



**CASTLE ACRE**



A Guide to Insuring  
Renovation & Extension Projects

Your reputation as a Project Manager, Architect or Interior Designer will often rest on how smoothly an individual contract runs, as well as the final outcome.

When a project begins, risks for the homeowner, contractor and project manager are complex and are often intertwined – if a claim arises it is in everyone's interests that delays to completion are minimised.

In these circumstances specialist building works insurance is crucial but insurance considerations are not always at the forefront of discussions during the early stages of contract negotiation.



## At Castleacre

we are experienced in protecting large scale renovation and extension projects. We work with clients and project managers to plan the risk management and insurance protection of historic buildings during major works.

# Is Specialist Building Works Insurance Always Necessary?



Most household insurance policies will normally cover minor works to a private residence up to a reasonable limit, allowing homeowners to undertake small building projects without having to inform insurers.

A standard High Net Worth policy will usually allow for building works up to £100,000 but some insurers set a lower limit so the precise level should be checked with your client's insurer before the work begins.

# Insuring High Value Building Projects that Fall Outside Standard Insurance Limits

When the value of a project exceeds the limits within a Household Insurance Policy a different approach is required.

High value refurbishment, renovation and extension projects are complex and most are managed under a Joint Contracts Tribunal (JCT), which determines who will be held responsible for the design, delivery and insurance.





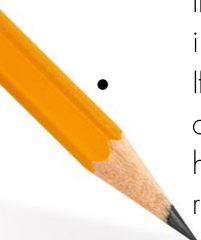
# Protecting your Client, the Project, & Yourself

## Option 1- Relying on the Building Contractor's Insurance to Cover the Project

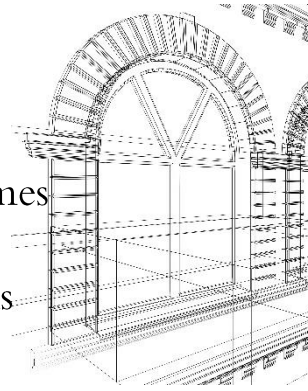
In this case the Architect, Designer or Project Manager relies on the Contractor's Insurance to pay claims resulting from the Contractor's negligence. This is the traditional approach to project management risk but there are serious flaws in this arrangement, which may result in disputes and financial loss.

### Disadvantages:

- Once your client informs their insurer about a building project, cover will normally be reduced on the existing property to basic perils usually: Fire, Lightning, Explosion, Earthquake & Aircraft (commonly known as FLEA cover). The insurer will normally exclude: Theft, Storm, Flood, Subsidence, Accidental Damage, Malicious Damage and any damage caused by the contractor.
- Neither you, nor your client can be certain that the limits of the contractor's insurance are adequate to cover the cost of potential claims.
- There could be certain conditions in the contractor's policy that neither you nor your client are aware of. If the contractor fails to fulfil these they may invalidate their own insurance – meaning that a claim would not be paid.
- If the contractor walks off the project or goes into administration – their insurance policy will no longer protect your client. The capital investment will be put at risk.
- If a dispute over a claim arises between your client's insurer and the contractor's insurer, it could result in a long delay in payments, hinder the completion of the contract and your ability to fulfil your role as project manager.



## Option 2 – Take out a policy in Joint Names (of employer & contractor) Covering the Existing Structure and the Contract Works



### In this situation:

1. The owner of the property will take out a specialist insurance policy that will insure their existing property and the contract works for 'All Risks'.
2. Both the contractor and the client are named on the policy as Joint Insureds.
3. This gives the project manager and owner certainty that a claim will be paid quickly allowing the works to continue with as little disruption as possible.

### Advantages:

- There is only one insurer and this policy will pay out first (the insurer has the option if there is negligence on behalf of the contractor, to seek redress from the contractor's insurer).
- Your client enjoys 'All Risks' cover on their Building and Contents and there are no gaps in cover between the Contractor's All Risks policy and the Homeowner's policy.
- It protects the client if the contractor goes into administration or walks off the project.
- Your client will be compensated immediately and can, if they wish, appoint another builder. There will be no long drawn out dispute as to who or what was responsible for the claim.

# Additional Options

- **Non-Negligence Insurance**

This cover protects the client against any claim for damages for bodily injury or damage to neighbouring property caused by collapse, subsidence, heave, vibration, weakening or removal of support or lowering of ground water where negligence by the contractor cannot be established. This policy is complicated and is generally used when Third Party walls, floors or basements are being worked on.

- **Latent Defects Cover**

This policy covers the client against any defect in design, workmanship, materials or components causing physical damage to the building for a specified time after the completion of the project (up to 12 years).

- **Performance Bonds**

A performance bond acts as an insurance policy for the owner of the property in the event that the contractor does not fulfill the terms of the contract. Performance bonds are issued through an insurance company that insures the contractor but pays claims to the owner.





## Case Studies



### **London Basement Flooded by Plumbing Contractor**

A London home undergoing a large renovation project, which included a subterranean basement extension, suffered extensive damage when water pipes burst during pressure testing by a contractor. The claim, which included electrical damage amounted to £1.2 million with alternative accommodation costing £250,000.

### **Building Collapse Due to Contractors Failure to Structurally Secure Georgian House**

A Georgian House collapsed during renovation due to contractor negligence. The owner had an 'All Risks' renovation policy in place and was able to make a claim to their insurer immediately and continue with the project, minimising stress – their insurer then claimed against the contractor's insurance policy.

### **Listed Building Suffers Storm Damage Before Renovation Starts**

A homeowner was able to claim on a renovation policy, for storm damage to a roof, although the works had not started. The listing status of the building meant that all debris had to be carefully salvaged by hand so that materials could be reclaimed and reinstated. The total cost of the claim was £300,000.



If insurance is addressed early on in a project, additional premium costs can be incorporated into the overall budget and it will give both you and your client peace of mind.

Wrongly assuming that a Contractor will have the right insurance in place, or being unaware of the implications of JCT contracts and specialist building works cover can not only jeopardise the completion of a project but can also rebound on your reputation and your Professional Indemnity Insurance.

Castleacre can help you determine which type of insurance is needed for each project. We review the market to ensure any cover is competitive and we act as your advocate in the event of a claim.

# Insurance Advice

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