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Risk Management Tips for HNW Home Renovators

As the economy continues to recover, a growing number of families are investing in home expansion or remodeling projects. According to recent findings from BuildFax, a leading building permit data source, the frequency of residential renovations has increased steadily of late, once again reaching levels similar to those at the height of the latest real estate boom. Remodeling projects categorized as “substantial” increased by 9.3% in 2012, 10.2% in 2013, and 11.7% in 2014.

Before undertaking such a project, however, it is critical that homeowners fully understand the range of risks involved—from unreliable contractors and worksite injuries to property loss, lawsuits and family safety threats.

Owners of high-value, custom-built homes are at particular risk of finding themselves underinsured during or after a project, leaving themselves and their families vulnerable to potential financial loss and hardship.

Fortunately, there are concrete steps that homeowners can take before, during and after construction to help ensure that they are prepared for all contingencies and sufficiently insulated from risks. For wealth managers, who may learn about renovation plans when clients ask about affordability and financing options, discussing these risks and preventive steps with their high-net-worth clients can be an effective way to strengthen client relationships.

Before Construction: Qualify Your Contractor; Consult Your Insurance Agent

So many potential risks and liabilities emanate from the choice of a general contractor that this decision can be one of the costliest errors a homeowner can make. To choose wisely, homeowners should take the time to thoroughly research contractors using a variety of sources.

Steps include:

- reaching out to trusted advisors within personal or family networks for recommendations
- vetting potential contractors with state licensing agencies and the Better Business Bureau
- asking for credit and past client references
- if practical, inspecting past job sites.

In the final stages, have a professional background screening of the contractor performed. Finally, it should be noted that homeowners should never act as their own general contractors.

Another critical step for homeowners during the planning stages: consult with their insurance agent. The insurance agent can help make sure the contractor and subcontractors have the right types and amounts of insurance.

Many HNW families have homes that would cost more to rebuild after a total loss than the typical amount of insurance carried by contractors. Special provisions may be necessary.

In addition, the insurance agent can make sure the family has the proper insurance in place. Homeowners policies usually include restrictions in coverage that apply during a major renovation project. A builders risk policy or endorsement may be required to fill the gap. Umbrella liability coverage limits should also be reviewed. The agent might also suggest installing water leak detection devices or other safety systems.

In combination, premium credits for these devices can reduce premiums by 30% or more, and installing them while the home is already under construction can be very cost-efficient.

During Construction: Safety First

Once the project is underway, the key consideration becomes assuring that the worksite is safe for the family, crew and home.

Safety starts with the character of the workers who will be coming onto the property. Wealthy families often have valuable possessions that make tempting targets for theft, and any family that will be living in the home or visiting the site frequently during construction needs to consider potential molestation or kidnapping. For this reason, homeowners should consider having professional background screens conducted on all the workers coming on to the property.

Given the importance of this step, insurance companies that specialize in serving HNW families often offer access to professional background screeners on a complimentary or reduced-price basis. In one especially large home renovation for a client of ACE Private Risk Services, background screening of the proposed staff and crew found that 30% had issues, including some with arrests for violent crime, cocaine distribution and use of false identification.

There are also a multitude of safety procedures to prevent worksite injuries and home damage due to fire, water intrusion and other perils. We've included an extensive checklist in our [white paper](#) on the topic of home renovations.

Fire in particular is a serious threat, especially when paints and solvent-soaked rags are prevalent in the final stages. We've seen too many homes burn to the ground just as the project neared the finish line.

The homeowner should also coordinate closely with the contractor on the use of alarms and other safety systems. Temporary systems may be necessary, and each party needs to know when they are responsible for turning systems off and on. For added assurance, insurance companies catering to HNW families may be able to send a risk consultant to the site to assess safety measures.

After Construction: Review Your Coverage

After a major renovation is completed, homeowners should always notify their insurance agent. If a builders risk policy was added, it can now be removed. The coverage amount for the home should be increased. In some cases the coverage amount may have already been increased in stages during the course of the project, and now is the time for the final adjustment.

While mass-market insurance companies may offer relatively little guidance on how much to increase coverage, high-net-worth market carriers may send an expert to the newly improved home to estimate what it would now take to rebuild it.

The agent will also usually recommend increasing the coverage for the contents of the home, since most renovations include enlarging the home, upgrading appliances and adding new furnishings to fill the larger space.

By reminding HNW clients of these simple steps, wealth advisors can help ensure that their clients' home construction projects are a success, every step of the way.



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