



Corporate Exposure: Certificates of Insurance

Harry P. Mirijanian

A recent workers' compensation premium audit by a carrier revealed an additional \$22,000 premium payment due for a group of employees the company did not even realize were covered under the policy. The company had engaged the services of several sub-contractors to complete an agreed-upon project. Unfortunately, the employer neglected to request a certificate from each contractor as proof they carried workers' compensation coverage for their employees. As a result, the entire payroll of one sub-contractor's employees was included under the company's payroll exposure base. Absent these certificates, the company's workers' compensation carrier correctly assumed anyone injured while on the project would be covered by their policy and subsequently charged for the exposure. Had certificates of insurance been obtained, the sub-contractor's payrolls would *not* have been included in the firm's workers' compensation premium audit.

In addition to the potential premium savings available by obtaining workers' compensation certificates of insurance, it would have been prudent for the company to require certificates on other forms of insurance such as general liability, auto, products, and professional liability. These certificates help protect the company in the event a sub-contractor may be responsible for a loss or claim.

Not Just for Construction

Although everyone believes these certificates are necessary only on construction projects, nothing could be further from the truth. Any contractor hired by your company to provide a service should supply a certificate of insurance that satisfies your criteria. Insurance can be purchased with varying limits of liability, and, as a general

rule, the contractor's limits of liability should meet or exceed your company's insurance standards. Obviously, some professional allowance is necessary depending on the project being completed and the activities contracted for through the sub.

Know What They Provide

As important as certificates of insurance may be, the company has to do more than merely acknowledge them. These certificates provide some good information for review. For example,

*Make sure you
know what the
documents say.*

you should note the carrier identified on the certificate and determine that carrier's ability to pay any claims made against the policy. Your broker should be able to assist you with that review. Further, you should know whether the policy is written on a "claims made" or an "occurrence" basis. If it is "claims made," examine the activity the holder is providing and the likelihood of a claim materializing within the policy's time period. Are the limits of liability adequate and will they be offset by prior claim payments?

A certificate could, for example, indicate the holder has a \$1 million policy—which, you may presume, is the amount of insurance available to respond in the event of a loss. But if that contractor already has \$900,000 in claim payments made under the policy, you would have only \$100,000 in potential recovery available. Clearly, this type of information is not indicated on a certificate and is only available

through prudent research. It is also important to note that the certificate merely acknowledges the policy holder has insurance. It does not disclose exclusions or other nuances within the policy that could affect your recovery capabilities. Your company should be acknowledged on the certificate as an "additional insured," along with evidence the proper endorsement has been issued to the policy. As an additional insured, the policy will stand in your shoes, protecting your interests as the terms currently exist in the policy. It does not change any of the endorsements or exclusions that the sub-contractor has agreed to in purchasing their coverage.

Finally, every certificate contains a cancellation provision. It usually states that the carrier will try to notify you in the event the policy is canceled. It is worthless to have a certificate that says this. The clause should clearly state such notices will be a matter of fact, not a promise or attempt to notify.

A Standard Requirement

Where do we stand on certificates of insurance? They should be a standard requirement in any bidding package, or at least received before any contracts are executed. They should not merely be filed; they should be reviewed and changes should be requested as necessary to protect your company. Remember to be certain you request updated certificates upon renewal and do not rely upon the agent or carrier to issue these on their own. Few if any insurance services are automatic; your diligence is almost always necessary to get results.

Harry P. Mirijanian is president of Applied Risk, an independent risk management services firm established to assist the business community in reducing exposure to loss and insurance costs. He is a frequent speaker at AMA seminars.

