

# Home Building Compensation Fund

---

*Information on the Scheme  
as at 31 December 2016*

Better  
regulation



State Insurance  
Regulatory Authority

30 May 2017

Ms Carmel Donnelly  
Acting Chief Executive Officer  
State Insurance Regulatory Authority  
Department of Finance, Services and Innovation  
McKell Building  
2-24 Rawson Place  
Sydney NSW 2000

Dear Ms Donnelly

## HBCF Scheme Data as at 31 December 2016

Finity Consulting Pty Limited (Finity) was engaged by NSW Department of Finance, Services and Innovation to review the publication of data for the Home Building Compensation Fund (HBCF) 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 the State Insurance Regulatory Authority (SIRA), 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.

We thank you for the opportunity to assist SIRA with the quarterly and annual review processes for HBCF.

Yours sincerely

A handwritten signature in blue ink, appearing to read 'D Minty'.

David Minty

A handwritten signature in blue ink, appearing to read 'M Hurst'.

Mark Hurst

**Fellows of the Institute of Actuaries of Australia**

**Sydney**

Tel +61 2 8252 3300  
Level 7, 68 Harrington Street  
The Rocks, NSW 2000

Finity Consulting Pty Limited

**Melbourne**

Tel +61 3 8080 0900  
Level 3, 30 Collins Street  
Melbourne, VIC 3000

ABN 89 111 470 270

**Auckland**

Tel +64 9 306 7700  
Level 5, 79 Queen Street  
Auckland 1010

[finity.com.au](http://finity.com.au) / [finityconsulting.co.nz](http://finityconsulting.co.nz)

# Contents

Preamble .....	4
1. Caution in interpreting the information .....	5
2.Data .....	6
Part I Information related only to licensed builders.....	6
A Eligibility Information.....	6
A.1 Builder eligibilities.....	6
B Securities and Indemnities Information.....	7
B.1 Securities held by insurer for builders with current eligibility .....	8
C Project Certificate Information - Builder .....	8
C.1 Current project certificates - Builder .....	8
C.2 New project certificates issued - Builder .....	9
C.3 Building approvals versus new project certificates issued - Builder and Owner-Builder .....	11
D Premium Information - Builder.....	13
D.1 Total premiums by project type - Builder .....	13
D.2 Average premium per project certificate - Builder .....	15
E Claims information - Builder.....	16
E.1 Number of claims by liability assessment status - Builder .....	16
E.2 Reasons claims denied - Builder .....	17
E.3 Claims experience - Builder .....	17
E.4 Claims experience by year certificate issued .....	20
Part II Owner-Builder Information.....	21
OB.C Project Certificate information - Owner-Builder .....	21
OB.D Premium Information- Owner-Builder.....	22
OB.E Claims Information- Owner-Builder.....	23
OB.E3 Claims experience - Owner-Builder .....	24

# Preamble

The *Home Building Act 1989* establishes a Home Building Compensation Fund (HBCF) scheme, formerly known as the Home Warranty Insurance Scheme. The scheme sits at the end of a comprehensive consumer protection regime for homeowners and provides a last-resort safety net for consumers where builders fail to complete residential building work or rectify defects.

From 1 September 2015, State Insurance Regulatory Authority (SIRA), which is part of Department of Finance, Services and Innovation, assumed the regulatory functions of Home Building Compensation previously undertaken by NSW Fair Trading.

In New South Wales, insurance under the HBCF may only be offered by licensed insurers approved by the Minister under the Act. icare (Insurance and Care NSW) hbcf became the sole provider of insurance under the HBCF on 1 July 2010, replacing the former private insurers from that date.

The Scheme is underwritten and capitalised by the Government and funded by the 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.

## HBCF Scheme Data

One of the roles of SIRA, as provided under the market practice guidelines, is to collect data in relation to the HBCF scheme on policies, premiums and claims from insurers in order to be able to monitor the operation of the scheme. 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 quarterly since June 2006 for the insurance period 1 July 2002 to 31 December 2016. 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, or the current reforms to, the scheme is available through the following links:

<http://www.sira.nsw.gov.au/home-building-compensation>

<https://www.hbcf.nsw.gov.au/portal/server.pt/community/homeowners/351>

[http://www.fairtrading.nsw.gov.au/ftw/Tradespeople/Home\\_warranty\\_insurance/Home\\_Warranty\\_Insurance\\_Scheme\\_Board.page?](http://www.fairtrading.nsw.gov.au/ftw/Tradespeople/Home_warranty_insurance/Home_Warranty_Insurance_Scheme_Board.page?)

# 1. Caution in interpreting the information

Home Building Compensation 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 the HBCF 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 HBCF scheme commenced in 2002, the NSW economy performed reasonably well, and conditions were generally favourable for home builders. As over 90% of the insurance 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 HBCF 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 major 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 31 December 2016, there was an increase of \$93 million, or 15%, in the overall estimated net incurred claims cost reported by the scheme insurers.

## 2. 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 icare hbcf's Insurance Agents.

#### A.1 Builder eligibilities

From August 2015, "Builder Eligibility Limits" have changed to "Open Job Limits" - the maximum number and value of jobs under construction by an individual licensed builder at any point in time, in place of the former "Annual turnover limit". Individual limits on the maximum contract value for the various types of projects will continue.

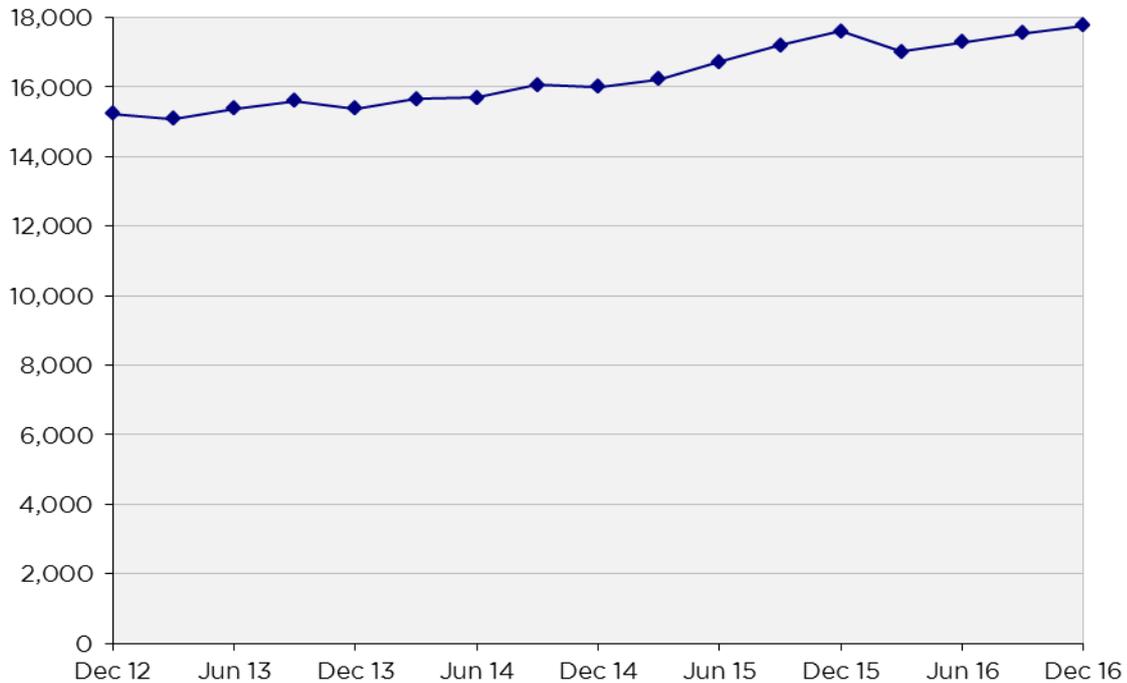
Table A1 shows the number of builder eligibilities at the end of each quarter by open job limit bands (for June 2015 and earlier by the annual turnover limits bands) for all types of cover.

**Table A1: Number of builder eligibilities by open job limit (previously annual turnover limit) band**

Turnover band (\$' m)	\$0 - <0.5m	\$0.5 - <1m	\$1 - <2m	\$2 - <3m	\$3 - <5m	\$5 - <20m	\$20+m	Totals
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
Sep 14	2,979	3,420	5,395	2,081	1,422	665	90	16,052
Dec 14	2,961	3,389	5,342	2,087	1,439	680	97	15,995
Mar 15	2,908	3,421	5,427	2,131	1,511	717	109	16,224
Jun 15	2,955	3,507	5,568	2,223	1,585	751	125	16,714
Sep 15	2,915	3,510	5,521	2,418	1,719	965	158	17,206
Dec 15	2,929	3,532	5,669	2,461	1,774	1,065	167	17,597
Mar 16	1,529	5,149	5,225	2,889	1,342	766	108	17,008
Jun 16	1,608	5,179	5,321	2,942	1,343	792	113	17,298
Sep 16	1,731	5,187	5,415	2,954	1,335	818	116	17,556
Dec 16	1,834	5,222	5,456	2,984	1,318	826	121	17,761

As at 31 December 2016, the average eligibility open job limit was \$1.9 million. The proportion of builders with eligibility limit of: less than \$1 million: 40%, \$1m to less than \$5m: 55%, \$5m and over: 5%.

Figure A1: Number of Builders with Current Eligibility - as at end of each quarter



## B Securities and Indemnities Information

For some builders, icare hbcf may require security in the form of a Deed of Indemnity as a condition of approving eligibility or providing cover for a specific project. Bank guarantees will not be sought for providing insurance eligibility, although a builder can provide a bank guarantee if the builder chooses to do so (refer Table B1). Other Security relates to an indemnity under a Group Trading Agreement (GTA) where an entity is operating as part of a group structure.

Securities provided prior to 1 July 2010 by builders to former insurers are unable to be transferred to icare hbcf, and will remain in place until they are released by the insurers. Such securities held by former insurers are not included in the table below.

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

**Table B1: Number of securities held by insurer for builders with current eligibility as at end of each quarter**

Quarter	Bank Guarantee	Indemnity	Other Security	Total	% of Total Builder Eligibility
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%
Sep 14	1	1,788	48	1,837	11%
Dec 14	1	1,858	74	1,933	12%
Mar 15	1	1,942	89	2,032	12%
Jun 15	1	2,062	121	2,184	13%
Sep 15	1	2,273	174	2,448	14%
Dec 15	1	2,429	224	2,654	14%
Mar 16	1	2,480	240	2,721	15%
Jun 16	1	2,627	300	2,928	16%
Sep 16	1	2,657	304	2,962	16%
Dec 16	1	#2,808	#401	3,210	17%

# As at 31 December 2016, 189 builders have concurrent in-force GTA and deeds of indemnity.

## 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 insurance contract. The number of current project certificates refers to projects still in progress at the end of the quarter.

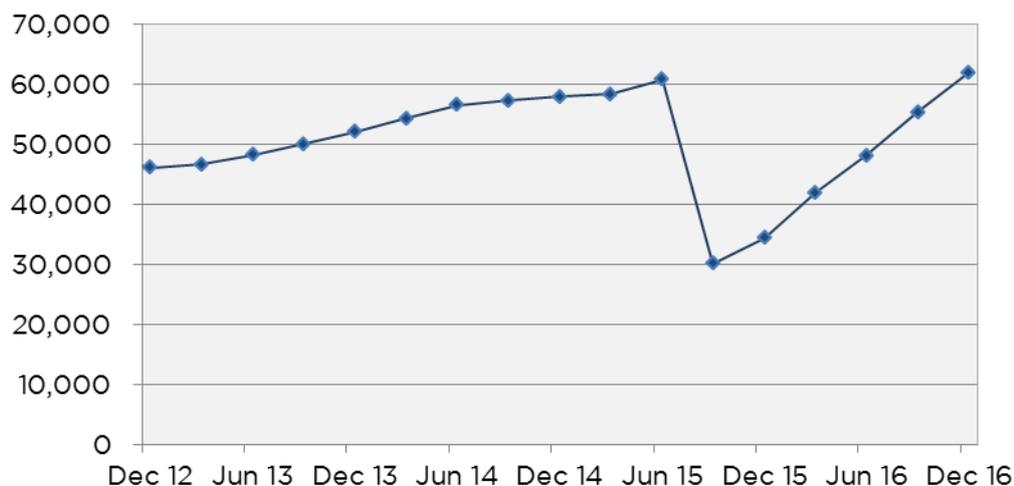
In August 2015, icare hbcf changed its eligibility rules from annual rolling limits to Open Job eligibility limits which sets out the maximum number and total value of jobs a builder can have under construction at any one time. At the transition, all projects that could reasonably be assumed to be completed based on industry data were closed. The marked reduction in open job certificates between June and September 2015 resulted from the transition in moving away from a formerly assumed 12 months construction period.

The similarity between the estimates of open job numbers at June 2015 with the numbers reported as still open at December 2016 suggests that the number of closed jobs may have been over-estimated at the time of the system change. Other factors such as increases in construction activity and /or builders not reporting completion advices on a timely basis, may have also contributed to the increase in open job numbers since September 2015.

### C.1 Current project certificates - Builder

Figure C1 shows the trend in the total number of current (open) project certificates for work not yet completed as at the end of each quarter.

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
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
Sep 14	5,457	1,345	4,005	1,189	3,016	8	15,020
Dec 14	5,008	1,906	3,239	1,125	2,510	9	13,797
Mar 15	5,151	1,786	3,773	1,118	2,496	8	14,332
Jun 15	6,371	2,260	4,342	1,214	3,334	7	17,528
Sep 15	5,757	2,320	5,042	1,423	3,830	22	18,394
Dec 15	5,196	2,476	3,886	1,242	3,299	36	16,135
Mar 16	5,454	2,131	4,210	1,162	3,572	18	16,547
Jun 16	6,077	2,218	4,812	1,418	3,798	11	18,334
Sep 16	5,976	2,463	5,059	1,430	3,707	13	18,648
Dec 16	5,693	2,862	4,076	1,299	3,435	8	17,373

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

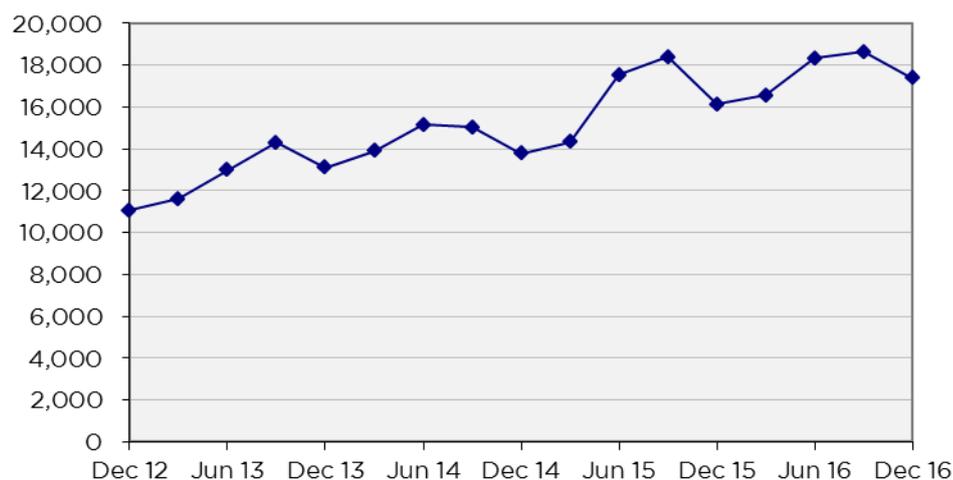
# Alterations and additions - structural (i.e. the majority of the work is structural), including work on existing multi-units.

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

The total number of certificates issued (17,373) in the December 2016 quarter has fallen 7% from last quarter. A similar seasonal downward pattern has been apparent between the September and December quarters in each of the past four years. For the 12 months to December 2016, the total number of certificates issued (70,902) has risen 7% year-on-year, continuing the upward trend since 2012 driven by higher levels of residential building activity.

The proportions of project certificates issued during the last 12 months are: new single and multi-unit dwellings (46%), alterations and renovations (46%) and swimming pools/others (8%).

**Figure C2.1: Total number of project certificates issued during each quarter**



**Table C2.1 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)
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
Sep 14	1,789	321	635	53	150	1	2,949	196
Dec 14	1,677	435	513	48	117	1	2,791	202
Mar 15	1,735	422	577	48	128	0	2,910	203
Jun 15	2,192	575	696	56	161	0	3,680	210
Sep 15	2,017	650	746	64	195	2	3,674	200
Dec 15	1,916	634	600	57	156	12	3,375	209
Mar 16	2,001	597	696	55	170	2	3,521	213
Jun 16	2,229	584	820	69	194	1	3,897	213
Sep 16	2,279	675	811	69	191	1	4,026	216
Dec 16	2,180	787	684	61	176	1	3,889	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), including work on existing multi-units.

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

**Table C2.2: Average Value of project certificates issued by type of cover during each quarter – (\$'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) ^	Average (all cover types)
Dec 13	304	219	136	39	47	186
Mar 14	317	215	154	42	45	188
Jun 14	324	224	150	45	48	196
Sep 14	328	238	159	45	50	196
Dec 14	335	228	158	43	47	202
Mar 15	337	236	153	43	51	203
Jun 15	344	254	160	46	48	210
Sep 15	350	280	148	45	51	200
Dec 15	369	256	154	46	47	209
Mar 16	367	280	165	47	48	213
Jun 16	367	263	170	49	51	213
Sep 16	381	274	160	48	52	216
Dec 16	383	275	168	47	51	224

### 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.

**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)
Dec 13	6,750	7,707	88%	1,911	1,988	96%
Mar 14	6,633	7,504	88%	1,956	2,051	95%
Jun 14	7,705	8,337	92%	2,287	2,259	101%
Sep 14	6,964	8,948	78%	2,159	2,433	89%
Dec 14	7,125	8,465	84%	2,175	2,308	94%
Mar 15	6,957	8,334	83%	2,162	2,329	93%
Jun 15	8,631	9,582	90%	2,767	2,705	102%
Sep 15	8,077	9,389	86%	2,667	2,699	99%
Dec 15	7,672	10,045	76%	2,550	2,966	86%
Mar 16	7,585	8,667	88%	2,598	2,572	101%
Jun 16	8,295	10,252	81%	2,813	3,032	93%
Sep 16	8,439	9,770	86%	2,954	2,945	100%
Dec 16	8,555	9,427	91%	2,967	2,855	104%
<b>Average</b>	<b>7,645</b>	<b>8,956</b>	<b>85%</b>	<b>2,459</b>	<b>2,549</b>	<b>96%</b>

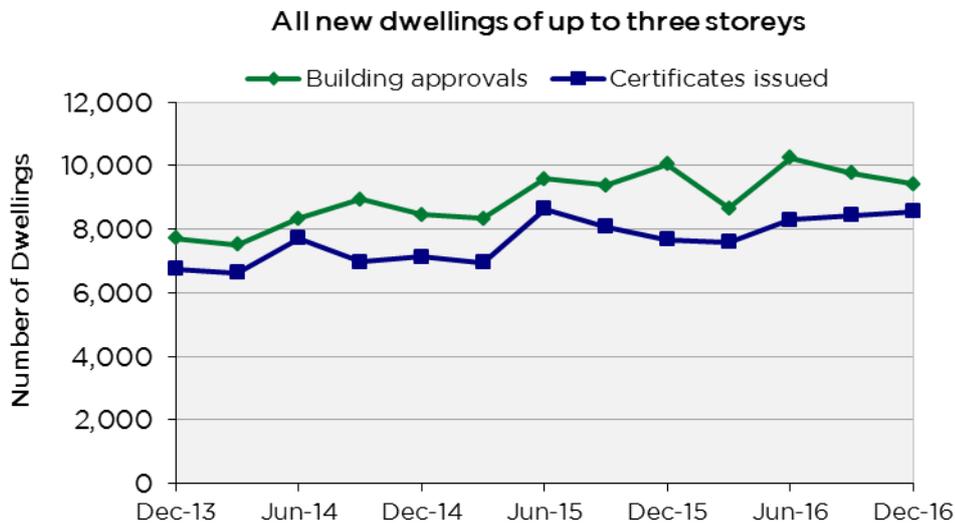
Notes: ABS8731.0 Building Approvals, Australia; Tables 12, 22 and 43 "Dwelling units approved in new residential buildings - New South Wales". Both builder and owner-builder data is included in the above table as ABS did not distinguish between type of builder in its statistics. From 15 January 2015 owner-builder work is no longer insured which is leading to a small reduction in the relationships over time.

We have excluded public sector work from the building approval data to enable like-for-like comparison.

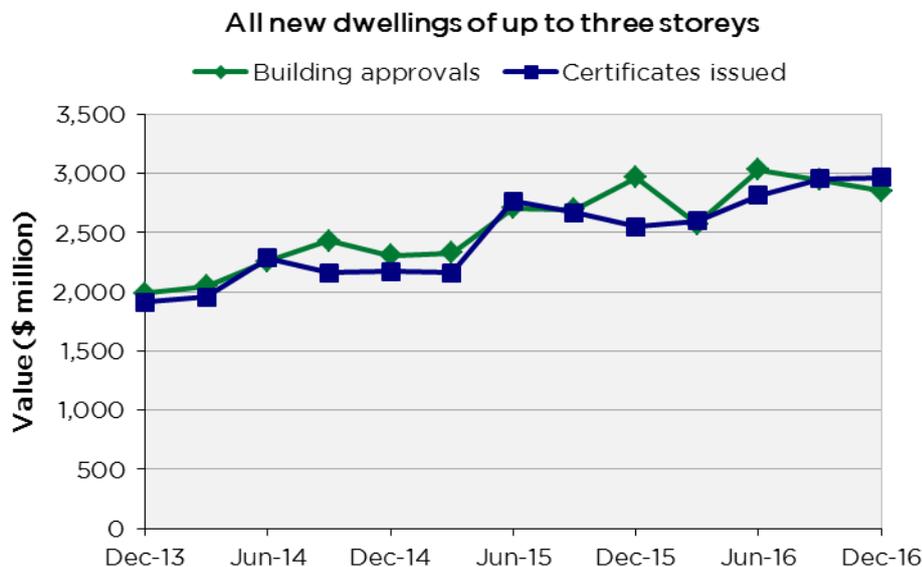
Figures for more recent quarters may change where the ABS revises its estimates, and there will continue to be differences between the series due to factors such as timing of reporting and the scope and coverage of the ABS statistics.

Figures C3.1 and C3.2 show the detailed comparisons for numbers and values respectively between new dwellings project certificates issued and building approvals. Subject to the above, they show the number and value of project certificates issued generally 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 SIRA 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 insurer to SIRA.

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

### 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)
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
Sep 14	11,566	3,318	4,515	531	938	5	20,873
Dec 14	10,798	4,604	3,686	472	743	6	20,309
Mar 15	11,050	4,287	4,120	477	805	3	20,742
Jun 15	14,033	5,897	5,016	557	973	2	26,478
Sep 15	13,080	6,030	5,278	669	1,174	16	26,247
Dec 15	12,352	6,463	4,238	575	954	132	24,714
Mar 16	12,709	5,985	4,926	556	1,046	14	25,236
Jun 16	14,368	5,919	5,686	699	1,191	11	27,874
Sep 16	14,805	6,873	5,715	701	1,152	7	29,253
Dec 16	14,337	8,108	4,833	621	1,064	4	28,967

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

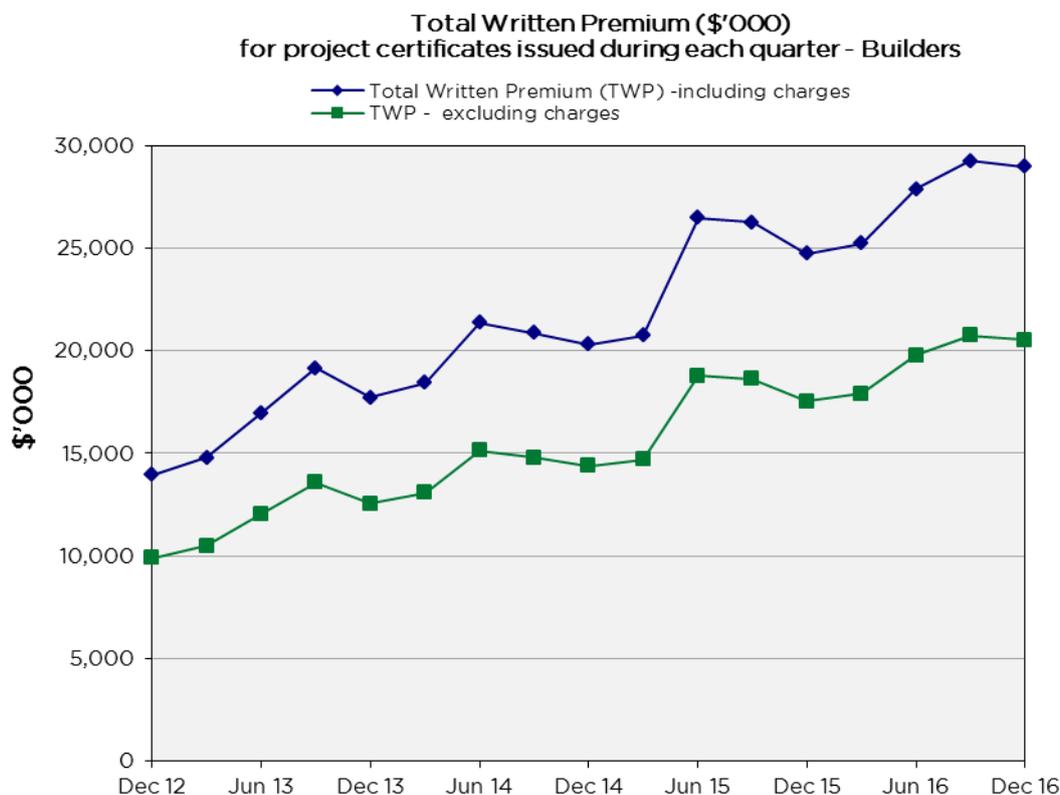
Quarter /Type of cover	New single dwelling construction	New multi dwelling (3 storeys or less) *	Alterations /Additions#	Swimming Pools	Renovations (including kitchens and bathrooms) ^	Other	Totals (\$'000)
Dec 13	6,821	2,748	2,190	295	492	10	12,556
Mar 14	7,239	2,266	2,684	278	602	3	13,072
Jun 14	8,042	3,335	2,792	304	660	2	15,135
Sep 14	8,200	2,353	3,201	376	665	3	14,798
Dec 14	7,655	3,264	2,613	335	526	4	14,397
Mar 15	7,835	3,040	2,921	338	570	2	14,706
Jun 15	9,949	4,181	3,556	395	689	1	18,771
Sep 15	9,273	4,275	3,742	474	832	11	18,607
Dec 15	8,756	4,581	3,005	408	676	94	17,520
Mar 16	9,010	4,243	3,493	394	741	10	17,891
Jun 16	10,185	4,196	4,031	495	845	8	19,760
Sep 16	10,495	4,873	4,051	497	817	5	20,738
Dec 16	10,164	5,748	3,426	440	754	3	20,535

\* 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) including work on existing multi-units

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

**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 \$
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
Sep 14	2,119	2,467	1,127	447	311	574	1,390
Dec 14	2,156	2,415	1,138	420	296	622	1,472
Mar 15	2,145	2,400	1,092	426	322	400	1,447
Jun 15	2,203	2,609	1,155	459	292	286	1,511
Sep 15	2,272	2,599	1,047	470	306	721	1,427
Dec 15	2,377	2,610	1,091	463	289	3,682	1,532
Mar 16	2,330	2,808	1,170	479	293	770	1,525
Jun 16	2,364	2,669	1,182	493	314	1,005	1,520
Sep 16	2,477	2,790	1,130	490	311	575	1,569
Dec 16	2,518	2,833	1,186	478	310	514	1,667

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 \$
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
Sep 14	6.46	10.35	7.11	10.03	6.27	7.12	7.08
Dec 14	6.44	10.59	7.19	9.84	6.33	6.07	7.28
Mar 15	6.37	10.16	7.14	9.88	6.30	6.73	7.13
Jun 15	6.40	10.25	7.21	9.91	6.07	6.87	7.20
Sep 15	6.49	9.28	7.07	10.37	6.01	7.93	7.14
Dec 15	6.45	10.20	7.06	10.07	6.14	10.71	7.32
Mar 16	6.35	10.02	7.08	10.20	6.14	7.32	7.17
Jun 16	6.44	10.14	6.94	10.11	6.15	7.22	7.15
Sep 16	6.50	10.17	7.05	10.22	6.02	7.15	7.27
Dec 16	6.58	10.30	7.06	10.16	6.06	7.42	7.45

\* 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), including work on existing multi-units

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

## E Claims information - Builder

The handling and management of claims by insurers is subject to *Claims Handling Guidelines*, refer link:

[http://www.fairtrading.nsw.gov.au/pdfs/Tradespeople/SI\\_Corp\\_claims\\_handling\\_guidelines.pdf](http://www.fairtrading.nsw.gov.au/pdfs/Tradespeople/SI_Corp_claims_handling_guidelines.pdf).

SIRA is provided with a snapshot of the cumulative data at the end of each quarter of all claims received by insurers in respect of the HBCF business issued after 1 July 2002. The information set out below provides only a partial picture of HBCF 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.**

### E.1 Number of claims by liability assessment status - Builder

Table E1: Cumulative Number of claims by liability status at end of each quarter

Quarter	Liability accepted	Liability fully denied	Liability in dispute	Liability being assessed	Notification only #	Total
Dec 13	4,620	1,119	30	121	2,834	8,724
Mar 14	4,764	1,137	25	130	2,894	8,950
Jun 14	4,870	1,188	21	125	2,957	9,161
Sep 14	4,947	1,222	16	132	3,000	9,317
Dec 14	5,075	1,253	14	92	3,100	9,534
Mar 15	5,166	1,276	14	158	3,159	9,773
Jun 15	5,301	1,327	13	135	3,269	10,045
Sep 15	5,464	1,420	26	98	3,255	10,263
Dec 15	5,581	1,451	28	72	3,322	10,454
Mar 16	5,668	1,513	39	81	3,349	10,650
Jun 16	5,782	1,585	8	101	3,392	10,868
Sep 16	5,876	1,635	4	114	3,466	11,095
Dec 16	6,028	1,701	4	113	3,511	11,357

# If a 'Notification' has not become a claim after an extended period, its status is recorded as 'Finalised' within the 'Notification' category. As at 31 December 2016, there were 3,489 such 'Notifications' which were 'closed with nil indemnity payment.

## 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
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
Sep 14	7	141	93	4	306	671	1,222
Dec 14	7	150	92	4	309	691	1,253
Mar 15	8	152	93	4	313	706	1,276
Jun 15	9	163	95	4	324	732	1,327
Sep 15	8	174	97	4	309	828	1,420
Dec 15	8	214	96	4	313	816	1,451
Mar 16	8	208	106	4	426	761	1,513
Jun 16	8	228	106	4	468	771	1,585
Sep 16	11	244	115	4	482	779	1,635
Dec 16	12	259	116	5	514	795	1,701

Note: A decrease from prior quarter may occur due to corrections to existing claims or its classification.

## E.3 Claims experience - Builder

The remaining tables in this section show a further breakdown of the cumulative claims experience where liability has been accepted by the insurer in regards to builders (not owner-builders) as at **31 December 2016**. 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 E.3 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 #2 \$	Average Claim Size \$
Insolvency#1	4,824	372,534,279	33,334,665	405,868,944	84,135
Death	51	3,801,345	176,142	3,977,487	77,990
Disappearance	264	17,172,749	1,453,919	18,626,668	70,556
Total	5,139	393,508,373	34,964,726	428,473,099	83,377

\*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).

# Includes situation where a builder's licence is suspended for a failure to comply with monetary order of the NSW Civil and Administrative Tribunal or a court in favour of the homeowner.

#2 All amounts shown are undiscounted values

**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 #2	Average Claim Size \$
Insolvency#	812	131,315,675	24,204,003	99,968,782	255,488,460	314,641
Death	6	206,350	33,890	382,873	623,113	103,852
Disappearance	71	7,926,690	1,062,395	3,881,267	12,870,352	181,273
Total	889	139,448,715	25,300,288	104,232,922	268,981,925	302,567

\*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 \$
Failure to commence	248	5,071,171	190,298	5,261,469	21,216
Failure to complete	1,598	123,184,107	8,531,203	131,715,310	82,425
Major defect <sup>§</sup>	2,756	235,918,509	23,603,750	259,522,259	94,166
Other defect <sup>§</sup>	537	29,334,586	2,639,475	31,974,061	59,542
Total	5,139	393,508,373	34,964,726	428,473,099	83,377

§ Following major changes to home building laws from 15 January 2015, the definition of what is a “structural defect” and therefore what is covered by the six year warranty period is replaced by a definition for “major defect”. Other defects that don’t meet the “major defect test” will continue to be covered by the standard 2-year statutory warranty.

**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 \$
Failure to commence	6	360,729	15,951	527,045	903,725	150,621
Failure to complete	103	5,373,399	2,184,918	10,309,029	17,867,346	173,469
Major defect <sup>§</sup>	761	132,234,633	22,568,589	91,808,443	246,611,665	324,063
Other defect <sup>§</sup>	19	1,479,954	530,830	1,588,405	3,599,189	189,431
Total	889	139,448,715	25,300,288	104,232,922	268,981,925	302,567

**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 \$
New single dwelling construction	3,191	204,195,754	17,109,978	221,305,732	69,353
New multi dwelling (greater than 3 storeys)	9	4,792,362	756,543	5,548,905	616,545
New multi dwelling (3 storeys or less)	746	104,021,998	10,408,325	114,430,323	153,392
Alterations/Additions	750	62,268,507	5,065,021	67,333,528	89,778
Swimming Pools	278	5,976,963	731,273	6,708,236	24,130
Renovations (including kitchens and bathrooms)	118	10,188,274	785,351	10,973,625	92,997
Other	47	2,064,515	108,235	2,172,750	46,229
<b>Total</b>	<b>5,139</b>	<b>393,508,373</b>	<b>34,964,726</b>	<b>428,473,099</b>	<b>83,377</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 \$
New single dwelling construction	472	27,125,617	5,923,883	31,018,576	64,068,076	135,737
New multi dwelling (greater than 3 storeys)	10	26,594,110	3,276,228	4,218,383	34,088,721	3,408,872
New multi dwelling (3 storeys or less)	218	69,306,472	12,663,572	45,794,604	127,764,648	586,076
Alterations/Additions	134	13,102,410	1,978,878	20,201,927	35,283,215	263,308
Swimming Pools	32	1,144,732	284,761	515,264	1,944,757	60,774
Renovations (including kitchens and bathrooms)	23	2,175,374	1,172,966	2,484,168	5,832,508	253,587
Other	0	0	0	0	0	0
<b>Total</b>	<b>889</b>	<b>139,448,715</b>	<b>25,300,288</b>	<b>104,232,922</b>	<b>268,981,925</b>	<b>302,567</b>

## E.4 Claims experience by year certificate issued

Table E.9: 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)	136	30,006,465	3,453,498	5,292,594	<b>38,752,557</b>	284,945
2003	378	75,028,147	10,325,229	13,980,932	<b>99,334,308</b>	262,789
2004	566	59,803,431	8,486,868	2,386,994	<b>70,677,293</b>	124,872
2005	507	48,936,119	5,835,358	2,188,377	<b>56,959,854</b>	112,347
2006	662	61,516,781	6,176,255	1,888,786	<b>69,581,822</b>	105,108
2007	927	59,830,998	7,143,230	6,247,550	<b>73,221,778</b>	78,988
2008	655	43,966,529	4,535,594	6,826,527	<b>55,328,650</b>	84,471
2009	474	35,578,592	4,781,486	9,379,594	<b>49,739,672</b>	104,936
2010	506	40,504,872	3,724,372	5,800,901	<b>50,030,145</b>	98,874
2011	580	45,654,196	3,345,265	14,481,530	<b>63,480,991</b>	109,450
2012	358	25,283,924	2,019,206	10,875,386	<b>38,178,516</b>	106,644
2013	139	9,484,566	895,204	10,128,064	<b>20,507,834</b>	147,538
2014	147	6,384,609	498,070	7,733,219	<b>14,615,898</b>	99,428
2015	87	2,999,414	411,418	7,111,430	<b>10,522,262</b>	120,946
2016	32	494,337	47,445	1,737,195	<b>2,278,977</b>	71,218
<b>Total</b>	<b>6,154</b>	<b>545,472,980</b>	<b>61,678,498</b>	<b>106,059,079</b>	<b>713,210,557</b>	115,894

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 may 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 \$16 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 or from third parties. Since the scheme commenced, some \$21 million has been recovered or about 3% of estimated total claims cost to date.

Overall for the Scheme, the number of accepted liability claims was up 156 or 3% and the reported costs up \$22 million or 3%, since last quarter.

## Part II Owner-Builder Information

This section sets out the 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.

As new home building laws came into effect on 15 January 2015, owner-builders who sell properties built under owner-builder permits are no longer required to provide insurance to the subsequent purchaser, or attach certificate of insurance to contract for sale for intending purchasers of owner-builder work.

icare hbcf ceased issuing new insurance cover from 15 January 2015 to owner-builders who sell their properties, so *no new data is applicable for reporting in sections OB.C and OB.D post-March 2015 quarter*. Claims will continue to be reported and settled for several years.

### 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
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
Sep 14	156	6	128	2	0	0	292
Dec 14	195	16	155	5	1	0	372
Mar 15 <sup>&amp;</sup>	18	2	12	0	0	0	32
Jun 15 <sup>&amp;</sup>	0	0	0	0	0	0	0

\* 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.

& No new owner-builder certificates issued since 15 January 2015

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)
Dec 13	53,554	2,512	22,436	119	0	0	78,621	238
Mar 14	51,268	3,512	21,512	269	140	0	76,701	236
Jun 14	46,968	4,800	24,375	344	0	110	76,597	224
Sep 14	48,094	1,270	20,267	144	0	0	69,775	239
Dec 14	59,179	3,580	23,107	292	69	0	86,227	232
Mar 15 <sup>&amp;</sup>	5,208	450	2,087	0	0	0	7,745	242
Jun 15 <sup>&amp;</sup>	0	0	0	0	0	0	0	0

## 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
Dec 13	465	38	186	2	0	0	691
Mar 14	444	52	183	3	1	0	683
Jun 14	421	66	214	4	0	1	706
Sep 14	416	19	179	2	0	0	616
Dec 14	518	53	198	4	1	0	774
Mar 15 <sup>&amp;</sup>	47	7	19	0	0	0	73
Jun 15 <sup>&amp;</sup>	0	0	0	0	0	0	0

& No new owner-builder certificates issued since 15 January 2015

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)
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	1	501
Sep 14	295	14	127	1	0	0	437
Dec 14	367	37	141	3	0	0	548
Mar 15 <sup>&amp;</sup>	33	5	14	0	0	0	52
Jun 15 <sup>&amp;</sup>	0	0	0	0	0	0	0

\* 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.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	Liability accepted	Liability fully denied	Liability in dispute	Liability being assessed	Notification only #	Total
Dec 13	95	172	0	2	92	361
Mar 14	101	179	0	7	99	386
Jun 14	108	181	0	4	107	400
Sep 14	107	185	0	2	112	406
Dec 14	112	187	0	2	118	419
Mar 15	115	187	0	2	123	427
Jun 15	116	195	0	2	129	442
Sep 15	119	204	2	1	134	460
Dec 15	119	206	2	1	141	469
Mar 16	119	214	2	2	142	479
Jun 16	121	216	1	2	146	486
Sep 16	122	216	1	3	147	489
Dec 16	126	216	1	3	144	490

# If a 'Notification' has not become a claim after an extended period, its status is recorded as 'Finalised' within the 'Notification' category. As at 31 December 2016, all the 144 'Notifications' were 'closed 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
Dec 13	10	111	1	39	11	172
Mar 14	10	117	1	39	12	179
Jun 14	10	120	1	39	11	181
Sep 14	11	121	1	39	13	185
Dec 14	11	123	1	39	13	187
Mar 15	11	122	1	39	14	187
Jun 15	12	127	1	41	14	195
Sep 15	16	123	1	43	21	204
Dec 15	15	124	1	44	22	206
Mar 16	15	128	1	55	15	214
Jun 16	16	129	1	54	16	216
Sep 16	16	128	1	55	16	216
Dec 16	17	128	1	54	16	216

Note: A decrease from prior quarter may occur due to corrections to existing claims or its classification.

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

The remaining tables in this section show a further breakdown of the accepted liability claims as at 31 December 2016. Both open and finalised claims are included in these tables.

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

Principal Cause	No. of Claims Reported	No. of claims Open	Total paid to date \$	Estimated Total Claims Cost \$	Average Claim Size \$
Insolvency	53	8	6,013,207	7,534,190	142,155
Death	5	0	171,939	171,939	34,388
Disappearance	68	5	7,744,230	8,049,404	118,374
Total	126	13	13,929,376	15,755,533	125,044

“Total amounts paid to date” includes all payments to the claimant or to suppliers involved in the rectification of the works. It also includes 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 main cause of claims against 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 Liability Claims**

Claim Code	No. of Claims Reported	No. of claims Open	Total paid to date \$	Estimated Total Claims Cost \$	Average Claim Size \$
Major defects	118	12	13,293,786	15,103,796	127,998
Other defects	8	1	635,590	651,737	81,467
Total	126	13	13,929,376	15,755,533	125,044

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 Liability Claims**

Type of Cover	No. of Claims Reported	No. of claims Open	Total paid to date \$	Estimated Total Claims Cost \$	Average Claim Size \$
C01 : New single dwelling construction	98	12	10,731,625	12,462,782	127,171
C03 : New multi dwelling (3 storeys or less) *	2	0	238,868	238,868	119,434
C04 : Alterations/Additions	25	1	2,856,264	2,951,264	118,051
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
Total	126	13	13,929,376	15,755,533	125,044

## **Disclaimer**

This publication may contain information that relates to the regulation of workers compensation insurance, motor accident third party (CTP) insurance and home building compensation in NSW. It may include details of some of your obligations under the various schemes that the State Insurance Regulatory Authority (SIRA) administers.

However to ensure you comply with your legal obligations you must refer to the appropriate legislation as currently in force. Up to date legislation can be found at the NSW Legislation website [legislation.nsw.gov.au](http://legislation.nsw.gov.au)

This publication does not represent a comprehensive statement of the law as it applies to particular problems or to individuals, or as a substitute for legal advice. You should seek independent legal advice if you need assistance on the application of the law to your situation.

This material may be displayed, printed and reproduced without amendment for personal, in-house or non-commercial use.

State Insurance Regulatory Authority  
Level 6, McKell Building  
2-24 Rawson Place  
Sydney NSW 2000  
General phone enquiries 13 32 20  
Website [www.sira.nsw.gov.au](http://www.sira.nsw.gov.au)

Catalogue no. SIRA08718

ISBN 978-0-7347-4534-7

© Copyright State Insurance Regulatory Authority NSW 0517