**S. SUMMARY OF RISK TRANSFER**

Public agencies usually require suppliers, contractors and tenants (i.e., other parties to a contract) to assume liability for and to maintain insurance against claims or judgments arising from their products or activities for the agency.

The agency’s standard business contracts should contain a description of the required insurance and an indemnification clause. An indemnification clause (also called “hold harmless” clause) is an agreement by which one party assumes the liability of another. Usually, public agency requires the other party (“contractor”) to assume some of the agency’s liability arising out of the activity or product that is the subject of the contract, as the contractor is usually the party in the best position to control the loss. Normally, the agency should require that the insurance also protect the agency, its officers, officials, employees and volunteers.

The indemnification clause automatically takes effect when the contract is signed, but the required insurance does not. Coverage applies only when the other party’s insurance company issues the required insurance policies or endorses existing policies to conform to the agency’s requirements. Your agency should require proof that the insurance is in effect before the contract is accepted.

As proof of coverage, most insurance agents are accustomed to issuing a document called a “certificate of insurance”. A certificate of insurance does not accomplish the changes described above; issuance of a certificate merely serves as evidence that the contractor has a policy of insurance at the time the certificate is issued.

This appendix provides a brief description of how to establish insurance requirements for contracts with contractors, tenants and vendors and how to monitor their compliance with those requirements.

There are five basic steps in administering insurance clauses in contracts where the other party is required to provide insurance to protect the agency, its officers, officials, employees and volunteers. These steps are:

1. Develop correct insurance specifications.
2. Inform bidders of the insurance requirements early in the bid process and distribute forms promptly.
3. Review the completed insurance documentation promptly. Notify the other party immediately if paperwork is not correct.
4. Save the signed forms.
5. Inform the other party’s insurer immediately, in writing, of incidents or claims that may be covered by the insurance.

The basic considerations for drafting insurance specifications are:

1. Be as specific as possible in describing types of insurance required.
2. Describe maximum deductibles that the other party may maintain.
3. Require addition of the agency, its officers, officials, employees and volunteers as “additional insureds” to all required liability coverage.
4. Require that the other party’s insurance be primary.
5. Require that policies be endorsed to give the agency at least 30 days’ notice of cancellation or material reduction of insurance coverage.
6. Specify that the insurance is to be placed with insurers that meet a certain minimum rating.
7. Fit the insurance limits to the situation.