

CERTIFICATES OF INSURANCE

Every day organizations are challenged with numerous business/operational risks. How organizations control the risks that they are exposed too can greatly impact the effectiveness of their organization. Risks can be controlled through: rejection, transfer, sharing, retention, and reduction. The focus of this article is to explore the ability to control risk through “*risk transfer*”, specifically through the principles involved in requiring and obtaining Certificates of Insurance.

When an organization’s buildings, equipment, or property are used by an outside individual or group, the organization’s exposure to insurance loss is increased. Often times insurance loss arising from these activities is generally outside of the control of an organization. While it may be reasonable to expect that an organization should not have any liability, unfortunately, organizations are often held liable for losses arising from the acts of others, especially when those entities lack adequate resources to pay claims.

Requiring Certificates of Insurance when entering into contractual agreements with outside parties/vendors, or when outside groups request to use an organization’s buildings, equipment, or property can reduce an organization’s exposure to insurance loss. When a contractor, vendor, lessee, volunteer, or outside party provides a Certificate of Insurance, it shows that the entity has adequate insurance coverage for the losses that may arise out of the activities that they may perform. It also provides evidence that the outside party can satisfy obligations to pay losses, judgments or settlements. During this process, it is important that an organization request to be listed as an additional insured on the outside party’s insurance policy. Being named as an “additional insured” on Certificates of Insurance allows for insurance coverage from the other party’s insurance policy for claims and suits alleging negligent acts or omissions of the other parties.

Typically, there is subjectivity involved in this process, or a business decision to be made. Requests for use of buildings and equipment which would put an organization at a high exposure for claims such as contractors doing construction and large events involving the general public should require a Certificate of Insurance being received. Small events such as class reunions, small meetings, small dinners, et cetera, an organization should evaluate the risk involved with the activity or function and make a decision of whether or not to require a Certificate of Insurance.

Once a Certificate of Insurance is received, the certificate should be reviewed for:

- Types of coverage;
- Limits of liability;
- Name of insurer(s)
- Dates of coverage;
- Cancellation provisions;
- Additional insured.

Permissive use of an organization's buildings, equipment, and property by an outside group or individual in some instances can be a valuable service for organizations to provide to the public and can enrich the sense of community between an organization and its neighbors. It can become a difficult balance for an organization within a community, but ultimately the commitment of an organization to employ "risk transfer" techniques will provide it with the best opportunity to control this type of business risk.

Submitted by,

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