

# Dubai International Superyacht Summit 2018



## Balancing Caveat Emptor: Financing and Insuring a Superyacht

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# Overview

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# Disclaimer

# SUPERYACHT FINANCING



“Your portfolio looks fine. It’s your dreams we need to talk about.”

## Present Status

- Would-be superyacht owners seeking finance fall into two groups: those who need to borrow the money to purchase, and those who want to free up investment capital for their various business projects
- The difficulties that have swept the globe since 2008 have made it marginally more difficult to obtain large-yacht finance, with many lenders unwilling to lend to those who do not already have sufficient funds or assets
- Half to three-quarters of superyacht owners finance some of the purchase price of their yachts, even if they can afford to pay entirely in cash, with the decision to finance likely having more to do with a broader financial strategy than the ability to pay

## Typical Scenario...

- A typical scenario might involve a loan for 75% of the purchase price with payments amortized over 15 years, with a balloon payment due within a period of up to seven years to give an opportunity before the balloon period matures to reassess goals and intentions (and thus refinance the balloon)
- The obvious goal is to acquire the superyacht while maintaining liquidity – and thus being able to earn more by investing than the cost of borrowing against the yacht (borrowing against a securities portfolio is less expensive than borrowing against a yacht)
- There may also be an opportunity cost to tying up availability under a line collateralised by securities, or further some yacht owners may seek to monetise their yachts as investment opportunities arise

## ... and More

- But, in essence, superyacht finance is a complex transaction which is not limited to the purchase price
- Finance can in fact also form the foundation of leasing structures which can be used to reduce, defer or avoid the payment of value added tax (VAT) on yachts – with surplus funds generated by financing used to provide positive returns to help with the running costs of the yacht
- There are also legal and practical arguments in favour of financing: privacy and personal security can be greatly improved, and the risk of the owner being successfully sued reduced

# SUPERYACHT INSURANCE





## Risks

- *Education is what you get when you read the fine print; experience is what you get when you do not*
- The maritime environment is a hazardous one and it is not uncommon to read about luxury yachts sinking, catching fire or failing sea trials: you do not want to be questioning your insurance at these times!
- A superyacht requires the most comprehensive insurance packages available, from tenders and toys, to crew and guest welfare – and thus a broker who is a specialist in the field: insurance policies and coverage for a superyacht is not a mere necessary expense or simple, all-encompassing documents that can be purchased and forgotten until they are needed
- On the contrary, insuring a superyacht is a multi-faceted consideration, and the insurance policy is a contract that begins an active, ongoing relationship with your insurance provider

## Signing with Awareness

- In an All-Risk policy, for example, everything is insured unless the underwriter says it is not, while a Named Perils policy lists those specific events that are covered. Hence with a Named Perils policy, the onus is on the owner to prove that one of those perils occurred, while with an All-Risk policy it is for the insurer to prove that the excluded happened
- In practice, if the yacht sinks in very deep water with a Named Perils policy, the owner must prove which of the named perils caused the yacht to sink and this can prove very difficult without the yacht, even making it a legal process instead of a straightforward claims settlement
- Owners beware though, do not take the term all-risk literally. There is no policy that covers every peril, and there will always be named exclusions (e.g., wear and tear and consequential damages)

## Making a Conscious Choice

- It takes different knowledge, experience and contacts to properly service a superyacht and for new owners a good start is to talk with other owners and make sure someone they trust reads the contract!
- The biggest pitfall, according to most insurance companies, comes from an owner not reading, questioning or understanding the exclusions and restrictions in the insurance contract
- Every policy is different and confusion can arise from not understanding exactly what is covered and when it is covered
- Many superyacht owners may not think they need War cover, but perils such as capture, seizure, arrest, restraint, detainment, confiscation, expropriation (and any terrorist act or person acting maliciously or from a political motive) are usually excluded from the Hull & Machinery cover
- Also from a geographical point of view Hull & Machinery cover for vessels whilst trading world-wide but outside certain excluded areas which are deemed areas of increased risk

# CONCLUSIONS

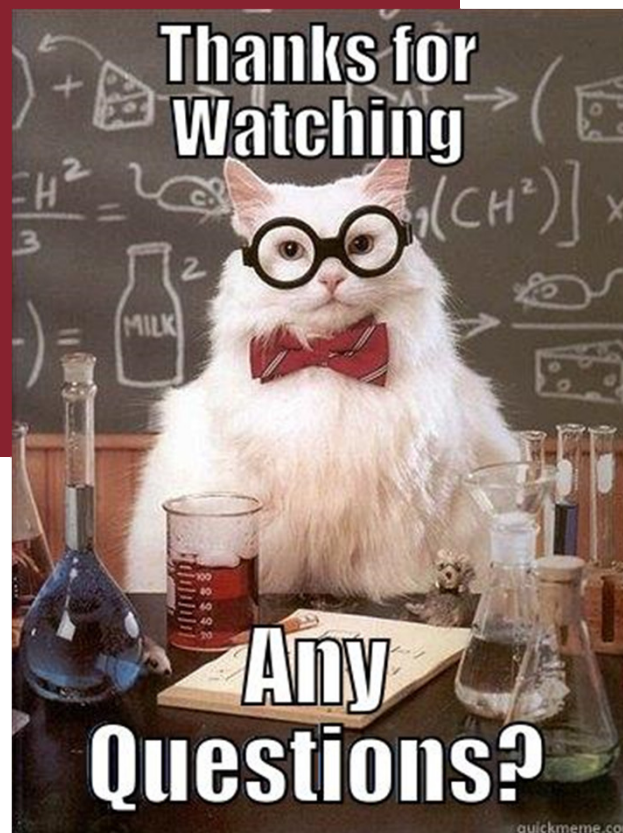


*(Rare photos of me jumping to conclusions)*

## Conclusions

- When talking about superyachts, financing is not a simple borrowing against assets but a more sophisticated structure that when well-engineered may have significant savings on costs as well as optimizing taxes and enhance privacy
- The challenges posed by superyachts' insurance are many, and it takes different knowledges and experiences to properly serve a superyacht: there are many common pitfalls owners may face when taking insurance without being fully aware of its contents

# Questions?



**Thank you**

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