



Completed Operations Liability Considerations in the Construction Sector

Contractors and subcontractors in the construction industry face a wide range of completed operations liability exposures. After all, various construction tasks carry risks of third-party bodily injuries or property damage that may result from the finished work, possibly leading to costly lawsuits. Even quality workmanship is not immune to potential completed operations losses. Yet, considering the mix of contractors and subcontractors who contribute to each project, which party is liable for such losses?

As it pertains to completed operations liability, a contractor's or subcontractor's "work" is generally a broadly defined term in an insurance policy that includes tasks performed by the policyholder or on the policyholder's behalf—it also includes the materials, parts or equipment in connection with these tasks. This means that operations performed on behalf of the policyholder (i.e., work done by a subcontractor as part of a contractor's larger project) are considered their own. For example, faulty electrical work performed by a subcontractor that causes a fire and subsequent property damage could be considered the general contractor's liability on a project. In this instance, the resulting completed operations loss would likely be covered under the contractor's commercial general liability (CGL) policy.

Nevertheless, because a contractor or other involved party could be held liable for defects in a subcontractor's work years after a project has been completed and filing the claim under the contractor's CGL policy could cause their premium to rise, many construction project contracts require subcontractors to provide insurance coverage for claims resulting from their finished work for a finite period of time (typically within the one- to five-year range). A standard contract may also require that a subcontractor name the project or associated property owner, the architect, the general contractor and other applicable parties as "additional insureds" who are entitled to coverage under the subcontractor's CGL policy. However, it's important to note that naming additional insureds requires a separate policy endorsement.

In other words, under such coverage, subcontractors could still be held liable for third-party claims of bodily injuries or property damage stemming from defects in their work. It is also critical for subcontractors to maintain this coverage into the future; failure to do so could lead to breach-of-contract lawsuits from general contractors or other applicable parties. Furthermore, subcontractors should understand their specific completed operations commitments before signing construction project contracts, as large-scale claims could leave them with substantial premium increases. In any case, both contractors and subcontractors can take steps to minimize their completed operations exposures and avoid related litigation and claims. Namely, these parties should make sure to comply with local building regulations, consistently uphold top-notch work and diligently document project performance. It may also be valuable for contractors and subcontractors to consult legal and insurance professionals to further discuss their unique completed operations risks and coverage needs.

For additional insurance guidance and risk management resources, contact us today.