

## **Construction works insurance** *What does it cover?*

Construction works insurance is nothing new to builders – it is a common requirement in building contracts and many financial institutions funding projects stipulate that construction works insurance must be held as loan security. It is also just good business practice to hold this type of policy to protect your building works. So, what is covered by a construction works insurance policy?

As the name suggests, the purpose of construction works insurance is to cover building works in progress, should loss or damage occur during construction. Insurance can be arranged specifically for each project or as an annual policy covering all projects undertaken with the insurance premium paid on works turnover.

There is no such thing as a standard policy, so builders should take particular care when taking out construction works insurance, as there are significant variations in the extent and quality of policies issued by different insurance companies.

The following information can help you to assess whether the insurance you arrange is right for you and will deliver best value for money. When arranging your policy, you should ensure it covers the following.

### **Occurrences of loss or damage**

The policy should be comprehensive in the scope of events that are insured. At a minimum, it should include occurrences of theft, malicious damage, wind, storm, flood and other water damage, cyclone, tsunami, subsidence and landslip, fire including bush fire, and earthquake.

In addition, it is important to determine what coverage is provided for damage arising from defects. The costs of correcting any defective works are usually excluded; however, you should know how your policy will respond to resultant damage to correctly executed works caused by defective materials, workmanship, design, plan or specification in other parts of the works.

### **The insured works**

This should encompass all property comprising the construction, ancillary and temporary works, including all other items to be incorporated in the works, as well as other things like formwork, falsework, scaffolding, sheds and on-site amenities (including hired items).

### **Basis of claims settlement**

The amount paid should be the costs incurred at the time of repair or replacement, and not at the time the damage happened – as the latter can generate a smaller payout. The repair costs should allow for the builder's customary margin to be added to the cost of damages claimed.

### **Plant, machinery, equipment and tools**

Provision can be made to insure plant, machinery, equipment and tools (including hired items), with options available for both on-site and off-site losses. Ensure that coverage for any mobile plant is clarified. Establish whether your policy is for replacement value or depreciated value, if claims are reduced by under insurance, and what conditions apply to unattended items, such as locked premises or vehicle provisions.

### **Insured parties**

This should at least include the builder, owner, contractors and subcontractors, financiers and, when required under the building contract, project managers, architects, engineers and consultants.

### **Works limitations**

Most policies will limit the type of works that are insured. Check that your project fits within the parameters of the policy, particularly in respect of scope and type of works, location, maximum project value, maximum construction and defects liability periods or any other limitations that may apply.

## Cover period

This period generally spans from commencement, through the construction phase until practical completion. It is advisable to include an additional time allowance after practical completion, as some contracts require extended cover or there may be a delayed handover.

If you hold an annual policy, check whether your policy covers only new projects commenced, projects underway at policy attachment or both. Should you undertake any speculative works, make sure that your policy coverage extends for a period after completion pending sale or in the event of strata title projects, ensure that the gap between practical completion and strata registration is insured.

In the event of partial occupancy of the works during construction, special insurance arrangements may be necessary.

## Alterations and additions works

A construction works policy covers only the new works being performed, not the property undergoing alteration. Always establish contractual responsibility to insure such property, the status of the owner's insurance over it during your works and arrange any additional insurance coverage necessary.

## Owner arranged insurance

Occasionally, building contracts are let with insurance provided by the owner. In these circumstances, always satisfy yourself that the quality of the insurance arranged and the policy excess applicable is acceptable. Various forms of 'difference in conditions' policies are available to fill gaps between your normal cover and the owner supplied policy.

## Additional policy contingencies

There are many additional contingencies that may be insured under a construction works policy. They can be

insured as a percentage of contract price (usually advisable) or for a set amount. Some of these extra contingencies may be compulsory under the building contract, or insured at your option.

- Owner supplied materials – should any items be supplied by the owner for incorporation in the works
- Professional fees – such as architects and engineers fees incurred in repairing insured damage
- Variations and escalation costs – for contract variations and inflationary increases during construction
- Removal of debris – costs of site clearance and disposal of debris following insured damage
- Mitigation expenses – expenses necessarily incurred to protect or prevent damage to the works
- Materials in transit – for works materials in transit to the site, including loading and unloading
- Government and other fees – incurred in obtaining consent to reinstate insured damage
- Off -site storage and fabrication – allowance for these circumstances, if applicable.

Whilst the information in this article provides guidance for arranging your construction works insurance, it is by no means exhaustive. At the end of the day there is no substitute for reading your policy documents and making sure that you have complied with the insurance provisions of your building contracts.

The reality is that different construction projects can generate different insurance solutions and it is wise to engage the services of an advisor that is familiar with this type of insurance.

Master Builders Insurance Services specialises in the insurance needs of the building and construction industry. Our Master Builder Platinum Protection policy provides comprehensive insurance protection.

**Master Builders Insurance Services is here to help. Get in contact on 1300 13 13 26 or [insurance@mbqld.com.au](mailto:insurance@mbqld.com.au)**

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