

# Reduce your exposure arising from the use of third-parties.

By using proper risk transfer, you can also save money on your insurance premiums.



This brochure was created as a resource for business owners. Once you review the fundamental principles highlighted on these pages, we invite you to use our *Risk Transfer Setup Guide for Business Owners* to walk you through the process of establishing proper risk transfer for your business.



## What every business owner in America should know.

During the course of your operations, you are often called upon to contract for necessary repairs, maintenance with a variety of subcontractors. The work performed by those subcontractors may result in property or bodily injury claims arising from an action (or failure to take action) by the subcontractors' employees or other third parties. The likelihood of a business owner suffering unintended liability for losses also increases substantially with the hiring of uninsured subcontractors.

Common scenarios when risk transfer should be implemented include:

- During preventative maintenance and renovations
- Landscaping and snow removal
- Janitorial
- Sidewalk and parking lot repair
- Elevator and escalator repair
- Security and fire protection
- Pool and fitness center supervision and/or maintenance
- Catering
- Parts suppliers, advertisers

Any time your company is named in a claim, it can result in higher premiums. But the exercise of competent risk transfer procedures through the use of legally reviewed contracts is a risk management best practice that can help to reduce disputed injury claims and litigation in cases where you hire subcontractors to do work for you.

### ***'But I'm a business owner — not a lawyer or insurance professional.'***

Executing contracts and risk transfer agreements are common practices for business owners. Written contracts can be short and simple. Choose a competent and qualified attorney to review your contracts, risk transfer agreements and procedures. You may also want to consider using standard contracts from the following sources:

**[aiacontracts.org](http://aiacontracts.org) | [consensusdocs.org](http://consensusdocs.org)**

Your insurance agent can provide additional assistance such as identifying insurance companies that limit or exclude contractual liability coverages — which could increase your liability because a responsible party's insurer may not pay a claim owed by that party. In matters involving legal liability, it's especially important to seek professional advice.

## Why transfer risk?

Below are three scenarios that illustrate how incidents involving subcontractors can lead to lawsuits against the contractors that hire those subs to do work. Keep in mind that lawsuits and claims can't always be avoided, but risk transfer can help reduce any amounts paid under your policy, and that helps keep your premiums lower.

### EXAMPLE #1: LAUNDROMAT - \$500,000 CLAIM.

A property owner has a tenant who operates a laundromat. A customer slipped on a patch of ice in front of the building suffering a major leg injury. The laundromat was to have listed the property owner as an additional insured, but did not do so. Neither were the liability insurance limits adequate. Due to the seriousness of the injury, a reserve was set for \$500,000.

### EXAMPLE #2: PARKING LOT - \$3,750,000 CLAIM.

A property owner leased a parking lot next to their building to a company that parked their vehicles on the lot when they were not in use. An employee of the tenant company stepped into a hole while loading a truck for the day's job. The material being loaded landed on the employee, resulting in severe injuries. The tenant's workers' compensation carrier paid the workers' compensation loss but then subrogated the property owner's insurance company since the lease did not include a waiver of subrogation requirement. The claim settled for \$3,750,000, which included future lost wages and expected cost of future surgeries.

### EXAMPLE #3: WAREHOUSE - \$50,000 CLAIM.

The owner of a warehouse building hired an HVAC contractor to repair the AC system and replace some of the ductwork. A customer visited one of the tenants in the building and tripped over HVAC materials that had been left outside the building, cutting their arm. No contract was in place that could have held the building owner harmless. The building owner's insurance carrier is defending a suit from the injured party. The reserve is set at \$50,000.

In all cases, properly transferring the risk via contract to the subcontractor may have avoided:

- Liability for the loss
- Significant legal expenses
- The potential for increased insurance premiums



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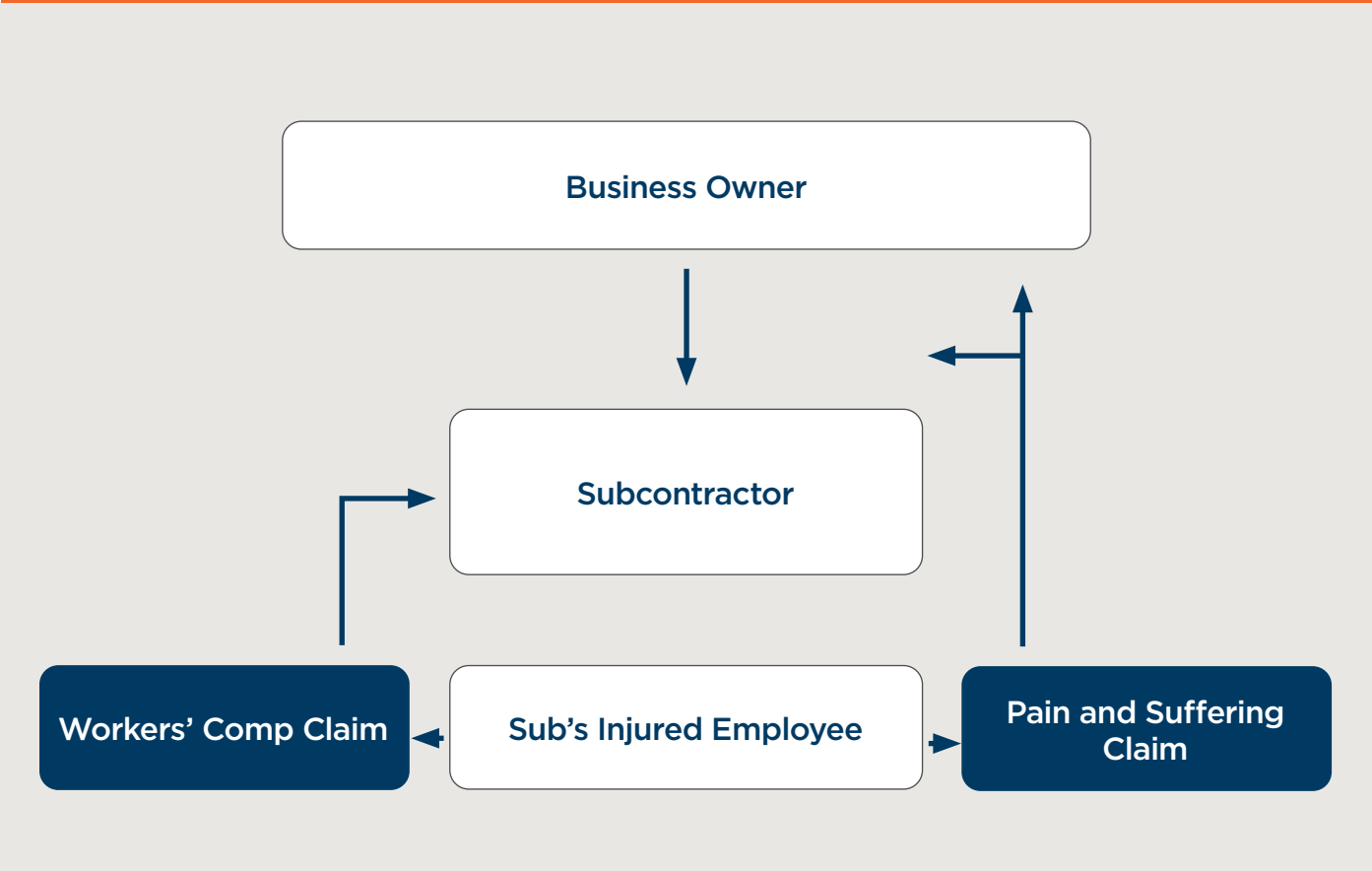




### Risk transfer is your best defense.

In risk transfer written agreements, one party assumes the liability for another. With good risk transfer language in place, the business owner is much more likely to be defended, indemnified financially and held harmless should there be an insurance claim or lawsuit. Without good risk transfer procedures in place, your company or insurance carrier may be responsible for monetary awards.

#### LIABILITY FLOW WITH PROPER RISK TRANSFER



## Using written contracts to execute risk transfer.

Below are examples that illustrate how written contracts can be used to execute risk transfer, and Nationwide® suggests that you view these as the eight essential minimum requirements of any agreement you sign with a subcontractor. Keep in mind, however, that this information is provided solely to help you gain an understanding of risk transfer methods. You should enter into a contract only after seeking the counsel of a qualified attorney, and these examples should not be viewed as a substitute for legal advice. Also, state law may vary on the enforcement of these provisions.

### 8 ESSENTIAL MINIMUM CONTRACT REQUIREMENTS

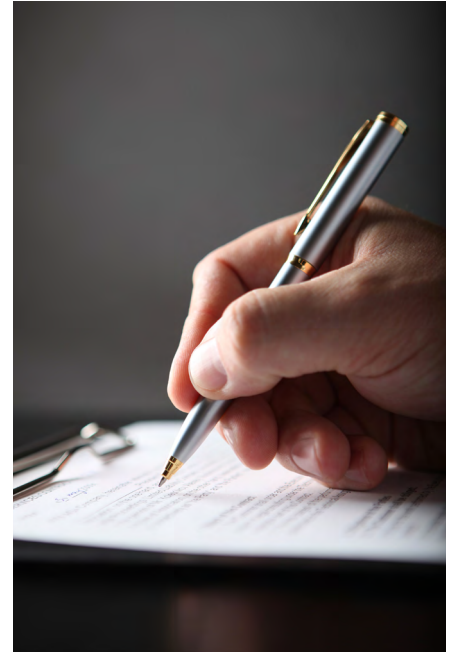
#### 1. HOLD HARMLESS/INDEMNIFICATION AGREEMENTS, AND WAIVER OF WORKERS' COMPENSATION IMMUNITY

Hold harmless/indemnification agreements generally specify that the party performing the work (i.e., your subcontractor) will hold you (i.e., the business owner) harmless for any losses that may arise as a result of work they perform. In many states, such agreements are considered void if they require the subcontractor to accept responsibility for the sole negligence of the hiring contractor. A contract might be upheld if it contains what is sometimes called "saving language." This is a phrase that usually refers to the phrase "to the fullest extent permitted by law," as in the following example.

**Example of saving language:** *"To the fullest extent permitted by law, the party performing the work under this agreement, hereby known as the contractor, shall defend, indemnify and hold harmless the property owner and property manager and their agents for whom the work is performed, for any liability, loss, or other claim for damages for death, bodily injury or property damage arising out of performance of the work by the contractor or any agent, servant, employee, subcontractor or supplier of the contractor, except to the extent of any fault attributed to the property owner and property manager."*

Also, in some states your subcontractor's obligation to their injured workers is limited to workers' compensation benefits. A waiver of the workers' compensation immunity requirement (see example below) bars your subcontractor from using this defense when their employee is injured on your job.

Example of workers' compensation immunity requirement waiver: *"The indemnification obligation shall not be limited in any way by any limitation on the amount or type of damages, compensation or benefits payable by or for the contractor or any such subcontractor, supplier, or other individual or entity under workers' compensation acts, disability benefit acts, or other employee benefit acts."*



Hold harmless and indemnification agreements are key to the successful transfer of risk to suppliers and other third-party businesses providing you or your customers, services on your behalf.

Questions? Contact  
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Services: 1-866-808-2101  
or [LCS@nationwide.com](mailto:LCS@nationwide.com).



When a loss occurs, you want your subcontractor's insurance to respond first, that is, on a primary and non-contributory basis.

## 2. GENERAL ACCEPTANCE PROVISION

Any work order, contract or similar document should contain or reference a hold harmless/indemnification provision (see 1 above) and an insurance requirements/additional insured status provision (see 3 below). These provisions should specify that the act of beginning the work will be considered acceptance of the terms of the contract, work order, or similar document. With regard to service work which may be done throughout the year, it should be expressly stated in writing that these requirements remain in effect until otherwise agreed in writing.

## 3. ADDITIONAL INSURED COVERAGE, AND MINIMUM INSURANCE REQUIREMENTS AND LIMITS FOR SUBCONTRACTORS

Insurance procurement requirements call for additional insured status for ongoing operations and completed operations on your subcontractor's general liability (GL), auto and umbrella policies on a primary and non-contributory basis. Consult our *Business Owner's Checklist: Minimum Contract Insurance Requirements and Limits* to see what Nationwide recommends as minimum insurance limits for your subcontractors.

Be cautious. In an attempt to save premium dollars, some subcontractors purchase insurance from non-standard insurance carriers. While some of these carriers provide reasonable levels of coverage, others exclude primary liability exposures, even if such liability was assumed by the subcontractor in the contract with you (such as employee injuries). This hold harmless obligation coverage gap can result in your subcontractor being virtually uninsured for certain types of losses. This increases your liability exposure and problems with your insurability. *Please consult with your agent to make sure your subcontractors have adequate insurance coverages and limits.*

It's also essential that your subcontractor carry workers' compensation coverage. If that's not the case, the subcontractor's employees' wages may be added to your payroll as if they were your employees, and you may be responsible for their injuries. If your subcontractor is an individual or partnership, then confirm that he/she has elected to be covered by the workers' compensation policy.

## 4. REQUIREMENT THAT THE SUBCONTRACTOR'S INSURANCE RESPOND FIRST

When a subcontractor is hired, they generally have control over their work and the condition of their work area. The subcontractor has primary control over how safely the work is done. When a loss occurs, you want the subcontractor to have primary responsibility for the loss. To ensure that the subcontractor's insurance pays first (ahead of your coverage), it's essential to clearly state in your contract that the subcontractor's coverage (GL, auto and umbrella) shall respond first, that is, on a primary and non-contributory basis.

## 5. REQUIREMENT THAT THE CONTRACT APPLY TO SUBS OF YOUR SUB

It's important to state in the contract that all obligations and requirements of the contract apply to any parties or subcontractors hired by the subcontractor. Too often, losses are caused by parties/persons hired by your subcontractor. By stating these requirements must be passed on to any subcontractors hired by your subcontractor, you create additional protection for your business.

## 6. CERTIFICATE OF INSURANCE REQUIREMENT

A certificate of insurance should be provided to your firm prior to the commencement of work as evidence the subcontractor is maintaining its own GL and workers' compensation insurance with sufficient limits to cover a significant loss. The certificate should show the business owner as additional insured for ongoing and completed operations on a primary and non-contributory basis. A requirement should exist that the subcontractor's insurance policies be endorsed to guarantee you a right to notice of cancellation.

A certificate of insurance provides evidence that particular types of coverage are in force at a particular time. It also lists the limits of coverage in force at the time coverage was issued. It is most commonly used to provide the certificate holder (e.g., you or your customer) with evidence that certain insurance requirements have been met. However, a certificate of insurance alone does not guarantee the policy will be in effect at the time of the loss.

No subcontractor should be permitted to enter your premises without first providing an up-to-date certificate of insurance. The ACORD Certificate of Insurance form has become the industry standard. It provides evidence of the types of coverage as well as endorsements to the commercial general liability (CGL) policy. The type of coverage, name of insurer, policy term and limits of coverage are the typical entries on the form. It provides a brief summary of the coverage in force when it was issued. Since it provides information only, it does not constitute a contract between the insurer and the certificate holder.

Also, a certificate is not a guarantee that the policy doesn't contain additional exclusions/coverages. Additional insured status serves as a backup to the indemnity agreement. In certain cases, the blanket additional insured endorsement is only effective if required by a written contract or agreement.

### A closer look at certificates of insurance.

See our [article on Certificates of Insurance](#) for a convenient overview of certificates of insurance. You'll learn what to look for on your third party's certificate and find a brief description of each section of the form with a sample to review.



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## 7. WAIVER OF SUBROGATION

The subcontractor should agree to waive any and all rights of subrogation against you, the business owner. Waivers of subrogation for GL, auto, umbrella and workers' compensation policies must require the subcontractor to waive their insurer's right to be reimbursed by you should a loss occur that was a result of your negligence.

## 8. SAFETY PROGRAM REQUIREMENT

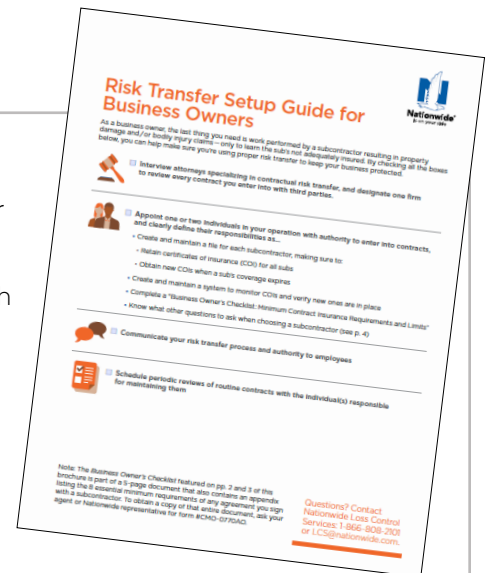
Contractors put a lot of time and energy toward creating safety programs and manuals. Keeping workers and others safe while visiting your facility is essential. An important contract requirement is to ensure subcontractors follow the same safety requirements as your own employees. Including this requirement in your contract should alert your subcontractor that safe work practices are expected. An accident-free work site is a reflection on your business and impacts your insurance premiums and reputation.

### Risk Transfer Setup Guide for Business Owners

Use our guide as your roadmap to effective contractual risk transfer for your business. In this 4-page document, you'll find:

- Step-by-step instructions for establishing your program, starting with appointing an attorney well-versed in the area of risk transfer
- A checklist for verifying minimum contract insurance requirements and limits with your subcontractors
- A list of additional questions to ask when choosing a subcontractor

To obtain a copy of the *Setup Guide*, ask your insurance agent or Nationwide representative for this form, then contact them with any additional questions.



Providing solutions  
to help our members  
manage risk.®



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and safety needs, contact  
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