



## **Insurance Issues Pertaining to Vehicles Rented by City Employees**

City employees sometimes rent vehicles while traveling on City business. For instance, the employee flies to a destination and rents a vehicle upon arrival. In this case, the rental car transaction is a contractual relationship between the employee and the rental car company as evidenced by the signed agreement between the employee with no reference to the City. The insurance issues surrounding this arrangement are complex.

Liability: The rental car company generally includes in the price of the rental primary liability insurance that meets the minimum financial responsibility requirements of all fifty states. This statutory minimum coverage provides some protection to individuals involved in an accident while driving a rented vehicle. However, for claims in excess of that amount, the employee's Personal Automobile Policy (PAP) may have to become involved. In most instances, the PAP will follow household drivers no matter what vehicle they are driving, even if it is a rental. However, the PAP will not provide liability coverage for the City. Also, the MVRMA Liability Coverage Document will cover the employee as a "covered person" if he/she was working within the course and scope of their employment when the accident occurred. A review of the employee's PAP would be necessary to determine if the employee's policy or the MVRMA Liability Coverage Document would be primary coverage for such claims.

The above discussion assumes the rental agreement is between the employee and the rental company. However, if the City – not the employee – has executed the rental agreement, the employee's PAP may not become involved as the MVRMA Liability Coverage Document provides liability coverage for employees driving vehicles leased by the City.

Auto Physical Damage:

The rental contract generally holds the renter responsible for all damage to the vehicle – even weather-related damage – regardless of negligence or fault. Also, the rental company may add on additional charges for administrative costs and "loss of use" or lost profits from the damaged vehicle. Most major insurers do not cover these additional charges.

If the vehicle is being rented personally, most Personal Auto Policies that include Comprehensive and Collision will extend that coverage to rental vehicles. However, that is not always the case and the renter should verify the rental car extension with their PAP insurer carrier.

Some credit cards offer insurance for damage to rental cars, but do not cover the driver for liability – personal injury or property damage caused by the driver and for which he is liable.

Generally, this insurance is secondary coverage, meaning that the renter's insurance will pay first, then the credit card issuer will address the primary insurance's deductible and any large claims above the primary insurance limits. This coverage varies from one credit card issuer to another. For instance, some limit the coverage to "collision or theft", so vandalism and weather-related damage would be excluded. Some credit card issuers will cover the loss of use charges but only if the rental company documents the charges.

MVRMA's property coverage through APIP provides coverage for property in the insured's care, custody and control. A rented vehicle would fit that definition and be eligible for coverage; however, if the vehicle is damaged due to the negligence of the employee-driver, the APIP coverage will likely be excess over the coverage provided by the employee's PAP.

#### Collision Damage Waiver (CDW):

The CDW is expensive and confusing ... and perhaps a good idea. The CDW is not insurance. It is a waiver of the car rental company's rights to make the renter pay for damages to the car. The CDW covers only physical damage to the vehicle – not liability claims against the driver. Also, the waiver usually covers the additional – often uninsurable costs – such as "loss of use." Even though it is expensive, drivers sometimes accept the CDW to keep accidents off their insurance record, to obtain coverage for the loss of use and similar charges or to avoid the possibility of getting caught in the middle between their insurer, credit card company and rental car company in the event of a loss.

#### Impact upon the Employee:

It is important that employees understand the issues discussed above. Most employees believe when they rent a vehicle for their employer's business that the employer assumes all responsibility for the rental transaction. In fact, in most cases it is the employee who is renting the vehicle personally and it is his rental car, not his employer's. Because it is a personal transaction, there is a good chance his PAP will automatically be triggered in the event of an accident and that could result in higher premiums at the next renewal. Also, because the employee has "covered person" status under the MVRMA liability coverage, there is a strong possibility the MVRMA coverage will become involved in the event of a serious accident. In other words, the interests of all three parties could become intertwined.

#### Possible Courses of Action:

If the employer wants to insulate the employee from the impact of damages to the vehicle, they could consider:

1. Execute a blanket car rental agreement with one of the major rental agencies. Ask that the Collision Damage Waiver be included in the agreement. When an employee rents a vehicle for business purposes, instruct them to rent under the blanket agreement, or
2. Instruct employees to accept the Collision Damage Waiver for all car rentals.

In all cases, instruct employees to reserve/pay for all car rentals using a City credit card with rental car benefits.