

ERRORS & OMISSIONS vs. COMMERCIAL LIABILITY INSURANCE

WHAT IS CGL INSURANCE?

Commercial General Liability insurance, commonly abbreviated “CGL,” is a type of third party liability insurance that protects the policyholder from lawsuits as a result of bodily injury or property damage suffered by a third party, as a result of the policyholder’s negligence. For example, if someone slips and falls on a business property because it was not properly maintained (e.g. snow not shoveled), and that person suffers an injury, they can go after the business to recover any medical expenses or other damages they may have suffered.

Fortunately, the CGL policy would respond to this type of scenario, and pay for the damages/injury so that the business doesn't have to cover it out of pocket. The policy would also pay any claims expenses or legal defense costs that may be incurred.

CGL insurance is the most common type of commercial insurance, and what most people think of when they hear the term “liability insurance.” Almost all ongoing business contracts, such as leases and supplier agreements, require both parties to carry this type of insurance coverage at sufficient limits to protect themselves from liability resulting out of the business operation in question.

WHAT IS E&O INSURANCE?

Errors & Omissions insurance, usually abbreviated to E&O, is a type of liability insurance that protects the policyholder from lawsuits as a result of loss caused by oversights, mistakes or poor professional advice given to a client of the policyholder. E&O insurance has a number of other frequently used names, including Professional Liability insurance and Malpractice insurance.

E&O insurance is commonly purchased by many different types of professionals, and is often required to be carried by law or statute for a number of regulated professions,

including doctors, lawyers, engineers and insurance brokers. However, even if they are not required by law to carry E&O insurance, any professional or consultant who provides advice or provides work for another can be held liable if that advice/work is found to be defective.

For example, if a Human Resources professional is hired to consult a firm on the proper handling of potential terminations, and provides faulty advice on the procedure (resulting in a financial loss and/or suit against the firm), the firm may turn around and seek recovery of those damages from the HR professional. Fortunately, if the HR Professional has E&O insurance coverage in place, it will pay for the defense costs and any settlement/verdict that may arise, up to policy limits.

WHAT IS THE DIFFERENCE?

As explained above, the two types of insurance respond to different types of loss. The CGL insurance covers bodily injury and physical property damage suffered by a third party, and E&O insurance covers financial loss suffered as a result of mistakes and poor professional advice. There is no overlap in coverage between the two, so in order to ensure that a professional is properly protected, it is important to ensure that both types of coverage are in place.

Fortunately, for many types of recognized professionals, there are programs in place, which offer high-quality CGL and E&O coverage at group rates far below the stand-alone market price. This enables these professionals to have peace of mind without significant financial outlay. However, under HRIA Code of Ethics requirements, only E&O coverage is mandatory.

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