



Why do I need Owner Builder Insurance?

BY MARK ADAMS

It is almost unheard of for a registered builder to commence a construction project without a comprehensive insurance package in place. Owner builders routinely do exactly this, even though the potential financial repercussions of the risks they face can be significantly greater.

Owner builders face a unique set of risks and responsibilities, and insurance is essential. But poor insurance advice can leave you nearly as exposed as if you had no insurance in the first place. An owner builder insurance expert can help to tailor this insurance to suit your project, so ask around and ensure the broker you use has owner builder experience.

What insurance do I need?

If you're an owner builder, the following insurance covers should be considered.

- **Fire, storm, vandalism and theft** of materials.
- **Building materials** while in transit, or while temporarily stored off-site.
- Any **existing structures** that are not part of your project. If you are renovating or extending, your existing domestic house insurance will generally either cease altogether, or in some cases will continue but will specifically exclude many of the more likely causes of damage.
- Cover for **vibration, removal or weakening of supports**. Policies that exclude this cover can leave you vulnerable to very substantial claims, e.g. where vibration or excavation has caused damage to a neighbour's property.
- **Welding**. Some policies require you to ensure that any sub-contractors meet the Australian Standards for welding. These standards are very exacting and if your sub-contractor does not fully comply with them, you may not be covered if there's a fire.
- **Escalation allowance**. If your house is damaged and you have to rebuild, you may find that the costs have gone up. Your policy should give some protection against this.
- **Removal of debris and professional fees**. If you have to rebuild your house, it will cost money to clear the site and pay consultants. Make sure your policy covers these costs.

- **Public liability** for your vacant land prior to construction.
- **Public liability** for damage to other people's property as well as injury to people who enter the site.
- **Worker to worker cover.** If injured, sub-contractors may try to claim under your public liability insurance, instead of workers compensation (depending on the circumstances). If your insurer has put a worker to worker exclusion on your public liability cover, you will be left exposed.
- **Workers compensation** to protect you against action taken by a contractor/sub-contractor, as well as any direct employees.
- **Home indemnity.** If you sell your house within the stipulated time frame (e.g. six years in Vic & NSW, seven years in WA), you will be required to provide this. Home indemnity insurance protects the buyer if there are construction faults and the builder (i.e. you) can't be located to repair them (dead or insolvent only). However, the first port of call for any claim of construction faults will still be the builder, even after the specified period if it can be proved that the work was not done in accordance with the regulations at the time of construction.

When should I start the insurance?

Get insurance in place before any work is started. If you don't, it may be difficult to obtain insurance for your project at all. If a project has already commenced, many insurance companies will then not consider insuring you until lock up stage has been reached.

How long am I insured for?

The standard policy runs for 12 months but, if your construction takes longer, you can usually arrange an extension. Each insurer deals with this differently so enquire about this before you start the policy. Some insurers will require you to pay for another full 12 months, some will allow three or six months, while others will work on a pro-rata basis. This can mean a very significant cost difference if an extension is required.

Some insurers will introduce penalties for longer running projects e.g. automatically increasing your excess once you are past the first 12 months. Some will also not allow any extension of cover at all beyond 18 months.

Whilst it is most likely that you have a good idea how long your project will take, it is just as important to allow for possible unforeseen delays. It is vital to know how these situations will be handled in advance before choosing an insurer or broker.

Common myths

Myth 1: An owner builder will be adequately covered against loss or damage if they make sure contractors they engage have contract works insurance in place.

Contract works insurance covers loss or damage to the works, including goods and materials on site to be included in the works. Broad 'accidental damage' cover for insured works includes fire, theft, water damage, flood, malicious damage, storm and cyclone subsidence, landslip and earthquake.

Contractors will generally only have a contract works policy if they frequently do high value individual jobs, and are therefore at substantial financial risk themselves prior to completion of each job. This means that by far the vast majority of tradespeople will NOT have a contract works policy. Attempting to ensure that you only engage contractors who do have this insurance would be extremely difficult.

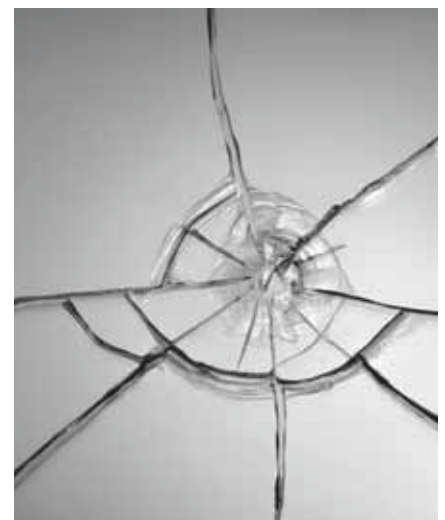
More importantly however, the contract works policy held by each

contractor would only cover material loss or damage occurring while they are doing that job. As soon as that contractor leaves the site, that part of your incomplete house is then uninsured against any subsequent loss or damage for the remainder of the project.

The only effective solution is for the owner builder to take out their own contract works insurance. This should form part of any owner builder insurance package. This insurance will then cover the entire construction as a single project, thus covering all materials and completed structures right up to final completion.

Myth 2: An owner builder doesn't need to worry about workers compensation insurance, as long as they make sure all contractors have workers compensation insurance themselves.

Any workers compensation policy held by a contractor will cover that contractor's indemnity relating to an injury to one of their workers.





If the contractor the owner builder engages directly is injured, he still may lodge a claim against the owner builder (since he cannot lodge a claim against himself). In addition, workers of contractors may also lodge a claim against the owner builder if the contractor does not hold insurance, or if they otherwise qualify as a 'deemed worker' of the owner builder.

The most suitable policy you can take out to cover yourself against these risks is known as the 'Minimum premium workers compensation policy.'

Myth 3: When you are extending or renovating, you already have public liability cover on your domestic house insurance.

While your existing house insurance may provide some public liability cover, it is generally restricted to covering your liability arising out of normal occupancy of your home. It is unlikely to cover any liability claims arising either directly or indirectly from an owner builder project. There are some exceptions to this rule, on some policies and on some small project value, so make sure you check carefully before assuming you are covered.

Myth 4: When doing an owner builder extension or renovation project, as long as existing domestic house/contents insurance is in place, there will be little or no material risk that would be uninsured.

Most insurers have very limited thresholds for construction projects on existing houses, and if your project

value (or even complexity) exceeds this threshold (often as little as \$10,000) then they may either cease your existing insurance altogether, or continue to cover the existing house/contents but subject to some fairly significant exclusions that will minimise the cover that you have.

Check carefully with your existing insurer whether you will be covered at all, and if so what limitations they will place on cover during the project.

Most owner builder insurance policies can be extended to cover the existing structures, thus offering the owner builder adequate cover. An owner builder insurance specialist will also usually be able to offer you an alternative cover for your contents where this is required. ■

Mark Adams is an account manager with Trades Insurance. He has several years experience in the owner builder insurance market. Mark has consulted to a number of Government and commercial bodies in order to improve the quality and availability of useful information being provided to owner builders. 1300 664 923, mark@tradesinsurance.com.au, www.tradesinsurance.com.au