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New Jersey Federal Court Applies Rental Exclusion and Non-permissive Use Exclusion to Crash of Rented Auto

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California Casualty & Fire Insurance Co. v. Montez, 2024 U.S. Dist. LEXIS 8641 (D.N.J. Jan. 17, 2024)

January 17, 2024, the United States District Court for the District of New Jersey held that a rental exclusion and a non-permissive use exclusion applied to bar coverage for a liability claim and a first-party collision claim, respectively. The insured rented a Ferrari and permitted her sister's boyfriend to drive it, when he immediately crashed and totaled the car. The boyfriend did not possess a driver's license. The insurer commenced a declaratory judgment action, asserting that a rental exclusion and a non-permissive use exclusion applied to the separate coverages. The rental exclusion provided that no liability coverage was available for damage to property "rented to, used by, or in the care of that insured." The court easily found that the Ferrari fell within the scope of this exclusion, notwithstanding that the boyfriend, a non-insured, was driving. On the first-party collision coverage, an exclusion applied to loss to any non-owned auto when used by an insured "without a reasonable belief that [the insured is] entitled to do so." Because the rental agreement expressly provided that only the actual renter was permitted to drive the car, the court held that the non-permissive use exclusion applied to the collision coverage, as the renter could not reasonably have believed that the boyfriend, an unlicensed driver who did not himself rent the car, was permitted to operate the auto. In doing so, the court held that New Jersey's "initial permission rule" which applies the concept of permission broadly, did not apply in the first-party context, as no public policy considerations are implicated.