

RISK MANAGEMENT BULLETIN

ISSUE: Insurance Guidelines for Vehicle Rentals/Lease



Our office receives many insurance questions from agencies when they rent vehicles. Should the insurance offered by the rental/lease company be purchased or not? To assist you, we offer to you the following guidelines. For those exposures for which we do not offer coverage, we recommend the following:

Agencies should, as a minimum, purchase the vehicle liability coverage offered by the rental/lease agency. Agencies should consider purchasing the physical damage coverage (comprehensive and collision) offered as well, since the agreements generally make the renter/lessee responsible for any and all damage to the vehicle.

Please note: Risk Management Division insures all Central Fleet (CFM) vehicles. These guidelines do not apply to CFM vehicles. Should you have any questions on these guidelines or our reasons for them, please don't hesitate to call Risk Management Division.

GUIDELINES

CLASS I Rentals/Lease - In State Usage

Short Term - less than one week

We do not offer any coverage.

Long Term - more than one month

With adequate notice, we can consider a request to insure for liability on a case by case basis. We will not insure physical damage.

CLASS II Rentals/Lease - Out of State Usage

We do not offer any coverage with one exception - a lease of 12 months or more. With adequate notice we will consider a request to insure for both liability and physical damage on a lease of 12 months or more.

GENERAL INFORMATION

WHY WE DON'T INSURE PHYSICAL DAMAGE COVERAGE FOR ALL VEHICLES. Rental and leased vehicles are, for the most part, newer models with low mileage. It is our experience that these companies are very difficult to deal with on claims. They want every nick and scratch paid for. They insist on new parts and usually won't accept after market or used parts. Yet, we are only legally required to "put them in the same condition they were before the loss". There is a potential gap in what you sign for in the contract and what we cover. That is why, except under very controlled circumstances, we will not offer physical damage coverage.

WHY WE DON'T INSURE SHORT TERM RENTALS OR LEASE FOR VEHICLE LIABILITY INSURANCE. The premium we charge you for vehicle liability insurance is based on the vehicle count which you send us each September. Short term vehicles are obviously not accounted for in this count, unless they are long-term. Thus, we are not charging for any coverage for rental vehicles. We cannot provide you coverage we do not charge for. What we often hear are things like "But I'm willing to pay you for one day's coverage". To insure and charge on a vehicle specific basis for short term is not economically feasible for us, and the administrative burden is more than our small staff can handle. Requiring agencies to purchase coverage from rental/lease companies puts the cost where it belongs - on each agency getting the service and not spread across all state agencies.

WHY WE HAVE STRINGENT CONDITIONS ON OUT OF STATE TRAVEL Our vehicle liability premiums are based upon several factors. One factor is the collective loss experience of State drivers driving on Maine roads with Maine laws and Maine traffic patterns. Anyone who has driven, for example, in Boston as compared to Portland knows there is a big difference in density of traffic, motor vehicle laws and overall driving patterns. (There is a reason Maine drivers pay considerably less for vehicle insurance than Massachusetts drivers.) The exposure to loss out of state is higher. Our rates do not reflect this higher exposure.

Another factor is the Maine Tort Claims Act, upon which our vehicle liability coverage is based. This statute provides certain immunities and protections to the State. Our rate is based in part upon enjoying these protections. Should a claim occur outside the State, these protections would not exist. The State could be sued for an unlimited amount. Recognizing this, Risk Management Division has purchased commercial insurance coverage to increase the vehicle liability insurance limit to \$1,000,000 per loss when you are traveling outside the State. (Still, a claim could occur that exceeds even this limit.) Our premium for this commercial coverage is based on the number of vehicles that the State owns and "incidental" out of state travel with these vehicles.

When we have vehicle claims here in Maine, our in-house staff investigates, adjusts and settles them. If legal counsel is needed, we use the Attorney General's Office. It is very difficult to adjust out of state losses from our office here in Augusta. Our staff cannot afford to be out of State for the length of time a difficult claim could demand. The alternative is to hire out of state investigators, adjusters, appraisers and legal counsel. These extra costs are not contemplated in our rate.

Besides unfamiliar roads and laws, the employee is driving an unfamiliar vehicle in a rental situation. The combination of all of these factors mentioned make this an exposure, which requires stringent controls and oversight.

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