

LESSON 3.7 BUSINESS: EXCLUSIONS AND COVERAGE ENDORSEMENTS

Previously, we discussed two parts to the definition of “business” in the Homeowners Policy. The HO3 policy defines a “business” as a “trade, profession or occupation engaged in on a full-time, part-time or occasional basis.” Exceptions to this definition include activities which produce less than \$2,000 in income, volunteer activities, and home daycare for relatives with or without compensation.

Look at this summary of the four parts of the “Business” Definition under Section II Exclusions.

Pause to consider this scenario: What if you find out that a client has a home business taking care of her cousin’s two young children? She makes over four-thousand dollars a year doing this. Is the daycare considered a business under the HO3 Policy, which affects coverage, or is it not considered a business?

The daycare the client provides for her cousin is not considered a business. Even though the daycare brings in over two-thousand dollars, it is not considered a business because it is a service provided for a relative.

Our goal in this lesson is to answer business-related coverage questions by examining the Homeowners 3 Special Form policy exclusions. Then, we will discuss endorsements that can be added to the Homeowners Policy to expand coverage for incidental business exposures.

When examining the Coverage A (Dwelling) portion of the HO3 policy, you will see that there is no exclusion for business use. Therefore, business use of one’s dwelling which is listed as the “residence premises” in the Declarations, does not affect coverage.

In Section I: Coverage B (Other Structures), we start to see coverage and exclusions pertaining to a “business.” Here, we will find three “business” exclusions that will void coverage if the other structure is:

- rented to any person who is not a tenant, except for use as a garage, or
- used for a “business” conducted from within the structure, or
- used to store “business” property, unless owned solely by an “insured” or tenant, and as long as the property is not a gaseous or liquid fuel stored outside of a vehicle or other craft’s fuel tank.

These exclusions apply even when the cause of loss is unrelated to the “business” exposure. Let’s apply these exclusions to some examples.

With the first business-related exclusion, if Chris rents his detached garage to his neighbor to store the neighbor’s classic car and something happens to the building, the building is covered because it is being used only as a private garage. However, if Chris moves his photography business to the loft space above his garage, the second business-related exclusion now

applies, and the building will not be covered when it burns down because it is being used to conduct business.

Here is another example. Darrell operates his lawn maintenance business as a sole proprietor and stores his lawn mower, tools, and other equipment in his detached garage. Exclusion B2d does not apply since the “business” property is solely owned by Darrell. However, when he decides to also store several full 5-gallon gas cans that he takes to job sites in the detached garage, the exclusion now applies since the gas is not stored *in* the fuel tanks of Darrell’s equipment, but *outside* of the tanks in containers. This risky storage of fuel voids coverage.

Remember that if no exclusions apply, the coverage limit for other structures is just 10% of Coverage A, the coverage for the main dwelling. Discuss the limit of liability with your clients to make sure they have chosen adequate limits to cover their exposure to risk. Also, be aware that several endorsements are available to expand coverage in specific situations.

The Structures Rented To Others (Residence Premises) endorsement can be used to provide coverage for Another Structure that is rented to others for use as a private residence. The Other Structure cited in the endorsement will be described in the Declarations with its own Limit of Liability.

Additionally, the Permitted Incidental Occupancies (Residence Premises) endorsement can be used to provide coverage for An Other Structure on the “residence premises” with an eligible incidental “business” exposure. Incidental means that the business does not occupy a major part of the Other Structure.

Within Coverage C (Personal Property) are Special Limits of Liability. Among those limits, two apply to property used primarily for “business.” Look at your copy of the HO3 Policy and find Coverage C under Section I. Then scan to find Special Limits of Liability.

Coverage C (Special Limits of Liability) establishes a limit of \$2,500 for personal property used primarily for “business” while ON the “residence premises” and \$1,500 for personal property used primarily for “business” while AWAY from the “residence premises.”

Janice is employed by a major radio station and works from her home studio. The mix table her company provides is covered up to \$2,500. While traveling, she takes her company laptop with her. She does a little work on the beach one day and a wave sweeps the laptop away. It will be covered for up to \$1,500.

The Increased Limits On the Business Property endorsement can increase the Special Limit of Liability for “business” property on the “residence premises” from \$2,500 to a maximum of \$10,000.

Now let’s discuss the four exclusions that pertain to “business” property found in Section I: Coverage C (Personal Property), Property Not Covered. Property in a regularly rented apartment owned by the insured (except as provided in Additional Coverages, Landlord’s

Furnishings under Section I) is excluded from coverage. Also excluded is property rented to others that is off the “residence premises.” The third exclusion is for “Business” data, including data stored in account books or other paper records. However, coverage is provided for computer programs available on the retail market. The final exclusion is for electronic funds property like credit cards, fund transfer cards, transfer devices, and so on.

The Homeowners Policy also contains Additional Coverages that provide limited personal coverage; however losses arising out of “business” use or dishonesty of an “insured” are not covered. The Landlord’s Furnishings endorsement can increase that limit to up to \$10,000 dollars.

Now let’s look at the business exclusions in Section II. The first exclusion pertaining to business is Exclusion four, “Motor Vehicle Liability.”

This exclusion states that “Motor Vehicle Liability” excludes the “business” use of any “motor vehicle” except for a motorized golf cart while on a golfing facility. When Joe takes his client golfing at the country club and accidentally runs over someone else’s golf clubs, the property damage will be covered even though Joe was technically engaged in a “business” activity.

Another exclusion, “Watercraft Liability,” plainly excludes the use of watercraft for any “business” purpose.

Another key business exclusion is found in Section II: Coverage E (Personal Liability) and Coverage F (Medical Payments to Others). It totally excludes coverage for liability and Med Pay for any category of “Business.”

Here, in exclusion E2, liability is denied for “bodily injury” or “property damage” arising from a “business” conducted at an “insured location” or engaged in by an “insured,” whether or not the “business” is owned or operated by an “insured” or employs an “insured.”

The policy also states that Exclusion E2 applies but is not limited to an act or omission, regardless of its nature or circumstance, involving a service or duty rendered or promised, owed, or implied to be provided because of the nature of the “business.” For instance:

- Kathryn sells wax melts and warmers for a candle company from her home. She will have no liability coverage while selling her products at a customer’s house party.
- Jake owns a pet grooming shop that is operated in a detached building on his property. The business is an LLC, a limited liability corporation, which has no liability coverage under Jake’s Homeowners Policy. Neither does Jake.

The policy language is very clear. There is no “bodily injury” or “property damage” coverage for a “business” that employs an “insured” or is operated by an “insured.” There are several exceptions to this “business” exclusion. These exceptions give back Personal Liability and Medical Payments to Others coverage for some “business” activities.

One exception to the exclusion states that rental of an “insured location” on an occasional

basis if used only as a residence, will be covered. For example, Jeremy and Lily rent their home for \$5,000 for a week during a major professional golf tournament. Occasional rental for use as a residence is not excluded, so Jeremy and Lily will have liability coverage during that week. But when the couple decides to rent their home 8 to 10 times each year through an online home sharing program, renting is NO LONGER considered OCCASIONAL, and liability coverage is now excluded.

The next exception gives coverage back for the rental, or holding for rental, part of an “insured location” for use as a residence, unless the tenant intends to have more than two roomers or boarders.

Another coverage exception to “Business” provides liability coverage for rental, or holding for rental, of an “insured location,” in part, as an office, school, studio, or private garage. While liability coverage is provided, property coverage remains excluded if the office, school or studio is in An Other Structure.

The final exception to the Liability “Business” exclusion provides coverage to an “insured” under the age of 21 in a part-time or occasional self-employed “business” with no employees. If your client’s 12-year-old child begins a business cleaning windows on neighbors’ houses, “bodily injury” or “property damage” arising out of this “business” would be covered under the Homeowners Policy. However, if the child gets his friends to join the “business” and pays them, then he is employing them and the “business” is now excluded.

Under the terms of Coverage E (Personal Liability) and Coverage F (Medical Payments to Others), there is no coverage for Professional Services. “Bodily injury” or “property damage” caused by providing or failing to provide professional services is not covered.

For example, Lisa is a chiropractor. A client comes to Lisa’s home for an adjustment, but at the last-minute, Lisa is unable to see the client, and the client’s muscle spasms worsen because scheduled treatment was not provided. Lisa has no liability coverage for services not provided.

Not all states require Workers’ Compensation insurance. In those that do, an injury of an employee is a Workers’ Compensation claim, not a homeowners’ claim. If an “insured” either voluntarily provides Workers’ Compensation or is required by law to provide Workers’ Compensation benefits to an “employee,” Personal Liability and Medical Payments To Others coverages are excluded.

The final exclusion pertaining to business is found in Section II: Additional Coverages under C. Damage to Property of Others. The exclusion states that damage to property of others arising out of a “business” an “insured” is engaged in is NOT covered.

It’s important that your client is covered and understands their “business” activity coverage gaps. So, it is critical to determine if an endorsement to the client’s personal lines policies can provide the appropriate coverage or if commercial insurance should be recommended. Recall

that coverage provided by an endorsement can add, modify or remove coverage, but is often very specific and narrow. It may not supply sufficient coverage. Let's examine a chart showing the endorsements we have touched on throughout this discussion.

The Structures Rented To Others (Residence Premises) endorsement provides property coverage and liability coverage for An Other Structure described in the schedule, or Declarations, that is rented to others for use as a *private residence*.

The Permitted Incidental Occupancies (Residence Premises) endorsement provides coverage for an Other Structure with an eligible incidental, or minor, "business" exposure.

The Landlord's Furnishings endorsement increases coverage for a landlord's furnishings from \$2500 to up to \$10,000.

Increased Limits On Business Property endorsement can increase the Special Limit of Liability for "business" property ON the "residence premises" from \$2,500 to a maximum of \$10,000.

The Business Pursuits endorsement provides Section II Liability coverage for the "business" pursuits of the "insured" and provides coverage both ON and AWAY from the "residence premises."

This information reminds us that endorsements can be used to alleviate coverage gaps to Other Structures, personal property, and liability. However, it's important that you help clients understand that "Bodily injury" to an "employee" arising out of the "business" described in any endorsement is still excluded. If your insured is acting as an employer, other types of commercial policies must be used to provide coverage.

As you can see, engaging in business brings exposures that must be covered. It is the responsibility of the insurance professional to know what needs to be done to make sure their clients have the business coverage they need.

Please complete the activities that accompany this lesson.