

## **AVOIDING DISASTERS:** *Construction Projects and Insurance Safety*

Construction projects can be simple, short term tasks or complex, multi-year endeavors involving millions of dollars. In major projects, numerous outside contractors (and subcontractors) are often hired, even if the overall project is awarded to a large well-known engineering or construction firm. Unless the project is insured in a Wrap Up program (all contractors, subs and subs of subs are insured under one contract for one job), then management cannot presume that all of their contractors are insured continuously through the period of the project.

### **Many Construction Projects Involve Multiple Tiers of Subcontractors**

In a major project involving multiple aspects such as roadwork, foundations, electrical, plumbing or roofing, the general contractor awarded the overall contract often hires a variety of local contractors, assigning them small portions of the job. These subcontractors may even hire a second or third tier of subcontractors to perform specialty work not within their area of expertise. Subcontractors often work on vital aspects of the project. If an injury, death or serious industrial accident involving hazardous materials occurs, dealing with the consequences can be daunting, even for a well capitalized firm. Recently a settlement for \$458 million was reached by contractors in the Boston 'Big Dig' construction project due to the death of a motorist from a tunnel ceiling collapse. Insurance claims are the responsibility of the contractor and subcontractor. However, if their policy has lapsed or carries insufficient limits, the company could be held liable- often for tens or hundreds of millions of dollars.

### **Despite Contractual Risk Transfers the Company May Be Responsible for Uninsured Claims**

Ultimately, the company is responsible for anyone who enters their premises or performs any activities on their behalf, leaving them basically three choices on how to handle that risk:

1. *Avoid the risk* – don't do the activity or let anyone on their premises (often not an option)
2. *Assume the risk or part of the risk* – large deductibles and Loss Sensitive insurance programs are examples
3. *Transfer the risk* – often done by contract and/or insurance.

Even if the company has transferred the risk via contract to someone else, such as a vendor or a contractor, they need to be sure the vendor/contractor has the financial resources to finance that risk, which often is by insurance.

### **Require Proof of Insurance – Certificate of Insurance Form**

Most companies require proof of insurance prior to beginning a project in the form of an Insurance Certificate. Unfortunately, many companies stop there and fail to monitor the ongoing coverage status. This can result in policies expiring and not being renewed, changes in limits, or other issues later on. Tracking those insurance certificates is a basic Risk Management activity and one that every company should do. Without this function, the company or its own insurance carrier assumes their vendor or contractor's risk (even if they have signed contracts transferring the liability). Manually checking to see that each contractor is insured may be overwhelming, however, companies which specialize in this service can make the process easier.

### **Implement an Effective Certificate Tracking System**

Tracking the insurance certificates can be performed by a service or managed internally using software. Although outsourcing hands off the daily responsibility, the solution means on-going monthly fees and may limit your control on what requirements you can track and how you interact with your vendors/contractors on issues. Software packages give you: 1) more flexibility, 2) greater control of your data and 3) are generally less expensive on an ongoing basis. Regardless of which option you select, the minimum requirements of an effective certificate tracking system would include the following features:

- **User defined Insurance Requirement Categories-** used to set vendor certificate policy, limit and additional terms requirements.
- **Compliance verified-** for no certificate, missing policies, insufficient limits, missing additional terms, soon to expire and expired policy dates. Ability to override individual policy, limit or additional term requirements.
- **Follow-up letters automatically generated-** containing detailed list of non-compliance issues. Letter template can be customized. Reminder letters sent automatically.
- **User defined fields to organize/identify vendors-** for filtering/sorting screens and reports.
- **Attachments for electronic archival-** of actual certificates.
- **Comprehensive insurance certificate tracking reports-** detailing non-compliance issues by vendor.
- **Password access-** with multiple levels of user rights.
- **Audit Trail-** created for certificate maintenance history.

### **Accidents Happen Despite the Best Safety Programs**

Unfortunately accidents do happen! One of the ways to protect your company from unnecessary costs is to ensure your contractors have valid insurance that meets your requirements. Don't wait until that first multi-million dollar claim to discover your contractor's insurance lapsed and you are now liable for their employee's injuries or negligence. Implement an effective insurance certificate tracking system as part of a comprehensive risk management program.

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GG-One Software has been providing insurance certificate tracking software since 1994. Their Fastrack Insurance Certificate Tracking and Document Management product is available in Web and Windows versions. Visit their website to learn more. <http://www.ggonesoftware.com>

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