



Changes

on the Homefront

2011 ISO Homeowners Coverage

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“I have some good news and some bad news. Which would you like first?”

We find ourselves hesitating when we hear that question, wondering how bad the “bad news” really is. Whenever ISO updates coverage forms, it is inevitable that there will be some good news and some bad news. This is the case with the upcoming revisions to the ISO Homeowners forms due for release later this year. The proposed effective date for the majority of jurisdictions is May 1, 2011, so you will want to keep your eyes open for the effective dates for your state and for the subsequent adoption by your carriers who use the ISO forms.

Let’s start with the good news. The broadening of coverage seems to outweigh the reductions. Also, many of the changes do not really affect coverage at all, but are designed to clarify the wording in the policy. However, as always, there is some bad news, too, in the reduction of coverage. Let’s take a look at those clarifications first.

Changes that Clarify Coverage

Definition of Insured

Previously, the definition of “insured” included “Other persons under the age of 21 and in the care of any person named above,” meaning the other “insureds” already named. Courts found this to be less than clear with regard to the unnamed resident relative, so the revised version reads “Other persons under the age of 21 and in your care or the care of a resident of your household who is your relative.” Now, any resident person under the age of 21 is an “insured” as long as they are in the care of any resident relative. There was no actual change in coverage, but rather a clarification of the wording.

LEARN MORE, EARN MORE

Attend the CIC Personal Lines Institute to learn the important details about Homeowners exposures and coverages. The CISR Insuring Personal Residential Property Course also offers a lot of good information on the subject. And for a reference book that you’ll turn to again and again, The National Alliance Research Academy’s *Insurance Essentials Handbook* covers all of the basics of the Homeowners Policy. (www.TheNationalAlliance.com/bookstore)



Collapse Coverage

In response to case law, ISO has clarified the intent of the collapse coverage. One court had interpreted the previous coverage form to provide not only coverage for the abrupt falling down or caving in of a building, but also for the “risk of loss involving collapse.” In light of this interpretation, ISO reworded the policy to explain that an abrupt collapse means “an abrupt falling down or caving in of a building or any part of a building with the result that the building or part of the building cannot be occupied for its intended purpose.”

Perils Insured Against

The same case law that led to the revision of the Collapse provision also influenced a change in Section I-Perils Insured Against. The HO 00 03, the policy previously stated “We insure against risk of direct loss to property described in Coverages A and B.” The words “risk of” have now been removed from that sentence, since the court had interpreted the use of the words “risk of” to mean that the actual loss did not actually need to occur. The policy now states: “We insure against direct loss to property described in Coverages A and B.”

Water and Earth Movement Exclusions

Hurricane Katrina-related litigation surrounding the water damage exclusion prompted ISO to file Water Exclusion Endorsements HO 16 09 and HO 16 10 in 2008 to replace the water damage exclusion in the policy. The policy has now been revised to integrate the wording from these endorsements. As a result, ISO has withdrawn those two endorsements from use.

The revised exclusion clarifies that the policy does not intend to cover tidal waves, tsunami, tides, and storm surge. The exclusion now also states that the “escape, overflow or discharge, for any reason, of water or waterborne material from a dam, levee, seawall or any other boundary or containment system” will not be covered.

The Earth Movement exclusion was changed only to accommodate similar wording and terminology used in the Water Exclusion. Changes to both exclusions are not viewed as a reduction of coverage, but rather a clarification.

Changes that Reduce Coverage

Personal Property Located in Self-storage Facilities

A limit of 10% of Coverage C or \$1,000, whichever is greater, has been introduced for personal property located in a self-storage facility. ISO explained that the use of self-storage facilities has grown over recent years, and the losses for property located in them may go undiscovered for extended periods, potentially increasing the severity of the loss. The limitation does not apply to property moved from the “residence premises” when it is being repaired, renovated, or rebuilt and is not fit to live in or store property in. Coverage limits can be increased by use of the newly introduced HO 06 14, Increased Amount of Insurance for Personal Property Located in a Self-Storage Facility.

Changes that Broaden Coverage

Theft

The policy has been broadened to allow coverage for theft of property for a student away at school, as long as the student has been there at any time during the 90 days immediately before the loss. The previous edition allowed only 60 days. ISO recognized that many students may leave personal property at school when returning home for the summer, and the 60 days limitation was inadequate to provide coverage for the full summer period.

Motor Vehicle Exclusion

ISO responded to agents’ concerns about the language used in the Homeowners 2000 policy. In both Section I – Property Not Covered and Section II – Liability

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Exclusions, coverage did not extend to a motor vehicle unless used *solely* to service an “insured’s” residence. There were concerns that an otherwise covered motor vehicle (such as a riding lawn mower) would have no coverage if it had been used even one time in the past to service a neighbor’s premises. The policy now states that there is coverage for a motor vehicle “used solely to service a residence” (and not the “insured’s” premises only). There is still no coverage for the lawn mower used at a church or day care center.

Toy Vehicle Provision

The previous policy left room for concern that no liability coverage was provided off premises for toy vehicles designed for use by small children. With its new exception wording, the policy now states that the exclusion does not apply off premises if the vehicle is “designed as a toy vehicle for

a licensed health care professional.” This means that the exclusion does not apply to a loss resulting from controlled substances prescribed by other professionals when used as intended.

Good News, Bad News

Some of the policy changes, while reducing coverage in one way, broadened coverage in another. The most significant of these include:

Deductible Provision

ISO reworded the deductible clause to clarify that the deductible applies on a per-loss basis, and when two or more deductibles apply under one loss, only one deductible—the highest deductible—will apply. The clause was previously located after the definitions section, but is now placed more appropriately in the Section I Property Conditions. This could be con-

The previous form included a limit of \$1,500 for electronic apparatus and accessories while in or upon a “motor vehicle,” but only if the apparatus is equipped to be operated by power from the “motor vehicle’s” electrical system while still capable of being operated by other power sources. The new wording now applies the \$1,500 limit to “portable electronic equipment” while in or upon a “motor vehicle,” if designed to be operated by “more than one power source, one of which is a ‘motor vehicle’s’ electrical system.” This is more of a clarification rather than a change in coverage.

The previous form provided a separate \$1,500 sublimit for electronic apparatus and accessories used primarily for business while away from the residence premises and not in or upon a motor vehicle. This paragraph has been removed, while the previous \$500 off-premises business personal property limit has been increased to \$1,500. This is a broadening of coverage.

Vermin

Coverage for loss caused by birds, vermin, rodents, insects, and animals owned or kept by an “insured” was excluded in the previous policy. Because the word “vermin” has not been defined in the policy, it has always been subject to multiple interpretations. This word has been deleted based on the suggestions of several insurers and agents. The removal of this word is a broadening of coverage.

To address this exposure, an exclusion was added for infestation, or discharge or release of waste products by animals to allow the Homeowners policy wording to be similar to the exclusion in ISO commercial property forms. The policy now excludes damage caused by “nesting or infestation, or discharge or release of waste products or secretions, by any animals.” It is easy to see how the nesting and infestation exclusion replaces the “vermin” wording.

While damage by animals owned or kept by the insured was previously excluded, it is disappointing to see the scope of coverage has been further reduced by not covering the release of waste products or secretions by any animals. This is a reduction of coverage, as I can think of several loss situations covered under the previous policy, which now would be excluded. One example would be when a wild ani-

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use by children under seven years of age, powered by one or more batteries, and not built or modified after manufacture to exceed a speed of five miles per hour on level ground.”

Expected or Intended Injury

The exclusion for Expected or Intended Injury in the previous policy stated that the exclusion would not apply to “bodily injury” resulting from the use of reasonable force by an “insured” to protect persons or property. This exception now includes coverage not only for “bodily injury” in such a case, but for “property damage” as well.

Controlled Substance

The liability exclusion for loss resulting from the use, sale, manufacture, delivery, transfer, or possession of a controlled substance had an exception for the legitimate use of prescription drugs by a person following the orders of a licensed “physician.” It was recognized that dentists, nurse practitioners, and other health care professionals also are lawfully able to prescribe drugs. ISO has changed the wording to read “following the lawful orders of

considered a broadening of coverage in the event that a carrier may have charged more than one deductible.

In some cases this is also considered a reduction in coverage. As a result of this change, the deductible provision is removed or revised on multiple endorsements. Endorsements such as Owned Motorized Golf Cart Physical Loss Coverage no longer show a separate deductible, so the usually larger Homeowners Policy deductible would now apply.

Electronic Equipment Limits

The Electronic Equipment coverage has been amended in response to agents’ concerns about a possible coverage gap between the Homeowners policy and the Personal Auto Policy for tapes, CDs, records, etc. that are in or upon an insured’s motor vehicle at the time of a loss.

First, a \$250 sublimit now applies for antennas, tapes, wires, records, disks, or other media that are in or upon a motor vehicle and are used with electronic equipment that reproduces, receives, or transmits audio, visual, or data signals. This is a reduction of coverage.

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mal, such as a deer, enters the home and in a panic urinates on carpeting and furniture. Another common loss previously covered would be the spray or odor from a skunk that gained access to the insured's premises.

Endorsements Changed, Added, or Deleted

In addition to the changes to the Homeowners coverage forms, changes were made to some of the Homeowners endorsements. Here are some of the highlights:

HO 17 34 Unit-Owners Modified Other Insurance and Service Agreement Condition Option Endorsement

ISO has withdrawn this endorsement and amended the Other Insurance and Service Agreement provision in the HO 00 06 to incorporate the wording from the endorsement. The policy has always stipulated that the HO 00 06 is excess over other insurance (such as the Association's policy), but now it states that the HO 00 06 may provide coverage on a primary basis for the portion of the covered loss uncollectible under the other insurance due to the application of a deductible.

HO 04 35 Loss Assessment Coverage Endorsement

The form previously had a special limit of \$1,000 when the assessment resulted from a deductible in the Association's policy. In response to insurers concerns that deductibles higher than \$1,000 are common today, ISO has removed the special limit of \$1,000. The endorsement has been changed to add the word "Supplemental" in the title of the form. It was felt that "Supplemental Loss Assessment Coverage" more accurately describes the coverage provided.

HO 04 43 Replacement Cost Loss Settlement for Certain Non-Building Structures on the Residence Premises Endorsement

In response to agents' requests, the optional endorsement now provides replacement cost for swimming pools, therapeutic baths, and hot tubs that are in-ground, or semi-in-ground, with walls and floors made of reinforced masonry, cement, metal, or fiberglass.

HO 04 95 Water Back-Up and Sump Discharge or Overflow Endorsement

The endorsement was originally designed to provide a limited amount of coverage for damage caused by water that flows from within the dwelling via its sewer or drain lines that back up. The endorsement was later enhanced to include coverage for the overflow of water from a sump, sump pump or related equipment. In response to agents' concerns, ISO changed the wording of this endorsement to reiterate that coverage applies for damage caused by water or waterborne material only if it originates from within the dwelling. The \$5,000 limit has been removed and replaced by a schedule to provide selected limits of \$10,000, \$15,000, \$20,000, or \$25,000. The name has also been changed to read "Limited Water Back-Up and Sump Discharge or Overflow Coverage."

HO 05 43 Residence Held in Trust Endorsement

This endorsement is being replaced by HO 06 15 Trust Endorsement. This now allows the policy to be issued in the name of the grantor (in most cases, the owner and resident of the home before the trust was established) rather than the name of the trust. The endorsement includes a schedule to name the trust and trustees. Those listed become insureds only with regard to Coverages A, B, D, and F. Some states have chosen not to adopt this endorsement, so be sure to check with your particular state.

HO 06 07 Limited Coverage for Theft of Personal Property Located in a Dwelling under Construction Endorsement

This new optional endorsement will provide limited theft coverage for a specified time period for personal property in a dwelling under construction. This provides a solution for a coverage gap in a Homeowners policy that covers a dwelling under construction.

HO 24 13 Incidental Low Power Recreational Motor Vehicle Liability Coverage Endorsement

This endorsement provides off-premises liability coverage for limited low-power recreational motor vehicles. The new version reduces coverage by adding motor scooters to the list of excluded vehicle types.

HO 24 77 Canine Liability Exclusion Endorsement

In some jurisdictions, insurers have been reluctant to issue a homeowners policy to the owners of certain breeds of dogs. To support availability of homeowners coverages in these situations, ISO has introduced this exclusionary endorsement. This new endorsement excludes liability coverage for a specifically named and described canine, whether owned by or in the care, custody, or control of an insured.

HO 24 82 Personal Injury Coverage Endorsement

The definition of "personal injury" has been revised to include an oral or written publication in any manner. This change is intended to address Internet exposures.

HO 24 10 Personal Injury Coverage (Aggregate Limit of Liability) Endorsement

An aggregate limit has been introduced with the new Personal Injury endorsement. This optional endorsement could be a substantial coverage reduction for someone currently insured under a "per offense" limit of liability.

In Conclusion

The updates in the Homeowners coverage forms and related endorsements reflect ISO's responsiveness to the changing needs of policyholders, and its desire for improved clarity, which helps to avoid ambiguity. Overall, the policy enhancements outweigh the few reductions in coverage.

So, that wasn't such bad news after all! ■