



Design Professional Insights

Designing insurance coverage for your joint venture

By Mike Olson, Risk Advisor, Cavnac

Joint ventures, or JVs, are usually created when two or more parties form a short-term or limited partnership to undertake a project. JV agreements do not always consider insurance coverage and can leave participants with legal liabilities and financial responsibilities they did not bargain for. We invited Mike Olson, Risk Advisor at Cavnac, an insurance broker in San Diego, California, to provide an overview of these insurance programs.

Whenever I'm speaking to a design firm that's considering forming a joint venture, my advice is always the same: evaluate your reasons for considering it. For instance,

- is it just for the money,
- is it to appease (or win) a long-term client, or
- is it to satisfy a statutory or project requirement, such as working with a disadvantaged business?

You should also consider the project's chance of success against the risks it presents, a point that is, or already should be, part of your firm's go/no-go checklist.

...some jurisdictions adhere to the principle that JV partners are held “jointly and severally” liable for the acts and omissions of their JV partner.



Once you’ve decided to proceed, work with your broker and legal counsel to structure a solid JV contract that allocates negligence-based liabilities so that any contractual requirements are fully insurable. It should also specify each partner’s scope of services and iron out details such as who is responsible for hiring subcontractors if the need arises.

Who’s liable for what?

Some JV contracts will specify each partner’s capitalization percentage and then allocate liabilities along those lines. For example, a JV agreement between an architect and engineer might specify that the architecture firm is contributing 40 percent of the capital, the engineering firm is contributing 60 percent, and any losses or liabilities will be allocated based on those percentages. The problem is that professional liability insurance coverage responds to claims based on a design professional’s negligence in performing professional services. Any agreement to allocate liabilities differently—such as described above—can trigger a professional liability policy’s contractual liability exclusion, resulting in an uninsured or underinsured loss.

Additionally, some jurisdictions adhere to the principle that JV partners are held “jointly and severally” liable for the acts and omissions of their JV partner. This means that no matter what your percentage of ownership in the JV is, even if it’s a mere 15 percent, you can be held 100 percent liable for

negligence on the part of your JV partner. In addition, if it is determined that you were neither negligent nor did you breach the standard of care, you’ll be financially liable for any portion of the award that your partner cannot pay.

Joint ventures between two entities of different sizes and risk profiles also run the risk of creating an imbalance between the parties, even when contracts are negligence-based. When different-sized JV partners purchase \$1 million and \$10 million of professional liability coverage, respectively, this disparity quickly becomes another complicating factor in terms of both capitalization and negligence-allocation percentage. This is particularly evident when the partner with lower coverage limits disproportionately causes the damages at issue.

It is critical that a shell JV contract include a negligence-based indemnity between the parties. This helps establish that any indemnity obligations are insurable under your professional liability policy.

Types of JVs

- **Shell** – In my experience, nearly all JVs are set up as what’s known as “shell” arrangements. In this structure, two design firms create a limited liability company, or LLC, that subcontracts all services to the two firms, based on each firm’s scope of services.

It is critical that a shell JV contract include a negligence-based indemnity between the parties. This helps establish that any indemnity obligations are insurable under your professional liability policy. It doesn’t matter whether the firms split profits 20/80 or otherwise; if the indemnity is tied to negligence, your practice policy can respond to that liability up to its limits.

- **Integrated joint venture** – Integrated JVs are rare and primarily used for very large infrastructure projects. In this arrangement, the JV is fully integrated, combining staff, resources, and management of the JV partners into a single entity. That entity then performs all the professional services under its own taxpayer identification number.

Insurance for JVs

- **Practice policy** – A practice policy typically provides coverage for the Named Insured’s professional services under the JV, but not for the JV or the other JV partners.

- **Shell** – In a shell arrangement, once the project is complete, you can shut down the JV because your practice policy’s extensions will maintain coverage for any claims against you that may later arise. (Reminder: Be sure your contract includes the negligence-based indemnity between the parties, as discussed above.)

- **Integrated JV** – An Integrated JV must obtain its own practice or project insurance because the members’ duties and obligations overlap and cannot be segregated to be covered under a practice policy. The JV must maintain the policy for as long as required by statute and the JV’s contract with the owner. Few carriers will provide practice insurance to an integrated JV, so it is paramount that you consult with your broker before heading down this path.

If you're considering forming a JV, consult with your broker and legal counsel from the outset, so you understand the legal and insurance-coverage ramifications before it's too late to pivot.

- **Project policy** – Design firms in JVs sometimes obtain project policies, but they're becoming increasingly difficult to obtain and can be prohibitively expensive for certain projects. A project policy could cost 10 times what your practice policy costs, because the policy term is purchased upfront for several years, whereas a practice policy is procured annually. If your practice policy is \$100,000 per year, a project policy could cost \$1 million and will become due at the onset of the policy. However, for the right JV situations and projects, these policies are very sensible alternatives.
- **Specific-job excess** – An alternative to obtaining a project policy is to add a specific-job excess (SJX) endorsement that raises your practice policy limits for a specific project. An SJX is fine if you're trying to satisfy a specific limit requirement and you're otherwise comfortable with the project's risks. However, like a project policy, an SJX endorsement can become expensive when maintained for the length of time you're exposed—typically the specific jurisdiction's statute of repose or a contractual requirement. I don't recommend it for high-risk projects because the SJX sits excess of your firm's practice policy, meaning the practice policy is the first policy to respond to a high-severity claim. It's best to peel off risky projects and insure them separately under a project policy, if possible, to safeguard your practice insurance program.

Conclusions

The process of making sure you have the right insurance for the type of joint venture you're creating is extremely complex, and I don't want to leave you with the impression that I've covered everything in this overview article. If nothing else, I hope you'll take away three points from this discussion:

- If you're pursuing the more common shell JV, practice-policy-coverage extensions work as a sensible resolution in the vast majority of pursuits. Alternative placements can be tailored to nearly any project situation, but such options can become impractical and cost-prohibitive; you're better off avoiding them until necessary.
- Your contract is of utmost importance. Insurance is your last-resort safety net, not your first line of defense. Make sure you have the right project and partner, then get a well-drafted JV agreement that is negligence-based.
- If you're considering forming a JV, consult with your broker and legal counsel from the outset, so you understand the legal and insurance-coverage ramifications before it's too late to pivot. It is never too soon to bring your broker and legal counsel into the conversation.

Good luck!



Questions/Comments

Published by the Design Professional unit of AXA XL

DesignProfessionalUSA@axaxl.com | axaxl.com/dp

DesignProfessionalCAN@axaxl.com | axaxl.com/dp-ca

The information contained herein is intended for informational purposes only. Insurance coverage in any particular case will depend upon the type of policy in effect, the terms, conditions and exclusions in any such policy, and the facts of each unique situation. No representation is made that any specific insurance coverage would apply in the circumstances outlined herein. Please refer to the individual policy forms for specific coverage details.

AXA XL is a division of AXA Group providing products and services through three business groups: AXA XL Insurance, AXA XL Reinsurance and AXA XL Risk Consulting. In the US, the AXA XL insurance companies are: AXA XL Insurance Company Americas, Greenwich Insurance Company, Indian Harbor Insurance Company, XL Insurance America, Inc., XL Specialty Insurance Company and AXA XL Excess & Surplus Lines Insurance Company. In Canada, insurance coverages are underwritten by XL Specialty Insurance Company - Canadian Branch. Coverages may also be underwritten by Lloyd's Syndicate #2003. Coverages underwritten by Lloyd's Syndicate #2003 are placed on behalf of the member of Syndicate #2003 by Catlin Canada Inc. Lloyd's ratings are independent of AXA Group. Not all of the insurers do business in all jurisdictions nor is coverage available in all jurisdictions. Information accurate as of February 2026.

The AXA, AXA XL, AXA XL Insurance, AXA XL Reinsurance and AXA XL Risk Consulting trademarks and logos are registered trademarks of AXA SA. © 2026