

Additional Insured and Loss Payee

I often receive requests to have additional insured's and loss payee's added onto client's insurance policies. Most of the time, the person making the request only knows that they were told to have the additional insured or loss payee added to their insurance policy, but they don't know why or what the terms imply. I'd like to clearly explain the two terms and how they relate to your insurance policy.



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Loosely translated, a loss payee is someone who will be paid if there is a loss. For example, you have purchased a new car and have decided to finance the cost of purchase. The finance company or bank you go through will ask you to add them as a loss payee to your automobile insurance policy. It's similar to the lien the finance company or bank holds on your car title until the loan is paid off. If you have an accident that results in a total loss, your finance company wants to know that your loan will be paid off. When you list the bank or finance company as a loss payee on your insurance policy, you are giving the insurance company permission to pay the value of your car directly to your bank finance company. This ensures that your loan is paid back.

Loss payee status can apply to things other than automobiles. If you own a business you may have to add a bank as a loss payee on your property policy in order to get a line of credit to purchase supplies. Any individual with an interest in your property can ask to be added as a loss payee.

Additional insured status is a little different and has more of a legal undertone than a loss payee. If you lease a vehicle, as opposed to financing, you may be asked to add your leasing company as an Additional Insured AND Loss Payee. Technically, when you lease a vehicle, you do not own it outright and never will. This also means that if you cause an accident and are sued the person suing you can come after not only YOU, but the leasing company as well. They can do this because the leasing company owns the car and provided it to you for use. Adding your leasing company as an additional insured means that, when it comes to that particular car, the leasing company has coverage under your policy for defense if there is a lawsuit.

Additional insured status also applies to other things. For example, if you are a contractor and want to hire a subcontractor, you will want to be named as an additional insured on the liability insurance policy held by your subcontractor. If a client sues you because of work the subcontractor did, you should have coverage under the subcontractor's policy as well as your own (though the insurance companies are bound to argue over who gets to pay)! Additional insured status only applies to the work done for the contractor or subcontractor, and vice versa. You can't expect the subcontractor to provide you insurance for any work aside from the jobs they are doing for you specifically!

Hopefully this explanation of additional insured and loss payee definitions makes your insurance policies a little clearer. As always, I'm open to any insurance questions or comments you may have.

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