


# Response to SIRA consultation paper

On HBC construction type definitions



**MASTER BUILDERS  
INSURANCE BROKERS**  
*Your Industry Specialists*

 Your go-to construction  
insurance broker

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# Executive Summary

**In response to the State Insurance Regulatory Authority (SIRA) consultation paper on HBC construction type definitions, Master Builders Insurance Brokers (MBIB) are pleased to enclose our response to the paper.**

The consultation paper has a narrow focus with SIRA seeking feedback on how it defines the type of construction work against which HBC insurance is priced. Accordingly, MBIB has confined its responses to address only those questions posed by the consultation paper.

MBIB is supportive of the proposal to remove references to land title from the construction category definitions and of the removal of the 'other' category of work.

In MBIB's experience, the two main issues that arise when categorising projects is the effect of land title and the HBC insurance definition of structural works which include waterproofing, when waterproofing is considered to be non structural from a construction viewpoint. As the categories are widely understood (but for the examples provided), MBIB prefers option 2A – retain self-contained descriptions of categories with edits.

Any changes made to the current construction categories would need a structured timeline and sufficient notice period to allow time to educate the various parties affected including builders, brokers and the insurers underwriting team. Effective change management would allow for an easier transition for all parties.

# Response to Consultation Questions

## Consultation Question 1

### Question:

Do you agree with excluding land title from premium price setting? Please indicate your reasons.

### **MBIB agrees with the proposal to exclude land title from premium price setting.**

In accordance with the current icare HBCF guidelines any lot subject to strata title subdivision will attract multi dwelling rates. MBIB's understanding is that this is because strata titled lots are smaller in size (compared to torrens titled blocks), which can result in shared services with other dwellings. MBIB understands it is the potential for shared services that is considered to present a higher risk to the HBC scheme and is the rationale for the difference in category classification. Despite this, it is difficult for MBIB as a Distributor to clearly illustrate to builders and homeowners why two projects that are fundamentally the same incur substantially different premiums.

At the time a development application is submitted to council the homeowner or developer is not required to indicate how they intend to title the property. This is a decision that can be made at any time from the time a project is completed up to 5 years after completion (for the period of the development approval is valid).

The current guidelines effectively require a decision to be made by the developer or homeowner about the titling of a lot earlier in the construction process than is ordinarily the case. This raises two matters:

1. A homeowner applies for the development application (DA) approval with an "intention to strata" and the HBCF policy is correctly issued under multi dwelling rates (as per current guidelines), but ultimately the homeowner decides to torrens title the lot. In this scenario, a homeowner has paid a HBCF premium significantly higher than was required.
2. A homeowner doesn't indicate the subdivision plan on the DA application and upon completion (or at any time during the five year period) decides they will strata title the lot. In this scenario, a homeowner has paid a HBCF premium significantly lower than was required.

Additionally, MBIB often come across instances where a lot is strata titled purely due to the lot size and the construction of the dwelling is identical to one on a torrens titled site.

None of the above scenarios result in the nature of the construction changing. Ideally, premiums should be based on static risk factors as much as possible. Given there is no mechanism by which to recover (or refund) changes in premium because of changes in land title, this factor should be excluded from premium price setting.

## Consultation Question 2

### Question:

**Which of the options outlined in this paper do you prefer and why?**

#### **MBIB prefers option 2A – retain self-contained descriptions of categories with edits.**

Option 2A allows for the construction categories to be simplified with the removal of the 'other' category and discontinuing the practice of classifying of projects based on land title.

Over the past four years, the scheme has changed in many ways. As well as a number of premium changes the other major change has seen Distributors take on the responsibility for correctly classifying a project, rather than the underwriter/insurer advising on the classification.

It is important to note that both the distribution teams and underwriters are not builders. While MBIB appreciates the Eligibility manual and various documentation that has been produced by icare HBCF to assist with determining the correct classification of a project, there are still grey areas.

Many builders consider waterproofing to be non-structural, however from a risk point of view and in accordance with the published guidance material, all waterproofing works are classified as structural for premium purposes.

However, many types of works appear in both the non structural and structural category (i.e. bathroom renovations). For example, the project application form includes 'bathroom renovation' as one of the options available for 'single dwelling renovations – non structural'. The feedback we have received from builders is that it is near impossible to complete a bathroom renovation without waterproofing. This can often lead to confusion for builders when completing an application form and additional work for both the builder and Distributor as additional information is sought about the nature of the work to be undertaken.

### Consultation Question 3

**Question:**

**If icare were required to define its own construction categories for premium purposes, when and how should industry be notified or consulted about proposed future amendments?**

**If icare were responsible for defining its own construction categories for premium purposes, the process should be as transparent and consultative as possible with sufficient lead time for the industry to adapt to the proposed changes.**

Any proposed changes to construction categories should be communicated at least six months prior to the proposed implementation date. The obtaining of HBC insurance is often the last step in the lengthy process to get a project to site. DA approval itself can take several months. A reasonable amount of lead time would allow for educating the affected parties about the changes to classifications and associated cost implications, for those affected to implement the necessary changes to processes and for builders to undertake builder profile change (BPC) reviews of their facilities to add a new profile category if required.

MBIB would welcome the ability for all parties to provide feedback on any proposed amendments to construction categories by way of industry consultation. The consultation process need not be lengthy but would allow for any previously unidentified consequences or impediments to the proposed changes to come to light. This would have a two-fold benefit; more informed decisions could be made regarding the proposal and the feedback received could be used to develop more targeted educational information for industry participants and homeowners.

Greater transparency around any changes and the clear reasons for same (supported by claims data for example) would assist with the educational element and allow for a more seamless transition.

As identified in the consultation paper, the ability of an insurer to define its own construction categories would also apply to any new entrants to the scheme. As each insurer would be able to develop its own definitions this would add to the complexity of the overall scheme and make it more difficult for participants to effectively compare offerings or for SIRA to report on the performance of each provider.

## Consultation Question 4

### Question:

**If you prefer Option 2A or 2B, are the categories appropriate?  
If not, what changes do you recommend and why?**

**As a national broker, MBIB is a distributor of HBC insurance in each state it is required (with the exception of Queensland).**

Many other states have simplified construction categories, for example:

- › New single dwellings
- › New multi dwellings
- › Structural alterations/additions/renovations
- › Non structural refurbishments
- › Swimming pools

Not only does fewer construction categories simplify the process at distribution and insurer level, but any works outside these categories and the requirement for warranty is subject to council or building surveyor requirements (this is most relevant for non structural works).

NSW currently has the most construction categories. While all are relevant and applicable to the type of works builders do, we sometimes find builders will apply for jobs as “non structural” simply to take advantage of the lower premium. It is MBIB’s understanding that regardless of the type of policy taken out, icare HBCF will provide cover and pay claims even if the policy has expired and/or doesn’t necessarily cover the works done on site.

The above then has a flow on effect to the overall scheme (more claim dollars paid out than premium collected) and consequently to homeowners/builders by way of increased premiums.

## Consultation Question 5

**Question:**

If you prefer a different option to the ones outlined in this consultation paper, please explain your preferred approach and the reasons.

**MBIB does not have a preferred approach that is different to the options provided in the consultation paper.**