, etc. – are not reported to the carrier. In addition, repeat errors can arise when information from inspection reports, experience modification sheets, and online platforms is not shared with relevant parties (vendors, auditors, carriers). This is especially evident when poor feedback loops from completed audit reports affect renewal underwriting processes, opening the door for leakage when policy corrections or adjustments (e.g., updated class codes, endorsements) are not a made within the allotted timeframe.

Strategies to reduce and prevent premium leakage

For carriers, addressing leakage is about aligning processes, people, and data across the policy lifecycle. In this section, we outline practical approaches to reduce and prevent premium leakage.

> **Robust, accurate, and accessible data is essential to ensuring accurate premium collection across all business lines. Third-party partners and AI can be effective solutions to help validate information, improve accuracy, and drive more efficient processes from underwriting to auditing.**

- **DATA MANAGEMENT**
  Data is crucial for managing and measuring leakage. Accurate data that is obtained upfront is key to minimizing discrepancies and ensuring all premiums are collected as intended. For example, when risk teams evaluate insured sites, they can gather valuable data, such as headcounts, job roles, etc., to refine policy terms and contribute to better underwriting and pricing models. Additionally, centralized and systematic data sharing across claims, loss control, underwriting, and auditing departments allow for classification issues to be resolved sooner and prevent under collection or overcharging of premiums. Establishing consistent data terminology across departments is also key to maintaining data quality and usage.

- **FRAUD DETECTION**
  Early detection and prevention of fraud is instrumental to reducing the impact of premium leakage because many leakage points stem from undetected fraud or misrepresentation. Traditional surveillance methods to capture fraudsters in workers' comp – like private investigators – are evolving toward data-centric practices. Carriers are leveraging social media analysis and pattern/behavior recognition to identify anomalies and confirm suspicious activity. Predictive models and real-time monitoring can flag high-risk claims or policies, while education on key fraud indicators can help staff identify inflated claims, staged losses, or misclassified exposures earlier.

- **EDUCATION AND TRAINING**
  Targeted, ongoing training in business acumen and premium leakage risks helps staff engage more effectively with policyholders, reinforce best practices, and minimize data entry errors. Furthermore, maintaining deep technical expertise, particularly around NCCI rules and regulations, helps reduce underwriting misunderstandings and supports more accurate exposure assessment. Regular premium audit webinars with agents/brokers are also an effective way to educate downstream partners about the risks and causes of leakage. However, training alone is not enough; continuous internal advocacy from the top-down is instrumental in embedding a culture focused on education, which can prevent and reduce premium leakage across the organization.

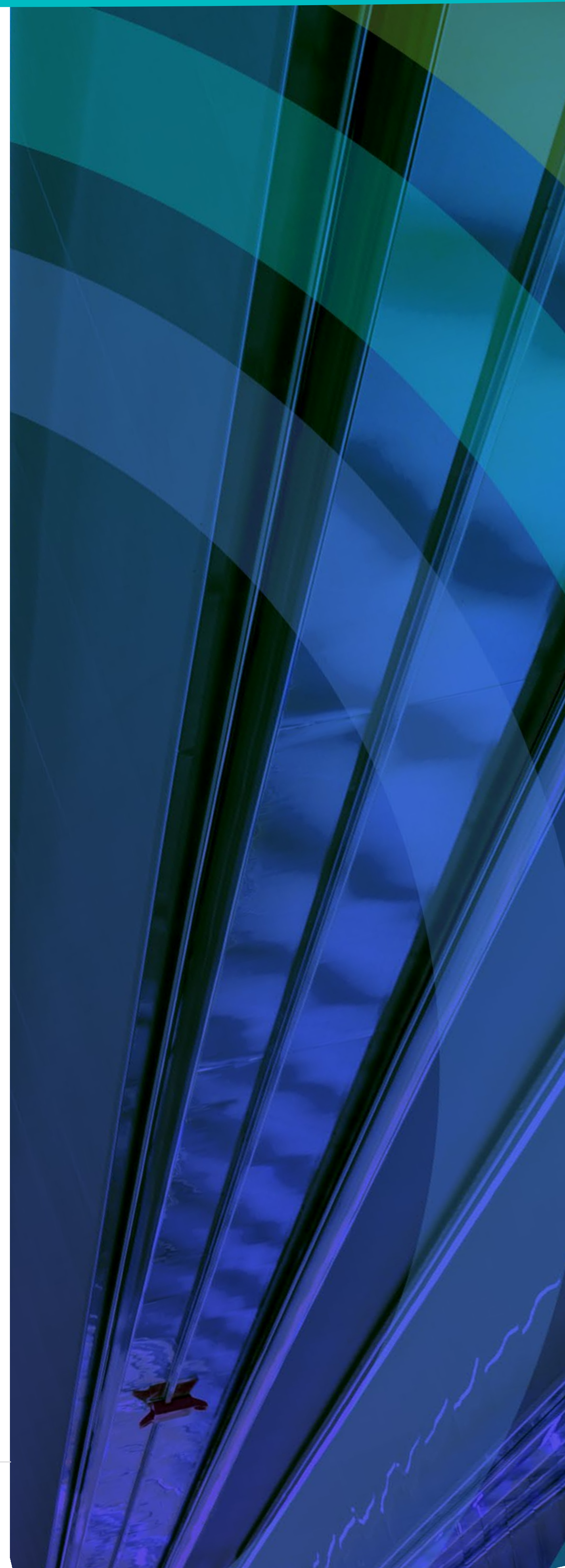
- **PROCESS OPTIMIZATION**
  Standardizing workflows, removing manual handoffs, and tightening controls at each step of the policy lifecycle are all critical to reducing the risk of premium leakage. Collaboration across departments is equally important, such as the sharing of results and data between underwriting, audit, and claims. Furthermore, optimizing how audit information and reports are utilized so that the data gathered is applied correctly to renewal policies (i.e., premium adjustments) help seal existing leaks and prevent new ones from emerging.

- **AUTOMATION AND AI**
  Many carriers today leverage automation tools across underwriting and claims to reduce delays and streamline people-processes, improving both speed and consistency. In premium audit, however, the exploration of AI solutions is still in the very early stages, guided by the belief that AI should serve as a "jetpack" for auditors – boosting their efficiency, not replacing them. One potential use case involves the possibility for AI to scan a final audit report and compare it to the renewal policy endorsements (principals, class codes, locations), making recommendations for suggested endorsements to avoid premium leakage for future policies. More broadly, AI can be applied throughout pre-and post-audit stages, as outlined in potential uses below:
  - AI for predictive tools and pricing
  - Robotics and early AI applied for data transfer and automation, reducing manual entry errors and unlocking capacity
  - AI tools to assist in pre-audit evaluations, identifying audit priorities and enhancing efficiency
  - AI to provide company details, revenue estimates, and officer information, guiding audit questions/process

Role of premium audits

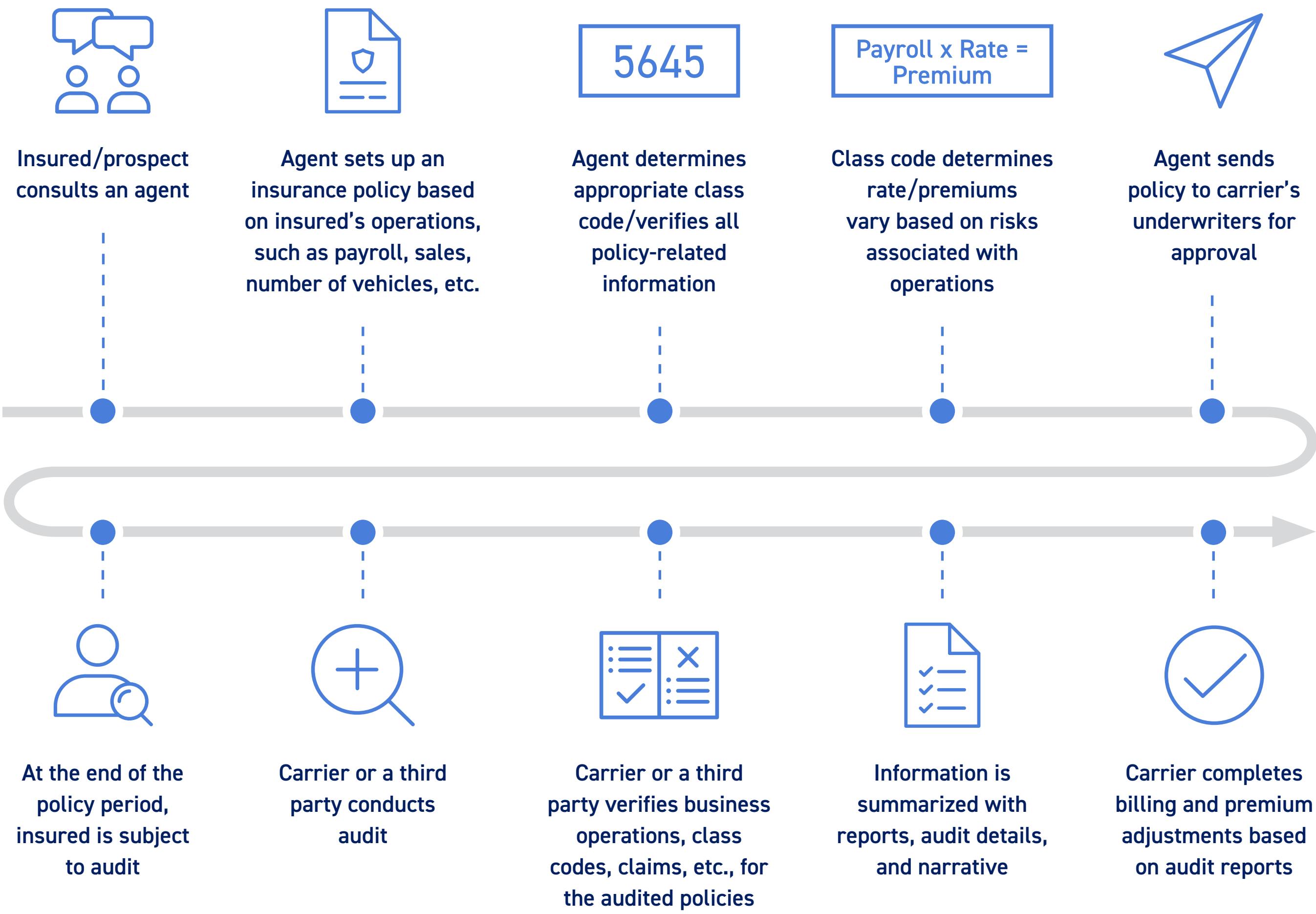
Premium auditing is the process of reviewing records to ensure a policy and the premium amount properly reflects the actual risk level of the insured. While it is most common in general liability and workers' compensation, it is also a practice in other lines of business. Though premium audit is not the only strategy to combat leakage – such as loss control's role in detecting and preventing fraud – it is essential to reduce premium loss and ensure fairness for both the insurer and policyholders.

> **"Anybody conducting premium audits today needs to view the function broadly and leverage newer tools, including AI, to surface insights before ever reaching out to insureds. At the same time, the team cannot operate in a silo; close collaboration with underwriting, claims, and statistical functions is critical to validating exposures and reducing the risk of misrepresentation."**
>
> **-AVP of premium audit at a Tier 1 insurance carrier**



In the audit process, carriers review data such as payroll, sales, and more to validate that the original premium was based on accurate information. When discrepancies are found, such as misclassified employees, operations, or class codes, carriers can adjust pricing so that the final premium reflects the true level of risk; then, carriers can either bill additional amounts when exposure was understated or issue refunds when it was overstated. Figure 3 below illustrates the various steps in the premium audit journey for a commercial lines policy.

Figure 3. Optimized premium audit process



Beyond correcting policy errors, annual premium audits strengthen the accuracy of data used in underwriting and pricing and emphasize with policyholders the importance of accurate reporting and record maintenance, leading to more precise initial estimates and reducing discrepancies. However, it is important to note that premium audits are only as effective as how deeply they penetrate a carrier's portfolio. For example, a carrier may choose to only audit policies greater than $8k in annual premium, leaving a substantial portion of policies that may be sources of premium leakage undetected.

Conclusion: Where are your leaks?

As this report outlines, premium leakage can quietly erode a carrier's profitability, causing significant financial risk over time. Premium audits as well as improvements to data quality, internal processes, and staff training are a few ways to seal gaps that can lead to leakage. However, because leakage can go unnoticed for long periods of time, it is not always clear where or how significant the drain could be.

Carriers should step back and ask the following questions to better understand how premium leakage may be impacting their organization:

- Are you issuing refunded premium and/or collecting additional premium?
- Do you have a process (automated or manual) in place to ingest and digest data accurately?
- Are renewal policies reviewed regularly for accuracy (manually or via AI)?
- Do you have trained staff and polished processes to handle detected leakage?

Leaders who choose to aggressively identify and address premium leakage can materially strengthen both underwriting performance and overall profitability. Ultimately, carriers that move quickly to seal their premium drainage will be better positioned to compete in evolving market conditions.

About Lowry & Associates

is now ReSourcePro

When entrepreneur Fred Lowry Sr. formed Lowry & Associates, Inc., in 1989, he did so with the determination to build the most experienced and well-trained audit staff in the industry. We aim to be the premier insurance provider in the areas we service. Today, with 35+ years of experience, Lowry & Associates, Inc., has become an industry leader in physical, virtual, and phone auditing as well as loss control surveys. We provide phone and virtual audit services to all 50 States. Our physical auditors and surveyors service Utah, Colorado, Idaho, Washington, Oregon, Montana, Arizona, New Mexico, Nevada, California and select locations in Texas.

The people at Lowry & Associates, Inc., are our #1 asset. Our unique business model and approach to auditor education and development have created an auditor workforce that provides accurate and timely audits along with outstanding customer service to insurance carriers, agents, and insured alike. Our goal is to provide our associates with the ability to enjoy a lifestyle in accordance with the Lowry & Associates Laws and Values. Our management, administrative, and support staff provide an unparalleled customer service thanks to their experience and knowledge of the insurance auditing industry. Most of our administrative and management staff are remote employees living and working throughout the United States. This allows us to utilize the diversity and talents of experienced employees while providing them with the ability to spend more time with family. Auditors, both independent and employed, enjoy flexible and well-compensated wages allowing for an elevated work and life balance. The majority of our auditors are remote labor, located throughout the United States. This has been the Lowry & Associates, Inc business model for the past 35+ years and has helped us triple our audit completion rate over the last 10 years. We look forward to serving and working with you and your insured to provide an excellent auditing experience.

ABOUT RESOURCE PRO

Focused exclusively on the insurance industry, ReSource Pro is a trusted strategic operations partner to insurance organizations seeking to increase their productivity and profitability. With a global team of more than 10,000 employees, ReSource Pro operates at the critical intersection of people, process, technology, and data to serve more than 1,800 clients across the carrier, broker, and MGA segments – consistently earning a +96% client retention rate for over a decade. It offers expert advisory services, proven business process management optimization and transformative data and technology solutions. It was recognized in 2024 by Inc. 5000 as one of the fastest growing companies in the US.

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