

Risk PRO

Contractors
Risk Professional

STUDY GUIDE

EXAM PREP AND ANSWER KEY

- **Knowledge Checks**
- **Check-Ins**
- **Self-Quizzes**
- **Sample Exam Questions**
- **Glossary of Terms**



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STUDY GUIDE

EXAM PREP AND ANSWER KEY

This Study Guide has been prepared to enhance your learning experience. It contains all of the Check-In questions, Knowledge Checks, and Self-Quizzes contained within the course, along with an Answer Key and Glossary. Use it as a tool to help practice and assess your knowledge of the course material, but do not mistake it for a comprehensive “short-cut” to preparing for the final exam.

Be sure to take a look at the Appendix that follows the Answer Key in this Study Guide. It contains valuable suggestions for test preparation and study techniques, as well as some sample exam questions and a glossary of terms.

Your path to success in passing the final exam will come from your attentiveness during the course and the effort you put into preparation.



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Tools to Assess Your Knowledge

Check-Ins, Knowledge Checks,
and Self-Quizzes by Topic

Section 1: Contract Analysis for the Contractor by the Insurance Professional

The Importance of Contract Review

Check-In



Directions: Read the following disclaimer and answer the question that follows.

“The review conducted is strictly for the purpose of identifying exposures to financial loss and determining the insurance requirements specified in the contract. It is intended solely to assess whether the current insurance program aligns with the contract’s requirements. If it is determined that adjustments to insurance coverage are necessary and feasible, recommendations will be provided to meet the contract’s requirements. Upon the client’s authorization, the agent agrees to request the recommended changes.”

What should the agent add to this disclaimer?

» Knowledge Check



Directions: Indicate whether each of the following statements is true or false.

1. There is no legal precedent for insurance professionals to review client contracts.

True

False

2. If an insurance agent represents a contractor and a subcontractor on the same project, this presents a conflict of interest that should be disclosed to both parties.

True

False

3. While the insurance professional's primary objective is to identify exposures and recommend solutions, they can provide legal advice in certain situations.

True

False

The Construction Contract

Check-In



Directions: Read each of the following scenarios and indicate whether the party is an indemnitor or indemnitee.

1. Fatima is a subcontractor. She agrees to pay on behalf of the general contractor for any injury or damage for which she is responsible. In this case Fatima is the _____.

Indemnitee

Indemnitor

2. Greg owns a construction company. He requires all of his contractors to sign an agreement stating that they will bear financial responsibility for any loss or damage for which they are at least partially responsible. Greg is the _____.

Indemnitee

Indemnitor

Types of Indemnification Agreements



» Knowledge Check

Directions: Read the examples of language found in an indemnification agreement and answer the following questions.

“This indemnification shall apply to claims or losses to the extent caused in whole or in part by the [Indemnifying Party] or its agents, contractors, or employees, but shall not apply to the extent that such claims or losses are caused by the [Indemnified Party]'s own sole negligence or willful misconduct.”

1. Which type of indemnification agreement is the language above an example of?

- ☐ Limited Form
- ☐ Intermediate Form
- ☐ Broad Form
- ☐ Hybrid or Combination

“If any provision of this indemnification agreement, or the application thereof to any person or circumstance, is found to be invalid, illegal, or unenforceable to any extent, the remainder of this agreement and the application of such provision to other persons or circumstances shall not be affected and shall be enforced to the fullest extent permitted by law. In such cases, the parties agree that the invalid, illegal, or unenforceable provision shall be deemed modified to the minimum extent necessary to make it enforceable while preserving the parties’ original intent to the fullest extent permitted by law.”

2. Which type of provision has the language shown above and is commonly found in an indemnification agreement?

- ☐ Savings Clause
- ☐ Defense Costs
- ☐ Limitation of Liability
- ☐ Punitive Damages

Indemnification in Common and Statutory Law



» Knowledge Check

Directions: Select the best responses to the following questions.

1. Which of the following best describes the relationship between common law and statutory law in determining the enforceability of indemnification agreements in construction contracts?
 - ☐ Common law typically overrides statutory law when interpreting indemnification agreements.
 - ☐ Statutory law provides the primary framework, while common law interpretations fill in gaps or address ambiguities in indemnification agreements.
 - ☐ Both common law and statutory law focus exclusively on the clarity and conspicuousness of indemnification agreements.
 - ☐ Statutory law is irrelevant if the indemnification agreement is clearly worded and conspicuously placed within the contract.
2. How do indemnity status and additional insured status differ in terms of protection and obligations under construction contracts?
 - ☐ Indemnity status is determined by contract provisions, while additional insured status is defined by the insurance policy and its endorsements.
 - ☐ Both indemnity status and additional insured status are governed exclusively by statutory law.
 - ☐ Indemnity status always provides broader protection than additional insured status.
 - ☐ Additional insured status imposes an obligation on the indemnitor, while indemnity status is solely a responsibility of the insurer.

Contractual Liability in the CGL Policy

Check-In



Directions: Select the best response to the following question.

In most CGL policies, how are defense costs typically treated in relation to the policy limits when dealing with an uninsured indemnitee?

- ☐ Defense costs are always outside policy limits and do not reduce available coverage.
- ☐ Defense costs are usually inside the policy limits, reducing the coverage available for other damages.
- ☐ Defense costs are covered even if the policy limits are not yet exhausted.
- ☐ Defense costs are covered as a Supplementary Payment and do not impact the CGL policy limits.



» Knowledge Check

Directions: Fill in the blanks using terms from the word bank provided. Terms may be used only once, and not every term will be used.

supplementary payment(s)	CG 24 26	insuring agreement	products-completed operations	outside
CG 21 39	"insured contract"	railroad	CG 22 74	duty to defend

1. The CGL policy _____ primarily outlines the insurer's obligation to pay for bodily injury and property damage the insured becomes legally obligated to pay.
2. Defense for a Named Insured is usually provided as a _____ that is _____ policy limits.
3. There is an exception to the CGL contractual liability exclusion for a(n) _____.
4. Endorsements such as _____ and _____ restrict the definition of "insured contract" and, as such, can limit coverage for indemnification.
5. The insurance company's _____ the Named Insured ceases when policy limits have been exhausted in the payments of judgements or settlements.

Excess/Umbrella Liability Policies

Check-In



Directions: Select the best response to the following question.

What potential coverage gap can occur if an excess liability policy's retained limit only considers damages and excludes defense costs?

- ☐ The excess policy will automatically attach once the underlying CGL policy is exhausted, regardless of how the retained limit is defined.
- ☐ The excess policy may fail to attach if the retained limit for damages is not met, even if the underlying CGL policy's limits are exhausted due to a combination of defense costs and damages.
- ☐ The excess policy will cover both defense costs and damages as soon as the underlying CGL policy pays any amount towards a claim.
- ☐ The excess policy will attach only after the underlying CGL policy has paid twice the amount of the retained limit, regardless of the type of payment.

Waivers of Subrogation



» Knowledge Check

Directions: Read the scenario and answer the question that follows.



A construction company has a contract with a building owner that includes a waiver of subrogation clause. The contract stipulates that the waiver applies "to the extent recoverable by insurance." During a project, the construction company's negligence causes \$200,000 in damage to the building. However, the building owner's insurance policy has a deductible of \$250,000, so no claim is paid out by the building owner's insurance company.

1. What is the likely outcome concerning the waiver of subrogation and the responsibility for the damage?
 - ☐ The construction company will be protected by the waiver of subrogation and will not be liable for the damage.
 - ☐ The waiver of subrogation will be effective, and the building owner will receive the full \$200,000 from the construction company.
 - ☐ The waiver of subrogation will be ineffective, so the construction company remains liable for the \$200,000 in damage.
 - ☐ The waiver of subrogation will be effective, and the construction company will not be liable for the damage, while the building owner's insurance will cover the loss.

Insurance Requirements



» Knowledge Check

Directions: Indicate whether each of the following statements is true or false concerning the requirements laid forth in the 2017 AIA Insurance and Bonds Exhibit.

1. Only the owner is required to be added as an additional insured on the CGL policy for completed operations.

True

False

2. Certificates of Insurance can only be requested prior to the start of work.

True

False

3. If used together, Business Auto Policy symbols 2, 8, and 9 will provide sufficient automobile liability coverage as per the AIA standards.

True

False

4. It is becoming increasingly common for contracts to require combined professional and pollution liability insurance.

True

False

5. Excess Liability and Umbrella policies can be universally used to meet the required limits.

True

False

Statutes of Limitations and Statutes of Repose in Construction

» Knowledge Check



Directions: Read the scenario and answer the questions that follow.

Jameson Construction, a well-established company, is nearing the completion of a major commercial project in a state that has just extended its statute of repose from 10 to 20 years. In response, their insurance underwriter has informed them of a substantial increase in premiums to account for this extended risk.

1. Which of the following best describes the direct impact of the increase in the statute of repose from 10 to 20 years?
 - ☐ The company could now face legal claims for up to 20 years after project completion.
 - ☐ The company could now face legal claims for 20 years after project completion—even longer if the statute is tolled.
 - ☐ Once the new statute takes effect, the company will be able to file legal claims for an additional 10 years.
 - ☐ The window to file legal claims against the company for previous projects will be extended by 20 years.
2. From an underwriting perspective, how might this increase in the statute of repose impact Jameson Construction?
 - ☐ It does not impact the length of liability and thus will not impact insurance premiums.
 - ☐ It increases long-term liability but will have minimal impact on insurance premiums because the statute of limitations is the only relevant factor.
 - ☐ It increases long-term liability, leading to higher insurance premiums as the company is exposed to potential claims for a longer period.
 - ☐ It will only impact insurance premiums if the statute of limitations is also amended.

Section 1 Self-Quiz

Directions: Answer the following questions. Some questions may have more than one correct answer choice.

1. Which of the following best describes the primary responsibilities of an insurance professional during contract review? (Select all that apply.)
 - ☐ Providing legal advice on contract terms and conditions.
 - ☐ Identifying potential exposures and matching coverage with these exposures
 - ☐ Deciding the final terms of the contract based on legal and insurance considerations.
 - ☐ Recommending adjustments to the insurance program as needed based on contract provisions.

2. Which of the following should be explicitly stated in a disclaimer used by insurance professionals when providing contract review services?
 - ☐ The review will guarantee that all contract requirements are fully met by the current insurance program.
 - ☐ The review aims to identify exposures to loss and insurance requirements, without offering legal advice.
 - ☐ The review will include legal advice on contract provisions.
 - ☐ The insurance professional will make necessary changes to the insurance program at his or her own discretion.

Section 1: Contract Analysis for the Contractor by the Insurance Professional

3. In a construction contract, Company A agrees to an indemnification clause where it will be responsible for paying the full cost of a loss, even if it is only 50% at fault and the remaining 50% of the fault lies with Company B, the indemnitee. This agreement specifies that the indemnitor's responsibility covers losses "caused in whole or in part" by its negligence. Which type of indemnification agreement is being described?
- ☐ Limited Form
 - ☐ Intermediate Form
 - ☐ Broad Form
 - ☐ Hybrid/Combination
4. When addressing punitive damages in an indemnification agreement, which of the following considerations are part of the three-pronged analysis? (Select all that apply.)
- ☐ Recoverability – Determining if punitive damages can be recovered in the jurisdiction where the contract is enforced.
 - ☐ Financial Impact – Evaluating the overall financial impact of punitive damages on the indemnification agreement.
 - ☐ Insurability – Assessing whether punitive damages are insurable in the relevant jurisdiction.
 - ☐ Coverage – Checking if the insurance policy specifically covers punitive damages.

Section 1: Contract Analysis for the Contractor by the Insurance Professional

5. An indemnification agreement contains the following language:

“...the Contractor shall indemnify and hold harmless the owner, architect, architect's consultants, and agents and employees of any of them from and against claims, damages, losses, and expenses... but only to the extent caused by the negligent acts or omissions of the Contractor, a Subcontractor, anyone directly or indirectly employed by them or anyone for whose acts they may be liable.”

Which type of indemnification agreement is this?

- ☐ Limited Form
 - ☐ Intermediate Form
 - ☐ Broad Form
 - ☐ Hybrid/Combination
6. How do courts typically impact indemnification agreements' enforceability when interpreting contract language ambiguities?
- ☐ Courts favor the drafter's interpretation of ambiguous language, assuming it reflects the parties' intent.
 - ☐ Courts enforce indemnification agreements regardless of ambiguities if the contract includes a "pass-through" provision.
 - ☐ Courts construe ambiguities in indemnification agreements against the drafter, emphasizing the need for clear and specific language.
 - ☐ Courts always rule in favor of broad-form indemnification agreements, even if ambiguities are present in the contract.

Section 1: Contract Analysis for the Contractor by the Insurance Professional

7. How do insurance policies respond differently to indemnitee status compared to additional insured status?
- ☐ Indemnitee status provides protection through an insurance policy endorsement, while contract clauses define additional insured status.
 - ☐ Indemnitee status is determined by contract provisions and statutory law, with the insurer's duty typically to the Named Insured, whereas additional insured status is defined by policy endorsement with the insurer's duty directly to the additional insured.
 - ☐ Additional insured status is limited by common law and statutory provisions, while indemnitee status is defined by insurance policy endorsements.
 - ☐ Indemnitee status is determined by contract provisions and statutory law, with the insurer's duty typically to the indemnitee, whereas additional insured status is defined by policy endorsement with the insurer's duty directly to the Named Insured.
8. Which of the following accurately describes how CGL coverages for defense costs are handled with additional insured status?
- ☐ Defense costs are handled outside the limits.
 - ☐ Defense costs are handled inside the limits.
 - ☐ Defense costs are not covered inside or outside the limits.
 - ☐ Defense costs are handled by a separate endorsement.

Section 1: Contract Analysis for the Contractor by the Insurance Professional

9. Which of the following conditions must be met in order for coverage to apply under the “insured contract” exception to the “contractual liability exclusion” in the CGL policy? (Select all that apply)
- ☐ The property damage (PD) or bodily injury (BI) must occur prior to the contract's execution.
 - ☐ The contract must explicitly state that the insured is assuming the defense costs associated with litigation.
 - ☐ The damages being claimed must fall within the scope of the insurance policy, and any applicable exclusions must not negate coverage.
 - ☐ The indemnitee must be added as an additional insured on the policy.
10. ABC contracting has an excess liability policy which stipulates that the retained limits must be exhausted by payment of damages only. The underlying liability policy has a limit of \$1 million and is written with defense within the limit of insurance. ABC has a liability claim involving a significant injury that results in a lawsuit. The total legal defense costs amount to \$500,000, and the damages awarded to the plaintiff are \$700,000. The policy limits are exhausted due to the payment of defense and damages, leaving \$200,000 unpaid by the underlying insurance.
- In this scenario, how will the excess liability policy's retained limit impact coverage?
- ☐ The excess liability policy will fully cover the \$700,000 in damages and \$500,000 in defense costs because the CGL policy limit is exhausted.
 - ☐ The excess liability policy will not attach because the retained limit for damages alone has not been met.
 - ☐ The excess liability policy will cover only the \$700,000 in damages, leaving the defense costs unpaid, as the CGL policy is exhausted.
 - ☐ The excess liability policy will provide coverage for the entire \$1,000,000 in claims because the CGL policy is exhausted.

Section 1: Contract Analysis for the Contractor by the Insurance Professional

11. A contractor operates within 50 feet of a railroad and has signed an indemnification agreement with the railroad. Which endorsement should he add to his BAP?
- ☐ CA 04 43 11 20 Waiver Of Transfer Of Rights Of Recovery Against Others To Us (Waiver Of Subrogation) – Automatic When Required By Written Contract Or Agreement
 - ☐ CA 04 44 11 20 Waiver Of Transfer Of Rights Of Recovery Against Others To Us (Waiver Of Subrogation)
 - ☐ CG 24 17 Contractual Liability Railroads
 - ☐ CA 20 70 Coverage For Certain Operations In Connection With Railroads
12. What does a "waiver of subrogation" typically involve in the context of insurance?
- ☐ The insurance company waives the insured's right to pursue recovery from any third party responsible for a loss.
 - ☐ The insured agrees not to pursue recovery from a third party, thereby preventing the insurance company from exercising its subrogation rights.
 - ☐ The insured's waiver allows the insurance company to directly sue the responsible third party for the full amount of the loss.
 - ☐ The insurance company does not relinquish its rights to recover any costs associated with a loss, regardless of who is at fault.

Section 1: Contract Analysis for the Contractor by the Insurance Professional

13. What is the primary difference between the CA 04 43 11 20 Waiver Of Transfer Of Rights Of Recovery Against Others To Us (Waiver Of Subrogation) – Automatic When Required By Written Contract Or Agreement endorsement and the CA 04 44 11 20 Waiver Of Transfer of Rights Of Recovery Against Others To Us (Waiver Of Subrogation) endorsement?
- ☐ The CA 04 43 11 20 endorsement applies to broader scenarios, while the CA 04 44 11 20 endorsement is specific to contractual agreements.
 - ☐ The CA 04 43 11 20 endorsement is specific to waivers based on contractual agreements, whereas the CA 04 44 11 20 endorsement applies to a broader range of scenarios and provides more flexibility.
 - ☐ The CA 04 43 11 20 endorsement waives the insurer's right to recover from the insured, while the CA 04 44 11 20 endorsement waives the insurer's right to recover from third parties only.
 - ☐ The CA 04 44 11 20 endorsement is only applicable before a loss occurs, while the CA 04 43 11 20 endorsement can be applied after a loss.
14. Which of the following is a *prohibited* coverages or conditions for a contractor's Commercial General Liability (CGL) policy according to the AIA requirement?
- ☐ Coverage for bodily injury, sickness, or disease, including occupational illnesses and death
 - ☐ Personal and advertising injury coverage
 - ☐ Exclusions for residential work and roofing
 - ☐ Coverage for bodily injury or property damage arising out of completed operations
15. When must a contractor provide certificates of insurance to the owner according to the AIA 2017 Exhibit general provision? (Select all that apply.)
- ☐ Prior to the commencement of work
 - ☐ Upon renewal or replacement of each required policy of insurance
 - ☐ Upon the owner's written request
 - ☐ At the time of policy cancellation or non-renewal

16. Which of the following best differentiates a statute of limitations from a statute of repose?

- ☐ A statute of limitations sets a time limit for filing a lawsuit based on when the injury or damage occurred or was discovered, while a statute of repose sets an absolute deadline for responsibility for bodily injury or property damage that occurs after that date.
- ☐ A statute of limitations only applies to bodily injury claims, whereas a statute of repose applies to all types of legal actions.
- ☐ A statute of limitations begins running when the injury occurs, while a statute of repose only starts once the injury is discovered.
- ☐ A statute of limitations can be paused or tolled, but a statute of repose cannot be paused under any circumstances.

Section 1: Contract Analysis for the Contractor by the Insurance Professional

Section 2: Property Exposures and Coverage for Contractors

Introduction to Property Exposures and Coverage

Check-In



Directions: Read the scenario and answer the question that follows.

A contractor has signed a lease agreement for a commercial building that requires them to be responsible for any damage to the property during their tenancy. The lease specifically mandates that the contractor purchase insurance to cover this potential liability.

Which of the following is the most likely reason for the contractor to purchase commercial property insurance in this scenario?

- ☐ Liability Policy Exclusions
- ☐ Asset Protection
- ☐ Contractual Requirements
- ☐ Goodwill

Builders Risk Coverage

Check-In



Directions: Indicate whether each of the following statements are true or false.

1. The AIA 201 contract stipulates that insurance must be purchased from an insurer authorized to operate where the owner's business is headquartered, even if the location differs from where the work is being done.

True

False

2. The owner must notify all contractors of impending policy expiration or cancellation.

True

False

3. The Builders Risk Policy will need to be endorsed in situations in which the owner is acting as a fiduciary.

True

False

Check-In



Directions: Select the best responses to the following questions.

1. According to the AIA contract, what must an owner do if they wish to occupy an insured worksite prior to Substantial Completion of the project?
 - ☐ Obtain written consent from the contractor to ensure the project is complete.
 - ☐ Purchase a separate insurance policy to cover early occupancy.
 - ☐ Obtain written consent from the insurance company to ensure coverage remains intact.
 - ☐ Notify the local authorities and ensure compliance with safety regulations.
2. What type of insurance is required for existing structures undergoing renovations?
 - ☐ General liability insurance on a market value basis.
 - ☐ "All-risks" property insurance on a replacement cost basis.
 - ☐ Builder's risk insurance on an agreed value basis.
 - ☐ Flood insurance on a replacement cost basis.

» Knowledge Check



Directions: Select the best response for each of the questions.

1. A construction company has set up \$2,000,000 in scaffolding to support a building during its construction. It cost \$40,0000 to set up the scaffolding. For insurance purposes under the Builders Risk Policy, how should the company insure the scaffolding to ensure it is adequately covered?
 - ☐ The scaffolding should never be insured under the Builders Risk Policy; it should be insured under a separate contractor's equipment policy for direct damage.
 - ☐ The scaffolding should be considered a temporary structure and insured under the Builders Risk Policy for direct damage, including coverage for reinstatement costs after a loss.
 - ☐ The scaffolding should be considered falsework and insured under the Builders Risk Policy, but reinstatement costs after a loss do not need to be covered.
 - ☐ The scaffolding should be considered a permanent structure and insured under the Building And Personal Property Coverage Form.
2. Hector is the owner of a construction project. Based on the following contract provision, how long should Hector's Builders Risk Policy last (unless otherwise agreed upon)?

§ A.2.3.1.3 Unless the parties agree otherwise, upon Substantial Completion, the Owner shall continue the insurance required by Section A.2.3.1 or, if necessary, replace the insurance policy required under Section A.2.3.1 with property insurance written for the total value of the Project that shall remain in effect until expiration of the period for correction of the Work set forth in Section 12.2.2 of the General Conditions.

- ☐ Until the project is completed, and the final payment is made, after which it must be replaced
- ☐ Until the project is completed and ready for occupancy or the policy expiration, whichever comes first
- ☐ Until substantial completion, after which it must be replaced or continued until the expiration of the correction period
- ☐ Until the project's first inspection is passed, after which the policy should be immediately canceled

Purchasing Builders Risk Insurance

Check-In



Directions: Select the best response for the question.

Why would a fiduciary endorsement be added to a builders risk policy?

- ☐ To ensure that all parties with an insurable interest are named as insureds
- ☐ To ensure that one Named Insured violating the terms and conditions of the policy will not void coverage for the other insureds
- ☐ To prevent subrogation claims against any Named Insured
- ☐ To simplify the claims-handling process by designating a specific entity to manage the claim on behalf of all insured parties

Check-In



Directions: Select the best response to the following question.

A contractor frequently stores materials assigned to a particular project at their own warehouse before transporting them to a job site. Which of the following steps should the contractor take to ensure these materials are adequately covered?

- ☐ Rely on the standard builders risk policy, as it automatically covers materials stored at any location.
- ☐ Increase and decrease the Your Business Personal Property limit of insurance or add insurance protection for Personal Property Of Others on their existing Building And Business Personal Property Coverage Form as needed for each project to include the value of the stored materials.
- ☐ Modify the builders risk policy to include coverage for materials stored at the contractor's yard.
- ☐ Assume the materials are automatically covered by the job site's insurance once they are transported, so no additional coverage is needed.

Section 2: Property Exposures and Coverage for Contractors

» Knowledge Check



Directions: Match the endorsement or coverage solution to the exposure scenario that it would best address.

A. Renovation Project Endorsement	_____ Multiple insureds are named on a builders risk policy, complicating the claims-handling process.
B. Ordinance Or Law Extension	_____ An insured plans to begin work on expanding and modernizing an existing structure.
C. Fiduciary Endorsement	_____ An insured is planning a construction project in an area known for seismic activity, where landslides, mudflows, and sinkholes are common.
D. Builders Risk Testing Coverage	_____ An insured wants to ensure that the demolition costs, the value of the undamaged portion of the building, and the increased costs of construction will be covered if they are required by local laws to tear down and/or rebuild following a loss.
E. Earth Movement Coverage - Flat Deductible	_____ An insured is seeking protection from any damage that may result due to errors in project specifications or blueprints.
F. Resultant Damage Coverage - Error in Design Endorsement	_____ An insured wants to be covered for direct physical loss or damage resulting from operational or performance testing, of individual components or the entire project.

Additional Considerations in Writing Builders Risk Coverage

Check-In



Directions: Select the best response to the following question.

When considering replacement cost coverage in a builders risk policy, which of the following factors might impact the adequacy of the coverage?

- ☐ The policy's exclusion of personal property coverage
- ☐ Whether the policy includes sub-limits on covered property or covered perils
- ☐ The geographic location of the project
- ☐ The requirement to replace the damaged property on a different site

Check-In



Directions: Select the best response for the following question.

How can a contractor ensure that they have builders risk coverage until they have received their final payment for a project?

- ☐ By selecting an annual policy regardless of the project's expected duration
- ☐ By ensuring the builders risk policy includes verbiage that terminates coverage upon project occupancy or acceptance by the owner
- ☐ By seeking an endorsement that extends coverage until the contractor's insurable interest in the described project ends
- ☐ By allowing the policy to expire 30 days after construction is completed, as this will automatically cover any remaining financial risks

Check-In



Directions: Select the best response to each of the following questions.

1. What are some of the ancillary exposures to loss associated with green buildings?

2. What are some of the potential soft costs exposures for contractors?

Installation Floaters



» Knowledge Check

Directions: Select the best responses to the following questions.

1. A contractor asks why installation floater coverage is necessary for their construction project. Which of the following is the best response to explain the need for this coverage?
 - ☐ "Installation floater coverage is mainly to protect against damage to recently installed products or materials."
 - ☐ "This coverage ensures that your company is protected against losses to materials, equipment, and supplies during critical stages such as transit, temporary storage, and installation, before they become part of the final project."
 - ☐ "This coverage provides coverage for any legal liabilities you might face after the project is completed and the materials are installed, especially those stemming from the products-completed operations hazard."
 - ☐ "Installation floater coverage is only necessary if your project involves hazardous materials or pollutant clean-up."

Section 2: Property Exposures and Coverage for Contractors

2. A contractor is reviewing the installation floater policy for a new construction project. The policy includes the following wording: "We cover all materials, supplies, equipment, machinery, and fixtures that are owned by you, or for which you are legally liable, that are to be installed by you at your direction while the property is:

- 1.) On the described premises;
- 2.) In transit; or
- 3.) At a temporary storage location."

The contractor is storing some extra building materials on site that are not intended for installation but are owned by the contractor. A storm damages these materials. Based on the policy wording, which of the following statements best describes whether the damaged materials are covered?

- ☐ The materials are not covered because the policy only covers items in transit or at temporary storage locations.
- ☐ The materials are covered because they are owned by the contractor and were on the described premises.
- ☐ The materials are not covered because they were not intended to be installed as part of the project.
- ☐ The materials are covered because the contractor is legally liable for their damage.

Contractors Equipment Insurance



►► Knowledge Check

Directions: Match each exposure scenario with the endorsement that would best address it.

A. Coverage for Overloading	_____ Todd's bulldozer is damaged by a covered cause of loss, and he will need to rent a replacement while it is being repaired.
B. Rented, Leased Or Borrowed Equipment Coverage	_____ Penny's excavator is damaged when one of her employees uses it to move a load of rocks that exceeds its registered lifting capacity.
C. Rental Expense Reimbursement	_____ Jude purchases a new piece of machinery and wants to ensure that it will have coverage right away.
D. 90-Day Automatic Acquisition Endorsement	_____ Ginny needs a specialized piece of equipment for a job, and a fellow contractor offers to lend it to her but wants to make sure it will be covered by Ginny's policy.
E. Continuing Rental Payment	_____ Hector uses a specialized piece of machinery that cannot be easily replaced and is essential for his work. When this equipment is damaged, it significantly limits his ability to take on new jobs.
F. Loss of Income	_____ Jimmy rents a tower crane, but it is damaged in a hailstorm. Jimmy must continue to pay the rental company even while the crane is being repaired and cannot be used.

Section 2 Self-Quiz

Directions: Select the best responses to each of the following questions.

1. A contractor is reviewing their insurance coverage and notices that their standard liability policies, such as Commercial General Liability (CGL) and Excess/Umbrella policies, have exclusions for property under their care, custody, or control. To address this gap and ensure comprehensive protection, the contractor decides to purchase additional property insurance.

Which of the following scenarios best exemplifies the contractor's motivation for purchasing this additional property insurance?

- ☐ The contractor wants to protect their assets from potential financial losses due to property damage by transferring the risk to an insurer.
- ☐ The contractor aims to enhance their relationship with clients by demonstrating their commitment to maintaining appropriate insurance coverage.
- ☐ The contractor is required to purchase property insurance as stipulated in a construction agreement with a client.
- ☐ The contractor is addressing the liability policy exclusion for property under their care, custody, or control by purchasing additional property insurance.

2. Which of the following scenarios is an example of a direct damage loss?

- ☐ A contractor loses rental income because the property they are leasing is damaged and cannot be used.
- ☐ A contractor must continue paying rent for a property they cannot use due to damage.
- ☐ A contractor experiences physical damage to their construction equipment from a fire.
- ☐ The contractor incurs costs to compensate a client for lost income due to property damage on a project.

Section 2: Property Exposures and Coverage for Contractors

3. Why are waivers of subrogation typically included in construction contracts?
 - ☐ To ensure the insurer can recover losses from third parties who may have caused the damage
 - ☐ To prevent parties involved in the project from suing each other for damages covered by insurance
 - ☐ To require all parties to indemnify each other for damages caused by fire or other losses
 - ☐ To allow the insurer to charge lower premiums by excluding coverage for certain types of damages
4. According to the AIA contract, whose interests should be covered by a builder's risk policy?
 - ☐ The owner, contractor, subcontractors, and mortgagees involved in the project
 - ☐ Only the owner's interests, as they are responsible for purchasing the policy
 - ☐ Only the contractor's interests, as they are the primary party managing the construction
 - ☐ The owner and the mortgagees, with coverage for the contractor and subcontractors being optional
5. Which of the following is an important consideration with respect to how the builders risk policy covers the land on which the covered property is located?
 - ☐ The policy may cover the cost of land improvements, such as grading and filling, in full without any additional endorsements.
 - ☐ Standard policies exclude damage or loss to the land itself, but some policies might still provide coverage for certain sitework activities.
 - ☐ Standard policies contain an additional coverage which ensures that any damage to the land will be automatically covered under the standard Builder's Risk policy.
 - ☐ Coverage for land damage is included if the land is located in a high-risk area, regardless of the policy's exclusions.

Section 2: Property Exposures and Coverage for Contractors

6. Why might it be preferable for the contractor to purchase the builders risk insurance rather than the owner?
- ☐ Contractors typically have more experience with construction-related risks and may better understand the coverages required for the project.
 - ☐ The contractor can include the builder's risk insurance in the project's budget, which reduces the overall cost for the owner.
 - ☐ The contractor is legally required to purchase the builder's risk insurance under all construction contracts.
 - ☐ Contractors do not need to notify the owner about any changes to the builder's risk policy if they purchase it.
7. Which of the following correctly describes how the Ordinance Or Law endorsement differs from the Increased Cost Of Construction endorsement in a builder's risk policy?
- ☐ The Ordinance Or Law endorsement provides additional insurance limits, while the Increased Cost Of Construction endorsement does not.
 - ☐ The Ordinance Or Law endorsement covers losses due to law enforcement within existing policy limits, while the Increased Cost Of Construction endorsement covers extra costs to rebuild after a loss with additional insurance limits.
 - ☐ The Ordinance Or Law endorsement covers the undamaged portion of a building and demolition costs, while the Increased Cost Of Construction endorsement covers rebuilding on a different site.
 - ☐ The Ordinance Or Law endorsement applies only to new laws enacted after a loss, while the Increased Cost Of Construction endorsement applies only to existing laws at the time of the policy's issuance.

Section 2: Property Exposures and Coverage for Contractors

8. A construction site suffers damage, and the contractor files a claim under their builders risk policy, which uses an actual cash value (ACV) valuation condition. The insurance adjuster calculates the ACV by evaluating what the property would sell for in an open market, considering both the current market conditions and the condition of the property before the damage occurred. Which method to determine ACV is being used in this scenario?
- ☐ Replacement cost minus depreciation
 - ☐ Fair market value
 - ☐ Broad evidence rule
 - ☐ Current market value minus depreciation
9. Why might an insured consider adding the Notice of Cancellation, Nonrenewal, Or Material Change endorsement to their builders risk policy?
- ☐ To ensure that only the first Named Insured receives notice of cancellation, nonrenewal, or material changes
 - ☐ To extend the length of time the first Named Insured has to notified other insureds of cancellation, nonrenewal, or material changes
 - ☐ To limit the insurer's obligation to notify parties of policy changes
 - ☐ To guarantee that all Named Insureds are informed in case of cancellation, nonrenewal, or material changes

Section 2: Property Exposures and Coverage for Contractors

10. A contractor has just completed installing custom cabinets in a customer's home. Shortly after the installation, a fire destroys the home, and the customer is unable to pay the contractor for the work completed.

Which of the following actions taken at the time coverage was written could have protected the contractor in this situation?

- ☐ Negotiate the installation floater policy terms to extend coverage until all work is completed and accepted by the project owner, and ensure it covers the contractor's insurable interest until payment is received or the contractor's interest has been assigned.
 - ☐ Rely on the standard installation floater coverage, as it automatically covers the contractor's insurable interest even after installation is complete.
 - ☐ Add a company-specific Care, Custody, and Control endorsement to the policy.
 - ☐ Ensure that the policy pays on a replacement cost basis, with reasonable allowances for overhead and profit.
11. When defining the project scope in an installation floater, which of the following descriptions provides the best coverage for a contractor?
- ☐ "Electrical wiring within buildings"
 - ☐ "Electrical work limited to residential properties"
 - ☐ "Projects usual and incidental to an electrical contractor"
 - ☐ "Installation of electrical panels only"

Section 2: Property Exposures and Coverage for Contractors

12. A client has an installation floater which contains the following language under “Covered Property”:

Covered Property, as used in this Coverage Form, means:

1.) Machinery, equipment and materials and supplies which you own, or which is in your care, custody or control and which you will install, repair and/or move at the installation site shown in the Declarations.

How does the underlined wording impact scope of coverage from what might be covered by a similar policy?

- ☐ This policy wording narrows the scope of coverage to only include items in the insured's care, custody, and control.
 - ☐ This policy wording broadens the scope of coverage to include items in the insured's care, custody, or control, even if they aren't directly being installed.
 - ☐ This is standard policy wording and does not differ from a typical installation floater.
 - ☐ This policy wording limits coverage to only cover property while it is at the installation site.
13. Jeb loses a piece of equipment and files a claim. Jeb has a coinsurance provision which states that each piece of equipment will be insured at 80% of its value. This means that Jeb will not have to establish values for his entire inventory to determine compliance with coinsurance.

How is coinsurance applied on Jeb's Contractors Equipment Policy?

- ☐ On a per occurrence basis
- ☐ On a per item basis
- ☐ On a flat deductible basis
- ☐ On a percentage deductible basis

Section 2: Property Exposures and Coverage for Contractors

14. Which of the following statements is accurate with respect to coverage for rented, leased, and borrowed equipment on a Contractors Equipment Policy?

- ☐ Contractors always own their own equipment, so there is no need for rented, leased, or borrowed items to be covered.
- ☐ It is nearly impossible for these items to be covered on a Contractors Risk Policy because they are widely considered to be uninsurable risks.
- ☐ Contractors should notify their insurance company every time they rent or borrow a piece of equipment to add it to their schedule of equipment to ensure that it is covered.
- ☐ Contractors should secure coverage for this type of equipment directly through their policy or through endorsement, as it is common to rent or borrow equipment on short notice.

15. A contractor is working on a project that involves rebuilding the engine of a large piece of machinery. During the rebuilding process, the equipment is temporarily out of service and not in sound condition. The contractor is reviewing their insurance policy to ensure all equipment is covered. The policy typically excludes equipment that is not in sound condition or considered junk at inception of the policy.

Which of the following actions should the contractor take to ensure the equipment is properly covered during the repair process that happens to occur at policy inception?

- ☐ Exclude the equipment from the insurance policy since it is not in sound condition during the repair.
- ☐ Ensure the exclusion does not apply to equipment being repaired at inception.
- ☐ Remove the equipment from the policy permanently as it is no longer operational.
- ☐ Wait until the equipment is fully repaired and operational before adding it to the policy.

Section 2: Property Exposures and Coverage for Contractors

16. A contractor recently purchased a new backhoe for a large construction project. The backhoe comes with several additional components, including extra buckets and hydraulic attachments. The contractor is in the process of scheduling this equipment on their contractors equipment policy.

Which of the following actions should the contractor and the contractor's insurance agent take to ensure all relevant components of the backhoe are properly covered under the insurance policy?

- ☐ Schedule only the backhoe itself on the policy, as it is the main piece of equipment, and all of its components will be automatically covered.
- ☐ List the backhoe and any critical components but omit the additional buckets and hydraulic attachments from the policy, as they are not essential to the operation of the backhoe.
- ☐ List the backhoe on the policy with the phrase "and any other important parts"
- ☐ Schedule the backhoe and include the phrase "including its attachments, accessories, and equipment" in the description to cover all related components.

Section 3: Named Insureds, Automatic Insureds, and Non-Automatic Insureds

Named Insureds and the CGL Policy

Check-In



Directions: Read the scenario and answer the question that follows.

Maria Shingle operates a small roofing business under the name "Shingle's Roofing." She is the sole proprietor and wants to ensure her business is properly covered under a CGL policy.

Which of the following is the best way to list the Named Insured to provide the broadest coverage?

- ☐ Shingle's Roofing as the only Named Insured
- ☐ Maria Shingle DBA Shingle's Roofing as the only Named Insured
- ☐ Maria Shingle as a Named Insured, AND Maria Shingle DBA Shingle's Roofing as a Named Insured

Check-In



Directions: Indicate whether each of the following statements is true or false.

1. All members of a partnership must be named individually in the CGL Declarations.

True

False

2. Contractors can benefit from a nonstandard CGL endorsement that covers their liability from former business entities, whether or not they are listed on the Declarations.

True

False

3. Only partnerships and joint ventures need to list past business entities on their CGL policy; all former LLCs will automatically be insured in an unendorsed policy.

True

False

» Knowledge Check



Directions: Read each scenario and answer the questions that follow.

1. A client who previously owned an LLC that is inactive is unsure whether they should keep the LLC listed on their current Commercial General Liability (CGL) policy. They believe that since the LLC is no longer active, it doesn't require coverage.

As their insurance agent, what coverage solution would you recommend to ensure they are protected from any potential liabilities associated with the inactive LLC?

- ☐ Advise them to remove the inactive LLC from the policy since it no longer operates.
 - ☐ Suggest they only keep the LLC on the policy if there is a high likelihood of a lawsuit.
 - ☐ Suggest that they Include the inactive LLC as Named Insured for two years.
 - ☐ Recommend listing the past LLC as Named Insured on the policy.
2. An insurance agent is advising a client who is considering removing an inactive corporation from their insurance policy. The client believes that since the corporation is no longer active, it no longer needs coverage.

Why should the agent be cautious about recommending the removal of the inactive corporation from the policy?

- ☐ The statute of repose provides absolute protection from any liabilities, but only for a specific time period, so coverage may be needed later.
- ☐ Inactive corporations may still face potential liabilities, and changes to statutes of repose or specific circumstances could impact the need for continued coverage.
- ☐ Discontinuing operations of a corporation automatically eliminates all past liabilities, making additional coverage redundant.
- ☐ Once a corporation is inactive, insurance policies do not cover them.

Section 3: Named Insureds, Automatic Insureds, and Non-Automatic Insureds

3. A sole proprietor is planning to retire and close their business. They are concerned about ongoing liability for claims that might arise from their past business activities.

What coverage option should the insurance agent recommend to ensure that the sole proprietor remains protected after retiring?

- ☐ Recommend removing all business insurance coverage, as they will no longer be operating the business.
- ☐ Suggest maintaining the current business insurance policy without any changes and not telling the insurer operations have ceased.
- ☐ Advise purchase of "discontinued operations" coverage to protect against claims arising from past business activities.
- ☐ Recommend transferring the business insurance policy to a new owner to cover potential future claims.

Policy Conditions



» Knowledge Check

Directions: Read each scenario and answer the questions that follow.

1. ABC Contracting is the first Named Insured under a Commercial General Liability (CGL) policy, which also covers XYZ Contracting as a Named Insured. After an audit of XYZ Contracting, the insurer determines that a return premium is due.

Who will receive the return premium?

- ☐ ABC Contracting
- ☐ XYZ Contracting
- ☐ Both ABC Contracting and XYZ Contracting
- ☐ The insurer will retain the return premium.

Section 3: Named Insureds, Automatic Insureds, and Non-Automatic Insureds

2. MNO Manufacturing and PQR Construction are both Named Insureds under the same Commercial General Liability (CGL) policy. MNO Manufacturing produces metal components and sells them to PQR Construction, which uses these components in its projects. Without any special endorsements, the insurer could charge premiums based on both the sale of the components by MNO Manufacturing and the work done by PQR Construction. However, MNO Manufacturing requests the Exclusion – Intercompany Products Suits endorsement in their policy.

How does the inclusion of the CG 21 41 Exclusion – Intercompany Products Suits endorsement impact the CGL policy premiums for MNO Manufacturing and PQR Construction?

- ☐ The premiums remain the same because the exclusion only applies to liability coverage, not premium calculations.
- ☐ The premiums increase because the exclusion requires additional underwriting considerations.
- ☐ The premiums decrease because the exclusion prevents the insurer from charging for intercompany sales.
- ☐ The premiums are unaffected because the exclusion only impacts the ability to file claims and lawsuits, not premium costs.

Automatic Insureds and CGL Coverage

Check-In



Directions: Indicate whether each of the following entities is an automatic insured under the CGL policy.

1. The spouse of a sole proprietor who is a Named Insured, with respect to the business

Automatic Insured

Not an Automatic Insured

2. The spouse of a member of a partnership that is listed as Named Insured, with respect to the spouse's personal business dealings

Automatic Insured

Not an Automatic Insured

3. An executive officer of a corporation who purchases a building in an individual name.

Automatic Insured

Not an Automatic Insured

» Knowledge Check



Directions: Read each scenario and answer the questions that follow.

1. Construction Gals, LLC is the Named Insured on a CGL Policy. Construction Gals, LLC is owned by Contracting Bros, LLC and Builder Bob, LLC.

Which of the following statements is correct regarding the coverage for members of the LLCs involved?

- ☐ Members of Contracting Bros, LLC are automatically insureds under the policy because Contracting Bros, LLC owns part of the Named Insured, Construction Gals, LLC.
- ☐ Automatic coverage does not extend to Builder Bob, LLC because it does not own 100% of Construction Gals, LLC.
- ☐ Members of Builder Bob, LLC are automatically insured under the policy because Builder Bob, LLC is a subsidiary of the Named Insured.
- ☐ Members of Construction Bros, LLC and Builder Bob, LLC are not automatically insured under the policy because these two LLCs are not Named Insureds.

2. John is an employee of XYZ Construction, which is insured under a Commercial General Liability (CGL) Policy. While working on a job site, John accidentally injures his co-worker, Sarah.

Which of the following statements correctly describes whether John is an insured under XYZ Construction's CGL Policy for the injury he caused to Sarah?

- ☐ John is an insured under the CGL policy in this instance because he is an employee of XYZ Construction.
- ☐ John is an insured under the CGL policy, but only if Sarah does not file a workers' compensation claim.
- ☐ John is not an insured under the CGL policy because the loss involves injury to a co-employee.
- ☐ John is not an insured under the CGL policy in this instance unless XYZ Construction has an Employment Practices Liability (EPL) policy in place.

Additional Insured Status in the CGL Policy

Check-In



Directions: Select the best response for each of the following questions.

1. Which of the following is the *primary* reason for Named Insureds to agree to an additional insured request?
 - ☐ Access to higher total limits
 - ☐ Reduced direct insurance costs
 - ☐ Contractual requirements
 - ☐ Coverage for Personal and Advertising injury

2. Why is it essential to understand the insurance requirements of a contract and confirm that the insurer is willing and able to provide the necessary endorsements before binding coverage for a contracting account?
 - ☐ To ensure that the insurance coverage meets the contractual obligations and that the Named Insured avoids potential breaches due to the absence of required endorsements
 - ☐ To reduce the overall cost of insurance premiums by selecting alternative endorsement forms
 - ☐ To automatically secure additional insured status without the need for specific endorsement forms
 - ☐ To guarantee that the insurer will cover any claim, regardless of the policy terms or conditions

» Knowledge Check



Directions: Read the scenario and answer the questions that follow.

You are an insurance consultant working with a client who is a general contractor. The client has a contract with a subcontractor, and the contract includes an indemnification agreement wherein the subcontractor indemnifies the general contractor. The client believes that because they have this indemnification agreement, they do not need to request additional insured status on the subcontractor's insurance policy. The client feels confident that the indemnification clause will protect them from any claims related to the project.

1. What is the best response you can provide to the client to clarify their understanding of the protections provided by an indemnification agreement versus additional insured status?
 - ☐ "You're correct that the indemnification agreement will ensure that the subcontractor protects you, so there is no need to request additional insured status."
 - ☐ "The indemnification agreement provides some protection, but it does not offer the same benefits as being an additional insured on the subcontractor's policy, including the insurer's duty to defend and indemnify you, which is not guaranteed by the indemnification agreement alone."
 - ☐ "The indemnification agreement already covers you fully, so requesting additional insured status is just a redundant formality that won't significantly impact your protection."
 - ☐ "While the indemnification agreement offers some protection, requesting additional insured status will guarantee that you cannot be held liable for any damages in any circumstances."

Section 3: Named Insureds, Automatic Insureds, and Non-automatic Insureds

2. If the general contractor in the above scenario is added as an additional insured on a subcontractor's CGL policy, what potential challenges might they encounter that could complicate their coverage and protection?
- ☐ They will have complete control over their defense, meaning that they will be responsible for finding a lawyer that can represent their interests.
 - ☐ They could see the policy limits diminish on their own commercial insurance policies due to having this additional insurance.
 - ☐ They might face coverage disputes due to complex and difficult-to-interpret contract terms, which can lead to gaps in coverage and costly resolutions.
 - ☐ Additional insured status may violate their contract terms, so they may be safer relying solely on their indemnification agreement for coverage.

The Evolution of Additional Insured Endorsements

Check-In



Directions: Match the CG 20 10 edition with the wording or coverage change that it included.

A. 1985	_____ Attempted to limit coverage to "ongoing operations."
B. 1993	_____ Further narrowed the scope of coverage to more effectively exclude completed operations.
C. 2001	_____ Covers the insured for liability arising out of "your work" for that insured by or for "you."
D. 2004	_____ Updated wording, in part, to exclude coverage for liabilities arising from the sole negligence of the additional insured.

» Knowledge Check



Directions: Read the scenario and answer the question that follows.

ABC General Contractors (ABC GC) is added as an additional insured to XYZ Roofing's Commercial General Liability (CGL) policy using the CG 20 10 12 19 endorsement. XYZ Roofing is a subcontractor working on a large construction project. During the project, an incident occurs that results in property damage, and a third-party sues ABC GC for the damages. However, XYZ Roofing was not involved in causing the damage, and the contract between ABC GC and XYZ Roofing requires XYZ to provide only \$500,000 coverage although XYZ Roofing's CGL has a \$1,000,000 limit.

Based on the CG 20 10 12 19 endorsement and the specifics of the contract between ABC GC and XYZ Roofing, what is a potential implication for ABC GC regarding their insurance coverage in this scenario?

- ☐ ABC GC will not be covered as the CG 20 10 12 19 applies only to completed operations losses, and this is an ongoing operations claim.
- ☐ ABC GC will be covered for the entire amount of the damage, as XYZ Roofing's higher policy limits will apply.
- ☐ ABC GC will not receive any coverage because the damage was not caused by XYZ Roofing.
- ☐ ABC GC may receive \$500,000 coverage, as AI coverage is limited to the amount required by the contract.

“Scheduled” Additional Insured Endorsements for Contractors

Knowledge Check



Directions: Read the scenario and answer the question that follows.

Granite City Masonry is doing the interior stone and marble installation for an attorney’s office in a large high-rise as a subcontractor for Big City Builders. The contract requires Granite City to name Big City as an additional insured. To access the location, Granite City must also include Riverside Property Managers and Tall Towers, the owner of the office building, as additional insureds, as well.

Which endorsement(s) should you recommend to cover the ongoing and premises liability exposure for the additional insureds?

- ☐ CG 20 37 12 19 and CG 20 10 12 19, as they provide coverage for both ongoing and completed operations for the additional insureds.
- ☐ CG 20 28 12 19, as it provides coverage for the additional insureds for ongoing operations.
- ☐ CG 20 26 12 19, as it provides premises liability and ongoing operations coverage for the additional insureds.
- ☐ CG 20 11 12 19, as it provides premises liability for the additional insureds.

“Automatic” Additional Insured Endorsements for Contractors

» Knowledge Check



Directions: Read the scenario and answer the questions that follow.

An insurance agent is advising a contractor who needs to cover multiple parties as additional insureds under a construction contract. The contractor is considering the CG 20 33 and CG 20 38 endorsements.

1. Which of the following best describes a key difference between the two endorsements?
 - ☐ CG 20 33 requires a direct contractual relationship (privity of contract) between the Named Insured and the additional insured, while CG 20 38 does not.
 - ☐ CG 20 33 extends coverage to all parties listed in the construction contract, whereas CG 20 38 limits coverage to only those directly in a contract with the insured.
 - ☐ CG 20 33 provides coverage for completed operations, while CG 20 38 does not.
 - ☐ CG 20 38 provides coverage for completed operations, while CG 20 33 does not.
2. When choosing between the CG 20 33 and CG 20 38 endorsements, what is a crucial factor in deciding which endorsement to use?
 - ☐ Whether the endorsement provides coverage for completed operations
 - ☐ The inclusion of professional liability coverage in the endorsement
 - ☐ The automatic inclusion of the endorsement in all policies without additional cost
 - ☐ The insurance company's willingness to offer broader coverage

Primary and Noncontributory Endorsements

» Knowledge Check



Directions: Select the best response to the following question.

What is the best solution when a client requests "primary and non-contributory" wording on their insurance certificate, but this language is not included in the actual insurance policy?

- ☐ Add the requested wording to the certificate of insurance anyway, as it is a common industry request.
- ☐ Inform the client that "primary and non-contributory" wording can only be added if the contractor agrees to it.
- ☐ Ensure the insurance policy includes the appropriate "primary and noncontributory" endorsement, such as ISO's CG 20 01.
- ☐ Provide a verbal agreement to the client that the policy will be primary and non-contributory and then issue the certificate with the requested language.

Section 3 Self-Quiz

Directions: Determine whether each of the following entities would be a Named Insured, an automatic insured, or would need to be added as an additional insured on the CGL policy.

1. The spouse of a business's sole proprietor, but only for business purposes

Named Insured	Automatic Insured	Additional Insured
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2. A joint venture

Named Insured	Automatic Insured	Additional Insured
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3. The individual members of a partnership

Named Insured	Automatic Insured	Additional Insured
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4. A general contractor has been added to his subcontractor's CGL policy through endorsement

Named Insured	Automatic Insured	Additional Insured
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5. A trust

Named Insured	Automatic Insured	Additional Insured
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Section 3: Named Insureds, Automatic Insureds, and Non-Automatic Insureds

Directions: Select the best response to each of the following questions.

6. Global Corp. is planning to acquire a new business entity, Venture, Inc. Alex, the owner of Global Corp. assumes that Venture, Inc. will automatically receive coverage under the existing Commercial General Liability (CGL) policy for Global Corp.

Which potential challenge might arise with this assumption?

- ☐ The automatic coverage for Venture, Inc. will be limited to 90 days and will not cover any liabilities arising from before the acquisition of Venture, Inc.
 - ☐ Venture Inc. will not be covered because it is not an LLC and, therefore, does not qualify for automatic coverage.
 - ☐ Venture Inc. will not be covered automatically because it does not meet the criteria for automatic coverage if it was not formed by Global Corp.
 - ☐ Global Corp. will need to pay additional premiums for Venture Inc. to receive automatic coverage under the policy.
7. Jordan Doe operates his business under the name GreenTech Innovations. He is updating his Commercial General Liability (CGL) policy and wants to include the business's public-facing name, GreenTech Innovations, as the Named Insured.

Which approach can should Jordan take to ensure proper coverage?

- ☐ List only GreenTech Innovations as the Named Insured to simplify the policy Declarations.
- ☐ List "Jordan Doe" and "Jordan Doe DBA GreenTech Innovations" on the policy Declarations.
- ☐ List GreenTech Innovations as the first Named Insured and Jordan Doe as the second Named Insured.
- ☐ List "GreenTech Innovations DBA Jordan Joe" on the policy Declarations.

Section 3: Named Insureds, Automatic Insureds, and Non-automatic Insureds

8. When the first Named Insured under a Commercial General Liability (CGL) policy is a corporation, what special consideration must be taken into account regarding the notification of claims or suits?
- ☐ The corporation must notify the insurer only if the CEO or President becomes aware of a claim or occurrence.
 - ☐ The corporation must ensure that only the CEO or President is responsible for notifying the insurer of a claim or occurrence.
 - ☐ It is helpful to add an endorsement to specify who must have knowledge of an occurrence or offense before the duty to notify the insurer is triggered.
 - ☐ The corporation does not have the same duty to notify that individual Named Insureds have.
9. Which of the following is a duty of the first Named Insured of a CGL policy under the Common Policy Conditions?
- ☐ Ensuring that all Named Insureds have access to the policy terms and conditions
 - ☐ Providing advance written notice to the insurer if they wish to cancel the policy
 - ☐ Notifying the insurer of any changes made to the insured's business operations
 - ☐ Ensuring that all insured parties comply with safety regulations
10. Which of the following workers are automatically covered as insureds under a standard, unendorsed Commercial General Liability (CGL) policy?
- ☐ A volunteer working without pay at a community event sponsored by a construction company
 - ☐ A worker provided by a temp agency to fill a temporary vacancy during an employee's maternity leave
 - ☐ A temporary worker furnished to the Named Insured to assist with short-term operational needs during a busy season
 - ☐ For a claim involving failure to provide professional healthcare services, a nurse employed to provide on-site medical services at a construction site

Section 3: Named Insureds, Automatic Insureds, and Non-Automatic Insureds

11. In which of the following situations would a spouse be excluded from automatic coverage under a Commercial General Liability (CGL) policy for a sole proprietorship or partnership?
- ☐ The spouse assists in managing the sole proprietorship's business operations and faces a liability related to those activities.
 - ☐ The spouse is involved in the partnership's business operations and is named in a lawsuit due to actions taken on behalf of the partnership.
 - ☐ The spouse helps with administrative tasks for the sole proprietorship and is sued for bodily injury resulting from the performance of those tasks.
 - ☐ The spouse owns and operates a separate business unrelated to the sole proprietorship or partnership, and that business faces a liability lawsuit.
12. Why might an indemnitee request to be added as an additional insured on an indemnitor's Commercial General Liability (CGL) policy?
- ☐ To have full control over the indemnitor's insurance policy and make changes as needed
 - ☐ To reduce the indemnitee's obligation to fulfill the indemnification agreement under the contract
 - ☐ To gain direct rights under the indemnitor's policy, including access to defense
 - ☐ To automatically receive higher liability limits on the indemnitee's own insurance policy

Section 3: Named Insureds, Automatic Insureds, and Non-automatic Insureds

13. Which of the following is a potential problem that a Named Insured might face when adding one or more additional insureds to their CGL policy?
- ☐ The Named Insured's policy limits may be diluted, reducing the available coverage for themselves.
 - ☐ The additional insured automatically gains full control over the defense strategy in the event of a claim.
 - ☐ The Named Insured will no longer be able to purchase endorsements for their own coverage.
 - ☐ The Named Insured is guaranteed to lose any governmental immunity they may have otherwise had with respect to liability claims.
14. Why is the CG 20 10 11 85 endorsement highly sought after by contractors even though it is not commonly offered by insurers?
- ☐ It provides limited coverage for additional insureds, focusing only on ongoing operations.
 - ☐ It includes broader coverage for additional insureds, covering both ongoing and completed operations, and can potentially cover even a solely negligent additional insured.
 - ☐ It restricts coverage to only completed operations, which is more desirable for contractors.
 - ☐ It simplifies the coverage scope by excluding "arising out of" language, reducing legal complexity.
15. Which of the following is a primary reason the CG 20 10 07 04 endorsement might be rejected by a policyholder?
- ☐ It eliminates coverage for the sole negligence of the Named Insured.
 - ☐ It requires that the Named Insured must have contributed to the loss for coverage to apply.
 - ☐ It mandates that all claims be settled out of court.
 - ☐ It provides unlimited coverage for all additional insureds.

Section 3: Named Insureds, Automatic Insureds, and Non-Automatic Insureds

16. XYZ Electrical is a subcontractor on a large commercial project and has added LMN Construction as an additional insured on their CGL policy using the CG 20 10 12 19 endorsement. During the project, an electrical fire occurs, causing significant damage to the property. The investigation reveals that the fire was caused by a faulty installation by XYZ Electrical.

LMN Construction is sued for the damages, but the contract between XYZ Electrical and LMN Construction states that additional insured coverage is limited to \$1 million, even though XYZ Electrical's CGL policy has a \$2 million limit.

Given the CG 20 10 12 19 endorsement and the contractual terms, what is a potential implication for LMN Construction's insurance coverage in this scenario?

- ☐ LMN Construction will have access to the full \$2 million limit of XYZ Electrical's CGL policy.
- ☐ LMN Construction will be denied coverage because the fire was caused by XYZ Electrical's negligence.
- ☐ LMN Construction's coverage may be limited to \$1 million, as specified in the contract, regardless of the policy's higher limits.
- ☐ LMN Construction will automatically receive defense costs without any limitation on the amount of coverage.

17. What is a potential challenge with using the CG 20 26 endorsement?

- ☐ It automatically includes completed operations coverage, which can lead to unanticipated liabilities.
- ☐ The CG 20 26 endorsement provides coverage only for operations "for" the additional insured, potentially creating coverage gaps in complex projects.
- ☐ The broad scope of the CG 20 26 endorsement, covering ongoing operations and premises exposures, can make some insurers wary due to unanticipated liabilities.
- ☐ The CG 20 26 endorsement is difficult to use because it always includes a professional exclusion, limiting its applicability in certain projects.

Section 3: Named Insureds, Automatic Insureds, and Non-automatic Insureds

18. What is a key feature of the CG 20 32 endorsement regarding the coverage of design professionals?

- ☐ It provides coverage for design professionals regardless of any contractual obligation between the Named Insured and the design professional.
- ☐ It requires that the Named Insured must have a contractual obligation to add the design professional as an additional insured.
- ☐ It covers claims related to the supervision and training of others by the design professional.
- ☐ It replaces the need for a professional exclusion in the policy, thus providing broader coverage for professional liabilities.

19. What is the primary purpose of using an Automatic Additional Insured endorsement in contractor insurance?

- ☐ To cover all parties involved in a project without requiring any specific names to be listed.
- ☐ To automatically combine coverage for ongoing and completed operations.
- ☐ To automatically include coverage for professional liability claims without additional documentation.
- ☐ To ensure that coverage is automatically in place, preventing issues related to forgetting to request Additional Insured endorsements before starting a project.

20. Which of the following Automatic Additional Insured endorsement(s) provide completed operations coverage? (Select all that apply).

- ☐ CG 20 33 12 19
- ☐ CG 20 38 12 19
- ☐ CG 20 39 12 19
- ☐ CG 20 40 12 19

Section 3: Named Insureds, Automatic Insureds, and Non-Automatic Insureds

21. What is a key consideration when handling requests for primary and noncontributory wording on excess liability or umbrella policies?

- ☐ Excess liability and umbrella policies automatically follow the terms of the underlying general liability policy.
- ☐ Most follow-form excess liability or umbrella policies mirror the underlying policy without deviation.
- ☐ Horizontal exhaustion requires that all primary insurance layers be exhausted before excess liability or umbrella policies respond.
- ☐ Vertical exhaustion requires that excess liability or umbrella policies pay out before the primary policies are exhausted.

Section 4: Contractors Liability and Exposures

CGL and Contractual Coverage Requirements

» Knowledge Check



Directions: Select the best response for the following questions.

1. Which of the following best describes how the insurer's duty to defend is established in a state using the "Four Corners Rule"?
 - ☐ The insurer can look at the allegations in the complaint as well as external documents and evidence not included in the lawsuit to decide whether they must provide a defense.
 - ☐ The insurer must look at any information, including extrinsic evidence, that could either establish or negate coverage when determining the duty to defend.
 - ☐ The insurer can only consider extrinsic evidence if it would establish coverage in favor of the policyholder, but not to negate coverage.
 - ☐ The insurer must only compare the content of the complaint with content of the insurance policy to determine if there is potential coverage, without considering any other evidence.

Section 4: Contractors Liability and Exposures

2. Under what circumstances can an insurer seek reimbursement for defending uncovered claims in a lawsuit involving multiple allegations?
- ☐ The insurer can always seek reimbursement for defending uncovered claims, regardless of notification to the insured.
 - ☐ The insurer can never seek reimbursement for defending uncovered claims, even if only one count is covered.
 - ☐ The insurer may seek reimbursement for defending uncovered claims if they notify the insured in advance, reserve the right to do so, and if the jurisdiction permits it.
 - ☐ The insurer can seek reimbursement only if all claims are uncovered, they notify the insured, and the jurisdiction permits it.

Coverage A Insuring Agreement: Bodily Injury and Property Damage Liability

Check-In



Directions: Indicate whether each statement is true or false.

1. In nearly all jurisdictions, a claim for mental anguish without accompanying physical harm is considered bodily injury.

True

False

2. Electronic data is considered tangible property and damage to it is included in standard property damage liability coverage under the CGL Policy.

True

False

3. The CGL Policy defines an “occurrence” as an accident, including continuous or repeated exposure to harmful conditions, but jurisdictions vary as to whether construction defects fall under this definition.

True

False

» Knowledge Check



Directions: Read the scenarios and answer the following questions.

The Named Insured is a sole proprietor working as a plumber. In 2024, some of the piping he installed began to leak and caused property damage to the customer's building. The Named Insured repaired the leak and the damage. In 2025, the pipes leaked again, causing additional property damage.

How will the CGL in effect in 2025 respond to the claim for property damage caused by the leak that happened in 2025?

- ☒ The 2025 policy will cover the damage fully because the damage happened in 2025.
- ☐ The 2025 policy will deny coverage because the Named Insured was aware of the property damage that happened in 2024, and the 2025 damage is a continuation or resumption of that damage.
- ☐ The 2025 policy will cover the damage only if the Named Insured can prove that the pipe was repaired.
- ☐ The 2025 policy will provide coverage for the damage, but only if the defect was reported immediately after discovery.

Limiting The Scope Of The Coverage A Insuring Agreement



» Knowledge Check

Directions: Fill in the blanks using the terms from the word bank. Terms may be used only once, and not all terms will be used.

CG 21 34 Exclusion - Designated Work	admitted	class codes
CG 21 53 Exclusion - Designated Ongoing Operations	non-admitted	endorsement

1. The _____ endorsement excludes coverage for bodily injury or property damage included in the products-completed operations hazard that arises from the insured's work listed in the Schedule.
2. The Designated Operations - Coverage Limitation endorsement is most commonly seen in the _____ market.
3. Challenges with limiting coverage using _____ include the fact that they can be vague, and the insured may not have access to their descriptions.

Select CGL Coverage A Exclusions

Check-In



Directions: Select the best responses to the following questions.

1. How would a contractor typically close the coverage gap created by the Employers Liability exclusion in the CGL policy?
 - ☐ Purchase an umbrella liability policy.
 - ☐ Add an endorsement to the CGL policy to remove the employer's liability exclusion.
 - ☐ Obtain specialized general liability coverage in the non-admitted market that includes employer's liability.
 - ☐ Rely on the Employers Liability coverage included in their Workers Compensation policy.
2. Which of the following scenarios would likely be an exception to the Pollution exclusion in an unendorsed CGL policy?
 - ☐ A contractor sprays pesticides on a lawn, and the chemicals seep into nearby water supplies, causing property damage.
 - ☐ A fire breaks out in a building, releasing smoke and fumes that cause bodily injury to occupants.
 - ☐ A construction company disposes of industrial waste improperly, contaminating the soil at a project site.
 - ☐ A factory releases harmful emissions into the air as part of its regular operations, leading to nearby property damage.

Check-In



Directions: Indicate whether each of the following statements is true or false.

1. The Aircraft, Auto, or Watercraft exclusion applies to bodily injury or property damage arising out of the ownership, use, or maintenance of any aircraft, autos, or watercraft owned or rented by the insured.

True

False

2. On-premises valet parking liabilities are excluded under the Aircraft, Auto, or Watercraft exclusion, but physical damage is still covered.

True

False

3. Bodily injury caused by the Named Insured's mobile equipment while it is being driven is always covered under the CGL policy even when the equipment is driven on public roads.

True

False

4. The j.(6) exclusion covers damage to completed work that must be repaired or replaced due to faulty workmanship.

True

False

Check-In



Directions: Read the scenario and answer the question that follows.

A commercial construction company, ABC Builders, recently built a large office building. The company did most of the work itself and hired subcontractors for the electrical and plumbing installations. Six months after the building was completed, a major plumbing leak, caused by faulty work by a plumbing subcontractor caused extensive water damage throughout the building.

Which of the following best describes the coverage implications under ABC Builders' unendorsed Commercial General Liability (CGL) policy regarding the water damage caused by the plumbing subcontractor's work? Assume that the loss is considered an occurrence of property damage.

- ☐ The subcontractor exception to the Damage To Your Work exclusion would apply, and the policy would cover the water damage caused by the plumbing subcontractor's work.
- ☐ The water damage caused by the plumbing subcontractor's work would be excluded because the Damage To Your Work exclusion applies to all subcontractor-related damage.
- ☐ The policy would only cover damage to the work performed by ABC Builders, and the water damage to any plumbing or electrical work would not be covered.
- ☐ The subcontractor exception to the Damage To Your Work exclusion does not apply in this case, and the policy would not cover any damages related to the subcontractor's work.

» Knowledge Check



Directions: Answer the following questions regarding Coverage A exclusions.

1. In which of the following situations would the CGL's Pollution exclusion likely apply?
 - ☐ A contractor at a job site accidentally punctures a customer's fuel tank with their equipment, causing oil to spill onto the ground.
 - ☐ The heating system in the Named Insured's building malfunctions, causing a carbon monoxide leak that results in bodily injury.
 - ☐ A contractor's worksite runoff causes a large amount of concrete slurry to enter a nearby river, damaging aquatic life.
 - ☐ A fire breaks out at a construction site, and smoke and fumes from burning materials cause damage to nearby buildings.

2. A contractor is hired to perform snow removal services during the winter season. After the contractor completes a snow plowing job, a pedestrian slips and falls on the property, leading to a lawsuit for bodily injury. The contractor's CGL policy does not currently have specific snow removal coverage. What should the contractor do to ensure coverage for incidents like this in the future?
 - ☐ Add a "Completed Operations" endorsement to cover accidents occurring after snow removal.
 - ☐ Include the CG 22 92 Snow Plow Operations endorsement to the CGL policy.
 - ☐ Purchase a separate Business Auto Policy to cover snow removal operations.
 - ☐ Request a waiver of subrogation from the client to avoid liability claims.

Section 4: Contractors Liability and Exposures

3. A contractor is hired to install custom cabinets in a kitchen. During the installation, they improperly secure one cabinet, which falls and damages both the cabinet and the countertop below. Based on the j.(5) and j.(6) exclusions in the CGL policy, what part of the damage would likely be excluded from coverage?
- ☐ The damage to the cabinet but not the countertop would be excluded.
 - ☐ The damage to the countertop but not the cabinet would be excluded.
 - ☐ The damage to both the cabinet and the countertop would be excluded.
 - ☐ The damage to both the cabinet and countertop would be covered since the work was still in progress.
4. What is the main purpose of the Damage To Impaired Property Or Property Not Physically Injured exclusion in the CGL policy?
- ☐ To exclude coverage for property damage claims arising from sudden and accidental physical injuries to the insured's product after it has been used
 - ☐ To limit coverage for loss of use of property that is impaired or has not been physically injured, specifically when the damage arises from defects, deficiencies, or failures in the insured's product or work
 - ☐ To provide coverage for loss of use of property caused by the insured's faulty work or product if the property has sustained physical injury
 - ☐ To cover the costs of repairing or replacing the insured's defective product that causes damage to other property

Wrap-Up Programs: An Overview

» Knowledge Check



Directions: Match the endorsement number to the description of the coverage provided.

A. CG 21 31	_____ It excludes coverage for operations that are part of a controlled (wrap-up) insurance program and adds a clause stating that the exclusion does not apply if the wrap-up has been canceled, non-renewed, or otherwise no longer applies. It also includes an exception for additional insureds who are not enrolled in the wrap-up, such as equipment leasing companies.
B. CG 21 54	_____ Excludes coverage for operations that are part of a controlled (wrap-up) insurance program and adds a clause stating that the exclusion does not apply if the wrap-up has been canceled, non-renewed, or otherwise no longer applies.
C. CG 40 07	_____ Excludes coverage for operations that are part of a controlled (wrap-up) insurance program and includes an exception for additional insureds who are not enrolled in the wrap-up, such as equipment leasing companies.
D. CG 40 08	_____ Excludes coverage for operations that are part of a controlled (wrap-up) insurance program

Select Construction-Related Endorsements



» Knowledge Check

Directions: Read the scenarios and answer the questions that follow.

1. A contractor is hired to perform general maintenance at a facility that processes hemp products. The facility is legal under federal law because its hemp products contain less than 0.3% THC. However, the contractor's insurance policy includes CG 40 14 12 20 Cannabis exclusion. During the course of maintenance, a fire caused by the contractor's work damages some of the facility's equipment and inventory. Which of the following statements accurately describes the potential impact of the Cannabis exclusion on the contractor's insurance coverage?
 - ☐ The insurance policy will cover the damages, as the facility only processes hemp products and not marijuana, which is excluded.
 - ☐ The insurance policy will cover the damages, but the contractor may face increased premiums due to the cannabis-related exclusion.
 - ☐ The insurance policy will not cover damage to the equipment or the inventory.
 - ☐ The insurance policy will not cover the damage to the inventory because the Cannabis exclusion applies to all products containing THC or cannabinoids, regardless of the THC content.

Section 4: Contractors Liability and Exposures

2. A general contractor's CGL policy includes a subcontractor warranty. A subcontractor hired by this general contractor does not have a certificate of insurance, and their coverage does not meet the specific requirements outlined by the policy. Which of the following actions could help the subcontractor avoid penalties and ensure compliance with the subcontractor warranty?
- ☐ The subcontractor provides proof of having a general liability policy with coverage limits that are lower than the general contractor's requirements.
 - ☐ The subcontractor obtains a certificate of insurance before work begins, secures Additional Insured endorsements, meets the specific limits on the CGL policy, and ensures compliance with workers compensation requirements.
 - ☐ The subcontractor negotiates a lower deductible with the insurance provider and negotiates lower required limits on the subcontractor warranty.
 - ☐ The subcontractor begins work while seeking adequate insurance because they have until 90 days after the project completion to provide a certificate of insurance.

Supplementary Payments and Limits of Insurance

» Knowledge Check



Directions: Select the best response to each of the following questions.

1. Sarah, the owner of a small construction business, has a Commercial General Liability (CGL) policy that includes Coverages A (Bodily Injury and Property Damage Liability) and B (Personal and Advertising Injury Liability). One day, an accident occurs at a worksite, resulting in bodily injury. During the investigation, Sarah must take time off work to attend court proceedings and assist in her defense. Additionally, a bond is required to release equipment that has been attached by a creditor.

Based on the Supplementary Payments section of Sarah's CGL policy for Coverages A and B, which of the following costs would **not** be covered as a supplementary payment?

- ☐ \$250 per day for lost earnings due to Sarah's time off work to attend court proceedings
 - ☐ The cost of the bond to release the attached equipment
 - ☐ Plaintiff attorney's fees taxed against Sarah by the court
 - ☐ Pre-judgment interest on a portion of the judgment paid by the insurer
2. How does the Designated Construction Project(s) General Aggregate Limit endorsement (CG 25 03) impact the application of the CGL General Aggregate Limit?
 - ☐ It increases the overall General Aggregate Limit for all projects combined.
 - ☐ It applies the General Aggregate Limit for designated projects on a per-project basis, ensuring claims from one project do not affect coverage for others.
 - ☐ It removes the General Aggregate Limit for claims related to bodily injury.
 - ☐ It applies the General Aggregate Limit on a per-location basis, ensuring claims at one location do not affect another.

Section 4 Self-Quiz

Directions: Select the best response for each of the following questions.

1. What are the requirements to trigger an insurance company's duty to pay a CGL claim?
 - ☐ The insured must agree to the settlement, and the insurer must defend the claim.
 - ☐ The claim must fall within the scope of coverage, and the insured must be found legally liable.
 - ☐ The insured must be found legally liable, and the insurer must defend the claim, even if there is no coverage.
 - ☐ The insured must approve any settlements made by the insurer, and the claim must fall within the scope coverage.
2. How would a CGL policy respond if there were multiple allegations against an insured, but only some were covered?
 - ☐ The insurer must defend the entire lawsuit if at least one allegation is potentially covered.
 - ☐ The insurer is only required to defend the counts that are covered under the policy.
 - ☐ The insurer must defend the entire lawsuit, but only if the insured is covered for 50% or more of the allegations.
 - ☐ The insurer is not obligated to defend the lawsuit unless the insured is covered for all of the allegations.

Section 4: Contractors Liability and Exposures

3. Which of the following scenarios would be excluded from property damage coverage on an unendorsed CGL Policy?
- ☐ A contractor accidentally damages a building's electrical wiring, causing the business to lose power and cease operations for two days.
 - ☐ An explosion in a parking lot damages several stores, and undamaged stores at the far end of the strip mall cannot open due to safety concerns.
 - ☐ A contractor accidentally crosses wires, damaging computers in an office building and causing the loss of important client data.
 - ☐ A business loses income due to physical damage to its building caused by a contractor's error during construction work.
4. Which of the following theories triggers CGL bodily injury or property damage coverage at the time when the injured party was subjected to harmful conditions, even if the injury or damage took years to manifest?
- ☐ Manifestation Theory
 - ☐ Injury-in-Fact Theory
 - ☐ Continuous Trigger Theory
 - ☐ Exposure Theory
5. A contractor in Colorado is hired to perform roofing and waterproofing work, but due to the state's history with construction defect claims, the insurance carrier decides to exclude coverage for completed operations due to these specific operations. Which exclusionary endorsement is the insurer most likely to use to specifically exclude coverage for this completed operations exposure?
- ☐ CG 21 34 Exclusion—Designated Work
 - ☐ CG 21 53 Exclusion—Designated Ongoing Operations
 - ☐ CG 21 49 Total Pollution Exclusion Endorsement
 - ☐ Designated Operations—Coverage Limitation

Section 4: Contractors Liability and Exposures

6. A subcontractor's employee, Sam, is injured on a job site and files a claim against the general contractor (GC). Both the subcontractor and the GC are insured under the subcontractor's commercial general liability (CGL) policy, with the GC listed as an additional insured. If an Any Insured vs. Any Insured Cross Liability Exclusion has been added to the subcontractor's policy, what is the most likely outcome?
- ☐ The claim will not be covered, as the Any Insured vs. Any Insured Cross Liability Exclusion bars claims between insured parties under the same policy.
 - ☐ The claim will be covered under the subcontractor's CGL policy, as it involves two insured parties.
 - ☐ The claim will not be covered under the GC's own CGL policy, because of the subcontractor's exclusion.
 - ☐ The claim will be denied only if Sam's injury was unrelated to his employment with the subcontractor.
7. Which of the following is an example of "mobile equipment" under a CGL policy?
- ☐ A dump truck licensed for the road but used exclusively within a construction site
 - ☐ A front-end loader being driven on a job site
 - ☐ A delivery van transporting materials to a job site
 - ☐ A company car used by an employee for business purposes
8. Which of the following scenarios is not excluded by the Damage To Property exclusion in a CGL policy?
- ☐ A contractor accidentally damages equipment rented for use on a job site.
 - ☐ A contractor is hired to repair the roof of a building, but faulty work causes damage to the interior walls while the work is ongoing.
 - ☐ A contractor damages personal property that was temporarily loaned to them for use during a project.
 - ☐ A contractor sells its headquarters building, and the new owner files a claim for damage that occurred after the sale.

Section 4: Contractors Liability and Exposures

9. Which of the following best describes how the General Aggregate Limit under a CGL policy is applied?
- ☐ It applies separately to each claim filed against the insured.
 - ☐ It is the total amount available for all claims, except those related to products-completed operations, over the policy term.
 - ☐ It only applies to bodily injury claims.
 - ☐ It can be increased by adding more insured parties to the policy.
10. Which of the following statements about Supplementary Payments under the CGL policy is true?
- ☐ Supplementary Payments reduce the policy's Limits of Insurance.
 - ☐ The insurer will cover up to \$500 per day for lost earnings due to time off work for defense assistance.
 - ☐ The insurer covers post-judgment interest until the judgment is paid.
 - ☐ Defense of an indemnitee is always covered as a Supplementary Payment.
11. Which of the following statements best describes the purpose of adding endorsements like CG 21 54 or CG 21 31 to a contractor's CGL policy?
- ☐ To exclude coverage under the contractor's CGL policy for operations covered by a wrap-up insurance program, preventing overlap and double coverage
 - ☐ To provide additional liability coverage for contractors and subcontractors on all projects, regardless of whether they are enrolled in a wrap-up program
 - ☐ To ensure contractors are covered for completed operations after a wrap-up program expires
 - ☐ To extend coverage under the wrap-up program to uninsured contractors not enrolled in the wrap-up

Section 4: Contractors Liability and Exposures

12. John's construction company is working on a large project covered by a controlled insurance program (CIP). As part of the project, John leases several pieces of heavy equipment from a leasing company, which requires that it be added as an additional insured on John's CGL policy. However, since John's CGL policy excludes coverage for the project due to the wrap-up exclusion, there is a concern that the equipment leasing company may not have the necessary insurance coverage.

Which endorsement could John add to his CGL policy to ensure the equipment leasing company is covered as an additional insured, even though the project is covered by a wrap-up program?

- ☐ CG 21 54
- ☐ CG 21 31
- ☐ CG 25 03
- ☐ CG 40 07

13. How do the endorsements CG 22 43 Exclusion – Engineers, Architects Or Surveyors Professional Liability and CG 22 79 Exclusion – Contractors Professional Liability differ with respect to what they exclude?

- ☐ CG 22 43 excludes all coverage for professional services including any means, methods, or techniques used by contractors, while CG 22 79 excludes professional services but allows coverage for means, methods, or techniques used by contractors
- ☐ CG 22 43 excludes only professional services related to architects and engineers, whereas CG 22 79 excludes all professional services related to construction.
- ☐ CG 22 43 excludes only means and methods of construction, while CG 22 79 excludes all professional services including construction techniques.
- ☐ CG 22 43 Liability allows coverage for contractor techniques and methods, whereas CG 22 79 excludes coverage for these techniques and methods.

Section 4: Contractors Liability and Exposures

Answer Key

Section 1: Contract Analysis for the Contractor by the Insurance Professional

Section 1: Contract Analysis for the Contractor by the Insurance Professional

The Importance of Contract Review

Check-In



Directions: Read the following disclaimer and answer the question that follows.

“The review conducted is strictly for the purpose of identifying exposures to financial loss and determining the insurance requirements specified in the contract. It is intended solely to assess whether the current insurance program aligns with the contract’s requirements. If it is determined that adjustments to insurance coverage are necessary and feasible, recommendations will be provided to meet the contract’s requirements. Upon the client’s authorization, the agent agrees to request the recommended changes.”

What should the agent add to this disclaimer?

The agent needs to add a statement emphasizing that the contract review does not constitute legal advice.

» Knowledge Check



Directions: Indicate whether each of the following statements is true or false.

1. There is no legal precedent for insurance professionals to review client contracts.

True

False

A 1961 court case set a precedent in which insurance professionals can be held liable for failing to review contracts and disclose information pertaining to an insurance plan.

2. If an insurance agent represents a contractor and a subcontractor on the same project, this presents a conflict of interest that should be disclosed to both parties.

True

False

Transparency is key to ensuring that the insurance professional is behaving ethically and representing all parties fairly and equitably.

3. While the insurance professional's primary objective is to identify exposures and recommend solutions, they can provide legal advice in certain situations.

True

False

Insurance professionals are not qualified to provide legal advice. They can identify financial risks and coverage gaps within contracts but must use disclaimers during contract review to clarify that they are identifying financial risks related to insurance coverage and *are not providing legal advice*.

The Construction Contract

Check-In



Directions: Read each of the following scenarios and indicate whether the party is an indemnitor or indemnitee.

1. Fatima is a subcontractor. She agrees to pay on behalf of the general contractor for any injury or damage for which she is responsible. In this case Fatima is the _____.

Indemnitee

Indemnitor

Fatima is the indemnitor because she will be held financially responsible for damages.

2. Greg owns a construction company. He requires all of his contractors to sign an agreement stating that they will bear financial responsibility for any loss or damage for which they are at least partially responsible. Greg is the _____.

Indemnitee

Indemnitor

Greg is the indemnitee because he will be the party that is compensated in the event of loss or damage.

Types of Indemnification Agreements

» Knowledge Check



Directions: Read the examples of language found in an indemnification agreement and answer the following questions.

“This indemnification shall apply to claims or losses to the extent caused in whole or in part by the [Indemnifying Party] or its agents, contractors, or employees, but shall not apply to the extent that such claims or losses are caused by the [Indemnified Party]'s own sole negligence or willful misconduct.”

1. Which type of indemnification agreement is the language above an example of?

- ☐ Limited Form
- ☒ Intermediate Form
- ☐ Broad Form
- ☐ Hybrid or Combination

This is an example of language found in an intermediate form indemnification agreement because it has the following characteristics:

Shared Responsibility: This type of indemnity covers situations where both parties may be negligent, but the [indemnifying party] only assumes responsibility for its own negligence.

Limited Scope: Unlike broad form indemnity, this does not require the [Indemnifying Party] to indemnify the [indemnified party] for the [indemnified party]'s own negligence.

Section 1: Contract Analysis for the Contractor by the Insurance Professional

“If any provision of this indemnification agreement, or the application thereof to any person or circumstance, is found to be invalid, illegal, or unenforceable to any extent, the remainder of this agreement and the application of such provision to other persons or circumstances shall not be affected and shall be enforced to the fullest extent permitted by law. In such cases, the parties agree that the invalid, illegal, or unenforceable provision shall be deemed modified to the minimum extent necessary to make it enforceable while preserving the parties’ original intent to the fullest extent permitted by law.”

2. Which type of provision has the language shown above and is commonly found in an indemnification agreement?

☒ Savings Clause

☐ Defense Costs

☐ Limitation of Liability

☐ Punitive Damages

This is an example of a savings clause. The phrase “to the fullest extent permitted by law” emphasizes that the agreement should be enforced as broadly as possible under applicable legal constraints. This language adds flexibility, allowing courts to uphold as much of the agreement as possible while respecting legal limits.

Indemnification in Common and Statutory Law

» Knowledge Check



Directions: Select the best responses to the following questions.

1. Which of the following best describes the relationship between common law and statutory law in determining the enforceability of indemnification agreements in construction contracts?
 - ☐ Common law typically overrides statutory law when interpreting indemnification agreements.
 - ☒ Statutory law provides the primary framework, while common law interpretations fill in gaps or address ambiguities in indemnification agreements.
 - ☐ Both common law and statutory law focus exclusively on the clarity and conspicuousness of indemnification agreements.
 - ☐ Statutory law is irrelevant if the indemnification agreement is clearly worded and conspicuously placed within the contract.

Statutory law sets the primary framework for enforceability, while common law interpretations address ambiguities and ensure the agreements align with public policy concerns.

Section 1: Contract Analysis for the Contractor by the Insurance Professional

2. How do indemnity status and additional insured status differ in terms of protection and obligations under construction contracts?

☒ Indemnity status is determined by contract provisions, while additional insured status is defined by the insurance policy and its endorsements.

☐ Both indemnity status and additional insured status are governed exclusively by statutory law.

☐ Indemnity status always provides broader protection than additional insured status.

☐ Additional insured status imposes an obligation on the indemnitor, while indemnity status is solely a responsibility of the insurer.

Indemnity status arises from contract clauses and is subject to statutory and common law, while additional insured status is determined by the insurance policy through endorsements.

Contractual Liability in the CGL Policy

Check-In



Directions: Select the best response to the following question.

In most CGL policies, how are defense costs typically treated in relation to the policy limits when dealing with an uninsured indemnitee?

- ☐ Defense costs are always outside policy limits and do not reduce available coverage.
- ☒ Defense costs are usually inside the policy limits, reducing the coverage available for other damages.
- ☐ Defense costs are covered even if the policy limits are not yet exhausted.
- ☐ Defense costs are covered as a Supplementary Payment and do not impact the CGL policy limits.

Defense costs for an indemnitee are not typically considered Supplementary Payments, and thus will reduce the overall available policy limits.



» Knowledge Check

Directions: Fill in the blanks using terms from the word bank provided. Terms may be used only once, and not every term will be used.

Supplementary Payment(s)	CG 24 26	Insuring Agreement	products-completed operations	outside
CG 21 39	“insured contract”	railroad	CG 22 74	duty to defend

1. The CGL policy Insuring Agreement primarily outlines the insurer's obligation to pay for bodily injury and property damage the insured becomes legally obligated to pay.
2. Defense for a Named Insured is usually provided as a Supplementary Payment that is outside policy limits.
3. There is an exception to the CGL contractual liability exclusion for a(n) “insured contract.”
4. Endorsements such as CG 24 26 and CG 21 39 restrict the definition of “insured contract” and, as such, can limit coverage for indemnification.
5. The insurance company's duty to defend the Named Insured ceases when policy limits have been exhausted in the payments of judgements or settlements.

Excess/Umbrella Liability Policies

Check-In



Directions: Select the best response to the following question.

What potential coverage gap can occur if an excess liability policy's retained limit only considers damages and excludes defense costs?

- ☐ The excess policy will automatically attach once the underlying CGL policy is exhausted, regardless of how the retained limit is defined.
- ☒ The excess policy may fail to attach if the retained limit for damages is not met, even if the underlying CGL policy's limits are exhausted due to a combination of defense costs and damages.
- ☐ The excess policy will cover both defense costs and damages as soon as the underlying CGL policy pays any amount towards a claim.
- ☐ The excess policy will attach only after the underlying CGL policy has paid twice the amount of the retained limit, regardless of the type of payment.

When defense costs are included within the policy limits (referred to as “defense inside the limits”), each dollar spent on legal defense reduces the funds available for paying damages, which can lead to a faster depletion of the primary policy’s limits. If the excess policy does not consider defense costs as part of the retained limit, the insured might be left without excess coverage until a specific amount of damages is reached.

Waivers of Subrogation



» Knowledge Check

Directions: Read the scenario and answer the question that follows.



A construction company has a contract with a building owner that includes a waiver of subrogation clause. The contract stipulates that the waiver applies "to the extent recoverable by insurance." During a project, the construction company's negligence causes \$200,000 in damage to the building. However, the building owner's insurance policy has a deductible of \$250,000, so no claim is paid out by the building owner's insurance company.

What is the likely outcome concerning the waiver of subrogation and the responsibility for the damage?

- ☐ The construction company will be protected by the waiver of subrogation and will not be liable for the damage.
- ☐ The waiver of subrogation will be effective, and the building owner will receive the full \$200,000 from the construction company.
- ☒ The waiver of subrogation will be ineffective, so the construction company remains liable for the \$200,000 in damage.
- ☐ The waiver of subrogation will be effective, and the construction company will not be liable for the damage, while the building owner's insurance will cover the loss.

The waiver of subrogation will be ineffective because the insurance did not cover the loss due to the deductible, and the contract stipulates that the waiver applies "to the extent recoverable by insurance."

Insurance Requirements



» Knowledge Check

Directions: Indicate whether each of the following statements is true or false concerning the requirements laid forth in the 2017 AIA Insurance and Bonds Exhibit.

1. Only the owner is required to be added as an additional insured on the CGL policy for completed operations.

True

False

While the owner, architect, and architect's contractors are required to be added to the contractor's CGL policy for ongoing operations, only the owner needs to be added for completed operations.

2. Certificates of insurance can only be requested prior to the start of work.

True

False

Certificates of insurance can be requested prior to the start of work, at the time of the renewal or replacement of a policy, or at the owner's request.

3. If used together, Business Auto Policy symbols 2, 8, and 9 will provide sufficient automobile liability coverage as per the AIA standards.

True

False

Only symbol 1 provides sufficient coverage to meet AIA requirements.

4. It is becoming increasingly common for contracts to require combined professional and pollution liability insurance.

True

False

Contracts commonly require contractors to carry combined professional and pollution liability insurance to address exposures related to design errors, environmental damage, and other professional services that contractors may provide.

Section 1: Contract Analysis for the Contractor by the Insurance Professional

5. Excess liability and umbrella policies can be universally used to meet the required limits.

True

False

Excess liability and umbrella policies can be used to meet the required limits of insurance, but only if those policies are as broad as the underlying CGL and BAP. This means that excess/umbrella policies cannot contain exclusions not found in the underlying policies.

Statutes of Limitations and Statutes of Repose in Construction



» Knowledge Check

Directions: Read the scenario and answer the questions that follow.

Jameson Construction, a well-established company, is nearing the completion of a major commercial project in a state that has just extended its statute of repose from 10 to 20 years. In response, their insurance underwriter has informed them of a substantial increase in premiums to account for this extended risk.

1. Which of the following best describes the direct impact of the increase in the statute of repose from 10 to 20 years?
 - ☒ The company could now face legal claims for up to 20 years after project completion.
 - ☐ The company could now face legal claims for 20 years after project completion—even longer if the statute is tolled.
 - ☐ Once the new statute takes effect, the company will be able to file legal claims for an additional 10 years.
 - ☐ The window to file legal claims against the company for previous projects will be extended by 20 years.

Statutes of repose provide an absolute cutoff date beyond which no claims can be made, meaning that the company will now face legal claims for up to 20 years after project completion.

Section 1: Contract Analysis for the Contractor by the Insurance Professional

2. From an underwriting perspective, how might this increase in the statute of repose impact Jameson Construction?

- ☐ It does not impact the length of liability and thus will not impact insurance premiums.
- ☐ It increases long-term liability but will have minimal impact on insurance premiums because the statute of limitations is the only relevant factor.
- ☒ It increases long-term liability, leading to higher insurance premiums as the company is exposed to potential claims for a longer period.
- ☐ It will only impact insurance premiums if the statute of limitations is also amended.

From an underwriting perspective, the duration of the repose period affects the amount of risk a contractor assumes each policy year, which can directly impact premium costs.

Section 1 Self-Quiz

Directions: Answer the following questions. Some questions may have more than one correct answer choice.

1. Which of the following best describes the primary responsibilities of an insurance professional during contract review? (Select all that apply.)
- ☐ Providing legal advice on contract terms and conditions
 - ☒ Identifying potential exposures and matching coverage with these exposures
 - ☐ Deciding the final terms of the contract based on legal and insurance considerations
 - ☒ Recommending adjustments to the insurance program as needed based on contract provisions

The contract review process involves identifying potential risks, assessing whether the client's insurance coverage adequately addresses these risks, and recommending necessary adjustments to align coverage with contract requirements. This may include advising changes to the insurance program.

Section 1: Contract Analysis for the Contractor by the Insurance Professional

2. Which of the following should be explicitly stated in a disclaimer used by insurance professionals when providing contract review services?

- ☐ The review will guarantee that all contract requirements are fully met by the current insurance program.
- ☒ The review aims to identify exposures to loss and insurance requirements, without offering legal advice.
- ☐ The review will include legal advice on contract provisions.
- ☐ The insurance professional will make necessary changes to the insurance program at his or her own discretion.

Insurance professionals must use disclaimers in contract review services to clarify that their role is limited to identifying insurance-related exposures and ensuring that coverage meets contract requirements, without offering legal advice. The disclaimer should state that any necessary changes to coverage will be recommended and requested only if authorized by the client.

3. In a construction contract, Company A agrees to an indemnification clause where it will be responsible for paying the full cost of a loss, even if it is only 50% at fault and the remaining 50% of the fault lies with Company B, the indemnitee. This agreement specifies that the indemnitor's responsibility covers losses "caused in whole or in part" by its negligence. Which type of indemnification agreement is being described?

- ☐ Limited Form
- ☒ Intermediate Form
- ☐ Broad Form
- ☐ Hybrid/Combination

The correct answer is intermediate form indemnification because it accurately reflects the scenario where the indemnitor is required to cover the full cost of a loss even if they are only partially responsible, and not for the indemnitee's sole negligence.

Section 1: Contract Analysis for the Contractor by the Insurance Professional

4. When addressing punitive damages in an indemnification agreement, which of the following considerations are part of the three-pronged analysis? (Select all that apply.)

- ☒ Recoverability – Determining if punitive damages can be recovered in the jurisdiction where the contract is enforced
- ☐ Financial Impact – Evaluating the overall financial impact of punitive damages on the indemnification agreement
- ☒ Insurability – Assessing whether punitive damages are insurable in the relevant jurisdiction
- ☒ Coverage – Checking if the insurance policy specifically covers punitive damages

When punitive damages are included in an indemnification agreement, it is crucial to analyze their recoverability, insurability in the jurisdiction, and whether the insurance policy covers them.

5. An indemnification agreement contains the following language:

“...the Contractor shall indemnify and hold harmless the owner, architect, architect's consultants, and agents and employees of any of them from and against claims, damages, losses, and expenses... but only to the extent caused by the negligent acts or omissions of the Contractor, a Subcontractor, anyone directly or indirectly employed by them or anyone for whose acts they may be liable.”

Which type of indemnification agreement is this?

- ☒ Limited Form
- ☐ Intermediate Form
- ☐ Broad Form
- ☐ Hybrid/Combination

This language is characteristic of a limited form indemnification agreement because it restricts the indemnity obligations to claims arising solely from the negligent acts or omissions of the contractor or their subcontractors, rather than encompassing broader or sole negligence of the indemnitee.

Section 1: Contract Analysis for the Contractor by the Insurance Professional

6. How do courts typically impact indemnification agreements' enforceability when interpreting contract language ambiguities?

- ☐ Courts favor the drafter's interpretation of ambiguous language, assuming it reflects the parties' intent.
- ☐ Courts enforce indemnification agreements regardless of ambiguities if the contract includes a "pass-through" provision.
- ☒ Courts construe ambiguities in indemnification agreements against the drafter, emphasizing the need for clear and specific language.
- ☐ Courts always rule in favor of broad-form indemnification agreements, even if ambiguities are present in the contract.

When it comes to interpreting indemnification agreements, courts typically construe any ambiguities against the drafter of the contract.

7. How do insurance policies respond differently to indemnitee status compared to additional insured status?

- ☐ Indemnitee status provides protection through an insurance policy endorsement, while contract clauses define additional insured status.
- ☒ Indemnitee status is determined by contract provisions and statutory law, with the insurer's duty typically to the Named Insured, whereas additional insured status is defined by policy endorsement with the insurer's duty directly to the additional insured.
- ☐ Additional insured status is limited by common law and statutory provisions, while indemnitee status is defined by insurance policy endorsements.
- ☐ Indemnitee status is determined by contract provisions and statutory law, with the insurer's duty typically to the indemnitee, whereas additional insured status is defined by policy endorsement with the insurer's duty directly to the Named Insured.

Indemnitee status is based on contractual agreements and statutory limitations, resulting in the insurer's duty primarily to the Named Insured, while additional insured status is defined by insurance policy endorsements, which establish the insurer's duty directly to the additional insured.

Section 1: Contract Analysis for the Contractor by the Insurance Professional

8. Which of the following accurately describes how CGL coverages for defense costs are handled with additional insured status?

- ☒ Defense costs are handled outside the limits.
- ☐ Defense costs are handled inside the limits.
- ☐ Defense costs are not covered inside or outside the limits.
- ☐ Defense costs are handled by a separate endorsement.

As an additional insured, that person or entity gets insured status the same as any other insured listed under the Who Is An Insured section. As such, in accordance with paragraph 1. of Supplementary Payments, defense is outside the limits of insurance.

9. Which of the following conditions must be met in order for coverage to apply under the “insured contract” exception to the “contractual liability exclusion” in the CGL policy? (Select all that apply)

- ☐ The property damage (PD) or bodily injury (BI) must occur prior to the contract's execution.
- ☒ The contract must explicitly state that the insured is assuming the defense costs associated with litigation.
- ☒ The damages being claimed must fall within the scope of the insurance policy, and any applicable exclusions must not negate coverage.
- ☐ The indemnitee must be added as an additional insured on the policy.

For coverage to apply, several conditions must be met:

1. The agreement must be categorized as an “insured contract” under the policy.
2. The property damage (PD) or bodily injury (BI) must occur after the contract's execution.
3. The contract must explicitly state that the insured is assuming the defense costs associated with litigation.
4. The damages being claimed must fall within the scope of the insurance policy, and any applicable exclusions must not negate coverage.

Section 1: Contract Analysis for the Contractor by the Insurance Professional

10. ABC contracting has an excess liability policy which stipulates that the retained limits must be exhausted by payment of damages only. The underlying liability policy has a limit of \$1 million and is written with defense within the limit of insurance. ABC has a liability claim involving a significant injury that results in a lawsuit. The total legal defense costs amount to \$500,000, and the damages awarded to the plaintiff are \$700,000. The policy limits are exhausted due to the payment of defense and damages, leaving \$200,000 unpaid by the underlying insurance.

In this scenario, how will the excess liability policy's retained limit impact coverage?

- ☐ The excess liability policy will fully cover the \$700,000 in damages and \$500,000 in defense costs because the CGL policy limit is exhausted.
- ☒ The excess liability policy will not attach because the retained limit for damages alone has not been met.
- ☐ The excess liability policy will cover only the \$700,000 in damages, leaving the defense costs unpaid, as the CGL policy is exhausted.
- ☐ The excess liability policy will provide coverage for the entire \$1,000,000 in claims because the CGL policy is exhausted.

The excess policy in this situation states that coverage under the policy only applies to underlying limits that are exhausted from the payment of damages, which are related to the dollars associated with bodily injury, property damage, or personal and advertising injury claims. Defense costs are not considered damages. As a result, the underlying loss does not meet the threshold required for the excess policy to attach.

Section 1: Contract Analysis for the Contractor by the Insurance Professional

11. A contractor operates within 50 feet of a railroad and has signed an indemnification agreement with the railroad. Which endorsement should he add to his BAP?

- ☐ CA 04 43 11 20 Waiver Of Transfer Of Rights Of Recovery Against Others To Us (Waiver of Subrogation) – Automatic When Required By Written Contract Or Agreement
- ☐ CA 04 44 11 20 Waiver Of Transfer Of Rights Of Recovery Against Others To Us (Waiver Of Subrogation)
- ☐ CG 24 17 Contractual Liability Railroads
- ☒ CA 20 70 Coverage For Certain Operations In Connection With Railroads

This endorsement removes the exclusion for “construction contracts” that involve railroad property. When adding this endorsement, it is important to address corresponding requirements under the CGL policy, such as with the CG 24 17 endorsement.

12. What does a "waiver of subrogation" typically involve in the context of insurance?

- ☐ The insurance company waives the insured's right to pursue recovery from any third party responsible for a loss.
- ☒ The insured agrees not to pursue recovery from a third party, thereby preventing the insurance company from exercising its subrogation rights.
- ☐ The insured's waiver allows the insurance company to directly sue the responsible third party for the full amount of the loss.
- ☐ The insurance company does not relinquish its rights to recover any costs associated with a loss, regardless of who is at fault.

A waiver of subrogation occurs when the insured agrees not to pursue recovery from a third party, which, in turn, prevents the insurance company from exercising its subrogation rights. This means the insurer cannot step into the insured's position to seek recovery from the third party after paying for a covered loss.

Section 1: Contract Analysis for the Contractor by the Insurance Professional

13. What is the primary difference between the CA 04 43 11 20 Waiver Of Transfer Of Rights Of Recovery Against Others To Us (Waiver Of Subrogation) – Automatic When Required By Written Contract Or Agreement endorsement and the CA 04 44 11 20 Waiver Of Transfer Of Rights Of Recovery Against Others To Us (Waiver Of Subrogation) endorsement?

- ☒ The CA 04 43 11 20 endorsement applies to broader scenarios, while the CA 04 44 11 20 endorsement is specific to contractual agreements.
- ☐ The CA 04 43 11 20 endorsement is specific to waivers based on contractual agreements, whereas the CA 04 44 11 20 endorsement applies to a broader range of scenarios and provides more flexibility.
- ☐ The CA 04 43 11 20 endorsement waives the insurer's right to recover from the insured, while the CA 04 44 11 20 endorsement waives the insurer's right to recover from third parties only.
- ☐ The CA 04 44 11 20 endorsement is only applicable before a loss occurs, while the CA 04 43 11 20 endorsement can be applied after a loss.

The CA 04 43 11 20 is broader because the only trigger necessary to trigger coverage is the written contract or agreement. With the CA 04 44 11 20, a separate endorsement would need to be issued each time the insured entered into an agreement that requires a waiver of subrogation.

14. Which of the following is a *prohibited* coverages or conditions for a contractor's Commercial General Liability (CGL) policy according to the AIA requirement?

- ☐ Coverage for bodily injury, sickness, or disease, including occupational illnesses and death
- ☐ Personal and advertising injury coverage
- ☒ Exclusions for residential work and roofing
- ☐ Coverage for bodily injury or property damage arising out of completed operations

According to the AIA requirement for CGL coverage, exclusions for residential work and roofing are *prohibited* and should *not* be included in the contractor's CGL policy.

Section 1: Contract Analysis for the Contractor by the Insurance Professional

15. When must a contractor provide certificates of insurance to the owner according to the AIA 2017 Exhibit general provision? (Select all that apply.)

- ☒ Prior to the commencement of work
- ☒ Upon renewal or replacement of each required policy of insurance
- ☒ Upon the owner's written request
- ☐ At the time of policy cancellation or non-renewal

The contractor is required to provide certificates of insurance prior to commencement of work, upon renewal or replacement of insurance policies, and upon the owner's written request, as outlined in the AIA general provision.

16. Which of the following best differentiates a statute of limitations from a statute of repose?

- ☒ A statute of limitations sets a time limit for filing a lawsuit based on when the injury or damage occurred or was discovered, while a statute of repose sets an absolute deadline for responsibility for bodily injury or property damage that occurs after that date.
- ☐ A statute of limitations only applies to bodily injury claims, whereas a statute of repose applies to all types of legal actions.
- ☐ A statute of limitations begins running when the injury occurs, while a statute of repose only starts once the injury is discovered.
- ☐ A statute of limitations can be paused or tolled, but a statute of repose cannot be paused under any circumstances.

A statute of limitations sets a time limit for filing a lawsuit after an injury or damage occurs, with the period varying by the type of claim and jurisdiction; this limit often begins when the injury occurs or is discovered and can sometimes be paused (tolled) under certain conditions. In contrast, a statute of repose imposes an absolute deadline for filing claims, regardless of when the injury is discovered, typically starting from a specific event like the completion of a project. This difference is crucial in industries like construction, where statutes of repose limit long-term liability and influence the level of risk underwritten in policies.

Section 2: Property Exposures and Coverage for Contractors

Introduction to Property Exposures and Coverage

Check-In



Directions: Read the scenario and answer the question that follows.

A contractor has signed a lease agreement for a commercial building that requires them to be responsible for any damage to the property during their tenancy. The lease specifically mandates that the contractor purchase insurance to cover this potential liability.

Which of the following is the most likely reason for the contractor to purchase commercial property insurance in this scenario?

- ☐ Liability policy exclusions
- ☐ Asset protection
- ☒ Contractual requirements
- ☐ Goodwill

The contractor's lease agreement specifically mandates that they purchase insurance to cover potential damage to the property. This is a contractual obligation imposed by the lease, meaning the contractor is required by the terms of the contract to obtain the necessary insurance. This is distinct from other reasons for purchasing insurance, such as protecting assets or filling gaps in liability coverage. In this case, the contractor is purchasing insurance primarily to fulfill the requirements set forth in the lease agreement.

Builders Risk Coverage

Check-In



Directions: Indicate whether each of the following statements are true or false.

1. The AIA A201 contract stipulates that insurance must be purchased from an insurer authorized to operate where the owner's business is headquartered, even if the location differs from where the work is being done.

True

False

Coverage must be purchased from an insurer authorized to transact business where the project is located; note that this requirement does not mean the insurer must be an admitted carrier.

2. The owner must notify all contractors of impending policy expiration or cancellation.

True

False

If the owner's required property insurance is canceled or expires, the owner must notify the contractor within three business days of becoming aware of it.

3. The Builders Risk Policy will need to be endorsed in situations in which the owner is acting as a fiduciary.

True

False

Construction contracts generally require the policy to be endorsed with a fiduciary endorsement, ensuring that the insurance company recognizes the owner's fiduciary role.

Check-In



Directions: Select the best responses to the following questions.

1. According to the AIA contract, what must an owner do if they wish to occupy an insured worksite prior to substantial completion of the project?

- ☐ Obtain written consent from the contractor to ensure the project is complete.
- ☐ Purchase a separate insurance policy to cover early occupancy.
- ☒ Obtain written consent from the insurance company to ensure coverage remains intact.
- ☐ Notify the local authorities and ensure compliance with safety regulations.

If occupancy is expected before the project is substantially complete, this must be negotiated at the time the insurance policy is purchased to avoid any risk of coverage being canceled, lapsed, or reduced.

2. What type of insurance is required for existing structures undergoing renovations?

- ☐ General liability insurance on a market value basis
- ☒ "All-risks" property insurance on a replacement cost basis
- ☐ Builder's risk insurance on an agreed value basis
- ☐ Flood insurance on a replacement cost basis

The exhibit includes a provision requiring the owner to purchase and maintain "all-risks" property insurance on a replacement cost basis for any existing structures being remodeled or added to, covering them against physical loss or damage during the work.

» Knowledge Check



Directions: Select the best response for each of the questions.

1. A construction company has set up \$2,000,000 in scaffolding to support a building during its construction. It cost \$40,0000 to set up the scaffolding. For insurance purposes under the Builders Risk Policy, how should the company insure the scaffolding to ensure it is adequately covered?
 - ☐ The scaffolding should never be insured under the Builders Risk Policy; it should be insured under a separate contractor's equipment policy for direct damage.
 - ☒ The scaffolding should be considered a temporary structure and insured under the Builders Risk Policy for direct damage, including coverage for reinstatement costs after a loss.
 - ☐ The scaffolding should be considered falsework and insured under the Builders Risk Policy, but reinstatement costs after a loss do not need to be covered.
 - ☐ The scaffolding should be considered a permanent structure and insured under the Building And Personal Property Coverage Form.

Scaffolding is a temporary structure crucial to the construction process and may be covered under the Builder's Risk Policy. This coverage should explicitly include both direct damage and the costs associated with reinstatement, as scaffolding represents a significant investment and potential loss exposure.

Section 2: Property Exposures and Coverage for Contractors

2. Hector is the owner of a construction project. Based on the following contract provision, how long should Hector's Builders Risk Policy last (unless otherwise agreed upon)?

§ A.2.3.1.3 Unless the parties agree otherwise, upon Substantial Completion, the Owner shall continue the insurance required by Section A.2.3.1 or, if necessary, replace the insurance policy required under Section A.2.3.1 with property insurance written for the total value of the Project that shall remain in effect until expiration of the period for correction of the Work set forth in Section 12.2.2 of the General Conditions.

- ☐ Until the project is completed, and the final payment is made, after which it must be replaced
- ☐ Until the project is completed and ready for occupancy or the policy expiration, whichever comes first
- ☒ Until substantial completion, after which it must be replaced or continued until the expiration of the correction period
- ☐ Until the project's first inspection is passed, after which the policy should be immediately canceled

According to the contract provision, builder's risk insurance should remain in effect until substantial completion. After that, the owner must either continue the existing coverage or replace it with a new policy covering the total value of the project, ensuring coverage until the correction period for any work defects has expired.

Purchasing Builders Risk Insurance

Check-In



Directions: Select the best response for the question.

Why would a fiduciary endorsement be added to a builders risk policy?

- ☐ To ensure that all parties with an insurable interest are named as insureds
- ☐ To ensure that one Named Insured violating the terms and conditions of the policy will not void coverage for the other insureds
- ☐ To prevent subrogation claims against any Named Insured
- ☒ To simplify the claims handling process by designating a specific entity to manage the claim on behalf of all insured parties

A fiduciary endorsement is specifically added to a builders risk policy to simplify the claims handling process. When multiple parties are named as insureds on the policy, it can become logistically challenging to manage claims, particularly when it comes to issuing payments. The fiduciary endorsement designates one entity to act as the fiduciary, meaning that this entity is responsible for handling the claim and receiving the payment on behalf of all the insured parties.

Check-In



Directions: Select the best response to the following question.

A contractor frequently stores materials assigned to a particular project at their own warehouse before transporting them to a job site. Which of the following steps should the contractor take to ensure these materials are adequately covered?

- ☐ Rely on the standard builders risk policy, as it automatically covers materials stored at any location.
- ☐ Increase and decrease the Your Business Personal Property limit of insurance or add insurance protection for Personal Property Of Others on their existing Building And Business Personal Property Coverage Form as needed for each project to include the value of the stored materials.
- ☒ Modify the builders risk policy to include coverage for materials stored at the contractor's yard.
- ☐ Assume the materials are automatically covered by the job site's insurance once they are transported, so no additional coverage is needed.

Standard builder's risk policies often exclude coverage for materials stored at the contractor's own warehouse or storage yard. To ensure these materials are protected, the contractor should modify their builder's risk policy to include coverage for such locations or obtain a separate endorsement specifically for materials stored at their yard.

Section 2: Property Exposures and Coverage for Contractors

» Knowledge Check



Directions: Match the endorsement or coverage solution to the exposure scenario that it would best address.

A. Renovation Project Endorsement	<u>C</u>	Multiple insureds are named on a builders risk policy, complicating the claims-handling process.
B. Ordinance Or Law Extension	<u>A</u>	An insured plans to begin work on expanding and modernizing an existing structure.
C. Fiduciary Endorsement	<u>E</u>	An insured is planning a construction project in an area known for seismic activity, where landslides, mudflows, and sinkholes are common.
D. Builders Risk Testing Coverage	<u>B</u>	An insured wants to ensure that the demolition costs, the value of the undamaged portion of the building, and the increased costs of construction will be covered if they are required by local laws to tear down and/or rebuild following a loss.
E. Earth Movement Coverage - Flat Deductible	<u>F</u>	An insured is seeking protection from any damage that may result due to errors in project specifications or blueprints.
F. Resultant Damage Coverage - Error in Design Endorsement	<u>D</u>	An insured wants to be covered for direct physical loss or damage resulting from operational or performance testing, of individual components or the entire project.

Additional Considerations in Writing Builders Risk Coverage

Check-In



Directions: Select the best response to the following question.

When considering replacement cost coverage in a builders risk policy, which of the following factors might impact the adequacy of the coverage?

- ☐ The policy's exclusion of personal property coverage
- ☒ Whether the policy includes sub-limits on covered property or covered perils
- ☐ The geographic location of the project
- ☐ The requirement to replace the damaged property on a different site

Sublimits in a builders risk policy can restrict the amount of coverage available for certain types of property or specific perils. If these sublimits are lower than the actual cost needed to fully replace or repair the damaged property, the policyholder may not receive enough funds to cover the entire replacement cost. This can result in a significant financial shortfall, leaving the policyholder with inadequate resources to restore the property to its original condition.

Check-In



Directions: Select the best response for the following question.

How can a contractor ensure that they have builders risk coverage until they have received their final payment for a project?

- ☐ By selecting an annual policy regardless of the project's expected duration
- ☐ By ensuring the builders risk policy includes verbiage that terminates coverage upon project occupancy or acceptance by the owner
- ☒ By seeking an endorsement that extends coverage until the contractor's insurable interest in the described project ends
- ☐ By allowing the policy to expire 30 days after construction is completed, as this will automatically cover any remaining financial risks

Standard builders risk policies often include specific triggering events, such as project occupancy, acceptance by the owner, or a set time after construction is completed, that can terminate coverage before the final payment is made, creating gaps that leave the contractor vulnerable. Seeking an endorsement that ensures that coverage continues until the final payment is received protects the contractor from potential financial risks during that critical period.

Check-In



Directions: Select the best response to each of the following questions.

1. What are some of the ancillary exposures to loss associated with green buildings?

Restoration of indoor air quality; recycling costs; certification fees; increased cost of energy and/or water; delay of occupancy or use

2. What are some of the potential soft costs exposures for contractors?

Design and/or engineering costs; permits and applications; legal fees; insurance costs; financing costs; project management fees; environmental studies

Installation Floaters



» Knowledge Check

Directions: Select the best responses to the following questions.

1. A contractor asks why installation floater coverage is necessary for their construction project. Which of the following is the best response to explain the need for this coverage?
 - ☐ "Installation floater coverage is mainly to protect against damage to recently installed products or materials."
 - ☐ "This coverage ensures that your company is protected against losses to materials, equipment, and supplies during critical stages such as transit, temporary storage, and installation, before they become part of the final project."
 - ☒ "This coverage provides coverage for any legal liabilities you might face after the project is completed and the materials are installed, especially those stemming from the products-completed operations hazard."
 - ☐ "Installation floater coverage is only necessary if your project involves hazardous materials or pollutant clean-up."

Installation floater insurance is specifically designed to protect contractors' insurable interests in materials, equipment, and supplies during critical stages of a construction project. These stages include transit, temporary storage, and installation—all periods before the materials and equipment become part of the final project.

Section 2: Property Exposures and Coverage for Contractors

2. A contractor is reviewing the installation floater policy for a new construction project. The policy includes the following wording: “We cover all materials, supplies, equipment, machinery, and fixtures that are owned by you, or for which you are legally liable, that are to be installed by you at your direction while the property is:

- 1.) On the described premises,
- 2.) In transit, or
- 3.) At a temporary storage location.”

The contractor is storing some extra building materials on site that are not intended for installation but are owned by the contractor. A storm damages these materials. Based on the policy wording, which of the following statements best describes whether the damaged materials are covered?

- ☐ The materials are not covered because the policy only covers items in transit or at temporary storage locations.
- ☐ The materials are covered because they are owned by the contractor and were on the described premises.
- ☒ The materials are not covered because they were not intended to be installed as part of the project.
- ☐ The materials are covered because the contractor is legally liable for their damage.

The policy specifically states that coverage is limited to materials, supplies, equipment, machinery, and fixtures “that are to be installed” by the contractor. Since the extra building materials were not intended for installation, they do not fall under the definition of covered property, even though they are owned by the contractor and were on the described premises.

Contractors Equipment Insurance



» Knowledge Check

Directions: Match each exposure scenario with the endorsement that would best address it.

A. Coverage for Overloading	<u>C</u> Todd's bulldozer is damaged by a covered cause of loss, and he will need to rent a replacement while it is being repaired.
B. Rented, Leased, Or Borrowed Equipment Coverage	<u>A</u> Penny's excavator is damaged when one of her employees uses it to move a load of rocks that exceeds its registered lifting capacity.
C. Rental Expense Reimbursement	<u>D</u> Jude purchases a new piece of machinery and wants to ensure that it will have coverage right away.
D. 90-Day Automatic Acquisition Endorsement	<u>B</u> Ginny needs a specialized piece of equipment for a job, and a fellow contractor offers to lend it to her but wants to make sure it will be covered by Ginny's policy.
E. Continuing Rental Payment	<u>F</u> Hector uses a specialized piece of machinery that cannot be easily replaced and is essential for his work. When this equipment is damaged, it significantly limits his ability to take on new jobs.
F. Loss of Income	<u>E</u> Jimmy rents a tower crane, but it is damaged in a hailstorm. Jimmy must continue to pay the rental company even while the crane is being repaired and cannot be used.

Section 2 Self-Quiz

Directions: Select the best responses to each of the following questions.

1. A contractor is reviewing their insurance coverage and notices that their standard liability policies, such as Commercial General Liability (CGL) and Excess/Umbrella policies, have exclusions for property under their care, custody, or control. To address this gap and ensure comprehensive protection, the contractor decides to purchase additional property insurance.

Which of the following scenarios best exemplifies the contractor's motivation for purchasing this additional property insurance?

- ☐ The contractor wants to protect their assets from potential financial losses due to property damage by transferring the risk to an insurer.
- ☐ The contractor aims to enhance their relationship with clients by demonstrating their commitment to maintaining appropriate insurance coverage.
- ☐ The contractor is required to purchase property insurance as stipulated in a construction agreement with a client.
- ☒ The contractor is addressing the liability policy exclusion for property under their care, custody, or control by purchasing additional property insurance.

The contractor's decision to purchase additional property insurance to cover property under their care, custody, or control directly addresses the liability policy exclusions commonly found in standard liability policies. This ensures that any property-related risks not covered by their liability policies are appropriately managed.

Section 2: Property Exposures and Coverage for Contractors

2. Which of the following scenarios is an example of a direct damage loss?

- ☐ A contractor loses rental income because the property they are leasing is damaged and cannot be used.
- ☐ A contractor must continue paying rent for a property they cannot use due to damage.
- ☒ A contractor experiences physical damage to their construction equipment from a fire.
- ☐ The contractor incurs costs to compensate a client for lost income due to property damage on a project.

Direct damage losses involve physical damage to property, such as the contractor's construction equipment being damaged by a fire. The other scenarios are examples of indirect damage losses, which relate to financial impacts or loss of use resulting from damage to property.

3. Why are waivers of subrogation typically included in construction contracts?

- ☐ To ensure the insurer can recover losses from third parties who may have caused the damage
- ☒ To prevent parties involved in the project from suing each other for damages covered by insurance
- ☐ To require all parties to indemnify each other for damages caused by fire or other losses
- ☐ To allow the insurer to charge lower premiums by excluding coverage for certain types of damages

A waiver of subrogation prevents the insurer from seeking reimbursement from third parties for losses covered by the insurance. This is intended to reduce litigation between parties involved in the project by ensuring that they cannot sue each other for damages that are covered by insurance.

Section 2: Property Exposures and Coverage for Contractors

4. According to the AIA contract, whose interests should be covered by a builder's risk policy?

- ☒ The owner, contractor, subcontractors, and mortgagees involved in the project
- ☐ Only the owner's interests, as they are responsible for purchasing the policy
- ☐ Only the contractor's interests, as they are the primary party managing the construction
- ☐ The owner and the mortgagees, with coverage for the contractor and subcontractors being optional

The AIA 2017 contract specifies that the builders risk policy should cover the interests of all parties involved in the project, including the owner, contractor, subcontractors, and mortgagees.

5. Which of the following is an important consideration with respect to how the builders risk policy covers the land on which the covered property is located?

- ☐ The policy may cover the cost of land improvements, such as grading and filling, in full without any additional endorsements.
- ☒ Standard policies exclude damage or loss to the land itself, but some policies might still provide coverage for certain sitework activities.
- ☐ Standard policies contain an additional coverage which ensures that any damage to the land will be automatically covered under the standard Builder's Risk policy.
- ☐ Coverage for land damage is included if the land is located in a high-risk area, regardless of the policy's exclusions.

Builders risk policies typically exclude coverage for the land itself, but it's important to check the policy for any coverage of sitework activities such as excavation or grading, which may be provided outright or with a sublimit.

Section 2: Property Exposures and Coverage for Contractors

6. Why might it be preferable for the contractor to purchase the builders risk insurance rather than the owner?

- ☒ Contractors typically have more experience with construction-related risks and may better understand the coverages required for the project.
- ☐ The contractor can include the builder's risk insurance in the project's budget, which reduces the overall cost for the owner.
- ☐ The contractor is legally required to purchase the builder's risk insurance under all construction contracts.
- ☐ Contractors do not need to notify the owner about any changes to the builder's risk policy if they purchase it.

Contractors are usually more familiar with the specific risks associated with construction and can ensure that the builder's risk insurance adequately covers these risks. Additionally, contractors may secure better terms and conditions due to their experience and volume of insurance purchases.

Section 2: Property Exposures and Coverage for Contractors

7. Which of the following correctly describes how the Ordinance Or Law endorsement differs from the Increased Cost Of Construction endorsement in a builder's risk policy?
- ☐ The Ordinance Or Law endorsement provides additional insurance limits, while the Increased Cost Of Construction endorsement does not.
 - ☒ The Ordinance Or Law endorsement covers losses due to law enforcement within existing policy limits, while the Increased Cost Of Construction endorsement covers extra costs to rebuild after a loss with additional insurance limits.
 - ☐ The Ordinance Or Law endorsement covers the undamaged portion of a building and demolition costs, while the Increased Cost Of Construction endorsement covers rebuilding on a different site.
 - ☐ The Ordinance Or Law endorsement applies only to new laws enacted after a loss, while the Increased Cost Of Construction endorsement applies only to existing laws at the time of the policy's issuance.

The Ordinance Or Law endorsement provides coverage for losses resulting from law enforcement within the policy's existing limits, while the Increased Cost Of Construction endorsement covers the additional costs required to comply with construction laws after a loss, offering an additional limit of insurance.

Section 2: Property Exposures and Coverage for Contractors

8. A construction site suffers damage, and the contractor files a claim under their builders risk policy, which uses an actual cash value (ACV) valuation condition. The insurance adjuster calculates the ACV by evaluating what the property would sell for in an open market, considering both the current market conditions and the condition of the property before the damage occurred. Which method to determine ACV is being used in this scenario?
- ☐ Replacement cost minus depreciation
 - ☒ Fair market value
 - ☐ Broad evidence rule
 - ☐ Current market value minus depreciation

The insurance adjuster determines the actual cash value (ACV) by assessing what the property would sell for in an open market, considering the current market conditions and the property's condition before the damage. This approach aligns with the Fair Market Value method, which defines ACV as the price a willing buyer would pay a willing seller for the property in an open market. Unlike other methods, this one focuses on the property's value in the marketplace rather than just its replacement cost minus depreciation.

Section 2: Property Exposures and Coverage for Contractors

9. Why might an insured consider adding the Notice of Cancellation, Nonrenewal, Or Material Change endorsement to their builders risk policy?

- ☐ To ensure that only the first Named Insured receives notice of cancellation, nonrenewal, or material changes
- ☐ To extend the length of time the first Named Insured has to notified other insureds of cancellation, nonrenewal, or material changes
- ☐ To limit the insurer's obligation to notify parties of policy changes
- ☒ To guarantee that all Named Insureds are informed in case of cancellation, nonrenewal, or material changes

Adding the Notice of Cancellation, Nonrenewal, or Material Change endorsement ensures that all relevant parties, not just the first Named Insured, receive prior written notice if the policy is canceled, not renewed, or significantly altered. This endorsement addresses potential communication gaps in the standard policy, ensuring that every named insured is aware of critical changes that could affect their coverage.

Section 2: Property Exposures and Coverage for Contractors

10. A contractor has just completed installing custom cabinets in a customer's home. Shortly after the installation, a fire destroys the home, and the customer is unable to pay the contractor for the work completed.

Which of the following actions taken at the time coverage was written could have protected the contractor in this situation?

- ☒ Negotiate the installation floater policy terms to extend coverage until all work is completed and accepted by the project owner, and ensure it covers the contractor's insurable interest until payment is received or the contractor's interest has been assigned.
- ☐ Rely on the standard installation floater coverage, as it automatically covers the contractor's insurable interest even after installation is complete.
- ☐ Add a company-specific Care, Custody, and Control endorsement to the policy.
- ☐ Ensure that the policy pays on a replacement cost basis, with reasonable allowances for overhead and profit.

Standard installation floaters typically cease to provide coverage once the installation is complete, which can leave the contractor vulnerable if they haven't been paid. By negotiating to extend coverage until the work is fully completed, accepted, and paid for, the contractor ensures that their insurable interest is protected throughout the duration of the project and beyond installation.

Section 2: Property Exposures and Coverage for Contractors

11. When defining the project scope in an installation floater, which of the following descriptions provides the best coverage for a contractor?

- ☐ "Electrical wiring within buildings"
- ☐ "Electrical work limited to residential properties"
- ☒ "Projects usual and incidental to an electrical contractor"
- ☐ "Installation of electrical panels only"

"Projects usual and incidental to an electrical contractor" is the best choice because it offers a broad description that encompasses a wide range of activities and related work. This broader scope ensures that the installation floater provides comprehensive coverage, reducing the risk of leaving certain activities or related work uncovered. A narrow description could limit the policy's coverage and expose the contractor to potential risks not explicitly included in the policy.

Section 2: Property Exposures and Coverage for Contractors

12. A client has an installation floater which contains the following language under “Covered Property”:

Covered Property, as used in this Coverage Form, means:

1.) Machinery, equipment and materials and supplies which you own, or which is in your care, custody or control and which you will install, repair and/or move at the installation site shown in the Declarations.

How does the underlined wording impact scope of coverage from what might be covered by a similar policy?

- ☐ This policy wording narrows the scope of coverage to only include items in the insured's care, custody, and control.
- ☒ This policy wording broadens the scope of coverage to include items in the insured's care, custody, or control, even if they aren't directly being installed.
- ☐ This is standard policy wording and does not differ from a typical installation floater.
- ☐ This policy wording limits coverage to only cover property while it is at the installation site.

This policy wording broadens the scope of coverage to include items in the insured's care, custody, or control. This effectively provides first-party coverage, meaning it protects the property of others against losses, rather than just covering the insured's owned property.

Section 2: Property Exposures and Coverage for Contractors

13. Jeb loses a piece of equipment and files a claim. Jeb has a coinsurance provision which states that each piece of equipment will be insured at 80% of its value. This means that Jeb will not have to establish values for his entire inventory to determine compliance with coinsurance.

How is coinsurance applied on Jeb's Contractors Equipment Policy?

- ☐ On a per occurrence basis
- ☒ On a per item basis
- ☐ On a flat deductible basis
- ☐ On a percentage deductible basis

Because each piece of Jeb's equipment is insured at a percentage of its value, this means that coinsurance is being applied on a per item basis. If coinsurance were applied on a per occurrence basis, he may be required to assess his entire inventory each time he filed a claim to ensure compliance.

14. Which of the following statements is accurate with respect to coverage for rented, leased, and borrowed equipment on a Contractors Equipment Policy?

- ☐ Contractors always own their own equipment, so there is no need for rented, leased, or borrowed items to be covered.
- ☐ It is nearly impossible for these items to be covered on a Contractors Risk Policy because they are widely considered to be uninsurable risks.
- ☐ Contractors should notify their insurance company every time they rent or borrow a piece of equipment to add it to their schedule of equipment to ensure that it is covered.
- ☒ Contractors should secure coverage for this type of equipment directly through their policy or through endorsement, as it is common to rent or borrow equipment on short notice.

Section 2: Property Exposures and Coverage for Contractors

15. A contractor is working on a project that involves rebuilding the engine of a large piece of machinery. During the rebuilding process, the equipment is temporarily out of service and not in sound condition. The contractor is reviewing their insurance policy to ensure all equipment is covered. The policy typically excludes equipment that is not in sound condition or considered junk at inception of the policy.

Which of the following actions should the contractor take to ensure the equipment is properly covered during the repair process that happens to occur at policy inception?

- ☐ Exclude the equipment from the insurance policy since it is not in sound condition during the repair.
- ☒ Ensure the exclusion does not apply to equipment being repaired at inception.
- ☐ Remove the equipment from the policy permanently as it is no longer operational.
- ☐ Wait until the equipment is fully repaired and operational before adding it to the policy.

The contractor needs to ensure that the equipment is covered by the insurance policy even when it is temporarily out of service for repairs at inception of the policy. Although the policy may exclude equipment that is not in sound condition at policy inception, this exclusion is typically intended for items that are considered junk or no longer in use. In this scenario, the equipment is still valuable and being actively maintained or repaired, so it should not be excluded from coverage simply because it is temporarily out of service.

Section 2: Property Exposures and Coverage for Contractors

16. A contractor recently purchased a new backhoe for a large construction project. The backhoe comes with several additional components, including extra buckets and hydraulic attachments. The contractor is in the process of scheduling this equipment on their contractors equipment policy.

Which of the following actions should the contractor and the contractor's insurance agent take to ensure all relevant components of the backhoe are properly covered under the insurance policy?

- ☐ Schedule only the backhoe itself on the policy, as it is the main piece of equipment, and all of its components will be automatically covered.
- ☐ List the backhoe and any critical components but omit the additional buckets and hydraulic attachments from the policy, as they are not essential to the operation of the backhoe.
- ☐ List the backhoe on the policy with the phrase "and any other important parts"
- ☒ Schedule the backhoe and include the phrase "including its attachments, accessories, and equipment" in the description to cover all related components.

Adding the phrase "including its attachments, accessories, and equipment" ensures comprehensive coverage of the backhoe and all its related components. By including the phrase "including its attachments, accessories, and equipment" in the policy description, the contractor guarantees that not only the main piece of equipment (the backhoe) but also any additional items—such as extra buckets, hydraulic attachments, and other accessories—are covered. This prevents any disputes over whether these components are included in the event of a loss. Simply scheduling the main equipment without this phrase might lead to gaps in coverage, potentially leaving the contractor unprotected if something happens to the additional items.

Section 2: Property Exposures and Coverage for Contractors

Section 3: Named Insureds, Automatic Insureds, and Non-Automatic Insureds

Named Insureds and the CGL Policy

Check-In



Directions: Read the scenario and answer the question that follows.

Maria Shingle operates a small roofing business under the name “Shingle's Roofing.” She is the sole proprietor and wants to ensure that her business is properly covered under a CGL policy.

Which of the following is the best way to list the Named Insured to provide the broadest coverage?

- ☐ Shingle’s Roofing as the only Named Insured
- ☐ Maria Shingle DBA Shingle’s Roofing as the only Named Insured
- ☒ Maria Shingle as a Named Insured, AND Maria Shingle DBA Shingle’s Roofing as a Named Insured

Listing Maria Shingle as a named insured guarantees that all aspects of her business, including those not directly associated with the DBA, are covered. By including “Maria Shingle DBA Shingle’s Roofing” as a Named Insured, the policy acknowledges the name under which the business operates, without creating the possibility of a coverage limitations.

Check-In



Directions: Indicate whether each of the following statements is true or false.

1. All members of a partnership must be named individually in the CGL Declarations.

True

False

There is no requirement to name each partner individually as partners in a partnership are automatically included as insureds.

2. Contractors can benefit from a nonstandard CGL endorsement that covers their liability from former business entities, whether or not they are listed on the Declarations.

True

False

Nonstandard endorsements may provide coverage for the insured's liability from work done by any partnership, joint venture, or LLC, whether current or former, even if the entity is not listed as a Named Insured.

3. Only partnerships and joint ventures need to list past business entities on their CGL policy; all former LLCs will automatically be insured in an unendorsed policy.

True

False

Section II of the CGL specifies that no person or organization is an insured with respect to the conduct of any current or past partnership, joint venture, or limited liability company. Even if an LLC has been dissolved, there may still be potential liabilities associated with its operations.

» Knowledge Check



Directions: Read each scenario and answer the questions that follow.

1. A client who previously owned an LLC that is inactive is unsure whether they should keep the LLC listed on their current Commercial General Liability (CGL) policy. They believe that since the LLC is no longer active, it doesn't require coverage.

As their insurance agent, what coverage solution would you recommend to ensure they are protected from any potential liabilities associated with the inactive LLC?

- ☐ Advise them to remove the inactive LLC from the policy since it no longer operates.
- ☐ Suggest they only keep the LLC on the policy if there is a high likelihood of a lawsuit.
- ☐ Suggest that they Include the inactive LLC as Named Insured for two years.
- ☒ Recommend listing the past LLC as Named Insured on the policy.

It is a best practice to list all past LLCs on the policy Declarations.

Section 3: Named Insureds, Automatic Insureds, and Non-Automatic Insureds

2. An insurance agent is advising a client who is considering removing an inactive corporation from their insurance policy. The client believes that since the corporation is no longer active, it no longer needs coverage.

Why should the agent be cautious about recommending the removal of the inactive corporation from the policy?

- ☐ The statute of repose provides absolute protection from any liabilities, but only for a specific time period, so coverage may be needed later.
- ☒ Inactive corporations may still face potential liabilities, and changes to statutes of repose or specific circumstances could impact the need for continued coverage.
- ☐ Discontinuing operations of a corporation automatically eliminates all past liabilities, making additional coverage redundant.
- ☐ Once a corporation is inactive, insurance policies do not cover them.

An inactive corporation may still face potential liabilities arising from its past operations. The statute of repose, which limits the time during which legal claims can be brought, does not guarantee that all potential liabilities are eliminated. Statutes of repose can change, and specific circumstances can affect their application. Therefore, continuing coverage for an inactive corporation is important to protect against unforeseen liabilities and ensure that the client remains safeguarded from potential legal issues.

Section 3: Named Insureds, Automatic Insureds, and Non-automatic Insureds

3. A sole proprietor is planning to retire and close their business. They are concerned about ongoing liability for claims that might arise from their past business activities.

What coverage option should the insurance agent recommend to ensure that the sole proprietor remains protected after retiring?

- ☐ Recommend removing all business insurance coverage, as they will no longer be operating the business.
- ☐ Suggest maintaining the current business insurance policy without any changes and not telling the insurer operations have ceased.
- ☒ Advise purchase of “discontinued operations” coverage to protect against claims arising from past business activities.
- ☐ Recommend transferring the business insurance policy to a new owner to cover potential future claims.

“Discontinued operations” coverage specifically addresses the need for protection against claims that arise after a business has ceased operations. Even after retiring and closing the business, a sole proprietor can still be held liable for claims related to past business activities. This type of coverage ensures that the sole proprietor remains protected from such potential liabilities that could arise from their previous operations. Without this coverage, the retiree could face significant risks from claims related to actions taken before the business was closed.

Policy Conditions



» Knowledge Check

Directions: Read each scenario and answer the questions that follow.

1. ABC Contracting is the first Named Insured under a Commercial General Liability (CGL) policy which also covers XYZ Contracting as a Named Insured. After an audit of XYZ Contracting, the insurer determines that a return premium is due.

Who will receive the return premium?

- ☒ ABC Contracting
- ☐ XYZ Contracting
- ☐ Both ABC Contracting and XYZ Contracting
- ☐ The insurer will retain the return premium.

As the first Named Insured under the Commercial General Liability (CGL) policy, ABC Contracting is designated to receive any return premiums issued by the insurer. This holds true even if the return premium results from an audit of another Named Insured, such as XYZ Contracting. The policy centralizes financial responsibility and control with the first Named Insured to ensure clarity and accountability, which is why ABC Contracting receives the return premium in this scenario.

Section 3: Named Insureds, Automatic Insureds, and Non-automatic Insureds

2. MNO Manufacturing and PQR Construction are both Named Insureds under the same Commercial General Liability (CGL) policy. MNO Manufacturing produces metal components and sells them to PQR Construction, which uses these components in its projects. Without any special endorsements, the insurer could charge premiums based on both the sale of the components by MNO Manufacturing and the work done by PQR Construction. However, MNO Manufacturing requests the Exclusion – Intercompany Products Suits endorsement in their policy.

How does the inclusion of the CG 21 41 Exclusion – Intercompany Products Suits endorsement impact the CGL policy premiums for MNO Manufacturing and PQR Construction?

- ☐ The premiums remain the same because the exclusion only applies to liability coverage, not premium calculations.
- ☐ The premiums increase because the exclusion requires additional underwriting considerations.
- ☒ The premiums decrease because the exclusion prevents the insurer from charging for intercompany sales.
- ☐ The premiums are unaffected because the exclusion only impacts the ability to file claims and lawsuits, not premium costs.

“The premiums decrease because the exclusion prevents the insurer from charging for intercompany sales” is the correct answer because the CG 21 41 Exclusion – Intercompany Products Suits specifically removes coverage for claims made by one Named Insured against another due to products sold between them. Without this exclusion, the insurer could calculate premiums based on the liability associated with both the sale of the product by MNO Manufacturing and work done by PQR Construction.

Automatic Insureds and CGL Coverage

Check-In



Directions: Indicate whether each of the following entities is an automatic insured under the CGL policy.

1. The spouse of a sole proprietor who is a Named Insured, with respect to the business

Automatic Insured

Not an Automatic Insured

The CGL policy provides coverage for the spouse of a sole proprietor concerning the business's activities, thus protecting both parties' interests in the business's operations and assets.

2. The spouse of a member of a partnership that is listed as Named Insured, with respect to the spouse's personal business dealings

Automatic Insured

Not an Automatic Insured

Spouses of members of partnerships or joint ventures are only covered for activities directly related to the partnership or joint venture.

3. An executive officer of a corporation who purchases a building in an individual name.

Automatic Insured

Not an Automatic Insured

Executive officers are automatic insureds, but only with respect to their duties as officers.

» Knowledge Check



Directions: Read each scenario and answer the questions that follow.

1. Construction Gals, LLC is the Named Insured on a CGL Policy. Construction Gals, LLC is owned by Contracting Bros, LLC and Builder Bob, LLC.

Which of the following statements is correct regarding the coverage for members of the LLCs involved?

- ☐ Members of Contracting Bros, LLC are automatically insureds under the policy because Contracting Bros, LLC owns part of the Named Insured, Construction Gals, LLC.
- ☐ Automatic coverage does not extend to Builder Bob, LLC because it does not own 100% of Construction Gals, LLC.
- ☐ Members of Builder Bob, LLC are automatically insured under the policy because Builder Bob, LLC is a subsidiary of the Named Insured.
- ☒ Members of Construction Bros, LLC and Builder Bob, LLC are not automatically insured under the policy because these two LLCs are not Named Insureds.

The policy only extends automatic coverage to members and managers of the Named Insured LLC.

Section 3: Named Insureds, Automatic Insureds, and Non-Automatic Insureds

2. John is an employee of XYZ Construction, which is insured under a Commercial General Liability (CGL) Policy. While working on a job site, John accidentally injures his co-worker, Sarah.

Which of the following statements correctly describes whether John is an insured under XYZ Construction's CGL Policy for the injury he caused to Sarah?

- ☐ John is an insured under the CGL policy in this instance because he is an employee of XYZ Construction.
- ☐ John is an insured under the CGL policy, but only if Sarah does not file a workers' compensation claim.
- ☒ John is not an insured under the CGL policy because the loss involves injury to a co-employee.
- ☐ John is not an insured under the CGL policy in this instance unless XYZ Construction has an Employment Practices Liability (EPL) policy in place.

The CGL policy does not automatically cover employees as insureds when the claim involves injury to a co-employee.

Additional Insured Status in the CGL Policy

Check-In



Directions: Select the best response for each of the following questions.

1. Which of the following is the *primary* reason for Named Insureds to agree to an additional insured request?
 - ☐ Access to higher total limits
 - ☐ Reduced direct insurance costs
 - ☒ Contractual requirements
 - ☐ Coverage for Personal and Advertising injury

It is a common contractual requirement for the Named Insured to add an additional insured to their CGL policy. For example, a subcontractor may be required to add a general contractor as an additional insured on their CGL policy. All the other answer choices are also reasons why someone might request additional insured status.

2. Why is it essential to understand the insurance requirements of a contract and confirm that the insurer is willing and able to provide the necessary endorsements before binding coverage for a contracting account?

☒ To ensure that the insurance coverage meets the contractual obligations and that the Named Insured avoids potential breaches due to the absence of required endorsements

☐ To reduce the overall cost of insurance premiums by selecting alternative endorsement forms

☐ To automatically secure additional insured status without the need for specific endorsement forms

☐ To guarantee that the insurer will cover any claim, regardless of the policy terms or conditions

Understanding the insurance requirements and confirming the insurer's ability to provide the necessary endorsements is crucial to avoiding significant compliance issues, such as breaches of contract, if the required endorsements are not obtained. The other options do not accurately reflect the primary reason for this essential step.

» Knowledge Check



Directions: Read the scenario and answer the questions that follow.

You are an insurance consultant working with a client who is a general contractor. The client has a contract with a subcontractor, and the contract includes an indemnification agreement wherein the subcontractor indemnifies the general contractor. The client believes that because they have this indemnification agreement, they do not need to request additional insured status on the subcontractor's insurance policy. The client feels confident that the indemnification clause will protect them from any claims related to the project.

1. What is the best response you can provide to the client to clarify their understanding of the protections provided by an indemnification agreement versus additional insured status?
 - ☐ "You're correct that the indemnification agreement will ensure that the subcontractor protects you, so there is no need to request additional insured status."
 - ☒ "The indemnification agreement provides some protection, but it does not offer the same benefits as being an additional insured on the subcontractor's policy, including the insurer's duty to defend and indemnify you, which is not guaranteed by the indemnification agreement alone."
 - ☐ "The indemnification agreement already covers you fully, so requesting additional insured status is just a redundant formality that won't significantly impact your protection."
 - ☐ "While the indemnification agreement offers some protection, requesting additional insured status will guarantee that you cannot be held liable for any damages in any circumstances."

The indemnification agreement provides contractual protection, but it does not grant direct rights under the subcontractor's insurance policy. Additional insured status ensures that the insurance company is obligated to defend and indemnify the client directly, offering an additional layer of protection that is not provided by the indemnification agreement alone.

Section 3: Named Insureds, Automatic Insureds, and Non-Automatic Insureds

2. If the general contractor in the above scenario is added as an additional insured on a subcontractor's CGL policy, what potential challenges might they encounter that could complicate their coverage and protection?
- ☐ They will have complete control over their defense, meaning that they will be responsible for finding a lawyer that can represent their interests.
 - ☐ They could see the policy limits diminish on their own commercial insurance policies due to having this additional insurance.
 - ☒ They might face coverage disputes due to complex and difficult-to-interpret contract terms, which can lead to gaps in coverage and costly resolutions.
 - ☐ Additional insured status may violate their contract terms, so they may be safer relying solely on their indemnification agreement for coverage.

An additional insured may encounter several challenges, including the potential for coverage disputes due to complex contract terms and limitations in the policy provisions. Additionally, they may lose control over their defense, and the coverage provided under the owner's policy may be more limited than expected. This can lead to gaps in coverage and unintended exposures.

The Evolution of Additional Insured Endorsements

Check-In



Directions: Match the CG 20 10 edition with the wording or coverage change that it included.

A. 1985	<u>B</u>	Attempted to limit coverage to “ongoing operations”
B. 1993	<u>C</u>	Further narrowed the scope of coverage to more effectively exclude completed operations
C. 2001	<u>A</u>	Covers the insured for liability arising out of “your work” for that insured by or for “you”
D. 2004	<u>D</u>	Updated wording, in part, to exclude coverage for liabilities arising from the sole negligence of the additional insured

» Knowledge Check



Directions: Read the scenario and answer the question that follows.

ABC General Contractors (ABC GC) is added as an additional insured to XYZ Roofing's Commercial General Liability (CGL) policy using the CG 20 10 12 19 endorsement. XYZ Roofing is a subcontractor working on a large construction project. During the project, an incident occurs that results in property damage, and a third-party sues ABC GC for the damages. However, XYZ Roofing was not involved in causing the damage, and the contract between ABC GC and XYZ Roofing requires XYZ to provide only \$500,000 coverage although XYZ Roofing's CGL has a \$1,000,000 limit.

Based on the CG 20 10 12 19 endorsement and the specifics of the contract between ABC GC and XYZ Roofing, what is a potential implication for ABC GC regarding their insurance coverage in this scenario?

- ☐ ABC GC will not be covered as the CG 20 10 12 19 applies only to completed operations losses, and this is an ongoing operations claim.
- ☐ ABC GC will be covered for the entire amount of the damage, as XYZ Roofing's higher policy limits will apply.
- ☒ ABC GC will not receive any coverage because the damage was not caused by XYZ Roofing.
- ☐ ABC GC may receive \$500,000 coverage, as AI coverage is limited to the amount required by the contract.

The CG 20 10 12 19 endorsement provides no coverage for the additional insured unless the loss is caused in whole or in part by the Named Insured. In this case, XYZ Roofing did not cause the damage, so no coverage applies for the additional insured.

“Scheduled” Additional Insured Endorsements for Contractors



Knowledge Check

Directions: Read the scenario and answer the question that follows.

Granite City Masonry is doing the interior stone and marble installation for an attorney's office in a large high-rise as a subcontractor for Big City Builders. The contract requires Granite City to name Big City as an additional insured. To access the location, Granite City must also include Riverside Property Managers and Tall Towers, the owner of the office building, as additional insureds, as well.

Which endorsement(s) should you recommend to cover the ongoing and premises liability exposure for the additional insureds?

- ☐ CG 20 37 12 19 and CG 20 10 12 19, as they provide coverage for both ongoing and completed operations for the additional insureds.
- ☐ CG 20 28 12 19, as it provides coverage for the additional insureds for ongoing operations.
- ☒ CG 20 26 12 19, as it provides premises liability and ongoing operations coverage for the additional insureds.
- ☐ CG 20 11 12 19, as it provides premises liability for the additional insureds.

The CG 20 26 12 19 has broader language and might be seen as providing more comprehensive coverage in situations where the Named Insured is not necessarily performing operations for the property manager and the building owner. This avoids any potential gaps or disputes created by using the CG 20 10 12 19, which gives insured status to those parties for whom the Named Insured is performing operations “for.”

“Automatic” Additional Insured Endorsements for Contractors

» Knowledge Check



Directions: Read the scenario and answer the questions that follow.

An insurance agent is advising a contractor who needs to cover multiple parties as additional insureds under a construction contract. The contractor is considering the CG 20 33 and CG 20 38 endorsements.

1. Which of the following best describes a key difference between the two endorsements?

- ☒ CG 20 33 requires a direct contractual relationship (privity of contract) between the Named Insured and the additional insured, while CG 20 38 does not.
- ☐ CG 20 33 extends coverage to all parties listed in the construction contract, whereas CG 20 38 limits coverage to only those directly in a contract with the insured.
- ☐ CG 20 33 provides coverage for completed operations, while CG 20 38 does not.
- ☐ CG 20 38 provides coverage for completed operations, while CG 20 33 does not.

The key difference between the CG 20 33 and CG 20 38 endorsements is their approach to privity of contract. The CG 20 33 endorsement requires that the Named Insured must have a direct contractual relationship with the additional insured for coverage to apply. This means that only parties directly in contract with the insured are covered.

In contrast, the CG 20 38 endorsement extends coverage to any additional insureds that the contractor is required to include in the construction agreement, even if there is no direct contractual relationship between the insured and those additional parties. This makes CG 20 38 a better option in situations with complex additional insured requirements.

Section 3: Named Insureds, Automatic Insureds, and Non-automatic Insureds

2. When choosing between the CG 20 33 and CG 20 38 endorsements, what is a crucial factor in deciding which endorsement to use?
- ☐ Whether the endorsement provides coverage for completed operations
 - ☐ The inclusion of professional liability coverage in the endorsement
 - ☐ The automatic inclusion of the endorsement in all policies without additional cost
 - ☒ The insurance company's willingness to offer broader coverage

A crucial factor in deciding between the CG 20 33 and CG 20 38 endorsements is the insurance company's willingness to offer broader coverage. The CG 20 33 endorsement is more limited, covering only those with a direct contractual relationship with the insured, which can restrict coverage in more complex situations. On the other hand, the CG 20 38 endorsement provides broader coverage by covering a wider range of additional insureds.

Primary and Noncontributory Endorsements

» Knowledge Check



Directions: Select the best response to the following question.

What is the best solution when a client requests “primary and noncontributory” wording on their insurance certificate, but this language is not included in the actual insurance policy?

- ☐ Add the requested wording to the certificate of insurance anyway, as it is a common industry request.
- ☐ Inform the client that “primary and noncontributory” wording can only be added if the contractor agrees to it.
- ☒ Ensure the insurance policy includes the appropriate “primary and noncontributory” endorsement, such as ISO's CG 20 01.
- ☐ Provide a verbal agreement to the client that the policy will be primary and non-contributory and then issue the certificate with the requested language.

A “primary and noncontributory” endorsement ensures that the Named Insured’s insurance will respond first and not seek contributions from the additional insured’s own policy.

ISO’s CG 20 01 endorsement is designed to address this issue, ensuring that when a contract requires primary and noncontributory coverage, the Named Insured’s policy will act as such. Without this endorsement in the policy, adding the requested wording to the certificate would be misleading, exposing both the client and the insured to significant risks.

Section 3 Self-Quiz

Directions: Determine whether each of the following entities would be a Named Insured, an automatic insured, or would need to be added as an additional insured on the CGL policy.

1. The spouse of a business's sole proprietor, but only for business purposes

Named Insured

Automatic Insured

Additional Insured

2. A joint venture

Named Insured

Automatic Insured

Additional Insured

3. The individual members of a partnership

Named Insured

Automatic Insured

Additional Insured

4. A general contractor has been added to his subcontractor's CGL policy through endorsement

Named Insured

Automatic Insured

Additional Insured

5. A trust

Named Insured

Automatic Insured

Additional Insured

Section 3: Named Insureds, Automatic Insureds, and Non-Automatic Insureds

Directions: Select the best response to each of the following questions.

6. Global Corp. is planning to acquire a new business entity, Venture, Inc. Alex, the owner of Global Corp. assumes that Venture, Inc. will automatically receive coverage under the existing Commercial General Liability (CGL) policy for Global Corp.

Which potential challenge might arise with this assumption?

- ☒ The automatic coverage for Venture, Inc. will be limited to 90 days and will not cover any liabilities arising from before the acquisition of Venture, Inc.
- ☐ Venture Inc. will not be covered because it is not an LLC and, therefore, does not qualify for automatic coverage.
- ☐ Venture Inc. will not be covered automatically because it does not meet the criteria for automatic coverage if it was not formed by Global Corp.
- ☐ Global Corp. will need to pay additional premiums for Venture Inc. to receive automatic coverage under the policy.

Automatic coverage for newly acquired or formed entities is limited to 90 days and excludes any liabilities that occurred before the acquisition or formation of the new entity. This time constraint and exclusion mean that while Venture Inc. is temporarily covered, it will not be protected from pre-existing losses or beyond the specified period.

Section 3: Named Insureds, Automatic Insureds, and Non-automatic Insureds

7. Jordan Doe operates his business under the name GreenTech Innovations. He is updating his Commercial General Liability (CGL) policy and wants to include the business's public-facing name, GreenTech Innovations, as the Named Insured.

Which approach can should Jordan take to ensure proper coverage?

- ☐ List only GreenTech Innovations as the Named Insured to simplify the policy Declarations.
- ☒ List "Jordan Doe" and "Jordan Doe DBA GreenTech Innovations" on the policy Declarations.
- ☐ List GreenTech Innovations as the first Named Insured and Jordan Doe as the second Named Insured.
- ☐ List "GreenTech Innovations DBA Jordan Joe" on the policy Declarations.

The actual legal entity—in this case Jordan Doe—should be listed as a Named Insured along with "Jordan Doe DBA GreenTech Innovations." This allows the public-facing name to be shown on the policy without taking a chance that coverage will be limited.

Section 3: Named Insureds, Automatic Insureds, and Non-Automatic Insureds

8. When the first Named Insured under a Commercial General Liability (CGL) policy is a corporation, what special consideration must be taken into account regarding the notification of claims or suits?

- ☐ The corporation must notify the insurer only if the CEO or president becomes aware of a claim or occurrence.
- ☐ The corporation must ensure that only the CEO or president is responsible for notifying the insurer of a claim or occurrence.
- ☒ It is helpful to add an endorsement to specify who must have knowledge of an occurrence or offense before the duty to notify the insurer is triggered.
- ☐ The corporation does not have the same duty to notify that individual Named Insureds have.

In the context of a corporation, which is a legal entity rather than a natural person, the concept of “knowledge” becomes more complex. Unlike an individual or sole proprietor, a corporation cannot “know” things in the same way. Therefore, insurance policies may include specific endorsements that clarify which individuals within the corporate structure (such as certain officers or designated employees) must have knowledge of an occurrence or offense to trigger the duty to notify the insurer.

9. Which of the following is a duty of the first Named Insured of a CGL policy under the Common Policy Conditions?

- ☐ Ensuring that all Named Insureds have access to the policy terms and conditions
- ☒ Providing advance written notice to the insurer if they wish to cancel the policy
- ☐ Notifying the insurer of any changes made to the insured's business operations
- ☐ Ensuring that all insured parties comply with safety regulations

This is a duty specifically outlined for the first Named Insured under the Common Policy Conditions. The first Named Insured has the authority to cancel the policy at any time, but they must do so by providing advance written notice to the insurer. This responsibility highlights the first Named Insured's role in managing the policy's continuation or termination.

Section 3: Named Insureds, Automatic Insureds, and Non-automatic Insureds

10. Which of the following workers are automatically covered as insureds under a standard, unendorsed Commercial General Liability (CGL) policy?

- ☒ A volunteer working without pay at a community event sponsored by a construction company
- ☐ A worker provided by a temp agency to fill a temporary vacancy during an employee's maternity leave
- ☐ A temporary worker furnished to the Named Insured to assist with short-term operational needs during a busy season
- ☐ For a claim involving failure to provide professional healthcare services, a nurse employed to provide on-site medical services at a construction site

A volunteer working without pay would have automatic coverage under the CGL policy as volunteers are included as insureds. The other options involve temporary workers or healthcare professionals providing professional services.

11. In which of the following situations would a spouse be excluded from automatic coverage under a Commercial General Liability (CGL) policy for a sole proprietorship or partnership?

- ☐ The spouse assists in managing the sole proprietorship's business operations and faces a liability related to those activities.
- ☐ The spouse is involved in the partnership's business operations and is named in a lawsuit due to actions taken on behalf of the partnership.
- ☐ The spouse helps with administrative tasks for the sole proprietorship and is sued for bodily injury resulting from the performance of those tasks.
- ☒ The spouse owns and operates a separate business unrelated to the sole proprietorship or partnership, and that business faces a liability lawsuit.

The spouse would be excluded from automatic CGL coverage if they own and operate a separate business unrelated to the sole proprietorship or partnership. The CGL policy's automatic coverage extends only to activities directly related to the Named Insured's business, meaning a separate business would require its own insurance policy.

Section 3: Named Insureds, Automatic Insureds, and Non-Automatic Insureds

12. Why might an indemnitee request to be added as an additional insured on an indemnitor's Commercial General Liability (CGL) policy?

- ☐ To have full control over the indemnitor's insurance policy and make changes as needed
- ☐ To reduce the indemnitee's obligation to fulfill the indemnification agreement under the contract
- ☒ To gain direct rights under the indemnitor's policy, including access to defense
- ☐ To automatically receive higher liability limits on the indemnitee's own insurance policy

An indemnitee might request additional insured status to gain direct rights under the indemnitor's policy, which includes access to defense and additional protection if the indemnification agreement is limited or unenforceable due to legal restrictions. This ensures that the indemnitee is covered even if the indemnification provisions fail to protect them fully.

13. Which of the following is a potential problem a Named Insured might face when adding one or more additional insureds to their CGL policy?

- ☒ The Named Insured's policy limits may be diluted, reducing the available coverage for themselves.
- ☐ The additional insured automatically gains full control over the defense strategy in the event of a claim.
- ☐ The Named Insured will no longer be able to purchase endorsements for their own coverage.
- ☐ The Named Insured is guaranteed to lose any governmental immunity they may have otherwise had with respect to liability claims.

When multiple additional insureds are added to a CGL policy, the policy limits must be shared among all insured parties, potentially diluting the coverage available to the Named Insured in the event of a claim.

Section 3: Named Insureds, Automatic Insureds, and Non-automatic Insureds

14. Why is the CG 20 10 11 85 endorsement highly sought after by contractors even though it is not commonly offered by insurers?

- ☐ It provides limited coverage for additional insureds, focusing only on ongoing operations.
- ☒ It includes broader coverage for additional insureds, covering both ongoing and completed operations, and can potentially cover even a solely negligent additional insured.
- ☐ It restricts coverage to only completed operations, which is more desirable for contractors.
- ☐ It simplifies the coverage scope by excluding “arising out of” language, reducing legal complexity.

The 1985 edition of the CG 20 10 11 85 endorsement provides extensive coverage for additional insureds, including both ongoing and completed operations. This broad scope of coverage is highly desirable to contractors

However, this broad coverage also resulted in significant legal exposure for insurers. The endorsement’s “arising out of” language was interpreted by courts in a way that extended coverage more than insurers originally intended, potentially covering additional insureds even if they were solely responsible for the liability. This interpretation created a higher risk for insurers, leading many to stop offering this version of the endorsement.

Section 3: Named Insureds, Automatic Insureds, and Non-Automatic Insureds

15. Which of the following is a primary reason the CG 20 10 07 04 endorsement might be rejected by a policyholder?

- ☐ It eliminates coverage for the sole negligence of the Named Insured.
- ☒ It requires that the Named Insured must have contributed to the loss for coverage to apply.
- ☐ It mandates that all claims be settled out of court.
- ☐ It provides unlimited coverage for all additional insureds.

The CG 20 10 07 04 endorsement might be rejected because it restricts coverage by requiring that the Named Insured must have contributed to the loss, either “in whole or in part,” for the additional insured to receive coverage. This means that if the Named Insured did not contribute to the loss, the additional insured would not be covered, which could be problematic for those seeking broader protection. This limitation is more restrictive than previous forms, which is why some policyholders may choose not to accept the 07 04 endorsement.

Section 3: Named Insureds, Automatic Insureds, and Non-automatic Insureds

16. XYZ Electrical is a subcontractor on a large commercial project and has added LMN Construction as an additional insured on their CGL policy using the CG 20 10 12 19 endorsement. During the project, an electrical fire occurs, causing significant damage to the property. The investigation reveals that the fire was caused by a faulty installation by XYZ Electrical.

LMN Construction is sued for the damages, but the contract between XYZ Electrical and LMN Construction states that additional insured coverage is limited to \$1 million, even though XYZ Electrical's CGL policy has a \$2 million limit.

Given the CG 20 10 12 19 endorsement and the contractual terms, what is a potential implication for LMN Construction's insurance coverage in this scenario?

- ☐ LMN Construction will have access to the full \$2 million limit of XYZ Electrical's CGL policy.
- ☐ LMN Construction will be denied coverage because the fire was caused by XYZ Electrical's negligence.
- ☒ LMN Construction's coverage may be limited to \$1 million, as specified in the contract, regardless of the policy's higher limits.
- ☐ LMN Construction will automatically receive defense costs without any limitation on the amount of coverage.

The CG 20 10 12 19 endorsement limits the additional insured coverage to the amount required by the contract between the Named Insured (XYZ Electrical) and the additional insured (LMN Construction). Even though XYZ Electrical's CGL policy has a \$2 million limit, the contract stipulates that additional insured coverage is capped at \$1 million, which could limit LMN Construction's coverage to this lower amount.

17. What is a potential challenge with using the CG 20 26 endorsement?

- ☐ It automatically includes completed operations coverage, which can lead to unanticipated liabilities.
- ☐ The CG 20 26 endorsement provides coverage only for operations "for" the additional insured, potentially creating coverage gaps in complex projects.
- ☒ The broad scope of the CG 20 26 endorsement, covering ongoing operations and premises exposures, can make some insurers wary due to unanticipated liabilities.
- ☐ The CG 20 26 endorsement is difficult to use because it always includes a professional exclusion, limiting its applicability in certain projects.

The CG 20 26 endorsement is designed to provide broad coverage for ongoing operations and premises exposures without limiting the coverage to operations performed "for" the additional insured. This broad scope can be beneficial in complex situations where multiple parties are involved. However, the very broad nature of this coverage can be a double-edged sword.

Insurers might be uncomfortable with the CG 20 26 because its extensive coverage could potentially lead to unanticipated liabilities. Since the endorsement covers a wide range of relationships and exposures, insurers might worry about the possibility of covering risks that were not specifically anticipated or intended. This can make the endorsement seem riskier from an insurer's perspective, leading to reluctance in its use.

18. What is a key feature of the CG 20 32 endorsement regarding the coverage of design professionals?

- ☐ It provides coverage for design professionals regardless of any contractual obligation between the Named Insured and the design professional.
- ☒ It requires that the Named Insured must have a contractual obligation to add the design professional as an additional insured.
- ☐ It covers claims related to the supervision and training of others by the design professional.
- ☐ It replaces the need for a professional exclusion in the policy, thus providing broader coverage for professional liabilities.

The CG 20 32 endorsement is specifically designed for situations where a contractor needs to add an architect, engineer, or surveyor as an additional insured. Unlike many ISO endorsements, which do not necessitate a contractual agreement to name someone as an additional insured, the CG 20 32 endorsement requires that the Named Insured must have a contractual obligation to include the design professional as an additional insured.

This requirement ensures that the coverage is only provided when there is a formal agreement between the parties, making the endorsement more tailored to situations where such contractual obligations are in place.

Section 3: Named Insureds, Automatic Insureds, and Non-Automatic Insureds

19. What is the primary purpose of using an Automatic Additional Insured endorsement in contractor insurance?

- ☐ To cover all parties involved in a project without requiring any specific names to be listed.
- ☐ To automatically combine coverage for ongoing and completed operations.
- ☐ To automatically include coverage for professional liability claims without additional documentation.
- ☒ To ensure that coverage is automatically in place, preventing issues related to forgetting to request Additional Insured endorsements before starting a project.

The primary purpose of using an Automatic Additional Insured endorsement is to ensure that coverage is automatically provided without needing to list specific names. This convenience helps avoid problems if a contractor forgets to request an endorsement before starting a project, as it guarantees that coverage is in place from the beginning. This reduces the risk of coverage gaps and administrative oversights.

20. Which of the following Automatic Additional Insured endorsement(s) provide completed operations coverage? (Select all that apply.)

- ☐ CG 20 33 12 19
- ☐ CG 20 38 12 19
- ☒ CG 20 39 12 19
- ☒ CG 20 40 12 19

CG 20 39 12 19 and CG 20 40 12 19 are the Automatic Additional Insured endorsements that provide coverage for completed operations.

Section 3: Named Insureds, Automatic Insureds, and Non-automatic Insureds

21. What is a key consideration when handling requests for primary and noncontributory wording on excess liability or umbrella policies?

- ☐ Excess liability and umbrella policies automatically follow the terms of the underlying general liability policy.
- ☐ Most follow-form excess liability or umbrella policies mirror the underlying policy without deviation.
- ☒ Horizontal exhaustion requires that all primary insurance layers be exhausted before excess liability or umbrella policies respond.
- ☐ Vertical exhaustion requires that excess liability or umbrella policies pay out before the primary policies are exhausted.

Horizontal exhaustion requires all primary insurance policies to pay out before excess or umbrella policies respond, unlike vertical exhaustion, which allows the excess or umbrella policies to respond once the underlying policy is exhausted. It's important to review the actual policy language to avoid relying solely on follow form assumptions, as many excess or umbrella policies may deviate from the underlying general liability policy.

Section 3: Named Insureds, Automatic Insureds, and Non-Automatic Insureds

Section 4: Contractors Liability and Exposures

CGL and Contractual Coverage Requirements

» Knowledge Check



Directions: Select the best response for the following questions.

1. Which of the following best describes how the insurer's duty to defend is established in a state using the "Four Corners Rule"?
 - ☐ The insurer can look at the allegations in the complaint as well as external documents and evidence not included in the lawsuit to decide whether they must provide a defense.
 - ☐ The insurer must look at any information, including extrinsic evidence, that could either establish or negate coverage when determining the duty to defend.
 - ☐ The insurer can only consider extrinsic evidence if it would establish coverage in favor of the policyholder, but not to negate coverage.
 - ☒ The insurer must only compare the content of the complaint with content of the insurance policy to determine if there is potential coverage, without considering any other evidence.

With the "four corners" approach, the "four corners" of the complaint are compared with the "four corners" of the policy, and if the allegations in the complaint could be covered by the policy, the insurer must defend. This approach is relatively straightforward but limits the ability of insurers to consider other evidence.

Section 4: Contractors Liability and Exposures

2. Under what circumstances can an insurer seek reimbursement for defending uncovered claims in a lawsuit involving multiple allegations?

- ☐ The insurer can always seek reimbursement for defending uncovered claims, regardless of notification to the insured.
- ☐ The insurer can never seek reimbursement for defending uncovered claims, even if only one count is covered.
- ☒ The insurer may seek reimbursement for defending uncovered claims if they notify the insured in advance, reserve the right to do so, and if the jurisdiction permits it.
- ☐ The insurer can seek reimbursement only if all claims are uncovered, they notify the insured, and the jurisdiction permits it.

Reimbursement for defense costs related to uncovered claims is not automatic. The insurer must notify the insured in advance and reserve their right to seek reimbursement.

Furthermore, whether the insurer can actually recover these costs depends on the specific jurisdiction. The example of the Buss case demonstrates that in some jurisdictions reimbursement is allowed, while in others it may not be, emphasizing that the ability to recover defense costs varies based on state laws and the policy's language. Therefore, the third choice reflects both the need for proper notification and the jurisdictional limitations.

Coverage A Insuring Agreement: Bodily Injury and Property Damage Liability

Check-In



Directions: Indicate whether each statement is true or false.

1. In nearly all jurisdictions, a claim for mental anguish without accompanying physical harm is considered bodily injury.

True

False

In general, bodily injury requires physical harm. Mental anguish without physical harm is generally not considered bodily injury, except in certain jurisdictions.

2. Electronic data is considered tangible property and damage to it is included in standard property damage liability coverage under the CGL Policy.

True

False

Electronic data is explicitly *not* considered tangible property in CGL policies, and thus, damage to it is excluded from property damage liability coverage. However, an endorsement is available to cover electronic data damage if physical injury to tangible property occurs.

3. The CGL policy defines an “occurrence” as an accident, including continuous or repeated exposure to harmful conditions, but jurisdictions vary as to whether construction defects fall under this definition.

True

False

This issue varies by jurisdiction, as some states consider defective workmanship to be an occurrence, potentially triggering coverage, while others do not.

» Knowledge Check



Directions: Read the scenarios and answer the following questions.

The Named Insured is a sole proprietor working as a plumber. In 2024, some of the piping he installed began to leak and caused property damage to the customer's building. The Named Insured repaired the leak and the damage. In 2025, the pipes leaked again, causing additional property damage.

How will the CGL in effect in 2025 respond to the claim for property damage caused by the leak that happened in 2025?

- ☐ The 2025 policy will cover the damage fully because the damage happened in 2025.
- ☒ The 2025 policy will deny coverage because the Named Insured was aware of the property damage that happened in 2024, and the 2025 damage is a continuation or resumption of that damage.
- ☐ The 2025 policy will cover the damage only if the Named Insured can prove that the pipe was repaired.
- ☐ The 2025 policy will provide coverage for the damage, but only if the defect was reported immediately after discovery.

If certain persons, including a sole proprietor, are aware of bodily injury or property damage that occurred, in whole or in part, prior to the policy period, then any continuation, change or resumption of that bodily injury or property damage during or after the policy period is not covered.

Limiting the Scope of the Coverage A Insuring Agreement

» Knowledge Check



Directions: Fill in the blanks using the terms from the word bank. Terms may be used only once, and not all terms will be used.

CG 21 34 Exclusion - Designated Work	admitted	class codes
CG 21 53 Exclusion - Designated Ongoing Operations	non-admitted	endorsement

1. The CG 21 34 Exclusion - Designated Work endorsement excludes coverage for bodily injury or property damage included in the products-completed operations hazard that arises from the insured's work listed in the Schedule.
2. The Designated Operations - Coverage Limitation endorsement is most commonly seen in the non-admitted market.
3. Challenges with limiting coverage using class codes include the fact that they can be vague, and the insured may not have access to their descriptions.

Select CGL Coverage A Exclusions

Check-In



Directions: Select the best responses to the following questions.

1. How would a contractor typically close the coverage gap created by the Employers Liability exclusion in the CGL policy?

- ☐ Purchase an umbrella liability policy.
- ☐ Add an endorsement to the CGL policy to remove the employer's liability exclusion.
- ☐ Obtain specialized general liability coverage in the non-admitted market that includes employer's liability.
- ☒ Rely on the Employers Liability Coverage included in their Workers Compensation policy.

The CGL policy excludes coverage for bodily injury to employees, but these claims are addressed by the Workers Compensation policy. As a result, employers typically do not require additional coverage in their CGL policies, and any attempt by an insurer to modify the Employers Liability exclusion is typically a reduction in coverage.

Section 4: Contractors Liability and Exposures

2. Which of the following scenarios would likely be an exception to the Pollution exclusion in an unendorsed CGL policy?

- ☐ A contractor sprays pesticides on a lawn, and the chemicals seep into nearby water supplies, causing property damage.
- ☒ A fire breaks out in a building, releasing smoke and fumes that cause bodily injury to occupants.
- ☐ A construction company disposes of industrial waste improperly, contaminating the soil at a project site.
- ☐ A factory releases harmful emissions into the air as part of its regular operations, leading to nearby property damage.

This scenario falls under the hostile fire exception, which can restore coverage for bodily injury or property damage caused by smoke and fumes from a hostile fire.

Check-In



Directions: Indicate whether each of the following statements is true or false.

1. The Aircraft, Auto, or Watercraft exclusion applies to bodily injury or property damage arising out of the ownership, use, or maintenance of any aircraft, autos, or watercraft owned or rented by the insured.

True

False

2. On-premises valet parking liabilities are excluded under the Aircraft, Auto, or Watercraft exclusion, but physical damage is still covered.

True

False

This statement is false because on-premises valet parking liabilities are covered under the exception to the Aircraft, Auto, or Watercraft exclusion. However, physical damage to the vehicles involved in valet parking is still excluded under exclusion j.(4).

3. Bodily injury caused by the Named Insured's mobile equipment while it is being driven is always covered under the CGL policy even when the equipment is driven on public roads.

True

False

This statement is false because mobile equipment may be subject to a compulsory or financial responsibility law or other motor vehicle insurance law where it is licensed or principally garaged. In that case, it becomes an "auto," and the loss is excluded by the CGL.

4. The Damage To Property exclusion generally excludes coverage for damage to property the insured is working on, including faulty workmanship issues.

True

False

5. The j.(6) exclusion covers damage to completed work that must be repaired or replaced due to faulty workmanship.

True

False

This statement is false because the j.(6) exclusion does not apply to property damage included in the products-completed operations hazard.

Check-In



Directions: Read the scenario and answer the question that follows.

A commercial construction company, ABC Builders, recently built a large office building. The company did most of the work itself and hired subcontractors for the electrical and plumbing installations. Six months after the building was completed, a major plumbing leak, caused by faulty work by a plumbing subcontractor caused extensive water damage throughout the building.

Which of the following best describes the coverage implications under ABC Builders' unendorsed Commercial General Liability (CGL) policy regarding the water damage caused by the plumbing subcontractor's work? Assume that the loss is considered an occurrence of property damage.

- ☒ The subcontractor exception to the Damage To Your Work exclusion would apply, and the policy would cover the water damage caused by the plumbing subcontractor's work.
- ☐ The water damage caused by the plumbing subcontractor's work would be excluded because the Damage To Your Work exclusion applies to all subcontractor-related damage.
- ☐ The policy would only cover damage to the work performed by ABC Builders, and the water damage to any plumbing or electrical work would not be covered.
- ☐ The subcontractor exception to the Damage To Your Work exclusion does not apply in this case, and the policy would not cover any damages related to the subcontractor's work.

The subcontractor exception to the Damage To Your Work exclusion allows coverage for property damage to "your work" resulting from a subcontractor's faulty work.

In the given scenario, the water damage was caused by faulty work performed by a plumbing subcontractor. As such, coverage for damage to the entire project applies.

» Knowledge Check



Directions: Answer the following questions regarding Coverage A exclusions.

1. In which of the following situations would the CGL's Pollution exclusion likely apply?
 - ☐ A contractor at a job site accidentally punctures a customer's fuel tank with their equipment, causing oil to spill onto the ground.
 - ☐ The heating system in the Named Insured's building malfunctions, causing a carbon monoxide leak that results in bodily injury.
 - ☒ A contractor's worksite runoff causes a large amount of concrete slurry to enter a nearby river, damaging aquatic life.
 - ☐ A fire breaks out at a construction site, and smoke and fumes from burning materials cause damage to nearby buildings.

The other options:

First option: involves a situation where the contractor did not bring the pollutant to a jobsite

Second option: is be covered under an exception for smoke, fumes, vapor or soot released by heating systems.

Fourth option: falls under the hostile fire exception, which restores coverage.

Section 4: Contractors Liability and Exposures

2. A contractor is hired to perform snow removal services during the winter season. After the contractor completes a snow plowing job, a pedestrian slips and falls on the property, leading to a lawsuit for bodily injury. The contractor's CGL policy does not currently have specific snow removal coverage. What should the contractor do to ensure coverage for incidents like this in the future?

- ☐ Add a Completed Operations endorsement to cover accidents occurring after snow removal.
- ☒ Include the CG 22 92 Snow Plow Operations endorsement to the CGL policy.
- ☐ Purchase a separate Business Auto Policy to cover snow removal operations.
- ☐ Request a waiver of subrogation from the client to avoid liability claims.

To ensure coverage for incidents arising from completed snow removal operations, the contractor should add the CG 22 92 Snow Plow Operations endorsement to the CGL policy. This endorsement specifically addresses completed operations related to snow removal, covering potential claims like the pedestrian injury in this scenario.

3. A contractor is hired to install custom cabinets in a kitchen. During the installation, they improperly secure one cabinet, which falls and damages both the cabinet and the countertop below. Based on the j.(5) and j.(6) exclusions in the CGL policy, what part of the damage would likely be excluded from coverage?

- ☒ The damage to the cabinet but not the countertop would be excluded.
- ☐ The damage to the countertop but not the cabinet would be excluded.
- ☐ The damage to both the cabinet and the countertop would be excluded.
- ☐ The damage to both the cabinet and countertop would be covered since the work was still in progress.

j.(5) and j.(6) apply to the particular part of the property on which operations are performed. In this case, that is the cabinet. Damage to the countertop is resulting damage and should be covered.

Section 4: Contractors Liability and Exposures

4. What is the main purpose of the Damage To Impaired Property Or Property Not Physically Injured exclusion in the CGL policy?
- ☐ To exclude coverage for property damage claims arising from sudden and accidental physical injuries to the insured's product after it has been used
 - ☒ To limit coverage for loss of use of property that is impaired or has not been physically injured, specifically when the damage arises from defects, deficiencies, or failures in the insured's product or work
 - ☐ To provide coverage for loss of use of property caused by the insured's faulty work or product if the property has sustained physical injury
 - ☐ To cover the costs of repairing or replacing the insured's defective product that causes damage to other property

The main purpose of the Damage To Impaired Property Or Property Not Physically Injured exclusion is to limit coverage for claims related to property that is impaired or not physically injured, where the impairment arises from defects, deficiencies, or failures in the insured's product or work. This exclusion is designed to address business risks related to the insured's performance issues, where the problem can typically be resolved by repairing or replacing the faulty work or product. The exception ensures that coverage is still available if there is sudden and accidental physical injury to the insured's product after it has been used.

Select Construction-Related Endorsements



» Knowledge Check

Directions: Read the scenarios and answer the questions that follow.

1. A contractor is hired to perform general maintenance at a facility that processes hemp products. The facility is legal under federal law because its hemp products contain less than 0.3% THC. However, the contractor's insurance policy includes CG 40 14 12 20 Cannabis exclusion. During the course of maintenance, a fire caused by the contractor's work damages some of the facility's equipment and inventory. Which of the following statements accurately describes the potential impact of the Cannabis exclusion on the contractor's insurance coverage?

- ☐ The insurance policy will cover the damages, as the facility only processes hemp products and not marijuana, which is excluded.
- ☐ The insurance policy will cover the damages, but the contractor may face increased premiums due to the cannabis-related exclusion.
- ☐ The insurance policy will not cover damage to the equipment or the inventory.
- ☒ The insurance policy will not cover the damage to the inventory because the Cannabis exclusion applies to all products containing THC or cannabinoids, regardless of the THC content.

The CG 40 14 12 20 Cannabis exclusion broadly applies to damage to any products containing THC or cannabinoids, regardless of their legal status or THC content. Therefore, even though the hemp products in the scenario contain less than 0.3% THC and are legal federally, the exclusion still applies, resulting in the denial of coverage for damages caused by the contractor's work. This ensures that insurers are not liable for claims related to any cannabis-related substances.

Section 4: Contractors Liability and Exposures

2. A general contractor's CGL policy includes a subcontractor warranty. A subcontractor hired by this general contractor does not have a certificate of insurance, and their coverage does not meet the specific requirements outlined by the policy. Which of the following actions could help the subcontractor avoid penalties and ensure compliance with the subcontractor warranty?
- ☐ The subcontractor provides proof of having a general liability policy with coverage limits that are lower than the general contractor's requirements.
 - ☒ The subcontractor obtains a certificate of insurance before work begins, secures Additional Insured endorsements, meets the specific limits on the CGL policy, and ensures compliance with workers compensation requirements.
 - ☐ The subcontractor negotiates a lower deductible with the insurance provider and negotiates lower required limits on the subcontractor warranty.
 - ☐ The subcontractor begins work while seeking adequate insurance because they have until 90 days after the project completion to provide a certificate of insurance.

To avoid coverage issues and penalties associated with subcontractor warranties, the subcontractor must meet specific requirements such as obtaining a certificate of insurance before work begins, securing Additional Insured endorsements, meeting policy limits, and ensuring workers compensation compliance. These steps ensure compliance with the warranty conditions and help avoid significant penalties like reduced limits or increased deductibles.

Wrap-Up Programs: An Overview

» Knowledge Check



Directions: Match the endorsement number to the description of the coverage provided.

A. CG 21 31	<u>D</u>	It excludes coverage for operations that are part of a controlled (wrap-up) insurance program and adds a clause stating that the exclusion does not apply if the wrap-up has been canceled, non-renewed, or otherwise no longer applies. It also includes an exception for additional insureds who are not enrolled in the wrap-up, such as equipment leasing companies.
B. CG 21 54	<u>C</u>	Excludes coverage for operations that are part of a controlled (wrap-up) insurance program and adds a clause stating that the exclusion does not apply if the wrap-up has been canceled, non-renewed, or otherwise no longer applies.
C. CG 40 07	<u>B</u>	Excludes coverage for operations that are part of a controlled (wrap-up) insurance program and includes an exception for additional insureds who are not enrolled in the wrap-up, such as equipment leasing companies.
D. CG 40 08	<u>A</u>	Excludes coverage for operations that are part of a controlled (wrap-up) insurance program

Supplementary Payments and Limits of Insurance

» Knowledge Check



Directions: Select the best response to each of the following questions.

1. Sarah, the owner of a small construction business, has a Commercial General Liability (CGL) policy that includes Coverages A (Bodily Injury and Property Damage Liability) and B (Personal and Advertising Injury Liability). One day, an accident occurs at a worksite, resulting in bodily injury. During the investigation, Sarah must take time off work to attend court proceedings and assist in her defense. Additionally, a bond is required to release equipment that has been attached by a creditor.

Based on the Supplementary Payments section of Sarah's CGL policy for Coverages A and B, which of the following costs would **not** be covered as a supplementary payment?

- ☐ \$250 per day for lost earnings due to Sarah's time off work to attend court proceedings
- ☐ The cost of the bond to release the attached equipment
- ☒ Plaintiff attorney's fees taxed against Sarah by the court
- ☐ Pre-judgment interest on a portion of the judgment paid by the insurer

The Supplementary Payments section of the CGL policy covers several costs, such as lost earnings (up to \$250 per day), the cost of bonds to release attachments, and pre-judgment interest on judgments. However, it does not cover plaintiff attorneys' fees taxed against the insured.

Section 4: Contractors Liability and Exposures

2. How does the Designated Construction Project(s) General Aggregate Limit endorsement (CG 25 03) impact the application of the CGL General Aggregate Limit?
- ☐ It increases the overall General Aggregate Limit for all projects combined.
 - ☒ It applies the General Aggregate Limit for designated projects on a per-project basis, ensuring claims from one project do not affect coverage for others.
 - ☐ It removes the General Aggregate Limit for claims related to bodily injury.
 - ☐ It applies the General Aggregate Limit on a per-location basis, ensuring claims at one location do not affect another.

The CG 25 03 endorsement applies the General Aggregate Limit separately to each designated construction project, ensuring that claims made on one project do not reduce the coverage available for other projects.

Section 4 Self-Quiz

Directions: Select the best response for each of the following questions.

1. What are the requirements to trigger an insurance company's duty to pay a CGL claim?

- ☐ The insured must agree to the settlement, and the insurer must defend the claim.
- ☒ The claim must fall within the scope of coverage, and the insured must be found legally liable.
- ☐ The insured must be found legally liable, and the insurer must defend the claim, even if there is no coverage.
- ☐ The insured must approve any settlements made by the insurer, and the claim must fall within the scope coverage.

The insurance company's duty to pay under a Commercial General Liability (CGL) policy is triggered only when two conditions are met:

- The insured is found legally liable: The insurer is obligated to pay only if the insured is held legally responsible for the damages
- The claim falls within the scope of coverage: The damages being claimed must be covered by the policy (e.g., bodily injury or property damage, as defined in the policy).

While the duty to defend is broader and applies even if there's just the potential for coverage, the duty to pay requires both legal liability and coverage for the claim. Therefore, the second option accurately reflects these requirements.

Section 4: Contractors Liability and Exposures

2. How would a CGL policy respond if there were multiple allegations against an insured, but only some were covered?

- ☒ The insurer must defend the entire lawsuit if at least one allegation is potentially covered.
- ☐ The insurer is only required to defend the counts that are covered under the policy.
- ☐ The insurer must defend the entire lawsuit, but only if the insured is covered for 50% or more of the allegations.
- ☐ The insurer is not obligated to defend the lawsuit unless the insured is covered for all of the allegations.

When a lawsuit contains multiple allegations, the insurer cannot selectively defend only the covered ones. If even one count in the complaint is covered by the CGL policy, the insurer is obligated to defend the entire lawsuit. Courts generally require the insurer to provide a full defense for all counts, even if some of the allegations are not covered. This ensures a comprehensive defense and aligns with the principle that the insurer must "defend entirely."

3. Which of the following scenarios would be excluded from property damage coverage on an unendorsed CGL Policy?
- ☐ A contractor accidentally damages a building's electrical wiring, causing the business to lose power and cease operations for two days.
 - ☐ An explosion in a parking lot damages several stores, and undamaged stores at the far end of the strip mall cannot open due to safety concerns.
 - ☒ A contractor accidentally crosses wires, damaging computers in an office building and causing the loss of important client data.
 - ☐ A business loses income due to physical damage to its building caused by a contractor's error during construction work.

The CGL definition of property damage excludes electronic data, so the loss of client data would not be covered unless an endorsement, such as the CG 04 37 Loss Of Electronic Data Resulting From Physical Injury To Tangible Property Liability Coverage – Subject To Cyber Incident Exclusion Liability endorsement, is in place.

Section 4: Contractors Liability and Exposures

4. Which of the following theories triggers CGL bodily injury or property damage coverage at the time when the injured party was subjected to harmful conditions, even if the injury or damage took years to manifest?

- ☐ Manifestation Theory
- ☐ Injury-in-Fact Theory
- ☐ Continuous Trigger Theory

☒ Exposure Theory

The Exposure Theory triggers coverage if the insurance policy was in effect when the injured party was exposed to harmful conditions, such as asbestos, even if the injury becomes apparent years later.

5. A contractor in Colorado is hired to perform roofing and waterproofing work, but due to the state's history with construction defect claims, the insurance carrier decides to exclude coverage for completed operations due to these specific operations. Which exclusionary endorsement is the insurer most likely to use to specifically exclude coverage for this completed operations exposure?

- ☒ CG 21 34 Exclusion – Designated Work
- ☐ CG 21 53 Exclusion – Designated Ongoing Operations
- ☐ CG 21 49 Total Pollution Exclusion Endorsement
- ☐ Designated Operations – Coverage Limitation

The CG 21 34 Exclusion – Designated Work can be used to exclude coverage for completed operations losses related to roofing and waterproofing.

Section 4: Contractors Liability and Exposures

6. A subcontractor's employee, Sam, is injured on a job site and files a claim against the general contractor (GC). Both the subcontractor and the GC are insured under the subcontractor's commercial general liability (CGL) policy, with the GC listed as an additional insured. If an Any Insured vs. Any Insured Cross Liability Exclusion has been added to the subcontractor's policy, what is the most likely outcome?

- ☒ The claim will not be covered, as the Any Insured vs. Any Insured Cross Liability Exclusion bars claims between insured parties under the same policy.
- ☐ The claim will be covered under the subcontractor's CGL policy, as it involves two insured parties.
- ☐ The claim will not be covered under the GC's own CGL policy, because of the subcontractor's exclusion.
- ☐ The claim will be denied only if Sam's injury was unrelated to his employment with the subcontractor.

When an Any Insured vs. Any Insured Cross Liability Exclusion is in place, it removes coverage for claims made between two insureds under the same policy. In this scenario, both Sam (the subcontractor's employee) and the GC (as an additional insured) are insured parties. Therefore, the claim against the GC would not be covered under the subcontractor's CGL policy due to the exclusion.

7. Which of the following is an example of "mobile equipment" under a CGL policy?
- ☐ A dump truck licensed for the road but used exclusively within a construction site
 - ☒ A front-end loader being driven on a job site
 - ☐ A delivery van transporting materials to a job site
 - ☐ A company car used by an employee for business purposes

Under the CGL policy, "mobile equipment" refers to machinery designed for off-road use, such as construction vehicles and equipment like bulldozers and forklifts.

Section 4: Contractors Liability and Exposures

8. Which of the following scenarios is not excluded by the Damage To Property exclusion in a CGL policy?

- ☐ A contractor accidentally damages equipment rented for use on a job site.
- ☒ A contractor is hired to repair the roof of a building, but faulty work causes damage to the interior walls while the work is ongoing.
- ☐ A contractor damages personal property that was temporarily loaned to them for use during a project.
- ☐ A contractor sells its headquarters building, and the new owner files a claim for damage that occurred after the sale.

Under the Damage To Property exclusion, property loaned to the insured or under the care, custody, or control of the insured is excluded from coverage. This means that if personal property is damaged while in the contractor's control, it would not be covered by the CGL. There is also no coverage for property damage to premises the Named Insured sold, gave away, or abandoned if the damage arises out of any part of the premises.

9. Which of the following best describes how the General Aggregate Limit under a CGL policy is applied?

- ☐ It applies separately to each claim filed against the insured.
- ☒ It is the total amount available for all claims, except those related to products-completed operations, over the policy term.
- ☐ It only applies to bodily injury claims.
- ☐ It can be increased by adding more insured parties to the policy.

The General Aggregate Limit is the total amount the insurer will pay for claims not related to products-completed operations during the policy term, regardless of how many claims are made or insureds are involved.

Section 4: Contractors Liability and Exposures

10. Which of the following statements about Supplementary Payments under the CGL policy is true?

- ☐ Supplementary Payments reduce the policy's Limits of Insurance.
- ☐ The insurer will cover up to \$500 per day for lost earnings due to time off work for defense assistance.
- ☒ The insurer covers post-judgment interest until the judgment is paid.
- ☐ Defense of an indemnitee is always covered as a Supplementary Payment.

Supplementary Payments cover post-judgment interest until the judgment is paid. They do not reduce the policy's Limits of Insurance, and the limit for lost earnings is \$250 per day, not \$500. The CGL policy *may* provide the defense of an indemnitee as a Supplementary Payment under specific conditions; however, this coverage only applies when all specified conditions are met, including cooperation from the indemnitee and agreement to the insurer's control of the defense.

11. Which of the following statements best describes the purpose of adding endorsements like CG 21 54 or CG 21 31 to a contractor's CGL policy?

- ☒ To exclude coverage under the contractor's CGL policy for operations covered by a wrap-up insurance program, preventing overlap and double coverage
- ☐ To provide additional liability coverage for contractors and subcontractors on all projects, regardless of whether they are enrolled in a wrap-up program
- ☐ To ensure contractors are covered for completed operations after a wrap-up program expires
- ☐ To extend coverage under the wrap-up program to uninsured contractors not enrolled in the wrap-up

Endorsements like CG 21 54 and CG 21 31 are added to a CGL policy to exclude coverage for operations already covered by a wrap-up insurance program. This prevents overlapping coverage and potential double insurance on the same project.

Section 4: Contractors Liability and Exposures

12. John's construction company is working on a large project covered by a controlled insurance program (CIP). As part of the project, John leases several pieces of heavy equipment from a leasing company, which requires that it be added as an additional insured on John's CGL policy. However, since John's CGL policy excludes coverage for the project due to the wrap-up exclusion, there is a concern that the equipment leasing company may not have the necessary insurance coverage.

Which endorsement could John add to his CGL policy to ensure the equipment leasing company is covered as an additional insured, even though the project is covered by a wrap-up program?

- ☐ CG 21 54
- ☐ CG 21 31
- ☐ CG 25 03
- ☒ CG 40 07

The CG 40 07 endorsement includes a limited exception for additional insureds, such as equipment leasing companies, ensuring they are covered even when the contractor's CGL policy excludes coverage due to the wrap-up program.

Section 4: Contractors Liability and Exposures

13. How do the endorsements CG 22 43 Exclusion – Engineers, Architects Or Surveyors Professional Liability and CG 22 79 Exclusion – Contractors Professional Liability differ with respect to what they exclude?

- ☒ CG 22 43 excludes all coverage for professional services including any means, methods, or techniques used by contractors, while CG 22 79 excludes professional services but allows coverage for means, methods, or techniques used by contractors
- ☐ CG 22 43 excludes only professional services related to architects and engineers, whereas CG 22 79 excludes all professional services related to construction.
- ☐ CG 22 43 excludes only means and methods of construction, while CG 22 79 excludes all professional services including construction techniques.
- ☐ CG 22 43 Liability allows coverage for contractor techniques and methods, whereas CG 22 79 excludes coverage for these techniques and methods.

CG 22 43 Exclusion – Engineers, Architects Or Surveyors Professional Liability provides a broad exclusion for professional services, which means it excludes coverage not only for traditional professional services but also for any “means, methods, or techniques” used by contractors related to their construction activities.

Section 4: Contractors Liability and Exposures

Appendix

Preparing for the Final Exam

For many learners, test preparation is stressful. Please keep in mind that the most important measure of your knowledge will be witnessed in your service to your organization. Think of a test as a tool. Use it to come to an understanding of what you know, how it affects your work, and what more you would like to know to have even greater success in the workplace.

The testing period for the Final Exam is two hours long. The test itself is composed of 85 multiple choice questions that ask you to demonstrate what you know. You are required to earn a minimum of 140 out of 200 possible points. Questions appear in the order of presentation of the topics.

Remain aware of the time as you take the test. Pace yourself and be aware that unanswered questions are considered incorrect.

Study Techniques

There are some techniques you can use to help you prepare for the end-of-course test. Apply the same techniques to each chapter in your Learning Guide.

1. Review the Section Goal.
2. Review each Learning Objective.
3. Change each head and subhead into a question. Then answer the question. For example, header: Named Insureds, Automatic Insureds, and Non-Automatic Insureds

Question: Who is an Insured on a Commercial General Liability Policy?

4. Review each diagram, graph, and table. Interpret what you see. Ask yourself how it relates to a specific Learning Objective.
5. Check your answers to each Check-In. Correct your original answers, if necessary.
6. Check your answers to each Knowledge Check. Consider ways to improve your original answers.
7. Re-read the summary at the end of each section.

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8. Check your answers to each question in the Self-Quizzes at the end of each section. Correct your original answers, if necessary.
9. Review any comments, highlights, or notes you made in each section.
10. Rewrite important ideas in your own words. Find ways to connect those ideas to your own work experiences.
11. Make flash cards to help you review important vocabulary.

Sample Exam Questions

1. Insurance professionals should use disclaimers when reviewing contracts for clients. Which of the following is the best reason for doing so?
 - ☒ Disclaimers protect them by making it clear they are not providing legal advice.
 - ☐ Disclaimers allow them to bypass language in the contract that might be complex.
 - ☐ Disclaimers allow them to amend the contract with the permission of the client.
 - ☐ Disclaimers are only necessary in certain jurisdictions.

Sample Answer:

Contract review is valuable to both the client and the agent, and can distinguish the agent from their peers. However, the agent must be clear that they are identifying exposures and are not providing legal advice.

Appendix

2. Contractors typically purchase property insurance. Which of the following is the best reason why?

- ☐ To comply with state licensing codes.
- ☒ To provide coverage for liability excluded in standard liability policies.
- ☐ To increase the value of the project for pricing purposes.
- ☐ To reduce employee costs and overhead.

Sample Answer:

Standard liability policies, such as CGL and BAP, often exclude coverage for property owned by, rented to, or otherwise under the contractor's care, custody, or control, making property insurance necessary.

3. Wiregrass Builders has an occurrence that may lead to a claim. Bill Barton, Wiregrass's employee, becomes aware of the situation. According to the CGL policy Conditions, who is responsible to notifying the insurer?

- ☐ Bill Barton, the employee that became aware of the situation.
- ☐ The Named Insured's customer.
- ☐ The Named Insured's attorney.
- ☒ The Named Insured

Sample Answer:

Under the Duties in the Event of Occurrence, Offense, Claim, or Suit condition, the policy states "you" must see to it that we are notified. In the preamble to the policy, "you" is defined as the Named Insured on the Declarations.

Glossary of Terms

Broad Form indemnification – A type of indemnification agreement in which the indemnitor assumes liability for all potential liabilities resulting from the negligence of the indemnitor and indemnitee, including those arising from the indemnitee's sole negligence

certificate of insurance – A document with a summary of key information supplied by an insurance company or broker to an insureds that verifies the existence of an insurance policy

commercial excess liability policy – An insurance policy that provides additional liability coverage that goes above the limits of an underlying primary insurance policy, such as a Commercial General Liability (CGL) policy

common law – A body of law, also called case law, rooted in generally accepted principles and judicial decisions based on custom and precedent

conflict of interest – A situation in which the aims of two different parties are incompatible. For instance, an insurance professional may encounter a conflict of interest if they represent both a general contractor and a subcontractor on the same project.

contractor – A person or company at the top of the construction hierarchy that contracts or is hired to perform work, such as specific tasks or services—in this context, on a construction project

disclaimer – A statement an insurance professional should provide to their client when conducting contract review services that outlines and limits the review to exposure identification

duration of indemnity obligations – The length of time an indemnity duty must remain in place, usually determined by the terms of a contract, from the execution of the contract until all the contractual obligations are fulfilled

duty to defend – The insurer's responsibility or obligation to defend an insured against claims made under a liability insurance policy

efficient proximate cause – A legal doctrine used in insurance to determine the primary cause of a loss when multiple events contribute to the damage. It refers to the most significant cause that sets other events in motion, ultimately leading to the loss.

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exculpatory clauses – Contractual provisions that involve one party exonerating another from liability for negligence or other wrongful acts, often regardless of insurance coverage. These clauses are generally broader than waivers of subrogation. However, if an exculpatory agreement is in place and enforceable, it acts as a waiver of subrogation since the insured has no rights of recovery against the other party to transfer to the insurer after a loss.

follow form excess policy – A policy that typically has minimal policy language, often limited to the Declarations, a schedule of underlying insurance, and a basic insuring agreement stating that coverage follows the underlying policy's terms and conditions

general contractor (GC) – A role in the construction project hierarchy; the person or company responsible for things like materials, equipment, and job site safety

hold harmless/indemnification agreement – An agreement that commonly contains contractual provisions designed to allocate risk and protect parties from potential liabilities. These provisions often cover defense costs, punitive damages, and liability for injuries and damages, while also considering statutory requirements and jurisdictional variations.

hybrid indemnification agreement – An agreement that combines elements of the three types—typically blending limited and broad indemnification provisions—to address specific risks or legal constraints. These agreements are tailored to the particular needs and exposures of the contracting parties, often influenced by the statutory and case law of the jurisdiction in which the contract is executed.

indemnification laws – Laws set by state legislatures to ensure that contracting parties remain accountable for potential liabilities. These statutes generally limit or prohibit the transfer of financial responsibility for certain risks, particularly in construction contracts. However, these laws often do not apply to other types of agreements, such as equipment rentals, security services, or waste management contracts.

indemnatee – The person or organization who receives indemnity, or protection against loss, damage, or injury

indemnatee status – Arises from contract clauses and is limited by statutory and common law, while additional insured status is defined by an insurance policy, typically through an endorsement. The duty to defend or indemnify under indemnatee status is determined by the contract, whereas the insurer's obligation under additional insured status is outlined in the policy.

indemnitor – The party that indemnifies or provides compensation to another party for losses or damages

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Intermediate Form indemnification – A type of indemnification agreement where the indemnitor is responsible for paying the full cost of the loss, even if they were only responsible for a portion of it. Thus, if a claims investigation found the indemnitor to be 50% responsible for the loss and the indemnitee to be 50% responsible, the indemnitor would be liable for paying the entire cost of the claim. This type of indemnification agreement is not enforceable in some states regarding construction contracts.

limitation of liability provisions – Provisions designed to cap the amount or type of damages that one party can recover from the other

Limited Form indemnification – An indemnification agreement in which the indemnitor is responsible for indemnifying the indemnitee for the losses only to the extent that they, the indemnitor, are responsible for them and any resulting vicarious liability of the indemnitee for the negligent actions of the indemnitor

liquidated damages – Clauses that outline the exact penalties for inexcusable delays in construction projects. Parties to a contract use liquidated damages where actual damages, though real, are difficult or impossible to prove.

material change – A substantial, continuing change to a construction project that affects and increases the risk involved

nonrenewal – Occurs when an insurance company decides not to extend coverage beyond the policy's expiration date, either due to changes in risk, underwriting decisions, or other factors

non-vitiating clause – Sometimes called severability of interests—this clause ensures that if one Named Insured violates the terms of the policy, coverage for the other Named Insured(s) is not voided. This protection is vital in scenarios where multiple parties are named on the policy since it helps prevent the actions of one party from adversely affecting others.

pass-through provision – A provision that holds the subcontractor responsible for obligations not only to the GC and project owner as stated in the contract between the GC and sub, but also to the project owner per the contract between the owner and GC

per item basis – By applying coinsurance per item, each piece of equipment is insured at a specified percentage of its value by the chosen valuation method, which ensures clarity and straightforward claim processing.

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per schedule basis – This approach requires the contractor to maintain coverage at a certain percentage of the total value of insured equipment. If this requirement is not met, the insurer may reduce the claim payout proportionally.

products-completed operations hazard – In commercial general liability, this refers to the risk of bodily injury or property damage arising from a business's products or completed work.

savings clause – A clause in many indemnification agreements that preserves the agreement's enforceability, despite any policy broadness, with the phrase, "to the fullest extent permitted by law"

Separation Of Insureds – A policy condition that outlines how the policy responds when multiple insureds are involved, particularly where one insured might sue another. This concept is based on a concept stressing the importance of policy provisions that protect the interests of all Named Insureds. The separation can be significant in various claims scenarios, such as when one Named Insured sues another or when a Named Insured's employee sues an additional insured. Policy terms, conditions, and exclusions also apply separately to each insured, except policy limits, which all insureds share.

severability of interests – Another provision of builders risk insurance that includes non-vitiation clauses. These clauses ensure that if one Named Insured violates the policy's terms, the coverage is not voided for the other Named Insureds. This protection is vital in scenarios where multiple parties are named on the policy since it helps prevent the actions of one party from adversely affecting others.

special relationship – This can occur when an insurance professional possesses unique or specialized expertise and/or is in a special position of confidence and trust with an insured, and they rely on the recommendations of the agent or broker.

statute of limitations – The time limit of the right to file a lawsuit once an injury or damage has occurred. The time limit varies depending on the type of action (e.g., bodily injury, defamation, breach of contract) and jurisdiction.

statutes of repose – These provide an absolute cut-off date beyond which no claims can be made for bodily injury or property damage that occurs after that date, unlike statutes of limitations.

statutory law – Indemnification laws enacted by state legislatures to ensure that contracting parties remain accountable for potential liabilities. These statutes generally limit or prohibit the transfer of financial responsibility for certain risks, particularly in construction contracts.

Appendix

subcontractor (sub) – A person or company hired by the contractor to do specific tasks or services in their area of expertise. The subcontractor is liable to the contractor, not directly to the client.

subrogation – A common but critical concept that refers to the common law right of an insurance company, after compensating its insured for a loss, to step into the shoes of the insured and pursue recovery from the party responsible for the damage

third party – In the event of loss or damage, the indemnitor (or their insurance company) will compensate for an injury or damage to another or a third party that may otherwise be the responsibility of the indemnitee

tortfeasor – A person who commits a tort or wrongful act

umbrella liability policy – A type of liability insurance that not only provides excess coverage over the limits of underlying policies (like a CGL policy) but also potentially offers broader coverage. Unlike a commercial excess liability policy, an umbrella liability policy can cover some claims that may not be covered by the underlying insurance. It may “fill gaps” by offering coverage in situations where the primary insurance might not apply.

waiver of subrogation – The intentional or voluntary relinquishment of the right of the insurance company to step into the shoes of the party whom they compensate and sue any party whom the compensated party could have sued