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Understanding the Importance of Insurance in Contracts

Throughout the school year, many members are in some phase of negotiating contracts for operations, field trips, service providers, or other third parties. Using a contract with adequate hold harmless and indemnification clauses and appropriate insurance requirements with additional insured documentation required may protect district and RESIG assets against liabilities, losses, and potential disputes. Through good management of this process, the associated contractual risk can be significantly reduced. While it is important to engage your legal counsel to help with the legal interpretation of these contracts, RESIG is here to help you with the certificates of insurance and additional insured endorsements.

There are situations where an additional insured endorsement may be needed, and there are those situations where a third party may request additional insured status where not appropriate. To illustrate the latter, we have seen situations where contracts requiring the district to name a third party, such as an inflatable vendor or a ropes course venue, as an additional insured have been signed prior to discussing the risks involved. In these situations, the district (through RESIG if there is a covered claim) may be required to not only provide coverage for this vendor or venue but also to pay for their attorney fees.

These instances can be avoided by limiting who can sign contracts on behalf of the district, and ensuring the contractual language protects the district to the extent allowed by law. To help you with this, RESIG worked with School & College Legal Services to develop a contract template that can be customized to fit many situations. Recognizing there may be situations where some of the clauses cannot be met by a third party, district legal counsel may be engaged to modify the template to fit the situation. Even with modifications, starting with this template can help ensure good contractual risk management is practiced.

As to additional insured endorsements, why are these so important? Granting additional insured status confers certain rights to the additional insured, including the right to a defense from the other party's coverage, and the ability to file a claim directly against their coverage.
Although your primary role may be to educate students, your role in managing the risk of contracts is very important. Focusing on obtaining prudent contractual language and additional insured documentation can not only save the cost of a claim but may also save an abundance of your time that may otherwise be needed to deal with the adverse consequences of a poorly negotiated contract.