

Insurance Demand Puts Squeeze on FBO

Rental Car Contract Ruining Relations

By AIRM Staff

Fixed-base operators, or FBOs as they are collectively known, are finding themselves in an unsolvable quandary when it comes to requests to add rental car companies to their insurance policies.

The issue, which seems to affect mostly smaller airports where there is not enough volume to staff a full-time rental car agency counter, has come to a head for several FBOs recently as they seek to renew their concessionaires contract with Enterprise Rent-A-Car.

“They want us [and our insurance] to be responsible for anything that happens due to a car we release to one of their customers,” said one FBO manager in Georgia, who asked not to be identified.

It seems that rental car companies, particularly Enterprise, are seeking to be added as an additional insured on an FBO’s liability insurance. Unfortunately, aviation insurance underwriters and brokers say, the FBO’s general airport liability coverage would exclude losses due to operation of an automobile and they have a very limited ability to get commercial automobile liability insurance. They also point out that the terms put the FBOs in a Catch-22 situation.

“This is the first we’ve heard of this concern,” said Brad Carr, Vice President of Business Development for Enterprise Rent-A-Car Co. He said the company has neither recently changed its contract language nor are looking to hold FBO’s responsible for the actions of the driver of a rental car after they leave the terminal.

Carr said that Enterprise wants to be added as an additional insured on the FBO’s general liability coverage as it would relate to the negligent entrustment of a rental vehicle, such as the FBO making sure it received a valid drivers’ license, properly filled out the rental agreement and ensures that the driver was not in an impaired state prior to handing over the keys.

“We believe this should fall under their general liability policy,” Carr said. “It would be their responsibility to cover any mistakes or misrepresentations on the contract for the rental car.”

Industry experts and aviation underwriters, such as Chris Jones, Executive Vice-President of Underwriting and Chief Operating Officer at Aerospace Insurance Managers in Dallas, say that to agree to these terms leaves an FBO wide-open to a potentially large financial liability.

In order to provide its customers with rental cars, Jones said, an FBO must somehow purchase an insurance product that does not currently exist or knowingly sign an agreement and provide an insurance certificate which it knows will not be honored by its insurer and puts the FBO financially in the gap. To say the situation is frustrating is too mild, according to FBO operators.

Most at risk, Jones explains, are the smallest FBO operators as they likely would not attract significant property [casualty] liability coverage. They would also need the non-aviation insurance market to cover themselves properly in the type of rental agency contracts they are being asked to sign, he added.

“We feel the automotive [insurance] market should come out to provide a product for this need, except most of them run screaming from anything that even mentions an airport,” Jones said.

Ray Meyer, President and Airport Manager for Executive Flight Center in Meridianville, Ala., spoke with AIRM recently after meeting with representatives of Enterprise.

“I’m not sure we have all the answers yet. They claim all they want is to be named on our general liability policy, in case we were negligent in [renting] one of their vehicles to an unqualified person,” said Meyer. “Our insurance broker says our liability coverage won’t allow for that, so we won’t sign [the contract] and go out on a limb.”

Meyer said even if he could get commercial automobile liability insurance, the cost for it would surpass any revenues from renting the cars on Enterprise’s behalf.

The FBO operator in Georgia was able to get the objectionable language struck from the renewal of its concessionaire’s contract.

“There must have been a case somewhere that made them try to ‘cover your ass’ themselves by letting the FBO take the risk,” the Georgia airport manager said.

Enterprise’s Carr said he knew of no specific incident relating to an FBO renting a vehicle that would have prompted a change in Enterprise’s concessionaire’s contract.

The costs of defending a case, such as a fatal accident where a driver of a rental car from an FBO was involved, could be substantial, according to Jones.

“We have a case in New York right now where we are being billed by our attorney for \$30,000 per month,” Jones said.

In general, insurance companies will decide to defend a decision over whether a claim is a qualified loss or questionable by weighing the cost to settle versus the cost to litigate. If the cost of going to court is higher, Jones said, “you pay and save your pennies for another

fight.” He is quick to note that he has never seen an FBO rental situation result in litigation in all his 29 years in the industry because the issue is very narrow. →