



## Potential Insurance Concerns for a Residential Construction Project

**Currie Baker** | Vice President, Private Client Group Manager

A new addition or renovation can increase your residence's value and enjoyment of your home. However, considering that homes under construction have increased exposures to loss, insurance is an essential component that should be addressed early – before work begins.

### THE PLANNING STAGE

While planning your project, be sure to review your home insurance contract for any restrictions that will need to be addressed, including prior notification requirements and, in the event of a loss, special adjustment provisions and deductibles. Each insurer's contract is different, so it's important to notify your personal insurance advisor before starting any work on your project.

Most insurers require prior notification for larger projects (typically defined as 5-10% of your current dwelling limit's value), but some require notice for projects as small as \$5,000. In addition, homeowner's policies include special loss adjustment provisions and deductibles for homes under renovation; these are more restrictive with higher deductibles. However, most insurers waive the restrictions and higher deductible if you provide proper prior notification.

### BUILDER'S RISK COVERAGE FOR MAJOR RENOVATIONS AND NEW CONSTRUCTION

Major renovations and new home construction may be best insured under a commercial builder's risk policy, which has several important advantages. First, it can include you, the general contractor, and all subcontractors as insureds and will pay for damage to or loss of materials and supplies for all insureds in the event of a claim. Keep in mind that your general contractor and subcontractors may pay for materials and supplies with the understanding that they will be reimbursed at agreed-upon intervals throughout the project term, so all parties could have a financial interest in the project at the time of

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Our goal is to protect client assets through a comprehensive risk management process and a custom-crafted insurance program for each Private Client.

We are knowledgeable in the insurance markets and trends that affect our clients and are positioned to respond with up-to-the-minute analysis and solutions.

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loss. A builder's risk policy can also include coverage for materials and supplies in transit or stored offsite (by yourself or your contractors) while awaiting installation.

Your personal insurance broker can help you determine if a commercial builder's risk policy is appropriate for your project. If so, they can coordinate the proper coverage with insurance carriers specializing in this type of coverage.

## CONSTRUCTION CONTRACT

For any new construction or renovation project, you should have a written contract with the contractor that explicitly states the work to be performed, start and end dates, payment agreements, and warranty information. It should include a hold harmless clause in your favor, specifying that the contractor will indemnify you for your liability to people who are injured or whose property is damaged during the course of the contractor's work. It should not include a waiver of subrogation in favor of the contractor, and we recommend that you not sign any contract that does.

Your contract may include insurance requirements for yourself and your contractor. If so, review the requirements to determine which party, if any, is contractually required to provide builder's risk insurance. Additionally, the contract should address:

1. Who is to be included as a named insured.
2. The perils to be insured against.
3. Which party is responsible for the deductible payment.

Please note that this is general advice and should not be construed as legal advice. We consider it a vital aspect of our role as your insurance broker, but we are not practicing attorneys. We recommend that you have your attorney review any contract if you have questions or concerns before signing.

## ADDITIONAL INSURANCE CONCERNS

Ask your contractor to name you as an additional insured on their general liability policy and provide you with a certificate of insurance.

With any project, discussing insurance early in your planning is crucial. Once a project has started, securing coverage on your behalf becomes more difficult. Your personal insurance broker will need advance notice to alert carriers and obtain consent before a renovation project starts. If builder's risk coverage is needed, additional information will be required to obtain quotes, which will take an average of ten business days. For extensive projects and new construction, you will want to include the cost of insurance in your project budget.

Regardless of the scope, your personal insurance broker can help ensure that your insurance coverage keeps pace with your home's value from the beginning of your project through completion. If you are planning a project, reach out to your broker to get started.