



Yacht accumulation –  
an issue?

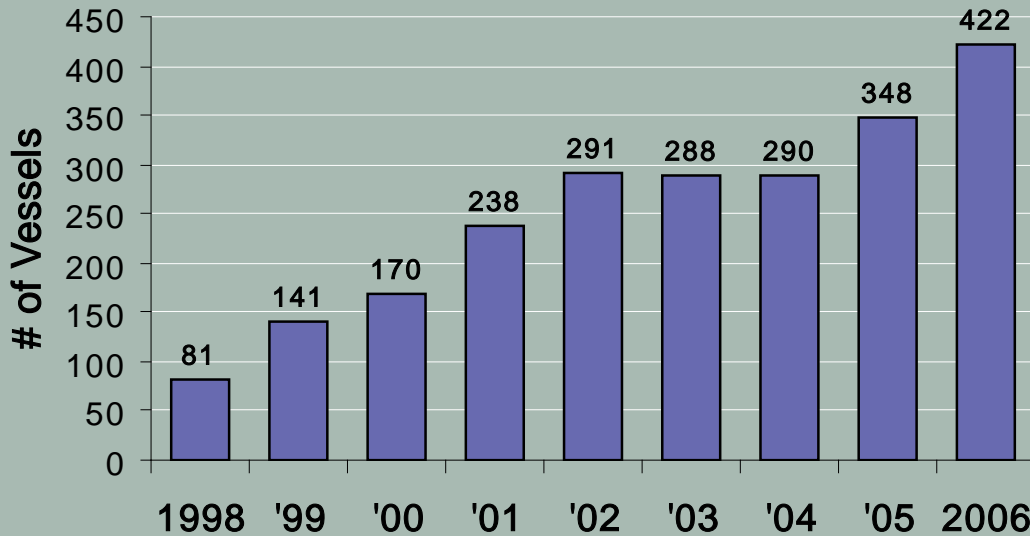
- Present situation of the yacht market
- Outlook
- Risk factors
- Accumulation – an issue ?
- The Reinsurer's view...

# Present situation of the yacht market

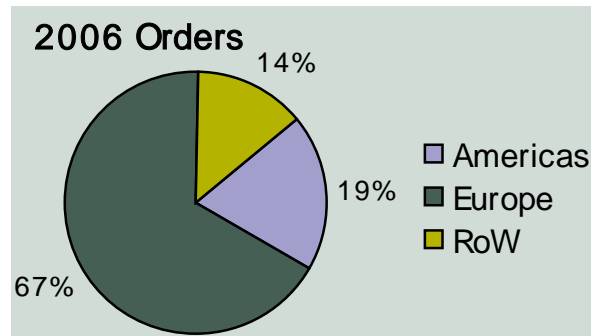
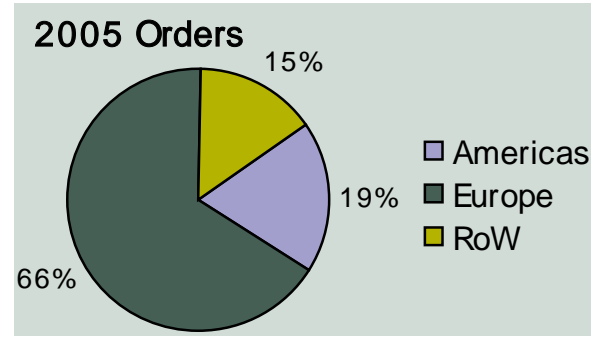
Yacht orders have exploded over the past decade

Since 1998, global yacht orders have experienced 20% CAGR, driven by strong economic growth and increased interest in the “yachting lifestyle”

Global Superyacht Orders



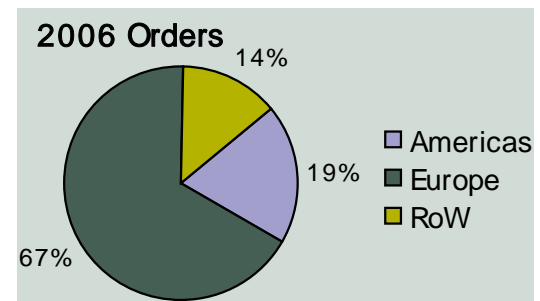
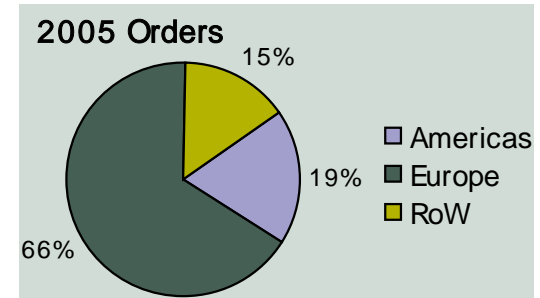
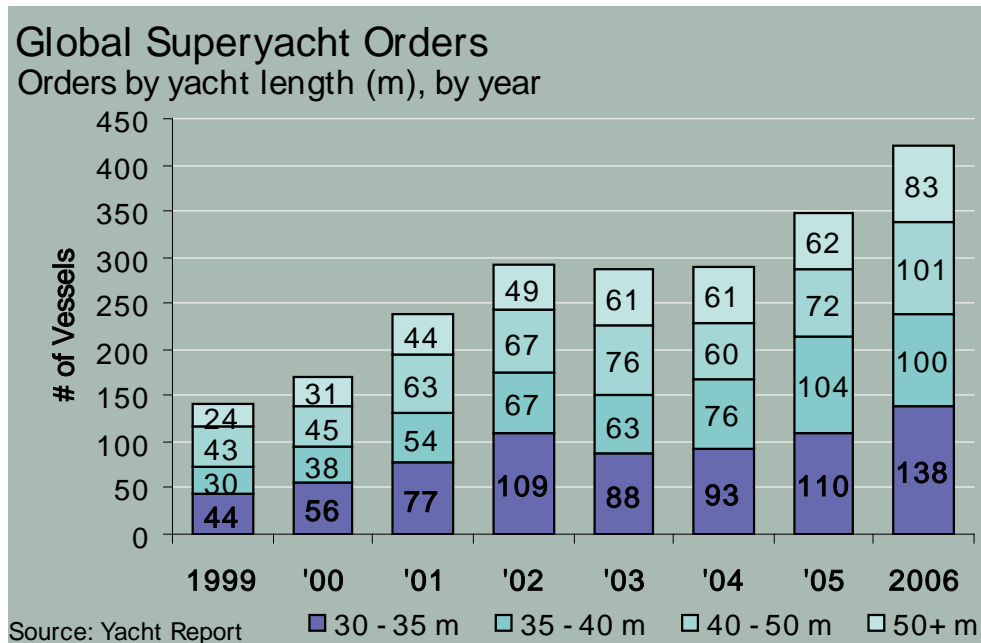
Data source: "Order Book Growth 1998-2006", Yacht Report, Issue 71



# Present situation of the yacht market

## New build data - 1999-2006, by vessel size

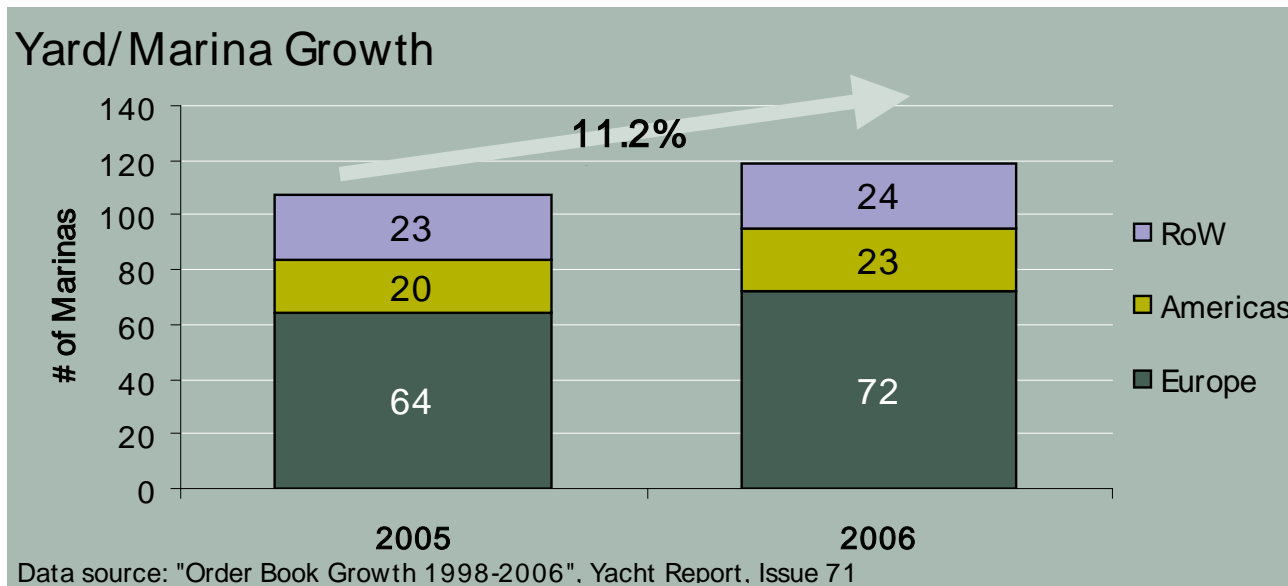
- Growth fairly consistent across vessel sizes, ranging from 16% CAGR (50+ m) to 11% (40-50 m)
- Recent orders have been driven by demand from Russia and the Far East. Western European and US owners are buying bigger yachts.



# Present situation of the yacht market

Resulting in an increased demand for yards/marinas

- Increased demand for new builds coupled with increasing interest in yachting has driven healthy growth in the number of facilities prepared to service large vessels
- Yacht build activity in shipyards is at a historic high, leading to an increased demand for insurance coverage



# Present situation of the yacht market

## Super, mega and giga yachts

### “Normal” yachts

Length < 80 feet

Values < USD 25mio

### Super yachts

80 - 200 feet

USD 25 – 60mio

### Mega yachts

200 - 330 feet

USD 60 – 100mio

### Giga yachts

330 - 530 feet

USD > 100mio

Actual numbers 7'000 up from 4'000 in 2004

Order book Nearly 1'000

Yards have full order books with delivery times pushed to 2011 - 2013

Delivery in 2008 480 will need > 5'000 crew members

“Normal” yachts and super yachts show a different behaviour in today’s economic environment

### Owners of “normal” yachts

Struggle with

- Increasing credit cost
- Decreasing asset values

which could lead to reduced maintenance and an increase in fraudulent claims

Insurers should place greater emphasis on **pre-risk surveys** to mitigate the increased moral hazard

### Owners of super yachts

Are largely

- Unaffected by the credit crisis
- Increasing asset values due to high demand

Insurers should be fully aware of potential high repair costs due to the luxury interior

What are the major perils affecting yachts?

Fire / Explosion



Theft



Terrorism





## Blaze in Port Vell in Barcelona - 2 March 2008

### 4 yachts that caught fire

Claim costs amount to about EURO 22 mio



### Windstorm



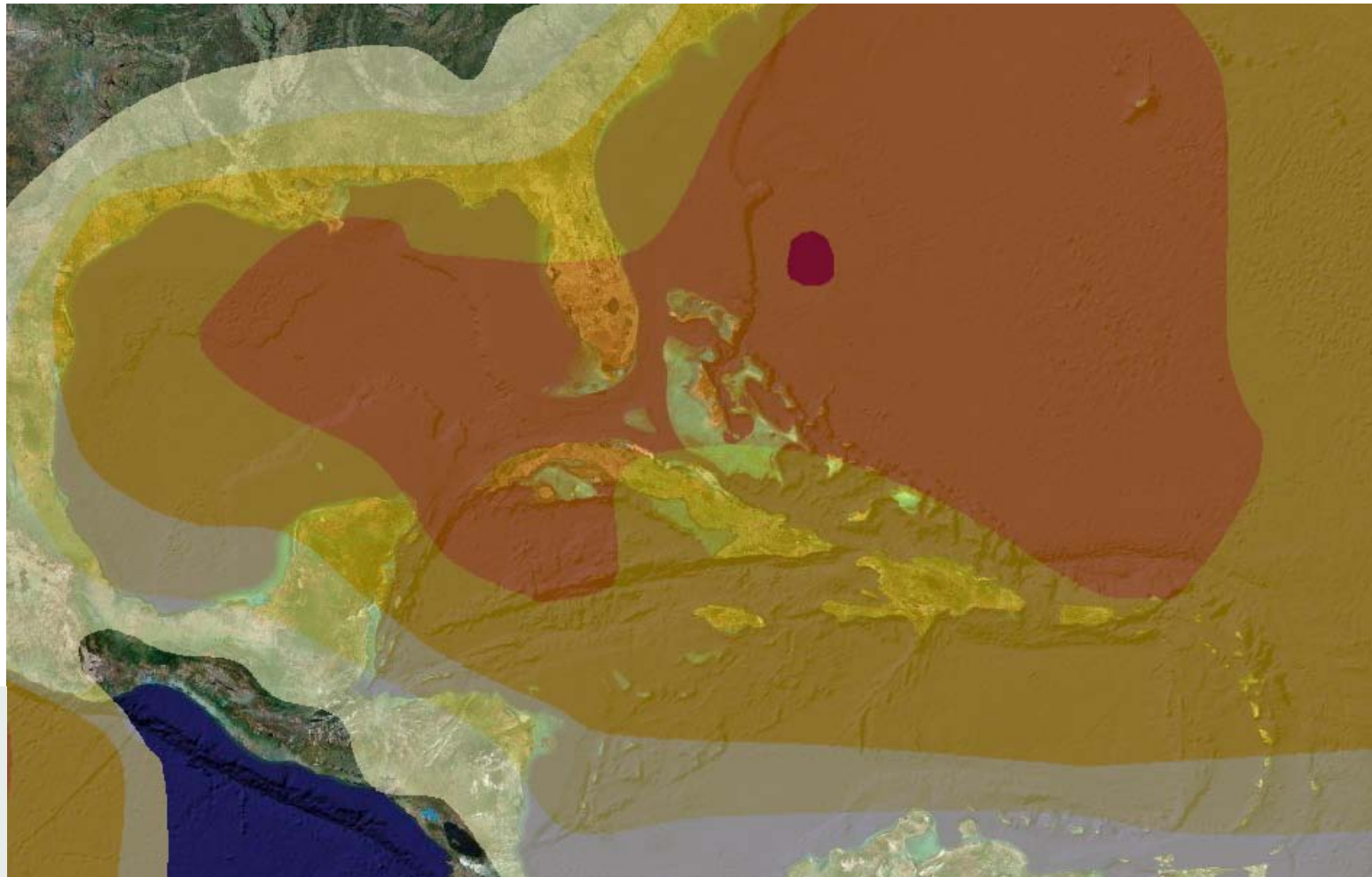
### Flood



### Tsunami

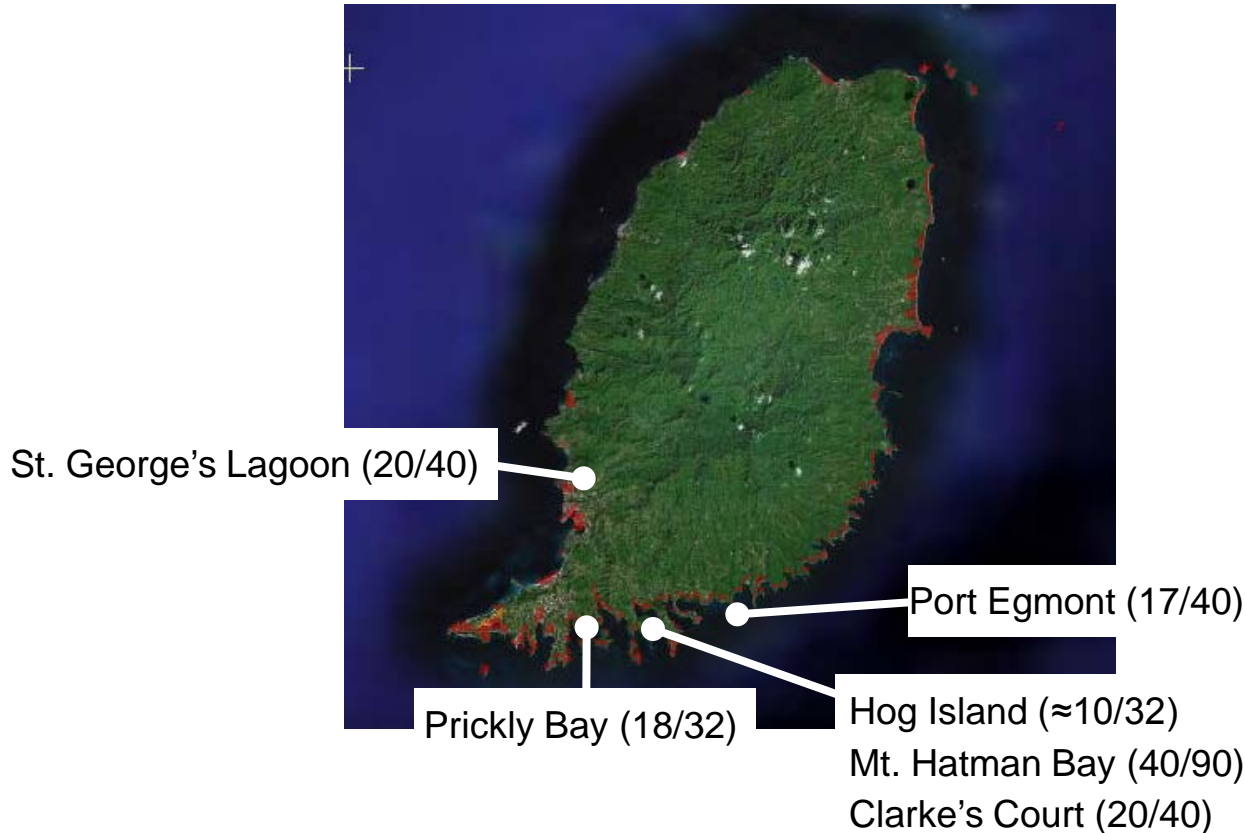


## Case study 1: Tropical storms

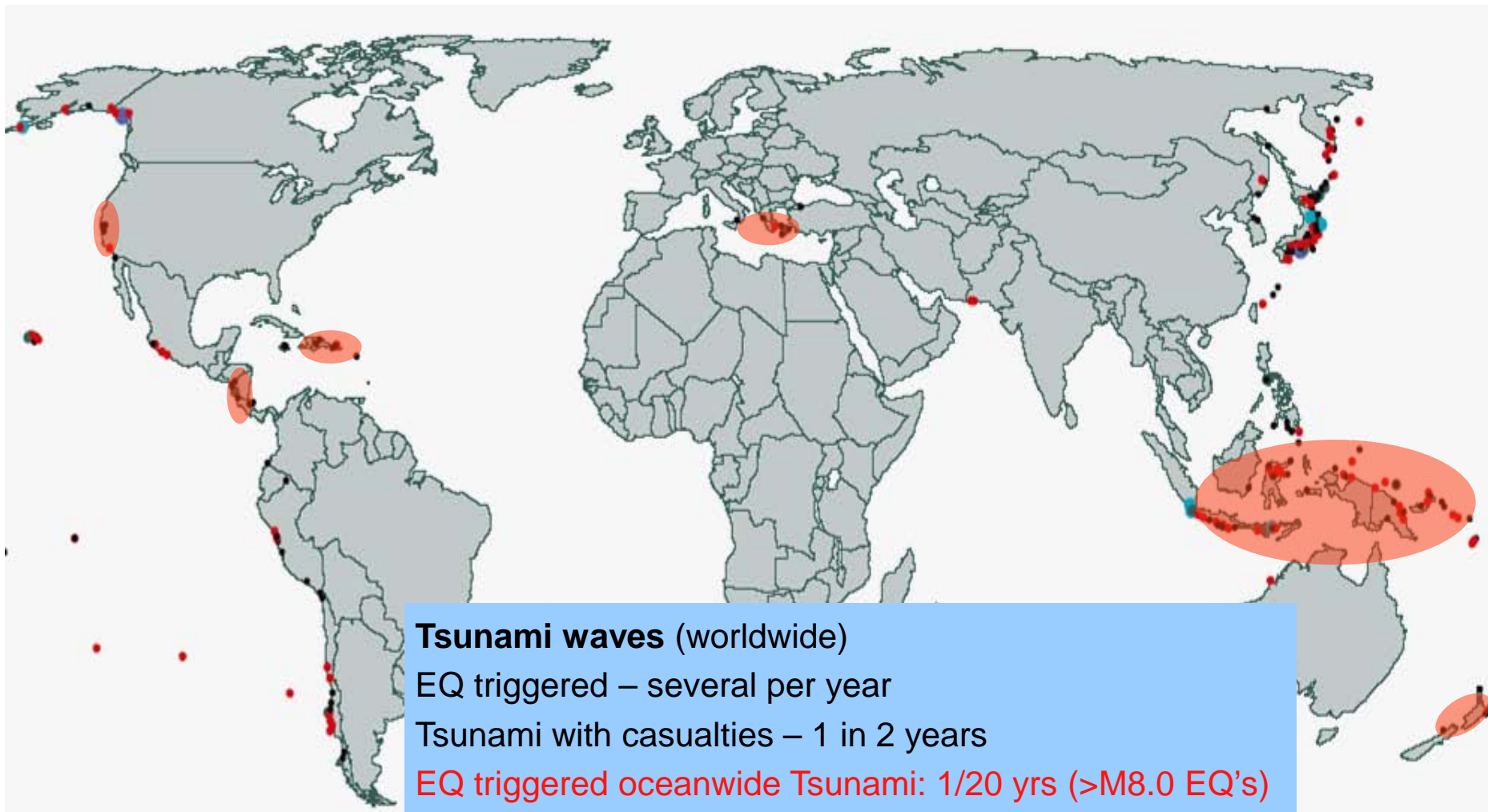


## Hurricane Ivan hits Grenada (2004)

Roughly 50% of boats anchored in Grenada were grounded or sunk when Hurricane Ivan hit.

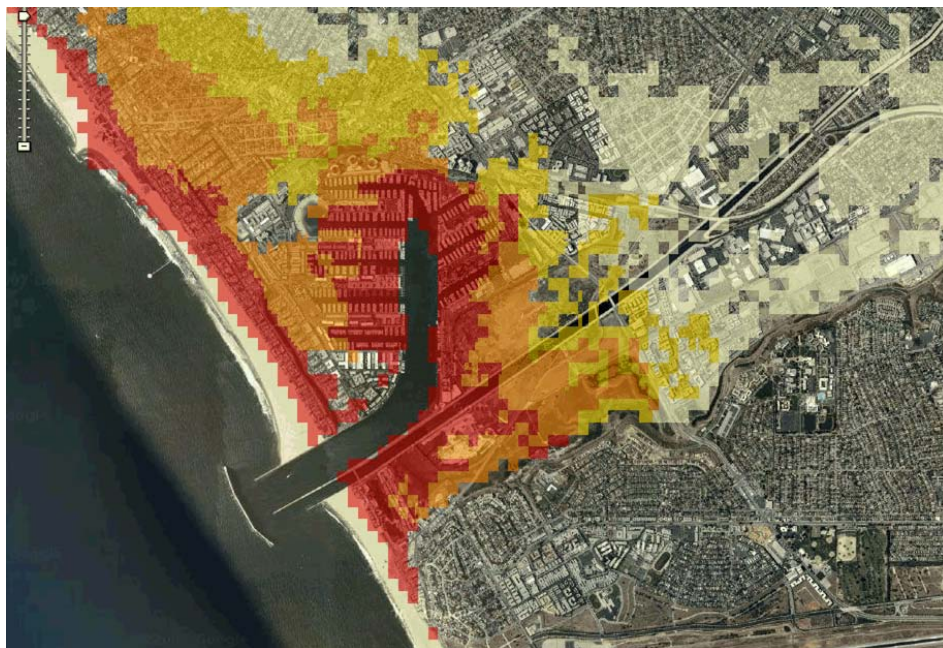


Boats grounded or sunk/total boats



# Risk factors

## Marina del Rey (Los Angeles)



Run-up height of 3m - 5m are possible

On 31.8.1930 a tsunami generated a run-up height of 3.1 m



# Risk factors

## Hurricane Ivan



- Growing segment of high value yachts
- Ports & Marinas  
Strong growth in new buildings and expansion in existing ones
- Doubling of berths capacity in the Caribbean
- Events like Athens Olympics, Americas Cup in Valencia or F1 race in Monaco
- Construction  
5 – 6 Super yachts built at the same time in some of the yards

→ Are underwriters aware of the values at stake in some of the largest ports or marinas?



# Accumulation – an issue ?

## Port Vauban, Antibes



# Accumulation – an issue ?

Yes – clearly an issue

- Accumulation of yachts is a concern that needs to be taken seriously especially as the problem is growing !
- Do we charge a premium for it ?
- What can we do about the accumulation issue ?
- Most underwriters will track the home port and off-season storage location
- Without real-time tracking of movements of yachts underwriters do not know their actual aggregate exposure in any single port or marina
- As the real-time tracking is impractical what else can we do ?
- Ask clients for better information and use a loss scenario approach

# Accumulation – an issue ?

## Aggregated exposure calculation

	Atlantic	Mediterranean	Caribbean	Lakes
Average # yachts	1800	3800	450	250
Average values (USD)	250.000	175.000	300.000	60.000
Perils	Fire	Fire	Fire	Fire
Damage potential	TL / PA	TL / PA	TL / PA	TL / PA
Likelihood	? years	? years	? years	? years
Market share	..%	..%	..%	..%

Figures are assumptions used only for illustrative purpose

A pragmatic and easy to implement approach that will provide a rough estimate of potentially high catastrophe claims.

- Strong growth in yacht business is creating a significant need for insurance
- Potential catastrophe claims need to be priced for and are a concern for the industry
- Impossible to accurately assess aggregated exposure
- Pragmatic and easy to implement solution → apply maximum possible loss scenarios
- Outcome of loss scenarios will allow to check accuracy of current reinsurance coverage
- Discuss your findings with your reinsurer for reality check. The data should also help in better determining the price for protection.