

Additional Insured's vs. Additional Named Insured's

By Gary Sorenson, CEA, CLCS, PLCS, President, Insurance Brokers of Minnesota, Inc.

Sometimes a contract calls for "naming" a party as a "additional insured". On other occasions, it requests a "additional named insured" status.

So, what's the difference and why is this important to my business?

In general, being a named insured gives that party greater rights under the policy. However, there are also downsides in that there are also greater responsibilities. Even more important, from the insured's and the insurer's perspective, **additional *named* insured status is something to be avoided unless absolutely necessary.**

An additional *named* insured is essentially the same as the policyholder. Think of an additional *named* insured as a subsidiary or similar firm. There is much more than a contractual relationship (excepting some management contracts). Under these circumstances, this status is probably appropriate, but it rarely is under the circumstances in which agents are too often asked to name a party as a *named* AI.

An additional insured is where two arms-length parties have agreed contractually that one party is to be added to the other's insurance. That party usually cannot be added to a liability policy as an additional *named* insured. It should be noted that this does not apply to various property coverages, most notably builder's risk. When such requests are received from arms-length parties, it most often occurs because the requestor doesn't understand the significance of *named* AI status.

There are numerous advantages and disadvantages of additional insured status.

Advantages include, but are not limited to:

1. To the degree that coverage is provided, there is no question of enforceability as is so often the case with indemnification.
2. The additional insured has direct rights to defense from the named insured's insurance carrier, and must be provided a separate defense. Defense of an additional insured is paid in addition to the limits of liability.
3. The additional insured may, in fact, have broader coverage than the named insured under certain circumstances. There may be restrictive coverage conditions that would apply to a named insured (including an additional named insured) that wouldn't apply to the additional insured since he/she is not a party to the contract.
4. The additional insured obtains personal injury coverage that is usually excluded by a contractual assumption.
5. Depending upon the jurisdiction, the additional insured may be provided coverage for its sole negligence if it has any causal relationship with the named insured. .

Disadvantages include, but are not limited to:

1. There are over 30 ISO additional insured forms. In addition to that, there are a seemingly limitless number of company-specific additional insured forms, blanket and/or manuscript forms. So just saying

"additional insured" means almost nothing.

2. The additional insured endorsement provides only a limited amount of coverage. The endorsement must be read to determine how limited it is. Many forms are becoming increasingly limited. At least one carrier has changed their form three times in the past year. Any guess as to how many of those changes were in the additional insured's favor? And if unfavorable for the additional insured, what does that do to the named insured who may find himself/herself in breach of contract?
3. Unless requested otherwise, the additional insured does not extend to officers, directors, employees, etc. of the additional insured. Contrast that with additional named insured status where that could happen. Ask yourself, as the insurer or even the purchaser of the policy...do you want to broadly enlarge the scope of "Who Is An Insured" under your policy?
4. Unless handled carefully, additional insured status could trigger the other insurance clause.
5. The limits provided by the policy on which the additional insured is added could be eroded or exhausted by claims, or that carrier could have become insolvent, or the policy could have been cancelled with no notice to the additional insured (currently being litigated in some jurisdictions). The same could be true if there is an umbrella policy.
6. An additional insured usually receives a certificate of insurance as "proof" of coverage. This is an unenforceable document.

In summary it is critical you work with a agent that fully understands the ins and outs of always changing world of "the Additional Insured".