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What Value Yacht Insurance?

It's an image that strikes fear into the heart of any sailor with a vessel moored nearby (as Mike Harker experienced), and it demonstrates that obtaining the correct insurance is vital. But as we tighten our financial belts, can prices be pared back without compromising cover? Julie Jolly offers some advice.

Particularly in the present uncertain economic climate, valuing your assets is becoming increasingly difficult. Recent months have seen boat values fall, in the same way that the housing market has collapsed.

So what is your boat worth now, and how much should she be insured for? This is a difficult question, especially if you have a marine mortgage and could find yourself in the position of negative equity if you were to suffer the total loss of your boat.

Whilst an insurer or intermediary may have a rough idea of what the value of a particular yacht should be, even in a more stable economic climate, he will not be able to put an accurate value on it because used boats can vary so much in condition. So the valuation – and the amount for which you wish to insure your boat – will generally be down to you to decide.

Is it important to get the valuation right? As with many questions, the answer is “it depends”. Insurance is about transferring the risk of loss from your own wallet to that of the insurer. But what is your potential loss? Is it what you paid for your boat, or what it would cost to replace her? This is where it can be further complicated if you have a marine mortgage, because whatever the current value of your boat, you are still going to have to clear your mortgage even after a total loss.

So how do you negotiate the minefield of doubt this present economic situation has raised? The basis of insurance is to put you back in the same position after a loss as you were in before the loss. So, if you have a five-year-old boat, your insurance policy should be arranged to allow you to replace it with a similar five-year-old boat. However, particularly in the



early years of a boat's life, some insurers will allow you to insure it for the cost of a new replacement boat – worth discussing this point with your broker or insurer. Of course, as the prices for new boats have also recently fallen, you will need to keep abreast of current prices in preparation for an upturn in the economy.

For the majority of us, however, in this difficult economic climate, we are looking at ways of reducing our expenses, and insurance comes under close scrutiny, particularly as we hope never to have to call on it. Of course, as premiums are almost always directly linked to the value of the boat, there is a temptation to reduce the insured value in order to reduce our outlay on insurance. With boat values falling, this is one option you may consider in trying to reduce your costs.

It may well be the case that the current market value of your boat is now lower than the value for which you have it insured, and you will have good reason to consider reducing the insured value at the next renewal. Although no one is predicting an upturn in the economy in the foreseeable future, it is nevertheless important to keep an eye on prices and ensure that you don't find yourself caught out as prices return to "normal".

However, if you are considering reducing the insured value of your boat, you do need to make sure that you resist the temptation to undervalue in order to maximise savings on premiums. It doesn't take a genius to see the flaw in this argument – if you have a claim, you'll soon realise reducing the sum insured and premium was a false economy!

If you insure your boat below its market value, when you come to make a claim your insurer may be able to argue about how much he will pay out. If you've insured for 80 per cent of the value, he may say it's only 80 per cent insured, and therefore offer to pay 80 per cent of your claim. This system of adjusting claim settlements is known as "average". If your claim is for "partial loss" or damage, this can be a particularly hard hit, as you will have to meet the shortfall in the cost of repairs, in addition to paying your policy excess. If funds are already tight, this will just put extra pressure on you, and it may also lead to arguments with your insurer over the valuation of the boat and

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what is a fair claim settlement. If your claim is for total loss and you have underinsured, you may well find that you cannot afford to replace her – or at least not without "downsizing".

At the other end of the scale, if you've insured for more than market value, without the insurer's agreement, and you have a total loss, the insurer may be able to avoid paying the full policy value if he can demonstrate that you have deliberately inflated the valuation.

The best way to avoid arguments is to ensure that your policy is an Agreed Fixed Value policy, and that you have been as accurate and as honest as you can be in setting the valuation. With an Agreed Fixed Value policy, the insurer agrees with you at the outset what the value of your boat is for insurance purposes, and, provided you have not deliberately misled them, they will not enter into disputes over the policy value when they are settling claims.

So how should you value your boat for insurance purposes? A reasonable starting point is to add together the purchase price, cost of any additions, upgrades and improvements, value of tenders and outboards, and any other gear and equipment. Against this, compare the market value from a few reputable yacht brokers, and any valuation you have obtained from a professional yacht surveyor, and make any necessary adjustment for the current market value. As long as you can demonstrate how you have arrived at your valuation, and that it is reasonable, you should not have any problems with the insurer accepting your proposal on insured value. He may wish to see any professional valuation, and/or receipts for additions, upgrades and improvements, and in fact this will help to establish your agreed valuation.

Keeping an eye on yacht brokers' websites is probably the easiest and most accessible way to stay abreast of market values in these days of change.

Another problem faced by many owners at the moment is the value of the currency in which the boat is insured, and the effect the recent financial crisis has had on exchange rates. To an extent the degree to which this will affect an individual owner is determined by the currency in which a replacement boat would need to be purchased and the value of that currency against the currency in which the insurance policy is held. Whilst it is impossible at the moment



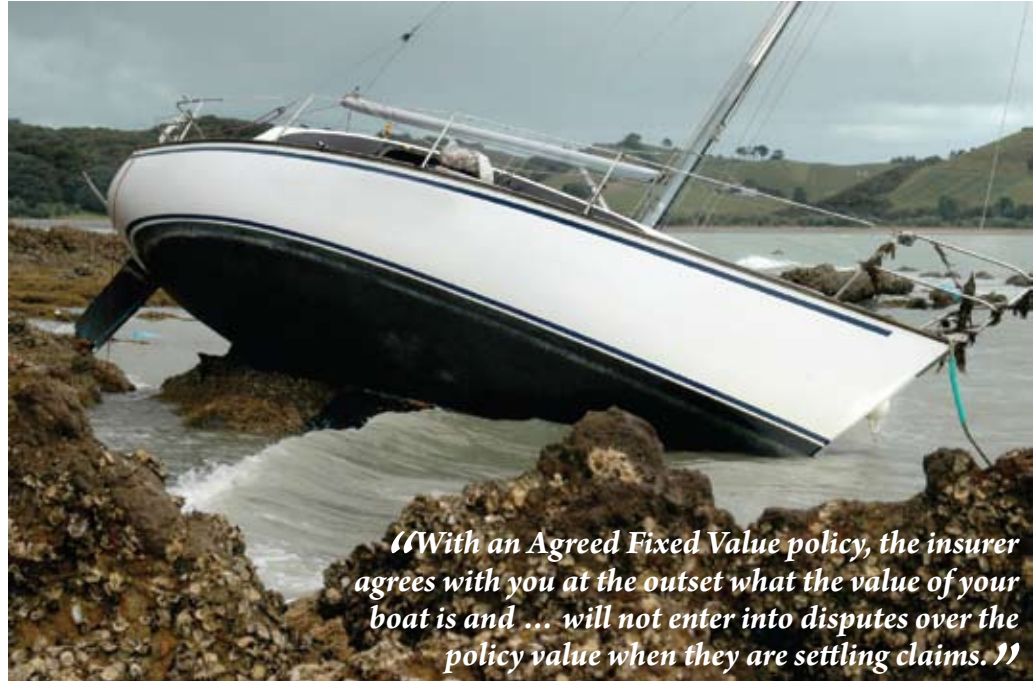
to predict with any accuracy how the present economic situation will develop, it is worth reviewing the valuation at your next renewal, particularly if, say, you have your boat insured in Sterling or US Dollars but would source a replacement in the Eurozone. Clearly if you use an insurer or broker who is able to arrange your insurance policy in your choice of currency, this may ease the risk of unforeseen losses.

Exchange rates may also become problematic if your boat needs replacement parts. Provided your policy covers you for the actual reasonable costs of repair or replacement of damaged parts, this should not cause you a problem, although insurers may now want to look at the possibilities of sourcing parts in a country and currency that may reduce their claim costs. Provided this does not cause you any undue delay or inconvenience, this would be a reasonable line to take in seeking to reduce overall claim costs and hence keep premiums down, but if you are looking for, or have been offered, a cash settlement, do keep an eye on this and establish how much a replacement will actually cost you.

How are insurers handling the current economic situation? Unfortunately the balance of the insurance equation is not in their favour right now. If you reduce the value of your boat by 20 per cent, with a knock-on effect on your premium, it doesn't follow that parts and labour required for repairs are also to be found at 20 per cent less. So whilst reducing values means the insurers' income is down, their funds are under stress, which may ultimately lead to increases in premium rates to re-balance the equation. There are already some reports of a hardening of rates, but some insurers will maintain rates and try to weather the storm.

So, is it worth reviewing the sum insured on your policy? The answer to that question is almost certainly "yes", even if you leave it as it is! But be clear in your mind what you are trying to achieve.

Sadly, some will see the opportunity to over-insure and to falsify a loss as a great temptation to set their



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financial affairs straight. Beware! Insurers are well up to speed on this, and will almost certainly make investigation into the circumstances. But do consider the potential to insure for full replacement value if you want to ensure you get a new boat rather than a secondhand one if your nearly new boat is a total loss – just make sure it is all agreed with the insurer.

Whilst the temptation to underinsure to save on premiums is rarely worth the risk, particularly as the saving will be relatively small, you may be able to negotiate a slight reduction in premium if you are prepared to carry a higher policy excess, are able to restrict your cruising area or remove any additional cover for which you are paying an increased premium.

If you increased cover for the occasional charter a few years ago, do you still need the cover? If you extended your cruising area at an additional premium, are you still using it?

If you are looking to make savings on your insurance, there are other options well worth considering. Have a closer look at what your insurer charges by way of documentation or cancellation fees or what percentage is added if you pay by instalments or by credit card.

These can add up over the course of the year, but there are some insurers who don't charge for either and that can be a great saving without making any changes to your cover! ■

Julie Jolly is Chief Executive Officer of Pantaenius UK Limited. During her seventeen years with the company, she has been closely involved in the legal aspects of product development and surveying market conditions for insuring pleasure craft. Pantaenius UK Limited is part of the major European Yacht Insurance specialist, the Pantaenius Group, with offices in strategic locations throughout Europe and in the United States of America.