

HOW TO READ AND UNDERSTAND A CERTIFICATE OF INSURANCE

When should I require a certificate?

Every time you use a subcontractor you must require a Certificate of Insurance. The certificate should indicate coverage in the areas of General Liability, Workers Compensation, and Automobile Insurance. Limits of Liability must be reviewed and in many cases excess liability with higher liability limits is important.

Why should I require Certificates?

Certificates should be required for three reasons. First, certificates are important in controlling your insurance costs. Your General Liability insurance states all subcontractors must carry general liability insurance with adequate limits of liability. Each insurance company will define adequate limits individually. If you are using subcontractors with limits that are inadequate, the cost of these subcontractors will be included as payroll at the time of an insurance audit. With many insurers, the definition of adequate limits includes your being named as an Additional Insured on the subcontractor's policy, as well as using a written contract containing Hold Harmless and Indemnification language. If we have not discussed adequate limits with you, please give us a call and we will let you know what your carrier defines as adequate.

Second, by obtaining Certificates of Insurance from all subcontractors indicating they are able to pay for damages or injury they cause on your job, you become a more desirable risk. This will increase the number of options we can pursue in finding the best insurance coverage's available at competitive prices.

The third reason to acquire Certificates of Insurance is because they tell you something about the subcontractors. Professional subcontractors with business acumen will have proper insurance. Will business people who do not carry proper insurance be able or willing to accept responsibility for their performance? Will they be able to perform administratively?

What should a Certificate say?

When receiving a certificate from your subcontractors you must be sure that the following areas are completed.

1. Certificate Holder

This information is located at the bottom left hand corner of the page, and should contain the name and address of the certificate holder. Do not accept certificates that contain the name of another contractor or leave the area blank.

2. Insured

Located at the upper left corner of the page, this should match the name and address on your subcontract documents exactly. What appears to be a slight difference in the name often means your subcontractor is actually uninsured.

3. Companies affording coverage

Located in the upper right corner, company names will be displayed next to a letter A-E. These letters correspond to letters in the left-hand column next to type of insurance. This lets you identify the insurance carriers for each line of insurance.

Insurance is only of value as long as the company providing coverage has the financial strength to meet its obligations. Best's Rating Guide should be consulted and companies not carrying an A rating should be rejected.

If circumstances dictate the need to accept lower rated or unrated companies the extra risk involved should be recognized. Considerations may then be given to actions, which may reduce risk.

4. Type of Insurance

This column lists major coverages and provides a section for other coverages to be addressed.

A. General Liability

It is important this section be completed properly. You should accept only those certificates, which indicate Commercial General Liability and Occurrence. If these boxes are not checked, someone understanding the coverage provided should examine the certificate to see if coverage is adequate for the type of work being performed.

B. Automobile Liability

Coverage must be indicated for All Owned Autos, Hired Autos and Non-owned Autos.

C. Excess Liability

If coverage is required in this area it should be written on an Umbrella form. If the Other than Umbrella form is checked someone knowledgeable in the area of liability insurance should review the insurance for adequacy.

D. Workers Compensation

Coverage is indicated by showing a policy number, effective dates, employer liability limits (Coverage B), and the State(s) where Statutory coverage applies. Covered states should include the state where the work is being performed.

If the insured is a sole proprietor or partnership, the certificate must indicate whether the owner or owners are included or excluded from coverage. If the owner or owners are excluded from coverage, expect that your workers compensation carrier will be adding this payroll to your audit.

We suggest USL&H coverages are provided anytime work is being performed on or near navigable waters.

E. Other

Coverage may be added for specific contract requirements. An example of coverage often required is protection for materials, property, or professional Errors & Omissions Liability.

5. Policy Effective/Expiration Date(s)

You must have certificates indicating coverage was in force at the start of the contract through the entire contract period.

6. Limits of Liability

Many insurers feel strongly that your subcontractors should have limits of liability equal to yours. Some insurers will make it a requirement of continuing your coverage.

Insurer requirements aside, the best approach to establishing the limits required of subcontractors is to require as much coverage as you think they can afford (never less than \$1,000,000) and still give you a competitive price.

7. Description/Locations/Vehicle/Restrictions

This is an area that extends across the entire certificate near the bottom. It may be used to address special requirements you may have. Your contract should state that it be used to outline any restrictions or differences between your subcontractors coverage and what would be expected with “standard” forms. This is also where the subcontractors’ agent provides confirmation that you are named as an Additional Insured on his/her policy.

In Summary

It is important to remember that all insurance policies carrying a Generic name are not the same. Liability and Umbrella policies are often very different from one company to the next. The specifications in your contract should be specific as to the minimum acceptable forms on which coverage can be provided.

Any variations from standard forms that reduce or limit coverage should require specification on the certificate.

Use our expertise and allow us to help you design standard specifications for the insurance section of your subcontractors. Please also send us any situations that need special review. We should be your expert back up.

If you have any additional questions about certificates of insurance please do not hesitate to give us a call.