



Personal Insurance

Home Construction Risks

Do you know when to notify your insurance company about your home renovation? Are you thinking about building a new home? Then read on....

What Is Construction Insurance?

“Course of Construction” insurance is another name for Builder's Risk insurance, which protects real property against loss while under construction. Both new properties as well as renovations on existing properties are eligible for Course of Construction coverage. Construction-related losses are typically excluded from standard homeowner's insurance, so a valid Course of Construction policy is crucial to protect you during these times.

Whether new construction, or a renovation, both types of projects create a high degree of risk for insurance companies which may translate into large surcharges to policies. It is not uncommon for clients to shy away from disclosing their renovation or construction project to their insurance agent or carrier in order to avoid a large surcharge. However, failure to notify the insurance carrier about a project may result in large gaps in a homeowner's coverage.

Purpose

Typical property insurance policies assume that the property being insured is already finished. If you're investing in a new property or are renovating an existing one, Course of Construction insurance is the only way to protect your investment against loss. At their most basic, these policies pay the value of any part of the building damaged during the work, but they can also include liability or other coverages if you need them.

Who Buys It?

As the property owner, you may purchase the insurance to protect your investment. However, general contractors also frequently purchase Course of Construction insurance because, typically, their materials

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are at risk. Either of you could be legally liable if someone is injured at the work site, so you both have some interest in this coverage. Ultimately, who pays the premiums depends largely on the work agreement you negotiate with your contracting company.

Coverages

In addition to coverage against damage, many of the policies also insure against theft of building materials. Another important feature is liability protection, which can come in handy if someone gets hurt on the construction site and sues you. A drawback of this policy is that it won't cover loss or damage to your personal property until the home is secure from unwanted entry, at which point you can add personal property coverage to the policy.

Why is Course of Construction Insurance So Expensive?

The insurance industry's highest loss exposure results from construction projects. While under construction, homes may spontaneously combust if oily rags or like materials, are left on site and in a warm environment. For example, a Chubb appraiser recalled a construction project built on a bluff in San Diego overlooking the ocean. The workers had gone home for the day, but had accidentally left an oily rag in a bucket in the residence. The heat and chemicals combined and spontaneous combusted, resulting in a total loss of the property. Other common losses result from vandalism or arson committed while the property is unoccupied, unguarded, or unlocked. As such, a hefty construction surcharge in addition to a vacancy surcharge may be applied to the policy to compensate for the increased risk exposure for the property. Fortunately, the surcharges will be removed once the project is complete and the homeowner occupies the residence.

Helpful Tips:

The process of insuring your construction or renovation project may seem daunting; however, the key to successfully insuring a project is having a clear understanding between the budget for the project versus the actual replacement value of the project. Moreover, most seamless projects occur when the homeowner and contractor address all of the safety requirements at the beginning of the project. Finally, maintaining clear and timely communication with the agent and appraiser also alleviates any potential areas for exposure.

For assistance with your personal insurance needs, contact ProCo, the people partner!



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