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Certificates of Insurance—Why Should You Be Concerned?

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The process of tracking certificates of insurance can be overwhelming, time consuming, and annoying. Nevertheless, is there any benefit from doing so? If not, why request them? Take into account the following:

Tracking certificates can be as simple as confirming that your organization has received a certificate from any vendor or as complicated as evaluating all elements of your risk management program. This includes confirmation that the vendor's insurance matches your organization's contractual requirements. The receipt of a certificate only informs the recipient that the vendor may have insurance. Without a process or system to identify if a certificate is compliant and meets all necessary requirements, organizations may be exposing themselves to unnecessary risks. Organizations increase the possibility for errors if they fail to rigorously and systematically monitor the insurance standards of their clients. Failing to track certificates of insurance of their vendors, suppliers, service providers, subcontractors, and other indemnitors increases the risk of insurance claims and costly lawsuits.

Consider some case studies that illustrate the importance of implementing a comprehensive certificate management solution.

Case Study #1

A large home-furnishing company was not in the practice of requesting or tracking certificates of insurance from their subcontractors. Their workers' compensation insurance carrier conducted an annual premium audit that resulted in a substantial six-figure additional premium. The company did not track nor keep on file certificates of insurance for each subcontractor. The work comp carrier treated the subcontractors, including those who did not provide certificates, as employees, and consequently included their payroll under the company's workers' compensation insurance policy. To add further insult, the company had suffered a claim by one of their subcontractor's employees for a serious injury incurred while at a jobsite. Consequentially, the claim was processed under the company's workers' compensation policy. The claim affected the company's loss record and experience modification factor, which affected future premiums under this policy for a minimum of three years.

After implementing a certificate tracking solution, the company is now confident that the processing of all certificates of insurance against all subcontractors is complete and meets their minimum requirements. Certificates and all resulting correspondence are available to auditors at anytime. Since then, no surprises.

Case Study #2

A trucking company was utilizing independent truckers to haul coal from a local coal company.

The trucking company hired independent truckers who were responsible for their own insurance. One such trucker had picked up a load of coal from the coal company and was proceeding to haul the load when an accident resulted in the death of a third party. The trucker was at fault. The resultant lawsuit was against the trucker, who had not met the insurance requirements. In addition, a lawsuit against the trucking company and the coal company were filed. The coal company had requested a certificate from the trucking company, but it had not verified that the trucking company was indeed tracking or requesting insurance certificates from their independent truckers. The trucking company had also requested, but not verified, receipt of the certificates from the independents.

It is now the coal company's policy to have their trucking companies provide them a list of all the independent truckers and their corresponding evidence of insurance. As in the first case study, with the implementation of a tracking program, the coal company and trucking company now know that the independent truckers, and other subcontractors, have adequate insurance.

Case Study #3

A large property management company was manually requesting and reviewing certificates from its vendors. However, when a property manager needed the services of a vendor, they had difficulty determining which vendors the corporate landlords/owners approved. The property management company and their managers knew that corporate-approved vendors met all insurance requirements with an active, current, and compliant certificate of insurance. Property managers, often needing the services of a vendor quickly, would resort to calling a vendor in the phone book without verifying corporate approval. In one such case, a vendor made plumbing repairs without corporate approval. The property manager did not have the knowledge or expertise to request or review a certificate of insurance from the vendor. The vendor's repair job was inadequate and consequently caused flooding that resulted in extensive damage. The property management company attempted to subrogate against the vendor's insurance, but discovered that the vendor was uninsured. If the property manager had had access to a system that documented and tracked certificates and status of all vendors, the property manager could have easily determined who could be called for repairs. This would have prevented paying for the resulting damages.

Solutions

Certificate tracking solutions empower organizations to enforce efficient tracking processes. Solutions should include one of the following:

- A subscription to an ASP tracking solution. The subscription allows your organization to utilize their technology to conduct your own tracking.
- Purchase, install, and maintain third party software to conduct your own tracking.
- Contract a complete outsourced certificate tracking solution. The outsourced, fully integrated solution conducts all activities associated with your certificate management and vendor compliance.

In evaluating the optimal solution for your organization, consider these questions:

- If you are currently tracking certificates, what problems are you having with your current certificate tracking method? Training, access, location?
- Does the solution provide all of the required features necessary while accurately monitoring insurance coverage, limits, insurance company rating, renewal dates?

- Does the solution handle correspondence, certificate storage and retrieval?
- Do you have the resources dedicated to tracking certificates even with software?
- Do you want to be in control of day-to-day decisions regarding vendor compliancy?
- Is your hardware able to store large amounts of data over time?
- Is your board of directors confident they are free from exposure to loss?

It is critical to implement a comprehensive certificate tracking solution to minimize potential liability exposures. Avoid putting your organization at risk of litigation, higher insurance rates, business interruptions, and financial losses that could jeopardize the health of your company and shareholder value. Focus on the benefits of a well-managed certificate tracking solution.

Some of the benefits of a well-managed certificate tracking solution are:

- Minimize the chance of assuming unintended risk.
- Enforce uniform standards throughout your organization.
- Protect insurance programs from claims generated by business partners.
- Improve risk management awareness.
- Improve quality of information to management and your field offices by providing a centralized certificate management system.

Remember, the process of tracking incoming certificates of insurance is not only beneficial but also supports risk management. You are going to request certificates of insurance, so why not reduce your margin for exposure and monitor the insurance standards of your customers, vendors, suppliers, service providers, subcontractors, and other indemnitors? Tracking certificates of insurance decreases the risk of costly lawsuits and insurance claims.