Insurance Requirements – FACT SHEET

Why does the state require insurance from vendors and contractors and users of state property?
Vendor and contractor insurance protects the state and its contractors. When a vendor or contractor performs work for the state without insurance, the state can be held liable for their negligent acts, thus assuming their liability. This is also applicable in regards to users of state property that are not under state contract.

In addition to protecting the state, insurance protects the assets of vendors and contractors and users of state property. Although the Commissioner of Administration establishes minimum insurance requirements, *all* vendors and contractors, large and small, and users of state property should realize that their liability is not limited to the amount of insurance they purchase. *Vendors and contractors, like any private entity or individual, have unlimited liability.* They are not protected by the state's tort cap. It is also important to realize that there is no correlation between the cost of the contract and the liability exposure stemming from a contractor's work.

Who must meet the state's insurance requirements?
Vendors and contractors must meet the state's insurance requirements before commencing work, and the insurance must be maintained in force and effect throughout the term of the contract. Property users must meet the insurance requirements before accessing state property and the insurance must be maintained until the property is vacated.

What are the current minimum insurance requirements?
The current minimum levels of insurance required from vendors and contractors are:

Line of Insurance	Current Minimum Limits Required
General Liability	$2M per occurrence/$2M annual aggregate
Auto Liability	$2M combined single limit
Professional Liability	$2M per claim/$2M annual aggregate
Workers' Compensation	$100,000/$500,000/$100,000

The above insurance levels are minimum requirements. Larger limits may be warranted for some contracts, depending on the nature of the work. For state property users, required insurance lines are based on how the property will be used.

How have the insurance minimum limits changed over time and why?
The following table summarizes changes to the levels of required insurance:

Line of Insurance	Minimum Limits Required Prior to October 1, 2008	Minimum Limits Required As of October 1, 2008
General Liability	$1M per occurrence/$2M annual aggregate	$2M per occurrence/$2M annual aggregate
Auto Liability	$1M combined single limit	$2M combined single limit
Professional Liability	$1M per claim/$1M annual aggregate	$2M per claim/$2M annual aggregate
Workers Compensation	$100,000/$500,000/$100,000	$100,000/$500,000/$100,000

The increase in minimum insurance limits was implemented on October 1, 2008 because the state's liability (tort cap) increased twice in an 18-month period. To protect the state, insurance limits must be at least as large as the state's liability, which is currently $500,000 per person and $1.5 million per occurrence. Since insurance policies are typically sold in $1 million increments, the state increased the required limits from $1 million to $2 million. Local units of government also increased their minimum limits. Until the increase, the state's minimum insurance requirements for vendors and contractors and users of state property had not changed in more than 10 years.

Who decides the level of insurance required on state contracts? On what authority?
MN Statute 16C.03 provides that the Commissioner of Administration shall make all decisions regarding acquisition activities. According to M.S. 16B.85, subd. 3, the Commissioner is also responsible for reviewing the state's exposure to potential risks and advising affected entities on reducing risk and prudent fiscal management.

Was the fact that higher limit requirements can drive up costs, potentially excluding small vendors and contractors, considered when setting the higher limits?
Since insurance requirements are included in Requests for Proposals, vendors and contractors are aware of the requirements prior to bidding and can include the cost of insurance in their bid. Insurance is a cost of doing business, just like other business expenses incurred by vendors and contractors that are typically incorporated in their bids. The state would much rather pay a known premium as part of the bid price than suffer a loss of unknown magnitude as a result of vendor or contractor negligence.

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