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# Presentation to Short Term Rental Commission

## Property Insurance and Short Term Rentals

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October 24, 2024



# What I'll Cover

- Homeowners Insurance Coverage Basics
- Dwelling Policies
- Short Term Rental Insurance Concerns
- Short Term Rental Insurance Solutions



# Homeowners Coverage Basics

# Types of Homeowner Policies

## Homeowners

- **HO-1:** The **most limited** policy type for homeowners (approximately 2%)
- **HO-2:** A more common policy type for homeowners and a slight upgrade from the HO-1 (approximately 7%)
- **HO-3:** The **most common** type of homeowners insurance policy, with broader coverage than the HO-2 (approximately 78%)
- **HO-5:** The most comprehensive form of homeowners insurance (approximately 13%)
- **HO-8:** A special type of homeowners insurance for older properties that have a replacement cost greater than their market value (approximately 0.4%)

## Other types of home policies

- **HO-4:** Renter's coverage (approximately 75% of non-owner-occupied exposures)
- **HO-6:** Condominium unit owner's coverage
- **HO-7:** Mobile or manufactured home coverage

# HO-1: Basic Form

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- HO-1 homeowners insurance offers the least amount of coverage. It only includes coverage for the physical structure of the home and personal belongings — and only at their actual cash value. This means depreciation is subtracted from the final claim payout.
- As a named-perils policy, it covers only the home and belongings against 10 perils specifically listed in the policy. These include:
  - Fire or lightning
  - Windstorm or hail
  - Explosion
  - Riot or civil commotion
  - Aircraft
  - Vehicles
  - Smoke
  - Vandalism
  - Theft
  - Falling objects
- HO-1 policies do not include coverage for liability, medical payments to others, or additional living expenses

# HO-2: Broad Form

- An HO-2 policy offers more coverage than an HO-1, but still not as much as a standard HO-3 policy.
- With a broad form policy, the following are protected:
  - Physical structure of the home at replacement cost value
  - Unattached structures at replacement cost value
  - Personal property at actual cash value
  - Additional living expenses
  - Liability
  - Medical payments to others
- HO-2 policies also offer protection from six additional named perils:
  - Weight of ice, snow, or sleet
  - Accidental discharge or overflow of water or steam
  - Sudden and accidental tearing apart, cracking, burning, or bulging of a built-in appliance like a water heater, or centralized air conditioner or heating system
  - Freezing
  - Sudden and accidental damage from an artificially generated electrical current, like power surges
  - Volcanic eruption

# HO-3: Special Form

- An HO-3 policy is the most commonly purchased type of homeowners insurance
- HO-3 policies include coverage for:
  - physical structure of the home at replacement cost
  - other structures on the property at replacement cost
  - personal belongings at actual cash value with a replacement cost option for a small fee
  - additional living expenses
  - personal liability and
  - medical payments to others.
- When it comes to perils, HO-3 policies provide all-risks or open perils coverage for the physical structure. This means the policy covers all causes of loss to the structure except those that are specifically excluded in the policy.

# HO-3: Special Form Property Coverages

## Covered Perils

- 1.Fire or lightning
- 2.Windstorm or hail
- 3.Explosion
- 4.Riot or civil commotion
- 5.Aircraft
- 6.Vehicles
- 7.Smoke
- 8.Vandalism
- 9.Theft
- 10.Falling objects
- 11.Weight of ice, snow, or sleet
- 12.Accidental discharge or overflow of water or steam
- 13.Sudden and accidental tearing apart, cracking, burning, or bulging of a built-in appliance like a water heater, or centralized air conditioner or heating system
- 14.Freezing
- 15.Sudden and accidental damage from an artificially generated electrical current, like power surges
- 16.Volcanic eruption

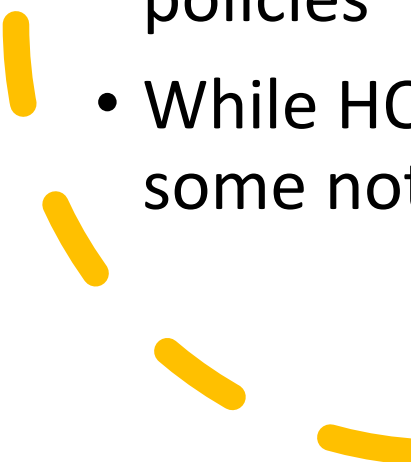
## Excluded Perils

- 1.Ordinance of law
- 2.Earth movement
- 3.Water damage from flooding, sewer backups, or water that seeps up from the ground
- 4.Power failure
- 5.Neglect
- 6.War
- 7.Nuclear hazard
- 8.Intentional loss
- 9.Government action
- 10.Theft to a dwelling under construction
- 11.Vandalism or malicious mischief (if the home was vacant for more than 60 days)
- 12.Mold, fungus, or wet rot (except if it resulted from an accidental discharge or overflow of water)
- 13.Wear and tear
- 14.Mechanical breakdown
- 15.Smog, rust or other corrosion
- 16.Smoke from agricultural smudging and industrial operations
- 17.Discharge, dispersal, seepage of pollutants
- 18.Settling, shrinking, bulging, or expanding of parts of the structure like your foundation or walls
- 19.Birds, vermin, rodents, insects
- 20.Animals owned by insured





# HO-5: Comprehensive Form

- HO-5 homeowners insurance provides the highest level of coverage for single-family homes
  - Designed for high-value properties that require higher dwelling coverage limits, extra protection for possessions and expensive keepsakes, and access to coverage add-ons not found on standard policies
  - While HO-5 home insurance is very similar to HO-3 policies, there are some notable differences
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# Comparison HO-5 and HO-3

## **HO-5 policy**

- Dwelling and personal property are insured at replacement cost by default
- All-risks coverage for both the home and personal belongings
- High coverage limits for expensive types of property with normally strict coverage limits including jewelry, fine furs, and certain electronics
- Because of the robust coverage, HO-5 policies are typically more expensive than other types

## **HO-3 policy**

- Dwelling insured at replacement cost and personal property insured at actual cash value unless an enhancement is purchased
- All-risks dwelling coverage but named perils personal property coverage.
- Limited coverage for expensive types of property like jewelry, fine furs, and certain electronics



# HO-8: Modified Coverage Form

- Designed for older or historic homes with ornate features and other characteristics that would be difficult to replace
  - HO-8 insurance is generally used if a home's replacement cost is higher than its market value.
- Covers the physical structure of the home, other structures on the property, personal belongings, personal liability, additional living expenses, personal liability, and medical payments to others
- Coverage on a named perils basis for only the 10 named perils.
- Typically pays out actual cash value of the structure of the home and personal belongings rather than replacement cost.
- Some insurers may also offer coverage on a functional replacement cost basis for properties very difficult to rebuild. For example, a home with antique windows and hand carved moldings may be replaced with cheaper, modern replacements that meet the same function.



# HO-4: Contents Broad Form

- Renters insurance
    - Covers personal belongings both inside your rental property and anywhere else in the world.
  - Covers renters' property from damage or loss caused by the same 16 named perils found in HO-3 policies
    - Personal belongings are usually covered at their replacement cost
  - Includes liability coverage and additional living expenses coverage if the dwelling is damaged
  - Does not include dwelling coverage for the physical structure of the home
    - If the rented dwelling suffers physical damage, it is the landlord's responsibility to fix it or file a claim using their own insurance coverage
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# HO-6: Unit-owners Form

- Condominium insurance
- Protects the interior of the condo (aka dwelling coverage) and personal belongings from the 16 perils listed in the policy (the same found in HO-3 policies)
- Amount of dwelling coverage needed varies based on what is already covered under the condominium association's master policy.
  - A master policy typically covers the exterior structure of the condo building and any common areas.
- Most condominium owners will at least want enough dwelling coverage to cover the cost of upgrades or renovations to the unit, such as a remodeled kitchen or bathroom with custom tiles and fixtures.
- Condominium insurance also comes with additional living expenses, personal liability, medical payments to others, and loss assessment coverage.

# HO-7: Mobile Home Form

- Very similar to an HO-3 policy, but designed specifically for mobile, manufactured, and other factory-built homes.
- Types of mobile homes covered under an HO-7 policy:
  - Trailers, travel trailers, fifth-wheel trailers while not on the road
  - Single-wide manufactured and single-wide mobile homes
  - Double-wide manufactured and double-wide mobile homes
  - Sectional homes
  - Modular homes
  - Park model homes and RVs
- Includes coverage for the physical structure of the mobile home, other structures on the property, personal belongings, additional living expenses, personal liability, and medical payments to others.
- Like with HO-3 policies, both the mobile home and personal belongings are covered for the 16 perils listed in the policy.

# Dwelling Policies

Designed for Landlords

Three general policy forms DP1, DP2 and DP3

Premiums and amount of coverage increase with DP1 providing lowest premiums and least coverage and DP3 providing highest premiums and broadest coverage

# Dwelling Policy 1 (DP1)

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- Least expensive and least coverage
- Covers damages to the primary structure and other detached or additional structures, like garages, pool houses, fences, and sheds.
- Named perils policy covers fire, lightning, smoke, riots, and damage from wind or hailstorms
  - Does not cover burglary, malicious mischief, freezing pipes, and falling objects
  - Does not cover loss of use.
- Pays claims at actual cash value (ACV), which factors in depreciation.



# Dwelling Policy 2 (DP2)

- Covers damage to the primary structure and other detached or additional structures, like garages, pool houses, fences, and sheds
- Covers loss of use (loss of rental income when the property is not livable due to any of the covered perils.)
- Named perils policy - covers fire, lightning, smoke, riots, and damage from wind or hailstorms (same as DP-1) plus burglary, malicious mischief, freezing pipes, and falling objects
- Excludes coverage for properties that remain vacant for extended periods.
- Does not include personal liability coverage

# Dwelling Policy 3 (DP3)

- Most extensive coverage and most expensive premium
- Covers damage to the primary structure and other detached or additional structures, like garages, pool houses, fences, and sheds
- Covers loss of use (loss of rental income when the property is not livable due to any of the covered perils)
- Includes personal liability coverage
- Open peril policy. Covers all risks except those that the insurer has explicitly excluded. DP3 policy typically excludes:
  - Ordinance or Law (aka upgrades to repairs required because building codes and other laws have changed since the property was built)
  - Water Backup and Sump Pump Overflow
  - Intentional loss
  - Mold
  - Neglect
  - War
  - Earthquakes
  - Power Failure
  - Nuclear Hazard
  - Flooding
- Excludes residential properties left vacant for extended periods, usually 60 to 90 days. These include vacation homes or secondary residences vacant for the better part of the year.



# Short Term Rental Insurance Concerns

Short-term rental is not on the list of excluded perils, so is it covered by a homeowners' policy?

- No. Perils are not the only exclusions in homeowners' and dwelling policies. There are other exclusions in several places within the coverage form.

Some of the limitations on coverage come from the definitions. For example, building coverage is provided for the "residence premises."

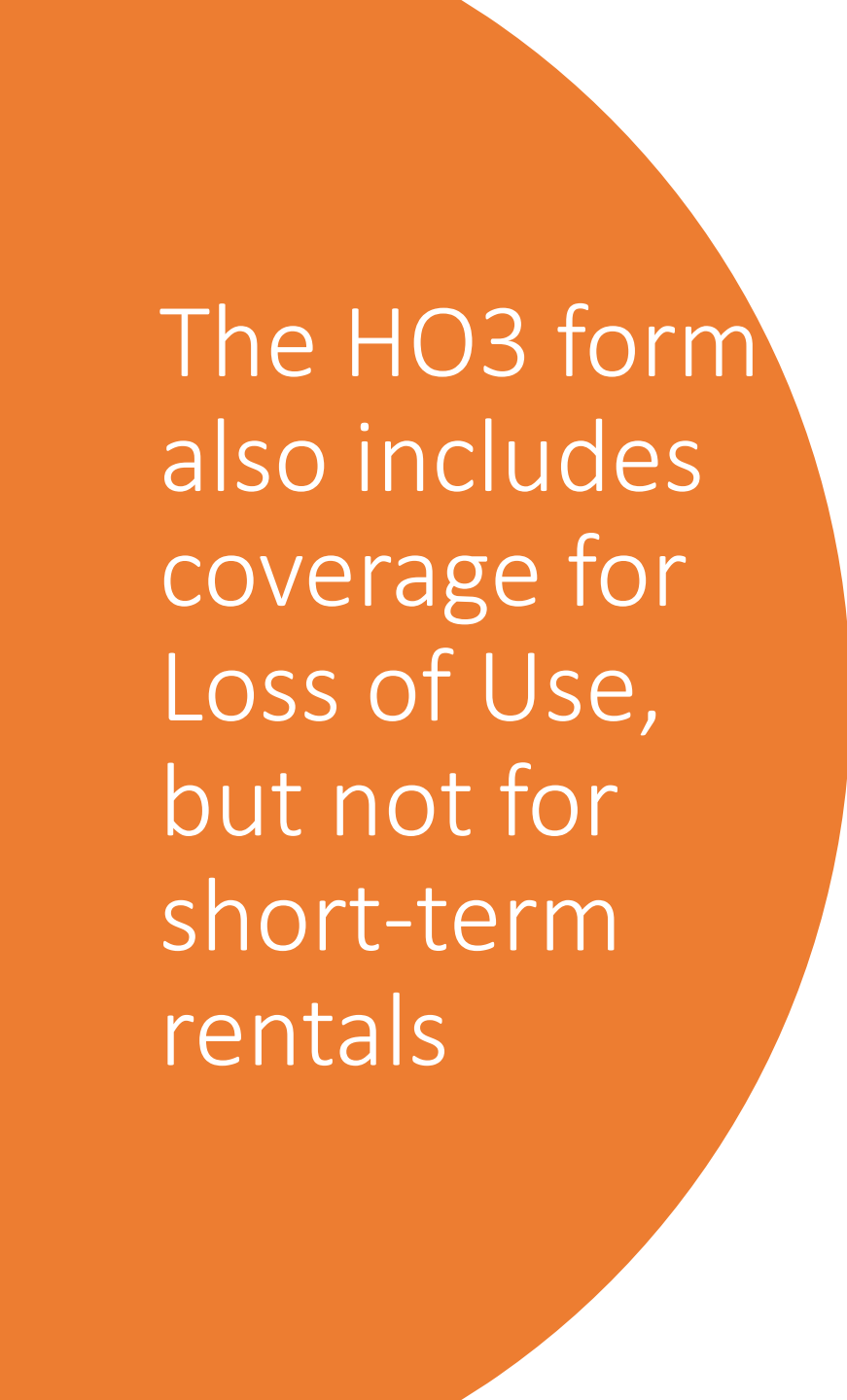
- "Residence premises" means:
  - **a.** The one-family dwelling where you reside;
  - **b.** The two-, three- or four-family dwelling where you reside in at least one of the family units; or
  - **c.** That part of any other building where you reside; and which is shown as the "residence premises" in the Declarations.

*Note: this would not include a dwelling which you only hold for rental and do not reside in.*

# Homeowners Personal Property coverage has its own set of exclusions related to short-term rentals.

We do not cover:

- f. Property of:
    - (1) A "home-sharing occupant";
    - (2) Any other person occupying the "residence premises" as a result of any "home-sharing host activities"; and
    - (3) Roomers, boarders and other tenants, except property of roomers and boarders related to an "insured";
  - g. Property in:
    - (1) A space while rented or primarily held for rental to a "home-sharing occupant"; or
    - (2) Subject to Paragraph g.(1), an apartment regularly rented or held for rental to others by an "insured", except as provided in E.9. Landlord's Furnishings under Section I – Property Coverages;
  - h. Property used primarily for "home-sharing host activities";
  - i. Property rented or held for rental to others off the "residence premises";
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The HO3 form  
also includes  
coverage for  
Loss of Use,  
but not for  
short-term  
rentals

## 2. Fair Rental Value

If a loss covered under Section I makes that part of the "residence premises" rented to others or held for rental by you not fit to live in, we cover the fair rental value of such premises less any expenses that do not continue while it is not fit to live in.

However, we do not cover any fair rental value arising out of or in connection with "home-sharing host activities".

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# There is also a liability exclusion for short-term rentals in the HO3 policy

## **E. Coverage E – Personal Liability And Coverage F – Medical Payments To Others**

Coverages E and F do not apply to the following:

### **2. Business**

a. "Bodily injury" or "property damage" arising out of or in connection with a "business" conducted from an "insured location" or engaged in by an "insured", whether or not the "business" is owned or operated by an "insured" or employs an "insured".



This Exclusion E.2. applies but is not limited to an act or omission, regardless of its nature or circumstance, involving a service or duty rendered, promised, owed or implied to be provided because of the nature of the "business".



**Note:** *The policy definition of “business” specifically includes “Home-sharing host activities”*





# Short-Term Rental Insurance Solutions



# Insurance Requirements in Rhode Island



Statutory requirements for insurance usually tied to a license

Examples – Driver's license – automobile liability insurance; Contractor – general liability; Real Estate agents – error and omissions

Exception – Workers Compensation



There are also requirements that emanate from contractual relationships that do not include the government mandating the insurance

Examples – Homeowners – lender requires; medical malpractice – hospital requires for physician privileges



These are requirements to protect third parties

Auto – liability to cover persons injured by the driver not the vehicle itself; malpractice to cover injury to customers

Exception – uninsured motorist

# Airbnb Offerings (from website)

## Liability Insurance

- Provides \$1 million of liability coverage for hosts.
- This coverage typically covers liability of the host.
- Examples of host coverage could be a renter who left a tub unattended, and the water overflowed, causing damage to a neighboring property. The host would likely be responsible for the damages, and this protects against that responsibility.

## Property Damage

- As discussed above, a Host renting out their home or apartment would have limitations in their typical homeowner coverage for this type of damage, but Airbnb offers \$3 million of Host Damage Protection.
- This would typically cover accidental damage caused by the renter to the host's property itself.
- This would cover things such as damages to the hosts own bathroom or hardwood floors from the above referenced unattended tub.
- Typically, the renter would be liable for these types of damages.

# Vrbo Offerings (from website)

## Liability Insurance

- Provides \$1 million of coverage from a third-party insurer.
- This coverage typically covers liability of the host.
- If the host doesn't have coverage, this provides a minimum.
- If the host has coverage, this is alongside hosts' current insurance.
- An example might be a renter falling down unlit stairs and suing the host for damages.

## Property Damage Protection

- Vrbo has a recommended insurance called Property Damage Protection that they suggest to the renter offered by a third-party insurer
- This protects the host's property from accidental damage that the renter would be liable for.

# Options for Insuring short-term rentals

## Homeowners

- Insurers may offer additional coverage options for STR to their policyholders
- There are 5 ISO (an insurance advisory organization) Home-sharing Host Activities coverage endorsements approved for use in RI
- Like the HO and dwelling policies themselves, these endorsements provide various levels of coverage with corresponding additional premiums
- Some insurers may also have their own versions of these endorsements, use of the ISO forms is not a requirement
- Designed for property owners who rent out all or a portion of their “residence premises” not for those who own multiple rental properties as investments

## Commercial policy

- A commercial policy is a viable alternative to the HO or dwelling policy endorsements
- Likely a better solution for owners of multiple short-term rental units, or those who rent out their properties frequently
- May offer broader and more flexible coverage options including building and personal property, loss of income, liability, weather-related cancellations, outdoor equipment, etc.

# Questions?

