

CONSTRUCTION INSURANCE KNOW-HOW

06 OWNER-BUILDER POLICY

INTRODUCTION

Each year in Australia over 30,000 people apply for an Owner-Builder permit. Because of this SURA offers a special type of single project construction insurance known as Owner-Builder. It's special because of the unique status of an Owner-Builder.

In NSW, for example, the definition for Owner-Builder work is any work (including supervision and coordination) involved in the construction of, alterations, repairs or additions to, a dwelling

- where the reasonable market cost (including labour and materials) exceeds \$10,000, and
- which relates to a single dwelling-house, dual occupancy* or a secondary dwelling that:
 - requires development consent under Part 4 of the *Environmental Planning and Assessment Act 1979*, or
 - is a complying development within the meaning of that Act.

It is interesting to note that a person does not need to have any building qualifications, nor do they need any building experience at all to obtain an Owner-Builder permit. While the steps involved to get an Owner-Builder permit vary between states, in NSW the department of Fair Trading is responsible for administering the process and applicants are required to obtain a general construction induction training card (a "White card") and meet the Owner-Builder approved education requirement which requires completion of a 40 to 60 hour course through an approved provider.

[This edition of "Know-How" helps explain the extent of coverage under the SURA policy, how it works in practice and how SURA's innovative approach can help you, our broker, and our mutual clients.](#)

A TYPICAL SCENARIO

Your favourite builder, Joe Bloggs of Joe Bloggs Building Company (JBBC) has been approached by a friend, Abdul, to build his house. Unfortunately for Abdul, Joe is booked solid for the next 18 months.

As an alternative Joe suggests to Abdul he could build his own house under an Owner-Builder permit. Since Abdul is an accountant by profession, he is a bit concerned that he doesn't know anything about building until Joe assures him he can do it and offers to help out with advice as well as help in sourcing reliable tradesman when Abdul needs them. Joe also thinks Abdul can save at least 10% of the building cost as an Owner-Builder project and that's all Abdul needs to hear to convince him that an Owner-Builder project is the way to go!

Joe recommends to Abdul that he should contact you to arrange the appropriate construction insurance.

TYPES OF COVER SURA PROVIDES

As there is normally no head contractor engaged then there is no agreed Contract Value for the project and the Owner-Builder needs to nominate a construction cost. For the purposes of insurance this amount must represent the cost to re-construct the damaged works using commercial pricing even though the actual cost might be less given that the Owner-Builder often uses their own labour or is able to obtain favourable pricing from tradesman who might be friends or family members.

The reason for this is that in the event of a claim, insurers will need to pay commercial rates for tradesman to carry out the repairs. It should be noted that in the event of a total loss average may be applied if the construction cost stated on the Policy Schedule is significantly different to the actual re-construction cost.

There is no defects liability period offered under an OB policy because the Owner-Builder is at liberty to accept work as complete at any time during the project.

HOW DOES SURA'S COVER WORK?

In nearly all respects the SURA OB policy operates the same way as the Single Project policy (see [KNOW-HOW 05 – Single Project Policy](#)).

The key differences are

- the Construction Cost includes the value of principal supplied materials,
- The premium charged is a flat premium and so is not subject to adjustment, and
- Any extension of the Period of Insurance is subject to acceptance by SURA.

RISK MANAGEMENT TIPS

[What things could you do to better understand your client's needs?](#)

- It's best to obtain a completed Owner Builder application from the client prior to obtaining a firm quotation.
- From SURA's perspective an important consideration is the way in which the client will project manage the construction works. Good project management both assists to coordinate scheduling of all the various trades and to monitor the quality of the work.
- Having a good understanding of a realistic construction period is important as extending the project can be problematic and expensive.
- Help us understand how the project is to be financed as self-funded projects typically experience delays if cash flow becomes an issue.