

LESSON 2.2 HOMEOWNERS POLICY SECTION I: COVERAGE C

We are continuing our journey through the Homeowners Policy Section I Property Coverages. In Section I Property Coverages, we have these coverage parts:

- Coverage A – Dwelling
- Coverage B – Other Structures
- Coverage C – Personal Property
- Coverage D – Loss of Use, and
- Additional Coverages

We explored Coverages A and B on the HO3 Special Form and are now ready to focus on another very important Section I coverage, Coverage C Personal Property. This coverage is just as important to discuss as Coverage A Dwelling. Dwelling coverage is the primary coverage for clients purchasing insurance to protect a dwelling structure. For clients renting homes, apartments, and condos, Coverage C Personal Property is the primary coverage on the Homeowners 4 (HO4) or Renters Policy, and in some cases, the Homeowner 6 (HO6), or Condo Owners Policy.

But let's keep our attention on the HO3 form and consider how coverage is provided for property located both on and off the "residence premises" and what important limits are going to apply.

Just like Coverage A Dwelling and Coverage B Other Structures, the coverage limit for Coverage C Personal Property is shown on the Declarations Page. The Insurance Services Office (ISO) Homeowners 3 Special Form, or HO3, sets the limit of liability for Personal Property at 50% of the Coverage A limit. That is, if the home policy has a Dwelling (Coverage A) limit of \$100,000 dollars, then the Personal Property (Coverage C) limit will be \$50,000 dollars.

In your copy of the HO3 policy, find Section I Property Coverages, Coverage C Personal Property. It has four numbered sections:

1. Covered Property
2. Limit For Property At Other Locations
3. Special Limits Of Liability, and
4. Property Not Covered.

Remember that the HO3 Special Form, the form we are using, is an open perils policy, but Coverage C Personal Property is always set up on a named peril basis. Coverage C insures personal property against the sixteen named perils or causes of loss that you learned about previously. These named causes of loss are also called perils insured against.

Coverage C provides protection for personal property. How would you define Personal Property?

Personal property is made up of our belongings, our “stuff.” These are the things that are unique to each of us and may be moveable, like something you would take on a trip, say a special piece of jewelry. Or it could be a larger item, like a couch in your home.

The first section in Coverage C Personal Property is **Covered Property**. This part of the policy states that the personal property is covered while owned or used by an “insured” **anywhere in the world**. It also states that after a loss and at the request of the “insured,” personal property owned by others is covered while it is on part of the “residence premises” occupied by an “insured.” This is also true for personal property owned by a guest or “residence employee” while the property is in any residence occupied by the “insured.”

The second section in Coverage C is **Limit For Property At Other Locations**.

While the Homeowners Policy gives worldwide coverage, it limits coverage for property that is usually located at an “insured’s” residence other than the “residence premises,” such as personal property normally located at a secondary residence, a seasonal home, or at a self-storage facility. In these cases, only 10% of the Coverage C amount (or \$1,000 if greater than the 10%) is available to cover a loss at these properties.

This coverage reduction does not apply if the personal property was moved from the “residence premises” because the location is being repaired, renovated, or rebuilt and is unfit to live in. Nor does it apply to a newly purchased home for the first 30 days once the client begins moving in.

Let’s consider this example. The Smith family insures their primary residence on a HO3 Policy for \$100,000 dollars under Coverage A Dwelling and for \$50,000 dollars under Coverage C Personal Property or Contents. The family also owns a lake cabin. The cabin is not insured under a Homeowners Policy. Most of the cabin’s contents are used furnishings taken from the family’s main residence.

A fire occurs at the cabin, causing damage to the cabin, as well as the personal property inside. Because the personal property is usually located at the cabin, which is the “insured’s” second residence, it is only covered up to 10% of the Coverage C limit for the primary residence. In this example, that covered amount is \$5,000 dollars.

When we take a deeper look at “Perils Insured Against” for Coverage C Personal Property, we find that the peril of theft is excluded for property coverage at any other residence

owned, rented, or occupied by an “insured,” except while the “insured” is temporarily living there. So, let’s return to the Smith family example. Coverage for the peril of theft is provided only while the family is visiting the cabin. When their vacation is over and they return home, their personal belongings at the cabin are no longer covered for theft.

Under the same policy provision above, “Perils Insured Against” for Coverage C Personal Property, an “insured” who is a student living away from home, say at college, has personal property coverage at the student’s school residence, if the student has been there at any time during the 90 days immediately before the loss. Coverage is still limited to 10% of Coverage C from the insured primary residence.

The third section of Coverage C Personal Property is **Special Limits Of Liability**.

This part of Coverage C Personal Property addresses special limits for a variety of property categories. Here we are talking about property like money, jewelry, watches, watercraft, trailers, and more. Each special limit is the total limit available for each loss for all property within that category and does not increase the Coverage C limit of liability. If additional coverage is needed, limits can be increased by endorsement for an additional premium.

The **Scheduled Personal Property Endorsement**, also called a Jewelry Floater, can increase the coverage if the client has valuable pieces of family jewelry to insure, such as great-grandfather’s watch. The Homeowners Policy gives limited coverage for trailers, as well, because adding a trailer to an auto policy can provide better coverage and makes more sense. In addition, the Homeowners Policy is not designed to cover business exposures. However, insurance companies realize that many people bring work home from the office, so some coverage is available.

Did you notice how the word **theft** in some of the property descriptions appears in bold type? This emphasis is deliberate. The dollar item *limitation* for jewelry, furs, firearms, and silverware only applies for losses caused by the peril of theft. If a fire causes a loss to personal property and your client kept \$5,000 dollars-worth of furs at her property, she will receive \$5,000 dollars for the loss caused by the fire. If, however, a burglar steals multiple items from your client’s home, including \$5,000 dollars-worth of furs, the payment your client receives for the theft of furs is limited to \$1,500. These limits can be increased with endorsement **Coverage C Increased Special Limits of Liability**, although this does not broaden the perils covered.

Look at your copy of the HO3 Policy, turning to Section I, Coverage C Personal Property. Find number 4. Property Not Covered. The Homeowners Policy will not cover every type of personal property. Some property is simply too specialized, and it can often be insured on other types of insurance policies while still other types of property aren’t practical to insure. Here are some of the types of property **not** covered on the Homeowners Policy.

- Animals, birds, or fish

- Motor vehicles, except those designed to assist the handicapped or solely service the residence
- Aircraft
- Hovercraft
- Property belonging to roomers
- Property in a rented space rented to others (like furniture provided to a boarder)
- Business data
- Credit cards
- Water or steam (think about the value of water in a swimming pool and the cost to refill the pool after a loss)
- And anything else specifically described and insured elsewhere (in another policy)

Many examples of Property Not Covered are commonsense items, such as autos which should be insured on specialized policies to meet the client's coverage needs. A pet owner offers another example. If a client's rare bird is highly valued, and is not easily replaced, the client may need a Pet Mortality Policy.

Technology and social changes offer new challenges for clients and agents, as they can lead to "gray" areas. Does a carrier consider drones, for example, as aircraft, meaning are they Property Not Covered? And imagine a client who leaves home for a vacation. During her absence, vandals, people who deliberately destroy or damage property, turn on an outside water faucet. The next water bill exceeds \$1,000 dollars, but the wasted water is considered Property Not Covered.

We have reached the end of Coverage C Personal Property in our travels through the Homeowner Policy "map." Being familiar with the Section I coverage parts, A, B, and C in your Homeowners Policy will give you the general background you need to be comfortable with these important property provisions and their limits.

Complete the assigned exercises and activities to help you remember the kinds of protection Coverage C Personal Property provides.