

# insurance

## is your project properly insured?

**Y**our highly anticipated renovations are about to begin. With every detail carefully and thoughtfully addressed to ensure a smooth and problem free construction project, you feel at ease moving from the planning to the construction phase. Although there is much thought put into the planning and preparation stage, the effect the project has on insurance coverage is often overlooked. Who covers the proj-

ect while under construction? How can you be sure each contractor has the insurance he or she claims to have? How does the renovation affect your *Homeowners* coverage? Contacting your insurance agent before the project begins is critical to squaring away these issues.

If you are about to begin renovations, you should determine who bears the risk of loss during

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the renovations, and whether the contractor you hired is insured.

Either you or the contractor will be responsible for damage to the renovation or addition while under construction. If you are responsible for this risk, you can

insure it a couple of ways. The first place to check for coverage is with your home-owners insurance carrier. Depending on the project, many insurers will insure the portion of your home under construction with your current policy. If it is not covered by your Homeowners' policy, you can purchase a *Builders Risk* policy to cover losses to the portion under construction. *Builders Risk* policies cover similar perils as your Homeowners policy—fire, wind, falling objects, and the like. If the contractor bears the risk of loss during construction, the contractor will most



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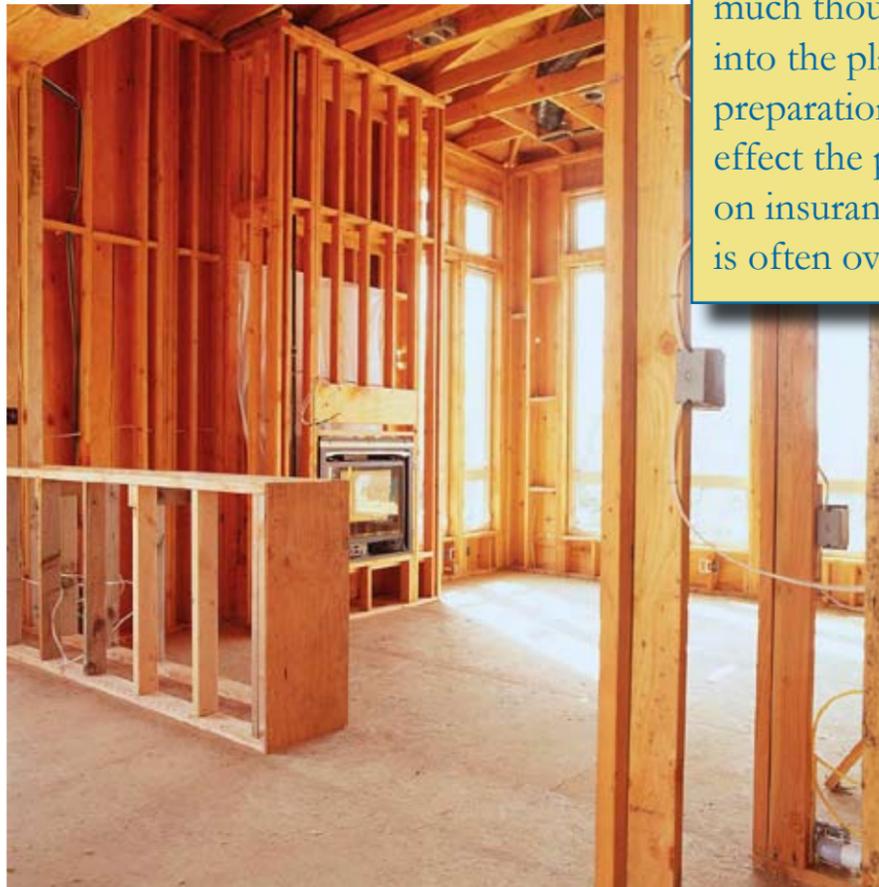
likely purchase a Builders Risk policy.

No matter who is responsible for damage to the project under construction, it is best to have this clearly spelled out in your contract. If there is a loss, claims adjusters will rely on the terms of the contract to decide whether your insurance policy or the contractor's insurance policy will respond to the loss.

Not only do you need to be sure there is property insurance for the project, you need to make sure any contractor you hire has *General Liability* insurance as well. General Liability insurance covers bodily injury and property damage to others. In the unfortunate situation where a contractor accidentally drops a hammer on your new granite countertop and damages the surface, his General Liability policy will respond to pay for the damage to your property.

Contractors can provide proof of the insurance coverages they carry by giving you a *Certificate of Insurance*. This document comes from the contractor's insurance agent. The Certificate of Insurance provides a snapshot of the types of coverage the contractor carries, the effective dates of the policies, the limits for the policies carried, the name of the insurance company or companies the insurance is written with, and who is the contractor's insurance agent. Not sure what to make of the document once you receive it? Ask your insurance agent to review it for you and answer any questions you may have.

It is always important to know if your home project will affect your Homeowners policy. When you purchase a Homeowners policy, you agree to insure your home adequately. The



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Avis Insurance has been meeting the insurance needs of businesses and individuals for over 30 years. We listen to our customers and develop specialized insurance programs that meet specific personal and business insurance needs. We use our in depth knowledge of the insurance marketplace to develop trust with each customer so they can have peace of mind knowing they have the right insurance protection.





This is by far one of the most misunderstood concepts for policyholders today. Confusion arises when insurance professionals fail to properly explain what Replacement Cost really means. Although there are many ways to value property for insurance purposes, replacement cost is the preferred method for valuing property. Generally speaking, this method values the amount to be paid for a loss without taking depreciation into account. In most cases, Replacement Cost never provides coverage for rebuilding a house “no matter what the cost”.

The problem of being underinsured is widespread. Based on a recent study by Marshall & Swift/Boeckh, the leading tracker of rebuilding costs for insurance companies, almost two thirds of all homes were underinsured an average of 27% below an adequate amount of coverage. Also revealed was the fact that an estimated 75% of those who remodel fail to update their insurance coverage to reflect those improvements. Small projects can add up quickly, and you could unknowingly now be underinsured.

How do you avoid this costly event? The best way is to have a discussion with your insurance agent to determine if you are adequately covered. The best way to be sure if you have the right limit on your policy is for a replacement cost estimate to be completed. Replacement cost estimators take into account the different features of your home e.g. square footage, type of construction, materials used, average

building costs in the area, and other factors that have an impact on the reconstruction cost. Insurance agents have access to these tools and can provide this service for you.

Insurance companies have responded to constantly rising construction costs by offering important endorsements that help avoid being underinsured. *Inflation Guards* provide an annual increase in your Homeowners insurance limit. If you elect to purchase this coverage, your limit will increase each policy period by the percentage purchased. Percentage amounts such as four or six percent are highly recommended.

In addition to Inflation Guard endorsements, many insurance companies provide a replacement cost endorsement that increases the limit, if necessary, to 125%, 150%, or even 200% of



the limit purchased. The cost for these endorsements is very inexpensive in comparison to the coverage provided.

Being underinsured is an avoidable situation. Contacting your insurance agent is the first step in making sure

you have the proper protection for your home. A periodic review of limits and coverage will make all the difference in reducing your chances of being underinsured.

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limit purchased is based on an estimate of the cost to reconstruct your home, not on the market value. This reality is, in many instances, never communicated to policyholders or gets lost in translation when an agent goes over the many facets of Homeowners coverage. If you think in terms of market value, especially in the current real estate market, you run the risk of being severely underinsured, and the consequences could be very costly.

Virtually all Homeowners policies require policyholders to buy a limit that is within ten to twenty percent of the estimated cost to reconstruct the home. This is called insuring to value. Penalties are assessed to claim payments if a policyholder fails to purchase an adequate limit.

*“But I purchased Replacement Cost. Why won’t my home be completely rebuilt after the fire?”*



## Knowledge • Trust • Peace of Mind



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