Chapter One - Introduction to Commercial General Liability

Introduction

This course will cover a liability risk which all businesses face, called commercial general liability, or CGL exposure. After giving you a background of what CGL is, the most popular version of the CGL policy will be explained in detail. In the process, you will learn how to determine whether there is coverage under the CGL policy for various claims scenarios.

Looking at the three words making up the term “Commercial General Liability” will help to define what this topic is.

“Commercial” refers to non-personal, or business operations. A commercial liability policy, although it can ultimately cover individuals, will usually only do so in that individual’s commercial or work capacity. Commercial policies are designed protect business assets.

Commercial liability risk comes in many forms. The insurance industry has introduced many different liability insurance policies, each designed to cover various parts of a business’s overall liability exposure. Examples include automobile liability, directors and officers liability, professional liability, fiduciary liability, errors and omissions liability, pollution liability, employers liability, workers compensation liability, municipal liability, aviation and aircraft liability, watercraft liability, and “commercial general” liability.

The word “general” in the term CGL, as opposed to most other liability policies covering an obvious, specific liability exposure essentially means “not classified nor covered specifically in other liability policies.”

“Liability” in the context of insurance policies can be defined as “the cost of being blamed for, accused of, or responsible for losses suffered by others (that is, not to the business itself or any of its employees).” The injuries which CGL policies respond to include bodily injury, property damage, certain personal injuries, and “advertising injury” which will be discussed later in the course.

Business entities of all kinds, whether sole proprietorships, partnerships, or corporations face risks of many types. In this course we are focusing on pure risk, the type of risk where there is no opportunity for gain - there is simply the chance of losing. In particular, we will examine the pure financial risk of dealing with certain demands for money, made by others, to compensate them for injuries or property damage which they allege is an insured’s fault and therefore the responsibility.

Here are several examples:

- A shopper in a mall was walking down the main aisle and tripped as she entered a clothing store. In the fall, she broke her hip and ankle. She feels her fall was the fault of the storeowner, because there was an uneven surface on the store’s floor. The injured woman hired an attorney who has sent a letter to the storeowner requesting payment for the woman’s medical bills and other related expenses.
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- The employee of an appliance retailer was at a person's house installing a washing machine. After leveling the washer and attaching the hoses, the employee turned on the water to “test run” the machine. Water then shot out of the washer hose where it was connected to the faucet, damaging the carpet and wooden floor underneath. The homeowner wants the retailer to pay for the repairs.

- A mail-order company rented a warehouse under a standard lease. A provision in that lease stated that the tenant (the mail order company) will “indemnify and hold harmless” the landlord for any damage to property of others arising out of the warehouse. One day a salesman making a visit to the mail-order company was touring the warehouse when a light fixture fell from the ceiling and landed on the salesman’s samples of fine porcelain. The salesman wants someone, either the tenant or the building owner, to pay for his damaged samples. According to the lease, the tenant will have to pay for this problem -whether the fault rested with the landlord or the mail order company.

- After pulling away from a fast-food restaurant’s drive-through window, a customer bit into a hamburger, and broke his tooth. He said there was a rather large chunk of bone in the patty, and wants the restaurant to pay his dentist’s bill.

- A homeowner had some kitchen cabinets installed over her countertop one morning by a contractor. After the contractor left, she began to load the first cabinet with dishware. When the cabinet was nearly full with dishes, it came right off the wall and crashed onto the countertop and then onto the floor. She called the contractor to complain, demanding that they pay for the necessary repairs.

These are examples of accidents resulting in bodily injury or property damage, which in turn led to demands for compensation by the victims.

Commercial General Liability: A Quick Primer

Liability insurance policies normally protect a business in two ways: first, by paying the costs to defend the business against accusations made by others (non-employees) for certain alleged injuries, and second, by paying legal judgments or voluntary settlements to the accusing party.

Just as property insurance has many different coverage forms to insure various types of business assets, there are a number of liability forms to cover a wide range of monetary demands. In both property and liability policies, the insurance carrier must try to clearly describe what events are covered. Great care must be used in drafting policy language to avoid ambiguities. If there is a disagreement over the meaning of a particular clause or provision in the policy, the interpretation most favorable to the policyholder will take precedence.

Focusing on the liability side, we know that any business entity, from the smallest sole proprietorship to the largest multinational corporation can be sued or otherwise be blamed for losses suffered by others (whether or not the business is ultimately held to be responsible!). But who will sue or blame the business, for what loss, and for how much is highly uncertain.

Businesses can deal with this uncertainty by purchasing liability policies, which operate to transfer uncertain, unknown claim costs to an insurance company for a certain, known cost (the premium).
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The types of complaints, suits, or and accusations of responsibility covered by CGL can be called "hazards." There are four hazards included in most standard CGL policies, responding to allegations of bodily injury or property damage to others:

**IMPORTANT POINT:**

**Premises Liability:** arising out of an organization’s premises (whether owned, rented, or occupied);

**Operations Liability:** arising out of an organization’s ongoing or current operations or work (in a plant, at a jobsite, etc);

**Products Liability:** arising out of products made, sold, or distributed by an organization which have been relinquished to the party who is alleging injury or damage;

**Completed Operations Liability:** arising from work (other than products) that an organization has finished and/or has been accepted or put to its intended use by a customer.

Modern versions of the CGL policy include two other hazards for harm done to others such as embarrassment, humiliation, or misappropriation of certain advertising ideas. They are:

**Personal Injury Liability:** arising out of alleged offenses such as libel, slander, false arrest, and others;

**Advertising Injury Liability:** arising from an organization’s advertising which others allege caused them to sustain certain losses or suffering.
CHAPTER ONE - REVIEW QUESTIONS

1. A Commercial General Liability policy would generally not cover whom?
   a. Individuals in their business capacity.
   b. Individuals for their personal risk.
   c. Companies for the work they do.
   d. Companies for their business operations.

2. Liability risk refers to:
   a. The risk of a company’s own building burning down.
   b. The risk of a company losing market share.
   c. The unknown cost of being blamed or being responsible for injuries to others.
   d. The known cost of liability insurance premiums.

3. One of the following is not an example of pure risk:
   a. A person gambles in Las Vegas in hopes of hitting the jackpot.
   b. A business owns three factories that are exposed to many perils.
   c. A business makes dynamite in an old wooden building.
   d. A landlord leases out apartments to college students.

4. If a provision in an insurance policy is unclear, and there is disagreement over the provision’s meaning:
   a. The insured and the insurance company will have to fight over the provision’s meaning.
   b. The party with the best attorney will prevail.
   c. The interpretation of the provision most favorable to the policyholder will govern.
   d. Both parties will rejoice at the chance to take each other to court.

5. One of the following is not a hazard covered by modern CGL policies:
   a. Products liability
   b. Premises liability
   c. Personal injury liability
   d. Instructional liability
CHAPTER ONE – REVIEW ANSWERS

1. B
2. C
3. A
4. C
5. D