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## Recreational Marine For Our Customers

### Boat Insurance 101

Get the right coverage for your boat

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### Introduction

Insurance coverage is the same from company to company, right? While that may be true for many kinds of insurance, it is not necessarily true for boat and yacht insurance. For instance, automobile or homeowners insurance coverage is very similar -- sometimes identical -- from company to company. On the other hand, marine insurers providing boat and yacht insurance offer a wide range of coverage suited to that company's level of expertise, underwriting appetite, and type of customer they wish to attract.

This article will attempt to describe the basic coverages that are available under boat and yacht insurance policies, and the items that should be considered before selecting a policy\*. We will also point out the factors that the marine underwriter contemplates when determining the rate to charge a customer. We hope that this will help in making a more informed decision when purchasing insurance for your boat. Only you can decide on the right combination of coverage and price that suits your needs.\*\*

### Start with the Basics\*\*

Let's start by describing the two basic sections of a typical boat or yacht insurance policy: physical damage and liability. The physical damage section covers accidental loss or damage to the boat and its machinery. This not only covers the hull and the engine(s), but also the sails and other equipment on board that are required to operate the boat.

The liability section, sometimes referred to as Protection & Indemnity, covers your legal obligations to third parties. This legal liability can arise from bodily injury or loss of life, or damage to someone else's property, as a result of the ownership or operation of your boat. Liability coverage also helps pay for your legal defense if you are sued for a liability that may be covered under your boat insurance policy.

### Physical Damage — What Losses are Covered?

Physical damage coverage generally pays for repairs to your boat that are necessary as a result of damage caused by a wide range of perils. The best policies provide "all risk" coverage, which means that if the cause of loss is not specifically excluded, it is covered. Typical causes of loss that are covered include: weather-related perils such as wind, rain, hail, lightning and wave action; fire; loss or damage caused by theft or vandalism; and collisions with docks, submerged or floating objects or other boats. It is wise to select a policy that continues to cover your boat while it is stored on land, or while you transport your boat over land by trailer.

The boat owner has the responsibility to maintain their boat, and so normal wear and tear is often excluded under a boat or yacht policy. The number and type of physical damage exclusions vary from company to company, so take the time to compare to avoid surprises later.

### Loss Settlement - Agreed Value vs. Actual Cash Value

When comparing physical damage coverage, the most significant difference that can be found among boat or yacht insurance policies is whether the coverage is based upon "agreed value" or "actual cash value" (ACV) loss settlement. Agreed value policies normally pay the amount shown on the policy if the boat is considered to be a total loss. Under such a policy, damage resulting from a partial loss is generally paid for on a replacement cost (new for old) basis, less your deductible; that is, physical depreciation will not be factored into determining the value of the lost or damaged items. However, some items that are subject to higher amounts of normal wear and tear, such as canvas, sails, trailers and some machinery, may be subject to allowance for depreciation in the event of a covered loss.

An actual cash value policy provides less coverage than an agreed value policy, but generally at a lower cost. An ACV policy provides coverage up to the current market value of the vessel in the event of a total loss, taking into account depreciation and the condition of the boat at the time of the loss. Payments made for partial losses are usually reduced based upon physical depreciation of the lost or damaged items, and the policy deductible is also applied.

While an agreed value policy typically costs the boat owner more, and provides broader coverage, an actual cash value policy may suit the needs of an owner looking for an economical alternative. Your insurance professional can explore these options with you.

## **Personal Property and Towing & Assistance**

Two additional coverages often found in boat and yacht insurance policies are: Personal Property coverage, and Towing & Assistance coverage. Personal Property coverage includes such items as clothing, personal effects, and sports and fishing equipment belonging to you or your family while those items are being loaded/unloaded and while aboard your boat. Similar to physical damage coverage, there are exclusions that vary from company to company, so it pays to compare.

Towing & Assistance coverage reimburses you for the costs that you incur when you need emergency assistance for your boat, and you and your boat are not in immediate danger. Some examples of emergency services that you may need which may be covered include: towing to a place where repairs can be made; delivery of fuel, oil or parts; or emergency labor while underway. Check before hand to determine whether a deductible applies to this coverage.

## **Liability — Other Important Coverages**

The liability section of a comprehensive boat insurance policy provide many coverages that are important to boat owners. Coverage for the removal or disposal of the wreck of your boat is important to have, especially if the wreck is deemed to be a hazard to navigation. Boat owners may also be responsible for any containment and clean-up expenses resulting from oil pollution or contamination caused by their vessel. It's important that your boat or yacht insurance policy covers your liability for those clean-up expenses, which could add up to a considerable amount. If you ever intend to borrow someone else's boat, confirm that your liability coverage extends to the other boat. This is called "non-owned" boat liability coverage. Finally, boat owners who employ paid crew members should ensure that their policy covers their liability to the crew under the Jones Act and General Maritime Law.

A good policy will also provide a separate coverage for your liability under the Federal Longshoremen's and Harbor Workers' Compensation Act. This will cover your statutory liability to temporary shore-based workers, such as a mechanic or marina employee, if they become injured aboard your boat.

Most boat and yacht policies exclude coverage while your boat is chartered to someone else, or used to carry passengers for a fee. Under the right circumstances, a good marine insurance company may extend your coverage to include those situations. So ask first to ensure that you will be properly protected.

## **Medical Payment Coverage**

You should verify that your policy has an adequate limit of coverage for Medical Payments. Medical Payment coverage will pay for first aid treatment, ambulance, hospital and other costs that result from someone being injured on your boat, even if

you are not legally responsible. It is important to ascertain whether the coverage also applies while someone is boarding or leaving boat, and while being towed behind your boat, such as while water skiing. Check to make sure that injuries to you and your family are also included in this coverage. Given equal amounts of insurance, coverage on a "per person" basis may be preferable to coverage on a "per accident" basis.

## Uninsured Boater Coverage

Since boat liability insurance is not mandatory, there are many boaters operating without liability coverage. Uninsured Boater coverage is designed to compensate you for injuries to persons aboard your boat that are caused by an operator of another boat who has no liability insurance. If you are legally entitled to recover damages from the other uninsured boater, or if you or your guests on your boat are the victims of a hit-and-run boater who cannot be identified, this coverage can help ease the financial impact of those injuries.

## Factors Affecting the Cost of Insurance

The underwriter must consider many factors when determining the rate (or premium) to charge for a boat policy. The most common determinants are: value, length, and age of boat; type of boat (i.e. power, sail); type of engines; mooring location; intended area of navigation; previous boating experience and claim history of the owner; and deductible amount. Sometimes the underwriter will also consider the automobile driving record of the owner(s), and whether they have taken any safe boating courses.

There are several ways that you can reduce the cost of your boat insurance. The most common way is to select the highest deductible amount that you are comfortable with. In general, physical damage deductibles start at around 1% of the insured value of the boat, and can be increased to sometimes as much as 5%. Each higher deductible amount reduces your insurance premium. Think about how much you could affordably pay out of pocket if a loss occurred.

Many yacht policies include a lay up period which is a time that the yacht is normally laid up and out of commission, such as during the winter months in colder climates. The underwriter will normally allow a discount for each month that the yacht is decommissioned. You can usually reduce your premium by requesting the longest possible lay up period that would be reasonable for your part of the country.

Think about where you will actually be operating your boat. If you consistently navigate close to your home port, you should inquire whether a more limited navigational area on your policy can save you money. In other words, you may not need coverage for the entire east coast of the U.S. when you only operate your boat in Maine.

The condition of your boat was also mentioned as a rating factor. If you own an older boat that is around 26 feet or larger, the underwriter may request a recent marine survey of your boat before quoting or insuring it. The better the condition, the greater the likelihood of its being approved for insurance and your receiving a competitive quote. Anything that you can do to update and repair critical systems prior to the boat being inspected may improve the results of the marine survey and leave a better impression with the underwriter.

Lastly, installing certain safety devices on your boat can sometimes reduce the premium that you will pay. Some marine insurers will give credits for such safety items as: an automatic fire extinguishing system in the engine compartment, a fume or vapor detector in the bilge, or certain anti-theft alarm or tracking devices.

## Seek Out Marine Insurance Experts

Now that we've described some of the key elements of boat and yacht insurance policies, we hope that you are in a better position to ask the right questions when buying marine insurance. It is also wise to work with a company that thoroughly understands boat and yacht insurance. This is important not just at the time that you apply for insurance, but also in the unfortunate event that you have a claim. At INAMAR Recreational Marine Insurance, we have that expertise to help you at every step along the way.

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\* This article is intended as general information and is not intended to interpret the actual terms or conditions contained in any policy of insurance provided through INAMAR or by any insurance company.

\*\*Insurance buyers should consult their agent, broker or other insurance professional whenever they have questions about their insurance needs.

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