

# Case Study: The False Sense of Security with Certificates of Insurance

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## OVERVIEW: LANDLORD INSURANCE RATES DOUBLE

A study of hundreds of insurance policies over a number of years revealed **9 out of 10** insurance certificates contained material misrepresentations about the actual insurance coverage in place.<sup>1</sup> After multiple claims, Landlord's insurance rates doubled due to tenant's inadequate insurance proceeds. The tenant signed the lease and the tenant's agent sent a Certificate of Insurance (COI) to the landlord. Landlord thought the tenant's insurance complied with the lease agreement. COI verification is a clerical function that typically falls to the least qualified. Even trained professionals have a hard time understanding the technical nature.

## WHAT COULD POSSIBLY GO WRONG?

- The receptionist "filed" the COI. Even with training, few understand:
  - Named Insured and Insurance Company financial ratings
  - Intricate nature of limits, improvements, and co-insurance
  - Corrections and copies of endorsements can be brutal to obtain
  - Boxes on the General Liability, Auto, Excess, and Workers Compensation
  - Hundreds of complex Additional Insured and Waiver of Subrogation endorsements
  - Contractual Liability versus Additional Insured status
  - Multiple Loss Payable clauses and provisions
  - Policy language of Notice of Cancellation
  - Description of Operations
- Whether intentional or ignorance, issuing agents make mistakes. If you decide to sue, the average civil lawsuit runs 2 to 5 years with lawyer fees, depositions, expert witnesses, court costs and appearances.
- COIs are "information only" and do not add or afford coverage that is not stated in the insurance policy. Courts hold that Certificates do not constitute a contract between the issuing insurer(s) and the certificate holder.<sup>2</sup> Without verification, a COI is most likely a time bomb in the file cabinet.
- Blanket Additional Insured clauses trigger coverage only when a written contract is in place between two parties. Typically, the tenant and the contractor sign the contract, not the landlord and the tenant's contractor.
- Renewals: the whole verification process starts over every year.

## SOLUTION: LANDLORD OUTSOURCES AND AUTOMATES VERIFICATION

Landlord outsourced the collection and verification process to Gulf Coast Risk Management (GCRM). GCRM replaced a full-time staff member at a third of their salary and benefits and compliance rates rose from less than 10% to 78%. Landlord's ability to produce a clean stack of COIs gave underwriting the confidence to lower the insurance rates because the proper controls were in place. GCRM makes automation available to small and medium sized businesses.

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<sup>1</sup> Avoiding Common Insurance Certificate Errors: IRMI; July 2015

<sup>2</sup> *TIG Ins. Co v. Sedgwick James of Washington*, 276 F.3d 754 (5<sup>th</sup> Cir. 2002)