

Home Building Compensation Scheme report

31 March 2017



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24 September 2017

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

Dear Carmel,

Review of March 2017 HBCF Management and Information Reports

Taylor Fry Consulting Actuaries (Taylor Fry) has been requested by the State Insurance Regulatory Authority (SIRA) to undertake a review of the NSW Home Building Compensation Fund (HBCF) Scheme Report as at 31 March 2017 and the underlying data contained within the report.

We have been provided with a copy of the draft and final reports, along with a claims database containing details of all individual scheme claims and aggregated information on the types and values of projects covered.

While we have not reviewed the accuracy of the data provided, we have reviewed it for reasonableness and used it to replicate the tables within the report. We also reconciled the tables and graphs with those used in the December 2016 report.

We found the information prepared by SIRA and the commentary contained within both the draft and final reports to be a fair and accurate representation of the HBCF.

I trust that this letter covers the information you require. Please do not hesitate to contact me if you have any questions or would like any further details to be provided.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'D. Smith'.

Daniel Smith
Fellow of the Institute of Actuaries of Australia

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Introduction

Preamble

The Home Building Compensation (HBC) scheme, formerly known as the home warranty insurance scheme, provides a last-resort safety net for consumers under the *Home Building Act 1989*, where builders fail to complete residential building work or rectify defects.

From 1 September 2015, the State Insurance Regulatory Authority (SIRA) assumed the regulatory functions of HBC, which were previously undertaken by NSW Fair Trading.

In New South Wales, HBC insurance 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 HBC Scheme on 1 July 2010, replacing the former private insurers from that date. 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.

HBC Scheme data

One of the roles of SIRA, as provided under the market practice guidelines, is to collect data in relation to the HBC 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 March 2017. 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** by the NSW Government 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?

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 homeowners to identify a loss, lodge a claim with an insurer and for the insurer to assess the claim and arrange rectification.

Claims experience within the HBC Scheme 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 HBC Scheme commenced in 2002, the NSW economy performed reasonably well, and conditions were generally favourable for home builders. As over 90 per cent 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 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 HBC Scheme 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 March 2017, there was an increase of \$90 million, or 14 per cent, in the overall estimated net incurred claims cost reported by the scheme insurers.

Part 1 Information about licensed builders

1. 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.

Builder eligibilities

From August 2015, eligibility limits for builders were changed from annual turnover limits to ‘open job limits’. This is the maximum number and value of jobs under construction by an individual licensed builder at any point in time. Individual limits on the maximum contract value for the various types of projects will continue.

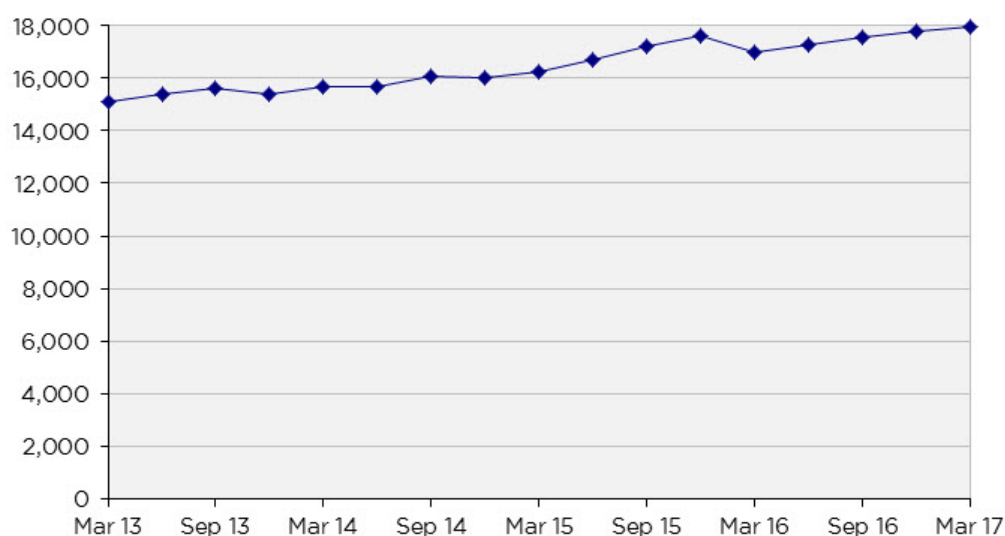
Table A1 shows the number of builder eligibilities at the end of each quarter by open job limit bands (for June 2015 and earlier by the annual turnover limits bands) for all types of cover.

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
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
Mar 17	1,903	5,197	5,586	3,015	1,284	843	125	17,953

As at 31 March 2017, the average eligibility open job limit was \$2 million. The proportion of builders with an eligibility limit of less than \$1 million was 40 per cent; \$1 million to less than \$5 million was 55 per cent; and \$5 million and over was five per cent (same as last quarter).

Figure A1: Number of builders with current eligibility at end of each quarter



2. 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 to B1). Other security relates to an indemnity under a group trading agreement 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.

Securities held by insurer for builders with current eligibility

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

Quarter	Bank guarantee	Indemnity	Other security	Total	Proportion of builders with security
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%
Mar 17	1	#2,821	#412	3,234	17%

3. Builder project certificate information

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.

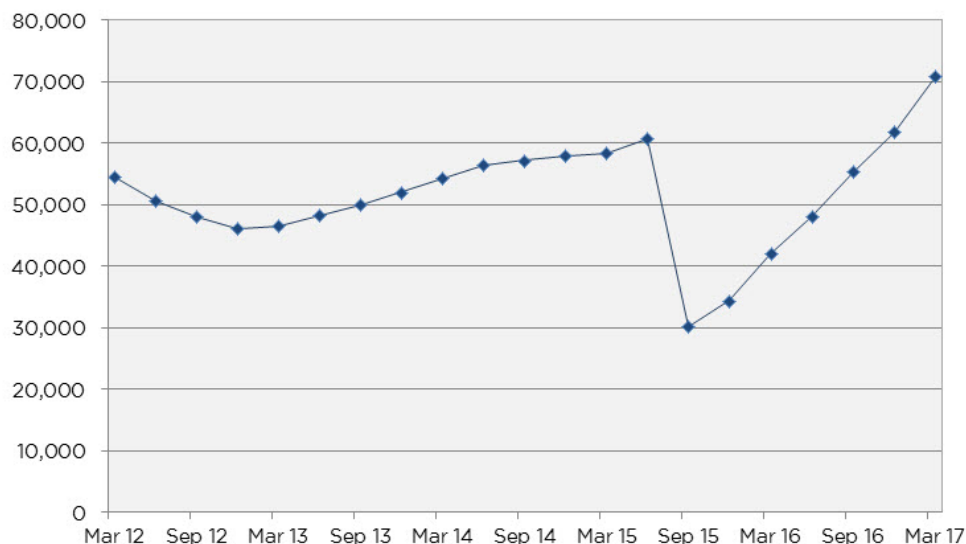
In August 2015, icare hbcf changed its eligibility rules from annual rolling limits to open job eligibility limits which sets out the maximum number and total value of jobs a builder can have under construction at any one time. At the transition, all projects that could reasonably be assumed to be completed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

After September 2015, the number of projects reported by the insurer as still open 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 builders not reporting completion advices on a timely basis, may have also contributed to the increase in open job numbers since September 2015.

Current builder project certificates

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

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



New project certificates issued to builders

Tables C1, C2.1 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
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
Mar 17	6,267	3,247	4,536	1,349	3,863	9	19,271

* 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 (19,271) in the March 2017 quarter increased by 11 per cent following a seasonal decline in the December quarter. For the 12 months to March 2017, the total number of certificates issued (73,626) rose by seven per cent 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 new multi-unit dwellings (47 per cent), alterations and renovations (45 per cent) and swimming pools/others (eight per cent).

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

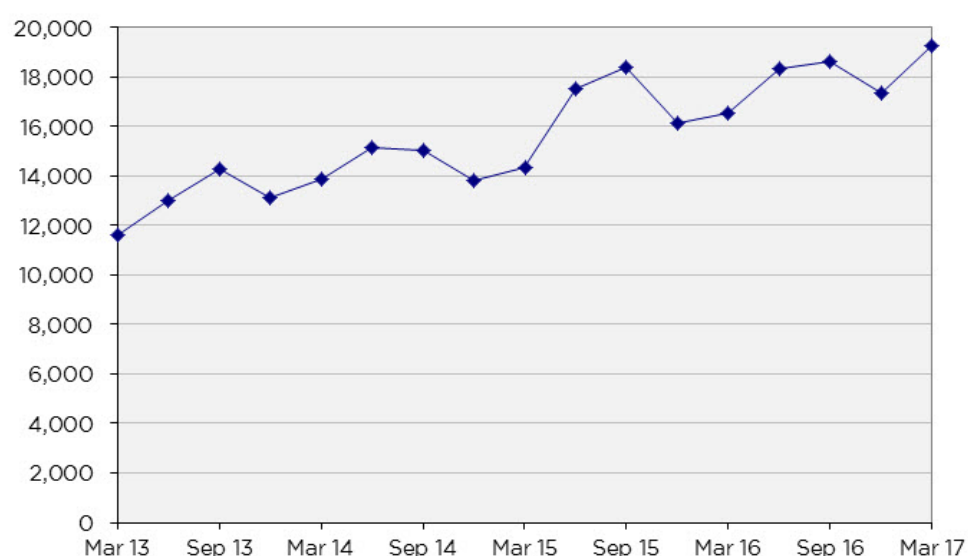


Table C2.1: Value of project certificates issued by type of cover during each quarter (\$'million)

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)
Mar 14	1,600	301	536	40	134	1	2,612
Jun 14	1,783	452	551	43	144	1	2,974
Sep 14	1,789	321	635	53	150	1	2,949
Dec 14	1,677	435	513	48	117	1	2,791
Mar 15	1,735	422	577	48	128	0	2,910
Jun 15	2,192	575	696	56	161	0	3,680
Sep 15	2,017	650	746	64	195	2	3,674
Dec 15	1,916	634	600	57	156	12	3,375
Mar 16	2,001	597	696	55	170	2	3,521
Jun 16	2,229	584	820	69	194	1	3,897
Sep 16	2,279	675	811	69	191	1	4,026
Dec 16	2,180	787	684	61	176	1	3,889
Mar 17	2,406	863	848	67	195	1	4,380

* 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)
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
Mar 17	384	266	187	50	50	227

Building approvals versus new project certificates issued to builders and owner-builders

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 for 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)
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	9,385	86%	2,667	2,706	99%
Dec 15	7,672	10,054	76%	2,550	2,968	86%
Mar 16	7,585	8,692	87%	2,598	2,579	101%
Jun 16	8,295	10,330	80%	2,813	3,056	92%
Sep 16	8,439	9,884	85%	2,954	2,978	99%
Dec 16	8,555	9,554	90%	2,967	2,904	102%
Mar 17	9,514	9,479	100%	3,269	2,942	111%
Average	7,858	9,119	86%	2,563	2,632	97%

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: Trend in numbers of building approvals versus certificates issued

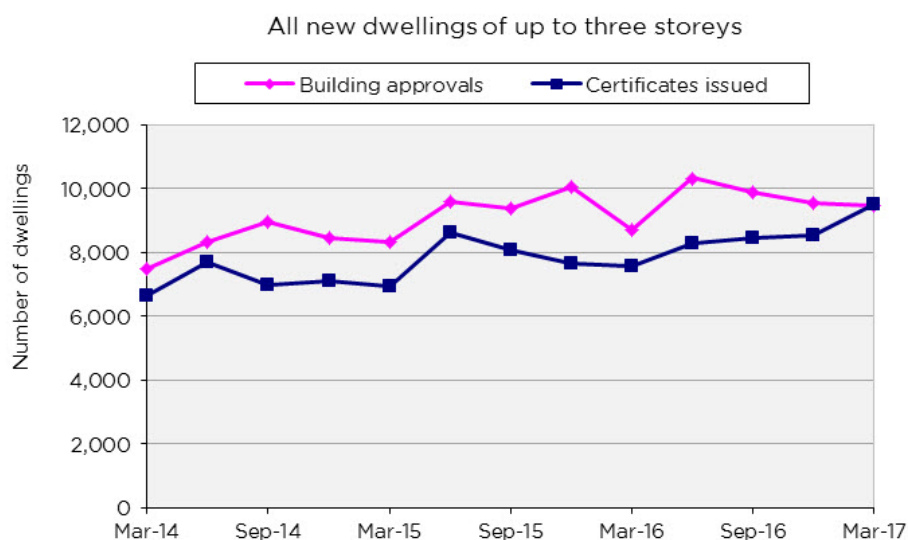
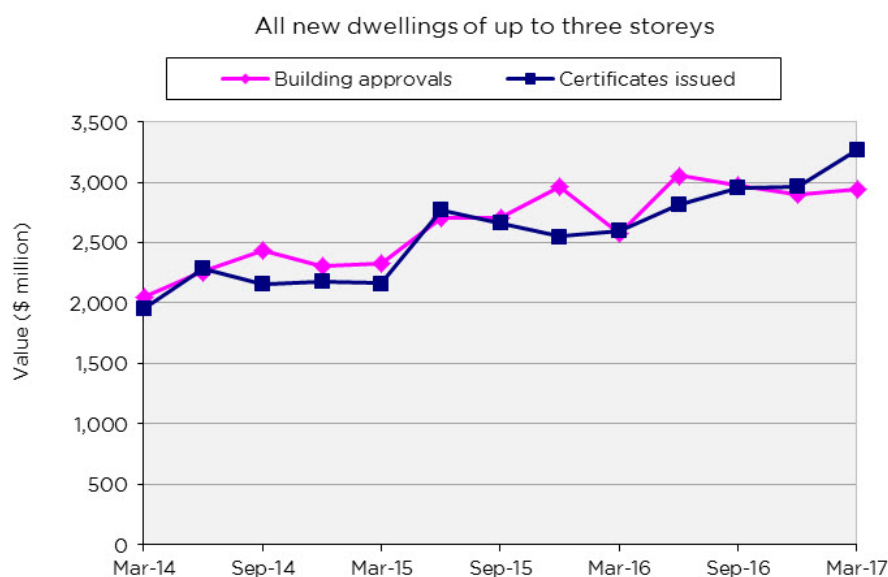


Figure C3.2: Trend in value of building approvals versus certificates issued



4. Builders' premium information

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.

Builders' 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 (3 storeys or less) *	Alterations /Additions#	Swimming Pools	Renovations (including kitchens and bathrooms) ^	Other	Totals (\$'000)
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
Mar 17	15,650	8,838	5,875	674	1,162	5	32,204

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

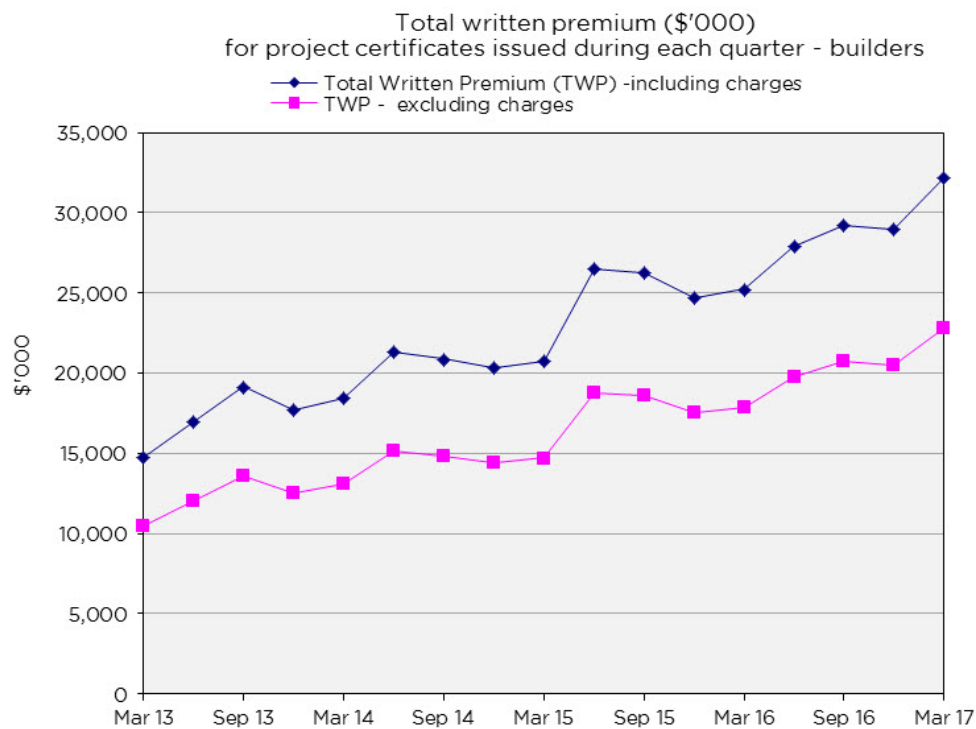
Quarter /Type of cover	New single dwelling construction	New multi dwelling (3 storeys or less) *	Alterations /Additions#	Swimming Pools	Renovations (including kitchens and bathrooms) ^	Other	Totals (\$'000)
Mar 14	7,239	2,266	2,684	278	602	3	13,072
Jun 14	8,042	3,335	2,792	304	660	2	15,135
Sep 14	8,200	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
Mar 17	11,095	6,266	4,164	478	824	3	22,830

* 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



Average builders' 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 (three storeys or less) *	Alterations /additions #	Swimming pools	Renovations (including kitchens and bathrooms) ^	Other	Average per certificate issued \$
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
Mar 17	2,497	2,722	1,295	500	301	514	1,671

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 \$
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
Mar 17	6.50	10.24	6.93	10.06	5.97	7.36	7.35

* 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.

5. Builder claims information

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

SIRA receives a snapshot of the cumulative data at the end of each quarter of all claims received by insurers for HBC business issued after 1 July 2002. The information set out below provides only a partial picture of HBC 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.**

Number of claims by liability assessment status

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
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
Mar 17	6,131	1,709	3	75	3,605	11,523

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 March 2017, there were 3,549 such 'notifications' which were closed with nil indemnity payment.

Reasons claims denied

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
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
Mar 17	12	284	108	5	493	807	1,709

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

Claims experience

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 March 2017**.

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 E.3: Claims experience by principal cause (including 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	4,924	386,189,328	34,001,904	420,191,232	85,335
Death	52	3,815,595	178,010	3,993,605	76,800
Disappearance	268	17,487,248	1,484,580	18,971,828	70,790
Total	5,244	407,492,171	35,664,494	443,156,665	84,507

*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).

#1 Includes the situation where a builder's licence is suspended for a failure to comply with a 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 (including GST) for open* accepted claims

Principal cause	No. of claims	Sum paid to claimant	Sum paid to third parties	Net outstanding estimate \$	Estimated total claims cost #2	Average claim size \$
Insolvency#	809	134,425,043	23,487,291	105,510,076	263,422,410	325,615
Death	5	192,100	33,611	367,270	592,981	118,596
Disappearance	73	8,413,216	1,123,492	4,396,302	13,933,010	190,863
Total	887	143,030,359	24,644,394	110,273,648	277,948,401	313,358

*Open claims are claims which are not finalised.

Table E5: Claims experience by claim code (including 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	242	5,085,616	191,971	5,277,587	21,808
Failure to complete	1,615	125,101,348	8,684,872	133,786,220	82,840
Major defect [§]	2,884	250,404,165	24,219,300	274,623,465	95,223
Other defect [§]	503	26,901,042	2,568,351	29,469,393	58,587
Total	5,244	407,492,171	35,664,494	443,156,665	84,507

§ Following major changes to home building laws from 15 January 2015, the definition of a 'structural defect' and therefore what is covered by the six-year warranty period was 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 two-year statutory warranty.

Table E6: Claims experience by claim code (including GST) for open accepted claims

Claim code	No. of claims	Sum paid to claimant	Sum paid to third parties	Net outstanding estimate \$	Estimated total claims cost	Average claim size \$
Failure to commence	5	378,675	15,951	403,769	798,395	159,679
Failure to complete	124	6,908,828	2,139,908	12,809,527	21,858,263	176,276
Major defect [§]	739	134,185,038	21,960,849	95,602,974	251,748,861	340,662
Other defect [§]	19	1,557,818	527,686	1,457,378	3,542,882	186,467
Total	887	143,030,359	24,644,394	110,273,648	277,948,401	313,358

Table E7: Claims experience by type of cover (including GST) for finalised accepted claims

Type of Cover	No. of claims	Sum paid to claimant	Sum paid to third parties	Total gross paid \$	Average claim size \$
New single dwelling construction	3,224	210,820,683	17,519,373	228,340,056	70,825
New multi-dwelling (greater than three storeys)	9	4,792,362	756,543	5,548,905	616,545
New multi-dwelling (3 storeys or less)	792	108,425,519	10,550,393	118,975,912	150,222
Alterations/additions	748	63,648,406	5,124,265	68,772,671	91,942
Swimming pools	282	6,309,897	773,599	7,083,496	25,119
Renovations (including kitchens and bathrooms)	142	11,430,789	832,086	12,262,875	86,358
Other	47	2,064,515	108,235	2,172,750	46,229
Total	5,244	407,492,171	35,664,494	443,156,665	84,507

Table E8: Claims experience by type of cover (including GST) for open accepted claims

Type of Cover	No. of claims	Sum paid to claimant	Sum paid to third parties	Net outstanding estimate \$	Estimated total claims cost	Average claim size \$
New single dwelling construction	473	27,875,533	5,680,766	33,602,064	67,158,363	141,984
New multi-dwelling (greater than 3 storeys)	10	27,068,976	3,390,552	3,651,622	34,111,150	3,411,115
New multi-dwelling (3 storeys or less)	215	71,583,107	12,145,577	47,935,465	131,664,149	612,391
Alterations/additions	136	13,651,064	1,993,093	22,239,721	37,883,878	278,558
Swimming pools	29	864,595	253,847	488,884	1,607,326	55,425
Renovations (including kitchens and bathrooms)	24	1,987,084	1,180,559	2,355,892	5,523,535	230,147
Other	0	0	0	0	0	0
Total	887	143,030,359	24,644,394	110,273,648	277,948,401	313,358

Claims experience by year certificate issued

Table E.9: Scheme claims experience to date by year of issue of project certificates (including GST) for all accepted liability (finalised and open) claims, for builders and owner-builders combined

Certificate calendar year of issue	No. of claims	Sum paid to claimant	Sum paid to third parties	Net outstanding estimate \$	Estimated total claims cost	Average claim size \$
From 1/7/2002	136	30,016,717	3,526,989	5,224,696	38,768,402	285,062
2003	377	76,077,796	9,484,741	12,359,644	97,922,181	259,741
2004	566	60,335,134	8,562,038	2,169,703	71,066,875	125,560
2005	509	50,273,298	5,926,769	1,785,868	57,985,935	113,921
2006	663	62,345,718	6,221,814	1,467,837	70,035,369	105,634
2007	929	60,757,358	7,230,442	5,989,208	73,977,008	79,631
2008	650	44,659,495	4,619,805	7,392,387	56,671,687	87,187
2009	483	36,714,901	4,920,484	9,412,742	51,048,127	105,690
2010	516	41,443,189	3,745,598	8,939,320	54,128,107	104,899
2011	588	46,645,976	3,365,304	14,597,645	64,608,925	109,879
2012	370	25,860,014	2,079,994	10,333,950	38,273,958	103,443
2013	149	11,421,612	933,789	10,393,800	22,749,201	152,679
2014	158	7,956,031	568,604	9,274,615	17,799,250	112,653
2015	116	6,880,966	434,642	9,776,787	17,092,395	147,348
2016	50	1,950,328	110,111	3,098,017	5,158,456	103,169
Total	6,260	563,338,533	61,731,124	112,216,219	737,285,876	117,777

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 homeowners 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 \$14 million for 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 three per cent of estimated total claims cost to date.

Overall for the scheme, the number of accepted liability claims was up 106 or two per cent and the reported costs up \$24 million or three per cent, since last quarter.

Part 2 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.

1. Owner-builder project certificate information

OB.C2: New project certificates issued to owner-builders 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
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 ^{&}	18	2	12	0	0	0	32
Jun 15 ^{&}	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).

^ Non-structural renovations (i.e. the majority of the contract is non-structural), such as. 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)
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 ^{&}	5,208	450	2,087	0	0	0	7,745	242
Jun 15 ^{&}	0	0	0	0	0	0	0	0

2. Owner-builder premium information

OB.D1.1: Written owner-builder premiums for project certificates issued, including charges (\$'000)

Quarter /type of cover	New single dwelling construction	New multi dwelling (three storeys or less) *	Alterations /additions#	Swimming pools	Renovations (including kitchens and bathrooms) ^	Other	Totals
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 ^{&}	47	7	19	0	0	0	73
Jun 15 ^{&}	0	0	0	0	0	0	0

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

OB.D1.2: Written owner-builder 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)
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 ^{&}	33	5	14	0	0	0	52
Jun 15 ^{&}	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)

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

3. Owner-builder claims information

OB.E1: Number of claims by liability assessment status at each quarter end

Quarter	Liability accepted	Liability fully denied	Liability in dispute	Liability being assessed	Notification only #	Total
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
Mar 17	129	218	1	1	147	496

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 March 2017, 146 'Notifications' were 'closed with nil payment to claimant'.

OB.E2: Reasons owner-builder claims were denied

Quarter	Out of time	Builder found	Builder not dead	Builder not insolvent	Not deemed a defect	Total
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
Mar 17	17	136	1	48	16	218

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

The tables in the next section show a further breakdown of the accepted liability claims as at 31 March 2017. Both open and finalised claims are included in these tables.

OB.E3: Owner-builder claims experience by principal cause when liability accepted (including GST)

Principal cause	No. of claims reported	No. of claims open	Total paid to date \$	Estimated total claims cost \$	Average claim size \$
Insolvency	55	9	6,309,979	7,696,959	139,945
Death	5	0	171,939	171,939	34,388
Disappearance	69	6	7,756,320	8,311,912	120,462
Total	129	15	14,238,238	16,180,810	125,433

„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 when liability accepted (including GST)

Claim code	No. of claims reported	No. of claims open	Total paid to date \$	Estimated total claims cost \$	Average claim size \$
Major defects	123	14	13,704,013	15,628,188	127,058
Other defects	6	1	534,225	552,622	92,104
Total	129	15	14,238,238	16,180,810	125,433

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 when liability accepted (including GST)

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	100	13	11,037,313	12,699,697	126,997
C03 : New multi dwelling (3 storeys or less) *	2	0	238,867	238,867	119,434
C04 : Alterations/Additions	26	2	2,859,439	3,139,627	120,755
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	129	15	14,238,238	16,180,810	125,433

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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

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