

By Robert J. Prahl, CPCU

BOATOWNERS INSURANCE— AN INSURER'S MARKETING EDGE

With the arrival of warmer weather, boaters across the northern half of the country will join their southern neighbors in taking to the water. Spring is here, and recreational boating activity is about to intensify.

With that in mind, it seems appropriate to review the factors involved in insuring boats. This article discusses marketing, coverage, and underwriting considerations associated with boating. The centerpiece of the article, from a coverage standpoint, is the AAIS Boatowners Program.

A marketing plus

Many companies write boat insurance as a supplement to their automobile and homeowners programs. These companies want to serve as a “one-stop shop” for their policyholders. By offering boat insurance, companies (*and agents*) can retain profitable accounts that otherwise might look elsewhere for this coverage and, in the process, move their existing auto and homeowners policies to a competitor. Whether a company writes boat insurance as a specialty line, or as an accommodation to market or retain desirable personal lines business, the Boatowners Program can be a valuable addition to its portfolio.

Is a homeowners policy adequate to cover watercraft exposure?

Whether or not a homeowners policy can adequately cover watercraft depends on the size and usage of the watercraft. Although a homeowners policy does provide some property and liability coverage for watercraft, the coverage is quite limited when compared with the coverage provided by the Boatowners form. Limitations on watercraft coverage in a typical homeowners policy include:

- Perils covered under homeowners property insurance do not include most perils of the sea, such as sinking, stranding, capsizing, collision, etc.
- Sublimits of \$1,000 (ISO) and \$1,500 (AAIS) apply to watercraft under property coverage.
- Damage to watercraft caused by wind or hail is not covered unless the property is in a fully enclosed building at the time of loss.
- Off-premises theft coverage is not available.

In addition, bodily injury or property damage liability is not covered if the claim arises out of the use of:

- Inboard motor boats owned by an insured;
- Inboard motor boats with more than 50 horsepower that are rented to an insured;
- Outboard motors with more than 25 horsepower; or



- Sailboats 26 feet or longer, owned by or rented to an insured.

Even with a standard watercraft endorsement added to the homeowners policy, the Boatowners form is still more comprehensive because it offers both property and liability coverages, uninsured boaters coverage, and coverage for miscellaneous property, substitute, and non-owned boats. The standard watercraft endorsement covers liability exposures only.

Underwriting considerations

In a very real sense, underwriting boat insurance is similar to underwriting automobile insurance. Chief considerations in underwriting auto insurance are the operators, type of vehicle and usage, and location where the vehicle will be driven. Similarly, the boat insurance underwriter is concerned primarily with the operators, type of boat, and navigational territory.

Operators: The underwriter will want to know the boating experience of all principal operators, particularly their years of experience with watercraft similar to that which is being insured. In addition, the boating loss history of these operators will be of primary concern. It is quite common for underwriters to order the motor vehicle records of all operators, as it can be assumed that if an individual has difficulty following the “rules of the road,” he/she may have similar problems following the “rules of the water.”

As with automobile insurance, youthful operators can increase the exposure to loss with regard to boating. Factors to consider are boating experience of the operator, type of watercraft, and frequency of use.

Type of boat: The description, age, and particularly the condition of the boat are very important in underwriting this line. Information concerning market value can be found in the *Used Boat Price Guide*, published by BUC International (phone: (800) 327-6929) and the *Powerboat Guide* (phone: (800) 832-0038).

If the boat will not be physically inspected, underwriters should obtain photos of the craft and any explanatory literature that might be available. With larger watercraft, a marine survey may be warranted.

Navigational territory: Five navigational territories are identified in the *AAIS Boatowners Manual*:

1. Territory 1—South Atlantic and Gulf
2. Territory 2—North Atlantic (Rating is based on an eight-month navigation period.)
3. Territory 3—Great Lakes (Rating is based on an eight-month navigation period.)
4. Territory 4—Pacific
5. Territory 5—Other Inland Waters

Characteristics of these territories vary significantly, and some territories are subject to rapid changes in weather that can lead to rough water conditions. Some examples are:

Lake Michigan: Weather on Lake Michigan tends to be volatile and subject to sudden thunderstorms and squalls. However, the lake contains many ports and marinas that can offer shelter during bad weather. The area around Chicago is very congested with boat traffic, and this increases the chance of collision. The experience of the boater should be closely checked for prior collision losses.

Florida Keys: This is a popular area for swimming and scuba diving because of the coral reefs. These waters are shallow, and there is a

danger of running aground. The coral reefs are protected by law, and it is a criminal offense to hit a reef.

North Carolina: The Pamlico and Albermarle Sounds are wide expanses (15 to 20 miles) where the waters can become rough and choppy in windy conditions. The waters off Cape Hatteras are extremely rough, and prior boating experience is very important when navigating in this area.

New York, Long Island, and New England: Because this area is somewhat congested, collisions can be a problem. The coast off Cape Cod and up through the northern Atlantic Ocean can be subject to sudden and severe weather changes. During the winter months, storms known as “nor’easters” can sweep in with high winds and heavy snow or rain. Boats that are not in sheltered marinas are subject to damage if they break loose from their moorings or pound against the dock.

Pacific Coast: Few inland lakes or rivers are connected to the Pacific Ocean, so boaters tend to operate out in the ocean. Some ports or coves along the coast can offer shelter in rough weather or when mechanical problems occur. Experienced operators in this area will be much less likely to be caught far from shore during bad weather.

Other underwriting considerations

Key hazards or causes of loss associated with boating are fire, collision, striking a submerged object, and theft. Small boats and faster boats, particularly those that can be towed by a trailer, are vulnerable to theft. Underwriters must consider what precautions the owner takes in storing the boat and whether there is security in the area or facility.

The fire hazard can be reduced through annual inspections of the fuel lines, cooling system, and electrical wiring. Also, consider the construction, occupancy, protection, and exposure of the storage facility.

Causes of collision include use of alcohol, lack of experience, boating in overcrowded areas, or excessive speed.

Inland lakes are the primary area of concern with respect to submerged objects. Runoff from rainfall or melting snow can bring debris into the lake. Wood can become so waterlogged that it does not float on the surface of the water but slightly below it, making it virtually impossible to see. Man-made lakes, which are abundant in some states, often contain tree stumps, the remnants of trees that were cut down to create the lake. Periods of low water levels pose a threat of hull damage and bodily injury liability claims,

especially if the boat strikes a submerged object at high speed.

Liability exposures include bodily injury to passengers, third parties in other watercraft or on docks or piers, swimmers, scuba divers, and water skiers. Property damage liability can result not only from collision but also from a boater’s creating a wake that damages another boat.

Boating safety courses are offered by the U.S. Coast Guard and U.S. Power Squadron. Some states, such as Kentucky and Ohio, require that youthful operators (between the ages of 12 and 17 in Kentucky, and under age 18 in Ohio) complete a boating safety course before they can legally operate certain power boats, including personal watercraft. Boaters with several years’ experience who have completed boating safety courses ordinarily are much less of a risk than individuals with little or no experience and no safety courses.

Who is eligible under the AAIS Boatowners Program?

Eligibility is based on the boat rather than the boatowner; but understandably, the boating experience and loss history of those regularly operating the watercraft will be of great interest to the underwriter.

The form may be used to cover boats that meet all of the following criteria:

- Owned by individuals for personal pleasure use
- 30 feet or less in overall length
- Capable of maximum speeds not greater than 45 mph (does not apply to personal watercraft, i.e., Jet Skis, Sea Doo’s, or Waverunners)
- 15 years or less in age
- Valued at \$75,000 or less

The AAIS Boatowners Program is to be distinguished from the yacht coverage provided in the *AAIS Inland Marine Guide*. The Boatowners form is typically used to cover small to medium-sized watercraft, whereas yacht policies generally cover larger watercraft, but there is some overlap with respect to eligibility.

AAIS Boatowners coverage at a glance

Under Form BT 0100, Principal Property Coverages include protection for BOATS, MOTORS, AND BOAT TRAILERS. Additional Property Coverages include:

1. Miscellaneous Property
2. Substitute Boats
3. Non-owned Boats
4. Newly Acquired Property
5. Emergency Service

For more information about AAIS insurance programs, contact:

Robert Schnoll, Marketing
Manager
(800) 564-AAIS (2247), ext. 222
or by e-mail (Bob_S@aaais.org).

Property coverage is provided on an “open perils” or “risks not excluded” basis, with standard exclusions for catastrophic hazards such as war and nuclear hazard, as well as for loss caused intentionally, by wear and tear, and by mechanical or electrical breakdown. A marine life exclusion also applies.

Two principal liability coverages are included:

1. Personal Liability
2. Medical Payments (including insureds’ boating-related medical expenses)

Under Additional Liability Coverages, defense costs are covered, IN ADDITION TO the liability limit.

Another additional liability coverage is REMOVAL OF SUNKEN PROPERTY. This coverage pays for the cost of raising, removing, or destroying a watercraft caused by its stranding, sinking, or burning, when this is required by law.

Liability exclusions are grouped under three categories: those that apply to Liability AND Medical Payments; those that apply ONLY to Liability; and those that apply ONLY to Medical Payments.

The form also includes Uninsured Boaters coverage, which covers compensatory damages (because of bodily injury) that an insured is legally entitled to recover from the owner or operator of an uninsured boat.

Note: The basic form includes coverage for PERSONAL WATERCRAFT, defined as those equipped with a water jet pump propulsion system and designed to be operated by a person while sitting, standing, or kneeling on or behind an engine covering. Personal watercraft refers to such craft as Jet Skis, Sea Doos, Waverunners, etc. Coverage for personal watercraft is INCLUDED in the form, but the coverage may be deleted, for those companies that do not wish to provide it, by attaching endorsement BT 0009. The exclusion, however, does not apply to uninsured boaters coverage. ■

The author

Robert J. Prahl, CPCU, is director of education for the American Association of Insurance Services.