

INSURER VESSEL SURVEYS

KEY CONSIDERATIONS FOR AN ACCURATE INSPECTION



Gallagher

Insurance | Risk Management | Consulting



Marine Industry

Executive summary: Every marine insurance broker will speak about their insurance policy's ability to assign surveyors, but very few go beyond that simple step to actively manage surveys on behalf of operators and insurers. This paper outlines the importance of taking a proactive approach to surveys, identifying the reason behind a survey when ordered by an insurer and using the appropriate surveying methods to deliver the desired outcomes.

Marine surveyors and marine appraisers: Understanding the terminology

"Marine surveyor" is an extremely broad term and can be interchangeably used with the term "marine appraiser." To banks, they can be appraisers. To adjusters, they can be investigators (to the old-school adjusters and surveyors, they are the salvage managers). To underwriters, they can be appraisers and inspectors. While the two terms are interchangeably used, there are notable differences and similarities.

Credentials and experience

Marine surveyor: A "marine surveyor" may not necessarily carry any credential other than experience. Some surveyors are credentialed through the National Association of Marine Surveyors (NAMS) or the Society of Marine Surveyors (SAMS). NAMS credentialed surveyors work heavily in the commercial marine and cargo spaces while SAMS credentialed surveyors tend to work more in the yacht and small craft spaces.



Marine appraiser: A "marine appraiser" is typically credentialed by the American Society of Appraisers (ASA) and has been educated in Machinery and Technical Specialties and in proper appraisal methodology standards set by the Uniform Standards of Professional Appraisal Practice (USPAP), a national appraisal standard used across many appraisal disciplines. Lending institutions almost always require an ASA certified appraiser when ordering an appraisal. This is mainly for auditing purposes to illustrate that they are not using a "napkin valuation."

The underwriter-surveyor relationship

To some insurers and brokers, a surveyor is a professional used to put eyes on assets and operations when an underwriter or adjuster cannot. The problem with this approach is that the intentions of an underwriter are often not clearly expressed to the surveyor, and the surveyor often does not employ the appropriate methods of investigation and reporting. The ideal scenario is for both the underwriter/adjuster and surveyor to conduct inspections, or at the very least ensure that the underwriter's intentions are clearly defined.

The impact of Subchapter M

Subchapter M changed the market for vessels forever. There are now two classes of vessels: those that are Sub-M compliant and those that are not. We have not yet encountered a surveyor who has a formula to account for a vessel's "Sub-M Closeness." However, a good appraiser or surveyor will investigate the recent history of a vessel to determine its most accurate value.

The importance of assigning the correct surveyor to the vessel type cannot be overestimated. We have seen yacht surveyors assigned to inspect towing vessels, barge surveyors inspect passenger vessels, and surveyors tasked with appraising hull values on a fleet who have simply relied on a vessel broker to find "comps." In all these cases, the insurance company had no idea what disservice they were paying good money for but, in all cases, they heard loud and clear from the vessel owners what the problems were once the report was published.

Methods for inspecting, appraising and valuing vessels

There are numerous methods for inspecting and appraising vessels, and each of them carries a degree of expertise yet interpretation. The North American Marine Consultants (NAMC) is a national and international surveying firm specializing in vessel inspection and appraisals; it appraised over \$10 billion in marine assets in 2024 and utilizes both NAMS-certified marine surveyors and ASA-certified appraisers to survey and appraise marine assets.

ASA requires an appraiser to consider three different approaches when valuing a particular asset. NAMC considers all three approaches when determining the Fair Market Value of an asset.

The three approaches to valuation analysis:

1. **Income approach:** Calculates the Fair Market Value of an asset by calculating **the present or future value and the rate of return of an asset**. The appraiser uses the monthly or annual operating income and expenses and considers the proper cost of capital to calculate the Fair Market Value of an asset over a certain time period. This valuation method is not commonly used, as owners are typically hesitant to release revenue numbers. However, this method is helpful when establishing a value for an asset with few comparable sales or that is not routinely reproduced. Passenger vessels are good candidates for valuation using the income approach.
2. **Sales approach:** Calculates the Fair Market Value of an asset by reviewing **recently recorded sales (“comps”) and available sales listings**. This approach can be useful when the market for a certain asset is established, but the sales approach can also be problematic when valuing a unique asset that has no comparables.
3. **Cost approach:** Calculates the Fair Market Value of an asset by conserving an asset's **replacement cost, scrap value, normal useful life (NUL), remaining useful life (RUL), condition**, possible upgrades, and other conditions. The cost approach is typically accurate for regularly produced vessels but can be problematic for unique and one-off vessels.

How to determine which approach to use

Once the insurer makes it known that a survey is being ordered, a discussion should be held between someone representing the vessel owner, the insurance broker and the surveyor or appraiser. Clear objectives should be established.

1. Everyone involved (brokers, insurers, surveyors, etc.) needs to recognize that vessel owners are busy people with unpredictable schedules and constant challenges. The inspection needs to be catered to their availability and convenience.
2. Determine whether the inspection is for safety and condition of the vessel, value, or both. Noting the aforementioned methods of appraisal, these approaches should be discussed openly.
3. Verify that the surveyor has experience with the exact type of vessel being inspected.
4. Discuss potential challenges proactively and before the inspection occurs.



Potential challenges to discuss

Maintenance records

It should be verified that the surveyor will look for maintenance records to determine how the useful life of the vessel has been extended. With Subchapter M in force, most vessels undergo extensive maintenance, which has a major impact on a vessel's value and useful life. Most of our clients have replaced numerous hulls in the past ten years, and this has had an enormous impact on an asset's value compared to a thin skin that will not pass gauging tests.

Comparable vessels

When seeking comparable vessels for appraisal comparison, it needs to be determined what the useful life of those vessels is, if they have their Coast Guard certificates of inspection, or how much money would have to be invested in those assets either to get them compliant or use them over the coming years. When looking at a comparable, if a vessel owner would have to invest considerable money to get the asset in line with the vessel actually being appraised, then it is not a comparable vessel.

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Mike Brown leads production and brokerage efforts for the St. Louis team, which consists of seven individuals dedicated to maritime risk management on the inland rivers and Great Lakes. Mike leads renewal strategy and negotiation efforts and manages contractual risk transfer, coverage analysis, market research and claims management. Mike handles complex maritime risks, including cargo, stock throughput, warehouse legal liability, motor truck cargo, freight broker liability, marine liabilities, hull & machinery, protection & indemnity, Jones Act, USL&H, excess liability, property, contractors equipment and inland marine, builders risk, pollution, and other lines of coverage.

Location

Vessel appraisals in the Gulf of America can be difficult because there are so many assets laid up, for sale, and cold stacked, many of which are millions of dollars away from having a COI from the Coast Guard. On the Great Lakes, we often see problems with appraisals because there are so few ABS load line vessels. Comparable vessels must often be brought in from the East Coast, greatly increasing the cost of the vessel. All these factors influence the market value of assets.

Passenger vessels

Passenger vessels can be extremely problematic for appraisers. Many of them are unique assets with no comparables. Some passenger vessels may have a limited number of comparables in the market, but those assets are not for sale. These can heavily affect the market value of an asset.

Conclusion: Marine surveys and appraisals may not be overly complex, but they do need to be correctly executed to ensure accurate valuations and risk assessments. While the compliance challenges imposed by Subchapter M further complicate the marine landscape, a proactive approach and good communication between all involved parties can save a lot of time, money and headaches for everyone.

Mike's insurance journey began in 2007 when he joined Gallagher's Summer Internship Program. His dedication and talent led to a full-time position in 2009. Today, he is the lead broker for some of the St. Louis Marine Practice Group's largest customers, managing risk and insurance for over 50 companies spanning from the Northern Great Lakes to the Gulf of Mexico. Mike has been a speaker at numerous maritime risk management and insurance seminars and conferences.

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Casey Herschler is president and owner of North American Marine Consultants (NAMC), a national and international surveying firm specializing in vessel inspection and appraisals. There are numerous methods for inspecting and appraising vessels, and each of them carries a degree of expertise yet interpretation. NAMC appraised over 10 billion in marine assets in 2024 and utilizes both NAMS-certified marine surveyors and ASA-certified appraisers to survey and appraise marine assets.

Capt. Casey M. Herschler first joined North American Marine Consultants in 2011 as a marine surveyor and has since been involved in numerous marine consulting, surveying and appraisal projects for a variety of clients in the operational, financial, insurance and private sectors.

Mr. Herschler concurrently works in government regulations and relations for a small, regional towing company on the Mid-Mississippi River. Previous employment includes positions as Director of Engineering at SCF Marine and as an architect with Clayco Construction in St. Louis, Missouri.

Mr. Herschler holds a Bachelor of Science in Architecture from Southern Illinois University. He is a licensed mariner, with Master of Steam and Motor Vessels and Master of Towing Vessel licenses upon western rivers. He is a candidate member of the American Society of Appraisers (ASA) and Co-Chairman of River Industry Action Committee.