

One Step Ahead Series

# Dollars and Sense of *Risk Management*

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# **Dollars and Sense**

**of**

## ***Risk Management***

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## References

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**Risk Management for the Public Transit Industry**  
Volumes 1-3 USDOT August 88

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**THIRD PARTY** - Someone other than the insured and the insurer.

**TORT** - Private or civil wrong or injury independent of contract.

**UMBRELLA COVERAGE** - Type of excess all-risk liability coverage, normally written to apply to losses beyond the basic coverage, for large or catastrophic losses.

**UNDERWRITER** - Person with the responsibility of selecting and rating risks to be insured. The term is sometimes used to refer to an insurance company.

**VANDALISM** - Act of maliciously destroying or damaging property.

**WORKERS' COMPENSATION INSURANCE** - Method of providing for the cost of medical care and weekly payments to insured employees or to dependents of those killed on the job, regardless of blame for the accidents.

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**PREMIUM** - Consideration charged by an insurance company for insuring a particular risk.

**PROPERTY RISKS** - Exposure of real or personal property to perils that give rise to possible losses.

**RATE** - Amount charged for insurance coverage on a particular risk for a specific period of time.

**RATING BUREAU** - An organization that classifies risks and publishes rates, usually based on their compilation of statistical data or inspection of risks.

**RATING EXPERIENCE** - Computing a premium based on the loss of the risk itself. Essentially a comparison of actual losses with expected losses.

**RESERVE** - Amount set aside to cover the expected amount of loss, or a fund set up as a contingency to cover future losses.

**RISK** - The chance or possibility of loss.

**RISK EVALUATION** - Process of assigning an economic value to a particular loss exposure.

**RISK IDENTIFICATION** - Process of locating possible losses to which an entity is exposed.

**RISK MANAGEMENT** - Process of controlling the chance or possibility of financial loss.

**RISK TREATMENT** - Process of managing loss exposures once the exposures have been identified and evaluated.

**SAFETY ENGINEERING** - Process of planning and implementing loss prevention strategies.

**SUBROGATION** - Right of an insurer to recover from a third party an amount paid on a loss when the third party is at fault.

**SURETY BOND** - Agreement providing for monetary compensation should there be a failure to perform specified acts within a stated period. The surety company for example, becomes responsible for fulfilling a contract if the contractor defaults.

**INDEPENDENT CONTRACTOR** - One who performs work for another, who is not subject to the control or direction of the party for whom the work is performed, and who is not an employee of the party for whom the work is performed.

**INSURANCE** - A social device by which risks of financial loss are transferred from one individual to a group. The group guarantees indemnity to each of its participants for insured losses.

**LIABILITY INSURANCE** - Any form of coverage whereby the insured is protected against claims of other parties arising from specific causes.

**LIABILITY RISKS** - Exposure of people or property to legal risk of loss or damage as a result of a negligent act by some party or the failure of that party to act prudently.

**LOSS** - Any destruction or disappearance of value.

**LOSS CONTROL** - Reducing or eliminating preventable losses.

**LOSS RATIO** - Percentage derived by dividing the dollar amount of losses related to an insured risk or group of risks by the premium collected from the risk(s).

**NAMED PERILS** - Perils specifically covered on a property policy form specifically listing the perils insured against.

**NEGLIGENCE** - Failure to act as a reasonable and prudent person would under similar circumstances.

**OBJECT** - As used in a boiler and machinery insurance policy, refers to any boiler pressure vessel, machine or apparatus described in the schedules of the policy.

**OCCURRENCE** - Accident or repeated exposure to conditions that results in injury to people or damage to property; an act or related series of acts that inflict injury to people or damage to property.

**OCCURRENCE COVERAGE** - Policy form providing liability coverage only for injury or damage that occurs during the policy period, regardless of when the claim is actually made. For example, a claim made in the current policy year could be charged against a prior policy period, or may not be covered, if it arises from an occurrence prior to the effective date. Contrast with "Claims Made Coverage."

**PERIL** - Cause of loss insured against in a policy.

*Service* provider agencies in the Human Service field are facing an increasingly difficult environment in which to operate. Shifts in service delivery paradigms, funding sources, staffing, quality outcomes focus and public perception all contribute to potentially greater risk exposure for service provider agencies.

Human Service providers are mission focused, and in the past, may not have had the expertise or the resources necessary to manage risk within their organizations. As programs shift towards more community integration and person-centered control, and with greater pressure from regulators and other environmental factors, the chance of loss and litigation increases.

For these reasons and countless others, it's paramount that providers create an awareness of risk that promotes safe, reasonable and prudent rendering of services. We hope that this primer of risk management information will be the first step in your journey.

This particular book is provided to you as part of a series of books to give you a starting point in developing a viable, company-wide safety program and philosophy. In addition to the books in this series, we have developed field-specific booklets that cover topics such as medication administration, passenger assistance, person-centered planning, behavior management and many others.

*The information in this booklet was obtained primarily from **Risk Management for the Public Transit Industry**. The information was edited for appropriateness in application to human service provider agencies. The information is intended only as a primer for developing the risk management process. It is not intended to reflect the insurance policies administered by the Irwin Siegel Agency.*

## The Risk Management Process

**RISK:** “exposure to the chance of loss”

**MANAGE:** “to have charge of or responsibility for; to handle or control in act or use”

In order to properly take charge of the risk exposures in your agency, you must understand the risk management process completely. The risk management process is a structured method for reducing uncertainty about risks and for controlling losses. Five steps form the framework for the risk management process, with each step consisting of two or three major tasks.

*The steps, which will be covered in more detail, include:*

- 1 Risk Identification** - Understanding the different types of risk exposure and preparing a comprehensive risk inventory.
- 2 Risk Evaluation** - Estimating the loss potential of each risk.
- 3 Risk Treatment** - Weighing methods for managing the identified hazards, loss control and risk financing.
- 4 Decide and Implement** - Selecting and implementing the components of risk management and loss control that best serve agency objectives.
- 5 Monitor and Revise** - Assessing results, identifying new loss exposures, evaluating changes in programs, and revising in accordance with results of the assessment.

**Identify → Evaluate → Treat → Understand → Decide → Implement → Monitor → Revise**

Once all steps of the risk management process have been initiated, your agency’s new risk management program will begin to “take charge” of the risks and possible loss exposures at your agency.

**DIRECT LOSS** - Loss resulting directly and immediately from the hazard insured against.

**EFFECTIVE DATE** - Date on which an insurance binder or policy goes into effect.

**EMPLOYER'S LIABILITY** - It provides coverage against liability imposed on an employer for injuries to employees in situations where the employee does not come under part A of the workers’ compensation board.

**EMPLOYERS’ NONOWNERSHIP LIABILITY** - Covers the liability of the insured for bodily injury and property damage arising from accidents due to the use of autos owned by employees while used in the interest of the insured.

**ENDORSEMENT** - Amendment to an insurance policy that in some way modifies the original contract provisions.

**EXCESS INSURANCE** - Gives coverage after coverage provided by an underlying policy has been exhausted. It is designed to respond to large but infrequent losses.

**EXCLUSIONS** - Specific items identified as not being covered under a particular policy.

**EXPERIENCE** - (1) the loss record of an insured or of a class of coverage; (2) classified statistics on events connected with insurance or outlay of income, actual or estimated.

**EXPOSURE** - Situation or condition that lays one open to loss or the risk of loss.

**EXTENDED COVERAGE ENDORSEMENT** - Covers property for same amount as fire policy against all direct loss for damage caused by windstorm and hail, explosions, riot, civil commotion, aircraft, vehicles and smoke.

**FLOATER** - Usually an all risk type of policy used to insure high value specialty items, or property that is moved frequently.

**HAZARD** - Condition that creates or increases the probability of loss.

**HOLD HARMLESS AGREEMENT** - Contract that aims to release one party from liability for specified losses arising out of a contractual relationship.

**INCURRED LOSSES** - Total of all losses within a fixed period.

**INDEMNITY** - Making whole or restoring financially after a loss.

**COINSURANCE** - In property and casualty insurance, a clause or provision in an insurance policy requiring a specified amount of insurance based on the value of the property insured. Normally there is a premium reduction for purchasing insurance equal to or commensurate with the value of the property. If the insured fails to comply with the clause (s)he will suffer a penalty in the event of a partial loss.

**COLLISION INSURANCE** - Insurance against a loss to insured property caused by striking or being struck by an object; includes loss caused by upset.

**COMPREHENSIVE AUTO** - Covers any direct and accidental loss or damage to described owned automobiles except that caused by collision or upset. Also referred to as "Other than Collision."

**COMPREHENSIVE DISHONESTY, DESTRUCTION AND DISAPPEARANCE POLICY** - All risk protections for money and securities on and off the premises, caused by dishonesty, mysterious disappearance or destruction.

**COMPREHENSIVE GENERAL LIABILITY** - Broad form of liability insurance that insures against all declared existing liability hazards, and any additional liability hazards that may occur during the policy terms, arising from buildings, premises and operations, independent contractors, or products and completed operations.

**CONSEQUENTIAL LOSS** - Loss not directly caused by a peril insured against, but resulting indirectly from an insured peril.

**CONTINGENT LIABILITY** - Liability for a damage arising out of the acts or omissions of others, not employees or agents.

**CONTRACTUAL LIABILITY** - Obligation assumed by contract to pay damages for which another is legally liable. (See also "Hold Harmless Agreement.")

**COVERAGE** - Term used to designate the type of protection provided by an insurance policy.

**DECLARATIONS** - Statements by the insured giving information about the risk insured on the basis of which the policy contract is issued and the premium determined, usually part of the contract.

**DEDUCTIBLE** - Amount of loss to be absorbed by the insured before an insurer becomes liable for payment.

**DEPRECIATION** - Amount charged against property value to cover aging and obsolescence.

## 1. Risk Identification

Risk identification is the first step to good risk management. All subsequent decisions concerning loss control and risk financing depend on the identification of risks. Unless identified and evaluated, risks cannot be properly managed.

The process of risk identification is a comprehensive assessment. What does the organization do that might cause a loss? And, what property does the organization control that could be a source for loss?

A starting point for identifying risks, especially for established and larger organizations, is to review insurance claims history. Examining claims history alone however, will not adequately identify risks and may generate a false sense of security. Risks often exist despite an absence of claims. An organization that has never faced a liability claim may not sufficiently appreciate the effect a claim can have.

### Types of Risk

Service provider agencies face many risks in the course of their daily operations. Most fall into one of the following categories:

- General Liability
- Professional Liability (including Directors & Officers coverage)
- Liability to Employees
- Property Loss
- Vehicle Related Loss
- Contractual Liability
- Business Interruption

### GENERAL LIABILITY

This category of liability is imposed by law and refers to the amount of loss payable to others outside the organization for injury or damage arising from operations. It applies to personal injury, bodily injury and property loss or damage to a third party resulting from the negligence of the program operations or the employees.

**PROFESSIONAL LIABILITY (INCLUDING DIRECTORS & OFFICERS COVERAGE)**

Claims are most prevalent in the areas of hiring, treatment and termination of employees. Suits are most commonly filed for sexual harassment, discrimination, breach of employment contract and wrongful termination. The potential exposures include economic damages, including punitive claims, as allowed in some states, for intentional infliction of emotional distress. Any licensed person may be said to provide professional services and thus incur certain liabilities.

In terms of Directors and Officers liability, consumers and guardians rightfully expect a high level of character, professionalism and ethical conduct. Directors and Officers must exercise reasonable care and diligence in carrying out their tasks.

They are held accountable when tasks are grossly neglected or a wrongful act is committed, including breach of duty, neglect, misstatement and omission. Negligence in fiscal management is the most common target of D&O liability claims.

Failure to maintain financial controls, misstatement of financial conditions, and waste of organizational assets are serious claims against board members and officers.

The Board of Directors may also be liable for taking actions that exceed its granted authority. For example, a Board's decision to extend the service area beyond that established in the charter could potentially expose the organization to a legitimate suit.

Failure to comply with the Americans with Disabilities Act (ADA) opens yet another arena for possible liability exposure.

**LIABILITY TO EMPLOYEES**

An employer's liability to its employees includes compensation for job-related accidents or occupational illnesses. Three types of loss exposure are workers' compensation claims, employer liability claims and non-compliance with applicable occupational safety and health regulations.

**PROPERTY LOSS**

Physical property at risk includes real and personal property, whether owned or leased. The loss may result from fire, accident or theft. Property may be destroyed, damaged or lost. The organization may also experience an interruption in normal operations.

**VEHICLE RELATED LOSS**

Historically, *vehicles are the source of greatest loss activity* for Human Services providers. Risks include property damage to the vehicle itself, in addition to liability claims for personal injury and property damage as a result of vehicle operation. The specific types of liability are numerous and run the gamut from minor fender benders to loss of life.

**BINDER** - Temporary insurance contract pending execution of the policy contract. Except for specified differences, the terms of the binder are, by implication, those of the contract that is intended to replace it.

**BLANKET POLICY** - Single contract that insures a number of locations or risks against the same perils and for a single limit of coverage.

**BOILER AND MACHINERY INSURANCE** - Coverage for loss arising out of the operation of pressure, mechanical and electrical equipment. It may cover loss to the boiler and machinery itself, damage to other property and business interruption losses.

**BOND** - Obligation of a surety to protect the obligee against financial loss caused by act or omission of the principal.

**BROKER** - Independent representative who can negotiate coverage on behalf of an insured.

**BROKER OF RECORD** - Individual named by the insured as his/her exclusive representative in negotiating insurance contracts.

**"BUILDERS" RISK FORM** - Type of fire insurance that indemnifies for loss of, or damage to, a building under construction from specified perils. Insurance may be written under a completed value form with the estimated final value used as the basis for the amount of insurance, or it may be written under a reporting form where monthly reports of value are made by the insured.

**CANCELLATION** - Termination of an insurance policy or bond before its expiration by the insured or the insurer.

**CATASTROPHE COVERAGE** - Term used to describe high-limit coverage designed to insure near total losses.

**CERTIFICATE OF INSURANCE** - Issued by an insurance company to verify existence of insurance policy amount, the insured(s) and the period for which the coverage is effective.

**CLAIMS MADE COVERAGE** - Policy providing coverage only if a written claim is made during the policy period, or any applicable extended reporting period. For example, a claim made in the current year could be charged against the current policy, even if the injury or loss occurred many years in the past. If the policy has a retroactive date, an occurrence prior to that date is not covered.

## Glossary

**ACCIDENT** - Unforeseen, unintended event.

**ACTUAL CASH VALUE** - New replacement cost, less depreciation.

**ADDITIONAL INSUREDS** - Names added to the insuring clause, at the request of the insured, stating the interests involved.

**ADJUSTER** - Person who settles claims for insurers. An adjuster may be an employee of an insurer or an independent contractor.

**AGENT** - Representative of an insurer who has the authority, limited by contract and law, to obligate or bind the insurer in some situations. An agent may be an independent contractor, an employee or the insurer, and is licensed by the state.

**AGENT OF RECORD** - Term customarily used to refer to an agent who is given written authorization by an insured to act as the insured's exclusive representative in those matters of insurance covered by the letter of authorization.

**AGGREGATE** - Greatest amount recoverable on a single loss, during a policy period or on a single project.

**ALL RISK INSURANCE** - Covers losses caused by all perils within the line of coverage, except those specifically excluded in the coverage contract.

**APPRAISAL** - Evaluation of a property item prepared according to certain standards for specific usage. Such an evaluation may be based on replacement value, actual cash value or market value.

**APPRECIATION** - Amount by which property values increase as a result of various economic factors.

**AUDIT** - In certain kinds of insurance, a survey of the insured's records to determine the premium due to that insurer.

**AUDIT PREMIUM** - Additional premium to which the company is entitled, or the return premium to which the insured is entitled after an audit and a re-figuring of the base on which the original or deposit premium was charged.

**BASIC RATE** - Rate applied to a whole class of similar risks. This rate is usually subject to modification when applied to a particular risk according to its characteristics.

## CONTRACTUAL LIABILITY

When risk is contractually transferred from one party to another, loss exposures can be increased or decreased. Contractual liabilities can arise out of leases, rental agreements, special service agreements, joint use agreements, cooperative ventures, construction contracts, service contracts with municipalities and contractual labor. The general rule in handling contractual liability is to transfer as much responsibility as possible away from the organization, and to avoid assuming the responsibilities of others.

Techniques used to transfer liability to others include being an "additional named insured" on another's insurance policy, using hold harmless agreements, verifying that contractors have current certificates of insurance on file, and executing permission/waiver forms and lease/joint use agreements.

## BUSINESS INTERRUPTION

Employee strikes, loss or reductions of funding and major losses of vehicles or facilities all create risks. The consequences of these situations include loss of passenger revenues, depletion of program reserves, reduction in public subsidies and outlay of additional funds to restore services and possibly facilities, after service interruption.

## Methods of Identifying Risk

Given this wide range of possible loss exposures, service provider agencies need an organized and comprehensive inventory of their particular exposures. To be truly effective, the inventory must encompass everything that the organization does and how it gets done.

Tools that assist in compiling the inventory include questionnaires, checklists, reviews of claims history, reviews of documents and use of risk management experts. Information on the frequency and severity of losses within each particular area of risk should also be collected. This data is vital in determining the appropriate treatment options for each type of risk.

### QUESTIONNAIRES

Properly designed questionnaires ascertain key information about an organization's assets and operations. Staff responses will assist in identifying and analyzing hazardous situations and potential sources of liability. A typical risk management questionnaire would solicit facts and opinions on:

- General information, including any planned changes in operations or services
- Fiscal operations, including funding sources, primary customers and suppliers
- Employees and volunteers
- Operations, both on-site and off-site
- Building and occupancy information
- Inventory of property, equipment, furniture, fixtures, etc.
- Computer hardware, software and storage media
- Telecommunication system needs
- Boiler, machinery and other physical plant operations
- List of all vehicles and description of their use
- Business interruption potential
- Crime and fidelity exposures
- Historical insurance claims and other non-insured losses
- Current insurance coverages, limits, exclusions and deductibles

The managers responsible for each of these risk areas should complete the questionnaire. They should also obtain input from employees with day-to-day knowledge of the organization's operations, including maintenance, purchasing, human resources, operations, legal services, security, computer services, communications and health care personnel. Employees can point out equipment that may be particularly vulnerable or hard to replace, operational bottlenecks that impede service delivery, unsafe working conditions and so on. It is also worth noting that employees who have helped to create new policies are more likely to follow them!

## 9. INAPPROPRIATE FOLLOW-UP

On-going follow-ups by management and supervisory staff are essential to ensure compliance with safety training techniques and safety rules. Follow-ups include timely accident investigation, incident reporting and the filing of insurance claims. Management should also follow up on injured workers and get the injured worker productive again as soon as possible, even in a limited role. The process of identification, evaluation and treatment of risks must be on-going. Repeat inventories and circulate check-lists on a regularly scheduled basis. Be aware of legal, social, medical and technological changes that result in new exposures, or new ways to treat or even eliminate existing ones.

## 10. LACK OF A TOTAL SAFETY PROGRAM

A loss control program can be built up, one element at a time - like a **pyramid**. Truly effective loss control does not come easily. As with any other endeavor an organization chooses to undertake, loss control results will come only with intelligent, aggressive and persistent program management. One final consideration is that in our efforts to develop a quality organization, keep in mind that there are many elements inclusive in quality, and safety is one of those elements.

## 5. LACK OF SUPERVISORY INVOLVEMENT

Without supervisory support, very few loss control program activities produce results. Accident investigations, inspections, employee safety training and safety meetings should all involve supervisors' active participation in order to be effective. When upper management fails to delegate accountability and authority to supervisors in the loss control program, they fail to take advantage of the fact that the supervisor has the most influence and control over the employees' attitudes and work habits.

## 6. FAILURE TO INVOLVE ALL EMPLOYEES

Employees are often the first to recognize hazards on their jobs or in their program sites and frequently have excellent ideas on how to correct an unsafe condition or change a job procedure to reduce the probability of an accident. However the consequences of failure to include them go beyond the waste of a priceless resource. It's been said that the only people who like change are wet babies. Many people have some degree of difficulty, discomfort or resentment when confronted with change, and the changes caused by an effective Risk Management plan *should resound throughout the organization*. The plan will require staff to change the way they do their jobs and respond to situations. It may change their responsibilities, and ideally, it will change the way they think. By including all employees in questionnaires and discussions, management will benefit from their knowledge and help them prepare for changes to come, while also acknowledging them as valued members of a team.

## 7. NON-EXISTANT OR INADEQUATE TRAINING

It is not enough for management to identify an objective and delegate a supervisor to attain it. Supervisors who have not been trained in the basic elements of on-the-job safety, or who are not skilled in communicating that information, will obviously be unable to assume their key role in the program. At best, this will result in a frustrated supervisor and a bewildered staff. In a worst case scenario, it may lead to a severe loss resulting in personal injury or death. Empower supervisors by budgeting dollars and time for appropriate training. It enables them to get the job done, and lets them know the organization thinks that they are worth the investment. A confident, knowledgeable supervisor is an inspiring leader and is far more likely to promote safety consciousness in his or her department.

## 8. INCONSISTENT ENFORCEMENT OF SAFETY RULES

If enforcement of safety rules differs from supervisor to supervisor and from department to department, or if hourly employees are expected to obey the rules but management is not, or if the reasons for the rules are not known by those expected to obey them, the result is that people will not take the program seriously and support for the program will deteriorate. Safety rules that are not consistently enforced will only undermine and weaken employees' perception of management commitment.

### CHECK LISTS

A check list is shorter than the detailed questionnaire but covers similar areas. A check list can alert managers to hazards in the major risk categories (general liability, employee liability, property loss, contractual loss and business interruption) and associated assets and operational procedures that may be affected. A sample check list appears on page 25.

### CLAIMS HISTORY

There is no better way to predict the future than to look at a record of the past. A claims history is a ready-made database for identifying risks particular to a service provider agency. A review of past claims will highlight areas of risk, and indicate the frequency and severity of specific losses.

### OTHER

Identify additional risks by examining legal documents such as contracts, purchase orders, leases and other agreements. These documents contain hold harmless and/or indemnification agreements, along with specifications for required insurance coverage, incident reports, consumer complaints and public complaints.

### OUTSIDE EXPERTS

A risk management consultant can perform program audits to identify areas of risk in addition to suggesting appropriate financing mechanisms. These services can be expensive, so it is important to clearly state the extent of services and level of detail expected for the consultant's fee.

Your insurance broker or agent is an excellent resource to help you review insurance coverage, exclusions, limits of liability, deductibles, etc. The agent can also advise you in setting up a procedure to obtain and review certificates of insurance from contractors and vendors.

### Some common risks that may not be readily recognized include:

- Employees claiming violation of rights or wrongful termination.
- Environmental damage from toxic waste on property an organization acquires.
- Theft or destruction of materials that are worth far more to the organization than the replacement value.
- Service recipients claiming negligent supervision or improper selection of employees and volunteers.
- Violation of regulations governing the services the organization provides.
- Vendor goods stored in agency warehouse.
- Employee dishonesty that results in funds being siphoned from the organization.

## 2. Risk Evaluation

A procedure is needed to select the most appropriate risk treatment option for each area. The criterion in this selection process is loss potential as measured by frequency of occurrence and severity of loss. In analyzing risk, **the expected loss is the most important value**. Calculate expected losses by multiplying expected claims frequency by expected claims severity. For example, an organization operating in a high crime area may anticipate an average of three thefts annually with an average loss of \$200. Can the organization afford the \$600 expected loss? Even if it can, does it need insurance if case losses are higher than expected? The hardest losses to estimate are those that occur with a low frequency but high severity.

### LOSS POTENTIAL

Loss potential includes both direct and indirect costs resulting from an incident. Direct costs are tangible and simple to track or calculate: specific dollar amounts paid to settle damage and/or injury claims are readily available. Indirect costs however, such as vehicle rental or facility rental while repairs are being done can easily be overlooked and difficult to track.

### LOSS FREQUENCY

Loss frequency measures how many times a loss is expected to occur in a certain time frame. The best source of this information is loss history. Industry statistics accumulated by state insurance departments, industry associations, insurance companies and other groups are also useful in analyzing loss frequency. After examining this information, the chance of a particular type of loss can be categorized as low or high.

Adjust anticipated future loss frequency based on changes in operations and exposures. For example, if your agency plans to expand the area it serves by 20 percent, it is reasonable for you to conclude that the number of vehicle accidents may also increase by 20 percent as a result of that increased exposure base.

### LOSS SEVERITY

Severity is gauged by the dollar amount assigned to a loss, including both property and liability losses. In analyzing severity, the maximum *probable* loss and the maximum *possible* loss from an occurrence should be considered. **Probable loss** is an assessment of the dollar amount of loss that will probably result from an event. **Possible loss** refers to the worse case scenario. All costs associated with an event must be included: physical damage, loss of income, indirect property losses, extra expenses, and third party and employee liability expenses. Loss control measures devices such as fire alarms and automatic sprinkler systems that may reduce severity potential; this should be factored into the calculations.

## 10 Most Significant Risk Management Problems

A comprehensive Risk Management and Loss Control program is comprised of many elements organized to make maximum and ongoing use of your agency's human, financial and technological resources. Absent or misplaced elements will create weak spots within the plan. Even a plan that is strong in all other areas will fade away if follow-up mechanisms are poor, or if the chain of communication and accountability is vague. Staff members who were originally enthusiastic may lose momentum if their parts are not clearly defined, if they don't get the training they need to do their jobs, or if their contributions go unacknowledged.

### 1. LACK OF MANAGEMENT COMMITMENT

If managers seldom notice hazards or comment on safety, if safety is infrequently discussed with supervisors, if management's priorities do not clearly and consistently include safety and if a policy is not implemented, then this signals a lack of commitment to safety. Commitment requires an investment of time, money and effort.

### 2. FAILURE TO ASSIGN RESPONSIBILITIES

While management is ultimately accountable for the overall success or failure of the plan, they cannot do it alone. Failure to appropriately delegate responsibilities is a certain path to failure. Managers who give supervisory staff clearly defined goals, appropriate training, communications channels and spheres of responsibility will take advantage of one of their greatest assets: people!

### 3. FAILURE TO ESTABLISH PROGRAM OBJECTIVES

Loss control is a multifaceted project that can become confusing if each facet is not recognizable. The result is blank spots in some areas, and duplication of effort in others. For example, a Safety Committee is a great idea, but what should its function be? Will they be people-focused, scheduling fire drills and holding trainings for staff and clients? Or will they be more concerned with building safety, periodically checking fire extinguishers, or will building maintenance do that? Objectives should be based on careful measurement and analysis of loss experience and organizational needs. Frequent dialogue with staff and loss control experts will also help to solidify objectives and determine the best approach for each one.

### 4. MISUNDERSTANDING THE SAFETY STAFF ROLE

Effective loss control involves every segment of the organization. The function of the safety staff is to guide, assist, train and consult with line managers in achieving the organization's goals and the safety program's objectives. If management does not support and empower the Safety Staff, they will not fulfill their objective, regardless of how clearly it is defined.

Sample ACORD Certificate of Liability Insurance

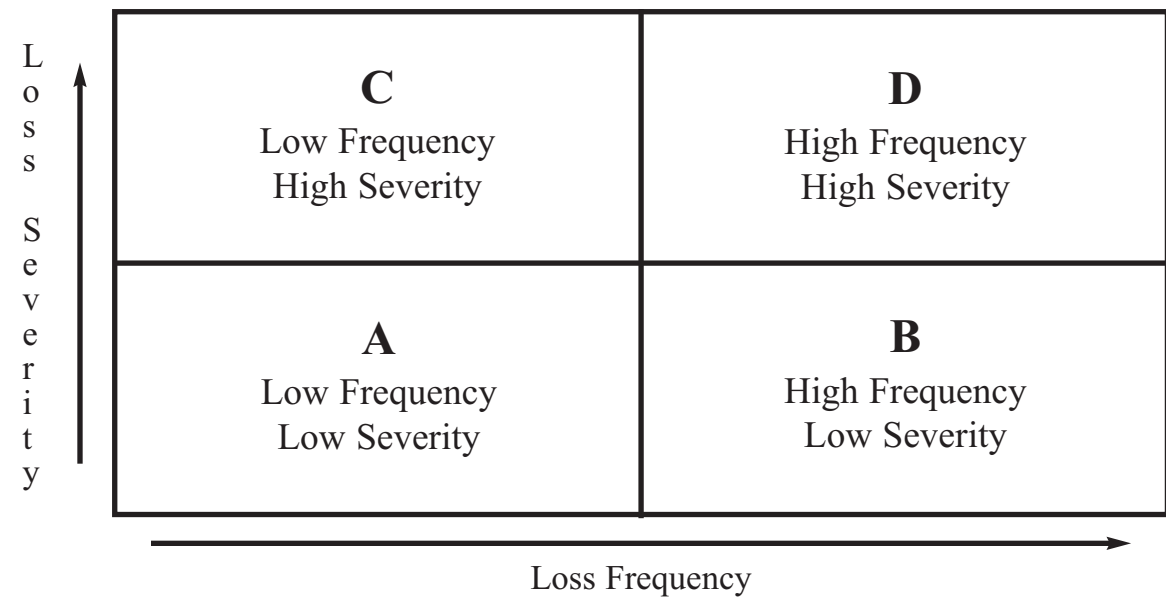
The form is titled "ACORD CERTIFICATE OF LIABILITY INSURANCE" and includes sections for:

- 1. Producer or Broker Issuing Form:** Points to the PRODUCER field.
- 2. Insured's Name and Address:** Points to the INSURED field.
- 3. Insurers Affording Coverage:** Points to the INSURERS AFFORDING COVERAGE section.
- 4. Type of Insurance:** Points to the COVERAGES section.
- 5. Policy Number:** Points to the POLICY NUMBER field.
- 6. Limits:** Points to the LIMITS column in the COVERAGES table.
- 7. Policy Effective & Expiration Dates:** Points to the POLICY EFFECTIVE DATE and POLICY EXPIRATION DATE fields.
- 8. Description of Operations/ Locations/ Vehicles/ Special Items:** Points to the DESCRIPTION OF OPERATIONS/LOCATIONS/VEHICLES/EXCLUSIONS ADDED BY ENDORSEMENT/SPECIAL PROVISIONS field.
- 9. Certificate Holder:** Points to the CERTIFICATE HOLDER field.

RISK EVALUATION RESULTS

After all risks have been identified and evaluated, they must be classified. The loss potential rating matrix is a useful guide for planning a risk retention policy. The matrix classifies risks by frequency - how many times a loss is expected to occur in a certain time frame, and by severity- gauged by the dollar amount assigned to a loss. Only after all risks have been identified, evaluated for severity and frequency, and classified, can the most effective method(s) of treatment be determined.

LOSS POTENTIAL RATING MATRIX



With one exception (Type C: High Severity/Low Frequency), all areas of loss should initially be considered for self-funded retention either in whole or in part (see the Risk Treatment section for information on self-funding). If self-funded retention is not feasible for your agency, then the risk may be transferred to others.

Because of the possible catastrophic nature of Type C losses, some type of excess insurance is usually needed. Type A: Low Severity/Low Frequency risks can be retained because these are not significant losses. Type B: Low Severity/High Frequency risks can be retained because they are predictable losses. Type D: High Severity/High Frequency risks require additional evaluation to determine the most economical treatment. Avoidance may be a viable option for these types of risks.

Once the risks are classified, the most effective method of treatment can be determined. Other than avoidance, risk treatment options include transferring the risk to another party through insurance or contractual transfer, or retaining the risk financing in-house. Consideration of loss control techniques to limit frequency and/or severity is always advised, regardless of the risk treatment.

### 3. Risk Treatment

After analyzing a risk, the agency must choose from among a variety of risk management techniques that afford tremendous flexibility for responding in the manner most suitable for the organization's mission and resources. Each of the techniques is discussed briefly below:

#### **A**VOIDANCE

#### **R**ETENTION

#### **T**RANSFER

#### **S**EPARATION/SELF-FUNDING

Each technique has advantages and disadvantages, and with the exception of avoidance, they are best used in combinations that complement each other. Failure to address a risk may expose the organization and the board to liability, so it is important that managers are able to demonstrate that they made every effort to counter each risk.

#### **A**VOIDANCE

Avoidance means simply forgoing some activity in order to eliminate the risk with which it is associated.

#### **R**ETENTION

Retention is a strategic decision to directly finance a risk. For example, a provider agency may have a ten-year-old station wagon used for running errands and transporting volunteers. Despite its sentimental value and utility to the center, the car is worth only \$500. Instead of purchasing collision insurance to guard against risk of damage, the agency could retain the risk of collision. If the auto were damaged in an accident, the agency would bear (retain) a \$500 loss. With a more expensive vehicle, the agency might choose an insurance policy that has a \$500 deductible.

#### **T**RANSFER

Although private businesses and organizations are wisely taking a more active approach in managing risk through loss control programs and assumption of risks, insurance (transfer of risk) remains an essential component of any risk management program. An organization may transfer partial or complete risk to another party, usually by insurance, but sometimes by contract. The transfer of risk by insurance is always partial. Using the preceding example, the provider agency could transfer the financial impact of liability associated with the station wagon by purchasing auto liability insurance. Or, the agency could transfer all the risk associated with the station wagon by selling it and contracting with a taxi company to meet its transportation needs.

*The topic of Risk Transfer will be discussed in more depth later in this text.*

**DESCRIPTION OF OPERATION, ETC.** This section may define or limit coverage afforded to you. For example, a business opening a new group home may request a separate certificate just for that home. In a construction setting, you may be seeking coverage for a specific project. Such limits are typically noted here. Please also note that special endorsements which provide you with additional coverage beyond the typical policy may also be listed here.

**CERTIFICATE HOLDER** The party requesting the Certificate is listed here. This section may or may not list all insureds, or additional insureds.

## How to Read a Certificate Of Insurance

**PRODUCER** In this context the producer most often refers to your insurance broker, or the broker of any entity that purchases and provides insurance coverage. It is the producer/broker that most often will provide a Certificate of Insurance at the request of an insured, or additional insured.

**INSURED** The Insured is the party who purchases the policy of insurance, and who is covered by that policy. The entity named as the insured may not be the only insured party under the policy. The party listed here as an insured benefits from the coverages listed below.

**INSURERS AFFORDING COVERAGE** This section of the certificate refers to the insurance companies that actually write the policy of insurance. Often, the same company may write all of the policies. In some cases, however, different companies will provide different coverages or layers of coverage. This section will tell you what company is actually providing each specific coverage.

**TYPE OF INSURANCE** Look at this section to confirm the different types of coverage you have. Separate entries are made for Auto, Workers' Compensation, General Liability, Professional Liability and Excess Coverage. This section provides the easiest key to determining whether you have been provided the types of coverage promised. Look at the policies themselves to confirm more specific coverage issues.

**POLICY NUMBER** This section will provide you with the numbers of each policy that names you as an insured and offers you coverage. You should be especially concerned if this section is left blank. It may mean that the producer has made an error in terms of actually obtaining the coverage represented. If this section is blank, contact the producer and demand to know the policy numbers.

**LIMITS** The Limits section will tell you how much insurance coverage you have. Again, review this section to ensure you have been provided everything promised to you. Confirm limits under each policy. Also, note the limits per occurrence, and in the aggregate (total coverage afforded for all claims in the policy period). If you have questions as to how particular limits may apply to you, contact the producer and request a written explanation.

**POLICY EFFECTIVE/EXPIRATION DATE** This part of the Certificate will provide you with the dates you are covered by each policy. Please note, if you are an insured under several policies, the dates may not be identical. Look here to ensure your entire insurable interest is covered and for what period of time.

### SEPARATION/SELF-FUNDING

Separately incorporating a commercial enterprise may be the best way to insulate the host organization from the liability risks involved in running a business. It manifests the adage, "Don't put all your eggs in one basket." Self-funding is generally not a viable option for private, non-profit organizations, except in the area of health care coverage.

### Loss Control

While agencies may use some or all of the above techniques, depending on their needs, an effective risk management program will always include loss control strategies.

Loss control techniques can be preventive or responsive. They can reduce the frequency and/or severity of incidents and minimize financial damage, whether or not a loss is insured. While they generally won't eliminate risks, effective loss control programs are the best long-term method of reducing loss expenditures. Such a program requires a significant initial investment of time and money, but when planned, implemented and monitored properly, the payoff is considerable.

Managing certain risky activities is one way to minimize loss. Risks can often be controlled during normal operations. For example, vehicles can be routed away from steep and potentially icy roads.

While loss control techniques are worthwhile and highly recommended for all organizations, be aware that implementing a Loss Control option over one type of loss exposure may actually create another type of loss exposure. For example, installing a sprinkler system is a very effective means to control severity potential from a fire, but it also creates an exposure to water damage from possible sprinkler leakage.

Loss control measures are feasible for nearly every aspect of a service provider's program. Organizations can set up and administer organization-wide loss control programs, such as:

- Formal safety programs
- Vehicle safety procedures
- Employee safety rules and procedures
- Physical property protection
- Professional liability controls

*Note: Liability insurance is generally experience-rated, so controlling losses will help to avoid claims-related increases to premiums.*

#### 4. Decide and Implement

At this point, your agency will have completed the following steps:

- Identified all possible risks through questionnaires, inventories, check lists, study of claims histories, review of in-house documents and consultation with outside experts
- Evaluated risks by analyzing loss potential, frequency and severity
- Classified potential risks via a rating matrix
- Researched all of the appropriate treatment options, including avoidance, retention, transfer and separation/self-funding

Once you have thoroughly identified and evaluated your agency's risks and you have researched all possible treatment options, then you are ready to decide what techniques (avoidance, retention, transfer or separation/self-funding) should be implemented. You should also decide what loss control policies and/or procedures need to be implemented.

Using the earlier example of installing a sprinkler system. When you feel that the effectiveness of the system outweighs the potential water damage that may be caused during a fire, you can have the sprinkler system installed. At this point, through your research, you have learned how to prevent leaks from occurring in the sprinkler system, and can institute the appropriate controls, such as routine maintenance, inspections, etc., that are needed to prevent loss.

#### 5. Monitor and Revise

The final step in the risk management process requires monitoring every element of your program and modifying it as needed. Non-profit organizations do not operate in a vacuum. Legal standards constantly change in ways that affect both risks and the options for dealing with them. For example, some state laws protect volunteer board members from personal liability only if the organization itself carries insurance. Similarly, enhanced knowledge and technology may pose new risks and new ways of improving the risk management process.

**Monitoring includes:**

- Repeat risk inventories and check lists at regular intervals
- Review any new losses or claims
- Stay current with legal, medical, social and technological changes at your agency and in your industry in general
- Share this information with your insurance professional, to be sure your coverage remains adequate

Only by monitoring the success and effectiveness of the chosen techniques and periodically repeating the other steps of the risk management process can an organization adequately reduce the danger of unpleasant surprises.

Sample

### Risk Exposure Check List

Risk or Peril	Frequency			Severity		
	never	sometimes	often	limited	moderate	severe
<i>Direct Loss</i>						
Blizzard, Ice Storm, Hail						
Breakdown of Machinery						
Collapse						
Collision						
Auto						
Non-Auto						
Contamination						
Corrosion, Wear, Abuse						
Crime						
Burglary						
Computer Manipulation						
Counterfeiting						
Depositors Forgery						
Employee Dishonesty						
Forgery						
Fraud						
Misplacement						
Robbery						
Theft						
Electrical Disturbance						
Explosion						
Failure of Environmental Controls (heat, air conditioning, humidity)						

**PLEASE CHECK EXPECTED FREQUENCY AND SEVERITY OF EACH EXPOSURE.**

- The Risk Exposure Check list was reprinted with permission of PRMA.
- A complete check list is available at the Risk Management Department of the Irwin Siegel Agency.

*Please note that this is not a complete check list. You can contact PRMA for more information.*

## Summary

Risk management and loss control are managerial responsibilities, like developing a staff-training program or revamping a communications system. These projects each require commitment, attention and expertise. By following the steps described in this booklet, service provider agencies will successfully develop and maintain their own risk management programs.

Loss control has a goal of incident prevention. It cannot be treated as something separate or additional to the performance of one's job. Effective loss control is a combination of maintaining safe work conditions and procedures in every phase of one's job. Therefore, as provider agencies prepare to meet the challenges of the future, loss control and risk management will play an even greater role in their success.

## Understanding Insurance Policies

Given that most agencies will want to transfer some risks through insurance, they will need to know about policy options, the content and structure of an insurance policy and methods of purchase, in order to make informed decisions.

### Parts of the Policy

#### STANDARD PROVISIONS OF A LIABILITY INSURANCE POLICY

Most policies include four types of standard provisions:

- Declarations
- Insuring Agreement
- Exclusions
- Conditions

#### DECLARATIONS

The first section of a liability insurance policy, called the declarations section, identifies:

- The policy number
- The type of policy
- The name and address of the insured, and additional insureds\*, as appropriate
- The policy period, including both the inception and the termination dates
- The limits of the insurer's liability for each type of coverage included in the policy (which may be stated on the aggregate or per occurrence basis)
- The deductibles associated with each type of coverage
- The premium

*\*Some policies may require that additional insureds be included by endorsement.*

#### INSURING AGREEMENT

The insuring agreement, the heart of the liability insurance policy, states the basic agreement between the insurer and the agency. While the specific provisions will differ among policies, important similarities exist.

**EXCLUSIONS**

This part of the liability insurance policy enumerates the property and risks that are not covered by the policy. Many exclusions can be covered by endorsements. As with other parts of the policy, exclusions will differ from one policy to another. In general, three types of exclusions can be anticipated:

1. Hazards covered by other insurance (e.g. directors' and officers' coverage, as well as errors and omissions coverage may be excluded and require separate coverage).
2. Catastrophe hazards such as war, riot, civil commotion and mob action.
3. Damages from acts done intentionally or from willful violation of penal statutes or ordinances.

**CONDITIONS**

Conditions define the relationship between the agency and the insurer and more explicitly outline the extent of coverage under certain circumstances:

- The basis for adjusting premiums
- The insurer's right to inspect
- The insurer's right to audit certain records
- The provisions (including methods and terms) for policy cancellation

**REVIEWING AN INSURANCE POLICY**

The language used in insurance policies is often obscure and difficult to read. There is a considerable amount of terminology that is unique to the insurance industry (just as the Human Services field has a jargon of its own). Often a single subject may be mentioned several times in a policy and be treated differently in each case.

Be clear as to your intent. Do you intend to assume liability for the sole negligence of the other party, or only for their liability as it results from your own negligent acts or omissions? Are you seeking indemnity for your own negligence, or from liability arising out of the negligent actions of subcontractors or tenants?

**Recordkeeping****RECORD RETENTION**

Retain purchase orders, agreements, leases, contracts, endorsements and certificates of insurance for at least ten years or in accordance with the statutes of limitations in your state.

This is critical because documentation of agreements will be the key to your defense in the event of a lawsuit.

## Written Agreements and Contracts (when others ask you to sign)

### 1. CAREFULLY REVIEW CONTRACTS BEFORE SIGNING

Designate who has the authority to sign contracts and written agreements in your company. Carefully review all of your business contracts and look closely at the contract language for unfavorable, uncontrollable or questionable provisions. In addition, have contracts reviewed by legal counsel and your insurance advisor. You should determine insurance requirements and the extent of hold harmless agreements before signing the contract. Provisions pertaining to indemnity are not always labeled "Indemnity Clause." A clause requiring indemnification may be hidden within the terms of a sales invoice or purchase agreement.

Evaluate the risk you are taking on in light of the value of the contract as a whole. Is the business you receive worth the potential liability you assume? Can you do business with the other party without assuming as much liability?

### 2. CONTRACT REVIEW CHECK LIST

A contract review check list should be developed to assist in the review of contracts to identify insurance requirements and indemnification provisions. This check list should be completed internally to uncover questionable provisions. The completed check list should be included with the contract for review by your insurance agent and/or legal counsel. Appropriate action regarding any unfavorable provisions should be taken following such review.

### 3. ADDITIONAL INSURED STATUS - PRIMARY OR EXCESS

If you name someone or request that someone name you as an "additional insured" on a liability policy, determine which coverage is primary versus excess. Some contracts may require your coverage to respond on a primary basis (first responder to the claim). Others may require your coverage to be excess.

### 4. LEGAL COUNSEL REVIEW OF HOLD HARMLESS/INDEMNITY AGREEMENTS

Have indemnification/hold harmless agreements reviewed by legal counsel, whether you are signing a contract (the indemnitor) or asking someone else to sign a contract (the indemnitee). This is money well spent to prevent unwanted consequences and unnecessary expense later.

Typically when indemnification agreements are in place, one party agrees to offer protection - to protect the other party against damage, loss or injury (to hold them harmless). The company who agrees to provide this protection is the "indemnitor." The company who gets the protection is the "indemnitee." These contracts represent an attempt to clarify who will assume what liability. If you're not careful, you may find that you have assumed more than your share, or worse yet, all of the liability when a costly incident occurs.

## Steps to ensure that the policy is clearly and fully understood

There are steps that your organization can take to ensure that each policy is clearly and fully understood. Follow them for all policies:

1. Make at least two copies of the policy and store the original in a safe, fireproof place. You may need it for future reference, or possibly for legal proceedings, so don't mark on it.
2. Carefully review one copy and write any notes you may have regarding special provisions, questions and clarifications.
3. Cut up the second copy and reconstruct the policy by type of coverage and section of the policy (i.e. declarations, exclusions and conditions) to make a complete summary of each area covered.
4. Make sure that no endorsements or sections of the policy are missing or have been excluded.
5. Neatly cross out sections that are canceled by endorsement, but do not discard any part of the policy.
6. Review the marked and reassembled version of the insurance policy to understand the coverage and provisions of your policy.

## Understanding Risk Transfer

### THE DANGERS OF ASSUMING RISK

Common practices such as leasing space to tenants, using another service provider to transport consumers, subcontracting for building maintenance, repair or expansion, or even allowing vending machines on your property can bring unexpected risk to your organization. During these everyday activities, accidents may arise that cause bodily injury to your employees, consumers or other third parties, and/or property damage to your building, vehicles or other property. Agreeing to take on someone else's liability can be dangerous and costly.

Ideally, the liability for any accident should be transferred to the party who has the most control over the exposures that could cause a loss. However, a continuing trend involves written agreements in which one party agrees to assume the liabilities of another. For example, property owners usually try to transfer liabilities to lessees. Project owners usually try to transfer liabilities to general contractors. General contractors try to transfer liabilities to subcontractors. Subcontractors try to transfer them to sub-subcontractors, and so on.

### WHAT CAN RISK TRANSFER MEAN TO THE BOTTOM LINE?

Astute business owners recognize the benefit of transferring potential liability to others through a risk transfer process, and often have the leverage to advantageously negotiate contracts which do just that. Because your agency may be party to many business relationships at any one time, it is important to control the type and magnitude of the liabilities you assume. Conversely, you should identify opportunities to manage risk where legally possible, by having others contractually assume their share of liability. The effective management of liabilities can save you money by lowering your overall operating costs. A risk transfer process should be a vital element of your overall safety and risk management program.

### 3. WRITTEN AGREEMENTS - LESSEES

Secure a signed written agreement with your tenants before commencement of the lease. As mentioned previously, "gentlemen's agreements" or handshakes are difficult, if not impossible, to enforce because participants in verbal agreements may have different recollections of the facts.

The written document should define your responsibilities as well as the other party's in regard to certificates of insurance, limits of liability, additional insured status, hold harmless agreements and other conditions of the lease. It should include:

- A hold harmless clause that protects you from the acts or omissions of the other party.
- A requirement that your tenants name you as an "Additional Insured Lessor" on a primary and noncontributory basis under their general liability policy.
- Specific insurance requirements for General Liability, Workers' Compensation, Property and Auto Liability if warranted.
- A requirement that defense costs be paid on your behalf. Otherwise you could find yourself paying out defense dollars, with no guarantee that you'll be reimbursed once the case is adjudicated.
- A requirement for 60 days notice (or in accordance to your state statute) prior to cancellation, non-renewal or material change of coverage.

### 4. REVIEW ALL DOCUMENTATION SUBMITTED FOR CORRECTNESS BEFORE COMMENCEMENT OF THE LEASE

Designate a person(s) within your organization who has been trained and charged with the responsibility of receiving and reviewing the certificates of insurance and signed leases. Make sure that these individuals review and approve all leases and certificates of insurance **before commencement of the lease**.

**7. CREATE A CERTIFICATE OF INSURANCE FILING SYSTEM**

Once an appropriate certificate is received, consider keeping a copy in both an alphabetical file as well as an expiration date file for ease of access and retrieval.

**8. RETAIN CERTIFICATES OF INSURANCE**

Retain certificates of insurance for at least ten years or in accordance with the statutes of limitations in your state. Documentation will be the key to your defense in the event of a lawsuit.

**Written Agreements and Contracts (when you ask others to sign)****1. WRITTEN AGREEMENTS FOR CONTRACTORS AND SERVICE PROVIDERS**

Secure a signed written agreement from your contractors and service providers before work begins. Oral contracts, handshakes or “gentlemen’s agreements” are difficult, if not impossible, to enforce. In many cases, participants in unwritten agreements may have different recollections of the facts.

The written document should define your responsibilities and the other party’s in regard to certificates of insurance, limits of liability, additional insured status, hold harmless agreements, safety and other aspects of the job and should include:

- A hold harmless clause that protects you from the acts or omissions of the other party.
- A requirement that the other party name you as an “Additional Insured” on a primary and noncontributory basis under their general liability, commercial auto liability and umbrella policy.
- Specific insurance requirements for General Liability, Workers’ Compensation, Auto Liability and Umbrella policies.
- A requirement that defense costs be paid on your behalf. Otherwise you could find yourself paying out defense dollars, with no guarantee that you’ll be reimbursed once the case is adjudicated.
- A requirement for 60 days notice (or in accordance with your state statute) prior to cancellation, non-renewal or material change of coverage.

**2. REVIEW ALL DOCUMENTATION SUBMITTED FOR CORRECTNESS BEFORE WORK PROCEEDS**

Designate a person(s) within your organization who has been trained and charged with the responsibility of receiving and reviewing the certificates of insurance and signed contracts or purchase orders. Make sure that these individuals review and approve all contracts, certificates of insurance and indemnification/hold harmless agreements **before any work begins**. All too often, certificates of insurance and contracts are received and not reviewed until after an incident occurs.

**HOW CAN MY AGENCY PROTECT ITSELF?**

Risk transfer is accomplished by written agreement or contract and places the risk of loss on the responsible party. By using the practices outlined in this publication as a guide, you may reduce your chances of unknowingly taking on someone else’s liability or being exposed to additional liabilities due to the actions or inactions of others. Before you initiate a risk transfer program, it is strongly recommended that you consult with your attorney and insurance agent to draw on their expertise and assistance.

A risk transfer program involves both managerial and administrative functions. Once you have set up specific risk transfer requirements and standard procedures for your agency, it is a matter of educating key personnel who may be involved in vendor relations or contract negotiations and approval. You will also want to assign and train one or more employees to implement and coordinate the risk transfer program, which may involve reviewing contracts, purchase orders and other written agreements to ensure that your standards are being met, and that acceptable certificates of insurance are received, reviewed and followed up on a continual basis.

The following best practices are designed to guide you in establishing procedures for your agency to obtain and review certificates of insurance, handle written agreements and contracts, and maintain file documentation.

**Certificates of Insurance****WHAT ARE CERTIFICATES OF INSURANCE AND WHY ARE THEY IMPORTANT TO YOUR BOTTOM LINE?**

A certificate of insurance is a document issued by an insurance carrier and indicates the coverage(s), limits of liability and policy period for an insured organization. It is not the insurance policy itself. A current certificate of insurance does not transfer risk, but it does provide evidence of existing insurance. If you don’t request them, here’s what can happen:

- You may discover later that the other party has no insurance coverage at all, or they have insurance but with inadequate coverage or limits.
- You may have to pay for bodily injury or property damage losses arising from their actions.
- Your insurance premiums could rise in the future due to your loss experience.

The following eight-step process is a guide to setting up a Certificate of Insurance review program.

**1. REQUIRE CERTIFICATES OF INSURANCE FROM CONTRACTORS AND SERVICE PROVIDERS**

Require that contractors and service providers (e.g., plumbers, landscapers, cleaning services) provide you with certificates of insurance for workers' compensation, general liability, and possibly automobile liability, before performing any work, and annually where the same subcontractor or service provider is used. Use of uninsured or underinsured contractors and service providers should be prohibited.

It would be wise to pre-plan any emergency services your agency may need (such as a plumber to repair broken water pipes or a roofer to repair roof leaks following a storm) to maintain normal operations. You can secure certificates of insurance in advance and let your location managers know which service contractors to call when needed. Accept certificates of insurance from the insurance company or agent only, not directly from the contractor or service provider. They can be easily falsified.

**2. REQUIRE CERTIFICATES OF INSURANCE FROM LESSEES**

Require that tenants provide you with certificates of insurance for workers' compensation, general liability, property, and possibly auto liability before the lease commences, and annually for multi-year leases.

Once again, accept certificates of insurance from the insurance company or agent only, not directly from the tenant because they can be easily falsified.

**3. REVIEW CERTIFICATES OF INSURANCE**

Review all certificates of insurance upon receipt and also annually for contractors or service providers used on a regular basis. The purpose of the review is to verify the existence of coverage and to determine whether existing coverage limits are adequate and meet the requirements of your agreement.

The review process should be organized so that it is a routine function performed by administrative personnel. A check list can be developed for this purpose. Establish and document procedures to follow when certificates are not received, or when the information deviates from the requirements established in your agreement. A letter seeking the needed changes should be sent to the other party. Continue to follow-up until a current certificate that meets all requirements is received. The certificates should be maintained in the contractor's or service provider's file for future reference.

*A blank certificate of insurance and an explanation of its contents may be found in the appendix.*

**4. ENFORCE CERTIFICATE OF INSURANCE REQUIREMENTS**

It is critical that you review the certificate of insurance before any work or lease begins. Unfortunately, some parties may not respond promptly to requests for certificates of insurance. To induce prompt compliance with the insurance requirements in your written agreements, install sufficient punitive measures to get full cooperation from other parties. The measures will vary with the type of contract, but may include actions such as:

- Not allowing services to begin until satisfactory evidence of compliance is received.
- Withholding payment for services until satisfactory evidence of compliance is received.
- Terminating the contract unless satisfactory evidence of compliance is provided within a specified time period.

**5. DETERMINE APPROPRIATE COVERAGE(S) AND LIMITS**

Determine the appropriate coverage(s) and the minimum amounts of insurance you will require for your subcontractors, service providers and tenants. When establishing insurance requirements for written agreements and reviewing certificates of insurance it is important that you first determine what is an adequate level of protection.

At a minimum, it is suggested that you require workers' compensation, commercial automobile liability and general liability insurance with coverage limits of at least one million dollars (\$1,000,000), although \$500,000 may be acceptable for small contractors performing non-hazardous functions. Additional coverages and higher limits of liability may be necessary depending on the type of work, the value of your building or the potential for the other party to cause a loss.

*Contact your insurance agent to help you determine the appropriate coverages and limits.*

**6. MONITOR CERTIFICATES OF INSURANCE**

Once a contract, agreement, lease or purchase order containing insurance requirements and enforcement provisions is executed, a system is needed to monitor the other party's continued compliance with the requirements. Establish a reminder system that alerts the employee responsible for reviewing the certificates of upcoming policy expiration dates and target dates for compliance with any deficient items. A simple example of a reminder system is a "follow-up" file or log, based upon insurance policy expiration dates or target compliance dates. This will allow for easier retrieval and follow-up each month.

A procedure should also be developed for reordering certificates of insurance prior to the policy expiration date. For example, a form letter can easily be created and sent to the other party 60 days prior to the expiration date.