

# **NSW Home Warranty Insurance Scheme**

**Information on the Scheme as at**

**31 December 2008**

1 July 2009

Office of Fair Trading  
NSW Department of Commerce  
201 Elizabeth Street  
SYDNEY NSW 2000

Dear Sirs

### **HWI Scheme Data as at 31 December 2008**

Finity Consulting Pty Limited (Finity) was engaged by the Office of Fair Trading to review the publication of data for the Home Warranty Insurance (HWI) 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.

The December quarter displays the continuing impact of the global economic crisis on the NSW homebuilding industry, with considerable reductions in the number of new project certificates issued, and with the number of builders holding eligibility for home warranty insurance reducing for the first time since the statistics have been collected. The experience continued to be affected by claims in relation to the collapse of Beechwood Homes.

Yours sincerely



Bruce Watson

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



David Minty



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# HWI SCHEME INFORMATION

## 1 PREAMBLE

The *Home Building Act 1989* establishes a home warranty insurance (HWI) scheme. The scheme involves approved private insurers and provides protection for consumers where builders fail to complete residential building work or rectify defects.

The Office of Fair Trading, within the Department of Commerce, has certain regulatory responsibilities in relation to home warranty insurance. One of the roles of Fair Trading is to collect data from insurers offering HWI to enable monitoring of the financial progress of the scheme.

In New South Wales, HWI may only be offered by insurers approved by the Minister under the Act. As at 31 December 2008, there were five groups of licensed insurers approved to offer HWI in New South Wales.

Since September 2005 insurers in the HWI 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 which from that date made it clear that the protection offered applied only in the event of the death, disappearance or insolvency of a builder. For policies issued from 19 May 2009, cover will be extended to situations where a builder's licence is suspended for a failure to comply with a monetary order of the Consumer, Trader and Tenancy 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 2008. The information provided has been aggregated across insurers. Data provided by individual insurers is commercially confidential and has not been disclosed.

## 2 CAUTION IN INTERPRETING THE INFORMATION

The current version of the HWI scheme is at an early stage of evolution. As a result, considerable caution is required when interpreting the information provided in this publication.

HWI 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.

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.** Experience with the former Government administered schemes showed that claims may be lodged with insurers as long as ten years after the issue of HWI

It is only possible to make an assessment of the financial performance of the HWI scheme by comparing premiums collected with all the relevant costs of insurers over the full life of the HWI cover. At this time, there is insufficient information to make such an assessment although useful information will emerge as the business matures.

Claims experience of HWI can vary greatly from year to year depending on economic conditions in both the home building market and in the community generally. The nature of insurance is also that there are good years and bad years depending on the state of the insurance cycle and the degree of competition in the insurance market both in Australia and globally. For the first few years since the new HWI scheme commenced, the NSW economy performed reasonably well, and conditions were generally favourable for home builders.

As over 90% of home warranty claims arise from the insolvency of the builder, the current downturn in the economy could see a significant increase in claims on the scheme as even some larger builders are subject to material financial stress. Poor business decisions are also more likely to convert into business failure if additional financing is unexpectedly required 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.

### 3 DATA

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

##### A Eligibility Information

Under the HWI scheme, licensed builders may apply to an insurer of their choice for HWI eligibility. Eligibility is a form of pre-approval for the issue of HWI project certificates. Eligibility for HWI does not apply to owner-builders.

##### A.1 Builder eligibilities

Table A1 shows the number of builder eligibilities at the end of each quarter by turnover band. It excludes builders with eligibility pending, but includes builders who may have eligibility with more than one insurer at the time of reporting. Turnover refers to the total annual turnover for which the builder has eligibility from the insurer at the end of the quarter for all types of cover.

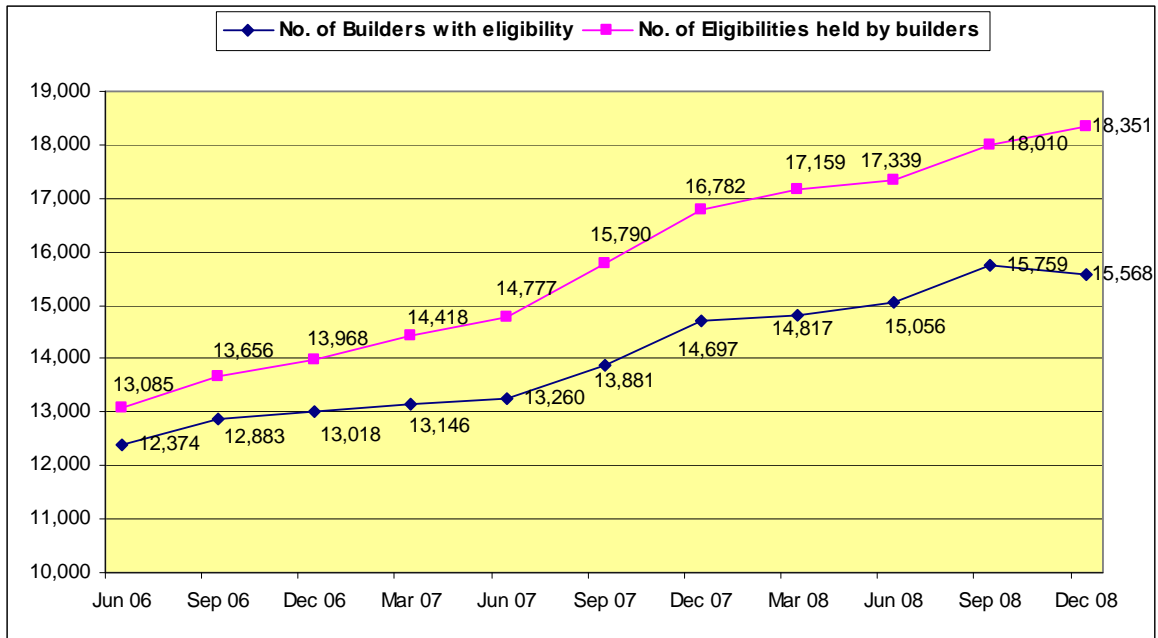
Table A1 Number of builder eligibilities by turnover band

Turnover band (\$' m)	\$0 - <0.5m	\$0.5 - <1m	\$1 - <2m	\$2 - <3m	\$3 - <5m	\$5 - <20m	\$20+m	Change in Turnover Requested	unlimited	Totals
Jun 06	1,034	1,256	4,356	4,305	855	728	113	135	303	13,085
Sep 06	1,174	1,399	4,527	4,450	821	699	107	139	340	13,656
Dec 06	1,292	1,426	4,576	4,469	879	702	105	141	378	13,968
Mar 07	1,364	1,498	4,528	4,451	1,156	755	108	145	413	14,418
Jun 07	1,299	1,405	4,126	3,977	2,581	769	108	135	377	14,777
Sept 07	1,526	1,528	4,356	4,010	2,980	832	122	11	425	15,790
Dec 07	1,708	1,668	4,561	4,168	3,166	904	117	3	487	16,782
Mar 08	1,738	1,718	4,651	4,160	3,383	911	131	59	408	17,159
Jun 08	2,081	1,777	4,528	4,024	3,499	903	134	107	286	17,339
Sep 08	2,103	1,852	4,680	3,817	3,922	1,052	140	11	433	18,010
Dec 08	2,142	1,948	4,743	4,072	3,921	925	145	3	452	18,351

Most licensed builders have eligibility for annual turnover within the \$1 million to \$5 million bands.

As at 31 December 2008, 2,643 builders (or 17% of the total 15,568 eligible builders) had established eligibility for cover with two or more insurers. The number of builders holding eligibility fell during this quarter for the first time since collection of statistics commenced.

Figure A1 - Trend in: a) number of licensed builders with eligibility, and b) number of current eligibilities held by licensed builders, as at end of each quarter



## B Securities and Indemnities Information

In some circumstances an insurer may require a security or indemnity of some form before granting eligibility to a builder. The most common form of security is an indemnity (usually provided by an individual director or other third party) and/or a bank guarantee. The information on securities does not include owner-builders.

### B.1 Number and type of securities held by insurers

Table B1 Number of Securities and Indemnities – current as at end of each quarter

Quarter	Bank Guarantee	Indemnity	Multiple Securities	Other Security	Totals	% of Total Builder Eligibility
Dec 06	221	1,212	68	2	1,503	10.8%
Mar 07	227	1,262	76	4	1,569	10.9%
Jun 07	209	1,312	123	4	1,648	11.2%
Sept 07	227	1,380	133	4	1,744	11.0%
Dec 07	229	1,354	132	4	1,719	10.2%
Mar 08	207	1,461	144	2	1,814	10.6%
Jun 08	139	1,381	120	1	1,641	9.5%
Sep 08	144	1,372	112	1	1,629	9.0%
Dec 08	135	1,405	117	1	1,658	9.0%

Since the June 2006 quarter there has been a shift from bank guarantees to indemnities and multiple securities as a preferred form of security. As at 31 December 2008, 9% of builder eligibilities were subject to some form of security being in place. Looked at another way, over 90% of builders receive eligibility for insurance cover without having to provide any form of security to the insurer.

## Dollar value of securities held by insurers

Table B2 Value of Securities and Indemnities (\$'000) - current as at end of each quarter

Quarter	Bank Guarantee	Indemnity *	Multiple Securities#	Other Security	Totals
Jun 06	50,636	N/A	2,361	23	53,020
Sep 06	44,000	N/A	2,186	26	46,212
Dec 06	26,519	N/A	10,643	15	37,177
Mar 07	28,935	N/A	10,968	19	39,922
Jun 07	24,739	N/A	14,582	122	39,443
Sep 07	26,740	N/A	16,679	122	43,541
Dec 07	26,077	N/A	16,614	109	42,800
Mar 08	23,749	N/A	18,469	14	42,232
Jun 08	16,718	N/A	15,832	14	32,564
Sep 08	14,799	N/A	10,957	14	25,770
Dec 08	16,909	N/A	12,363	14	29,286

\* No value is required to be placed on an indemnity.

# Identifies those builders with more than one form of security, such as a bank guarantee, a group trading agreement (involving associated companies) and/or an indemnity.

## B.2 Average value of securities and indemnities over the period

Table B3. Average Value of Securities and Indemnities (\$'000)

Quarter	Bank Guarantee	Indemnity *	Multiple Securities	Other Security
Jun 06	134	N/A	236	5
Sep 06	130	N/A	243	9
Dec 06	120	N/A	157	8
Mar 07	127	N/A	144	5
Jun 07	118	N/A	119	30
Sep 07	118	N/A	125	31
Dec 07	114	N/A	126	27
Mar 08	115	N/A	128	7
Jun 08	120	N/A	132	14
Sep 08	103	N/A	98	14
Dec 08	125	N/A	106	14

\* No value is required to be placed on an indemnity.

## C Project Certificate Information – Builder

Generally an insurer issues a project certificate in relation to a project prior to building commencement. The project certificate is evidence of the HWI contract.

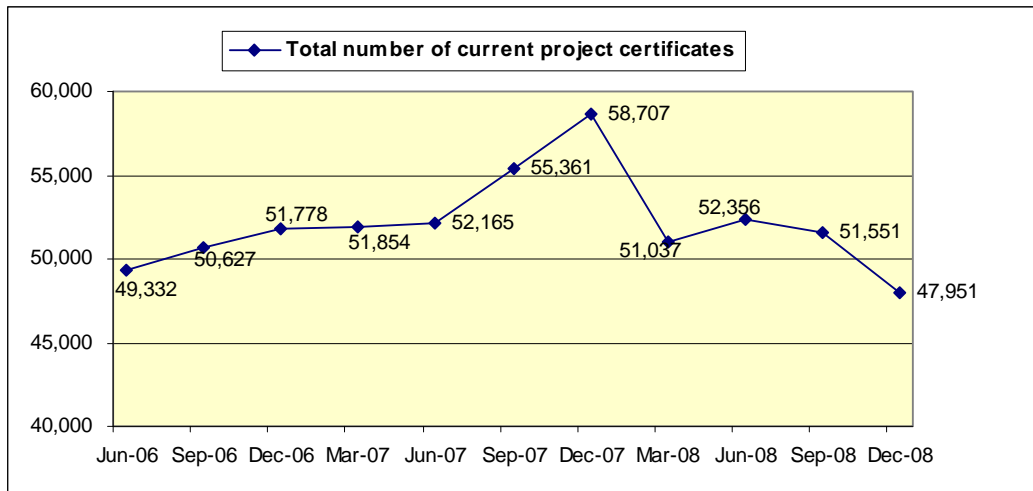
Insurers report to Fair Trading on the number of project certificates issued during each quarter and the number of project certificates for projects still in progress (current) at the end of the quarter. This latter figure involves some degree of estimation as insurers are not necessarily advised by builders on whether all individual projects are complete or still in progress.

### 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 as reported by insurers. These figures do not include owner builder projects.

Since December 2007, insurers have been instructed to assume that a project has been completed 12 months after certificate issue unless they know its status to be uncompleted. The decrease in number of current project certificates as at 31 March 2008 was mainly due to overcoming a backlog of lapsed/deemed completed project certificates from preceding quarters. The data for December 2007 and earlier quarters is therefore overstated as it includes a number of projects that should have been deemed completed.

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



The 7% fall in the number of certificates in force data in the December 2008 quarter is driven largely by the drop in new certificates issued as indicated in section C2 following.

## 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 (greater than 3 storeys) *	New multi dwelling (3 storeys or less) *	Alterations /Additions #	Swimming Pools	Renovations (including kitchens and bathrooms) ^	Other	Totals
Jun 06	4,089	41	1,439	3,402	1,703	2,995	211	13,880
Sep 06	3,961	0	1,719	3,677	1,632	3,027	283	14,299
Dec 06	3,548	33	1,331	3,104	1,407	2,664	350	12,437
Mar 07	3,453	24	1,348	3,369	1,161	2,580	240	12,175
Jun 07	4,016	0	1,280	3,738	1,254	2,715	222	13,225
Sept 07	4,227	0	1,358	4,129	1,383	3,760	165	15,022
Dec 07	4,222	0	1,249	3,834	1,580	3,488	234	14,607
Mar 08	3,702	0	970	4,030	1,043	3,551	207	13,503
Jun 08	3,881	0	983	4,221	1,019	3,881	253	14,238
Sep 08	3,529	0	1,204	4,307	1,090	3,725	165	14,020
Dec 08	3,020	0	762	3,167	921	3,017	175	11,062

\* 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.



More than half of the project certificates issued in December 2008 were for alterations (29%) and renovations (27%). 34% of certificates were issued for new single and multi-unit dwellings.

The number of certificates issued is down significantly by 21% compared with the previous quarter, consistent with falls of around 17% in both the number and value of building approvals as reported by the Australian Bureau of Statistics in that quarter. Over the 12 months to December 2008, 52,823 certificates were issued compared to 55,029 in the previous 12 months, a decrease of 4%.

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

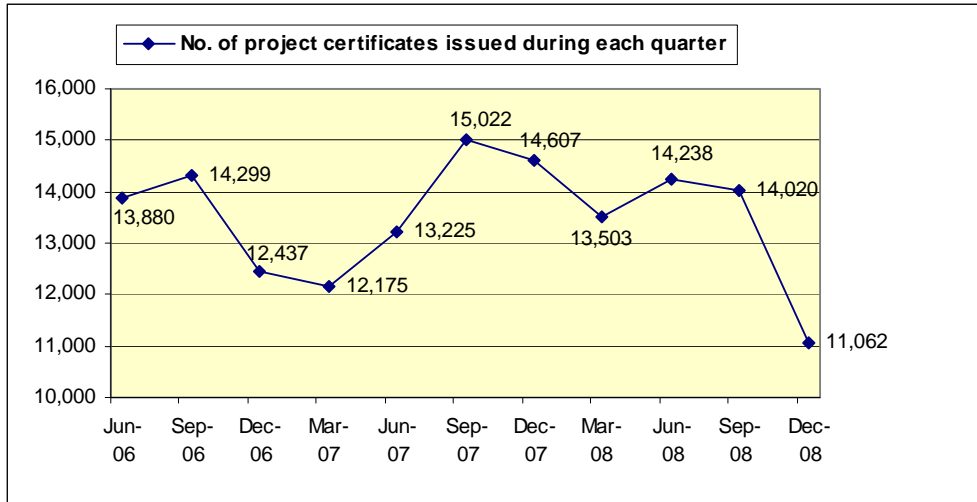


Table C2. Value of project certificates issued by type of cover – (\$'million)

Quarter /Type of cover	New single dwelling construction	New multi dwelling (greater than 3 storeys) *	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)
Jun 06	1,068	9	270	621	58	126	23	2,175	157
Sep 06	1,058	0	323	451	55	113	26	2,026	142
Dec 06	941	10	263	344	45	80	29	1,712	138
Mar 07	1,000	2	245	427	41	89	24	1,828	150
Jun 07	1,118	0	264	455	47	93	22	1,999	151
Sept 07	1,170	0	242	471	53	133	20	2,089	139
Dec 07	1,189	0	256	412	53	113	22	2,045	140
Mar 08	1,059	0	187	437	38	113	18	1,852	137
Jun 08	1,123	0	207	470	41	135	22	1,998	140
Sep 08	1,023	0	203	454	40	132	14	1,866	133
Dec 08	903	0	158	334	34	96	17	1,542	139

\* 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.

## 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. Based on information received from insurers, such brokerage fees are understood generally to be a flat dollar amount per certificate ranging from \$50 to \$400 depending on the volume of business of a particular broker with a particular builder. Any margin added by the builder in on-charging the premium to consumers also is not captured in the insurers' data and is therefore not reported in the figures below.

As at 31 December 2008 there were five groups of licensed insurers providing home warranty insurance in New South Wales. There appears to be competition among insurers: one group has 40% market share (in terms of reported total written premium including charges) with each of the other groups holding between 10% and 20% of the market.

### 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 (greater than 3 storeys) *	New multi dwelling (3 storeys or less) *	Alterations /Additions#	Swimming Pools	Renovations (including kitchens and bathrooms) ^	Other	Totals (\$'000)
Jun 06	5,313	66	1,756	4,424	1,072	1,073	195	<b>13,899</b>
Sept 06	4,880	0	2,048	4,587	1,003	1,044	237	<b>13,799</b>
Dec 06	4,276	58	1,546	3,559	820	870	275	<b>11,404</b>
Mar 07	4,206	22	1,466	3,740	653	858	194	<b>11,139</b>
Jun 07	4,611	0	1,649	3,917	736	914	189	<b>12,016</b>
Sept 07	4,334	0	1,332	3,756	698	1,094	133	<b>11,347</b>
Dec 07	4,309	0	1,265	3,377	775	1,042	172	<b>10,940</b>
Mar 08	3,810	0	1,032	3,301	518	970	136	<b>9,767</b>
Jun 08	3,809	0	923	3,456	525	1,076	166	<b>9,955</b>
Sep 08	3,501	0	1,140	3,571	553	1,029	122	<b>9,916</b>
Dec 08	3,153	0	875	2,588	458	833	126	<b>8,033</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.

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

Quarter /Type of cover	New single dwelling construction	New multi dwelling (greater than 3 storeys) *	New multi dwelling (3 storeys or less) *	Alterations /Additions#	Swimming Pools	Renovations (including kitchens and bathrooms) ^	Other	Totals (\$'000)
Jun 06	4,296	39	1,372	3,598	800	833	152	11,090
Sept 06	3,939		1,586	3,721	745	819	183	10,993
Dec 06	3,422	34	1,211	2,863	605	677	211	9,023
Mar 07	3,355	12	1,133	2,983	477	668	149	8,777
Jun 07	3,577		1,248	3,063	537	691	149	9,265
Sept 07	3,376		1,044	2,946	534	858	109	8,867
Dec 07	3,284		955	2,573	533	768	131	8,244
Mar 08	2,879		768	2,514	360	717	99	7,337
Jun 08	2,936		703	2,650	380	797	123	7,589
Sep 08	2,694		820	2,736	395	761	87	7,493
Dec 08	2,424		668	1,982	328	612	94	6,108

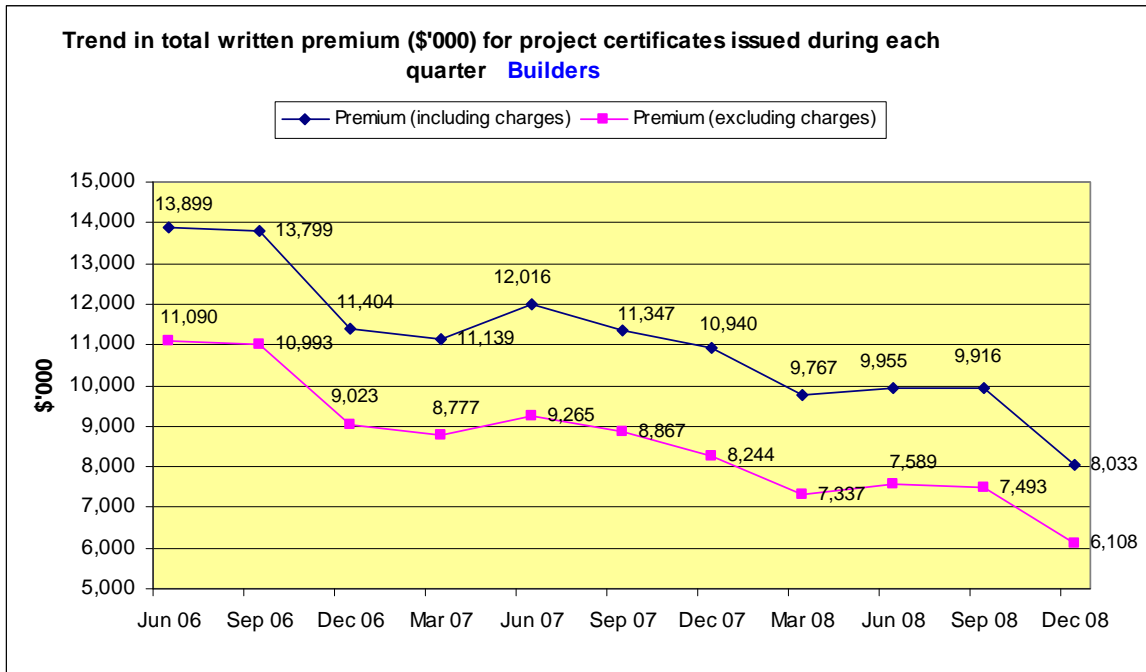
\* A project certificate is issued for each unit in a multi-unit development.

# 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 fall in premium in the quarter of around 19% is similar to the percentage reduction in the number and value of certificates issued.

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 (greater than 3 storeys) *	New multi dwelling (3 storeys or less) *	Alterations /Additions#	Swimming Pools	Renovations (including kitchens and bathrooms) ^	Other	Average per certificate issued \$
Jun 06	1,299	1,610	1,220	1,300	629	358	924	<b>1,001</b>
Sept 06	1,232	0	1,191	1,247	615	345	837	<b>965</b>
Dec 06	1,205	1,758	1,162	1,147	583	327	786	<b>917</b>
Mar 07	1,218	917	1,088	1,110	562	333	808	<b>915</b>
Jun 07	1,148	0	1,288	1,048	587	337	851	<b>909</b>
Sept 07	1,025	0	981	910	505	291	806	<b>755</b>
Dec 07	1,021	0	1,013	881	491	299	735	<b>749</b>
Mar 08	1,029	0	1,048	819	497	273	657	<b>723</b>
Jun 08	981	0	939	819	516	277	657	<b>699</b>
Sep 08	992	0	947	829	507	276	740	<b>707</b>
Dec 08	1,044	0	1,148	817	497	276	722	<b>726</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.

Average premiums **per certificate** issued have fallen fairly consistently from June 2006 to June 2008. In December 2008 it rose 2.7% (although still 3% lower than December 2007) as the average value of building work per certificate rose by about 4.6% (refer Table C2).

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 (greater than 3 storeys) *	New multi dwelling (less than or equal 3 storeys) *	Alterations/ Additions #	Swimming Pools	Renovations (including kitchens and bathrooms) ^	Other	Average rate per \$1,000 project value \$
Jun 06	4.97	7.33	6.50	7.12	18.48	8.52	8.48	<b>6.39</b>
Sept 06	4.60	0	6.34	10.17	18.24	9.24	9.12	<b>6.81</b>
Dec 06	4.54	5.80	5.88	10.35	18.22	10.88	9.48	<b>6.66</b>
Mar 07	4.21	11.00	5.98	8.76	15.93	9.64	8.08	<b>6.09</b>
Jun 07	4.12	0	6.25	8.61	15.66	9.83	8.59	<b>6.01</b>
Sept 07	3.70	0	5.50	7.97	13.17	8.23	6.65	<b>5.43</b>
Dec 07	3.62	0	4.94	8.20	14.62	9.22	7.82	<b>5.35</b>
Mar 08	3.60	0	5.52	7.56	13.63	8.51	7.56	<b>5.27</b>
Jun 08	3.39	0	4.47	7.35	12.94	7.97	7.47	<b>4.98</b>
Sep 08	3.42	0	5.62	7.87	13.31	7.82	8.70	<b>5.31</b>
Dec 08	3.49	0	5.55	7.74	13.47	8.69	7.63	<b>5.21</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.

Average premiums **per \$1,000 value** of certificate issued have fallen fairly consistently from September 2006 to June 2008. As noted above, the rise in the average premium per certificate has been driven mainly by an increase in the average value of work done, which has been brought about by an increase in the relative amount of new building work compared to renovations and alterations.

## **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 HWI business issued after 1 July 2002.

The information set out below provides only a partial picture of HWI 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 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 or Liability being assessed	Liability fully, partially or deemed accepted	Liability fully denied	Liability in dispute	Total
Jun 06	344	177	117	0	638
Sep 06	371	203	129	0	703
Dec 06	279	275	136	60	750
Mar 07	291	314	150	61	816
Jun 07	335	350	174	62	921
Sept 07	359	434	186	66	1,045
Dec 07	416	491	206	62	1,175
Mar 08	516	528	223	76	1,343
Jun 08	1,082	667	245	12	# 2,006
Sep 08	983	1,048	277	15	2,323
Dec 08	1,070	1,222	305	29	2,626

# The significant increase in the total number of claims in the June 2008 quarter was largely driven by the Beechwood Homes collapse in May 2008.

About 22% of the claims notified to date under the scheme relate to the Beechwood Homes collapse in May 2008. By December 2008, nearly two thirds of those claims had been assessed as to liability.

## 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	Out of time	Builder found	Builder not dead	Builder not insolvent	Not deemed a defect	Reason not available from insurer #	Total
Jun 06	16	3		20	29	49	117
Sep 06	17	6		26	28	52	129
Dec 06	17	6		29	33	51	136
Mar 07	17	20		35	41	37	150
Jun 07	35	22		38	42	37	174
Sept 07	37	24		41	47	37	186
Dec 07	38	29	1	51	50	37	206
Mar 08	40	30	1	60	92	0	223
Jun 08	40	34	1	64	106	0	245
Sep 08	46	36	1	68	126	0	277
Dec 08	49	42	1	88	125	0	305

# refers to claims declined by an insurer prior to the commencement of the data reporting requirements where the reason for the claim being declined was not reported in the insurer's systems. By 31 March 2008, insurers had identified the cause of all declined claims.

## E.3 Claims experience - Builder

The remaining tables in this section show a further breakdown of the claims that have been accepted in respect of builders (not owner-builders) as at 31 December 2008. 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	498	18,835,341	1,883,160	20,718,501	41,603
A02: Death	10	468,374	30,508	498,882	49,888
A03: Disappearance	19	699,758	76,099	775,857	40,835
<b>Total</b>	<b>527</b>	<b>20,003,473</b>	<b>1,989,767</b>	<b>21,993,240</b>	<b>41,733</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	678	13,456,638	2,265,687	12,158,482	27,880,807	41,122
A02: Death	3	15,096	8,072	32,816	55,984	18,661
A03: Disappearance	14	305,685	34,687	234,601	574,973	41,070
<b>Total</b>	<b>695</b>	<b>13,777,419</b>	<b>2,308,446</b>	<b>12,425,899</b>	<b>28,511,764</b>	<b>41,024</b>

\*Open claims are claims which are not finalised.

Table E5. Claims Experience by Claim Code (incl GST) - for Finalised Accepted Claims as at 31 December 2008

Claim Code	No. of Claims	Sum Paid to Claimant	Sum Paid to Third Parties	Total Gross Paid \$	Average Claim Size \$
T01: Failure to commence	28	351,362	6,410	357,772	12,778
T02: Failure to complete	303	14,867,250	1,326,593	16,193,843	53,445
T03: Structural defect	87	1,647,452	266,777	1,914,229	22,003
T04: Other loss#	109	3,137,409	389,987	3,527,396	32,361
<b>Total</b>	<b>527</b>	<b>20,003,473</b>	<b>1,989,767</b>	<b>21,993,240</b>	<b>41,733</b>

Table E6. Claims Experience by Claim Code (incl GST) – for Open Accepted Claims as at 31 December 2008

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	71	969,302	61,156	255,161	1,285,619	18,107
T02: Failure to complete	338	6,443,955	1,194,389	4,770,972	12,409,316	36,714
T03: Structural defect	189	4,494,451	663,712	5,880,049	11,038,212	58,403
T04: Other loss#	97	1,869,711	389,189	1,519,717	3,778,617	38,955
<b>Total</b>	<b>695</b>	<b>13,777,419</b>	<b>2,308,446</b>	<b>12,425,899</b>	<b>28,511,764</b>	<b>41,024</b>

# 'Other loss' claims are generally for non-structural defects.

Table E7. Claims Experience by Type of Cover (incl GST) – for Finalised Accepted Claims as at 31 December 2008

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	312	13,076,501	1,331,990	14,408,491	46,181
C02: New multi dwelling (greater than 3 storeys) *	0	0	0	0	0
C03 : New multi dwelling (3 storeys and less) *	51	1,828,843	157,283	1,986,126	38,944
C04 : Alterations/Additions	114	4,522,157	396,741	4,918,898	43,148
C05: Swimming Pools	26	272,734	77,218	349,952	13,460
C06 : Renovations (including kitchens and bathrooms)	21	226,121	20,577	246,698	11,748
C07: Other	3	77,117	5,958	83,075	27,692
<b>Total</b>	<b>527</b>	<b>20,003,473</b>	<b>1,989,767</b>	<b>21,993,240</b>	<b>41,733</b>

Table E8. Claims Experience by Type of Cover (incl GST) – for Open Accepted Claims as at 31 December 2008

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	469	6,487,819	1,192,129	6,032,760	13,712,708	29,238
C02: New multi dwelling (greater than 3 storeys) *	2	150,662	30,898	363,175	544,735	272,368
C03 : New multi dwelling (less than or equal 3 storeys) *	117	2,986,398	507,752	4,307,316	7,801,466	66,679
C04 : Alterations/Additions	54	3,359,344	479,041	1,316,542	5,154,927	95,462
C05: Swimming Pools	41	310,683	65,052	344,293	720,028	17,562
C06 : Renovations (including kitchens and bathrooms)	10	463,624	30,748	39,389	533,761	53,376
C07: Other	2	18,889	2,826	22,424	44,139	22,069
<b>Total</b>	<b>695</b>	<b>13,777,419</b>	<b>2,308,446</b>	<b>12,425,899</b>	<b>28,511,764</b>	<b>41,024</b>

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

A comparison of the claim data from this and previous quarterly reports indicates that failure to complete claims are generally finalised more quickly than structural defect claims, although failure to complete claims generally cost about twice as much as those for structural defects. However, the open failure to complete claims are currently a lower average value than historically, reflecting the large number of Beechwood claims that have been addressed already as part of the actions of both the new builder and the insurer concerned.

Claims in respect of cover for new dwellings are generally more expensive than those for additions, which in turn are generally more expensive than renovation claims – this will reflect the different nature of some of the work involved as well as relative project values. Similarly, data in this report indicates that claims for dwellings and alterations are considerably more frequent than those for renovations, after allowing for the number of project certificates issued.

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

*Table E9. Scheme Claims Experience as at 31 December 2008 by year of issue of project certificates (incl GST) – for all Accepted liability (finalised and open) claims, inclusive of builders and owner-builders.*

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)	86	4,453,362	578,782	2,265,016	7,297,160	84,851
2003	184	6,870,071	813,338	1,419,586	9,102,995	49,473
2004	233	6,872,585	1,143,937	3,267,943	11,284,465	48,431
2005	143	4,312,589	559,220	979,713	5,851,522	40,920
2006	147	4,132,081	592,582	1,251,915	5,976,578	40,657
2007	361	7,011,411	696,859	2,759,751	10,468,021	28,997
2008	101	808,298	111,139	832,736	1,752,173	17,348
<b>Total</b>	<b>1,255</b>	<b>34,460,397</b>	<b>4,495,857</b>	<b>12,776,660</b>	<b>51,732,914</b>	<b>41,221</b>

This table 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. Even for the earliest certificates under the current scheme (those 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.

For more recent years, the impact of these factors is even greater.

Insurers do manage to recover some claim payments, generally as creditors of insolvent builders. Since the scheme commenced, some \$1.2m has been recovered in respect of finalised claims and \$868,000 in respect of open claims, or about 4% of estimated total claims cost to date.

A significant proportion of the Accepted Liability claims for project certificates issued in the 2006, 2007 and 2008 calendar years relates to the Beechwood collapse.

Overall for the Scheme, the number of accepted liability claims is up 179 or 16%, and the reported costs up \$9.8m or 23%, since 30 September 2008.



## Part II Owner-Builder Information

This section sets out data for owner-builders 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.

### 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 (greater than 3 storeys) *	New multi dwelling (3 storeys or less) *	Alterations /Additions #	Swimming Pools	Renovations (including kitchens and bathrooms) ^	Other	Totals
Jun 06	314	0	15	140	4	22	3	498
Sep 06	307	0	27	147	6	23	0	510
Dec 06	210	0	52	187	8	17	0	474
Mar 07	182	0	37	145	7	24	0	395
Jun 07	356	0	2	194	12	47	7	618
Sept 07	248	0	28	188	12	28	0	504
Dec 07	310	0	0	250	12	34	8	614
Mar 08	276	0	3	165	16	26	3	489
Jun 08	236	0	2	158	8	25	1	430
Sep 08	218	0	7	177	11	14	2	429
Dec 08	171	0	1	165	11	25	0	373

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

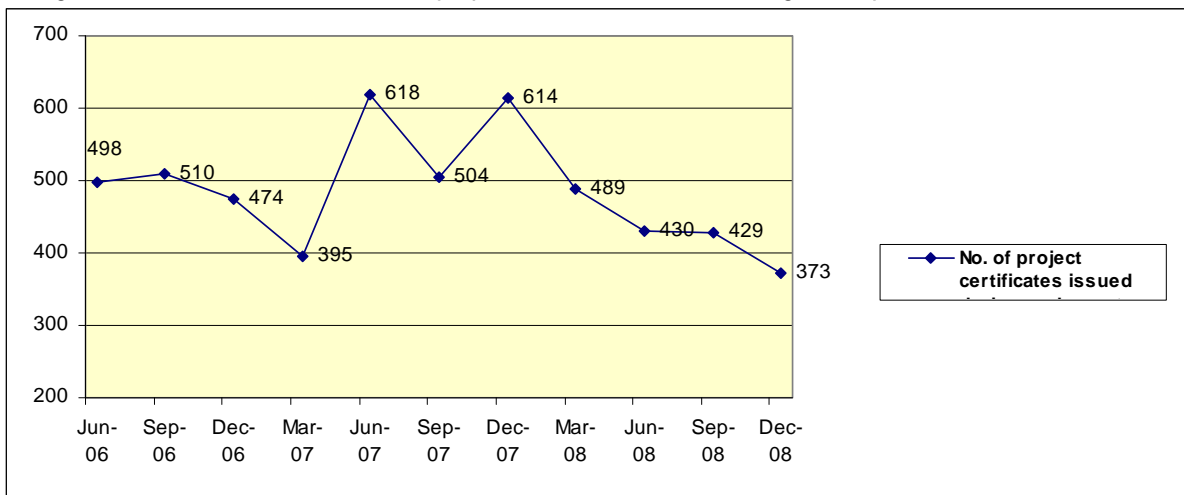


Table OB.C3. Value of project certificates issued by type of cover – (\$'000)

Quarter /Type of cover	New single dwelling construction	New multi dwelling (greater than 3 storeys) *	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)
Jun 06	80,277	0	3,561	15,357	179	2,182	1,190	102,746	206
Sep 06	73,188	0	5,073	12,958	150	6,227	0	97,596	191
Dec 06	56,782	0	2,660	16,548	184	2,736	0	78,910	166
Mar 07	52,891	0	1,600	15,802	203	4,698	0	75,194	190
Jun 07	94,236	0	360	29,071	203	5,614	145	129,629	210
Sept 07	71,160	0	12,158	18,686	312	5,739	0	108,055	214
Dec 07	95,970	0	0	31,749	320	4,742	377	133,158	217
Mar 08	78,976	0	899	22,157	469	2,872	250	105,623	216
Jun 08	72,929	0	300	24,392	176	3,115	40	100,952	235
Sep 08	77,186	0	2,018	25,979	383	1,718	74	107,358	250
Dec 08	53,785	0	170	19,744	238	3,281	0	77,218	207

\* 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 (greater than 3 storeys) *	New multi dwelling (3 storeys or less) *	Alterations /Additions#	Swimming Pools	Renovations (including kitchens and bathrooms) ^	Other	Totals (\$'000)
Jun 06	648	0	31	169	3	45	13	909
Sept 06	556	0	48	163	5	56	0	828
Dec 06	351	0	30	184	7	37	0	609
Mar 07	366	0	14	183	6	43	0	612
Jun 07	705	0	4	271	7	61	4	1,052
Sept 07	425	0	58	223	14	43	0	763
Dec 07	633	0	0	313	14	46	8	1,014
Mar 08	509	0	6	206	16	33	3	773
Jun 08	449	0	3	208	6	34	1	701
Sep 08	444	0	13	233	10	18	1	719
Dec 08	310	0	1	186	8	41	0	546

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

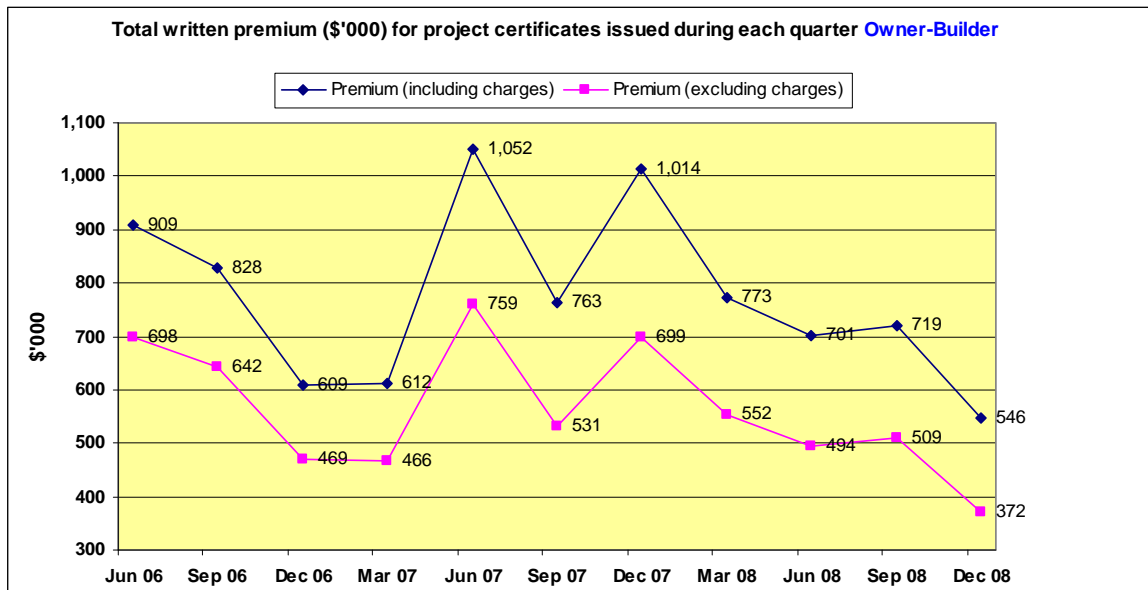
Quarter /Type of cover	New single dwelling construction	New multi dwelling (greater than 3 storeys) *	New multi dwelling (3 storeys or less) *	Alterations /Additions#	Swimming Pools	Renovations (including kitchens and bathrooms) ^	Other	Totals (\$'000)
Jun 06	508	0	23	126	3	27	11	698
Sept 06	435	0	40	126	4	37	0	642
Dec 06	271	0	23	146	6	23	0	469
Mar 07	279	0	12	143	5	27	0	466
Jun 07	510	0	2	199	5	40	3	759
Sept 07	280	0	48	166	10	27	0	531
Dec 07	437	0	0	216	10	31	5	699
Mar 08	368	0	4	144	12	22	2	552
Jun 08	316	0	2	148	5	22	1	494
Sep 08	314	0	11	163	8	12	1	509
Dec 08	215	0	1	128	5	23	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**.D1.1 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 (greater than 3 storeys) *	New multi dwelling (3 storeys or less) *	Alterations /Additions #	Swimming Pools	Renovations (including kitchens and bathrooms) ^	Other	Average per certificate issued \$
Jun 06	2,064	0	2,067	1,207	750	2,045	4,333	1,825
Sept 06	1,811	0	1,778	1,109	833	2,435	0	1,624
Dec 06	1,671	0	577	984	875	2,176	0	1,285
Mar 07	2,011	0	378	1,262	857	1,792	0	1,549
Jun 07	1,980	0	2,000	1,397	583	1,298	571	1,702
Sept 07	1,714	0	2,071	1,186	1,167	1,536	0	1,514
Dec 07	2,042	0	0	1,252	1,167	1,353	1,000	1,651
Mar 08	1,844	0	2,000	1,248	1,000	1,269	1,000	1,581
Jun 08	1,902	0	1,370	1,314	789	1,366	854	1,630
Sep 08	2,037	0	1,803	1,318	954	1,270	546	1,677
Dec 08	1,819	0	1,093	1,125	706	1,623	0	1,464

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 (greater than 3 storeys) *	New multi dwelling (less than or equal 3 storeys) *	Alterations /Additions #	Swimming Pools	Renovations (including kitchens and bathrooms) ^	Other	Average rate per \$1,000 project value \$
Jun 06	8.07	0	8.62	11.01	17.80	20.59	10.59	8.84
Sept 06	7.59	0	9.50	12.58	35.84	8.95	0	8.48
Dec 06	6.18	0	11.20	11.14	39.77	13.56	0	7.72
Mar 07	6.93	0	8.85	11.54	30.82	9.24	0	8.15
Jun 07	7.48	0	11.00	9.36	35.14	10.88	25.48	8.12
Sept 07	5.98	0	4.76	11.91	45.23	7.50	0	7.06
Dec 07	6.60	0	0	9.86	42.35	9.79	22.31	7.62
Mar 08	6.45	0	6.85	9.26	34.25	11.51	13.71	7.32
Jun 08	6.16	0	9.13	8.51	35.91	10.96	21.35	6.94
Sep 08	5.75	0	6.25	8.98	27.42	10.35	14.76	6.70
Dec 08	5.78	0	6.43	9.40	32.70	12.36	0	7.07

\* 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.

Average premium rates in each quarter of 2007/2008 are less than the corresponding quarter of 2006, up to June 2008. However, the percentage reductions are generally less than builders have experienced which may be driven both by emerging claim experience and competitive pressures. It can be noted that 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 particularly for structural and non-structural defects in respect of owner-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 or Liability being assessed	Liability fully, partially or deemed accepted	Liability fully denied	Liability in dispute	Total
Jun 06	10	7	27	0	44
Sep 06	8	9	29	0	46
Dec 06	4	11	34	0	49
Mar 07	3	12	35	1	51
Jun 07	5	15	39	0	59
Sept 07	10	13	39	1	63
Dec 07	9	20	48	0	77
Mar 08	14	20	50	1	85
Jun 08	9	27	54	4	94
Sep 08	12	29	60	0	101
Dec 08	11	33	65	2	111

### 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
Jun 06	1	19	0	7	0	27
Sep 06	1	21	0	7	0	29
Dec 06	1	26	0	7	0	34
Mar 07	1	26	1	7	0	35
Jun 07	1	30	1	7	0	39
Sept 07	1	30	1	7	0	39
Dec 07	1	39	1	7	0	48
Mar 08	1	40	2	7	0	50
Jun 08	1	44	2	7	0	54
Sep 08	1	47	2	10	0	60
Dec 08	1	48	2	14	0	65

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

The remaining tables in this section show a further breakdown of the claims as at 31 December 2008 that have been accepted liability 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	6	3	499,646	659,550	109,925
A02: Death	2	1	25,509	34,613	17,307
A03: Disappearance	25	9	351,994	533,747	21,350
<b>Total</b>	<b>33</b>	<b>13</b>	<b>877,149</b>	<b>1,227,910</b>	<b>37,209</b>

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

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

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 \$
T01: Failure to commence	0	0	0	0	0
T02: Failure to complete	0	0	0	0	0
T03: Structural defect	31	12	851,002	1,177,401	37,981
T04: Other loss*	2	1	26,147	50,509	25,255
<b>Total</b>	<b>33</b>	<b>13</b>	<b>877,149</b>	<b>1,227,910</b>	<b>37,209</b>

\* Other loss' claims are generally for non-structural defects.

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 \$
C01 : New single dwelling construction	29	12	739,107	1,055,113	36,383
C02: New multi dwelling (greater than 3 storeys) *	0	0	0	0	0
C03 : New multi dwelling (3 storeys and less) *	0	0	0	0	0
C04 : Alterations/Additions	4	1	138,042	172,797	43,199
C05: Swimming Pools	0	0	0	0	0
C06 : Renovations (including kitchens and bathrooms)	0	0	0	0	0
C07: Other	0	0	0	0	0
<b>Total</b>	<b>33</b>	<b>13</b>	<b>877,149</b>	<b>1,227,910</b>	<b>37,209</b>

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

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. Non-commencement and non-completion are, of course, irrelevant as to the circumstances giving rise to claims against owner-builders.