



GOOD INSURANCE

The marine market is changing; this is what you need to know about insuring your boat

BY DIANE SELKIRK

There was a time, not long ago, that you could buy a boat and almost as an afterthought arrange for insurance. Insurance brokers called it Friday afternoon syndrome: you'd done all the purchase paperwork, arranged for a marina and just as the broker handed over the keys they'd ask about insurance.

"We'd get a call on Friday afternoon—a new owner would be ready to take possession and someone would think about insurance," says Paul Mendham, president of Navis Marine Insurance Brokers Ltd. It would be a scramble—but Mendham says he'd contact his underwriters, compile a few quotes and get the policy out to the new owner as quickly as possible.

These days, Mendham says, it's not the same. "As soon as a prospective buyer starts to research a new boat, they should also be researching insurance. Friday afternoon is no longer an option."

TO UNDERSTAND WHAT'S changed, you'd need to take a journey outside of the Pacific Northwest and look at insurance from a worldwide perspective.

Insurance is essentially a global pool of money made up of the premiums of the many which go into paying the claims of the few. As far as the general insurance market goes, boat insurance makes up a very small portion of the overall business. It was so insignificant that until recently, marine insurance mostly ran under the radar. Then a few

things happened to change this.

"One big event was the Lürssen's Bremen shipyard fire," says Mendham. In September 2018, a large fire broke out on a 100-metre yacht that was under construction. The resulting estimated US\$700 million marine claim triggered an industry wide re-evaluation.

When numbers were crunched, and the business of insuring yachts was analyzed, insurance companies realized that not only was yacht insurance not making money, it was actually a money loser. "It makes up somewhere around two percent of insurance business but accounts for five percent of global claims and had a loss ratio of 130 to 160 percent," explains Sean Thompson, president of Dolphin Insurance.

This means that for every dollar paid in premiums, at least \$1.30 was being paid out in claims. "It wasn't sustainable," says Thompson. "The market needed to go through a hard correction."

BIGGER YACHTS AND CLIMATE CHANGE There are a number of factors that led to the correction in the insurance market. Climate change is the oft mentioned one; and there have been huge storm losses.

In 2017, more than 63,000 recreational boats were damaged or destroyed by hurricanes Harvey and Irma. Combined, these losses cost insurers an estimated US \$655 million. Then, in November 2018, the coasts of Italy were pounded by storms, which led to

hundreds of superyachts being lost at a marina in Rapallo. Locally, the 2018 White Rock Pier storm resulted in the loss of 22 boats. And these are just a few examples.

When actuaries began crunching the data on all the wreckage, insurers realized there was another part to the equation; modern yachts are bigger, more luxurious, more technologically sophisticated and increasingly more expensive to repair than recreational boats were in the past.

Not only has the cost of labour and parts gone up—but the modern version of an old part is often significantly more complex and expensive to replace than its predecessor. For example, an old version of a damaged stern leg that might have cost \$15,000 to fix has been replaced in more modern boats with a bottom mounted drive pod (such as the Volvo IPS), which can cost upwards of \$75,000 or more to repair.

Adding to this has been the increased cost of salvaging and disposing of damaged vessels, in order to comply with more rigorous environmental regulations.

Meanwhile insurance premiums didn't change much, leading to a growing mismatch between premium income, covered risk and claims costs.

THE LOCAL FACTOR While local boat owners are correct in pointing out that we don't get hurricanes and most of us aren't sailing superyachts—we are subject to the same market forces as the rest of the insurance industry.

So, when Lloyd's, one of the biggest players in yacht insurance, started reporting billions in losses, a correction set in. Suddenly yacht owners, even those who'd never had a claim, were being confronted with 10 to 30 percent premium increases, or losing coverage entirely.

This hardening of the market wasn't just about actuaries crunching numbers and coming up with more realistic insurance rates. Around the world, Lloyd's syndicates and stand-alone insurance companies were pulling out of the money-losing business of offering coverage to marine clients. This left fewer options, less flexibility and higher rates.

Where a broker might have been able to offer a yacht owner multiple insurance quotes in the past—the options diminished and in some cases it became difficult to find a policy at all.

Now, if a boat is more than 30 years old, too big or a boat owner is too new; actuaries have flagged these things as risks. And it's simply easier for an underwriter to say no.

Both Mendham and Thompson point out that this is why it's more important than ever to work with a specialized marine broker who can guide you through the industry changes and your reduced options.

PREPARING YOUR RESUME The most important part of finding insurance in the current market is to start early. If you are buying your first boat, a larger or significantly different boat, or an older vessel this is even more essential.

"We'll need to build out a resume, and a new-to-boating owner may even need some time for additional training," explains Thompson.

Mendham says that a broker will spend time with you going through all your skills and experience so they can develop the strongest application possible. "Insurance companies have become more selective about who they want as clients, so we want to be sure we include all of a boater's knowledge and experience—even down to all the weekends you may have spent on your brother-in-law's boat."

Once your application goes out, the quote(s) will come in. If you're refused be sure to ask why. "If you don't know what the problem is, you can't work to fix it," says Thompson. "And if the broker can't tell you—move on until you find someone who will work with you."

In some unique cases it may be difficult to find a policy issued by an insurance provider who's licensed in Canada. Because an unlicensed insurer is not subject to the same regulatory supervision and capital requirements as an insurer licensed in Canada—this is something to pay attention to. What it means is that policies issued by an unlicensed insurer aren't protected by Federal and Provincial Consumer laws—essentially your insurance isn't insured. But it might be the only option for some boaters.



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In these cases, Mendham encourages a boat owner to proceed carefully, and understand the issues and any additional restrictions that might be found in the wordings. The broker must inform you of the risks of dealing with an unlicensed insurer, get your written consent and ensure the correct taxes are paid.

CHOOSING YOUR PLAN If you have experience and are insuring a lower risk vessel, you'll likely still be fortunate enough to get multiple quotes. In this case, price is just one consideration when it comes to comparing policies. The more important aspect may be the type of coverage you're offered.

The first big difference between policies is agreed value versus actual cash value. Agreed value is the value of your vessel as agreed on by you and

your broker when your policy is first put in place. This is the amount you will be paid if you experience a total loss. Actual cash value is the replacement cost of your vessel or equipment, less the depreciation, as determined by the insurer at the time of full or partial loss. Agreed value policies are more expensive, but offer protection against the boat and specified equipment's value being depreciated to a low value at the time of an accident.

Other details to be aware of are deduction limits, exclusions and navigation limits.

While policy prices have been steadily increasing over the past three or four years, this year is the first year that they have begun to flatten. Rather than seeing 10 or 20 percent jumps, the increases for 2021 have been more in line with inflation. It's not clear yet if this means the market has corrected to the point it needed to—but it does mean that this is a good year for boat owners to check in with their brokers and make sure their resumes are up to date and that the policy is the best match possible.

"If you've done additional training, gained certifications or made significant upgrades, let your broker know," says Thompson. "You don't need to do this every time your policy rolls over—but it doesn't hurt to ask what else is out there."

WHILE THE CHANGES to the insurance market have been painful for a boat owner's pocketbook, experts say the industry is back on the path to becoming a sustainable one. The risk that a major storm could bankrupt the industry and put a halt to claim payouts has been a real one—but with careful monitoring this has improved.

What this means to boaters is that underwriters are going to continue to ask more questions. Going forward, prospective boat owners may need increased skills, training and experience before they can jump into boat ownership. "This may not be a bad thing," says Mendham "You wouldn't buy a plane and plan to fly without training. Boat ownership really isn't that different." 