



## Insuring residences during construction or renovation

*Gulfshore Insurance - Private Risk Services is a boutique team of insurance professionals who serve the personal risk management needs of affluent and high-net-worth clients. Our team commonly helps clients navigate the various challenges associated with insuring residences that are about to go through major renovations or be built from the ground up. These challenges are often magnified when the property is located in a coastal community, which generates additional underwriting concerns due to hurricane exposure.*

Insurance for construction projects is usually dictated by the terms of the unique contract between the residence owner and the contractor. Whether it's a renovation project or a new structure, it is increasingly common for these contracts to assign the responsibility of carrying property insurance to the owner.

There are two common ways to insure a residence under construction or major renovation: Homeowners Insurance and Builder's Risk Policies. Each is based on specific criteria, and we strongly encourage owners to consult with an independent insurance agent who can determine the policy options that best manage potential risks.

### *Homeowners Insurance*

Insuring these projects under a Homeowners policy is often the preferred approach to managing the risks because it affords both property and liability coverage to the owner. It is critical for owners to maintain sufficient liability protection during the entire span of any construction and renovation project. In most cases, contractors can be added as an "Additional Interest" to the policy, protecting their financial interests throughout the project while excluding them from liability coverage. However, a contractor should always maintain commercial liability and worker's compensation insurance.

These projects are viewed as “high hazard” due the increased chance for property and liability losses, stemming from the diverse level of activity on the property, as well as lack of security at the site. Some homeowner’s insurers decline to provide coverage until the project is completed.

The first consideration when our team reviews a homeowner’s policy is to closely research its wording. Some policies offer very broad coverage and, in that case, would be considered the preferred choice for insuring the construction project. Others do not provide the scope of coverage needed and would be considered an inappropriate solution to managing risks. For example, some policies exclude or limit coverage if the insurer is not previously notified of the owner’s renovation or construction project.

### *Builder’s Risk Insurance*

Builder’s Risk Policies only provide property coverage (all liability is excluded) and can be written with the contractor or the owner as the Named Insured and the other party can be added as an Additional Insured. Owners need to ensure the construction site address is added to a homeowners policy, extending personal liability during the period of construction. Again, contractors will maintain their own separate commercial liability and worker’s compensation coverage.

The insurance companies that provide Builder’s Risk policies design their underwriting process and scope of coverage specifically for construction projects. They are able to determine the unique characteristics of each risk and customize their policies accordingly. This ultimately leads to greater market availability for owners.

Because they can be customized, Builder’s Risk policies benefit both the property owners and the contractors. For example, the policy term can be tailored for the projected timeline of the project (i.e., 3 months, 12 months, etc.). The policies also often provide a total property limit for the premise. As well, they can insure property that is stored off-site or in transit. Builder’s Risk policies can be further amended to cover or exclude specific perils such as flood or hurricane/windstorm.

*For additional information,  
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### *Conclusion*

New construction and major renovation projects create unique insurance challenges, and property owners need to understand the obligations and responsibilities they assume when contracting with their preferred builders or contractors. It’s best to consult with an experienced independent insurance agent to assess the scope of a construction project and determine which policy is best suited to protect the owner’s interests.

The owner and insurance agent can use this opportunity to establish a long-term insurance plan for the residence. During the construction period, safety and security features can be addressed that can make the property a better insurance risk, potentially leading to meaningful premium discounts. This collaborative process will ensure a residence is properly insured during the project and after its completion.