5 Questions
to ask about insurance certificates and how they can cost you money.

Volume 4

Insurance Whitepaper Series

Johnson Insurance®

1) Why Do I Need Insurance?

In addition to protecting you or your business from financial loss, just about every business enters into contracts and just about every contract requires that you carry insurance and provide proof in the form of a "certificate of insurance." Some common business contracts include:

- Leases
- Loans
- Construction contracts and subcontracts
- Service contracts
- Purchase agreements

2) How Can Insurance Certificates Cost Me Money?

When you enter into a contract, you are agreeing to the insurance requirements in that contract.

- If you are required to have certain types or amounts of insurance or special policy endorsements that you don't have, there will be a cost to buy that coverage. Also, your client could delay payment for your services until you provide the required insurance.

- If you don't require the right types of insurance from others, and the subcontractor or vendor that you hire sustains a loss that isn't covered by insurance, you could be held legally responsible, resulting in a claim against you and your own insurance policies.

- If you don't collect and maintain certificates of insurance from your subcontractors, your insurance company's auditors may charge you an additional premium because you don't have records of the subcontracted work, including the subcontract, subcontract costs and the subcontractor's insurance certificate.

3) How Can I Avoid These Unexpected Costs?

Before you sign a contract or bid on a project, be sure to understand what your insurance needs and requirements are. Don't forget to:

- Read the contract thoroughly.
- Review the indemnification provisions with your attorney.
- Review the insurance requirements with your insurance agent.
- Determine if the required insurance coverage is available.
- Determine if there are additional costs and build those costs into your bid.
- Decide if the contract language is acceptable to you.

Understanding what insurance you should require or what is required of you will help to eliminate any surprises later on.

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4) What Are the Common Types of Required Insurance?

Depending on the type of contract, the types of insurance needed will vary. Insurance is required to help reduce the risk exposures of all parties entering into a contract. That risk is transferred to an insurance company when you purchase an insurance policy. Common types of required insurance includes:

- General Liability
- Auto Liability and Auto Physical Damage

- Workers' Compensation
- Umbrella Liability
- Property Insurance
- Builder's Risk Insurance or an "Installation Floater"

5) My Contract Requires Special Insurance Policy Endorsements. What Does This Mean and Are They Available?

There are several common contractual requirements for insurance endorsements. Your insurance company may not be willing to provide these endorsements, or they may provide them and charge you an additional premium.

- **Additional Insured** – this status provides coverage for the hiring company if a claim arising out of the contractor's or vendor's work is made against the hiring company. Project owners and general contractors that hire subcontractors typically want to be an "Additional Insured" on the subcontractor's liability insurance policies. Some endorsements only respond to claims that happen while work is being done. Other endorsements can respond to claims that happen after the work has been completed.

- **Waiver of Subrogation** – this is an agreement by your insurance company to not pursue the recovery of paid claim costs against another party. If a subcontractor's employee was injured on a job site as a result of the project owner's negligence, the subcontractor's Workers' Compensation insurer would not be able to recover against the project owner. If an insurer is willing to provide a Waiver of Subrogation, there can be a premium cost for adding it. This type of claim can negatively affect your loss history and your future costs.

- **Primary and Non-contributory** – this means that the specific policy will respond first, and that no other insurance policies (such as the project owner's policies) will respond or contribute.

- **Loss Payee** – authorizes payment in the event of loss to a person or entity with a security interest in the covered property, (such as a lender or lessor for equipment or a vehicle).

- **Mortgagee** - the type of Loss Payee status granted for security interest in a mortgage loan.

- **Guaranteed Notice of Cancellation** – it is common to see contracts require that specific language in a certificate's cancellation notice section to be removed in order to provide a guaranteed notice to the certificate holder of any policy cancellation. Such a guarantee is extremely difficult to obtain and is generally only available to a Mortgage Lender.

It is critical to read your contractual agreements...

Conclusion:

It is critical to read your contractual agreements and understand the potential costs and legal liability you may face. You can avoid unexpected costs, and perhaps unanticipated legal liability, by reviewing contractual requirements with your attorney, and insurance requirements with your insurance agent, before you sign. Johnson Insurance Certificate Solutions may be of benefit to you. Contact Johnson Insurance for more information.
