Certificates of Insurance

There are three basic categories of Certificates – issuance, tracking, & viewing – however, the definitions / services surrounding each category are quite different:

Certificate Issuance - ConfirmNet, as part of our service offering, provides online issuance of Certificates from CertificatesNow to designated Certificate Holders in order to evidence the insurance in-force at the time the Certificate is produced.

As you know, this can sometimes be accomplished with a Memorandum of Insurance (MOI). However, while an MOI provides policy, coverage, and limit information, it does not include additional insured language, cancellation provisions, or Cert Holder name. As the MOI does not contain this information, Cert Holders may still require a Certificate of Insurance.

Certificate Viewing - This capability exists in CertificatesNow today and allows our Clients the ability to view, issue, and/or resend/reissue Certificates that have been issued from CertificatesNow, to a designated Certificate Holders on behalf of our Client.

Incoming Certificate Tracking - In this instance, the Client is the Certificate Holder who is requesting a Certificate from their business partner(s). This is a risk management service which is part of ConfirmNet’s service offering through TrackCertsNow.

The basic functions of Incoming Certificate Tracking include the Certificate Holder requesting Certificates from their business partner(s), Incoming Certificates are scanned / data entered into the system, measured against the Certificate Holders insurance requirements, and then tracked for compliance, insurance renewal, carrier downgrade, and potential retrieval for litigation purposes.

Tracking Incoming Certificates of Insurance

The process of tracking incoming certificates of insurance can be overwhelming, time consuming, and complex. Some organizations are adamant with regards to tracking Incoming Certificates for all Vendors, Contractors, Tenants, etc. (vendors), while others are indifferent. What is the right answer?

As we seek to answer the question – what are the legal requirements for tracking incoming certificates – let’s first understand the basic requirements of Generally Accepted Accounting Practices (GAAP) and the Sarbanes-Oxley Act of 2002 (SOX).

GAAP are imposed on companies to ensure investors have a minimum level of financial reporting consistencies. GAAP cover such things as revenue recognition, balance sheet classifications, and share measurement.

The Sarbanes-Oxley Act of 2002 is designed to protect shareholders and the public from accounting / financial reporting errors and fraudulent business practices for U.S. listed companies. Two key components of SOX have caught corporate executive’s attention – i) Section 404 of the act requires management of the publicly held companies and their outside auditors report on the effectiveness of the company’s internal controls, and ii) Section 302 of the act mandates that executives must sign the annual external auditor certified “internal control” evaluation and financial reporting documents.

Based on the above requirements overview, as well as discussions with several corporate executives, neither GAAP nor SOX explicitly require organizations to track Certificates of Insurance. However, many smart financial mangers continue to look for opportunities to leverage Section 404 compliance efforts to enhance their overall business reporting processes.
So, if GAAP nor SOX require tracking certificates of insurance, then why invest the time or bear the costs to perform this process?

Based on discussions with over 250 companies during the past 24 months, it is apparent that most organizations are looking to go beyond the letter of the law, especially in light of the corporate / financial confidence issues occurring in 2001. As a result, most publicly traded organizations are considering ways to eliminate "knowledge" gaps regarding their financial exposures. Tracking incoming certificates of insurance is a substantive way to improve organizational control structures, enhance compliance and reporting measures, and increase corporate profitability – based on the fact that most organizations who aggressively track incoming certificates of insurance, are frequently able to reduce financial losses and litigation costs by transferring high risk and/or high frequency exposures to their vendors (indemnitors).

Standard operating procedures for most companies require that every vendor signs a contract which details the product / service requirements, financial obligations, indemnifications, and other pertinent aspects of their engagement. However, the benefits of a signed contract are dramatically hindered if the organization requiring the signed contract never implements the key control process designed to reduce their litigation and financial exposure – the requesting and tracking of incoming certificates of insurance from each vendor.

Therefore, if a business determines that tracking incoming certificates is an important control factor for their organization, a key question must still be answered – What is the most efficient / cost effective methodology to perform this process? Tracking certificates can be as simple as confirming that your organization has received a certificate from a Vendor, or as complicated as evaluating all elements of your risk management program.

The most common method used to track Incoming Certificates is to contract with a proven Certificate Tracking company that offers systems access and tracking services. The two most common service models are Self Service (allows your organization the ability to access the on-line application and perform the Certificate Tracking process with the organizations internal resources) and Outsourced (allows your organization to outsource the entire requesting / tracking process to an experienced Incoming Certificate Tracking company). When evaluating the optimal certificate tracking solution for your organization, you should consider the following:

- Does the solution provide all of the required features necessary to accurately monitor insurance coverages, limits, insurance company ratings, renewal dates, etc.?
- Does your current solution handle correspondence, certificate storage and retrieval?
- Do you have sufficient resources necessary to track your incoming certificates?
- Do you currently have the ability to control day-to-day decisions regarding vendor compliancy?
- Can your application / hardware store large amounts of data on-line? For how long?

Remember, the process of tracking incoming certificates of insurance supports corporate and risk management objectives while reducing an organization’s exposure to financial loss. For organizations requiring signed vendor contracts, tracking incoming certificates of insurance allows the organization the ability to monitor the insurance standards of their vendors and enforce the agreed upon contractual standards.