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Consumer Article:

“Insuring Your Kids’ Kars”

When a child still living at home buys a car, should it be insured under the parents' policy or under a separate policy? Too often, this decision is made on a purely financial basis without much thought about the possible coverage ramifications to all parties involved.

It is not uncommon when there is a youthful driver in a family with an auto that the insured is advised to title the car in the child's name. This evidently will lower the premium with some carriers but, more importantly, it is believed it will lower the liability risk of the parents. Uh oh...

First, keep in mind that the "ISO standard" personal auto policy includes an exclusion throughout the policy that says that, under the parent's policy, there is no coverage for any resident family member (other than the parents themselves) using the auto of another resident family member unless that auto is insured under the parents' policy. In other words, if a couple has a 16-year-old daughter and a 17-year-old son living at home, and the son insures his car under a separate policy, the 16-year old daughter has no coverage under her parent's policy while driving her brother's car...she must rely solely on the limits and coverages provided by her brother's policy. Second, if the parents have an umbrella policy, it is unlikely that it will provide excess coverage over claims covered by their son's auto policy.

We posed this situation to our Virtual University faculty and got the following responses:

"Insuring the child's car under a separate policy has potential gaps. For example, in the current ISO policy, if there are other family members in the household, the parents' policy provides no coverage for them while driving the child's separately insured auto...only the limits under that policy would be available. Depending on the wording of the parents' umbrella, if there is no coverage under the parents' auto policy, there might be no coverage under the umbrella...that's particularly true when the "umbrella" is actually an excess policy.

"I'm not sure titling the car in the child's name will abdicate the parents of responsibility. Depending on any statutes to the contrary, they may still be held liable. If so, THEIR policy should protect them. So, you can see from the above that there are dangers in insuring a child's car under a separate policy. However, depending on the unique circumstances of an accident or exposure, there are dangers from insuring him/her on the same policy.

"First, I would never advise an insured to do this if their child is still under 18 (the age of majority in our state), because the parents still have parental responsibility and, thus, a liability exposure for the child's use of the auto.

"In our state, when a kid goes to get his license, the parent(s) must sign the application. By doing so they agree to "pay up" if the kid is driving ANY auto. So putting the kid's car in the kid's name does nothing at all but create huge gaps in coverage.

"I take a hard line approach here, as I did when I was an agent. When the kid gets a car, you put the car in the name of the parents and add it to their policy. This stuff of two policies in the house with two different limits is foolish. Fact is kids cost a lot to insure and you can't do much about it. For someone to try and "massage the system" in order to save a few bucks is opening them up to a huge liability problem.

"This has become quite a common situation, and has even been carried further by at least one major personal auto insurer who recommends and sells real minimum limits to all youthful operators, owners or not. Their main purpose is to lower the premium and get the account, regardless of whether it serves the interests of the clients. I believe this does affect the personal umbrella. Umbrella carriers are not tickled about having youthful operators on the policy at all, and they certainly aren't going to drop down over inadequate limits in those cases. I believe nearly all of the "maintenance of underlying limit" provisions will result in a gap in these cases.

"I have seen this exact situation happen. The parents bought a sixteen year old a hot car and it had a material impact on the family insurance premium. They were wealthy, but cheap, so they bought a separate policy with lower limits in the name of the kid. The worst possible accident (multiple injuries including one paralysis) happened when the kid was clearly at fault. They tried to involve the parents' auto and umbrella without success, so the parents were left without insurance coverage. The most severely injured person had high uninsured motorist (UM) limits, and their UM carrier successfully subrogated against the parents, recovering a large judgment. Despite the fact that the insurance agent had written the parents advising them against their changes involving the kid, the parents sued the agent because their insurance did not cover them. The parents efforts to recover from the agent were unsuccessful since he had documented recommending that they not do this to save money.

"This presents several problems, depending on the state where the family is located and the insurance companies issuing the policies.. First, there will be a gap if there is coverage. Second, an umbrella policy responds AFTER the underlying limits are tendered. I am familiar with another case where an individual had a gap and had to cough up the difference (\$200,000) before the umbrella carrier responded. Third, does the umbrella provide excess over specifically identified policies? It may be the umbrella would not respond at all to the childs' auto policy since it wasn't listed in the underlying.

"Responsibility of a parent for the act of a minor child varies by state, but I don't think titling a vehicle in a minor's name is any protection. The automobile policy forms have limitations as respects coverage for any other vehicle in the household that is separately insured, so the kid's policy would stand alone. If the childs' policy was not identified in the umbrella, some states may allow the umbrella carrier to void coverage for misrepresentation of a material risk."

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