

## **SPECIAL REPORT**

### **COMMON ISSUES RELATED TO THE SHORT-TERM RENTAL OF TRUCKS, TRAILERS AND MOTOR HOMES**

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One of the most frequent questions insurance agents receive involves the extent of coverage under a personal auto policy for rented vehicles and whether they should purchase the collision damage waiver/loss damage waiver (“CDW/LDW”) from the rental company. In particular, clients are often concerned about coverage for large rental trucks, trailers and motor homes.

The odds of getting into an accident with a rented truck, trailer or motor home are extremely high. Oftentimes, the renter is driving an unfamiliar vehicle that is different in size, weight, and handling than their own car. If the renter is driving a long distance with their rented equipment, they may also be driving on unfamiliar roads and in unfamiliar driving conditions.

Rented trucks, trailers and motor homes present a number of exposures that may or may not be covered under the renter’s personal auto policy.

This Special Report discusses some of the common issues related to the short term rental of trucks, trailers and motor homes within the context of the standard automobile insurance policy (1998 ISO Personal Auto Policy). Since no two policies are the same, and policy language varies between insurance carriers, it is important that you read your policy and consult with your insurance agent to determine the exact terms of coverage, if any.

#### **LIABILITY COVERAGE**

The standard personal auto policy provides liability coverage for the named insured, resident spouse, and resident family members for bodily injury or property damage arising out of “...*the ownership, maintenance, or use of*

*any auto or trailer.*” This means that the renter’s personal auto policy will extend defense and indemnification coverage for lawsuits arising out of the *personal use* of a rented truck, trailer or motor home.

Even though “auto” may seem to imply a private passenger type car, several court cases hold that a moving truck is an auto, thus coverage applies.

**“The standard personal auto policy provides liability coverage for the *personal use* of any auto or trailer, including a rented motor home or truck.**”

It is important to note that the personal auto policy excludes liability coverage for any vehicle *while the insured is employed or otherwise engaged in any business, trade, profession or occupation.* However, the policy goes on to carve out an exception to the exclusion for a private passenger auto, pickup, van, or trailer – even if the accident occurs while the insured is engaged in a business or trade. Under this exclusion, liability coverage does not extend to *business use* of a rented motor home or truck, among other vehicles.

**“The standard personal auto policy does not extend liability coverage for the business use of a rented motor home or truck.”**

Thus, liability coverage for rented motor homes and trucks is limited to instances of personal use.

### **PIP COVERAGE – MICHIGAN NO FAULT**

The Michigan No Fault Act provides Personal Injury Protection (PIP) benefits for certain auto-related injuries. There are no unique exclusions concerning PIP coverage for bodily injuries arising out of the operation, maintenance or use of a truck, trailer or motor home.

### **UNINSURED & UNDERINSURED MOTORIST COVERAGE**

Uninsured motorist (UM) coverage is a policy option which covers the insured for bodily injury caused by another motorist who was uninsured at the time of the accident. Underinsured motorist (UIM) coverage is a policy

option which covers the insured for bodily injury caused by another motorist who did not maintain sufficient liability limits at the time of the accident. If purchased, both UM and UIM coverage would apply to injuries arising out the operation, maintenance or use of a truck, trailer or motor home with no unique exclusions.

### **PHYSICAL DAMAGE**

Physical damage to rented motor homes or trucks is not covered under the standard personal auto policy. The language of the policy indicates that the insurance company “...will pay for direct and accidental loss to any...non-owned private passenger auto, pickup, van or trailer.” This language impliedly excludes all physical damage coverage for non-owned truck and motor homes.

**“Physical damage coverage under the personal auto policy does not extend to rented motor homes or trucks.”**

Since the policy does not provide physical damage coverage, it becomes imperative that the insured purchase the CDW/LDW from the rental company. Essentially, the CDW/LDW precludes the rental company from charging the renter for certain damage to the rental vehicle as long as renter complies with all terms and conditions of the waiver. Without this waiver, the renter will have to come up with funds to cover the damage to the motor home or truck, loss of rental charges, and administrative expenses imposed by the rental company.

Also, note that if the vehicle rented is a trailer, the standard policy only provides \$500 of physical damage coverage. Considering that many camper trailers are valued in excess of \$40,000 it is imperative that the renter purchase the CDW/LDW from the rental company.

In conclusion, personal auto policies provide very limited coverage for rented trucks, trailers and motor homes. Policy forms differ between each insurance company and coverages vary depending on the circumstances of each case. Please call Marsh and McLennan Agency LLC with questions about your coverage or if you have additional concerns regarding this issue.

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