



Self-Storage Tenant Insurance vs. Protection Plans: Differences, Advantages and Risks

Self-storage tenant insurance and tenant-protection plans, while both providing remedies for tenants who suffer damage or loss to their stored goods, are not the same product. This article addresses the differences between programs as well as the advantages and risks of each.

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By Josh Long

Self-storage rental agreements specify that the business operator takes neither care, custody nor control of tenants' personal property. Instead, tenants assume the risk of damage or loss to their stored goods.

These boilerplate lease terms are crucial to the self-storage industry because they generally insulate operators from liability for customer property that is damaged or lost due to a leaky roof, burglary or other unfortunate circumstance. Tenants face the classic "buyer beware" scenario: They can either purchase tenant insurance from a third-party provider or pray nothing spoils their stuff.

But some self-storage operators have chosen a different path, agreeing to assume risk for tenants' personal property in exchange for a premium monthly payment. Through their "protection plan," these operators agree to pay customers for belongings that are lost or damaged, up to a specific dollar amount.

The increasing popularity of protection plans, and some litigation surrounding them, has fueled a vigorous debate over their pros and cons and how they compare to traditional tenant insurance. Operators are curious about the differences between the two programs, the coverages offered and excluded by these products, and which is best for their particular business. This article aims to answer some common questions.

Parties to the Contract

One of the biggest differences between tenant insurance and a protection program is the latter is not insurance, according to Ted Dobbs, an underwriter with Deans & Homer, which has been writing commercial property insurance since 1856. "This is the self-storage owner's commitment contractually as spelled out in his lease or in a lease addendum that says, 'Mr. Tenant, if something goes wrong as specified, I'm going to step up to the plate and do the right thing,'" Dobbs says.

Essentially, the operator with a protection plan is offering the customer "a premium quality lease," added Joseph Torrisi, executive vice president of insurance services with On The Move Insurance Agency, which provides a tenant-protection program. "You've got your standard lease where you assume no responsibility for their property, and for a few dollars more, you give them a lease where you are willing to assume limited liability up to the protection-plan limit in the event the roof leaks, the building burns down or your security is breached and the room gets broken into," Torrisi

explained during a seminar at this year's Inside-Self Storage World Expo in Las Vegas. By contrast, tenant insurance is a contract between the tenant and the insurance carrier.

Damaged Goods: What Next?

Tenant insurance grants a self-storage customer who has suffered a loss the right to file a claim with the insurance provider on the policy, says Blake Johnson, director of underwriting with Ponderosa Insurance Agency LLC. The insurance company handles the claim and determines whether payment should be made under the policy.

"Since we sell tenant-insurance coverage sponsored by a licensed insurance company, we are not involved in deciding if the claim is valid or how much should be paid," says Kenneth Nitzberg, chairman and CEO of Devon Self Storage Holdings LLC, which offers tenant insurance to its customers.

Self-storage operators who solely offer protection plans are cutting out the third-party insurance carrier. If a tenant's property is lost or damaged and the loss is covered under the protection plan, the operator is legally responsible for remitting money to the tenant up to the coverage amount specified in the agreement.

Tenant Insurance

A number of self-storage operators say a benefit of tenant insurance is it enables them to focus on their core business. "I'm in the storage business. I'm not in the business of wanting to be handling claims for my tenants," says Ian Burnstein, co-founder and chief operating officer of Storage Pros Management LLC, which specializes in the acquisition, development, improvement and management of self-storage facilities. "So that's why I offer a traditional insurance program."

Tenants typically pay for insurance with their monthly rent, says Nitzberg, who characterized the offering as "a very simple and basic process that is easy to understand by the facility manager and the tenant."

Kevin Leebrick, store manager with Advantage Self Storage in Indian Trail, N.C., says a majority of customers opt into purchasing tenant insurance. Managers at his facility use a suggestive sales tactic that helps reel in the business. "Our lease asks that all of our tenants have insurance," he

says. “Will the \$2,000 for the nine bucks a month be enough for you?” That phrase has garnered the success we’ve had over the last year.”

Tenant insurance can also provide a financial perk for self-storage operators because they sometimes reap a portion of the proceeds of the policy. For example, for every \$9 in monthly insurance paid by a tenant, Advantage Self Storage gets to keep \$3.60, or 40 percent of the proceeds, Leebrick says.

Operators who offer tenant insurance through Ponderosa Insurance Agency get to keep 30 percent of the premium for the least expensive plan, which is \$7.95 a month for a limit on personal property of \$1,000, according to Johnson. The company’s most popular plan covers \$5,000 in property, he says. Ponderosa charges a \$100 deductible for all its limits.

Similarly, it’s common for self-storage operators who offer pay-with-rent tenant insurance to retain a per-policy administrative fee ranging from 25 percent to 50 percent of the premium, according to Keith McConnell, vice president of business development for MiniCo Insurance Agency. MiniCo offers tenants coverage of \$2,500 for \$9 per month, and they have the option of covering up to \$20,000 in personal property for a higher monthly premium.

During the 2014 ISS Expo, Burnstein alluded to another benefit of tenant insurance: that it is less likely a customer with insurance will sue the self-storage operator. He cited a small-claims action in Massachusetts in which a tenant without insurance obtained a \$5,000 judgment. Storage Pros planned to appeal. The claim would have been paid if the person had insurance, Burnstein says.

“Practically speaking, it’s going to be a small-claims matter most of the time,” he says, referring to litigation against self-storage operators. “But we have a couple cases right now where there is actually somebody that’s claiming an obscene amount of money.”

Policy Improvements

Some sources says insurance carriers have been improving their policies, making insurance more attractive to self-storage tenants. McConnell says MiniCo and other companies have eliminated deductibles and are valuing stored goods based on the cost to replace the item rather than their actual cash value. “Replacement cost is a much broader and better coverage than an actual-cash-value policy,” he explained.

Competition may also be driving improvements in tenant insurance. “With the popularity of pay-with-rent insurance programs, especially over the past five years, more and more programs have been developed and introduced in the marketplace,” McConnell says.

Protection Plans

Protection plans also have their advantages. According to Dobbs, they enable operators to provide an additional layer of customer service to tenants after their personal property has been damaged. “What they do is come to you [the store manager] and start screaming and yelling. So wouldn’t it be delightful if you could say, ‘Mr. Tenant, relax. Let’s take a look at your file. The good news is you bought protection from us and we are going to respond to this situation.’”

A protection plan provides an avenue to keep customers content, Dobbs says. For example, a self-storage operator in Colorado recently received a claim from a tenant whose crockpot fell and broke in her storage unit after she bumped into a stack of boxes. Though the incident was the tenant’s fault, the owner gave her \$25 to purchase a new crockpot. Had the tenant purchased insurance, the carrier probably would have denied coverage because the self-storage operator was not negligent and breakage is not a covered peril, Dobbs says.

“Owners want happy customers who continue to pay monthly rents,” Dobbs says. “We believe the store managers and owners are better equipped to understand where customers are coming from.”

Contractual Liability Policies

Deans & Homer is among the insurance companies that sell contractual liability policies to self-storage operators to mitigate the risks associated with offering a protection plan. Without such a policy, an operator that is unfortunate enough to suffer a major catastrophe could have to pay out tens or hundreds of thousands of dollars to tenants whose damaged goods were covered under a protection plan.

In broad terms, with a \$100,000 deductible, a self-storage operator might pay \$1 for every \$10 he charges his tenants for a protection plan, Dobbs says. Operators who are averse to any risks can purchase a \$0 deductible, which enables them to collect \$4 (rather than \$9) for every \$10 per unit per month.

“Really, I’m teaching owners to manage risk in this specific tenant-program area. The reality is there are not that many claims in this whole area,” says Dobbs, who noted few claims exceed the deductibles on the contractual liability policy.

Dobbs characterized a protection plan as an “attractive profit center,” and says it’s possible for owners with at least 60 facilities to generate \$2 million or more annually by offering one.

Torrise of On The Move Insurance Agency says facilities may operate for two or three years without encountering a claim from a customer on a protection plan. Through its contractual liability policy, On The Move will cover a protection plan of up to \$50,000.

“For the most part, well-known facilities have very few claims,” Torrise says. “If you store property in a good facility, the roofs don’t leak. They are safe because they’ve got security, they’ve got cameras. You can only get into the facility with a gate access code.”

Protection-Plan Risks

There are some risks associated with offering protection plans. While insurance rates and terms are subject to approval by the state departments of insurance, Johnson of Ponderosa Insurance pointed out that protection plans are not regulated.

“Protection plans can just do whatever they want, make changes whenever they like and they don’t have to go through the approval process,” he says. “Without regulation in those protection plans, it puts the facility and the tenant at risk.” A catastrophe, such as a fire that destroys all the tenants’ belongings in a facility, could trigger a deluge of protection-plan claims against a facility.

While regulated insurance companies have reserves to pay out claims, self-storage operators using a protection plan may not have allocated funds for a rainy day, Nitzberg says. “If you haven’t been putting aside the \$10 monthly fee for a tenant-protection plan, you may not have the cash available [to pay the claims],” he says. “Then, you’ve got a problem.”

Some operators may choose to arbitrarily reject tenant claims, opening the door to a potential lawsuit, according to Nitzberg. “The only ones who win a lawsuit are the attorneys on both sides,” he says. “Not everybody out there has the financial strength and sophistication and knowledge and

commitment to run the tenant-protection program because the money is entrusted to the owner. That's where the claims get paid."

Ultimately, both tenant insurance and protection programs serve a purpose, guarding tenants against the risk of damage or loss to their belongings. "Both programs are a positive for the storage operator and the tenant if properly sold, administered, reserved and adjusted," Nitzberg says. "There are fires. There are floods. There are burglaries. That's called life. That is why you purchase insurance in the first place."

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