

A CONSUMER GUIDE TO
INSURANCE
FOR BOATS AND
PERSONAL WATERCRAFT



Maryland
INSURANCE ADMINISTRATION

A CONSUMER GUIDE TO
INSURANCE

FOR BOATS AND
PERSONAL WATERCRAFT



Maryland

INSURANCE ADMINISTRATION

TABLE OF CONTENTS

Introduction 1

Do I Need Insurance On My Boat or Personal Watercraft? 1

What Types of Policies and Coverage Are Available? 3

What Factors Affect the Premiums of a Boat Owner’s Insurance Policy? 6

How Are Losses Paid Under a Boat Owner’s Insurance Policy? 8

What Happens if I Cannot Find Coverage?..... 9

Where Can I Obtain Information on Boating Rules,
Regulations, and Safety Issues? 10

Shopping Checklist for Boat Owners Insurance Coverage..... 10

How To File a Complaint 13

INTRODUCTION

The Maryland Insurance Administration (MIA) is an independent state agency that regulates Maryland's insurance marketplace and protects consumers by ensuring that insurers and insurance producers (agents and brokers) act in accordance with insurance laws. We produced this guide to help educate Maryland residents about insurance for boats and other personal watercraft.

The Insurance Administration is responsible for investigating and resolving complaints and questions concerning insurers that conduct business in Maryland.

DO I NEED INSURANCE ON MY BOAT OR PERSONAL WATERCRAFT?

For many people, the purchase of a boat or personal watercraft is one of the more expensive purchases they will make, after the purchase of a home or an automobile. Yet insurance for the boat or watercraft is one of those products that most people never think about until there is a need to file a claim.

In Maryland, there is no law, regulation or other rule that requires you to purchase insurance for your boat or personal watercraft. It is still a good idea to purchase an insurance policy to protect you and your investment.

Purchasing a personal watercraft insurance policy will not prevent a claim from arising. However, it will help you recover financially in the event that your boat or personal watercraft is damaged by a covered cause of loss or in the event that a claim is made against you for damages to another person or another's property arising out of your operation of the watercraft.

Keep in mind that if you have borrowed money for the purchase of the watercraft, the lender may require that you purchase an insurance policy to protect its interest in the property. In addition, if you fail to maintain a policy, a lender may purchase a “force place” insurance policy to protect its interest in the watercraft. When a lender obtains “force- place” insurance, you will be charged for the coverage, but you will not have the benefit of insurance for your interest in the watercraft.



For example, suppose you purchase a boat or watercraft for \$25,000, and borrow \$15,000 of the purchase price. Then suppose you either do not obtain an insurance policy or allow your insurance policy to lapse because, you fail to pay the premium due or the policy is non-renewed or canceled. The lender will force place an insurance policy on your boat or watercraft with coverage up to the amount of its interest (\$15,000). The lender then will include the cost of the insurance premium in your monthly loan installment payment. In the event of a total loss, the lender would receive from the insurance company the amount of the outstanding balance on the loan, but you would not receive any money. This is true even if the watercraft’s actual cash value exceeds the amount of the loan. In other words, only the lender is protected by forced placed insurance coverage, and any equity in excess of the loan amount would be lost. You can avoid this result and protect your interest in the watercraft by purchasing your own policy and naming your lender as an additional insured.

There are different types of protections and policies available depending on the type and size of the watercraft you own. Knowing your options may help you determine not only if the watercraft should be insured, but also how best to do so.

WHAT TYPES OF POLICIES AND COVERAGE ARE AVAILABLE?

The type of coverage or policy available will depend in large part on the type of watercraft you own. Coverage generally is obtained via a homeowner's policy, a watercraft endorsement to a homeowner's policy, or under a separate boat owner's policy.

HOMEOWNERS POLICY OR ENDORSEMENT

A homeowner's insurance policy may provide some coverage for smaller vessels, such as sailboats less than 26-feet long or power boats with outboard engines of less than 25 horsepower. However, if coverage is provided, it may be very limited. For example, coverage for property damage to the boat may be capped at \$1,000 for the watercraft, trailers, furnishings, equipment parts and motors.

Some insurance companies sell watercraft endorsements that are added to your homeowners' insurance policy. The endorsement will provide, for an additional premium, coverage for sailing vessels more than 26 feet in length or power boats with outboard engines of greater than 25 horsepower.

It is important to read your policy and talk to your agent to determine if it provides coverage for the watercraft you own or are considering purchasing, or whether you will need an endorsement. You also should discuss what the terms and conditions of coverage are.

If the watercraft is covered by a homeowner's insurance policy and/or watercraft endorsement, there also will be coverage for personal liability and medical payments to others. The liability section of the policy provides coverage to the insured (you) or resident relatives in the household when they are legally responsible for causing bodily injury and/or property damage to others while operating the watercraft. The medical payments coverage in the policy provides for payment of reasonable and necessary medical expenses for any person, other than the insured and the insured's household relatives, who have been injured accidentally.

BOAT OWNERS POLICIES

In addition, many insurance companies sell separate boat owner insurance policies. These policies tend to provide broader coverage for vessels, their equipment, and the trailers used for towing them.

Many boat owners insurance policies provide coverage for the physical loss to the property (watercraft, motors, equipment and trailers) unless the cause of loss is specifically excluded by the language of the policy. Typical exclusions include: damages due to wear and tear; marring; scratching; deterioration; rust; corrosion; mold; wet or dry rot; latent or physical defects; structural mechanical, electrical breakdown or overheating; freezing (unless reasonable care has been used to winterize the watercraft) and equipment; repairing, renovating, servicing or maintenance; intentional or criminal acts of insureds; damage from illegal transport or trade; damage from business pursuits; damage if the watercraft is in a race, speed or other contest; neglect; war or warlike acts.



You should be aware that what is included as “boat equipment” may vary from insurance policy to insurance policy. In general, the following items are covered: anchors, batteries, bilge pumps, boat furniture and deck chairs, depth finders, life preservers, horns, masts, mooring cleats and lines, oars, seat cushions, ship-to-shore radios, and tarpaulins/covers. Your policy may not include all of these various types of equipment. You should read your contract to learn what types of damages are covered, and which are excluded under the specific terms of your policy, as well as review your specific policy with your agent to ensure that all the equipment you need to be protected is covered by your insurance policy.

A boat owners insurance policy provides you with liability and medical payments coverage as discussed above. The medical payments coverage usually will extend to the boat owner (insured), family members or any other person while in, upon, or alighting the watercraft. This coverage is broader than that provided by a homeowner insurance policy. A boat owner’s policy may provide additional coverages, such as emergency services, wreck removal, personal effects, towing, and coverage for necessary repairs after a loss.

Some watercraft policies contain a navigational waters limitation. These provisions limit your coverage to certain areas or waterways, such as the Chesapeake Bay, inland rivers, etc. If the insured watercraft goes outside its restricted territory, this may result in voiding the insurance coverage in the event of a loss. It is important that you are aware of any territorial restrictions that may be placed on the policy, that these reflect the areas where you operate your boat or personal watercraft, and that your premium reflects the imposition of these territorial restrictions. If you plan to take your boat into a new area or waterway, speak with your insurance company or agent to be sure that your insurance policy will protect you.

Each policy is different, so prior to purchasing your boat owners or homeowners policy or endorsement, you should review the policy language and discuss the types of coverage with your insurance agent.

WHAT FACTORS AFFECT THE PREMIUM OF A BOAT OWNERS INSURANCE POLICY?

Premiums are based on many factors, but the more common ones are:

- Type and length of the boat;
- Motor type and horsepower;
- Age, value and condition of the boat;
- Usage – territory, length of time, etc.;
- Location where boat is moored/stored;
- Owner's/insured's driving record;
- Experience on the water;
- Claims history; and
- Deductible (amount of the loss for which you would be responsible).

To lower your premium, you may want to:

- Increase the deductible, because the higher the deductible, the lower the premium;
- take boating safety courses;
- maintain a good motor vehicle record;

- make sure the vessel remains in good condition;
- remain claims free;
- carry Coast Guard-approved fire extinguishers and ship-to-shore radios onboard;
- ask about multi-policy discounts if you have other policies with the same insurer; and
- ask your agent or broker if they charge a fee for making a premium payment with a credit card. They are permitted to charge the actual expenses incurred when a premium payment is made using a credit card, provided the amount of the fee is disclosed.

Many watercraft policies have restrictive provisions with respect to canceling the policy and refunding unearned premiums. In some instances, the premium may be fully earned at inception. This means that if you cancel the policy, no premium will be refunded. Other policies may assess a “cancellation or short-rate penalty” if the policy is cancelled mid-term, which will reduce the amount of your premium refund. While this may seem unfair, one of the reasons for these cancellation penalties is to discourage boat owners from insuring the watercraft only during the boating season, which, in Maryland, usually spans the months of April through October. Underwriting, policy issuance and cancellation expenses can be higher for boat insurance than, for example, auto insurance. Therefore, it is important that you read the cancellation provision of your policy to determine if any premium will be refunded in the event that you cancel the policy. If you have any questions about the cancellation provisions or any other provision of your policy, you should discuss your concerns with your insurance agent or company.



HOW ARE LOSSES PAID UNDER A BOAT OWNERS INSURANCE POLICY?

In calculating the amount of a claim, insurers use several different methods. One common method is “actual cash value” (ACV). ACV is equal to the cost to replace the boat or personal watercraft, less an amount for its depreciation. Some policies provide for an “agreed value” or “stated value” settlement. This means that, if the boat or personal watercraft is destroyed as a result of a covered cause of loss, you would receive a previously agreed-upon amount for the loss of the boat or personal watercraft. Other policies may provide “replacement cost value” (RCV). This means that if the boat or personal watercraft is destroyed as a result of a covered cause of loss, you will be paid an amount to replace the boat or watercraft with a like kind and quality boat or watercraft. The different methods can result in you, the insured, being paid a different amount for the same covered damage. Your policy will specify which method the insurer will use.

It is important that you read your policy and understand the type of coverage you have purchased before any loss occurs, so you know how claims will be settled in the event of a covered loss. Be aware of any navigational waters limitations (as discussed under types of policies and coverage).

WHAT HAPPENS IF I CANNOT FIND COVERAGE?

Coverage may be difficult to find for any number of reasons, including the age, type or condition of the vessel, the driving record of the owner or operators, the number of claims filed or the waterways where the boat is operated. In such a situation, coverage may be provided by an insurance company that specializes in underwriting risks that present an increased hazard, known as excess and surplus lines insurers. These policies only can be procured through a surplus-lines broker. The premiums charged for these types of policies may be higher than those charged by other insurers, because the risk is greater. Under state law, most often, before you can purchase insurance from a surplus line insurer, you must be turned down for coverage by three authorized insurers that write that particular kind and class of insurance in the state. In addition, the surplus-lines broker or insurance producer placing the surplus line insurance must execute an affidavit attesting that coverage was denied by three authorized insurers.



Surplus-lines insurers are NOT regulated by the Maryland Insurance Administration; however, they must be approved by the Administration to conduct business on a surplus-lines basis in the state. Before you obtain insurance through a surplus-lines broker and insurer, you should check with the Maryland Insurance Administration to ensure that the broker is licensed to sell this type of coverage and the insurer is approved to underwrite it. This information is available on the MIA's website at www.insurance.maryland.gov.

WHERE CAN I FIND INFORMATION ON BOATING RULES, REGULATIONS AND SAFETY ISSUES?

Many agencies and organizations provide boater safety information, navigational rules and regulations. Some of those include:

- The United States Coast Guard (www.uscgboating.org)
Click the tabs for “safety” and “regulations.”
- Maryland Department of Natural Resources (www.dnr.state.md.us)
Click the tabs for “boating” and “regulations.”

SHOPPING CHECKLIST FOR BOAT OWNERS INSURANCE COVERAGE

When shopping for coverage, it is important to comparison shop, because the cost of coverage depends on so many different factors. The following checklist will help.

Make and Model of Vessel: _____

Year: _____ Serial Number: _____

	Company 1	Company 2	Company 3
1) Coverage Limits for:			
Boat			
Equipment			
Trailer			
Liability			
Medical Payments			
2) Deductible Amount			
3) Settlement Method:			
Actual Cash Value (ACV)			
Agreed Value			
Replacement Cost			
4) What is considered covered boat equipment?			
anchors			
batteries			
bilge pumps			
boat furniture and deck chairs			
depth finders			
life preservers			
horns			

	Company 1	Company 2	Company 3
masts			
mooring cleats and lines			
oars			
seat cushions			
ship-to-shore radios			
tarpaulins/covers			
other			
5) What personal effects are covered?			
6) Does the policy include coverage for:			
Emergency Services?	Yes / No	Yes / No	Yes / No
Towing?	Yes / No	Yes / No	Yes / No
Newly Acquired Watercraft?	Yes / No	Yes / No	Yes / No
Wreck Removal?	Yes / No	Yes / No	Yes / No
7) Cancellation/Refund of Unearned Premium Method?	Fully Earned, Pro Rata or Short Rate	Fully Earned, Pro Rata or Short Rate	Fully Earned, Pro Rata or Short
8) Navigational Territory Restrictions?	Yes / No	Yes / No	Yes / No
9) Premium	\$	\$	\$

HOW TO FILE A COMPLAINT

The Maryland Insurance Administration's primary role is to protect consumers from illegal insurance practices by making certain that insurers and producers doing business in Maryland act in accordance with state insurance laws. You may contact the Insurance Administration to file a complaint against an insurer or producer who you believe is not acting in accordance with Maryland law.

Maryland's insurance laws not only govern insurers' conduct – they also protect Maryland consumers. Insurers are prohibited from settling claims in an arbitrary and capricious manner. This means that insurers' claim settlement practices must be fair, nondiscriminatory and adhere to Maryland insurance laws.

If you feel that your insurer has acted improperly, you have the right to take action by filing a complaint with the Maryland Insurance Administration. However, some disputes may be governed by your policy's terms and may not be a problem the Maryland Insurance Administration can resolve for you.

Complaints must be received in writing. Please provide as much detail as possible, including copies of pertinent documents. A trained, professional investigator will handle your complaint. The investigator will contact the insurer/producer to try to resolve the issue. Meanwhile you will be advised of the steps being taken on your behalf. Complaint files are not closed until the Maryland Insurance Administration has made a determination regarding the complaint.

The MIA also established a Rapid Response Program designed to help certain consumers resolve property and casualty claims (such as auto and homeowners claims including those made under commercial lines policies) quickly and without having to file a formal written complaint. For more information about this program, please contact us at 410-468-2340 or 800-492-6116 ext. 2340.

Participation in the Rapid Response Program is voluntary and does not affect your right to file a formal complaint.

For additional information or if you have a complaint, please contact the Maryland Insurance Administration's Consumer Complaint Investigation Division at 410-468-2000 or toll-free at 800-492-6116. Consumers may also file their written complaint in person or by mail.

Consumers may also file a complaint by going online to the Maryland Insurance Administration's web site at www.insurance.maryland.gov and under *Consumers*, click on *File a Complaint*.

This consumer guide should be used for educational purposes only. It is not intended to provide legal advice or opinions regarding coverage under a specific policy or contract; nor should it be construed as an endorsement of any product, service, person, or organization mentioned in this guide.

This publication has been produced by the Maryland Insurance Administration (MIA) to provide consumers with general information about insurance-related issues and/or state programs and services. This publication may contain copyrighted material which was used with permission of the copyright owner. Publication herein does not authorize any use or appropriation of such copyrighted material without consent of the owner.

All publications issued by the MIA are available free of charge on the MIA's website or by request. The publication may be reproduced in its entirety without further permission of the MIA provided the text and format are not altered or amended in any way, and no fee is assessed for the publication or duplication thereof. The MIA's name and contact information must remain clearly visible, and no other name, including that of the company or agent reproducing the publication, may appear anywhere in the reproduction. Partial reproductions are not permitted without the prior written consent of the MIA.

People with disabilities may request this document in an alternative format. Requests should be submitted in writing to the Director of Communications at the address listed below.



Maryland
INSURANCE ADMINISTRATION

200 St. Paul Place, Suite 2700
Baltimore, MD 21202
410-468-2000
800-492-6116
800-735-2258 TTY
www.insurance.maryland.gov

www.facebook.com/MdInsuranceAdmin
www.twitter.com/MD_Insurance
www.instagram.com/marylandinsuranceadmin