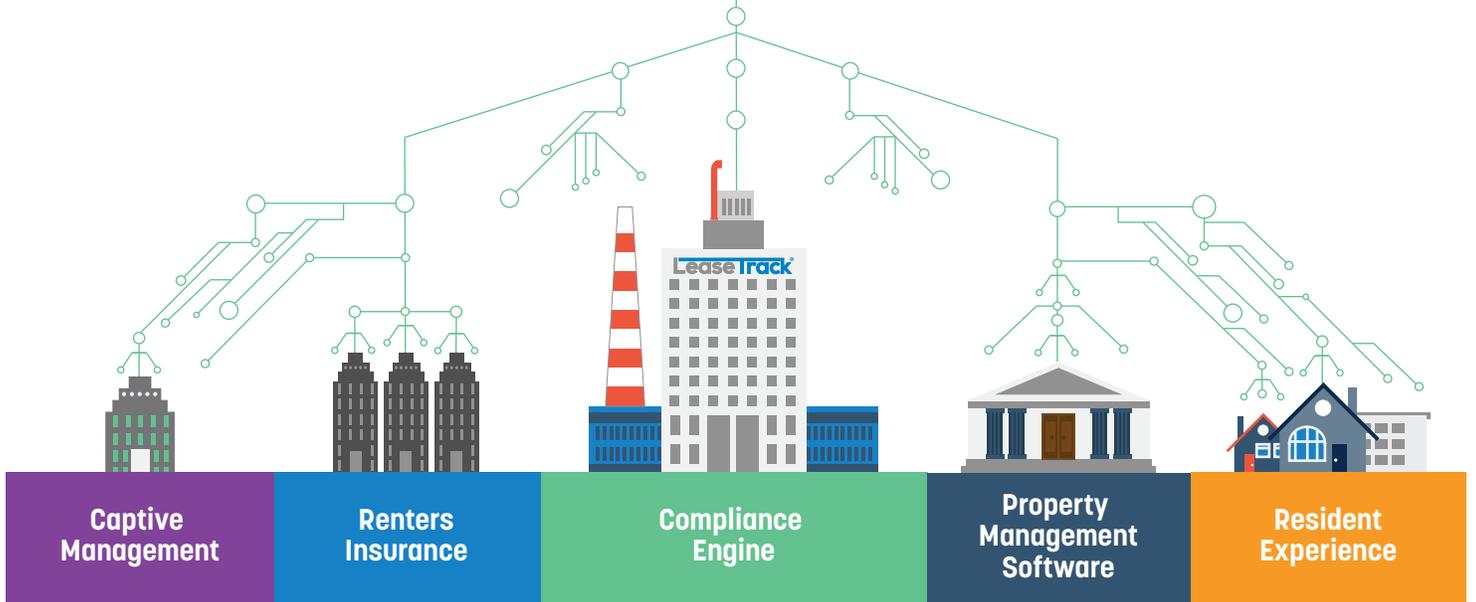


The Ultimate Guide to

# Resident Insurance Programs

A user's handbook for structuring your resident risk management program - effortlessly.



# Executive Summary

**83% of property owners** and managers today have a resident insurance program designed to protect their portfolio. The coronavirus pandemic of 2021 created changes in workflow, human behavior, and new processes around leasing, such as the "virtual leasing office." The fastest adopters of new technology were able to achieve full lease compliance at scale, which has been impossible in the past.

This white paper outlines the best practices for modernizing your resident insurance program based on the four main program structures commonly used by single and multifamily firms nationwide. We will take a deep dive into each type of program, and explore the risk and reward potential of each.

The four main resident insurance programs are listed below in order of lowest to highest income potential:

## The Program Design Chart

COMPONENTS	PROGRAM ONE	PROGRAM TWO	PROGRAM THREE	PROGRAM FOUR
Third-Party Provider	70%	40%	40%	50%
Preferred HO4	30%	15%	20%	30%
Master Policy	0%	45%	40%	20%
Performance Rank	17/50	25/50	39/50	43/50
<b>INCOME POTENTIAL</b>	<b>\$0</b>	<b>\$50K - \$100K</b>	<b>\$320K - \$536K</b>	<b>\$360K - \$648K</b>

# Program Design

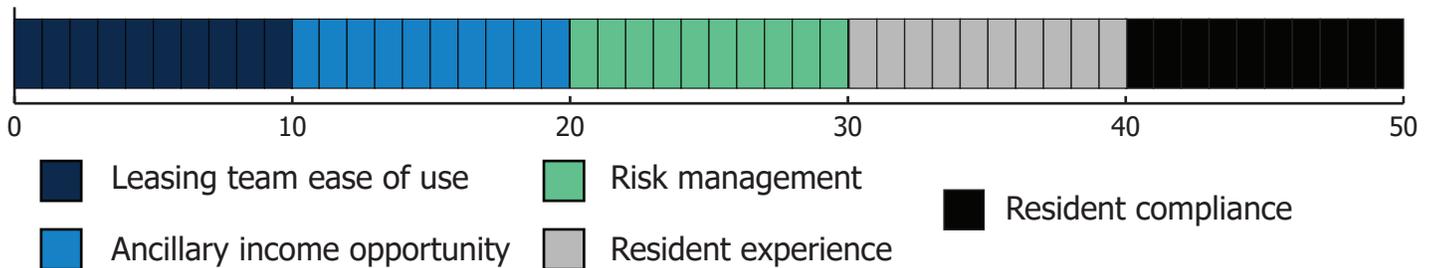
The **program design** chart is based on an analysis of over 1 million units and extrapolated to a 10,000 unit portfolio. We will not be discussing facilities fees, or programs without a renters insurance component, as they are slowly becoming extinct in the new world of digital compliance and full risk transfer at scale.

## Performance Rating

**Your company's income** goals and tolerance for risk determine your program choice. LeaseTrack has developed a rating system for each type of resident insurance program as viewed through the lens of full compliance.

The categories below include leasing team ease of use, ancillary income opportunity, risk management, resident experience, and resident compliance. These categories have been ranked by property owners as being the most important components of a resident insurance program. Each category is ranked on a scale from zero to ten, with zero being the worst, and ten being the best, and each program design type has a performance rating out of 50 possible points. Below is what a perfect performance rating would look like:

Performance rating: 50/50



Look for the performance rating at the end of each program section to see how each program measures up.

# Program One:

**70% Third-Party Provider + 30% Preferred HO4**

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## PROGRAM ONE

**70%** Third-Party Provider

**30%** Preferred HO4

**0%** Master Policy

**17/50** Performance Rank

**\$0**

Ancillary Income

**In Program One, residents are required to maintain renters insurance from any provider throughout the term of their lease.** There is no way to track this behavior without technology, and there is nothing preventing a resident from canceling their renters insurance policy after showing proof to the leasing staff. If a resident cancels a policy early, or never gets insurance in the first place, the only course of action is eviction.

Program One requires the least amount of effort to start. Residents are simply asked to contact an insurance provider of their choice to get insurance. The overall performance ranking for this program comes in at a 17/50, due to the higher risk of an uncovered loss, and nonexistent ancillary income potential.

### Leasing Team Ease Of Use

Initial implementation for Program One is easy. Owners add a renters insurance requirement to their lease, and then notify residents to secure coverage. But the ongoing management of Program One is where it gets challenging. Compliance determination is often left to overburdened leasing staff who lack efficient training.

Most firms that implement a program structure like Program One stay in a monitoring position versus a managing position. Untrained leasing staff attempt to manage and determine compliance, leading to grossly inflated coverage numbers, or worse, no coverage, which can be catastrophic after a total loss.

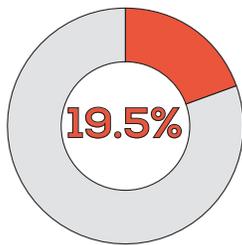
### Ancillary Income Opportunity

By not having a “preferred provider” partnership, owners are missing out on ancillary income opportunities. The economic value of a resident purchasing an insurance policy is retained solely by insurance companies throughout the country. By using a preferred provider, some of the economic value is shared with the property owner or operator who drives the sale of that insurance policy.

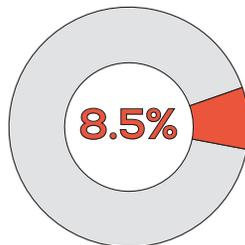
### Risk Management

Renters insurance policies from third-party providers are established through many divergent channels. Numerous providers are able to write policies and none of them will be well-versed in your company’s lease requirements.

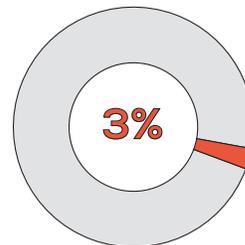
Standard coverages vary widely, and even with a compliance management process in place, leasing agents are often left just monitoring the renters insurance program rather than actively managing it, as there is little recourse for holding a resident accountable or enforcing coverage compliance except for eviction.



**Early Cancellation**



**Bad Data**



**Fraud**

### **Resident Experience**

Most firms that choose this program believe they are doing their residents a favor by not suggesting a preferred provider. But according to the Insurance Information Institute, only **37%** of renters actually have renters insurance\*. This means that renters need only find a provider, answer the appropriate questions, and hope the carrier they are working with is a reputable one.

Another challenge is getting residents to purchase insurance that correctly meets the lease requirements. Despite best efforts to inform and educate about coverage limits, interested parties, named insureds, and other policy requirements, residents and providers alike frequently misinterpret program requirements. This negatively impacts the resident experience as they are left with more work to do, changing policies once they have been purchased.

### **Resident Compliance**

Program One scores low in the resident compliance category due to the lack of enforcement available with third-party providers. Property owners are only able to rely on their resident's

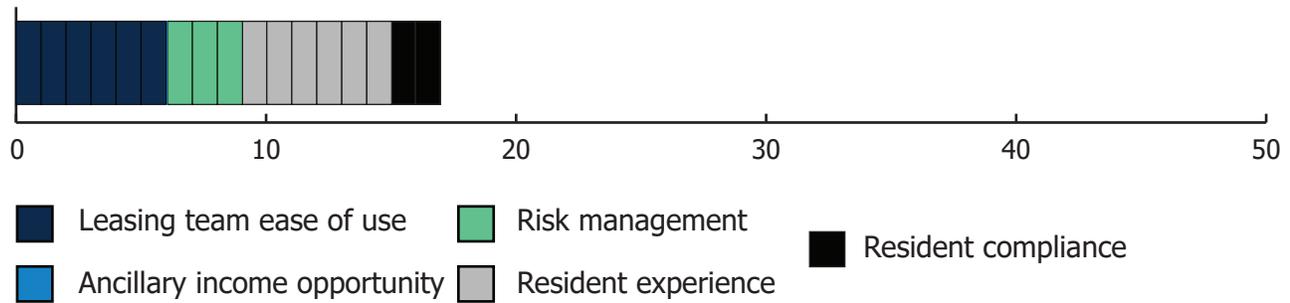
word that they have obtained insurance, and 19.5% of all insurance policies cancel within the first 180 days of issuance, either intentionally, or due to nonpayment. A third-party provider does not assist property owners with tracking or adhering to their lease requirements.

### Summary

Requiring renters insurance is a great start to effectively managing resident risk. Program One has often been the first step property owners take in the evolution of a more comprehensive risk program. Firms that choose this type of solution have often not experienced the negative effects of resident damages and do not have a mandate for maximizing their ancillary income.

\*The III: Number of Renters Is On The Rise—But Few Of Them Have Insurance. Sept. 22, 2014

### Program 1 Performance Ranking: 17/50



# Program Two:

**40% Third Party Provider, 15% Preferred H04, 45% Master Policy**

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## PROGRAM TWO

**40%** Third-Party Provider

**15%** Preferred HO4

**45%** Master Policy

**25/50** Performance Rank

**\$50K - \$100K**

Ancillary Income

**Program Two allows residents to maintain liability insurance from either a preferred provider, or one of their choosing.** A preferred provider offers ancillary revenue opportunities (such as a marketing fee) for the opportunity to sell renters insurance to residents.

### Leasing Team Ease Of Use

There are pros and cons to the structure of Program Two. On one hand, leasing staff often become more involved in the insurance process despite directing residents to contact the preferred provider with questions. Residents may ask coverage

questions that leasing staff are not able to answer, or answer incorrectly. This increases the burden on leasing staff while diminishing the resident experience.

On the other hand, preferred providers can help to unburden leasing staff too. Advertising, print and email communication, satisfaction surveys, a call center, training, and other items are services that can be offered through a preferred provider. Leasing staff need only be trained to direct residents to contact the preferred provider with questions.

### Ancillary Income Opportunity

A preferred provider can help residents fulfill property owners' liability requirements effortlessly, while generating an income of around \$5 - \$10 per unit in marketing fees. For a 10,000 unit portfolio, income between \$50,000 to \$100,000 can potentially be generated just for implementing a preferred provider alone.

Property owners can also elect to start their own insurance agency to drive ancillary income. This gives owners full control over program structure, but is more difficult than simply implementing a preferred provider partnership.

### Risk Management

Risk management improves when a third of your portfolio goes with your preferred provider. Instead of having 100% of residents purchase insurance from a third-party provider (as in Program One), you are driving about 35% of your residential population to the preferred provider.

A preferred provider also helps to manage some of your risk. In the event of a loss, a preferred provider will become an advocate for you to continue to ensure a mutually beneficial partnership.

### Resident Experience

Preferred provider programs offer a superior resident experience, and in Program Two, resident experience scores the highest, receiving a 7 out of 10 possible points. The preferred provider is able to guide residents through the purchase and renewal process, informing them of requirements, and guaranteeing compliance for resident and owner alike.

### Resident Compliance

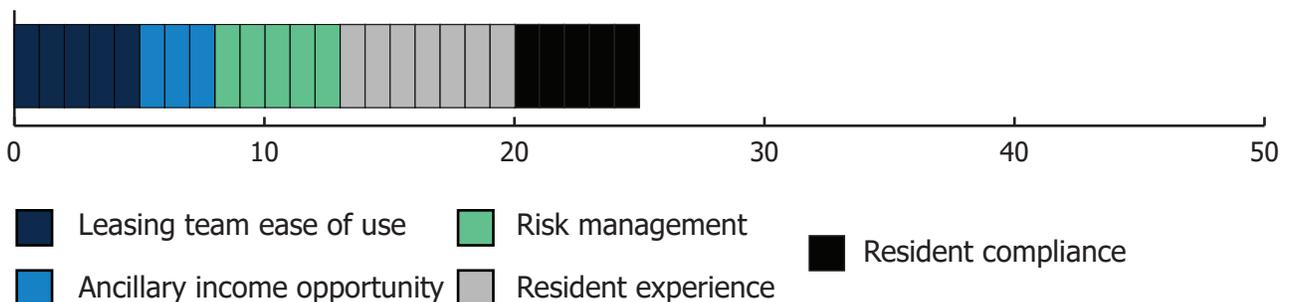
Program Two offers more compliance than Program One, thanks to the implementation of a preferred provider. A preferred provider partnership means the provider has a more vested interest in seeing your lease requirements adhered to, and should work with you on strategies to help increase resident compliance.

### Summary

This program offers the same features as Program One, but comes with a higher performance ranking of 25 points, due to the preferred provider mechanism. Specifically, this program helps drive additional ancillary income and risk management enhancements. Residents benefit from the addition of a preferred provider as the policy is often easily secured and affordably priced.

On average, **35% of residents enroll in a preferred provider program**. The key to increasing adoption at scale is to centralize compliance. Leasing agents may not be on the premises in the same capacity while businesses continue to navigate the post-pandemic world. A preferred provider adoption rate of 35% are those who have offloaded compliance into a centralized organization.

### Program 2 Performance Ranking: 25/50



# Program Three:

**40% Third-Party Provider, 20% Preferred HO4, 40% Master Policy**

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## PROGRAM THREE

**40%** Third-Party Provider

**20%** Preferred HO4

**40%** Master Policy

**39/50** Performance Rank

**\$320K - \$536K**

Ancillary Income

**Program Three offers residents the most choice in how to meet their lease requirements**, by allowing them to choose their own provider, work with a preferred provider, or auto-enroll into a Master Policy. Program Three offers owners increased potential for ancillary income through a preferred provider as well as a master policy mechanism.

### Leasing Team Ease Of Use

This is the first program design we've discussed that almost entirely unburdens leasing agents. Agents may still be involved in the process as residents may come to them with coverage questions. But adding a master

policy component to your insurance compliance program can alleviate the local team from the ongoing burden of monitoring and managing renters insurance compliance.

### Ancillary Income Opportunity

Program Two offers property owners the means to drive ancillary income through a preferred provider. Program Three builds on the ancillary income potential with the addition of a master policy option.

A master policy can generate an additional income of \$320,000 - \$536,000, and property owners can generate revenue at both the property level, as well as portfolio-wide. Revenue can be used to cover supplemental payments, claims, income, or whatever the property owner desires.

### Risk Management

The master policy component is yet another mechanism property owners can use to transfer risk. Also called a Tenant Legal Liability program, its purpose is to provide coverage to residents on a group insurance structure.

A master policy enables property owners to hold residents accountable. If a tenant causes property damage (such as a fire) and does not possess any type of insurance coverage, there's not much a property owner can do to hold the resident accountable in the absence of a master policy, especially if that resident cannot afford the damages caused. A master policy offers a way to hold residents accountable in real time if they do not have their own insurance.



**eliminated!**



**eliminated!**



Frequently, and particularly in the case of a total loss, a renter does not have the financial means for affording such damages. A Master policy protects both property owner and resident alike. One Master policy can provide protection under a single policy for all properties. Coverage limits are fully customizable for a variety of losses, and residents are unable to cancel the policy, giving property owners total control over their risk.

Combining preferred and third-party providers with a master policy component, this plan offers owners a low-risk path to complete risk transfer. This program design brings the overall risk rating down to only a **3% error rate** as there is no tracking or paperwork to worry about with a preferred provider. Residents who take no action whatsoever will still be covered as Master policy comes with an auto-enroll option.

### **Resident Experience**

In this program, residents have the freedom to choose how they fulfill their lease requirements, whether through a third-party provider, a preferred provider, or through the property's master policy. Typically, these programs are designed so that if a resident chooses nothing, they'll be enrolled automatically in the owner's masters policy. Doing nothing is often what the resident is looking to do when they're burdened by a move. Including a master policy means full compliance without the frustration of eviction that a resident may experience.

### **Resident Compliance**

Program Three generally breaks down to 40% of residents choosing a third-party provider, 15% choosing a preferred provider, and 45% choosing the master policy option. Of all the program structures we've discussed so far, Program Three is the first one to drive complete compliance and is the best choice for property owners looking to increase adherence to the lease.

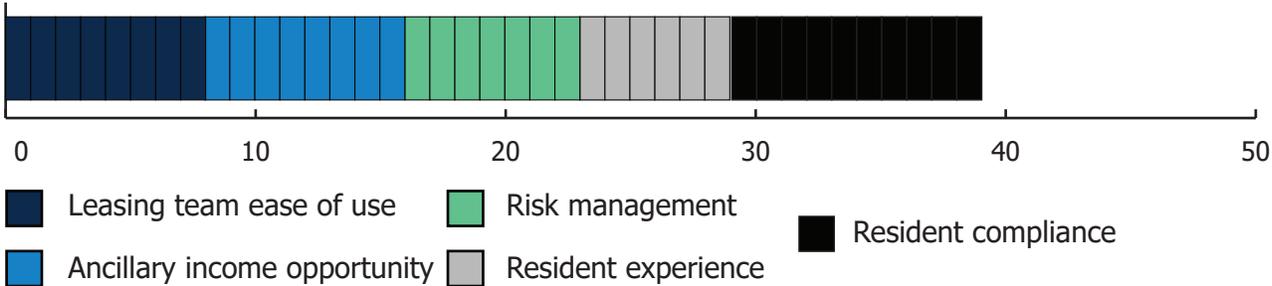
With a master policy option, residents do not need to extend any effort to obtain coverage. Many master policies can be structured to auto-enroll residents after informing them of requirements. This means residents are able to meet lease requirements with no effort at all, which is often their preference.

**Summary**

The inclusion of a master policy is a significant change from the first two programs. The master policy option proves beneficial to the leasing team as they no longer need to “chase” noncompliant residents. Leasing staff need only add a charge to the resident’s ledger and enroll them into the master policy.

The addition of a master policy also helps to support centralized compliance and reduce leasing agent workload. Property owners may elect to build their own master policy, but this is a complicated undertaking and requires extensive time, money, and effort. Businesses with the highest compliance rates elect to support a more centralized compliance system, either via a software service or master policy.

**Program 3 Performance Ranking: 39/50**



# Program Four:

## 50% Third- Party Provider, 30% Preferred H04, 20% Master Policy

### PROGRAM FOUR

**50%** Third-Party Provider

**30%** Preferred H04

**20%** Master Policy

**43/50** Performance Rank

**\$360K - \$648K**

Ancillary Income

**Program Four provides fewer choices for residents, but the inclusion of a master policy with a comprehensive contents coverage makes a competitive offering.**

Residents are able to secure a renters insurance policy from a third-party provider of their choice, or auto-enroll into the owner's master policy.

### Leasing Team Ease Of Use

Leasing agents spend countless hours describing, explaining, and reviewing documents associated with residents' lease requirements. By removing a preferred provider from Program Four, and narrowing down to a two-part program, the leasing team sees an immediate reduction in workload.

As in Program Three, the addition of a master policy component means far less work for leasing agents. Residents need simply be informed of lease requirements, and can then have a monthly charge added to their rent ledger, simplifying the process for leasing staff and residents alike.

### Ancillary Income Opportunity

40% of residents will elect to go with a third-party provider of their choice, and 60% of residents will choose the master policy, or default into this program by lack of action. In addition to driving full compliance, Program Four allows owners to leverage their economies of scale and administrative revenue by the 60% of residents opting into the master policy.

The difference in income potential between Program Three and Program Four depends on the percentage of renters enrolled in the master policy and the loss ratio. Most master policies include supplemental coverages that are triggered if a loss ratio is below a certain threshold.

Owners are able to build out captive structures to act as a reinsurer of their master policy. This choice includes extra risk since the owner operates as an insurance company. But with higher risk comes higher reward potential. Over the long term, captive structures tend to perform well and provide increased additional revenue for owners.

A master policy can also provide an additional income for around \$3-\$5 per unit. Over the course of a year, a 10,000 unit portfolio could generate income between \$360,000 - \$600,000. These methods can be used to generate revenue at the property level, as well as portfolio-wide, and revenue can be used to cover supplemental payments, claims, income, or whatever the property owner desires.

## Risk Management

The master policy component is yet another mechanism property owners can use to transfer risk. Also called a tenant legal liability program, its purpose is to provide coverage to residents on a group insurance structure.

A master policy enables property owners to hold residents accountable. If a tenant causes property damage (such as a fire) and does not possess any type of insurance coverage, there's not much a property owner can do if the resident does not have a way to pay.

## Resident Experience

The modern master policy often includes contents coverage for residents, providing a quick and easy path to compliance. Master policies can offer up to \$100,000 of owner asset protection, and an additional \$10,000 of contents coverage for residents.

A customized HO4 can offer greater protection in the event of a claim, but also involves larger direct payments to a carrier and policy administration on behalf of the resident. Other benefits to the resident include easy enrollment, landlord advocacy for resident coverage, and affordability - coverage is obtained for as low as \$15 a month.

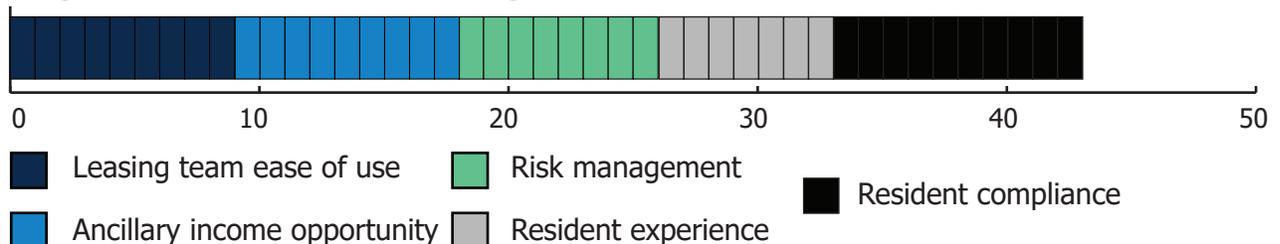
## Resident Compliance

Program Four provides the best option for resident compliance. On average, 60% of residents will enroll in the Master policy, either by choosing it, or choosing to do nothing. Residents on a master policy means guaranteed coverage for that 60%. It's also easy to implement, since the charge is paid in addition to their rent.

## Summary

Narrowing coverage options to the resident's renters insurance company or a master policy hones in the compliance part of Program Four. Leasing teams can easily manage policy administration and the opportunities for increased income is high. Depending on the structure of the master program, coverage limitations may exist for noncompliant residents.

### Program 4 Performance Ranking: 39/50



# Conclusion

Regardless of how you've structured your renters insurance program, transferring risk is an evolving process. There is no right or wrong way to design your renters insurance program, just what is right for your firm. Each of these four renters insurance programs offers different benefits depending on your company's goals, from low risk and low reward to higher risk and higher reward.

By tightening up your renters insurance program design and thoroughly tracking compliance, you should be able to increase adherence to lease requirements, while driving some form of ancillary income.

## Program 1

Performance ranking: 17/50



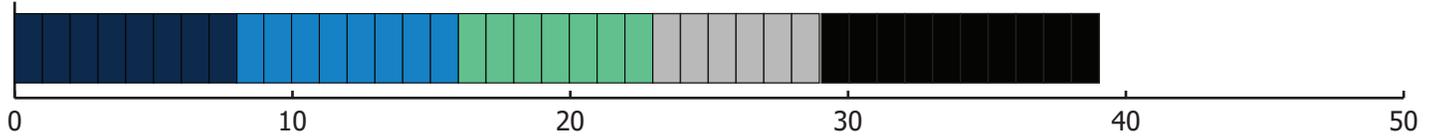
## Program 2

Performance ranking: 25/50



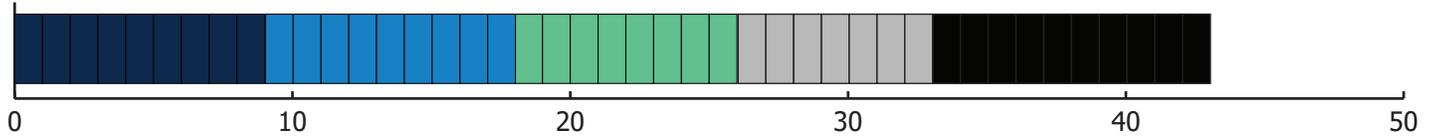
## Program 3

Performance ranking: 50/50



## Program 4

Performance ranking: 50/50



- Leasing team ease of use
- Ancillary income opportunity
- Risk management
- Resident experience
- Resident compliance

## About LeaseTrack

LeaseTrack 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.lease-track.ai/research](http://www.lease-track.ai/research)

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