Preface to the Second Edition xv
About the Editors xvii
About the Authors xix
Introduction to the Second Edition xxix

CHAPTER ONE
Definitions and Comparisons of Commonly Used Titles 1
Erika Bright

I. Named Insureds 1
   A. First Named Insured v. Additional Named Insured 3
      1. Premium Payments 3
      2. Policy Cancellation 3
      3. Amendments to the Policy 3

II. Additional Insured Status 4
   A. Automatic Insureds 4
   B. Additional Insured by Separate Contract 6
      1. Purpose of Additional Insured Status 6
      2. Types of Additional Insured Endorsements 8

III. Differences between Named Insureds and Additional Insureds 9
    A. Coverage for Employees, Executive Officers, and Directors 9
    B. Deductible 9
    C. Exclusions 9
    D. Notice 9

IV. Standard Mortgage and Loss Payable Clauses 10
    A. Standard Mortgage Clause 10
    B. Loss Payable Clause 11

CHAPTER TWO
Common Provisions 13
Lyndon F. Bittle

I. Contractual Indemnification 14
   A. Purpose and General Provisions 14
   B. Common Scenarios and Terms 15
      1. Construction Contracts 16
2. Manufacturing and Distribution Relationships 17
3. Lease Agreements 18
4. Directors and Officers 18
5. Other Business Transactions 20
C. Anti-indemnity Statutes 20
1. Statutes Prohibiting Indemnification for Sole Negligence of Indemnitee 20
2. Statutes Prohibiting Indemnification for Sole or Partial Negligence of the Indemnitee 21
3. Statutes Closing the Additional Insured “Loophole” 22
D. Express Negligence Rules 23
II. Required Insurance Coverage for Additional Insured 25
A. Additional Named Insured 25
B. “Automatic” or Categorical Additional Insureds 25
C. “Blanket” Additional Insured Endorsements 26
D. Interplay between Indemnity and Insurance 27
E. “Insured Contract” Provisions 29
F. Notice Requirements 30
G. Defense Duties 31
H. “Other Insurance” Provisions 32
I. Exclusions Applying to Additional Insureds 33
J. Policy Rescission and Severability Provisions 36
1. Rescission 36
2. Severability 37

CHAPTER THREE
Hold Harmless and Indemnification Agreements and the Obligation to Procure and Maintain Insurance 39
Thomas S. Garrett and Jeffrey L. Cole

I. Overview of Named Insureds, Insureds, and Additional Insureds 39
II. Contractual Relationships Requiring Additional Insured or Contractual Liability Coverage 39
III. The Failure to Procure or Maintain Insurance Coverage 42
IV. Self-Insurance and Self-Insured Retentions 46
V. The Distinction between “Insured Contract” Coverage and Additional Insured Coverage 49

CHAPTER FOUR
Memorializing Additional Insured Status 55
Katherine J. Henry and Brendan W. Hogan

I. Certificates of Insurance Record Additional Insured Status 56
A. Certificates of Insurance Are Third-Party Representations That the Listed Policies and Endorsements Were Issued to the Named Insured 56
B. Certificates of Insurance Do Not Grant Coverage 57
CHAPTER FIVE

Development of Common AI Endorsements

Patti Potash, Alexandra Rigney, and Jennifer Mindlin

I. Introduction 73
   A. The Insurers Intend the Coverage to Be for the Additional Insured’s Vicarious Liability Only 73
   B. The ISO and Manuscripted Additional Insured Forms 74
II. The Additional Insured Insuring Agreement Wordings 75
   A. “Arising out of” 75
      1. The Minority Position—Vicarious Liability 76
      2. The Majority Position—Broad Coverage Not Restricted to Vicarious Liability 78
   B. “Caused in Whole or in Part by” 85
   C. “With Respect to” or “Resulting from” 93
   D. The Additional Insured’s General Supervision 94
   E. Insured’s Sole Negligence or Additional Insured’s Vicarious Liability 97
III. Limitations in the Additional Insured Insuring Agreement 100
IV. Exclusions in Additional Insured Provisions 105
CHAPTER SIX
Duty to Defend/Duty to Indemnify 109
Joseph A. Wilson

I. Overview of Covered Claims 109
   A. Named Additional Insureds 109
   B. Blanket Endorsements 110
II. Agreement to Procure Coverage 110
   A. Written Agreements 110
   B. Certificates of Insurance 111
III. Causal Relationship: “Arising out of” 112
     A. Named Insured’s “Work” or “Product” 112
     B. Named Insured’s Ongoing Operations and Completed Operations 113
     C. Named Insured as Lessor 114
IV. Duty to Defend 115
     A. Complaint—Four-Corners Rule 115
     B. Extrinsic Evidence 116
V. Duty to Indemnify 116
VI. Priority of Coverage 117
VII. Avoidance of Duty to Defend 118

CHAPTER SEVEN
Scope of Coverage 121
Adam M. Smith and Lorraine M. Armenti

I. Introduction 121
II. Additional Insureds Entitled to Same Protection as the Named Insured 121
     A. Policy Premiums 122
     B. Notice Provisions 123
III. Scope of Coverage Not Greater Than Coverage for the Named Insured 124
     A. General Principles 124
     B. Limit of Liability 126
IV. Coverage for the Additional Insured When Coverage Is Excluded 127
    for the Named Insured 127
     A. Historical Development of the Separation of Insured Provision 127
     B. “The” Insured v. “an” Insured 129
     C. Employee Exclusion 130
     D. Intentional Acts Exclusion 132
     E. Impact of Certificates of Insurance on Scope of Coverage Afforded 134
        to Additional Insureds
V. Rescission as to the Named Insured 135
     A. Justifications for and against Rescinding as to Additional Insureds 137
     B. New York’s Separability Doctrine 140
     C. California’s Statutory Approach 141
VI. Exclusions for “Sole” Negligence v. “Own” Negligence 142
     A. Exclusions for the Additional Insured’s Own Negligence 143
     B. Exclusions for Sole Negligence 148
VII. Exclusions for “Completed Operations”  
   A. Endorsements Covering Liability Arising out of “Your Work” 150  
   B. Endorsements Covering Liability Arising out of Your “Ongoing Operations” 152  

VIII. Cross Liability Exclusions 155

CHAPTER EIGHT
Subrogation and Antisubrogation 161

Mirna M. Santiago

I. Subrogation versus Antisubrogation 161
   A. Subrogation 161  
   B. Antisubrogation 162

II. Waiver of Subrogation 165

III. Effect on Subrogation of Being Named as an Additional Insured 172

IV. Insurance Law’s Intersection with the Rule of Equity Providing for Subrogation 173
   A. When the Damages Are in Excess of the Policy Limits 173
   B. When the Carrier Has Not Been Fully Compensated for the Additional Insured Coverage 174
   C. When an Exclusion in the Policy Renders It Inapplicable 174
   D. When There Is Other Coverage That Insures the Same Risk 174
   E. When the Policy Does Not Cover the Same Loss for Which Coverage Is Anticipated 175
   F. When There Is Limiting Language in the Additional Insured Provision of the Policy 175

CHAPTER NINE
Choice of Law; Anti-indemnity Provisions; Insurability of Punitive Damages 177

Cathleen H. Heintz, Lisa F. Mickley, and Elayna Fiene

I. Introduction 177

II. Choice of Law Impact on Coverage of Additional Insureds 178
   A. Lex Loci Contractus and the Restatement 178
   B. Governing Law and the Additional Insured Endorsement 179

III. How States Vary in Assessing Coverage for Additional Insureds 183
   A. Variations in the Significance of Certificates and the Construction of Standard Additional Insured Endorsements 183
      1. Certificates of Insurance 183
      2. Additional Insured Endorsements 184
   B. Regulatory and Statutory Control of Additional Insured Coverage 186

IV. Negotiating the Additional Insured Relationship 186

V. State Anti-indemnity Provisions 187
   A. Anti-indemnity Statutes—An Overview 187
      1. Statutes Vary in Scope 187
      2. Current Trends 188
CONTENTS

B. References 189
   1. Cases 189
   2. State Statutes 190

VI. Punitive Damages 205
   A. The Insurability of Punitive Damages—Introduction 205
      1. Policy Concerns and Moral Hazard 205
      2. The Significance of the Insurance Policy 206
   B. Survey of Jurisdictions on Coverage of Punitive Damages 208
      1. Jurisdictions Prohibiting Insurability of Punitive Damages 208
      2. The Vicarious Liability Exception and Additional Insureds 213
      3. Jurisdictions Permitting Insurability of Punitive Damages 216

VII. What Is a Punitive Damage? 222

CHAPTER TEN

Notice/Late Notice 223
Thomas S. Schaufelberger and William C. Baton

I. Claims-Made Notice 224
II. Occurrence-Based Notice 224
III. Notice Duties of the Additional Insured 225
IV. Receipt of Notice 227
   A. Who Must Receive Notice? 227
   B. Notice and Awareness 228
V. What Triggers the Notice Requirement? 230
VI. Failure to Give Notice or Delayed Notice Excused 233
VII. “Late Notice” and Prejudice 236
VIII. Conclusion 238

CHAPTER ELEVEN

Limits Issues 241
Timothy A. Diemand and Robyn E. Gallagher

I. Self-Insured Retentions and Deductibles 241
II. Dilution of Policy Limits 244
III. Effects of Other Insurance Clauses 245
   A. Type of Other Insurance Clauses 246
      1. Pro Rata Clauses 246
      2. Excess Clauses 246
      3. Escape Clauses 248
   B. Application of Nonconflicting Other Insurance Clauses 248
      1. Pro Rata v. Pro Rata 249
      2. Pro Rata v. Excess 250
      3. Pro Rata v. Escape 251
   C. Reconciliation of Conflicting Other Insurance Clauses 251
      1. Total Policy Insuring Intent 251
      2. Conflicting Other Insurance Clauses Are Mutually Repugnant/Lamb-Weston Rule 252
### Contents

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>3. Excess v. Escape</td>
<td>254</td>
</tr>
<tr>
<td>4. Escape v. Escape</td>
<td>255</td>
</tr>
<tr>
<td>5. Excess v. Excess</td>
<td>256</td>
</tr>
<tr>
<td>D. Application of Other Insurance Clauses to Additional Insureds</td>
<td>256</td>
</tr>
<tr>
<td>1. Cases Finding Different Insurable Interests</td>
<td>257</td>
</tr>
<tr>
<td>2. Situations Where Additional Insured Coverage Is Determined through Reference to an Underlying Agreement</td>
<td>257</td>
</tr>
<tr>
<td>3. Consideration of Other Factors in Distinguishing “True Excess” Policies</td>
<td>260</td>
</tr>
<tr>
<td>IV. Allocation of Cost Methodologies</td>
<td>261</td>
</tr>
<tr>
<td>A. Disputes over Allocation—Insurers’ Duties</td>
<td>261</td>
</tr>
<tr>
<td>B. Practical Considerations Regarding Allocation among Co-insureds</td>
<td>264</td>
</tr>
</tbody>
</table>

### CHAPTER TWELVE

**Ethical Issues for Insurance Defense Counsel**

*Samantha Johnson*

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>I. Introduction</td>
<td>267</td>
</tr>
<tr>
<td>II. The Role of the Insured’s Counsel—Who Is the Client?</td>
<td>268</td>
</tr>
<tr>
<td>A. Two-Client Theory</td>
<td>268</td>
</tr>
<tr>
<td>B. One-Client Theory</td>
<td>268</td>
</tr>
<tr>
<td>C. Third-Party Payor Theory</td>
<td>269</td>
</tr>
<tr>
<td>III. The Insured’s Defense Counsel—Ethical Issues in the “Tripartite Relationship”</td>
<td>269</td>
</tr>
<tr>
<td>A. Multiple Insureds under Same Policy</td>
<td>270</td>
</tr>
<tr>
<td>B. Insurer Defends under a Reservation of Rights</td>
<td>271</td>
</tr>
<tr>
<td>C. Defense Counsel’s Knowledge of Matters Affecting Coverage</td>
<td>272</td>
</tr>
<tr>
<td>D. Insurer’s Use of Litigation Guidelines</td>
<td>273</td>
</tr>
<tr>
<td>E. Insurer’s Use of Outside Auditors</td>
<td>275</td>
</tr>
<tr>
<td>F. Insurer’s Use of In-House or Captive Firm Counsel</td>
<td>277</td>
</tr>
<tr>
<td>G. Disagreement over Litigation Strategy/Settlement</td>
<td>278</td>
</tr>
<tr>
<td>H. Settlement within Policy Limits</td>
<td>279</td>
</tr>
<tr>
<td>1. Insurer’s Intent to Settle Claim without Insured’s Consent</td>
<td>279</td>
</tr>
<tr>
<td>2. Advising Insured of Rights against an Insurer Who Fails to Settle within Policy Limits</td>
<td>280</td>
</tr>
<tr>
<td>I. Declining/Burning Limits Policy</td>
<td>281</td>
</tr>
<tr>
<td>1. Insurance Fraud</td>
<td>282</td>
</tr>
<tr>
<td>IV. The Insured’s Entitlement to Separate Counsel—Cumis and Its Progeny</td>
<td>282</td>
</tr>
<tr>
<td>A. Pre-Cumis</td>
<td>283</td>
</tr>
<tr>
<td>B. Cumis and the California Response</td>
<td>284</td>
</tr>
<tr>
<td>1. The Cumis Case</td>
<td>284</td>
</tr>
<tr>
<td>2. California Courts’ Reaction to Cumis</td>
<td>285</td>
</tr>
<tr>
<td>3. Cumis Codified</td>
<td>286</td>
</tr>
<tr>
<td>4. Case Law after California Code Section 2860</td>
<td>287</td>
</tr>
<tr>
<td>C. Other States’ Adoption of Cumis Principles</td>
<td>290</td>
</tr>
<tr>
<td>V. Conclusion</td>
<td>291</td>
</tr>
</tbody>
</table>
CHAPTER THIRTEEN
Additional Insured Coverage in Canada
Richard Berrow and Joëlle Michaud

I. Introduction 293
II. The Duty to Defend the Additional Insured 295
   A. Principles of Interpretation of Insurance Contracts Relevant to the Duty to Defend the Additional Insured 295
   B. Explicit Policy Language and Insuring Intent 297
      1. “Arising out of” 297
      2. Insuring Intent and Covenant to Insure 298
      3. The Trends 299
   C. Competing Policies 300
III. Absence of Restrictive Language 300
IV. “True Nature” of the Entire Claim versus Stand-Alone Claims 301
   A. The Overall Claim 301
   B. Independent Claims 304
V. Allegations against the Insured May Be Required 306
VI. Rights Conferred on the AI 307
VII. Policy Exclusions 308
VIII. Conclusion 308

CHAPTER FOURTEEN
Additional Insureds and U.K. Law
Simon Moore

I. Introduction 311
   Practical Examples and Guidelines 312
   Insurable Interest 313
II. Consequences 314
   No Degree of Insurance 314
   Joint v. Composite Cover 314
III. Operational Issues in English Law 315
IV. Relationship between Principal and Additional Insureds 317
   A. Relationships between Insureds 317
   B. Existing Relationships 318
V. Other Areas in Which Issues Arise 319
   Breach of the Duty of Fair Presentation 319
   Erosion of Limits of Liability and Excesses 320
   Cross Liabilities 321
   Claims Handling 321
   Subrogation Rights 322
CHAPTER FIFTEEN A
Architects and Engineers 325
Lyndon F. Bittle

I. Architects and Engineers 325
   A. Including Other Parties as Additional Insureds on E&O Policies 325
      1. Additional Insureds Not Usually Permitted 325
      2. Limited Coverage May Be Available 326
      3. Obtaining Coverage as Additional Insureds on Third-Party Policies 327

CHAPTER FIFTEEN B
Directors’ and Officers’ Liability 329
Carl E. Metzger and Brian H. Mukherjee

I. Introduction 329
II. Typical Insureds under a D&O Policy 330
   A. Named Insured 331
   B. Subsidiaries 332
   C. Insured Persons 332
III. Adding Additional Insureds to the D&O Policy 332
   A. Non-employees as Additional Insureds 333
   B. Employees as Additional Insureds 334
   C. In-House Counsel as Additional Insureds 334
   D. Other Internal Compliance Functions 335
IV. Dilution of Limits 336
V. Priority of Payments 337
VI. Insured v. Insured Exclusion 338
VII. Conclusion 339

CHAPTER FIFTEEN C
Owners, Contractors, and Subcontractors 341
Lyndon F. Bittle

I. Builder’s Risk Policies 341
   A. Waiver of Subrogation, Express or Implied 342
      1. Express Waivers of Subrogation 342
      2. Implied Waivers of Subrogation 344
      3. “As Their Interests May Appear” 345
   B. Commercial General Liability Policies 345
CHAPTER FIFTEEN D
Landlord/Tenant  351
Patti Potash, Alexandra Rigney, and Jennifer Mindlin

I. The ISO Landlord/Tenant Additional Insured Insuring Agreement: Liability Arising out of the Ownership, Maintenance, or Use of the Premises Leased to the Named Insured Tenant 351

II. The Tests for Determining When an Off-Premise Accident Arises out of the Use of the Leased Premises 356
   A. The Means of Access Test: Is the Location Necessary or Incidental to Access and Therefore to Use the Leased Premise? 356
   B. “But for” Test 357
   C. The Nexus Test 357
   D. Significant/Not Incidental Relationship 358
   E. Causal Relationship 358

III. Exclusions 359
   A. “After Lease Ceases” Exclusion 359
   B. Structural Alterations, New Construction, or Demolition Operations Exclusion 359

IV. Limitations 361

V. Reference to Lease in Determining the Additional Insured Coverage 362

CHAPTER FIFTEEN E
Commercial/Business Auto Policy  363
Mirna M. Santiago

I. Permissive User as Additional Insured 363
   A. “Use” of the Motor Vehicle Required for Coverage 367
   B. Applicable Statutes 368

CHAPTER FIFTEEN F
Marine and Aviation Insurance  369
Joe Grasso and Laura Ann Keller

I. Marine Insurance 369
   A. Additional Insured’s Coverage May Exceed Coverage of the Named Insured 369
   B. Insurer May Collect Losses outside the Policy from Additional Insured 370
   C. Where Insured’s Incurred Expenses Mitigate Covered Collateral Damage to Another Insured on the Policy, the Insured Was Entitled to Recover Those Costs 371
   D. Indemnification Did Not Extend to Damages to Additional Insured Caused by Additional Insured’s Own Breach of Contract 372
   E. Insurer Not Liable to Additional Insured Where Insurer Not Informed of Terms of Contract between Named Insured and Additional Insured 373
Contents 

F. Subcontractor Covered as Additional Insured without Contractual Relationship to Named Insured 374
G. Separate and Distinct Indemnity and Insurance Provisions Must Be Evaluated Separately 374
H. Maritime MSA Not Subject to Louisiana Oilfield Anti-indemnity Act 375
I. Under Louisiana Law, Insurer May Not Rely on Insured’s Noncompliance Once It Has Denied Coverage 376
J. Charterer Not Covered under Reciprocal Indemnity Agreement for Risks It Assumed 377
K. Absent Language to the Contrary, Additional Insureds Enjoy the Same Benefits and Are Subject to Same Restriction as Named Insured 377
L. Contractual Obligation to Add Owner as an Additional Insured Does Not Guarantee Coverage for Owner in Absence of Notice to Insurer of Identity of Additional Insured 378
M. Court Must Look to Language of Both Policy and Contract Containing Indemnity Provision to Determine Extent of Additional Insured Coverage 379
N. Status as Additional Insured Does Not Guarantee Coverage for All Claims; Policy May Limit Coverage Available to Named Insureds 381
O. Provision in MSA Requiring Coverage as an Additional Insured Is Not Determinative as to Scope of Coverage for Additional Insured 382

II. Aviation Insurance 383

III. Aviation Insurance 383
A. Exclusion for Damage Resulting from Work Limited to Specific Area Where Work Was Done 383

CHAPTER FIFTEEN G
Construction Wrap 385

Lyndon F. Bittle

I. Construction Wrap 385
A. Purposes and General Structure 385
1. Cost Savings? 386
2. Improved Safety or Risk Management? 386
3. Workers’ Compensation Issues 388
4. Conflict Issues 392
5. Professional Liability Issues 392

CHAPTER FIFTEEN H
Vendors/Vendees 395

Samantha Johnson

I. History of Vendor’s Endorsements 395
II. Coverage under Vendor’s Endorsements 399
A. Vendor’s Endorsements Generally Provide Coverage for Injuries Arising out of the Manufacturer’s Product 399
1. “Arising out of” Language Is Broadly Interpreted 399
CONTENTS

2. Coverage for Injuries Resulting from Display Units That Are Used to Market Products 401
3. Coverage When There Is No Connection between Product and Resulting Injury 403
B. Coverage Limited to “Passive Vendor” 405
C. Effect of “Other Insurance” Clauses on Coverage Afforded under Vendor’s Endorsement 407

CHAPTER SIXTEEN
Forensic Accounting: Lessons Learned in Dealing with Additional Insureds 411
Richard H. Hershman, CPA, MBA, and Wendy R. Shapss, CPA, CFE, CFF, MBA

I. Case Facts 411
II. Nature of Ensuing Disputes and Underlying Issues 412
   A. Research and Information Collection to Support Client Case 413
   B. Estimating Property Damages and Other Liabilities 413
   C. Subrogation Rights Established 414
   D. Duty to Preserve Evidence 414
   E. Research and ESI Discovery 414
   F. Liability 415
   G. Coverage Analysis 415
III. Damages 416
IV. Findings and Conclusions 417
V. Lessons Learned 417
VI. Summary 418
VII. Subsequent History: Court Decision in Subrogation Matter of Plaintiff Metro v. Defendants Jones, Citywide, and Pace 418
VIII. Conclusion 418

Table of Cases 419
Index 459