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Illinois Coverage Basics

Illinois Appellate Court Answers Age-Old Question: What is the Legal Effect of a Certificate of Insurance?

For several decades, the Illinois courts have wrestled with the problem of how to treat certificates of insurance. The opinions of the Illinois courts of review have been mixed on this question, and disputes involving the legal effect of certificates have often become a focal point of "additional insured" coverage litigation in Illinois. Until recently, no clear rule regarding the legal status of certificates had emerged; consequently, the courts have continued to address certificate questions on a case-by-case basis, with varying results.

After decades of uncertainty, the Illinois Appellate Court has now established a uniform standard for deciding certificate issues. Unexpectedly, this new standard is one that generally favors the position of insurers in "additional insured" disputes.

Westfield Insurance Company v. FCL Builders, Inc.

In Westfield Insurance Company v. FCL Builders, Inc. (No. 1-10-0521, filed March 8, 2011), the First District Appellate Court addressed a typical "additional insured" dispute in the context of a construction site injury claim. In that case, FCL Builders (a general contractor) argued that it was an additional insured on a Westfield Insurance general liability policy issued to Suburban Ironworks (a subcontractor). One of the reasons that FCL Builders believed it qualified as an additional insured on the Westfield Insurance policy was that it held a certificate of insurance that clearly identified FCL Builders as an additional insured on the policy.

However, the certificate that was the subject of FCL Builders' argument contained a disclaimer that is found on many modern certificates of insurance:

> THIS CERTIFICATE IS ISSUED AS A MATTER OF INFORMATION ONLY AND CONFERS NO RIGHTS UPON THE CERTIFICATE HOLDER. THIS CERTIFICATE DOES NOT AMEND, EXTEND OR ALTER THE COVERAGE AFFORDED BY THE POLICIES BELOW.

The Appellate Court ruled that FCL Builders did not qualify as an additional insured on the Westfield Insurance policy, even though the certificate identified FCL Builders as an additional insured, because FCL Builders did not qualify as an additional insured under the language of the insurance policy itself.

In explanation of its ruling, the Appellate Court in Westfield Insurance recited a legal standard for resolving insurance certificate disputes. The Court found that there are two basic fact scenarios presented by insurance certificate cases, and the outcome of any given case can be determined by matching the facts of the particular case to the appropriate certificate scenario. The bright-line standard applied by the Westfield Insurance Court was the following:

> "If the certificate does not mention the policy and the terms of the two conflict, then the terms of the certificate generally controls coverage … However, where the certificate refers to the policy and expressly disclaims any coverage other than that contained in the policy itself, the policy controls."

This standard is not only clear and certain; it unambiguously favors the position of insurers in disputes concerning insurance certificates. Today, most insurance certificates in common use are standardized forms. The forms require reference to policies by their policy numbers and effective periods. The forms also contain conspicuous and clear language that disclaims any coverage other than that provided by the policy itself. Consequently, when the Westfield Insurance rule is applied in cases involving common insurance certificate forms, the result should be that the terms of the policy will control and that the certificate will be given no effect.

Westfield Insurance should eliminate most of the uncertainty that has been presented by "additional insured" cases involving certificates of insurance. Because form certificates are now almost universally used, there should rarely be a case that involves a "certificate [that] does not mention the policy" within the meaning of the Westfield Insurance rule. As such, citation to the Westfield Insurance rule should defeat most "additional insured" claims based upon certificates of insurance going forward. (Although, it should be noted that the time for further appellate review in the Westfield Insurance case has not yet expired.)

Early Illinois cases addressing the legal effect of certificates often held that certificates could be relied upon to establish coverage. However, close examination of the early cases reveals that those cases did not involve the certificate forms that are now in common use, and the certificates at issue in those cases did not include the disclaimer language found in the certificate analyzed in Westfield Insurance. Thus, Westfield Insurance supersedes the earlier inconsistent certificate cases, and the earlier cases can also be distinguished on the basis that the certificates in the early cases did not consider the disclaimer language found in modern day certificates.

The Appellate Court in Westfield Insurance held in favor of the insurer on the certificate issue using a very simple and clear analysis. After finding that "the certificate in this case is identical to the certificates at issue in" the prior cases involving the certificate forms containing the common disclaimers, the Court concluded that the certificate under examination was without legal effect. The same analysis should carry the day for insurers in most "additional insured" disputes where form certificates are at issue.

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