



January 2008

Dear NorthBridge Insured:

**RE: Audit Guidelines for Sole Proprietor and Partnership Certificates of Insurance**

I wish you all a very happy and prosperous 2008. This is the first of a series of letters I will be sending you on important insurance coverage issues. This letter addresses what you need to know about certificates of insurance you receive from sole proprietors and partnerships.

I can't stress how important it is not to hire uninsured contractor to do work for you. The implications can be very serious and under workers compensation these uninsured sub-contractors can be picked up and charged on your audit. However, sole proprietors SP and partnerships PS present a special concern. The sole proprietor or partners can choose to be included or excluded from workers comp coverage. This decision should be clearly identified on the certificate of insurance that they provide. It is to your advantage for such entities to include themselves in their workers comp policy.

But what about sole proprietors or partnerships that carry workers comp and excludes themselves or any of the partners from coverage? How do you prevent your workers comp carrier from picking them up on your audit? Such situations require you to obtain additional information.

If you can show evidence that the sub-contractor is a bona fide employer<sup>i</sup>, payments to these sole proprietors or partnerships will not be picked up on your audit. And/or if you can prove that the SP or PS meets the three-part test (see below and attached) established by statute that distinguishes independent contractors from employees, then all payments made to them shall not be picked up on your policy. The three-part test states:

1. The individual is free from control and direction in connection with the performance of the service, both under his contract for the performance of service and in fact; and
2. The service is performed outside the usual course of business of the employer; and
3. The individual is customarily engaged in an independently established trade, occupation, profession or business of the same nature as that involved in the service performed.

If the sole proprietor or partnership does not meet this three-part test and/or is not considered a bona fide employer, then payments made to them may be picked up on your audit.

Please refer to the attached sheet or go to the workers comp website [www.wcribma.org](http://www.wcribma.org) for more information. As always, please contact us if you have any questions or concerns regarding this or any other insurance matter. Thank you and we appreciate your business.

Regards,

Carol F. Wilson, CIC  
President

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<sup>i</sup> See footnote on attached Audit Guidelines for Sole Proprietors and Partnerships Certificates of Insurance