

What You Need to Know About Additional Insured Endorsements

If you are a contractor, you are probably tired of hearing the words additional insured. Whether you are a general contractor or project owner working with subcontractors or a subcontractor working with a general contractor, additional insured language is now a part of every construction agreement or should be. I will discuss what additional insured status is, why it is important and the different types of additional insured status. The purpose of this blog is to give a general understanding of additional insured issues in construction. Specific questions regarding an additional insured situation will depend on state law and the specific construction contract.

What is an Additional Insured?

To understand what an additional insured is, we first need to step back and understand who is an insured on a general liability policy. The named insured on a policy is the business entity or person specifically listed on the policy. In addition to the named insured, there are other people given insured status on the policy such as corporate officers, spouses of owners, employees and volunteers (This is by no means an exhaustive list.). Any person or entity besides those stated as having insured status on the policy must be added as an additional insured to the policy.

What is the need for Additional Insured Status?

In construction, there is often a need by a project owner or general contractor to utilize subcontractors with expertise in carpentry, plumbing, electrical, hvac, etc. An important part of any construction project is risk transfer. For example, if you are a general contractor running a construction project, you want to be sure the plumbing contractor you are using has liability coverage in the event of any bodily injury or property damage claims arising from their negligence. As the general contractor, you also want to ensure you are protected for bodily damage or property damage due to the negligence of a subcontractor you are using. This protection for a general contractor and/or project owner is what creates the need for additional insured status.

What Are the Types of Additional Insured Coverage?

Normally additional insured coverage applies to a subcontractor's ongoing operations. For example, the general contractor is an additional insured on their plumbing subcontractor's insurance policy during the plumbing contractor's ongoing operations. This means the general contractor has additional insured status on their plumbing subcontractor's general liability policy while the plumber is on premises to complete their plumbing work. Once the plumbing work is completed, ongoing operations have ended.

What happens after work has been completed? Let's say the plumbing contractor in our example performed faulty work resulting in a pipe breaking and causing extensive water damage. With the standard additional insured endorsement, the general contractor would have no additional insured protection because ongoing operations have been completed. This is why it is important for a general contractor to also be an additional insured for products and completed operations. If the general contractor in our example was an additional insured for products and completed operations on the plumber's general liability policy, the general contractor would still have additional insured protection in the instance of water damage due to the faulty plumbing work.

When a subcontractor receives an additional insured request from a general contractor or project owner, there is often a requirement the subcontractor's insurance policy be primary and noncontributory. This means the subcontractor's general liability policy would be the first to pay claims against both the subcontractor and general contractor. The general contractor's policy would become secondary meaning the general contractor's policy would only respond in a situation like the subcontractor's insurance limits being exhausted.

How Can Additional Insureds be Added to a Policy?

The most straight forward way to add an additional insured to a general liability policy is to request a specific entity be added as an additional insured to a subcontractor's insurance policy. The issue with this approach is it can be both cumbersome and price prohibitive. Let's say you are a subcontractor who does work for multiple general contractors and project owners. The cost to add an additional insured varies by insurance company, but the premium is normally \$50-\$100 for each additional insured. If you have 20 additional insured requests in a year, you have the stress to make sure nobody is missed in being named as well as the expense in being charged for each additional insured.

To help with this situation, nearly all insurance carriers now have "blanket additional insured endorsements". These endorsements extend additional insured status when it is required by contract or written agreement. This eliminates the need for a subcontractor to individually add an additional insured every time it is requested by a general contractor or project owner. Insurance carriers issue these endorsements at a flat fee normally resulting in premium savings over adding every additional insured individually.

While "blanket additional insured endorsements" provide convenience, they provide another reason construction contracts need to be reviewed carefully. General Contractors and project owners need to be sure the insurance requirements of their contracts include the proper additional insured requirements. Subcontractors need to review contracts to make sure general contractors and project owners are not making additional insured requests that create too much additional risk for the subcontractor.

It is important to remember additional insured endorsements and construction contracts can be confusing and complicated. Whether you're a general contractor or project owner trying to make sure your risk transfer practices adequately protect you or a subcontractor making sure you can comply with contract terms without taking on undue risk or burden, it is very important to reach out to a professional for guidance. If you have any questions regarding risk transfer or additional insured endorsements, please contact me.

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