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What You Need to Know about Recreational Boat Insurance

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Most of us wouldn't drive without adequate car insurance, but many boaters go year after year with policies that are insufficient or inappropriate to their needs, while others carry no insurance at all.

Cars travel faster and on more crowded streets, but your car won't sink in the parking lot, doesn't damage other cars or roadside property by driving past, and is unlikely to cause an oil spill. Boats are different. More recreational boats sink at the dock than out on the water. Owners have been sued for tens of thousands of dollars because of damage caused by their boats' wakes. Owners are legally liable for the costs of recovering fuel or oil spilled or accidentally released into the environment if their boat is wrecked or sunk. Furthermore, maritime law gives special protection to anyone who works on a boat, and that includes tradesmen performing repair and maintenance.

Insurance Companies

The term "insurance company" is somewhat imprecise.

Underwriters are the companies that actually provide the insurance policy. They take in the money you pay in premiums, invest it in securities, and pay out on claims. Generally, underwriters make their profits on their investments, not on the premiums directly. This partially explains changes in insurance premium rates; since stockholders expect a certain return on investment in the companies, those companies will lower rates to draw more customers (and premium income) when the securities markets are strong, and may raise rates when their portfolios are not performing well.

The primary underwriter may turn around and buy coverage from a *re-insurer*, another kind of underwriter that specializes in certain segments of the market. Most recreational boat insurance underwriters are American companies, and may or may not be marine specialists.

Agents or *brokers* are companies that sell insurance policies. If they are agents of, or sell exclusively for, one underwriter, they're called *direct writers*. If they represent several underwriters, and can shop around your application for the best deal, they're called *independent* agents or brokers. Generally, an independent can get you the best policy at the best price because of choice and competition, and a really good independent agent can tailor a policy to your specific needs. A direct

writer may offer convenience and quick response, and also can get you a good deal if your needs are met by a standard “off the shelf” policy. In some cases a direct writer can provide a “bundled” policy that gives you a low combined rate on home, auto, and boat.

Many agencies, including some of the big names in the industry, now offer telephone and online quotes and policy binding. Some companies claim that you can save brokers’ commissions by buying online. Web sites provide online application forms similar to the paper documents provided by your local insurance agent, which you fill out and return with the “send” key. Within a day, and sometimes within minutes, you will receive a quote for the coverage you request.

Although there are insurance bargains on the Web, you may lose the personal attention and expert guidance you get from dealing in person with a marine insurance specialist.

Components of a Marine Policy

Like auto insurance, a boat insurance policy is divided into two general components: Hull and Machinery, which equates to collision and comprehensive on a car, and Protection and Indemnity (P&I), which is similar to automotive liability insurance.

Hull and Machinery coverage pays to repair or replace a damaged or lost vessel, engine, trailer, and attached equipment...

Hull and Machinery coverage pays to repair or replace a damaged or lost vessel, engine, trailer, and attached equipment, irrespective of who or what caused the damage, and irrespective of the reason the damage occurred, subject to some limitations. Collision, fire, theft, and accidental sinking are covered. Loss due to war or seizure by authorities probably are not covered. Normal wear and tear is not covered, and damage resulting from negligence or poor maintenance probably is not.

Some policies only cover *named hazards*, that is, they pay only if the loss results from types of calamities named in the policy (fire, theft, sinking, etc.). A named hazards policy is considered less desirable, but may be the only kind available to cruisers that venture to foreign shores.

All risk policies are generally broader, and cover any kind of loss except those specifically named. Common exclusions are nuclear war, illegal activities, normal wear and tear, intentional acts, commercial use, and racing. Some exclusions may surprise you, such as loss due to ice and freezing, effects of electricity (other than lightning or fire), arrest or seizure, and faulty design or construction or unseaworthiness of the vessel.

Most policies cover damage to you or your boat caused by another boater if that boater is not carrying P&I coverage (“uninsured boater”). In this case, after paying your claim the company probably will try to recover its loss from the other party.

Payout on a total loss usually is minus a deductible of 1-2%. Coverage pays for repairs up to the policy limit, also subject to a deductible.

Some policies pay for towing and/or salvage of vessel. Some carriers offer towing coverage for an additional charge, and it is possible to buy a separate towing policy through one of the boating associations or through a national towing service.

Some yacht policies cover engines and will pay to repair or replace them, though with various restrictions. The so-called “extended warranties” offered by engine manufacturers are really just insurance policies issued by underwriters who specialize in that kind of coverage.

P&I coverage pays for your defense if you are sued by someone else for damage or injury allegedly caused by your boat.

In the case of a vessel total loss, some policies pay *actual cash value* (which is sort of the “blue book” or depreciation deducted value). Others are based on *agreed value*, which is determined at the time the policy is issued and usually is based on a marine survey. Usually a vessel owner comes out better on an *agreed value* claim, although the policy probably costs more than one that pays *actual cash value*.

P&I coverage pays for your defense if you are sued by someone else for damage or injury allegedly caused by your boat. It also pays the amount awarded in a successful lawsuit, up to policy limit, or a negotiated amount if the company can get the other party to agree to an “out of court” settlement.

It pays for damage caused by your boat’s wake, by fire spreading from your boat to other boats or facilities, and by ramming or collision. P&I pays medical expenses for passengers, third parties, and may pay for passengers’ personal effects. It may also pay “maintenance and cure” (room and board and medical treatment) for persons who become sick or injured while working on your boat.

Coverage usually only extends to persons actually *on board* the vessel, not swimming, diving, or visiting on shore from it. Activities like water skiing may or may not be covered. Some policies pay for investigative services used to determine cause or extent of damage. Some pay for recovery of a wrecked or sunken boat, and for cleanup of spilled fuel and oil. Per incident limits range from \$100,000 to \$500,000. The most common recreational boat limit is \$300,000.

The purpose of P&I coverage is to protect your personal assets from damage claims, so select a limit based not on what your boat is worth, but on the value of your other assets, including home and savings, that you want to protect. Your boat P&I policy can be matched to a “personal liability umbrella” available through your homeowner insurance agent to provide excess liability coverage.

A Word about Warranties

You must provide accurate information about yourself and the boat, including your age, experience, driving and loss record, as well as vessel type, age, and safety equipment carried. By signing the application, you provide a *warranty* (guarantee) that the information is correct and true.

You agree to operate the boat only for lawful purposes, and not to engage in commercial use or racing. You probably agree to an annual lay-up (a period of time, usually in winter, when the boat is not in use), and to geographical operating limits. You agree to report changes to the above, and to pay premiums on time. Failure to comply with any of the above constitutes *breach of warranty*, which may invalidate your policy. Your bank or lender may require breach of warranty insurance, which pays the lender the outstanding balance on your loan if you commit a breach of warranty, invalidate the rest of your policy, and suffer a loss.

Types of Recreational Vessel Policies

Companies that insure recreational vessels may offer two different classes of coverage: boat policies and yacht policies.

A *boat policy* usually is “off the shelf”:

- It generally has few options other than a choice of P&I limit amounts, and it probably doesn’t offer P&I coverage greater than \$500,000.
- It pays actual cash value (ACV, “book” or depreciated value).
- Trailer, some personal effects, and passenger bodily injury probably are included.

- Engines, outdrives, and other equipment probably are not covered for failure, although they probably are covered for theft and fire.
- It may be “bundled” with other policies, such as auto and home.
- Boat policies usually are budget-priced, simply because they provide less coverage.
- Due to overhead and administrative costs involved with placing coverage, many agents will only offer boat policies for vessels less than about 26 feet and \$30,000 in value.

A *yacht policy* is more of a smorgasbord, with a range of options:

- It probably pays agreed value in case of total loss.
- It may cover sudden, accidental engine and drive failure.
- Towing, salvage, pollution, and wreck removal probably are included.
- Higher liability limits may be offered.
- Tenders and dinghies can be added to yacht policies.
- Some policies have an option for occasional commercial (charter) use.
- Inclusions, exclusions, endorsements, and even premiums can be negotiated.

If your boat will be laid up for a long period of time you may want *port risk* coverage, which is cheaper than full operational insurance, and if you are having a boat built or refurbished you can get *builder’s risk* insurance. However, don’t expect a huge decrease in premium cost since underwriters and agents have minimums they charge irrespective of risk and vessel value.

Filing a Claim

Be sure to get a phone number (preferably with 24/7 availability) to call in case you have a claim.

Be sure to get a phone number (preferably with 24/7 availability) to call in case you have a claim. Determine whether you call your agent, the underwriter, or a third-party claims adjuster.

Remember that under federal law you are required to file a *boating accident report* with the U.S. Coast Guard if you are involved in an incident that results in loss of life, personal injury that requires medical treatment beyond first aid, damage exceeding \$500, or complete loss of the boat. If there is a death, injury, or disappearance of a person the report must be filed within 48 hours. In the other cases the report is due within ten days. The insurance company will probably require a copy of the accident report to process your claim.

Insurers handle claims every day, and the agent or adjuster probably wants to see that yours is processed as quickly and fairly as possible. To do so he or she will need full information about the loss, including location, date, time, persons involved and present, weather, and circumstances. It’s important to take good notes. If possible, get names and phone numbers of witnesses or anyone who participated in any rescue or recovery. Buy a notebook or make entries in the vessel’s log detailing events leading up to, and subsequent to, the loss, and all expenses involved. Be sure to keep receipts for all expenditures, including services, parts, and any expenses you incur in the course of recovering and repairing the boat. They may not all be reimbursable but a big stack of receipts will bolster your claim for all the reimbursements to which you are entitled. You may even be paid for your own time if you materially assist in the repair of the vessel.

The adjuster probably will have to inspect the boat or have a marine surveyor inspect it before authorizing repairs. Be sure to cooperate fully to ensure prompt and full claim payment.

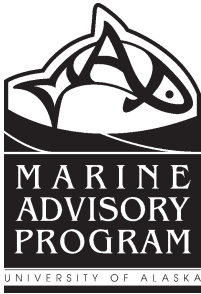
Keeping Premiums Low

- Newer boats (<10 years) are cheapest to insure. Wooden boats and high speed boats are more costly.
- Boats with diesel engines cost less to insure than those with gas engines, and boats with outboard motors may be less expensive to insure than those with inboard gas engines.
- Your policy requires that your boat carry all legally mandated equipment, but you might get a discount for carrying additional safety equipment, such as VHF radio, GPS (global positioning system), and additional fire extinguishers.
- Previous boating experience, completion of a recognized boating safety class, a clean loss record, and a clean (auto) driving record may get you premium discounts. Evidence of a secure place to store the boat also may reduce premiums.
- Paying the whole premium at once saves finance charges.
- A higher deductible, lower P&I limit, and a longer annual lay-up contribute to a cheaper policy. Likewise, *named risk* and *actual cash value* policies are less expensive.

But remember, when you pay less, you get less. The cheapest policy is not necessarily the best value. Carefully evaluate your needs, including what you are protecting, when selecting a policy.

*Read your policy carefully before buying.
Compare features as well as price.*

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