

## Commercial General Liability (CGL) Policy Limits

General Liability is often referenced as if it is one coverage, however it's actually a broad term that refers to a package of coverages and coverage limits. These coverages are designed to provide protection against lawsuits alleging bodily injury, personal injury, and property damage due to negligence.

A CGL policy typically has six different limits shown on the declarations page. While those limits are individual, they are, in most instances, also related. Simply stated, a reduction due to a payment on one limit will typically reduce other limits. One caveat is that after issuance of a CGL policy, any attempts to extend the policy period through an endorsement for less than 12 months can have an adverse effect on the aggregate limits. In most cases, it is better to write a longer policy period into the CGL policy at inception, than to extend it. Oftentimes, two of the six limits are Aggregate Limits and are related. Aggregate Limits indicate the most an insurer will pay during a policy period. Once the insurer has paid the full amount of the Aggregate Limits, the insurer typically has no further obligation to pay the insured for any claims or suits that fall within the exhausted aggregate limits.

To help illustrate this concept, imagine that two large grain bins filled to capacity represent Aggregate Limits (at the beginning of the policy period) and four trucks represent the other CGL limits. Each truck is associated with one of the grain bins. When claims are paid

from the trucks, it draws grain from the larger Aggregate bins, reducing the contents from the Aggregate bins until they are empty. Once the bins are empty, it means the Aggregate Limits are exhausted.

### The General Aggregate Limit

The General Aggregate Limit is the most the insurance company will pay in any one policy year for claims arising out of an insured organization's operations. The General Aggregate typically includes Bodily Injury and Property Damage (Coverage A), Personal and Advertising Injury (Coverage B), and Medical Payments (Coverage C).

### Products-Completed Operations Aggregate Limit

This aggregate limit indicates how much an insurer will pay for damages because of bodily injury or property damage resulting from the Products-Completed operations hazard. The Products-Completed Operations Aggregate is separate from the General Aggregate Limit. Payments for damages out of the Products-Completed Operations Limit does not affect the General Aggregate Limit and vice versa. Under the CGL policy, the total liability exposure for the insurer is the sum of the two aggregate limits.

Products-Completed Operations Limit only applies to the following cases of property damage or bodily injury:

- Incident occurred away from the premises of the named insured, and
- Arose due to products of the named insured that are no longer

in the possession of the named insured, or

- Arose due to work that was completed by the named insured.
- Personal and Advertising Injury Limit

Personal Injury refers to slander, libel, invasion of privacy, and defamation of character. Advertising Injury refers to false advertising practices. This coverage is designed to provide protection from suits related to any of these offenses. The most the insurer is required to pay is established in this Personal and Advertising Injury Limit.

### Each Occurrence Limit

Each Occurrence Limit is the maximum that the insurer is obligated to pay for any damages within Coverage A and expenses within Coverage C. Despite a separate General Aggregate Limit for Products-Completed Operations, all damages paid under Coverage A and all expenses paid under Coverage C are subject to the Each Occurrence Limit.

### Damage to Premises Rented to You Limit

This separate limit applies to fire damage to premises rented from a landlord by the insured and to damage (regardless of cause) to premises or their contents occupied for seven days or less by the insured. This limit applies to any premises and is a sublimit of the Each Occurrence Limit. Payments under this coverage reduce the Each Occurrence and General Aggregate Limits.

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## Medical Expense Limit

Medical Expenses are Coverage C, and they are meant to pay for reasonable medical treatments resulting from accidents or injuries, regardless of who is at fault. Like the Damage-to-Premises-Rented-to-You Limit, payments under this coverage reduces the Each Occurrence and General Aggregate Limits.

## An Illustration of CGL Limits of Liability — Lucky's Bakery

The following is a fictional, yet real-world illustration of applying the CGL policy limits to various claims. The illustration starts with a fairly typical limit structure for a policyholder, Lucky's Bakery, and demonstrates how the limits apply to the various claims scenarios that could occur:

\$2,000,000	General Aggregate Limit (Other Than Products-Completed Operations)
\$2,000,000	Products-Completed Operations Aggregate Limit
\$1,000,000	Personal and Advertising Injury Limit—Any One Person or Organization
\$1,000,000	Each Occurrence Limit
\$100,000	Coverage for Damage-to-Premises-Rented-to-You Limit—Any One Premises
\$5,000	Medical Expense Limit —Any One Person

Assume the above limits and CGL policy dates of January 1 to January 1.

## Exploring Claim Scenarios

1

Lucky's Bakery has recently purchased and opened a new shop in Michigan. Sadly, the building's roof collapsed during a cake decorating class on January 12th, injuring 15 guests.

- Ten patrons are willing to settle for having their medical expenses paid. The most the insurer will pay for the 10 patrons' medical expenses is **\$50,000 (10 persons times \$5,000 each person)**
- Two patrons file suit against Lucky's Bakery. The most the insurer will pay in total for the injuries to these two patrons who have filed the complaint, assuming Lucky's is legally obligated to pay their demands, is **\$950,000–\$1,000,000 - each occurrence limit is reduced by the \$50,000 medical expense payment (10 persons times \$5,000 each person)**

2

Lucky's Bakery moves to Indiana and rents a shop for 2 months while searching for a new building. While preparing a crème brûlée on March 15th, an intern causes a fire that causes \$150,000 in damage to the building. Assuming Lucky's is found legally obligated (in tort) to pay for the damage, the most that their insurer will pay for the damage to the shop is **\$100,000—the damage-to-premises-rented-to-you-limit.**

3

The fire quickly spreads to a nearby beauty salon, injuring two patrons and damaging the salon building. Lucky's is liable for \$100,000 of damage to the salon building and \$50,000 each for the injuries to the two salon patrons. The most that Lucky's insurer will pay for damage to the building and the injuries to the patrons is **\$200,000–\$100,000 for the building (the building is not in Lucky's custody) and \$100,000 total (\$50,000 each) for the bodily injury to the patrons; this payment is still within Each Occurrence limit.**



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4

Lucky's escorts a famous Hollywood couple from the bakery after they had a disagreement with the owner over the quality of a wedding cake produced for them earlier that month. On July 3rd, the couple files a complaint against Lucky's for wrongful eviction, a personal and advertising injury offense. The couple obtains a judgment against Lucky's for \$100,000 in damages. The most the insurer will pay for this claim is **\$100,000—this is a personal and advertising injury claim that is subject to a \$1,000,000 limit for any one person or organization.**

5

To improve foot traffic, Lucky's decides to print and distribute to anyone that enters the bakery a metal pie tin imprinted with their logo. On October 1st, a tin was so sharp that it cut a customer's hand, requiring 15 stitches causing the customer, a world-renowned violinist, to miss several concerts. After a trial, the court enters judgment in favor of the musician, as the tin was deemed Lucky's product and was defective upon possession. The jury award was \$1,200,000 in damages. The most the insurer will pay for this claim is **\$1,000,000—the Each Occurrence Limit applies.**

6

Lucky's opens another bakery in Illinois and sets up a tent for a grand opening party. On November 10th, the tent collapses, injuring six guests. Assuming Lucky's is legally obligated to pay for their injuries, the most that the insurer will pay in total for the injuries to the six patrons is **\$600,000, the remaining amount available for this claim.**

The general aggregate limit has been reduced, as shown in the following chart:

Date	Amount	Type	Reduction of General Aggregate
1/12	\$50,000	Medical Expense	\$50,000
1/12	\$950,000	Bodily Injury Payment	\$950,000
3/15	\$100,000	Damage-to-Premises-Rented-to-You	\$100,000
3/15	\$100,000	Property Damage to Salon	\$100,000
3/15	\$100,000	Bodily Injury—\$50,000 to Each Patron of Salon	\$100,000
7/3	\$100,000	Personal and Advertising Injury	\$100,000
10/1	\$1,000,000	Products-Completed Operations Bodily Injury	No Reduction (Only Products-Completed Operations Aggregate Is Reduced)
TOTAL	\$2,400,000	All	\$1,400,000
11/10	\$600,000	Bodily Injury to Patrons	General Aggregate Exhausted after Payment of \$600,000



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