evident

THE STATE OF

THIRD-PARTY INSURANCE VERIFICATION

2021

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EXECUTIVE SUMMARY

In the realm of risk mitigation and management, verifying and improving insurance coverage for third parties is increasingly important. The more effectively companies can enforce compliance with insurance requirements, the lower the risk of unexpected vicarious liability claims related to incidents among third parties that can impact the company's brand and/or finances.

Our research shows that both performance and process for verifying and improving insurance coverage for third parties varies greatly. While the range is wide and some companies are achieving substantially higher rates, the **average compliance rate for third parties across all requirements is 25%. In other words, 75% of third parties are not meeting the insurance requirements established by the company.**

We have seen with our customers that by focusing on a few principles, there is potential to significantly increase these rates, thus reducing the company's risk and expense.

These areas are:

Right-sizing insurance requirements
Third-party requirements that are too specific or strict leads to an inefficient exception process. Focusing on overall business objectives and eliminating obstacles will improve performance in this area.

Customer experience focus
Shifting to a more efficient, automated process focused on better customer experience will make the process easier for Insureds and partners, driving higher and faster conversion rates.

Partnerships
Inclusion of other partners in the insurance ecosystem *(e.g. brokers, agents, and carriers)* is helpful to streamline the verification process and provide accurate coverage status.

OVERVIEW

Requiring partners to carry insurance coverage is one of many ways enterprises manage their business risk. It provides a measure of protection against vicarious liability, or the risk of claims resulting from the actions of a third-party business, and it is distinguished from other measures as it is the only action that can actually result in the company receiving financial protection.

An example scenario is if a convenience store franchisor was forced to pay financial damages due to one of their franchisees having an accident in their store because the store carried insufficient insurance, even though said franchisee is contractually obligated to have an active insurance policy with a specific minimum level of coverage.

In order to be certain that coverage is active and in place, enterprises expend a great deal of effort to verify their third parties' proof of insurance. Evident's findings indicate that many enterprises struggle to perform this function and, hence, have a significant amount of vicarious liability hidden within their own third-party networks.

This report was created to document Evident's experience with how companies are performing, how that performance can be improved, and how to improve their risk mitigation.

METHODOLOGY

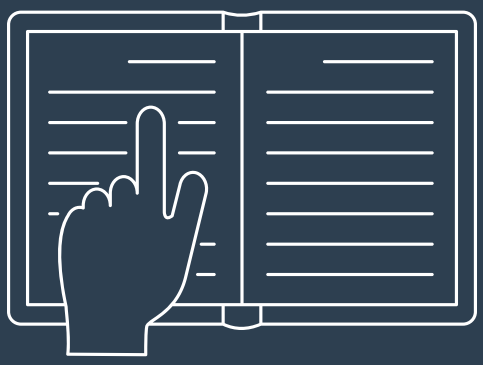
This report is based on data from Evident customers and the hundreds of thousands of partners, vendors, suppliers, and franchisors for whom they verify coverage.

It should be stated that Evident's technology and team are focused on specifically improving performance for these statistics. Therefore, in order to establish a benchmark for how the average company is performing, Evident assessed its customers' capabilities and compliance prior to implementing Evident's software, thus eliminating improvements specifically driven by our solution.

With regard to terminology, it can be confusing to distinguish between the parties involved in insurance verification. For the purposes of this report, **"Companies"** will only refer to the organizations that are requesting verification. Parties that are receiving a request will be referred to as **"Insureds"**.

In this report, the term **"Compliance"** will refer to when an Insured meets all requirements from a Company. In order to measure this, the proof of insurance (typically a Certificate of Insurance or **"COI"**) must be compared to the Companies' requirements and confirm that coverage types, amounts, and conditions meet the criteria. **"Compliance Rate"** is derived by dividing the number of Insureds who have provided a COI that meets coverage type and amount requirements by the total number of Insureds. Therefore, an Insured could have a single missed coverage type or coverage amount and they would be considered non-compliant.

The number of Insureds that have responded to requests for documentation is the **"Response Rate"**, which is derived by dividing the number of Insureds who have provided some proof of insurance with the total number of Insureds contacted.

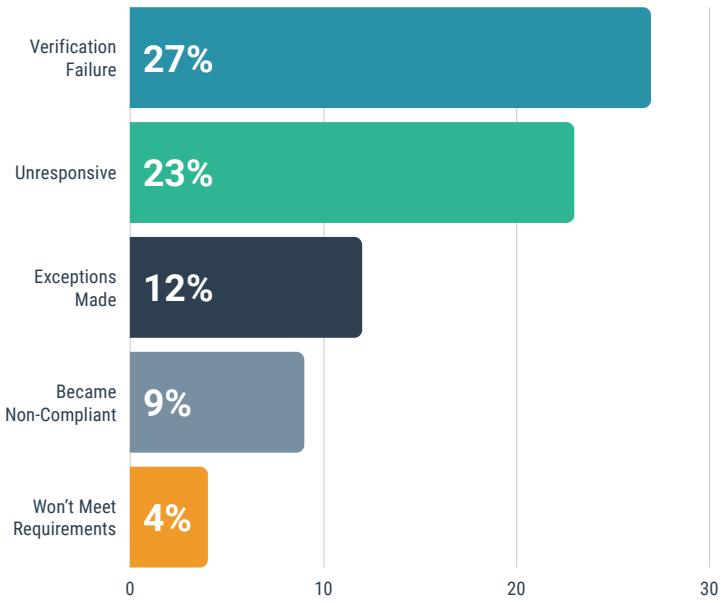


KEY FINDINGS

75%

of third parties are not meeting the insurance requirements established by the company

REASONS FOR NON-COMPLIANCE



Verification Failure: *Due to misunderstood requirements, weak review process, etc.*
Unresponsive: *Due to bad contact data, confusing request UI, etc.*
Exceptions Made: *Due to infeasible requirements, no Insured-level criteria*
Became Non-Compliant: *Some or all coverage expired since last verification*
Won't Meet Requirements: *Insured chose not to purchase additional required coverage*

Companies have significant unmitigated risk.

In short, performance on verifying coverage presents a great deal of opportunity for improvement. The overall compliance rate as stated in this report is based on the total compliance across all required policies for all Insureds.

Based on this strict definition, the average compliance rate for Insureds across all requirements is 25%. In other words, 75% of Insureds are in some way failing to meet the requirements established by the Company.

It should be noted that many Companies have a less stringent definition for compliance. Some Companies allow exceptions to their criteria to be considered compliant. Others consider all Insureds to be compliant until proven not to be as opposed to requiring verified proof of coverage to be considered compliant. Nonetheless, Evident believes this strict definition to be the most relevant in understanding the impact to risk.

Evident found there were many contributors to this low compliance rate, but that they can be categorized into four main areas:

KEY FINDINGS

First, Evident found that simply contacting and receiving a response from Insureds is a challenge for Companies.

23% of Insureds did not respond to the Company's request for proof of insurance.

Contributors to this problem include missing contact information, unclear communication of requirements, next steps and deadlines, and lack of process to support and manage relationships.

Among the Insureds that did respond, more than half failed to be certified compliant. At 27% of Insureds, this was the largest contributor to non-compliance.

Insureds in this group included those who never had their submission reviewed and those that stalled in the process and were never resolved by the Company due to lack of process or resources, or an inability to prescribe a remedy that the Insured could or would execute.

For about 12% of Insureds, the Company made an exception to their own guidelines to allow them to proceed as a partner, despite not being compliant with requirements.

Exceptions reflect several issues - a lack of flexibility in the process, inability to create Insured-level criteria, or requirements that do not align with business objectives. Reviewing and making case-by-case exceptions is expensive in terms of people and time, and can lead to errors and inconsistencies.

About 9% of Insureds had been previously deemed compliant, but no longer met requirements.

This is a risk for the company when it goes undetected and is typically due to a failure to renew policies, change in business circumstances for the Insured, or simply as a tactic to reduce total spend.

Finally, 4% of Insureds were unwilling to meet the requirements, and no exception was made by the Company.

There is a clear and significant opportunity for improvement in compliance and the resulting mitigation of vicarious liability. In the next section of this report, we will take a deeper look at existing processes and opportunities for improvement.

ABOUT 2020

In 2020, businesses saw **unprecedented economic strife** due to COVID-19, an **unparalleled rise in civil unrest**, and the **increased effects of climate change**. The combination of these turbulent events has impacted insurance premiums, expected to **increase an average of 11.6% next year across all lines and claims**.

Aside from the more obvious **increases in medical liability premiums** due to the pandemic health crisis, businesses are seeing additional increases in **cybersecurity insurance rates**, **professional liability rates**, and **global commercial insurance pricing**.

Along with premiums increasing, coverage limits are being reduced, and conditions (a legal language that excludes or narrows coverage) are increasing. For many businesses, managing insurance risk was simple - analyze losses from previous years (e.g. lawsuits, claims, and fines), and, based on those numbers, estimate next year's loss. With premiums increasing and coverage decreasing on multiple fronts, this practice may not be able to accurately predict a business' potential losses.

Lastly, there is one more risk factor that has changed, perhaps permanently. The number of employees working remotely in white collar roles has increased, and in many cases, significantly. Remote workers are generally thought to be more vulnerable to phishing, malware, and other cybercriminal attempts to exploit employees as a vector to attack the business. Shifting a significant number of employees toward remote work in such a short period of time has made Companies even less prepared for this potential threat.

What businesses are learning now in 2021, as new risks continue to emerge, is that 2020 was not just an anomaly, but rather a pivot point into a new world for risk. With this new reality, it is incumbent upon risk managers, legal teams, and insurance compliance experts to find new ways to protect their businesses.

Evident identified 8 key steps to verifying third-party insurance. In this section, we will discuss improvements for each stage.

STEP 1: IDENTIFY REQUIREMENTS

Third party insurance requirements are ultimately intended to protect a Company's brand, and verification is a focused effort intended to reduce a Company's risk when the unexpected happens. Companies develop insurance requirements that correspond to risk areas for their industry and business. These can include, but are not limited to: general liability; workers compensation; property, auto, and umbrella liability; crime and employee dishonesty, etc.

Each requirement has a minimum coverage amount and contractual penalties are clear: any failure to comply will result in dismissal or at least removal for a period of time until they're able to demonstrate compliance. Requirements are, in many cases, extensive.

Evident's average customer, for example, has 23 compliance criteria but some customers have up to 50.

The high cost of third-party risk justifies this effort. Failure of the Insured(s) to be in compliance creates vicarious liability for the Company. Lawsuits that are not covered by insurance may end up accruing to the Company, especially if the Insured has the Company's same brand and likeness (e.g. franchisees, store chains, etc.). Something as simple as an incomplete Additional Insured listing can result in millions of dollars lost.

For Companies with low compliance rates for insurance verification, the first opportunity for improvement is to review and update their requirements. Requirements are often overly focused on reducing every risk without consideration for how such an extensive list will affect Companies' ability to comply. In crafting third party insurance requirements, Companies need to balance risk coverage with Insured expense and complexity. **If a risk management plan is created to achieve 100% compliance, but the operational results are 25%, then there is a serious gap in the model.**

Instead, strike a balance between reducing risk and achieving compliance. Companies should analyze their portfolio of partners and coverages, and identify the highest risks. If a rule or coverage amount is likely to (or has resulted in) an exception request, the rule should be reviewed.

Key Tactic:

Right-size Your Requirements

Companies must develop criteria that incorporate not only legal and insurance needs, but also business operations. Consider the trade-off between compliance and coverage. Companies should ask if the program will discourage desirable as well as undesirable business partners. Companies need to confirm that the requirements best align with their business objectives, for instance, supporting growth as well as reducing risk.

STEP 2: INSURED RECEIVES & UNDERSTANDS REQUIREMENTS

Companies formally communicate requirements to Insureds for two reasons:

- **If they're onboarding the Insured as a new partner.**
- **If the Insured is an existing partner, but the coverage to meet requirements has not been recently confirmed.**

The first challenge for Companies is the most basic - identifying the correct contact for the Insured and the best way to reach them. Tracking is typically done through calendar reminders or spreadsheets, although some Companies have upgraded to dedicated software.

Outreach is attempted through physical mail, email, and phone calls. Because this process involves so much manual effort, it is a significant impediment for many Companies that tends to be slow and error-ridden. Many attempts to verify proof of insurance end here: incomplete, and with no information about the Insured's coverage or lack thereof.

The impact is significant - on average, a quarter of Insureds do not respond to requests.

For Companies that successfully deliver a verification request to the Insured, the next challenge is communicating the intentions and steps necessary to complete the process.

This is a critical step that appears to be another key point of failure. For many Companies, communication to their partners is only presented in legal or insurance-industry jargon, which is so difficult to understand that Insureds are forced to rely on their broker(s) to interpret the requirements.

Key Tactic: Effective Outreach

Effective outreach appears to rely on the following **three components**:

1. **Clear communication about objectives and processes.** This is a critical step that increases the likelihood of compliance. If the Company has very achievable insurance requirements and still doesn't see an uptick in compliance rates, the fault is usually a lack of effective and/or consistent communication with Insureds to obtain their proof of coverage.

2. **A strong process for managing and successfully contacting Insureds.** This is frequently a manual, iterative process, which includes maintaining lists, keeping up with personnel and job changes, and accurate contact information.

3. **A consistent demonstration of commitment to the program.** This step should consist of persistent, productive relationships with the correct contact(s) at the Insured, and transparency about the seriousness of the Company with regard to compliance. This makes it clear that the Company is committed to helping, but is equally committed to enforcing requirements.

STEP 3: INSUREDS & BROKERS WORK TOGETHER TO MEET REQUIREMENTS

Upon receipt of requirements, Insureds typically contact their broker, share the corporate requirements, and ask that a COI be created and sent to the requesting Company. COIs are often created uniquely for each request. They do not speak to all of an Insured's coverage, instead taking a Company's set of requirements and mapping an Insured's coverage to them.

In order to create a COI, the broker interprets the requirements, re-acquaints themselves with the policies they sold the Insured, and then creates a COI that demonstrates how the policies match to the requirements. Conventional coverage types - like general liability and property damage - are usually straightforward, but the more esoteric requirements like product liability, employee dishonesty, and other crime coverages can be complicated, and thus, problematic. Additional conditions that modify or narrow the coverage add complexity.

COIs often confuse various types of coverage, and fail to clarify how they are met. For example, some brokers use an ACORD 25 form - which is a general form used for many types of coverage - to represent a policy that actually has its own, dedicated, and specific ACORD form, such as Property Insurance (ACORD 27).

Another example is when multiple policy types cover the same liability, but it's not clearly indicated on the COI. And finally, a COI often fails to meet requirements if it doesn't represent key endorsements, exclusions, or other important conditions.

In general, COI creation often adds to the challenge of demonstrating and verifying compliance. The language can be difficult to interpret, and it could require the expert eye of an insurance or risk professional, a lawyer, or all of the above.

Key Tactic:

Treat Brokers and Agents as Partners

Brokers and other members of the insurance ecosystem play a critical role, and can be very helpful. Treating them as a key audience by understanding how you can make verification easier for them and help them achieve their business objectives will result in a better process for everyone to establish successful coverage, fulfill additional coverage, and ensure no extraneous coverage is mistakenly added. Successful tactics include: dedicated communications, time-saving programs to aggregate efforts across Insureds, and increasing degrees of integration.

ABOUT WORKERS COMPENSATION INSURANCE

Workers Comp is different from other insurance types.

- *Unlike general liability insurance, **worker's compensation insurance** is a state-mandated program that focuses on the needs of the employees when they get injured on the job. For example, if an employee slips and falls, you would file a worker's compensation claim to pay for medical expenses and lost wages… the key difference is who can benefit from an insurance claim.*

As opposed to insurance required by a Company, or simply a good business decision, Workers Comp is mandated by most U.S. States and is also no-fault. Due to the State mandate, it would be very unlikely that an Insured does not have Workers Comp insurance.

However, the few states that do not require Workers Comp, such as Texas, can skew results. If Workers Comp is a requirement, but the Company has many Insureds in Texas, they will need to either deploy Insured-level requirements, or make exceptions to requirements, in order to reflect their compliance status.

STEP 4: INSURED PROVIDES PROOF TO THE COMPANY THAT THEY MEET THEIR REQUIREMENTS

Once the broker shares the COI with the Insured, they can send it to the requesting Company.

While this step seems straightforward, the method of communication can easily add additional friction that results in fewer responses. Streamlining this process to make it very easy to share a COI and make it clear that the request has been completed all contribute to a more effective program. In addition, creating a process for brokers to directly reply to the requesting Company can also greatly reduce friction.

Key Tactic:

Provide Better Customer Experience

Ultimately, the Company is the beneficiary of verification, therefore, doing everything possible to treat the Insured as a customer and make the process easier for them is in the Company's best interest. As such, Companies should provide timely updates and status, be clear about where the Insured is in the process, and offer help when stalled. This is likely a significant shift in approach, but Companies should treat the verification process the way an e-commerce merchant treats cart abandonment.

STEP 5: COMPANY EVALUATES COI TO ASSURE IT MEETS INSURANCE REQUIREMENTS

The Company's next challenge is to analyze the COI. **This is one of the most critical and the most underserved steps in the verification process**.

The data shows that less than half of responding Insureds were compliant, which is particularly problematic since many enterprises treat any responding Insured as compliant. In reality this significantly underestimates their exposure to claims.

Why is this area such an under-performer?

Reasons include not having enough resources to open and analyze the COI, or not enough insurance, risk, and/or legal expertise needed to interpret them. This is the top area of opportunity in terms of improving verification performance.

Key Tactic: Analyze

It's not easy for Companies to get to this step and actually analyze documents, but failure to do so misses perhaps the greatest opportunity in the entire verification process. This step should provide the answer to a Company's actual compliance, which is the percentage of Insureds that have met requirements. Visibility into COI data will also allow Companies to identify specific Insureds and programs that present the highest risk. This step is the key to Companies identifying how to improve their program and reduce risk.

STEP 6: COMPANY NOTIFIES INSURED IF REQUIREMENTS AREN'T MET

Upon completion of the analysis, the Company should have detailed information about gaps in coverage. The decisioning process that follows needs to consider if an exception is appropriate and, if not, the recommended remedy.

This is another step in which clear communication is critical. Simply notifying the Insured that they are out of compliance without being prescriptive about how to fix the problem often leads to a stall in the verification process.

Any communications around compliance should include specific, actionable recommendations. For example: ***"Raise your general liability coverage by $500,000 annually;" or "Add fraud coverage in the amount of $1,000,000."***

Communications should ideally provide suggestions for how to fulfill the need, typically through a specialized broker, or through the Insured's existing broker.

Key Tactic: Decisioning

After all this, you need to make a call about whether to allow an exception or not. This process needs to be crisp and consistent from one Insured to another, with a clear path and process to communicate to the risk team who must decide if a change to requirements is needed or if risk models need to be updated to accommodate different compliance levels.

STEP 7: INSURED CORRECTS UNMET REQUIREMENTS

Corrective action to meet requirements will succeed or fail based on how well the Company does at describing the issue and the remedy. If this is done poorly, the process is likely to lag or fail at this stage. At this point in the process, the Insured has to make some decisions.

- **Do they decide that they are unwilling to meet the requirements and risk being excluded from the Company's program?**
- **Do they believe they should have met the requirements and that their broker failed to deliver an accurate COI?**
- **Or, do they need to make adjustments to their policy that may or may not beget additional costs?**

In all of these cases, there is a significant risk that the Insured will feel "trapped" between experts and unsure about the conclusion based on their lack of understanding the issues with their coverage. Being able to provide specific guidance with clear explanations of the issues will provide a much better experience for the Insured and drive higher, faster conversion.

Key Tactic: Be Prescriptive

If you want your Insured to act, and preferably act quickly, you'll need to provide specific remedies. Tell them exactly what needs to change. Provide them with language to take to their broker, or better yet, offer to communicate with the broker directly. Offer them ways to fulfill your coverage requirements. Making the process extremely easy ensures that your Insureds will comply and be grateful for the positive experience.

STEP 8: COMPANY REVERIFIES INSURANCE ON AN ONGOING BASIS

All of the above describes a single instance of verifying coverage, but a basic verification is just a quick snapshot that doesn't capture changes over time. In order to be sure your risk is contained, you must have a way of assessing your coverage at any given moment. This means ongoing monitoring, or at least reverifying at expiration.

Key Tactic: Understand Your Insured Profile

Know your Insureds and your risk. Just as depth of information is critical to improving your process, recency of that data is vital to accuracy of risk models.

Do you run the risk of fraud from canceled policies that were only purchased to meet requirements?

Do you have a handful of high-risk Insureds or some Insureds that present a much greater risk to your business?

How will you identify these risks?

About Additional Insured

One of the highest value actions a company can take to contain risk is to be listed as an Additional Insured on the Insured's policy. This allows them to enjoy all the benefits of being insured and to make a claim directly to the Insurer; however, only 68% of policies had the company listed as an Additional Insured.

68%

of policies had the company listed as an "Additional Insured"

CONCLUSIONS

Insurance verification is difficult and complex. With the insurance and risk environment experiencing such change, the incentive to get verification right has increased.

Companies looking to improve third-party insurance verification must consider the entire process and keep these principles in mind:

Communication
Communication of intent and process must be frequent and very clear while being mindful of the audience's lack of experience in insurance and legalese.

Reduce Risk & Cost
Effective risk reduction and cost optimization at scale can only happen if COI and policy information is up-to-date, available, and verified.

Automation
Automation is critical to maintaining high third-party insurance compliance rates.

Customer-Centric Approach
High compliance rates require a customer-centric approach for Insureds.

ABOUT EVIDENT

Evident provides insurance verification-as-a-service to help enterprises measure, monitor, and mitigate risk in third-party networks. Evident's insurance verification service is built on Evident's platform, which provides a software-as-a-service solution that verifies credentials used to determine the eligibility of organizations and individuals to perform certain business functions. These verifications cover all types of businesses and the most common risks they face.

The world's largest organizations rely on Evident to help them protect their business and brand from third-party risk. Our game-changing technology - which enables the safe and private exchange of insurance, identity, business, and other personal data - helps our customers collect and analyze both individual and business credentials so they can make fast and informed decisions about engaging new third-party partners, prospective employees, franchisees, and more, without compromising their privacy.

In today's new remote-first, ever-changing regulatory environment, our secure, privacy-first enterprise platform, accessible via web portal or API, provides a highly scalable and configurable solution to manage communications, storage, decisioning, and ongoing monitoring of individual and business credentials.

Evident is a remote-first, VC-backed tech startup, headquartered in Atlanta, GA. Learn more at **evidentid.com**