

The Importance of Certificates of Insurance

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No matter what industry you're in, chances are your organization will, at some point, rely on the help of a third party to fulfil certain business needs. Regardless of who you work with, business arrangements with contractors and vendors can open you up to a number of risks—risks that need to be accounted for through insurance.

However, when accounting for risks related to contracted work, securing your own insurance is not always enough. It's critical that your partners are covered as well. This is particularly important when you consider that, following an incident involving a contractor or vendor, your business could be the one held liable for any damages that occur. To protect against this sort of risk, many organizations turn to certificates of insurance (COIs).

WHAT IS A CERTIFICATE OF INSURANCE?

One of the main ways organizations manage and review the coverages of their partners is through COIs. A COI is a valuable—yet misunderstood—tool in the insurance industry. COIs are used across a variety of commercial business relationships and essentially serve as proof that a particular party has an insurance policy in effect. While you may require your partners and vendors to carry insurance in your contracts, coverage needs can change quickly, making it necessary to regularly review the policies. In addition, contractors and vendors may not be honest about what risk management strategies they have in place, making you wrongfully assume you are protected.



Often only a few pages long, COIs are summary documents issued on behalf of an insurer that outline the name of the insurer and insured, essential terms and conditions, policy limits and the duration of the policy.

COIs also contain qualifying language that defines the document as informational. This means that COIs are not contracts or the legal equivalent of actual insurance policies.

THE PURPOSE OF COIS

For the insured, COIs serve as proof of coverage—proof that can be provided to customers, contractors or other third parties quickly and efficiently. COIs also indicate that the insured has the financial resources available to protect those who may be harmed by their actions. It's incredibly important for businesses to get COIs for every contractor or third party they bring onto a project. Even if you have worked with these third parties in the past and trust them, COIs prevent organizations from accidentally taking on risks associated with the work of their subcontractors and vendors.

Before allowing contractors to perform work on your property or on your behalf, asking for a COI is a must.

THIS CAN HELP YOU IN SEVERAL WAYS:

1. COIs can keep companies from taking on unnecessary risks if a contractor is responsible for a loss and is not properly insured.
2. COIs can provide protection in the event that a contractor is injured on your property while performing work.
3. COIs ensure organizations are compensated if contracted work is done improperly or not completed.

However, while collecting COIs is an important risk management strategy, there are a number of administrative considerations to keep in mind.

MANAGING COIS EFFECTIVELY

Managing COIs can pose an administrative challenge, and businesses need to have procedures in place to collect and maintain them effectively. Many organizations choose to automate this process as much as possible, opting for systems that notify them when a COI is required but is no longer in effect.

IN ADDITION, WHEN MANAGING COIS, IT'S IMPORTANT TO ASK YOURSELF THE FOLLOWING:

- Is the COI provided on a proper form?
- Is the company named on the COI the same as the one named in the contract?
- Is the policy issued by a reputable insurer?
- Is the COI signed by an insurance company or agency representative?

- Are the types and limits of insurance listed on the form the same or greater than those required by you under the contract?
- Are specific policy numbers listed on the certificate?
- Are the dates of coverage adequate for the specified work?
- Are there notice of cancellation provisions listed on the COI? Are they acceptable?
- Does the COI indicate any special insurance requirements you have specified?
- Do you require written contracts with every third party you work with, either by annual agreement for all work or by separate agreement for each project?
- Are your files organized and do they account for contracts, COIs and any other additional insured endorsements?
- Do you have a system in place (e.g., a certificate management system) for tracking expiration dates?

LEARN MORE

Securing the right insurance policy, outlining specific insurance requirements in all contracts and requiring COIs can provide all parties with peace of mind.

However, securing and managing COIs can be complicated, and it's critical to enlist the help of an experienced insurance broker.

If you have questions specific to your business, or would like additional information, please reach out to your Lloyd Sadd Advisor.

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