

Combatting Superyacht Fraud: 8 Tips From an Owner's Representative, Project Manager, and Investigator

I am known as the guy who puts out fires. When things go wrong—bad contracts, disputes, fraud—I'm the one who gets called. But the truth is, while we embrace that calling, we would much rather **prevent** the fires in the first place.

In 38 years of yachting, I've worn multiple hats. I've been a captain, authored a hypothetical 200-page standard-operating procedure handbook, in soft copy editable format, utilized by many yachting programs, and served as a liability litigation support witness defending yacht owners and their insurers.

First and foremost, we wish to acknowledge the many competent, ethical, trustworthy, exacting and conscientious professionals in our industry. Our goal here is to provide reassurance and productive solutions. Anyone can be a critic.

While competent and ethical professionals exist in our industry, I have witnessed a deterioration of ethics. Fraudsters are increasingly targeting yacht operations and refits. They're preying on owners' trust and, in many cases, lack of project management, technical, and mechanical knowledge. This leaves owners disillusioned, with financial loss, betrayal, and sometimes unseaworthy vessels.

There are several factors driving the unethical behaviour and/or substandard services in our industry, including:

- The tremendous growth of our industry, and number of vessels, particularly vessels in excess of 30 metres in length, outpacing the number of qualified service contractors, shipyards and qualified shipyard personnel.
- Lack of, or inadequate, regulations governing the yacht refit and repair industry.
- Immigration laws that restrict the movements of craftsmen to and from the United States.
- Lack of marine industry-related vocational training, particularly in the United States.
- Limited quantity of experienced and ethical project managers.
- A proliferation of unethical and dishonest individuals, without integrity or character.

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Types of fraudulent practices include:

- *Inadequate scopes* of vessel condition surveys.
- *Overcharging* for labor, materials, and equipment.
- Charging for labor, materials, and equipment *never provided*.
- Charging for ghost crew and vendors *that never existed*.
- Offering and charging for *undeliverable warranties*.
- Charging premium prices for *counterfeit parts and materials*.
- Funneling deposits toward accepted quotes into shell companies, *that are ultimately dissolved*.
- Non-existent quotations and payments-related documents *file names version control*.
- *Tax-exemption schemes*, involving captains and PM's advance funding requests.
- *Non-existent industry standards requiring tradesmen experience and technical competencies*.
- Non-existent *graduated labor rates*.
- Ship and repair yards complicity.

My team and I strive to ensure that everyone in a yacht program embraces ethics. Whether hull insurance providers, captains, crewmembers, vendors, management companies, project managers, ship and repair yards, and brokers, they need to embrace **good faith, fair dealing, and fiduciary responsibility**. Additionally, ship and repair yards have additional responsibilities toward the **custody, care, and control** of yachts in their facilities.

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Protecting yourself from superyacht fraud and theft involves diligence, education, and professional assistance. Here's the advice I give to owners:

1) *Hire or retain a maritime and yacht industry-knowledgeable owner's representative* to provide third party oversight and audits of all facets of your yachting program.

Operational fraud often stems from insufficient oversight. An owner's representative acts as an unbiased overseer, ensuring transparency and accountability. By asking critical questions and prioritizing the owner's interests, an owner's representative ensures every decision aligns with the owner's needs, operational safety, and financial efficiency.

2) Commission pre-purchase and pre-refit inspections and condition reports by your owner representative or an independent yacht surveyor.

All too often, the scopes of pre-purchase surveys are inadequate, while pre-refit surveys and conditional evaluations are not addressed. Mold and mildew assessments must be included, and for aluminum and steel vessels, a thorough corrosion survey that utilizes visual inspection and ultrasonic transducers, targeting bilges hull plating, holding tanks, sea chests, piping, stern tubes, through-hull stub-ins, flanges, and sea valves.

3) Interview and vet captains, PM candidates, and vendors.

a) Conduct thorough background checks on captains, PM candidates, and vendors, with references. Utilize yacht owners, their representatives and attorneys, and private investigators.

4) Ask if the candidate uses PM software that provides transparency.

Software exists that is designed for managing yacht refits. These tools provide detailed updates, cost tracking and projections, and visual progress reports, reducing miscommunication and fraud risks. Such platforms provide owners with visibility into the project.

5) Establish document version control for all contractual and service agreement-related quotes and invoicing.

Upon request to submit written quotes, vendors and shipyards submit untitled, or ambiguously file-named documents, then continue to submit ambiguously file-named documents related to, however, indiscernible, to the original quote.

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- a) Establish invoicing and change orders document version control using file name methodology.
 - b) Demand detailed estimates, contracts, and invoicing, defining labor rates, labor hours, deposits with due balances, milestone payments, materials, equipment, machinery, and photographic evidence of work commencement, progress, and completion.
- 6) Maintain an on-site presence through trusted representatives or third-party oversight, conducting independent inspections of the work and materials used, ensuring compliance with contractual and service agreements.
- a) Establish a project-specific QA/QC officer (can be the owner's representative).
- 7) Establish graduated labor rates for laborers, apprentices, and journeymen tradesmen.
- 8) Require work history and certifications of tradesmen.
- a) Require state contractor trade licensing wherever possible.
 - b) Utilize a skilled day labor force to offset costs and reliance on contractors

The high-value transactions and bespoke services in the superyacht industry are targets for fraud. With informed steps, yacht owners can safely navigate these murky waters. The sensitive nature of client confidentiality requires discretion and steady vigilance over every aspect, whether buying, building, operating, or refitting. Yacht ownership can fulfill dreams of relaxation, intimacy, and adventure, offering privacy and security, which in today's technological and intrusive society are increasingly scarce.



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