

Addressing a Growing Market: Home Based Businesses

RECENT ECONOMIC FLUCTUATIONS and increased unemployment have prompted many people to become creative about ways to generate an income stream. The U.S. Bureau of Labor Statistics estimates that there are over 18 million home businesses in the United States, producing over \$427 billion in income. Home businesses have expanded past the home catalog party or demonstration show. In addition, it is estimated (homebusinessmag.com) that over 35 million households have active home offices. Understanding the ins and outs of insuring home businesses is essential for today's insurance professional.

Advances in technology have made it possible to operate major corporations from the comfort of one's own bedroom. Gone are the days when our children's only sources of income were babysitting, lawn care, paper routes and lemonade stands. Now they are operating Web design and hosting services. Some people may not think that selling homemade jewelry online in your pajamas should be considered a business, but if it generates more than a small amount of income (generally around \$2000), then it is a business.

Although there may be advantages to the business owner in operating from home, such as reduced expenses for rent and utilities, there are also challenges. These activities create exposures that were never contemplated by the standard homeowners policy. Working from home does not reduce the insured's need for coverage. In fact, it makes proper coverage even more critical. A fire loss to the home not only leaves the insured looking for a place to live, it may drastically decrease their income stream at a time when it is most needed.

In recent years, many new home business insurance products have been introduced into the marketplace. These products are designed to provide coverage for exposures that are excluded in the standard homeowners policy. Traditional boundaries between personal and commercial lines have become blurred. Examples include structures or personal property used in whole or in part for business, such as the insured's computer. The easiest way to pro-



vide coverage for home-based business is with either a BOP type endorsement to the homeowners policy, or with a specially designed BOP program.

Whether the home business is covered under a personal or commercial lines policy may depend more on the appetite of the insurance carrier than the actual business itself. Eligibility requirements and coverage options vary from company to company. It is important for the agent to understand these differences in order to provide the best coverage for the insured and reduce the errors and omissions exposure.

Eligibility is usually limited to four classes—office, service, sales of tangible goods, and sales of crafts. Ineligible exposures include manufacturing operations and sale of personal care or food products manufactured by the insured. The number of employees may also be an eligibility issue.

Some additional exposures to consider include inventory, items purchased and waiting for delivery to the customer, damage to customers' property and loss of or damage to valuable papers and records such as accounts receivable and customer lists. Even though storage space may be limited in a home, inventory values of even a few items, such as MP3 players or other electronic devices can be quite high. Dependent property coverage is needed to protect against loss due to losses at a supplier or major client's location.

Liability exposures to be addressed include delivery, pick up and customers' foot traffic in and out of the house. The potential liability for damage or injury caused by the business's operations or its products must also be addressed. Some businesses such as beauty parlors or consulting offices have a professional liability exposure. If the insured uses their personal vehicle on business, then a commercial auto policy may be needed.

Home businesses are a growing part of the world's economy. Providing coverage and advice to clients with a home business exposure is a value added service agents can offer to their insureds. It is critical to ask questions and address the insured's home business exposures before a loss happens that could have been covered with the proper insurance. Providing proper coverage for the home based business is the mark of a true insurance professional.

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