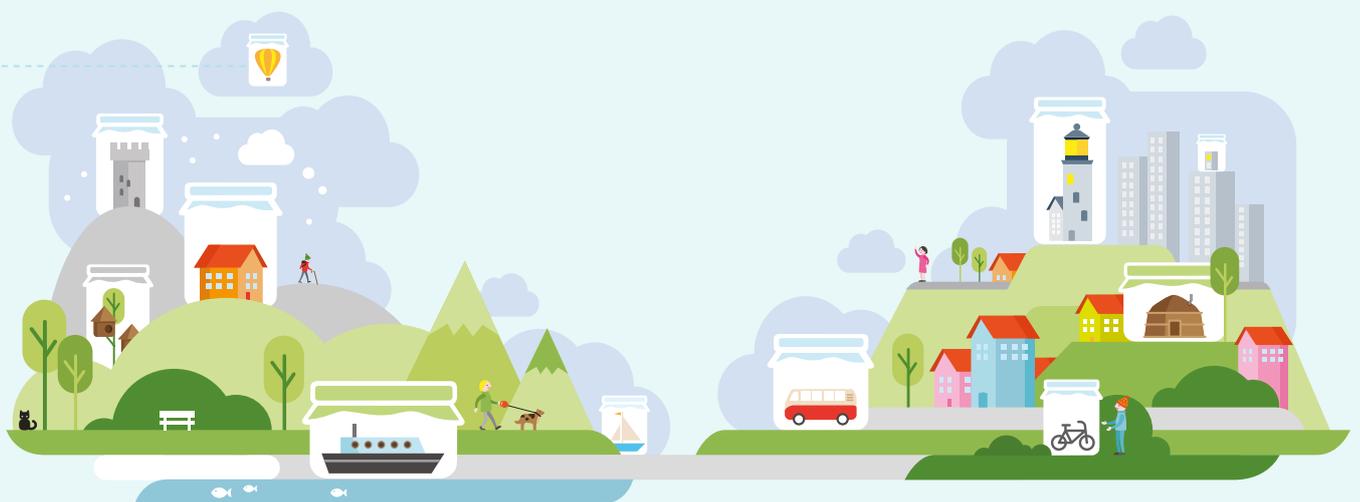




# Insurance in the **Sharing Economy**

2019 - Property Focus



# Welcome

Our **free report** reveals how the insurance market is leaving thousands of property hosts - and their investments at risk. And, with the sharing economy predicted to grow three-fold by 2025, **the need for appropriate insurance** is increasing every year. This report explores the potential scale of the problem - and where **changes can be made** to support the sharing economy.



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# Foreword



Our study is the first to establish how the UK's major insurers treat customers who participate in the sharing economy market. It was refreshing that so many insurance companies were happy to participate as it shows they are taking this issue seriously and recognise some of the shortfalls in both the cover they offer and their communications. But it does highlight the gaping hole of awareness that exists around this topic.

There is a false expectation from hosts that their standard home insurance policy will cover them when in fact it's unlikely that it will and they will need specialist cover. But there's a scarcity of appropriate cover currently available. Combine that with the lack of clarity over customers' responsibilities to inform their insurer, the absence of proactive communications from insurance companies and comparison sites and the misperceptions about platforms like Airbnb's own guarantee, and you find that many hosts fall into a 'void of no cover' and are at risk of financial loss through no real fault of their own.

To address this situation, we are working in collaboration with many of the large insurance companies to ensure that people who want

to earn money through sharing are protected. We have launched a range of specialist insurance products to cater specifically for them that are designed to run alongside standard home and landlord policies on offer from any insurance provider and will soon be providing all-inclusive plans in collaboration with a panel of insurers.

This will mean that the generation of Airbnb-ers can now get the best of both worlds from one place. In Pikl they'll have a brand that understands the sharing economy and can provide the specialist cover they have been struggling to find; as well as providing the best deals for their standard household insurance.

**Louise Birritteri** - CEO & Founder

“Sharing of under-used assets through completing **peer-to-peer** transactions that are only viable through **digital intermediation**, allowing parties to benefit from usage outside of the primary use of that asset.”

**Office of National Statistics** definition of sharing economy



# Insurance & The Sharing Economy

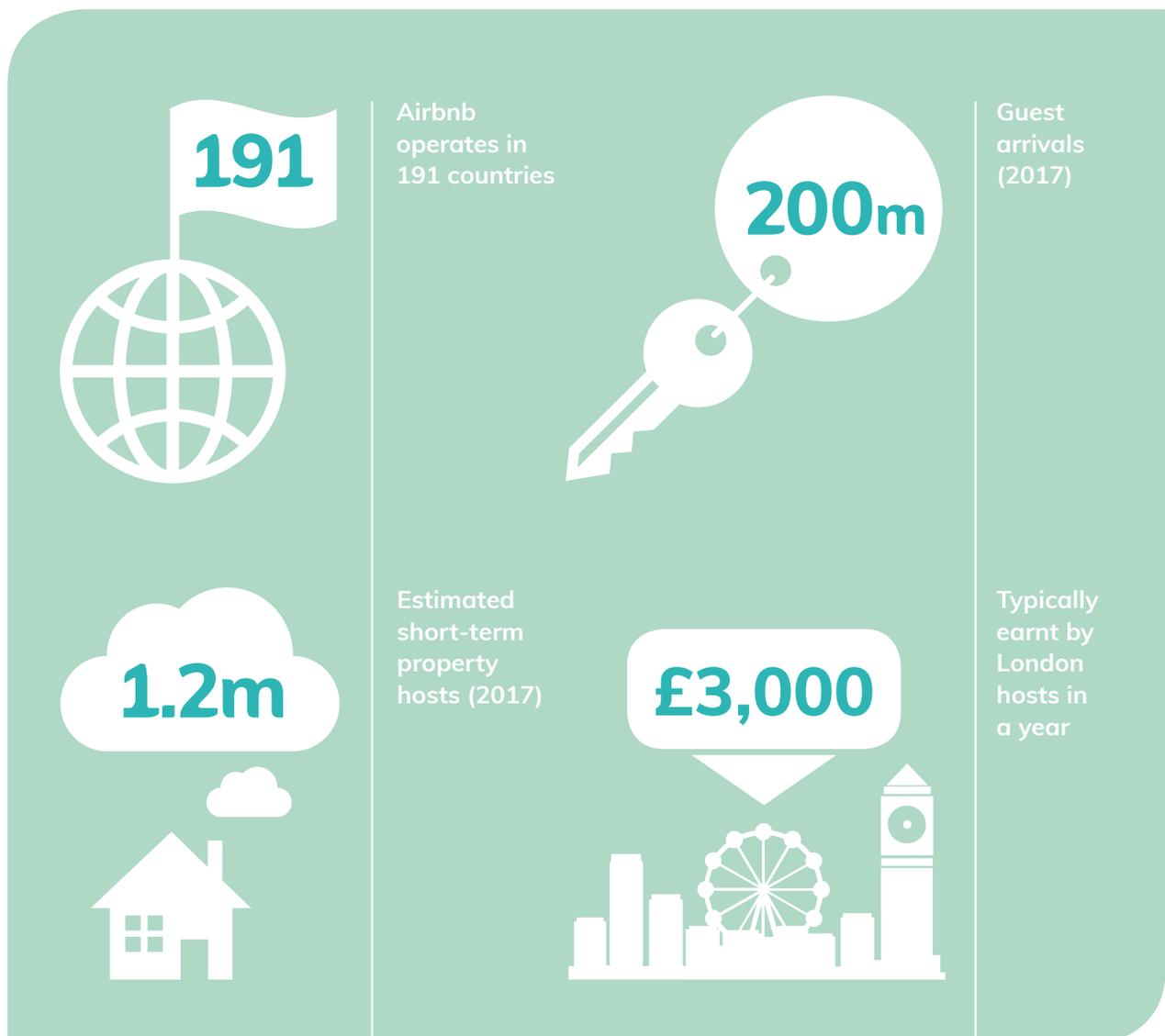
A few years ago, not many people were familiar with the concept of the sharing economy. Now it is common parlance across many parts of the world, reflecting its enormous growth and influence, and the rate of development is expected to continue at a rapid pace.



# Introduction

Short-term property letting is one of the key industries that's been transformed by the sharing economy, best typified by the phenomenal success of Airbnb, which now operates in 191 countries with four million listings worldwide and 200 million guest arrivals to 2017.

Critical support infrastructures for high growth, disruptive new concepts often have to play catch-up to meet the requirements of new paradigms. This is exactly the situation that the global insurance industry faces right now as short-term letting through Airbnb and many other websites is almost as prevalent as owning a smart phone. In the UK there were an estimated 0.9 -1.2 million short-term property hosts in 2017, according to a recent report by HMRC<sup>1</sup>.



<sup>1</sup> [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/658728/HMRC\\_Report\\_453\\_Sharing\\_Economy.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/658728/HMRC_Report_453_Sharing_Economy.pdf)

The reality today is that the

UK insurance market as a whole, like its counterparts in the rest of the world, **does not provide** appropriate insurance cover for the sharing economy and short term letting industry.

Neither does it communicate effectively about the need for coverage, making it very difficult for people providing Airbnb or equivalent services to be insured. This leaves clients at risk. When they do get some level of coverage, it's likely they will pay too much for it. These omissions by the insurance industry are key to the lack of awareness of many people providing short-term lets about the inadequacies of their insurance cover and therefore their exposure to unnecessary risk.

Pikl was founded in 2016 to solve this problem and is proud to have developed a comprehensive range of insurance products to meet the specific needs of the sharing economy's short-term letting businesses. Many of our products are industry firsts.

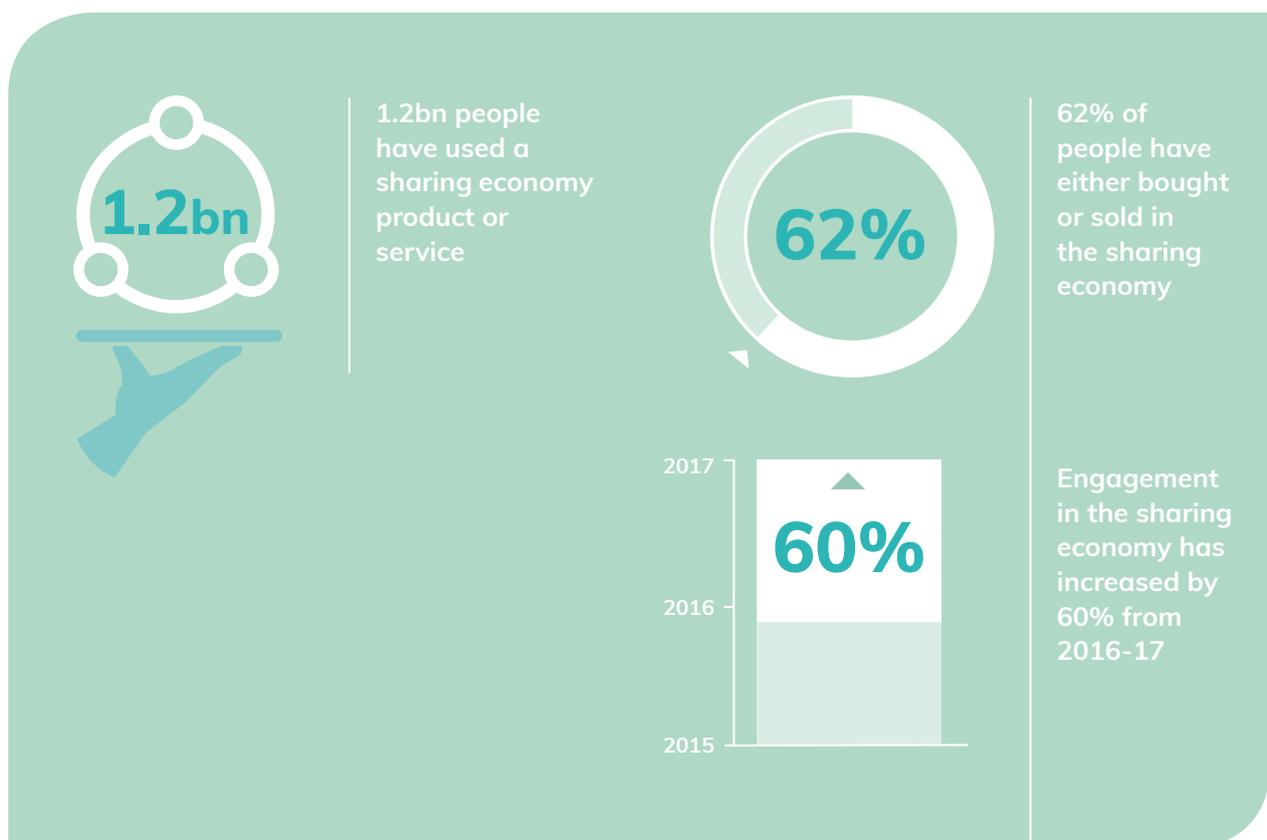
This paper outlines the situation facing the insurance industry for short-term letting in the sharing economy and the opportunity ahead for those providers, brokers and investors who are able to provide the support that the industry needs.



# The sharing economy - a huge **growth** market

Just a few years old, the sharing economy has seen very substantial global growth as more and more people have become aware of its convenience, cost saving benefits and revenue generation potential.

It has grown in step with the development of the internet, connectivity and the capability of smart phone devices. Across the US, China, UK, Germany and France alone, nearly 1.2 billion people have used a sharing economy product or service – more than the combined populations of the USA and Europe<sup>2</sup>.

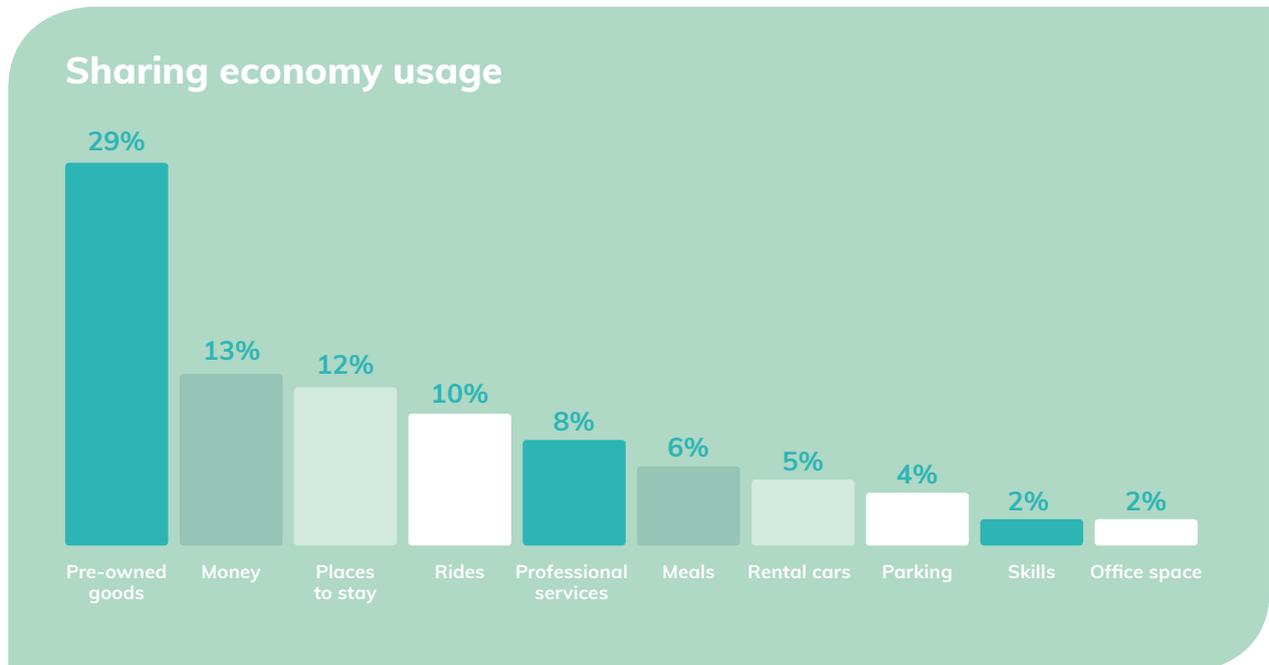


In the UK, by July 2017 nearly two thirds of people (62%) had either bought or sold in the sharing economy, according to research from Warwick Business School<sup>3</sup> - across accommodation, rides, car rental, parking, services, meals, pre-owned goods and funding. Just 18 months previously, engagement levels were 60% less.

<sup>2</sup> <https://www2.deloitte.com/content/dam/Deloitte/uk/Documents/financial-services/deloitte-uk-squaring-risk-in-the-sharing-age.pdf>

<sup>3</sup> <https://www.wbs.ac.uk/news/uk-sharing-economy-usage-rises-by-60-per-cent/>

Warwick's analysis shows that after pre-owned goods sites like eBay and crowdfunding platforms, accommodation is the most popular sector of the UK's sharing economy, with approximately 12% of respondents involved.



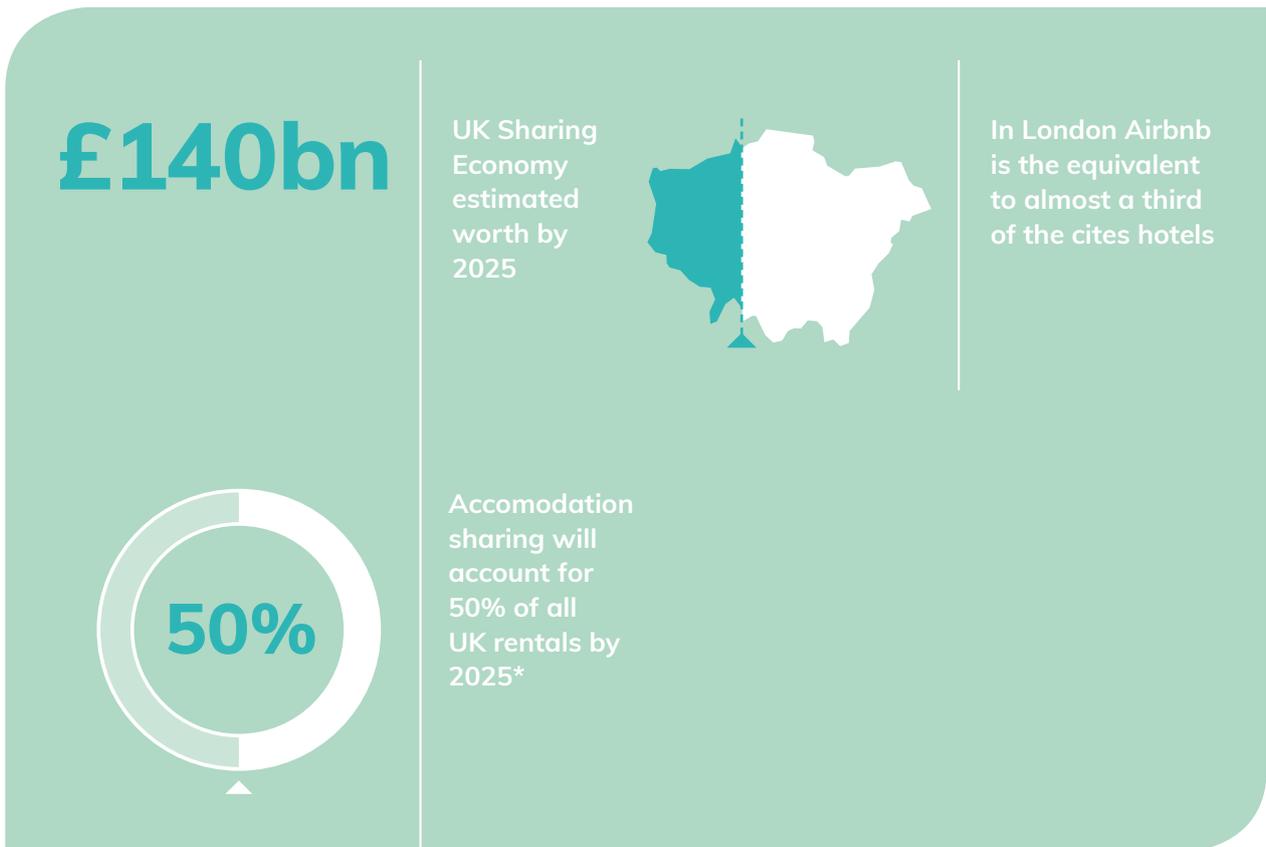
Airbnb's story exemplifies the dynamism of the UK's property sharing economy best. In just five years since it was set up in the UK in 2012, Airbnb has grown to the point that it contributed £3.46 billion to the UK economy in the 12 months to July 2017, the time of the company's last report<sup>4</sup>.

The business operates in every corner of the UK and on a very large scale: in the last year, people from nearly 2,500 villages, towns and cities hosted 5.9 million guests in 160,000 properties, earning the typical host £3,000. In London, Airbnb's most popular UK destination, two million guests were hosted across 64,000 properties, equivalent to almost a third of the city's number of hotels.

<sup>4</sup> [http://pwc.blogs.com/press\\_room/2017/02/uks-key-sharing-economy-sectors-could-see-transactions-increase-by-8bn-in-2017.html](http://pwc.blogs.com/press_room/2017/02/uks-key-sharing-economy-sectors-could-see-transactions-increase-by-8bn-in-2017.html)

**The sharing economy is set to continue its rapid upward growth trajectory,**

PwC expects that the UK sharing economy could be worth £140 billion by 2025, up by a multiple of 20 times its £7 billion value in 2015<sup>5</sup>. The firm's analysis shows that the accommodation sharing sector was worth £3 billion in 2015 and that it could increase tenfold to just under £30 billion by 2025, accounting for half of all UK rentals.



The UK government has played a key role in enabling the short-term letting market by its supportive policy and regulation. The Deregulation Bill of March 2015 ended a 40 year old rule that prevented Londoners from letting out homes on a short-term basis, instead capping short-term letting at 90 days. The government followed this in July the same year with the announcement that it wanted to put the UK 'at the forefront of the sharing economy'. Its intentions included making it easier for people to sublet a room, encouraging government employees to use sharing economy solutions when on official business and prompting local authorities to support the sector, too.

Then, effective from April 2016, the government revised the Rent-a-Room scheme, increasing the tax free income threshold for renting space in the home from £4,250, where it had been for nearly two decades, to £7,500. Following a consultation in 2018, it announced in July 2018 that the relief would remain at the same level.

5 [http://pwc.blogs.com/press\\_room/2017/02/uks-key-sharing-economy-sectors-could-see-transactions-increase-by-8bn-in-2017.html](http://pwc.blogs.com/press_room/2017/02/uks-key-sharing-economy-sectors-could-see-transactions-increase-by-8bn-in-2017.html)

# Opportunities for multiple types of property sharers

There are four key categories of short-term property hosts benefiting from the sharing economy: Professionally managed lets, B&Bs, occasional hosts and those providing holiday accommodation.



## Professionally managed lets

This category includes property owners who operate as buy-to-let landlords, renting out properties on a short-term basis to maximise revenue potential, or, increasingly, for longer time periods. It also includes amateur hosts, who have decided to use the services of a professional agent to manage the short-term let. The proportion of listings belonging to professionally managed lets, based on the number of hosts with multiple listings is estimated to be around 40% of the overall UK Airbnb market.



## B&B

Some Bed & Breakfast businesses use Airbnb and similar services to advertise their rooms to improve their utilisation rates. Overall, B&Bs comprise about 10% of Airbnb UK listings.



## Occasional hosts

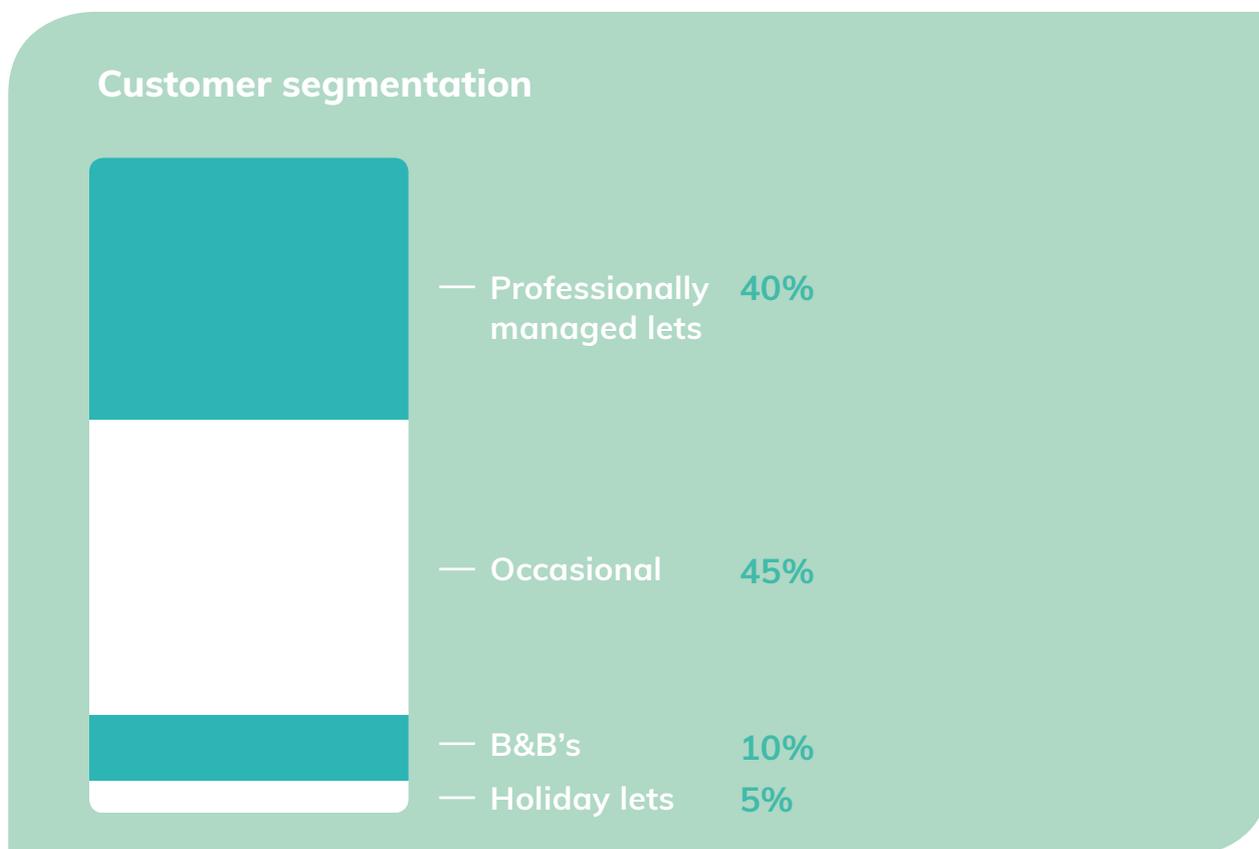
Amateur property owners who typically let a room, annex or on occasion their entire property while continuing to occupy the property as a resident. They may be property owners letting out a spare room in their home or tenants sub-letting to short-term guests instead of a long term flatmate. Some occasional hosts will rent out their property on a very opportunistic basis, such as during short events like the Edinburgh Festival or Wimbledon. Approximately 45% of the UK Airbnb market is made up of occasional hosts, based on the proportion of hosts with a single listing of a home or private room.



## Holiday lets

A small proportion (around 5%) of hosts use Airbnb as a service to let their entire property while they are on holiday. They tend to use the service for two to four weeks a year.

Many hosts list their property on multiple sites to maximise the number of bookings.



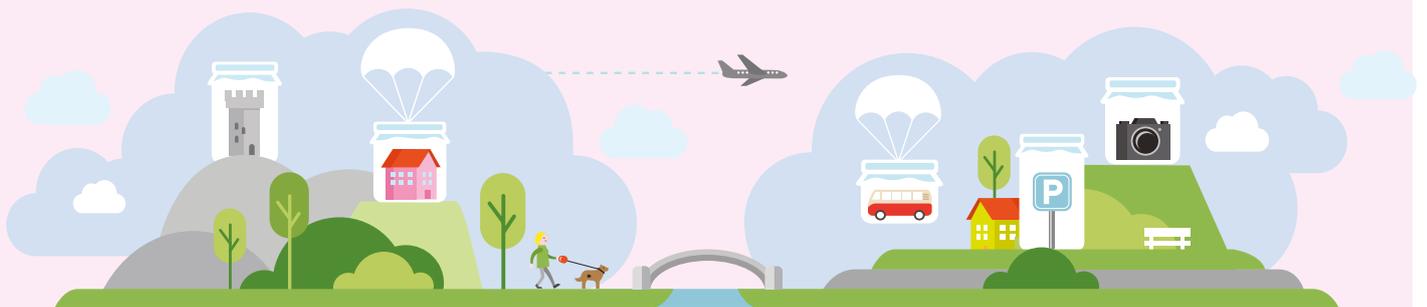
While Airbnb has the flagship brand in this market, Pikl's research indicates that it may no longer be the market leader, as Trip Advisor and Booking.com have grown significantly in the last two years.

There are many other players in the short-term letting industry and considerable innovation in the market. Direct competitors of the established global giants include Wimdu and HomeAway. There are holiday and travel-focused companies, such as Flipkey, Housetrip and premium players OneFineStay and UnderTheDoormat. Further niche specialists include Vrumi, a platform for people to rent rooms in homes for work, and JustPark for sharing car parking spaces.

Another emerging category is host management, with companies like Airsorted and The Air Agents taking care of everything a property owner needs to use Airbnb, from property listing to guest vetting and cleaning. Global hotel chains are also entering the market with new models, one of the most recent examples being Marriot International's partnership with Hostmaker in London, Paris, Rome and Lisbon.

# The Insurance Gap

Insurers need to improve their question sets, wording and processes for the sharing economy.



## A **critical** shortcoming

The industry lacks appropriate and right-priced insurance products available for people offering their property for short-term let.

Some of the main insurance challenges are as follows:



### **Home insurance**

Property used for short-term letting is not covered as standard by home insurance policies and using a home for that purpose without disclosure to the insurer invalidates the policy.



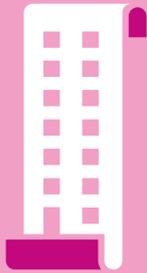
### **Landlord insurance**

Short-term tenants are not covered by standard landlord insurance products, which typically require a specific type of tenant, background checks, referencing and a minimum of six months A.S.T. with the tenant. In most cases, subletting is also excluded.



### **Second homes and holiday homes**

Policies sometimes allow short-term guests but insurance cover is usually inadequate, often excluding cover for malicious damage and theft by guests, for example. Further complications are likely where a professional company is offering the property for sharing on a full time basis.



### **Building policies for blocks of flats**

Most providers will not allow short-term letting or holiday letting within a block of flats, however their wording is often vague. Some insurers have rules that allow coverage if less than a quarter of the block use Airbnb, but in practice how this is monitored and enforced is unclear. Leasehold agreements often add to the problem as many contracts were written a long time ago, before home sharing was widespread so have not accounted for the concept. Furthermore, residents' associations not in favour of short-term letting have been known to try and use the argument that insurance policies would be invalidated as a reason to prohibit the practice within their block of flats.



### **Guest houses and B&Bs**

Some brokers have placed customers onto guest house or B&B policies when they are not such businesses full time, burdening them with unsuitable terms and conditions like inappropriate health and safety requirements, and the commensurate charges. This potentially leaves the customer inadequately covered for personal contents.

A number of brokers have products which allow Airbnb-style hosting, but are primarily designed for B&Bs, holiday homes or simply provide home insurance which is not voided by the insurer when there is short-term letting, without actually

providing coverage for the short-term letting activity. These products often fall short of the customer's expectations of cover and are not tailored to meet the needs of sharing economy hosts.

# Pikl's **survey** of **insurers**

The industry needs to catch-up fast!



# A lack of provisions

Pikl's research of 12 leading UK property insurers, conducted in 2018, covered 90% of the UK property insurance market by Gross Written Premium (GWP) and highlighted the insurance industry's lack of provision for the sharing economy.

## Existing cover for short-term letting insurance is limited

100% of insurers do not include Airbnb-type cover or an equivalent as part of their standard insurance products.

Five insurers, making up 39% of the market by GWP, would void and cancel a customer's existing home or landlord insurance policy if the customer declared using their property for a short-term let.

Six insurers (54%) would not void their customer's existing insurance policy, but they would impose terms excluding cover for short-term let guests. All of these insurers would exclude theft, malicious damage and legal expenses, with the majority also excluding cover for accidental damage and legal liability. Three of the insurers said cover could not be for more than four weeks, or the policy would become void.



39% would void and cancel a customer's existing policy



54% would not void the customers policy but would not cover guest activity



One hundred percent of insurers do not include Airbnb-type cover or an equivalent as part of their standard insurance products

## Insurers fail to ensure their customers notify them about their short-term letting intentions

86% of insurers don't take any particular steps to educate their customers about the importance of notifying them if they are considering listing their home online. Some providers cited I.T. limitations and issues around question set structures and price comparison sites. Others suggested the responsibility lay with brokers. Nevertheless, all insurers expect customers to declare if they used their property for Airbnb or an equivalent service. However, none of them had a specific question asking their customers if they use their property for short-term letting.



86% of insurers don't take any particular steps to educate their customers about the importance of notifying them if they are considering listing their home online

## Insurers are mixed on paying out if short-term letting is discovered

If a claim is related to short-term letting and the insurer only became aware of the claimant's letting status at the point of claim, 80% of insurers may not pay out on the claim. 20% would not consider paying out on the claim at all. 60% would consider paying if the customer was forthcoming about their letting status, it was very occasional letting but they did not realise they had been negligent in not informing their insurer. However they would not pay out if they felt this information had been deliberately withheld or if the letting was frequent. The remaining 20% would pay the claim but then cancel the policy. All insurers would pay out on a claim that is not associated with hosting activity. Even if the claimant's short-term letting activities came to light at the point of claim.



20% would pay out the claim but then cancel the policy



80% of insurers may not pay out on the claim

## Landlord insurers are evenly split on covering tenants considering short-term letting

Half of landlord insurers would cover a customer if they advised they were considering letting their properties online on a short-term basis in between permanent tenants; half would not.

However, if a claim arose due to a tenant subletting their property on short-term letting sites and the landlord was unaware, 50% of insurers would cover the claim if the landlord had taken appropriate steps to prevent subletting (such as through referencing checks and property inspections), but after the claim was complete would cancel the policy. 25% would not cover the claim, with 25% covering the claim regardless.

Furthermore, if a landlord advised they were considering allowing their tenant to sublet a property on a short-term basis, three quarters of insurers (75%) would cancel the policy with sufficient grace time for them to find alternative insurance; 25% would place an endorsement on the policy restricting cover.



50% of insurers would not cover a landlord participating in short-term letting



25% of insurers would not cover a landlord claim where the tenants had been short-term letting



## Insurers are more tolerant of property swapping than letting

If a customer advises they are considering a house swap to go on holiday, for instance, only 12% of insurers would not provide cover and cancel the existing policy. 88% would allow the policy to remain active but would exclude cover for the guests with the same exclusions as for Airbnb, such as theft and malicious damage without unforced entry.



88% would allow the policy to remain active but would exclude aspects of cover relating to incidents with guests

## Shared parking suffers from very limited insurance cover

If a policyholder advised they are considering renting out their garage and/or driveway, only 11% would provide cover. A third (33%) of insurers would place an endorsement on the customer's policy restricting cover for any claims arising as a result of shared parking and 11% would cancel the policy and provide sufficient grace time for the customer to find alternative insurance. The remaining 44% would make a decision about allowing the policy to remain active and any cover they provided on a case by case basis.



Insurers would place an endorsement on the customer's policy restricting cover for any claims arising as a result of shared parking

## Insurers need to improve their question sets, wording and processes for the sharing economy

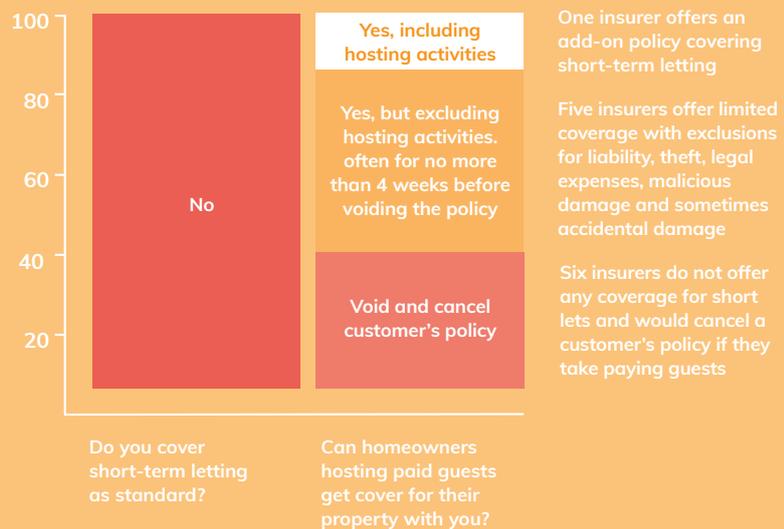
Less than a third (29%) of insurers reported that they are satisfied with their existing processes for short-term letting and only 25% said they are very satisfied that their customer question sets identify and manage the risks of short-term letting activities. The same proportion also said this about their policy wordings.



29% of insurers reported that they are satisfied with their existing processes for short-term letting

### Top insurer's coverage of short-term letting

Percentage of top 12 insurers



One insurer offers an add-on policy covering short-term letting

Five insurers offer limited coverage with exclusions for liability, theft, legal expenses, malicious damage and sometimes accidental damage

Six insurers do not offer any coverage for short lets and would cancel a customer's policy if they take paying guests

Unsurprisingly, the experience of many hosts (of every kind) trying to get insurance coverage has not been a good one and this may have contributed to some short-term letters not disclosing their business to their insurer. A survey conducted by an insurance broker in 2018 suggested that less than 30% of hosts inform their insurers of their hosting activity. However, it is likely that many hosts, especially casual and holiday let owners, have simply been unaware of their lack of insurance cover or assumed incorrectly that their existing policies covered them.

Airbnb is one of the few sharing economy platforms that provides a level of protection to

hosts through its complimentary host guarantee and protection insurance (other examples can be seen with premium players OneFineStay and UnderTheDoormat). Airbnb are open about the limitations of this cover and is clear that it is not a substitute for homeowner insurance. Nevertheless, some property owners using Airbnb have mistakenly thought that they are insured by the host guarantee, despite Airbnb's disclaimer on its website. The guarantee is potentially helpful to cover small incidents, but a major downside is that the limit of "up to \$1m" per listing is a worldwide limit, which means that it is unsuitable for large claims such as a house fire, as the compensation is likely be insufficient. In addition, because the

guarantee is not an insurance policy directly with the host, the host does not have many of the rights they would normally expect from a regulated insurance company's policy. They have no input into the claims process or a right of appeal, for instance. Instead, they have to rely on Airbnb's decision at the time of the claim.

Through a **combination of inappropriate insurance products** for short-term letting, poor customer experience and a broad lack of awareness, **customer engagement levels with insurers have been poor.**

At a recent event attended by Pikl, run by a leading short-term letting platform for its major UK hosts, 2 out of 50 hosts had informed their insurers that they were providing short-term letting services.

It is a problem that's not confined to the UK; only 37% of home owners in Deloitte's global sharing economy survey bought coverage or upgraded their insurance prior to sharing (albeit with products that were potentially unfit for purpose).

Hosts without adequate insurance are taking serious risks. Aside from the risk that neither their home insurance provider nor their home sharing platform compensates them in case of theft or damage, they expose themselves to the risk of vast liabilities if a guest is seriously injured at their property (for non-paying guests,

typical home insurance policies provide millions of pounds of cover for this eventuality). These risks are highlighted by the collapse of a balcony at a house in Brighton which was let on Airbnb, leading to four guests being seriously injured. In this ongoing case, Airbnb denies liability, likely claiming that buildings safety is the sole responsibility of the homeowner and should be covered by buildings insurance. The complex and uncertain web of liability created by the sharing economy is raising some interesting questions for the industry, and the outcome of this and other cases will be closely watched.

Concerns about insurance have also been a disincentive for many people to engage in the sharing economy at all – 11.9% of people in Warwick Business School's research reported this.

# Regulation issues

While the UK government has helped prepare the way for the growth of the sharing economy, the Brighton incident shows that regulation does need to develop further.



# Room for **improvement**

The voices of many stakeholder groups were captured in the sharing economy report published in July 2018 by the All-Party Parliamentary Group (APPG) on Tourism<sup>6</sup>. The report stated that “all visitors are entitled to a minimum level of safety, regardless of the type of accommodation they use and method by which it is booked” and called on the government to consult on “a low-cost statutory registration scheme for tourism accommodation businesses”.

“all visitors are entitled to a **minimum level of safety**, regardless of the type of accommodation they use and method by which it is booked”

The report highlighted sharing economy companies taking no responsibility for people renting property from their customers and quoted from Airbnb’s terms and conditions that the company “...has no control over and does not guarantee (i) the existence, quality, safety, suitability or legality of any listing.”

The APPG also highlighted local authority claims that property sharing is causing residential housing shortages, as result of professional landlords converting residential long term lets to shorter-term arrangements to generate greater margin, and residents’ concerns about the negative impact of lettings on local communities, especially in flats.

However, the industry is beginning to take steps to start to address many of these concerns. The Short Term Accommodate Association (STAA) has launched the world’s first short-term accommodation industry accreditation where both individual hosts as well as companies who manage homes are able to get independently accredited for meeting all the relevant standards including consumer protection, health and safety and legal standards. Quality in Tourism are running the scheme and their experience in the traditional hospitality sector over more than two decades helps this new industry to deliver the right standards as the industry grows and professionalises.

<sup>6</sup> <https://www.ukinbound.org/wp-content/uploads/2018/07/APPG-for-Tourism-Sharing-Economy-Report-Final.pdf>

# Tough Questions

It is clear that the insurance industry needs to do a far better job of providing consumer-friendly, right-priced products specifically targeted at people providing short-term letting services.



# Big questions

As highlighted by Pikl's survey, it is clear that the insurance industry needs to do a far better job of providing consumer-friendly, right-priced products specifically targeted at people providing short-term letting services. Insurers and brokers must then effectively communicate the availability of their products and educate short-term letters about the significant risk exposure of not being properly insured.

There are other big questions that need to be debated and resolved:

**Q:** Could the voiding of an existing policy when Airbnb-type coverage is sought through another provider be considered anti-competitive?

**Q:** Does this meet the principles of T.C.F.?

**Q:** As part of their standard question set, should insurers require consumers to disclose activities conducted at their property which they do not require insurance for - perhaps if they have cover under another policy?

**Q:** What role do price comparison sites have in ensuring disclosure through appropriate customer questions and what is their liability risk if they have not ensured disclosure and a large event occurs which is declined by the insurer?

**Q:** How should brokers advise and support the customer?

**Q:** And what kind of regulatory change does the industry think is right?

The insurance industry has a responsibility to transform its approach to the property sharing economy. Given the size of the current market and its growth projection, this is a responsibility that should come with little resistance. As ever, the first movers will gain the early advantage.



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