

EVERY THING YOU NEED TO KNOW ABOUT CERTIFICATES OF INSURANCE

CONTRACTORS LIABILITY



Navigating the Changes to Certificates of Insurance and Their Management

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Certificates of Insurance: Overview

Your company probably has insurance, regardless of whether the law in your state dictates it or not. This is because the consequences of poor coverage typically outweigh the monetary amount it takes to pay for an insurance premium. Many new policy holders, however, tend to forget asking their providers about a certificate of insurance after securing a general liability, auto insurance, or other policy – a document that arguably may be as important as the policy itself.

What is a Certificate of Insurance?

A certificate of insurance (COI) is a simple document that lists the policy information customers need to understand the scope of their contractor's insurance coverage. If your insurance company uses a standard format for their COIs, it will include:

- *The dates of policy coverage* (from when you first obtained your coverage to when your coverage expires)
- *All covered parties* (including employees and customers or third parties)
- *The type of policy or policies*
- *The monetary amount of each policy limit*
- *Contact information* (for the insurance company as well as the policy holder)

The types of insurance a potential client might ask for are fourfold, which will be explained in detail within the subsections below:

- General Liability Insurance:

This type of insurance covers your company if it is found liable for damages involving a client or a third party. This type of damage includes bodily injury and resulting medical payments, personal damage, advertising injury, and property damage. General liability insurance does not directly benefit your workers, but it can save you thousands of dollars when a client or third party files a claim against your business because of an accident that harmed them. Working with a dedicated insurance provider helps you understand state and local laws, that way you won't be fined for lack of coverage.

Farmer Brown encourages its clients in all instances to have general liability insurance, as well as proof of coverage. This will not only keep you from running into legal trouble regarding lack of insurance, but it will also protect your professional image when a client asks for proof of insurance.

- Commercial Auto Liability Insurance:

This type of insurance protects your business against accidents that occur while an employee is driving a company vehicle. At surface value, it might seem that these accidents would only affect the company that holds the insurance policy. However, if a contractor were to crash a work

vehicle into client-owned property, having proof of a commercial auto liability policy shows your customers that you've taken such a risk into account.

- Property Insurance:

Insuring your property has multiple benefits that go beyond protecting what you own. It is also a professional gesture that shows people you care about the work you do enough to protect it against threats, both foreseen and unknown. This type of insurance protects your property and the property of people you work with against risks associated with your actions, the actions of others, and certain weather/environmental factors.

- Workers' Compensation:

Workers' compensation is typically set up through a government agency and protects the physical rights of your workers. Even though some states do not require workers' compensation insurance, it is best to have it in case your company is found legally liable for damages done to one of your employees. Sometimes, clients will ask for proof of workers' compensation to guarantee that your company's ethics matches their own, but often they will utilize it to fulfill their own legal needs.

Regardless of whatever proof of coverage your customer requests from you, a certificate of insurance provides a clean summary of important insurance information - which might confuse clients, third parties, and the insured business owners themselves if they were to refer to the policies in any unofficial manner. This document is both beneficial and necessary, supporting an ever-increasing need for transparency and organization as digital transformation affects our workplaces. Proof of insurance documents have changed over the past few years and they will continue to change as workplaces evolve. It is up to insurance agencies to keep their customers informed of any changes in the formatting of all official proofs of insurance, as well as encourage them to obtain certificates of insurance that will help keep everyone informed throughout the tenure of a project.

Benefits of Certificates of Insurance: Clients and Policy Holders

Certificates of insurance adapt to modern values, which include ease of access for users. Most insurance policies are pages long, and they include information about the policy holder's terms of the contract. All this information is legally necessary, and it is important for the policy holder to be able to refer to the information if it's required. However, your customers do not need to know what happens if you break a contract, nor do they need to know about legal terms, or some of the other specifics regarding your coverage. All they need to know is that they are covered.

Therefore, a COI is a simplification of all the necessary information you and your insurance broker have shared between each other at the beginning of your coverage period. This saves the client from having to sift through pages of unnecessary information about your coverage just so they know what they need to know to place their trust in you as a contractor. This allows you to get to work on your bid that much faster.

It was mentioned previous that COIs are helpful to policy holders. Some of the ways they make life easier on policy holders include:

- *Simple references to your policy information.* Even if your start and end dates for coverage are listed on your original paperwork, it can be hard to find the information you need in your policy, as it is rife with legal terminology. COIs help keep that information plain and clear.
- *Ease of access for HR employees and/or those in charge of audits.* For HR employees, or any other administrator concerned with the location of company policy information, this document helps with the organization of policy information.
- *Increases the likelihood of winning bids.* Even if you are a master of your trade, clients differ when it comes to the risks they need covered. Having a COI on hand that clearly list the forms of coverage you have on hand is an effective selling point for clients.

Obtaining a COI does not cost the policy holder any additional money, nor does the request process take as much time as applying for a policy.

In the past, documentation was often not required, and contracts between a general contractor and a client were often enough to begin and reinforce risk transfer between the two parties. However, the size of operations for most modern companies, as well as the digitization of many traditional processes, has made it important for the concept of risk transfer to catch up with the times. The next takes a closer look at the evolution of risk, risk transfer, and certificates of insurance in the construction setting.

Risks, Risk Transfer, and COI Storage and Requests

All construction businesses are aware of the risk associated with their jobs. Your clients are also aware of these risks, though chances are, that awareness exists on a smaller scale.

General risks involve any potential for damage made or experienced by something or someone related to your company. *Liability Risks* refer to your company's risk of creating damage that affects something that doesn't belong to you. A general liability and auto liability policy will address most of these risks, but proof of coverage against these risks is perhaps the important part of modern risk transfer, which policies themselves cannot carry out as effectively.

What is Risk Transfer?

Risk transfer is a contractual agreement that passes the potential of risk from one entity to another. The risk transfer that is guaranteed by that documentation is the transfer of liability from the contractor or construction worker to their insurance company.

In the past, risk transfer was often handled by the contract itself. This was during a time when businesses were much smaller and risk transfer was easily carried out through an agreement. Today, construction and contracting companies often employ more than a handful of employees, plus they work with large corporations with third parties potentially present on worksites. As a result, risk is much higher and a contract between a construction company and their customer is often not enough to legally guarantee risk transfer.

The role of the insurance company is to transfer risk. Their absorption of financial responsibility ensures there is subsequent protection for the insured in case of a liability claim. Risk transfer is promised whenever a policy holder pays their insurance rates. This existence of a contract between the contractor and the insurance company gives clients greater confidence in the legitimacy of risk transfer, which did not previously exist in the contractor/customer relationship.

Adaptation to Digital Transformation and Scalability

Scalability is simultaneously one of the greatest concerns and greatest feats of modern insurance. Certificates of insurance streamline compliance by adding an additional layer of security that did not exist only several decades ago. They also address issues that arise from increased digitization of information. Insurance policies still like to use paper documentation, which makes scanning and storing these documents hard on the policy holder. For clients of construction companies, who often handle many different compliance-related documents, keeping track of proofs of coverage for all their vendors without a standardized form is an extremely inefficient process.

Certificates of insurance are usually standardized, which allows for adaptability when it comes to new or different organizational technology solutions. Every vendor and contractor insurance form needed by an organization can be easily organized and acquired through automation. Earlier, these forms might have been outsourced and stored elsewhere, which in some instances proved difficult in relation to their acquisition.

Because insurance is made to alleviate the stress of risk management, insurance companies have begun to realize that standardization through common certificate of insurance forms, like the ACORD form, is the best solution for their customers and their customers' clients.

ACORD COI Forms and Other Forms of COI Standardization

Contrary to how it sounds, an ACORD certificate of insurance is not limited to a single insurance company. It is a standardized form created by the Association for Cooperative Operations Research and Development Organization (ACORD).

According to their organization, ACORD *“facilitates fast, accurate data exchange and more efficient workflows through the development of electronic standards, standardized forms, and tools to support their use.”*¹

Like many work source automation companies, the goal of ACORD is to streamline workplaces and make document storage and acquisition more accurate and user-friendly. Non-standardized forms leave room for human error, whereas forms like the ACORD certificate of insurance present important policy information in a way that is both accessible to staff members and machine readers.

In appearance, these forms look like a tax form. However, when they are filled out completely, they list all the information required to guarantee both risk transfer and contractual compliance.

Not all insurance companies use ACORD forms, but they are the industry standard because of their ease of access and their readability. These standards promote scalability and digital transformation in an era that is growing increasingly dependent on technology. Not only do they supply you with what you need in order to please your customer, but they take a load off the shoulders of all parties involved with the insurance contract.

¹ <https://www.acord.org/home>

Conclusion

A certificate of insurance will not always be required by law, but it is always in the best interest of a contractor or construction company to obtain a certificate from their insurance supplier. Even if a client does not ask for it, chances are likely that future clients will ask for proof of insurance for their own protection. Additionally, if your company is audited for any reason, it will help you or your human resources department remain better organized and more compliant.

Finally, a good insurance company will help you with obtaining a certificate of insurance. ACORD forms and other standardized COIs take minutes to fill out and they provide proof of legal risk transfer from you to your insurance company. If your current insurance company fails to provide you with a certificate of insurance or gives you a hard time about filling out an ACORD form, contact another insurance company – like Farmer Brown – to get started with proof of insurance as well as an overarching coverage plan.

Insurance companies are supposed to make life easier for general contractors and their clients. Supplying you with a standardized certificate is one of the ways in which insurance companies do this. Certificates of insurance help you and your customers create a professional rapport with each other quickly and with a sense of trust before you officially begin a project.