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AAIS PERSPECTIVE

By Joseph S. Harrington, CPCU

COVERAGE FOR WATERCRAFT EVOLVES INTO STANDARDIZED FORM

New options for personal lines clients

It's never been easy for standard personal lines carriers to insure the privately owned boats of their personal lines accounts.

Among other things, the exposure base and opportunity to spread risk are low compared to auto and homeowners insurance, while the potential for a catastrophic bodily injury loss (particularly drowning) looms large.

That would be the end of the story if the only way to insure boats were to develop an independent boat program. For decades, an independent program of forms and rates was essentially the only option for carriers.

Today, the lack of a product base should not be a hurdle for a carrier that wants to selectively insure watercraft of prime personal lines accounts without the maintenance costs of a proprietary program.

Standardized programs of policy forms, manual rules, and rating information for insuring watercraft are now available from national advisory organizations (bureaus). Agents can urge their carriers to consider these programs as a cost-effective way to write boat coverage as an accommodation for personal lines accounts.

Programs

The American Association of Insurance Services (AAIS) was the first advisory organization to file a standardized boat insurance program, and AAIS now has two programs that carriers can use:

- The AAIS Boatowners Program, last revised in 2008, which provides forms and rating information for sailboats and motorboats up to 30 feet in length and 50 miles per hour in speed.

(Personal watercraft, such as jet skis, are also eligible, with no restriction on speed.)

- The new AAIS Yacht Program, released in September 2010, which provides advisory forms and manual rules for insuring sail- and motor-powered yachts at least 26 feet in length.

In addition, AAIS has developed forms and rating information for small craft (canoes, kayaks, rowboats, small motorboats, and outboard motors) available in the Boat and Outboard Motor class of the AAIS Personal Inland Marine Program.

The coverage provided under the AAIS Boatowners and Yacht base forms is similar, although the additional and supplemental property coverages are somewhat broader in the Yacht form.

Property coverage under both forms applies to declared boats and trailers, and to newly acquired watercraft up to 30 days after they are acquired. Coverage is provided on an open-perils basis with standard exclusions, plus exclusions for specific perils that affect watercraft, including "marine life."

Liability coverage is available under each of the forms for bodily injury and property damage, plus medical payments coverage for injuries to insureds, including the permitted users of insured craft.

When liability coverage is selected (explained in auto comparison section), uninsured boaters coverage is available to cover bodily injury to passengers of an insured craft by another craft whose owner/operator is uninsured for the loss, has exhausted his or her limits, or whose carrier is insolvent.

Auto comparison

For agents who seek to write boat insurance and explain the coverage to their clients, it can help if

they are able to make comparisons and contrasts with auto insurance.

Before the development of standardized boat forms, personal watercraft were typically insured under a range of disparate policy forms, often built on a property insurance base.

Today's standardized policies are taking on more of the structure and characteristics of auto policies, but with some important contrasts.

For example, the medical payments coverage in the AAIS Boatowners and Yacht forms applies similarly to that in auto policies, and differently from that in typical homeowners policies. Under the AAIS watercraft programs, medical payments are covered for insureds rather than for third parties.

Medical payments and uninsured boaters coverage, however, are not available under the AAIS programs unless the insured selects liability coverage.

The option of selecting liability coverage is an important distinction between watercraft and auto policies. Liability coverage is the primary purpose of auto policies; one could not write a policy without it, and property coverage (collision or comprehensive) is usually offered as an option.

The AAIS watercraft programs each offer three alternatives for writing coverage: property only, liability only, or property and liability. The principal reason for offering this range of choices is that, unlike autos, some boats may be covered under homeowners policies, either through limited coverage built into homeowners forms or through watercraft endorsements added to those policies.

For carriers, the option to write boat insurance for property only gives them a way to avoid, when warranted, exposure to situations where untrained

operators, often quite young, are casually sharing watercraft.

Agents who seek to add watercraft coverage to their account portfolios can advise their carriers of the benefits of standardized programs, and demonstrate their own commitment to support the carrier's underwriting and loss control. ■

The author

Joseph Harrington is director of corporate communications for the American Association of Insurance Services (AAIS), Wheaton, Illinois. AAIS is a national advisory organization that develops standardized policy forms and rating information used by more than 600 property/casualty insurers throughout the United States. For more information, go to www.AAISonline.com.