

A series for fire sprinkler contractors on

Keys to Understanding the General Liability Insurance Policy — Part 2 Coverage Grants to Exclusions

By Ginny Kloepping, CIC

The general liability insurance policy is a contract between the Named Insured and the Insurance Company to pay premium in exchange for a promise to pay for and defend losses that you are legally obligated to pay, as long as it is covered by the policy. Over the years, this contract has changed multiple times and been interpreted by many courts. Like the contracting industry's use of American Institute of Architects (AIA) uniform contracts, the insurance industry uses some of the Insurance Service Office (ISO) forms. ISO is supported by many insurance carriers and, in return, ISO develops rates and ISO forms that can be used by these carriers.

The ISO General Liability Policy (CG 0001) is divided into a number of Sections and Sub-sections, which are cross referenced in numerous places, making it tedious to find answers to questions of coverage. It is the reason so many coverage attorneys are used by claims professionals to make a final coverage determination when a claim out of the ordinary is reported. It is still very important as a consumer to know how to look at this contract and understand the coverage provided, and, more importantly, what is excluded. If a word is in "quotation marks," be sure to look at the definition in the policy, mostly in Section V, as these definitions can extend or limit the meaning and coverage offered.

Section I — Coverages

This section has three parts, each with its own insuring agreement — which is a broad statement of what is being covered followed by exclusions for that particular coverage offered.

- A. Bodily Injury and Property Damage
- B. Personal and Advertising Injury
- C. Medical Payments

Supplemental Payments

This section outlines the payments, typically outside the policy limit, to investigate and defend against claims. There are conditions outlined in this section that must be met for the carrier to provide these payments.

Section II — Who is an Insured

This section outlines those included as an insured and in what situations coverage is provided for these entities.

Section III — Limits of Insurance

It is in this section that each of the sub-limits, and their relationship to the other limits on the general liability policy, are explained.

Section IV — Commercial General Liability Conditions

The Conditions section deals in the mechanics of the policy, including duties in the event of a claim or cooperation with the auditors. It also includes how the policy interacts with other available insurance as well as some of the carrier's duties, rights, and expectations based on the applications and information given to the carrier. *Rates and exposures to loss vary greatly by classification of work done by your business and, for that reason, it is important to accurately describe your business to the carrier. The policy can be cancelled or non-renewed by your carrier if the types of work have been misrepresented.*

Some carriers take this one step further by endorsing the policy with a Classification Limitation Endorsement to make sure they are only insuring certain operations using specific class codes. With this type of an endorsement, the concern would be that a claim may be denied if the classification of work is not listed on the policy, such as non-sprinkler work that is subcontracted out to others.

Section V — Definitions

This is, as it indicates, where the words or phrases used in the policy in "quotation marks" are defined. It is important to read the full definition in context with the portions of the policy where it is found, and look at the following:

1. Is there an exception to the definition?
2. Are there conditions that must be in place to determine coverage?
3. Are the conditions followed by the word 'OR'?
4. Does the description use the words 'ANY' or 'ALL'?

Now for the monkey wrench...

No policy would be complete without a large number of endorsements that are designed to expand, limit, or clarify the liability policy. These come in several forms:

1. ISO endorsements that will have either Commercial Gen-

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eral Liability Form numbers CG (0001 to 3380) or Interline Form numbers of IL (0101 to 1207) followed by edition date of the form. Most exclusions start with CG21--. Some risk specific endorsements that may include exclusions or limited coverage start with CG 22--.

2. Individual Insurance Carrier forms with a variety of prefixes, numbers, and edition dates (READ THESE CAREFULLY).

3. Some carriers choose to use the CG prefix followed by their own number, and, to further confuse most of us, indicate that some copyrighted ISO material was used. (READ CAREFULLY AS THERE MAY BE MORE CONDITIONS OR EXCLUSIONS ADDED TO WHAT ISO HAS WRITTEN.)

Work closely with your agent to make sure you have the coverage you need for your business risk. Note: Underwriters are not permitted to do coverage interpretations, as these policies are written by ISO, insurance companies, and their attorneys and coverage for particular claims are determined by claims managers in conjunction with coverage attorneys, and, if there is a dispute, the courts may ultimately decide.

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Future articles include:

Part 3 — *Two Insurance Terms that are NOT interchangeable.*

You need to understand how it affects your bottom line if you select the wrong one: Occurrence and Claim

Part 4 — *Standard Contract Insurance Requirements* — What is generally available and what is not.

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