

Insurance

Do I need to get rental car coverage?



By Peter MacDonald,
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I recently drove the Pacific Coast Highway in California; what a beautiful part of the country. I booked our one-way rental car on my smartphone as I boarded the plane. After landing, we rushed to the rental company so we could make downtown San Francisco for sunset. But the salesman stopped us dead with an assumed close, asking “Which insurance coverage would you like to buy?”

What do you need for insurance when renting a car? Traveling Abroad? For business? Zipcar? Lyft? Ride sharing?

Walk away power

The safe approach is to buy coverage. Going on your honeymoon? Last minute, time-sensitive work need to get done? Long-awaited family vacation? Business trip with moving targets? The best coverage amounts to walk away power. If anything happens, you simply walk away and get a new car. I’ve been in two accidents with rentals and witnessed the effects of a third:

(1) Driving abroad with unfamiliar roads and traffic rules – full coverage ensured we didn’t miss a beat or a train departure (Note that full coverage does not exist. All coverage is subject to the terms and conditions of the insurance policy. However, “full” has come to be accepted vernacular.)

(2) A foreigner visiting for Thanksgiving got into a fender-bender; full coverage meant he could still enjoy his cultural visit and let the insurance company work out the claim details.

(3) A consultant we hired flew in to visit – he got hit by a driver suffering a medical condition and the airbags went off. Full coverage meant he could, after his hospital visit, stay focused on the purpose of his visit and not the details of the insurance claim. He left the car at the scene of the accident. After completing his work, he rode a bus to the airport, never dealing with or seeing the car again.

Next time you look at the cost of rental insurance per day, ask yourself: How much did this vacation/business trip cost to plan, purchase and execute? Am I willing to spend my limited time

on the phone dealing with my personal auto insurance if something happens? Or would I rather walk away?

You may already have coverage personally

You may already have some protection in place when you rent a car without knowing it. If you have your own personal insurance policy, or are named on a family member’s policy as a listed driver, you have some coverage. Furthermore, credit cards often include protection if you use that card to pay for the rental. Call your agent and credit card company to check before your next trip.

In the Massachusetts Automobile Insurance Policy, a rental vehicle is considered a substitute vehicle, which extends all of your coverage to the rental vehicle. Be careful, though: Massachusetts compulsory auto insurance limits only protect drivers in Massachusetts on public roads. Most but not all drivers extend that coverage to the whole United States (including its territories, possessions and Puerto Rico) and Canada. As long as you are in the coverage territory, you are covered like you are driving your own car.

You aren’t covered for everything

Your personal auto policy extends some coverage to your rental vehicle. But you aren’t covered outside the United States and Canada. So if you rent a car outside the U.S. or Canada, get full insurance: bodily injury, property and physical damage and loss of use.

Even in the U.S. and Canada, the Mass Auto Policy does not cover “loss of use,” original replacement parts, or the lost value of a damaged car.

Loss of use: The Mass Auto Policy will not pay the loss of income that the rental company suffers if you wreck the rental and it has to be repaired and they cannot rent out the car. Any local body shop can tell you that it takes more than one day to fix damage, especially when parts have to be ordered. You will be liable for their lost income.

Original Parts: The Mass Auto Policy pays to replace damaged car parts with like kind and quality on an actual cash value basis. They are entitled to install third-party parts and components. However, the rental company may prefer to use original and new parts if you damage a new car. You will be liable for the increased cost of the parts.

CarFax: Substantial damage to a rental car could affect its CarFax history and the perceived value by a future purchaser, even once the vehicle is repaired.

Suppose you damage a rental car. The company wants to fix the car quickly so they can rent it out again. They fix the car without first

contacting your insurance company and use readily available, brand-new, original manufacturer parts. The car is out of commission for six days. They bill you for the lost income from not being able to rent the car. They could arguably bill you for the lost value due to the CarFax history. Your insurance company gets the bill for new parts and bills you the difference for what third-party component parts would have cost.

Check with your credit card company; they may offer free or low-cost coverage for these items normally excluded on your auto insurance. There is also an endorsement available on your insurance to replace damaged parts with original parts.

The sharing economy

Insurance is not known for being innovative. San Francisco is. I noticed on my recent visit that the pink-mustached Lyft ridesharing taxis are ubiquitous. Innovation in the sharing economy is great, but it takes time for lawsuits to build precedence.

Next time you consider trying one of these forms of transportation, read the fine print. While Lyft provides \$1 million of excess insurance for drivers and passengers, Zipcar provides \$300,000 for drivers over 21, and for those under 21, “coverage is provided up to the minimum financial responsibility limits required by law in the jurisdiction in which the accident occurs or the claim is adjudicated. ... If the total amount of the injuries and/or property damage exceeds our coverage limits, Zipcar members are responsible for this excess and will be contacted.”

When your total net worth is at risk, state minimum limits (or lack thereof) are a huge risk.

Parents often call our office to remove their away-at-college child from their auto policy to save money. Consider: Will your child rent a Zipcar? Or to ride in a friend’s car? Get an “away at college” credit rather than removing them from your policy completely, as this will provide better coverage both for you and for them.

What about business use?

Business automobile insurance has more variables than personal: businesses haul goods and people; workers compensation may be involved. Discuss with your agent; follow these tips:

- Buy a Non-Owned and Hired Vehicles auto policy: it provides liability coverage for your company when employees use their own cars (non-business owned) or a rental car for business purposes. Business purposes could range from running an errand to the post office to renting a car at an out-of-state convention.


- Update the employee manual to clarify who is responsible for physical damage in the event the employee crashes his or her car under business use.
- Create a travel policy for employees and identify whether employees should rent cars in the company name or their personal name. How will they pay for rentals? Can they use the car for incidental purposes, such as extended sightseeing trips? Can a spouse accompany them on the trip? If so, can a spouse drive the vehicle? Do you travel outside the US and Canada for business? Review with your agent to make sure your auto coverage is written appropriately.

Businesses frequently buy physical damage coverage only for their owned automobiles, meaning that rental vehicles are excluded. If this is your case, make sure that employees buy physical damage coverage when renting a car under the business name! It will make your life easy and you can worry less. If you rent cars for more than about 15 days a year, it may be cheaper to add this coverage to your business policy.

Summary - to buy or not to buy?

Review your coverage briefly now before the next vacation or business travel. Do you want to just walk away and be done with it? Do you trust your employees while driving in an unfamiliar place? Does your credit card offer coverage?

Personally, I rarely purchase additional rental coverage in the United States. I know the protection my credit card company and insurance policy provide, and I am willing to assume the remaining risk. Buying the extra coverage from the rental company is expensive (in my opinion). My personal philosophy is to choose large deductibles and retain risks I can afford – such as physical auto damage and loss of use – and transfer those that I cannot afford – like a large liability settlement. In risk management, taking a risk you know you have is called active retention. What you don't want is to passively assume a risk that you don't know you have.

So on our Pacific Coast Highway trip, I did not buy the coverage, and I did not get into an accident. Risk rewarded. But no matter what, when you go on your honeymoon – get the coverage. 

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BIZNOTE

AmeriCorps helps The Family Pantry of Cape Cod

AmeriCorps volunteers recently helped break down the garden at The Family Pantry of Cape Cod. AmeriCorps is a federally funded national service movement overseen by the Corporation for National and Community Service. The Family Pantry of Cape Cod would also like to thank the dedicated shift leaders, Bruce Paige, Bill Schirmacher and Delena Previd, the Board's Garden Committee Chair Leo Cakounes and Al Donoghue, who picked up several additional tasks and kept things on track. Over 700 volunteer hours were donated by over 30 wonderful garden volunteers including those from the Cape Cod Regional Technical High School, the counselors from Camp Mitton in Brewster or Orleans District Court Community Service group who helped produce approximately 4,000 pounds of produce and 1488 bunches of herbs for the clients that come to the Pantry in need of food.