

## Contractual Liability

---

A business is held both civilly and criminally accountable for its actions and for actions that occur on behalf of a business. In other words, a business that harms another party or damages/destroys property that belongs to another party may be sued or prosecuted. Larger businesses protect against its liability to third parties with a Commercial General Liability (CGL) policy. The CGL is designed to cover a given business that is described within the policy. An insurance company provides a CGL under some assumptions about the type of losses it is willing to cover. One issue that can undermine a CGL is contractual liability. Contractual liability throws the CGL for a loop. It describes a covered business that voluntarily agrees (in writing) to take over someone else's responsibility.

A CGL's design and cost is based on the assumption that it only has to concern itself with the party that is listed on the policy. Taking on some other business' liability means that the policy is being asked to either defend or pay for the injuries or damages caused by an entity that it doesn't "know". Further it is being asked to do so without any additional premium. Therefore, CGLs exclude most instances of contractual liability.

A company that decides to step-in for another company has to make careful arrangements to handle a loss it has assumed. It may try to take care of the situation by endorsing (changing) its CGL by adding the name of the other party as an additional insured. Or, when the insured company is a property owner and the other party is a contractor, the property owner may buy a special form of coverage called Owners and Contractors Protective Liability.

Regardless the coverage arrangement, not every situation will be covered. You need to read the CGL or Owners and Contractors Policy language to determine what situations are insured. A loss has to be a type that is eligible under the CGL or OCP. Further, the contractual arrangement has to be related to the type of operation insured by such policies.

Example: You own a printing company and you, in writing, agree to cover your friend's plumbing business if they are sued by a customer. Neither a CGL nor an OCP would help, because the written agreement has no relationship to your operations.

You should discuss your business relationships with an insurance professional in order to be sure that you, your business and your related liability are handled efficiently and economically. This often means that the best strategy is to have every party take care of their own insurance needs.

---

COPYRIGHT: Insurance Publishing Plus, Inc. 2004, 2009

All rights reserved. Production or distribution, whether in whole or in part, in any form of media or language; and no matter what country, state or territory, is expressly forbidden without written consent of Insurance Publishing Plus, Inc.