

SilverStone Group

RISK MANAGEMENT

Property & Casualty



Insurance Certificates

Do You Have One? Do You Need One?

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Exactly what is an insurance certificate? It may seem that everyone with an e-mail address wants to see your insurance certificate. Why do they want it and of what value is it to them?

The purpose of an insurance certificate is to provide proof of, and information about, certain coverages in your insurance program. Certificates are issued without cost and, in most cases, by your insurance agent's office. Copies of certificates issued by agents are also sent to the insurance companies involved.

A Certificate of Insurance may take one of two basic forms:

1. The first type shows property coverages. This type has three different forms:
 - a. ACORD* Form 24—a short form
 - b. ACORD* Form 27—for personal property
 - c. ACORD* Form 28—a more comprehensive form for commercial property

All three ACORD* forms state exactly the type of property insurance that is in force as of the form's completion date. Coverages included in these forms are real and personal property and most inland marine lines. Each is provided to third parties who have both an interest in knowing what coverages you have and a reason to expect you to provide the information to them. These may include mortgagees for real property, loss payees for credit lines or personal property, leasing companies for leased equipment and others.

2. The second type is ACORD* Form 25—the Certificate of Liability Insurance (COLI), which is used for liability coverages. The COLI is more commonly requested, particularly in the construction industry. It lists one or more casualty coverages, including general liability, auto liability, workers' compensation, umbrella or excess liability, professional liability and others. This form is used to prove that you have the policies and limits indicated in force at the time the certificate is prepared.

Misconceptions can arise because certificate holders may not understand what the certificate represents. Following are some specifics regarding what certificates do and don't do for those who request them:

- Certificates do show the coverages that exist at the time of certificate issuance.
- They do not:
 - constitute a contract of any kind between the carrier, the insured, the agent, the certificate holder or any combination of these individuals.
 - affect the terms or conditions of the policies.
 - have any force or authority to change or amend the policies they show.

- guarantee that at some uncertain future time, coverages and limits will be the same as they were when the certificate was issued.
- guarantee anything (most certificates state quite plainly that no guarantees are being made!).

Certificate holders sometimes go to great lengths to create guarantees in the certificates that simply are not there, particularly with regard to notification of changes in policy status. The certificate forms state that the insurance company will endeavor to notify the certificate holder in the event of cancellation before the expiration dates of the policies. Note that the verb is endeavor, which, of course, means try. Many certificate holders endeavor to expand that wording to guarantee that notice is sent or to include such events as termination, reduction in limits, material change (which is an ambiguous term) and non-renewal.

These events simply cannot be included in the notification effort. Agents who change the wording in the cancellation clauses of certificates, or who delete the disclaimers accompanying the certificates, do so at the peril of becoming liable for losses on their own authority. By taking this action, they and their agencies effectively become the insurance company. The fact is that ***there is no clause in any liability policy that requires notice to any Additional Insured or interested party other than the Named Insured.*** Changing the certificate wording may make the certificate look different, but it does **not** change the policy. Property policies with Mortgagee or Loss Payee clauses are different, with notice of cancellation being guaranteed in those cases.

Despite their inability to do everything some recipients want them to, certificates are important documents nonetheless, and can be valuable in case of a loss. All certificates should be filed and a suspense file should be established for follow-up when the certificates expire. Not only will your premium auditor want to see them at audit time, but they will be immensely helpful in the event of a loss. We recommend keeping the COLIs in your file for at least three years (five years is better) beyond their expiration.

Your agent or broker should be able to answer any questions you may have about the certificates specific to your policy or policies. Do not hesitate to contact him or her for further information or clarification.

* ACORD is a forms standardization company for the insurance industry