

Client Communications

Rental Car Coverage

Should I purchase the Loss Damage Waiver offered by the rental agent when I rent a vehicle?

This is a great question, and one that our customers ask frequently. Whether you rent a vehicle for personal use while on vacation, or as a substitute while your vehicle is out of commission for repair or service, or for business use while out of town, there comes that time when you're standing at the rental car counter and the agent asks the inevitable question: "Do you want to buy our loss damage waiver (or our insurance coverage)?"

Most loss damage waiver (LDW) fees are outrageous. Sometimes they cost more than the daily rental fee itself. But are they worth the additional cost? The answer may depend on your tolerance for risk and inconvenience. You must decide if the extra cost is reasonable, considering the potential for an uninsured loss should something happen to the vehicle during the term of the rental contract, and the resulting inconvenience of dealing with the rental company and your insurance company to satisfy the rental company's demands.

First, you should know that the LDW is not actually an insurance policy. It is a waiver of the rental company's requirement in the rental contract that you bring the vehicle back in the same condition as when it left their lot. Most rental contracts make you responsible for **any** damage to the vehicle, including theft and weather-related damage. When you purchase the LDW, the rental company is removing that provision from the contract on a conditional basis.

If you don't purchase the LDW and the vehicle is damaged, here are some of the costs for which you could be held responsible under the rental contract:

1. Cost to repair damage to the vehicle, or the full value of the vehicle if it is a total loss
2. "Diminished value" of the vehicle – the difference between what the vehicle was worth before the accident and what it is worth after repairs have been made
3. "Loss of use" – the amount of money the rental company loses on rental fees while the vehicle is out of service for repair or replacement
4. Administrative or loss-related expenses incurred by the rental company, such as fees for towing, appraisal, and claims adjustment, plus general office expenses for handling the paperwork

Whether all or any of these costs are covered by your personal auto policy depends on several factors. One big factor is the type of personal auto policy you have purchased. Insurance companies sell different policies in Texas and the coverage and exclusions are not the same from one company to the next. Some companies sell a policy that covers damage to the rented vehicle in the liability section of the policy, while others sell a policy that covers damage to the rented vehicle in the physical damage section. Each type of policy is discussed separately below.

We encourage you to ask your agent which type of policy you have, because as you will see, the differences are significant.

Reasons to purchase the Loss Damage Waiver when you have a policy that covers damage to the rental vehicle in the liability section:

1. **Your limit of liability may not be sufficient to satisfy the rental company's demands.**

Coverage for damage to the rental car and related costs are provided by the property damage liability section of your personal auto policy. If the property damage limit of liability is not sufficient to cover the value of the vehicle you rent, plus pay for any other costs the rental company demands, you will be personally responsible for the costs that exceed what your insurance company has to pay.

2. Your policy may exclude rented pickups and vans used for business purposes.

If you rent a pickup or van for business purposes, your personal auto policy may not provide coverage at all. Some insurance companies consider an SUV to be a pickup or van, and may therefore not cover any damages arising out of the use of an SUV rented for business purposes.

3. Your premium may go up or your policy may not be renewed if you have an at-fault accident.

You are driving an unfamiliar vehicle in unfamiliar territory. If you have an at-fault accident while driving the rented vehicle, your insurance company may hold it against you – with a premium surcharge or perhaps even non-renewal.

4. Your line of credit may be adversely affected.

If you don't buy the LDW, the rental company will probably ring up an estimated damage amount on your credit card, pending notification to and settlement by your insurance company.

5. You may suffer a huge inconvenience.

When you have purchased the LDW, you can bring a damaged vehicle back to the rental company, throw the keys on the counter, and walk away. When you haven't purchased the LDW, you may have to spend a significant amount of time dealing with the rental company and your insurance company.

Reasons to purchase the Loss Damage Waiver when you have policy that covers damage to the rental vehicle in the physical damage section:

1. Your policy may not cover damage to the rental vehicle at all.

Coverage for damage to the rental vehicle and related costs are provided by the physical damage section of your personal auto policy – **IF** your policy provides physical damage coverage on at least one of your covered vehicles.

2. Your insurance company may not pay the entire amount demanded by the rental company.

When your policy provides physical damage coverage on one of your covered vehicles, the policy covers damage to a rented vehicle. The amount payable by the insurance company is the lesser of the "actual cash value" of the vehicle or the amount "necessary" to repair or replace the vehicle, minus your deductible. In addition, the policy covers "loss of use" with a daily limit (usually as low as \$20 per day) and a maximum limit (usually \$600), and there is usually a 1- or 2-day waiting period before the policy will begin to pay these expenses. Because of all these limitations, you may become personally responsible for:

- The amount demanded by the rental company to repair or replace the vehicle in excess of "actual cash value" or the amount "necessary" to repair or replace;
- The amount of your deductible;
- The amount demanded by the rental company for "loss of use" in excess of the daily and maximum limits payable by your insurance company;
- The amount demanded by the rental company for "diminished value" of the vehicle, even after the repairs are complete;
- The amount demanded by the rental company for administrative or other loss-related expenses.

3. Your policy may exclude some electronic equipment.

Your policy may exclude loss to some electronic equipment that receives or transmits audio, visual or data signals. If you rent a vehicle equipped with a GPS receiver, for example, your policy may not cover it.

4. Your premium may go up or your policy may not be renewed if you have an at-fault accident.

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When you have purchased the LDW, you can bring a damaged vehicle back to the rental company, throw the keys on the counter, and walk away. When you haven't purchased the LDW, you may have to spend a significant amount of time dealing with the rental company and your insurance company.

Bottom Line

We recommend that you buy the Loss Damage Waiver from the rental company.

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