

One of the most frequent questions we get asked is whether the insured is covered or not if they rent a car. Since it is that time of the year when vacations are getting into full swing, we decided to make this our “Article of the Month”.

To paraphrase Shakespeare, “To purchase the CDW or not to purchase the CDW, that is the question.” It has been debated for years whether or not a person renting a vehicle should purchase the Collision (or Loss) Damage Waiver from the rental company. **Our recommendation is that consumers, in general, SHOULD purchase the CDW / LDW, at least for short-term rentals.** Our reasons are given below.

The Top 10 Reasons to Purchase the Rental Car CDW / LDW (Collision Damage Waiver / Loss Damage Waiver)

- 1. Loss Valuation.** The personal Auto Policy (PAP) covers the lesser of the “actual cash value” of the vehicle or the amount “necessary” to repair or replace the damaged property. The rental agreement may very well contractually obligate you to reimburse the rental company for the “full value” of the vehicle. The PAP also does not pay for any “*betterment*” (increased value of new parts replacing old ones) of the vehicle, nor any “*diminution*” of value (if the market value of the vehicle after repairs is less than that before the accident).
- 2. Loss Settlement.** As implied above, there may very well be disagreement over the value of the vehicle or the amount charged for labor and materials to repair it. Your auto policy’s Appraisal clause may be invoked with its accompanying costs. More importantly, the insurance company has the right to “*...inspect and appraise the damaged property before its repair or disposal.*” However, the rental company, unlike you, is not contractually obligated to the insurer . . . it may choose to make the repairs immediately, potentially resulting in a lack of PAP coverage because of failure to comply with this contractual condition. In any case, purchase of the CDW usually allows the renter to “walk away” without the headaches involved in adjusting an auto claim.
- 3. Loss Payment.** The rental agreement may require immediate reimbursement for damages, and it is customary practice for the rental company to charge your credit card. This can create a significant debt, “max” out the card’s credit limit (perhaps shortening a vacation or business trip), result in litigation, etc.
- 4. Loss Damage Waivers (LDW).** Rental agreements often make the renter responsible for *any* loss in value beyond normal wear and tear, regardless of the cause and regardless of fault. In order for your PAP to respond, you must insure at least one vehicle for both collision and other-than-collision (often called “comprehensive”) coverage. If not, your policy will not respond to rental car damage and loss of use claims.
- 5. Indirect Losses.** You will most likely be responsible for the rental company’s loss of rental income on the damaged unit. Your policy has limited coverage for these charges.
- 6. Administrative Expenses.** The rental contract may make the insured liable for various “administrative” or loss-related expenses such as towing (e.g., one insured was charged for a 230-mile tow), appraisal, claims adjustment, storage, etc. Some of these expenses may not be covered by the PAP.
- 7. Other Insurance.** The PAP says that it is excess over: (1) any coverage provided by the owner of the auto, (2) any other applicable physical damage insurance, and (3) any other source of recovery applicable to the loss – travel policies, credit card coverages, etc. The potential controversy over who pays what is obvious and can result in litigation. In addition, keep in mind that many states have statutes, proprietary policy forms, and/or case law precedents that may govern this and other rental car exposures.
- 8. Excluded Vehicles & Territories.** The PAP normally does not provide physical damage coverage for motorcycles, mopeds, motor homes, or other vehicles that are not private passenger autos, pickups, vans, or trailers. In addition, use of covered vehicles is limited to the U.S., its territories and possessions, Puerto Rico, and Canada (the rental agreement may also exclude operation outside a specific geographical area). If you rent a trailer (U-Haul, camper trailer, etc.), coverage is limited to \$500.

9. Excluded Uses & Drivers. The PAP may have limitations on use of vehicles that are not otherwise excluded by the rental agreement CDW or LDW. Also, the PAP may include an exclusionary endorsement for certain drivers or may apply only to designated individuals – the CDW will probably also only apply to certain individuals, but operators for which no PAP coverage is available may be afforded protection under the rental agreement by adding them as designated drivers.

10. Additional and/or Future Costs. The PAP will most certainly include a deductible in the range of \$100 - \$500 or more. In addition, payment for damage to a rental car may result in a significant premium increase (if not nonrenewal) via surcharges or loss of credits.

Although most CDW/LDW fees are considered outrageous, if not unconscionable, **we advise you to purchase the CDW/LDW for short-term rentals.** If anything, this will give you peace of mind while on vacation or business, and it could save you from a lot of inconvenience and lost time and money.

Other Tips:

When you rent a vehicle, ask for an advance copy of the rental agreement in order to determine your contractual obligations for damage ... a few rental car companies post this information on their web sites. Here is a listing of several national rental car company web sites:

- Advantage <http://www.arac.com>
- Alamo <http://www.goalamo.com>
- Avis <http://www.avis.com>
- Budget <http://www.budget.com>
- Dollar <http://www.dollar.com>
- Hertz <http://www.hertz.com>
- National <http://www.nationalcar.com>
- Payless <http://www.paylesscar.com>
- Thrifty <http://www.thrifty.com>

In addition, if you will be traveling abroad, check out <http://www.auto-europe.com> for information about driving requirements and rental car programs in Europe and other countries around the world.

- Be sure to inspect the rental vehicle for existing damage to the interior and exterior and get their acknowledgement of such damage in writing before leaving the premises.
- Be sure to take proof of insurance with you on your trip.
- Carry an inexpensive disposable camera with you on your trip to document existing damage or damage that may occur while using the vehicle.

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