

A man in a grey tank top is shown from the chest up, looking upwards and to the right. He is holding a large, cylindrical, brown leather punching bag with both hands. The bag has several horizontal bands. The background is dark and out of focus, suggesting a gym setting. The text is overlaid on the right side of the image.

**DON'T BE LEFT
HOLDING THE BAG
FOR THE INSURANCE
OVERSIGHTS OF YOUR
BUSINESS PARTNERS**

As a business leader, you know that strong insurance is crucial for protecting your company and its contracts. But equally important is avoiding liability for the insurance gaps of your vendors, subcontractors, and business partners. While many businesses routinely collect certificates of insurance from key associates, few take the time to verify that all the needed coverage is in place.

Close scrutiny of associates' certificates of insurance, while common in the construction industry, is needed by any business with multiple locations, franchises, vendors, suppliers, or subcontractors. Property managers, health care providers, and nonprofit organizations are prime examples of businesses at risk.

**Coverage gaps are common.
A few hypothetical examples:**

A property manager verified that his janitorial subcontractors had liability insurance but forgot to check for workers' compensation coverage. When uninsured workers were injured, the property manager was responsible for their claims.

A General Contractor (GC) and project owner were both named in a pollution liability lawsuit after a plumbing subcontractor failed to carry the pollution coverage required under its contract. The coverage gap was only discovered once the claim was filed, leaving the GC and owner exposed to uninsured environmental damages. As a result of not verifying subcontractor compliance, the GC lost a major contract, incurred significant legal costs, and suffered reputational harm.

A home health company collected COIs from its subcontracted care providers but did not verify that each provider's policy limits were sufficient. When a large liability claim was made, the care provider involved did not have enough coverage and the home health company was partly responsible for the damages.

In each of the scenarios above, automation could have detected coverage deficiencies and alerted the company to take corrective action.

Even if a subcontractor's coverage is sufficient at the time of first verification, the policy can be canceled, changed, or not renewed at any time. Many businesses don't find out that their vendors have failed to maintain coverage until they're faced with a claim. An automated system, backed by dedicated insurance agents, provides real-time monitoring and metrics to identify potential lapses.

How Compliance Automation Prevents Headaches

Automated compliance management is a simple way to avoid sticky situations that can develop when insurance requirements slip through the cracks.

"It's important to use an automated system, but equally important to partner with a team of experienced insurance professionals," said Lisa Scott, vice president and consulting practice leader with Heffernan Insurance Brokers' Consulting Division.

In some cases, companies purchase software but don't have the time to set it up or manage it properly. They may also lack the insurance expertise needed to use their software effectively. "The types of policies, endorsements, and requirements are vast. It's hard to know what you're looking at," Scott said. "If you have an insurance professional reviewing the requirements, it can help you sleep at night."

Why Checking a Box Isn't Enough to Transfer Risk

For many businesses, collecting COIs is an operational formality rather than a thoughtful risk management strategy. "If you're just checking a box, you're not actually mitigating as much risk as you think," Scott warned. "What may seem like a small mistake, like a misspelling or missing endorsement, can ultimately determine whether risk is transferred or your company pays a six-figure claim."

When insurance lapses occur, it's usually not due to willful noncompliance. Often, the parties may not realize they need coverage, or they may think their policy includes something it doesn't.

In one case, Heffernan compliance specialists were hired by a nonprofit that vetted and provided grants to other nonprofits on behalf of a municipality. The municipality required all grantees to have certain insurance provisions in place.

"When we started working with the grantees to verify their coverage, we found that many times, these nonprofits were not aware they didn't have the coverage they contractually agreed to," said Scott.

Transferring Risk While Saving Money and Time

Facing a claim without coverage can be incredibly expensive. However, tracking coverage in-house can also consume resources, especially if companies hire the in-house insurance expertise that's needed.

"For many companies, it just makes sense to outsource insurance compliance," Scott said. "The Heffernan compliance team brings a big level of expertise at a small cost compared with the expense of hiring that talent or incurring a claim. Plus, if a Heffernan client receives a claim, our claims team can instantly access their COIs, providing crucial information to quickly launch a defense."