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Homeowners in Transition



Mike Edwards

Abstract

With summer upon us, now is the time that many families make the move from one home to another. Most likely, many of them are already looking or even negotiating for a new home. Serious coverage gaps can arise during the transition between two principal residences, involving both property and liability exposures. This article discusses these issues and how they can be remedied.

Homeowners who are moving from one principal residence to another certainly face many potential difficulties and headaches. They often give even less thought than usual to their Homeowners insurance coverage during the move. However, serious coverage gaps can arise during the transition between two principal residences, involving both property and liability. This is especially true in a cross-country move, when there can be several days or even weeks between leaving the old house and moving into the new house.

The two primary exposures that should be examined when a homeowner is involved in a lengthy move are personal property and personal liability.

Personal Property (Coverage C). The standard Homeowners Policy provides 100% worldwide coverage for personal property, with one exception (10%) discussed below. Therefore, one way for homeowners to maintain coverage on their personal property during the transition is to keep the policy in force on their old home, until the coverage starts on their new home.

Even if the homeowner has sold their old home, keeping that policy in force for several days, or even a few weeks, should not present any difficult issues. Should the old home be damaged after the sale, but the policy of the original homeowner is still in force, the insurer will not be forced to pay a claim on the home, since the insured/old homeowner has no insurable interest in that home at the time of loss.

An alternative is to start coverage on their new home prior to canceling the insurance on the old home, such as the day of closing if the home is sold. Often, a homeowner involved in a cross-country relocation moves from a house to an apartment, so the HO-3 would be replaced by an HO-4. However, Coverage C of both policies is essentially the same.

10% limit on Coverage C. While Coverage C is 100% worldwide, there is a 10% limit on "personal property usually located at an insured's residence, other than the residence premises." If the policy on the old home is continued after the move-out, that policy would provide only 10% Coverage C limit to personal property in another residence. However, the 10% limitation does contain a 30-day exception for "personal property in a newly acquired principal residence."

It is important to note that the 10% limit on Coverage C applies **only** while the property is located in a **residence** of an insured. Thus, personal property in a storage facility, or even in a moving truck or trailer, is not

subject to this 10% limit.

Personal Liability (Coverage E). Maintaining personal liability insurance during the transition is probably as important, if not more so, than maintaining personal property coverage.

The two coverage alternatives outlined above for Coverage C would also apply to Coverage E. The homeowner can either keep the old policy in force until they arrive at the new location (and start new coverage then), or they can have the new policy start as the move begins, and have that policy's Coverage E apply during the trip and transition.

Other Issues. While personal property and personal liability are of primary concern, there are several other issues that arise during a move.

Do not cancel the current insurance based on instructions from third parties. When the homeowner sells their home at the time of the move, the mortgagee, title company, closing attorney, or other related party might inform the agency that the house has been sold, and that the insurance should be cancelled. As with any other insurance, the agency should never make a change to a policy, add or delete an insured, or cancel the policy, without explicit instructions from the insured.

Even if the insured requests cancellation of the current policy due to the sale of their home, the agency would be wise to inquire about the status of replacement coverage. For those insureds about to undertake a cross-country move, and who have not secured insurance at the new location, it would be imperative for the agency to point out the potential gap in coverage.

Coverage C perils while moving. With Coverage C still in force during the move, many of the possible sources of loss are covered, such as fire, theft, windstorm, etc. If the moving truck overturns, most authorities hold that the damage to personal property is the result of the vehicle peril.

However, some potential causes of loss are unique to moving, such as breakage, marring, scratching, lost items, etc., and it would be advisable for the homeowner to purchase protection from the moving company.

Territory. Since the standard Homeowners policy does not have any territorial limitations, personal property and personal liability coverage apply anywhere in the world, should the homeowner keep their current policy in force during the transition period of the move out of the USA.

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The above article is timely in that our "Ask an Expert" service received a related article today:

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"An insured purchases a [1991 ISO HO policy](#) on a new home. She leaves a few miscellaneous pieces of furniture in her old

house while it is vacant and for sale. (This is a temporary storage solution for now.) Does the 10% limitation on coverage for contents apply?"

A. Interesting question. As Mike points out above, the limitation is restricted to property usually at another residence. At issue, then, is if this is still a "residence," a term not defined in the policy. So, we presented this to our faculty....

Faculty Response:

If she's a resident of the new house, personal property belonging to an insured is covered any where in the world and there is no limit unless the old house is also the insured's residence.

Faculty Response:

This probably depends on the company's interpretation of the coverage. The homeowners policy doesn't define the term "residence," although it does define "residence premises." The American Heritage Dictionary defines "residence" as "the place in which one lives, dwelling." The old house is a *former* residence, not a current residence. I think it could be argued that the 10% limitation does not apply since the insured no longer resides at the old residence.

There would be some coverage problems regarding certain perils, such as theft, due to the vacancy of the house. There is an endorsement that can be used to increase the 10% limitation. I think the insured would be better off moving her property to a temporary storage unit. Then this would be a moot issue with most company forms.

Faculty Response:

I'd vote that it is not a residence since it is used for "storage," but is an "insured location" under:

6. "Insured location" means:

- c. Any premises used by you in connection with a premises described in a. and b. above;

Faculty Response:

The policy on the new home will provide at least 10% of Coverage C for personal property at the old home, though it won't be covered against theft if the property is usually located there. When looking at what a "residence" is, the courts have typically said that it's a place where the person lives, at least part of the time.

Generally the courts say there needs to be an intent to return at some point in the future. With no intent to return, it could be argued that the house is not a residence anymore and the 10% limit would not apply, just as it doesn't apply to things in a mini-storage warehouse.

Many companies would still consider it a residence, however, and resist paying more than 10% of Coverage C. Many companies also offer an endorsement to increase the 10% limit.

Faculty Response:

Here is the applicable policy provision:

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. However, this limitation does not apply to personal property:

- a. Moved from the "residence premises" because it is being repaired, renovated or rebuilt and is not fit to live in or store property in; or
- b. In a newly acquired principal residence for 30 days from the time you begin to move the property there.

Here's the issue: Is the old house where she no longer lives no longer a "residence"? My vote would be that a "residence" is somewhere you reside. Since she no longer resides there, the 10% limitation doesn't apply.

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