Lessor's Risk Insurance Accounts:

An Agent's Guide to Reaching More Clients

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Executive Summary

This guide contains information and tips designed to:

1. Position agents who are new to Lessor's Risk accounts to be more effective in building their books of business; and

2. Help agents who may have already successfully written hundreds of Lessor's Risk policies to increase their product knowledge and ultimately expand their reach.

Topics explored in this eBook will include the market opportunity for Lessor's Risk clients, tips on how to identify prospective clients, underwriting considerations, and questions that often arise with respect to coverage.

While this guide is not meant to be an exhaustive resource, it will point out some key risk considerations associated with various prospective properties, as each property presents a new and unique set of risks. Ultimately, poor risks will have a negative impact on an agency's loss ratio, so knowing what to look for will help your agency be more successful.

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Introduction

When consulting with clients who lease commercial or residential space to tenants, you have an opportunity to help those landlord-clients protect their investment property by providing proper coverage for their building, building contents owned by the landlord, and their insurable interest against litigation and liability claims for bodily injury or damage to property of others that may arise on the leased premises.

It is important to note that the coverage for the building owner is **not** designed to take the place of tenants' liability or renter's insurance policies. Instead, it is designed to protect building owners from specific claims that a lessee, a lessee's employee, or a visitor to the lessee's premises might have if they are injured on the premises and the reason for the injury is deemed the landlord's responsibility.

For example, imagine that a landlord has leased both floors of a two-story commercial office building to a consulting firm. One of the firm's employees is walking down the stairway between floors, holding onto the bannister for support. The bannister breaks, sending the employee tumbling down to the landing and causing injuries. If the bannister broke because it was in disrepair and the landlord hadn't gotten around to getting it repaired or replaced, liability will likely be pointed toward the landlord/owner. If the owner purchased the proper general liability coverage, the insurance policy would help with the litigation expenses and would pay for liability up to the policy coverage limit, if it was determined the owner was at fault.

This same general liability policy will generally also cover a landlord's potential liability with respect to a lessee's or customer's property that is damaged or destroyed on the premises or if such property is vandalized or stolen. Using the consulting firm in the previous example, imagine that the office is broken into after hours, resulting in the theft of computer equipment and vandalism of the leased space. If the landlord didn't have appropriate security measures in place to deter such criminal activity, the landlord could be held liable in this instance as well. In addition, an insurance policy for the landlord would provide coverage for the necessary cleanup, repairs, and replaced equipment.

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Market Opportunity

The opportunity for insurance agents working in the Lessor's Risk marketplace is extensive and full of premium and profit sharing potential. And, because good Lessor's Risk clients have historically low loss ratios, this type of business is attractive to agencies and companies alike as part of a successful client mix.

Prospect Identification

For an agent who wants to write more Lessor's Risk accounts, the first step is knowing what makes a good prospective client and understanding what makes certain prospects more attractive than others from a risk standpoint.

While some classes of business tend to be more regional in nature, the good news is that stable Lessor's Risk clients can be found in virtually every community. The best prospects have a long and verifiable history of high occupancy, happy tenants, and little or no losses.

Lead Generation Tips for Agents

Agents seeking to identify Lessor's Risk prospects can:

- Google "commercial rental space"or other similar terms in the agent's market area to find insights into local commercial rental activity.
- Take note of properties for rent in the agent's area and make a "hit list" of the landlords or property management companies who rent high-quality, well-managed properties.
- Review your current client files of any tenant businesses that you insure. By reviewing these, you should be able to determine the property owner as listed on the additional insured endorsement.
- Connect with commercial real estate brokers, who can be great sources of leads.
- Network with property managers, as they are often in a position to make recommendations to their property owner clients and can become great referral sources.

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Operational Considerations

Lessor's Risk coverage is intended to be there as a safety net for clients if their own actions and loss mitigation measures are not sufficient or effective; it should never be used by a landlord as an excuse to not keep the building and leased space in good condition (i.e., "I have insurance coverage now, so there's no need to fix xyz at the property").

Generally speaking, commercial or residential buildings with dedicated, professional management teams are usually well-maintained with good occupancy ratios, making them good prospects.

Types and Locations of Tenants

Agents should also consider the prospective client's tenants. If the property is mostly residential, what are the demographics of the "typical" resident? For example, college students might pose more risk than seniors.

If the building is primarily commercial, do the businesses themselves add to the risk profile of the building? Bars and restaurants, by their nature and clientele, increase risk, so some insurance carriers will require additional information in order to evaluate those risks.

Information needed from bars and restaurant tenants may include:

- Type of cuisine served (if applicable)
- Ratio of alcohol to food sales
    - Because of the added risk that comes with bar customers who over-imbibe, some carriers require alcohol sales to be less than 35% of total revenue in order for the property to qualify for coverage
- Hours of operation of the restaurant
- Whether the restaurant offers any entertainment on premises
- Existence and type of fire suppression systems in the property's kitchen
- Whether contracted service agreements are in place for exhaust duct cleaning
- Whether the business uses fryers

Insurance carriers will also want to evaluate where the property to be insured is located in relation to other businesses or residences adjacent to the building. Agents may be required to prepare and submit a simple diagram of the building's floor plan to illustrate tenants' locations.

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Landlord/Tenant Leases and Agreements

The leasing agreement between landlords and tenants is an important consideration in determining whether or not a client poses an acceptable level of risk. Most commercial leases require tenants to purchase a minimum level of liability and property insurance coverage, and most residential leases require tenants to purchase renter's insurance to protect personal property. A landlord who does not require the tenant to purchase such insurance coverages, or a tenant who has not met his/her contractual obligations, could be an indication that the property manager is not acting sufficiently to mitigate risks.

As part of the risk evaluation, carriers will generally ask for specific documentation and additional information, including the lease agreement between the property owner and the tenant and information about the tenant's own existing business and property insurance coverage.

Tenants will generally need to provide current certificates of insurance in coverage limits equal to or greater than those carried by the landlord. Landlords should be additional named insureds on tenants' insurance policies.

Yet, another consideration is whether the lease includes "hold harmless" provisions designed to protect the landlord from liability risk even if a loss resulted from the landlord's negligence. These types of provisions, when enforced, would limit or eliminate the insurance carrier's obligations under the Lessor's Risk policy and possibly reduce the landlord's insurance cost in the long run due to the fact that lower to no losses can result in lower premiums.

"Landlords should be additional named insureds on tenants' insurance policies."

Premises Questions

When underwriting a commercial property and general liability policy for Lessor's Risk accounts, agents will need to consider standard underwriting questions, such as the age of the building to be insured, the type of construction, the number of floors, etc.

In addition to more standard premise considerations, Lessor's Risk clients may also have security measures in place. To evaluate a property for coverage, insurers will need answers to the following:

- If the property owner or a tenant employs guards or watchmen, what hours are they on-site, and are they armed or unarmed?
- Have there been prior incidents or reported instances of physical or sexual assault by security personnel?
- Who provides the security services and employs security personnel (the property owner, a tenant, or an outside contracting firm)? If security personnel are subcontracted, the carrier will want to obtain certificates of insurance and will want to know whether the property owner is named as an additional insured. Similar to its review of the contractual relationship between the landlord and tenant, the carrier will want to know if there are hold harmless agreements in place with subcontracted security personnel.

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Parking Questions

When a property owner's insured property includes a parking lot or structure, the potential for loss increases.

To help carriers evaluate applications for coverage, agents should be prepared to delve deeper to provide answers to the following types of questions:

- What type of parking is on-site? Parking ramps or garages will carry different risks than surface lots.
- How large (in square feet) is the parking area? If the structure is a ramp or underground garage, how many levels are there?
- What type of construction material makes up the parking area (i.e., asphalt, cement, gravel, other)?
- Where is the parking area located in relation to the property to be insured?
- Are there other users or uses for the parking area in addition to tenants and customers?
- Who (tenant or building owner) is responsible for cleaning up and maintaining the parking lot? Is it stated in the lease?
- What is the process for parking area maintenance and inspection? Carriers will want to know whether maintenance is provided by employees or subcontractors. If subcontractors are used, it will be important to obtain the certificates of insurance, to identify if the proposed insured is also a named additional insured on the insurance policy, and whether there are hold harmless agreements in place with the subcontractor(s).

Although this is not an exhaustive list, the type and location of tenants, agreements between parties, lessee insurance coverage, security measures, and parking options are the most common considerations agents encounter when writing insurance on a Lessor's Risk account.

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Coverage Considerations

Depending on the specific risks, there are many coverages to be considered; however, here are some of the common endorsements that are added to Lessor's Risk policies:

Business Income and Extra Expense Coverage:

If a building becomes damaged as the result of a covered claim and a tenant cannot occupy the building, not only has your insured suffered property damage, but your insured is also now without the income generated by the payment of rent. This endorsement provides for the replacement of that income. In addition, the extra expense part of the coverage will pay for things like expedited shipping to get equipment and building materials to the premises so that the business can be reopened as quickly as possible.

Equipment Breakdown Coverage:

Formerly known as boiler and machinery coverage, the Equipment Breakdown endorsement has expanded greatly to include much more than old heating boilers. Nearly all equipment owned, leased, or operated by the insured is covered automatically.

For example, the definition of covered equipment in the ISO equipment breakdown coverage form includes "any ... electrical or mechanical equipment that is used in the generation, transmission or utilization of energy..." When is the coverage applicable? The coverage specifically applies to "accidents" and "breakdown." In other words, if it becomes broken and you did not know it was breaking. So, if a bearing in the air conditioner fan seizes up and you were not aware of any issues related to the breakdown, then it is covered. However, had your insured heard the squeaking and simply ignored it, then that is not considered an accident, and it would be excluded.

Debris Removal:

Debris is left behind on nearly every property loss and can be very expensive to remove. Many unendorsed property insurance policies provide debris removal coverage of 25% of the building; however, that coverage amount is subject to the building coverage limit. To say it another way, the coverage amount available for debris removal is NOT in addition to the building coverage. It is within that coverage amount. Therefore, endorsing the policy for an additional amount of coverage specific to debris removal is extremely important, especially in the case of a total loss claim.

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Ordinance or Law Coverage:

Municipalities often have laws governing commercial properties that state that if X% of the building is damaged, the entire building must be torn down or if the damage to the building is less than the level requiring demolition, the wiring or other older systems that might have been grandfathered must be brought up to the current code. The Ordinance or Law endorsement is helpful if the damage is from a covered loss and an Ordinance or Law requires the property to be demolished or upgraded to meet current codes. The endorsement will provide coverage in three ways:

1. Rebuilding the damaged portion of the building and upgrading undamaged portion of building to meet new laws or codes
2. Demolition costs to tear down undamaged property that is required
3. Increased cost of construction to repair or replace property to meet current codes

Medical Payments – Increased Limits:

One of the most common exposures to Lessor's Risk accounts is that of slips and falls. Medical payments provide "no fault" coverage for these accidents, meaning legal liability is not required for the policy to pay. The ability to quickly make payments on these types of claims (since legal liability does not have to be proven) protects the relationship between the injured party and the business he or she was visiting as well as the relationship between the property owner and tenant.

Water Back-up of Sewers or Drains:

First of all, this is NOT flood coverage, which is water coming from an overflow of rivers, springs, ponds, etc. This endorsement applies to "dirty" water that backs up from sewers or drains, often into basements. It also can result from failure of a sump pump. This water can damage the building and items such as air conditioners and heaters in the basement along with business personal property stored in the basement.

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Conclusion

Agents who want to begin writing Lessor's Risk accounts, or agents who want to expand their existing book of business, will generally have more favorable outcomes when working with property owners who are professional and responsible.

By better understanding how to identify these prospects and knowing what questions to ask to help determine whether a prospect represents an acceptable risk, agents can be more confident in insuring these accounts and adding to the bottom lines of their agencies.

Disclaimer: Each claim situation is adjusted on the facts surrounding the loss. The examples provided are for illustrative purposes only to assist in identifying some exposures associated with a Lessor's Risk account.

Ready to grow your Lessor's Risk business or need more info?
Our insurance professionals are ready to help you get started.

Start here.

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