



Coverage Insights

Rental Car Insurance Considerations

When it comes to renting vehicles for business use, it's important to understand your coverage options to smooth out any surprise bumps in the road. Since coverage varies from one rental agency to the next, it's important to know the risks and how to protect against them.

For years, we have been advising our clients to purchase Hired Car Physical Damage on their business auto policy and to reject the "insurance" offered when you rent a car. Since Hired Car Physical Damage covers rented vehicles the same as it would an owned vehicle, why pay more for Loss Damage Waiver (LDW) or a Collision Damage Waiver (CDW)? Because rental agreements have evolved in recent years and possibly create pitfalls for auto renters.

About Your Business Auto Policy

If you are relying on your Hired Car Physical Damage on your business auto policy to protect you, but the vehicle isn't rented by the business, the Hired Car Physical Damage coverage won't respond to claims. Your employees should use the business name on the agreement and pay with a business credit card, if possible.

Each year, the liabilities assumed under rental agreements expand. At one time, renters were responsible only for actual damage to or theft of the vehicle. Over the years, the rental car companies added loss of use. As a result, if the car is in the shop for two weeks after an accident, you, the renter, are liable for the revenue the rental car company has lost. Plus, storage fees may be passed on to you. In addition, some agreements require that you pay for "diminution of value." This is the reduction in resale value for a vehicle that has been in an accident. If you purchase the LDW or CDW offered by the car rental company, your responsibility for damages will be waived.

About Rental Insurance

Should you use coverage from the rental car company and remove the Hired Car Physical Damage from your business auto policy? This would be a good solution *if you could rely on the rental car coverage*. Unfortunately, there are provisions in every rental contract that can void the coverage. For example, coverage is often voided if the driver has a single drink before driving; if he asks someone to drive in his place and that person is not listed as an authorized driver; if the driver is under the age specified in the rental contract; or if the car is taken on unpaved roads. Unfortunately, there are many ways to void the LDW/CDW, and they vary from one agreement to the next.

About Personal Auto Policies

Some personal auto policies won't cover an SUV, van, or pickup being used for business. Plus, a personal auto policy won't cover if the employee doesn't carry Comprehensive and Collision — a likely case if the employee drives an older vehicle. Some policies exclude loss of use and all exclude diminution of value. And, if the personal auto policy does pay the claim, it will be on the driver's loss record and might result in cancellation of coverage.

About Credit Card Coverage

Will the credit card used to rent the vehicle pay for the loss if your insurance doesn't? To activate coverage, the cardholder must be the primary renter and must decline the LDW/CDW. Nothing is standard with credit card coverage, and it may be changed from time to time at the credit card company's discretion. Also, if you violate any terms of the rental agreement, the credit card coverage is voided when you need it most. Many credit cards exclude rented SUVs, and some exclude any weather-related damage, like flood and hail.

Minimizing the Risk

What should you do to minimize your risk? We recommend:

- Dealing with one corporate-approved rental company, if possible. This will establish that the rentals are for business use and that the business is renting the vehicle, not the employee. Review the contracts of at least three rental car companies and choose the one that best suits you. Make sure to sign a blanket agreement for all rentals and keep a copy on file.
- Taking the LDW/CDW coverage, or self-insure any exposures not covered by Hired Car Physical Damage. Such exposures typically include loss of use, diminution of value, storage fees, administration and claims expenses. Some loss of use may be provided by your Business Auto policy. Ask us to review this for you. Depending on how often your firm rents vehicles and the cost of LDW/CDW, self-insuring might be a good option.
- If you purchase LDW/CDW, make your employees understand the "Prohibited Uses" or other section that explains actions that will void coverage, even though you paid for it.
- Continue to carry *Hired Car Physical Damage* on your business auto policy.

Proper Planning is No Accident

Car rental insurance has important considerations. If you need help sorting through this coverage with an agent who understands your needs, call us today at P 914-337-1833. ◇

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