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A Look at Coverage Under a Personal Liability Umbrella Policy

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Because many recognize the prudence in securing additional coverage and because, generally speaking, personal liability umbrella policies (PLUP) are not prohibitively expensive for most, it is not unusual to encounter such a policy. Where a PLUP exists, to whom and under what circumstances is coverage provided? The United States District Court recently took a look, reminding of some basic principles. *State Farm Fire & Casualty v. Sproull, et al* 2018 WL 3439629 (July 17, 2018).

In the fall of 2015, James Campbell was a student at the University of South Carolina Upstate where he sublet an apartment. While driving a car owned by his grandmother, LaDonna Campbell, and insured by a State Farm auto policy, he was involved in a single car accident. James died as a result of the accident, as did three passengers. A fourth passenger was injured but survived. Settlements under the automobile policy were accepted and approved. Additional coverage was sought on behalf of one of the decedents under a PLUP issued by State Farm to LaDonna Campbell and her husband. Pursuant to diversity jurisdiction, State Farm filed a declaratory judgment action in District Court, seeking an order that no coverage was available under the PLUP. State Farm alleged James was not an insured under the PLUP and that there was no liability under causes of action against LaDonna and her husband, including claims under the Family Purpose Doctrine or negligent entrustment. The matter was before the court on State Farm's motion for summary judgment.

The PLUP provided, in pertinent part:

1. **"insured" means:**
    1. **you and your relatives whose primary residence is your household;**
    2. **any other human being under the age of 21 whose primary residence is your household and who is in the care of a person described in 6.a.;**

3. **any other person or organization to the extent they are liable for the use of an automobile, recreational motor vehicle or watercraft by a person included in 6.a. or 6.b.**

LaDonna and her husband were clearly insureds. In order to determine if James likewise qualified, the court looked at elements previously articulated by the South Carolina Supreme Court. Was James living under the same roof, in a close, intimate and informal relationship the intended duration of which was likely to be substantial and from which it was reasonable to conclude the parties would consider the relationship in contracting about such things as insurance? As stated earlier, James was a student sub-letting an apartment. He did not spend the night with his grandparents nor did he go to their home to do work or pay bills. This was undisputed. Consequently, he did not qualify as an 'insured.' Thus, LaDonna or her husband would have to be personally liable to trigger coverage under the PLUP.

The court then turned to whether the insureds were liable under the Family Purpose Doctrine. That doctrine, an extension of agency, is based on liability as a principal for one who makes it his business to provide a vehicle for the use of his family. When applicable, the vehicle owner is liable for the negligence of a family member with general authority to use the car for family general use. The liability of the insureds was clearly at dispute in the underlying state court action. In a declaratory judgment action, the court should not decide matters extending beyond coverage or determine disputed factual issues pivotal in the underlying case. Therefore, the court deferred to the state court for disposition of liability under the Family Purpose Doctrine.

Looking next to the theory of negligent entrustment, State Farm asserted actual or imputable knowledge of the driver's addictive or habitual use of intoxicants is essential to impose liability on a vehicle owner. Because there was no evidence James was intoxicated at the time of the accident or that he had substance abuse issues, it contended negligent entrustment was not applicable to the matter at hand. In opposition, Defendants argued that negligent entrustment is not so limited. Rather, they maintained, the theory has been extended to broader situations, such as knowledge of poor driving habits. The court, examining the relevant case law, agreed the South Carolina Supreme Court has never determined if negligent entrustment is limited to situations involving an impaired driver. Consequently, the court declined to find the theory limited to entrustment of a vehicle to an intoxicated driver.

Having determined James was not an 'insured' under the PLUP, State Farm's motion for summary judgment was granted in part. However, declining to resolve the issue of Family Purpose Doctrine pending in the tort action and, finally, likewise declining to conclude negligent entrustment only applies in the event of entrustment of a vehicle to an intoxicated driver, the court denied State Farm's motion for summary judgment as to those issues.

In addition to briefly visiting the Family Purpose Doctrine and the theory of negligent entrustment, *Sproull* also afforded the opportunity to reiterate that insurance policies are subject to the general rules of contract construction. The court also took the opportunity to remind of the inherent limitations of a declaratory judgment; it should not be used to address a controversy in a piecemeal fashion nor should it be used to adjudicate matters of liability in underlying claims.

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