



Insurance for property developers

What are the key risks for property developers?

Property development can be an exciting and financially rewarding industry – but the risks can be significant.

As a property developer, you need to be across a range of council regulations and manage complex finance arrangements. You may also have to deal with the rising costs of materials and labour, missed deadlines and budget blowouts. Then there's the chance your builders could become insolvent, weather events could damage your project, or equipment and materials could be stolen or lost. Finally, like all businesses, property developers need to be vigilant in protecting themselves and clients from the growing threat of cybercrime.

“It's very important for all property developers to do due diligence on the location, property, council requirements and contractors/builders they will be relying on to ensure a successful property development.”

Jo Chivers, CEO, Property Bloom, 2015

Who should consider it?

All property developers – from those developing a house to those in charge of major retail and factory developments – should take out some kind of insurance.

Did you know?

169

In 2019, 169 construction companies in NSW went into administration or receivership, or were shut down by the courts.

(Nick Sas, Construction companies in NSW collapsing at record rate as building slowdown bites, ABC News, 26 September 2019)

2019

In the September quarter of 2019, the price of electrical equipment rose by 1.3% while other materials rose by 1.8%.

(ABS: 6427.0 Producer Price indexes, Australia, September 2019)

Growing

The number of cyber-criminals targeting real estate transactions is growing, according to Dell SecureWorks Counter Threat Unit Research Team

(ZDNet, Australian real estate agents a trending target for cybercrime, May 2018)

What insurance should you take out – and what can it cover?

Some property developers take out contract works cover – but often, it's their builder who takes out the contract works policy. If your builder is responsible for taking out contract works, make sure you are named on the contract as an insured. You should also ensure the policy extends to any sub-contractors working on your property development project. You may also require other types of cover, depending on the type of business you are running.

Type of cover	Potential benefits
Business pack	For a larger business and with office space, this cover protects your business against: <ul style="list-style-type: none">• equipment or machinery breakdown• employee dishonesty• property or glass damage• legal issues, with public and products liability• tax audit• theft, and theft or loss of money.
Contract works - generally the builder takes out this cover and names you as insured on the policy	Generally the builder takes out this cover and names you as insured on the policy. Protects any buildings under construction and construction equipment. This cover may include protection against: <ul style="list-style-type: none">• natural disasters like fire, earthquake, storm, flood, wind and water damage• damage to property caused by defects, theft and malicious damage or vandalism or smashed glass• third-party personal injury and property damage/public liability.
Cyber	Safeguards you and your business against expenses and legal costs if your website or other systems are hacked and your customers' details are stolen.
Management liability	Protects your management team if you're a larger business in case you need to defend, settle or pay a compensation claim.
Workers compensation	Covers the cost of your employees' wages, rehabilitation and medication if they become injured or sick through their work.

What usually isn't covered?



Exclusions, the deductible/excess you need to pay and limits of liability can vary greatly depending on your insurer and the requirements of your business.

Case Study



Karen, a property developer, purchased a residential property to develop into a block of units. Before she transferred \$250,000 to pay for the property online, a fraudster sent her false bank account details and her payment ended up in a cyber-criminal's account. Not only did she lose the payment, but because she had to take legal action to recover the money.

Fortunately, Karen had cyber-insurance, which covered the interest payments she had been charged and her legal costs of retrieving the money. What's more, because the claims process was handled quickly and effectively, she was able to resolve the matter promptly, helping protect the reputation of her business.

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