

# Renovators insurance

*Why you need it but don't have it*

BY MARK ADAMS



*The last thing renovators want to think about is insurance. We have asked industry expert, Mark Adams from Trades Essentials, to provide some insight into why it is absolutely vital that they do so.*

We all love a challenge. So why move when you can renovate? It's the Australian way. And if there was any doubt about that, figures from the Australian Bureau of Statistics verify that renovating accounts for nearly half the total value of construction work across the country each year.

There's a whole lot of money in renovating, and a whole lot subsequently at risk. And yet it seems that the vast majority of people doing extensions and renovations don't get any additional insurance, even though they are risking the value of their project, and... here's the part they are unaware of... risking their entire house (which they thought was insured but wasn't).

According to statistics compiled by Trades Essentials, who provide owner builder insurance Australia-wide, and based on figures gathered in conjunction with some of the providers of owner builder training courses, it would appear that upwards of 89% of renovators don't take out insurance.

This may not come as much of a surprise to many of you. We can all appreciate that there is a great deal to consider when extending or renovating and insurance is likely to be placed by many people towards the end of the list. For some people it's an after thought, considered too lightly and too late, and by others probably not considered to be that important to think about at all.

But let's be fair. Most of us would agree that the natural line of thought would go something like this, 'Well, we have a house and contents policy, and renovating is pretty common, therefore our policy probably covers everything.' Unfortunately, this is a case where our instincts are way off target.

Most home insurance policies will not cover much of anything during the course of a renovation over \$50,000 in value (even less for some insurers). Statistics suggest that well over half the renovations being done each year are above \$50,000, so it's safe to say that the majority of renovators are far from safe in their assumptions.

But what if you're one of those who is still thinking, 'That's ok, my project's replacement value is easily under \$50,000 so everything is okay.' Well, it really all depends on what you consider to be 'okay.' In the examples we will look at in this article we found the cover provided by the home insurance policies to be far from sufficient.

## Questions to be asked

In those few cases where your policy will remain in place, you should still question how much the policy will really be covering? And what are the right questions to ask your insurer to get the important answers that you need?

We agree with most renovators that

this not at all obvious, until you're told about it. And we can certainly see why it often gets tossed into the 'too hard basket.' But fear not! We've taken some of the sweat and uncertainty out of this issue for you. Let's discuss some of the questions that you should ask.

We even took it a step further and got our hands on the home insurance policy wordings from three of the largest insurers in Australia. We carefully worked our way through the information, and finally compiled the summary below. We decided to leave the insurer's names out of this article for the following reasons: a) each insurer has more than one policy wording, and b) policy wordings are regularly revised and/or have supplementary additions issued.

We are however suggesting that this information is a good representation of policies that are available. The three insurers we settled on are very large companies, and your policy is quite likely to even be one of the ones we looked at.

## Q1: Does the policy cover Public Liability claims that arise out of a renovation?

Insurer A - NO, not if renovation value is over \$50,000

Insurer B - NO, not if renovation value is over \$20,000

Insurer C - NO, never

**Notes on Q1:** There is a significantly higher likelihood of a Public Liability claim occurring during a renovation project compared to at other times. This is why your existing house insurer is not keen to cover these claims, and why they rely on you to get construction insurance to cover it instead.

**Q2: Does the policy cover Public Liability claims for removal or weakening of supports or foundations?**

- Insurer A - NO, never
- Insurer B - NO, never
- Insurer C - NO, never

**Notes on Q2:** Ok, it seems like the message is loud and clear on this one. Other types of liability claims might be covered by some of the insurers if your project value is under their rather modest limits, but they all agreed that they don't want to touch any liability claims arising out of damage to a neighbour's house caused by vibration or excavation.

To decide if this is a real problem for you, answer the following:

- Will you be a) doing any excavating,
- b) doing any compacting,
- c) having any trucks or other heavy machinery visit the site,
- d) constructing a retaining wall.

If you said 'no' to all the above, you might be okay on this point. If in doubt, you need construction insurance.

**Q3: Does the policy cover any loss or damage to your home as a direct or indirect result of a renovation?**

- Insurer A - NO
- Insurer B - This one looked like it would, in some very limited cases
- Insurer C - NO

**Notes on Q3:** Two of the policies specifically excluded this. Insurer B did not spell it out, but you'd still have a number of problems. For starters, Insurer B's policy stated that cover

ceases entirely for any section of the house that is undergoing renovation. How that is applied in a practical sense... your guess is as good as ours.

Additionally the policy's Duty of Disclosure would require that you informed your insurer before starting the renovation. Due to this change of circumstances they might conceivably even withdraw cover.

If the policy continued it would also be on the basis that any and all security measures (alarm, key locked windows, deadlocked doors, etc) that were a requirement of the policy originally, continue to remain intact and working. For most projects this becomes tricky.

As the home owner I'd prefer it if Insurer B had just said 'no' like the other two, so that I understood clearly (without the extra digging) that I needed additional insurance.

**Q4: Does the policy cover new structures that are not yet complete?**

- Insurer A - This one looked like it might, to some degree
- Insurer B - NO
- Insurer C - NO

**Notes on Q4:** Insurers B and C made it clear that your new structures aren't covered until your project is finished and you then update your policy to include cover for them. Insurer A remained silent on the topic so we'd assume that you would be covered (subject to any of the other limitations and/or exclusions under the policy).

**What's not covered**

What you should have taken from the above exercise is that during the course of your extension or renovation project the following things are *not* likely to be covered by your regular house and contents insurance policy: public liability claims, new structures, building materials, and even your existing house and contents.

Putting that slightly cynical summary aside, there certainly are some major concerns as I'm sure you'd agree. And we've only touched very lightly on some of the bigger problems.

**So what's the solution?**

Take out appropriate insurance! Some providers of this insurance use two separate names for this type of cover; Owner Builder Insurance - for those constructing a complete house



*Even a relatively small renovation may need insuring, especially if structural work is needed.*

from scratch, or Renovators Insurance - for alterations and additions to an existing house. Most providers however do not make this naming distinction, instead catering for both these types of project under the one banner of 'Owner Builder Insurance.'

**Basic cover**

The most basic form of owner builder insurance will cover: public liability, any new structures you are erecting, and building materials.

We strongly advise you to take out the above insurance as an absolute minimum. The down side is that it won't provide any additional cover for the existing house, which you're likely to need.

**Including cover for existing house**

This is the recommended solution. It offers the cover same as above, but is also inclusive of cover for the existing structure.

Some owner builder insurance policies will provide the 'existing structures' option as a partial cover (i.e. damages arising directly from the project). Check if this is the case, because some other owner builder policies can provide full cover for the house at roughly the same cost. Depending on how much your existing policy is going to exclude, you may need this extra level of cover. ■

*Mark Adams is an account manager with Trades Essentials. He has several years experience in the owner builder insurance market.*

*Trades Essentials are a specialist broker for Owner Builder Insurance Australia-wide and can be contacted on 1300 664 923 or mark@tradesessentials.com.au. Alternatively for an obligation free DIY quote go to www.tradesinsurance.com.au/ownerbuilder*

