

KEVO'S BOATING TIPS & MORE

BY
KEVIN
O'LEARY



Correction: My October 2007 column on VHF radio use stated that it is not mandatory for recreational vessels that have a VHF radio to keep it tuned to channel 16 while underway. It is in fact mandatory to monitor channel 16 while underway if you have a VHF radio onboard.

Boat Insurance (Part 1)

Holy smokes! When I started researching this article I thought this was going to be easy considering I've been dealing with insurance companies at Pacific Powerboating for the last four years. NOT! There is so much to know about boat insurance there is no way I can cover all of it in one column. I can foresee at least two and maybe three parts to this *riveting* story! I'd like to thank Mr. Bill Fowler of McDermott Costa Insurance in Pleasanton for his contribution to this article.

Let's start by describing the components of a typical boat/yacht insurance policy. But before getting into that, let's discuss the need for boat insurance in the first place...

Although it is not mandatory to have boat insurance for your vessel(s) in California, any boater who doesn't have it for their vessels is a fool in my mind. The vast majority of responsible recreational boaters wouldn't even think about driving a car without insurance, which is mandatory in California. However, many of these same boaters carry insurance that is inadequate for their needs or have no insurance at all. Cars won't sink in the parking lot, they don't damage other cars or property as they drive by and normally don't leak fuel or oil causing an environmental hazard. In essence, most boaters *don't know what they don't know* about boat/yacht insurance.

Thankfully, there are a few instances where insurance is required, such as if you are going to finance the vessel or if it will be berthed in a marina. Most marinas insist on being "additionally insured" on the policy before you can berth there. One of the most important reasons they do this is that the insurance company notifies the marinas if you cancel your insurance. Let's start with the basics.

Physical Damage (Hull and Machinery)

The Physical Damage section, sometimes referred to as "Hull and Machinery" pays to repair or replace a damaged or lost vessel, engine(s), trailer, and attached equipment, irrespective of who or what caused the damage and irrespective of the reason the damage occurred, subject to the limitations of your policy. Sometimes "unattached equipment" such as dinghies, trailers, diving gear and fishing gear need to be added to the policy.

Collision, fire, theft and accidental sinking are covered. Seizure by local, state or federal authorities probably is not covered. Normal wear and tear is not covered, and damage resulting from negligence or poor maintenance probably is not covered as well.

Most policies cover damage to you or your boat caused by another boater if that boater is not carrying P&I coverage (uninsured boater). Some policies offer a nominal towing allowance.

Protection and Indemnity (P&I)

P&I coverage pays for your defense if you are sued 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.

P&I pays for damage caused by your boat's wake, by fire spreading from your boat to other boats or facilities, and ramming or collision. P&I will pay medical expenses for passengers, third parties, and may pay for passengers' personal effects. Activities like water skiing may or may not be covered. Some policies pay for investigative services used to determine the cause or extent of damage. Some pay for recovery of sunken boats, and for cleanup of spilled fuel and oil. Coverage of \$500,000 is what is most recommended for fuel spills and other EPA issues.

Agreed Value vs. Actual Cash Value

When comparing physical damage coverage, the most significant difference that can be found among the boat or yacht insurance policies is whether the coverage is based upon "agreed-upon value" or "actual cash value" (ACV) loss settlement.

Agreed-upon value policies normally pay the amount shown on the policy if the boat is considered to be a total loss. Under such a policy, damage resulting from a partial loss is generally paid for on a replacement cost (new or old) basis, less your deductible; that is, physical depreciation will not be factored in to determine the value of the loss or damaged items. However, some items that are subject to higher amounts of normal wear and tear, such as canvas, sails, trailers and some machinery, may be subject to allowance for depreciation in the event of a covered loss.

An ACV policy provides less coverage than an agreed value policy, but generally at a lower cost. An ACV policy provides coverage up to the current market value of the vessel in the event of a total loss, taking into account depreciation and condition of the boat at the time of the loss. Payments made for partial losses are usually reduced based on physical depreciation of lost or damaged items, and the policy deductible is also applied.

Warranties

When applying for boat insurance, you must provide accurate information about yourself and the boat. This includes your age, *experience*, driving and loss record, as well as vessel type, size, 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 vessel for only lawful purposes and not to engage in commercial use or racing. You will also be agreeing to operate

the vessel within an agreed upon geographical area. For instance, some policies forbid clients from operating the vessel outside of the Golden Gate Bridge. 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.

Kevo's Tips:

If your vessel is uninsured, buy insurance! If you already have insurance, evaluate the policy to see if it meets your needs. If you have insurance on your vessel, and it is based on false or misleading information on your application, your policy may be invalid in the event of a loss. For instance, if you say you are competent to operate a 40-foot motoryacht due to *experience*, and in fact you don't have that experience, you may not be covered in the event of a loss. (I have a cousin who's uncle has a brother in Nor Cal who actually teaches folks how to safely and competently operate their vessels. Insurance companies love that.) HA!

As always, feedback is appreciated. I can be reached at 925/890-8428 or kevo@yachtsmanmagazine.com.

Be safe & happy boating! ➤
