Jim's Perspective…

Loaner Vehicle From The Repair Shop

The insured has three vehicles insured under his auto policy. He has collision coverage on only two of the vehicles. The third vehicle, a Buick, was taken to a repair shop to fix some mechanical issues. The insured left the repair shop in one of the shop's loaner vehicles, a Ford. The insured caused an accident while driving the Ford. The question presented is whether the insured has collision coverage for damage to the Ford since he had no collision coverage on the Buick in for repairs.

The Ford would be classified as a "temporary substitute" auto in some auto policies. "Temporary substitute" is defined to mean an automobile not owned by you or your spouse, if it replaces "your automobile." "Your automobile" is defined as "the automobile or vehicle described on the Declarations page." Note that this definition of "your automobile" does not provide any method for specifically attaching the coverage of the Buick (or lack thereof) to the rental vehicle.

The physical damage coverage section for, "coverage for the use of other automobiles," states: "The coverages in this section you have on "your automobile" extend to a loss to a "newly acquired automobile," a "temporary substitute automobile" or a "non-owned automobile." This sentence gives a "temporary substitute automobile" the coverages that you have on "your automobile," which is, according to the definitions, any auto you have listed on the declarations page. Again, it does not limit the coverage to only the coverage you had on the auto that's being repaired.

I have seen instances where new inexperienced adjusters will assume that the lack of collision coverage on the insured vehicle in for repairs means that the loaner vehicle has no collision coverage either. Keep in mind that the definition of "your automobile" is not described in a way that narrows collision coverage as a benefit that runs only from the auto in for repair to the loaner vehicle.

There are other auto policies that avoid this collision coverage issue when the insured is legally liable for damage to the loaner vehicle by providing liability coverage for the loaner vehicle. Two advantages of this coverage arrangement are that no deductible applies to the damaged nonowned auto and more individuals purchase liability insurance than physical damage insurance.

I looked at a 2018 ISO personal auto policy, and it's definition of "your covered auto" includes "any vehicle shown on the Declarations Page" and it also includes "any auto you do not own while used as a temporary substitute for any other vehicle described in this definition which is out of normal use because of its . . . repair." The physical damage coverage applies to "your covered auto", so it is pretty clear that the loaner vehicle has collision coverage as long as at least one "covered auto" has collision coverage.

Overall, the risk exposure of damaging a loaner vehicle is something that should be covered under a personal auto policy. However, each insurer may approach coverage of this risk exposure with different policy language. Of course too, all personal auto policies are subject to regulatory review by the state department of insurance. Some insurers simply follow the ISO form which allows the regulatory process to proceed a little more quickly.

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