

# **NSW Home Warranty Insurance Scheme**

**Information on the Scheme as at**

**30 June 2014**



27 October 2014

Home Warranty Insurance Scheme Board  
NSW Fair Trading  
Department of Finance and Services  
Level 11, 10-14 Smith Street  
Parramatta NSW 2150

Dear Members of the Board

### HWI Scheme Data as at 30 June 2014

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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# Contents

<b>1</b>	<b>PREAMBLE</b> .....	<b>3</b>
	<b>HWI Scheme Data</b> .....	<b>3</b>
<b>2</b>	<b>CAUTION IN INTERPRETING THE INFORMATION</b> .....	<b>4</b>
<b>3</b>	<b>DATA</b> .....	<b>5</b>
	<b>PART I INFORMATION RELATED ONLY TO LICENSED BUILDERS</b> .....	<b>5</b>
<b>A</b>	<b>Eligibility Information</b> .....	<b>5</b>
A.1	Builder eligibilities .....	5
<b>B</b>	<b>Securities and Indemnities Information</b> .....	<b>6</b>
B.1	Securities held by insurers for builders with current eligibility .....	7
<b>C</b>	<b>Project Certificate Information – Builder</b> .....	<b>7</b>
C.1	Current project certificates - Builder .....	7
C.2	New project certificates issued - Builder .....	8
C.3	Building approvals versus new project certificates issued – Builder and Owner-Builder .....	10
<b>D</b>	<b>Premium Information - Builder</b> .....	<b>11</b>
D.1	Total premiums by project type - Builder .....	12
D.2	Average premium per project certificate - Builder .....	13
<b>E</b>	<b>Claims information - Builder</b> .....	<b>14</b>
E.1	Number of claims by liability assessment status - Builder .....	15
E.2	Reasons claims denied - Builder .....	15
E.3	Claims experience - Builder .....	16
E.4	Claims experience by year certificate issued .....	17
	<b>PART II OWNER-BUILDER INFORMATION</b> .....	<b>19</b>
<b>OB.C</b>	<b>Project Certificate information – Owner-Builder</b> .....	<b>19</b>
<b>OB.D</b>	<b>Premium Information- Owner-Builder</b> .....	<b>20</b>
<b>OB.E</b>	<b>Claims Information- Owner-Builder</b> .....	<b>23</b>

## 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 NSW Self Insurance Corporation, trading as the NSW Home Warranty Insurance Fund (HWIF), became the sole provider of home warranty insurance in NSW on 1 July 2010, replacing the former private insurers. The Corporation is a part of the Office of Finance and Services since 1 July 2013. The Scheme is underwritten and capitalised by the Government and funded by warranty insurance premiums.

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

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

### HWI Scheme Data

NSW Fair Trading, within the Office 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 NSW Civil and Administrative Tribunal or a court in favour of the homeowner.

This publication summarises the data that has been provided since June 2006 for the insurance period 1 July 2002 to 30 June 2014. The information provided has been aggregated across insurers. Data provided by individual insurers is commercially confidential and has not been disclosed.

Further information on the operation of the scheme is available on the following websites:

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

**Home 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.

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. Since the adoption of the single insurer model from 1 July 2010, insurance market cycles are only likely to impact the scheme to the extent that the insurer seeks to obtain reinsurance cover from the commercial insurance market.

For the first few years after the current 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 between 2008 and 2010 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. During the 12 months to 30 June 2014, there was an increase of \$52 million, or 12%, in the overall estimated net incurred claims cost reported by the scheme insurers. This illustrates the point made earlier that it takes many years for the ultimate experience of this class of business to emerge.

### 3 DATA

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

##### A Eligibility Information

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

##### A.1 Builder eligibilities

All builders who have been granted eligibility for home warranty insurance are allowed to contract within the approved annual rolling turnover limits. Table A1 shows the number of builder eligibilities at the end of each quarter by turnover limit bands for all types of cover.

Table A1 Number of builder eligibilities by turnover band

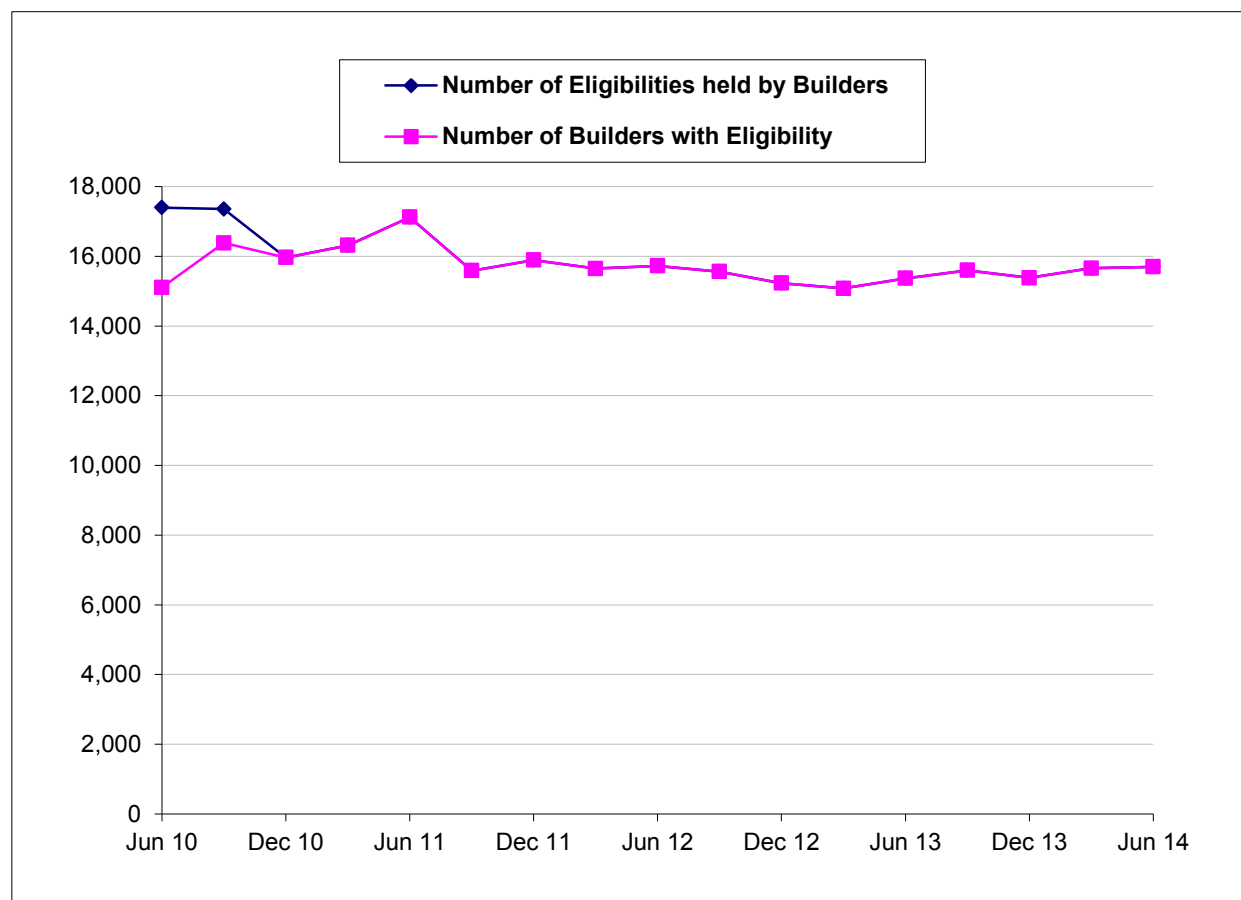
Turnover band (\$' m)	\$0 - <0.5m	\$0.5 - <1m	\$1 - <2m	\$2 - <3m	\$3 - <5m	\$5 - <20m	\$20+m	Totals
Jun 11	3,168	2,617	4,614	2,895	3,054	692	82	17,122
Sep 11	2,947	2,486	4,352	2,392	2,673	661	78	(#) 15,589
Dec 11	3,071	2,601	4,495	2,419	2,573	662	71	15,892
Mar 12	3,069	2,601	4,499	2,361	2,424	629	68	15,651
Jun 12	3,142	2,668	4,567	2,340	2,328	614	70	15,729
Sep 12	3,157	2,729	4,618	2,241	2,121	621	74	15,561
Dec 12	3,145	2,710	4,615	2,167	1,974	556	65	15,232
Mar 13	2,979	2,726	4,728	2,135	1,883	557	71	15,079
Jun 13	3,071	2,811	4,857	2,173	1,802	580	76	15,370
Sep 13	3,193	2,934	4,932	2,177	1,700	586	76	15,598
Dec 13	3,109	3,024	4,996	2,155	1,428	591	79	15,382
Mar 14	3,103	3,138	5,151	2,120	1,458	603	84	15,657
Jun 14	3,004	3,217	5,304	2,043	1,409	631	91	15,699

Note:

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

As at 30 June 2014, the proportion of builders with eligibility for annual turnover are: less than \$1 million: 40%, \$1m to less than \$5m: 56%, and \$5m and over: 4%, unchanged from last quarter.

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



Note: Prior to 1 October 2010, a builder may have held eligibility through more than one insurance agent.

## **B Securities and Indemnities Information**

For some builders, the HWIF may require security as a condition of approving eligibility or providing home warranty cover for a specific project. This will generally be provided in the form of a Deed of Indemnity.

Bank guarantees will not be sought by the HWIF for security purpose although a builder can provide a bank guarantee if the builder chooses to do so (refer Table B1), in order to satisfy the HWIF's eligibility underwriting criteria.

The HWIF reports to Fair Trading each quarter regarding the security held for builders with current eligibility as at the end of the quarter. Securities provided prior to 1 July 2010 by builders to former insurers are unable to be transferred to the HWIF, and will remain in place until they are released by the insurers. Such securities held by former insurers are not included in the HWIF report for post 30 June 2010 data.

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

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

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

Quarter	Bank Guarantee	Indemnity	Other Security	Totals	% of Total Builder Eligibility
Jun 11	0	472	N/A	472	3%
Sep 11	0	696	N/A	696	4%
Dec 11	0	719	N/A	719	5%
Mar 12	0	797	N/A	797	5%
Jun 12	0	871	N/A	871	6%
Sep 12	1	993	N/A	994	6%
Dec 12	1	1,101	N/A	1,102	7%
Mar 13	1	1,193	N/A	1,194	8%
Jun 13	1	1,332	N/A	1,333	9%
Sep 13	1	1,438	N/A	1,439	9%
Dec 13	1	1,541	8	1,550	10%
Mar 14	1	1,621	15	1,637	10%
Jun 14	1	1,723	34	1,758	11%

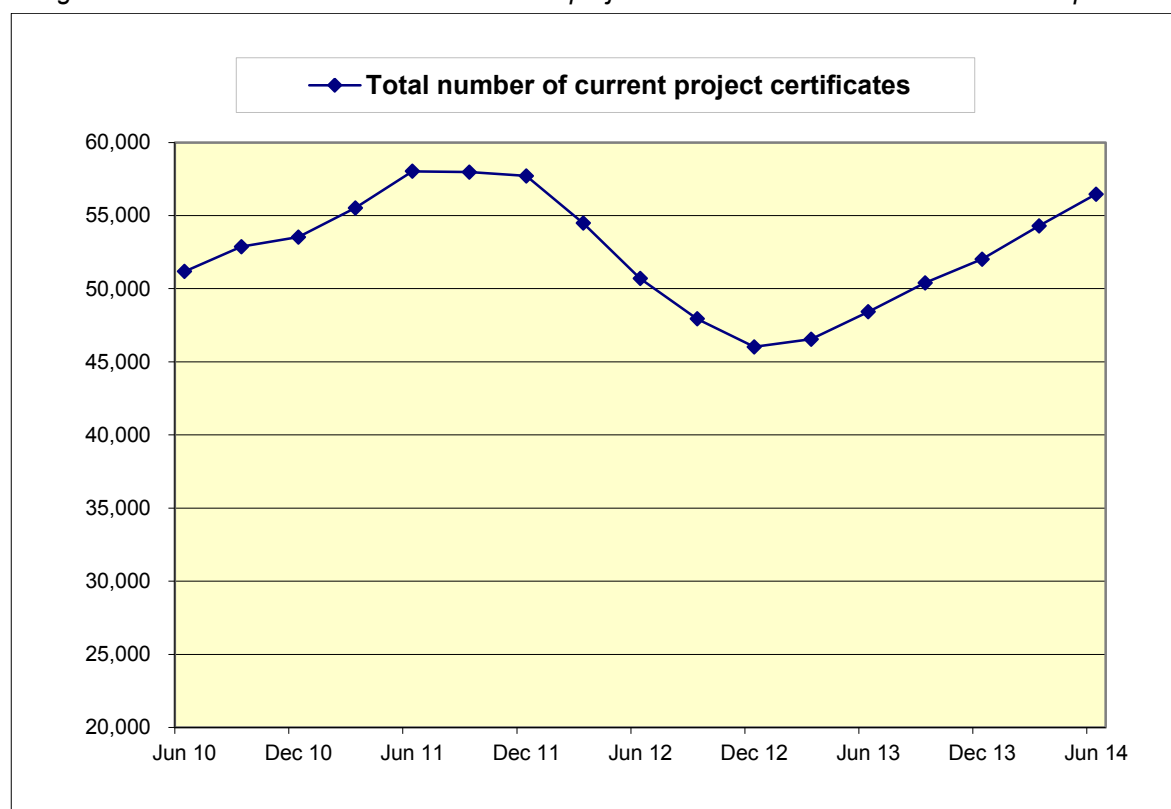
## C Project Certificate Information – Builder

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, building works are deemed completed 12 months after certificate issue date.

### C.1 Current project certificates - Builder

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

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





## C.2 New project certificates issued - Builder

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

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

Quarter /Type of cover	New single dwelling construction	New multi dwelling (3 storeys or less) *	Alterations /Additions #	Swimming Pools	Renovations (including kitchens and bathrooms) ^	Other	Totals
Jun 11	4,314	1,040	3,932	991	4,822	12	15,111
Sep 11	4,274	1,140	4,383	1,176	4,301	22	15,296
Dec 11	3,610	992	3,483	1,041	3,839	14	12,979
Mar 12	3,633	922	3,077	710	2,743	8	11,093
Jun 12	4,260	1,044	3,129	743	2,138	11	11,325
Sep 12	4,210	1,170	3,597	930	2,621	15	12,543
Dec 12	3,942	1,225	2,872	858	2,158	8	11,063
Mar 13	4,228	1,349	3,014	764	2,253	10	11,618
Jun 13	4,790	1,482	3,446	754	2,497	15	12,984
Sep 13	5,040	1,845	3,747	984	2,674	14	14,304
Dec 13	4,899	1,666	3,163	1,049	2,323	8	13,108
Mar 14	5,054	1,401	3,482	948	3,002	7	13,894
Jun 14	5,507	2,020	3,670	946	3,001	10	15,154

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

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

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

The proportion of project certificates issued during the quarter were: new single and multi-unit dwellings (50%), alterations (24%), renovations (20%) and swimming pools /others (6%).

The number of project certificates issued (15,154) during the June 2014 quarter has risen 9% since last quarter.

In the 12 months to June 2014, total number of certificates issued (56,460) were up 17% year-on-year, with strong growth in both new multi dwellings (+33%) and single dwellings (+19%), and have flow-on effects on the increases in total values and written premiums of certificates issued in the period.

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

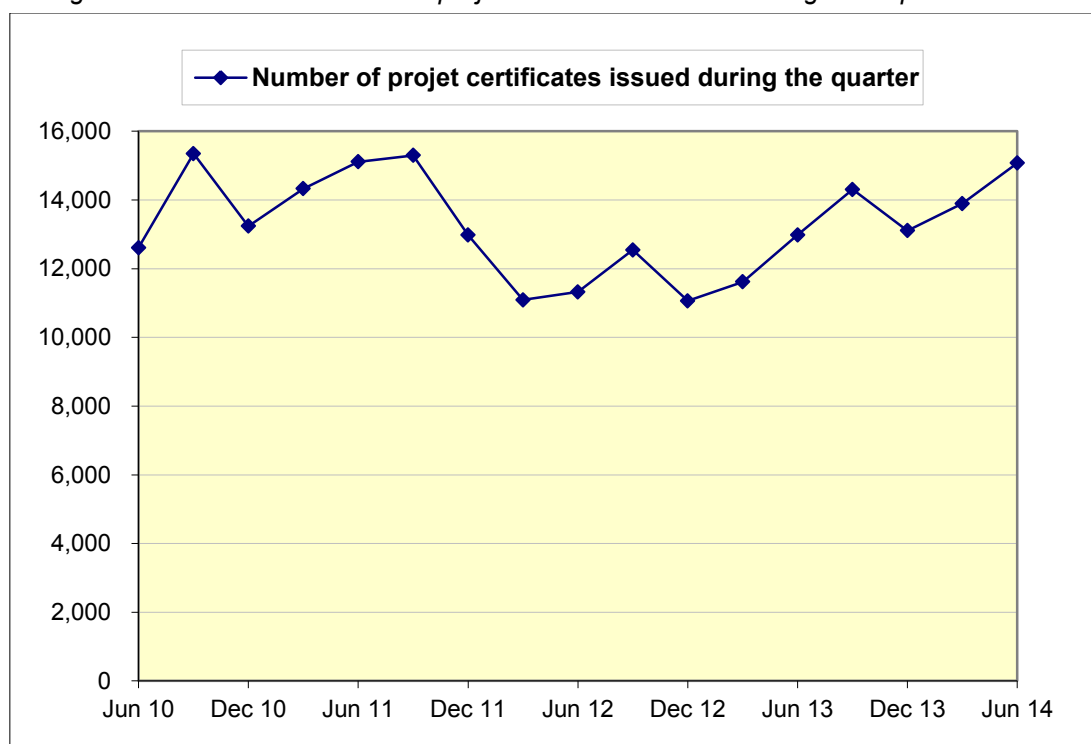


Table C2. Value of project certificates issued by type of cover during each quarter – (\$'million)

Quarter /Type of cover	New single dwelling construction	New multi dwelling (3 storeys or less) *	Alterations /Additions #	Swimming Pools	Renovations (including kitchens and bathrooms) ^	Other	Totals (\$'million)	Average Value per Project Certificate (\$'000)
Jun 11	1,304	204	504	41	139	1	2,193	145
Sep 11	1,316	232	517	47	136	1	2,249	147
Dec 11	1,129	223	431	40	115	1	1,939	149
Mar 12	1,104	199	465	29	97	1	1,895	171
Jun 12	1,330	219	474	32	106	1	2,162	191
Sep 12	1,275	233	499	40	126	1	2,174	173
Dec 12	1,178	253	432	35	93	0	1,991	180
Mar 13	1,296	263	451	32	98	1	2,141	184
Jun 13	1,494	308	538	34	119	2	2,495	192
Sep 13	1,521	401	537	42	131	1	2,633	184
Dec 13	1,489	365	430	41	109	3	2,437	186
Mar 14	1,600	301	536	40	134	1	2,612	188
Jun 14	1,783	452	551	43	144	1	2,974	196

\* 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 HWI builders and owner-builders data in this part of the analysis have been combined to be consistent with ABS data (which does not distinguish between builders and owner-builders data). We have endeavoured to exclude public sector work where possible from the building approval data to enable like-for-like comparison.

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

Quarter	Numbers			Value of (\$m)		
	Certificates issued	Building Approvals	Ratio	Certificates issued	Building Approvals	Ratio
	(1)	(2)	(3)	(4)	(5)	(6)
Jun 11	5,560	5,606	99%	1,565	1,516	103%
Sep 11	5,591	6,060	92%	1,599	1,660	96%
Dec 11	4,771	5,630	85%	1,399	1,499	93%
Mar 12	4,696	4,945	95%	1,344	1,352	99%
Jun 12	5,445	5,374	101%	1,586	1,540	103%
Sep 12	5,534	6,613	84%	1,552	1,746	89%
Dec 12	5,334	6,730	79%	1,485	1,743	85%
Mar 13	5,747	5,808	99%	1,608	1,600	101%
Jun 13	6,447	7,001	92%	1,856	1,824	102%
Sep 13	7,099	7,003	101%	1,984	1,873	106%
Dec 13	6,750	7,267	93%	1,911	1,880	102%
Mar 14	6,633	7,088	94%	1,956	1,950	100%
Jun 14	7,705	7,895	98%	2,287	2,128	108%
<b>Average</b>	5,947	6,386	93%	1,702	1,716	99%

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

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

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

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

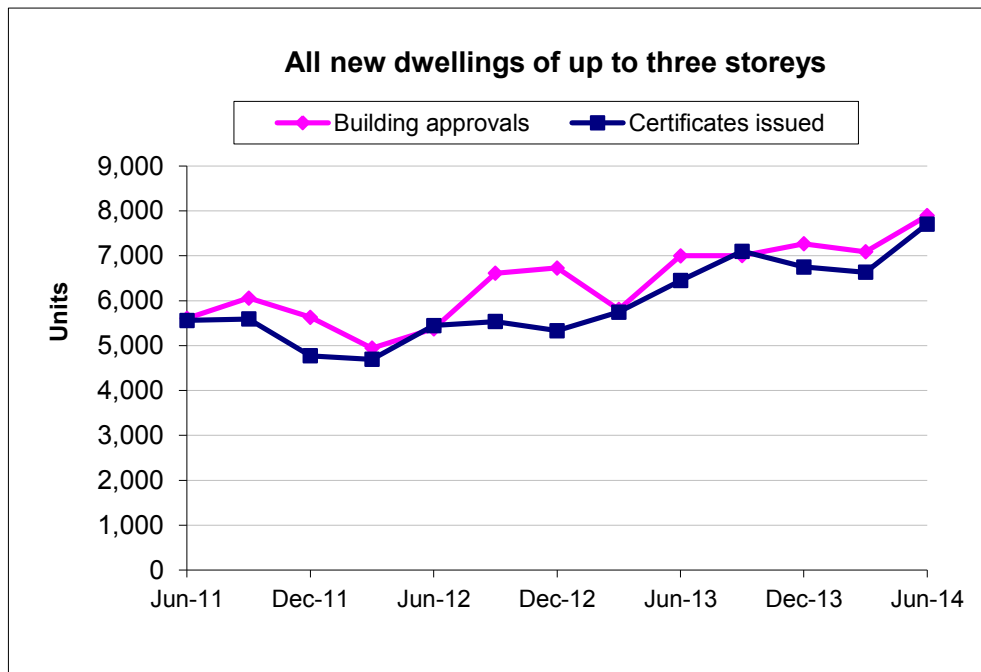
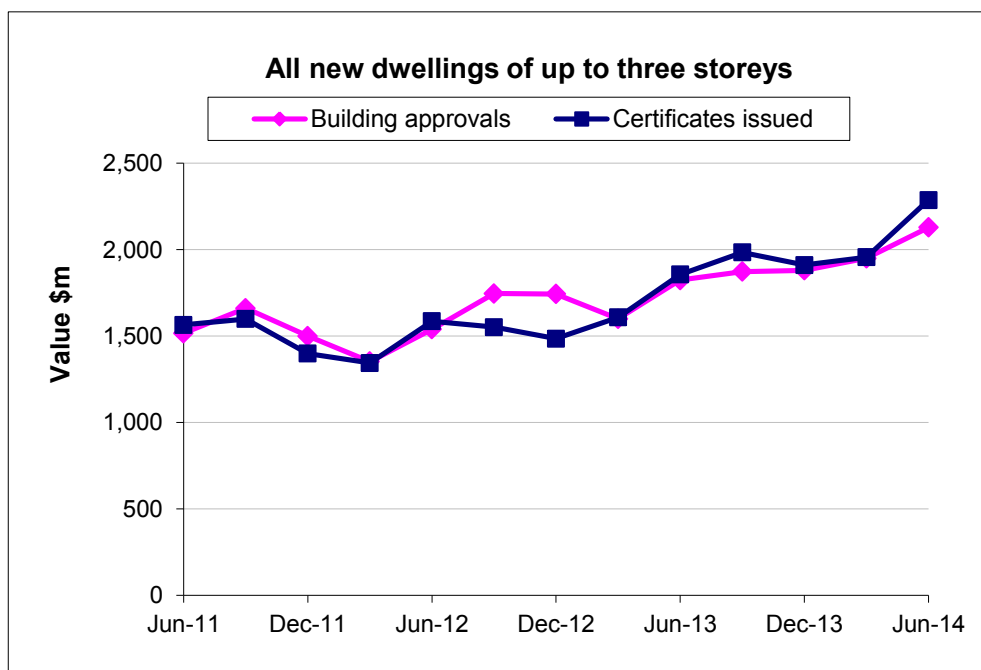


Figure C3.2 Value of building approvals versus certificates issued - Trend



#### D Premium Information - Builder

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

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

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

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

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

Quarter /Type of cover	New single dwelling construction	New multi dwelling (3 storeys or less) *	Alterations /Additions#	Swimming Pools	Renovations (including kitchens and bathrooms) ^	Other	Totals (\$'000)
Jun 11	6,810	2,069	3,404	349	1,046	5	13,683
Sep 11	7,481	2,341	3,660	442	1,016	9	14,949
Dec 11	6,524	2,215	3,035	387	875	5	13,041
Mar 12	6,341	2,071	3,236	275	683	5	12,611
Jun 12	7,510	2,269	3,348	294	652	5	14,078
Sep 12	7,852	2,487	3,565	377	805	7	15,093
Dec 12	7,319	2,594	3,095	324	599	4	13,935
Mar 13	7,837	2,780	3,208	303	644	5	14,777
Jun 13	8,996	3,203	3,698	315	760	10	16,982
Sep 13	9,901	4,204	3,786	414	829	10	19,144
Dec 13	9,621	3,877	3,089	417	694	13	17,711
Mar 14	10,210	3,195	3,786	392	850	5	18,438
Jun 14	11,343	4,704	3,938	429	931	3	21,348

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

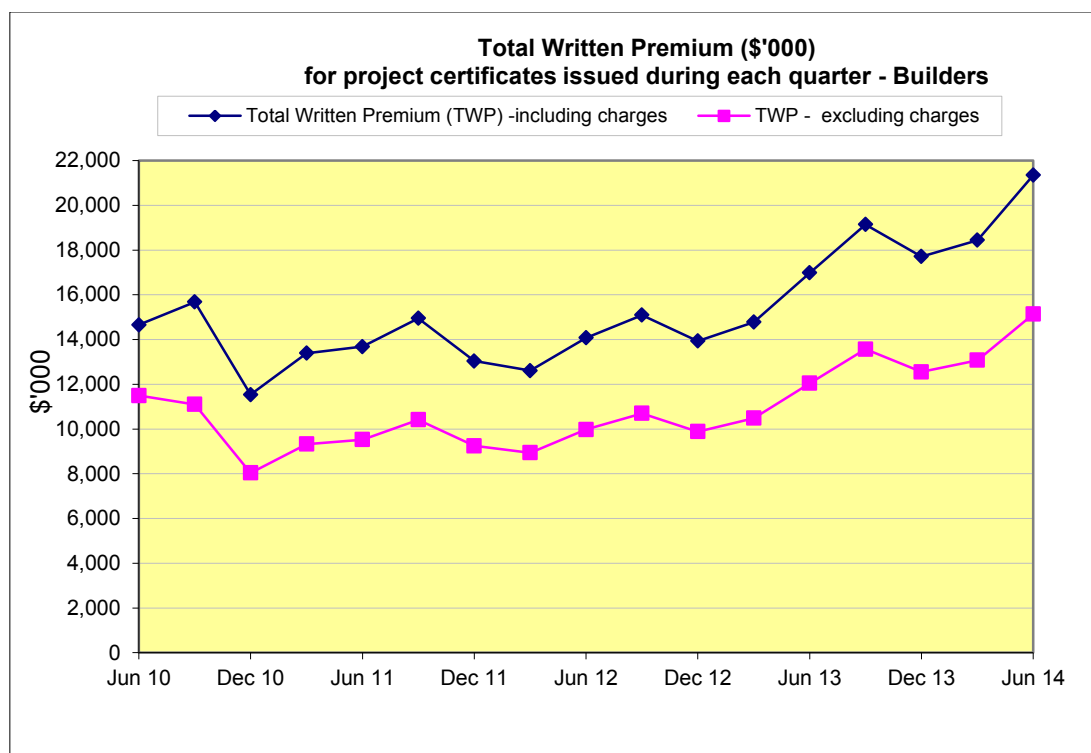
Quarter /Type of cover	New single dwelling construction	New multi dwelling (3 storeys or less) *	Alterations /Additions#	Swimming Pools	Renovations (including kitchens and bathrooms) ^	Other	Totals (\$'000)
Jun 11	4,743	1,441	2,370	243	728	4	9,529
Sep 11	5,210	1,631	2,553	308	707	6	10,415
Dec 11	4,625	1,570	2,152	274	620	4	9,245
Mar 12	4,496	1,469	2,294	195	484	3	8,941
Jun 12	5,324	1,609	2,373	208	462	4	9,980
Sep 12	5,567	1,763	2,528	267	570	5	10,700
Dec 12	5,193	1,839	2,195	230	425	3	9,885
Mar 13	5,561	1,976	2,275	215	457	4	10,488
Jun 13	6,380	2,271	2,623	223	539	7	12,043
Sep 13	7,020	2,980	2,684	293	588	7	13,572
Dec 13	6,821	2,748	2,190	295	492	10	12,556
Mar 14	7,239	2,266	2,684	278	602	3	13,072
Jun 14	8,042	3,335	2,792	304	660	2	15,135

\* 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 11	1,579	1,990	866	353	217	431	906
Sep 11	1,750	2,054	835	376	236	409	977
Dec 11	1,807	2,233	871	371	228	377	1,005
Mar 12	1,745	2,247	1,052	388	249	569	1,137
Jun 12	1,763	2,174	1,070	396	305	490	1,243
Sep 12	1,865	2,125	991	405	307	471	1,203
Dec 12	1,857	2,118	1,078	377	277	528	1,260
Mar 13	1,853	2,061	1,064	396	286	536	1,272
Jun 13	1,878	2,161	1,073	418	304	687	1,308
Sep 13	1,965	2,279	1,010	421	310	667	1,338
Dec 13	1,964	2,327	976	397	299	1,677	1,351
Mar 14	2,020	2,281	1,087	413	283	705	1,327
Jun 14	2,060	2,329	1,073	453	310	322	1,409

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

Quarter /Type of cover	New single dwelling construction	New multi dwelling (3 storeys or less) *	Alterations/ Additions #	Swimming Pools	Renovations (including kitchens and bathrooms) ^	Other	Average rate per \$1,000 project value \$
Jun 11	5.22	10.15	6.75	8.55	7.52	7.35	6.24
Sep 11	5.68	10.12	7.07	9.31	7.46	7.57	6.65
Dec 11	5.78	9.92	7.04	9.60	7.61	7.61	6.72
Mar 12	5.74	10.41	6.96	9.36	7.01	7.34	6.65
Jun 12	5.65	10.36	7.07	8.99	6.14	6.35	6.51
Sep 12	6.16	10.70	7.14	9.63	6.37	6.90	6.94
Dec 12	6.22	10.24	7.17	9.26	6.47	6.61	7.00
Mar 13	6.05	10.58	7.10	9.53	6.58	7.16	6.90
Jun 13	6.02	10.39	6.87	9.42	6.38	6.86	6.81
Sep 13	6.51	10.49	7.05	9.88	6.36	7.33	7.27
Dec 13	6.46	10.61	7.18	10.06	6.38	5.30	7.27
Mar 14	6.38	10.61	7.07	9.85	6.35	6.92	7.06
Jun 14	6.36	10.41	7.15	9.99	6.46	7.38	7.18

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

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

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

## E Claims information - Builder

The handling and management of claims by insurers is subject to *Claims Handling Guidelines* that are available on the Fair Trading website. Fair Trading is provided with data at the end of each quarter of all claims received by insurers in respect of 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 11	1,799	193	2,565	749	33	5,339
Sep11	1,977	227	2,693	807	29	5,733
Dec 11	2,090	248	2,910	831	25	6,104
Mar 12	2,118	307	3,261	888	44	6,618
Jun 12	2,242	301	3,462	928	29	6,962
Sep 12	2,343	285	3,671	983	37	7,319
Dec 12	2,435	340	3,858	994	42	7,669
Mar 13	2,535	268	4,116	1,055	47	8,021
Jun 13	2,668	213	4,268	1,063	45	8,257
Sep 13	2,751	157	4,489	1,087	40	8,524
Dec 13	2,834	121	4,620	1,119	30	8,724
Mar 14	2,894	130	4,764	1,137	25	8,950
Jun 14	2,957	125	4,870	1,188	21	9,161

# 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 2014, there were 2,745 such 'Notifications' which were 'Finalised' with nil payment to claimant.

## E.2 Reasons claims denied - Builder

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

Quarter	Incorrect Insurer	Out of time	Builder found	Builder not dead	Builder not insolvent	Not deemed a defect	Total
Jun 11	2	56	76	2	203	410	749
Sep 11	3	61	77	2	216	448	807
Dec 11	4	64	79	2	221	461	831
Mar 12	4	74	86	2	222	500	888
Jun 12	5	76	86	2	242	517	928
Sep 12	5	78	85	2	259	554	983
Dec 12	6	78	87	3	263	557	994
Mar 13	5 <sup>^</sup>	87	88	3	277	595	1,055
Jun 13	5	98	89	3	273 <sup>^</sup>	595	1,063
Sep 13	7	103	90	3	274	610	1,087
Dec 13	7	114	91	3	275	629	1,119
Mar 14	7	126	92	3	278	631	1,137
Jun 14	7	132	92	3	301	653	1,188

<sup>^</sup> Decrease due to reclassification to another category for the claims concerned.



### E.3 Claims experience - Builder

The remaining tables in this section show a further breakdown of the claims where liability has been accepted by the insurer in regards to builders (not owner-builders) as at **30 June 2014**. Information is shown separately between (a) claims that are finalised with all costs known and (b) those that are open, in which case at least part of the cost is an estimate of future payments.

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

Principal Cause	No. of Claims	Sum Paid to Claimant	Sum Paid to Third Parties	Total Gross Paid \$	Average Claim Size \$
<b>A01: Insolvency</b>	3,810	247,996,692	19,680,802	<b>267,677,494</b>	<b>70,257</b>
<b>A02: Death</b>	45	3,342,778	164,042	<b>3,506,820</b>	<b>77,929</b>
<b>A03: Disappearance</b>	183	10,492,138	812,228	<b>11,304,366</b>	<b>61,772</b>
<b>Total</b>	<b>4,038</b>	<b>261,831,608</b>	<b>20,657,072</b>	<b>282,488,680</b>	<b>69,958</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 \$
<b>A01: Insolvency</b>	768	91,545,896	14,486,270	61,834,048	<b>167,866,214</b>	<b>218,576</b>
<b>A02: Death</b>	5	94,748	16,358	213,226	<b>324,332</b>	<b>64,866</b>
<b>A03: Disappearance</b>	59	4,013,329	449,353	2,417,254	<b>6,879,936</b>	<b>116,609</b>
<b>Total</b>	<b>832</b>	<b>95,653,973</b>	<b>14,951,981</b>	<b>64,464,528</b>	<b>175,070,482</b>	<b>210,421</b>

\*Open claims are claims which are not finalised.

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

Claim Code	No. of Claims	Sum Paid to Claimant	Sum Paid to Third Parties	Total Gross Paid \$	Average Claim Size \$
<b>T01: Failure to commence</b>	211	4,348,100	160,647	<b>4,508,747</b>	<b>21,368</b>
<b>T02: Failure to complete</b>	1,440	106,547,889	6,625,268	<b>113,173,157</b>	<b>78,592</b>
<b>T03: Structural defect</b>	1,905	124,951,846	11,518,583	<b>136,470,429</b>	<b>71,638</b>
<b>T04: Other loss#</b>	482	25,983,773	2,352,574	<b>28,336,347</b>	<b>58,789</b>
<b>Total</b>	<b>4,038</b>	<b>261,831,608</b>	<b>20,657,072</b>	<b>282,488,680</b>	<b>69,958</b>

*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 \$
<b>T01: Failure to commence</b>	2	95,677	4,357	4	<b>100,038</b>	<b>50,019</b>
<b>T02: Failure to complete</b>	128	11,052,487	1,800,030	4,414,754	<b>17,267,271</b>	<b>134,901</b>
<b>T03: Structural defect</b>	630	74,187,332	11,663,489	54,705,366	<b>140,556,187</b>	<b>223,105</b>
<b>T04: Other loss#</b>	72	10,318,477	1,484,105	5,344,404	<b>17,146,986</b>	<b>238,153</b>
<b>Total</b>	<b>832</b>	<b>95,653,973</b>	<b>14,951,981</b>	<b>64,464,528</b>	<b>175,070,482</b>	<b>210,421</b>

# '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	2,599	157,198,971	11,541,637	168,740,608	64,925
C02: New multi dwelling (greater than 3 storeys)	6	2,697,521	540,422	3,237,943	539,657
C03 : New multi dwelling (3 storeys or less)	553	48,098,213	4,490,401	52,588,614	95,097
C04 : Alterations/Additions	538	42,813,522	3,135,042	45,948,564	85,406
C05: Swimming Pools	207	4,418,021	540,846	4,958,867	23,956
C06 : Renovations (including kitchens and bathrooms)	90	4,559,410	316,148	4,875,558	54,173
C07: Other	45	2,045,950	92,576	2,138,526	47,523
<b>Total</b>	<b>4,038</b>	<b>261,831,608</b>	<b>20,657,072</b>	<b>282,488,680</b>	<b>69,958</b>

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

Type of Cover	No. of Claims	Sum of Paid to Claimant	Sum of Paid to Third Parties	Net Outstanding Estimate \$	Estimated Total Claims Cost	Average Claim Size \$
C01 : New single dwelling construction	426	25,057,133	4,729,865	13,567,745	43,354,743	101,772
C02: New multi dwelling (greater than 3 storeys)	12	15,004,271	1,494,386	11,678,378	28,177,035	2,348,086
C03 : New multi dwelling (3 storeys or less)	227	47,070,388	7,605,659	31,360,859	86,036,906	379,017
C04 : Alterations/Additions	109	5,624,602	685,611	4,519,477	10,829,690	99,355
C05: Swimming Pools	25	696,025	134,996	451,942	1,282,963	51,318
C06 : Renovations (including kitchens and bathrooms)	32	2,201,554	299,921	2,875,029	5,376,504	168,016
C07: Other	1	0	1,543	11,098	12,641	12,640
<b>Total</b>	<b>832</b>	<b>95,653,973</b>	<b>14,951,981</b>	<b>64,464,528</b>	<b>175,070,482</b>	<b>210,421</b>

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

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

Certificate calendar year of issue	No. of Claims	Sum of Paid to Claimant	Sum of Paid to Third Parties	Net Outstanding Estimate \$	Estimated Total Claims Cost	Average Claim Size \$
2002 (from 1/7/2002)	135	25,540,790	2,866,381	2,633,779	31,040,950	229,933
2003	367	51,207,718	6,842,317	16,860,862	74,910,897	204,117
2004	559	43,137,247	5,781,482	12,079,726	60,998,455	109,121
2005	495	35,787,448	4,392,208	5,892,434	46,072,090	93,075
2006	636	43,871,824	4,308,761	5,245,910	53,426,495	84,004
2007	858	43,137,832	4,031,569	4,977,164	52,146,565	60,777
2008	544	31,895,385	2,744,595	3,141,628	37,781,608	69,451
2009	326	20,941,660	1,622,091	4,520,207	27,083,958	83,080
2010	355	26,323,798	1,664,380	2,839,006	30,827,184	86,837
2011	451	29,188,910	1,828,799	5,191,568	36,209,277	80,287
2012	232	14,913,943	641,180	1,595,915	17,151,038	73,927
2013	20	372,234	41,265	804,350	1,217,849	60,892
<b>Total</b>	<b>4,978</b>	<b>366,318,789</b>	<b>36,765,028</b>	<b>65,782,549</b>	<b>468,866,366</b>	<b>94,188</b>

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

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

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

Insurers have also estimated additional costs of \$25 million in respect of claims in which liability has **not** yet been determined.

Insurers do manage to recover some claim payments, generally as creditors of insolvent builders. Since the scheme commenced, some \$13 million has been recovered or about 3% of estimated total claims cost to date.

Overall for the Scheme, the number of accepted liability claims is up 113 or 2%, and the reported costs up \$13 million or 3%, 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 11	199	7	179	12	3	1	401
Sep 11	175	2	180	6	1	2	366
Dec 11	161	8	167	9	5	1	351
Mar 12	131	10	122	5	0	2	270
Jun 12	135	6	117	8	0	4	270
Sep 12	146	8	136	9	0	0	299
Dec 12	159	8	117	2	0	1	287
Mar 13	164	6	99	8	0	0	277
Jun 13	165	10	132	3	0	1	311
Sep 13	202	12	134	6	0	1	355
Dec 13	173	12	141	4	0	0	330
Mar 14	162	16	140	6	1	0	325
Jun 14	156	22	153	10	0	1	342

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

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

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

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

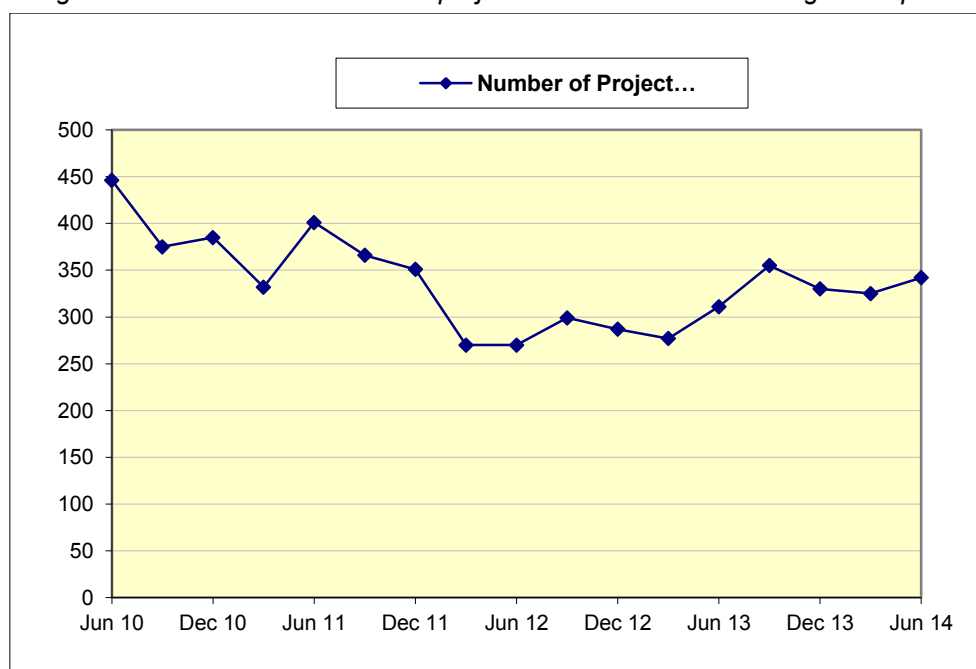


Table OB.C3. Value of project certificates issued by type of cover – (\$'000)

Quarter /Type of cover	New single dwelling construction	New multi dwelling (3 storeys or less) *	Alterations /Additions #	Swimming Pools	Renovations (including kitchens and bathrooms) ^	Other	Totals (\$'000)	Average Value per Project Certificate (\$'000)
Jun 11	56,327	1,160	22,042	328	104	91	<b>80,052</b>	200
Sep 11	50,091	620	21,195	168	40	444	<b>72,558</b>	198
Dec 11	45,218	1,540	19,911	308	263	98	<b>67,338</b>	192
Mar 12	38,867	2,390	16,307	139	0	570	<b>58,273</b>	216
Jun 12	36,169	1,010	13,559	272	0	380	<b>51,390</b>	190
Sep 12	42,671	1,420	18,937	218	0	0	<b>63,246</b>	212
Dec 12	51,501	2,120	13,645	61	0	150	<b>67,477</b>	235
Mar 13	47,831	1,248	12,845	240	0	0	<b>62,164</b>	224
Jun 13	51,870	2,070	18,181	97	0	200	<b>72,418</b>	233
Sep 13	59,949	2,380	18,112	229	0	240	<b>80,910</b>	228
Dec 13	53,554	2,512	22,436	119	0	0	<b>78,621</b>	238
Mar 14	51,268	3,512	21,512	269	140	0	<b>76,701</b>	236
Jun 14	46,968	4,800	24,375	344	0	110	<b>76,597</b>	224

\* 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 11	498	16	200	4	1	1	<b>720</b>
Sep 11	443	9	199	2	0	4	<b>657</b>
Dec 11	401	20	186	4	2	1	<b>614</b>
Mar 12	308	34	151	2	0	4	<b>499</b>
Jun 12	311	10	120	3	0	3	<b>447</b>
Sep 12	367	20	169	2	0	0	<b>558</b>
Dec 12	444	32	123	1	0	1	<b>601</b>
Mar 13	438	19	113	3	0	0	<b>573</b>
Jun 13	466	17	155	1	0	1	<b>640</b>
Sep 13	514	23	156	2	0	2	<b>697</b>
Dec 13	465	38	186	2	0	0	<b>691</b>
Mar 14	444	52	183	3	1	0	<b>683</b>
Jun 14	421	66	214	4	0	1	<b>706</b>

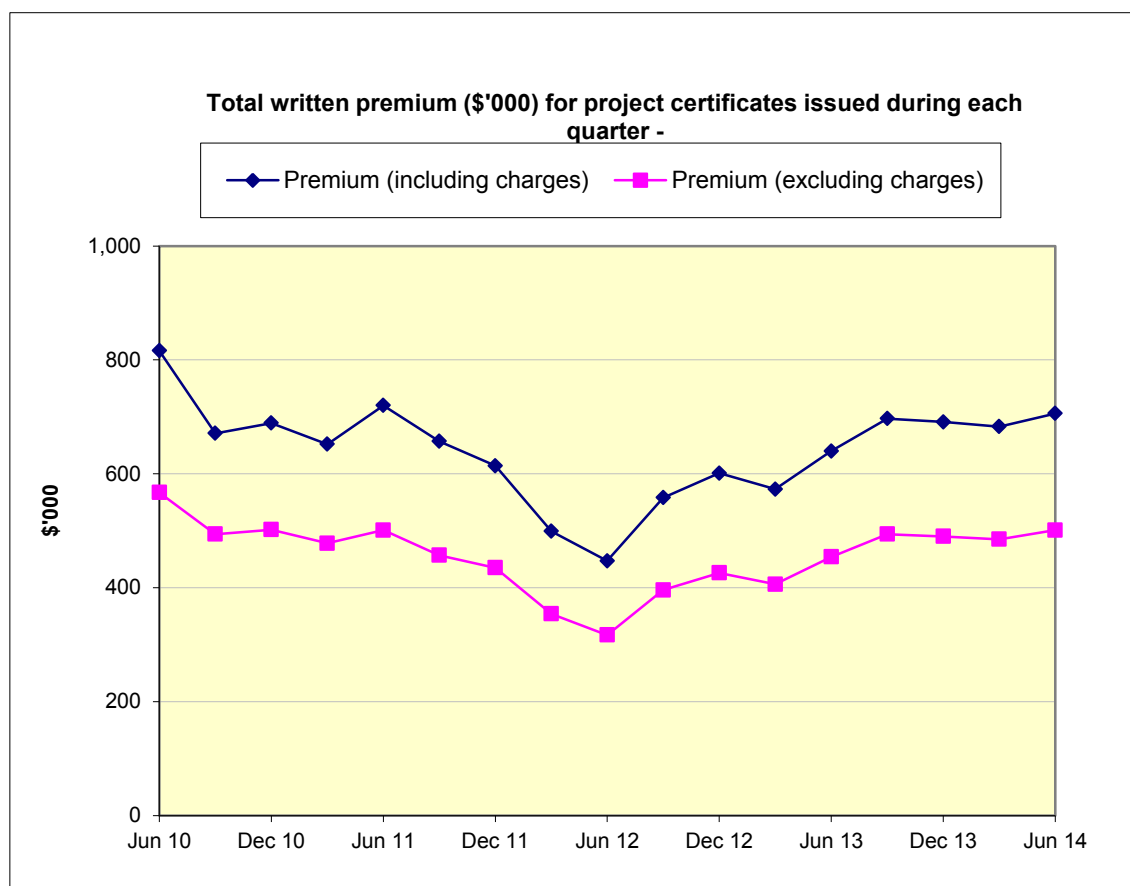
Table **OB D1.2** Written premium for project certificates issued (**excluding charges**) - (\$'000)

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 11	347	12	139	3	0	0	501
Sep 11	308	7	138	2	0	2	457
Dec 11	284	14	132	3	1	1	435
Mar 12	219	24	107	1	0	3	354
Jun 12	221	7	85	2	0	2	317
Sep 12	260	14	120	2	0	0	396
Dec 12	314	23	87	1	0	1	426
Mar 13	311	13	80	2	0	0	406
Jun 13	330	12	110	1	0	1	454
Sep 13	364	16	111	2	0	1	494
Dec 13	330	27	132	1	0	0	490
Mar 14	315	37	130	2	1	0	485
Jun 14	298	47	152	3	0	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** 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 11	2,501	2,331	1,118	355	214	628	<b>1,795</b>
Sep 11	2,529	4,684	1,105	366	282	1,712	<b>1,795</b>
Dec 11	2,492	2,496	1,113	475	338	790	<b>1,749</b>
Mar 12	2,354	3,464	1,237	352	0	1,842	<b>1,849</b>
Jun 12	2,307	1,662	1,023	451	0	662	<b>1,657</b>
Sep 12	2,512	2,549	1,242	274	0	0	<b>1,868</b>
Dec 12	2,788	4,003	1,054	413	0	1,209	<b>2,093</b>
Mar 13	2,669	3,142	1,146	408	0	0	<b>2,069</b>
Jun 13	2,824	1,714	1,169	474	0	1,381	<b>2,059</b>
Sep 13	2,546	1,906	1,163	431	0	1,934	<b>1,965</b>
Dec 13	2,691	3,163	1,319	406	0	0	<b>2,094</b>
Mar 14	2,741	3,247	1,310	580	705	0	<b>2,103</b>
Jun 14	2,698	3,031	1,398	410	0	633	<b>2,065</b>

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

Quarter /Type of cover	New single dwelling construction	New multi dwelling (3 storeys or less) *	Alterations /Additions #	Swimming Pools	Renovations (including kitchens and bathrooms) ^	Other	Average rate per \$1,000 project value \$
Jun 11	8.84	14.07	9.08	12.96	6.18	6.90	<b>8.99</b>
Sep 11	8.84	15.11	9.39	13.08	7.05	7.72	<b>9.05</b>
Dec 11	8.87	12.96	9.34	13.86	6.44	8.10	<b>9.12</b>
Mar 12	7.93	14.49	9.25	12.66	0	6.46	<b>8.57</b>
Jun 12	8.61	9.87	8.83	13.24	0	6.97	<b>8.71</b>
Sep 12	8.59	14.36	8.92	11.33	0	0	<b>8.83</b>
Dec 12	8.61	15.11	9.04	13.51	0	8.06	<b>8.90</b>
Mar 13	9.15	15.11	8.83	13.60	0	0	<b>9.22</b>
Jun 13	8.98	8.28	8.49	14.63	0	6.91	<b>8.84</b>
Sep 13	8.58	9.61	8.61	11.30	0	8.06	<b>8.62</b>
Dec 13	8.69	15.11	8.29	13.62	0	0	<b>8.79</b>
Mar 14	8.66	14.79	8.52	12.92	5.04	0	<b>8.91</b>
Jun 14	8.96	13.89	8.77	11.94	0	5.75	<b>9.22</b>

\* 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.

**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 11	29	2	70	116	4	<b>221</b>
Sep 11	33	6	71	128	3	<b>241</b>
Dec 11	35	4	75	130	3	<b>247</b>
Mar 12	39	9	81	134	3	<b>266</b>
Jun 12	47	14	80	140	2	<b>283</b>
Sep 12	56	10	80	151	2	<b>299</b>
Dec 12	59	7	85	152	1	<b>304</b>
Mar 13	71	6	87	159	1	<b>324</b>
Jun 13	81	4	87	169	1	<b>342</b>
Sep 13	88	5	91	169	2	<b>355</b>
Dec 13	92	2	95	172	0	<b>361</b>
Mar 14	99	7	101	179	0	<b>386</b>
Jun 14	107	4	108	181	0	<b>400</b>

# 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 2014, there were 71 such 'Notifications' which were 'Finalised' with nil payment to claimant.

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

Quarter	Out of time	Builder found	Builder not dead	Builder not insolvent	Not deemed a defect	Total
Jun 11	7	80	1	21	7	<b>116</b>
Sep 11	8	87	1	24	8	<b>128</b>
Dec 11	9	87	1	25	8	<b>130</b>
Mar 12	8	89	1	26	10	<b>134</b>
Jun 12	8	91	1	30	10	<b>140</b>
Sep 12	8	98	1	33	11	<b>151</b>
Dec 12	8	98	1	34	11	<b>152</b>
Mar 13	9	103	1	36	10	<b>159</b>
Jun 13	10	108	1	39	11	<b>169</b>
Sep 13	9	109	1	39	11	<b>169</b>
Dec 13	10	111	1	39	11	<b>172</b>
Mar 14	10	117	1	39	12	<b>179</b>
Jun 14	10	120	1	39	<sup>^</sup> 11	<b>181</b>

<sup>^</sup> Decrease from prior quarter due to a reclassification to another category for the claim concerned.



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

The remaining tables in this section show a further breakdown of the claims as at 30 June 2014 where liability has been accepted as at that date. Both open and finalised claims are included in these tables.

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

Principal Cause	No. of Claims Reported	No. of claims Open	Total amounts paid to date \$	Estimated Total Claims Cost \$	Average Claim Size \$
A01: Insolvency	39	10	3,596,676	4,320,108	110,772
A02: Death	5	0	171,939	171,939	34,388
A03: Disappearance	64	9	6,220,569	6,815,158	106,487
<b>Total</b>	<b>108</b>	<b>19</b>	<b>9,989,184</b>	<b>11,307,205</b>	<b>104,696</b>

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

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

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

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

Claim Code	No. of Claims Reported	No. of claims Open	Total amounts paid to date \$	Estimated Total Claims Cost \$	Average Claim Size \$
T03: Structural defect	101	18	9,498,851	10,785,872	106,791
T04: Other loss*	7	1	490,333	521,333	74,476
<b>Total</b>	<b>108</b>	<b>19</b>	<b>9,989,184</b>	<b>11,307,205</b>	<b>104,696</b>

\* '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	85	15	7,971,452	8,817,193	103,732
C03 : New multi dwelling (3 storeys or less) *	2	0	238,867	238,867	119,434
C04 : Alterations/Additions	20	4	1,676,246	2,148,526	107,426
C05: Swimming Pools	0	0	0	0	0
C06 : Renovations (including kitchens and bathrooms)	0	0	0	0	0
C07: Other	1	0	102,619	102,619	102,619
<b>Total</b>	<b>108</b>	<b>19</b>	<b>9,989,184</b>	<b>11,307,205</b>	<b>104,696</b>

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

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