



# **Insurance Implications of Home-Sharing: Regulator Insights and Consumer Awareness**

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NAIC Executive Office  
444 North Capitol Street, NW  
Suite 700  
Washington, DC 20001  
202.471.3990

NAIC Central Office  
1100 Walnut Street  
Suite 1500  
Kansas City, MO 64106  
816.842.3600

NAIC Capital Markets  
& Investment Analysis Office  
One New York Plaza, Suite 4210  
New York, NY 10004  
212.398.9000

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## **Introduction**

Home-sharing companies like Airbnb and HomeAway offer consumers the ability to rent out an individual's personal residence or vacation home. Stays can be booked for a room or the entire residence. Airbnb is marketed as a spin on the traditional hospitality industry whereby guests get the local experience by staying in someone's personal residence. Airbnb has served more than 60 million guests in its more than 2 million listings worldwide in 191 countries.

Home-sharing has implications for all parties to the transaction: 1) the host, who may own or rent the listed property; 2) the host's landlord, if the listed property is rented by the host; 3) the guest, who books a stay through the home-sharing site; and 4) the home-sharing company, which connects hosts with guests. Guests and hosts could incur costs if things go awry. Accidents can happen anytime, anywhere. Even if hosts take preventive measures, someone could trip over a rug or slip on a wet floor, causing injury.

## **Homeowners Policy Coverage Options and Limitations**

Most homeowners policies provide liability coverage if a visitor falls and is injured in the home or on the premises. However, there may be no coverage if a paying guest falls on a property regularly being offered as a short-term rental. That is because homeowners or dwelling insurance policies are generally not designed to cover accidents arising from short-term property rental, except for "occasional" exposures. And, if specific home-sharing or rental exclusions are present in the policy, insurance companies may deny coverage for any resulting claims. Without liability insurance protection from the company facilitating the host agreement, or the ability of an individual to independently purchase coverage for short-term property rental, a person with a standard homeowners or dwelling insurance policy might be without coverage.

Homeowners policies vary, but they usually exclude or provide limited coverage for homeowners who are running a business in their home. If people decide to list their property via a short-term rental or home-sharing platform with any frequency, there is a good chance that activity will be defined in the policy as a home-based business. Many policies contain a business exclusion that generally eliminates liability coverage for bodily injury or property damage coverage for activities related to business activities. While the specifics of any individual insurer's business exclusion may differ, one example may define business "to include a full-time, part-time, or occasional trade, profession, or occupation, or any other activity engaged in for money or other compensation, with exceptions, such as: 1) activities for which the insured received \$2,000 or less during the year preceding the policy period, 2) volunteer activities, 3) home daycare services not involving compensation, but possibly involving an exchange of services, and 4) home daycare services rendered to a relative." Based on this definition, renting property to others qualifies as a business as long as the income is above \$2,000 on an annual

basis. The annual income limit used for the business exclusion varies by policy and can range from \$2,000 to \$15,000. There are three typical exceptions to the business exclusion that apply to rental of property: “1) rental of an insured location on an occasional basis is a covered loss exposure if the location is used only as a residence, 2) rental of part of an insured location as a residence is a covered loss exposure, as long as the occupying family takes no more than two roomers or boarders in a single-family unit, 3) rental of part of an insured location is a covered loss exposure if it is used only as an office or a school, studio, or private garage.”<sup>1</sup>

It is typical for homeowners insurance policies to include language allowing owners to take in boarders on occasion, but the word “occasional” is generally not defined. Because of this, several insurers and insurer organizations have created endorsements to clearly exclude coverage for any losses that arise from home-sharing. The Insurance Services Office (ISO), an advisory organization that creates standard forms for many insurers, has developed endorsements for the standard homeowners program to address the exposures relative to home-sharing. Policy language has been added to reinforce existing exclusions in certain situations. Under this exclusion, losses due to theft, vandalism, liability coverage and personal injury related to home-sharing activities would be excluded. The home-sharing exclusion will not apply to property coverage unrelated to home-sharing, such as coverage for damage from fire, windstorm or hail. The ISO has also developed separate additional coverage options specific to home-sharing that would restore coverage excluded, broaden coverage to other structures on the property, enhance theft coverage and provide coverage for loss of rental income. Most likely, insurers would then charge their customers for the home-sharing coverage. The ISO product for home-sharing also includes property and liability coverage for the insured while traveling and using home-sharing services as a guest.

Depending on the policy language, property damage coverage for theft of personal property may be excluded when an insured enters into a home-sharing arrangement. The host may need to consider purchasing additional or separate theft coverage in order to protect themselves and their property. The guest may also need to secure additional or separate coverage to protect their personal property if involved in a sharing situation. Policies may exclude theft coverage from the area or room that is rented; for example, theft from a bedroom or apartment that is rented within the residence would not be covered, while theft from outside of that bedroom or apartment would be covered. Others may exclude theft coverage from the entire residence if any part of the residence is rented; therefore, theft from any part of the residence would not be covered if any part of the residence is rented. Optional coverage for theft may be available, depending on the extent of the policy exclusions, for those who rent their home or portions of their home.

Consumers considering listing their residence on a home-sharing site should speak with their insurance agent and ask about any endorsements or policies available to provide coverage. One

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<sup>1</sup> Cook, M.A., and A. L. Flitner, 2013. *Personal Risk Management and Property-Casualty Insurance, 2<sup>nd</sup> Edition*. American Institute for Chartered Property Casualty Underwriters.

option may be purchasing a landlord policy, also known as landlord property insurance or rental coverage for landlords. A landlord insurance policy will cover the insured's home, structures on the property, property contents (such as appliances and furniture), lost rental income due to building damage, legal fees and liability claims. Landlord policies may include broader coverage than a standard homeowners policy and would, therefore, cost more.

## **Unit-Owners Policy Coverage Options and Limitations**

If the hosts own and reside in a condominium unit, they may have coverage under a unit-owners policy. A unit-owners policy is designed to provide property coverage for the insured unit, including alterations, appliances, fixtures and improvements within the insured unit. Unit-owners coverage also typically includes coverage for personal property based on limits selected by the insured.

Standard homeowners and unit-owners coverage typically includes personal liability coverage and loss assessments coverage, which provides indemnity for insureds assessed fees due to damage in common areas maintained by the homeowner association (HOA). However, if the policy excludes coverage for business use, and renting the property is deemed to be a business activity because the host is collecting a fee for use of the property, claims made by the insured may be denied or the policy may be canceled or nonrenewed. Condominium owners also need to review HOA agreements to determine if listing their unit on a short-term rental site violates the terms of their contract.

## **Dwelling Policy Coverage Options and Limitations**

Dwelling policies may be used to cover owner and nonowner-occupied residences, including homes, apartment or condominium units, mobile homes in a fixed location, and even houseboats in some states. Dwelling policies are designed to insure the structure of the home or unit, as well as fixtures, appliances and equipment stored on the property for ordinary maintenance. Landlord furnishings or personal property is typically excluded under a dwelling policy, although it may be added back by endorsement.

Dwelling policies may even cover incidental business occupancies and indemnity for loss of fair rental value when the property becomes unfit for use due to a covered peril. Indemnity for loss assessment fees from an HOA is typically excluded under a dwelling policy, although it may be added back by endorsement in many cases.

Unlike a typical homeowners policy, personal liability and medical payments coverage is often excluded under a dwelling policy. However, both may be added through a personal liability supplement, depending on carrier and coverage option. Some carriers may include personal

liability coverage or offer it as an optional endorsement to the policy. Personal liability provides coverage for claims, including the cost of defending lawsuits against an insured because of bodily injury or property damage for which they may be deemed liable. Medical payments to others typically provide limited coverage for medical treatments incurred due to an accident on the insured property or caused by the insured without a prerequisite that the insured be found liable.

## **Renter's Policy Coverage Options and Limitations**

If the hosts are renting the property they intend to list on the site (for example, if the hosts rent an apartment) they should read and understand the terms and conditions of their rental agreement to determine if hosting will violate the terms and conditions of their lease agreement. Tenants should be aware that subleasing or renting their apartment for any length of time may violate the terms of their rental agreement with their landlord, and they should always check with the landlord before listing the property for rent. Tenants may choose to purchase a renter's insurance policy if they do not own the place where they reside. A renter's policy typically provides coverage for loss of personal property, but may contain exclusions for damage or theft of personal items in an apartment rented to a third party. Property damage for the structure or unit is typically excluded.

Renter's policies often include liability coverage for bodily injury or property damage caused by the renter but not due to defects with the property. An example of a defect not covered is a loose step that gives way and causes a guest to fall down the stairs. A renter's insurance policy is subject to the same exclusions as a homeowners insurance policy. Policy language varies, and policyholders should read and understand the limitations of coverage provided.

## **Legal Restrictions**

Zoning laws may also place restrictions on the legal rights of hosts to list their property on short-term rental sites, including minimum length of stay. Hosts, regardless of whether they own the property listed, should be aware of local laws and restrictions for rental use of a personal residence. Several states and local municipalities have enacted legislation on home-sharing, restricting land or building use and requiring collection of a visitor tax.

Many municipalities are taking note of Airbnb's growing market share of the travel industry and have begun requiring Airbnb to collect a visitor tax on behalf of hosts in a number of locales, including: Santa Monica, CA; Portland, OR; and Washington, DC. No state or territory in the U.S. currently requires people to have homeowners insurance, although most banks and financial institutions will require owners to maintain insurance on the property if they have a mortgage. Several states have considered legislation on home-sharing but generally include subject matter

on zoning laws and the collection of use or visitor taxes and do not generally address insurance requirements. In addition to state law, some HOA bylaws prohibit short-term rental of properties. If the property is part of an HOA, hosts should review the terms of their HOA bylaws to see if hosting would violate any restrictions from their HOA.

## **Coverage Options for Guests**

Guests of short-term rental units should review their own insurance policies and the policies of the short-term rental company before booking a stay through the company's site. If the short-term rental company does not offer medical payments coverage and guests are injured on the property, through no fault of the host or host's landlord, guests may be reliant on their own personal health insurance to cover any unexpected medical treatments. Home-sharing guests also should read their own homeowners or renter's insurance policy to understand if their policy would cover them if they were liable for damages to the rental property or the host's personal items. Guests may have some coverage under their own homeowners, renter's or personal liability insurance policy if they cause accidental damage to a host's property. Some home-sharing companies may require the guest to sign a user agreement allowing the company to submit a claim under the guest's own homeowners or renter's insurance policy for any damage or loss they cause on the property or to an accommodation.

Optional coverage may be available to increase the limit for damage to property of others. Liability for property damage caused by the guest to the short-term rental property is typically limited or excluded under the guests' homeowners policy. Homeowners policies often provide minimal liability coverage (e.g., up to \$1,000) for damage to property of others. However, additional coverage may be available, depending on the company. This coverage would benefit guests who accidentally cause damage to the host's personal property or rental unit, as they could seek coverage under their own homeowners policy for restitution to the host.

Guests also should check with the home-sharing company to ensure there is sufficient liability coverage in place on the property if something does go awry, such as a banister giving out during a guest's stay. Guests should use extra precaution utilizing accommodations such as bikes or kayaks available for guests' use while renting the property. These items may not be inspected for safety on a regular basis, and liability coverage for such items may be limited or nonexistent.



## Coverage Options Available through Home-Sharing Companies<sup>2</sup>

Anyone intending to list a property or book a vacation through a home-sharing company should read the policies and contracts offered by the company.

Airbnb currently offers a host protection insurance program to all of their hosts in the U.S., as well as landlords if the property is rented (and may also extend to any applicable HOAs). Coverage for this program is provided through a commercial general liability policy issued by a surplus lines carrier. The policy names the host as the insured, and provides liability coverage for third-party bodily injury or property damage. Each host is provided with \$1 million in coverage. Coverage is considered primary and not contingent upon denial of coverage maintained by the host. Currently, Airbnb's coverage does not include medical expense or personal liability. Medical expense coverage is typically used for minor injuries that occur on the premises through no fault of the named insured, owner or renter of the property. Personal liability would be used for things like slander or libel, which could be pertinent risks due to the customer rating system used by the online marketplace.

Airbnb also has a host guarantee that reimburses hosts for property damage caused by guests due to accident or fault, if the guest does not otherwise reimburse the host. Hosts must ask the guest for payment first. Guests could potentially make a claim under their own homeowners or renter's insurance, which could provide coverage under the liability section. If the claim is not resolved between the host and the guest, Airbnb will reimburse the host for damages up to a limit of \$1 million. Airbnb maintains an insurance policy as the named insured to cover losses incurred through its host guarantee. However, neither hosts nor guests are named insureds under the policy, and reimbursement is not contingent on claim approval under the policy.

HomeAway, a subsidiary of Expedia Inc., owns VRBO and VacationRentals.com, as well as many others operating outside of the U.S. HomeAway rents entire units only—not individual rooms or suites—and is marketed to investors in secondary homes or vacation properties. HomeAway does not provide insurance coverage automatically for hosts. It recommends that hosts purchase a customized policy through HomeAway Assure, which is a CBIZ Insurance Program. Policies offered through HomeAway Assure are specific to rental properties and may negate the need for a personal dwelling or homeowners policy for the listed property.<sup>3</sup> Hosts should compare the cost of coverage against the income received from hosting their property for rent to determine if the costs outweigh the benefits.

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<sup>2</sup> The NAIC does not endorse or recommend the programs, services or insurance offered by or through the home-sharing companies described above. The programs offered may vary by state and may not be in accordance with state law.

<sup>3</sup> HomeAway, 2009. "Vacation Rental Insurance FAQs," accessed at <https://community.homeaway.com/docs/DOC-1357>.

## Conclusion

The short-term rental community provides benefits to consumers by increasing the options and competition for vacation rentals. It also provides access to a revenue stream many may not have chosen, if not for the added convenience and ease of use. Home-sharing companies present an opportunity for consumers to do business with other consumers. The question remains how much liability the business facilitating the transaction retains. It is important for all parties to the transaction to know and understand the risks involved and to comply with all laws or other requirements.

Hosts, guests, landlords, HOAs and apartment building owners need to be aware of the shift in exposures presented by home-sharing and speak with insurers to determine the options available to address their coverage needs. Hosts should contact their insurer or insurance agent or broker to determine if they have coverage for rental use under their primary policy. If the insurer deems this activity more than occasional, it may drop coverage for the customer. Hosts who find themselves without coverage should work with the home-sharing company to determine if coverage can be secured through the home-sharing company for their home-sharing activities, or, if possible, on a full-time basis. If coverage is not provided on a full-time basis, the host will need to seek coverage elsewhere. Insurance may be available in the form of landlord policies or endorsements to a standard homeowners or dwelling policy.

Although the concept of providing room and board in one's home may not be new, the frequency with which consumers are hosting and booking stays is increasing. The insurance industry is equipped to adapt to consumers' changing economic preferences. The prevailing concern with short-term rental is one of consumer awareness and ensuring that all parties to the contract are compliant with the law, vigilant and knowledgeable about the potential risks involved.