



Self-Storage Protection Plans: Helping Tenants and Facilities Manage Risk

There are two options for customers to protect their goods in self-storage: tenant insurance and tenant-protection plans. Many facility operators are familiar with the former but may have questions about the latter. Here's an overview.

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By Kay Miller Temple

People store stuff, and lots of it. Stuff has value, whether it be based on cost, functionality or sentimentality. But the real value of stuff becomes fully apparent when that stuff is lost, damaged or destroyed.

Though a self-storage operator isn't responsible for damage to tenants' stored goods, bad things can happen at a facility, including natural disasters and accidents. Operators brace themselves for loss by actively managing risk through various measures. They can also help tenants understand and manage their own individual risk.

There are two options for customers to protect their stuff in storage: tenant insurance and tenant-protection plans. Both can bring in extra facility revenue, but the latter does impact owner risk. Because these products are sometimes influenced by state regulations, experts say it's important to understand the particulars of each. Most self-storage operators are familiar with tenant insurance but may have questions about protection plans. Here's an overview.

History

The ability to manage the risk associated with storing goods has changed over the industry's history. In the early years, operators relied on a "release of liability" provision in their rental agreement, which stated stored property wasn't the facility owner's responsibility. Then came a tenant-insurance product. At first, customers mailed their premiums directly to the insurance company, with no involvement from the facility operator.

But in the 1980s, when self-storage management software became a standard business tool, something new happened: Facility owners became directly involved with offering insurance. These transactions were focused on tenant convenience, says Ted Dobbs, protection sales leader with Phoenix-based Deans & Homer. Insurance products were offered, premiums were collected and sent to the insurer, and a commission was passed to the facility. Later, this involvement was determined by certain government bodies to be an insurance transaction requiring a license and subject to oversight by state insurance regulatory agencies.

Since then, assisting tenants with protection has become a "good news/bad news" situation, according to Dobbs, whose company has more than 35 years of experience insuring the self-storage industry. At the time of this writing, 16 states have enacted some form of law to allow a "limited license" for managers or facility owners to offer pay-with-rent insurance. This is good news for operators in those 16 states, Dobbs says, but it's a problem for operators in the other 34 states and the District of Columbia. As an alternative to traditional tenant insurance, tenant-protection plans emerged in 2002.

The Basics

One philosophy behind the protection plan is risk sharing. Due to its flexibility—and with companies offering different products—there's no strict, standard, one-size-fits-all definition of a protection plan. So perhaps understanding what a protection plan is begins with understanding what it's not.

"The protection agreement is not insurance, it is not a warranty, and does not require the owner/operator to have an insurance license," Dobbs says. "The agreement is part of the rental agreement and is simply the transfer of some limited liability for loss or damage to stored property back from the tenant to the owner in exchange for additional rent. The facility owner may retain all of the potential liability created by this agreement, or they may transfer part of or all of that risk to an insurance company by purchasing a separate policy of contractual liability insurance."

Matt Schaller, vice president of sales and client services at Tenant Property Protection, says protection plans involve an action called contractual risk transfer. "An agreement to indemnify another is not insurance and has nothing to do with insurance," Schaller says. "This point cannot be overemphasized. Indemnification is the contractual promise of one party to make the other party whole after a loss or occurrence. Since the process of indemnification is not insurance, protection plans do not fall under the licensing laws of the states."

Protection plans can have a \$0 deductible along with a purchase-value coverage as opposed to actual-cash-value coverage often found in tenant insurance. In addition, traditional insurance often has an "other insurance" clause usually not found with protection plans, according to Schaller. "This clause can severely penalize and reduce the loss payment to a storage tenant if they have a homeowner's, renter's or business owner's policy in place at the same time," he says. "Protection plans offer much more flexibility in operation and program design."

Pros and Cons

Making a decision about a protection plan involves looking at the pros and cons from the perspective of the tenant and the self-storage business. Tenants can purchase a protection plan for their goods directly from their storage facility, which is convenient. This does, however, increase the risk for the business, prompting some operators to purchase another insurance product to lessen risk. There's also the potential for a tenant to be unhappy with the outcome of his claim as settled by the facility.

Another issue is protection products are often still viewed as insurance. Some insurers in the industry have said that no matter how you label the product, it could still be scrutinized by state regulatory agencies.

But there are also many positives to offering a protection plan, for both tenants and operators, according to Joseph Torrasi, executive vice president of insurance services for On the Move Inc. Offering such a product can actually enhance the customer experience. "The relationship and the sharing of risk are agreed upon between the tenant and the facility, not a third-party insurance carrier that has no interest in the facility's reputation or relationship with the tenant," Torrasi says.

Flexibility with pricing is an additional plus. "Prices charged to tenants for protection plans are set by the facility, or essentially the free market," Torrasi says. "We have facilities that are offering products

at no additional charge, giving the facility a competitive edge in the marketplace."

There's also a benefit to having a facility insured by one policy as opposed to hundreds of individual tenant-insurance policies. In addition, there's the increased facility revenue obtained from charging for the coverage. "Operators not only benefit from the income opportunity, the revenue is also counted as additional rent, adding tremendous value to the portfolio," Torrisi says.

When considering a protection plan, it's important to understand what it is and isn't, as well as what it can and can't do. This knowledge is an essential step in limiting your business liability and offering customers peace of mind.

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