

Boat and Yacht Insurance: What does your policy really cover?

By Gregory G. Group

It's been my experience that most boaters are not familiar with the terms and conditions boat insurance policies, even their own. Therefore, in order to provide a little clarity for those skippers who may be purchasing boat insurance for the first time, or are simply renewing an existing policy, here are some terms and definitions with which everyone should be familiar.

Actual Cash Value Policy: Insurance that only pays the "fair market value" of a boat if it's lost or destroyed. An "ACV" policy with a limit of \$20,000.00 will only pay you \$15,000.00, if that is the market value of your boat. It doesn't matter that the policy limit is higher. The policies usually read "pay...the coverage limit, or fair market value, whichever is lower." A survey is usually not required for this type of contract, (unless your boat is especially old), because the boat is appraised AFTER the loss.

Fair Market Value: What a boat would reasonably be expected to sell for between a willing seller and a willing buyer.

Agreed Value Policy: An insurance policy in which the boat value is agreed between the insurance company and the boat owner in advance. The company agrees that your boat has a value of, say, \$20,000.00, and they will pay that amount if the boat is lost. This type of insurance usually requires a marine survey, because the company wants to be sure the boat is actually worth the amount that they're committing to.

Deductible: The amount of money that you agree to pay towards any loss. Losses that fall under the amount of the deductible are absorbed by the policyholder. For example, if you have a \$1,000.00 deductible, and you have a loss of \$800.00, you can't make a claim with the insurance company. In losses with larger amounts, the insurance company usually just subtracts the deductible amount from the check that they eventually send you. Also, when buying insurance, remember that the larger the deductible amount is, the cheaper the insurance premium will be, because the underwriter's exposure for small losses is reduced.

Depreciation: The theory that things have less value as they wear out and get older. A policy that takes depreciation on repairs might, for example, take 5% depreciation per year on stern drive repairs. Therefore, if you have a stern drive repair bill for \$5,000 for your ten-year-old boat, the insurance company would deduct 5% a year, times ten years, or 50%, off the top. You would net \$2,500.00, less your deductible amount.

Betterment: Making something better than it was before. A rebuilt stern drive is better than an old, used one. If you have a policy that calls for betterment, and you make a claim to have your damaged drive rebuilt, they are likely going to charge you (by reducing the amount they pay) for the "betterment" of the stern drive. For a ten-year-old drive, you may only collect half of the rebuilding cost, if your policy calls for betterment to be factored in to the loss payment.

Replacement Cost Coverage: A policy option that pays for REPAIRS without deducting for depreciation or betterment. This is a good idea in boat insurance policies, because parts and labor can be expensive. This DOES NOT mean that when your twenty-year-old boat sinks that the company will buy you a brand new one to "replace" it. Also, even if you have replacement cost coverage, soft goods, such as cushions, canvas, carpet, curtains and upholstery are still depreciable.

Personal Effects Coverage: Pays for items on board your boat that are personal in nature, and therefore aren't covered by the basic boat or yacht policy. Your boat policy will pay for equipment that is used in the maintenance or navigation of the vessel. It won't pay for unrelated personal items that are lost. If your boat sinks and you lose your binoculars, they would be covered by the boat policy, because you use them to navigate your boat.

You can't, however, anchor a boat with a boom box, or tie it up with a video camera, so those items would be excluded from the boat policy, unless you had purchased the extended personal effects coverage. This coverage is sold in dollar amounts, so it's necessary to add up the value of things that you anticipate bringing aboard, and buying the appropriate amount of coverage. \$2,500.00 is usually enough to cover a 30 footer for personal effects losses. One more thing. Homeowners' insurance will pay for things lost away from your home premises, but often EXCLUDES losses due to water or sustained on a boat.

Wreck Removal Coverage: The provision that pays for the required removal or salvage of the wreck of your vessel. Be careful with this one. Many insurance companies will provide coverage in their contracts to pay for wreck removal. However, some of the contracts state that such sums will be DEDUCTED FROM THE HULL INSURANCE LIMIT. These clauses are usually buried in the wording of the insurance policy, so you must carefully read everything, and find out where you stand regarding wreck removal expense. For example, if your boat is insured for \$20,000, and it sinks and is salvaged, it would not be unusual to receive a salvage bill for ten thousand dollars. If your boat policy deducts wreck removal expense from the hull limit, then you would only collect the \$10,000 remaining after the insurance company paid the salvor. Unfortunately, most people don't realize that they have this provision until AFTER a loss.

Towing Insurance: Most insurance companies provide some basic coverage for towing, maybe \$500.00. If you feel that more coverage is necessary, you can, for an additional premium, increase that amount. However, it's arguably cheaper and easier to simply stop by your local marine towing company and enter into one of those seasonal towing contracts for 50-100 dollars. That way, if you break down, the towing company, or one of their affiliates, will come out and get you, at no charge.

The best way to avoid disputes over insurance coverage or conditions, is to **READ YOUR INSURANCE POLICY BEFORE A LOSS OCCURS**. The insurance policy is the rulebook for the game. If you have any question, call your insurance agent, and ask him or her to explain anything you don't understand. I'm sure they will be happy to help.