

The Importance of Additional Insured and Certificates of Insurance in Risk Management



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DETERMINE YOUR RISK TOLERANCE

- What is your local governmental entity's risk tolerance regarding third-party vendors, contractors or subcontractors?
- How is this applied to your insurance requirements?
- Can an action or activity be avoided, or are you willing to accept the risks?
- If not, insurance is a good risk transfer mechanism for some or all of the risks.



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CONSIDER TRANSFERRING YOUR RISK VIA CONTRACT

- Get it in writing.
- Define responsibilities for all parties involved.
- Include indemnification and hold harmless clauses in your contracts.
- If you are unsure of what those are, ask PE Partners (PEP) to provide you with samples.



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ASK TO BE ADDED AS AN ADDITIONAL INSURED

- Additional insured endorsements assign the burden of risk to the parties most likely to create losses.
- The additional insured benefits from coverage and rights under the named insured's policy in the event of a claim.
- Construction projects may require a different level of coverage.

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CHECK THE CERTIFICATE OF INSURANCE

- Request a Certificate of Insurance (COI) from the third party to ensure your entity has been added as an additional insured.
- A COI provides that the third party has the means to pay for any potential losses that may occur as a result of the services specified in the contract.
- A COI also protects your entity from claims due to the actions of others.
- Use the agreement or language you provided to the third party to ensure they have met your requirements.
- If you are still unsure whether they have met your requirements, send the agreement or COI to PEP, and we will review it for you.
- Keep certificates of insurance in a safe place.
- Review policy effective dates and request an updated COI if necessary.
- Always have your city attorney review agreements and carefully evaluate insurance requirements.

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WHAT TO DO IF THE THIRD PARTY CANNOT MEET YOUR INSURANCE REQUIREMENTS

- Consider what the exposure of the third party not meeting your insurance requirements will mean to you.
- How risky is the activity and are you willing to take the risk?
- If you are unsure, consult with your city attorney.

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WHAT TO DO IF YOU ARE REQUIRED TO PROVIDE A COI AND ADD A THIRD PARTY AS AN ADDITIONAL INSURED TO YOUR POLICY

- There will be instances when your entity is required to provide a COI to a third party and add them as an additional insured.
- If you are not sure whether your entity can meet the indemnity and insurance requirements, send it to PEP before signing.
- PEP can identify any gaps between your entity's coverage and what the third party has requested.
- If you haven't signed the agreement yet, you might be able to negotiate the requirements.
- If you already signed the contract and need a COI, send the contract to PEP for review, along with a certificate request for PEP to issue.
- Please note that you could be in breach of contract if you have signed an agreement without having coverage that fully complies with the requirements set out in the contract.

Be sure to contact your underwriter with any questions.