

Corporate Exposure: Rental Car Coverage

Harry P. Mirijanian



Several months ago, the risk management community began to realize that rental car agencies have drastically altered their rental agreements—exposing individual renters and their corporate employers to potentially devastating losses.

What had once been a simple decision regarding optional insurance coverages offered at the rental agency is now a complex evaluation. Historically, employers advised employees traveling on business *not* to elect insurance protection when renting a car because they had coverage under the corporate auto insurance policy. That position may no longer be prudent, depending on a number of factors. First is the corporate auto policy. Many underwriters have restricted these policies, eliminating coverage for hired autos. Other policies indicate that they will not be primary in the event of a loss; such policies will only cover losses that either the rental firm does not honor or the individual employee's personal auto policy does not pick up. Employee personal auto policies that extended coverage used to be common, but these are also now restricted, often nullifying coverage if the individual is on company business.

Perhaps the greatest change has been with the rental firms themselves. In an effort to protect their interests, they have tightened the wording in their contracts, reduced limits of liability, and attempted to have the renter hold them harmless in the event of *any* loss if it was due to the rental agency's negligence. Let's review some of the changes.

When permitted by state law, rental

firms have reduced their limits of liability from the typical \$100,000 per injury and \$300,000 per occurrence to the minimum levels permitted by the state. In some states, these minimums are \$25,000 per person and \$50,000 per occurrence—which is not sufficient in light of the costs usually associated with vehicle loss. Some rental agreements also have provisions in the contract that hold the rental firm harmless in the event of a loss. I suspect these provisions may not hold in all states and are likely to be challenged in the courts. Clearly, if the vehicle malfunctions, how can the renter be held liable?

Rental contracts now also stipulate that their coverage is no longer primary and only sits atop other policies that may

*What was once a
simple decision
has become a
complex evaluation.*

offer coverage. This position is illegal in several states. Some state laws mandate that the rental company policy be primary on any loss. Similarly, some states allow the rental firm to cap their liability in certain cases.

There is no simple solution for corporations that want to defend themselves against such charges. There are a few techniques, however, that could prove effective. First, familiarize yourself with the rental agreement. Obviously, if you can limit your rental purchases to one vendor it will simplify the process. Also, familiarize yourself with the laws of states in which you do most of your renting. Second, if you do a significant amount of rental business with one firm,

try to negotiate a master contract for all your employees. Make certain that there are no gaps in coverage between your company's auto policy and the rental firm's coverage. Also attempt to negotiate coverage for your employees regardless of whether they use the rental car for business or personal activities.

Third, since an employee's personal auto policy may respond in the event of a loss, secure as much information as possible concerning employees' individual coverage. Some firms offer personal group auto policies through various payroll deduction plans. Be certain that there is coverage under these master contracts for rental vehicles. In addition, you should be certain that your employees have good driving records and vehicle operation practices. Offer defensive driver training classes, check MVR reports regularly, and consider requiring employees to maintain specific limits of insurance by offering to pay the difference between what they currently have and the minimum limits you require.

Fourth, most corporate auto policies have deductible provisions, so do not buy rental coverage that does not have similar deductibles. Fifth, be certain that your umbrella coverage will extend over your auto policy and the rental agency's policy. Sixth, determine whether your company credit card carrier provides automatic coverage, thus negating the need to purchase the rental firm's insurance protection.

Finally, if you are still uncertain, negotiate the best deal possible for the insurance coverages offered and purchase this protection at the rental counter. ■

Harry P. Mirijanian is president of Applied Risk, a risk management services firm established to assist the business community in reducing exposure to loss and insurance costs. He is a frequent speaker at AMA seminars.

Published as a supplement to the August 1995 issue of *Management Review*.

Finance Forum Editor: George Milite.
Forum Group Editor: Florence Stone.
Associate Editor: Anne Skagen
Senior Editorial Assistant: Grace Lander LoPinto.

Artist: Tony Serio.
Copyright 1995, American Management

Association. All rights reserved. Editorial offices: 135 West 50th Street, New York, NY 10020-1201; tel: 212-903-8073; fax: 212-903-8083; e-mail: amapubs@aol.com.

For permission to reproduce articles, contact Theresa New at 1-212-903-8283; fax 1-212-903-8083.

For multiple reprints, call 1-800-644-2464; Canadian & foreign, 717-560-2001.

For a single copy request, telephone University Microfilms International at 1-800-521-0600 Ext. 2786 (overseas, 313-761-4700).

Additional *Forums* are available to members at \$40 each. Contact Diane Laurenzo, Membership Director, AMA, 135 West 50th Street, New York, NY 10020-1201. For sample issues, call the Editorial Office at (212) 903-8073.