

ALLIANZ COMMERCIAL

Contractual Risk Transfer

Risk bulletin

What is Contractual Risk Transfer?

Whenever your company hires a contractor, enters into a maintenance, service, or vendor agreement, leases a building, leases equipment, sub-contracts work to a third party, chances are there is a signed contract detailing the terms of the agreement. It is important to ensure the use of a contractual agreement which includes important clauses transferring risk and responsibility to the responsible party. The clauses are known as hold harmless and indemnification clauses. Without an effective contractual risk transfer program you can be stuck paying for losses you are not responsible for.

Controlling Contractual Risk Transfer

When entering into a contractual relationship you should make every effort to use your own contract agreement which has been vetted by an attorney. In cases where you must sign a contract for others it should be reviewed internally and amended as necessary. At a minimum contracts should include the following provisions:

- Favorable Hold Harmless and Indemnification clauses.
Note: Requirements of these clauses vary by state
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Establishing administrative procedures

Identify a key person within the administrative staff who oversees the company's Contractual Risk Transfer program. This person should execute the following duties:

1. Ensure certificates of insurance are obtained and additional insured endorsements added prior to the start of any third party work.
2. Ensure contracts are not amended prior to signatures being applied.
3. Ensure executed contracts are on hand prior to the start of any third party work.
4. Monitor certificates of insurance to ensure they are updated prior to their expiration date.

Insurance minimum guidelines

Your contract should include minimum insurance requirement guidelines. The minimum insurance requirements that should be used are outlined below.

- Commercial General Liability:
\$1,000,000 per occurrence, \$2,000,000 aggregate
- Completed Operations: \$1,000,000
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