

TECHNICAL INFORMATION PAPER SERIES: CONTRACTUAL RISK TRANSFER



PROTECT YOUR BUSINESS BETTER BY FOLLOWING THESE CONTRACT TIPS

In today's world, contracts are an essential element of doing business. Gone are the days when a handshake and your word would be enough. The importance of a well-worded contract cannot be overemphasized, regardless of whether you are a contractor, subcontractor, manufacturer, distributor, retailer, or any commercial business.

Contracts have important legal and insurance consequences that will impact your business. When used properly, contracts are an effective way to manage your risk. These contracts should be developed by your legal counsel.

TRANSFERRING RISK TO HELP CONTROL LOSSES

Risk is transferred to other entities to control losses and, therefore, save money. Transferring risk to another entity is one of the most important and cost-effective means to control losses. Where appropriate, transfer the responsibility for risk, contractually, to your lessees, vendors, subcontractors, competitors, and even your customers if possible. Examples include the following:

- **Require Hold Harmless and Indemnity Agreements.** Hold harmless and indemnity agreements transfer risk. In a hold harmless agreement or indemnity agreement, one party assumes, by contract, the liability of another party.
- **Lease Business Property and Equipment.** When you lease your property or equipment, you may be able to transfer property and liability risks in whole or in part to the lessee.

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- **Use “Just-In-Time” Delivery.** When you require vendors to store merchandise and materials at their sites until you need them, you lower your risk significantly because the goods arrive on the site at the time they are required, not before. If you are in the packaged goods trade, ask your suppliers, by contract, to drop-ship merchandise directly to your customers; this will reduce your risk. These options depend on the nature of your business and are not recommended for time-sensitive deliveries where late arrivals may adversely affect your business or your relationships with your customers.



- **Transfer Risk to Third Parties.** Talk to your attorney about how you can transfer risk. Look carefully at the warranties and terms and conditions you issue to your customers to be sure that you are not unnecessarily increasing your risk.
- **Require Waivers of Subrogation.** The waiver of subrogation prohibits an insurer from attempting to seek restitution from a third party that causes any kind of loss to the insured.
- **Require Additional Insured Status.** Additional insured coverage is commonly used to fund or reinforce the ability to pay an indemnity obligation between two parties that do business together.
- **Always use the services of legal counsel to develop and/or review any contracts that you sign.**

With careful planning you can create a contract that effectively manages risk while improving performance, reducing costs and establishing a strong working relationship among all parties involved.

Get Quotes Today

Protect your workers and business today! Get quotes for pay-as-you-go workers' compensation and property and liability coverage with CoverEase.

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