

# Storm Prep

## How to weather the yacht insurance industry's "perfect storm"

By Louisa Beckett

**For the past several years**, a significant number of yacht insurance underwriters and carriers have been operating in the red — essentially paying out more to cover claims than they have received in premiums — well over 200 percent more in 2017, for example. This is due in part to damage to yachts caused by recent major storms, notably Hurricanes Harvey, Irma, and Maria, which cut a destructive swath through yachting hotspots in the Caribbean and U.S., damaging or destroying literally thousands of boats.

While the 2018 hurricane season was relatively mild, in late October, a storm with gusts of more than 100 knots and high seas pounded Italy's Ligurian coast, which includes yachting playgrounds San Remo and Portofino, as well as yacht-building center La Spezia. Roughly 400 boats were damaged or destroyed.

In addition to these natural disasters, incidents involving individual superyachts have played a role in causing the yacht insurance industry's current financial distress. In September 2017, the 134-meter Fincantieri M/Y *Serene* ran aground in the Red Sea, resulting in a €50 million loss, according to a Lloyd's broker. Then, in September 2018, a fire broke out in a shed at the Lürssen shipyard in Germany where a 100-plus-meter yacht was under construction. While no official figures have been released to date for the insurance claims resulting from that fire, *Business Insurance* magazine reported that the total was likely to be nearly \$700 million — although of course that includes claims for damage to the shed and equipment, not just the yacht itself.

Nancy Poppe, North American yacht practice leader, Willis Marine Superyachts, a 23-year yacht insurance industry veteran, says this is one of the worst times for her industry that she can remember. "To me this [is] kind of a 'Perfect Storm,' in a sense," she says.

### Fewer Players

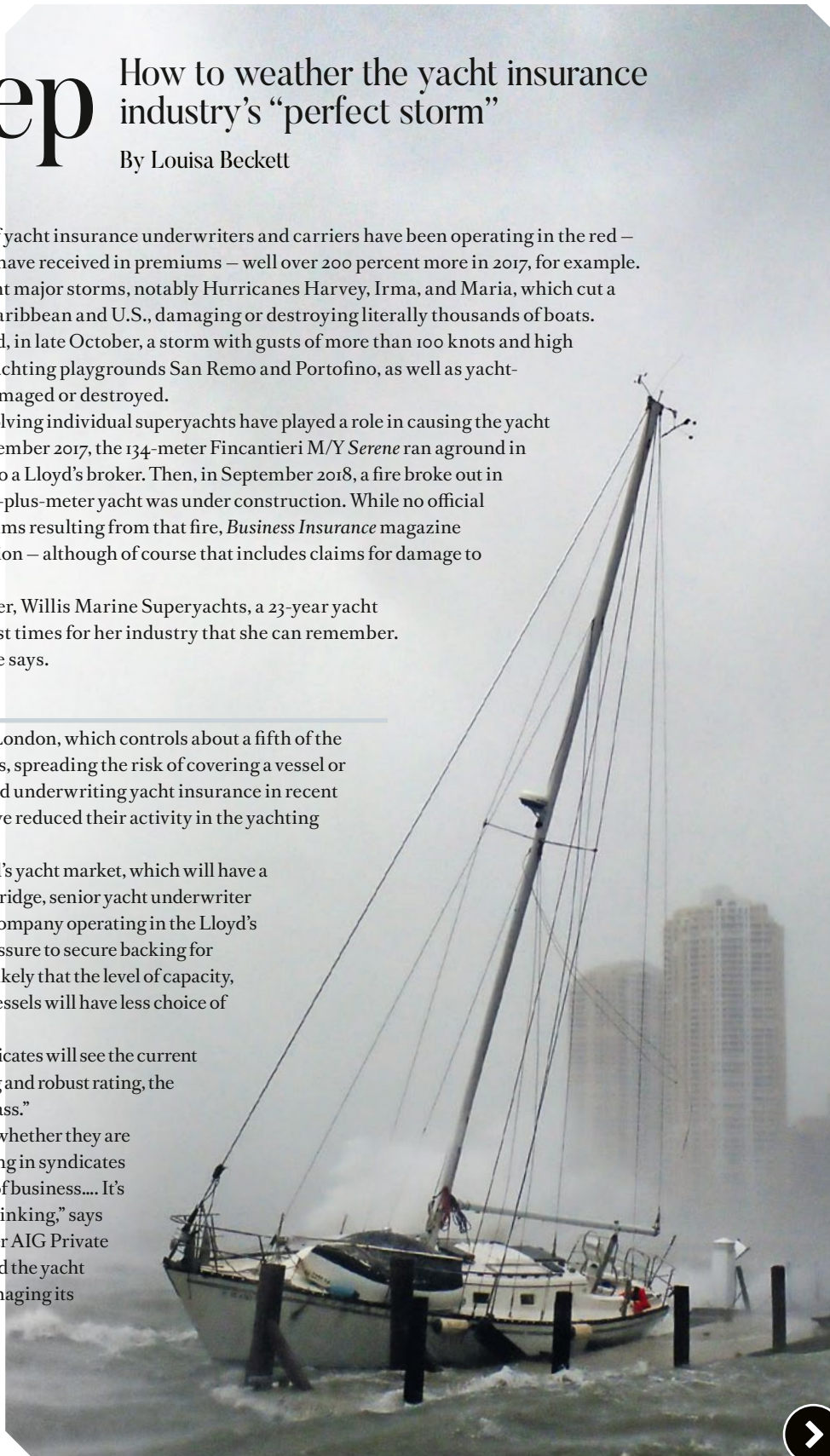
As the original source of marine insurance, Lloyd's of London, which controls about a fifth of the world's marine insurance market, insures by syndicates, spreading the risk of covering a vessel or vessels out over multiple parties. Due to losses sustained underwriting yacht insurance in recent years, however, some Lloyd's underwriters recently have reduced their activity in the yachting sector or pulled out of it altogether.

"There have been further withdrawals from the Lloyd's yacht market, which will have a serious impact on capacity in London," says Mike Wimbridge, senior yacht underwriter with Markel International, an international insurance company operating in the Lloyd's market. "Many of the 'market facilities' will be under pressure to secure backing for their programs as we proceed into 2019. I think that it's likely that the level of capacity, under these facilities, will reduce and owners of larger vessels will have less choice of markets when they seek terms."

Wimbridge added, "Notwithstanding this, some syndicates will see the current position as an opportunity and, with strong underwriting and robust rating, the results could be very positive for those still writing this class."

"We are seeing others in the [yacht insurance] space, whether they are carriers [or] whether they are capacity providers operating in syndicates in the London market, retract, withdraw from that line of business.... It's true to say that the yacht space in terms of capacity is shrinking," says Sean Blue, global head of watercraft for insurance carrier AIG Private Client Group. He reports that his company has navigated the yacht insurance industry's "perfect storm" by successfully managing its portfolio to sustain the current market trends.

"Anytime the capacity becomes less, the price of the existing capacity goes up," Blue continued. "So, that's what we're seeing in the marketplace — overall, reinsurance pricing and retail pricing on yachts of all sizes, big yachts and small, is on the rise, [and] on the



rise in a greater percentage on big yachts that demand more capacity.”

## Rate Increases are Inevitable

“One hundred percent increases were standard for Caribbean business at renewal; Florida businesses had thirty percent plus,” says E. Maria Karlsson, president/broker of Superyacht Insurance Group, an insurance brokerage that handles both yacht and crew insurance.

“Rates are going up, and they’re going to go up and that’s not within anyone’s control,” Poppe says. “The goal would be to mitigate the increase that you have. And when underwriters, insurance companies, are in the driver’s seat... when the market is hardening, which it is...the thing to do is to be aware of what you look like as an owner and captain to your underwriter population, so you can distinguish yourself to allow your broker or whoever is negotiating on your behalf, to negotiate the best possible rates, so when they are going up, say, twenty, thirty, forty percent, maybe your increase can be on the low side of that, because you have done certain things to make your presentation better.”

“By definition, each risk is treated on its own individual merits and owners/captains need to demonstrate why their vessel is more attractive to underwriters than others,” Wimbridge says.

## Classification Counts

Often, a yacht captain is not involved in the owner’s decision whether or not to have a new yacht built to class, or to purchase a brokerage yacht already built to class. But in the future, classification may be a major factor in a yacht’s qualifying for insurance coverage.

“Previously, a vessel having classification status was something that underwriters viewed as a ‘good to have’ rather than a ‘must-have,’” Wimbridge says. “Underwriters understand that class typically means the vessel being built, maintained, and operated to a high standard and this was treated as an underlining of the risk being of a higher caliber. Going forward my assumption is that the vessel being classed may now evolve into a ‘must-have.’”

## Be Prepared for Paperwork

The experts agree that superyacht captains currently participating in the process of renewing their vessel’s insurance policy or shopping for new coverage will need to provide more documentation to insurance brokers and potential underwriters than in previous years. “I feel that underwriters cannot be given too much information and classification status should form part of that,” says Wimbridge. “Providing copies of class surveys and outlining the program of future surveys, maintenance schedules, etc. will be paramount in obtaining terms.”

“Be prepared for more paperwork. Keep track of everything, even safety drills,” says Karlsson, explaining that insurance carriers are looking for assurance that captains and crew are properly trained to respond to emergencies on board in order to mitigate any potential damage and resulting insurance claims. Documenting that your safety equipment is working properly and is tested regularly also is important, as is having a clean survey on your yacht.

A yacht’s hurricane plans also need to be thorough and well



**“By definition, each risk is treated on its own individual merits and owners/captains need to demonstrate why their vessel is more attractive to underwriters than others.”**

documented, as that naturally is an area of increased scrutiny for insurance underwriters following the storms of 2017.

## Treat Insurance Carrier as a Partner

Poppe recommends being open with your broker and insurance carrier when it comes to planning major changes for your yacht program, such as going into a yard for a refit. “Transparency – when you look at the underwriter or insurance company as your risk partner, and you bring them into your thoughts and your decisions, like, ‘Hey, am thinking about doing this next year, help me get through this,’ or, ‘What do you think about it?’” she says.

## Pick and Choose Claims

If your yacht sustains some minor damage that the owner can cover personally, think twice before putting in an insurance claim for it.

“It’s worse to have multiple small claims than a ‘biggie,’” Poppe says. “Now is not the time to put in for what we call ‘attritional losses.’” She added, “It also may be a good time to explore a higher deductible.”

## Manage Risk

Yacht insurance underwriters always required proper licensing and certification of a vessel’s

captain and crew, but now their scrutiny may go beyond that. One of the things underwriters are looking for is consistency of captain and crew, Poppe says. “Someone who is frequently changing chief officers and captains, particularly – over time, that starts to look to an underwriter like, ‘What’s going on, why are there so many changes?’”

Blue says that yacht programs can make themselves more attractive to insurance underwriters by actively managing their risks. “Taking higher deductibles and showing more kind of skin in the game,” he says. “Employing better crew. Keeping up on your maintenance records. Dealing with yard contracts and presenting those yard contracts and refit information to the underwriter prior to signing them, because most yard contracts have onerous waiver language.” He added, “Chartered megayachts typically are better risks as they do not make income when down and not chartering. Hence the crew is motivated for tips while engaged in charter, so we see fewer crew injuries for these risks.”

“The most attractive risks are the risks that have no losses, are professionally run, professionally managed, professionally maintained, maintained often, maintaining class, are flagged in a location that has more stringent regulations than a maybe flag country that has less stringent regulations. These are all important,” Blue says.

## More Than Price

“In recent years, there has been focus on price alone and this has led the [yacht insurance] market to its current position,” Wimbridge says.

“One of the realities that we are seeing in the space is that there has been some commoditization in the market, driving the rate down, and some of this retraction we are seeing, some of this reduction in capacity, is reflective of that commoditization and choosing the lowest rate, that’s

# BACK IN BUSINESS

and ready to welcome guests for the winter season 2018/2019.



Yacht Club Port De Plaisance is a professionally-managed full service facility with 90 plus slips for sail and motor-powered vessels from 40' to 260' LOA, with drafts up to 16".

VHF: 16  
18°02.3' N  
63°05.3' W

Phone: +721 544 4565 | Cell: +721 520 1985  
info@pdpmarina.com | www.pdpmarina.com

## GLOBAL COVERAGE

At Work & Play!

Plans  
from **\$75**  
per month

- ✓ Individual & Group Medical
- ✓ On-&-Off Yacht Coverage
- ✓ Variety of Plan Options
- ✓ Assistance with Application



 Superyacht Insurance  
GROUP

(+1) 954.323.6733 • SYIG.CO

**15**  
YEARS  
Insurance Experience  
VIP Service 24/7/365

unsustainable,” Blue says. “While pricing and rate are always important, I think the captain’s consideration should also be selection of who the underwriter might be behind that rate, behind that capacity, whether or not they’re sustainable, whether or not they’re making money, what is the track record of that company, not just from a pricing standpoint...[but] how are they to deal with in a claim situation....”

In addition, Blue recommends taking a long-term view of the yacht’s future needs and researching whether potential insurance underwriters have the tools in place to support them. “If you are planning on going to the northern fjords of Norway, does your carrier have experience covering risks there? Do they have logistics in place to handle a claim?” he asks, adding, “Most carriers don’t want to cover that exotic risk in Year One.”

“At the end of the day, [yacht insurance] isn’t a commodity; all the policy’s terms and conditions could be different,” he continues. “Even in the London market, which is a lot more boilerplated, there is a lot of manuscripting and customization that happens, so what does that customization mean for me as the buyer, the

**Yacht insurance underwriters always required proper licensing and certification of a vessel’s captain and crew, but now their scrutiny may go beyond that.**



captain? Those are the questions they should be asking in terms of ‘what should I expect from my insurance carrier.’”

“The same rules that previously applied should continue to apply: owners/captains should choose their broker and carrier wisely,” Wimbridge says. He cautioned that too many cooks sometimes can spoil the broth. “There has also been an increase in the number of parties engaged in the process of buying/selecting the yacht’s insurance and one should question whether all of these parties are ‘adding value,’” he says. “There are a select number of specialist brokers and their services will be invaluable in sourcing the best solution for their clients in a very difficult time for the market. The relationship between client, broker, and underwriter will be paramount and all stakeholders should consider this as a partnership. There has been a move to commoditize insurance in general, but one should remember that superyachts are highly technical assets, traveling all over the world, and their insurance policies should reflect this. One size does not fit all, and it is imperative that clients select the right partners to protect their yachts and crew.”

PHOTOGRAPHY: CDWHEATLEY/ISTOCK



**GO DIRECT & SAVE \$\$\$**

Save on the Shipyard Markup | Better Quality Service & Communication

*Thank you for supporting us for ...*



- We clean all tanks for gas free certifications
- Abrasive Blasting/Coating Removal
- Fresh Water Epoxy Tank Linings
- Gray & Black Water Tank Linings
- Shaft Tube & Pipe Interior Blasting/Lining
- Engine Room & Bilge Cleaning/Painting
- HVAC Air Duct Cleaning & Mold
- Galley Hood Exhaust & Dryer Vent Cleaning
- Engine & Generator Exhaust Stack Cleaning

FL +1.954.533.1135 | CA +1.619.371.9378

Estimating@protank.net | www.protank.net