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Date of submission: Sunday, 31 May 2020

Submission: Thank you for the opportunity to make this submission on the Home Building Compensation Fund.

Brief History:

Many thousands of words have been written in submissions and inquiries since the inception of Last Resort warranty Insurance in July 2002.

It was conceived and introduced by private enterprise being the Housing Industry Association and Royal & Sun Insurance in conjunction with the Governments of Victoria and NSW as they themselves describe in the attached Rehome Press Conference on the 20.09.2003 in Victoria.

As a result HIA was the great beneficiary as for the first 4 years they were the only provider that propelled them from a 30 mil a year business to over 100 mil according to ASIC docs.

The Product:

Home warranty has been a failure since day one and has never delivered its intended purpose.

Choice state its the worst insurance product in Australia at this link: <https://www.choice.com.au/money/insurance/home-and-contents/articles/domestic-building-insurance>

The NSW scheme performance of claims being as little as 0.5% supports Choice and the view of the industry and consumers.

alternatives:

1. Completely remove the illusionary warranty as it hurts far more people than it benefits, and instead strengthen the regulatory regime to lesson building failures and insolvencies.
2. Remove the mandatory aspect and allow the buyer beware aspect!
3. Simplify the overall process but include all the commercial builders on the basis they provide a warranty policy for each apartment in their developments together with an occupation certificate for each apartment.

This will generate a higher level of accountability and a better quality of building and while these commercial/hi-Rise builders will be opposed to the idea be mindful they have not shared in the warranty scheme for the past 18 years yet their failures are the major contributors to our building failures.

Some seventy reviews/inquiries over the past 18 years have failed!!



**Date:** 03 October 2003.

**To:** Phil Dwyer

**At:** Builders Collective

**Pages:** 17

**Fax:**

<b>EVENT</b>	Press Conference
<b>LOCATION</b>	Kooyong Road, Armadale
<b>DATE</b>	29 September 2003
<b>TIME</b>	1.00pm
<b>SUMMARY</b>	<p>A new home warranty insurance initiative will shorten building waiting lists and provide better security to new home buyers and renovators.</p> <p>Speakers: Ron Silberberg, HIA; Victorian Minister for Finance and Consumer Affairs John Lenders; Nick Kirk, Royal &amp; SunAlliance.</p>
<b>REHAME CONTACT</b>	Nicholas Hayes [REDACTED]

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**CONVENOR:**

It's a milestone day in terms of warranty insurance for this country and we've got a number of speakers who are going to outline some wonderful new moves forward on the warranty insurance front.

The very first speaker today is our managing director of HIA, Dr Ron Silberberg. Would you please welcome Ron.

[Applause]

**RON SILBERBERG - HIA:**

Thanks, John ...

**MALE SPEAKER:**

Excuse me a minute, please. Could you face this way please. Can you come around here. Thank you.

**SILBERBERG:**

The Honourable John Lenders, Victorian Minister for Finance and Consumer Affairs; Peter Grigg, HIA's national president; Glenn Eagles, HIA's Victorian president (ph.sp.); Nick Kirk, general manager of Royal SunAlliance [sic]; Greg Donovan, national manager, Aon; other staff members of HIA; Members and representatives of the media.

As John said, this is a very positive day for the Australian housing industry and importantly for new home buyers and home renovators. It marks a turning point for home warranty insurance following the collapse of HIH some two years ago and the subsequent withdrawal of the underwriting agency Dexta from the Australian home warranty insurance market.

Today's announcement marks the beginning of the new home warranty environment that recognises the financial strength and management capacity and professionalism of the industry, as well as the need for cost effective protection of new home buyers.

Despite the turbulence over the past two years, HIA, through its insurance partnerships Royal & SunAlliance and Aon, has been able to retain the availability of home warranty insurance in Australia, and that has enabled the industry to lift the level of new home construction and home renovations by about twenty billion dollars a year. A thirty per cent increase in the value of expenditure on new dwellings and home renovations helps to put into perspective the suggestions that the industry has been grinding to a halt due to the alleged lack of warranty insurance.

The spectacular growth of residential building activity has been a credit to all who have worked so hard on providing solutions for home warranty. And naturally I am particularly proud of the staff in HIA who have worked assiduously with Royal & SunAlliance and Aon to provide those solutions for home warranty.

It's also a testament to Australia's home builders, who've demonstrated the financial and management capacity to operate successfully at greatly increased levels of home building activity compared with a couple of years ago. It is also very important to mention the role of the state governments, whose reforms of home warranty have created a far more positive regulatory environment, not just for existing underwriters but for potential entrants to the home warranty market.

The successful expansion of industry activity over the past couple of years with, notably, a significant reduction in the incidence of builder failure, combined with a supportive regulatory environment, has made possible the new deal for home warranty that we are announcing today.

In the aftermath of the HIH collapse there was an understandable move by other underwriters to wish to underwrite each and every domestic building project. But the imposition of detailed assessment was not only painful for many builders, it did stretch the service delivery capacity of our broker Aon and Royal & SunAlliance.

Now, in response to legitimate issues raised by HIA's builder members, the association together with Royal & SunAlliance and Aon, began the path of creating a new business model for the future delivery of home warranty insurance to Australia's housing industry. The guiding principles driving the new warranty package have been enhanced service delivery for builders; the financial viability of a private home warranty market; and the integrity of the essential consumer protection.

Under the new home warranty package the vast majority of small home builders will be able to operate with much expanded turnover profiles, supported by a simplified fast track eligibility assessment and light touch assessment reviews. The upgraded turnover profiles applying under the simplified new warranty product will benefit about eighty per cent of the nation's smaller home builders. That represents about twenty four thousand smaller builders.

For existing category one, two and three HIA members insured with Royal & SunAlliance through HIA insurance services, the changes will mean an automatic upgrade of turnover profile to two million dollars for house builders; town house and villa unit builders; renovation and extensions builders; kitchen fabricators; bathroom renovation builders; pool contractors and landscape contractors.

There will also be an automatic upgrade of an individual project profile to three hundred and fifty thousand dollars for new homes, renovations and additions,

unless a business has a higher value profile. There'll be an automatic upgrade of individual project profiles to fifty thousand dollars for pool builders, kitchen and bathroom fabricators and contractors, and home improvements.

In addition, there will be a simplified eligibility assessment which will eliminate unnecessary accounting and compliance costs for smaller businesses. The new, simplified home warranty insurance initiative has the potential to double the aggregate activity levels of Australia's smaller builders, currently at nine billion dollars, but they'll be able to lift their turnover to almost eighteen billion dollars a year.

Thousands of individual builders will have the opportunity to expand their turnover without having to inject additional capital into their businesses. It means small to medium sized builders will have an enhanced opportunity to bid for an even greater share of the nation's very strong new homes market and renovations sector.

For new home buyers and people wanting to undertake renovations and additions, it has the potential to significantly shorten wait times. These improvements to the system have come about because HIA have listened to the people we represent, namely Australia's builders, and we have addressed their needs when and where they've identified them.

They also have come about because of the recognition by state governments and particularly the Victorian state government that the industry is a responsible one and a very important one for the nation's economy. It also is recognition from governments that we can be trusted to run our own affairs and that we understand how closely the fortunes of the industry are linked to the fortunes of our customers.

Today's announcement is not only good news for builders, it's also great news for new home buyers and renovators. Thank you.

[Applause]

**CONVENOR:**

Thank you very much Ron. I think a couple of points that Ron made are very clear. This is a response to members; there's two important members here today, Peter Grigg, our national president, and Glenn Eagles, our Victorian state president, two people who are very aware of what troubles we've had over the last little bit, and this is our response to it.

As Ron said, the response wouldn't have come without support from the Victorian government and, in more specific terms, from Minister Delahunty and Minister Lenders. **Minister Lenders is a great friend of HIA's and we really admire the work that he's done on the insurance front generally, as well as warranty.** So could you join with me in welcoming Minister John Lenders, the Minister for Finance and Consumer Affairs. Welcome.

[Applause]

**JOHN LENDERS – VICTORIAN MINISTER FOR FINANCE AND CONSUMER AFFAIRS:**

Thanks John for those very kind words and also Ron, your words, thanking the Victorian government. I guess ... I'd like to acknowledge, also, Peter Grigg, the national president, and Glenn Eagles, the state president of the HIA; Greg Donovan from AON; Nick Kirk from Royal & SunAlliance, and, of course, John Gaffney from HIA.

Look, for me this has been, I guess, a journey that I've been on with all of you, in a sense that the day I became finance minister in February last year, the **Premier called me into his office to meet with John Gaffney and Shane (ph.sp.),** here, to discuss the builder's warranty issue. So the first day in the job, and I guess, in one sense, one of the most frightening things is you're told, you know,



insurance is about to walk and what are ... how are you ... or what are we, as a government, going to be doing towards that.

And I guess the journey we've been on has been one where myself, Mary Delahunty, the Planning Minister, have walked with the HIA in trying to find solutions to what was a problem. So that is the first thing I would like to say here today, this has been a cooperative venture to get where we were.

Now, we started that with the ten point plan to bring ... to keep builders' warranty going, and through both the market we were in and also the collapse of HIA ... HIH, not HIA, very strong and vibrant ...

[Laughter]

... that the two of those together were the things ... obviously, the catalysts that put us in the position we were in. And the things that we were trying to do with HIA, operating nationally, was to also work with obviously the other great player in this, being the New South Wales government, to have a joint approach from the two major states which covered seventy per cent of the construction industry so that we could keep this important product of builders warranty insurance alive.

Now, we went through the teething problems, we went through the early days, and it was incredibly difficult for the industry. And it was difficult for a whole lot of reasons, and that was that those who were left to pick up the pieces copped a lot of the anger in an industry that was incredibly disappointed with the departure of HIH, and was looking for easy solutions. And if there were easy solutions and there was a magic wand that anyone had in their briefcase, I'm sure with this collection of people on this building site today someone would have pulled it out.

I should say to you, Glenn, it's probably the first time you've had so many people in suits on one of your sites, so perhaps if you got us more appropriately dressed next time, we could actually assist at the end of the media conference.

So it's been a long journey, in that sense, for people coming together, and it hasn't been easy. And it hasn't been easy to get that going.

So the ten-point plan we got into legislation and regulation, so that was in place as the fabric in both states. We went through all the exit of Dexta from the market and all the difficulties that that caused in having two competitors ... having two people providing.

And through all of this, Royal & Sun have actually been a great supporter of builders warranty insurance in being here at a time when a lot of people didn't want anything ... didn't want to know us or know anything about the product. So a big tribute to Royal and Sun for being here today and sticking through with all of us in taking us through that period.

I guess this is a logical progression in a sense. We got through the crisis where there was no insurance and we went through the teething process of how do you make it a better product. And again, a tribute to the three players here today, in trying again that next level which is the customer service of keeping this product going. And the message that HIH was ... HIA was hearing from its members ... God, I've got to use another series of letters ...

[Laughter]

They've got me worried now John. But the message that HIA was receiving from its members, and for that matter the other industry association, the government, everybody, was that we wanted a far quicker, more expedient sort of one stop shop for people to get their insurance. It was a process that no one liked, and I think this is a great tribute to three partners that come up with

something that expands the coverage, makes it more quickly accessible to people and particularly the way you have targeted, so that those with the least risk, you have increased their level and made it more quicker for them, is a real tribute to you.

I guess have one anecdote about that. I was not aware how close you were to the conclusion of this and a constituent of mine – and we all pay a lot of attentions to our constituents – whose a builder, I had dinner with him awhile ago and I just asked him, well how's it going in the building industry, you know, how's it going with your builders warranty insurance, expecting to get, you know, sort of a ... quite a diatribe about how slow it was.

And he said he'd actually gone into the HIA office to renew an insurance policy and thought this would take him a long time and he bought a whole stack of work along. And was basically expecting to sit there for a long time. And he was actually stunned that he was out in five or ten minutes. So I guess that was the first alert that I got that things were actually changing; when a builder goes in with an expectation of a delay and comes out pleasantly surprised. So that again is a tribute to you.

I think there's one final thing that I guess I'd like to say. Clearly, if you look at the grief that a lot of builders have had through this process, of how they've structured their own affairs, insurance was short. As a package a whole lot of people put things together. One of the challenges that I've put out to the accounting industry, in meetings with them in recent times, is that the advice that they offer also I think needs to be tuned, far more attuned, to the current needs of builders. The issues of is there sufficient capital that is available to have as a security.

One of the issues ... the accounting advice that's often given is that builders are divested of assets or they're in ways that don't suit the current insurance need and there's got to be some balance through the middle. And I'm pleased to say

that the accounting groups that I've talked to are putting some priority of theirs so that the advice that they offer becomes part of a seamless set of advice across all levels of industry that we can deal with it.

So I'd like to conclude, John, by actually saying that it would be easy for all of us to just said it's all too hard in February last year. We could have all have walked away, tried to blame each other, blame everybody and say, well you know, there's a problem, why can't we just sort of pull out a magic wand and fix it? I think it's tribute to the stakeholders here today in two states and across a number of ... across, obviously, Aon, across HIA, and of course, Royal and Sun, have actually tried to fix ... to put it into place. These things are always slow, but this is actually a great tribute today, that we have the next step along in making builders warranty insurance affordable and available, which were the two tests we originally put in place. And I'd like to congratulate all the players here today for the wonderful work in getting this product online. Thankyou.

**CONVENOR:**

Thank you very much Minister. And there's no doubt, as I said in the introduction, that without this minister and this government, we couldn't have got some of these reforms and these new products on the market.

Now, Glenn did tell me earlier there's one ... having so many suits on site, Glenn, might be useful, there's one apartment left in the middle is there?

**GLENN EAGLES – HIA:**

One for sale.

[Laughter]

**MALE SPEAKER:**

About two mill. They can't do much bricklaying, but we might be able to get the chequebook out with some of these people.

Our ... there are two more important partners in this announcement today, **Royal SunAlliance and Aon**, and we have Greg Donovan here, who's going to take some questions later. But before we have question time, we've got Nick Kirk, our final speaker. Nick is the general manager of specialty services for Royal & SunAlliance. **Nick has become a friend of HIA** and an important friend in us keeping this product alive and keeping the marketplace going, as Ron mentioned.

Could you please join with me in welcoming Nick.

[Applause]

**NICK KIRK – ROYAL & SUNALLIANCE:**

Yep, thank you John. I'd really like to just to echo the words of the previous speakers, to say that I think this is a really positive day both for the Australian home building industry **but also for Australian consumers**.

Today's announcement is also a significant event for Royal and Sun, because we believe it heralds the start of a new, more positive era for home warranty insurance in Australia.

The foundations of today's announcements were really those reforms that were put in place by the Victorian and New South Wales governments last year, that's the foundation which today's announcement has been built. But the announcement would not have taken place **if the HIA hadn't tirelessly worked to improve the process of gaining home warranty insurance**. So they built on those original foundations.

I think that's a great example of where industry associations, governments, and insurers can work positively together for a much better outcome for their members and consumers. So today's announcement is a real positive and

stands in contrast to some of the more negative and sometimes misleading stories on home warranty that have been about over the past few months. And I think it's a great credit to the HIA that they have worked very tirelessly for their members to actually get real improvements in the whole process.

So as a leading Australian insurer, we're very active listeners when it comes to the HIA, and we're very proud to be part of today's announcement, because we believe it's good for Australian builders and good for Australian consumers.

Thank you.

[Applause]

**CONVENOR:**

Thank you very much Nick. That concludes today's proceedings other than for the media people here, Greg Donovan, Nick, the minister, I hope, and Ron are all keen to take some questions, and have a good day, what's left of it. Thank goodness it didn't rain. Thank you.

**END OF SEGMENT**