

Everything you need to know about... *Construction & Public Liability Insurance*

This type of insurance is not 'mandatory' in most cases, but would be strongly recommended prior to the commencement of the project.

Construction and Public Liability insurance provides insurance protection against a wide range of risks that occur during the construction phase, all of which would cause financial hardship in the event that no insurance was in place.

What does Construction Insurance (Material Damage) actually cover?

(also known as Contract Works Insurance)

It is important to check with the relevant insurer about what their specific policy actually covers, as each underwriter will have different policy wordings and conditions.

In general terms, this type of policy protects you against the common risks encountered during construction, including theft of goods or materials, malicious damage and storm, wind, fire or water damage. The policy may also have specific and/or implied exclusions including bulk excavation, tools and equipment, earthquakes, floods and other such events.

What does Public Liability Insurance actually cover?

Public Liability insurance (of \$5,000,000 generally) covers third party personal injury and property damage that occurs as a result of negligence. Commonly, these policies cover you against a member of the public injuring themselves as a result of the works that you are undertaking (ie falling over materials, or into an excavation etc), or if damage occurs to someone else's property (ie, if your roof tiles blow off and damage the adjoining neighbours house or car etc).

Public Liability Policies don't cover you or your subcontractors, but if you are able to obtain options such as worker to worker cover and cross liability, the value of the policy is greatly increased and, providing the premiums are reasonable, these options should be carefully considered.

If I'm extending or renovating my home, will my existing house and contents insurance cover me?

Some home and contents policies provide a limited (automatic) extended coverage for renovation works, sometimes up to a value of works of approx \$50,000, but **you must check** with each insurer individually. You should advise your insurer in writing of your intention to renovate or extend, and ask for confirmation of exactly what coverage you have.

If your insurer does not provide this cover, or the cover is of a very limited nature (ie, may not include theft of unfixed materials, etc), or if the works cost more than their specified amount, then you should obtain a separate Construction and Public Liability Policy.

If I'm ready to start now, can I get a Cover Note?

Many insurers don't offer the option of a Cover Note for this class of business, but several do. If you have left it to the last minute to organise the insurance, ask your preferred insurer if a Cover Note is available, so that your project is covered right from the start.

How long does the insurance last?

The policy period actually commences on the date the proposal form (or cover note) specifies, providing the duly completed proposal is accepted by the underwriter, and concludes on the issue of the Occupancy Permit or Certificate of Final Inspection, occupation of the works, or the expiry of the policy period, whichever is the earlier.

It should be noted that even though these policies are a 'term' type policy, some insurers may not offer to renew the policy if the works are not completed within the policy period. Ask your preferred insurer for details.

How much do these type of policies cost?

The cost of the policies varies greatly depending on the level of cover provided. It is advisable to make sure that the insurance policy you choose is appropriate to your own particular needs, and provides as comprehensive as possible coverage for a fair premium. Premiums are determined on the cost of the works, and location of the project, and generally range between \$1000 - \$2000.

It should be noted that State and Federal Government charges such as the Fire Services Levy (FSL), Goods and Services Tax (GST) and relevant Stamp Duty (SD) account for a significant percentage of the actual cost of the policy.

Do Standard Excesses apply to construction insurance?

All Construction and Public Liability policies will usually have a standard excess applied to each and every claim, the amount of which may vary between insurers depending on their claims history for this type of business, or the location of the works (ie higher risk areas etc), but will usually be between \$500 - \$1000.

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CONSUMER ADVICE SHEET

If the construction works are started, will I still be able to obtain the insurance?

Many insurers will not offer cover under a Construction and Public Liability insurance policy if the works have commenced on site. It is very important to arrange insurance coverage before you start the works, particularly if you are financing the project through a Bank or other major lending institution, or if you are engaging a builder to 'lock-up' stage and intend completing as an owner-builder, because it may be difficult to obtain the insurance coverage you need in order to release the funds to finish the house.

If you have started the project before you realise that you needed the insurance, you may incur additional premium penalties and expenses for job condition reports.

Will my lending Authority or local Council require this insurance?

If you intend to finance part or all of the project through a Bank or other lending institution, then it is likely to be **compulsory** to provide evidence of a suitable Construction & Public Liability policy. This ensures that the Banks investment (in your home) is protected. Sometimes, the Council may ask for evidence of a Public Liability policy also, particularly if you are undertaking service connections or footpaths and crossovers, or storing materials on the naturestrip outside the property boundaries. The Relevant Building Surveyor may also request a policy that complies with the legislation where property protection works are required.

How much should I insure the works for?

This is a very important issue to consider, as underinsuring the project could cause a substantial financial loss in the event of a major claim.

When assessing the insurable value of the works, it is important to consider the actual full replacement cost upon completion, based on the cost a builder would charge to build it, not what it actually is costing you in hard dollars, as much of the value may be contained in the 'sweat equity' and time that you are investing in the project as an owner builder.

An example that demonstrates this may be if you are building a home for say \$100,000 and the quotes that you obtained from a builder initially were for \$140,000, but you insured the house for \$100,000 (your cost). If you experienced a substantial loss (ie fire) at lock up stage, and the assessor determines the replacement cost **at lock up** to be \$100,000, and you still have between 25-30% of the job to complete, you have under-insured the project. Most policies have what is known as an 'Average Clause', which

basically means that your claim amount may be reduced by the percentage by which you were under-insured.

For the sake of trying to save a small amount on the premium in this example, you may be out of pocket over \$30,000.

What type of Optional Policies Extensions should I consider, and what are the benefits?

A. Adjoining Property Protection Endorsement

If, as part of your Building Permit application, the Relevant Building Surveyor requires the provision of Property Protection Works pursuant to the requirements of Part 7 of the Building Act of 1993, then as the owner of the property, you have certain obligations.

Section 93 of the Act requires that the **owner (or duly appointed agent for the owner)** must obtain a contract of insurance to protect against damage to the adjoining property and any liabilities incurred to adjoining owners, occupiers or members of the public for the period of the works plus for 12 months after the completion of the works. This insurance must cover an agreed amount between you and the adjoining owner, and must be in place prior to the commencement of the works.

The Insurers (and section 94 of the Act) also require a full and adequate survey of the adjoining property to be undertaken and recorded (which is signed by both parties) prior to commencement of the works. Ask your preferred insurer for more information if you require this cover.

B. Personal Accident Policy

If you as the owner builder, are intending to undertake certain parts of the works yourself, either on weekends, or during holidays or long service leave, then you should consider the option of a Personal Accident Policy particularly if you do not currently have an Income Protection Policy in place. What would happen if you hurt yourself on the site, and were unable to work for several months, and you had no cover? Ask a financial adviser for more information if you require this cover.

Other Consumer Advice Sheets in this series

- Selling a Domestic Owner Built Property
- Protection of Adjoining Properties
- Risk & Cost Reduction Strategies during construction

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