

COMMERCIAL GENERAL LIABILITY INSURANCE POLICY DEFINITIONS, LIMITS AND POLICY FORMS

In this *Business Insights* issue we will examine the structure of the commercial general liability (“CGL”) insurance policy definitions, limits and policy forms.

The definitions section is quite important. After reviewing the declarations page, it is a good place to start when reviewing a CGL policy. In fact, it might be advisable to pull out or copy the definitions section as you read the rest of the policy. Do not however make the mistake many make in reading their insurance policy and assuming that the words in the contract such as Occurrence, Bodily Injury or Property Damage have a meaning other than or broader than what is contained in the policy. Insurance companies put these definitions in policies for good reasons. The definitions are also in quite some detail so as to cover any possibility that might exist in the event a court is asked to review an insurance policy. To illustrate this point, the definition of Insured found in a standard CGL policy is in its own section and covers more than a page!

Limits is defined as the maximum amount an insurance company agrees to pay in the event of a loss. If for example, the limits of a CGL policy were the sum of \$1,000,000, which is common, this means the insurer would pay no more than \$1,000,000 to either settle or pay a claim that had been reduced to a judgment. To the extent the \$1.0 million amount was not sufficient, the insured would have to pay the remainder of the claim out of its own resources.

The limits under a CGL policy are on an Occurrence basis. Occurrence is another one of the defined terms. For now, think of occurrence as an accident or claim. As the limits are on an occurrence basis, they would apply to each accident or claim. Let’s look at an example.

CASE EXAMPLE

Let’s assume this year a company incurs two claims. The first involves an accident whereby a visitor to one of the company’s locations slips and falls and seriously injures himself. The second involves a claim resulting from a catastrophic jobsite claim that seriously injures a jobsite laborer. If the company had a \$1.0 million CGL policy, the \$1.0 million amount would apply to each of these claims.

There is maximum amount however that the insurance company will be obligated to pay as a result of claims occurring within a policy period and that is defined as the Aggregate. Typically, with a \$1.0 million limit under a CGL policy you will find the aggregate to be the sum of \$2.0 million. That aggregate is reduced by all claims paid within the policy period. Once the general aggregate limit has been used up by the cumulative payment of losses, no more losses in the same categories will be paid during the policy period

In our discussion of insurance limits, the limits aggregate and deductibles, we have made reference to the insurance policy period. The policy period encompasses the time between the exact hour and date of policy inception and the hour and date of expiration. A renewal policy is that insurance policy issued to replace an expiring policy and should incept the minute the previous policy expires.

The policy itself attached to the declarations page is usually a pre-printed Insurance Services Office form. Most insurance contracts used by insurance companies today were developed by the Insurance Services Office also known as the ISO. ISO is an industry organization. The ISO collects statistical data, promulgates rating information, and develops standard policy forms.

When reading through an ISO form, it needs to be emphasized that everything is based on the definitions themselves. As we will discuss in the next two modules, once the definitions are completely laid out, the ISO form will then provide the parameters of the insurance coverage. The ISO form will first provide a very broad insurance coverage through what is referred to as the Insuring Agreement. That coverage will then be limited or restricted through exclusions and endorsements. At the same time various policy Conditions exist that need to be satisfied by the insured

Another way to look at this is through a linear type analysis.

FIRST: Do the circumstances of a claim bring it within the scope of at least one of the insuring agreements contained in the insurance policy?

SECOND: If coverage does not seem to apply under one of the insuring agreements, make sure there is still no coverage under a separate insuring agreement elsewhere in the policy, including any of the endorsements.

THIRD: If coverage does seem to apply in answer to the first question, do any exclusions apply?

FOURTH: If coverage does seem to apply under the first question and no exclusions seem to apply under the third question, has the insurance buyer breached any policy Conditions?

FIFTH: If coverage does seem to apply and no exclusions apply, and all policy conditions have been met, has the policy aggregate been exhausted by payment of previous claims?

SIXTH: You have read the declarations page, the policy form, including all definitions and conditions, don't forget the endorsements.

SEVENTH: Make sure all policy conditions are satisfied on the part of the insured.