

NSW Home Warranty Insurance Scheme

Information on the Scheme as at

30 June 2007

Contents

1	PREAMBLE	4
2	CAUTION IN INTERPRETING THE INFORMATION	4
3	DATA	5
A	Eligibility Information	5
A.1	Builder eligibilities	5
B	Securities and Indemnities Information	6
B.1	Number and type of securities held by insurers.....	6
B.2	Dollar value of securities held over the past year.....	6
B.3	Average value of securities and indemnities over the period	7
C	Project Certificate Information	7
C.1	Current project certificates	7
C.2	New project certificates issued	8
D	Premium Information	9
D.1	Total premiums by project type.....	10
D.2	Average premium per project certificate	11
E	Claims information	12
E.1	Number of claims by liability assessment status	12
E.2	Reasons claims denied.....	12
E.3	Claims experience	13

14 November 2007

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

Dear Sirs

HWI Scheme Data as at 30 June 2007

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

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

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

Yours sincerely

A handwritten signature in black ink, appearing to read "Bruce Watson".

Bruce Watson
Fellow of the Institute of Actuaries of Australia

HWI SCHEME INFORMATION

1 PREAMBLE

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

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

In New South Wales, HWI may only be offered by insurers approved by the Minister under the Act. As at 30 June 2007, there were six insurers approved to offer HWI. While one of the insurers only provides HWI to owner-builders the remainder are able to offer cover to licensed builders and owner-builders.

Since September 2005 insurers in the HWI scheme have been providing data on a quarterly basis to Fair Trading. The following information on the operation of the scheme applies only to the version of the scheme in operation since 1 July 2002 which from that date made it clear that the protection offered applied only in the event of the death, disappearance or insolvency of a builder.

This is the second report on the operation of the HWI scheme published by the Office of Fair Trading. In response to feedback received on the initial publication of information on the HWI scheme new tables have been provided in section D to show premium information inclusive of charges, in addition to tables showing premium information exclusive of charges (only the latter was included in last quarter). A new table (E9) showing claims experience by year of issue of project certificates has also been included in section E.

On 1 June 2007 the home warranty insurance operations of Australian International Insurance Limited (AAIL) and Lumley General Insurance Limited were integrated following the purchase of AAIL's parent company (OAMPS Ltd) by Lumley's parent company, Wesfarmers Limited. HWI is now provided under the name of Lumley General Insurance Limited.

This publication summarises the data that has been provided for the period 1 July 2002 to 30 June 2007. The information provided has been aggregated across insurers. Data provided by individual insurers is commercially confidential and has not been disclosed.

2 CAUTION IN INTERPRETING THE INFORMATION

The current version of the HWI scheme is at an early stage of evolution. As a result, considerable caution is required when interpreting the information provided in this publication. Data collection systems have only been in place for about 2 years and improvements are ongoing. Care must be taken in relying upon initial (baseline) data in determining trends at this stage.

In addition, HWI is a very 'long tail' class of business 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 data in this publication relates only to project certificates issued from 1 July 2002 and claims notified on those certificates. It does not include claims not yet reported to insurers on

those certificates or any provisions made by insurers in their accounts for the cost of unreported claims or cost escalation on reported claims. Experience with the former Government administered schemes showed that claims may be lodged with insurers as long as ten years after the issue of HWI.

It is only possible to make an assessment of the financial performance of the HWI scheme by comparing premiums collected with all the relevant costs of insurers over the full life of the HWI cover. At this time, the information does not exist to make such an assessment.

It is also expected that the claims experience of HWI may vary greatly from year to year depending on economic conditions in the home building market and in the community generally. The nature of insurance is that there are good years and bad years. Since the new HWI scheme commenced, the NSW economy has performed reasonably well, and conditions have generally been favourable for home builders.

3 DATA

A Eligibility Information

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

A.1 Builder eligibilities

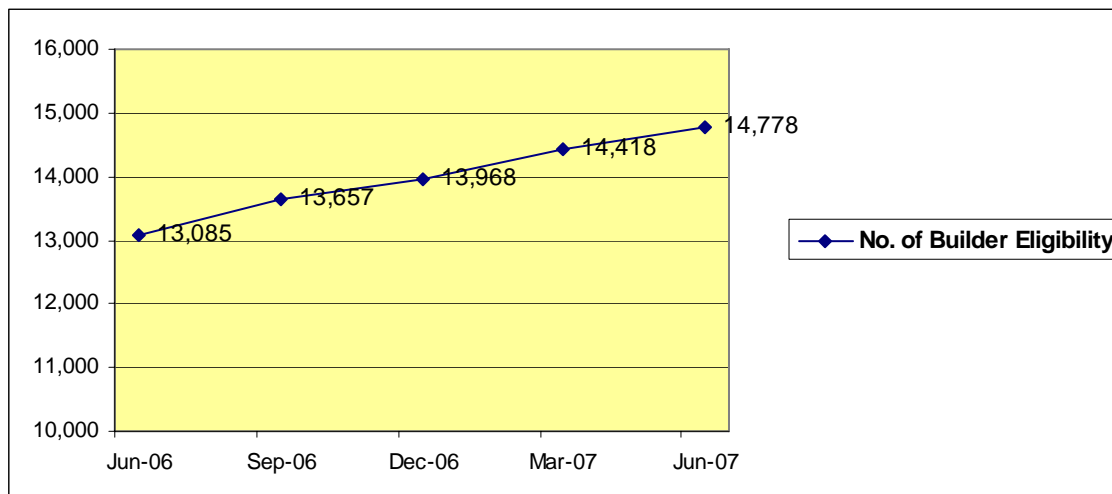
Table A1 shows the number of builder eligibilities at the end of each quarter by turnover band. It excludes builders with eligibility pending, but includes builders who may have eligibility with more than one insurer at the time of reporting. Turnover refers to the total annual turnover for which the builder has eligibility from the insurer at the end of the quarter for all types of cover (Section C.2).

Table A1 Number of builder eligibilities by turnover band

Turnover band (\$' m)	\$0-0.5m	\$0.5-1m	\$1-2m	\$2-3m	\$3-5m	\$5-20m	\$20+m	Change in Turnover Requested	unlimited	Totals
Jun 06	1,034	1,256	4,356	4,305	855	728	113	135	303	13,085
Sep 06	1,174	1,399	4,528	4,450	821	699	107	139	340	13,657
Dec 06	1,292	1,426	4,576	4,469	879	702	105	141	378	13,968
Mar 07	1,364	1,498	4,528	4,451	1,156	755	108	145	413	14,418
Jun 07	1,299	1,405	4,127	3,977	2,581	769	108	135	377	14,778

The number of eligibilities has increased over the last year. Most licensed builders have eligibility for annual turnover within the \$1 million to \$5 million band. As at 30 June 2007, 10% of builders had current eligibility with more than one insurer.

Figure A1.1. Trend in Number of Builder Eligibilities



B Securities and Indemnities Information

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

B.1 Number and type of securities held by insurers

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

Quarter	Bank Guarantee	Indemnity	Multiple Securities	Other Security	Totals	% of Total Builder Eligibility
Jun 06	377	*266	10	5	658	5%
Sep 06	339	*719	9	3	1,070	8%
Dec 06	221	1,212	68	2	1,503	11%
Mar 07	227	1,262	76	4	1,569	11%
Jun 07	209	1,312	123	4	1,648	11%

* The increase in the number of indemnities between June and December 2006 quarters is attributable to one insurer being previously unable to provide data on all job specific and builder deeds of indemnity and one insurer being previously unable to provide data on deeds of indemnity relating to business which it acquired from another insurer.

Since the June 2006 quarter there has been a shift from bank guarantees to indemnities and multiple securities as a preferred form of security. As at 30 June 2007, 11 per cent of builder eligibilities were subject to some form of security being in place.

B.2 Dollar value of securities held over the past year

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

Quarter	Bank Guarantee	Indemnity *	Multiple Securities#	Other Security	Totals
Jun 06	50,636	N/A	2,361	23	53,020
Sep 06	44,000	N/A	2,186	26	46,212
Dec 06	26,519	N/A	10,643	15	37,177
Mar 07	28,935	N/A	10,968	19	39,922
Jun 07	24,739	N/A	14,582	122	39,443

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

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

B.3 Average value of securities and indemnities over the period

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

Quarter	Bank Guarantee	Indemnity *	Multiple Securities	Other Security
Jun 06	134	N/A	236	5
Sep 06	130	N/A	243	9
Dec 06	120	N/A	157	8
Mar 07	127	N/A	144	5
Jun 07	118	N/A	119	30

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

The average value of securities reported by insurers has generally reduced over the period (noting that an indemnity does not have a reported value).

C Project Certificate Information

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

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

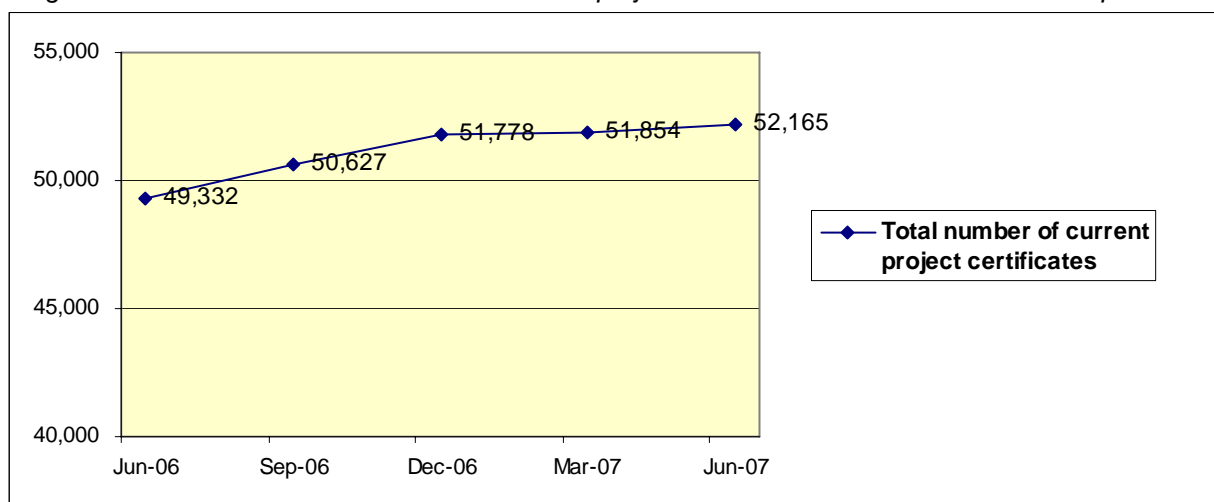
C.1 Current project certificates

Table C1 shows the number of current project certificates for “work in progress” as at the end of each quarter as reported by insurers. Figure C1.1 shows the trend in the total number of current project certificates over the period. These figures do not include owner builder projects.

Table C1 Number of current project certificates - as at end of each quarter

Report Quarter	Totals
Jun 06	49,332
Sep 06	50,627
Dec 06	51,778
Mar 07	51,854
Jun 07	52,165

Figure C1.1 Trend in total number of current project certificates - as at the end of each quarter



C.2 New project certificates issued

Tables C2, C3 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.

Tables C2 & C3 which deal with new project certificates issued during the quarter and the value of such certificates include owner-builder projects.

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

Quarter /Type of cover	New single dwelling construction	New multi dwelling (greater than 3 storeys) *	New multi dwelling (3 storeys or less) *	Alterations /Additions #	Swimming Pools	Renovations (including kitchens and bathrooms) ^	Other	Totals
Jun 06	4,403	41	1,454	3,542	1,707	3,017	214	14,378
Sep 06	4,268	0	1,746	3,824	1,638	3,050	283	14,809
Dec 06	3,757	34	1,383	3,291	1,415	2,681	350	12,911
Mar 07	3,633	26	1,385	3,514	1,168	2,604	240	12,570
Jun 07	4,372	0	1,282	3,932	1,266	2,762	229	13,843

* 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.

New single dwelling construction represents the largest number of project certificates issued over the period. Alterations and additions (involving structural work) are the second largest group, followed by renovations (not involving structural work and including kitchens and bathrooms).

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

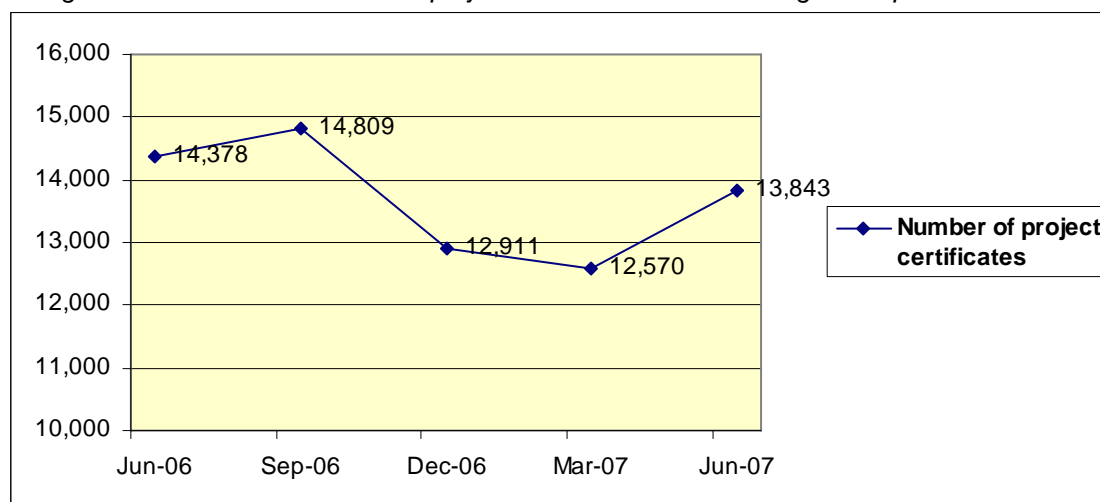


Table C3. Value of project certificates issued by type of cover – (\$'million)

Quarter /Type of cover	New single dwelling construction	New multi dwelling (greater than 3 storeys) *	New multi dwelling (3 storeys or less) *	Alterations /Additions #	Swimming Pools	Renovations (including kitchens and bathrooms) ^	Other	Totals (\$'million)	Average Value per Project Certificate (\$'000)
Jun 06	1,150	9	273	636	58	128	24	2,278	158
Sep 06	1,132	0	328	464	55	119	26	2,124	143
Dec 06	998	10	266	360	45	83	29	1,791	139
Mar 07	1,053	2	246	443	41	94	24	1,903	151
Jun 07	1,213	0	264	484	47	99	22	2,129	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.

Each quarter insurers have issued HWI project certificates covering around \$2 billion of project values. The average project certificate value varies from quarter to quarter, and is in the region of \$150,000.

D Premium Information

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 but may exclude fees charged by brokers. Premium including charges is the amount paid by the builder; premium excluding charges is the amount retained by the insurer to pay claims and the insurer's expenses.

As at 30 June 2007 there were six insurers providing home warranty insurance in New South Wales. There appears to be competition among insurers with no one insurer having a 50% or more share of the home warranty insurance market based on written premium.

All the premium tables in section D include owner-builder projects.

D.1 Total premiums by project type

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

Quarter /Type of cover	New single dwelling construction	New multi dwelling (greater than 3 storeys) *	New multi dwelling (3 storeys or less) *	Alterations /Additions#	Swimming Pools	Renovations (including kitchens and bathrooms) ^	Other	Totals (\$'000)
Jun 06	5,961	66	1,786	4,594	1,075	1,118	208	14,808
Sep 06	5,436	0	2,096	4,750	1,008	1,100	237	14,627
Dec 06	4,627	58	1,575	3,744	827	907	275	12,013
Mar 07	4,573	22	1,480	3,922	659	901	194	11,751
Jun 07	5,316	0	1,651	4,189	743	976	193	13,068

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

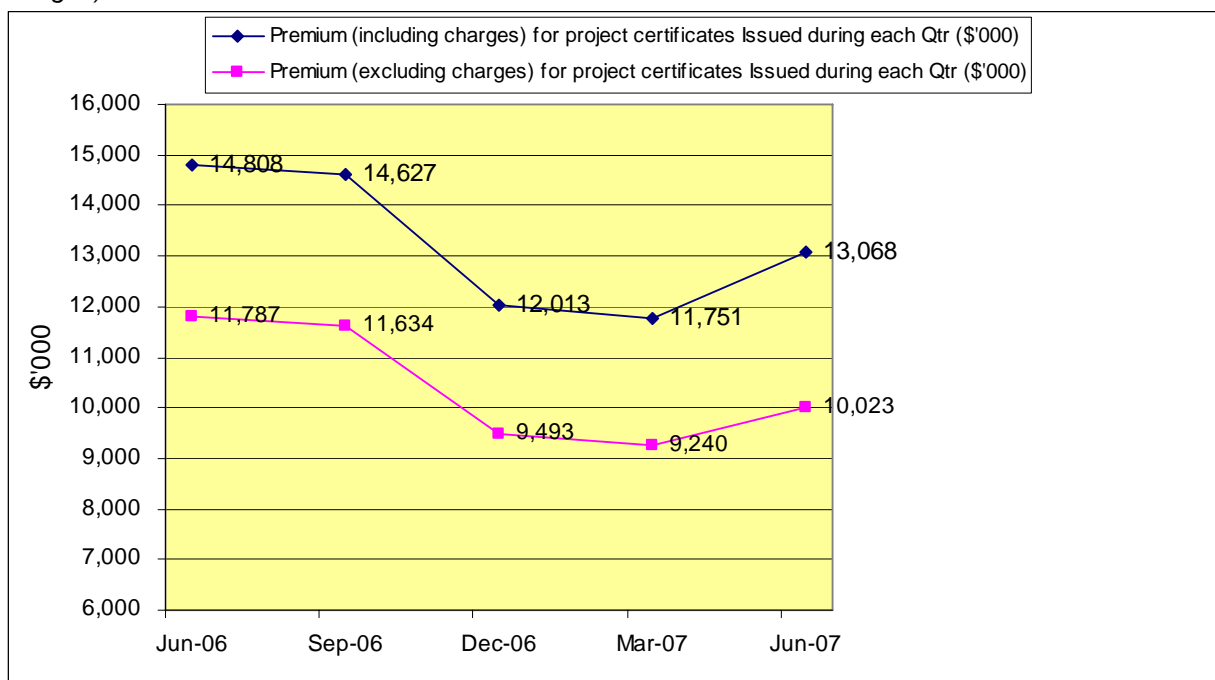
Quarter /Type of cover	New single dwelling construction	New multi dwelling (greater than 3 storeys) *	New multi dwelling (3 storeys or less) *	Alterations /Additions#	Swimming Pools	Renovations (including kitchens and bathrooms) ^	Other	Totals (\$'000)
Jun 06	4,805	39	1,395	3,724	804	860	162	11,789
Sep 06	4,375	0	1,626	3,846	750	856	183	11,636
Dec 06	3,693	34	1,234	3,009	611	700	211	9,492
Mar 07	3,632	12	1,145	3,127	482	694	148	9,240
Jun 07	4,088	0	1,251	3,262	542	729	151	10,023

* 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 (excluding charges)



D.2 Average premium per project certificate

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

Quarter /Type of cover	New single dwelling construction	New multi dwelling (greater than 3 storeys) *	New multi dwelling (3 storeys or less) *	Alterations /Additions#	Swimming Pools	Renovations (including kitchens and bathrooms) ^	Other	Total
Jun 06	1,354	1,610	1,228	1,297	630	371	972	1,030
Sep 06	1,274	0	1,200	1,242	615	361	837	988
Dec 06	1,232	1,706	1,139	1,138	584	338	786	930
Mar 07	1,259	846	1,069	1,116	564	346	808	935
Jun 07	1,216	0	1,288	1,065	587	353	843	944

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

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

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

Table D3.1 Average Premium (including charges) per \$1,000 of Value of Project Certificates issued by Insurer

Quarter	Premium Issued (including charges) (\$'000)	Value of Buildings Relating to Project Certificates Issued (\$'000)	Average Premium (including charges) per \$1,000 of Project Certificate Value
Jun 06	14,808	2,277,821	\$6.50
Sep 06	14,627	2,124,449	\$6.89
Dec 06	12,013	1,791,381	\$6.71
Mar 07	11,751	1,902,965	\$6.18
Jun 07	13,068	2,129,299	\$6.14

E Claims information

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. For the reasons set out in the Preamble it will be some years before a complete, and thus realistic, record of claims from a single year of HWI business is available. 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 in the post 1 July 2002 period.

Claims in relation to owner-builder projects are included in the tables.

E.1 Number of claims by liability assessment status

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

Quarter	Notification only or Liability being assessed	Liability fully, partially or deemed accepted	Liability fully denied	Liability in dispute	Total
Jun 06	354	184	144	0	682
Sep 06	379	212	158	0	749
Dec 06	283	286	170	60	799
Mar 07	294	326	185	62	867
Jun 07	340	365	213	62	980

E.2 Reasons claims denied

Table 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	Reason not available from insurer #	Total
Jun 06	17	22	0	27	29	49	144
Sep 06	18	27	0	33	28	52	158
Dec 06	18	32	0	36	33	51	170
Mar 07	18	46	1	42	41	37	185
Jun 07	36	52	1	45	42	37	213

refers to claims declined by an insurer prior to the commencement of the data reporting requirements where the reason for the claim being declined was not reported in the insurer's systems.

E.3 Claims experience

The remaining tables in this section show a further breakdown of the claims that have been accepted. Information is shown separately between claims that are finalised with all costs known and 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 as at 30 Jun 2007

Principal Cause	No. of Claims	Sum Paid to Claimant	Sum Paid to Third Parties	Total Gross Paid \$	Average Claim Size \$
A01: Insolvency	179	7,840,605	539,763	8,380,368	46,818
A02: Death	8	362,308	18,126	380,434	47,554
A03: Disappearance	15	247,302	49,858	297,160	19,811
A04: Cause not yet determined	1	107,030	0	107,030	107,030
Total	203	8,557,245	607,747	9,164,992	45,148

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

“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 as at 30 Jun 2007

Principal Cause	No. of Claims	Sum of Paid to Claimant	Sum of Paid to Third Parties	Total Gross Paid \$	Net Outstanding Estimate
A01: Insolvency	153	2,122,995	663,752	2,786,747	3,620,824
A02: Death	0	0	0	0	0
A03: Disappearance	9	155,026	24,846	179,872	61,608
A04: Cause not yet determined	0	0	0	0	0
Total	162	2,278,021	688,598	2,966,619	3,682,432

*Open claims are claims which are not finalised.

Table E5. Claims Experience by Claim Code (incl GST) – for Finalised Accepted Claims - as at 30 Jun 2007

Claim Code	No. of Claims	Sum Paid to Claimant	Sum Paid to Third Parties	Total Gross Paid \$	Average Claim Size \$
T01: Failure to commence	2	10,080	990	11,070	5,535
T02: Failure to complete	116	6,380,215	362,345	6,742,560	58,126
T03: Structural defect	74	1,853,363	209,503	2,062,866	27,877
T04: Other loss	11	313,587	34,909	348,496	31,681
Total	203	8,557,245	607,747	9,164,992	45,148

Table E6. Claims Experience by Claim Code (incl GST) – for Open Accepted Claims - as at 30 Jun 2007

Claim Code	No. of Claims	Sum Paid to Claimant	Sum Paid to Third Parties	Total Gross Paid \$	Net Outstanding Estimate
T01: Failure to commence	0	0	0	0	0
T02: Failure to complete	63	1,427,924	447,012	1,874,936	975,056
T03: Structural defect	70	514,267	156,988	671,255	1,294,597
T04: Other loss	29	335,830	84,598	420,428	1,412,779
Total	162	2,278,021	688,598	2,966,619	3,682,432

Table E7. Claims Experience by Type of Cover (incl GST) – for Finalised Accepted Claims - as at 30 Jun 2007

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	91	5,595,537	334,756	5,930,293	65,168
C02: New multi dwelling (greater than 3 storeys) *	0	0	0	0	0
C03 : New multi dwelling (3 storeys and less) *	11	443,563	22,628	466,191	42,381
C04 : Alterations/Additions	66	2,100,466	182,414	2,282,880	34,589
C05: Swimming Pools	17	210,937	52,156	263,093	15,476
C06 : Renovations (including kitchens and bathrooms)	16	187,742	13,086	200,828	12,552
C07: Other	2	19,000	2,707	21,707	10,854
Total	203	8,557,245	607,747	9,164,992	45,148

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

Table E8. Claims Experience by Type of Cover (incl GST) – for Open Accepted Claims - as at 30 Jun 2007

Type of Cover	No. of Claims	Sum of Paid to Claimant	Sum of Paid to Third Parties	Total Gross Paid (incl GST) \$	Net Outstanding Estimate \$
C01 : New single dwelling construction	47	1,020,197	241,388	1,261,585	1,167,586
C02: New multi dwelling (greater than 3 storeys) *	3	13,400	5,952	19,352	7,886
C03 : New multi dwelling (3 storeys and less) *	49	380,633	183,004	563,637	1,604,939
C04 : Alterations/Additions	48	764,942	227,636	992,578	688,831
C05: Swimming Pools	8	56,045	13,905	69,950	59,878
C06 : Renovations (including kitchens and bathrooms)	6	42,804	16,713	59,517	110,494
C07: Other	1	0	0	0	42,818
Total	162	2,278,021	688,598	2,966,619	3,682,432

Table E9. Claims Experience by year of issue of project certificates (incl GST) – for all Accepted (finalised and open) claims - as at 30 Jun 2007

Certificate year of issue	No. of Claims	Sum of Paid to Claimant	Sum of Paid to Third Parties	Total Gross Paid \$	Net Outstanding Estimate (for open accepted claims)
2002 (from 1/7/2002)	53	2,424,762	275,416	2,700,178	696,221
2003	115	3,117,489	410,373	3,527,862	1,389,692
2004	127	3,113,225	388,921	3,502,146	669,381
2005	54	2,042,020	205,526	2,247,546	510,788
2006	16	137,770	16,109	153,879	416,350
2007	0	0	0	0	0
Total	365	10,835,266	1,296,345	12,131,611	3,682,432

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 and must be interpreted with caution. Even for the earliest certificates under the current scheme (those issued in 2002 and 2003), the number of claims and amount paid on claims will continue to increase over the next few years because:

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