

# Filling a Growing Niche

## Insuring home-based businesses

WITH THE RECENT ECONOMIC DOWNTURN AND INCREASED UNEMPLOYMENT, many people have become creative about ways to generate an income stream. Home businesses have expanded past the home catalog party or demonstration show. 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 iPods on eBay 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. Advances in technology have made it possible to operate major corporations from the comfort of one's own bedroom.

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. For example, 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. The growing home business economic sector represents an excellent marketing opportunity for companies and their agents.

In recent years, there have been a lot of new home business insurance products introduced into the marketplace. These products are designed to provide coverage for exposures that are excluded in the standard homeowners policy. Examples include structures or personal property used in whole or in part for business, such as the insured's computer. Traditional boundaries between personal and commercial lines have become blurred. The easiest way to provide coverage for home-based business is with either a BOP type endorsement to the homeowners policy, or with a specially designed BOP program. Whichever method is used, it is important that businessowners type policy language is used to provide proper protection for the

insured. Customized manuals and forms give companies an edge for the types of home business clients they are targeting. Packaged coverages make it easier for agents, which lends itself to more business being submitted to the company.

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 to understand these differences in order to provide the best coverage for the insured and reduce the agent's 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 when offering coverage for the home business 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. As a case in point, for those selling electronics, inventory values can be quite high, even with the limited storage area of a home. Another property exposure to be considered is the loss of income due to a covered loss to the home. Dependent property coverage is also 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. Having programs to offer adequate, affordable coverage to these risks is essential to the modern insurance carrier. In addition, making these coverages easy for agents to use and understand will drive business to you. Understanding the ins and outs of insuring home businesses is essential for today's full service insurance organization. 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 for the professional agent, and their errors and omissions experience, to ask questions and address the insured's home business exposures before a loss happens that could have been covered with the proper insurance.

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