Gaps in Your Borrower’s Insurance Policy? Your Loss.

Your borrower says they have insurance and are ready to sign off on the bank’s loan. Everything is great, right? Not so fast. How well do you know your borrower’s risk management strategy? There is a big difference between purchasing an insurance product from a broker versus having a true risk management strategy in place. This difference will impact the bank’s return on investment for the loan. What you don’t know about your borrower’s insurance policy really can hurt.

Fortunately, there are simple precautions you can take. Listed below are five things you can do to evaluate your borrower’s insurance risk and fix it before it becomes your problem.

1. **Are you aware a certificate of insurance gets you nothing in a court of law? Are your interests properly protected?**

A certificate is issued as a matter of information and it confers no right upon the certificate holder. A certificate does not amend, extend or alter the coverages afforded by the policies noted on the document. Brokers like to deliver “certificates of insurance”, because they can be issued without the approval of the insurance carrier. Talk with a reputable insurance consultant to ensure that you have the necessary documentation that will provide you with enforceable evidence of coverage.

2. Do you know how your borrower’s policy will respond for your protection in the event of a loss?

Simply understanding the limits of a policy leaves your investment vulnerable. As a lender you need to be aware of any exclusions and how the coverage applies. For example, if a building is destroyed and must be rebuilt, quite often the limits won’t be sufficient for construction to meet the latest building code requirements. Additionally, there may be gaps in the policy that won’t cover your interests in the loan.

3. Liabilities — are you exposed to vicarious liabilities that may arise out of your interest in the assets of your borrowers?

You could be exposed to liabilities that will arise out of your interest in the assets of the borrower. Your borrower’s insurance program should provide the primary and non-contributory coverage for your defense and indemnity for these vicarious liability exposures. Does it?

4. How often do you think a lender is not properly named on their borrower's policy?

Surprisingly, 80 percent of our lender reviews have revealed that the lender is not properly named on their borrower's policy! If your borrower is not properly named on a policy, they cannot provide the requite indemnity and defense to the lender.

5. Do you have a review system in place that identifies and reduces unnecessary and entirely avoidable financial risks?

Unforeseen, uninsured, underinsured, or unprotected — these words should make you shudder if used when your borrower has a loss. We offer an independent, third party evaluation of your borrowers program tuned to protecting the lender's interest.