ERNEST SHAGHALIAN JR CPCU AAI

AUTO - HOME - BUSINESS INSURANCE

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CHAIRWOMAN REP LAUREN CARSON

SHORT TERM RENTAL COMMISSION

Insurance Availability & Premium Comments

The usage and activities associated with **short term rentals are considered unacceptable to the vast majority of standard insurance companies.** The acceptability for traditional homeowner and dwelling policies (for rental properties) is based upon risk factors for owner occupied dwellings or rental properties with long term tenants. The additional risk factors making short term rental properties unacceptable include the possibility of unsafe use of swimming pools, use as party houses, wood stove & fireplace usage, tenants unfamiliarity with entrances, exits, fire escapes as well as an increased risk of theft of personal property and an increased vandalism risk. Property owners seeking coverage who declare the short term rental occupancy are generally forced to buy insurance in the "Surplus Lines" market or the state risk pool at a considerably higher premium.

The most common types of coverage available for short term rentals are as follows.

Standard Homeowners policies cover 1-4 family owner occupied homes owned by individuals and include building damage, personal property coverage and liability coverage. **Standard Dwelling policies** cover 1-4 family rental properties owned by individuals and cover the building and the liability. The liability coverage in these standard policies have an exclusion for "Business" use, but do allow for the "occasional" rental of the property. Occasional is not defined in the insurance policy making the liability coverage questionable. In many cases properties are insured on standard policies but the insurance company is not aware of the short term rental usage. Policies may have been in force for years before the owner started accepting short term rentals and the insurer was not notified of the new occupancy type. In the very rare instance of standard insurers knowingly accepting a short term rental property, increases are made to the premiums, the policy is clarified providing liability coverage for frequent rentals and vandalism and theft coverage are normally excluded. Standard insurers are licensed and regulated by the DBR including rate regulation for each insurer.

"Surplus Lines" insurance companies commonly accept risks that standard insurers won't accept including corporately owned properties. These insurers operate legally but are not licensed or regulated by the DBR and charge whatever premium they devise. Often coverage exclusions not found in regular policies are attached to surplus lines policies. Even in this market other factors for eligibility may preclude acceptance including prior claims history, swimming pools on premises and properties in coastal high wind risk areas. Compared to a standard policy a Surplus Lines policy for a short term rental will generally cost 25% to 75% more. This translates to costing from $1,000 to $6,000 more annual premium than standard insurance, depending on the amount of coverage on the house. When Surplus Lines insurers knowingly accept short term rentals they normally provide the liability coverage without the "occasional" rental liability limitation, and usually eliminate vandalism and theft coverage.

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Rhode Island Joint Reinsurance Association is the name of the state mandated residual market (risk pool). This market is funded jointly by the standard property insurers doing business in the state and was created to provide a market for properties not accepted by standard insurance companies. Premiums and coverage forms are regulated by the DBR but prices are generally 25% to 50% higher than the standard market. Coverage is available for short term rentals however various eligibility guidelines exist which can preclude eligibility in some cases.

Hosting Platforms commonly advertise "protection" for hosts. A review of Airbnb's web site indicates that they provide "AirCover for Hosts" which describes providing "$1M liability insurance". This plan also describes providing protection from guest caused damages, pet damaghes and loss of future income because of guest damages, resolved through an Airbnb "Resolution Center". Most of the protections provided are not insurance and therefore not regulated by the DBR. Hosting sites realize that certain risks won't be covered by regular insurance policies. Host "protection" is provided to facilitate the listing of the property. However this protection only applies when the property is being used by the renter requiring the property owner to carry their own insurance for continuous coverage.

In general the insurance industry treats short term rental usage more like a business than the traditional rental property insurance. The extra premiums and added risks are the cost of doing business.

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