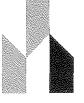
MASTER BUILDERS ASSOCIATION OF WESTERN AUSTRALIA



ABN 83 590 927 922

Construction House 35-37 Havelock Street West Perth WA 6005

PO Box 167 West Perth Western Australia 6872

Telephone: (08) 9476 9800 Facsimile: (08) 9476 9801 Email: mba@mbawa.com Web: www.mbawa.com

16 April 2008

Committee Secretary
Senate Economics Committee
Department of the Senate
PO Box 6100
Parliament House
CANBERRA ACT 2600



Dear Sir or Madam,

Re: Inquiry into Australian Mandatory Last Resort Home Warranty Insurance Scheme

Thank you for the opportunity to provide a submission to this national Inquiry.

The Master Builders Association of Western Australia (MBAWA) has a keen interest in the home warranty insurance issue. As the oldest industry body in Western Australia, our membership comprises of around 1300 builders, specialist contractors, material suppliers, manufacturers, government agencies and kindred industry organisations, many of whom are directly or indirectly affected by home warranty insurance. In particular, house builders are the largest sector of our membership. Around 65 per cent of our builder members operate in this sector of the building and construction industry.

MBAWA is also a shareholder in MBA Insurance Services Pty Ltd which offers a range of insurance products, including home warranty insurance, to the building and construction industry in Australia. One of the offices of MBA Insurance Services is located within MBAWA's offices in Perth

MBAWA and its members therefore have been directly involved both as a supplier of home warranty insurance and as a consumer of this product as it is a mandatory requirement in Western Australia for residential building. Many builders have been critical of this mandate, as it has allowed insurance providers to become a "defacto" licensing body. That is, despite being registered by the Builders' Registration Board, some builders have been unable to operate as they wish because of the onerous requirements of indemnity insurance providers. Some builders have been required to provide an indemnity against any losses before insurance is provided. This practice calls into question what exposure the insurer really has under the policy and what cover the payment of a premium provides when the builder indemnifies the insurer anyway.



Moreover, given that the Home Building Contracts Act (1991) only allows builders to lodge a progress claim for work already performed, the actual risk for insurers for loss of deposit or from the death, disappearance or insolvency of a builder during construction is very low.

Another area of concern is that in Western Australia the insurance cover is last resort insurance and covers a maximum payout of only \$100k. Given that typical construction costs would be at least \$200-250k for a new home the maximum payout figure is clearly insufficient. In the event of a company liquidation, legal and liquidators' costs can quickly erode a substantial proportion of this payout amount leaving the homebuyer with few funds left for completion of their new home.

MBAWA recommends that a voluntary scheme be introduced in Western Australia rather than the current compulsory arrangement. This change would improve housing affordability, as typical savings of \$800 to \$1000 would be reaped for those homebuyers who choose to opt out of home warranty insurance. The premiums on \$1.5m homes might be as high as \$2,500 which are simply passed on to the homebuyer without exception or choice. Recent data provided by the Australian Securities and Investments Commission (ASIC) show that the profitability and financial strength of major WA builders is extremely strong. In recent years the State housing sector has been financially stable with no major building company collapses. The highly concentrated structure of the WA housing industry means that a large percentage of project homes are built by a small number of extremely efficient builders. Consumers should be given the choice of whether to take out insurance under these circumstances.

In summary, MBAWA's Council of Management has come to the conclusion after observing the operation of mandatory home warranty insurance in Western Australia over the last decade years that the costs of such a scheme significantly outweigh the benefits from everyone's perspective except the insurance companies.

Should you have any questions about any aspect of this submission kindly contact the undersigned.

Yours sincerely, MASTER BUILDERS ASSOCIATION OF WA

Gavan Forster Housing Director

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