



HARD TO INSURE

**HOMEOWNERS'
INSURANCE
FOR BUILDING
WORKS (HBW)**

INTRODUCTION

Homeowners' Insurance for Building Works (HBW) is a form of cover that property owners should take out before carrying out major extension, renovation or refurbishment work to their main or second home. It is often assumed that either the existing home insurance or the builder's insurance will cover eventualities that may occur while the construction work is ongoing. As this paper will explain, this is not true at all and homeowners will need to take out HBW to ensure they are suitably protected.

CONTRACTS AND THE JOINT CONTRACTS TRIBUNAL (JCT)

When extension, renovation or refurbishment work is arranged, the architect will often supply an off-the-shelf contract from the Joint Contracts Tribunal (JCT). This body was established in the 1930s and includes several major bodies involved in the building industry: the Contractors Legal Group, British Property Federation, Local Government Association, National Specialist Contractors Council, Royal Institute of British Architects, Royal Institution of Chartered Surveyors and Scottish Building Contract Committee Limited.¹

¹ <http://www.jcttld.co.uk/about-us.aspx>

A JCT contract will stipulate that insurance must be taken out to cover the home and the building work and that is what HBW insurance does. Sometimes the Contract will require the Homeowner to insure a part of the risk (usually the "existing structure," which means the home as it stands before any work commences) and the Contractor to insure another part of the risk (the "Contract Works," which is the work and supply of materials the Contractor is paid for). This approach can often lead to certain grey areas in terms of the cover provided by having two separate policies. The HBW provides insurance cover for both the existing structure and the contract works, under one simple policy. It is also capable of offering a policy in the Joint Names of the homeowner and the contractor as can be required, typically under clause 5.4b of the JCT Minor Works 2011 contract.

It is important to note that the contract supplied for the work will not always be a JCT document. Alternatives include the Federation of Master Builders Domestic Building Contract, or the Standard Building Contract (applicable in Scotland only and supplied by the Scottish Building Contract Committee Limited). HBW will also cover the provisions of these. However, it is important to note that this kind of cover does not pertain

WHY ARCHITECTS NEED TO KNOW ABOUT HBW

The primary job of the architect is to design the scope of works to the building and arrange, through a Structural Engineer, the appropriate calculations for load bearing issues. Whilst it is acknowledged that Architects are not insurance professionals it is also important when supplying a contract that they make the homeowner aware that they do need to ensure the correct insurance is in place. By reading this paper and understanding what HBW cover does, architects will be able to provide informed advice to their clients, although of course the finer details should be discussed between the property owner and the HBW insurance provider.

WHAT HOMEOWNERS NEED TO KNOW

There are several things homeowners planning extension, renovation or refurbishment work need to be aware of when considering insurance matters. Firstly, the existing home insurance policy does not normally cover this work and it is vital that the insurer is informed about the work. Secondly, it is important to note that responsibility for taking out HBW cover lies with the homeowner, not the contractor.

HBW aims to make the provision of insurance, for the duration of the building works, as seamless as possible by allowing the homeowner to comply with the requirements of the particular contract they are using. By having just one insurance policy it alleviates the need for other Insurers or Loss Adjusters to become involved in the event of a claim. This could otherwise lead to a long and procrastinated delay, possibly jeopardising the continuation of the works.

WHAT BUILDING CONTRACTORS NEED TO KNOW

Building contractors should not make the error of believing that their insurance will cover all eventualities while renovation work takes place. A builders' insurance policy will often deal with issues such as their own plant, hired in plant, public and employers' liability. Some contractors will have a Contract Works policy which is aimed at covering any new works but there will be shortcomings relating to the home itself.

Therefore, it is wise to check when signing a contract that the householder has taken care of their insurance obligations.

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FEATURES OF HBW INSURANCE

There are two main elements to HBW insurance, which between them seek to cover all areas that will not be protected by existing insurance, or may be the subject of grey areas in which it is uncertain if other policies will provide cover. These are the existing structure and the contract works.

EXISTING STRUCTURE INSURANCE

The existing structure is defined as all parts of a home that are already there prior to the commencement of work on the project and which will remain part of the property during and after the works.

Many insurers are unwilling to cover this element at all, due to the increased potential risk of damage to the structure or its contents that may be caused by the project. In some

cases this may be due to the increased vulnerability of a building due to the materials it is constructed from.

Insurance underwriters are also reluctant when faced by conversions of buildings to a whole new use, such as turning an old church into a house. In some cases, concern will centre on the extent to which a structure may deteriorate by the time work begins, as well as other issues like the state of the neighbourhood and the security of the site.

Some insurers may offer insurance cover limited to fire, lightning, explosion and aircraft - known as FLEA cover. On its own, this would leave major gaps in the insurance cover for the home. The limited protection this provides may not just pose an insurance risk; it can also lead to the homeowner breaching the requirements of their mortgage to provide sufficiently comprehensive home cover.

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The existing structure element of HBW cover will prevent such problems by guarding against a much wider range of issues. While dealing with the same elements as FLEA cover, it will also protect against incidents such as accidental damage during the works, whether this is caused by the contractor, the homeowner or a third party.

EXAMPLE:

An example of this would be if a bit flew loose from a drill being used by the contractor and hit a glass surface such as a window, door or even a roof causing it to shatter. FLEA cover would not have protected against this, but under the HBW policy such an incident would be covered by insurance.



CONTRACTORS ALL RISKS COVER

Contractors all risks cover is sometimes known as contract works insurance. It is designed to provide insurance cover for the works being undertaken under the contract, as well as the materials being incorporated into the works.

These materials will be protected from the moment they come on site to the time when the project is finished. This means that should the new structure or any part of it be damaged or stolen, a claim may be made, whether or not the parts involved have been integrated into the building by that time. For example, bricks for use in the project will be covered when they are still in a pile waiting to be used, but also when they have been laid, should the wall be damaged.

Contract works insurance can deal with a variety of issues arising from various sources. For example, there could be damage caused by a leak from a public water pipe near the property.

As well as accidents, the contract works are also covered against problems caused by third parties, such as theft. An example would be theft of appliances that were on site ready to be installed.

None of the above incidents would have been covered under FLEA cover. This demonstrates the value of HBW cover and the protection it gives.

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CONSEQUENCES: WHAT MAY HAPPEN IF HBW COVER IS NOT IN PLACE

This paper has focused so far on the details of HBW insurance, what it covers and why it is necessary even when property owners and contractors already have their own insurance policies.

It is also important to note the consequences of not taking out this cover if things do go wrong. The previous section on existing structure insurance and contract works insurance noted instances which would give rise to potential claims. Without the HBW policy, none of these instances would be covered.

Basement excavation projects are particularly complicated feats of engineering and therefore homeowners should carefully consider their insurance position. In 2010, the London Evening Standard reported on the case of a basement conversion in Fulham, where things went disastrously wrong. The same report also noted that, a few months earlier, a conversion in Belgravia was left “looking like a bomb site” in the words of one witness, after a skip on the street outside fell through the weakened road surface.

It is not just underground where problems can arise. Flooding can also be a problem, be it from burst pipes or bad weather. The addition of the new works can create a point of vulnerability that makes it more likely the existing structure will be flooded than might otherwise be the case.

Fire is another issue. One widely reported case of a refurbishment going up in smoke was that of a Kensington mansion in July 2013, in which a blaze wrecked a multi million property while it was undergoing works. Such an incident would generate a claim on the HBW policy for both the existing structure and contract works as both were ruined by the fire.

The consequences for homeowners not having such a policy as HBW are evidently severe. History has shown that homeowners either do not realise they have to inform their normal insurance provider, or they leave it to the last minute, only to find they would no longer be covered or that the best they could expect is FLEA cover. Other insurance gaps can often exist, too, if a homeowner relies on the Builders’ insurance alone.

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SUMMARY: WHY HBW IS VITAL

This paper has outlined in detail why HBW is a vital form of cover for homeowners who are carrying out renovation, refurbishment or extension work on their main or second home. This final section recaps in brief the reasons for such insurance to be taken out.

HOMEOWNER OBLIGATIONS

It is the homeowner's responsibility to ensure they have sufficient cover for the works being undertaken. They will have to inform their household insurance provider of any works taking place and also may need to have adequate cover to avoid breaching the terms of their mortgage.

OTHER INSURANCE IS NOT ENOUGH

Neither existing home insurance, nor FLEA cover, nor the builder's insurance will be enough to cover all eventualities. HBW exists to protect against a wider range of contingencies that may not be protected in any other way.



CONTRACTS

The policy will aim to cover all contractual insurance requirements, whether this is a document supplied via the Joint Contracts Tribunal (JCT) or from another source.

IT COVERS GREY AREAS

By using HBW there is only one Insurer and one Loss Adjuster involved. This speeds up the claim process, whereas otherwise the homeowners' and builders' insurers may become locked in a dispute over whose policy the claim should be made from. This could lead to the project being halted in the meantime.

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IT COMPREHENSIVELY PROTECTS THE EXISTING STRUCTURE

HBW cover ensures the pre-existing parts of the residence are covered on an All Risks basis and enables the homeowner to remain compliant with their mortgage provider's insurance requirements. If the homeowner relies on FLEA cover provided by their existing home insurer that will only deal with a very limited range of possible problems and put the homeowner in breach of their mortgage conditions.

IT PROTECTS THE CONTRACTED WORKS

The materials and component parts used in creating the new structure or refurbishment are protected from the time they come on site until the job is finished. During the period of the works these materials become fixed and therefore form part of the fabric of the home. The policy covers the works as they progress too.

Not having the cover can have terrible financial consequences

Calamities such as fires, basement collapses and flooding really do happen. If the right cover is not in place the cost can in some cases run into millions of pounds.

CONCLUSION

Homeowners Insurance for Building Works is a vital means of protecting any investment in the home of an individual whilst being refurbished, renovated or extended. Its protection is comprehensive, it satisfies all contractual obligations and it gives peace of mind.

If you are involved in planning such a project, contact us for advice and further details. We can organise you a policy that is tailor made to your requirements.

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