

Certificates of Insurance, Why Bother...

By Robert Bixby, CPCU

Design Professionals that hire consultants are vicariously liable for the negligence of those consultants. Take the theoretical situation where an insured architect, contracting with the project owner, hired a structural engineer, but did not ask for a certificate of insurance.

The structural engineer's design was negligent and the owner suffered a \$1,000,000 loss. The owner then proceeded to make a claim against the architect, since his contract was with him. Judgment was made against the architect for \$1,000,000 because he hired a negligent engineer. The architect's insurer then paid the owner the \$1,000,000 on behalf of the architect.

The insurer, being out \$1,000,000, proceeded to subrogate against the negligent engineer (stepped into the architect's shoes and sued the structural engineer to recover the \$1,000,000 claim payment). However, this proved to be an exercise in futility since the engineer was uninsured and had no assets to speak of.

This left the architect with a \$1,000,000 claim on his loss record and his loss ratio (losses paid divided by premiums paid) went through the roof, as did his renewal premium. To make matters worse, at renewal, other insurers would not quote due to the high loss ratio.



In this example, had the architect hired an insured consultant, the subrogation probably would have been successful and the architect would have ended up with a much lower loss ratio and premium.

The message is clear, protect your business and your bottom line by hiring insured consultants and obtain certificates as proof. ■

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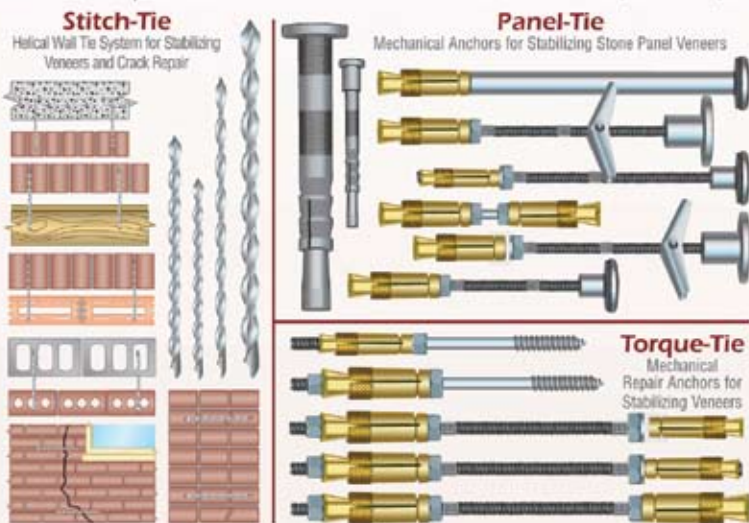
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