



**Master
Builders**

ASSOCIATION

MASTERS OF OUR INDUSTRY

Master Builders Association of Victoria

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

Dear Secretary

Re: Inquiry into Australia's Mandatory Last Resort Home Warranty Insurance Scheme

I write to thank you for the opportunity to provide feedback concerning Australia's Mandatory Last Resort Home Warranty Insurance Scheme.

The Master Builders Association of Victoria currently supports the existing system of Mandatory Last Resort Home Warranty Insurance in Victoria. While our Association recognises that the current system is not without flaws, our industry is primarily concerned with the provision of a stable, reliable and competitive insurance service which serves the best interests of builders and consumers alike.

Outlined below is a summary of our position in regards to the key factors relevant to any inquiry into Victoria's system. As you will note, our desire for pragmatic and responsible reforms is tempered by the scars of recent upheavals within the warranty insurance system.

Recent History (2000-2008)

The residential building sector has twice been hit with massive bouts of instability through either the collapse or withdrawal of insurance companies from the provision of home warranty insurance.

The first collapse with HIH (March 2000), caused massive dislocation for 4,000 builders in Victoria. These builders were not able to procure new insurance for a period of up to five months, severely damaging their businesses as they were effectively locked out of legally commencing new building work.

The second major threat came less than one year later, when Dexta Corporation was forced to announce its imminent withdrawal from the provision of warranty insurance caused by their reinsurer refusing to continue their relationship. At the time, action by the Bracks' Government to act as an alternate reinsurer mitigated a recurrence of the trauma associated with the demise of HIH for a period of time.

At present, the home warranty insurance system in Victoria is stable, with builders being able to access warranty insurance from a variety of insurers. As mentioned above, the system is not perfect, and pragmatic and responsible reform should be considered. However, any such reform should not take place unless it has the support of regulators, insurers, the building sector and consumers. The trauma endured by the industry during the first half of this decade has not been forgotten and builders are wary of government reform in this delicate area.

Support for Last Resort Insurance

Master Builders supports Victoria's current system of Mandatory Last Resort Insurance. We believe that a mandatory system encourages market choice in regard to insurance services and ensures that premiums are more competitive than would otherwise be the case.

Victoria's current insurance regime strikes the right balance between good consumer protection in the event of death, disappearance or insolvency, and suitably tough regulation which contains dispute resolution services. It is also worth noting that the deregistration powers held by Victorian government regulators in regard to policing building activity is a key element of our State's successful system.

Opposition to First Resort Insurance

Master Builders does not support a return to First Resort Insurance. First resort insurance in Victoria was a catastrophe for builders and consumers alike due to the ease in which unscrupulous builders and/or consumers could commit fraud.

Under the old system, fewer insurance providers were available to builders, and consequently, premiums were higher and services were poorer.

Another negative consequence of the first resort system was that there was a greater likelihood of insurers settling claims with the client, and then pursuing the builder for full reparations. When this occurs, the builders' position in the event of a dispute is substantially weakened as his/her chances of resolving the matter before lawyers become involved is diminished. Consequently, this type of system results in a lower likelihood of successful conciliation.

Opposition to Voluntary Insurance

Master Builders opposes the introduction of a Voluntary Warranty Insurance regime. We oppose such a system because it does not serve the interests of consumers or builders. Under this system, consumers can be worse off if a builder does not have insurance and something goes wrong with a project and/or with the builders' capacity to fix it. Equally, builders can be worse off when the industry is held collectively responsible for the actions of a few, less scrupulous builders. Builders would also suffer financial consequences as a result of insurance company departures (a likely outcome in a voluntary environment). In the event of a voluntary system being introduced, higher premiums and more restrictive underwriting would result in higher business costs for builders.

Master Builders is extremely concerned about the community confidence ramifications of such an event taking place in a voluntary insurance environment. We also have major concerns about how government would respond in the event of a major bailout being required (introduction/increase of levies).

It is worth noting that voluntary schemes also have mixed success in regards to service uptake, and consequently, different levels of protection and service. Neither builder or consumer are advantaged by pricing in a voluntary scheme as a reduced pool of providers inevitably leads to higher prices for those who choose to avail themselves of this option.

Consumer Confidence in the Industry

Maintaining community confidence in Victoria's building industry is a top priority for Master Builders. At present, a key element of Victoria's licensing and registration process is based upon a builder being eligible for warranty insurance services. These services are only provided by insurance companies after they have conducted a rigorous assessment of the financial stability and strength of the building business in question. If the compulsion to purchase insurance was removed, government would need to step in on behalf of consumers to ensure that all builders were capable of undertaking housing projects responsibly. Master Builders would not support the introduction of onerous government administered assessments to handle this task and thus, is keen to see a continuation of our current system.

Disclosure of Premiums, Claims and Claim Payments by Insurance Companies

Master Builders supports the introduction of government regulation which compel insurance companies to disclose their premiums, claims and claim payment histories for all forms of mandatory insurance (as is the case in NSW). We believe that such a move will ensure that consumers, builders and policy regulators are each provided with the information they need to determine whether a fair insurance service is being provided to the public.

Master Builders does not support the claim made by some insurance companies that mandatory service data disclosure will breach important confidentiality protections expected by their customers. Nor do we support the claim that mandatory disclosure will result in insurers leaving the market. Master Builders believes that proper service data disclosure will improve market competition and overall customer service.

Conditions for Pragmatic and Responsible Reform of Warranty Insurance

Master Builders would be willing to support changes to the existing warranty insurance system in Victoria if it could be clearly demonstrated that the changes would be beneficial to builders, consumers, insurers and regulators.

Key prerequisites for supporting any such change would be the need for continued industry stability, adequate competition between insurance providers and a smooth transition period.

Master Builders would like to thank the Senate Economics Committee for the opportunity to provide feedback on Australia's Home Warranty Insurance arrangements.

Should you have any queries regarding our submission, please do not hesitate to contact myself on (03) 9411 4501.

Yours faithfully

A handwritten signature in black ink, appearing to read 'Brian Welch', with a long, sweeping horizontal stroke extending to the right.

Brian Welch
Executive Director