

The Hidden Risks of Assumed Insurance Coverage

A Cautionary Guide for Lenders and Collateral Examiners

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In the world of secured lending, insurance coverage plays a critical role in mitigating risk and protecting collateral. However, lenders and collateral examiners occasionally make dangerous assumptions regarding coverage, particularly when relying solely on Certificates of Insurance (COIs) or informal communications from insurance brokers. These assumptions can lead to significant financial exposure if a loss occurs and the policy does not cover the collateral as expected. Understanding these risks is essential to making informed lending decisions and ensuring proper risk management.

The Limitations of Certificates of Insurance

One of the most common misconceptions among lenders is that a Certificate of Insurance provides a definitive guarantee of coverage. In reality, a COI is merely a summary of an insurance policy—it does not grant coverage, amend terms, or extend protection to locations or assets not specifically covered by the actual policy. COIs explicitly state that they are issued for informational purposes only and do not alter the insurance contract between the policyholder and the insurer.

A frequent oversight is assuming that all business locations containing inventory are automatically covered under a policy if a COI is provided. If a specific location is not listed in the policy itself or its endorsements, it may not be covered—even if the insured believes it is. In the event of a loss at an unlisted location, the insurer can legally deny the claim, leaving the lender exposed.

Email Confirmations from Brokers: Not a Legal Guarantee

Another common pitfall is relying on emails from insurance brokers as proof of coverage. While brokers serve as intermediaries between insured businesses and insurers, they do not always have the legal authority to bind coverage unless they explicitly hold binding authority from the insurer. A broker's assurance of coverage in an email does not constitute a legally enforceable guarantee. If a lender or collateral examiner relies on an email from a broker rather than obtaining official documentation from the insurer, they run the risk of discovering—too late—that coverage was never in place. If a claim is denied due to lack of proper coverage, the lender may face significant losses with no recourse against the insurer.

Policy Language Reigns Supreme

Insurance policies are legal contracts, and their enforceability is governed by their specific terms and conditions. If an inventory location, piece of equipment, or type of loss is not explicitly covered in the policy, it is unlikely to be insured—regardless of what a COI or broker's email suggests. Furthermore, exclusions and limitations within the policy can further restrict coverage, making it imperative for lenders and examiners to review the actual policy documents.

Key areas to review in any policy include:

- **Named Insured and Additional Insureds** – Ensure the borrower and lender (if required) are listed appropriately.
- **Covered Locations** – Confirm that all locations containing pledged collateral are listed.
- **Policy Endorsements** – Verify that any necessary endorsements extending coverage are present.
- **Exclusions and Limitations** – Identify any restrictions that could impact coverage.

Best Practices to Mitigate Risk

To avoid costly assumptions, lenders and collateral examiners should take the following proactive steps:

Request the Full Insurance Policy – Always obtain and review the entire policy document, not just the COI.

Verify Covered Locations – Ensure that all collateral locations are explicitly listed in the policy or through endorsements.

Confirm Directly with the Insurer – If in doubt, seek written confirmation from the insurer, not just the broker.

Require Policy Endorsements for Additional Coverage – If coverage is needed beyond standard policy terms, secure endorsements.

Schedule Regular Policy Reviews – Require updated documentation at regular intervals to confirm ongoing coverage.

Conclusion

In the world of secured lending, assumptions can be costly. Lenders and collateral examiners must take a diligent approach when verifying insurance coverage, understanding that COIs and broker communications are not legally binding assurances. By insisting on a thorough review of policy documents and direct confirmation from insurers, lenders can protect their interests and avoid the financial pitfalls of uncovered collateral. I have a collection of other insights on this topic so feel free to contact me at :

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