Certificates of insurance

Protection from increased liability **Interviewed by Elizabeth Grace Saunders**

You invest in the proper insurance protection for your business assets and liabilities. But have you considered your potential risk from the work completed by subcontractors and vendors? If these parties don't have insurance, you could end up paying dearly for their mistakes.

"It is important that business owners know that the people doing work for them or providing products and services have insurance," says Bob Wood, manager of the Underwriting Practices Group at Westfield Insurance. "If an uninsured contractor causes injuries or damages during a project, the owner might have liability for the contractor's actions. This responsibility comes from the fact that the work was done for the benefit of and on behalf of the owner."

You clearly want to reduce the risk of having your insurance company pay for the actions of other businesses that work with you. Spending a little time investigating contractors' insurance status before you sign a deal can save you from spending a great deal of time and money after an incident.

Smart Business spoke with Wood about certificates of insurance and their role in business owner risk management practices.

Bob Wood
Manager, Underwriting Practices Group
Westfield Insurance

What are certificates of insurance?

Certificates of insurance are documents that insured businesses can obtain to give evidence that they have insurance coverage. These certificates include information about the effective dates of the policy, the limits of liability, the insurance company providing the coverage and the certificate holder, or the entity requesting the certificate. These certificates are different than the policies that insured businesses have as a guarantee of their coverage. Businesses don't use certificates to negotiate benefits with their insurance provider; instead they have them as a way to show other parties, like hiring companies, that they have the appropriate coverage. If the certificate of insurance and the actual policy contain different provisions, the insurance coverage will follow the specifications outlined in the actual policy.

What are potential consequences when business owners don't collect the certificates?

As noted before, if an accident occurs and the subcontractors or vendors do not have insurance, the business owner could end up incurring the liability. This would mean additional expense for the company and potential increase in its premiums. This situation can be avoided if businesses require that the people working for them prove that they have insurance coverage.

Even if entities working for a company do have insurance coverage, not collecting certificates of insurance could still cost a business owner. When hiring companies choose not to keep records of these certificates, they are not following good risk management practices. When their insurance company audits their policy, it might charge additional premiums for the increased potential loss exposure incurred by not verifying proof of insurance. Not having a certificate of insurance doesn't invalidate any insurance that contractors or subcontractors might carry, but it does show that business owners are exposing themselves to preventable additional risk.

How can companies obtain certificates of insurance?

Business owners can easily obtain certificates of insurance by requesting them from the subcontractors or vendors that want to work with them. These entities can, in turn, access the documentation from the insurance carrier that provides their coverage. Hiring companies should insist that they receive the certificates promptly so they can review them prior to authorizing the contractor or subcontractor to start work. Once businesses have allowed third parties to start work on a project, the contractors have less of an incentive to follow through with the documentation. Also, if uninsured businesses even begin work on a project, business owners have opened themselves up to unnecessary liability. Business owners need to use reasonable care in reviewing the certificates, but generally, they don't need to validate the certificates of insurance.

What else should owners know?

If a contractor will perform a significant amount of work for an owner, the hiring firm should secure additional protection. Business owners should discuss contractor, subcontractor and vendor insurance requirements with their attorney prior to signing substantial contracts. The attorney can provide advice regarding limits of insurance and other terms and conditions.

One of the common recommendations for owners entering large deals with contractors is that owners should ask to be added as an additional insured on the contractor's policy. This goes one step beyond the risk reduction provided by simply collecting a certificate of insurance. This distinction assures that the policy of the party most in control of the losses applies first. This protects hiring parties by preserving their own insurance limits and reducing their risk of loss. The certificate of insurance should outline the owner's additional insured status.

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