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ADDITIONAL INSURED REQUIREMENTS

Saying goodbye to the idea of the additional insured requirements for Vacation Rental Managers

By Darren Pettyjohn

Every day, we receive the same calls from property owners asking, "I need an insurance policy for my vacation rental, and my vacation rental manager has asked to be *additionally insured*. Can you do that?"

Our answer is always the same. "Yes, we can insure your property, and yes, we can add your property manager as additionally insured."

However, there is actually no need to add a property manager as *additionally insured* because they're already a named *insured*. Unfortunately, there is confusion about this which can cause friction between the homeowner and the property manager.

This may seem like a confusing topic of discussion, but it is actually fairly simple, so I'm here to ease the confusion and explain how

this particular insurance topic works.

Who is considered an *Insured*?

The first thing to understand is that every insurance policy must define "who is an *insured*." It is also important to know that coverage is extended beyond the primary named insured on a policy.

Example: John gets a loan from a bank and buys his first home. He also purchases homeowner's insurance and is listed as the named insured on the policy. John also has a wife and a ten year old son who live at the home, but they are not listed on the policy.

Question: Does John need to call and ask his agent to add his wife and son to the homeowner's policy as additionally insured and then

request a certificate of insurance showing proof of coverage? No. Any spouse and children under the age of 21 who are in the care, custody and control of the named insured are automatically covered for personal liability as defined under the homeowner's form.

Standard homeowner's forms define an insured as, and extend personal liability to: named insured, spouse, children and other residents.

Note: By "forms," I mean policy forms. Virtually all insurance companies use the same standard forms approved by the Insurance Services Office (ISO), including homeowner's forms, landlord forms and commercial forms.

You are probably thinking, "I don't see a property manager or real estate manager listed there."

That is because the homeowner's form does not define and extend liability to real estate managers, and a property manager wouldn't want this because homeowner's policies carry personal liability.

Landlord Insurance Forms

In Landlord Insurance Forms, who is defined as an insured? This is very relevant, as many vacation rental owners carry a landlord policy which covers premise liability, which would be a big upgrade from personal liability.

Standard landlord forms define an insured as, and extend premise liability to, the named insured, family members and employees of the named insured in regards to the premise. The landlord insurance form does not define and extend liability to real estate managers.

Commercial Insurance Forms

Many vacation rental owners are seeking commercial insurance for their properties as a result of maturation of the industry, the broader coverage and new regulations across the country. Standard commercial forms define an insured – and extend commercial liability to – the named insured, spouse, volunteer worker and any person or organization acting as your real estate manager in regards to the business.

There it is. And I will state it again, *"any person or organization acting as your real estate manager."*

What this means is that, instead of property managers requiring to be added as additionally insured onto their owner's policies, they should simply require proof of **Commercial General Liability Insurance**.

That's it.

With that proof of insurance, property managers know that they are defined as an insured and that the commercial liability is extended to them and their company. There is no need to be added.

Proof of this coverage is provided through a standardized document that all insurance agents use called "Certificate of Insurance (COI)." Just make sure this includes commercial general liability and not premise or personal liability.

Advantages of having this proof of insurance for property managers:

- 1 There is no longer a need to use the dreadful words "added as additionally insured." It is human nature for owners to think they are purchasing insurance for their property manager, but now you can explain the coverage thoroughly.
- 2 Commercial General Liability is far superior coverage to premise and personal liability. It extends beyond the premise by covering

things like sexual assault, invasion of privacy, slander, dog bites and much more. Plus, it does not fall into the gray area of "business activity exclusion" found in premise and personal liability. It is also the highest level of liability insurance offered to a business.

As the industry continues to mature, it is beneficial for property managers to make adjustments to owner contracts to reflect the changes and correct verbiage. This commercial requirement is already starting to show up in communities across the county.

Commercial liability insurance for vacation rental owners is not as expensive as you would think and is actually comparable to the other forms. I'd like to tell you Proper Insurance is the only firm to offer this coverage to vacation rental owners, but then this would just turn into a PR piece. The truth is that there are many carriers currently offering commercial general liability to vacation rental owners, and I imagine there will be more coming as the industry continues to grow and more regulations come our way. Currently, the main three insurance companies are Proper Insurance, CBIZ Insurance and Propel Insurance.

Insurance is not a secret thing. Insurance policies should be examined, dissected and fully understood. Every carrier has slightly different enhancements and exclusions, but the base forms are the same.

Many property managers have already adopted this practice, and they often ask how much should be required. Most require \$500,000, but \$1,000,000 is the standard limit for commercial general liability and what most carriers offer. It is actually more difficult for an owner to purchase \$500,000 versus \$1,000,000. The industry requirement should be \$1,000,000, and that is what I recommend.

You often hear that insurance companies try to deny and wiggle out of claims, but this couldn't be further from the truth. Sure, there are exclusions and certain things are not covered, but the bottom line is that an insured pays a premium for a contract. In that contract, it clearly states what is covered and what is not. This contract also defines who is considered an insured. The recurring problem here is that oftentimes these policies aren't read and understood – leading to false expectations. The insurance companies aren't trying to scam you. In fact, they do exactly what they say they will do in the defined policy.

It is time for change in the vacation rental industry. Property managers, you can use this information to your advantage. When it comes to insurance for vacation rental owners, remind them that you are on their side by having the knowledge to help them dissect their policy. If your owners carry commercial general liability, then you are an insured on their policy as a real estate manager. Period. It is in the contract written in black and white, so say goodbye to the idea of the additional insured requirement.

Disclaimer: Personal and premise liability do not define a "real estate manager" as an insured. A property manager would need to be added to have coverage extended. Only commercial general liability defines a "real estate manager" as an insured. A property manager would want to verify coverage via a COI showing commercial general liability.



Darren Pettyjohn is the Co-founder of Proper Insurance Services, offering custom-penned, all-inclusive insurance designed for vacation rental owners.
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