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Remodeling Your House?

IT PAYS TO CALL YOUR INSURANCE AGENT FIRST

WITH THE ECONOMY ROARING and tax reform a done deal, people are once again in a spending mood. The real estate crash of 2008 is a distant memory (for some), and market demand for major remodeling projects (\$25,000 or more) is at a nine-year high, according to National Association of Home Builders data.

When planning a renovation project, an often-overlooked element is the insurance. Not only should you confirm that your contractor and all the subcontractors are insured, but you should also contact your home insurance agent to make sure they are aware of the project. Many home insurance contracts include provisions that will modify how the policy will respond to a claim if the insurance company was not made aware of renovations before the claim occurred.

For example, here is the contract language of a home insurance company that addresses renovation projects:

"In lieu of the base deductible, a 5% construction special deductible applies to each occurrence if at any time during the policy period ... you are constructing additions, alterations, or renovations to your house or

another permanent structure which will equal or exceed the lesser of 10% of the amount of coverage for the house at the time of the covered loss or \$500,000 and you or your agent did not notify us, and the covered loss commenced at such house or other permanent structure." (Emphasis added.)


Let's assume your home is insured for \$500,000 and your deductible—the amount you pay before coverage kicks in—is \$1,000. Your budget for renovations is \$100,000. One of the subcontractors brings in a space heater and forgets to unplug it after working in your basement. A nearby pile of shop towels catches fire overnight, causing severe damage to your home. If you did not tell the insurance company about the renovations, the deductible on this claim just increased from \$1,000 to \$25,000 (5% of \$500,000).

The reason insurance companies want to know about your renovations is the increased likelihood of a claim. Dozens of craftspeople—carpenters, plumbers, electricians, painters—will now have access to your home. All of them will possess varying degrees of skill, along with tools and solvents that can damage or destroy your home or injure people if used carelessly or improperly. And the odds of a

claim increase the closer a project gets to completion. Workers may be under time pressure from you or the general contractor to finish the project before a hard deadline, causing them to cut corners or become fatigued from long hours. The use of flammable solvents (paint thinner, varnish, sealants, etc.) also increases near the end of a project, increasing the risk of fire.

When you notify your agent of your project, he or she will need to know (1) the budget for your project, and (2) the estimated length of the project. Some insurance companies may also require proof of insurance from your contractor, and that the amount of insurance the contractor carries is greater than or equal to the replacement value of your home. If you have a loss during renovations, your insurance company will respond to the claim; however, they will seek to recover their expenses if the contractor was responsible for the loss.

Changes to your policy during renovation could include temporary premium increases, increased policy deductibles, additional property protection measures (fencing around the project, fire extinguishers on each floor, a fireproof cabinet to store flammables, etc.) contractual modifications, or any combination of the above.

Renovations might give you the kitchen or basement you have always dreamed of, but while they are ongoing, they can be a source of increased stress and expense. Make sure an insurance surprise doesn't make things worse by calling your agent before you start your project. 



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