

LIABILITY LOSS CONTROL MANAGEMENT WHEN TO REQUEST ADDITIONAL INSURED STATUS

In general, risk transfer involves an attempt to allocate potential legal liabilities that could arise in connection with the performance of a contract between the parties to the contract. The rationale behind these transfers is to make the party with the most control over the risk responsible for suffering the financial loss should it fail to prevent such losses from occurring. (A key phrase to remember is “keep the risk where it belongs”).

When your company enters into a contract with another party, you should be able to determine the extent to which that other party could cause an event that could lead to a claim or lawsuit against you. If that other party has the most control over the risk that resulted in any such claims or legal actions, you do not want your company to suffer the financial consequences of the loss or to be the sole source of recovery. In your contract with the other party, they most likely will agree to **indemnify** your company, as well as **hold** your company **harmless** for the types of events and circumstances indicated above. In addition, the contract should have an insurance requirements clause that specifies the coverages and limits of insurance that correspond to their promise to indemnify your company. There is additional strength to these contract provisions if you are given **additional insured** status on the other party’s liability policies.

Additional Insured - Those individuals or entities who generally are not automatically included as insureds under the liability policy of another party, but for whom that other party provides a certain degree of protection under its liability policies. An endorsement to the policy is typically required to affect additional insured status for these parties.

There are very valid reasons for your company to require another party to add you as an additional insured on their liability policies. The most important of these reasons is to give your company (as an additional insured) direct rights in the other party’s liability policies. This provides your company with a right to an immediate defense by the other party’s insurer. Your company would also be assured that the other party’s liability policy will cover your defense costs in addition to policy limits.

Additional insured status will not provide your company (the additional insured) with coverage for all types of liability you might incur in connection with the contracted activity. Most additional insured endorsements contain restrictions and limitations with respect to the coverage they provide. **The coverage provided to an additional insured should correspond to the exact nature and scope of the contractual undertaking.**

For example, a product manufacturer may extend additional insured status as a vendor to one of its retailers. This would mean that the retailer is an additional insured on the manufacturer’s liability policy only with respect to the retailer’s operations as a seller of that manufacturer’s product. No other manufacturers’ products and no other operations of the retailer would be covered by the manufacturer’s liability policy.

To help clarify the circumstances under which your company would want to be listed as an additional insured on another party's liability policies, please follow the guidelines given below.

Typical relationships that usually – as a common practice - result in contractually required additional insureds:

- ❖ Project owners listed as additional insureds on the policies of general contractors.
- ❖ General contractors listed as additional insureds on the policies of subcontractors.
- ❖ Owners of property listed as additional insureds on the policies of tenants.
- ❖ Lessors of leased equipment listed as additional insureds on the policies of lessees.
- ❖ Retailers and distributors listed as additional insureds as vendors on the policies of manufacturers.

Other relationships that should justify additional insured status:

- ❖ Business owners listed as additional insureds on the policies of “contractors” working on the business owner's premises.
 - Trade contractors – roofing, plumbing, carpentry, electrical, excavation.
 - Major construction work – renovation, remodeling, new construction.
 - Services – janitorial, landscaping/snow & ice removal, equipment and facility maintenance, hazardous waste disposal – especially in cases where you have a long-term contract (one month – annual) with such parties.

- ❖ Business owners listed as additional insureds on the policies of temporary worker agencies.

- ❖ Business owners listed as additional insureds on the policies of others doing work on the business owners' behalf away from the business owner's premises.
 - Processing – “critical” manufacturing operations performed by others for the business owner – heat-treating, plating, critical machining, painting/coating.
 - Installation / Service / Repair / Maintenance contractors.

Remember the key phrase – keep the risk where it belongs. Make sure that the party with the most control over the risk will be responsible for the financial consequences of the loss should they fail to prevent such losses from occurring.

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