

The Illusion of a Certificate of Insurance

Carrier411 Article

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The entire transportation community relies on motor carrier certificates of insurance, including shippers, brokers and freight forwarders alike. State regulatory agencies also rely on these certificates as evidence of carrier insurance. **But no one appears to understand that insurance certificates are illusory, as they have two fatal flaws:**

1. A certificate of insurance does not disclose exclusions in the policy that it purports to cover.
2. The insurance agent that issues the certificate of insurance only endeavors to notify the certificate holder of a cancellation or a modification of the policy, with no legal liability for failure to do so.

These two flaws result in unrecoverable losses when brokers, 3PLs and shippers rely on insurance certificates without doing more than filing them in their carrier files.

Exclusions from coverage usually encompass whatever happened to cause the loss. For example, "water damage caused by rain, sleet or snow" was excluded in a carrier's policy without the carrier's knowledge (and the insurer automatically presumed the water damage was from one of these sources). In another example, a frozen food carrier's policy excluded "mechanical breakdown of the refrigeration unit". Why did that carrier pay premiums for a policy that excluded the principal cause of its losses?

Nevertheless, transportation contracts historically require the carrier to present a certificate of insurance without demanding that the carrier furnish a copy of the cargo policy, or at least a copy of the portion of the policy that states what is covered and what is not covered.

With respect to disclaimers on these certificates, there are two:

1. The one on the top reads "This certificate is issued as a matter of information only and confers no rights upon the certificate holder. This certificate does not amend, extend or alter the coverage afforded by the policy listed below."
2. The bottom one reads "Cancellation: Should any of the above described policies be cancelled before the expiration date thereof, the issuing

company will endeavor to mail XX days written notice to the below named certificate holder, but failure to mail such notice shall impose no obligation or liability of any kind upon the company."

Why then are these insurance certificates so widely used and accepted as proof that insurance is covering the goods being transported by the carrier? This writer first began reporting these defects in the book "Transportation Insurance in Plain English" and has continued to warn the transportation community ever since, but few firms have modified their practices nevertheless.

What can be done about these defects? Parties that are relying on cargo insurance coverage must include in their contracts a requirement that the carrier produce a copy of that portion of their policy that states what is covered and what is not covered.

In addition, you must insist on receiving a written agreement from the issuer of the certificate that they will give notice of cancellation or modification within a stated period, and that the issuer will be liable for the consequences of their failure to do so.

In a tight equipment and insurance market, however, there will probably be resistance to these demands, and you may need to find other carriers that are willing to produce the requested information.

The bottom line is that brokers, 3PLs and shippers who rest assured because they have insurance certificates on file and believe they need not worry about their cargo being covered should start worrying if they do not exercise due diligence and go beyond the certificate!

Every trucking company file must be kept current with any information received, and it should be reviewed on a regular basis for changes. **A monitoring service should be employed for that purpose.**

Special Reference Note: See Appendix 10 in Transportation, Logistics and the Law for a list of 93 exclusions that this writer discovered in "All Risk" cargo policies. Then refer to Appendix 11 for a copy of a standard certificate of insurance, which reveals the name of the insurer, types of coverage, effective and expiration dates, amounts of coverage and deductibles.