

# SECURITY EXECUTIVE

A PUBLICATION OF THE NATIONAL ASSOCIATION OF SECURITY COMPANIES

## ORGANIZATIONAL ORDER

**Human Capital Management—  
A Software Strategy That Makes Sense**

**NASCO**

National Association of Security Companies

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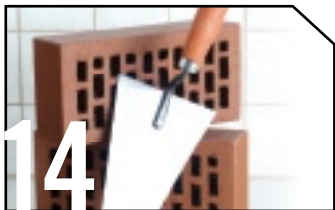
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# INSURANCE PRIMER

**The ABC's of Understanding Insurance**

**Requirements in Contracts**

BY TORRENCE W. BROWNYARD, CPCU



**M**any security guard firms may not recognize the difference between a properly drafted and improperly drafted insurance contract. However, the disparities can have a lasting impact. A contract that is properly written may become the “golden ticket” that one day evades a potential lawsuit, while a poorly drafted contract may create a lawsuit, regardless of fault. Ultimately, an improper contract can threaten the survival of a firm.

Terminology is a challenge when it comes to understanding the difference between a good and bad contract. The most common insurance terms and conditions are listed below along with the associated pitfalls. Before committing to a contract, your company should become familiar with this language.

### **INDEMNIFICATION/HOLD HARMLESS LANGUAGE**

Most contracts include indemnification or hold harmless wording. These terms require the security firm to compensate the client for claims resulting from the security firm’s negligence. It is important for your company to review the extent of the compensation being requested and try to negotiate the best terms. Some security guard companies have had success with clients signing a hold harmless agreement, this is the exception rather than the norm.

In the absence of having a hold harmless agreement benefiting the security firm, the next best option would be to limit your company’s liability for negligent acts in the course of agreed-upon duties. This effort makes it clear that the firm would have to be actively negligent in order for it to be held responsible.

However, some contracts require the security company to assume liability for the sole negligence of their client. This wording should never be accepted and should be eliminated from the contract. If it cannot be eliminated, you should walk away from the contract, as it exposes your company to substantial liability for which you are likely not insured. Most insurance policies do not extend to claims alleging the sole negligence of the insured’s client.

### **POST ORDERS**

Make certain that the contract describes when and where your services will be provided. If you are providing coverage to a large office complex, it should be clear in the contract as to what portions of the complex are to be secured (i.e. hallways, parking lot, individual offices, etc.) and when the services are to be provided.

One of the most common claims involves guard firms that are employed solely to protect the interior of a building. If an incident occurs in the parking lot or surrounding areas of the building, the firm should not be held responsible. If post orders are not specified, however, the guard firm can be found liable for the resulting damages.

In addition, if any of your duties should change for a client, an addendum should be added to the contract specifying these changes. While it may appear to be an act of goodwill to provide additional services to clients, it exposes your firm to additional liability because these duties are not clearly defined in the contract.

### **LIMITS OF LIABILITY**

Smaller clients typically require their security company to carry general liability limits of \$1,000,000; larger organizations may require limits of \$5,000,000 to

\$25,000,000. When reviewing your insurance contract make certain that your limits meet the contract requirements or that you can secure these limits prior to entering the contract.

### **ADDITIONAL INSURED**

Typical contracts require your firm to add your client’s policies as an additional insured. Some policies contain blanket additional insured coverage, which provides automatic additional insured coverage when it is required by a written contract. Most carriers will offer this coverage to their clients for an additional fee. The fee is a good investment, since it is important coverage needed to meet most contractual obligations.

### **WAIVER OF SUBROGATION**

Your client may look for you to waive your right to pursue a claim against your client. Make certain to review this requirement with your insurer to see if this amendment is available and to determine the corresponding cost.

### **PRIMARY INSURANCE**

A growing trend in client specifications is to require the security firm’s policy to act as the primary insurer for claims resulting from the security firm’s negligence. While most insurers will offer this coverage, some may specify a separate charge.

### **LICENSING STATUS AND FINANCIAL STRENGTH OF YOUR INSURANCE COMPANY**

The contract may require that insurance be provided by an admitted insurer, which means the insurer is subject to the regulatory jurisdiction of the state in which they are domiciled. Most insurance companies that provide coverage to the security guard industry are non-admitted and are not subject to the same state regulations as an admitted insurer.

The contract may also require that your insurer carry at least an “A” rating from A.M. Best’s Insurance Rating, which provides financial ratings for the insurance industry. For this reason, your firm will want to work with an insurance representative that offers coverages through admitted and rated insurers. This will create the most opportunities for your company when bidding on contracts.

Overall, the suggestions above deal mainly with general liability insurance requirements. Contracts may also require that security companies carry other insurance coverages such as workers’ compensation, auto liability and fidelity (employee theft) coverage. All of these should be reviewed with insurance professionals to ensure that your security firm is meeting the contract requirements.

Every client requires different terms and conditions and each state has different laws. Therefore, it is important for management to consult your company’s attorney to draft a clear contract that limits company liability, while also complying with current law. Contract specifications should also be reviewed with an insurance professional to make sure that the contract meets the regional conditions. [SE](#)

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**Torrence W. Brownyard**, CPCU, is President of W.H. Brownyard Corporation, a national program administrator that has provided insurance to the security guard industry for over 50 years.