

Does your domestic insurance policy provide cover for paying guests?

The short answer is, No!

When you offer accommodation to paying guest, then your insurance policy must specifically cater for this, otherwise there can be problems during claims. Standard domestic insurance policies do not normally provide cover for risks associated with paying guests.

In a recent article in the on-line business magazine, Business Tech: "[Legal warning for Airbnb hosts in South Africa](#)", the writer points out the importance of understanding the legal requirements in offering your home, cottage or apartment for accommodation to paying guest. Hosts could be held personally liable if anything happens to any paying guest while on the property - and a standard domestic insurance policy may not provide the required cover.

It is important that hosts understand the insurance cover they should have. In simple terms, standard domestic insurance policies do not automatically include any loss, damage or public liability cover if the homeowners or tenants use the premises to generate income by offering accommodation to paying guests.

And one could understand why. Paying guests can sometimes be reckless with your property because they do not necessarily have your best interest at heart. The risk of damage to your property is higher, and your insurer may need to increase the premium or have specific underwriting conditions to deal with the risk. If you have a bond with a financial institution on your residential house and you have opted for the bank's insurance policy, and you did not specifically tell them that you are using the property to generate income, then they may decline your claim when damage is caused to the property by your guests. In all cases, you must inform your insurance company of any change in your risk situation.

Some insurance companies offer limited cover for paying guests as a special extension to their standard domestic insurance policies, but at an additional premium and with certain conditions. You will need to discuss these conditions with your broker and ensure that you understand the cover you need, compared with the cover you have.

Our main concern is, however, your **Liability cover**. These claims could run into millions.

Personal liability explained

Personal liability insurance is a section in most standard domestic insurance policies which covers the insured individual and members of the household residing with the insured, in their personal capacities, against claims resulting from bodily injuries or damage to the property of other people - if you are found legally liable to have caused such injury or damage. The cover includes legal expenses normally accompanying such actions against you.

Example: A visitor to your personal home slips and falls on a wet floor, suffering an injury. That visitor may sue you for being negligent by not giving sufficient warning that the floor was wet. Your insurance policy's personal liability cover will cover the legal costs of your defence, and if

you are found legally liable for what happened, then it will also cover the amount you are found liable to pay in lieu of the injury, within the policy limits.

Liability cover on a domestic insurance policy does not only cover you at your own premises, but the cover can also extend to cover you elsewhere. For example, if you've left a lit cigarette unattended at a friend's home which starts a fire, and you are held liable for the damages.

Types of policies:

- **Comprehensive Domestic Policies**, which included Homeowners, Household Contents, Personal Liability, Motor, All Risks, etc.
- **Homeowners Only Policy:** Personal liability is usually covered as part of a Homeowners' (buildings) policy. Banks offer this type of cover to their clients who have a bank loan on the property, which most often include "Property Owner's Liability" as an extension. Property Owner's Liability is useful where the owner of the property rents the property as a residential home to tenants with lease agreements. Tenants are not seen as "paying guests" in this instance, because they live on the property permanently for the period of the lease, and the property is used as a private personal home.

The above-mentioned liability policies usually have maximum indemnity limits. Insurers may offer optional "Umbrella Insurance" cover which provides additional coverage when the normal homeowner's indemnity is exhausted. It is therefore useful when your standard homeowner's policy limits are lower than the injured third party's claim against you. Umbrella Insurance may also cover certain events which standard homeowner's insurance exclude, such as libel, slander, malicious prosecution etcetera.

Personal liability insurance can be purchased separately as a stand-alone policy by people who do not own or rent a residential home.

Commercial liability explained

Commercial General Liability (CGL) insurance (often referred to as Public Liability insurance) provides coverage to a business if the business is held legally liable for injury or damage to property caused by business operations or products, or injury or damage which may occur at the business premises. This cover also includes legal expenses in defence of any such claim.

There are two types of Commercial General Liability (Public Liability) policies:

- A **Claims-made Basis** policy, which provides coverage for whenever the claim is made against you during the period of cover, regardless of when the actual claim event happened. The event giving rise to the claim could have occurred before the policy started. Such policies usually have a clearly defined "retroactive date", which limits the retroactive time horizon within which the actual claim event happened.
- An **Occurrence Basis** policy, which provides coverage where the actual event leading to the claim must have happened during the time in which the policy was in place. A claim will be covered even if the insured finds out about the claim many years after the policy was

cancelled, as long as the actual event leading to the claim happened during the period in which the insurance policy was in place.

This is a very broad explanation. Speak to your broker if you need more detail.

Commercial Liability insurance does not cover every eventuality. Policies have many optional sections and extensions of cover. You will need an expert broker who understands your business to guide you through these options. Hospitality insurance policies usually include some of the following cover as extensions - either automatically included, or optional and charged at an additional premium:

- Pollution Liability - The sudden and unforeseen release of pollutants into the environment.
- Products Liability - Injury or damage arising out of harm caused by the products of the business.
- Defective Workmanship - Legal liability from damages or injuries caused to a third party by something the employees of the business worked on, and where the damage was caused by a defect, error or omission made during such work.
- Custody and Control - Additional cover for damage to third party property which has been put in the care of the business.
- Errors and Omissions (negligent advice) – Injury or damage arising out of free advice given in promotion of the insured's products or services. It covers liability claims arising out of any act, negligent advice, errors or omissions committed by, or in connection with the business. It does not cover advice of a professional nature, directors' and officers' liability, or professional indemnity.
- Statutory Defence Costs - Legal expenses in defence of criminal actions of owners.
- Wrongful Arrest - Wrongful arrest, false imprisonment, and any related assault caused by the business.
- Defamation - Defamatory statements, whether written or verbal.
- Additional Insured - Companies can add other companies or individuals with which they contract with to be included in the cover.
- Employment Practices Liability - Employer's legal expenses and the awards made against it by the CCMA, bargaining councils and Labour Court for unfair labour practices.

There are many more. Safe to say - Personal liability under a domestic insurance policy is not the same as Commercial liability insurance. If you are hosting paying guests, then make sure that your insurance policy offers the required cover.

You can't predict what will happen in the future, but you can cover the risk with **Personal and Commercial Liability** insurance cover.

Written by Daneel Lombaard
[Olive Guestbook \(olivebrokers.co.za\)](http://olivebrokers.co.za)

