

YOUR ADDITIONAL INSURED ENDORSEMENTS – HOW COVERAGE MAY BE NARROWING

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by Gregory R. Shaughnessy

Introduction

A common feature of most construction contracts and subcontracts is a requirement that the contractor or subcontractor provide a certificate of insurance naming the owner and contractor as an additional insured under the contractor's or subcontractor's general liability insurance policy. However, there is a widespread misunderstanding of what such additional insured endorsements ("AIE") actually accomplish. And the type of endorsement issued by the insurance company — there are many different types — will have a great impact on the scope of coverage afforded to the additional insured party.

What the Endorsement Accomplishes

The AIE must be contrasted with a certificate of insurance. A certificate of insurance is simply "information" regarding the insurance policy, usually the type and amounts of insurance. Such certificates usually have language in the upper right hand corner that states that the certificate "is issued as a matter of information only and confers no rights". The certificates also usually provide that the insurer will give 30 days notice of the cancellation of the policy, but they typically go on to disclaim any liability arising from the failure to give such notice.

The AIE is a separate document, usually issued in conjunction with the certificate of insurance, and it makes the additional insured party an insured party under the subcontractor's general liability insurance and generally makes the subcontractor's insurance policy primary over the contractor's (or owner's) general liability insurance. *Rossmoor Sanitation v. Pylon* (1975) 13 Cal.App.3d 622. This in turn typically means that in the event of a claim against the contractor arising out of the subcontractor's work, the subcontractor's insurance limits will be depleted before the insurance of the general contractor comes into play, helping to ensure that the general contractor has available insurance coverage for future

claims that may be made against the same policy. Further, to the extent that the subcontractor's insurance covers the claim, this will improve the general contractor's claims history, with the result of lower CGL insurance premiums.

Another important aspect of being an additional insured is that the additional insured has bad faith rights against the insurer. This can be a very powerful tool, especially in the hands of skilled insurance coverage counsel. The most important scenario involves the bankrupt or out-of-business subcontractor. Even though the subcontractor is gone, the subcontractor may have had insurance that provided coverage for a claim where the damage was manifested several years earlier.

If the subcontractor is out of business, the insurance company has no incentive to provide a defense for the subcontractor. There is no potential liability for bad faith to the out-of-business subcontractor. But if the general contractor is an additional insured, the insurance company may be exposed to bad faith and will typically undertake the defense of the contractor and subcontractor, even though the subcontractor is out of business.

Ongoing Operations

A very important issue is whether the AIE provides coverage for "products/completed operations," or whether it only provides coverage for "ongoing operations." All the AIE forms currently in use at least provide coverage for "ongoing operations." This basically means that if there is an accident arising out of the subcontractor's work while the project is under construction, the subcontractor's general liability insurer will take responsibility, assuming it is a covered claim.

Even where the coverage is limited to "ongoing operations," this does not mean that the subcontractor does not have insurance coverage for claims arising

after the subcontractor's work is completed. The subcontractor still has insurance, and such insurance probably includes "products/completed operations" coverage. But in such case the general contractor (and owner) will be unable to assert their status as additional insureds for the construction defect claims that typically come up years after project completion.

The Different Additional Insured Forms

There are many different AIE forms in use, and the coverage afforded by the forms varies dramatically. Not surprisingly, the trend in the industry is to reduce the coverage afforded to the additional insured.

The most widely used standard endorsement to create additional insured status is the "CG 20 10-Additional Insured-Owners, Lessees or Contractors-Scheduled Person or Organization." The original version of CG 20 10 was dated November 1985 (hence the reference to CG 20 10 11 85) and it encompassed liability not only while the named insured's work was in progress, but for the named insured's completed operations as well. It also extended coverage to all claims "arising out of the named insured's work." The form stated as follows:

Completed Operations Coverage Under CG 20 10 11 85

Name of Person or Organization

WHO IS AN INSURED (Section II) is amended to include as an insured the person or organization shown in the Schedule, but only with respect to liability arising out of "your work" for that insured by or for you.

Very few CG 20 10 11 85 additional insured endorsements are currently being issued by insurance companies in California. After 1985, insurance companies began issuing AIEs that limited coverage to ongoing operations, as noted above. A typical example of such an endorsement is as follows:

Pre-2004 CG 20 10

A. Section II – Who Is An Insured is amended to include as an insured the person or organization shown in the Schedule, but only with respect to liability arising out of your ongoing operations performed for that insured.

Between 1985 and 2004 there were several decisions by the California courts that clarified that the "arising out of" language required the insurance company to defend and indemnify the additional insured, even from claims that were the result of the sole negligence of the additional insured and where the named insured was not at fault. See, e.g., *Vitton Construction Co. v. Pacific Insurance Co.* (2003) 110 Cal.App.4th 762. Some insurers began to issue additional insured endorsements that prevented this result, sometimes by adding a sentence that stated: "The person or organization does not qualify as an additional insured with respect to the independent acts or omissions of such person or organization."

In 2004 the CG 20 10 form was reissued again, this time with major changes. This form provides much more limited coverage to the additional insured than the CG 20 10 11 85 form, and provides as follows:

2004 CG 20 10

A. Section II – Who Is An Insured is amended to include as an additional insured the person(s) or organization(s) shown in the Schedule, but only with respect to liability for "bodily injury," "property damage" or "personal and advertising injury" caused, in whole or in part, by:

1. Your acts or omissions; or
2. The acts or omissions of those acting on your behalf;

in the performance of your ongoing operations for the additional insured(s) at the location(s) designated above.

First, it is clear that this form is limited to ongoing operations. Thus, a general contractor will be unable to make a claim as an additional insured under the subcontractor's "products/completed operations" coverage.

Second, the "arising out of" wording has been eliminated, and the claim in question must be caused by the acts or omissions of the named insured or its subcontractors. Thus, coverage may be eliminated for the additional insured's sole negligence. This depends on how courts interpret "caused in whole or in part." This does not require that the act of the subcontractor be a negligent one, simply that the act

“caused” the accident, in part. If a non-negligent act of the subcontractor partially “caused” the accident, there could still be coverage for an accident caused solely by the negligence of the additional insured.

Third, the named insured must now be at least a partial “cause” of the injury or damage. The elimination of coverage for the named insured’s sole negligence did not automatically impose a requirement of subcontractor responsibility.

Conclusion

The 2004 CG 20 10 AIE has reduced coverage for additional insureds significantly, in comparison to the coverage afforded under the CG 20 10 11 85. And it appears that the 2004 CG 20 10, is, or will become, the predominant AIE form in the industry. Certainly it is important for Owners and Contractors who expect to benefit by being named additional insureds to understand just what they are, and are not, receiving as a result of being named an additional insured.

Gregory R. Shaughnessy specializes in construction and real estate and regularly advises owners, general contractors and subcontractors on their legal rights and remedies and in the negotiating and drafting of general contracts, subcontracts and related documents.

For more information about the issues discussed in this article, Mr. Shaughnessy can be reached at (415) 435-2409

E-Mail: grs@grs-law.com

Website: www.grs-law.com