



Proper Insurance

AIRBNB Insurance Guide

presented by

Proper Insurance for
Airbnb Mastery Summit



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Airbnb Insurance Guide

What property owners, re-renters, and property managers need to know

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Insuring Airbnb properties can be a challenge. With hundreds of insurance carriers in the U.S. it's difficult to get consistent answers. This guide provides detailed information and helps demystify the market.

Definitions:

Property owner: This would be a person or business that owns a property and rents it on Airbnb.

Re-renter: This would be a person or business that does not own the property, but leases a property, and then "re-rents" it on Airbnb.

Non-owner occupied: This would be a property in which the owner nor re-renter live at the property. This would be a second home, investment property, or leased property that is advertised and rented on Airbnb.

Owner-occupied: This would be a property in which the owner or re-renter resides and considers their residence. This could be someone that lives in their main home and Airbnb's a guest house, or lives on one side of a duplex and Airbnb's the other, or has a separate apartment in the basement, or simply rents a room within the home.

Property Manager: Someone who manages multiple Airbnb properties on the behalf of the owners of those properties. This would not be a re-renter, who manages multiple listings.

Common Problems

- Many carriers hear the word Airbnb and they cancel coverage
- Some carriers endorse for "home-sharing" owner occupied, but coverage is minimal
- Some carriers endorse second home policies to allow for only a certain number of weeks
- Re-renters are purchasing renter's insurance without letting the carrier know it's for Airbnb re-rent
- Re-renters are purchasing limited supplemental coverage
- Re-renters are being asked by the property owner for proof of insurance
- And so much more

(1) Property owners/non-owner occupied

This would be the most common property, a property in which the owner does not live at the property and it's either self-managed or professionally managed on

Airbnb. Most would consider this a vacation rental. These properties whether it be a single-family home, condo, duplex, townhome or cabin already carry insurance. This is because the owner is required to carry insurance by the mortgage holder/lender, or because the investment needs to be protected.

For homes, the most common insurance is homeowner's (HO) or landlord insurance (DP) and for condo's it's similar, just called HO-6 condo insurance. Let's first look at what needs to be insured:

Building(s): This is the actual structure(s) on the property. The home, detached garage, guest house, etc. You need coverage from fire, theft, lightning, vandalism, smoke, water damage leakage, etc. *Note: no building coverage is required for condos as the owner is responsible for walls in only.*

Contents: This is all the contents or stuff in the structure(s). Things like furniture, electronics, dishes, linens, artwork, rugs, décor, etc. You need coverage from fire, theft, lightning, vandalism, smoke, water damage leakage, etc.

Income: This is the gross income the vacation rental generates. In the event of a covered loss, i.e. fire, the property would be uninhabitable or un-rentable. You need to insure the income and receive reimbursement for lost income.

Liability: This is protection for "bodily injury or property damage" the owner could be found liable for. If a guest is injured, or if a guest injures someone else or damages someone else's property; the liability could ultimately fall back on the owner.

Now let's look at what types of insurance is available:

Homeowners Insurance (HO): Homeowners insurance is designed for primary, owner occupied properties. It carries building, contents, loss of use, and personal liability coverage for the insured.

- Loss of use is for relocation costs the insured would incur in the event of a loss, i.e. a fire. This is a coverage you need for your primary home as you would need to rent a condo or house while your property was being rebuilt.
- Personal liability covers claims or lawsuits against you arising out of bodily injury or property damage to others caused by an accident on your property, or by accidents away from your property, caused by you or family members who live with you. This something you need on your primary home.
- Personal liability carries a "business activity exclusion". If the carrier deems vacation rental activity, business activity, then any claim, both property and liability could rightfully be denied.
- Most agents and carriers will not sell a homeowner's policy to cover an Airbnb property. It's written to be owner occupied and carries personal liability.
- Many carriers will drop the homeowner's insurance in the event they find out the property is being rented on Airbnb.

Landlord Insurance (DP): Landlord insurance is designed for landlords, tenant occupied properties. It carries building, contents, loss of rents, and premise liability for the insured.

- Loss of rents pays “fair market value” for 12 months if there is a covered loss, i.e. fire and the property is un-rentable. Fair market is the average long-term rental value/price of surrounding properties in the area. An average, or fair market. In the event of a total loss, i.e. fire, it can 18-24 months until the property is fully rebuilt and back up and renting. A 12-month loss of rents would be considered a limitation.
- Premise liability applies to bodily injury and property damage only if the bodily injury or property damage occurs on your premise. There is no coverage beyond the premise line for amenities like bicycles or canoes or an assault off premise.
- Premise liability excludes sexual acts and sexual molestation by any tenant or resident of the dwelling.
- Premise liability carries a “business activity exclusion”. If the carrier deems vacation rental activity, business activity, then any claim, both property and liability could rightfully be denied.
- Premise liability carries an alcoholic beverage exclusion, arising of the selling, serving, or giving.
- Many agents brand a landlord policy as an “Airbnb policy” but it’s not, it’s designed for a long-term rental property being occupied by tenants, not guests.

Commercial Insurance (CP/CL): Commercial insurance is designed for a business, a property that is open for business. It carries building, contents, loss of income, and commercial general liability.

- Loss of income pays the “actual business loss” and has no time limit. The amount is only subject to the limit chosen on the policy.

- Commercial general liability is a standard insurance policy issued to business organizations to protect them against liability claims for bodily injury and property damage arising out of premises, operations, products, and completed operations; and advertising and personal injury liability.
- Commercial general liability is the highest level of insurance a business can purchase and extends beyond the premise. It also covers things like assault and invasion of privacy.
- Commercial liability excludes alcohol and watercraft liability.
- Commercial property coverage is excluded when the property/building is entrusted to someone else. There would be no coverage when the property is rented/entrusted to others.
- Commercial property has a vacancy clause and does not cover personal property of a residence. There would be no coverage if the property was vacant, or for the contents of the vacation rental.
- Commercial insurance is not suited well for an Airbnb unless it is carefully endorsed to address the above exclusions. Many agents are starting to sell commercial insurance for Airbnb, but the language of the policy is not correctly modified and endorsed.

Summary of Coverages: Each type of insurance has gaps regarding an Airbnb rental property. Many carriers have tried to endorse the homeowners and landlord forms but they are fundamentally wrong from the beginning as they are not designed for a business and do not carry the correct liability.

As the industry matures things are leading to commercial requirements, but insurance forms are slow to adapt.

Which choice is best? Ultimately, a property owner needs to make the decision, contact an insurance agent and ask the tough questions. Questions like, if an Airbnb guest was to assault my neighbor and my neighbor sued me, would this insurance respond and cover me? Or, if an Airbnb guest stole all of my contents, would this policy respond and cover me with no limit?

Proper Insurance® decided it was best to start with a commercial insurance policy as it has the horsepower needed to cover all three and carries commercial general liability. It just needed some fine tuning to the property coverage forms and the commercial liability forms.

Fine tuning means making endorsements to things such as no limit on theft, the removal of the liquor exclusion, a \$1,000,000 in personal liability added when the home is also a primary residence. Below are the policy highlights:

- Commercial Package Policy: coverage for **building, contents, liability, and income.**
- **Building & Contents:** special cause of loss (all risk) with replacement cost valuation (new for old).
- **Liability:** \$1,000,000/\$2,000,000 in commercial general liability (extends beyond premise).
- **Income:** actual loss sustained business income coverage with no time limit.
- Additional \$1,000,000 in personal liability when rental "doubles" as primary residence.
- Liability coverage enhancement for animals/pets & liquor.

- Liability coverage extended over amenities: pools, bicycles, small watercraft, golf carts, rec area, + more.
- Property coverage enhancement for theft and damage caused by a renter.
- Vacancy clause removed with no standard occupancy restrictions.
- Underwritten by Lloyd's of London, AM Best's Rated A.

(2) Re-renters/non-owner occupied properties

Most re-rent situations are properties that are leased long-term and then re-rented on Airbnb. The re-renter really has three areas of exposure: contents, income, and liability. The most important of these three are liability, and commercial general liability is needed.

Airbnb offers the Host Protection which is the \$1,000,000 in free commercial liability for every booking. Most Host's do not feel comfortable with relying fully on this as there is no documentation a claim has ever been paid, and there are heavy exclusions like assault and battery.

There are supplemental insurance carriers now offering liability only, such as comethome.com, and slice.io, but most are expensive pay as you go nightly or monthly rates that can add up quickly. Also, Comet publishes on their site that properties must be "America's with disability act" compliant, and excludes things like assault. Most Host's should assume if they do not have an insurance policy with their name on it, then it's likely very weak coverage.

The only full proof way to feel good about having good coverage is to have a commercial liability insurance policy with your name on it. And hopefully one that also covers contents and business income.

Proper Insurance® offers coverage to re-renters like home owners except removes the building coverage. Essentially it covers contents, business income, and commercial general liability. It's an annual individual policy.

(3) Property owners/owner occupied

These properties should be insured the same as non-owner occupied as the same Airbnb business activity exposure exists. This also applies to re-renters that are owner occupied.

There are a few carriers that have started to endorse standard homeowner's policies, with riders branded for "home-sharing", but they appear to be very limited. This goes back the saying, "patching a leaky raft". The only full proof way to insure Airbnb exposure is with a commercial property and commercial liability policy.

(4) Property Managers

Property managers have the option to purchase a commercial liability policy for their business, however most carriers do not extend the liability to the properties they manage. So how do managers get coverage? Through the owner's insurance, traditionally in the form of being added as additionally insured.

Property managers should simply require their owners carry commercial general liability, and request to be added as additionally insured. This can be easily verified through a certificate of insurance.

Many managers do not like to require this as it's a barrier to entry and many owners have difficulty finding coverage. This is true, but it's becoming more common as it's the only realistic way for property managers to have coverage. Property managers do get pulled into liability claims as they are the responsible party of managing the home.

BONUS MATERIAL

A commercial general liability insurance requirement is good for Airbnb/short-term rentals

Summary: Due to the hyper growth of short-term vacation rentals found on website such as Airbnb and VRBO, communities across the U.S. are struggling to find common ground. Elected officials hear both sides of the argument. When deliberating on common sense regulation it's important for officials to understand and enforce a commercial general liability insurance requirement.

Commercial Insurance Requirement: It's commonly accepted that short-term rental activity is a business transaction, or commercial activity. It's also a fact that homeowners or renter's insurance does not cover business activity. A commercial general liability insurance requirements is good for everyone.

Good for the City: A big complaint from the opposition is noise violations and/or party rentals. A commercial liability insurance requirement creates a barrier to entry and would

help eliminate many “problem owners/hosts”. Another big complaint is from the hotel industry, stating that consumers are booking short-term rentals versus hotel accommodations. Hotels have requirements like insurance, taxes and safety that short-term rentals don’t. A commercial general liability insurance requirement helps level the competition and provides political capital for responses needed for hotel complaints.

Creates Barrier to Entry: Having a commercial general liability insurance requirement creates a barrier to entry and helps remove problem rentals. Below are some highlights:

- 1) Commercial general liability insurance is an additional expense to property owners and is typically priced at a per bedroom or per guest rate. This makes sense as the more bedrooms and more guests, the greater the liability exposure for the insurance carrier. This increase in expense will naturally weed out problem rentals, as the owner will not want to pay for the additional expense.
- 2) Commercial general liability has stricter underwriting requirements than personal insurance. These underwriting requirements are often in relation to the safety of the property (smoke alarms, fire extinguishers, etc.), and the quality of the property. This creates a natural barrier as well, where problem rentals may not qualify for the insurance.
- 3) Purchasing commercial general liability requires a certain time commitment from the property owner. They must find an agent, obtain a quote, go through underwriting, ultimately pay for the coverage and provide proof of insurance. This time commitment

alone will eliminate certain individuals and/or potential problem rentals.

Good for the Owner: Many owners are not aware their homeowner's insurance does not cover business activity and could rightfully deny any claim of bodily injury or property damage from a guest. Commercial general liability insurance provides coverage for "bodily injury or property damage" the business owner could be found liable for. With a commercial general liability insurance requirement, owners would have protection.

Good for the Neighbors: Commercial general liability insurance extends beyond the premise. This means if the neighbor's property was damaged or someone was injured because of the short-term rental activity, the rental owner's commercial insurance should respond. **I.e.** if a guest brought a dog, and the dog bit the neighbor's child, standard commercial general liability insurance would respond if the property owner was brought into a claim. **I.e.** if a guest had too much to drink, and accidentally damaged the neighbor's home, standard commercial general liability insurance would respond if the property owner was brought into a claim.

Suggested Requirement: Commercial liability insurance is widely available to business owners, and the standard policy is "\$1,000,000 per occurrence of commercial general liability".

Enforcement: Verification of commercial general liability is simple and done through a standardized insurance form, certificate of insurance (COI). You would simply ask for a copy of a COI, showing \$1,000,000 in commercial general liability. The property owner easily can obtain a COI from their carrier.