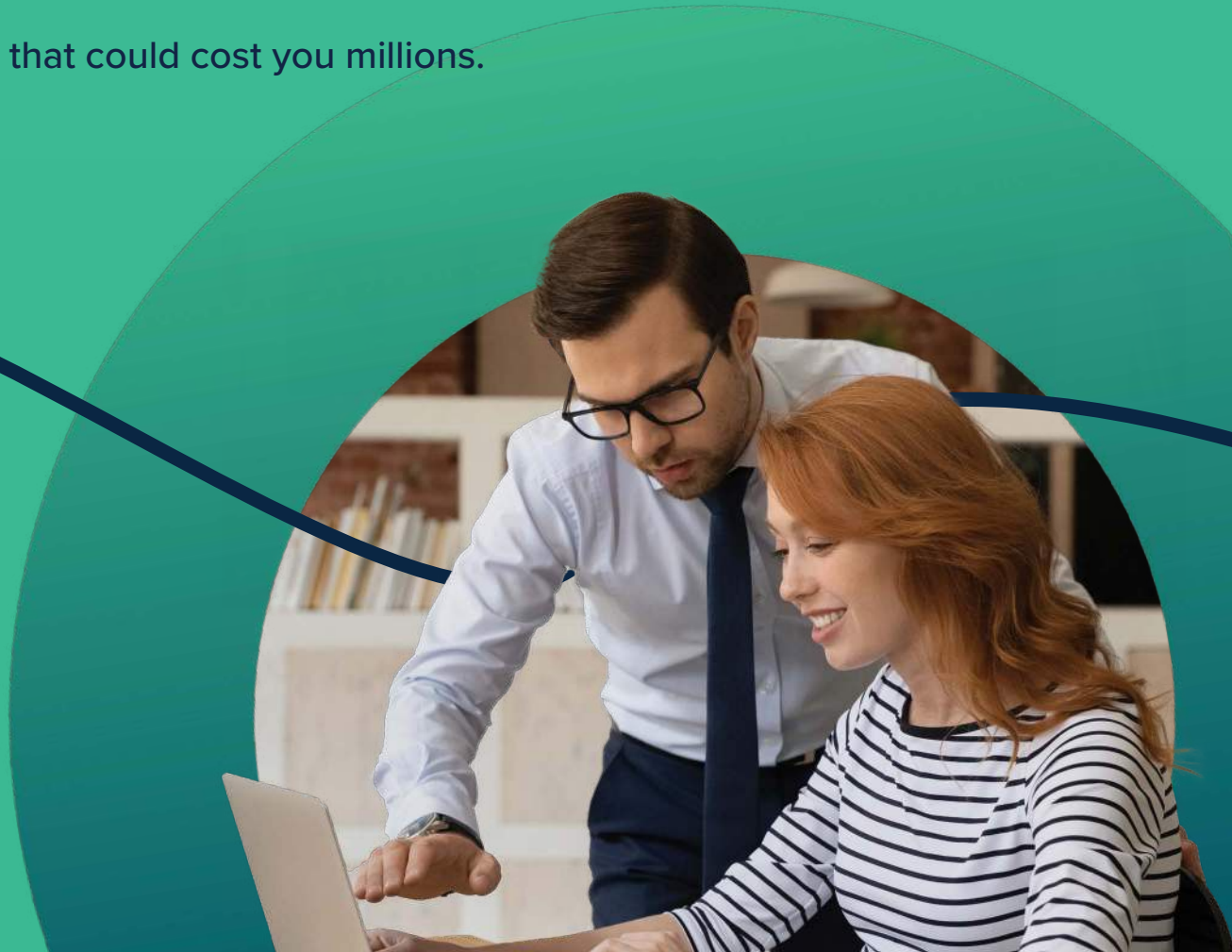


EBOOK

# ADDITIONAL INSURED ENDORSEMENTS 101

Stop overlooking insurance loopholes that could cost you millions.



# GETTING STARTED

Managing corporate risk can be, well, risky. Overlooked exclusions or limitations in an insurance policy can cost your company millions. Requiring additional insured endorsements represents an important loss prevention strategy for any business. These liability coverage extensions keep losses closest to the entities most likely to create them – contracted third-party companies. However, not all additional insured endorsements are created equal. Failing to understand the many distinctions generates an unnecessary exposure. When it comes to claims, knowing your coverage before you need it is critical.

## **Ready to bring some clarity to additional insured compliance? In this eBook, learn:**

- What additional insured endorsements are and how they protect your company
- Best practices for managing additional insured endorsements
- How to avoid pitfalls commonly preventing proper additional insured coverage



# CONTENTS

- 03 The Lingo**  
Two important terms to understand
- 04 The Endorsement Imperative**  
Why additional insured endorsements matter
- 05 The Process**  
Managing additional insured endorsements
- 06 The Pitfalls**  
Combat risk and safeguard coverage
- 08 Contractual Relationships**  
Easy-to-miss items
- 10 Claims Submission**  
It's time to file the claim
- 10 Next Steps**
- 11 About myCOI**

# THE LINGO

To get started, let's cover the basics. Policies define individuals and entities broadly under two insured categories: named insured and additional insured.

## "NAMED INSURED"

Represents the primary policyholder receiving coverage. They are the individuals, companies or organizations responsible for managing the policy and paying premiums.

## "ADDITIONAL INSURED"

Third parties added to an insurance policy through an endorsement or amendment. Additional insureds have a relationship with the policyholder, but typically do not pay toward the named insured's premiums or manage the coverage. The endorsement protects against claims from work performed by the named insured for the additional insured. The coverage is limited to specific jobs, activities, or locations.

Let's use a construction site as an example. A general contractor hires a subcontractor for heating and air conditioning. The general contractor is named as an additional insured on the subcontractor's insurance policy. The HVAC company fails to seal the gas pipe fittings correctly, which leads to a fire. A construction worker sues both parties for bodily injury. The general contractor is covered against the claim under the subcontractor's policy through the additional insured endorsement.



# THE ENDORSEMENT IMPERATIVE

Using our simple construction example, it's easy to see why additional insured endorsements are valuable. They extend coverage to affiliated parties and protect against claims resulting from other's work. Let's use our general contractor and HVAC subcontractor to take a deeper look at the benefits.



## Financial responsibility

No one wants to pay for something that isn't their fault. Additional insured endorsements transfer financial responsibility to the parties most likely to control loss risk. This accountability incentivizes quality work from our HVAC company while protecting the general contractor from paying for costly negligent acts outside of its control. The general contractor's policy also remains available for excess coverage should it be needed to avoid out-of-pocket costs.



## Subrogation

Subrogation is a strategy used by insurance companies to recoup the money paid for a claim by legally pursuing payment from another party affiliated with the claim. Insurers often are prohibited from subrogating against an additional insured. The safest bet for our general contractor is pairing the additional insured endorsement requirement with a waiver of subrogation to prevent loss transfers from our HVAC company's insurance provider.



## Premium rates

Loss runs are an important part of the underwriting process. Companies with losses in the past statistically tend to have more losses in the future. Therefore, insurance companies factor in claims history to determine premiums. High losses equal higher premiums and could eventually result in the cancellation of coverage. Businesses requiring additional insured endorsements from subcontractors can better minimize their loss history to keep premiums low.



## Indemnification

Indemnity and additional insured endorsements often go together. With indemnity, one party agrees to make another party whole that has incurred damage or loss. However, indemnity is only as good as a party's ability to pay for the loss. When accompanied with an additional insured endorsement, our general contractor has access to the financial backing and coverage limits of the HVAC company's insurance policy for restitution.

# THE PROCESS

We know what additional insured endorsements are and their benefits. Now it's time to learn how to manage them to make sure they do their job.

## STEP 1

### Know what your contract requires

Additional insured endorsements are not one size fits all. What your company needs in the endorsement may vary based on the scope of work, duration of the contract, or third-party relationship. Simply asking to be named as an additional insured is not enough. How the additional insured endorsement is written determines your company's risk exposure. Know the specifics your company requires. If your organization is new to leveraging additional insured endorsements, now is the perfect time to define the terms of your future agreements.

## STEP 2

### Validate the Certificates of Insurance (COI)

A COI is proof of insurance at a moment in time. Companies require contractors to submit a COI before starting work on a project to ensure active coverage exists. When receiving a COI, verify the additional insured endorsement is included. Unfortunately, subcontractors have been known to submit fraudulent COIs. Validating coverage and endorsement accuracy ensures your interests are protected.

## STEP 3

### Review the endorsements

Being named as an additional insured is not the same as reviewing the additional insured endorsement. To minimize risk, do both. Verify that the policy amendment matches your risk management requirements. Look for exclusions and limitations that could impact coverage. Don't allow work to begin until the endorsement complies with your company's terms. We'll discuss what to look for in our next section. insured endorsement is included. Unfortunately, subcontractors have been known to submit fraudulent COIs. Validating coverage and endorsement accuracy ensures your interests are protected.

# THE PITFALLS

Additional insured endorsements vary widely. In fact, more than 1,000 forms exist for two of the most common endorsements. Each differs in language to alter coverage. However, you don't need to know every form to keep your company safe. Understanding these common additional insured pitfalls helps easily combat risk and safeguards coverage when you need it most.

## EXCLUSIONS & LIMITATIONS

When it comes to additional insured endorsements, the devil is in the detail. Without some scrutiny, they often differ on paper from how you want them to work in practice. The worst time to discover exclusions and limitations that prevent coverage is after a loss occurs. Don't get caught off-guard by these common terms:



### Ongoing vs. completed work

Essentially, these terms set a duration for the coverage. "Ongoing operations" covers the additional insured during the named insured's course of work while "completed operations" extends coverage to after the work is finished.

Let's say faulty pipe fitting seals cause a slow gas leak. Our HVAC company completes the work without issue, but a fire two months down the road results from the company's negligence. If the endorsement naming the general contractor only covered ongoing operations, it won't be able to file a claim against the HVAC company's policy.



### Sole negligence & acts or omissions

These exclusions remove coverage for claims or suits resulting from negligence committed only by the additional insured. It forces the additional insured to file against its own policy if the named insured's actions contributed in no way toward losses.

Our HVAC company did a great job, but unfortunately a landscaper hits a gas line, sparking a fire and damaging the furnace. The general contractor cannot file against the HVAC company despite having the additional insured endorsement because its work did not cause the damage.







## Anti-indemnity clause

Anti-indemnity statutes prevent additional insureds from placing an undue coverage burden on named insureds. These clauses typically include wording indicating that the additional insured is covered “only to the extent provided by law.” Anti-indemnity laws vary by state, but when enacted, they limit an additional insured from unfairly assessing liability on other parties.

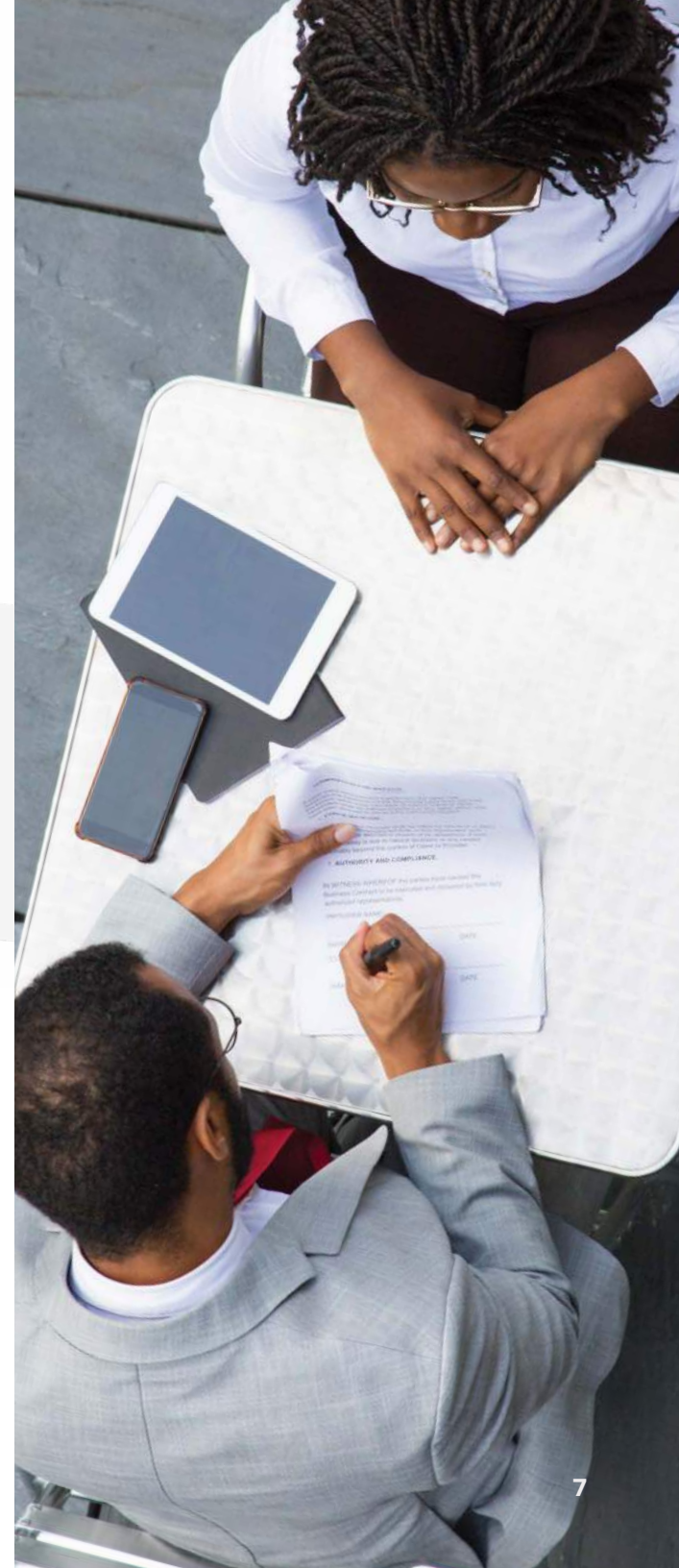
A state’s anti-indemnity statute might protect against losses caused by our general contractor’s work “only to the extent provided by law” under the additional insured endorsement on our HVAC company’s policy. The endorsement indemnifies or protects our general contractor in the event its own negligence contributed to the fire.



## No broader than the contract & no greater limits

When evaluating an additional insured endorsement, it’s important to know what the contract stipulates. If a contract requires less than a policy provides, under this limitation coverage will be “no broader than the contract.” Therefore, the additional insured may not benefit from any coverages beyond those specifically requested contractually. This also applies to insurer payouts under a “no greater limits” clause.

Let’s say our general contractor requires the additional insured endorsement cover property damage, which works well for building repairs after the fire. However, because the contract doesn’t require bodily injury coverage, when the construction worker sues, the contractor isn’t covered under the endorsement despite the HVAC company’s policy including injury protections. The contract also requires \$100,000 in coverage. The claim comes in for \$175,000. The additional insured endorsement offers nothing above what the contract requires, regardless of the HVAC policy limits including more than \$100,000.



# CONTRACTUAL RELATIONSHIPS

The business relationship between parties matters for additional insured endorsements. For the endorsement to work when needed, it requires accuracy and foresight about the association for those directly and indirectly involved in the work. Look out for these easy-to-miss items:

## UPSTREAM COVERAGE

Additional insured endorsements typically apply to two parties with a direct working relationship. However, other parties may be indirectly involved in the work and benefit from coverage. These are called non-signatories. When stated in the contract, ensure that additional insured amendments include both signatories and non-signatories connected to the work.

Our HVAC company names the general contractor as an additional insured. We're set then, right? Not quite. Our property owner has an indirect relationship with the HVAC company for the work. That's why they made sure the general contractor requires any parties working on their property to also name the owner as an additional insured.

## RELATIONSHIP ACCURACY

Relationships differ in nature and type. Insurance companies want the relationship defined when adding an endorsement. In the event of a claim, the insurer will compare the contract to the policy to validate that the details of the relationship match exactly. If it doesn't, it could mean the coverage is null.

Eager to begin work, our HVAC company has the insurance provider add the additional insured endorsement for the general contractor. The company doesn't define the relationship and provides the first address listed on Google for the contractor. The general contractor files a claim after the fire only to find out the relationship wasn't defined as contractor/subcontractor and the address used is for the old office location. There is a good chance the claim will be denied.



## BLANKET ENDORSEMENTS

Blanket endorsements automatically add individuals or entities as additional insureds. They do not require each party be named specifically, but rather as group types requiring coverage. With so many other things to manage, these endorsements might seem like the path of least resistance. But, just like everything else, certain conditions apply.

Insurance companies can use blanket endorsements when:

- The named insured performs work, and
- A direct contract exists between the parties, and
  - The named insured agrees in writing by contract to add other persons or organizations as additional insureds per the requirements of the direct contract.

In this example, our construction site property owner has a direct contract with the general contractor, which has a direct contract with the HVAC company. However, the property owner and HVAC company do not have a direct contract with each other. The construction site owner requires all downstream parties include the owner as an additional insured. The general contractor writes into its contract that the property owner be named an additional insured on the HVAC company's policy. Once the HVAC company agrees, a blanket endorsement applies.



# CLAIMS SUBMISSION

To wrap things up, let's focus on process. Despite anyone's best efforts, claims are inevitable. Good news – you now are an additional insured endorsement guru and did everything right to make sure your company is covered. Now it's time to file the claim. Here are a couple of easy actions to help you collect the money and get on with life.

## Submit your own claim

It's tempting to trust the named insured to take care of the claim. However, when the loss goes against their policy, they may not always have your best interests in mind. Being named as an additional insured gives you access to work with the insurance company directly. Simply put, a do-it-yourself claims approach ensures it gets done.

## Timeliness

Time is of the essence when it comes to claims. Submissions must be thorough, but the quicker they are submitted to the actual loss event, the more likely they are to be covered. In fact, delays could result in denials of coverage. Never delay filing a claim as an additional insured.

## Educate the team

The most effective risk mitigation strategy involves everyone serving as a loss prevention expert. Before the next claim, take time to educate staff on additional insured best practices. Make sure they understand your contracts and know what to ask for when vetting third parties. The best claim is the one you prevented.



# NEXT STEPS

## Congratulations! You've graduated from Additional Insured Endorsements 101!

However, if additional insured endorsements still seem intimidating, myCOI is here to help. Our easy-to-use cloud-based solution protects your organization by ensuring end-to-end compliance. Increase onboarding speed and minimize risk with our automated process. Learn how myCOI's smart technology paired with skilled insurance professionals make you the expert.

**Thanks for reading our tip sheet and happy reviewing!**

# ABOUT MYCOI

Ready to operate from a better loss prevention blueprint? It's time to add myCOI to your company's toolbox. Through an intuitive platform built on insurance industry logic, myCOI keeps construction firms and their projects protected. Our clients benefit from comprehensive COI tracking, compliance, and risk reporting with little more than a few clicks. Automated processes and system integrations offer end-to-end workflow efficiencies that stop noncompliance in its tracks. A group of insurance industry experts serve as an extension of the team ensuring no missed detail. The cloud-based software means construction managers can take the platform anywhere—from the basement to the boardroom and beyond the top floor.

**You manage the jobsite.  
Let myCOI manage the risk.**

For more information or to schedule a free demo visit [mycoitracking.com/request-a-demo](https://mycoitracking.com/request-a-demo) or call (317) 759-9426.

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