

# Wealthy world of mega-yachts



The luxury super-yachts boom has created rich opportunities and challenges for underwriters

James Brewer

WITH splendidly appointed cabins, swimming pools, submarines, sundecks, cinemas, sometimes a helipad and other accoutrements, there are yachts that lack nothing.

At up to 160 m, there is room for the ultimate in luxury. More than 5,000 large yachts, owned by business tycoons and monarchs, are afloat in an industry where globally the top ten manufacturers have combined annual sales of around \$5bn, and which has more boats than berths. All the construction yards are full for the next three years and more.

Currently the world's largest yacht, the *Dubai*, is the size of a small cruiseship.

The huge increase in the number of super yachts, normally defined as anything above 24 m, means a corresponding rise in the opportunities for underwriters. The risks in this relatively young sector have grown, as has the consciousness that these sea symbols of success inhabit a financial and technical milieu far from the world of ocean-going trading ships.

Underwriters have to take into account that yacht owners are forced by a shortage of berthing capacity to look ever further afield for their moorings, and that it is getting more difficult to recruit crew with the right experience, qualifications and competency levels.

Anyone who views shipowners as demanding clients should get to know the owners of luxury yachts, who expect the highest level of personal and immediate service from the insurance industry when they want to resolve a problem.

"There is very little comparison with traditional marine claims adjusting," says Nick Smith, who has recently joined Charles Taylor marine, international claims consultants, as director of the yacht practice. "What works for one discipline may not work for the other."

Responding to the boom, Charles Taylor has expanded its yacht practice to have

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a presence throughout the entire Mediterranean. Its network includes yacht experts in France, Greece, Spain, Italy and Turkey. Developments elsewhere mean a greater presence in Florida — the capital of the super and mega-yacht world, the Caribbean and Mexico.

By marshalling the round-the-clock service on behalf of underwriters and their policyholders, Charles Taylor gets the best out of local representation, including organising immediate response, negotiating emergency towage, assistance with repair specifications and choice of repair yards and the appointment of expert technicians where claims involve acute issues of design or construction or where technology exceeds local capabilities.

Mr Smith has brought to Charles Taylor his reputation as a specialist yacht claims manager, with much hands-on experience in dealing with yacht claims around the world.

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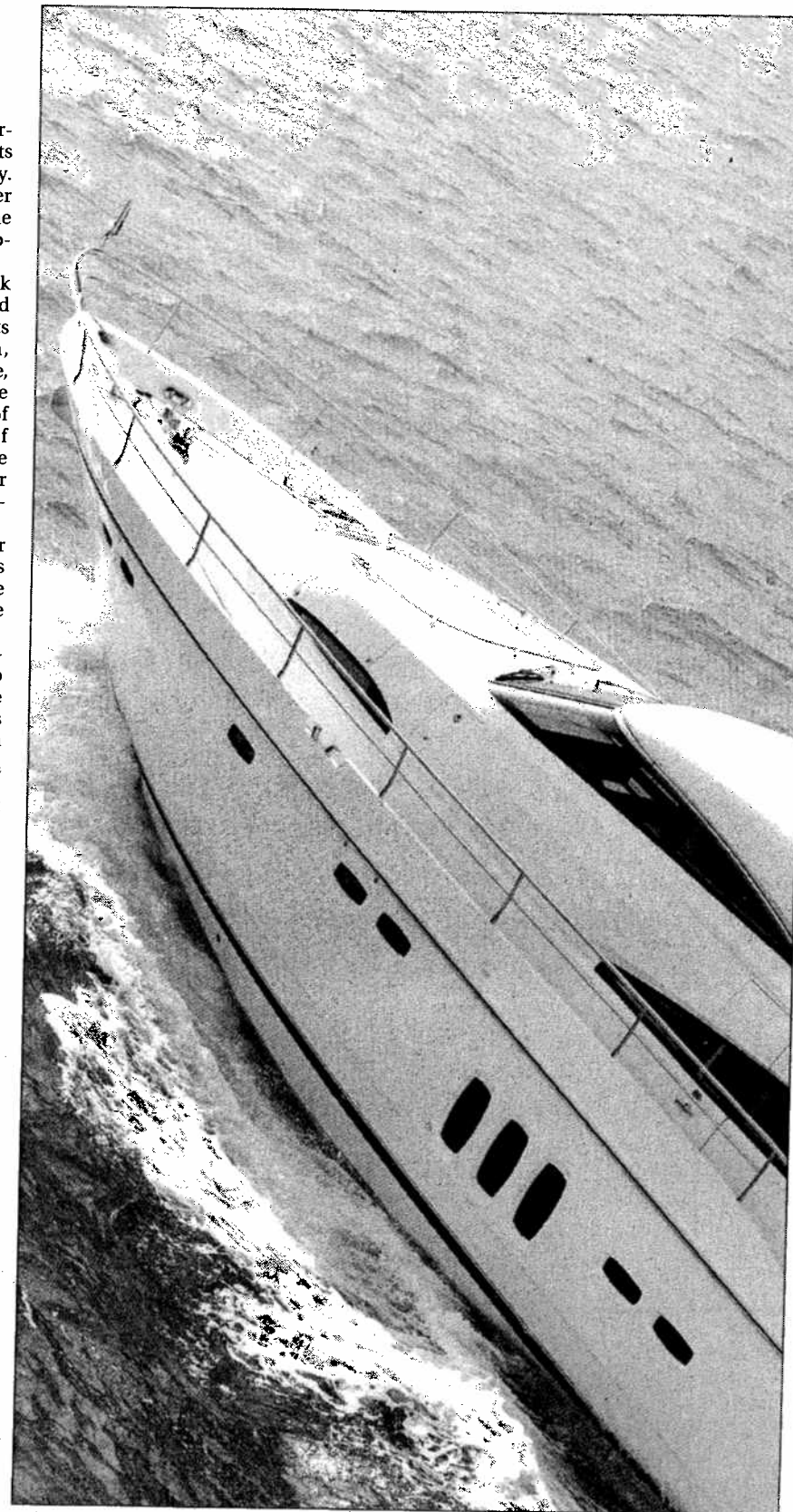
Giving cover to yachts "is not just another form of hull underwriting," says Mr Smith. "The construction methods are different, the repair processes are different, the risks are inherently different. The vessel may be one of a kind, for example it may have the bathroom fashioned from one piece of marble."

"Everything about the very latest yachts tends to push the boundaries in technology. High-speed engines with bespoke exhaust systems are commonplace, engine rooms unmanned and so on, so we have in-house engineers who keep ahead of the game."

Most shipowners have agents round the world who would help them with their insurance requirements. Luxury yacht owners have some representation, but when a casualty occurs they need to rely on their adjusters for early assistance, and salvage is one of the biggest issues facing insurers today. Any "no cure no pay" salvage can potentially mean very significant awards primarily because of the values involved, not necessarily at all consistent with the services provided or the dangers involved.

The skippers are in the hot seat and must make the decisions, says Mr Smith, but they need to keep a sense of perspective and while the well-trained and seasoned professionals will not overreact, others will push the panic button.

A lot of benefit can be gained by talking to yacht skippers about what to do in the event of a breakdown, or some other form of non-emergency immobilising damage. This will look at whether they really need



Taking a bow: these seagoing symbols of success inhabit a financial and technical milieu far from the world of ocean-going trading ships.

salvage services or whether towage services would be more appropriate.

Mr Smith recalls: "When a 62 m yacht, probably worth \$70m, caught fire in the

Red Sea in 2001, with flames that could be seen for miles around shooting from the engine stack, I talked through the night with the skipper via radio. A well-trained skipper and crew successfully got the blaze under control and the situation did not require salvage assistance.

"In that case, waiting for that assistance may well have enhanced the prospect of a total loss."

Had salvage been needed in this case, Mr Smith would have been able to negotiate directly with the salvor. "In insurance terms, this was a major and expensive repair."

Since then, the vessel has been sold, refitted and renamed. Mr Smith attributes much of the acceptable outcome of that incident to the professionalism and excellent training of the skipper and his crew, sadly lacking in other instances, he believes.

"It is not always possible, but where circumstances allow, safe, practical and active intervention by insurers and their representatives can certainly pay dividends."

Insurers take into account that the sector brings into play assets which are seen

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on few ocean-going ships, with the exception of cruise-ships.

Fine panelling, imported from specialist providers around the world that would never be seen on a trading ship becomes costly to replace if spoiled by smoke. Damage to a bathroom that, say, is fashioned out of one piece of crustacean-inlaid marble that has taken nine

months to make, presents another headache. "You can spend \$2m repairing a bathroom," says Mr Smith.

Private yachts mean that the family is often on board with their personal possessions, so losses become very emotional matters. "Even minor damage is very upsetting and it has to be handled sensitively."

It normally costs about 10% of the value of the yacht to run it every year.

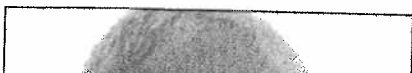
Many yachts get by without separate P&I cover: the legal liabilities of the yacht are covered under the same policy as the hull.

To deal with crew claims, for example, insurance carriers and adjusters need to know how the Jones Act will influence claims exposure in the US.

One of the biggest challenges to adjusters came in the wake of the 2005 Florida hurricanes, which left hundreds of boats damaged, and when conditions hampered inspections. Hurricane Wilma knocked out 1,300 sets of traffic lights, and it would take Mr Smith or his colleagues 50 minutes to travel half a mile.

## Market better 'in every way' says Aon stalwart Kyd

AON, one of the world's mightiest insurance broking groups, is in its 21st year under its distinctive brand name, having



construction — and a slip that partly blocked the canal as recently as the

sometimes say to our guys now, You don't know what 'busy' is. We used to write the

more easily. Broker and underwriter work far closer together with the client to