

Insurance Times: Inn-suring a business with character: the unique needs of bed & breakfasts
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The phrase “one of a kind” is often overused, but it arguably fits with inns and bed & breakfasts. Consider that most operate in old historic buildings and homes filled with ornate wood, antiques and unique folksy touches added by their owners.

“There is, if you will, more personality involved in the bed & breakfasts and the inns. It’s why people like to go to them,” said Abbi Seward, marketing director for Pawtucket Mutual Insurance in Rhode Island.

“They have character.”

Naturally, insurers say, that unique character prevalent in both segments of the hospitality industry gives them unusual insurance needs beyond standard policies issued to motels, hotels and other places that house overnight guests.

Different Character

“Their overall intent is the same but each one has a different feel, different character, a different personality of the owner and their approach to their guests,” Seward said.

For example, she said, bed & breakfasts tend to be smaller properties that only provide breakfast, excluding the general public. An inn, she said, might also include a restaurant, which increases exposures because it is open to the general public.

Pawtucket Mutual offers a specialty line for bed & breakfast coverage and handles a small amount of inn business.

Smith, Bell & Thompson in Burlington, Vt. actively covers both kinds of business. As a result, both companies have had experience customizing unique coverage for each business they represent.

Peter Wellman, an underwriter for Smith, Bell & Thompson in Burlington, Vt. said the age of many bed & breakfasts is the main reason why insurers must address their needs individually, compared to other hospitality hotel/motel clients.

“The age of the buildings can be anywhere back to the 1700s and 1800s,” Wellman said. “Sometimes the value of those buildings are all over the place either due to the quality of construction they were originally built with, due to frills like special woodwork or special carpentry and cabinetry.”

And these old, unique structures, as “showplaces in a local community” could cost anywhere from \$100 to \$200 per square foot to replace if fire hits and the owners must rebuild, he said.

Coverage Issues

A number of factors can affect coverage of an inn or bed & breakfast, Wellman and Seward said.

Among the issues and coverage they recommend for consideration:

Remodeling. An old building can have old wood or and old heating system and that can increase the chance of fire hazard, Wellman said. Insurers can offer credits if the owners update heating, electrical and plumbing systems as well as a new roof – all of which can reduce risk.

Higher deductibles/insurance to value. Owners can also get credits if they carry a higher deductible, or increase insurance to value coverage to close to the actual value of the building. The latter change especially can reduce coverage costs, Wellman said.

Dual business/home coverage. Bed & breakfast coverage through Pawtucket mandates that the owners live in the building, Seward said, “as most of them are.”

But owners of inns and bed & breakfasts face double risks because they maintain a separate private space as well as the business/lodging part of the building.

Pawtucket requires business coverage first and then the owners pick up personal exposure coverage on an endorsement basis, Seward said (policy revamps will include automatic dual coverage in the future).

Some businesses pick up homeowners coverage first and then add business endorsements, she said.

Wellman, at Smith, Bell & Thompson, said businesses tend to pick both personal and business coverage. General liability and personal coverage would also address the issue, he said.

Local regulatory compliance issues. Inn and bed & breakfast owners, if their property faces severe damage, should

consider the costs of rebuilding in relation to local building codes, Wellman said.

Older buildings are often grandfathered in with older building code standards he said. But some towns eliminate that clause, he said, if more than 50 percent of a building is destroyed. This creates higher rebuilding costs as a building is made handicap accessible and modernized according to fire and electrical codes.

"You may have to do the type of things that the value of the building doesn't reflect when put on insurance policies," he said. But Ordinance and Law coverage, he said, can place an additional value on a building to anticipate upgrades should damage occur.

Business income coverage. Inn and bed & breakfast owners should consider business income coverage, Wellman said, especially if the business provides a primary source of income.

For example, Wellman said, the business could take a year to rebuild after fire or flood. Income coverage comes into play because it covers loss of receipts during that period. Insureds would have to establish a past record of room receipts, however, to justify claiming the loss of income as a result of their business being shut down.

Fine arts. Unlike many motels or conventional hotels, inns and bed & breakfasts often feature fine sculpture, paintings "or antiques that make up the ambiance," Wellman said.

But those fine touches may require unique coverage. Some owners decide on personal property coverage, he said.

Others pick something called a "fine arts floater," which offers predetermined value coverage for individual pieces.

"It makes the adjustment process much easier," Wellman said, because you can get an appraisal ahead of time.

Seward, of Pawtucket Mutual, said property owners need to determine whether they'll cover their antiques or unique items under a fine arts or antiques floater or just a regular "day-to-day business policy."

Incidental operations. Some inns or bed & breakfasts incur incidental exposure costs from offering extras like restaurants, horse boarding, cross country skiing, bicycles, canoes or kayaks. Incidental operations or recreational coverage can help foot the bill, Wellman and Seward said.

Inn and bed & breakfast owners may also need incidental coverage if they choose to serve customers a complimentary drink, Wellman said, or if employees drive their car for business purposes.