

**Class 11 Outline
Business Finance 749
Spring Quarter, 2007**

I. Commercial General Liability Policy – Recap of Overview

- A. Most organizations have a premises or operations liability exposure and therefore commonly purchase CGL.
- B. CGL can therefore be viewed as the foundation for most organizations liability programs. (Exception: Small to medium-sized enterprises may cover CGL like exposures through a businessowners policy).
- C. Additional types of liability insurance, such as automobile liability insurance, are frequently purchased to cover exposures that the CGL policy excludes.
- D. The most commonly used standard form for providing CGL insurance is the Commercial General Liability Coverage Form of the Insurance Services Office (ISO).
- E. The CGL Coverage Form provides three separate coverages:
 - 1. Coverage A – Bodily Injury and Property Damage Liability
 - 2. Coverage B – Personal and Advertising Injury Liability
 - 3. Medical Payments

Review: Principal Loss Exposures Covered by CGL	
Exposure	Example
Premises liability	Customer slips on a wet floor in a department store and breaks ankle
Operations liability	Employee of insured plumbing contractor accidentally sets fire to customer's house while soldering pipes
Products liability	Defective gas range manufactured by insured firm causes explosion that damages buyers house
Completed operations liability	Overhanging walkway connecting two buildings constructed by insured firm collapses two years after being put into use

II. Coverage A Insuring Agreement - Revisited

- A. Consists of two distinct promises made by insurer
 - 1. To pay damages on behalf of the insured
 - 2. To defend insured against claims or suits seeking damages covered under the policy
- B. Insuring agreement imposes the following conditions on the insurer's duty to pay damages
 - 1. The insured must be legally obligated to pay damages

Class 11 Outline
Business Finance 749
Spring Quarter, 2007

2. The damages must result from “bodily injury” or “property damage” as defined in the policy
 3. The policy must apply to the bodily injury or property damage
 4. The bodily injury or property damage must be caused by an “occurrence” as defined in the policy.
 5. The occurrence must take place in the coverage territory
 6. The bodily injury or property damage must occur during the policy period (Claims-made form contains a different provision).
- F. Coverage A is subject to several exclusions. Subject to some exceptions, these exclusions eliminate coverage for the following:
- Injury or damage expected or intended by the insured
 - Liability assumed under contract (other than an “insured contract”).
 - Liquor liability if the insured is in the business of selling or serving alcoholic beverages
 - Injury to employees of the insured
 - Liability arising from the release of pollutants
 - Liability for aircraft, autos and watercraft
 - Mobile equipment while being transported or used in racing
 - Damage to property owned, rented or borrowed by the insured or to personal property in the insured’s care, custody and control
 - Damage to the particular part of real property on which the insured is working
 - Damage to the named insured’s products or work
 - Damage to “impaired property” or property that is not physically injured
 - Cost of recalling the named insured’s products or work
 - Bodily injury arising out of personal and advertising injury

G. Practice Question – Coverage A Exclusions

ABC Dry Cleaner has a CGL Coverage Form. Several of ABC’s customers have filed claims against ABC for the cost of replacing their clothing that was destroyed by a fire at ABC’s main dry cleaning location. It is clear that the negligence of one of ABC’s employees had a direct causal link to the fire. Indicate “yes” or “no” whether ABC’s CGL form would cover these claims against ABC, and explain why.

III. Fire Legal Liability Coverage

- A. An exception to exclusions c through n of the Coverage A exclusions grants coverage for fire damage to premises rented or temporarily occupied by the name insured
- B. This coverage is widely known as “Fire Legal Liability Coverage”.
- C. For example, assume the following:
 - The insured occupies, under lease, a part of a multi-tenant building.
 - The insured’s negligence causes a fire in its own part of the building.
 - The insured’s liability to the building owner for that part of the building that the insured occupies would be covered by the fire legal liability coverage in the CGL.
 - That is, the exclusion of damage to property rented or occupied by the insured would not apply.
 - Coverage would be subject to the limit shown in the Declarations for Damage to Premises Rented to You limit.
- D. The insured’s liability for damage to any other parts of the building would also be covered.
 - This coverage would be part of the fire legal liability coverage, since the other parts of the building are not rented or occupied by the insured
 - A claim for damage to other parts of the building would not be subject to the “Damage to Premises Rented to You” limit.
 - Instead, it would be primarily subject to the each occurrence limit, which is normally set higher than the “Damage to Premises Rented to You” limit.

IV. Rating of CGL

- A. Basic formula: Rate x Rate exposure = Premium
 - 1. Rate depends on:
 - The nature of the organization
 - Its susceptibility to liability losses
 - 2. In contrast, the Rate exposure reflects the size of the business operations to be insured
 - For example, a toy manufacturer that produces 1,000,000 toys in a years has a higher expected liability loss than one that produces 50,000 toys.
 - 3. The unit in which the rate exposure is measured is called the premium base.

Class 11 Outline
Business Finance 749
Spring Quarter, 2007

4. Insurance companies develop a rate for each business classification that they write
5. They generally use the classification table shown in the *ISO Commercial Lines Manual*.
6. The CLM list more than 1,000 types of operations. Each is assigned a class code
7. If a business has more than one kind of operation, it will likely have two or more class codes.
8. Two CGL rates apply for each classification
 - Premises-operations rate
 - Products-completed operations rate
9. The CLM also indicates the appropriate premium base to be used in rating coverage (the “ratable”).
10. In general, organizations of the same kind have the same premium base.
11. Examples of premium bases:
 - Mercantile business (retail stores) – Gross sales
 - Contracting businesses – Payroll
 - Building and premises risks (apartments and hotels) – area, gross sales, or number of units in the building
 - Special events (concerts, sporting events, exhibitions, etc.) – number of people admitted to the event
12. The actual premium for a CGL policy is often calculated at the end of the policy period after the rate exposure can be determined accurately.
13. That premium is then reconciled with the estimated or “deposit” premium that the insured paid at the beginning of the policy period.
14. The reconciliation results in a refund or an additional premium due.
15. Note: This process is not the same thing as retrospective rating. How is it different?
16. Other factors are considered in determining a CGL premium.
 - a. An insured may want higher limits of liability

Class 11 Outline
Business Finance 749
Spring Quarter, 2007

- This is reflected in an increased limit factor which is applied to the base rate
- b. An Insured may choose not to buy certain coverages automatically included in the CGL form (e. g., personal and advertising injury, medical payments, fire damage liability).
 - The will be given a premium credits for each such coverage reduction.
- c. The insured may want to have a deductible
 - A credit will also given give for this
- d. The coverage may be written on a claims-made basis
 - The usual rates are modified by claims-made factors
 - This reflects that claims-made policies do not cover accidents that occur during the policy period but result in a claim after the policy has expired (unless an additional premium is paid).
 - An occurrence policy covers such accidents regardless of when the claim is made.

V. CGL Coverage B, Personal and Advertising Injury: Insuring Agreement

- A. Coverage B insuring agreement parallels Coverage A.
- B. Insurer agrees to pay those sums that insured becomes legally obligated to pay.
- C. Insurer agrees to defend the insured against any suit seeking such damages.
- D. Instead of responding to claims for bodily injury and property damage, Coverage B responds to claims for “personal and advertising injury” to which the insurance applies

VI. CGL Definition of Personal and Advertising Injury

- A. Injury, including consequential “bodily injury”, arising out of one or more of the following offenses:
 - 1. False arrest, detention or imprisonment
 - 2. Malicious prosecution
 - 3. Wrongful eviction, wrongful entry, or invasion of the right of private occupancy
 - 4. Oral or written communication that slanders or libels a person or organization or disparages a person’s or organization’s goods.
 - 5. Oral or written communication that violates a person’s right of privacy
 - 6. Use of another’s idea in your “advertisement”

Class 11 Outline
Business Finance 749
Spring Quarter, 2007

7. Infringing upon another's copyright, trade dress, or slogan in your "advertisement".
- B. CGL does not define "injury". It states that injury includes consequential bodily injury.
- C. In its ordinary and usual meaning, injury has a broad meaning including:
 1. Physical harm or impairment
 2. Mental anguish
 3. Mental injury
 4. Fright
 5. Shock
 6. Humiliation
 7. Loss of reputation

VII. Coverage Territory (See p. 401 of Policy Handbook)

VIII. Coverage B Exclusions (See p. 394-395 of Policy Handbook)

IX. Supplementary Payments

- A. Supplements the Insuring Agreements for both Coverage A and Coverage B
- B. Both of those agreements obligate the insurer to defend any claim or suit seeking damages if such damages are covered under the policy
- C. Supplementary payments consist of the following
 1. All expenses incurred by the insurer, such as attorney fees, witness fees, cost of police reports, and similar items
 2. Up to \$250 for bail bonds required because of accidents or traffic law violations involving a covered vehicle (usually mobile equipment)
 3. Cost of bonds to release any property of the insured's held by a plaintiff to ensure payment of any judgment that may be rendered against the insured
 4. Reasonable expenses incurred by the insured at the insurer's request, including loss of earnings (up to \$250 a day) if the insured must miss work to testify, attend court, or otherwise assist in the defense.
 5. Court costs or other costs (other than actual damages) assessed against the insured in a suit.
 6. Interest on judgments award against the insured. In some cases, courts will award either prejudgment interest or post-judgment interest or both.
 7. Additional provision relating to the costs of defending a person or organization that the insured has agreed to hold harmless or indemnify under an "insured contract".

**Class 11 Outline
Business Finance 749
Spring Quarter, 2007**

8. Any defense costs paid to an indemnitee under an insured contract are payable *within policy limits*.
9. In contrast, the insurer will pay an indemnitee's defense costs *in addition to the policy limits* if the indemnitee and insured are both named as parties in the same suit.

X. Coverage C – Medical Payments

- A. Medical payments coverage is not liability insurance. It pays regardless of whether the insured is legally liable.
- B. Insurer agrees to pay medical expenses (including, by definition, funeral expenses) for bodily injury caused by an accident occurring on or next to the premises the insured owns or rents.
- C. Bodily injury caused by an accident away from the insured's premises is covered if the accident results from the named insured's operations.
- D. The accident must occur in the CGL coverage territory and during the policy period.
- E. The medical expenses must be reported to the insurer within one year of the date of accident.
- F. An injured person who wishes to receive medical payments must agree to be examined by a physician designated by the company.

XI. Coverage C – Medical Payments – Exclusions

- A. Medical payments do not apply to the following persons:
- B. Any insured (other than a voluntary worker of the named insured)
- C. Any one hired to do work for the insured or for a tenant of the insured
- D. A person injured on that part of the named insured premises which the person normally occupies
- E. A person injured while taking part in athletics

XII. Who is an Insured under the CGL? (See p. 397-398 of Policy Handbook)

- A. Named insured
- B. Employees and volunteer workers of the named insured

- C. Other persons and organizations
 - 1. Real estate managers
 - 2. Legal representatives
 - 3. Mobile equipment operators
 - 4. Newly acquired organizations

XIII. CGL Limits of Insurance

- A. General aggregate limit
- B. Products-completed operations limit
- C. Personal and advertising injury limit
- D. Each occurrence limit
- E. Damage to premises rented to you limit
- F. Medical expenses limit

XIV. Claims-Made CGL Coverage Form

- A. Claims-Made trigger
- B. Retroactive date
- C. Extended reporting periods
- D. Non-ISO Claims-Made forms