

Boating Secrets

Revealed by *Eleven Marine Industry Experts*

127 Top Tips To Help You Buy and Enjoy Your Boat

Vol. 1



Robin G. Coles
TheNauticalLifestyle.com



SAMPLE CHAPTER

Copyright © 2011 Robin G. Coles

All rights reserved. No part of this publication may be reproduced or transmitted in any form or by any means, electronic or mechanical, including photocopying, recording, or by any information storage and retrieval system, without permission in writing from the publisher, except by a reviewer who wishes to quote brief passages in connection with a review written for inclusion in a magazine, newspaper, or broadcast.

For further information:

The Nautical Lifestyle

P O Box 520461

Winthrop, MA 02152

www.TheNauticalLifestyle.com

First Edition

June 2011

Printed in USA

ISBN-13: 978-09836381-4-8

ISBN-10: 09836381-4-8

Cover design by: Janja Baćac

Cover photograph by: Robin G. Coles



Robin G. Coles
TheNauticalLifestyle.com

"Why Haven't Boat Owners Been Told These Facts Before?"

You already know buying a boat is one of the most challenging things you'll ever do in your life. And, it's an awesome way to include both your family and friends. Not to mention all the fun you'll have out on the water. But, do you know the...

- ✓ Do's and don'ts when buying a boat
- ✓ Two little known tools surveyors use to determine a boat's age and condition
- ✓ Three surprising reasons why marinas require the insurance they do
- ✓ How you can still get a boat loan even if your credit score is less than 720
- ✓ How a commercial emergency signaling technology has saved more than 25,000 lives since 1982 and is now available for pleasure boaters
- ✓ What to do when you get caught in a bad storm or heavy weather
- ✓ Why customizing your electrical and instrument panels makes sense
- ✓ How Digital Selective Calling and the Automated Identification System saves lives in a Search and Rescue operation
- ✓ The advantages and disadvantages of having a multihull craft over a monohull
- ✓ Three powerful strategies you can use to best prepare your boat for rentals
- ✓ What's changed to take sailing from an amateur sport to top of the game earning a decent living

Now imagine having eleven of the top marine industry experts sitting with you and spilling all of these secrets plus more. Well... now you can!

Introducing...

A complete guide for new and seasoned boaters to buy and enjoy your boat

Boating Secrets

*127 Top Tips to Help You Buy and Enjoy Your Boat:
Revealed by Eleven Marine Industry Experts
(vol. 1)*

"Reserve Your Print Copy Right Now!"

Add To Cart

Add to Cart



TheNauticalLifestyle.com/Products/BoatingSecrets.html

Robin Coles has impressed me very much as a friend and an advocate to the marine industry. Her website TheNauticalLifestyle.com has become a work of "internet art" for the average boater.

I listened to her discussions with industry experts that are the basis for her book and was totally impressed at the quality of her participating experts, their knowledge and Robin's ability to ask the right questions, as well as her follow up questions.

Anyone seeking to purchase a new boat or intending to buy a larger boat should have her book in their library.

Captain Leo Corsetti
Arlington, MA
Retired, Tone President
Proud Tartan Owner

Robin Coles has done a wonderful job of covering a comprehensive list of topics that will help new and experienced boaters get the most out of their investment.

An educated boater is a better boater and a better boater is much more likely to enjoy a lifetime of fun with family and friends.

Robin taps into many of the recreational boating industry's most experienced experts who will help you avoid many of the situations that inexperienced boaters could find themselves in. A boat is a significant investment of your time in an era where free time is much harder to come by.

This Nautical Lifestyle Expert Series is sure to help you maximize your investment while making you a better captain when you inevitably find yourselves in harrowing situations. As the captain, you take on huge responsibilities and it's important that boating safety is always top of mind. It may save your life or one of your loved ones.

Carl Blackwell
Vice President
Discover Boating
National Marine Manufacturers Association (NMMA)

Table of Contents

The Nautical Lifestyle 2010 Expert Series

Title page	i
Copyright page	ii
Dedication	iii
Table of Contents	v
Introduction	1
Chapters	
1. <i>Buying a Boat</i> , Captain Chris Kourtakis	3
2. <i>Marine Surveys</i> , Rob Scanlon	19
3. <i>Insuring a Boat</i> , Mike Smith	33
4. <i>Financing a Boat Purchase</i> , Jim Coburn	51
5. <i>Rent Your Boat</i> , Brian Stefka	65
6. <i>Bad Storms/Heavy Weather</i> , Timothy Wyand	81
7. <i>Search and Rescue</i> , Alan Sorum	101
8. <i>Digital Selective Calling, the Automatic Identification System, and Automated Radio Checks</i> , Captain Chris Kourtakis	113
9. <i>Multihulls</i> , Jim Brown	127
10. <i>Custom Electrical Panels and Wiring Harnesses</i> , Mark Rogers	153
11. <i>Making a Living as a Professional Sailor</i> , Brian Hancock	171
Bonus chapter: <i>Seven Tips for a Successful Sale of Your Used Boat</i> , Robin G. Coles	191
Appendices	
I. Glossary	195
II. Resources	201
III. Contacts	205
Acknowledgements	207
About the Interviewer: Robin G. Coles and TheNauticalLifestyle.com	209

Insuring a Boat

An Interview with Mike Smith

Introduction

Robin: Hello everyone. This is Robin Coles and it's my pleasure to welcome you to the 2010 Nautical Lifestyle Expert Series brought to you by TheNauticalLifestyle.com. One of the biggest necessities when buying a boat is having insurance. During the next hour we'll be talking with Mike Smith and learning how to determine the right type of insurance for your boat and, just as important, who's mandating which coverage. Hello Mike!



Mike: Hi. I'm sitting here looking out my window at a marina full of boats in a very calm Grand Traverse Bay in Northwest Lower Michigan.

Robin: That sounds heavenly. I'm going to just picture myself right there with you now.

Mike: Come on over. We've got a beautiful day going, it's going to be about 85° with a little breeze—we can go sailing.

Robin: Thank you so much for joining me today. Mike Smith grew up in a boating family, raced sail boats, has boated extensively in the Great Lakes, and has chartered in the Caribbean. Mike began his insurance career in 1975 as a general commercial agent and began specializing in marine insurance in 1984. Michael J. Smith is co-founder, former president, and current senior vice-president of Global Marine Insurance Agency, headquartered in Traverse City, Michigan. Global Marine is an independent marine insurance specialty agency with offices in Florida, California, and Delaware; and with 40 marine insurance professionals insuring boats throughout the US.

Michael is a board member of the National Marine Bankers Association (NMBA) and the Traverse Area Community Sailing non-profit organization. He is a certified instructor in yacht insurance for the Michigan Independent Insurance Agents Association and speaks regularly to groups around the country.

Mike specializes in all forms of marine insurance coverage including charter boats, excursion vessels, marinas, boat dealers, boat rentals, etc. He designed a special endorsement for bare boat charter fleets many years ago, which many companies adopted and still use in their policies today.

Insuring a Boat

Robin: What are the different types of boat insurance?

Mike: There are many types of boat insurance, but basically, in our world, there are two main types—one is called a boat policy and one is called a yacht policy. Generally in the industry, the division is between boats that are 26 feet long and below and those 26 feet long and above. Boats 26 feet long and below are usually covered by boat policies, 26 feet long and above are

covered by what are called a “true yacht policies.” There are differences in coverage, particularly in those two different policies—we can get into more detail on that later in the conference call—but those are the primary types of boat insurance out there. I guess I should add one more—some companies write boats under their homeowner’s policies, which we don’t do. We don’t believe that’s the best way for a boat owner to cover their boat unless it’s very small—say a 14-15-foot aluminum fishing boat or something like that. Anything of any size, say 18 feet and up, should have a either a boat or a yacht policy on it.

Robin: What’s the difference between ACV (actual cash value) and an agreed value?

Mike: There’s a big difference. Your auto policy has an actual cash value (ACV) loss adjustment form in it. This means that when a loss occurs, the value of what is paid to the insured is depreciated. It is adjusted to the current actual cash value of the covered item. For instance, if you own a \$100,000 boat and you have an ACV policy, maybe that boat is only worth \$80,000 when it sinks or burns or whatever might happen in a total loss. The insurance company has the right to adjust what they pay you based on the boat’s current market value (before the loss, of course). They would do studies in the marketplace, look at the *BUC® Used Boat Price Guide*, look at YachtWorld.com, and say, “We think this boat is currently worth \$80,000; here’s our check.” You get a chance to negotiate that, but, at the end of the day, the policy allows them to depreciate the value of the boat.

All that is versus an agreed value policy which is what we prefer and sell probably 99% of the time. An agreed value policy is unique in that when you insure your boat, the insurance company agrees with a certain value as stated on the policy declarations page, and that value is what is paid in the case of a total loss. For instance, with the \$100,000 boat, if it’s a total loss and there’s no salvage or anything, and you’ve agreed on \$100,000 as the value of the boat, you get a check for \$100,000, no questions asked, other than how the loss occurred, obviously. When there’s a total loss on a true yacht policy, they don’t even charge the deductible.

There’s a huge difference between the two coverages. The price difference, which you might expect to be substantial, is really quite minimal between agreed value and actual cash value policies. That’s why most owners prefer the agreed value policy—it gives them a sense of confidence knowing exactly what they will get in the case of a total loss.

Robin: What about watercraft versus indemnity liability and pollution coverage.

Mike: That’s the difference between a boat policy and a yacht policy. A boat insurance policy will typically have what is termed watercraft liability, which includes liability for bodily injury and property damage, but may or may not include other coverages that are typically included in a protection and indemnity policy (we shorten that up and call it P&I). P&I insurance is a form of liability coverage designed for maritime exposures and maritime law. It has come down over the years from Lloyds of London traditions of liability coverage. P&I on a true yacht policy—typically, if it’s a true yacht policy, and many boat policies are—used to be called

watercraft liabilities. There are exceptions; some insurance companies include P&I in their boat policies, but generally not.

There are some major differences between P&I and watercraft liabilities. One of them is the way wreck removal coverage is treated. If you sink your boat in a federally navigable waterway, federal law says you must mark that boat 24 hours a day and/or remove it as quickly as possible. Wreck removal can be a very expensive and onerous process. If it's in the middle of the channel, there's a lot of traffic, you may have to get a barge coming from 100 miles away to try and raise it. Many times when they try to raise a wreck, it's unsuccessful the first or second time, so there's even coverage for attempted wreck removal. What happens is the wreck removal is covered by the P&I or liability portion of the policy—you might have limits of \$500,000 of coverage there. If it costs \$100,000 to remove the wreck, you've got \$100,000 of coverage on the liability side. But then you've still got, let's say, \$100,000 of physical damage coverage on that side of the policy whereby we pay for the boat. So, there's no shortage of funds to pay for both of those exposures.

Many boat policies include wreck removal coverage on the hull side. Using the same example, you have a \$100,000 boat sink in a federally navigable waterway and it cost \$50,000 to raise the wreck. That comes off of the hull value amount, so there's only \$50,000 left for coverage of the boat itself—there's a huge difference.

There are other differences. Most P&I policies include pollution coverage. Some boat policies do, but that's a federally mandated responsibility these days. The federal government has said you will be responsible for up to \$854,000 of pollution and fuel spill liability. Most yacht policies include it; some boat policies do. It's a very important coverage if you sink your boat and you pollute a bay or a river or a lake. The federal government says, "You get to pay for that." Even if you don't have insurance, you have a financial responsibility per the federal law to clean that spill up. There are huge differences between the two coverages and the pricing difference between P&I and watercraft liability is minimal—it's well worth the extra few dollars you might spend on it.

***Robin:* What is covered under boat insurance, or actually, might it be easier to say what *isn't* covered?**

Mike: It *is* easier to say what isn't covered. There are a couple of critical policy exclusions and warranties that really tell you what is *not* covered by your policy. Fortunately, the yacht insurance industry has simplified the language in our policies—it is very easy to read, even if you're not a lawyer. Everyone that buys a policy should read and understand their exclusions and their warranties.

We'll start with the warranty side. Those are promises you make to the company insuring your vessel that you will do certain things. You promise to use the boat only for private pleasure—that's called the private pleasure warranty. You promise to only navigate the waters that are stated on your policy declarations pages. For instance, here in the Great Lakes, the navigation warranty says you may navigate this vessel in the Great Lakes or inland waters,

rivers, or tributaries. If you leave those waters without informing the company and getting permission, the policy is voided. There is no coverage if you sink halfway down the Mississippi River after leaving the Great Lakes. You can get coverage for the Mississippi River—you just have to call your agent and inform them; usually they charge a trip premium for that—but if you don't tell us, there may not be any coverage.

There is a lay-up warranty, usually, on any boats that are kept in the northern part of the country. For instance, you might agree to lay your boat up beginning November 1st and you agree not to put it back in the water and use it until April 1st. If you do put it in the water and use it after November 1st or before April 15th or 1st, whatever date they choose, there may not be coverage for a loss. We've had instances where people have taken their boats out of lay-up five days early because there's a beautiful spring day and they just forget to call and say, "Hey, I'm going to put the boat in the water." If they do call there's coverage; if they don't and have a loss, there isn't any coverage.

You've got your private pleasure warranty, your navigation warranty, and then you've got the exclusions. There is a list of exclusions in all yacht policies and it's a list of maybe 20 things that are not covered. If something happens to your boat in the way of physical damage, and it's not excluded, it's deemed covered. Things that are excluded are wear and tear, depreciation, normal scratches and dents, small stuff like that, osmosis, blistering, electrolysis, maintenance items that you should be doing the maintenance on anyway, marine life not covered, you know, the barnacles and stuff that might do damage. In the Great Lakes, zebra mussels *are* covered—they came out with that coverage some time ago, though we really haven't had any trouble with losses from zebra mussels, but they did decide to cover that. You need to read the list, understand it, and, if you have questions, ask your insurance agent—he should be able to explain those to you.

One interesting exclusion or coverage, if you will, you could look at it both ways, is called 'latent defect.' A yacht policy is very unique in that regard because latent defect covers the engine and machinery for the ensuing damage from a latent defective part. For example, you have a three-year-old boat. Somewhere inside that engine a part is latently defective—you don't know it, the manufacturer didn't know it, he put it in there, but it was cracked when he put it in. At the end of three years, it breaks, and that little, let's say, \$2 part causes \$5,000 worth of damage. If you can prove that that part was defective that caused this damage on the inside of your engine, the insurance company will pay for the ensuing damage. They won't pay for the \$2 part but they'll pay for the parts and labor to repair that engine. Now, there is a duty to prove that that happened and sometimes that's very difficult. Sometimes people have to call in metallurgists to prove this spring was weak and broke. Another thing you have to prove is that you did the maintenance on the boat; that is was in seaworthy condition and was maintained. If you can prove all those things, we buy people new engines sometimes. And that is a very unique coverage in the yacht insurance world. It's not highly publicized, but it is there. It is there for them to use if they need it.

Robin: If they had to hire a specialist to come in and help prove this, would that expense be reimbursed?

Mike: If the loss is covered, yes it would; if the loss is denied, no. But the companies are pretty good. They have their own metallurgists and those metallurgists are objective third parties, typically. But, if the client doesn't believe their report, then they have the right to go out and pay for their own. If the loss ends up being covered, then the insurance company would pay for that. Otherwise, it's the owner's risk.

We don't have very many of those claims. But when they happen, such as a fellow with a big Hatteras and a couple big MTU diesels in there, those are very expensive engines; they're very finely tuned and highly maintained. If they're maintained right and something happens, it can be covered. Unfortunately, to repair a big engine like that or get it out, sometimes you have to cut a hole in the side of the boat and that's covered too.

You need to look at your warranties and your exclusions—that really pertains to the physical damage side of the policy. There are also exclusions on the liability side. They are very standard in the industry and include things like intentional acts—if you intentionally run your boat into somebody and they can prove it, if you intentionally hurt someone aboard your boat and they can prove it, then there is no liability coverage in place. But, there are very few exclusions on the liability side, and it's a very broad coverage.

There are two coverages included in the P&I liability on a yacht policy that are federal laws—one is called the US Long Shore Harbor Worker's Compensation Act (USL&H we call it) and the other is the Jones Act. Those deal with people that are hired to work on the boat either on a temporary basis. For instance, a land-based person who is temporarily aboard your boat doing some work on it, that's USL&H coverage. And then there's the Jones Act which is really more for the captain or crew that is paid by the vessel. Both of these coverages are like workers' compensation coverage for these "employees of the boat." They could both be temporary employees, but a Jones Act seaman is in the duty of the ship—there are clear definitions of what makes a Jones Act seaman—if they're deemed a Jones Act seaman, then there is coverage for that exposure and it is very extensive coverage, well beyond the limits and the coverages of a standard state workers' compensation coverage. I'm getting a little technical here, excuse me. Those are two important coverages that are not used much at all in the recreational boating insurance industry, but are important to have if, for instance, I own a 46-foot something and I hire a captain to take it up to the marina 20 miles away. If something seriously happens to the captain, he's injured or killed or whatever, g-d forbid. The Jones Act coverage in that policy responds and takes care of that man's medical bills, his rehabilitation, lost wages, etc.—it's important coverage to have.

Morally speaking, all employers in this country are supposed to be carrying workers' comp on their employees and this is an extension of that.

Robin: How much boat insurance does a boater need?

Mike: That's a moving target. We all know boat values have been decreasing right along with our wonderful home values. Typically an insurance company underwrites the boat based on its current sale price adding in any additional extras that are added and adding the sales tax. For example, you pay \$100,000 for a new boat and you say, "Put on \$15,000 of electronics and I'm going to pay sales tax of \$10,000." Add those numbers up and that's what you would want in the way of agreed value coverage on that boat and its equipment. Then you'd probably want to have \$500,000 of liability coverage or more. You can buy all the way up to \$100 million of liability coverage, but typical recreational boater we see today has probably somewhere between \$300,000 and \$500,000 of liability coverage.

When you buy a used boat, though, that's more of a moving target. You do have a purchase price on it. Maybe there's a trade-in at the dealer, even on a new boat there could be. You have to kind of figure out these values. If it's a used boat, and you bought it from your neighbor in the boat yard, and maybe you needed a survey to get the boat insured, and the surveyor says it's worth \$100,000, and you paid \$80,000, and you'd like to insure it for \$100,000, the insurance company may say, "We don't know about that—we've looked in the BUC book (*BUC® Used Boat Price Guide*) and even though the surveyor thinks it's worth \$100,000, the BUC book or YachtWorld.com says it's worth \$90,000." There are some negotiations that take place and the insurance industry has some flexibility.

The key issue here is that the insurance companies do not want to over-insure anything to create an increased moral hazard. By moral hazard I mean that when you know that you have an agreed value policy, it becomes almost a guarantee of what you would get if the boat sinks or is a total loss. We have had instances over the years where boat owners who get in (financial) trouble for whatever reason—divorce, bankruptcy, whatever—decide that they don't want the boat anymore and they can't sell it; they owe more than it's worth; so they go out and they find a deep hole and they scuttle it. That hurts us all because we all end up paying for that loss in our premiums. That's insurance fraud, clearly. What happens is if the insurance company over-insures something, they just increase that moral hazard potential. Now, very few boat owners do that, but big picture-wise that is something that the industry looks at and tracks very closely, because they don't want to pay for some intentional insurance fraud loss.

The value is somewhat negotiable when you insure it. If you clearly have a bill of sale for \$100,000 and you add these things it's pretty straightforward. If you get into a trade, and the value of the trade is nebulous, and the price is way too low, you know there's some discussion that has to take place. At the end of the day, when you buy an agreed value policy, the insurance company says this is what it's insured for, you know what it's insured for and as I said earlier, if she sinks that's what you get.

Robin: What are the steps to follow before buying boat insurance?

Mike: Find an insurance company or agent that knows what they're doing, that knows something about boats. There are a lot of good marine specialty agents in this country; you can find them on the web very easily. These agencies are typically owned or managed or run by

boaters who have the water gene, who love boating, who understands the industry. They typically represent many different insurance companies like us, an independent agency, we represent 20 different marine insurance companies. We get to shop around, like in the ads for Progressive Insurance where the dog pushes the button and shops around—that's us, not to steal Progressive's thunder here, and we actually sell for Progressive. Basically, find somebody that knows what they're doing, has access to the best products in the marketplace, and also has access to and can quickly shop around. The industry is changing all the time. On any given day, one company says we will write coverage in Florida, and this company over here, Company B, says, "We don't want any business in Florida; we're full up. Our capacity is over burdened with hurricane exposure right now. We need to write more business in the Great Lakes or on the east coast or whatever." It's a very fluctuating industry. It's hard for us to keep track of, but it's what we're paid to do. For example, we might say, "This company is very competitive in the Great Lakes; it's not competitive in California. Here's a company that's got some really neat new coverages that are unique and they are still competitive, so you should take a hard look at that product." There are a lot of coverage differences to make comparisons on; an independent agent that can make those choices available to the boat owner is the best possible scenario.

If a perspective boat owner goes out to the web and shops just one company, I think they are doing themselves a disservice, because we know for sure that one company can't be all things to all people. If you're lucky in that in your circumstances—your boat, your use, and everything—fit exactly that company's underwriting box and they're pricing is good, then ok, you got a good deal and a good policy. But we all know that it pays to shop around. If you go to a website that automatically shops for you, you can get some options to look at and maybe custom design your own policy—there are some websites out there like that. If you type in yacht insurance or boat insurance and Google™ brings up a list, that's probably going to be a pretty good list of independent agents and some direct-writing insurance companies. When I say direct writing, that means that the boat owner goes directly to the insurance company. In the case of Progressive, for instance, you can buy online directly from Progressive, or you can buy from a company like ours through Progressive and the prices are the same. The difference is that we have underwriters that know and shop the marketplace, and Progressive uses a computerized rating system. We get the same rate that Progressive does given the same information, but we might shop two or three other companies and compare that with Progressive and say, "Here are some coverage differences that really make a difference."

If you just shop price, the old adage still holds true—you get what you pay for. There are yacht policies out there that are very low... I can't think of a good term to describe it, but compare it to a cheap car with very few bells and whistles versus a Lexus or a Cadillac or a Mercedes. A lot of times, the better policies are priced competitive even with the fewer bells and whistles policies, because they are designed by companies that know the industry, know where the losses come from, and can throw in a lot of bells and whistles. They write enough volume that they can afford to do that. My advice would be to go on the web and shop around; find somebody that maybe your boat mate in the marina referred you to, or you heard the name or the branding—many of these agencies have been around. We've been around for 25 years and

that's all we do is marine boat insurance. There are lots of agencies out there like us, that do the same thing. There are some direct writing companies like State Farm and Allstate and Progressive and some others that have boat products and yacht products, but when they quote you a price it's just one company's price. If you take that and compare it with the rest of the world, then let the chips fall where they may, as they say.

***Robin:* What exactly *does* affect the cost of boat insurance?**

Mike: Certainly the value of the hull has a huge affect. There are two sections to a yacht or boat policy—the physical damage and the liability side. The physical damage side is where probably where 80% of the premium comes from. We'll use the \$100,000 boat value again—the premium is, let's say, \$1,000—the boat's down in Florida, on the east coast, or something like that; \$800 of that \$1,000 premium would be for the hull and \$200 would be for the liability, and we'll use \$500,000 limits of P&I liability for that—those two factors really bear on the premium directly.

Many other factors bear on the premium amount. In today's world, many yacht marine insurance companies have gone to insurance scoring, which includes a credit score, whether you're married or not, how old you are, and how much experience you have in both operating and owning a boat—that's real important in the scheme of things as to the quality of boater you are. If you've had experience in ownership and use—you know the local waters—then the insurance industry competes aggressively for that business. If you have a good credit score or if you score well in all these other areas, the rates are as low as I have seen them in 40 years for a good quality boater. Even though the boating industry is in a steep decline from a sales perspective, the insurance industry wants to attract and keep good boaters that don't have losses; the rates have reflected that, maybe not so much in Florida because of the hurricane thing, but, even there, capacity has increased and rates have begun to decrease because people are now utilizing hurricane plans. But in the Great Lakes and California, the rates are as low as I've ever seen them. Companies want good business. If you can tell the story about how good you are—experienced and with no losses—a lot of things factor into how they rate you. More and more, computer systems are doing the ratings—they're taking all these factors into account; they have these great big formulas with logarithms and everything. They can factor in these 32 different metrics and come up with a rate that fits just you, for instance, for a really good policy. Some companies have not gone to insurance scoring yet. They still do it kind of by the seat of their pants; not so much, but it's a little less structured. If you shop around, you'll get to view all these various different rates and companies. You'd be surprised how much difference there can be between companies on a given risk and a given navigation territory—it's amazing to us. There can be \$200, \$300, \$400 difference between companies—it certainly pays to shop around. The value of the boat, the liability coverage, and the extra coverages that you get—these all have a bearing on the cost of the insurance. Some companies have what is called a disappearing deductible, which is a very nice feature. If you buy a policy, every year that you don't have a loss, your deductible decreases by 25%. At the end of four years, you have a zero deductible on your hull insurance coverage. Now, if you have a loss, the loss is paid with

whatever deductible applies at that time. If it's maybe 50% of the original deductible or now maybe you're lucky and it's down to zero, but then the deductible resets back to the original amount. And we can talk about deductibles a little bit here too, because that affects the premium. Typically on the yacht policy, the standard deductible is one percent of the insured value. Using our \$100,000 hull value, one percent would be \$1,000 hull deductible. Some companies, very few, have a stated deductible like \$500. But most yacht policies are one percent of the value. If you want to go to a two percent hull deductible, you save a little premium by doing that. You can go to a three percent deductible. Down in Florida and the Gulf Coast States there is a different deductible for a named storm. If your boat is damaged by a hurricane that has a name, it is usually ten percent of the hull value that is deductible. That really gives a boat owner an incentive to get that boat out of harms way before a storm hits. The insurance industry is highly exposed down there; when Andrew and those other storms in '04 and '05 came through, the insurance industry paid the most they've ever paid out in boat losses. They sat up and took notice and said we better do some risk management here and figure out how to reduce this exposure, which they did. And the boat owners have responded—they have built hurricane proof buildings down there, they've got hurricane holes, they are better prepared—there are ways that you can protect your boat and get it through a hurricane with minimum or no losses. The deductible affects the premium; the values that you purchased affect it, the coverages, like the disappearing deductible. There's personal affects coverage that's included, you can maybe get \$5,000 personal affects coverage and you have more than that on your big yacht, so you buy \$50,000 personal affects coverage for your furniture, TVs, and stuff like that—you can spend more premium there. There are lots of optional coverages that you can add on and some of them add premium. There are many factors—that's again why dealing with a marine insurance specialist that knows all these things and can say, "Yeah, that's a good value," "No, you don't need that," or "Oh, you're going to take a trip some place. Are you going to make the great circle tour?" If you are, we need to know that, we need to extend the navigation, and usually there's a trip charge. If you're going to take your boat to Florida, but you keep it in the Great Lakes in the summer time, there's a different premium for the Great Lakes versus Florida. There are a myriad of factors that enter into what your final premium's going to be. And if you change your mind in the middle of the policy period and you tell us, maybe we reduce the premium, maybe we increase it, based on what you're doing. Talk to a good marine specialist and you'll find out all those different factors.

***Robin:* Let's just talk about the credit score for a minute, because you mentioned that. I know when you're trying to get financing for a boat, you need to have a stellar score of at least 720 or better. Is that the same with boat insurance?**

Mike: No, it is not. There is no hard and fast rule as to whether you qualify or not. What the insurance companies do is base their rates on where your credit score is, but they also factor in many other measurements. These might include age, boating experience, and all those other things. Based on just your credit score, you don't qualify or not qualify. The price changes based on all those factors going through a big computer system and saying this is the level of

risk based on all these factors. Here's the premium based on what we think this risk is; versus this other person with a different set of risk criteria.

The insurance industry has proven to a very real degree that if you have a book of business, you have many boats insured, and they all have good credit score—and I won't define that, it's kind of a moving target—your loss ratio will be reduced by 15%. This is a huge number when you're talking hundreds of millions of dollars in premiums. What that has done, I think (this is my personal opinion), is helped reduce the premium for boaters country wide because many boaters have good credit scores. If you insure a lot of boaters with bad credit scores then you have a 15% worse loss ratio, the rates for that company have got to go up to cover their losses. In many ways, the emphasis on good credit scores has had a positive effect on our insurance industry—people understand they need a good credit score or that affects their auto insurance, their homeowner's insurance, and now their boat insurance.

Robin: If they've had some issue with their credit, they need to talk to the agent about it before they continue, right?

Mike: We don't really talk to our clients about their credit scores. We present them a premium. We don't know what the credit score is. The insurance companies do not share that with us. We know that if one company that is using an insurance score comes up with a premium of, let's say, \$1,000, and we've put it through our automated rating system and quoted it to 12 companies or five companies or whatever it fits, and we see that another company that does not use insurance scoring comes up with a premium of \$800 and it's the same coverage, then we would say, here's an \$800 premium, here are the coverages and this is what we would suggest you take a hard look at. Some companies don't believe in insurance scoring or don't want to use it or haven't invested in it yet because it's a very costly system to implement. There are companies out there that may never use insurance scoring. That's good, because then somebody that's a boater that maybe had a situation where it wasn't really their fault...

Robin: Like in the case of identity theft or something...

Mike: Or a divorce that really decimates somebody's economic situation...

Robin: Or job losses, as we have today...

Mike: ...exactly—things happen. We don't know what your credit score is; we don't want to know, but when we get a quote back from a company that uses credit scores, we say here's an option. Now what we need to know is, is this really a good boater? Can he or she convince us that they're worthy of this good policy at \$800 without a credit score? There are a lot of them out there—a lot of old salts or good boaters that know what they're doing that are worthy of that lower price even though their credit score might not be stellar.

Robin: It just seems that since the country's gone to this credit score thing, a lot of people are losing out on things because of it.

Mike: I wouldn't disagree with that, but in our industry there are options available to take care of that. I feel good about that because even though they have had some bad luck they can still get a very competitive, quality yacht policy. As big supporters of the marine industry—we make our living here—that's a good thing.

Robin: What kinds of insurance are marinas, boat yards, and yacht clubs requiring? And, why the difference?

Mike: Maritime law is a lot different than normal tort law; marinas and boat dealers have different coverage needs than normal businesses. They have an open lot with about \$3 million of boats sitting there. They operate on the water so they need P&I; they need Jones Act coverage; they might need USL&H; they need workers' comp which is designed for the maritime exposures. Within the insurance industry, there are a few marine specialists that know what they're doing, but it's not a huge industry compared to the rest of the insurance world. These unique coverages need to be insured by a company that knows and understands the risks and by an agent that really knows and understands the risks. As I think you mentioned earlier, I've been doing charter fleets for 30 years. There are very unique coverages that they need which cover everybody very well, but most insurance companies say, "Oh no, we don't want the risk, we don't understand the risk, and no, thank you," which is fine. That's a business decision they make. But these marine people need these coverages. It's a very competitive market right now. The boating industry is in a decline, so everybody is fighting for market share in a declining market. We put ourselves out as experts in that area, travel all over the country, and help commercial marine businesses risk manage so they don't have losses. Companies that don't have losses have lower insurance costs at the end of the day, which increases their profits. That's what we like to help them do.

Robin: When a boater shows up at a marina, or calls a marina or boat yard to say they're coming in, maybe as a transient or to get a slip for the season, some marinas are requiring \$100,000 to \$300,000 in liability coverage. Some of the boaters get upset because the marinas are asking to see that much coverage.

Mike: The marinas are coming from a perspective of risk management. If you pull into a marina and you cause a liability loss or you start a fire on your boat and you burn up boats all around you—you may or may not be negligent. The marina carries insurance, obviously, and that insurance company is saying, "Look, all these boats cause exposure for us and we want to be an additional named insured and get a certificate of insurance from the boat owners." Most responsible boat owners have insurance. If they don't want to insure the boats for physical damage—maybe it's all paid for at the bank and they don't care about that—they can buy just liability coverage all by itself at a very low premium, which they should have, because if somebody is injured or drowns or something on their boat, they should have that protection if they get sued. We think it's reasonable in the industry for marinas to say, "Hey, you're using our marina. If something happens, we're additional insured. Yes, we have insurance, but you will be named in the law suit, we'll be named in the law suit, and we probably are a deeper

pocket than you are. We want to be protected by your coverage and we're protected by our coverage." It's kind of a doubling up.

It doesn't cost anything for the boat owner to add them as additional insured and get a certificate of insurance. None of the companies I know charge for that. Yes, it's a bit of a hassle. You have to call your agent and say here's the name and address of the marina where I'm keeping my boat, please send them a certificate of insurance. We do it all day long—it's just part of the service of an insurance agency.

***Robin:* Is that when the boater is using a particular marina or boat yard for the season? What if they're a transient?**

Mike: We don't see it in the transient world—maybe you have information that I don't have—typically this is for a seasonal slip renter. They know they're going to be there for a while and it's worth a few minutes to get the certificate. It's a bit of a hassle for the marina to manage all this—who did they get it from, who didn't they get it from—they've got to follow up. It's kind of a pain for them. If their insurance company didn't demand it, they probably wouldn't do it—it costs them money.

***Robin:* Are there different types of surveys required by insurance companies? If so, what are they?**

Mike: There are two basic kinds of surveys that we deal with—in the water or hauled surveys. Different insurance companies have different rules for when they demand or require surveys. In fresh water, the companies don't usually require a survey on a boat looking for insurance unless it's 15 years old or older. In salt water, most of them are required right around 10 years. Most of the insurance companies we represent require a NAMS® (National Association of Marine Surveyors®) or SAMS® (Society of Accredited Marine Surveyors®) surveyor do the survey. Now, there are other qualified groups that they will accept as well, but those are the two most well known groups of professional surveyors. And, both of those groups have done a pretty good job of building their brand and building their professionalism and I know one of them actually has a professional liability policy in place for their members, which is good. We like to do business with people who are substantial, professional, and have insurance.

There's a huge difference between any two surveyors. Some are really careful, really get into the minutia, write up a good report, really are objective, and you can see that in their work. Others may be sloppy, not so careful, they just use check-off forms, you see a survey come in that's three pages and it's nothing but a list of what's on the boat, with a couple of recommendations on the back just to prove that he looked at the boat. Versus, you get a 20-page report with pictures and a substantial written report at the back that says, "These recommendations are critical; these recommendations are not so critical; these recommendations could be done at leisure,"—it gives you a real photograph in time of what this boat is like. If it's a hauled survey, they'll do the hull soundings and check for water intrusion,

hull rigidity, and all those things. If it's in the water, they look at everything above the water line, obviously.

We get a lot of surveys. One factor that affects boat insurance cost is the age of the boat. As the age gets older, the premiums go up, typically. Because, older boats, it is proven, have more losses—it's just as simple as that. When we get an older boat in here, we look at the survey real good, we look at the owner's experience, we underwrite both, and we say, "Yup, this is worthy of this rate," or, "It's an old boat and in less than good condition; we've got a good owner; it's worth this rate." It pays for the owner to shop around and find the best rate and coverage and educate themselves on what the differences might be.

***Robin:* Why is it so difficult to get insurance for wooden boats?**

Mike: If the boat has been restored or partially restored, it isn't. We used to insure wooden boats, the classic old wood runabouts, cruisers, and things like that—the old Krisses, MasterCrafts, all those old Centuries, and everything. Certainly Hagerty Insurance is one of the nation's leading old wood boat insurers. We no longer even compete or write for that business, because they do such a good job. I think they've got over 50% market share. If it's a runabout and it's been restored, there's no problem getting insurance—very competitive, good coverages. If it's a cruiser, been restored or partially restored, good survey—no problem getting it. Where you run into a problem is an old wood boat that hasn't been maintained, hasn't been restored, and is just sitting there slowly rotting away. Nobody wants that risk because it is a proven risk that it will sink or burn at the dock or something will happen and they'll just pay out a lot of money on it. Or, somebody's hurt aboard and the housekeeping's not good. There are, forgive the term, bad risks out there, and nobody wants to write those because if one insurance company insures a whole bunch of old wood boats and they have a lot of losses, their rates have got to go up to cover that and the rest of us that are insured by that company pay a higher rate. Now, we can go someplace else, obviously, but maybe we've been insured with the company for five years, their rates go up, we go shopping, but we can't move unless we get a new survey—that costs us \$500-800 to move to a different company—we're kind of stuck then. It helps keep the industry fleet in a better condition. Insurance is a bit of a social mechanism that helps reduce the risks for everybody—everybody who owns a boat and buys insurance shares the risk of everybody else. You couldn't afford to buy insurance if you were just one person covering the whole risk for your boat and your liability, obviously. Just like all other insurance, you could probably afford to pay off the \$100,000 note at the bank, but if somebody sues you for a half a million dollars, that gets a little tougher.

***Robin:* How can boaters find Hagerty Insurance?**

Mike: They're online—www.Hagerty.com.

***Robin:* How do you make a claim?**

Mike: It's real easy. Most of the time, even though there's a loss involved, if no one is injured, the physical damage loss claims really go pretty smoothly. That's one thing I like about our

industry—we have about 99.5% customer satisfaction after a claim. Part of this is because it's a unique policy that's run and managed by marine specialists, and the tradition in the marine insurance industry is you find a way in the policy to cover a claim. It is an unwritten tradition in our industry to say, "This client is worthy of our diligent efforts to find a way to pay this claim." Now, if it's clearly excluded or they if they breached a warranty, then there's not going to be any coverage.

Basically there's an 800 number that you can call 24/7. Typically that puts you right into the insurance company's claims department. You can call your agent. We take claims reports all the time, we transfer that information to the insurance company's claims department and from that point on you deal directly with the insurance company's claims adjustment department. These people are well versed in marine claims—some of them are surveyors, current or former—and they know the policy coverages backwards and forwards; their job is to quickly adjust a claim; and they do an excellent job of it, they really do. A lot of times they won't even send anybody to look at it. If you get an estimate from your local marina and they look at the estimate and they say, "These prices are in line," even though they may be a little bit high compared to the rest of the world or the rest of the region—they do check to make sure that the marinas aren't overcharging—but if they're not and if they're in line, they say, "Go ahead." You don't have to shop around and get three estimates; they just say, "Go ahead."

All policies say that they have a right to see the old parts if they want to. Someone should save those parts until they've been released by the insurance company. Even on big claims, even if it's a total loss, they say, "Yup, looks good," and boom, "Here's your check." If there are issues, problems, slow service; that's where the agent jumps back in. We want to hear from our customers if there's an issue or there's a problem. We represent every major marine insurance company; we're one of the largest in the country, so we have some clout. We start making some phone calls and find out what the problem is. Usually there are three sides to every two-sided story—you have to try and sort it out and find the middle ground. If there are some negotiations that need to take place, we can have some input on that—that's part of what we get paid for, to help clients get through a difficult claim situation, because not everything is black and white; there are gray areas.

Many boat owners don't understand their coverages. They don't know that there's a warranty in there. We have a lot of people say, "I didn't know that." You know what? In today's world, who sits around reading their yacht policy or auto policy or homeowner's policy? I read it for fun! My passion is to understand the yacht insurance world. But I'm unique in that regard, probably. There can be some difficulties in a claims situation, but there are very few. In the end, most yacht insurance policy claimants are very satisfied with the speed and adjustment. They know there's a deductible and they've got to pay that unless it's a total loss, unless they've got a disappearing deductible, which is a nice feature.

There are types of losses that can get difficult just from the type of loss it is—one would be salvage. Salvage has been an issue in our industry for a long time. If you're on a boat and your

cruising along and for some reason you lose an engine and your boat goes on the rocks, but it's a calm day and Grandma and the kids are on board and you call a tow company and say, "Get me off the rocks," and they say, "We'll be there in a while," and all of a sudden the wind picks up, and the boat starts to crunch into these rocks, and it looks like its going to be holed, it becomes the difference between a tow just pulling you off this rocky sandbar or, all of a sudden, your life and your family's life is in jeopardy, and the boat is in jeopardy of being holed, and sinking, and polluting, and all those other things that can happen. Now, it's a salvage. The minute it turns into a salvage, the maritime laws allow that salver to charge a whole lot more money.

He can literally claim the entire value of the boat, depending on the risk that he puts out to save that boat. The courts have gotten very good at negotiating these salvage issues. But, from the boater's concern, if you're standing there and start to see these waves crashing in and you're in trouble, all you care about is getting the heck off that boat and saving the boat. The first priority is always to get the people in a safe situation and then take care of the boat. The salver is risking his life, limb, and equipment to save that boat and save you, so he is due a lot more payment than it would be for just a normal tow. Sometimes a tower might be less than honest and straightforward—there are a few, but not very many—and he talks to you on the radio and says, "This is a salvage job; it's going to be a salvage charge," and you say "Ok, just come get me." You're not in a very strong position to negotiate, which is ok—we don't want you to negotiate at that time. We want you to save your life and your family and your boat, and let us, the insurance company, negotiate with that salver. We're very good at it. We know what the charges should be—let us step in and take care of that for you. But, the emotional situation can be trying sometimes in those situations is all I was trying to say.

***Robin:* Can you talk about SeaTow, BoatUS, and what to watch for?**

Mike: BoatUS (also known as TowBoatUS) has an agreement with SeaTow that they will work together. They have an arrangement whereby if you call for a tow—you run out of gas or something like that—it's part of a BoatUS membership that you have some towing coverage. All yacht policies today, whether you buy it from BoatUS or from us through another company, have towing coverage—it's in everybody's policy. You can buy high limits; you get automatic limits—that coverage is there; so is the salvage coverage in all good yacht policies. What BoatUS has done is negotiated with the towing companies to have a set salvage fee arrangement based on certain factors that they run into. I think that probably saves them some money in the end for salvage claims. There aren't a huge number of salvage claims that happen in this country because typically boaters are pretty safe and rarely do they get into trouble. When they do, you go through that whole salvage situation I just said. They've done a good job of helping the boater get towed off the sandbars, but still do it in a cost effective way.

***Robin:* If you already have this on your insurance, SeaTow and BoatUS are additional?**

Mike: Yeah—I've been a member of BoatUS for many years and I have towing coverage on my membership. On my yacht policy, I have towing as well. I have double coverage, but the cost is minimal. The towing coverage on a yacht policy is basically a throw-in and I think I pay \$25 a year for my BoatUS membership. The reason I belong to BoatUS is not necessarily for the towing, but for all the good they do. You know, they help us politically with lobbying, they have a nice foundation. They have an EPIRB rental program and a lifejacket give away program, so even though they're a competitor, they do a lot of good for the boating industry, and I'm very supportive of that.

Robin: Mike, I want to thank you for being so generous with your time today. You've given both boat owners and buyers a lot to think about with regards to insuring their boats. But, more important, they need to shop around and also when they do get that policy, they need to read it, and I think you've actually helped them understand what they're looking at on their policy.

Mike: I hope so, Robin, I really do. We care about this industry, obviously. We insure many boaters all over the country and the world, for that matter, from jet skis to mega-yachts to casino boats to excursion charter boats; whatever. We really do care about our customer, because we want to keep them as a customer and protect their recreational boats and commercial boats. It's an industry that we love. We belong to many associations and are very supportive. It's a fun business, that's what I really like about it. I used to sell auto and homeowner's insurance many years ago—that's just pretty much a generic, same old/same old product. But, you talk to somebody about their brand new boat and, man, there's excitement in the air. They love learning about how to insure their boat, many of them do, and just want to get out on that water and enjoy the boating lifestyle. That's what it's all about. I love the boating lifestyle; many of my employees are boaters, so they love the boating lifestyle. We have this passion in common and that really makes it a lot more fun.

Robin: You can hear it when you talk about this subject.

Mike: I certainly am passionate about it.

Closing

Robin: How can somebody find you if they want more information?

Mike: The phone number at my desk is 800-748-0224. Our website is www.GlobalMarineInsurance.com. They can actually put their information in there and we will shop it via the computer for them and give them three different quotes.

I highly recommend that once they get their quotes, they pick up the phone and call one of our underwriters and ask any questions they have; get some education. We like to have educated clients, because they know what they're getting, there's a value attached to that, and then there aren't any bad surprises down the road.

Key Points

1. Boats that are 26 feet long and under are covered by “boat” insurance policies; longer boats are covered by “true yacht” insurance policies.
2. An agreed value policy is unique in that when you insure your boat, the insurance company agrees to a certain value—stated on the policy declarations page—and that value is what is paid in the case of a total loss.
3. Make sure you read and understand the exclusions and warranties on your marine insurance policy.
4. Before buying boat insurance, find an insurance company or agent that knows what they’re doing and knows about boats.
5. The value of the hull (physical damage) and liability are the two main sections of a boat insurance policy.
6. Wooden boat insurance is available through Hagerty Insurance at www.hagerty.com.
7. The two basic types of boat surveys are ‘in the water’ and ‘hauled’ surveys.
8. Your marina may be added to your policy as an “additional insured” at no extra cost.
9. To file a claim, call the insurance company’s 800 telephone number—that puts you right into the claims adjustment department.
10. Once you get a quote, call the underwriter and ask questions—education can prevent unpleasant surprises later on.

Notes

Notes