

Review of home building compensation in NSW

The home building compensation scheme is established under the *Home Building Act 1989*. The scheme compensates homeowners if their builder is unable to complete building work or fix defects because of insolvency, death, disappearance or licence suspension for non-compliance with a money order made by a court or the tribunal in favour of the homeowner.

The scheme applies to residential building work projects over \$20,000 (including GST) unless exempt, such as the construction of new houses, terraces, villas, multi-units up to three storeys in height, as well as home renovations and swimming pool building.

The scheme is regulated by the State Insurance Regulatory Authority (SIRA). The sole insurer currently offering cover under the scheme is Insurance and Care NSW (icare) on behalf of the NSW Self Insurance Corporation. Legislative amendments mean that since 2018, new providers can apply to SIRA for a licence to join the scheme.

IPART review

I, Victor Dominello, Minister for Customer Service, pursuant to Section 12A of the *Independent Pricing and Regulatory Tribunal Act 1992*, request that the Independent Pricing and Regulatory Tribunal (IPART) conduct an investigation in accordance with these 'terms of reference'.

Task

IPART should undertake a review of the consumer protections available for home owners through the home building compensation scheme. In particular, the review should examine:

- whether the current regulatory requirements to take out home building compensation cover provide an adequate level of protection to customers, having regard to other consumer protections for home building; and
- the funding arrangements for any changes to consumer protection relating to the Building Compensation scheme having regard to the future financial sustainability of the home building compensation insurance market.

In investigating and making recommendations, IPART should:

- a) ensure that the scheme provides for incentives for risk management and encourages good business practices
- b) encourage confidence in the market for construction of residential dwellings
- c) have regard to the costs and benefits of any proposed changes to ensure an efficient and financially sustainable outcome
- d) identify any unnecessary regulatory or administrative burdens and barriers to entry
- e) identify any impediments to private sector participation in the home building compensation scheme

- f) Consider any other measures that are likely to contribute to the efficient and effective protection of customers.
- g) Consider whether enhanced information collection in relation to builder progress payments, critical stage inspections and issuance of compliance certificates could be used to better mitigate insolvency risk.

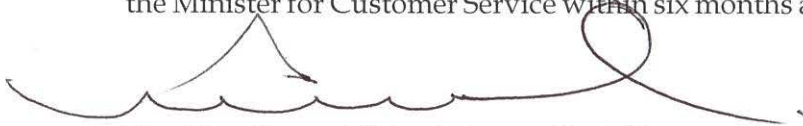
In providing the recommendations, IPART should have regard to:

- the coordinated approach by the NSW Government to fix the failures of the statutory warranty and Home Building Compensation schemes.
- regulatory requirements that do not discourage participation in the scheme
- developments in other jurisdictions

Procedure

IPART should undertake public consultation. IPART will consult stakeholders on the draft terms of reference and recommend final terms of reference to the Minister within six weeks of receipt of the draft.

A draft report should be publicly released for comment with a final report to be provided to the Minister for Customer Service within six months after finalisation of the terms of reference.



The Hon. Victor Michael Dominello, MP

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