

How to Read and Understand Your Insurance Policies: Types of Insurance

By: Kyle Fisher and Marci Reichbach

February 14, 2017



Insurance reduces risk. If you suffer a loss because something happens to you or your business, “first person” insurance comes into play. Examples include homeowner’s insurance, health insurance, disability insurance, and an employee fidelity bond. If something happens to someone else and you face potential liability, “third person” insurance comes into play. This blog post and several more to follow focus on third person insurance. Business owners or business professionals are well aware of the use of insurance to address potential liability to third parties. But even your homeowner’s insurance (or renter’s) and your car insurance have liability coverage. Everyone with a car, an apartment, a house, a business, or clients should understand how insurance works and how to understand an insurance policy.



Policies are very confusing. Some people might think this is done on purpose. There is, however, a method to the madness. Policies generally have the same overall structure and contents although obviously their effect will be different. This week’s post will cover types of insurance and policy interpretation. Future posts will cover the declarations page, common insuring agreements, conditions, and exclusions.

CGL versus E&O versus D&O

A Commercial General Liability or Comprehensive General Liability (“CGL”) policy generally covers bodily injury and property damage arising out of premises, operations and products, as well as personal injury/advertising injury. A CGL policy is generally related to accidents that happen in the course of running a business. It is the one most likely to be implicated if a customer slips and falls.

An Errors and Omissions (“E&O”) policy generally covers professional liability, meaning rendering or failing to render professional services. An E&O policy is generally implicated where a business which gives advice to others or represents the needs of others is sued, i.e. an accountant or an architect is sued by a client or customer.

A Directors and Officers (“D&O”) policy generally covers wrongful acts by a company’s decision makers. D&O policies were traditionally written just to cover directors and officers. D&O coverage can also be purchased by a company to provide coverage for claims specifically against the company (called “entity coverage”). This is becoming more common.

CGL policies are generally written on standard forms which have been developed by the insurance industry over the years in reaction to court rulings. They are pretty cookie cutter and there is not much different between insurance companies. E&O and D&O policies also can have standardized provisions but often contain more customized provisions.

Policy Interpretation

Insurance policies are contracts and are governed by contract law. However, there are a few important doctrines relevant to the interpretation of insurance policies in particular. These doctrines evolved out of what the courts consider to be the “special relationship” which exists between an insurer and an insured. This is due to the unique trust and confidence placed in insurance companies as well as the great reliance placed on the insurer. Generally, they tip the scales in favor of the insured in the event that there is ambiguous or uncertain language in a policy.