

Building defects



When and what does your Construction Works Insurance pay for?

This situation can therefore lead to builders becoming dissatisfied with the amount of their insurance payment, when rectification of a defect formed part of a construction works insurance claim.

Whilst this is a complex subject, there is no escaping the harsh reality that construction works policies were never designed nor intended to pay for the rectification costs of defective works. Subsequently, these policies carry specific defects exclusions and the general nature of them is they exclude the cost to repair defective work when the defect has been caused by faulty workmanship, materials, design, plan or specification.

In practice, this means that coverage for the vast majority of, if not all, repairs to defective works are not insured.

Where differentials in insurance policies do start to occur however, is the extent of cover a policy may provide for resultant damage to other parts of the works, directly caused by a defect.

It is therefore very important for builders to be aware of how their insurance policy will respond in such circumstances, as the differences in insurance coverage can be quite substantial.

For example, some insurance policies carry a total exclusion not only for costs to correct a defect, but also the costs of all resultant damage caused by it to other works components.

Other policies provide limited defects cover whereby the defect is excluded, but resultant damage arising from faulty workmanship or materials is insured and resultant damage from faulty design, plan or specification is not insured.

Obviously, this all equates to a need for builders to fully understand exactly what sort of policy they have and what it will deliver for claims when defective works are involved.

There is no doubt that this aspect of construction works insurance has been widely misunderstood and the situation is certainly not helped by the many differences in policy coverage from insurer to insurer. As all builders are well aware, there is an almost endless array of possibilities which can eventuate on a job that can be impacted by a defect. The important thing is to make sure that if it happens, your insurance will deliver the best possible outcome.

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Sometimes builders look to their construction works insurance, with a false expectation it will pay for the full rectification costs of any defective building works.

