

**NSW Home Building Compensation Fund  
Information on the Scheme as at**

**31 December 2014**



29 April 2015

Home Building Compensation Fund Board  
NSW Fair Trading  
Department of Finance and Services  
Level 11, 10-14 Smith Street  
Parramatta NSW 2150

Dear Members of the Board

## HWI Scheme Data as at 31 December 2014

Finity Consulting Pty Limited (Finity) was engaged by NSW Fair Trading to review the publication of data for the Home Building Compensation Fund (HBCF) Scheme.

Finity has reviewed the descriptions of the data and the presentation of tables and graphs to make sure the data is presented fairly and is not likely to be misinterpreted. Note that Finity has not reviewed the accuracy of the data provided by the insurers nor the accuracy of the summary tables prepared by Fair Trading, but, where possible, has considered them for reasonableness.

We particularly draw the attention of the reader to Section 2 of the publication – Caution in Interpreting the Information.

Yours sincerely



David Minty



Mark Hurst

**Fellows of the Institute of Actuaries of Australia**



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# NSW Home Building Compensation Fund

## Scheme Information

### 1. PREAMBLE

The *Home Building Act 1989* establishes a Home Building Compensation Fund (**HBCF**) scheme. The scheme sits at the end of a comprehensive consumer protection regime for homeowners and provides a safety net for consumers where builders fail to complete residential building work or rectify defects.

The scheme has been renamed from the Home Warranty Insurance Fund (HWIF) to the Home Building Compensation Fund (HBCF) from 15 January 2015 following major changes to home building laws.

In New South Wales, insurance under the HBCF may only be offered by licensed insurers approved by the Minister under the Act. The NSW Self Insurance Corporation is part of the Office of Finance and Services, and became the sole provider of insurance under the HBCF on 1 July 2010, replacing the former private insurers from that date. The Scheme is underwritten and capitalised by the Government and funded by the insurance premiums.

The approved insurers from the private sector all ceased writing business on or before 30 June 2010. However, all approved insurers will continue to manage and settle claims on policies written up until that date.

QBE Insurance (Australia) Limited and Calliden Insurance Limited have been appointed as insurance agents of the NSW Self Insurance Corporation through contractual arrangements. Vero Insurance Limited was also an agent for the three months to 30 September 2010.

### HBCF Scheme Data

NSW Fair Trading, within the Office of Finance and Services, has certain regulatory responsibilities in relation to the HBCF. One of the roles of Fair Trading is to collect data on claims and policies from insurers in order to be able to monitor the operation of the scheme.

Since September 2005 insurers in the HBCF scheme have been providing data on a quarterly basis to Fair Trading. The following information on the operation of the scheme applies only to the version of the scheme in operation since 1 July 2002, in which the protection offered applies only in the event of the death, disappearance or insolvency of a builder. For policies issued from 19 May 2009, cover extends to situations where a builder's licence is suspended for a failure to comply with a mandatory monetary order of the NSW Civil and Administrative Tribunal or a court in favour of the homeowner.

This publication summarises the data that has been provided since June 2006 for the insurance period 1 July 2002 to 31 December 2014. The information provided has been aggregated across insurers. Data provided by individual insurers is commercially confidential and has not been disclosed.

Further information on the operation of the scheme, and major changes to the home building laws from 15 January 2015, are available on the following websites:

#### NSW Fair Trading:

[http://www.fairtrading.nsw.gov.au/Tradespeople/Home\\_warranty\\_insurance.html](http://www.fairtrading.nsw.gov.au/Tradespeople/Home_warranty_insurance.html)

#### Home Building Compensation Fund:

[https://www.hbcf.nsw.gov.au/portal/server.pt/community/home\\_building\\_compensation\\_fund](https://www.hbcf.nsw.gov.au/portal/server.pt/community/home_building_compensation_fund)

## 2 CAUTION IN INTERPRETING THE INFORMATION

Home Building Compensation is a 'long tail' class of insurance business, which means:

- there may be significant delay between the date a project certificate is issued and the commencement of the project;
- the duration of building projects may range from a few weeks to several years;
- coverage remains in place for six years after project completion; and
- it may take some time for home owners to identify a loss, lodge a claim with an insurer and for the insurer to assess the claim and arrange rectification.

Claims experience of the HBCF can vary greatly from year to year depending on economic conditions in both the home building market and in the community generally. Since the adoption of the single insurer model from 1 July 2010, insurance market cycles are only likely to impact the scheme to the extent that the insurer seeks to obtain reinsurance cover from the commercial insurance market.

For the first few years after the current HBCF scheme commenced in 2002, the NSW economy performed reasonably well, and conditions were generally favourable for home builders. As over 90% of the insurance claims arise from the insolvency of the builder, the downturn in the economy in 2008 drove a significant increase in claims on the scheme as even some larger builders have failed. Poor business decisions are also more likely to convert into business failure if additional financing is unexpectedly required or existing loans need to be renegotiated or rolled over when lending or investing conditions are tight. Any serious assessment of the scheme should place substantial weight not only on the long tail nature of the scheme, but also that different economic circumstances can yield significantly different claims results.

As the cover provided by HBCF insurers extends over at least six years from completion of work, the downturn in the building industry between 2008 and 2010 has given rise to claims because major defects now emerging may involve builders that have become insolvent since then. As a consequence, the claim experience of even early underwriting years has continued to deteriorate. During the 12 months to 31 December 2014, there was an increase of \$63 million, or 14%, in the overall estimated net incurred claims cost reported by the scheme insurers. This illustrates the point made earlier that it takes many years for the ultimate experience of this class of business to emerge.

### 3 DATA

#### Part I Information Related only to Licensed Builders

##### A Eligibility Information

'Eligibility' is the term used to describe the entitlement that a builder has to apply for a Certificate of Insurance for home building projects, and the conditions under which the Certificate of Insurance may be granted. From 1 July 2010, eligibility application may be made via an insurance broker to one of HBCF's Insurance Agents.

##### A.1 Builder eligibilities

Builders who have been granted eligibility are allowed to purchase Certificates of Insurance up to the approved "Annual turnover limit" over a rolling 12 month period.

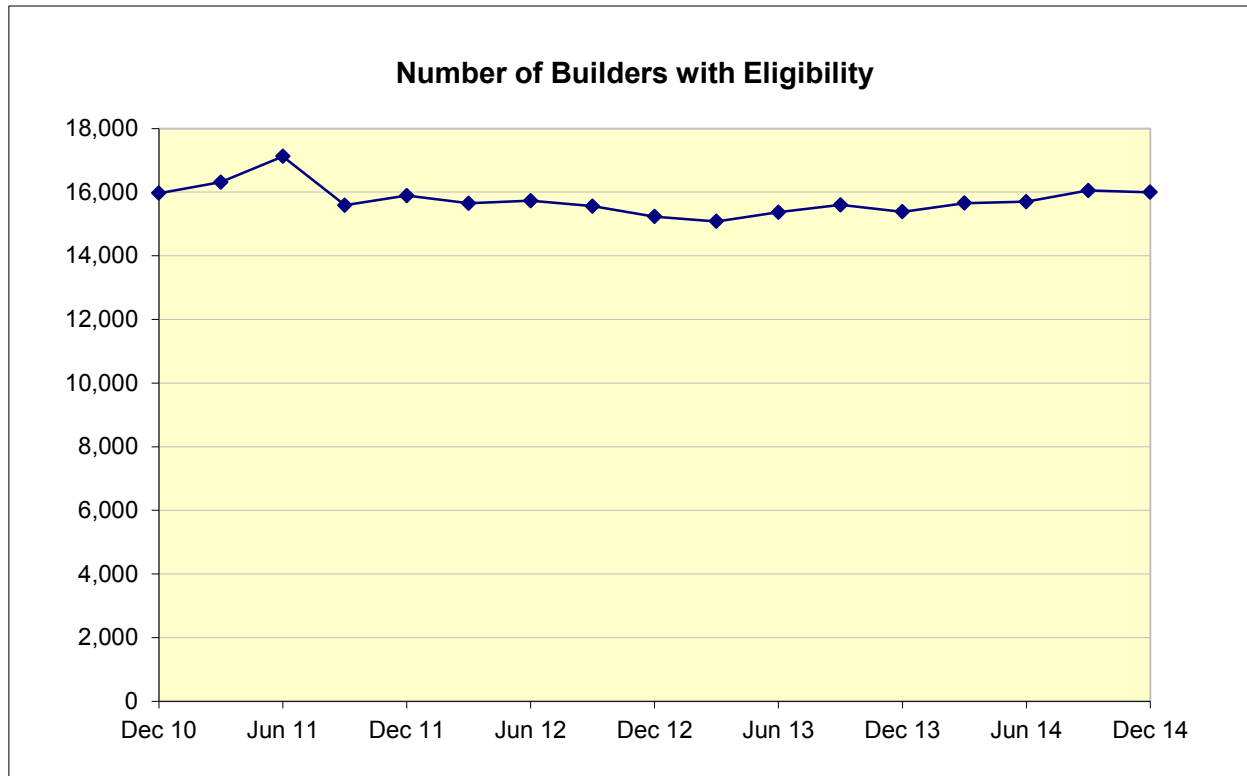
Table **A1** shows the number of builder eligibilities at the end of each quarter by annual turnover limit bands for all types of cover.

Table A1 Number of builder eligibilities by annual turnover limit band

Turnover band (\$' m)	\$0 - <0.5m	\$0.5 - <1m	\$1 - <2m	\$2 - <3m	\$3 - <5m	\$5 - <20m	\$20+m	Totals
<b>Dec 11</b>	3,071	2,601	4,495	2,419	2,573	662	71	<b>15,892</b>
<b>Mar 12</b>	3,069	2,601	4,499	2,361	2,424	629	68	<b>15,651</b>
<b>Jun 12</b>	3,142	2,668	4,567	2,340	2,328	614	70	<b>15,729</b>
<b>Sep 12</b>	3,157	2,729	4,618	2,241	2,121	621	74	<b>15,561</b>
<b>Dec 12</b>	3,145	2,710	4,615	2,167	1,974	556	65	<b>15,232</b>
<b>Mar 13</b>	2,979	2,726	4,728	2,135	1,883	557	71	<b>15,079</b>
<b>Jun 13</b>	3,071	2,811	4,857	2,173	1,802	580	76	<b>15,370</b>
<b>Sep 13</b>	3,193	2,934	4,932	2,177	1,700	586	76	<b>15,598</b>
<b>Dec 13</b>	3,109	3,024	4,996	2,155	1,428	591	79	<b>15,382</b>
<b>Mar 14</b>	3,103	3,138	5,151	2,120	1,458	603	84	<b>15,657</b>
<b>Jun 14</b>	3,004	3,217	5,304	2,043	1,409	631	91	<b>15,699</b>
<b>Sep 14</b>	2,979	3,420	5,395	2,081	1,422	665	90	<b>16,052</b>
<b>Dec 14</b>	2,961	3,389	5,342	2,087	1,439	680	97	<b>15,995</b>

As at 31 December 2014, the proportion of builders with eligibility for annual turnover are: less than \$1 million: 40%, \$1m to less than \$5m: 55%, and \$5m and over: 5%, unchanged from last quarter.

Figure A1 Number of Builders with Current Eligibility - as at end of each quarter.



Note: The drop in the number of current builder eligibilities as at 30 September 2011 was mainly due to the removal of around 1,400 non-current (expired, cancelled or surrendered) licences included in prior quarters.

## **B Securities and Indemnities Information**

For some builders, the HBCF may require security in the form of a Deed of Indemnity as a condition of approving eligibility or providing cover for a specific project.

Bank guarantees will not be sought by the HBCF for providing insurance eligibility, although a builder can provide a bank guarantee if the builder chooses to do so (refer Table B1).

Other Security, which relates to an indemnity under a Group Trading Agreement where an entity is operating as part of a group structure, was introduced by the HBCF from late 2013.

Securities provided prior to 1 July 2010 by builders to former insurers are unable to be transferred to the HBCF, and will remain in place until they are released by the insurers. Such securities held by former insurers are not included in the HBCF report post 30 June 2010.

## B.1 Securities held by insurers for builders with current eligibility

Table B1 Number of Securities held by insurers for builders with current eligibility as at end of each quarter

Quarter	Bank Guarantee	Indemnity	Other Security	Totals	% of Total Builder Eligibility
Dec 11	0	719	N/A	719	5%
Mar 12	0	797	N/A	797	5%
Jun 12	0	871	N/A	871	6%
Sep 12	1	993	N/A	994	6%
Dec 12	1	1,101	N/A	1,102	7%
Mar 13	1	1,193	N/A	1,194	8%
Jun 13	1	1,332	N/A	1,333	9%
Sep 13	1	1,438	N/A	1,439	9%
Dec 13	1	1,541	8	1,550	10%
Mar 14	1	1,621	15	1,637	10%
Jun 14	1	1,723	34	1,758	11%
Sep 14	1	1,788	48	1,837	11%
Dec 14	1	1,858	74	1,933	12%

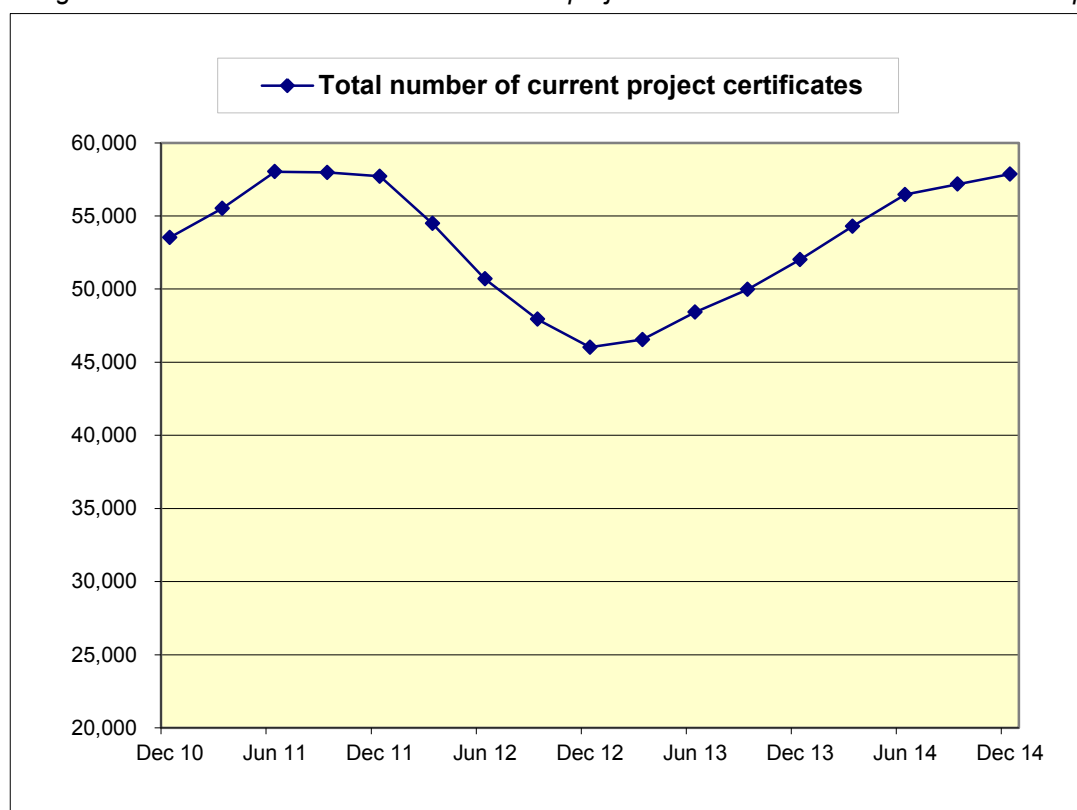
## C Project Certificate Information – Builder

Generally a project certificate is issued in relation to a project prior to building commencement. The project certificate is evidence of the insurance contract. The number of current project certificates refers to projects still in progress at the end of the quarter. For the purpose of this report, building works are deemed completed 12 months after certificate issue date.

### C.1 Current project certificates - Builder

Figure C1 shows the trend in the total number of current project certificates for “work in progress” as at the end of each quarter. These figures do not include owner builder projects.

Figure C1 Trend in total number of current project certificates - as at the end of each quarter





## C.2 New project certificates issued - Builder

Tables C1, C2 and figure C2.1 show the number and value of new project certificates issued during the quarter, reduced by the number (or value) of project certificates cancelled in the quarter. A cancellation occurs when a project certificate is terminated because the project did not commence. If a project certificate applies to more than one type of cover, then it is classified under the type of cover that represents the greatest value under the contract.

Table C1. Number of project certificates issued by type of cover

Quarter /Type of cover	New single dwelling construction	New multi dwelling (3 storeys or less) *	Alterations /Additions #	Swimming Pools	Renovations (including kitchens and bathrooms) ^	Other	Totals
Dec 11	3,610	992	3,483	1,041	3,839	14	12,979
Mar 12	3,633	922	3,077	710	2,743	8	11,093
Jun 12	4,260	1,044	3,129	743	2,138	11	11,325
Sep 12	4,210	1,170	3,597	930	2,621	15	12,543
Dec 12	3,942	1,225	2,872	858	2,158	8	11,063
Mar 13	4,228	1,349	3,014	764	2,253	10	11,618
Jun 13	4,790	1,482	3,446	754	2,497	15	12,984
Sep 13	5,040	1,845	3,747	984	2,674	14	14,304
Dec 13	4,899	1,666	3,163	1,049	2,323	8	13,108
Mar 14	5,054	1,401	3,482	948	3,002	7	13,894
Jun 14	5,507	2,020	3,670	946	3,001	10	15,154
Sep 14	5,457	1,345	4,005	1,189	3,016	8	15,020
Dec 14	5,008	1,906	3,239	1,125	2,510	9	13,797

\* A project certificate is issued for each unit in a multi-unit development.

# Alterations and additions - structural (i.e. the majority of the work is structural).

^ Renovations - non-structural (i.e. the majority of the contract is non-structural), including e.g. kitchen/bathroom renovations and trade work.

The proportion of project certificates issued during the quarter were: new single and multi-unit dwellings (50%), alterations and renovations (42%) and swimming pools /others (8%).

The number of project certificates issued (13,797) quarter fell 8% during the December quarter. A similar seasonal pattern has been apparent between previous September and December quarters.

During 2014 the total number of certificates issued (57,865) was up 11% year-on-year, with steady growth in all cover types, and flow-on effects on the total values and written premiums of certificates issued in the period.

Figure C2.1 Total Number of project certificates issued during each quarter

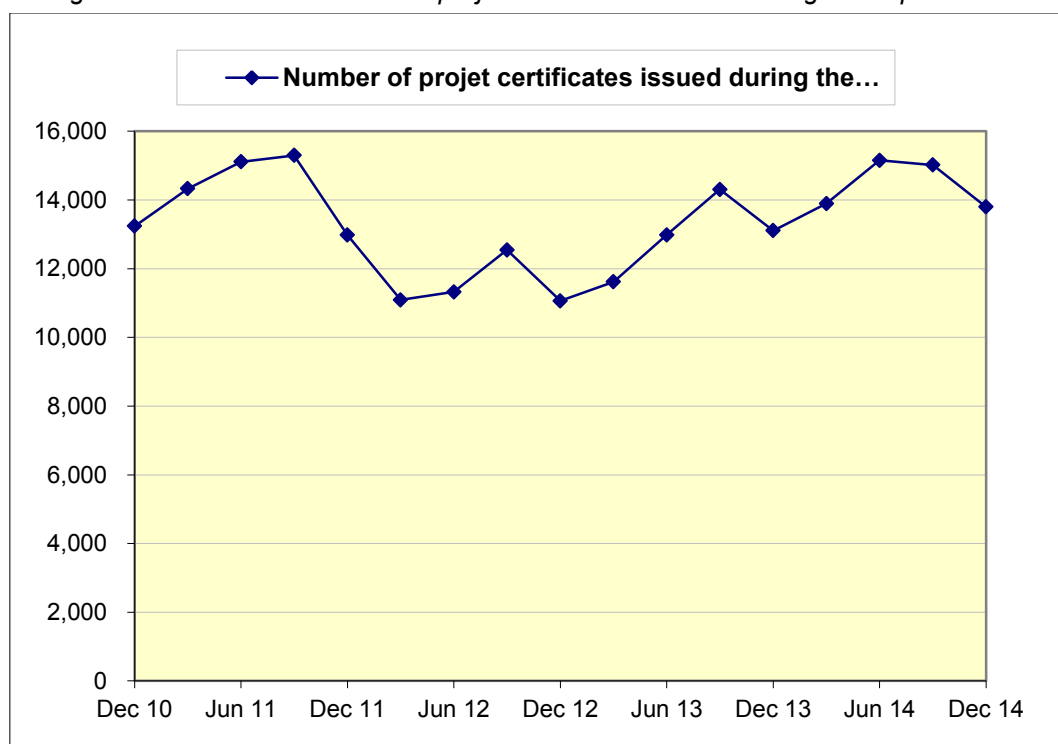


Table C2. Value of project certificates issued by type of cover during each quarter – (\$'million)

Quarter /Type of cover	New single dwelling construction	New multi dwelling (3 storeys or less) *	Alterations /Additions #	Swimming Pools	Renovations (including kitchens and bathrooms) ^	Other	Totals (\$'million)	Average Value per Project Certificate (\$'000)
Dec 11	1,129	223	431	40	115	1	1,939	149
Mar 12	1,104	199	465	29	97	1	1,895	171
Jun 12	1,330	219	474	32	106	1	2,162	191
Sep 12	1,275	233	499	40	126	1	2,174	173
Dec 12	1,178	253	432	35	93	0	1,991	180
Mar 13	1,296	263	451	32	98	1	2,141	184
Jun 13	1,494	308	538	34	119	2	2,495	192
Sep 13	1,521	401	537	42	131	1	2,633	184
Dec 13	1,489	365	430	41	109	3	2,437	186
Mar 14	1,600	301	536	40	134	1	2,612	188
Jun 14	1,783	452	551	43	144	1	2,974	196
Sep 14	1,789	321	635	53	150	1	2,949	196
Dec 14	1,677	435	513	48	117	1	2,791	202

\* A project certificate is issued for each unit in a multi-unit development.

# Alterations and additions - structural (i.e. the majority of the work is structural)

^ Renovations - non-structural (i.e. the majority of the contract is non-structural), including e.g. kitchen/bathroom renovations and trade work.

### C.3 Building approvals versus new project certificates issued – Builder and Owner-Builder

Table C3 and the figures following compare new project certificates issued with building approvals for new dwellings granted based on Australian Bureau of Statistics (ABS) data collected from NSW local government authorities. The HBCF builders and owner-builders data in this part of the analysis have been combined to be consistent with ABS data (which does not distinguish between builders and owner-builders data).

*Table C3. Building approvals versus project certificates issued – All new dwellings of three storeys or less*

Quarter	Numbers			Value of (\$m)		
	Certificates issued	Building Approvals	Ratio	Certificates issued	Building Approvals	Ratio
	(1)	(2)	(3)	(4)	(5)	(6)
<b>Dec 11</b>	4,771	5,641	85%	1,399	1,502	93%
<b>Mar 12</b>	4,696	4,956	95%	1,344	1,356	99%
<b>Jun 12</b>	5,445	5,380	101%	1,586	1,544	103%
<b>Sep 12</b>	5,534	6,632	83%	1,552	1,750	89%
<b>Dec 12</b>	5,334	6,736	79%	1,485	1,746	85%
<b>Mar 13</b>	5,747	5,819	99%	1,608	1,603	100%
<b>Jun 13</b>	6,447	6,984	92%	1,856	1,815	102%
<b>Sep 13</b>	7,099	7,022	101%	1,984	1,880	106%
<b>Dec 13</b>	6,750	7,276	93%	1,911	1,874	102%
<b>Mar 14</b>	6,633	7,105	93%	1,956	1,960	100%
<b>Jun 14</b>	7,705	7,905	97%	2,287	2,138	107%
<b>Sep 14</b>	6,964	8,404	83%	2,159	2,298	94%
<b>Dec 14</b>	7,125	7,946	90%	2,175	2,167	100%
Average	6,173	6,754	91%	1,792	1,818	99%

Notes: ABS8731.0 Building Approvals, Australia; Tables 12, 22 and 43 "Dwelling units approved in new residential buildings - New South Wales"

We have endeavoured to exclude public sector work where possible from the building approval data to enable like-for-like comparison.

Figures for more recent quarters may change where the ABS revises its estimates, and there will continue to be differences between the series from both timing of reporting and the unavoidable inclusion of some public sector building work in the approvals data.

Figures C3.1 and C3.2 show the detailed comparisons for numbers and values respectively between new dwellings project certificates issued and building approvals. Subject to the above, they show the number and value of project certificates issued generally move broadly in line, as expected, with the building approvals data.

Figure C3.1 Numbers of building approvals versus certificates issued - Trend

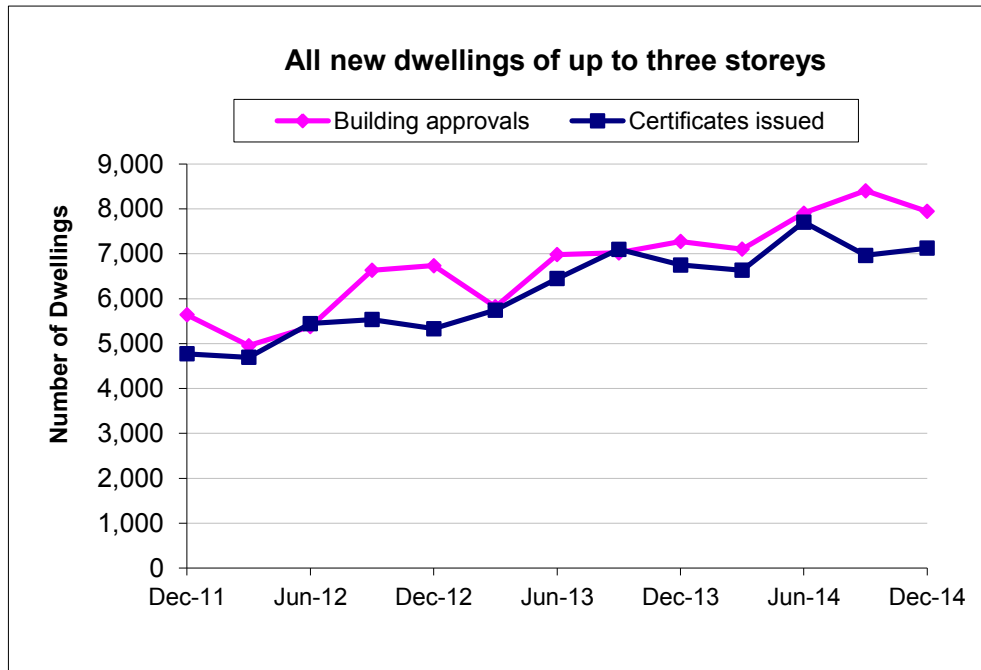
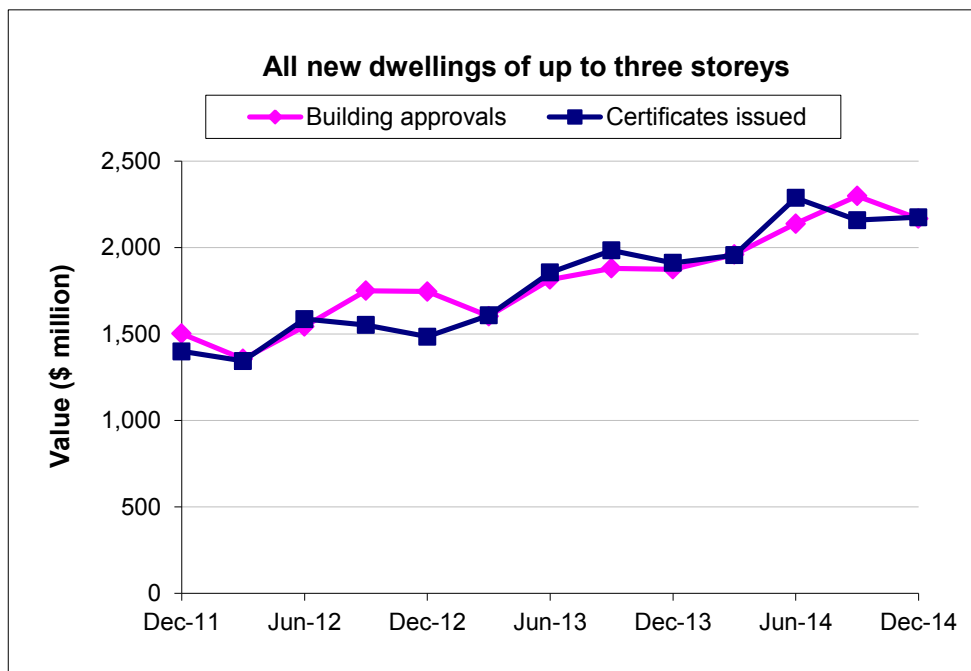


Figure C3.2 Value of building approvals versus certificates issued - Trend



#### D Premium Information - Builder

Insurers provide information to Fair Trading on the premium charged for project certificates issued to builders during the quarter. For the reports below, premium is shown on two bases: including charges and excluding charges. "Charges" refer to all commissions, government and other charges (i.e. GST, stamp duty, government levies and credit card surcharges) as reported by insurers to Fair Trading.

Premium excluding charges is the amount retained by the insurer to pay claims and the insurer's expenses.

Premium including charges is intended to represent the amount paid by the builder including statutory charges such as GST. However, it excludes any fees charged by brokers or intermediaries in addition to the insurer's premium. Any margin added by the builder in on-charging the premium to consumers is also not captured in the insurers' data and is therefore not reported in the figures below.

## D.1 Total premiums by project type - Builder

Table D1.1 Written premium for project certificates issued (including charges) - (\$'000)

Quarter /Type of cover	New single dwelling construction	New multi dwelling (3 storeys or less) *	Alterations /Additions#	Swimming Pools	Renovations (including kitchens and bathrooms) ^	Other	Totals (\$'000)
Dec 11	6,524	2,215	3,035	387	875	5	13,041
Mar 12	6,341	2,071	3,236	275	683	5	12,611
Jun 12	7,510	2,269	3,348	294	652	5	14,078
Sep 12	7,852	2,487	3,565	377	805	7	15,093
Dec 12	7,319	2,594	3,095	324	599	4	13,935
Mar 13	7,837	2,780	3,208	303	644	5	14,777
Jun 13	8,996	3,203	3,698	315	760	10	16,982
Sep 13	9,901	4,204	3,786	414	829	10	19,144
Dec 13	9,621	3,877	3,089	417	694	13	17,711
Mar 14	10,210	3,195	3,786	392	850	5	18,438
Jun 14	11,343	4,704	3,938	429	931	3	21,348
Sep 14	11,566	3,318	4,515	531	938	5	20,873
Dec 14	10,798	4,604	3,686	472	743	6	20,309

Table D1.2 Written premium for project certificates issued (excluding charges) - (\$'000)

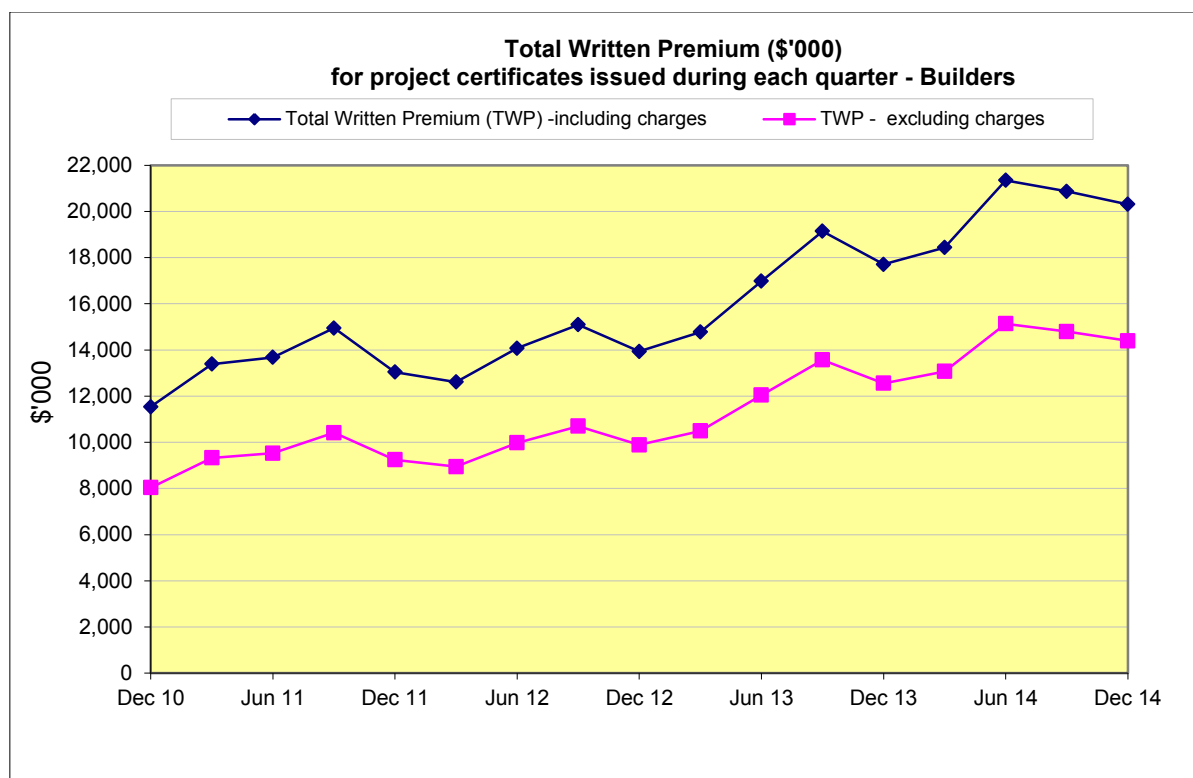
Quarter /Type of cover	New single dwelling construction	New multi dwelling (3 storeys or less) *	Alterations /Additions#	Swimming Pools	Renovations (including kitchens and bathrooms) ^	Other	Totals (\$'000)
Dec 11	4,625	1,570	2,152	274	620	4	9,245
Mar 12	4,496	1,469	2,294	195	484	3	8,941
Jun 12	5,324	1,609	2,373	208	462	4	9,980
Sep 12	5,567	1,763	2,528	267	570	5	10,700
Dec 12	5,193	1,839	2,195	230	425	3	9,885
Mar 13	5,561	1,976	2,275	215	457	4	10,488
Jun 13	6,380	2,271	2,623	223	539	7	12,043
Sep 13	7,020	2,980	2,684	293	588	7	13,572
Dec 13	6,821	2,748	2,190	295	492	10	12,556
Mar 14	7,239	2,266	2,684	278	602	3	13,072
Jun 14	8,042	3,335	2,792	304	660	2	15,135
Sep 14	8,200	2,353	3,201	376	665	3	14,798
Dec 14	7,655	3,264	2,613	335	526	4	14,397

\* A project certificate is issued for each unit in a multi-unit development.

# Alterations and additions - structural (i.e. the majority of the work is structural)

^ Renovations - non-structural (i.e. the majority of the contract is non-structural), including e.g. kitchen/bathroom renovations and trade work.

Figure D1.1 Trend in written premiums for project certificates issued during each quarter



## D.2 Average premium per project certificate - Builder

Table D2.1 Average Premium (including charges) per Project Certificate Issued by Type of Cover – (\$)

Quarter /Type of cover	New single dwelling construction	New multi dwelling (3 storeys or less) *	Alterations /Additions#	Swimming Pools	Renovations (including kitchens and bathrooms) ^	Other	Average per certificate issued \$
Dec 11	1,807	2,233	871	371	228	377	1,005
Mar 12	1,745	2,247	1,052	388	249	569	1,137
Jun 12	1,763	2,174	1,070	396	305	490	1,243
Sep 12	1,865	2,125	991	405	307	471	1,203
Dec 12	1,857	2,118	1,078	377	277	528	1,260
Mar 13	1,853	2,061	1,064	396	286	536	1,272
Jun 13	1,878	2,161	1,073	418	304	687	1,308
Sep 13	1,965	2,279	1,010	421	310	667	1,338
Dec 13	1,964	2,327	976	397	299	1,677	1,351
Mar 14	2,020	2,281	1,087	413	283	705	1,327
Jun 14	2,060	2,329	1,073	453	310	322	1,409
Sep 14	2,119	2,467	1,127	447	311	574	1,390
Dec 14	2,156	2,415	1,138	420	296	622	1,472

Table D2.2 Average Premium (including charges) per \$1,000 of Value of Project Certificates issued by Insurer

Quarter /Type of cover	New single dwelling construction	New multi dwelling (3 storeys or less) *	Alterations/ Additions #	Swimming Pools	Renovations (including kitchens and bathrooms) ^	Other	Average rate per \$1,000 project value \$
Dec 11	5.78	9.92	7.04	9.60	7.61	7.61	6.72
Mar 12	5.74	10.41	6.96	9.36	7.01	7.34	6.65
Jun 12	5.65	10.36	7.07	8.99	6.14	6.35	6.51
Sep 12	6.16	10.70	7.14	9.63	6.37	6.90	6.94
Dec 12	6.22	10.24	7.17	9.26	6.47	6.61	7.00
Mar 13	6.05	10.58	7.10	9.53	6.58	7.16	6.90
Jun 13	6.02	10.39	6.87	9.42	6.38	6.86	6.81
Sep 13	6.51	10.49	7.05	9.88	6.36	7.33	7.27
Dec 13	6.46	10.61	7.18	10.06	6.38	5.30	7.27
Mar 14	6.38	10.61	7.07	9.85	6.35	6.92	7.06
Jun 14	6.36	10.41	7.15	9.99	6.46	7.38	7.18
Sep 14	6.46	10.35	7.11	10.03	6.27	7.12	7.08
Dec 14	6.44	10.59	7.19	9.84	6.33	6.07	7.28

\* A project certificate is issued for each unit in a multi-unit development.

# Alterations and additions - structural (i.e. the majority of the work is structural)

^ Renovations - non-structural (i.e. the majority of the contract is non-structural), including e.g. kitchen/bathroom renovations and trade work.

## E Claims information - Builder

The handling and management of claims by insurers is subject to *Claims Handling Guidelines* that are available on the Fair Trading website. Fair Trading is provided with data at the end of each quarter of all claims received by insurers in respect of the HBCF business issued after 1 July 2002.

The information set out below provides only a partial picture of HBCF Scheme activity. Therefore, care must be taken in basing conclusions on trends that have emerged to date. The data in this publication relates only to project certificates issued from 1 July 2002 and to claims that have been notified to date on those certificates. **It does NOT include claims that have not yet been reported to insurers on those certificates or any provisions made by insurers in their accounts for the cost of unreported claims or cost escalation on reported claims.** Also, it does not include any information on claims arising from project certificates issued prior to 1 July 2002, even though claims relating to prior years may continue to be reported and settled in the post 1 July 2002 period.

## E.1 Number of claims by liability assessment status - Builder

Table E1 Cumulative Number of Claims by Liability Status at each quarter end

Quarter	Notification only #	Liability being assessed	Liability fully, partially or deemed accepted	Liability fully denied	Liability in dispute	Total
Dec 11	2,090	248	2,910	831	25	<b>6,104</b>
Mar 12	2,118	307	3,261	888	44	<b>6,618</b>
Jun 12	2,242	301	3,462	928	29	<b>6,962</b>
Sep 12	2,343	285	3,671	983	37	<b>7,319</b>
Dec 12	2,435	340	3,858	994	42	<b>7,669</b>
Mar 13	2,535	268	4,116	1,055	47	<b>8,021</b>
Jun 13	2,668	213	4,268	1,063	45	<b>8,257</b>
Sep 13	2,751	157	4,489	1,087	40	<b>8,524</b>
Dec 13	2,834	121	4,620	1,119	30	<b>8,724</b>
Mar 14	2,894	130	4,764	1,137	25	<b>8,950</b>
Jun 14	2,957	125	4,870	1,188	21	<b>9,161</b>
Sep 14	3,000	132	4,947	1,222	16	<b>9,317</b>
Dec 14	3,100	92	5,075	1,253	14	<b>9,534</b>

# If a 'Notification' has not become a claim after an extended period, its status is recorded as 'Finalised' within the 'Notification' category. As at 31 December 2014, there were 2,911 such 'Notifications' which were 'Finalised' with nil payment to claimant.

## E.2 Reasons claims denied - Builder

Table E2. Number of claims with liability fully denied - breakdown by Reason Claim Declined – cumulative at end of each quarter

Quarter	Incorrect Insurer	Out of time	Builder found	Builder not dead	Builder not insolvent	Not deemed a defect	Total
Dec 11	4	64	79	2	221	461	<b>831</b>
Mar 12	4	74	86	2	222	500	<b>888</b>
Jun 12	5	76	86	2	242	517	<b>928</b>
Sep 12	5	78	85	2	259	554	<b>983</b>
Dec 12	6	78	87	3	263	557	<b>994</b>
Mar 13	5	87	88	3	277	595	<b>1,055</b>
Jun 13	5	98	89	3	273	595	<b>1,063</b>
Sep 13	7	103	90	3	274	610	<b>1,087</b>
Dec 13	7	114	91	3	275	629	<b>1,119</b>
Mar 14	7	126	92	3	278	631	<b>1,137</b>
Jun 14	7	132	92	3	301	653	<b>1,188</b>
Sep 14	7	141	93	4	306	671	<b>1,222</b>
Dec 14	7	150	92	4	309	691	<b>1,253</b>

Note: A decrease from prior quarter may occur due to a reclassification to another category for the claims concerned.



### E.3 Claims experience - Builder

The remaining tables in this section show a further breakdown of the claims where liability has been accepted by the insurer in regards to builders (not owner-builders) as at **31 December 2014**. Information is shown separately between (a) claims that are finalised with all costs known and (b) those that are open, in which case at least part of the cost is an estimate of future payments.

Table E3. Claims Experience by Principal Cause (incl GST) – for Finalised Accepted\* Claims

Principal Cause	No. of Claims	Sum Paid to Claimant	Sum Paid to Third Parties	Total Gross Paid \$	Average Claim Size \$
A01: Insolvency	3,985	268,787,628	22,000,288	290,787,916	72,971
A02: Death	46	3,392,377	168,036	3,560,413	77,400
A03: Disappearance	195	11,358,949	851,765	12,210,714	62,619
<b>Total</b>	<b>4,226</b>	<b>283,538,954</b>	<b>23,020,089</b>	<b>306,559,043</b>	<b>72,541</b>

\*Accepted Claims are those in which liability is partially, fully or deemed accepted by the insurer.

"Paid to Claimant" includes all payments to the claimant or to suppliers involved in the rectification of the works.

"Paid to Third Parties" includes payments to investigators, loss adjusters, legal expenses, etc. but not insurers' claims handling expenses (overheads).

Table E4. Claims Experience by Principal Cause (incl GST) – for Open\* Accepted Claims

Principal Cause	No. of Claims	Sum of Paid to Claimant	Sum of Paid to Third Parties	Net Outstanding Estimate \$	Estimated Total Claims Cost	Average Claim Size \$
A01: Insolvency	781	100,976,831	16,327,122	64,548,999	181,852,952	232,846
A02: Death	3	104,741	12,704	343,687	461,132	153,711
A03: Disappearance	65	4,678,158	621,446	3,079,090	8,378,694	128,903
<b>Total</b>	<b>849</b>	<b>105,759,730</b>	<b>16,961,272</b>	<b>67,971,776</b>	<b>190,692,778</b>	<b>224,609</b>

\*Open claims are claims which are not finalised.

Table E5. Claims Experience by Claim Code (incl GST) - for Finalised Accepted Claims

Claim Code	No. of Claims	Sum Paid to Claimant	Sum Paid to Third Parties	Total Gross Paid \$	Average Claim Size \$
T01: Failure to commence	216	4,397,469	163,490	4,560,959	21,116
T02: Failure to complete	1,454	108,919,111	6,938,567	115,857,678	79,682
T03: Major defect #	2,051	142,075,541	13,440,761	155,516,302	75,825
T04: General defect #	505	28,146,833	2,477,271	30,624,104	60,642
<b>Total</b>	<b>4,226</b>	<b>283,538,954</b>	<b>23,020,089</b>	<b>306,559,043</b>	<b>72,541</b>

# Following major changes to home building laws from 15 January 2015, the definition of what is a "structural defect" and therefore what is covered by the six year warranty period is replaced by a definition for 'major defect'. General defects that don't meet the "major defect test" will continue to be covered by the standard 2-year statutory warranty.

Table E6. Claims Experience by Claim Code (incl GST) – for Open Accepted Claims

Claim Code	No. of Claims	Sum of Paid to Claimant	Sum of Paid to Third Parties	Net Outstanding Estimate \$	Estimated Total Claims Cost	Average Claim Size \$
T01: Failure to commence	2	95,677	4,357	4	100,038	50,019
T02: Failure to complete	117	11,351,174	1,824,627	3,718,882	16,894,683	144,399
T03: Major defect	660	82,652,034	13,443,385	59,243,556	155,338,975	235,362
T04: General defect	70	11,660,845	1,688,903	5,009,334	18,359,082	262,273
<b>Total</b>	<b>849</b>	<b>105,759,730</b>	<b>16,961,272</b>	<b>67,971,776</b>	<b>190,692,778</b>	<b>224,609</b>

Table E7. Claims Experience by Type of Cover (incl GST) – for Finalised Accepted Claims

Type of Cover	No. of Claims	Sum of Paid to Claimant	Sum of Paid to Third Parties	Total Gross Paid \$	Average Claim Size \$
C01 : New single dwelling construction	2,716	165,740,461	12,531,811	178,272,272	65,638
C02: New multi dwelling (greater than 3 storeys)	7	3,531,337	552,719	4,084,056	583,436
C03 : New multi dwelling (3 storeys or less)	594	58,045,431	5,556,626	63,602,057	107,074
C04 : Alterations/Additions	558	44,355,805	3,320,257	47,676,062	85,441
C05: Swimming Pools	210	4,507,956	540,846	5,048,802	24,042
C06 : Renovations (including kitchens and bathrooms)	96	5,312,013	425,255	5,737,268	59,763
C07: Other	45	2,045,951	92,575	2,138,526	47,523
<b>Total</b>	<b>4,226</b>	<b>283,538,954</b>	<b>23,020,089</b>	<b>306,559,043</b>	<b>72,541</b>

Table E8. Claims Experience by Type of Cover (incl GST) – for Open Accepted Claims

Type of Cover	No. of Claims	Sum of Paid to Claimant	Sum of Paid to Third Parties	Net Outstanding Estimate \$	Estimated Total Claims Cost	Average Claim Size \$
C01 : New single dwelling construction	424	25,177,012	5,337,610	15,094,818	45,609,440	107,569
C02: New multi dwelling (greater than 3 storeys)	11	15,800,710	1,855,647	12,951,581	30,607,938	2,782,540
C03 : New multi dwelling (3 storeys or less)	228	54,613,067	8,379,000	31,131,182	94,123,249	412,821
C04 : Alterations/Additions	130	7,569,338	972,957	5,133,062	13,675,357	105,195
C05: Swimming Pools	31	897,864	168,056	541,630	1,607,550	51,856
C06 : Renovations (including kitchens and bathrooms)	24	1,701,739	246,187	3,114,153	5,062,079	210,920
C07: Other	1	0	1,815	5,350	7,165	7,165
<b>Total</b>	<b>849</b>	<b>105,759,730</b>	<b>16,961,272</b>	<b>67,971,776</b>	<b>190,692,778</b>	<b>224,609</b>

#### E.4 Claims experience by year certificate issued

Table E9. Scheme Claims Experience to date by year of issue of project certificates (incl GST) – for all Accepted liability (finalised and open) claims: builders and owner-builders combined

Certificate calendar year of issue	No. of Claims	Sum of Paid to Claimant	Sum of Paid to Third Parties	Net Outstanding Estimate \$	Estimated Total Claims Cost	Average Claim Size \$
2002 (from 1/7/2002)	134	26,819,668	2,990,490	2,364,850	32,175,008	240,112
2003	374	53,472,304	7,802,577	19,815,648	81,090,529	216,820
2004	563	49,831,368	6,308,455	7,486,919	63,626,742	113,014
2005	502	40,239,120	4,940,483	6,618,080	51,797,683	103,183
2006	646	48,236,588	4,765,002	4,155,152	57,156,742	88,478
2007	876	46,267,971	4,379,778	6,155,421	56,803,170	64,844
2008	576	33,223,641	2,900,714	4,110,413	40,234,768	69,852
2009	359	23,571,412	1,870,540	5,879,129	31,321,081	87,245
2010	381	28,071,262	1,761,854	3,346,916	33,180,032	87,087
2011	485	31,815,778	2,398,847	4,691,771	38,906,396	80,219
2012	253	16,082,091	868,078	2,465,982	19,416,151	76,744
2013	35	1,171,153	150,627	1,397,575	2,719,355	77,696
2014	3	83,044	5,766	49,952	138,762	46,254
<b>Total</b>	<b>5,187</b>	<b>398,885,400</b>	<b>41,143,211</b>	<b>68,537,808</b>	<b>508,566,419</b>	<b>98,046</b>

Table E9 shows the claims experience to date split by the year the project certificate was issued. For reasons explained in Section 2, this data provides an incomplete view of the claims experience for each year. For all years of issue, even for the earliest under the current scheme with certificates issued in 2002 and 2003, the number of claims and amount paid on claims will continue to increase over the next few years because:

- there may be significant delay between the date a project certificate is issued and the commencement of the project;
- the duration of building projects may range from a few weeks to a few years;
- coverage remains in place for six years after project completion; and
- it may take some time for home owners to identify a loss, lodge a claim with an insurer and for the insurer to assess the claim and arrange rectification.

The impact of these factors is even greater for more recent years and for multi-storey dwellings.

Insurers have also estimated additional costs of \$21 million in respect of claims in which liability has **not** yet been determined.

Insurers do manage to recover some claim payments, generally as creditors of insolvent builders or from third parties. Since the scheme commenced, some \$15 million has been recovered or about 3% of estimated total claims cost to date.

Overall for the Scheme, the number of accepted liability claims is up 133 or 3% and the reported costs up \$25 million or 5%, since the last quarter.

## Part II Owner-Builder Information

This section sets out the data for owner-builders (**OB**) in a similar format to that shown earlier for builders. Not all tables in Part I have a corresponding table in this section as some data is not relevant or available in respect of owner-builder insurance.

*As new home building laws came into effect on 15 January 2015, owner-builders who sell properties built under owner-builder permits are no longer required to provide insurance to the subsequent purchaser, or attach certificate of insurance to contract for sale for intending purchasers of owner-builder work. HBCF ceased issuing cover from 15 January 2015 to owner-builders who sell their properties.*

### OB.C Project Certificate information – Owner-Builder

#### OB.C2 New project certificates issued – Owner-Builder

Table **OB.C2**. Number of project certificates issued by type of cover

Quarter /Type of cover	New single dwelling construction	New multi dwelling (3 storeys or less)*	Alterations /Additions #	Swimming Pools	Renovations (including kitchens and bathrooms) ^	Other	Totals
Dec 11	161	8	167	9	5	1	351
Mar 12	131	10	122	5	0	2	270
Jun 12	135	6	117	8	0	4	270
Sep 12	146	8	136	9	0	0	299
Dec 12	159	8	117	2	0	1	287
Mar 13	164	6	99	8	0	0	277
Jun 13	165	10	132	3	0	1	311
Sep 13	202	12	134	6	0	1	355
Dec 13	173	12	141	4	0	0	330
Mar 14	162	16	140	6	1	0	325
Jun 14	156	22	153	10	0	1	342
Sep 14	156	6	128	2	0	0	292
Dec 14	195	16	155	5	1	0	372

\* A project certificate is issued for each unit in a multi-unit development.

# Alterations and additions - structural (i.e. the majority of the work is structural).

^ Renovations - non-structural (i.e. the majority of the contract is non-structural), including e.g. kitchen /bathroom renovations and trade work.

Figure OB.C2 Total Number of project certificates issued during each quarter

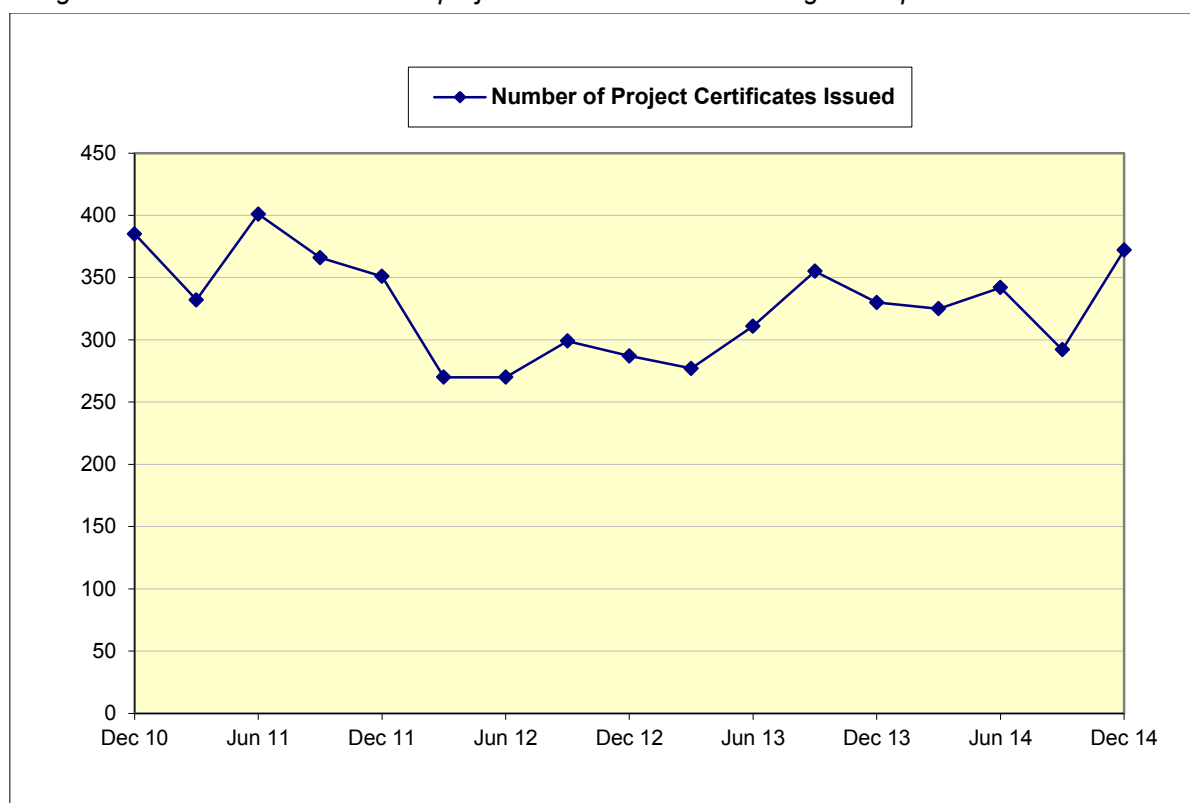


Table OB.C3. Value of project certificates issued by type of cover – (\$'000)

Quarter /Type of cover	New single dwelling construction	New multi dwelling (3 storeys or less) *	Alterations /Additions #	Swimming Pools	Renovations (including kitchens and bathrooms) ^	Other	Totals (\$'000)	Average Value per Project Certificate (\$'000)
Dec 11	45,218	1,540	19,911	308	263	98	67,338	192
Mar 12	38,867	2,390	16,307	139	0	570	58,273	216
Jun 12	36,169	1,010	13,559	272	0	380	51,390	190
Sep 12	42,671	1,420	18,937	218	0	0	63,246	212
Dec 12	51,501	2,120	13,645	61	0	150	67,477	235
Mar 13	47,831	1,248	12,845	240	0	0	62,164	224
Jun 13	51,870	2,070	18,181	97	0	200	72,418	233
Sep 13	59,949	2,380	18,112	229	0	240	80,910	228
Dec 13	53,554	2,512	22,436	119	0	0	78,621	238
Mar 14	51,268	3,512	21,512	269	140	0	76,701	236
Jun 14	46,968	4,800	24,375	344	0	110	76,597	224
Sep 14	48,094	1,270	20,267	144	0	0	69,775	239
Dec 14	59,179	3,580	23,107	292	69	0	86,227	232

\* A project certificate is issued for each unit in a multi-unit development.

# Alterations and additions - structural (i.e. the majority of the work is structural)

^ Renovations - non-structural (i.e. the majority of the contract is non-structural), including e.g. kitchen/bathroom renovations and trade work

**OB.D Premium Information- Owner-Builder****OB.D1 Total premiums by project type – Owner-Builder**Table **OB.D1.1** Written premium for project certificates issued (including charges) - (\$'000)

Quarter /Type of cover	New single dwelling construction	New multi dwelling (3 storeys or less) *	Alterations /Additions#	Swimming Pools	Renovations (including kitchens and bathrooms) ^	Other	Totals
Dec 11	401	20	186	4	2	1	614
Mar 12	308	34	151	2	0	4	499
Jun 12	311	10	120	3	0	3	447
Sep 12	367	20	169	2	0	0	558
Dec 12	444	32	123	1	0	1	601
Mar 13	438	19	113	3	0	0	573
Jun 13	466	17	155	1	0	1	640
Sep 13	514	23	156	2	0	2	697
Dec 13	465	38	186	2	0	0	691
Mar 14	444	52	183	3	1	0	683
Jun 14	421	66	214	4	0	1	706
Sep 14	416	19	179	2	0	0	616
Dec 14	518	53	198	4	1	0	774

Table **OB.D1.2** Written premium for project certificates issued (excluding charges) - (\$'000)

Quarter /Type of cover	New single dwelling construction	New multi dwelling (3 storeys or less) *	Alterations /Additions#	Swimming Pools	Renovations (including kitchens and bathrooms) ^	Other	Totals (\$'000)
Dec 11	284	14	132	3	1	1	435
Mar 12	219	24	107	1	0	3	354
Jun 12	221	7	85	2	0	2	317
Sep 12	260	14	120	2	0	0	396
Dec 12	314	23	87	1	0	1	426
Mar 13	311	13	80	2	0	0	406
Jun 13	330	12	110	1	0	1	454
Sep 13	364	16	111	2	0	1	494
Dec 13	330	27	132	1	0	0	490
Mar 14	315	37	130	2	1	0	485
Jun 14	298	47	152	3	0	1	501
Sep 14	295	14	127	1	0	0	437
Dec 14	367	37	141	3	0	0	548

\* A project certificate is issued for each unit in a multi-unit development.

# Alterations and additions - structural (i.e. the majority of the work is structural)

^ Renovations - non-structural (i.e. the majority of the contract is non-structural), including e.g. kitchen/bathroom renovations and trade work.

Figure OB.D1 Trend in written premiums for project certificates issued during each quarter

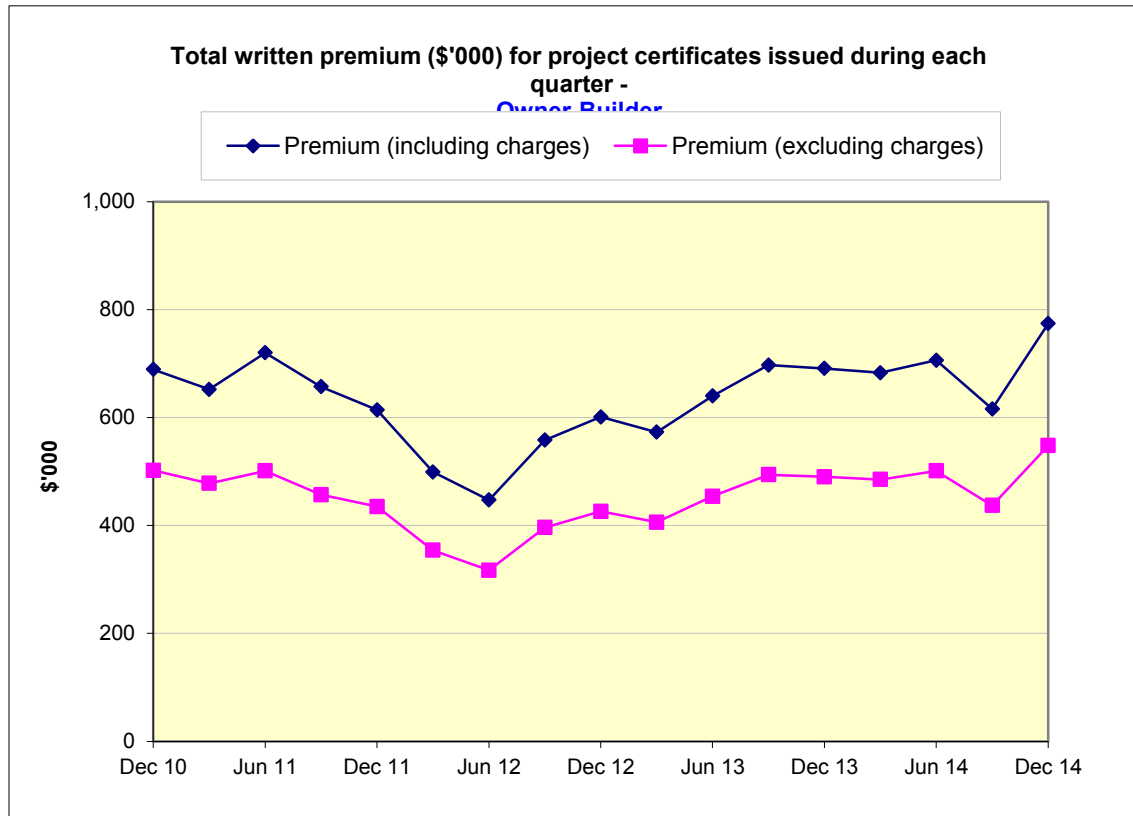
**OB.D2 Average premium per project certificate – Owner-Builder**

Table OB.D2.1 Average Premium (including charges) per Project Certificate Issued by Type of Cover (\$)

Quarter /Type of cover	New single dwelling construction	New multi dwelling (3 storeys or less) *	Alterations /Additions #	Swimming Pools	Renovations (including kitchens and bathrooms) ^	Other	Average per certificate issued \$
Dec 11	2,492	2,496	1,113	475	338	790	1,749
Mar 12	2,354	3,464	1,237	352	0	1,842	1,849
Jun 12	2,307	1,662	1,023	451	0	662	1,657
Sep 12	2,512	2,549	1,242	274	0	0	1,868
Dec 12	2,788	4,003	1,054	413	0	1,209	2,093
Mar 13	2,669	3,142	1,146	408	0	0	2,069
Jun 13	2,824	1,714	1,169	474	0	1,381	2,059
Sep 13	2,546	1,906	1,163	431	0	1,934	1,965
Dec 13	2,691	3,163	1,319	406	0	0	2,094
Mar 14	2,741	3,247	1,310	580	705	0	2,103
Jun 14	2,698	3,031	1,398	410	0	633	2,065
Sep 14	2,669	3,198	1,395	1,058	0	0	2,110
Dec 14	2,657	3,297	1,279	799	486	0	2,080

Table **OB.D2.2** Average Premium (**including charges**) per \$1,000 of Value of Project Certificates issued by Insurer

Quarter /Type of cover	New single dwelling construction	New multi dwelling (3 storeys or less) *	Alterations /Additions #	Swimming Pools	Renovations (including kitchens and bathrooms) ^	Other	Average rate per \$1,000 project value \$
Dec 11	8.87	12.96	9.34	13.86	6.44	8.10	<b>9.12</b>
Mar 12	7.93	14.49	9.25	12.66	0	6.46	<b>8.57</b>
Jun 12	8.61	9.87	8.83	13.24	0	6.97	<b>8.71</b>
Sep 12	8.59	14.36	8.92	11.33	0	0	<b>8.83</b>
Dec 12	8.61	15.11	9.04	13.51	0	8.06	<b>8.90</b>
Mar 13	9.15	15.11	8.83	13.60	0	0	<b>9.22</b>
Jun 13	8.98	8.28	8.49	14.63	0	6.91	<b>8.84</b>
Sep 13	8.58	9.61	8.61	11.30	0	8.06	<b>8.62</b>
Dec 13	8.69	15.11	8.29	13.62	0	0	<b>8.79</b>
Mar 14	8.66	14.79	8.52	12.92	5.04	0	<b>8.91</b>
Jun 14	8.96	13.89	8.77	11.94	0	5.75	<b>9.22</b>
Sep 14	8.66	15.11	8.81	14.66	0	0	<b>8.83</b>
Dec 14	8.76	14.74	8.58	13.68	7.09	0	<b>8.97</b>

\* A project certificate is issued for each unit in a multi-unit development.

# Alterations and additions - structural (i.e. the majority of the work is structural)

^ Renovations - non-structural (i.e. the majority of the contract is non-structural), including e.g. kitchen/bathroom renovations and trade work.

Premium rates for owner-builders are generally higher than for corresponding work done by builders. This may reflect insurer expectations of higher costs of claims for major and general defects in respect of owner-builders compared to licensed builders.

## OB.E Claims Information- Owner-Builder

### OB.E1 Number of claims by liability assessment status – Owner-Builder

Table **OB.E1** Number of Claims by Liability Status at each quarter end

Quarter	Notification only #	Liability being assessed	Liability fully, partially or deemed accepted	Liability fully denied	Liability in dispute	Total
Dec 11	35	4	75	130	3	<b>247</b>
Mar 12	39	9	81	134	3	<b>266</b>
Jun 12	47	14	80	140	2	<b>283</b>
Sep 12	56	10	80	151	2	<b>299</b>
Dec 12	59	7	85	152	1	<b>304</b>
Mar 13	71	6	87	159	1	<b>324</b>
Jun 13	81	4	87	169	1	<b>342</b>
Sep 13	88	5	91	169	2	<b>355</b>
Dec 13	92	2	95	172	0	<b>361</b>
Mar 14	99	7	101	179	0	<b>386</b>
Jun 14	107	4	108	181	0	<b>400</b>
Sep 14	112	2	107	185	<b>0</b>	406
Dec 14	118	2	112	187	<b>0</b>	419

# If a 'Notification' has not become a claim after an extended period, its status is recorded as 'Finalised' within the 'Notification' category. As at 31 December 2014, there were 82 such 'Notifications' which were 'Finalised' with nil payment to claimant.



**OB.E2 Reasons claims denied – Owner-Builder**Table **OB.E2**. *Liability fully denied – breakdown by Reason Claim Declined*

Quarter	Out of time	Builder found	Builder not dead	Builder not insolvent	Not deemed a defect	Total
Dec 11	9	87	1	25	8	130
Mar 12	8	89	1	26	10	134
Jun 12	8	91	1	30	10	140
Sep 12	8	98	1	33	11	151
Dec 12	8	98	1	34	11	152
Mar 13	9	103	1	36	10	159
Jun 13	10	108	1	39	11	169
Sep 13	9	109	1	39	11	169
Dec 13	10	111	1	39	11	172
Mar 14	10	117	1	39	12	179
Jun 14	10	120	1	39	11	181
Sep 14	11	121	1	39	13	185
Dec 14	11	123	1	39	13	187

Note: A decrease from prior quarter may occur due to a reclassification to another category for the claim concerned.

**OB.E3 Claims experience - Owner-Builder**

The remaining tables in this section show a further breakdown of the claims as at 31 December 2014 where liability has been accepted as at that date. Both open and finalised claims are included in these tables.

Table **OB.E3**. *Claims Experience by Principal Cause (incl GST) - Accepted\* Claims*

Principal Cause	No. of Claims Reported	No. of claims Open	Total amounts paid to date \$	Estimated Total Claims Cost \$	Average Claim Size \$
A01: Insolvency	42	11	4,112,263	4,447,966	105,904
A02: Death	5	0	171,939	171,939	34,388
A03: Disappearance	65	8	6,464,364	6,694,693	102,995
<b>Total</b>	<b>112</b>	<b>19</b>	<b>10,748,566</b>	<b>11,314,598</b>	<b>101,023</b>

\*Accepted Claims are those in which liability is partially, fully or deemed accepted by the insurer.

"Total amounts paid to date" includes all payments to the claimant or to suppliers involved in the rectification of the works. It also include payments to third parties such as investigators, loss adjusters, legal expenses, etc. Insurers' own claim handling expenses (overheads) are excluded.

Disappearance of builder is the dominant cause of claims with respect to owner-builders, in contrast to claims against builders which are predominantly in respect of builder insolvency.

Table **OB.E4**. *Claims Experience by Claim Code (incl GST) – Accepted Claims*

Claim Code	No. of Claims Reported	No. of claims Open	Total amounts paid to date \$	Estimated Total Claims Cost \$	Average Claim Size \$
T03: Major defect	105	18	10,257,753	10,797,966	102,838
T04: General defect	7	1	490,813	516,632	73,805
<b>Total</b>	<b>112</b>	<b>19</b>	<b>10,748,566</b>	<b>11,314,598</b>	<b>101,023</b>

Non-commencement and non-completion are not applicable as to the circumstances giving rise to claims against owner-builders.

Table **OB.E5**. Claims Experience by Type of Cover (incl GST) – Accepted Claims

Type of Cover	No. of Claims Reported	No. of claims Open	Total amounts paid to date \$	Estimated Total Claims Cost \$	Average Claim Size \$
<b>C01 : New single dwelling construction</b>	86	15	<b>8,350,285</b>	<b>8,701,157</b>	101,176
<b>C03 : New multi dwelling (3 storeys or less) *</b>	2	0	<b>238,867</b>	<b>238,867</b>	119,434
<b>C04 : Alterations/Additions</b>	23	4	<b>2,056,795</b>	<b>2,271,955</b>	98,781
<b>C05: Swimming Pools</b>	0	0	<b>0</b>	<b>0</b>	<b>0</b>
<b>C06 : Renovations (including kitchens and bathrooms)</b>	0	0	<b>0</b>	<b>0</b>	<b>0</b>
<b>C07: Other</b>	1	0	<b>102,619</b>	<b>102,619</b>	102,619
<b>Total</b>	<b>112</b>	<b>19</b>	<b>10,748,566</b>	<b>11,314,598</b>	<b>101,023</b>

\*Multi-unit claims for common areas are averaged over all units within a development

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