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TECHNICAL ADVISORY

TA 288 (revised March 2015) March 23, 2015

Subject: Graduation: For Whom the (Insurance) Bell Tolls

Background: As bells chime across the campus, and the familiar refrain of "*Pomp and Circumstance*" announces yet another graduating class, a milestone has been reached by both the graduates and their families. And as with so many of the major events in life, there are significant insurance issues that arise with high school or college graduation.

Main Points: The most fundamental question for graduates and parents alike is what coverages under Mom & Dad's Homeowners and Personal Auto policies will extend to the kids after high school or college graduation. One of the key issues here is whether or not the kid is still considered a "resident" of Mom & Dad's household. Another big question arises over how to title and insure an auto purchased for the kid. Issues which arise in certain other circumstances will also be discussed.

Various studies and news reports illustrate some interesting changes in our social dynamics and demographics involving high school and college age kids. First, a report issued by the U.S. Department of Labor in April indicated that around 70% of the high school class of 2010 was headed to college this fall. That translates into about 2.9 million kids in transition from high school to college.

Second, the Pew Research Center recently released several studies on the demographic changes in the USA. In one study, the number of young adults age 18-24 who were enrolled in college as of 2009 hit an all-time high of 39.6%, or just under 11.5 million. Another Pew study released in late 2009 showed that 13% of parents report that at least one adult child has moved back home, after living away from home. The Pew analysis attributed the current state of the economy as a significant factor in what social scientists have dubbed "boomerang kids." In a related report on multigenerational households released in 2008, Pew reported that approximately 49 million Americans (16% of the US population) lived in multigenerational households. And among the fastest growing group living in multigenerational households was adults age 25-34. In 2008, Pew reported that this was about 20% of this age group, up from 11% in 1980.

It goes without saying that the social changes reflected in these studies have a significant impact on insurance coverage issues.

Meet the family. Throughout the discussion below, assume that Jack and Jill Smith are the parents, with son Zack and daughter Zoey. Also, assume that their PAP is an ISO-based coverage form.

PERSONAL AUTO ISSUES

Overview of PAP Coverages

Part A – Liability

B. "Insured" as used in this Part means:

1. You or any "family member" for the ownership, maintenance or use of any auto or "trailer".

2. Any person using "your covered auto".

3. For "your covered auto", any person or organization but only with respect to legal responsibility for acts or omissions of a person for whom coverage is afforded under this Part.

4. For any auto or "trailer", other than "your covered auto", any other person or organization but only with respect to legal responsibility for acts or omissions of you or any "family member" for whom coverage is afforded under this Part. This Provision (B.4.) applies only if the person or organization does not own or hire the auto or "trailer".

Part B – Medical Payments

B. "Insured" as used in this Part means:

1. You or any "family member":

a. While "occupying"; or

b. As a pedestrian when struck by;

a motor vehicle designed for use mainly on public roads or a trailer of any type.

2. Any other person while "occupying" "your covered auto".

Part C – Uninsured Motorists

B. "Insured" as used in this Part means:

1. You or any "family member".

2. Any other person "occupying" "your covered auto".

3. Any person for damages that person is entitled to recover because of "bodily injury" to which this coverage applies sustained by a person described in 1. or 2. above.

Part D – Physical Damage

A. We will pay for direct and accidental loss to "your covered auto" or any "non-owned auto", including their equipment, minus any applicable deductible shown in the Declarations.

C. "Non-owned auto" means:

1. Any private passenger auto, pickup, van or "trailer" not owned by or furnished or available for the regular use of you or any "family member" while in the custody of or being operated by you or any "family member";

PAP Definitions

F. "Family member" means a person related to you by blood, marriage or adoption who is a resident of your household.

HIGH SCHOOL GRADUATION

Situation #1: Zack goes to college, but will not have a car the first year. While most kids in college probably have cars, not all do. What coverages would Zack have under Jack and Jill's PAP during his "car-less" first year in college? For Liability, Medical Payments and Uninsured Motorists coverages, Jack and Jill's PAP applies to "family members." In the PAP Definitions, Zack qualifies as a "family member" if he is considered a *resident* of their household. The PAP does not define *resident*, but there are numerous legal cases and other supporting evidence (including *Black's Law Dictionary*) that support a broad meaning to the term. For the routine situation of an 18-24 year old kid in college, most experts believe that Zack should be considered a resident family member of Jack and Jill's household.

For example, if Zack is driving his friend Doris's Taurus, he has coverage for Liability, Medical Payments and Uninsured Motorists coverages under Jack and Jill's PAP. This coverage will be excess, since Doris's PAP is primary. For damage to the Taurus, Jack and Jill's PAP provides Physical Damage coverage for "non-owned autos," on an excess basis.

Situation #2: Zack takes one of the family cars to college. This usually happens under one of two scenarios: (1) Jack and Jill let Zack take one of the family cars; or (2) they buy Zack a new car, but title it in Jack or Jill's name. In either case, the car Zack takes to college will be titled to Jack or Jill, and insured under Jack and Jill's PAP. This arrangement works essentially the same as **Situation #1** above, in that Zack retains the coverages available to a "family member," such as driving the family car he takes, as well as non-owned cars. One new exposure that Jack and Jill have, however, is the increased risk arising from permissive users (Zack's friends) of the family car that Zack has at college. In addition, the car that Zack drives will be rated with a "principal youthful operator," so Jack and Jill's auto premium will go up significantly.

Situation #3: Zack gets a car titled in his own name. Insuring Zack's car can be done in one of two ways. *Option (1): Zack's car is added to Jack and Jill's PAP;* or *Option (2): Zack gets a PAP in his own name*. Each option is discussed below.

<u>*Option (1): Zack's car is added to Jack and Jill's PAP*</u>. Some insurers will write all family-owned autos on the same PAP (even if the autos are titled to different family members), and other insurers will not. The advantages of this option are that the multi-car discount will apply, and Zack will have the benefit if the higher limits that Jack and Jill have, as opposed to the lower limits he might select if he has to purchase a separate PAP in his own name – see discussion in *Option (2)* below. However, one disadvantage for Jack and Jill is that their auto premium will significantly increase, due to having a "principal youthful operator" rating on Zack's auto. Another potential disadvantage is that any claims arising out of Zack's auto will attach to Jack and Jill's PAP. Regarding physical damage on Zack's car, the issue of insurable interest might arise. Although titled to Zack, if his car was added to Jack and Jill's PAP with the insurer's or agent's knowledge, and given that Zack is a resident family member, a convincing argument could be made in favor of coverage.

Option (2): Zack gets a PAP in his own name. Most insurance experts advise against having two policies in almost any situation, and this is certainly one of them. There are several potential gaps or problems that arise if Zack get a PAP in his own name. First, given the higher premiums a principal youthful operator pays, the natural reaction of most people in Zack's situation is to reduce the premium by selecting lower limits of insurance, as well as opting for less coverage (such as rejecting UM).

Second, some markets that specialize in youthful operators make their policies affordable by the use of a policy more limited than the ISO-based policy. For example, such policies often exclude the use of the vehicle for delivery of food products (such as pizza delivery, which many kids do as a part-time job). The ISO PAP excludes "*public or livery conveyance*," which numerous court cases have held does not include pizza or other food delivery. In addition, some of these limited policies exclude the use of a non-owned vehicle over 10,000 GVWR. Thus, if Zack is driving Reba's Ford F-350 (13,000 GVWR), his non-ISO PAP would not provide coverage, while an ISO-based policy will. In a few cases, some of these minimum-coverage policies stipulate the use of aftermarket parts only, instead of OEM parts, under their physical damage coverage.

Lastly, if Zack has his own PAP, this potentially impacts Jack and Jill. For example, if Zack is home from college over the holidays, and he lets his younger sister Zoey drive his car, there will be a (possibly huge) coverage gap in Jack and Jill's PAP for Zoey. Under Zack's PAP, Zoey is certainly an insured as a permissive user, and Zack's PAP would be primary. However, if Zack has selected lower limits of Liability coverage, Zoey would need to seek excess coverage under Jack and Jill's PAP, since she is a resident family member who is covered under their PAP for the "*ownership, maintenance or use of any auto or trailer.*" But Jack and Jill's PAP has the following exclusion in Part A – Liability:

> *B. We do not provide Liability Coverage for the ownership, maintenance or use of:*
> *3. Any vehicle, <u>other than "your covered auto"</u>, which is:*
> *a. <u>Owned by any "family member"</u>; or*
> *b. Furnished or available for the regular use of any "family member".* [Emphasis added.]

Since Zack insures his car under his own PAP, it is considered an auto that is "*other than 'your covered auto'…owned by a family member*," under Jack and Jill's PAP. Therefore, Jack and Jill's PAP excludes coverage for Zoey while she is driving Zack's car. This could create a serious coverage gap, since the only insurance available to Zoey when she is driving Zack's car is his PAP. And, since many kids in Zack's situation choose to carry lower limits of Liability coverage, the financial impact on Zoey and the family could be significant. It is important to note also that Zack would not be covered under his parents' PAP, either, should he seek excess coverage following an accident with his car. For a family where there is another youthful operator such as Zoey living at home, and there are two auto policies in the household, about the only solution for this gap is for Zack to carry the same limits as Jack and Jill. Or, as suggested above, this problem could be avoided by having only one PAP in the household.

When Zack is occupying/driving a non-owned auto, such as Doris's Taurus, he is covered under his own PAP, and he retains his "family member" coverage under Jack and Jill's PAP. (Both policies would be excess over Doris's PAP.)

Situation #4: Jack or Jill buy a car in their own name and insure it on Zack's PAP. This arrangement often occurs when Jack and Jill buy Zack a car as a graduation "surprise." Since they will need to have completed all the necessary paperwork prior to presenting the car to Zack, the car will likely be titled to Jack or Jill. However, in the spirit of confirming his new independence, they may want him to obtain a PAP in his own name, and add the new car to that policy. Of all the scenarios for providing a car to a kid in college, this one is the most difficult to properly insure, when considering the exposures of both the parents and the kid.

Two coverage issues bear examination. First, assume Zack's new Ford Fiesta is titled to Jill, but insured on Zack's PAP. If Zack has an at-fault accident while driving the Fiesta, it's quite possible that both Zack (as driver) and Jill (as owner) could be sued. Under Zack's policy (primary), both Zack and Jill are insureds. Zack is the named insured in his PAP, and is obviously covered while driving the Fiesta, which is insured under his policy. Jill is covered under Zack's PAP in one of two ways: either as Insured B.1. or B.3. Excerpt:

B. "Insured" as used in this Part means:

1. You or any "family member" for the ownership, maintenance or use of any auto or "trailer".

3. For "your covered auto", any person or organization but only with respect to legal responsibility for acts or omissions of a person for whom coverage is afforded under this Part.

As discussed earlier, Zack might elect to purchase lower limits of liability, due to the higher premium for young drivers. Therefore, Jack and Jill's PAP would likely be looked at to provide excess coverage. However, neither Jill nor Zack are insured under their PAP, for liability arising out of the Fiesta. The following exclusion will prohibit coverage under Jack and Jill's PAP. The exclusion applies to the vehicle, regardless of who is sued (Zack and/or Jill). Excerpt:

B. We do not provide Liability Coverage for the ownership, maintenance or use of:

2. Any vehicle, other than "your covered auto", which is:

a. <u>Owned by you</u>; *[Note: the Fiesta is titled to Jill.]*

On occasions when Zack is driving Doris's Taurus, he is covered under his own PAP, and he retains his "family member" coverage under Jack and Jill's PAP. (Both policies would be excess over Doris's PAP.)

A second issue deals with Part D – Physical Damage in Zack's PAP. While the Fiesta would probably have physical damage coverage, since it is brand new, there is a question of insurable interest. Zack has added a car he does not own to his insurance. Jill has the insurable interest, but does not insure the car in her PAP. Zack's insurer may or may not pay the physical damage claim.

If it was known by Zack's insurer or agent at the time his PAP was written that the car was titled in Jill's name, many experts would argue that *waiver and estoppel* would prohibit the insurer from later denying a claim under his PAP. Or, a charitable view by Zack's insurer might allow payment of a physical damage claim, under the rationale that the Fiesta owner (Jill) and Zack (their named insured) are both resident family members of the same household. Also, where this arrangement is known by Zack's insurer at policy inception, they might attach a proprietary "additional interest" endorsement in Jill's name, which would allow the physical damage claim to be paid without debate.

On the other hand, if the insurer or agent does know at policy inception that the Fiesta Zack wishes to insure is actually titled to Jill, some insurers might rely on Zack's having a lack of insurable interest in the Fiesta, and deny the physical damage claim.

<u>COLLEGE GRADUATION</u>

Probably the single most significant factor that will affect Zack's auto insurance coverage after he leaves college is the loss of his status as a "family member" under Jack and Jill's PAP. Referring to the "Overview of PAP Coverages" at the beginning of this article, the PAP defines a "family member" as follows:

> F. "Family member" means a person related to you by blood, marriage or adoption who is a <u>resident</u> of your household. [Emphasis added.]

Therefore, the key issue for Zack under Jack and Jill's PAP is his residency status. If Zack takes the usual route after college, starts his career, and rents or buys a residence of his own, he would generally no longer be considered a resident family member of his parents' household. However, in today's economy, he might move back home with Jack and Jill for some unspecified amount of time, either waiting on a job offer, or even while starting his career if the job was local. In that case, it could be argued that he retains his residency status in Jack and Jill's household. However, if his tenure in their house is likely to be temporary, the safest approach for Zack is to obtain insurance in his own name, so that when he does move out, he already has his own coverage.

Following is a review of the 4 situations from the "High School Graduation" discussion above, with key points on how coverage applies in each situation after his graduation from college.

Situation #1: Zack goes to college, but will not have a car the first year. If Zack still does not have a car when he graduates from college, the only insurance coverage he has will be from the auto he is occupying, or the one which hits him as a pedestrian. Therefore, in order to have insurance in his own name, Zack should obtain a Named Non-Owner Policy.

One exception would be if he gets married, and his wife has a PAP in her name. In that case, he becomes an automatic insured in her policy – as "*you*," which the PAP defines as *named insured and resident spouse*.

Situation #2: Zack takes one of the family cars to college. If Zack keeps the family car after he graduates from college, the only coverage he has under Jack and Jill's PAP is when he is occupying <u>that</u> car. He would not be able to rely on having the broader coverage afforded to "family members" (driving other cars, for example), since he no longer retains residency status in his parents' household. The best solution would be for Zack to get a PAP in his own name. If he wants to continue possession of the family car, Jack and Jill should transfer ownership to Zack, either by simply signing the title over to him, or selling it to him. Then, he could insure the car in his own PAP. However, if no changes are made to Jack and Jill's PAP when Zack graduates from college, they still have the on-going potential legal liability exposure as owners of the car, arising out of any of Zack's friends who might drive that car.

Situation #3: Zack gets a car titled in his own name. In the earlier discussion of this scenario, two options for insuring Zack's car were suggested. If Zack keeps this car after graduation from college, here is how this coverage would apply in each of the two options previously discussed.

Option (1): Zack's car is added to Jack and Jill's PAP. As suggested earlier, this option would only be viable where Jack and Jill's insurer would agree to insure all family-owned autos under one PAP. After college, if this coverage arrangement continues, Zack is covered under Jack and Jill's PAP only while occupying his car (or one of their cars), since he loses his residency/family member status under his parents' PAP for the use of *any auto*. He therefore needs auto insurance in his own name.

Physical damage on Zack's car might be questionable, due to issues of insurable interest. Once Zack is no longer a resident family member, and since Jack and Jill have (and never had) insurable interest in Zack's car, some might feel that Jack and Jill's PAP should not pay a physical damage claim on an auto owned by what might be considered a "third party." An argument in favor of physical damage still being covered would be based on the insurer's prior knowledge of the arrangement.

Option (2): Zack gets a PAP in his own name. When Zack graduates from college, no change is necessary, since he already has his car insured in his own PAP.

Referring back to the earlier discussion of this option, where sister Zoey drove Zack's car and was excluded under Jack and Jill's PAP, this problem goes away after Zack graduates from college. Under Jack and Jill's policy, Zoey was not covered under their policy due to the exclusion for an auto "*other than your covered auto…which is owned by a family member.*" When Zack graduates from college and establishes his own separate residence, he is no longer a resident "family member" under Jack and Jill's PAP, and the exclusion in Jack and Jill's PAP for Zoey's use of Zack's auto when he is home for the holidays no longer applies.

Situation #4: Jack or Jill buy a car in their own name and insure it on Zack's PAP. Most of the problems arising out of this arrangement which were discussed earlier would still be present when Zack graduates from college. Essentially, Jill owns the Ford Fiesta but does not insure it under hers and Jack's PAP. Therefore, her PAP excludes that auto for all coverages – for both Jill and Zack. Said another way, the only coverage Jill has for any liability arising out of her ownership of the Fiesta would be under Zack's PAP. Since Zack remains the named insured in his own PAP, he has all the coverages provided under his policy. However, he would no longer have any coverage under Jack and Jill's PAP, since he no longer has residency/family member status under their policy.

HOMEOWNERS ISSUES

Overview of Homeowners Coverages

Section I – Coverage C Personal Property

HO-91 and HO-2000 editions

Coverage C – Personal Property

We cover personal property owned or used by an "insured" while it is anywhere in the world.

Our limit of liability for personal property usually located at an "insured's" residence, other than the "residence premises," is 10% of the limit of liability for Coverage C, or $1000, whichever is greater.

Section II – Liability and Medical Payments
HO-91 and HO-2000 editions

Coverage E – Personal Liability

If a claim is made or a suit is brought against an "insured" for damages because of "bodily injury" or "property damage" caused by an "occurrence" to which this coverage applies, we will:

1. Pay up to our limit of liability for the damages for which the "insured" is legally liable. Damages include prejudgment interest awarded against the "insured"; and

2. Provide a defense at our expense by counsel of our choice…

Coverage F – Medical Payments To Others

We will pay the necessary medical expenses that are incurred or medically ascertained within three years from the date of an accident causing "bodily injury. " This coverage does not apply to you or regular residents of your household except "residence employees. " As to others, this coverage applies only:

1. To a person on the "insured location" with the permission of an "insured"; or

2. To a person off the "insured location," if the "bodily injury":

  a. Arises out of a condition on the "insured location" or the ways immediately adjoining;

  b. Is caused by the activities of an "insured";

  c. Is caused by a "residence employee" in the course of the "residence employee's" employment by an "insured"; or

  d. Is caused by an animal owned by or in the care of an "insured. "

Definition of “Insured” – HO-91 edition

3. "Insured" means you and residents of your household who are:

  a. Your relatives;

Definition of “Insured” – HO-2000 edition

5. "Insured" means:

  b. A student enrolled in school full time, as defined by the school, who was a resident of your household before moving out to attend school, provided the student is under the age of:

    (1) 24 and your relative;

Fundamental to any coverage discussion is an understanding of who is an “insured.” A brief review of the “Overview of Homeowners Coverages” above illustrates just how important the term is, given how many times it appears in the coverage form excerpts. As for coverage issues related to kids in college, the definition of “insured” is significantly different between the HO-91 and HO-2000 coverage forms. In the HO-91 form, the only requirement for a kid to be an “insured” is to be a *resident relative,* just as in the Personal Auto coverage form.

However, in the HO-2000, a new requirement was added regarding students – see “Insured 5.b.” above. Students must be enrolled full time, and be under age 24, in order to remain “insureds” in their parents’ Homeowners Policy. As a part of the HO-2000 program, ISO introduced an endorsement that can be used in situations where the student does not meet this dual requirement. The *HO 05 27 – Additional Insured – Student Living Away From the Residence Premises* endorsement provides coverage for the student named in the endorsement, at the address shown on the schedule. Excerpt:

> Definition **5.** which defines "insured" is extended to include the person named in the Schedule above, but only if that person:
>
> 1. Was a resident of your household before moving out to attend the school named in the Schedule; and
> 2. Resides at the address shown in the Schedule; and
>   a. Is your relative…

One significant drawback to this endorsement is that it applies only while the student resides at the address shown in the schedule. As every parent of a college kid knows, most kids in college move frequently. An alternative to this endorsement is to write the kid an HO-4.

For the discussion on various coverage issues which follows, assume the family members remain the same as for the Personal Auto section above: Parents Jack and Jill Smith, and kids Zack and Zoey. Also, assume that Zack is an insured in Jack and Jill’s policy, either an automatic “insured” under their HO-91 Homeowners Policy, or has been added as an “insured” with endorsement HO 05 27 under their HO-2000 policy.

HIGH SCHOOL GRADUATION

Personal property taken to college. Under Coverage C, personal property is covered worldwide. One exception is personal property “*usually located at an insured's residence, other than the residence premises*." There is little doubt that this applies to the property Zack takes with him. The limitation is 10% of Jack and Jill’s Coverage C limit. This amount can be supplemented with endorsement *HO 04 50 – Personal Property at Other Residences Increased Limit.* (Or, Zack could get an HO-4.)

Most kids in college have a computer, and while Coverage C includes computers, they are subject to some unique types of damage (such as dropping, electrical disturbance, etc.) Endorsement *HO 04 14 Special Computer Coverage* broadens the coverage for computers beyond the named perils. This endorsement would not be needed if Jack and Jill have an HO 00 05 policy – since Coverage C would already be “open perils” (“all-risk”).

In some cases, a computer might be provided by the school, with the student required to be responsible for any damage. Jack and Jill’s (unendorsed) Coverage C would provide coverage, since the insuring agreement applies to “*personal property owned or used by an insured,*” subject to covered perils. However, if Zack caused damage to the school’s computer assigned to him that is not by a Coverage C peril, Section II Additional Coverage for Damage to Property of Others would provide $1,000 coverage ($500 in HO-91).

Jack and Jill's policy has a special theft limitation that applies to the property Zack has at college. There is theft coverage only for "*property of an insured who is a student is covered while at the residence the student occupies to attend school as long as the student has been there at any time during the 60 days immediately before the loss*." In HO-91, the limitation is only for 45 days. (The HO 00 05 does not have this limitation.) ISO does not offer a buy-back of this exposure. However, a little common-sense risk management would virtually eliminate the problem: "Don't leave stuff in your apartment during summer break."

Liability and Medical Payments. Jack and Jill would only have to watch one episode of "*MTV's Spring Break*" to get concerned about potential legal liability issue for Zack. But as an "insured" under Jack and Jill's policy, he would have worldwide Section II coverage. However, one of the most frequent debates related to coverage for college kids involves the question of an injury arising out of his rented residence. Section II applies broadly to "*insured locations.*" Many experts argue in favor of Zack's residence being included within the definition of "insured locations" under either 6.d. or h.:

6. "Insured location" means:
   - d. Any part of a premises:
     - (1) Not owned by an "insured"; and
     - (2) Where an "insured" is temporarily residing;
   - h. Any part of a premises occasionally rented to an "insured" for other than "business" use.

Others challenge that view, noting the limitations imposed by the terms "*temporarily* residing," and "*occasionally* rented." Neither term is defined in the coverage form. Therefore, some clarity from the underwriter will be necessary. If the insurer does not feel Zack's rented residence qualifies as an automatic "insured location," coverage might be provided if the insurer is willing to add Zack's residence as an additional insured location. If that option is not available, Zack would need to purchase an HO-4.

Another common liability exposure is for damage to the rented location where Zack resides, whether it's a dorm, apartment, or rented house. For example, every school year it seems that there are always a few fires at locations where college kids live. Sometimes these are caused by candles, incense or similar items left unattended. Another frequent cause is outdoor grills being used on wooden decks. And there is the occasional horseplay which damages plumbing, a sprinkler head, waterbed or aquarium – resulting in water damage to Zack's residence. Jack and Jill's Section II has the following exclusion for property damage: "*Property damage to property rented to, occupied or used by or in the care of an insured. This exclusion does not apply to "property damage" caused by fire, smoke or explosion*;"

This provision is often referred to as "Fire Legal" coverage, and would pay up to Jack and Jill's Section II limits for damage to Zack's residence by fire, smoke or explosion. Fire damage to any other part of the building is not within the exclusion, so Jack and Jill's Section II would apply to this damage as well. While $100,000 Section II limits might seem like an adequate limit to Jack and Jill, it would usually be woefully insufficient if a fire guts Zack's unit and spreads to the rest of the building, as often happens.

However, if there is any other type of damage (water damage, for example) to his residence, there is no Section II property damage coverage, except for the $1,000 Damage to Property of Others Additional Coverage. At the same time, water damage to other units would not be excluded, since the exclusion only applies to "*property rented to, occupied or used by or in the care of* "…Zack.

COLLEGE GRADUATION

Once Zack graduates from college, he would have no coverage under Jack and Jill's Homeowners Policy, once he is no longer a resident family member. As discussed earlier, if he does move back home following graduation, he would probably still be considered an insured by their policy, if he retains his residency status. However, if his residency status is in doubt, and/or he plans on staying with his parents for only a limited time, he should purchase an HO-4.

REVISED MARCH 2015

ISO introduced a new Homeowners Program in 2011. Two of the changes would have an impact on the issues discussed in this article. Both deal with the section "High School Graduation," under the topic "Personal property taken to college."

Change #1: Theft limitation for property of a student.

Excerpt from new form [emphasis added]:

> ***HO 00 03 05 11***
> ***Section I – Perils Insured Against***
> ***Coverage C – Personal Property***
> ***9. Theft***
>
> *a. This peril includes attempted theft and loss of property from a known place when it is likely that the property has been stolen.*
>
> *b. This peril does not include loss caused by theft:*
>
> *(4) That occurs off the "residence premises" of:*
>
> *(c) Property while at any other residence owned by, rented to, or occupied by an "insured", except while an "insured" is temporarily living there. Property of an "insured" who is a student is covered while at the residence the student occupies to attend school as long as the student has been there at any time during the 90 days immediately before the loss.*

Comments:

(1) Theft of Zack's personal property is covered as long as he has been at his residence within the last 90 days. Under HO-2000, the requirement was 60 day, and under HO-1991 it was 45 days.
(2) Under ISO, there is no buy-back for theft of Zack's property, if he is away from his residence more than 90 days. However, a common-sense risk management suggestion would be to move his

belongings back to Jack and Jill's house, if he will be away for an extended period, such as during an internship away from campus.

Change #2: Limitation for personal property in a self-storage facility.

If Zack will be away from his residence for more than 90 days (see above), one option Zack might consider would be to keep his personal property at a self-storage facility, such as a mini-warehouse. Under both HO-1991 and HO-2000, personal property located in such a storage facility was not subject to a sublimit. Excerpt:

> ***HO 00 03 04 91***
> ***HO 00 03 10 00***
> ***Section I – Property Coverages***
> ***Coverage C – Personal Property***
>
> ***2. Limit For Property At Other Residences***
>
> *Our limit of liability for personal property usually located at an "insured's" residence, other than the "residence premises", is 10% of the limit of liability for Coverage **C,** or $1,000, whichever is greater.*

Comments:

(1) In these two editions (1991 and 2000) of the ISO Homeowners Policy, property located in a storage facility is not subject to the 10%/$1,000 limitation. This limitation only applies to personal property *usually located at an "insured's" residence, other than the "residence premises."* For example, property that usually stays at an insured's lake house or beach house would be subject to this limitation, as these are residences other than the residence premises. However, a mini-warehouse is not a "residence," thus the limitation does not apply.

However, in the HO-2011 program, ISO introduced a new limitation. Excerpt

> ***HO 00 03 05 11***
> ***Section I – Property Coverages***
> ***Coverage C – Personal Property***
> ***b. Self-storage Facilities***
>
> *Our limit of liability for personal property owned or used by an "insured" and located in a self-storage facility is 10% of the limit of liability for Coverage **C,** or $1,000, whichever is greater. However, this limitation does not apply to personal property:*
>
> *(1) Moved from the "residence premises" because it is:*
>
> *(a) Being repaired, renovated or rebuilt; and*
>
> *(b) Not fit to live in or store property in; or*
>
> *(2) Usually located in an "insured's" residence, other than the "residence premises".*

Comments:

(1) Zack's property located in a self-storage facility is now limited to 10% of Coverage C, or $1,000 – whichever is greater.

(2) ISO offers a buyback of this limitation with endorsement HO 06 14 – Increased Amount of Insurance for Personal Property Located in a Self-Storage Facility.