

Home Sharing: The Other Way to Stay



INTRODUCTION

It used to be that when families went on vacation, the money they spent on rent or mortgage became sunk costs. They'd shut the lights, lock the doors, and say good-bye to their homes for a week or two, worrying only that the timers on their lights would turn on and their neighbors would remember to feed the cat.

It also wasn't too long ago that when people's homes became too big for them, they'd turn empty bedrooms into storage or office space or move into smaller homes.

But in recent years, the growth of home-sharing services has created new sources of revenue for millions of vacationers and empty-nesters who've turned their temporarily empty homes and spare bedrooms into short-term accommodations for visitors from around the world. Those same services have also created new concerns for insurers who may not be aware of their insureds' activities, potential coverage issues for policyholders, and issues for regulators who have to deal with a new business model and related risks never considered before.

HOW IT WORKS

Becoming a host for a home-sharing service is relatively easy. Hosts create profiles and online listings with information, a description, and photos of the homes or space being offered, along with daily rates and availability. Guests who've signed up for the service can then search the listings and select their choice of accommodation. With some services, once both the host and guest have agreed to the upcoming stay, the guest pays the home-sharing service, which takes a percentage of the rental fee and passes the rest along to the host. In other cases, the services don't get involved in payments at all; they charge the host for the listing, and leave it to the host and guest to handle any payments on their own.

If it sounds like a simple business model, that's because it is. And it's the simplicity that's helped the home-sharing industry grow dramatically in recent years. Today, there are more than 1.8 million listings available for rent worldwide, with rents ranging from under a hundred to several thousands of dollars, depending on the length of stay.

To assist in preventing possible misrepresentation and identify fraud, many home-sharing services perform background and identity-verification checks. In addition, both the hosts and guests can receive ratings based on their experiences. Those ratings can then assist in screening potential guests and hosts. However, the services can vary by provider. In addition, despite these security measures, numerous incidents have been reported involving excessive property damage, theft of valuable items, and personal injuries as a result of participation in home sharing. Some of the reported incidents include the following:

- In May, a Canadian family returned home to find dented walls, flooded toilets, and sofa cushions covered in mayonnaise, according to CBC News.

- In July, neighbors and officials in a town north of New York City complained that a mansion listed on home-sharing services was being rented out for risqué parties, according to the *Journal News*.
- In August, the *New York Times* reported that a 19-year-old man was allegedly sexually assaulted by the host of a home-sharing apartment in Spain.

To help protect hosts and guests, home-sharing companies have promoted safety tips for both hosts and guests. These include reading profiles and listings carefully, checking references when available, and knowing the phone numbers of local emergency responders.

They've also made insurance coverages and other protections available.

According to publicly available information, home-sharing companies generally provide certain protection for property and liability exposures related to home sharing. But this protection is subject to limitations and exclusions. For example, here's what one company provides:

- up to one million dollars of first-party property coverage, but limited or no coverage for cash, jewelry, and collectibles, among other things
- up to one million dollars of third-party liability coverage per occurrence in the event of a covered claim for bodily injury or property damage, but may be subject to a cap per policy year and may not be applicable for certain countries.

Another company provides coverage only in the event of Internet fraud, material misrepresentation, denial of entry when the renter was not at fault, and wrongful deposit loss. Home-sharing companies generally advise users that this protection is not insurance and that they should review their own homeowners insurance policy to understand whether coverage is provided for their property due to the rental of an insured location.

POTENTIAL EXPOSURE CONSIDERATIONS

The potential loss exposures of home sharing can vary according to the party using the service. For example:

Hosts: A homeowner host renting a residence to others on a short-term basis may incur accidental property damage to the home. Also, the likelihood of theft and/or vandalism may increase if the host is not on-site during the rental. Lastly, if a guest is injured while staying at the host's residence or causes injury to others, the host may be held liable for medical expenses, damages for bodily injury, or both.

Guests: Individuals acting as guests in someone else's home may cause bodily injury or property damage to others there, potentially triggering a liability exposure to the homeowner as the property owner.

Landlords: In some instances, municipal restrictions or lease provisions may prohibit a tenant from acting as a host for a home-sharing service. However, in the event a tenant rents an entire apartment to a guest and one or more people are injured, the landlord could potentially be held liable as the owner of the property. A guest's actions may also result in damage in the common areas of a commercial residential building. This could leave the landlord potentially liable, notwithstanding his lack of knowledge of the home-sharing activity taking place on the premises.

ISO INSURANCE OPTIONS

When ISO developed its Homeowners Program, it did not contemplate home sharing. But it still has many long-standing provisions that restrict coverage for rentals. For example:

Eligibility: The Homeowners Program's eligibility requirements state, in part, that:

- the policy may be issued to the owner-occupant(s) of a one-, two-, three-, or four-family dwelling used exclusively for private residential purposes
- a one-family dwelling may not be occupied by more than one additional family or two roomers or boarders

Property coverages: The property coverage section of the Homeowners Policy:

- excludes coverage for personal property of roomers, boarders, and other tenants, unless the roomers and boarders are related to an insured.
- generally excludes coverage for theft of an insured's personal property from that part of a residence rented by an insured to others, although optional coverage is available. An example is when the residence is rented to others for a specific event taking place near the residence, such as a golf tournament or the Olympics.
- limits coverage for appliances, carpeting, and other household furnishings in areas that an insured regularly rents or holds for rental.

Liability coverages: The Homeowners Policy does not provide liability coverage for a business (which would generally include rentals) conducted from an "insured location" or engaged in by an "insured." This is regardless of whether the business is owned or operated by an "insured" or employs an "insured." However, there are certain exceptions to this exclusion, for example, for occasional rentals if used only as a residence. Additionally, the policy generally excludes liability for property damage to property rented to, occupied, used by, or in the care of an insured.

There are, however, some sections of the Homeowners Policy that could provide some coverage for certain home-sharing exposures. Specifically, the Coverage D – Loss of Use section provides either additional living expense or fair rental value in the event the dwelling becomes uninhabitable due to a covered loss. For example, if a guest burns the house down while using a home-sharing service, the insured host could receive additional funds to live elsewhere temporarily, subject to other policy provisions.

HOW ARE STATES RESPONDING?

While statewide legislation or regulations specifically addressing home sharing have been minimal, it appears to be picking up momentum. In addition, some states and cities already have certain laws in effect that place restrictions on short-term rentals of single-family homes, apartments, or rooms. For example:

New York: New York State law states that apartments, or Class A multiple dwellings, are only for permanent residents. The law defines permanent residents as a person or family that occupies the apartment for 30 or more consecutive days. The law allows stays of fewer than 30 days for:

- houseguests or lawful boarders, roomers, or lodgers
- other natural persons when the permanent occupants are temporarily absent for personal reasons, such as vacation or medical treatment (applies only when the permanent occupants are not paid for such occupancy)

Guests in a New York City hotel must also pay the city's hotel room occupancy tax. A "hotel" includes an apartment, hotel, motel, boarding house, bed-and-breakfast, bungalow, or club, whether or not meals are served. Hotel operators and remarketers (when a room has been purchased through a reseller) collect the tax from the occupant.

San Francisco: San Francisco recently upheld via ballot measure its law to allow a permanent resident to offer his or her primary home as a short-term residential rental (period of less than 30 nights) if the permanent resident:

- occupies the residential unit for no less than 275 days out of the calendar year in which the residential unit is rented as a short-term rental
- maintains records for two years demonstrating compliance with this restriction
- maintains liability insurance appropriate to cover the short-term rental in the aggregate of not less than \$500,000 or conducts each short-term residential rental transaction through a hosting platform that provides equal or greater coverage

Portland, Oregon: Portland recently amended its law to allow an individual or family that resides in a dwelling unit to rent bedrooms to overnight guests for fewer than 30 days. A resident must occupy the dwelling unit for at least 270 days during each calendar year.

WHAT IS ISO DOING?

Recognizing that insurers may have differing appetites as to the desirability of the home-sharing exposure, ISO is currently developing several different products for its customers' use:

Advisory Notice to Policyholders: ISO has developed an advisory policyholder notice for use with a base (unendorsed) homeowners policy. This notice provides a mechanism for insurers to advise their policyholders of the extent of coverage provided under their homeowners policies and also encourages notification to the insurer of any home-sharing activity by the policyholder. In addition, ISO anticipates developing a policyholder notice for each of the options discussed below.

Home Sharing Exclusion: ISO anticipates developing an optional endorsement that would exclude certain property and liability coverages under a homeowners policy arising out of participation in home sharing. However, the new option would, to the extent possible, be designed to apply to renters originating through a home-sharing service and would segregate and preserve existing coverages for occasional rentals as well as for roomers and boarders.

Homeowners Enhanced Home-Sharing Coverage Option: Recognizing that, in regard to insureds engaged in home-sharing activities, some insurers may wish to provide a broadened level of coverage beyond the coverages that may currently be available under the ISO base homeowners policies. ISO is currently developing an option that would provide some enhanced coverages. Listed below are several coverage provisions that are currently under review as part of the enhanced option:

- **Corresponding Host and Guest Enhancements:** ISO believes that homeowners policyholders who act as hosts for a home-sharing service in their own home may be more prone to use similar home-sharing services as guests when traveling. For this reason, the enhanced option being considered by ISO staff would provide enhanced coverages for both scenarios (that is, when acting as a host and when acting as a guest).
- **Other Insurance and Sources of Recovery:** As mentioned previously, and according to publicly available information, home-sharing companies generally provide certain property and liability protections in the event of guest damages or injury. However, this protection may not be characterized as insurance and is generally provided only as excess to other existing insurance or other sources of recovery. Additionally, some home-sharing companies encourage the use of security deposits, which could be coupled with individual dispute resolution between the parties. The enhanced coverage option being considered by ISO would provide an enhanced level of coverage under a homeowners policy in an effort to minimize potential gaps in coverage from other sources.
- **Theft:** ISO is also considering an enhanced level of theft coverage as part of the new option.

CONCLUSION

While the benefits are clear to those who use home sharing, the potential perils and the best ways to manage them are continuing to develop. Property damage, liability risks, and crime are just a few of the exposures that people can face when they rent their homes to strangers. To help protect both hosts and guests, some home-sharing services are providing guidelines and limited insurance coverage. A few state and city governments are enacting regulations designed to clarify when people can use home-sharing services and when they'd be violating the law. At ISO Solutions, we're looking carefully at our existing Homeowners Program and developing optional exclusions and coverages to help insurers address a wide range of risks that come with home sharing. No one knows in the long run how popular home sharing will become. But one thing is for sure: As more people become hosts, they'll learn that although their homes may be a tempting source of revenue, they must be cognizant of the risk associated with strangers entering their home and determine what measures they should take to safeguard their property.

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