

NSW Home Warranty Insurance Scheme

Information on the Scheme as at

30 June 2011



22 February 2012

Home Warranty Insurance Scheme Board
NSW Fair Trading
Department of Finance and Services
1 Fitzwilliam Street
Parramatta NSW 2150

Dear Members of the Board

HWI Scheme Data as at 30 June 2011

Finity Consulting Pty Limited (Finity) was engaged by NSW 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.

Yours sincerely



David Minty



Mark Hurst

Fellows of the Institute of Actuaries of Australia

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Home Warranty Insurance Scheme Information

1 PREAMBLE

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

In New South Wales, HWI may only be offered by licensed insurers approved by the Minister under the Act. 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.

The NSW Self Insurance Corporation became the sole provider of home warranty insurance in NSW from 1 July 2010. The Corporation trades as the NSW Home Warranty Insurance Fund (HWIF) and is a part of NSW Treasury. The Scheme is underwritten and capitalised by the Government and funded by warranty insurance premiums.

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 2011.

HWI Scheme data

NSW Fair Trading, within the Department of Finance and Services, has certain regulatory responsibilities in relation to home warranty insurance. 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 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, 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 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 30 June 2011. 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 is available on the following websites:

NSW Fair Trading: http://www.fairtrading.nsw.gov.au/Tradespeople/Home_warranty_insurance.html

Home Warranty Insurance Fund: <http://www.homewarranty.nsw.gov.au>

2 CAUTION IN INTERPRETING THE INFORMATION

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 either 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 is starting to 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 after the current HWI scheme commenced in 2002, 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 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 HWI insurers extends over at least six years from completion of work, the downturn in the building industry since 2008 has given rise to claims because structural 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, with \$63 million of reported claims cost incurred during the year to June 2011, an increase of 45% of the claim cost reported to the scheme insurers to June 2010. 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 HWIF's Insurance Agents.

A.1 Builder eligibilities

Table A1 shows the number of builder eligibilities at the end of each quarter by turnover band. It includes builders who may have eligibility via more than one insurer /agent 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 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
Mar 09	2,227	1,915	4,677	3,852	3,892	818	125	2	373	17,881
Jun 09	2,225	1,983	4,768	3,788	3,860	780	122	2	298	17,826
Sep 09	2,381	2,219	5,477	3,882	3,952	799	126	16	286	(#1) 19,138
Dec 09	1,906	1,886	4,514	3,305	3,923	706	106	0	0	(#1) 16,346
Mar 10	2,089	1,995	4,619	3,393	3,986	711	107	0	0	16,900
Jun 10	2,241	2,127	4,731	3,403	4,039	749	107	1	0	17,398
Sep 10	2,469	2,199	4,674	3,449	3,788	680	98	0	0	17,357
Dec 10	2,358	2,230	4,363	3,184	3,102	640	91	0	0	(#2) 15,968
Mar 11	2,543	2,327	4,418	3,103	3,176	653	93	0	0	16,313
Jun 11	3,168	2,617	4,614	2,895	3,054	692	82	0	0	17,122

Notes:

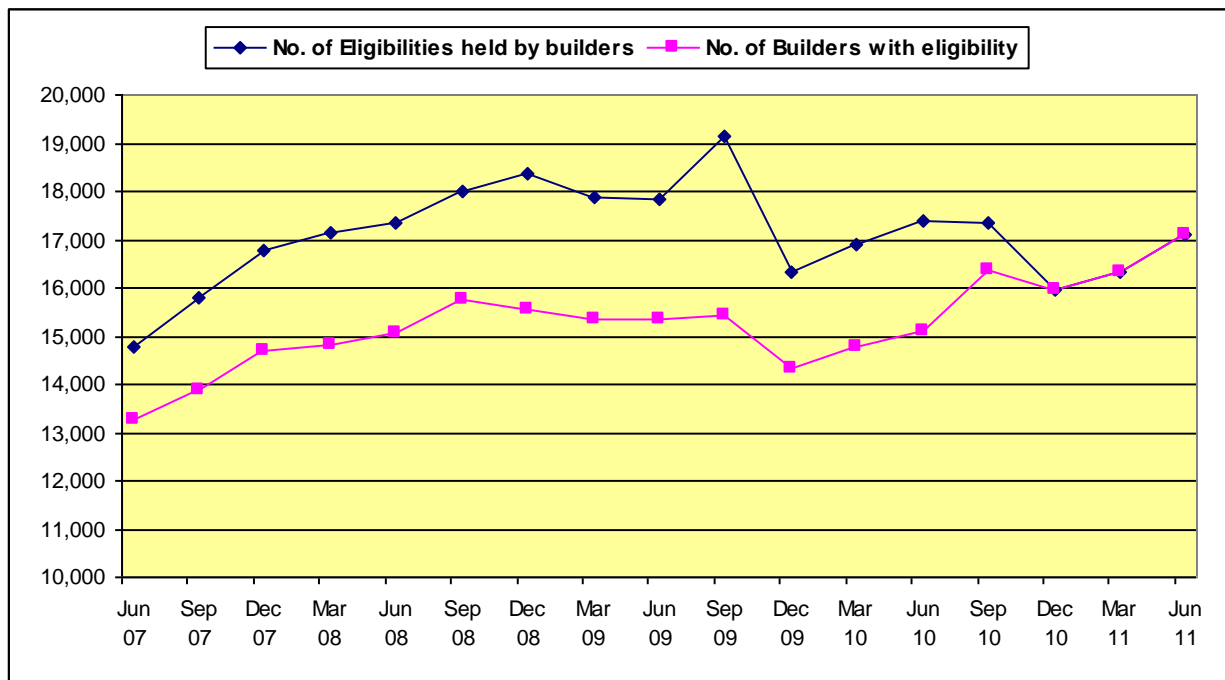
#1 As at September 2009 the high proportion of builders with eligibility from multiple insurers was largely due to existing builders who were then insured by CGU and Lumley, obtaining alternative eligibility with the remaining insurers. During the December 2009 quarter, as CGU and Lumley withdrew from the market, the total number of builders with multiple eligibilities fell accordingly.

#2. Vero ceased as an insurance agent for the HWIF as at 1 October 2010. The multiple eligibility cleansing process put in place by HWIF has resulted in all builders having only one active eligibility at any one time through either one of the agents QBE or Calliden as at 31 December 2010. Consequently, the number of builder eligibilities fell by 8% as at that date.

About 1,600 eligibilities reported by HWIF to Fair Trading have been found to relate to builder licences which are expired, cancelled or surrendered. They will be corrected and excluded from future reports.

As at 30 June 2011, the proportion of builders with eligibility for annual turnover of: less than \$1 million: 34%, \$1m to less than \$5m: 62%, and \$5m and over: 4%.

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.

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	Multiple Securities	Other Security	Totals	% of Total Builder Eligibility
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%
Mar 09	154	1,126	58	1	1,339	7.5%
Jun 09	155	1,118	59	1	1,333	7.5%
Sep 09	150	1,254	56	1	1,461	7.6%
Dec 09	136	1,184	53	0	1,373	8.4%
Mar 10	23	539	11	0	573	3.4%
Jun 10	22	606	11	0	639	3.7%
Sep 10	0	0	0	0	0	0%
Dec 10	0	0	0	0	0	0%
Mar 11	0	255	0	0	255	1.6%
Jun 11	0	472	0	0	472	2.8%

From 1 July 2010, indemnities are the only form of security required by the insurer, and the standard Deeds of Indemnity will include a limit of indemnity and have an expiry date.

Securities provided by builders to other insurers prior to 1 July 2010 are unable to be transferred to the HWIF and will remain in place until they are released by the insurers – the number of such securities is not included in the above table.

C Project Certificate Information – Builder

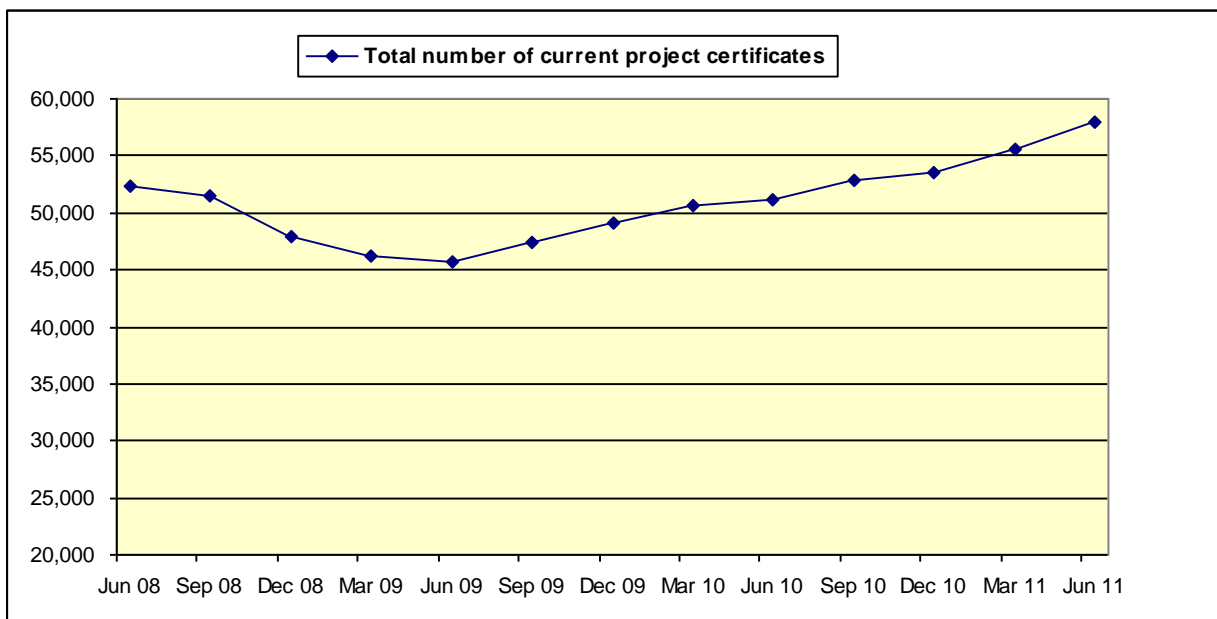
Generally a project certificate is issued in relation to a project prior to building commencement. The project certificate is evidence of the HWI contract.

Insurers report to Fair Trading the number of project certificates issued during the quarter, and the number of project certificates for projects still in progress (current) at the end of the quarter. For the purpose of this report, it is generally assumed that the building work has been 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 as reported by insurers. 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
Jun 08	3,881	983	4,221	1,019	3,881	253	14,238
Sep 08	3,529	1,204	4,307	1,090	3,725	165	14,020
Dec 08	3,020	762	3,167	921	3,017	175	11,062
Mar 09	3,008	884	3,222	933	2,928	267	11,242
Jun 09	4,206	700	3,630	830	3,821	304	13,491
Sep 09	4,965	852	4,114	1,321	3,707	238	15,197
Dec 09	4,028	969	3,782	1,156	2,899	149	12,983
Mar 10	3,828	787	4,317	823	2,487	87	12,329
Jun 10	4,209	904	3,903	830	2,652	111	12,609
Sep 10	4,450	1,250	4,247	1,150	4,208	44	15,349
Dec 10	3,983	719	3,353	1,021	4,144	18	13,238
Mar 11	4,143	942	3,954	1,068	4,209	12	14,328
Jun 11	4,314	1,040	3,932	991	4,822	12	15,111

* 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 March 2011 were for alterations (26%) and renovations (32%). 35% of certificates were issued for new single and multi-unit dwellings.

The number of certificates issued in the June quarter was up 5% compared with the March quarter. Over the 12 months to June 2011, 58,026 certificates were issued, up 9% from the previous 12 months (53,118).

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

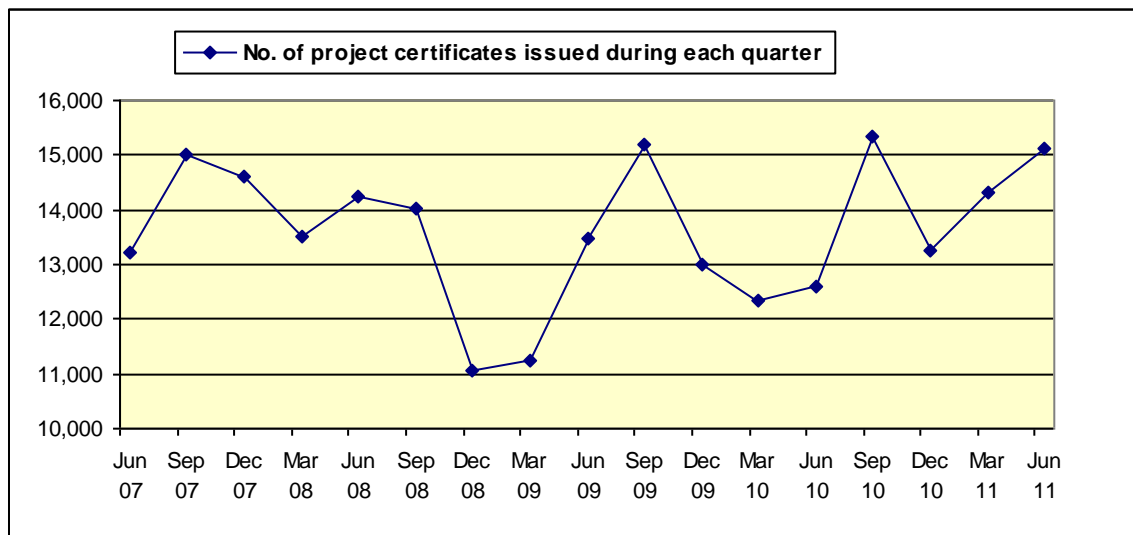


Table C2. Value of project certificates issued by type of cover during each quarter – (\$'million)

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)
Jun 08	1,123	207	470	41	135	22	1,998	140
Sep 08	1,023	203	454	40	132	14	1,866	133
Dec 08	903	158	334	34	96	17	1,542	139
Mar 09	850	163	361	33	92	19	1,518	135
Jun 09	1,166	123	414	33	119	22	1,877	139
Sep 09	1,355	155	483	50	118	19	2,180	143
Dec 09	1,240	226	433	42	94	17	2,052	158
Mar 10	1,116	152	439	30	66	10	1,813	147
Jun 10	1,274	181	469	34	71	13	2,042	162
Sep 10	1,354	265	537	47	135	6	2,344	153
Dec 10	1,177	139	413	38	120	1	1,888	143
Mar 11	1,265	214	499	41	125	1	2,145	150
Jun 11	1,304	204	504	41	139	1	2,193	145

* 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 ABS data does not distinguish between builders and owner-builders so we have combined them for this part of the analysis. We have endeavoured to exclude public sector work from the building approval data to enable like-for-like comparison.

Figures C3.1 and C3.2 show the detailed comparisons for numbers and values respectively of new dwellings and project certificates.

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)	(1)/(5)
Mar-09	4,118	3,727	110%	1,076	930	116%
Jun-09	5,128	4,372	117%	1,354	1,078	126%
Sep-09	6,086	5,715	106%	1,598	1,393	115%
Dec-09	5,257	5,694	92%	1,546	1,437	108%
Mar-10	4,839	4,943	98%	1,334	1,244	107%
Jun-10	5,334	5,810	92%	1,531	1,543	99%
Sep-10	5,900	5,290	112%	1,680	1,406	120%
Dec-10	4,875	5,284	92%	1,363	1,413	96%
Mar-11	5,240	5,699	92%	1,522	1,600	95%
Jun-11	5,560	5,436	102%	1,565	1,475	106%
Average	5,234	5,197	101%	1,457	1,352	109%

Notes: ABS8731.0 Building Approvals, Australia; Tables 12, 22 and 43

"Dwelling units approved in new residential buildings - New South Wales"

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

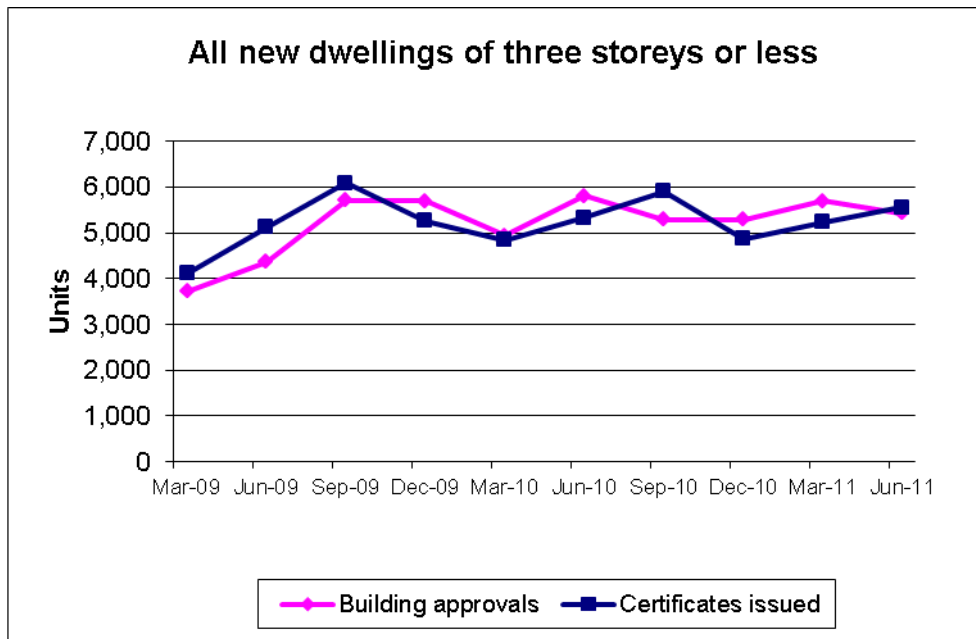
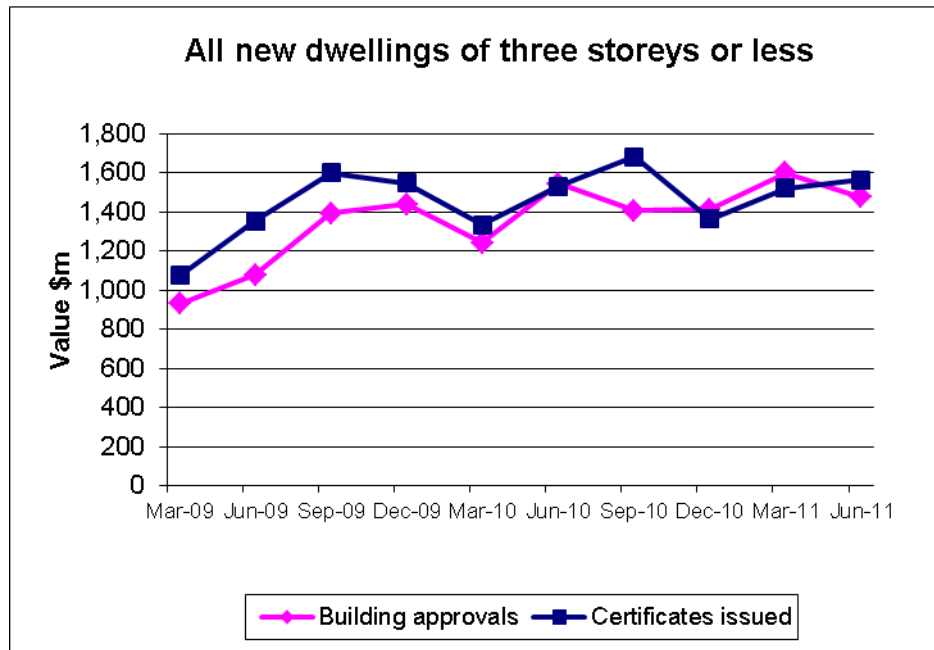


Figure C3.2 Value of building approvals versus certificates issued - Trend



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 also is 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)
Jun 08	3,809	923	3,456	525	1,076	166	9,955
Sep 08	3,501	1,140	3,571	553	1,029	122	9,916
Dec 08	3,153	875	2,588	458	833	126	8,033
Mar 09	3,049	859	2,721	430	776	156	7,991
Jun 09	4,738	834	3,403	438	1,020	181	10,614
Sep 09	6,060	1,492	4,187	707	1,037	198	13,681
Dec 09	6,141	1,777	3,859	667	792	127	13,363
Mar 10	5,525	1,620	4,150	465	600	81	12,441
Jun 10	6,690	2,322	4,393	510	635	109	14,659
Sep 10	6,819	2,234	4,861	659	1,060	48	15,681
Dec 10	6,224	1,290	2,795	330	892	7	11,538
Mar 11	6,542	2,166	3,408	356	913	6	13,391
Jun 11	6,810	2,069	3,404	349	1,046	5	13,683

Total premiums (Tables D1.1) have increased 2% during the quarter. This reflects the net effects of a 5% increase in number of certificates issued (Table C1), offset by a 3% decrease in average premium per certificate (Table D2.1). The latter, in turn, is in line with a 3% decrease in average value per Project Certificate (Table C2) from last quarter.

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

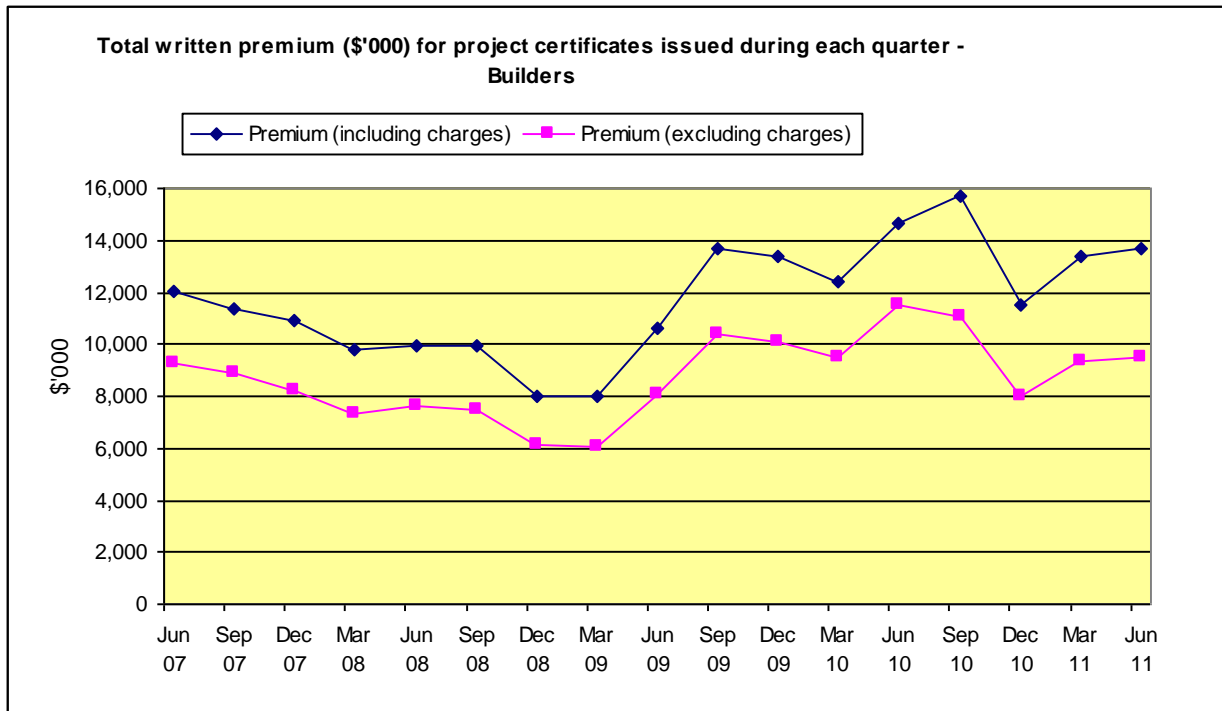
Quarter /Type of cover	New single dwelling construction	New multi dwelling (3 storeys or less) *	Alterations /Additions#	Swimming Pools	Renovations (including kitchens and bathrooms) ^	Other	Totals (\$'000)
Jun 08	2,936	703	2,650	380	797	123	7,589
Sep 08	2,694	820	2,736	395	761	87	7,493
Dec 08	2,424	668	1,982	328	612	94	6,108
Mar 09	2,347	661	2,075	317	575	118	6,093
Jun 09	3,629	632	2,596	319	753	141	8,070
Sep 09	4,665	1,120	3,184	519	759	155	10,402
Dec 09	4,711	1,317	2,922	489	566	99	10,104
Mar 10	4,263	1,225	3,162	351	458	66	9,525
Jun 10	5,322	1,674	3,509	391	508	91	11,495
Sep 10	4,821	1,573	3,457	465	752	34	11,102
Dec 10	4,335	898	1,947	230	622	5	8,037
Mar 11	4,556	1,509	2,373	248	636	4	9,326
Jun 11	4,743	1,441	2,370	243	728	4	9,529

* 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 \$
Jun 08	981	939	819	516	277	657	699
Sep 08	992	947	829	507	276	740	707
Dec 08	1,044	1,148	817	497	276	722	726
Mar 09	1,014	972	845	461	265	583	711
Jun 09	1,126	1,192	937	528	267	597	787
Sep 09	1,221	1,751	1,018	535	280	834	900
Dec 09	1,525	1,834	1,020	577	273	849	1,029
Mar 10	1,443	2,059	961	565	241	928	1,009
Jun 10	1,590	2,569	1,125	614	240	981	1,163
Sep 10	1,532	1,787	1,145	573	252	1,094	1,022
Dec 10	1,562	1,794	834	323	215	404	872
Mar 11	1,579	2,300	862	333	217	459	935
Jun 11	1,579	1,990	866	353	217	431	906

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 (less than or equal 3 storeys) *	Alterations/ Additions #	Swimming Pools	Renovations (including kitchens and bathrooms) ^	Other	Average rate per \$1,000 project value \$
Jun 08	3.39	4.47	7.35	12.94	7.97	7.47	4.98
Sep 08	3.42	5.62	7.87	13.31	7.82	8.70	5.31
Dec 08	3.49	5.55	7.74	13.47	8.69	7.63	5.21
Mar 09	3.59	5.28	7.55	12.96	8.41	8.12	5.26
Jun 09	4.06	6.79	8.21	13.26	8.58	8.14	5.65
Sep 09	4.47	9.61	8.67	14.21	8.80	10.29	6.28
Dec 09	4.95	7.85	8.92	15.94	8.44	7.47	6.51
Mar 10	4.95	10.64	9.45	15.66	9.07	8.20	6.86
Jun 10	5.25	12.80	9.37	15.21	8.97	8.37	7.18
Sep 10	5.04	8.43	9.04	13.91	7.88	8.43	6.69
Dec 10	5.29	9.25	6.77	8.78	7.46	6.56	6.11
Mar 11	5.17	10.14	6.83	8.61	7.33	7.23	6.24
Jun 11	5.22	10.15	6.75	8.55	7.52	7.35	6.24
# 9 months to Jun 11	5.22	9.92	6.78	8.64	7.44	6.97	6.20

* 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 fell fairly consistently from September 2006 to June 2008 by about 27%, but increased by 44% from June 2008 to June 2010.

The insurance agents were underwriting against their own existing criteria up to 30 September 2010. The onset of HWIF's new underwriting criteria and premium pricing structure from **1 October 2010** has resulted in systemic alterations in the premium rates applied. The new underwriting criteria include assessment of a number of risk factors such as location of the project, the value of the works (contract price) and the type of work (e.g. structural, non-structural, new multi dwellings, owner-builder etc.).

For the 9 months to 30 June 2011, the average premiums for:

- New Single and Multi Dwellings **increased** by 4% and 18% respectively, and
- Alterations/Additions and swimming pools **decreased** by 25% and 38% respectively, compared with September 2010.

The net effect of the above offsetting movements resulted in an overall 7% reduction in the average premium rates (per \$1,000 value of certificate) issued since 1 October 2010. Refer **Table D2.2**.

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 #	Liability being assessed	Liability fully, partially or deemed accepted	Liability fully denied	Liability in dispute	Total
Jun 08	802	280	667	245	12	2,006
Sep 08	660	323	1,048	277	15	2,323
Dec 08	791	279	1,222	305	29	2,626
Mar 09	970	261	1,339	333	25	2,928
Jun 09	1,004	217	1,531	356	29	3,137
Sep 09	1,110	228	1,642	393	34	3,407
Dec 09	1,133	204	1,784	489	35	3,645
Mar 10	1,234	196	1,911	530	38	3,909
Jun 10	1,332	155	2,065	563	52	4,167
Sep 10	1,406	149	2,188	616	44	4,403
Dec 10	1,488	156	2,307	647	45	4,643
Mar 11	1,645	185	2,403	712	36	4,981
Jun 11	1,799	193	2,565	749	33	5,339

If a 'Notification' has not become a claim after an extended period, its status is recorded as 'Finalised' within the 'Notification' category. As at 30 June 2011, there were 1,504 such 'Notifications' which have been recorded as 'Finalised'.

A significant number of claims were due to the Beechwood Homes collapse in May 2008. As at 30 June 2011, around 20% of accepted liability claims under the scheme relate to Beechwood claims.

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
Jun 08	0	40	34	1	64	106	245
Sep 08	0	46	36	1	68	126	277
Dec 08	0	49	42	1	88	125	305
Mar 09	0	32	50	1	114	136	333
Jun 09	0	32	54	1	114	155	356
Sep 09	0	35	59	2	121	176	393
Dec 09	1	40	66	2	123	257	489
Mar 10	1	43	65	2	131	288	530
Jun 10	1	50	66	2	133	311	563
Sep 10	2	52	68	2	137	355	616
Dec 10	2	53	69	2	147	374	647
Mar 11	2	57	74	2	176	401	712
Jun 11	2	56	76	2	203	410	749

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 **30 June 2011**. 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	1,845	82,821,065	6,119,502	88,940,567	48,206
A02: Death	24	1,153,641	51,310	1,204,951	50,206
A03: Disappearance	85	4,293,657	348,291	4,641,948	54,611
Total	1,954	88,268,363	6,519,103	94,787,466	48,509

*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	572	33,220,723	5,854,511	38,738,817	77,814,051	136,039
A02: Death	10	719,377	25,503	209,490	954,370	95,437
A03: Disappearance	29	1,412,504	188,450	2,165,889	3,766,843	129,891
Total	611	35,352,604	6,068,464	41,114,196	82,535,264	135,082

*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	130	3,275,400	96,518	3,371,918	25,938
T02: Failure to complete	815	44,682,219	3,048,069	47,730,288	58,565
T03: Structural defect	683	25,986,815	2,146,041	28,132,856	41,190
T04: Other loss#	326	14,323,929	1,228,475	15,552,404	47,707
Total	1,954	88,268,363	6,519,103	94,787,466	48,509

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	8	157,634	34,068	45,184	236,886	29,611
T02: Failure to complete	115	7,212,366	1,587,609	4,296,560	13,096,535	113,883
T03: Structural defect	405	23,662,147	3,557,985	27,674,505	54,894,637	135,542
T04: Other loss#	83	4,320,457	888,802	9,097,947	14,307,206	172,376
Total	611	35,352,604	6,068,464	41,114,196	82,535,264	135,082

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

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	1,248	56,321,837	4,076,127	60,397,964	48,396
C02: New multi dwelling (greater than 3 storeys)	1	191,948	8,307	200,255	200,255
C03 : New multi dwelling (3 storeys and less)	253	11,616,469	943,907	12,560,376	49,646
C04 : Alterations/Additions	259	15,188,253	1,047,323	16,235,576	62,686
C05: Swimming Pools	124	2,325,383	321,784	2,647,167	21,348
C06 : Renovations (including kitchens and bathrooms)	33	1,032,327	71,529	1,103,856	33,450
C07: Other	36	1,592,146	50,126	1,642,272	45,619
Total	1,954	88,268,363	6,519,103	94,787,466	48,509

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	306	12,396,773	2,512,471	11,216,828	26,126,072	85,379
C02: New multi dwelling (greater than 3 storeys)	11	914,942	571,086	7,499,530	8,985,558	816,869
C03 : New multi dwelling (less than or equal 3 storeys)	168	15,728,526	2,098,527	17,724,244	35,551,297	211,615
C04 : Alterations/Additions	81	5,466,231	754,721	3,498,805	9,719,757	119,997
C05: Swimming Pools	34	535,326	96,630	352,724	984,680	28,961
C06 : Renovations (including kitchens and bathrooms)	6	148,827	15,089	732,638	896,554	149,426
C07: Other	5	161,979	19,940	89,427	271,346	54,269
Total	611	35,352,604	6,068,464	41,114,196	82,535,264	135,082

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)	126	13,537,244	1,451,877	2,865,812	17,854,933	141,706
2003	337	17,771,960	2,822,409	17,800,331	38,394,700	113,931
2004	436	20,230,740	2,814,547	7,217,313	30,262,600	69,410
2005	305	12,245,404	1,469,323	3,080,835	16,795,562	55,067
2006	362	17,266,288	1,377,018	2,277,117	20,920,423	57,791
2007	611	24,582,351	1,903,549	4,635,478	31,121,378	50,935
2008	329	15,261,184	1,044,163	2,437,336	18,742,683	56,969
2009	93	6,356,079	198,331	1,515,811	8,070,221	86,777
2010	28	852,543	40,088	423,991	1,316,622	47,022
2011	8	204,329	9,515	111,103	324,947	40,618
Total	2,635	128,308,122	13,130,820	42,365,127	183,804,069	69,755

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. 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.

Insurers have also estimated additional costs of \$23 million in respect of claims in which liability have **not** been determined.

Insurers do manage to recover some claim payments, generally as creditors of insolvent builders. Since the scheme commenced, some \$5m has been recovered or about 2% 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 relate to the Beechwood collapse.

Overall for the Scheme, the number of **accepted liability** claims is up 162 or 7%, and the reported costs up \$19 million or 12%, since the last quarter.

Part II Owner-Builder Information

This section sets out 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.

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
Jun 08	236	2	158	8	25	1	430
Sep 08	218	7	177	11	14	2	429
Dec 08	171	1	165	11	25	0	373
Mar 09	226	0	156	10	10	0	402
Jun 09	222	0	221	16	10	1	470
Sep 09	269	0	226	12	3	0	510
Dec 09	260	0	230	10	1	0	501
Mar 10	224	0	191	17	0	0	432
Jun 10	221	0	207	18	0	0	446
Sep 10	200	0	168	7	0	0	375
Dec 10	173	0	191	13	5	3	385
Mar 11	152	3	156	13	4	4	332
Jun 11	199	7	179	12	3	1	401

* 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

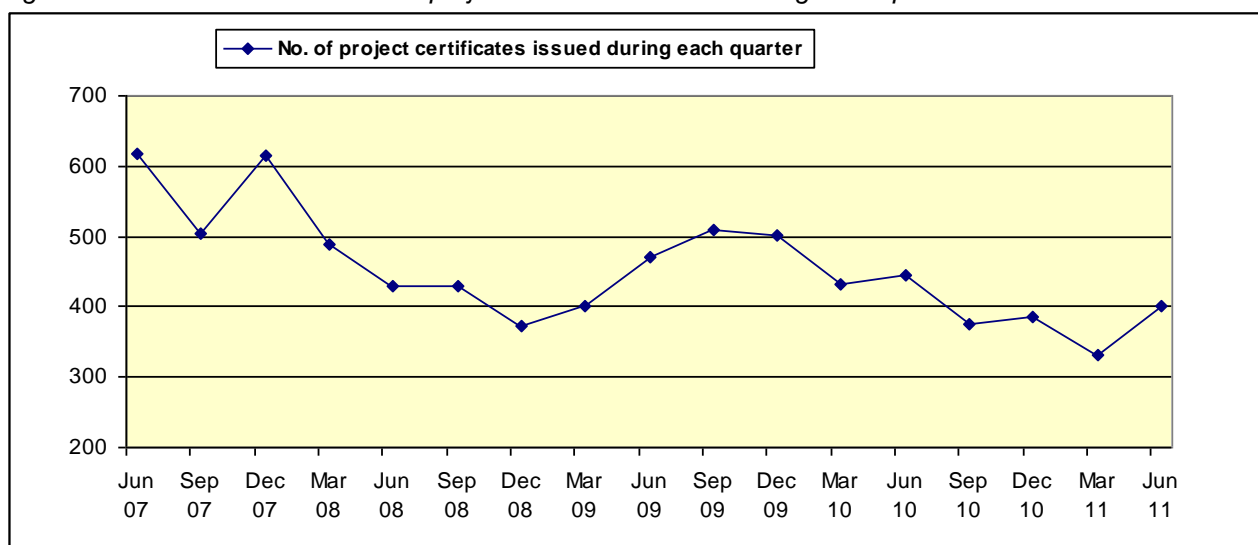


Table **OB.C3.** Value of project certificates issued by type of cover – (\$'000)

Quarter /Type of cover	New single dwelling construction	New multi dwelling (3 storeys or less) *	Alterations /Additions #	Swimming Pools	Renovations (including kitchens and bathrooms) ^	Other	Totals	Average Value per Project Certificate (\$'000)
Jun 08	72,929	300	24,392	176	3,115	40	100,952	235
Sep 08	77,186	2,018	25,979	383	1,718	74	107,358	250
Dec 08	53,785	170	19,744	238	3,281	0	77,218	207
Mar 09	63,048	0	20,752	450	890	0	85,140	212
Jun 09	64,694	0	28,027	1,061	757	59	94,598	201
Sep 09	87,514	0	27,332	289	490	0	115,625	227
Dec 09	79,572	0	28,495	272	70	0	108,409	216
Mar 10	66,358	0	20,455	457	0	0	87,270	202
Jun 10	75,764	0	29,919	347	0	0	106,030	238
Sep 10	61,250	0	17,839	167	0	0	79,256	211
Dec 10	47,033	0	23,635	353	294	665	71,980	187
Mar 11	42,306	675	19,254	447	245	720	63,647	192
Jun 11	56,327	1,160	22,042	328	104	91	80,052	200

* 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
Jun 08	449	3	208	6	34	1	701
Sep 08	444	13	233	10	18	1	719
Dec 08	310	1	186	8	41	0	546
Mar 09	406	0	182	7	12	0	607
Jun 09	425	0	281	26	17	1	750
Sep 09	541	0	292	12	7	0	852
Dec 09	573	0	312	13	1	0	899
Mar 10	442	0	237	20	0	0	699
Jun 10	474	0	322	20	0	0	816
Sep 10	438	0	225	8	0	0	671
Dec 10	438	0	237	6	2	6	689
Mar 11	427	11	198	7	2	7	652
Jun 11	498	16	200	4	1	1	720

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

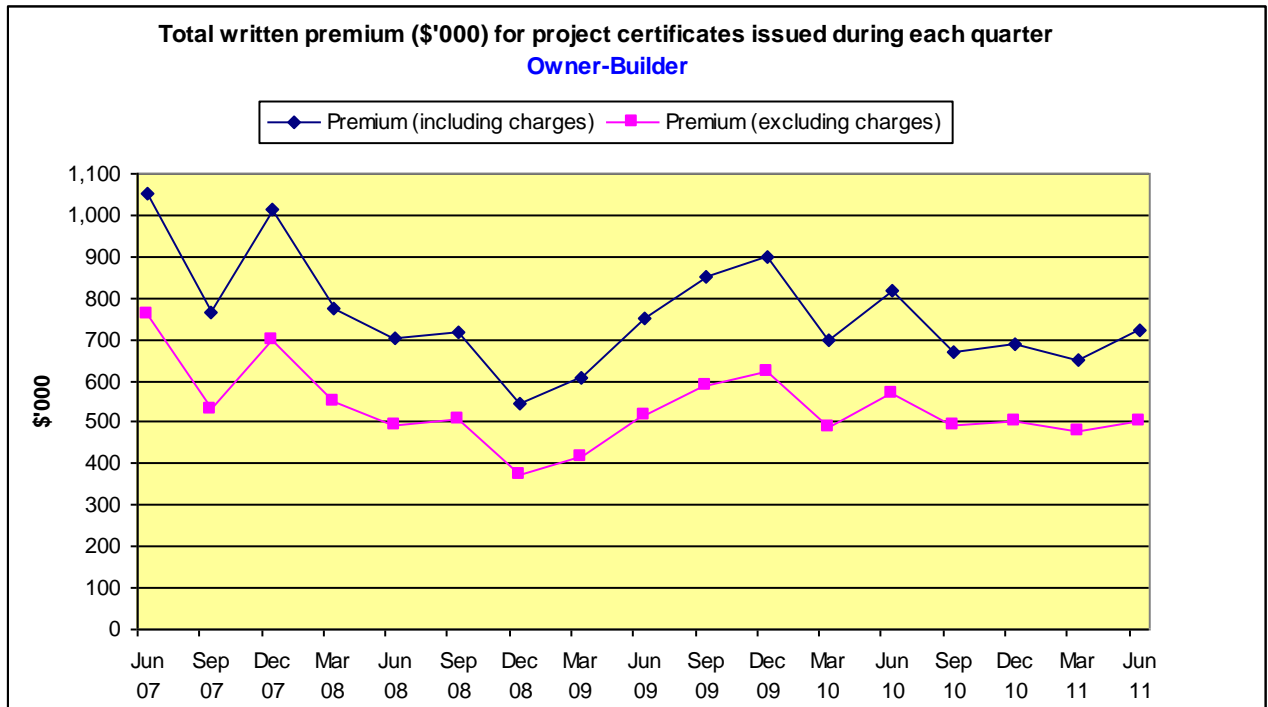
Quarter /Type of cover	New single dwelling construction	New multi dwelling (3 storeys or less) *	Alterations /Additions#	Swimming Pools	Renovations (including kitchens and bathrooms) ^	Other	Totals (\$'000)
Jun 08	316	2	148	5	22	1	494
Sep 08	314	11	163	8	12	1	509
Dec 08	215	1	128	5	23	0	372
Mar 09	282	0	124	5	7	0	418
Jun 09	294	0	193	19	9	1	516
Sep 09	373	0	200	9	4	0	586
Dec 09	398	0	212	9	1	0	620
Mar 10	310	0	164	15	0	0	489
Jun 10	329	0	223	15	0	0	567
Sep 10	322	0	166	6	0	0	494
Dec 10	319	0	173	4	2	4	502
Mar 11	313	9	145	5	1	5	478
Jun 11	347	12	139	3	0	0	501

* 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 (3 storeys or less) *	Alterations /Additions #	Swimming Pools	Renovations (including kitchens and bathrooms) ^	Other	Average per certificate issued \$
Jun 08	1,902	1,370	1,314	789	1,366	854	1,630
Sep 08	2,037	1,803	1,318	954	1,270	546	1,677
Dec 08	1,819	1,093	1,125	706	1,623	0	1,464
Mar 09	1,797	0	1,163	737	1,171	0	1,509
Jun 09	1,913	0	1,274	1,603	1,706	1,128	1,596
Sep 09	2,009	0	1,292	1,041	2,260	0	1,670
Dec 09	2,202	0	1,356	1,345	748	0	1,794
Mar 10	1,971	0	1,243	1,182	0	0	1,618
Jun 10	2,146	0	1,553	1,110	0	0	1,829
Sep 10	2,188	0	1,342	1,144	0	0	1,789
Dec 10	2,530	0	1,242	446	488	1,872	1,789
Mar 11	2,808	3,867	1,270	513	500	1,655	1,963
Jun 11	2,501	2,331	1,118	355	214	628	1,795

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 (less than or equal 3 storeys) *	Alterations /Additions #	Swimming Pools	Renovations (including kitchens and bathrooms) ^	Other	Average rate per \$1,000 project value \$
Mar 08	6.45	6.85	9.26	34.25	11.51	13.71	7.32
Jun 08	6.16	9.13	8.51	35.91	10.96	21.35	6.94
Sep 08	5.75	6.25	8.98	27.42	10.35	14.76	6.70
Dec 08	5.78	6.43	9.40	32.70	12.36	0	7.07
Mar 09	6.44	0	8.74	16.38	13.16	0	7.13
Jun 09	6.56	0	10.04	24.18	22.54	19.12	7.93
Sep 09	6.18	0	10.69	43.29	13.84	0	7.37
Dec 09	7.20	0	10.94	49.41	10.69	0	8.29
Mar 10	6.65	0	11.60	43.98	0	0	8.01
Jun 10	6.26	0	10.74	57.67	0	0	7.69
Sep 10	7.15	0	12.63	48.00	0	0	8.47
Dec 10	9.31	0	10.03	16.42	8.31	8.45	9.57
Mar 11	10.09	17.19	10.29	14.93	8.17	9.19	10.24
Jun 11	8.84	14.07	9.08	12.96	6.18	6.90	8.99
9 months to Jun 11	9.35	15.21	9.79	14.82	7.91	8.72	9.55

* 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 structural and non-structural defects in respect of owner-builders compared to licensed builders.

As noted in section D2 (builders), the insurance agents were underwriting against their own existing criteria up to 30 September 2010. The new HWIF underwriting criteria and premiums pricing structure was effective from **1 October 2010**, which include an assessment of a number of risk factors such as location of the project, the value of the works (contract price) and the type of work (e.g. structural, non-structural, new multi dwellings, owner-builder etc.).

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
Jun 08	2	7	27	54	4	94
Sep 08	4	8	29	60	0	101
Dec 08	3	8	33	65	2	111
Mar 09	3	4	29	64	4	104
Jun 09	4	9	34	65	5	117
Sep 09	6	9	37	71	6	129
Dec 09	5	11	44	81	7	148
Mar 10	5	9	50	91	6	161
Jun 10	12	6	57	94	2	171
Sep 10	12	6	60	96	4	178
Dec 10	20	10	67	94	4	195
Mar 11	25	4	70	103	3	205
Jun 11	29	2	70	116	4	221

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 08	1	44	2	7	0	54
Sep 08	1	47	2	10	0	60
Dec 08	1	48	2	14	0	65
Mar 09	1	50	2	11	0	64
Jun 09	1	52	1	11	0	65
Sep 09	2	55	1	13	0	71
Dec 09	3	64	1	12	1	81
Mar 10	5	66	1	13	6	91
Jun 10	5	67	1	15	6	94
Sep 10	6	68	1	15	6	96
Dec 10	6	65	1	15	7	94
Mar 11	7	70	1	18	7	103
Jun 11	7	80	1	21	7	116

OB.E3 Claims experience - Owner-Builder

The remaining tables in this section show a further breakdown of the claims as at 31 March 2011 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	19	7	1,613,852	1,975,479	103,973
A02: Death	6	2	142,107	252,798	42,133
A03: Disappearance	45	8	3,474,449	4,253,062	94,512
Total	70	17	5,230,408	6,481,339	92,591

*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.

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 \$
T01: Failure to commence	0	0	0	0	0
T02: Failure to complete	0	0	0	0	0
T03: Structural defect	64	17	4,826,025	6,076,956	94,952
T04: Other loss*	6	1	404,383	404,383	67,397
Total	70	18	5,230,408	6,481,339	92,591

* ‘Other loss’ claims are generally for non-structural defects.

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 \$
C01 : New single dwelling construction	51	12	3,581,739	4,513,941	88,509
C03 : New multi dwelling (3 storeys and less) *	2	2	157,055	345,054	172,527
C04 : Alterations/Additions	16	3	1,388,995	1,425,186	89,074
C05: Swimming Pools	0	0	0	0	0
C06 : Renovations (including kitchens and bathrooms)	0	0	0	0	0
C07: Other	1	1	102,619	197,158	197,158
Total	70	18	5,230,408	6,481,339	92,591

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