



RENOVATION
PLAN

A broker's guide to insuring a renovation project



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Renovation Plan Insurance



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Introduction

There are a number of things to think about when insuring a property during a renovation project. Many people are unaware of the potential implications to their property cover whilst works are being carried out.

If your clients are considering any type of renovation, alteration, demolition, new build or extension it is important to understand the effect this may have on their current cover.

In this document, we'll highlight the key things to consider.



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The Existing Structure

Many insurance policies are unable to accommodate cover during building works or will reduce cover whilst these works are ongoing - especially if the property is unoccupied.

Before commencing with any building works, property owners should start by consulting their current Insurance provider. Insurers will usually want to know the following in relation to the works:

- A description
- The estimated cost
- Duration of contract
- Occupancy of the property
- Type of contract in place

Most insurance providers can cater for a small amount of works if they are of a decorative nature, however, when the works reach a certain cost or the type of works are of a more complex nature e.g. structural, cover can be restricted or withdrawn completely.

If the existing policy is restricted during the works, one of the things you may see is an exclusion applying when damage is caused by the works. In this instance you will be relying on the Contractors Public Liability policy to cover any potential loss. Below is an example of when this could cause a problem:

“The contractor is carrying out electrical and heating installation at the property. Overnight, a fire causes major damage. The cause is undetermined and a stalemate commences between the contractor’s insurer and your property insurer. The contractor must be proved negligent to be liable for the damage and the property Insurer will enforce the exclusion stating damage was caused by the works.”

A scenario like this can drag on for several months, whereas a specialist renovation policy will respond in the event of a loss, regardless of who is at fault.



Contract Works

Contract works is the insurance term to describe the structures, materials and fittings being added to a property. The cover is typically arranged on an 'all risks' basis meaning that it covers all insurance perils, bar any specific exclusions in the policy. It can be purchased as part of a Contractors 'All Risks' policy and may often be referred to as this or its acronym, 'CAR'. Without this cover, renovators are potentially leaving the value of the works at risk.

A common misconception with this cover is the assumption that building professionals will take out Contract Works insurance. Previous Insurance surveys indicate only around 50% of builders provide Contract Works insurance.

When materials are purchased independently of the contractor, these may not always be insured on the contractors insurance as they have no insurable interest in these items.

It is important to discuss who will cover the works when arranging the contract with the builder. Some building contracts will place the onus on the property owner to arrange cover for the works. We would strongly recommend buying a specialist Renovation policy

Relying on the builder to arrange cover without reviewing their insurance is putting the property at risk and could leave your clients exposed to a loss of their investment in the new works.



Personal Contents

Personal contents requirements vary significantly from one project to another. Therefore, there are several different eventualities to insuring your clients contents.

1. Living on site

If the homeowner is living on site during the renovations, normal contents insurers will consider providing cover and can often be more accepting than the buildings insurer, as alterations to the property will not affect the contents as significantly. However, there may be an increased risk of accidental damage to carpets and furniture so you can expect to see the 'damage caused by the works' exclusion added, as with the buildings cover.

Valuables at the home may be excluded or required to be removed from site during the works. Paintings, jewellery and valuable items should all be removed where possible and would need to be specifically notified to the Insurer if any of these contents remain, they may impose a theft limitation clause.

2. Moving out/Unoccupied

Moving out during the works means most contents insurers will cancel or restrict their cover, as the property is no longer considered to be a home. In this situation, cover can be provided by specialist renovation insurers. However, most will only cover general furniture without any valuables remaining on site.

often homeowners will consider placing their contents into storage during the works. Storage companies can provide insurance for the contents as part of their cost so this can give the homeowner peace of mind.

3. Moving into rental accommodation

If some of the contents are going with the homeowner to rental accommodation, the simplest solution is to take out a separate policy for the contents in the rental accommodation. It's sensible to ensure the policy has acceptable cancellation terms as the project timeframe may alter and it's unlikely the project length will run in conjunction with policy.



Plant & Tools

Plant and tools are typically split into three sections.

- Portable Hand/Power Tools
- Owned Plant (anything larger than a hand tool)
- Hired-In Plant

The most important thing to bear in mind is that any equipment hired or owned by the contractor, should be insured under the contractor's insurance as this is their responsibility and, in the event of a loss, this would only affect the contractor.

1. Hand Tools and Owned Plant

Tools and Plant owned by the property owner can be insured on specialist renovation policies. To obtain quotes insurers will need to know:

- The total value of your equipment
- The highest single item value

Most policies will require that the tools are stored in a locked place or the plant be immobilised.

2. Hired-in Plant

For Hired-in Plant, hiring companies will often provide an insurance option. However, renovation policies can often provide a quotation for the same cover at a lower cost.

Some policies will include the continuing hiring charges following damage or loss to the plant. This can include the costs of the hiring charges whilst the plant was unable to be used or the loss occurred by the hiring company if they are unable to re-hire the equipment to the next purchaser.



Public Liability

In the UK, building sites have a higher number of accidents and injuries than any other working environment. Therefore, it's vital for employers and their contractors to ensure they protect themselves against claims arising from third party damage or injuries caused as a result of a negligent act.

In the event of a potential claim, it's important for clients to contact you before discussing anything with the third party. Dealing with the third party and confirming their own negligence may jeopardise the insurers position and could cause problems with the cover.

The Contractors

Most specialist renovation policies will require any contractors attending the site have their own Public Liability cover. Any reputable building company will have a policy in place to cover all the sites they work on.

Limit of Indemnity

Public Liability cover always carries a Limit of Indemnity. Cover usually starts at £1M but could also be £2M or £5M. Higher limits can be obtained on referral.

The limit should be reviewed and chosen based on the value of the property, the number of people working on site and the location of the project.

Employers Liability

Although many renovators prefer to employ a main contractor to undertake and manage the project, some renovators will look to manage sub-contractors and employ their own labour. When 'self-managed' builds are taking place with labour-only sub contractors on site, Employers Liability must be taken out. Employers Liability is to protect the company or person in control of the site against injuries sustained by people under their direct instruction.

Below is an example of a possible claim:

"A self-builder takes on a project developing his own house. He has experience in the building trade and opts to do some of the work himself. He decides to bring in his friend's son to help him on site and pays him on a daily rate for his work. He asks the boy to carry some bricks up the scaffolding but the boy slips and is injured."

In this scenario, the self-builder is deemed to be the 'Employer' of the boy as he is there under his direct instruction. A common misunderstanding of Employers Liability surrounds bona-fide sub contractors (BFSC) on site. BFSC are contractors who are completely independent of the employer and are brought in to carry out specific works. They will typically trade under their own company name, carry their own insurance and have their own equipment. The Employer of BFSCs won't require any additional insurance over and above the Public Liability as BFSC would be treated no differently than members of the Public in the event of a claim for an injury.

Examples of typical types of sub-contractors:

Bona-fide sub-contractors (BFSC) – Groundworkers, electricians, plumbers, roofers
Labour-only sub-contractors (LOSC) – General labour, volunteers

The Health & Safety Executive (HSE) provides a full guide for Employers Liability on their website (<http://www.hse.gov.uk/pubns/hse40.pdf>).

There is also the Construction, Design & Management (CDM) Regulations 2015 which self-managed renovators should be aware of it states the requirement for maintaining and managing safety of your site (<http://www.hse.gov.uk/construction/cdm/2015/index.htm>).



JCT 6.5.1 Non-Negligent Liability/JCT Insurance

JCT 6.5.1 Non-Negligent Liability, also referred to as JCT 21.2.1 insurance or Party Wall Insurance is a form of cover which has come into effect predominantly following the Party Wall Act 1996. In summary, the Act provides a framework for preventing and resolving a dispute in relation to party walls, boundary walls and excavations near neighbouring buildings.

The Act covers the following types of works:

- New building on or at the boundary of two properties
- Work to an existing party wall or structure
- Excavation near to and/or below the foundation level of neighbouring properties.

A key point in the Act states in simple terms that “the building owner who initiated the work pays for the damage if the works are solely for their benefit”. This potentially leaves the property owner liable for damage to neighbouring properties if the contractor’s Public Liability would not cover the damage due to there being no negligent acts in the contractor’s work.

So, what is this Insurance actually covering?

The cover is often treated as an extension to the property owner’s Public Liability cover. Where Public Liability requires a negligent act to have caused the damage, this cover extends to include damage caused where there are no negligent acts. Major groundworks are the most-likely works to cause this damage as removing/altering ground is more likely to destabilize the other surrounding structures.

The types of perils covered include: subsidence, heave, collapse, vibrations or weakening/removal of support, or the lowering of ground water consequent upon carrying out the contract works.

Why is it called JCT Insurance?

JCT stands for Joint Contractors Tribunal. It’s a type of contract often drawn up for specific one-off building projects and can be purchased directly from JCT. There are a number of different types and versions but typically, the contract will ask if this cover is required under Section 6.5.1. On previous versions, the cover appeared under Section 21.2.1 and therefore the references to the name of the insurance formed.

Cover can be obtained by either the property owner or the main contractor for this cover. It’s often stipulated within the contract that cover must be insured in Joint Names between the property owner and the contractor.

The government provide an Explanatory booklet for both renovators and their neighbours which is a useful (https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/523010/Party_Wall_etc__Act_1996_-_Explanatory_Booklet.pdf).

Alternative Accommodation / Advanced Loss Of Rent

Alternative Accommodation

Alternative Accommodation is usually provided as an extension in cover to a standard buildings insurance. The cover comes into effect following damage to the property caused by an insured event. It will pay the costs of similar accommodation for the insured whilst the damage is rectified.

Alternative Accommodation can either be provided with a fixed sum limit or limited to a percentage of the sum insured. Both options may be acceptable but a low fixed sum may not be sufficient for larger projects. It is worth keeping in mind the cover may be restricted with an indemnity period limit. For example, if the indemnity period is fixed at 12 months, you will not be covered for any accommodation costs 12 months after the date of the loss regardless of the total costs.

Advanced Loss of Rent

When taking on a project for commercial gain, there are other elements involved in the project and profit margins are far more important. There may be lenders or investors involved and delays in the project can be devastating.

For these projects, Alternative Accommodation is irrelevant as the occupiers won't be sourced until completion. Advanced Loss of Rent will cover the costs of the rent your clients would expect to receive following a delay caused by an insured event. Cover can also be increased to insure loss of interest for the projects where there are loans taken out to complete the works.

For both types of cover, renovation insurers will typically require an up-to-date gant chart and schedule of works in the event of a claim. This will allow them to ensure that they are not paying for general delays in the works, not caused by an insured event. These general delays would be specifically excluded from cover.

JCT Contracts

JCT Contracts are designed to clarify all aspects of the project and avoid having disputes over who was at fault in the event of a problem. The details range from what security will be used, when the work will be carried out and most importantly for brokers, what type of insurance cover is required.

Options

Under a JCT Minor, Standard and Intermediate Works contracts, there are typically three different options under the Insurance section.

Option A – This option requires the contractor to take out a policy in joint names with the owner for the Contract Works only.

Option B – This option requires the owner to insure both the existing structure and the works in joint names with the contractor.

Option C – This option requires the contractor to insure the works in their own name and the owner to notify their Insurer of the works.

It is vital the insurers are aware of which type of contract has been chosen. Some insurers are unable to offer cover for Option B as insuring the policy in joint names can waive some of the subrogation rights against the contractor for accidental damage to the structure or the new works.

To ensure a renovator is in the best possible position throughout their project, a JCT contract can be the best possible solution to help give them peace of mind.



Covers at a Glance

Type of Cover	Standard Specified Perils	Premier Specified Perils	Premier Plus All Risks
Building(s) Existing buildings and all new works, materials and fixtures & fittings			
■ Fire	✓	✓	✓
■ Lightning	✓	✓	✓
■ Explosion	✓	✓	✓
■ Earthquake	✓	✓	✓
■ Aircraft	✓	✓	✓
■ Storm	✗	✓	✓
■ Flood	✗	✓	✓
■ Escape of Water	✗	✓	✓
■ Impact	✗	✓	✓
■ Malicious Intent	✗	✓	✓
■ Riot & Civil Commotion	✗	✓	✓
■ Theft & Attempted Theft	✗	✓	✓
■ Accidental Damage	✗	✗	✓
■ Subsidence	✗	✗	✓
Contents	✗	Optional Perils as above	Optional
Own Construction Machinery	✗	Optional when Contents chosen Perils as above	Optional
Portable Hand & Power Tools	✗	Optional when Contents chosen Perils as above	Optional
Hired in Plant	✗	Optional "All Risks" Cover	Optional "All Risks" Cover
Caravans Site/Huts	✗	Optional	Optional
Public Liability Sum Insured £2,000,000	✓	✓	✓
Employers Liability Sum Insured £10,000,000	✗	Optional Private individuals only T&Cs apply	Optional
Non-Negligent Liability	✗	✗	Optional
Advanced Loss of rent/Loss of Interest	✗	✗	Optional
Terrorism	✗	✗	Optional

Please note this is intended as summary of the cover available.

For full details refer to the Policy Wording or alternatively please contact us.

✓ = Included

✗ = Not Included

JCT Contract Requirements

WORKS ONLY – JOINT NAMES

These clauses require the contractor to take out and maintain a policy in joint names with the property owner (employer) for the works only.

- JCT Minor Works 2005 5.4A (JCT MW05 5.4a)
- JCT Intermediate Building Contract 2005 1A (JCT IC05 Schedule 1 Option a)
- JCT Standard Building Contract 2005 3A (JCT SBC05 Schedule 3 Option a)
- JCT Minor Works 2011 5.4A (JCT MW11 5.4a)
- JCT Intermediate Building Contract 2011 1A (JCT IC11 Schedule 1 Option a)
- JCT Standard Building Contract 2011 3A (JCT SBC11 Schedule 3 Option a)

EXISTING STRUCTURE & WORKS IN JOINT NAMES

These clauses of the JCT contract require the property owner (employer) to insure both the existing structure and the works in joint names with the contractor.

- JCT Minor Works 2005 5.4B (JCT MW05 5.4b)
- JCT Intermediate Building Contract 2005 1B (JCT IC05 Schedule 1 Option b)
- JCT Standard Building Contract 2005 3B (JCT SBC05 Schedule 3 Option b)
- JCT Minor Works 2011 5.4B (JCT MW11 5.4b)
- JCT Intermediate Building Contract 2011 1B (JCT IC11 Schedule 1 Option b)
- JCT Standard Building Contract 2011 3B (JCT SBC11 Schedule 3 Option b)

EXISTING STRUCTURE IN OWN NAME

These clauses require the property owner to insure the existing structure in their own name.

- JCT Minor Works 2005 5.4C (JCT MW05 5.4c)
- JCT Intermediate Building Contract 2005 1C (JCT IC05 Schedule 1 Option c)
- JCT Standard Building Contract 2005 3C (JCT SBC05 Schedule 3 Option c)
- JCT Minor Works 2011 5.4C (JCT MW11 5.4c)
- JCT Standard Building Contract 2011 3C (JCT SBC11 Schedule 3 Option c)
- JCT Intermediate Building Contract 2011 1C (JCT IC11 Schedule 1 Option c)

EXISTING STRUCTURE & WORKS IN OWN NAME

These clauses of the JCT contract require the property owner (employer) to insure both the existing structure and the works in joint names with the contractor.

- JCT 6.2.4 Insurance
- JCT 6.5.1 Insurance
- JCT 19(2)(a) Insurance
- JCT 21.2.1 Insurance



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