

LESSON 3.2 HOMEOWNERS POLICY SECTION II: EXCLUSIONS (PART I)

We recently concentrated on Section II Liability: Coverage E (Personal Liability) and Coverage F (Medical Payments to Others). We know that Section II coverage addresses the type of claims that may arise from injury or property damage to *others caused by an insured*, but not for injury or property damage that happens *TO* an insured. We learned that with Coverage E (Personal liability), the insurance carrier will legally defend and pay associated costs on behalf of an insured for a covered liability claim.

We also learned that Coverage F (Medical Payments to Others), will pay reasonable medical expenses resulting from an injury to others. Claims which may arise from issues like libel, slander, or false arrest are not covered. These types of exposures are called Personal Injury and can be added to coverage by endorsement. Do you remember that a Homeowners Policy has a section for policy definitions that appears before policy coverage is discussed in detail? Refer back to the Definitions as we look at each new policy section. The Definitions are important for understanding how to accurately apply coverage.

In this lesson, we're going to make the next stop on our map of the Homeowners 3 policy, Section II Exclusions. Remember that exclusions generally reduce or remove coverage. Before diving in, let's review some previously defined terms to better understand when coverage does not apply.

Section II Exclusions begins with "Motor Vehicle Liability," followed by "Watercraft," "Aircraft," and "Hovercraft" liability. Let's revisit these terms since they are introduced at the beginning of our discussion of the Homeowners Policy.

MV, or "Motor Vehicle," means a self-propelled land or amphibious vehicle, a vehicle that can travel on land and water, or any trailer or semi-trailer which it is being carried on, towed by, or hitched to, for towing by a described vehicle.

Aircraft means any contrivance used or designed for flight except model or hobby aircraft not used or designed to carry people or cargo.

Hovercraft means a self-propelled motorized ground effect vehicle and includes, but is not limited to, flarecraft (a hovercraft that cannot hover more than the length of its wingspan above the water) and air cushion vehicles.

Watercraft means a craft principally designed to be propelled on or in water by wind, engine power or electric motor.

Twelve exclusions apply to both Coverage E (Personal Liability) and Coverage F (Medical Payments to Others). Find the Exclusions in Section II of the HO3 Policy.

The first exclusion deals with "**Motor Vehicle Liability.**" Remember that "motor vehicle liability" is a defined term, and, therefore, this exclusion removes coverage for everything included in the definition of a motor vehicle. The Homeowners Policy specifically limits

liability coverage for motor vehicles with good reason. It is easy for people to get hurt operating or riding in or on vehicles, and the amount of premium necessary to pay for accidents involving motor vehicles simply isn't incorporated into the Homeowners Policy. There are other insurance policies, such as the Personal Auto Policy or Recreational Vehicle Policy, that are designed to insure those exposures to risk. The Motor Vehicle Liability exclusion has two parts. A1, the first part, details the main purpose of the exclusion.

A1 states that Liability Coverages E and F do not apply to any "motor vehicle liability" if the vehicle involved:

- is registered or required by law to be registered for use on public roads,
- is operated in or practicing for any organized race or competition,
- is rented to others,
- is used to carry persons or cargo for a charge,
- or is used for "business" purposes except for golf carts on a golfing facility.

This excludes liability for every standard idea of what a motor vehicle is.

For example, if Greg is pulling into his driveway, loses control of his *unregistered* vehicle, and hits the corner of his neighbor's home, the damage will not be covered by his Homeowners Policy because his vehicle is required to be registered for use on public roads.

Let's keep reading because A2, the second part of the motor vehicle exclusion, is noteworthy since it gives back some coverage for "motor vehicles." Here, the policy basically states that if somehow exclusion (A1) does not apply, there is still NO coverage unless the vehicle is:

- In dead storage at the "insured location,"
- Used only to provide service to the residence,
- Designed to assist the handicapped and is being used to assist a handicapped person or is parked at an "insured location" at the time of loss.

This coverage that has been given back so far provides liability coverage for items like riding mowers servicing the insured's residence and electric wheelchairs or handicap scooters. If Greg is mowing his yard, loses control, and hits the corner of his neighbor's home, he now has coverage to repair the damage under his Homeowners Policy.

Liability coverage is also given back for motor vehicles designed for recreational use OFF public roads when the vehicle is not owned. If the vehicle is OWNED, it will qualify for liability coverage only if the “occurrence” takes place:

- On an “insured location,” or
- Off an “insured location” but *only* if the recreational vehicle is designed as a toy vehicle for children under 7 years old, powered by a battery, and not modified to exceed a speed of five miles per hour on level ground.

For example, a borrowed ATV qualifies for liability under Jesse’s Homeowners Policy while Jesse is riding trails on his friend’s property. However, if Jesse owns the ATV, then liability coverage is excluded under the Homeowners Policy unless he is on his “insured premises.”

When Tara buys her daughter a drivable motorized toy car, Tara will have liability coverage under her Homeowners Policy if the child accidentally runs into a jogger while on the road in the miniature vehicle.

One last exception to the Motor Vehicle Liability coverage exclusion concerns Golf Carts. Golf Carts are covered if they carry four or less people, do not exceed twenty-five miles per hour on level ground, and are within the legal boundaries of:

- a golf course,
- are crossing a public road to access part of the golf course, or
- are in a private community under the authority of a property owners’ association, including its public roads if legally authorized, when the “insured’s” residence is within the community.

The take-away on liability coverage for motor vehicles is this: if a motor vehicle is designed for public road use, don’t expect the Homeowners Policy to respond with coverage.

The second exclusion, part B, concerns “Watercraft Liability.” The Homeowners Policy treats liability arising out of watercraft usage like the motor vehicle liability. It is another two-part exclusion.

The first part of the watercraft exclusion, B1, states that personal liability and medical payments coverages do not apply to a watercraft while it is:

- operated in or practicing for any organized race, speed contest, or other competition,
- Rented to others,
- Used to carry persons or cargo for a charge,
- OR used for any “business” purposes.

Watercraft of larger sizes are excluded in B2, part two, of the exclusion. However, like part two of the motorized vehicle exclusion, some coverage is given back. The key part of the exclusion states that if somehow the “watercraft” exclusion (B1) does not apply, there is still NO coverage for Personal Liability or Medical Payments to Others unless the “watercraft”:

- is stored,
- is a sailboat less than 26 feet long, or
- is a sailboat more than 26 feet long, if it is not owned or rented to the “insured.”

Notice that if the sailboat is less than 26 feet long, coverage will apply if the client owns or rents the vessel. Also, notice that if the sailboat is more than 26 feet long, coverage is excluded if it is owned or rented by the insured but NOT if the vessel is borrowed.

Personal Liability and Med Pay to Others coverage is also given back for some powered “watercrafts” and the return of coverage is identified in two parts. The first part is for vessels powered by inboard, inboard-outdrive, or water jet drive and the second part applies to vessels with outboard engines. However, there are specific criteria that must be met for coverage to apply.

Liability and Med Pay coverage is provided if vessels powered by inboard, inboard-outdrive, or water jet drive are:

- Not Owned by an “insured” and are 50 horsepower or LESS. This means the vessel can be rented or borrowed.
- Or, Not Owned by or rented to an “insured” and are 50 horsepower or MORE. The vessel can be borrowed but not rented or owned.

In the second part of the exception for motorized “watercraft,” coverage is provided for the vessels with outboard engines if the vessels have:

- 25 total horsepower or less;
- Or are more than 25 horsepower and:
 - o Not Owned by an “insured”; or
 - o Newly acquired during the policy period; or
 - o Acquired before the policy period; or
 - o Owned by the “insured” but only if declared to the insurance company at the beginning of the policy term.

Watercraft insurance is a widely available policy. Most boat owners should not look to their Homeowners Policy for liability protection for watercraft. Instead, the client should consider a separate watercraft policy, or when all else fails, borrow a boat. Notice that when a boat is borrowed, not owned or rented, the “insured” has coverage for liability and medical payments.

Let's look more closely at the "Watercraft Liability" exclusion.

Use the chart to review what we just learned about Part B. "Watercraft Liability" exclusions. You can find it in your Student Learning Guide.

The next exclusions referenced in the policy are for C. "Aircraft" and D. "Hovercraft" liability. In brief, the Homeowners Policy very plainly states that there is no liability coverage for "aircraft liability" or "hovercraft liability."

The remaining exclusions for Section II Coverage E (Personal Liability) and Coverage F (Medical Payments to Others) tend to fall into two categories. Some may cause you to say, "Of course the insurance company is not going to pay for that." Other exclusions may make you comment, "Yes, that's a business issue. A client will need to buy commercial insurance for that." We will examine these categories of exclusions next.

Complete the assigned activities to help you understand Section II Exclusions, Parts A, B, C, and D.