
Contract Works Insurance - *Frequently Asked Questions*



Broker FAQs

As more and more clients opt to extend and improve their properties rather than move up the property ladder, you'll face an increased demand for project specific buildings and works insurance to go alongside their JCT contracts. This is a specialist insurance area with a lot of technical matters to consider and explain to your client. We hope that this series of FAQs will help.

Can we insure projects which are already underway?

Whilst not ideal in most cases, we can offer terms. If your client comes to you with a project that has only just started, we will offer terms as if the project had not started. In these circumstances, you should disclose the Buildings and Works sums insured, and the project duration as they were on day one of the project. This reflects the fact that the balance of risk on renovation projects is usually weighted towards the end of the contract.

We are generally unable to assist where the project is all but complete, or if there have been any losses since the start of the project, but it is always worth running it past us.

Can we insure commercial projects?

Yes, we can insure these types of commercial projects:

- Works to domestic structures / new build domestic structures for profit (sale / investment property)
- Conversions of commercial structures (for example, office blocks) to multi-occupancy residential
- Commercial re-fits / extensions
- Commercial new-builds
- Works occurring at schools and other public structures

We can't insure

- Works to modern industrial structures

If you have a project that you feel fits none of the above then give us a call.

Can we insure self-build projects?

We can insure:

- Self-managed – where the property owner is managing a series of contractors, but not undertaking the works with his/her own hands

We can't insure:

- Pure self-build projects – where the property owner is physically undertaking the work, whether this includes additional labour sourced elsewhere or not

Where you a self-managed project, in addition to the standard risk information requested on our proposal form we need to know:

- What project management experience you client has.
- Who is responsible for health and safety on site?
- Whether the CDM regulations apply?



If it transpires that your client has limited experience, and has not adequately considered the H&S implications and CDM regulations, then we may decline the risk.

Does our client require project liability insurance?

We always provide a minimum of **Property Owners Liability** insurance. When you come off risk with the existing building insurer, the POL cover will also be cancelled. We will re-instate this cover. It will indemnify your client for injury/loss stemming from ownership of defective property/land and additionally, it will provide legal defence costs in the event that your client is named as a co-respondent in an action against the contractor. This insurance will not cover your client for injury/loss stemming directly from the performance of contract works, so it is only appropriate where there is a main contractor who is in full control of the site, and fully responsible for management of contractors and H&S on site.

Where your client does have a role in the 'project management' function, particularly where there is no main contractor in full control of the site, then wider **Project Public Liability** cover is required. This cover will indemnify your client for contract works related loss and injury. We see a fair few projects where renovators opt not to appoint a main contractor, but rather, manage a series of bona-fide sub contractors. In these circumstances, whilst the contractors are likely to hold their own insurances, it is appropriate for the renovator to hold his/her own project PL cover. Apart from anything else, it may be the contractors themselves who are injured whilst performing activities directed by the renovator.

Project Employers Liability insurance will only be required where the renovator is directly employing labour only sub-contractors, casual labour and/or volunteers.

Where Project PL or Project PL/EL is required, we will require additional information around project management experience and risk management on site. We will request this information once we have established the need for these heads of cover.

What does our product actually cover?

Renovation Portfolio is an All Risks contract works package. We can cover the following:

- The Contract Works (compulsory)
- The Existing Structure (optional)
- Property Owner's Liability (compulsory where existing structure insured)
- Project Public Liability (where POL is not enough)
- Employer's Liability (only where project public liability is insured)
- Non-negligent Liability (party wall insurance)

We do not existing structure cover in isolation. We offer the full range of perils under both sections, including subsidence, accidental damage, and damage caused by the contractor, it's an 'All Risks' contract.

Cover automatically ceases at the point of practical completion or the expiry of the policy. You should ensure that you either ask for an extension or have a standard buildings product lined up as your client approaches the end of the project.

Can we cover contents?

We are able to offer contents insurance, but bear in mind that it is never the intention of a contract works product to offer HNW contents insurance. We are happy with general contents, but we cannot offer cover for jewellery, collections, fine art, antiques and the like. There are also inner limits for things such as electronic equipment and contents stored in outbuildings, and we will not cover contents away from the premises.



We can offer more bespoke contents cover subject to referral, but it is always worth seeking ongoing cover from the existing contents market because it will generally be significantly wider.

We would draw a distinction between **contents** and **materials and fittings**. In simple terms, we would class materials and fittings as anything which will be attached to the building (tiles, bathroom fittings, piping, flooring, light fittings etc) and contents as anything which will remain loose (furnishings and sort furnishings, rugs, curtains and so-forth). Materials and fittings should be included within the contract works sum insured.

What is party wall insurance?

Party wall insurance (also referred to as non-negligent, 21.2.1 or 6.5.1 insurance – it's all the same thing) is a type of liability cover which is designed to meet your client's obligations and liabilities under the Party Wall Act. The Act imposes a 'strict liability' on renovators for certain heads of structural damage to neighbouring property stemming from the works. Because the liability is strict, it is not necessary for the neighbour to demonstrate negligence. Because of this, it is not possible to rely exclusively on the contractor's liability insurance to cover damage to neighbouring property. In a loss situation, the relevant insurers will establish first and foremost, whether negligence has been present, and this will dictate which policy deals with the claim. Where negligence is present, then the contractor's liability insurers will be on the hook. Where there is no demonstrable negligence, the party wall insurer will take the claim forward. There are certain key exclusions:

- Damage which is the result of negligence
- Damage which can be reasonably foreseen to be inevitable
- Damage resulting from defective design/materials

In addition to protecting third party property from structural damage, the cover extends to include damage to areas of the policyholder's own property not being worked on.

This is a risky class of business to write. We see a disproportionately high volume of claims under this head of cover. In addition, the underwriting is technical and complex. With this in mind, it is essential that we are provided with thorough risk information. We issue guidance notes with our proposal forms. If this guidance is not followed, then the quotation process is likely to be long and frustrating for all involved, and the terms are likely to be less favourable.

This cover is available whether or not the works in question are notifiable under the Party Wall Act, and whether or not there are actual party walls. It is sufficient that there are structures in the vicinity of the works which are at risk.

What is a JCT Contract?

The JCT suite of contracts are a well understood, and frequently utilised set of 'off the shelf' contract terms which manage the relationship between the contractor and the employer. Within these contracts, there are clauses dealing with insurance. Our product has been designed to dovetail with the requirements of the JCT contract, and in particular, we are able to offer 'joint names' insurance for existing structure and works.

The joint names requirement is a feature of the JCT suite. It requires that both the contractor and the employer are named policyholders on not just the contract works insurance, but also the buildings insurance. Because noting the contractor as a joint insured precludes the insurer from subrogating against the contractor in the event that he negligently damaged the buildings or the works, the standard property market will not offer this cover. Where a joint names requirement exists under contract, your clients will need to purchase specialist cover of the type we offer if they want to avoid serious difficulties at claim time.

There are various forms of this contract:



- JCT Homeowner – the most basic form. Suitable for small, straightforward projects
- JCT Minor Building Works – Suitable for larger projects, but where the works remain relatively straightforward
- JCT Intermediate – for larger, more complex projects
- JCT Standard – able to cope with massive developments. Rarely used on all but the largest of domestic projects

There are various insurance options. We will offer advice around which options are appropriate for any given project.

Why does this insurance cost so much?

When answering this question, the starting point has to be that, if your client is comparing the cost of this cover to the cost of their standard buildings insurance, they are comparing apples to oranges. Our package is not buildings insurance, it is contract works insurance. We cover not only the structure, but your client's capital investment in the refurbishment works too (the contract works).

In addition to the fact that we offer an additional head of cover, the simple fact is that a construction site is a much riskier proposition to insure than an occupied dwelling or commercial structure. The potential for loss, particularly under the heads of accidental damage, theft, escape of water and fire is much, much higher.

Finally, in many cases, the insurer is also giving up their right to subrogate against the contractor in the event that he damages the structure and/or works. All of these factors generate upwards pressure on the rating.

It is possible to insure a building project more cheaply, but any premium savings will invariably come at the expense of cover, control and peace of mind.

What happens if we come to the end of the insurance period, but the project hasn't finished?

Our product is a non-renewable, single period package which is designed to offer cover for the duration of the works. We will offer a contract term based on the projected duration of the project. Our policies can be purchased for as little as 3 months, or for multiple years in one hit.

In the event that the project duration is underestimated (and this happens a good 85% of the time) we are able to extend the policy. We can extend multiple times, but please be aware that we will eventually apply administration fees if we find ourselves extending over and over again. You should ask your client, as far as is reasonably practicable, to be realistic about the time it is going to take to achieve practical completion to avoid admin fees.

What happens if the works sum insured has been under-estimated?

Like all material damage policies, Renovation Portfolio is subject to the condition of average. If the sums insured are significantly understated, then the condition of average will apply.

The policy does include automatic uplift under both the buildings and works heads of cover. If your client's disclosure of sums insured at inception can be shown to have been reasonably and fairly estimated, then they will benefit from this protection in the event of a claim if it transpires that the sums insured have been accidentally understated.

For larger projects, particularly when high-end fit outs will occur, it is often not possible to accurately estimate the final spend. In these circumstances, we can issue the cover on a declaration basis.



If you become aware that your client is spending significantly more than anticipated, please let us know. We can increase the works sum insured by endorsement at any time.

How should your client arrive at the works sum insured?

The works sum insured should include the following:

- The value of the main contract
- The value of any subsidiary contracts (for example, a separate contract with a fitted kitchen supplier)
- The value of any direct purchases (usually fixtures and fittings)
- Professional fees
- VAT where applicable

What happens if the contractor goes bust, or walks off site?

Unfortunately, this is a fairly regular occurrence. If this happens, please notify us immediately. The policy does allow for a cessation of works for up to 60 days during which full cover will be maintained automatically. We can manage longer periods than this as long as we are kept fully informed. Your client will need to submit to reasonable and achievable unoccupancy conditions around property inspection, security and on-site risk management (draining of water systems, disconnection of services etc).

The policy is a material damage policy, and does not cover failure to perform, or financial losses resulting from the contractor leaving site for whatever reason. This type of cover may be sourced from the Lloyds market, but for standard domestic projects we find it to be prohibitively expensive.

The contractor has works insurance. Why does my client need to buy this cover?

Contractors will frequently have a 'contract works' section under their contractors all risks policy. This section enables contractors to insure the materials, fittings and works in progress on behalf of their clients. It is perfectly possible, and in some cases, appropriate to rely on this cover, but it will never be possible for the contractor to insure the existing structure so your client will still need to source buildings cover.

The problem here is that specialist contract works providers such as ourselves are not able to insure structures on their own. Our product is a contract works package, so the essential element of cover is the works insurance. This will leave your client needing to source cover from the standard buildings market, and there is very little appetite for structures, usually unoccupied, in the course of renovation. As a result, the cover achievable is likely to be very limited (FLEEA) and pretty costly.

Additionally, if this route is taken, the following difficulties will be present:

- There will be 2 separate insurers involved, 2 excesses to pay, and the potential for disputes between insurers in the event of a loss
- Your client will not control the works insurance and will not be able to guarantee ongoing cover if the contractor goes bust, walks off site or fails to pay his premium
- If the JCT contract is being used, and there is a joint names requirement, the buildings cover will almost certainly be in breach of this and this could result in a problematic claims process
- There will be a disparity in the levels of cover available under each policy (works will be All Risks, structure will likely be FLEEA only)
- Damage caused by the contractor will be excluded under the buildings insurance and your client will be forced to pursue the contractor's liability insurers

Bear in mind that the contractor's works insurance will not be project specific. It will be available for any and all projects the contractor is involved in during the policy period. The mere fact that the cover is available does not mean that it has to be utilised.



Our package offers your clients full control, the widest cover, triple A rated insurers and the peace of mind that expertise and support is available in claims and contentious situations.

My client is not using the JCT contract. Does this matter?

No. We are able to cope with any and all contractual arrangements, from completely informal arrangements, through bespoke contracts produced by the builder, other 'off the shelf' building contracts, and on to the full JCT suite of contracts.

The advice we give will differ depending on the arrangements, but the cover will remain the same.

What is it that Renovation Underwriting offers over and above other players in this market?

The market for property insurance for structures in the course of renovation/refurbishment is very small, and for bespoke, JCT compliant contract works insurance of the type we offer, even smaller.

We genuinely believe we offer the market leading product, not just in terms of cover, but in terms of the quality of our markets, and our knowledge, expertise, advice and support. We tailor our offering to meet the exact needs of our clients and we ask them to consider us as part of their professional team, available at all times to deal with problems, liaise with the other project professionals, and to modify and re-shape the cover if required.

Ultimately, we aim to offer your customers full peace of mind and full control. We believe that the solution we offer will impress your clients to such an extent that it will be very easy for you to secure their future and ongoing business.

As well as offering an excellent service and product to your customers, we also offer our broker partners equivalent support, including free CPD training, and access to an on-line broker portal which enables you to generate quick indications of cost, full quotations, and to generate policy documentation instantaneously once you receive instructions for your client.

We look forward to dealing with you more in the future.

*renovation
underwriting*

VERSION: MARCH 2022 v2.0