

When Can Additional Insureds Sue for Bad Faith?

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By Mary Harriet Moore on September 20, 2024

On construction projects, it is common for companies to require that they are named as an “additional insured” on another party’s insurance policy. Doing so extends liability coverage to the additional insured in the event they face claims or lawsuits related to their work or services on a project. However, another important benefit to being listed as an additional insured is that it can also protect the company from potential bad faith practices by the insurance carrier.

An insurance company’s duty of good faith and fair dealing extends not only to the named policyholders, but also to any additional insureds listed on a policy. So, if the insurance company engages in unreasonable conduct, delays, or denies a claim without cause, the additional insured may have the ability to bring a bad faith lawsuit against the insurance company.

An additional insured may bring a bad faith claim against an insurance company if it is regarding the handling of its claim for insurance benefits under the insurance contract. *UFP Eastern Division, Inc. v. Selective Insurance Company of South Carolina*, 2017 WL 499083 at *5 (D.S.C. Feb. 6, 2017). An additional insured, however, may not bring a bad faith claim if the subject of the claim was not covered by the insurance agreement. *BMW of N. Am., LLC v. Complete Auto Recon Services, Inc.*, 399 S.C. 444, 453, 731 S.E.2d 902, 907 (Ct. App. 2012).

What Constitutes Insurance Bad Faith for Additional Insureds?

Insurance bad faith can take many forms for additional insureds, including:

- Failure to properly investigate a claim and gather evidence
- Unreasonable denial or delay of a legitimate claim
- Misrepresenting or omitting facts about coverage
- Refusing to defend the additional insured against third-party claims
- Failing to accept a reasonable settlement offer within policy limits
- Putting the insurer’s interests ahead of the additional insured

Because the insurance company owes the same duty of good faith to additional insureds as it does to policyholders, these examples are not unique to additional insured parties.

Recoverable Damages in Insurance Bad Faith Cases

If successful in a bad faith claim, policyholders and additional insureds may be able to recover:

- The original amount owed on the claim
- Consequential financial losses stemming from the denial/delay
- Attorney fees and legal costs
- Potential punitive damages in egregious cases

The right to bring a bad faith lawsuit empowers additional insureds and primary policyholders and holds insurance companies accountable for disregarding the terms of the policy and the rights of all covered parties.

Charleston Construction Lawyers

Navigating the claims process and insurance litigation requires experienced legal counsel, especially when dealing with uncooperative carriers. If you are listed as an additional insured, you may benefit from seeking help from experienced legal counsel. Our **construction law attorneys** have extensive experience dealing with issues that arise during the course of construction projects from payment disputes to mechanic's liens to bad faith insurance. **Contact our firm today** to schedule a consultation.