

It is vital for financiers to ensure all insurances related to the construction site and the contractor are current and accurate. Should something happen on site that causes the project to cease progress altogether, the consequence of not having accurate and up to date insurances may result in the financier being exposed to the financial risk of providing further funding over and beyond the insurance claim to complete works.

There are a number of insurances that relate to the construction site and the contractor.

Contract Works – Construction works contracts often contain complicated indemnity conditions and require that the contractor take out liability and property damage insurance, not only for their company but also for their contractors and subcontractors.

This insurance provides protection against loss or damage to the works components for a broad range of occurrences such as fire, theft, malicious damage and storm damage. However, it is important to be aware that only the new construction works are covered by this policy.

Accordingly, a principal contractor will usually take out a policy that covers the whole of the works forming part of the contract. The policy covers loss or damage to the contract works including items to be included in the works, while on the construction site or in transit to the site. The policy also covers legal liability to pay compensation if a third party injures themselves or if property is damaged because of an occurrence in connection with the contract works.

Public Liability – Public liability insurance protects against the financial risk of being found liable to a third party for death or injury, loss or damage of property or economic loss resulting from negligence. In a practical sense, if a person were to walk onto a construction site and injure themselves, public liability insurance would protect the parties involved in that project from the potential litigation risk that could result from that injury.

Workers Compensation – Workers compensation insurance is required by all contractors to financially protect any of their workers should injury occur. While this event bears little risk on the financier involved in the project, BMT & ASSOC still monitor the currency of these insurances as they may impact on the contractor, having a negative impact on the project.

Home Owner's Warranty (HOW) - HOW insurance provides the property owner with protection arising from warranty related losses and non completion of the building contract. The insurer is providing a financial guarantee to the home owner, that the contractor will not only be able to complete the work but also be available to remedy any defects should they occur. HOW insurance provides protection to the consumer against structural defects for a period of 6 years and non-structural defects for 2 years in the event of a builder being unable to complete or rectify their work by reason of death, disappearance or insolvency.

As HOW insurance is critical to the ongoing construction and eventual sale of residential projects, BMT & ASSOC check and ensure that these insurances are valid and in place prior to a project's commencement.

Noting Interested Parties on Insurance Certificates

An important point to consider on all construction insurances is the interested parties to the insurance cover. It is advantageous for a financier to have themselves listed as an interested party and BMT & ASSOC recommend noting the financier as an interested party. BMT & ASSOC review all the previously discussed insurances as part of our reporting to financiers and ensure that both the financier and the developer's interests are noted in the policy, and that the policy remains current for the duration of the project to ensure that their interests in the project are insured at all times.

An Example

Recently, BMT & ASSOC were involved in a project whereby the contractor was commissioned to commence construction works on site. He completed approximately \$200,000 of work on site, with approximately \$400,000 left to complete. He had been paid the full contract amount so he could complete the construction. After completing only \$200,000 worth of construction work, the contractor disappeared with the remaining money, and still cannot be located. As the developer had HOW insurance, the insurance company paid out their claim so they were able to hire another contractor and complete the project. This highlights the importance of taking out construction insurance.

Should you have any queries about insurances or any other matter, please don't hesitate to contact Pedro, Tom, Brad or Brendan at the office.



Recently Completed Projects

Location: Newcastle, NSW

Project type: 9 residential units
Approx. Construction Cost Per Square Metre: \$1,700/m²



Location: South Victoria

Project type: 4 residential units
Approx. Construction Cost Per Square Metre: \$1,100/m²

Location: Sunshine Coast, QLD

Project type: 34 lot residential subdivision
Approx. Construction Cost Per Lot: \$73,800/lot



Location: North Sydney, NSW

Project type: 12 residential units and commercial space
Approx. Construction Cost Per Square Metre: \$985/m²



Location: North West Sydney, NSW

Project type: 2 level residential dwelling
Approx. Construction Cost Per Square Metre: \$1,700/m²



Location: Sydney, NSW

Project type: Mixed use development – 9 units
Approx. Construction Cost Per Square Metre: \$1,500/m²

Location: South East QLD

Project type: 155 residential units, retail and commercial space
Approx. Construction Cost Per Square Metre: \$1,200/m²

Location: Central NSW

Project type: Retail warehouse
Approx. Construction Cost Per Square Metre: \$1,150/m²



Location: North Sydney, NSW

Project type: Commercial development
Approx. Construction Cost Per Square Metre: \$1,900/m²

Location: Melbourne, VIC

Project type: 45 residential units, 3 retail and 3 commercial units
Approx. Construction Cost Per Square Metre: \$1,650/m²

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