

FREQUENTLY ASKED QUESTIONS

LATENT DEFECTS INSURANCE

Latent Defects Insurance

Arranged through SHC Insurance

--> WHAT IS LATENT DEFECTS INSURANCE AND WHERE DID IT COME FROM?

SHC, along with their Insurance partner, Ensurance Underwriting, have introduced the first Latent Defect Insurance (LDI) product into Australia. This product has been developed as a result of our experience in the UK and European Latent Defect Insurance markets where it is a commonly purchased for protection against Defects in completed construction projects.

LDI protects the owner(s) of a building where building works have occurred against loss arising out of building defects for a period of 10 years. Importantly, also covered and named as insureds under the Ensurance LDI policy can be any party with an insurable interest, including the builder, developers, Body Corporates and Strata Schemes.

The cover is secured through a one time, one off premium payment (no annual renewals or premiums) providing protection for 10 years!

Provides cover on commercial and residential building works, the cover is one of first instance, that is when an event occurs, the insured is free to make a claim. There is no waiting for various other events to occur before a claim can be made, alleviating delays and cost escalation not to mention reducing stress and loss of considerable legal and other costs enforcing the rights to have defective work fixed.

--> WHO CAN BUY LDI?

LDI can be purchased by a number of different stakeholders involved in the building work. From the Builder to the Owner, the Developer and the Body Corporate or Strata Scheme – Any party with an Insurable interest in the work can purchase LDI with SHC.

--> I AM A BUILDER, WHY DO I BUY LDI?

Generally, builders are required to arrange insurance for building work to be performed throughout Australia under various state regulations. The insurance products currently available have considerable restrictions imposed. LDI provides cover for first instance, that is for defects occurring after completion of building work when the claim event occurs – there is no waiting for a range of alternate factors to occur before a claim can be made.

Most importantly for builders, they are a named insured under the policy. This means no matter the event, the builder has the comfort that there is no recourse against the builder (i.e. no recovery from the builder for claims after completion).

--> WHEN DOES THE COVER START?

The cover provided by an LDI policy commences at completion of the work. Although the cover commences at completion, there are some underwriting requirements during construction that we will advise of at the time of application and purchase of cover. These requirements relate to standard construction progress inspections for example. In the main, these requirements will align with the standard building program on a project, it is also important cover is obtained as early as possible to best set the requirements and enable cover to be placed without it becoming an encumbrance on the building plan.

--> HOW LONG IS THE INSURANCE PERIOD?

LDI issued through Ensurance provides for 10 years cover from the deemed completion of the contractual obligations, usually inclusive of maintenance periods imposed under contract.

Register your interest

Don't be caught out ever again without purchasing this insurance from SHC Insurance Brokers – register your interest in Latent Defects Insurance by calling or emailing Brett Graves (*Director*) or Richard Durnell (*Executive*).

1300 550 665
customerservice@shcorp.com.au

Latent Defects Insurance

Arranged through SHC Insurance

FREQUENTLY ASKED QUESTIONS

--> WHAT'S THE MAXIMUM AMOUNT INSURED?

The LDI policy provides for a maximum amount of cover of \$10m.

While some projects may consist of larger construction values, the cover provided is to attend to rectification of defects post completion. Past-experience shows the likely occurrence of a total loss on a structure is rare, and that the limit provides a reasonable degree of protection. There may be the ability to increase this limit upon request.

Under an LDI policy, the amount of cover depends on the Construction Value. That is, if the value of works is less than \$10m, the amount of indemnity provided will be commensurate with the value of works.

--> ARE THERE ANY LIMITS ON THE TYPE OF WORK THAT CAN BE PERFORMED?

The Insurance LDI product is designed to provide cover to all commercial, residential or mixed supply (i.e. a mix of residential and commercial works in the same property) building projects. This product does not provide cover to industrial or civil construction projects at this time.

There is no limit on the size or specifics of the construction project other than being either commercial, residential or mixed supply. Therefore, previous restrictions on purchasing adequate defect insurance products at an economical rate for buildings greater than 3 storeys is now available in Australia, thanks to the LDI.

--> WHEN SHOULD YOU PURCHASE LDI?

The best time to apply and arrange LDI cover is at the start of work, before work actually commences. Cover can be arranged after commencement, premium loadings that will apply in those cases.

--> CAN YOU PURCHASE COVER IF YOU HAVE STARTED WORK?

Yes. While ideally, cover is arranged at the start of the building work, if work has started, LDI can still be purchased. There may be premium loadings where work has commenced and a building inspection will likely be required when cover is sought.

--> CAN A BODY CORPORATE OR STRATA BE COVERED?

Yes, definitely. A Body Corporate or Strata Scheme would generally be covered under an LDI policy. As a representative body of the owners of the property where works are performed, the Body Corporate or Strata Scheme will be included as insured under an LDI policy upon request.

--> WHEN CAN A CLAIM BE MADE?

Claims can be made during the period of insurance at the time that an insured event occurs.

Under the LDI program, the cover is issued as insurance of first instance, that is when an event occurs which might give rise to a claim, the insured can claim at that time. There is no waiting for other events to occur before a claim can be made.

--> WHAT EXCESS APPLIES?

Excesses are applied based on the construction type and the value of work. An excess is applied against each claim. The level of excess varies depending on the project size and complexity and insured entities should check the policy schedule.

--> WHAT'S THE PROCESS TO GET LDI THROUGH SHC?

Cover should be purchased at the commencement of works. While it can be purchased after commencement, there will be cost and performance requirements that would be additional to the management of the LDI policy in those cases.

1. The builder will complete the Entitlement application for acceptance to the program.
2. Seek a quote for cover
3. Make application for a specific building project and provide the simple building approval documentation with the application
4. An Interim Certificate is issued at application and premium is paid. The Interim Certificate sets out the requirements during construction related to performance of building work – this is referred to as the Compliance Program.
5. Manage the Compliance Program – Underwriters will advise compliance program requirements. Depending on the size and complexity of the project, this will be based on the performance to standard or required building inspections (i.e. those inspections that are already required during the building process – meaning there is no additional obligation on the builder during construction)
6. Complete the project – when the project is complete, advise of completion and provide the documents set in the Compliance Program and a Final Certificate is issued providing 10 years cover from that issue date subject to any policy terms in relation to waiting periods.

The purchase and management of LDI through SHC could not be simpler and provides stakeholders with a premier level of cover for building work. A one-off premium provides 10 years security over the cost of rectifying defects.

--> WHAT ABOUT BUILDERS DOING VOLUME PROJECTS?

The cover can be tailored to allow for builders with higher volumes of work. The builder can elect to seek cover on some or all of their projects at the start of the application process, the Compliance Program and policy issue can be streamlined to make it seamless for those builders to access cover for themselves and their clients.