
Owner builder insurance

Insurance is a thorn in the side of many owner builders. We have asked industry expert, Mark Adams from Trades Essentials, to provide some feedback on common problems.

BY MARK ADAMS

The following two scenarios were reported on the Build Your Own House Owner Builder Forum (www.byohouse.com.au)

Insurance while owner building

Q: We found insurance to be one of the biggest pains in the bum when you owner build. From memory our story went something like this:

We used a combination of our own initiative with a set of Yellow Pages, and a local insurance broker to find (as close as we could) suitable insurance.

We started living on site in a caravan and shed before we started actual construction. Shed building, fences, and public liability insurance was with one company; shed contents and caravan insurance with another

company (who made us put deadlocks on shed doors, and bars on the window – and any type of water damage was excluded). We couldn't find one company that would insure our caravan, buildings and contents all together, hence the two companies.

The shed insurer told us that from the day we started construction they wouldn't cover us for public liability anywhere on our entire block of land.

For construction of the building, we signed up with one of the major insurers (via the local insurance broker) as they were one of only two companies we found that would insure us as owner builders. I think this insurance covered replacement of any construction work already completed, public liability, materials stored on site and materials in transit to site. I don't think it covered tools (tools were normally stored in the shed when not in use so would have been covered under shed contents). As we lived on site I thought the risk of theft was relatively low.

The construction insurance had to be purchased in yearly blocks, and couldn't be extended past two years.

Twelve months later we were living in the unfinished house. If we wanted to renew our construction insurance we had to pay another 12-month premium even though it would only cover us until we got our occupancy certificate (expected in about a month or two).

We then went insurance shopping to see what else we could do. We told the companies up front we didn't have occupancy certificate. Few of them wanted to know us. The best we found was one who would cover us as long as we were at least at lock up, but malicious damage and theft would not be covered until we had an occupancy certificate.



A: This is a problem that is altogether too common. Every owner builder faces some broadly different (as well as many of the same) challenges in finding and placing appropriate insurance before, during and after their project. These owner builders were at least tenacious enough to persist and find solutions to most of their problems. Many would have instead given up in disgust and gone without putting insurance in place.

What these owner builders overlooked, and what most others are also not made aware of, is that almost all owner builder insurance specialists are in fact brokers. So rather than looking for insurance for those pre-project needs, then later for construction insurance (via a non-specialist broker) and later again for the insurance required to follow on after completion, the complete package could have been sourced via an insurance specialist who deals with owner builders. A broker who specialises in owner builder insurance should be intimately familiar with these unique challenges and requirements, and appropriate solutions to them.

However, there are a few additional things that you need to be aware of.



Brokers who operate an owner builder insurance specialty product (there are several who do this Australia-wide) generally do so under a set scheme through one particular insurer. So while they can also source the additional separate insurances you may require for your individual project via other insurers, the core product may often be rigid and even quite limited in scope of coverage, flexibility, ability to extend past 12 months, associated penalties, time limits, etc.

Always start by sourcing the main owner builder insurance product first (comparing the product benefits, limitations etc) even if you have other related insurance needs, and even if those other needs require earlier insurance to be put in place. Ensure you have found a broker and product that offers good coverage and flexibility for this core insurance. Some of the things to check are that:

- There are no **time limits** on completing the project. No matter how confident you are of completing the project within 12 months, delays often do occur that are out of your control. Owner builders are often only told about the time limits once they try to extend the insurance after 12 months. They then find out that they either cannot extend the insurance at all, or in other cases not beyond a certain point (often 18 months maximum).
- There are no **penalties** when extending the insurance, and that extensions are done on a pro-rata basis. In some cases the excesses may

be doubled, or you may be made to pay for a full 12 or 6-month additional period (even if you only need an extra month for example).

- The policy covers your **building materials** while in transit, and also while temporarily stored off-site. The policy should also have options for covering tools and/or light plant and equipment.
- The cover is broad enough. Many policies only cover a list of defined events (fire, storm, theft, etc). Others may instead be worded more inclusively. (e.g. 'sudden or unforeseen loss or damage').
- It covers **vibration or excavation damage** to your neighbour's property.
- You're covered for **liability claims** made by contractors (many policies don't cover this).

You can afford to be fussy; there are policies available that cover all these bases. But just as importantly as all the above, make sure you are speaking to a broker who specialises in dealing with owner builders, and who also appears to be extremely confident in their understanding of insurance in general. If the broker you are speaking to cannot easily explain the benefits of even the main core product, you may have doubts as to their ability to handle your other related insurance needs.

Once you have found the right broker with the right owner builder insurance product, you should be able to source the other insurances you may require through that same broker. A good broker, and especially one well versed in owner builder insurance, may be your best asset at this time.

... and lastly, always ensure you have the insurance in place before the project commences. Even the best policies available may no longer be available to you after you have started the construction work. There are very few owner builder insurance policies



available mid-project, so you will be severely limited, and you will have lost the opportunity to be savvy in making your choice. You will generally also end up paying more and getting less cover if you insure when you are mid-project.

Insurance for alternative homes

Q: I live in a John Harcourt 1940s rammed earth house. We called a major insurer recently for an insurance quote and received the answer 'We do not insure mud brick or rammed earth houses. Please seek alternative cover.'

What is the situation when building with 'alternative' building materials? What are the reasons for them refusing to insure certain materials? Are there any additional restrictions on owner builder insurance for 'alternative' building methods?

A: It is important to first have some understanding of what factors contribute to availability and pricing of insurance in general. In order for insurers to offer you cover they need to understand the risks (and severity of risks) for your situation. If they don't understand the risks, they will not offer you insurance. If they do not understand the risks well, then they may offer you insurance but not at competitive rates. They will always err on the side of caution and charge rates at the higher end of what they consider to be a plausible balance to the possible risk levels. The ideal situation, of course, is where they understand the risks well. In this case the insurer will offer you cover at competitive and reasonable rates.

In recent years the popularity of rammed earth (and to a lesser extent also mud brick) homes has increased significantly. Subsequently the demand for insurance has also increased, and insurers have gradually attained an increased understanding of the associated risks. As a result most major insurance companies will now insure homes made from these materials.

Construction insurance for owner builders with these materials is another matter altogether however. Availability is still very limited. There are two major reasons why this may be the case:

The first is that insurers, while having a good understanding of the risks associated with already constructed rammed earth buildings, still do not



fully understand the risks involved in the actual process of building them.

The second, and more likely, reason is that of potential variability. An example of this increase in variability (which has a tendency to worry insurers) would be the availability of tradespersons in your local area who are qualified or experienced in handling these building materials, and the proper techniques for application of them. The lower the availability of expert assistance, or even advice, the greater the risks.

Whatever the reason, unfortunately most owner builder insurance schemes do discriminate against any non-standard construction types. Somewhat surprisingly, many will not even insure a construction project involving a raised (e.g. on stilts) house. In other cases they may offer you cover but with a significant increase in the excess that is payable in the event that you make a claim.

Construction insurance is available however, and without any increase in the excess (or any additional exclusions limiting the cover), if you go to the right source. There are several owner builder insurance schemes available Australia wide, so check out the alternatives and you will find a product that fits your needs. ■

Mark Adams is an account manager with Trades Essentials. 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. Trades Essentials are a specialist broker for Owner Builder Insurance and can be contacted on 1300 664 923, ownerbuilder@tradesinsurance.com.au