



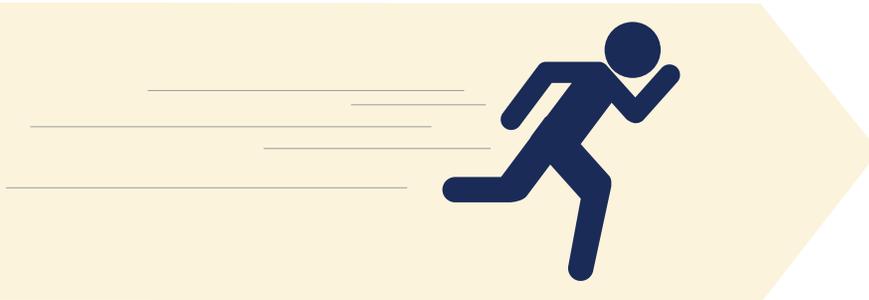
Effective Coverage • Thought Leadership

Why Are 31% Of Tenants Uninsured?

Executive Summary

When surveyed, C-Suite staff and Risk Managers say tenant-caused claims are still impacting their loss runs and the profitability of the overall portfolio. The number one cause is due to uninsured renters. But how is this possible, if renters liability insurance is required by the lease?

Two main reasons - administrative difficulties and moral hazard. As surprising as it may be, 31% of all tenants living in institutionally-managed properties are in the process of becoming uninsured*.



31%
of tenants are
uninsured

This white paper will analyze the human behaviors contributing to the 31% of uninsured renters, why this happens even when renters insurance is mandated in the lease, and how to solve for this problem to bring your portfolio up to 100% compliance.

1 19.5% Policy Cancellations | Moral Hazard

A sample of 100,000 policies tracked by Effective Coverage in the first half of 2018 found that 19.5% had canceled within the first 180 days of issuance.

2 8.5% Bad Data | Administration

8.5% of all policy data entered by leasing agents is found to be in error, due to incorrect carrier information, bad policy effective and expiration dates, and incorrect policy numbers.

3 3% Fraud | Moral Hazard

3% of all documents submitted as renters insurance policies are fraudulent. Fillable PDFs, quotes, and applications are all frequently misused as proofs of insurance.

19.5% Policy Cancellation

19.5% of policies are on their way to cancellation within the first 180 days of issuance. Policy cancellations occur as a result of non-payment of premium, policy expirations, and intentional cancellations.

Non-payment of premium is the most frequent cause of policy cancellation, resulting in policies canceling after the first installment is due. Non-payment happens either because the tenant cannot afford insurance or they see their insurance policy as a nuisance, and therefore an unnecessary expense (“Why do I need insurance? My landlord pays for that!” is a common misconception).



Non-payment of premium is the most frequent cause of policy cancellation, resulting in policies canceling after the first installment is due.



The next most common reason for policy cancellation is due to non-renewal. For example, when a tenant signs a 13-month lease, but their insurance policy only covers 12 months. In this case, if the tenant does not sign their renter's insurance renewal immediately, their policy will cancel, rendering them uninsured for an entire month.

19.5%
of renters
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Intentional cancellation of a policy immediately after move-in happens with less frequency but is still a significant contributor to the overall percentage of uninsured renters. The decision to intentionally cancel a policy constitutes as a moral hazard, leaving the landlord exposed. A moral hazard occurs when one party in a transaction has the opportunity to assume additional risks that negatively affect the other party. In this scenario, the resident cancelling their policy results in the landlord assuming more risk.

8.5% Bad Data

8.5% of all liability certificates submitted for review are faulty due to bad data. Bad data includes incorrect policy numbers, incorrect policy effective and expiration dates, or nonsensical carrier names being documented (such as “Accord” instead of Effective Coverage, for example). These types of issues may be intentional or unintentional, and can happen anywhere along the supply chain, from the carrier, to the insurance agent, leasing agent, or even just a simple computer error.

Compounding the issue, insurance is regulated on a state-by-state basis, and local laws make managing compliance extremely difficult. Leasing agents and property managers may not know exactly what to look for on an insurance document, and training across a national portfolio is nearly impossible.

3% Fraud

3% of renters insurance policies submitted for review are fraudulent. A quick Google search for “Certificate of Renters Insurance” yields several fillable PDFs which anyone can use to submit a fraudulent certificate. Another common tactic is to submit a quote or application as proof. When tenants intentionally commit this kind of fraud, this is known as a **moral hazard**.

The image shows a sample ACORD Certificate of Liability Insurance form. It includes sections for PRODUCER information, INSURERS AFFORDING COVERAGE (listing Insurer A through E), and COVERAGE details. The COVERAGE section is a table with columns for TYPE OF INSURANCE, POLICY NUMBER, POLICY EFFECTIVE DATE, POLICY EXPIRATION DATE, and LIMITS. It lists various coverages such as GENERAL LIABILITY, AUTOMOBILE LIABILITY, and GARAGE LIABILITY, each with specific sub-options and associated limits.



Moral Hazard: when one party in an agreement engages in risky behavior or fails to act in good faith, because the other party bears the consequences of that behavior



Many leasing agents and property managers do not have the insurance training to recognize a fraudulent certificate of insurance. Approval of a fraudulent certificate can wind up being very costly in the event of a loss, and can impact a portfolio for 5 years or more.

Uninsured Tenants

Far too frequently, renters policies have been incorrectly documented or canceled immediately after move-in. The key to mitigating resident risk is to have a thorough understanding of what is happening at the tenant level. The worksheet below will help to determine the total uninsured tenants for your portfolio.



Uninsured Tenants Worksheet

This worksheet will help you determine what percentage of your tenants are uninsured. Simply fill in your total tenants in your portfolio, then multiply by the industry standards.

Cancellations (19.5%) x Total Tenants = _____

Bad Data (8.5%) x Total Tenants = _____

Fraud (3%) x Total Tenants = _____

Total Uninsured Tenants =

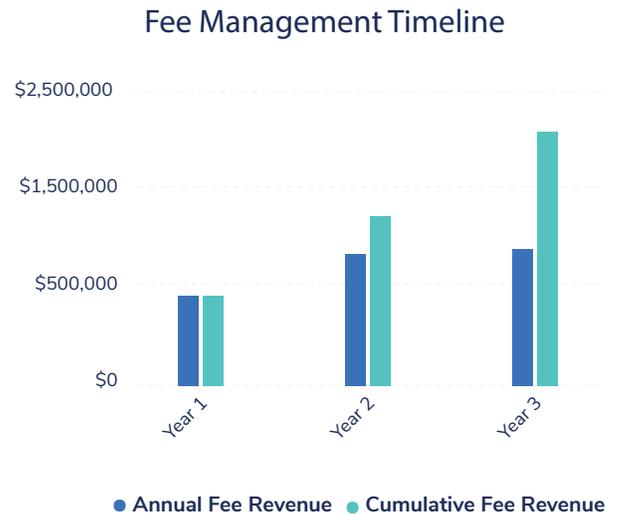
Once you've determined the number of uninsured tenants for your portfolio, the next step is determining how to steer them towards full compliance. Establishing processes around fee management and lease compliance tracking will help you to achieve full compliance.

Fee Management

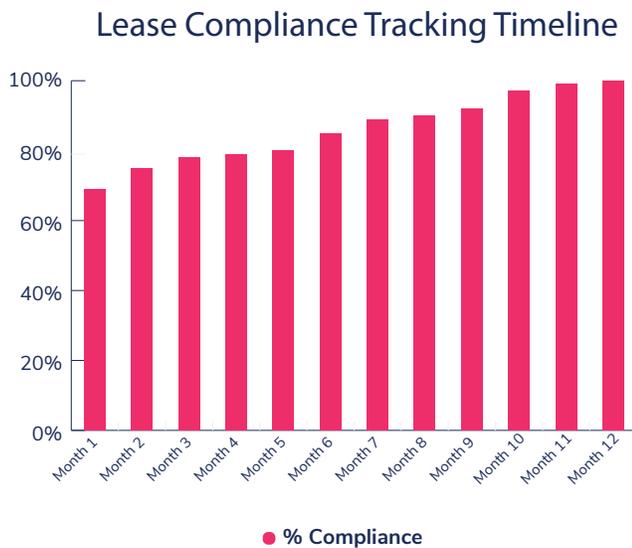
Structuring a fee program for residents who chose not to purchase insurance provides incentive to help drive clients towards full compliance, and offers an additional way to help fund for losses caused by uninsured tenants.

We have seen fee program revenue reach into the millions and give owners the chance to have better clarity and control when it comes to paying for losses that fall under the deductible of their commercial insurance programs.

Pro Forma Based On 10,000 Units



Lease Compliance



How long does it take to get a portfolio up to full compliance? And what are the steps needed to get there?

The path to full compliance does not happen overnight. But with an understanding of why policies cancel, a dedicated insurance team, and an interested third-party who is notified of policy changes or cancellations, the path to full compliance becomes clear.

Best practices for tracking lease compliance:

- Immediate follow up on non-payments and cancelations
- Communication with the insurance company
- Direct integration into your software
- Advising residents so they feel cared for, not harassed

Conclusion



When 31% of all tenants are on their way to becoming uninsured, it's logical to conclude that at some point, an uninsured tenant may cause a total loss. Significant property damage can lead to claims affecting a portfolio's loss runs for up to five years. Paying a 20% to 40% insurance premium penalty in a low-margin business is extremely hard to recover from.

Along with gravity, death and taxes, resident risk is here to stay. While you cannot eradicate the risk, you can eradicate the 31% of uninsured tenants, or find a way to fund for the losses they may cause. The onus of responsibility is not 100% on the property manager or owner, but it is also up to tenants to be held accountable for their actions.

The best plan of action is to implement a program that works in concert with your existing software to bring your portfolio up to full compliance with 100% transparency.

*Methodology: This Effective Coverage study presents the findings of a survey conducted among a sample of 100,000 units nationwide, and policies in effect from January 1, 2018 to July 1, 2018.

About Effective Coverage

Effective Coverage provides a unique resident risk management solution for real estate operators seeking increased profitability and full lease compliance.

The firm was founded with great respect for the value that experience and focus brings to the business. Our principals possess deep expertise in the insurance industry, which has allowed us to deliver best practices with a high level of individualization. This leads not only to our success, but also to that of our clients.

Learn more about our company and history at
www.EffectiveCoverage.com/thought-leadership

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