

PROTECTING YOUR HOME DURING BUILDING WORK:

THE RENOVATION INSURANCE GUIDE



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Introduction

Investing in a home renovation, such as an extension, loft conversion or basement development can add considerable value to your property and enhance your lifestyle.

But with so many important factors to consider; including selecting an architect, planning applications, hiring contractors, and sourcing materials, for what is generally a once in a lifetime project, it's often easy to overlook finer details - like sourcing the right level of insurance.

It's important that you are aware that specialist insurance is available and how critical it is in protecting you, as it's you, the Employer, who ultimately stands to suffer the most if an insurance arrangement does not fully protect your assets, liabilities and potential financial exposures.

Therefore, for complete peace of mind, it's natural that the Employer should take control of insurance arrangements rather than contractors and typically through a specialist Renovation or Project Insurance policy.

The Guide

This guide is designed to help homeowners understand and overcome some of the obstacles associated with selecting the right level of insurance for your renovation project. We'll also highlight the factors considered by insurance companies, so you'll be armed with the right information to seek out the most comprehensive cover.

This Guide doesn't cover insurance matters relating to Self Build or New Build projects.

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Common Insurance Misconceptions

Doesn't my existing home insurance policy cover our renovation?

Your standard household policy may cover the existing structure of your home while these works are being undertaken but may not cover any damage incurred during the works.

Many home insurers don't like insuring a property whilst undergoing building works, irrespective of whether the home remains occupied or becomes unoccupied prior to or during the works.

A standard home insurance policy is based on the homeowner living permanently at the property, with the usual exceptions of holidays. So, if your property is due to undergo building works, which is considered more than general DIY, irrespective of whether the home remains occupied during the works or not, you must advise your home insurers.

The attitude to renovations differ between insurers but generally if it involves structural works or the cost of the work exceeds around £25,000 – even if you remain living in the home during the works, you may experience problems.

You should always speak to your insurer before works commence and explain what work you will be carrying out and the costs and timescales involved.

Your home insurers will either:

- Continue policy with no changes to premium, cover, terms or conditions
- Continue policy with increased premium only – to reflect the increased risks
- Continue policy with increased premium and reduced cover and/or changes to policy terms and conditions, or
- Refuse to continue cover altogether and cancel your policy

If they agree to continue cover, you should get something in writing from the insurer with all dates and details, to confirm this but the cover provided under your home insurance will generally be covering the existing structure only.

They won't cover the value of the new works, including fixtures, fittings and materials nor any liability for third-party injury or third-party property damage arising from the works.

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Doesn't My Contractors' Insurance Policy Cover Our Renovation?

Homeowners sometimes assume that their contractor's insurance will automatically cover their existing property in the event of an incident; however, this is a common misconception, which can have costly implications.

You should also check that the contractor you have appointed has sufficient and adequate public liability, employers' liability and contract works insurance to cover the works that he or she is undertaking prior to commencing the project.

The greater the cost of the work involved, the more arduous it becomes to source adequate and effective insurance protection.

Homeowner (Employer) Responsibilities

It's normally the responsibility of the homeowner to provide buildings insurance to cover the existing structure and contents. It's also your responsibility to ensure your contractor has sufficient insurance and that there are no clauses within their insurance contract which limits their liability in the event of damage or injury and that the sums insured and limits of indemnity provided by their policies are adequate for your project.

In addition, it is always advisable to insist that your contractor provides you with a copy of their current insurance policies. If their policies renew during your project, then it is advisable to obtain further evidence that the policies have been renewed and that the level of cover remains adequate because at the end of the day, you are relying on the contractors' insurance policy to operate when it needs to. We'll explain later on why this is not a comfortable position to be in.

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Contractor Responsibilities

Usually your contractor will be responsible for insuring any pending work (works in progress) and site materials at the property. Your contractor should also have insurance to cover their employees and damages to third parties caused by their negligence. It is important to ensure any contractor hired throughout the project has adequate insurance to cover their work. If the work is damaged while in progress the contractor will be liable for all rectification costs, subject to negligence being proven.

Check your contractor is licensed to perform the work and has the following insurance in place:

- Employers Liability insurance
- Public Liability insurance
- Work in progress insurance (Contract Works)
- Insurance to cover damages or theft to building materials, including unfixed items such as kitchen units, bathroom accessories, etc. (Contractors All Risks)



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The Implications Of Inadequate Insurance

It's a sad fact that insufficient or invalid insurance often only comes to light when it's too late and a claim incident isn't covered. Failure to source the correct level of insurance prior to commencing work could leave you without cover for your existing property and could also make you liable for costs in the event of damage to neighbouring property or personal injury to third parties.

Most homeowners are lead to believe their contractors Insurance protects everything but this is simply not the case. The contractor's Insurance policy may cover all aspects of the works but rarely covers damage to the existing structure.

The contractors' Public Liability insurance policy does offer 'negligent act' cover to the existing structure but you would be relying on the contractors' insurers to pay, which is an uncomfortable position to be in and have to prove the contractor was negligent, which can be very difficult to do!

This may leave you with a damaged property and no insurance to restore it. There's also very likely to be warranties/terms applied to the contractors' policy, which if they breach, may invalidate a claim, plus there's the added risks of the contractor failing to maintain their insurance policy, or going bust/stop trading, etc.

Therefore, you may not wish to rely on the contractors' insurance to respond in the event of a claim, especially when large sums are involved.

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Support & Advice

At Magnet Insurance, we have access to a number of insurance providers who have specialist insurance products for the home renovation sector. We shop around to find the most appropriate insurance solutions for renovations and redevelopments of any size, at competitive prices. Our solutions are tailored around the unique requirements of your project, to provide you with the right cover and level of protection. Seeking advice from a home renovation insurance expert, such as Magnet Insurance, can simplify the process and help you make informed choices.



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Types Of Renovations Which May Require Specialist Insurance

Common developments which may require specialist Renovation insurance include:

- Single and double storey extensions
- Loft conversions
- Digging out a basement or cellar
- Moving internal walls
- Replacing the roof

For these types of projects, sourcing the right level of insurance to protect your home and your investment is essential. Your architectural designer should inform you about building insurance compliance, including your responsibilities and those of the contractors and whether a JCT contract is required. We'll explain later about JCT contracts.

Basement Dig Outs

Renovation projects involving subterranean works are a great way to create additional living space and the rewards for undertaking Basement conversions are substantial. According to the ASUC (Association of Specialist Underpinning Contractors), basement conversions could increase London property value by almost 50%. Consequently, digging down presents a tantalising opportunity.

As most basement dig-outs take place in older terraced properties, as the option to expand upwards or outwards are not available, it means there will be implications for your current and future neighbours if you excavate under your property and under the walls of yours and their homes or within close proximity of a neighbours' walls. The Party Wall Act 1996 will apply in these circumstances. (See Party Wall Act section for further details).

These works are complex and carry with them the possibility that under-pinning, piling or other ground stability works will be required to make your newly planned space a reality. It's therefore important to make sure that the contractors you engage have the proper Liability Insurance in place for this type of work, and that the structural engineer you have appointed is competent to calculate the technical and physical aspects of the contract. Liability limits of £2m, £5m or £10m should be assessed in light of the potential worst-case loss or damage that could occur to your own and your neighbour's properties, e.g. if there was a major collapse of the building/s.

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What Is The Party Wall Act 1996?

The Party Wall Act was introduced to prevent building work undertaken by one neighbour undermining the structural integrity of shared walls or neighbouring properties; it also serves to avert and resolve potential neighbourly disputes which might arise. The Act came into force on 1st July 1997 in England and Wales, with Scotland and Northern Ireland exempt. Although it is not part of their remit, a Building Control officer may offer some advice.

Under the terms of the Act, your neighbour has a right to be compensated for any loss or damage caused by your relevant works. So, should you cause damage to the neighbouring property inadvertently, the contractors' Public Liability insurance does not provide protection as it is a foreseeable loss and sometimes a specific exclusion. However, cover for your contractual liability can be arranged as an option on any project where you have evidence of a Party Wall agreement in place and we cover this later in the Guide.



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Will It Affect My Plans To Renovate?

If you live in a semi, terrace, flat, or your detached home is sited within close proximity to neighbouring houses, it might. The key things to remember are which walls constitute as 'party walls' and the type of work subject to the Act. Floors and ceilings between flats, shared boundary walls, such as those between semis and terraced homes, and any other walls which touch the boundary are covered.

Carrying out superficial tasks such as fitting shelves, replastering, wallpapering and electrical rewiring are not included, but more extensive work – the type typically undertaken by renovators and extenders – is. Converting a loft which includes cutting into boundary walls to support new beams, underpinning, inserting a damp-proof course, increasing the thickness, or demolishing and rebuilding a party wall, as well as extending above a storey which lies on the boundary, are all such tasks.

Building a new wall for an extension, for example, up to or on the boundary, is also included, in addition to excavation work for new foundations. You'll need to assure your neighbour of the safeguards in place to protect their foundations. If you plan to undertake any work covered by the Act, then you'll also have to give 'Notice' of the commencement of work to your neighbour.

For further information you should seek advice from a professional or copy and paste the following link:

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/523010/Party_Wall_etc__Act_1996_-_Explanatory_Booklet.pdf

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What Is Party Wall Insurance And Why Is It Important?

Party Wall insurance (also known as Non-Negligent insurance) comes into play when negligence, usually against your contractor cannot be clearly established.

A good example of this situation is where the structural works have been undertaken to the property involved in the contract but subsequently give rise to structural difficulties between that and the neighbouring property. These difficulties typically exhibit themselves over the first 3 -6 months following the work. They could be a result of a number of different things, including but not limited to the following:

- unsatisfactory work carried out by the contractor
- inaccurate calculations on behalf of the structural engineers
- changes in ground conditions caused directly or indirectly by the works
- unexplained changes to the loading and structural integrity of the building

Party wall insurance comes into play when negligence, usually against your contractor cannot be clearly established.

In certain situations, party wall claims can run to many hundreds of thousands of pounds without clearly being attributable to any single event, so it's important that when assessing the indemnity limit for your party wall insurance you consider the value of the property around you and the expectations of the occupants therein.

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What Is Party Wall Insurance And Why Is It Important?

Case Study One

A contractor was undertaking demolition and refurbishment works at three 18th century properties. Two of these were to be demolished and rebuilt while the third was to be underpinned and refurbished. A JCT 6.5.1 policy was issued in the name of both the Employer and Contractor.

In the property being refurbished, plaster was removed from a section of brickwork and shortly after this a section of brickwork actually fell out of the chimney. Cracks developed and after two weeks, damage was at such a level that a Dangerous Structure notice was served, resulting in a requirement for demolition of the property.

The advice of expert engineers was sought, and the opinion was that collapse was inevitable, although this could not have been reasonably foreseen. Therefore, indemnity was provided under the JCT 6.5.1 policy.

The total claim payment was £993,903 including £7,402 expenses. The damages included £500,000 for demolition work and £393,000 building work.

The premium paid to the Insurer for the JCT 6.5.1 cover was £5,500.

Case Study Two

A contractor was carrying out the conversion of a 100-year-old shop and flats into a doctor's surgery. The works involved removal of the existing roof from both buildings, demolition of internal walls and floors and construction of a new wall. (There was also some underpinning.) The first sign of damage was cracking in the bathroom of a neighbouring property sharing a party wall.

An engineer's inspection concluded that vibration/ foundation adjustment from the underpinning work was responsible for the cracking. Generally the re-adjustment of foundations after underpinning does not result in significant cracking to buildings. However, the conclusion was that damage occurred as a result of the underpinning and vibration by the works.

The claim was settled for £275,000.

The premium paid to the Insurer for JCT 6.5.1 cover was £3,500.

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JCT Contracts Explained

Some projects, particularly those involving an architect, surveyor or project manager, will have a formal contract which lays out the terms, conditions and responsibilities of the parties involved.

The Joint Contracts Tribunal (JCT) produces a range of contracts for use in the construction industry to help protect against disputes arising between employers and contractors. When you commission a build, you become classed as an employer to the contractor. As a homeowner (and employer), you'll want to know the work is protected before you hand over significant sums of money.

Protecting Your Property Development

A JCT contract provides a framework for agreeing standards and responsibilities associated with your renovation project including: insurance cover, deadlines, delays, negligence and disputes. By covering all potential friction points, all parties involved understand where liability and obligation lies in the event of an issue.

The JCT Minor Works Building Contract (Minor Works) is designed for smaller, basic construction projects where the work is of a simple nature.

As choosing the right JCT contract is a complicated subject, we recommend seeking advice from your architect, project manager or a construction lawyer. There are four significant JCT contract clauses that impact insurance for renovating existing structures, clauses 5.4B, 5.4C, 6.7C & 6.5.1.

It is critical to use the right insurance clause within the JCT contract to make your insurance really work for you. This section can be used as guidance for you and your professionals in making the right choice.

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JCT Contracts Explained

Clause JCT 5.4B Minor Works

For smaller or simple works on existing structures up to about £250,000

Under clause 5.4B rather than the contractor insuring the Works, the employer arranges composite cover for the Works and for the existing structures, in a joint names policy with the contractor. However, the insurance cover in respect of existing structures is not on an all-risks basis (like the Works insurance) but only applies to loss or damage due to a 'Specified Peril', for example, fire.

This means that should a claim arise, the insurer cannot subrogate against the contractor or the contractors' insurers. Subrogation is a legal right reserved for insurance providers to pursue a third party responsible for an insurance loss.

The advantage of this clause is that there can be no dispute between the employer (you) and the contractors Insurers over who is liable to pay in the event of a property damage claim.

Clause JCT 5.4C Minor Works

For smaller or simple works on existing structures up to about £250,000

JCT 5.4C applies when the employer is required to take out an insurance policy for the existing structure only. This means the contractor must have their own insurance covering the works in progress, site materials and of course third party legal liability. The disadvantage of this clause, is that disputes can arise between you (the employer) and contractors' insurers over a property damage claim.

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JCT Contracts Explained

Clause JCT 6.7C Intermediate Works

For medium-sized, more complex projects on existing structures between £100,000 and £1,000,000

Similar to Clause 5.4B but for larger works, in that the employer shall take out and maintain a joint names policy in respect of the existing structures and works.

Clause JCT 6.5.1 Non-Negligent Liability

JCT 6.5.1 clause requires you to buy insurance to protect a neighbouring property if damaged by certain causes, whilst the works are being undertaken (or shortly after) and no one was at fault.

The Party Wall Act (1996) states that property owners (you) are legally liable for any third-party damage caused which does not result from Contractor negligence. For this reason, many property owners opt for their own Non-negligence policy rather than leaving the contractor to take out the policy.

Non-Negligence insurance protects you against legal liability claims and losses arising from non-negligent injury as well as damage to your neighbour's property due to:

- Collapse
- Subsidence
- Heave
- Vibration
- Weakening or Removal of support
- Lowering of groundwater

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JCT Contracts Explained

Does responsibility lie fully with the contractor?

JCT Clause 6.5.1 places a requirement on the contractor to organise joint non-negligent insurance for themselves and you, their client.

However, a 1958 legal precedent set by the Gold versus Fotheringham case, established that an employer who hires a contractor has a responsibility to pay compensation for any damage inflicted on third parties, even where such damage did not occur as a result of negligence.

Some contractors do not fully understand the implications of Clause 6.5.1. When damage occurs, they believe their existing public liability insurance policy will provide cover. If the damage is their fault this will be the case but when negligence cannot be proven, the contractor has no liability. As a result, some contractors leave their clients exposed and themselves potentially in breach of contract through failing to fully understand the terms of their policy.



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Support & Advice

Magnet Insurance have the necessary expertise in arranging suitable insurance stipulated in the JCT contract and by opting for the appropriate clauses in your JCT contract, you can benefit from:

Control

- retaining control of the insurance for one of your largest assets
- claims payments going directly to you (the employer)
- a single basis of cover and terms for both the works and the existing structure, 'all risks'
- having only one insurer to deal with, should a claim occur.

Peace of mind

- knowing that the insurance is active and that their premium has been paid
- knowing the sums insured are adequate for both the works and existing structure
- protection from contractors breaching the terms of their policy.
- subsidence cover
- alternative accommodation costs should a claim occur that leaves the property uninhabitable

These benefits are important and significant but the main reasons are:

- control of the policy in terms of cost, timing and application
- direct payment of claims settlements, where the relationship with the contractor post-loss may be strained
- claims are still eligible even if the joint insured, i.e. the contractor has breached a policy condition without your knowledge and entirely beyond your control.

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Increased Property Damage Risks Associated With Renovations

The following risks to your property increase from renovation work:

- **Fire** – Construction sites often involve electrical wiring, hot works, welding and the use of tools like blow torches and heat guns around highly combustible building materials.
- **Exposure to Storm Damage** – Building work can leave your home exposed to the elements, making it more vulnerable to rain water, frost and wind damage.
- **Subsidence** – Ground works and changes to the structural integrity of the property can increase the risk of subsidence and collapse.
- **Accidental damage** – Building sites involve heavy equipment, power tools and large numbers of people working in close proximity. This combination increases the risk of structural damage, or damage to building materials caused by human error. Knocking through walls without proper support can also increase the risk of collapse
- **Theft** - Building sites are accessed by teams of subcontractors such as builders, decorators, plumbers and tilers. This can make it difficult to recognise exactly who should and who shouldn't be on-site. Building materials and home contents are targets for opportunistic thieves. Scaffolding erected around the building can make it easier to gain access to upper floors, while contractors accessing the site with spare keys also increase the security risk.
- **Vandalism** – Unoccupied homes and building sites are at risk of vandalism.
- **Accidental damage** – Building materials carried through your home can create a multitude of damage scenarios including breakages, dented woodwork, scratched furniture and damaged flooring. Incorrect use of tools, or concrete and paint spillages can wreak havoc in your home. Damage caused by carelessness is a common occurrence, so it's important to find out whether your home insurer can provide cover.

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Increased Liability Exposures Associated With Renovations

This concerns the liability of the homeowner to others to compensate them for bodily injury or damage to their property whilst the works are ongoing.

A homeowner may think that if a contractor he hires injures a visitor, the contractors' insurance will pay. This belief has some merit but a visitor will see the homeowner as the creator of the risk, even if someone is working on his behalf.

There are also other concerns that come with relying on another party's insurance to provide adequate cover. For instance, the homeowner should ensure that the contractors' insurance is adequate, is in force, valid (and renewed when due) and that they are not committing acts that are in breach of their policy conditions.

Your project site is a dangerous place and you need to be aware of the liabilities you have to your visitors, contractors and employees. The last thing you need is to be exposed to a law suit. Even though you may not be running the site, as an owner you still have certain responsibilities.

Accidents and injuries – Injuries could arise from numerous hazards associated with building sites including:

- Trips caused by impeded access, building materials, wiring and cables
- Falling into holes created by groundworks
- Electric shocks from electrical works, faulty equipment or use of unprotected electrical equipment in wet conditions
- Impact injury from falling building materials and debris

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Increased Liability Exposures Associated With Renovations

Damage to neighbouring properties – Common disputes with neighbours include loss of electricity, water leaks, damaged walls, subsidence, damaged pipework or damage to boundaries and gardens. Find out from your architect whether you will require Party Wall insurance for your renovation project.

It is always vital to establish the level of cover provided by your contractor to cover public liabilities.

If you utilise labour only sub-contractors, you will almost certainly need Employers Liability Insurance, which is compulsory in the UK. A tradesperson is usually defined as labour only if they don't carry their own insurance, they work on a day or hourly rate, they don't provide their own materials and they use simple tools. It's most likely that a labour only sub-contractor will be acting directly under yours or your project managers direction. Consequently, in the eyes of the law, a master/servant relationship exists and the Employers Liability act applies.



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Why Only Specialist Insurance Will Provide The Right Protection

Tailored cover for Renovation Projects

If your existing home insurance offers a reduced cover package, you could accept the terms, while understanding the associated risks, or you could protect your investment with specialist home renovations insurance that provides full cover in one cohesive package.

Talking to an insurance specialist, like Magnet Insurance, will help you to select one insurance policy that covers the existing structure and the building works and will allow you to take full control over your insurance and provide peace of mind that you'll be protected from any losses in the event of a claim.

A Homeowner's Renovation policy is very simple, it covers the home and the works against a range of perils. Any warranties applied, are clearly stated to ensure a homeowner fully understands the insurance policy. This puts the homeowner in control and enables them to communicate any conditions that must be complied with to the contractor. The products are very flexible and can easily cater for all circumstances including the client continuing to live at the property or even unoccupied throughout the works.

One common issue when arranging Renovation insurance is the contract overrunning and therefore keeping your broker up to date is very important. A Renovation insurance policy can easily be extended for an additional premium.

One insurer means that in the event of a claim there is absolute certainty and control. The renovator can benefit from "all risks" cover. In the event of damage caused by the contractor, you are immediately compensated and your project is not delayed.

At the high end of the market, contractor insolvency is an unfortunate reality. Having your own Property Renovation Insurance means claims can be recovered in the event that a contractor goes bust.

There are a multitude of online comparison sites offering insurance services, however comparison portals cannot provide specialist insurance and will not cater for the highly specific nature of your insurance requirements.

If you have a JCT contract or dealing with a heritage or period property you will need expert advice from an insurance specialist who can provide a custom quotation tailored to your type of renovation work and risk profile.

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Why Only Specialist Insurance Will Provide The Right Protection

Information You Will Need To Provide Us

We will need to evaluate a series of risk factors to make an assessment on the level of cover we can offer. You will need to be prepared to provide information covering the following points:

- **Structural changes to the existing building** - Explain how the nature and scope of the renovation will affect the existing building.
- **Redevelopment costs** – Provide the total projected cost for the build.
- **Duration of the build** – Provide start dates and realistic completion dates, as agreed with your contractors.
- **Occupancy** – For safety and convenience, you may choose alternative accommodation while the work is in progress. It is important to let us know if your home will be unoccupied for an extended period; which usually constitutes more than 30 consecutive days.
- **Who will be conducting the work?** – You will need to confirm whether professional contractors will perform the work, or whether you will be undertaking the project personally. This will determine the types of insurance cover you will need to source. If you hire a contractor to perform the work but are sourcing and purchasing the materials independently you will need to arrange insurance covering the building materials.
- **Contract** – State whether you have a formal contract agreement with a contractor and what, if any, Insurance clause applies.
- **Liability Insurance** – Confirm whether your contractor has liability insurance.
- **Will you need legal expenses cover?** - For high value projects, we recommend seeking legal expenses cover. This will provide you with legal support in the event of supply issues, poor workmanship, or disputes arising from changes to the buildings specifications.

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Cover Levels After Building Work Is Finished

Don't forget to provide your insurance broker with a new re-building cost valuation for your home after the renovation has been completed. The new valuation will need to take account for the cost to rebuild your home from scratch, as well as non-structural value added by elements such as a new bathroom or kitchen.

Arranging Cover

We hope you have found this guide useful. Please get in touch with us if you have any questions regarding renovation insurance, including JCT compliant insurance.

We specialise in all of these areas and would be delighted to provide you with a specialist quotation or arrange cover for you.

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About Magnet Insurance

Magnet Insurance are independent insurance brokers based in the East Midlands. We provide impartial, expert, insurance advice to clients and we will be able to guide you towards making informed decisions about insuring your vision.

The relationships we have developed with underwriters, enables us to offer tailored, cost effective, specialist insurance packages to meet the needs of your home renovation. Magnet Insurance are members of BIBA (British Insurance Brokers Association) and authorised and regulated by the Financial Conduct Authority.

How To Get In Contact

Thank you for downloading this eBook. For a free quote and to find out more about our services, please get in touch by any of the following means.

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Normal office hours: 9am - 6:00pm Monday to Friday, 9am to 1pm Saturday.

We are closed on bank holidays and from 1pm on Christmas Eve.

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