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Insurance for work to existing buildings

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If you are intending to have construction work – alterations and/or additions – done to an existing building, you should obtain advice from an insurance broker or insurer about how best to provide all the insurances necessary for your project.

Insurance considerations

The following are matters that you and your insurance broker should keep in mind:

- It may be advisable to have both the new work and the existing building insured by the same insurer and, in some cases, under a single insurance policy, so that there can be no argument about which company or which policy must pay for a particular loss.
- It is vital that the insurer of the existing building be aware of the 'works' as, under some policies, public-liability cover is void if building work over a certain value is being undertaken.
- The insurer should be made aware of any time period during which the building will be unoccupied as this can affect the type of cover that is available and the type of policy that will be offered.
- Check the amount of the excess. The excess is the amount that the person making an insurance claim must bear before the insurer makes a payment. The contractor will need to know the excess amount.
- Contents are not part of works insurance and advice should be sought about how to insure any contents that will remain on site during the project.

If a separate policy for the works is recommended ask your insurance broker or insurer if your existing policy requires any amendment in order that you are completely covered. Conversely, don't double insure (unless this is what your broker advises) because some insurance is made void or reduced proportionately if there is other insurance covering the risk.

Once the form of building contract has been selected for the project, and if asked for in the contract, a decision is made as to whether the owner or the contractor is to insure, then the insurance clauses in the contract should be discussed with your insurance broker.

The ABIC SW-2008 contract, for example, requires that the person nominated (either owner or contractor) must take out and maintain public-liability insurance in the joint names of the contractor, its subcontractors and the owner.

It is essential that public-liability insurance is maintained at all times and for all building work, the contractor must maintain statutory workers' compensation and/or employers' liability cover.

Write to your insurer (or broker) confirming their advice, and advising that you will be acting on it.

Some states and territories have a home owners' warranty insurance and 'neighbour insurance' policy requirement for domestic building. You should check if this is needed and if so, the contractor must provide it before work begins.

Contractors are responsible for the insurance of all their own equipment and plant.

Insurance versus indemnity

A common question from the clients of architects is why the contractor must 'indemnify' under Institute contracts when it is the obligation of the owner to 'insure'.

'Indemnify' and 'insure' are not the same. The purpose of the indemnity provision is to leave the responsibility with the contractor to make good or compensate the owner for loss suffered, whether or not there is insurance. The purpose of the insurance clauses is to say who is responsible for arranging and paying for the insurance which will cover both the owner and the contractor. It is to be expected that the insurance will cover a substantial part of the financial liability that the contractor will have if the contractor is liable for any loss or damage.

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