

# Insuring Boats & Other Watercraft

 Email Article  More Insurance Articles



If you own a boat or other watercraft, your thoughts probably turn to the water this time of year. As temperatures rise, you dream of skimming across the waves or spending long afternoons drifting on a tranquil lake. Insurance is probably the furthest thing from your mind. But if you own a boat, you have a special need for insurance. Boat ownership exposes you to many of the same risks as automobile and home ownership, including the risk of causing bodily injury to other people, damage to others' property, or damage to your own property.

State law may require you to carry a minimum amount of insurance on your boat. And if you have an outstanding boat loan, your lender probably requires you to carry full insurance on the boat. Additionally, many marinas and yacht clubs won't allow you to dock your boat unless you're insured. Whether required or not, it's a good idea to have insurance on your vessel.

## Homeowners insurance and boats

Homeowners insurance usually includes limited coverage for small watercraft. A typical homeowners policy provides \$1,000 worth of coverage for physical damage that occurs while your boat is stored at your home. Homeowners insurance may also provide some personal liability coverage to protect against claims resulting from negligent operation of your boat, but the amount of this coverage is not substantial. Jet skis and other similar watercraft are often excluded from homeowners insurance coverage.

## A boat by any other name...

Additional coverage can be obtained by purchasing a boat policy, a yacht policy, or a personal watercraft policy. But in order to know what type of insurance you need, you have to know what type of vessel you own. In the insurance world, watercraft are typically divided into three categories:

- Boats. Generally includes watercraft between 16' and 25' 11" in length
- Yachts. Generally includes only watercraft which are 26' or longer
- Personal watercraft. Includes only jet skis, waverunners, and other similar craft

Note that this discussion deals with recreational watercraft only; separate policies are available for water taxis and other commercial watercraft.

## Boat policies

A boat policy is a package contract, similar in many ways to automobile insurance. While there may be some variation in boat policies, the main types of coverage are physical damage and liability coverage. Many boat policies also include legal defense protection, medical payments coverage, and uninsured boater coverage.

## Physical damage coverage

### *What it covers*

A boat policy typically pays to repair or replace your boat if it is damaged or destroyed

by fire, lightning, hail, windstorm, hurricane, tornado, explosion, collision, capsizing, sinking, vandalism, or theft. (Covered perils may vary--make sure your policy is as comprehensive as possible.) In addition to the boat itself, outboard motors, trailers, and personal property kept aboard the boat are covered by most boat policies. The insurer typically will also pay to protect the vessel from further damage in the event of a mishap, or to recover the boat if it sinks or becomes stranded.

### ***What it doesn't cover***

Physical damage that results from any of the following is typically excluded from coverage:

- Wear and tear, latent defect, mechanical breakdown, faulty manufacturing, war, and nuclear hazard
- Repair or restoration
- Carrying people or property for a fee
- Using property in a official race
- Using fishing gear and portable electronic, photographic, and water sports equipment

### ***How claims are paid***

In the event of damage or theft, the amount of your claim payment will be determined using one of the following methods:

- Replacement cost. Payment is sufficient to replace the property
- Agreed value. Payment is limited to a specific amount stated in the policy
- Actual cash value. Payment is limited to the depreciated value of the property

Your policy should state which of the above methods will be used to settle your claim. Some insurance companies automatically use an agreed value for boats under 15 years of age, and switch to the actual cash value standard for boats older than that. Certain items (such as sails and outboard motors) are almost always covered on an actual cash value basis. Given a choice, replacement cost coverage is generally most advantageous to you, and may be required by your lender (if applicable).

## **Liability coverage**

As with auto and homeowners insurance, this is the most critical component of any watercraft insurance. The reason: liability claims against you for bodily injury and property damage can easily reach \$100,000 or more, depending on the severity of the accident. If you have inadequate liability coverage (or worse yet, none at all), a sizable claim against you can put your home, savings, and other assets in jeopardy.

### ***What it covers***

Liability coverage provides protection for legal claims if you are found liable for a boating accident. It typically covers the legal and financial consequences of accidental bodily injury or death, as well as damage to other boats, docks, and personal property. Coverage is usually extended to you, your family members, and others who operate your boat with your permission. In today's litigious society, huge personal liability judgments are not unusual. Consequently, your coverage in this area should be as high as needed to shield your assets and future earnings. Liability coverage is typically available in amounts ranging from \$100,000 to \$1,000,000. For additional protection, consider purchasing a personal umbrella liability policy.

### ***What it doesn't cover***

Liability coverage under a boat policy generally contains a number of exclusions. The following is a list of common exclusions; however, your policy may differ:

- Bodily injury or property damage that is expected or intended by the insured
- Liability of any person using the insured watercraft without permission
- Damage to property owned by or in the care, custody, and control of the insured
- Injury to persons eligible for workers' compensation benefits

- Liability of a person engaged in the business of selling, repairing, storing, or moving watercraft

### **Legal defense protection**

Legal defense coverage is typically optional under a boat policy. It usually covers legal defense costs for lawsuits brought against you for damage caused by an unauthorized person operating your boat. Court costs, attorney's fees, and investigation expenses are normally covered.

### **Medical payments coverage**

Boat policies may also include medical payments coverage, which pays for medical expenses resulting from at-fault boating accidents when someone is injured "in, upon, getting into or out of the insured watercraft." The broadest policies may also include medical payments coverage for waterskiing injuries. Medical payments coverage may or may not be necessary, depending on the scope of your health insurance coverage.

### **Uninsured boaters coverage**

Uninsured boaters coverage is available under a boat policy as an option. It provides payment up to a specified limit--generally \$10,000 per accident--when you or a member of your family suffers bodily injury caused by an uninsured boater. If the uninsured boater also has insufficient assets to compensate you for your losses, the financial consequences could be disastrous. With this possibility in mind, it's probably wise to purchase this coverage with a relatively high limit.

### **Limitations**

Boat policies may limit usage of the insured vessel to a specified territory. The broadest policies cover the vessel while being operated on any inland body of water (rivers, lakes, etc.) within the continental United States and Canada, and coastal waters of the same areas, up to a certain limit. The most restrictive policies provide coverage only on a specified body of water and within a narrow perimeter around that area. The coverage provided by other policies falls somewhere between these two extremes. For example, some may limit coverage only to inland lakes or to certain states. Many will not provide coverage for offshore waters, such as the Gulf of Mexico.

### **Yacht policies**

A yacht policy is very similar to a boat policy, in that it provides coverage for physical damage to your vessel and for personal liability claims against you. However, in a yacht insurance policy, these coverages are called "hull insurance" and "property and indemnity coverage." Yacht owners can also purchase several optional coverages.

### **Hull insurance**

This coverage pays to repair or replace your vessel if it is damaged or destroyed. Typical covered perils include fire, lightning, hail, windstorm, hurricane, tornado, explosion, collision, capsizing, sinking, vandalism, and theft. However, policies vary from one insurer to another. In addition to the yacht itself, the sails, furniture, outboard motor, and machinery are also covered. Dinghies and trailers may be covered under a separate policy endorsement.

### **Protection and indemnity coverage**

This section provides marine liability coverage in the event that a liability claim is filed against you for bodily injury and property damage resulting from an at-fault accident. This coverage may be subject to certain exclusions.

### **Optional coverages**

Like boat insurance, yacht insurance policies typically provide optional coverage for legal defense, medical payments and uninsured boaters (see above). Yacht owners can also buy a hurricane protection endorsement, which will pay to haul your yacht out of the water if a hurricane is approaching and put it back in the water after the hurricane has passed.

### **Limitations**

Most yacht policies include several limitations, called "warranties." A navigational warranty limits the operation of the insured vessel to a specified area. Depending on your policy, the size of the covered region could vary dramatically. Many yacht policies also include a lay-up warranty, which requires you to take your yacht out of operation

for certain periods during the year. For example, a yacht policy for a vessel harbored in New England might require that vessel to be out of commission during the winter months.

### **Personal watercraft insurance**

If you own a personal watercraft, you might actually have a difficult time insuring it. Many insurers refuse to insure these craft, because they pose a much greater risk than other types of watercraft. According to some statistics, 45 percent of all boating accidents involve personal watercraft. However, certain insurance companies now specialize in insuring personal watercraft because of their popularity. If you own a personal watercraft, make sure you purchase an insurance policy that includes bodily injury, property damage, liability, and theft coverage.

### **How much does boat/yacht insurance cost?**

The cost depends on a number of considerations, including the age, size, type, and power of your vessel. Smaller boats are usually less expensive to insure than larger boats, and, in general, speedboats will be more expensive to insure than sailboats. Also, where and when you use your vessel will affect the cost of your insurance. For example, it's more expensive to insure a boat in coastal waters than in inland lakes and rivers, especially in areas at risk for hurricanes. Other factors that influence price include the security of the location where your vessel is normally kept, the liability limits and deductibles you have selected, your level of experience as a boater/sailor, and whether you use your boat year-round.

Safety is of utmost importance to insurance companies, so you may find that your insurer offers a discount when you renew your boat/yacht policy after a year with no claims. Taking an approved boating safety course can also earn you a discount on your premiums. Discounts are also available for protective devices such as depth-finders, burglar alarms, and ship-to-shore radio systems. If you insure your boat with the same company that issued your auto, life, or homeowners insurance, you may be eligible for a multi-policy discount as well.

Please note that this description/explanation is intended only as a guideline.