

Is your rental or leasing operation adequately protected?



Guest editorial
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Contingent auto lease liability insurance is a commercial insurance product that typically protects the lessor (vehicle owner) in third-party liability claims. How do you determine whether or not this is a product you need? How do you know if this is an area in which you have some risk, but are likely unprotected?

These are common questions that are relatively easy to answer when discussing Contingent Auto Lease Liability (also known as Contingent Lease coverage). Are you an upfitter with stock you would either lease or rent to a reliable customer or are you a dealer who will sometimes lease or rent to a prospective buyer? If you answered yes to either question, you have some exposure and are a likely candidate for Contingent Auto Lease Liability insurance.

Scenario 1

You have an upfitting operation, and during the course of your work, you find yourself with units you own for either your commercial use (parts running, delivery, etc.) or that are part of a growing inventory of completed vehicles held for sale. You are approached by a loyal customer who wants to rent one of your vehicles, perhaps for a seasonal need. Being a conscientious business owner, you collect an insurance certificate from your customer showing they have their own insurance coverage, have them sign a rental agreement with the agreed-upon terms, and off they go in your vehicle.

Scenario 2

You are a truck dealer and repair facility. (Note, if you only loan a car to a customer while theirs is in for repair, you may not need Contingent Liability. Most Commercial Auto or Dealer policies cover this exposure.) You have a large inventory held for sale with a clientele of regular buyers. A customer wants to purchase a truck of a different size or style than they're typically running in their fleet. However, they're unsure of the vehicle's handling — so to be sure it suits their needs, they want to rent a vehicle from you, perhaps for several months or longer, before buying. This provides the opportunity to test the prospective unit for compatibility for the client's operation. Again, you collect an insurance certificate from your customer showing they have their own insurance coverage, have them sign a rental agreement with the agreed-upon terms, and off they go in your vehicle.

Is your liability in this arrangement covered?

After all, you have a signed rental (or lease) agreement and a copy of the client's insurance coverage. But the answer is "not necessarily" — because your customer may

- 1) Have let their insurance lapse, unbeknownst to you, or
- 2) Have inadequate limits to cover a liability loss

Even though your rental agreement stipulates the customer is required to insure the vehicle, the situation gets muddy when a claim occurs and either of the previous examples is true. How can you require the customer to insure a vehicle on a policy that no longer exists or in which the limits are exhausted?

So, let's say your customer is in a serious accident, causing damage to a third party. That injured third party looks to your customer for

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damages; however, your customer's policy doesn't have adequate limits to provide relief to the claimant and they now turn to you, the vehicle owner. In this scenario, your Contingent Auto Lease Liability could step in to protect you.

The policy stipulates that it will pay for "bodily injury" and/or "property damage" in the event there's a claim involving a covered leased/rented vehicle when the following are true:

- You have collected a certificate of insurance (or equivalent, like a copy of the policy) from your customer naming you as additional insured and loss payee
- Your customer's insurance is not collectible at the time of the accident
 - If your customer has insurance but the limits are exhausted, your policy will pay excess of your customer's limits

- If your customer's policy has cancelled, your policy will pay until the earlier of either 1) you regain custody of your vehicle or 2) 30 days after the cancellation date of your customer's policy

Contingent Auto Lease Liability can be a difficult product to purchase, as many agents and underwriters are not comfortable with the risk and may not know how to rate for such an exposure. However, diligence is paramount in this insurance marketplace. There are agents and underwriters who are familiar with your operations in the work truck industry and are quite comfortable underwriting such exposures if you're willing to ask the question and find them.

JD Fulwiler & Co. Insurance developed the Work Truck Total Protect program to provide the industry with underwriting, risk assessment and loss prevention services. JD Fulwiler will shop among many top insurance carriers with which it does business to find a coverage solution that best meets your needs. Learn more at ntea.com/partnerships or call 800-441-6832.

