

Often the bigger companies with huge budgets and high quality in house attorneys lead the way in risk management. But smaller, Mom and Pop sized businesses can learn something from these larger companies if they have the information to do so. Today's blog is designed to share some of what the big boys already know regarding certificates of insurance.

Most small contractor companies understand the need for certificates of insurance to prove that their subcontractors have insurance protection. But what gets lost in the process often is a clear understanding of why you need that certificate and what it means to your company's risk management process.

If I were to randomly sample a dozen small contractors who call our office requesting a certificate of insurance for one of our clients, and ask them why they need this certificate, I willing to bet that most would answer that they need it for their insurance company at audit. And while this is the most pressing issue – you don't want to have to pay for insurance on your subcontractors if you don't have to – it leaves out the risk management side of this process. No, the real reason you want a certificate of insurance is so that you feel comfortable knowing that if your subcontractor causes a large loss on your job site, your company will not have to pay those damages. With all of the time and care and money that you have spent on your own insurance policies, why would you let an uninsured subcontractor put all of that in jeopardy?

Focusing on the need to know that your subcontractor is adequately insured before he or she sets foot on your job site, we now want to take a closer look at the certificate of insurance to make sure that it is as reliable as you might be assuming it to be. With that in mind, here are a few things to keep in mind regarding certificates of insurance.

**Get them from the insurance agent, not the subcontractor.** Several years ago it was discovered that people were purchasing blank and fraudulently completed certificates of insurance from unscrupulous dealers on ebay. Let's face it, if you want to find a way to fake a certificate of insurance, it is not going to take a rocket scientist to pull it off. So, the best plan is to ask your subcontractor for the name and number of his insurance agent and contact them directly to request the certificate.

**Review the certificate for dates and limits.** When you receive a requested certificate of insurance, don't just file it away without looking at it. Take a minute to check the names of the

insurance companies that are providing the coverage. Do they look legitimate? Are they known names in your business? Next check the dates. If a policy is within days of expiring, or if it is going to expire before your subcontractor leaves your job site, then you will need to get another certificate proving that coverage was renewed. Last of all, check the limits of coverage listed for each policy. Make sure that your sub has high enough limits to keep your insurance from having to respond to a large loss – you don't want to have to muddy up the claim with two insurance companies involved in the same loss and you really don't want to have to trigger your insurance protection for a loss caused by one of your subs.

**The Certificate of Insurance is just a snapshot.** Keep in mind that any insurance certificate is just a snapshot of the coverage in place on the day that it was issued. If your sub doesn't pay his next bill then he could be working on your job site with cancelled coverage and that could cost you big money if that sub causes a large loss. While many certificate forms state that the insurance company will endeavor to notify you if any of the policies are cancelled, the truth is that most insurance companies do not even want to see copies of certificates issued by their agents and they have no intention of letting you know if a policy is cancelled. In fact, they couldn't do it even if they wanted to as they have no copy or record of the certificate in their files.

**Consider the Additional Insured option.** This is a trend with larger contractors and one that the smaller contractor should consider. Instead of asking for a certificate of insurance, consider asking that your company be added as an additional insured on the subcontractor's policies. There may be a charge for this endorsement but generally the charge will be pretty minimal. Once you are added as an additional insured, you will now receive an endorsement to the policy from the insurance company, so you know that they know about you and issued the endorsement. This also solves the snapshot problem as you are now an integral part of their policy and you will receive cancellation notices or notices of nonrenewal should any of those be triggered.

Often, when insurance policies are a contractual or legal requirement, people only focus on satisfying that requirement, rather than keeping their focus on the purpose of the insurance protection itself. Don't let your certificate of insurance procedures become a simple rule following process, make sure that your company is getting the protection that it needs from the risks of uninsured subcontractors. Should you need any help with your commercial insurance policies, please feel free to contact Clinard Insurance Group, toll free, at 877-687-7557.