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# Adjusting Homeowners' Claims in the Sharing Economy

By Scott Lacourse | January 20, 2015

Would you rent your home to a total stranger? This may seem like a daunting prospect at first, but internet companies like Airbnb, HomeAway and VBRO have helped millions of people to do just that. Reassured by social media tools that allow users to rate and review their transactions and recommend service providers to their friends, many property owners have been quick to benefit from collaborative consumption.

The “sharing economy” has developed from a low key local phenomenon into a highly lucrative business model. However, this has raised some interesting issues for carriers and their adjusters.

## **The Legal Position**

In New York, the Attorney General has been cracking down on hosts renting multiple units that are in effect illegal hotels.

Residents of most New York apartments are prohibited from renting out their properties in their absence for less than thirty days, and building management companies have issued warnings that subletting may breach the terms of tenancy and risk the security of all residents.

Authorities in San Francisco recently introduced legislation to lift the ban on rentals of less than thirty days, with some important restrictions. The rental must be of the owner's permanent home

(their residence for at least 275 days in the preceding year); the rental terms cannot exceed ninety days in any given year. Also, the property owner must obtain a business license and permit. Each listing must hold at least \$500,000 in liability insurance and city hotel taxes must be paid for all rentals.

Clearly when advising a client on a potential rental or investigating a claim for damages, it is prudent to check the legal position in their area, and ensure that they have met any administrative requirements.

#### **Service Providers Offer Limited Coverage**

It is also worth closely inspecting any protection offered by the service connecting the property owner with the tenant. For example Airbnb has a “host guarantee” which does offer significant cover, but is no real replacement for a wide ranging insurance policy. HomeAway offers damage protection insurance up to \$5,000 for an additional fee.

Property owners must also understand what damage is covered by any such guarantee. They should also know if the service provider can be trusted to live up to their promises.

In one case, a New York property owner returned home to find that her seemingly harmless tenant had thrown a wild party and trashed her apartment. Initially, Airbnb was not helpful, and the homeowner’s basic insurance did not cover the damage. However, when Airbnb was threatened with bad publicity the company decided that their host guarantee was applicable and they agreed to pay for the damages.

Typically, these kinds of service providers do not offer any cover for a liability and only limited cover for damage to property. If the service provider will not offer any relief, the homeowner will turn to their insurance carrier. But does the business exclusion on a standard policy apply to home sharing? Typically, no.

#### **Business Insurance may be Appropriate**

Many insurance companies will agree to extend the homeowner’s coverage to the renter for a single occasion as long as they are notified in advance. However, if the property is to be rented out on

a more regular basis, the property owner would be best advised to purchase business insurance, such as a hotel or bed and breakfast policy for short term rentals or a landlord policy for longer term rental.

Business insurance will not only provide protection against damage to the structure and contents of your client's home, but will generally include liability coverage in case the tenant (or one of their guests) is injured on the property. Without this cover the property owner may find themselves facing costly legal fees and medical expenses. Policies may also include cover for loss of rental income while repairs are being effected, which is very reassuring if owners have mortgage payments to cover from the rental income.

**How Big is the Risk?**

While it is certainly the case that home sharing increases the risks of property damage or the incurring of liability for injury, carriers and adjusters should take care not to overestimate the risks.

Airbnb claims that since their inception they have not encountered any liability claim or judgment in excess of \$10,000. HomeAway (which has been in business since 2005) purports not to have encountered any serious judgments or claims. Furthermore, insurance for rental properties is not new and policies covering vacation properties are already common to most carriers.