

Paper trail

How certificates of insurance play an important role in risk management

Interviewed by Elizabeth Grace Saunders

You think your suppliers and business partners have the proper insurance, but can you prove it? Obtaining certificates of insurance from anyone whose product or service could contribute to the filing of a business claim documents that you're covered.

"Certificates provide evidence of insurance if you need to reach out to that insurance in the event of a claim," says Jim Montgomery, business sector leader in the commercial underwriting office at Westfield Insurance.

Smart Business spoke with Montgomery about using certificates of insurance as part of your risk management strategy.

What is the purpose of these certificates?

Certificates of insurance are primarily used in place of complete copies of insurance policies to provide concise, inexpensive evidence of insurance. They provide a more efficient method of conveying information in one page as opposed to a full copy of the contract, which can be 40 or 50 pages long. The certificate is a broad generalization of the insurance coverage carried by the provider of the certificate. It lists the insurance company or companies and the type of coverage, such as property, general liability, business auto coverage, workers' compensation, etc. It may also list some of the policy endorsements that extend or limit coverage.

What are the consequences of not having them on file?

It is important for business owners to know the extent of their financial responsibility in the normal flow of business. A seller of a product made by a third party is not normally responsible for failure of the product if it causes injury. But if the actual manufacturer of the product does not have insurance, as evidenced by a certificate of insurance provided to the seller, the seller may have to assume that financial responsibility. Companies can still attempt to press a claim against a business that originally caused the issue. But without the proper documentation that includes details about the carrier and the coverage, the attempt to transfer risk could fail or prove very time-consuming or costly. This could not only add significant costs related to a particular incident but also increase ex-



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penses to the insurance carrier, which could lead to higher premiums over time.

Who needs to have them on file?

Evidence of insurance is an important consideration for any business, so all companies should have these documents on file. Restaurants serving food need to know their food providers have the appropriate insurance in the event of a claim involving food that made someone ill. Manufacturers need to know their raw material suppliers have appropriate coverage for the products that they deliver. Developers of a building project need to be certain the general contractor responsible for completing the project and working with subcontractors has the coverage required by the construction agreement.

When should companies request them?

Certificates should be requested at the very start of a business relationship where one party provides a product or service to another

party. It is important to understand the types and limits of insurance available to the provider in these relationships. This is especially important if there is a formal contract or purchase order that requires specific insurance coverages. Obtaining a certificate of insurance could become part of the procedures for finalizing contracts in a company. Also, business owners who request certificates of insurance should do so with the agreement that a replacement certificate will be sent each year on the expiration date of the insurance policy. Receiving an updated certificate lets companies know that the proper insurance is still in effect and alerts them to changes in policies, limits and any other significant modifications to coverage.

Who can issue certificates of insurance?

Insurance agents or brokers representing their policyholders can issue them. The insurance carrier has no responsibility for issuing these documents, so it's very important that businesses take a proactive approach to requesting them from any businesses or individuals that provide products or services.

Can certificates be issued electronically?

Yes. There are a number of programs offered by independent vendors or agency management systems that will assist in the electronic management of issued certificates.

Why should companies do in addition to requesting a certificate?

It is important for any party to the certificate process to understand the potential limitations. A certificate will only acknowledge the coverage currently on an insurance policy. If an agreement is signed between two parties there may be additional insurance requirements. Business owners should make their insurance advisers aware of contracts or agreements so the proper coverage on both ends is in place. <<

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