

Additional Insureds Coverage: Look for Holes in That Blanket

Any contractor who has been in business for a while is familiar with additional insured coverage. This coverage insures an outside organization, usually a project owner or general contractor, under the contractor's own policy. It is often a requirement for construction projects, and it can be the source of insurance disputes if not handled correctly.

Owners and general contractors who hire subcontractors are also assuming responsibility for issues that arise during the project. If sparks from a welder hired by the general contractor start a fire that damages the building next door, the building's owner will likely sue both the welder and the GC. The GC does not want liability for the welder's actions since it cannot control them. In addition, the GC has the power in the relationship, since it makes the hiring decisions and controls the purse. Therefore, most construction contracts require a subcontractor to assume the GC's liability for losses that arise from the sub's work on the job. The sub finances this additional liability through contractual liability coverage on its commercial general liability policy and by covering the GC as an additional insured on that policy.

Traditionally, insurance companies have covered an additional insured by attaching an endorsement to the policy. This endorsement lists the additional insured by name and insures it against liability arising from the named insured's ongoing operations. This works well if the insured has relatively few requests for this coverage. However, it presents some risks of errors. The subcontractor may forget to tell its insurance agent that it needs the endorsement. The agency staff might fail to send the request to the insurance company. The insurance company might receive the agent's request and never act on it. Any of these scenarios may cause the company to deny coverage to the GC when a loss occurs, forcing the GC to submit a claim to its own company. The GC may then sue the subcontractor for breach of contract. Because of the potential pitfalls, organizations that receive many requests to add additional insureds often want their insurance companies to provide a blanket additional insureds endorsement.

A blanket endorsement typically provides automatic coverage for any organization that the named insured has agreed to cover under the terms of a written agreement. This eliminates the need to send individual requests for each additional insured, saving time and effort and reducing the chance that an error will lead to an uncovered loss. However, these endorsements also have their disadvantages. The standard ISO endorsement provides coverage only if a written agreement requires the named insured to cover the additional insured. If there is no written contract, or that contract does not require additional insured coverage, the endorsement will not provide it. Also, it provides coverage only while the named insured's operations for the additional insured are ongoing. When the sub's work is finished, so is the GC's additional insured coverage. That could be a problem if something in the sub's work causes injuries or damages months or years later. Further, the endorsement's wording could allow an insurance company to deny coverage for an accident that occurs while the sub's work is ongoing but that is not reported until after the sub's work is finished.

An insurance agent experienced in writing coverage for contractors can be a good source of advice and information about blanket additional insured endorsements. Many insurance companies have their own endorsements that differ from the standard. For example, some guarantee advance notice to the additional insured if the policy is cancelled. It is well worth it for a contractor to spend some time investigating the different coverage options.