

What Are Some Common Exclusions on Commercial Policies?



While today's commercial insurance policies provide broad coverage, all policies contain exclusions — things the insurer doesn't cover under that particular policy. But this doesn't mean you cannot obtain coverage. You usually can through a separate policy designed specifically for that risk.

Let's look at some common exclusions.

Wear and tear

Most commercial property policies exclude losses that could have been reduced or eliminated through proper maintenance. The intent of an insurance policy is not to cover maintenance failures, but to provide insurance after an unpredictable loss such as a fire, an electrical surge or an act of vandalism.

Acts of God and governmental action

Commercial policies usually exclude catastrophic events such as floods, earthquakes, wars and military actions. Most insurers also exclude pandemics, as well as preventive government-ordered shutdowns.

You can purchase a separate policy or policy addition (called an endorsement) for financial losses due to floods or earthquakes if you live in an area prone to such disasters.

Contractual liability

As a business owner, you sign many contracts, from sales contracts to lease agreements. In most cases, insurers do not want to be in the middle of a contractual relationship or breach of contract. But insurers do carve out some exceptions to these exclusions.

For example, if some shingles you furnish turn out to be defective, you may find coverage. Your policy will define the types of contracts it will cover, including railroad sidetrack agreements and tort liability you assume arising from bodily injury or property damage.

Costs to rebuild to new building codes

Your commercial property policy probably has a clause stipulating it will not cover upgrades to damaged portions of your structures to comply with new building codes. That means if you need to demolish or rebuild to new building codes, you will have to cover the cost out of your own pocket unless you add coverage called "ordinance or law insurance." This is an affordable protection that can save you from large outlays should you have a serious property loss.

Violations of the law

Insurers will not pay for losses stemming from any illegal activities. If your business is found to have engaged in criminal misconduct that led to financial loss, any claim related to that loss will likely be rejected. Intentional and fraudulent acts are also excluded.

Professional liability

If you are a licensed or board-certified professional, such as a doctor, lawyer or architect, your commercial general liability insurance will not cover any harm resulting from professional errors or omissions. You must obtain professional liability (aka malpractice) insurance for these risks.

Pollution

In the late 1970s and early 1980s, pollution lawsuits and regulations arose throughout the United States. Laws that included liability for environmental damage were developed. Facing the potential for massive losses, insurers crafted exclusions for environmental contamination under commercial general liability insurance. The insurance industry now offers separate pollution (or “environmental liability”) policies and endorsements.

Product liability

Commercial general liability insurance typically excludes injury or harm stemming from defects in what you produce or sell. You can purchase product liability insurance to cover these risks.

Cyberattacks

In today’s interconnected world, most businesses rely on the internet. If your cybersecurity efforts fail and your systems are breached by a cyberattack, you could lose property and income, or be on the hook for financial damage to others.

Basic commercial insurance policies exclude property and liability risks from cyber intrusions. To protect against financial loss from these risks, you need first-party cyber coverage (for damage to or loss/lockdown of your systems) and third-party cyber liability insurance (for harm done to others if you fail to secure your networks).

Getting coverage for excluded risks

Every insurance policy will contain exclusions. But you can often find coverage that either exists already or can be crafted to address the specific exclusions in your policy. Work with an experienced agent to identify any gaps in your commercial insurance policies.

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