



Master Builders®
Queensland
Insurance Services

a division of Queensland Master Builders Association
AFS Licence 246834

Insurance fact sheet

Building defects – when and what does your construction insurance pay

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.

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.

But this situation does highlight a major advantage with Master Builders Insurance and the **Master Builder ProtectionPLUS™** policies.

Just like other policies the cost to correct the defective works portion is excluded, however resultant damage caused to other correctly executed works components is insured and this extended cover applies irrespective of whether the defect is attributable to faulty workmanship, materials, design, plan or specification.

To provide a more detailed explanation of what is paid by **Master Builder ProtectionPLUS™** policies in respect of defects and what is not, it is necessary to look at its specific defects exclusion clause which says;

Defects exclusion:

The cost of repairing replacing or rectifying damage to insured projects or any part thereof in which there is a fault defect error or omission in design plan specification materials or workmanship, **but the insurer will pay** the cost of damage resulting directly from such fault defect error or omission less the cost which would have been incurred in repairing replacing or rectifying the faulty design plan specification materials or workmanship had damage not occurred.



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What this clause is effectively saying is that the insurer will not pay for the amount it would have cost to repair the defect, had it been known prior to it causing other damage.

For example, during the construction phase of a 2 storey residential project, a faulty plumbing connection is installed in an upstairs shower recess (this defect could be due to faulty workmanship, materials, design, plan or specification), but the faulty connection does not fail during pressure testing. Some days or weeks afterwards and still during the construction, the faulty connection does fail and water leaks downstairs causing extensive damage to other parts of the works such as ceilings, linings, cupboards, flooring and skirting.

In this circumstance, the costs to repair the faulty plumbing including removal and replacement of any tiling, water proofing and shower screens would not be insured, but the resultant damage to the downstairs ceilings, linings, cupboards, flooring and skirting would be covered by insurance.

To provide a more succinct overview, the amount that is not insured is the amount it would have cost the builder to correct the faulty plumbing connection, had its existence been known immediately before it leaked and caused other (resultant) damage.

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.

Master Builders Insurance Services, through our **Master Builder ProtectionPLUS™** policy provides a wide range of insurance protection in respect of resultant damage arising from defects as well as comprehensive coverage for the numerous other circumstances that may cause damage to your jobs.

For further details in respect of this or any other insurance matter, just call Master Builders Insurance on toll free 1300 13 13 26 and we will be pleased to assist.

Note: Details of insurance coverage in this article are a summary only of policy coverage. We are pleased to provide full copies of policy documentation on request should you wish to review the complete terms of cover as these will apply in the event of any claims. Information contained herein is of a general nature and has not taken into account the particular insurance needs of any individual business or person.

Toll free phone: 1300 13 13 26

insurance@masterbuilders.asn.au

www.masterbuilders.asn.au

Master Builders Insurance Services Australian Financial Services Licence No 246834

Master Builders, 417 Wickham Terrace Brisbane Queensland 4000

Telephone 1300 13 13 26 Facsimile 1300 13 13 28 insurance@masterbuilders.asn.au www.masterbuilders.asn.au

A Division Of Queensland Master Builders Association Industrial Organisation of Employers ABN 96 641 989 386