Smart Move: Adding Your Property Management Company as Additionally Insured on Your Investment Property Insurance

Investing in real estate can be a rewarding venture, but it comes with its fair share of responsibilities and potential risks. As a savvy property owner, you've likely secured an insurance policy to protect your investment property from various perils. However, an often-overlooked step can provide an additional layer of protection and peace of mind: adding your property management company as additionally insured on your investment property insurance policy. In this article, we'll explore why this is a wise move for property owners.

Understanding the Differences Between Homeowner's Insurance and Investment Property Insurance

Homeowner's insurance and investment property insurance serve distinct purposes, as they are designed to address the unique needs and risks associated with different types of properties. Understanding the differences between these insurance policies is crucial for property owners and investors. Here's a breakdown of the key distinctions:

1. Primary Use of the Property:

- Homeowner's Insurance: This type is intended for properties where the primary occupants are the owners themselves. It covers the structure and personal belongings and provides liability protection for incidents that occur within the home.
- Investment Property Insurance: Investment property insurance, also known as landlord or rental property insurance, is specifically designed for properties not owner-occupied but rented or used as income-generating assets. It focuses on protecting the property owner's financial investment, including the structure and potential rental income.

2. Coverage for Personal Belongings:

- Homeowner's Insurance: Provides coverage for personal belongings, including furniture, appliances, and personal items, in addition to the home's structure.
- Investment Property Insurance: Typically, it does not include coverage for renters' personal belongings. It primarily covers the property's structure and may include optional coverage for appliances or furniture provided by the property owner.

3. Liability Coverage:

- Homeowner's Insurance: Offers liability protection for the homeowner and their family members for incidents on and off the property. This includes coverage for personal injuries, property damage, and legal expenses.
- Investment Property Insurance: Offers liability coverage tailored to the property owner's potential liability as a landlord. It typically covers injuries or damages related to the rental property and rental activities, such as renter injuries on the premises.

4. Loss of Rental Income:

- Homeowner's Insurance: Generally, it does not include coverage for loss of rental income, as it is not designed for income-generating properties.
- Investment Property Insurance: Includes provisions for loss of rental income. If your property becomes uninhabitable due to a covered loss (e.g., fire or storm damage), this insurance can help compensate for the income you would have earned from rent during the repair period.

5. Vacancy Considerations:

- Homeowner's Insurance: Often voids coverage if the homeowner vacates the property for an extended period, as it is intended for owner-occupied properties.

- Investment Property Insurance: Recognizes rental properties may experience vacancy periods between renters. Some policies offer coverage for vacant properties under specific conditions, such as maintaining utilities.

6. Cost and Premiums:
   - Homeowner's Insurance: Generally less expensive than investment property insurance because it typically covers fewer risks and lower property values.
   - Investment Property Insurance: This may have higher premiums due to the increased risks associated with renting the property, potential liability, and additional coverage for rental income and landlord-related issues.

In summary, homeowner's and investment property insurance serve different needs and are tailored to the unique circumstances of each property type. As a property owner, choosing the right insurance policy to adequately protect your investment and mitigate risks specific to your property's use is essential. It's also crucial to honestly communicate your property's intended use with your insurance provider to ensure you have the appropriate coverage.

Understanding the Role of a Property Management Company

Property management companies are vital in overseeing and maintaining your investment properties. They handle day-to-day operations, from renter placement and rent collection to maintenance and repairs. Their responsibilities are critical to the success and profitability of your real estate investments. However, their involvement can also expose you to certain risks, making it essential to consider the benefits of adding them to your insurance policy as additionally insured.

1. Liability Coverage

One of the primary reasons to add your property management company as additionally insured is to extend liability coverage. While your insurance policy covers the physical structure and your liability as a property owner, it may not automatically protect the property management company in case of a claim. If an incident occurs due to the actions or decisions made by the management company, such as an injury on the property or a dispute with a renter, their inclusion as additionally insured ensures that they have access to the insurance coverage, reducing your potential liability.

2. Better Cooperation

By adding your property management company to your insurance policy, you foster a sense of cooperation and partnership. It signals that you are invested in their success and well-being, which can lead to improved communication and teamwork. A harmonious relationship between a property owner and management company is crucial for the efficient and profitable operation of your investment property.

3. Protection Against Lawsuits

Legal disputes can arise in the real estate industry, often involving property management decisions or actions. When your property management company is included in your insurance policy, they have access to the legal defense provided by your policy. This can save both you and the management company significant legal costs in case of a lawsuit related to the property.

4. Strengthened Reputation

Demonstrating that you take risk management seriously by including your property management company in your insurance coverage can also enhance your reputation in the real estate market. Prospective renters, partners, and clients will view your commitment to safety and protection as a sign of professionalism and responsibility.

5. Peace of Mind

Finally, adding your property management company as additionally insured provides you with the peace of mind that you have taken every possible measure to safeguard your investment. With potential risks reduced and liability shared, you can focus on your investment property's performance and long-term growth.

How to Add Your Property Management Company as Additionally Insured

To add your property management company as additionally insured, you will typically need to contact your insurance provider. They will guide you through the process, which may involve amending your policy and, in some cases, incurring a slightly higher premium. It's a small price to pay for the added protection and reduced risk.

In the world of real estate investments, it pays to be proactive and forward-thinking. By adding your property management company as additionally insured on your investment property insurance policy, you not only protect yourself and your assets but also nurture a collaborative relationship with the professionals responsible for the day-to-day management of your properties. This decision ultimately benefits your bottom line and reinforces your commitment to safety and responsibility in the real estate industry. So, don't wait – take the smart step and add your property management company to your insurance policy today.

Addressing Resistance from Your Insurance Company

In some cases, your insurance company may push back on the idea of adding your property management company as additionally insured. This can happen for various reasons, including underwriting guidelines, policy limitations, or concerns about increased risk. If you encounter resistance, here are some steps to consider:

1. Discuss the Importance: Start by having a conversation with your insurance agent or representative. Explain the reasons behind your request and highlight the benefits of including your property management company in the policy. Share the potential risks and liabilities that could be mitigated by extending coverage.

2. Provide Documentation: Offer to provide documentation that demonstrates your property management company's competence and experience. This might include their professional qualifications, certifications, and track record of successfully managing properties. Show that their inclusion as additionally insured is a strategic risk management move.

3. Review the Policy: Carefully review your insurance policy to understand its limitations and exclusions. Discuss these limitations with your insurance provider to identify potential solutions or workarounds. Sometimes, a simple adjustment to your policy terms or conditions can address the concerns.

4. Consider Alternative Policies: If your insurance company remains resistant, explore alternative insurance providers or policies that are more accommodating to your needs. Different insurers have varying underwriting guidelines, and you might find a company that is more willing to include your property management company.

5. Consult Legal Counsel: If negotiations with your insurance company continue to face resistance, you may want to consult with legal counsel experienced in insurance matters. They can offer advice on your options and potential legal remedies.

6. Evaluate Risk Management Strategies: In the absence of insurance coverage for your property management company, consider other risk management strategies. This could involve strengthening your contract with the management company to clearly define responsibilities and liabilities. It may also involve setting up a separate liability insurance policy specifically for the property management company.

7. Document Communications: Throughout the process of trying to add your property management company as additionally insured, keep a record of all communications, including emails, phone calls, and written correspondence. This documentation can be valuable if you need to demonstrate your efforts to address any potential disputes in the future.
In conclusion, while it's ideal to have your property management company included as additionally insured on your investment property insurance policy, you may face resistance from your insurance provider. In such situations, patience, persistence, and a well-documented case can help you navigate the challenges and find a solution that aligns with your risk management goals. It's essential to prioritize the protection of your investment while maintaining open lines of communication with your insurance company to reach a mutually beneficial resolution.

A conversation about Investor Insurance

#1 -"Why do I need to be Additionally Insured?
I'll take a controversial position… and am willing to hear why my position is not valid. Tenants get renters insurance, but if not, no big deal… I am a big believer in the Legal Liability policy AppFolio offers and have had a few large claims and it was great. I have my liability policy and am fully covered. Landlords get their landlord policy and they are covered. All good so far…. Why do we care if we are additionally insured? So the landlord will pay our legal bills if we are sued? Insurance companies have a problem with this… but who cares?

We have a solid indemnity clause in our lease and we have a solid indemnity clause in our PMA. And a solid indemnity in our vendor agreement. And we have a cap on legal costs in all three agreements that meet our state laws. If we get sued by either party or a 4th party and it is not gross negligence, someone else pays under the indemnity. And my insurance will subrogate with the other party's policy. Why do I need to worry about additional insured, and deal with the power of an insurance company's lawyers? As long as I am not at fault, I'm covered.

Oh.. and if I am additionally insured, then I can't sue the landlord for a liability issue, like if I injured myself at the property because you can't collect on your own liability policy.
Why am I wrong?"

#2 -"You raise some excellent questions that no doubt many investors and even owners in our system wrestle with. You are very successful in your own right so let me begin by saying there are no right or wrong answers…it's a business decision and a risk calculus. Whether it's a hill one is willing to die on depends greatly on the litigation environment in your state and its tort laws, the insurance laws pertaining to your state, and lastly the venue where your case is likely to be tried.

Whenever you go to court, you take a risk. It's expensive to sue and be sued. Plaintiff's attorneys are looking for deep pockets…juries in some states have a lottery mentality (see Alabama)…some states have arbitration laws…some don't. The least expensive outcome is not to wind up in court at all which is why many insurance defense lawyers perform the risk calculus and settle whether or not they feel their carrier's client is liable or not based on the above factors. Your environment in Minnesota is likely quite different than it is here in Tennessee….New York is much different than Texas…etc.

That being said: your protection has to be right 100% of the time because if it's not, that one-off exposure can sink your ship. When a toddler sticks his arm through a chain link fence and your tenant's pit bull rips his arm off (a pit bull that may or may not be authorized, but when was the last time you've been to the property and did you have a duty of care owed to know that your tenant had a dangerous dog?)? The jury will want to know and expect you to have a believable answer because they're going to be staring at a little boy who no longer has a right arm and should have…they're going to be looking for someone to blame. That someone is going to be you, the property owner and the tenant. Now we all know how this goes down. Your tenant probably has $100K in liability. This kid is handicapped for the next 80 years. That's not equitable. Next up is the PM and the property owner. His or her carrier is going to attempt to make the case that your negligence was to blame and that their client trusted you as an agent acting on their behalf as a professional to safely maintain the property. A possible outcome is your insurance becomes primary, pays limits (which may or may not be enough), and then significantly raise your rates or cancels you. It doesn't matter what state you're in…obtaining coverage once you've been canceled will be quite a challenge. No prospective P&C agent wants to send an application to their commercial underwriting department for a PM company that just got canceled after a limits judgment against its prior carrier.
It gets better though. The doctrine of agency holds that an individual can be held responsible for the actions of their agent. Suppose your owner's carrier decides (since their client relied on your professional expertise in maintaining his asset) that their client demonstrated no negligence for them to defend. It then calls into question whether or not they have a duty to defend him. Now your client is exposed and not only has to defend a suit against him out of his own pocket but now, also has the expense of waging a bad faith lawsuit against his own carrier.
However, there is no question of a duty to defend by his carrier if the agent (PM) is listed as an "additional insured" on the property owner's policy. This is in the owner's best interest and protects him as a client.

It is also beneficial to you because in many states the property owner's insurance is considered primary which means the plaintiff has to go through the owner's carrier before they get to yours. This means it's possible that the owner's carrier would bear the brunt of the potential damage award (if any) and if you're fortunate, your carrier may have little to no payout which means you're less likely to experience a rate increase or get canceled.
I qualify all of this to say that every state is different and every fact pattern is different. When it comes to insurance, there's black, there's white and there's gray. Gray is bad…very bad. As a business owner, you want to eliminate as much gray as possible when it comes to potential loss exposure. Society seems to be getting more litigious by the day. A successful PM has considerable assets at risk. Our business often requires having tough and unpleasant conversations. If it was easy everyone would do it. At the end of the day it's a business decision each of us has to make. Is it a hill we wish to die on or is it just one more difficult conversation we don't want to have in risking the potential loss of a good client? Will not having that conversation be of solace when the judgment is rendered, the cost is real and the owner ends up hating you anyway.
Just a thought………."

Investor Insurance Tips

We have had a few additional questions from franchise offices regarding being added as additional insured. As many of you have found, insurance agents will often try to tell our investment property owners and our offices that additionally interested are the same thing. Remember, additionally interested gives you no access to legal counsel or defense. Listed below is a list of good insurers and a list of those that do not write the policies we need to have in place. Thank you, Sandee Cooper, for the idea to write this up.

Century National you need to get endorsement codes DL-2410 and DP-0441 - section 2 only coverage L and M.

American National uses SD 9041 0989 and State Farm uses Option AI.

USAA is tricky, you have to make sure we are covered as Real Estate Manager" and the policy has an endorsement code of D041ST1. They are famous for sending a letter of additional insured but not showing it on the declaration page - watch this one closely.

First American P+C is good, and so is American Family Insurance (they care around $10 for the endorsement BP 04 02 01 06)

SafeCo uses endorsement EL (Extended Liability) and they charge around $35 a year for that endorsement.

Then there is Obie but I do not have a lot of information on them and they are not nationwide.

Now for the no-go's - Famers, AAA, Geico, Progressive, Allstate, and Liberty Mutual. Of course, this all is dependent on the underwriter at these companies.