

Home Building Compensation Scheme report

30 September 2017

12 June 2018

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

Dear Carmel,

Review of September 2017 HBCF Scheme Report

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 30 September 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 June 2017 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,



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 or tradespeople 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 NSW HBC insurance written prior to June 2010 was written by insurers approved by the Minister. The approved insurers all ceased writing business on or before 30 June 2010, however continue to manage and settle claims on policies written up until that date. Between 1 July 2010 and 31 December 2017, insurance was written only by the NSW Self Insurance Corporation (icare hbcf).

Whilst not included in this dataset (which ends 30 September 2017) from 1 January 2018 only insurers or alternative indemnity providers licensed by SIRA are able to offer cover under the HBC scheme. As of the writing of this report, there is one HBC licence holder: the NSW Self Insurance Corporation (trading as 'icare hbcf').

HBC Scheme data

SIRA collects data on HBC licence holder policies, premiums and claims in accordance with HBC guidelines to monitor the scheme's operations.

The following information on the operation of the scheme applies only to the version of the scheme in operation since 1 July 2002, which offers protection only in the event of the death, disappearance or insolvency of a builder or tradesperson. For policies issued from 19 May 2009, cover extends to situations where a builder or tradesperson'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 30 September 2017. The information has been aggregated across insurers. Data provided by individual insurers is commercially confidential and has not been disclosed.

Further information on the scheme and reforms is available at <http://www.sira.nsw.gov.au>

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. During 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 previous HBC Scheme commenced in 2002, the NSW economy performed reasonably well, and conditions were generally favourable for the residential building industry. As over 90 per cent of the insurance claims arise from the insolvency of the builder or tradesperson, 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 2012 has given rise to claims because major defects now emerging may involve builders or tradespeople that have become insolvent since then. As a consequence, the claims experience of even early underwriting years has continued to deteriorate. During the 12 months to 30 September 2017, there was an increase of \$77 million, or 11 per cent, in the overall estimated net incurred claims cost reported by the scheme insurers.

Part 1 Information about licensed builders

Note: unless otherwise specified, the terms ‘builder’ and ‘licensed builder’ in this report are used to refer to any holder of a contractor licence under the *Home Building Act 1989*, including licences in building work categories, trade categories, and categories of specialist work.

1. Eligibility information

‘Eligibility’ is the term used to describe a builder’s entitlement to apply for a certificate of insurance for home building projects, and the conditions under which the certificate of insurance may be granted. Eligibility is granted by insurers or alternative indemnity providers participating in the HBC scheme. For the period 1 July 2010 to the September 2017 quarter to which this report relates, all eligibilities are those issued by or on behalf of icare hbcf.

Builder eligibilities

From August 2015, icare hbcf changed its eligibility limits for builders from annual turnover limits to ‘open job limits’. This is the maximum number and value of jobs an individual licensed builder may have under construction 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.

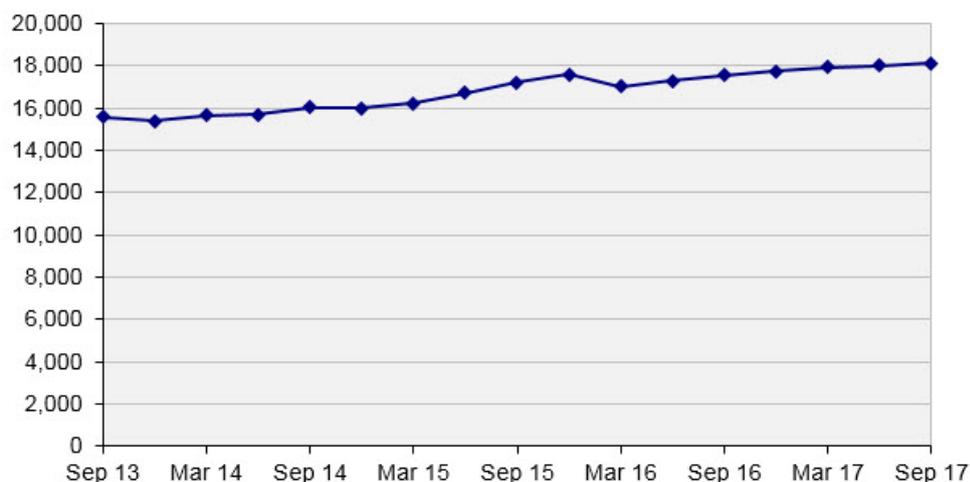
Table A1: Number of builder eligibilities by open job limit (previously annual turnover limit) band

Turnover band (\$' m)	\$0 - <0.5m	\$0.5 - <1m	\$1 - <2m	\$2 - <3m	\$3 - <5m	\$5 - <20m	\$20+m	Totals
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
Jun 17	1,981	5,177	5,705	2,982	1,184	850	128	18,007
Sep 17	2,018	5,150	5,709	2,999	1,225	893	133	18,127

As at 30 September 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

The chart shows that the total number of builders eligible to apply for home building compensation insurance steadily increased in three years, from around 16,000 in September 2014 to 18,000 in September 2017



2. Securities and indemnities information

For some builders, insurers have required security in the form of a deed of indemnity as a condition of approving eligibility or providing cover for a specific project. In some circumstances builders have provided a bank guarantee (refer to Table 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 were not transferred to icare hbcf. They remain in place until they are released by the former insurers. Such securities held by former insurers are not included in the following table (next page).

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
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%
Jun 17	1	3,028	545	3,574	18%
Sep 17	1	#3,093	#563	3,657	19%

As at 30 September 2017, 252 builders have concurrent in-force group trading agreement and deeds of indemnity.

3. Builder project certificate information

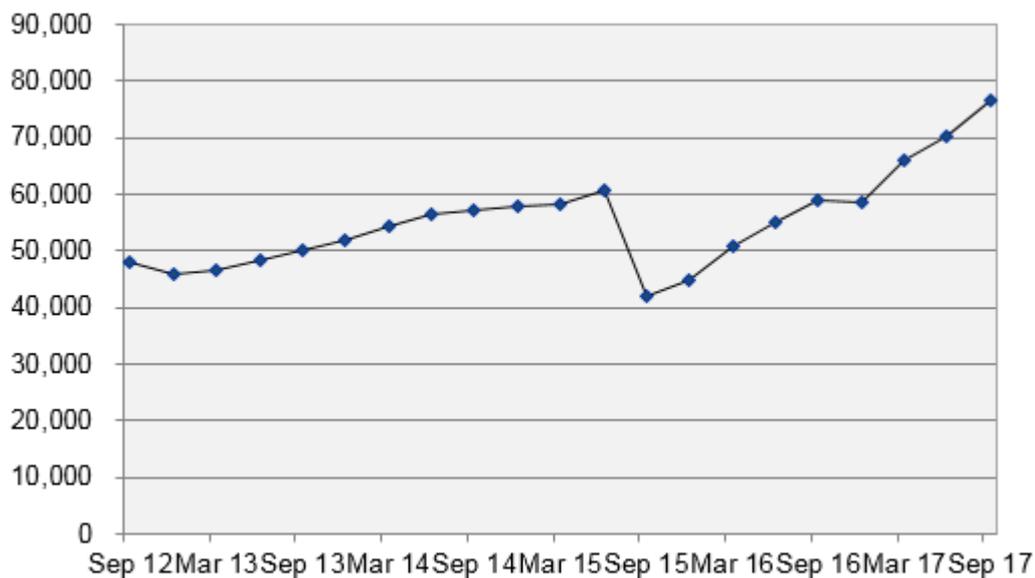
A project certificate, which is evidence of the insurance contract, is generally issued before building work starts. The number of current project certificates refers to projects still in progress at the end of the quarter.

In August 2015, icare hbcf changed its eligibility rules from annual rolling limits to open job eligibility limits which set 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 by icare. 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.

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



In this report, Figure C1 uses different data to that included in previous reports about the period since September 2015. This is because icare hbcf have provided revised data for the relevant period. The numbers of open job certificates at the end of each quarter since September 2015 have been restated to account for job certificates which were updated as closed in a current quarter but with a job completion-date back-dated to a prior quarter. In prior scheme reports, job completions which were back-dated to prior quarters were not reflected in that quarter or later quarter's job completion figures.

The number of open jobs at the end of each quarter is derived by adding the number of open jobs at the beginning of a quarter to the number of new job certificates issued, then subtracting the number of jobs closed during the quarter. The number of job certificates closed during a quarter is now calculated by subtracting the cumulative total number of job certificates closed as at end of the previous quarter, from that closed as at end of current 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
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
Jun 17	6,470	2,241	4,736	1,400	4,343	17	19,207
Sep 17	6,606	3,013	5,236	1,522	4,677	5	21,059

* 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 (21,059) rose 10 per cent in the September quarter and by 13 per cent compared with the same quarter last year. The proportions of project certificates issued during the last 12 months are: new single and new multi dwellings (47 per cent), alterations and renovations (46 per cent) and swimming pools/others (seven per cent).

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

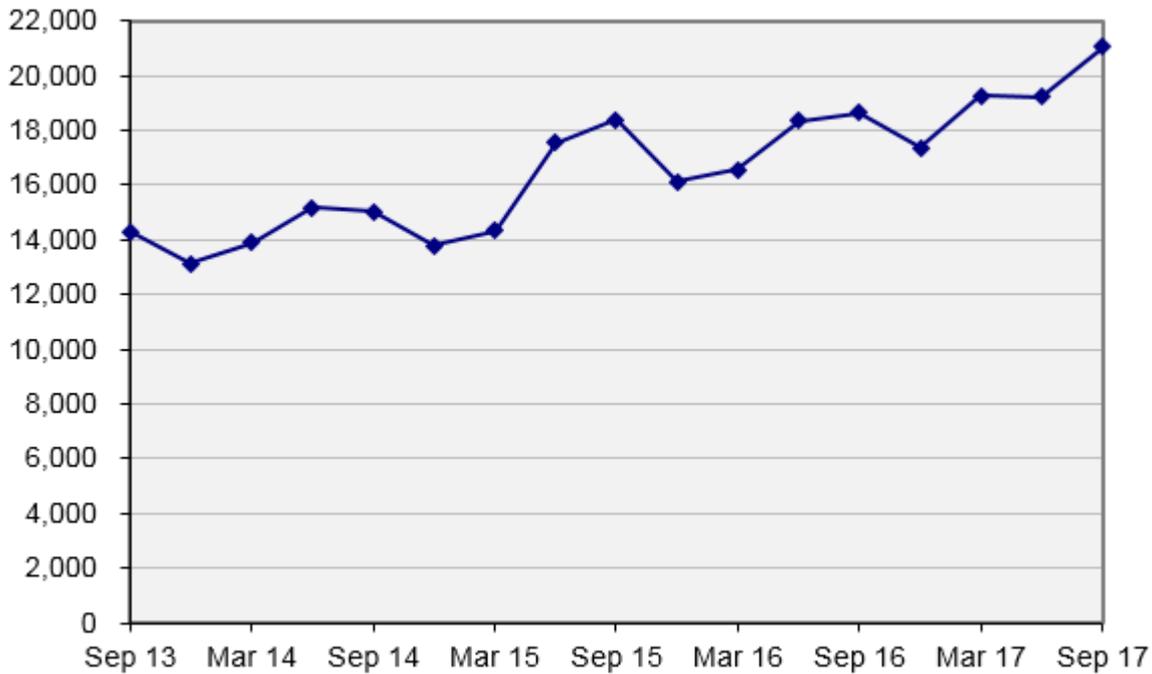


Table C2.1: Value of project certificates issued by type of cover during each quarter (\$'million)

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)
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
Jun 17	2,500	659	812	68	223	2	4,264
Sep 17	2,609	895	895	75	236	0	4,710

* 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)
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
Jun 17	386	294	172	49	51	222
Sep 17	395	297	171	49	51	224

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

Table C3 and the following figures 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)
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	10,056	76%	2,550	2,973	86%
Mar-16	7,585	8,694	87%	2,598	2,580	101%
Jun-16	8,295	10,348	80%	2,813	3,067	92%
Sep-16	8,439	9,940	85%	2,954	2,999	99%
Dec-16	8,555	9,487	90%	2,967	2,909	102%
Mar-17	9,514	9,568	99%	3,269	2,978	110%
Jun-17	8,711	10,261	85%	3,159	3,179	99%
Sep-17	9,619	11,008	87%	3,504	3,488	100%
Average	8,165	9,544	86%	2,750	2,819	98%

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 continued differences due to factors such as timing of reporting and the scope and coverage of ABS statistics. Also, insurance certificates have not been issued to owner-builders who sold their properties since 15 January 2015.

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
All new dwellings of up to three storeys

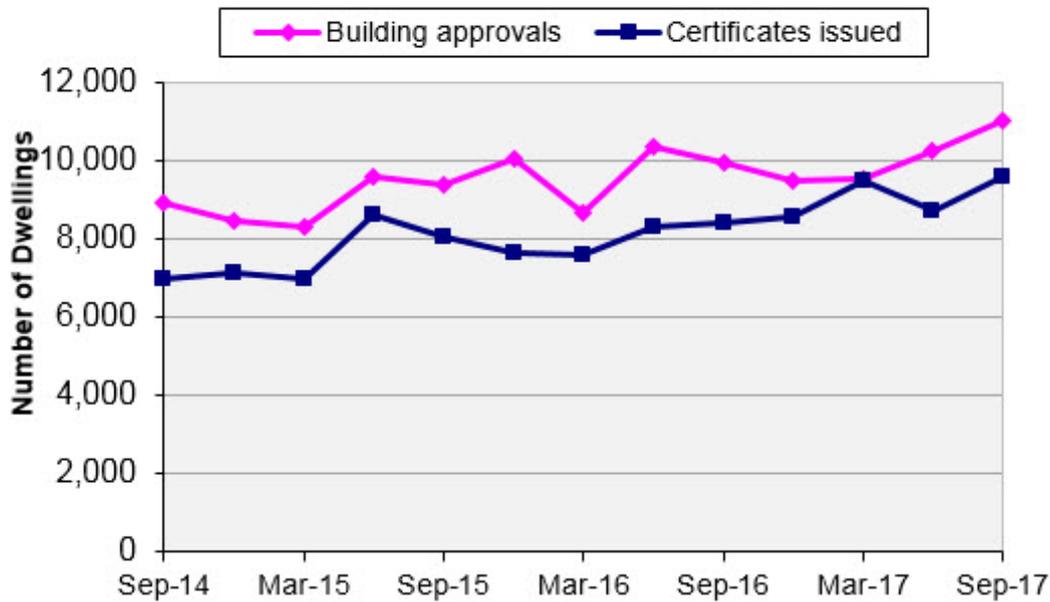
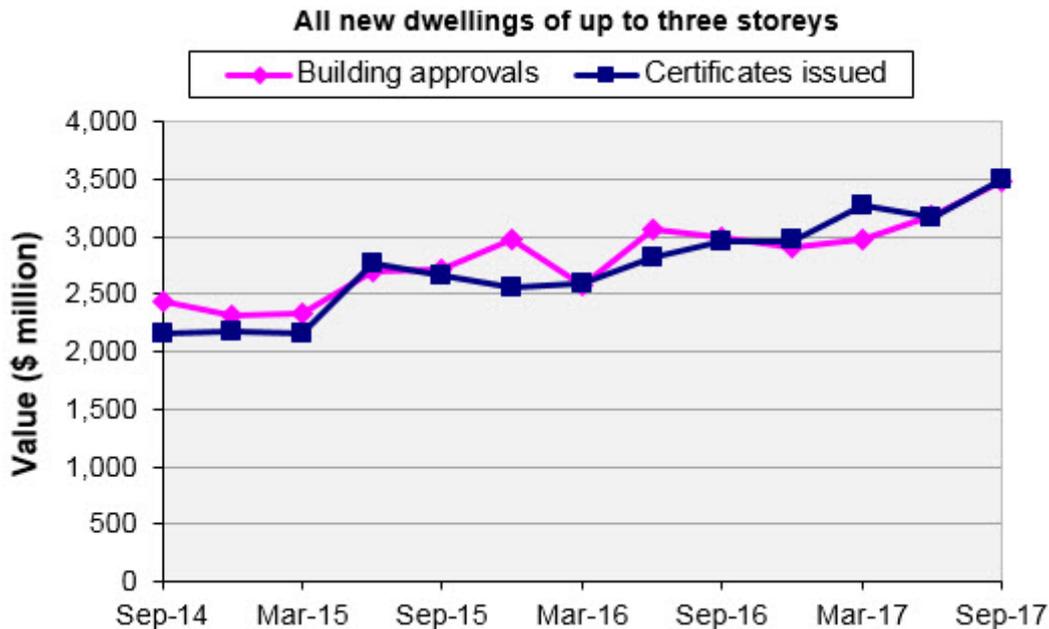


Figure C3.2: Trend in value of building approvals versus certificates issued
All new dwellings of up to three storeys



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 the insurer to SIRA.

The premium including charges represents the amount paid by the builder including statutory charges such as GST and stamp duty. 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.

Effective from 3 April 2017, icare hbcf has:

- introduced new base premium rates and builder risk-based pricing
- ceased paying commissions to broker distributors.

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)
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
Jun 17	15,810	10,019	5,768	540	1,264	6	33,407
Sep 17	16,994	13,961	6,332	583	1,332	2	39,204

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

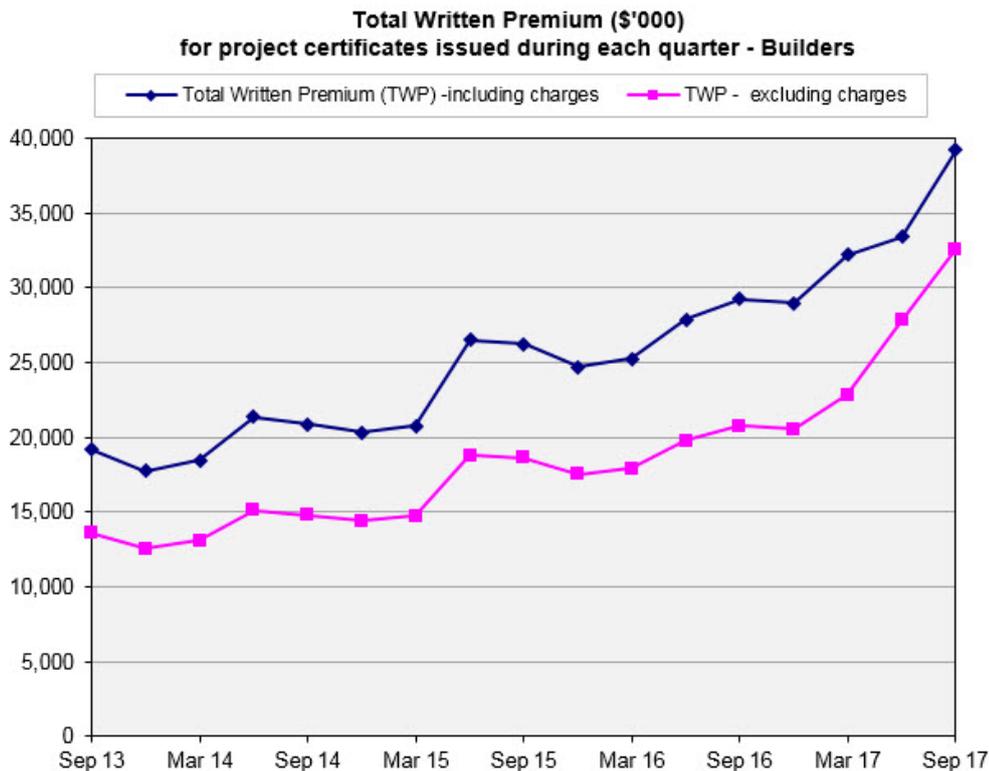
Quarter /Type of cover	New single dwelling construction	New multi dwelling (3 storeys or less) *	Alterations /Additions#	Swimming Pools	Renovations (including kitchens and bathrooms) ^	Other	Totals (\$'000)
Sep 14	8,200	2,353	3,201	376	665	3	14,798
Dec 14	7,655	3,264	2,613	335	526	4	14,397
Mar 15	7,835	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
Jun 17	13,174	8,347	4,803	449	1,053	5	27,831
Sep 17	14,138	11,613	5,256	482	1,098	1	32,588

* 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 \$
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
Jun 17	2,444	4,471	1,218	386	291	373	1,739
Sep 17	2,573	4,634	1,209	383	285	339	1,862

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 \$
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
Jun 17	6.32	15.21	7.10	7.90	5.66	4.16	7.83
Sep 17	6.51	15.60	7.08	7.76	5.63	4.40	8.32

* 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

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
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
Jun 17	6,240	1,760	4	71	3,657	11,732
Sep 17	6,324	1,754	3	62	3,766	11,909

As at 30 September 2017, there were 3,755 matters finalised 'notification-only,' which never became a claim and 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
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
Jun 17	13	301	111	5	518	812	1,760
Sep 17	13	309	111	5	496	820	1,754

Note: A decrease from the prior quarter may occur due to corrections to existing claims or their 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 respect of builders (not owner-builders) as at **30 September 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	5,217	422,133,195	37,310,702	459,443,897	88,067
Death	55	3,889,284	184,911	4,074,195	74,076
Disappearance	286	19,230,218	1,608,558	20,838,776	72,863
Total	5,558	445,252,697	39,104,171	484,356,868	87,146

*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#	701	141,340,676	23,431,762	94,264,344	259,036,782	369,525
Death	4	141,326	41,029	482,518	664,873	166,218
Disappearance	61	8,835,942	1,187,487	2,650,576	12,674,005	207,771
Total	766	150,317,944	24,660,278	97,397,438	272,375,660	355,582

*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	246	5,453,709	211,259	5,664,968	23,028
Failure to complete	1,670	130,748,939	9,122,196	139,871,135	83,755
Major defect [§]	3,149	283,292,195	27,237,905	310,530,100	98,612
Other defect [§]	493	25,757,854	2,532,811	28,290,665	57,385
Total	5,558	445,252,697	39,104,171	484,356,868	87,146

§ 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	7	159,234	20,404	645,508	825,146	117,878
Failure to complete	90	8,920,273	2,009,157	11,286,592	22,216,022	246,845
Major defect [§]	650	138,709,341	21,978,629	82,978,164	243,666,134	374,871
Other defect [§]	19	2,529,096	652,088	2,487,174	5,668,358	298,335
Total	766	150,317,944	24,660,278	97,397,438	272,375,660	355,582

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	3,437	231,145,627	19,319,429	250,465,056	72,873
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)	830	118,343,329	11,292,512	129,635,841	156,188
Alterations/additions	798	69,968,527	5,975,260	75,943,787	95,168
Swimming pools	290	6,624,250	799,765	7,424,015	25,600
Renovations (including kitchens and bathrooms)	147	12,314,087	852,468	13,166,555	89,568
Other	47	2,064,515	108,194	2,172,709	46,228
Total	5,558	445,252,697	39,104,171	484,356,868	87,146

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	357	24,619,826	4,956,673	24,568,092	54,144,591	151,666
New multi-dwelling (greater than 3 storeys)	10	28,073,396	4,268,687	2,481,446	34,823,529	3,482,353
New multi-dwelling (3 storeys or less)	209	78,394,295	12,683,966	40,259,994	131,338,255	628,413
Alterations/additions	142	15,649,949	1,723,949	26,050,089	43,423,987	305,803
Swimming pools	25	761,819	243,420	558,765	1,564,004	62,560
Renovations (including kitchens and bathrooms)	23	2,818,659	783,583	3,479,052	7,081,294	307,882
Other	0	0	0	0	0	0
Total	766	150,317,944	24,660,278	97,397,438	272,375,660	355,582

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	30,325,152	4,325,888	6,461,522	41,112,562	302,298
2003	378	78,931,720	9,766,505	10,212,488	98,910,713	261,669
2004	566	61,293,880	8,739,844	1,302,481	71,336,205	126,036
2005	508	50,822,195	6,003,578	1,108,538	57,934,311	114,044
2006	662	63,023,075	6,294,979	1,979,040	71,297,094	107,700
2007	929	62,457,469	7,467,943	4,232,488	74,157,900	79,826
2008	651	47,561,276	4,952,086	5,098,759	57,612,121	88,498
2009	488	41,963,180	4,777,010	7,857,964	54,598,154	111,881
2010	532	47,300,995	4,019,257	5,576,819	56,897,071	106,949
2011	609	50,323,030	3,806,738	14,083,169	68,212,937	112,008
2012	395	32,166,591	2,287,054	11,198,676	45,652,321	115,575
2013	170	14,814,017	1,067,800	7,970,546	23,852,363	140,308
2014	191	11,856,315	788,012	9,658,101	22,302,428	116,767
2015	169	12,145,186	763,572	9,537,381	22,446,139	132,817
2016	70	4,181,220	205,527	2,444,349	6,831,096	97,587
2017	2	7,055	5,692	467,304	480,051	240,025
Total	6,456	609,172,356	65,271,485	99,189,625	773,633,466	119,832

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 most years of issue, 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 \$6 million for claims in which liability has not yet been determined or declined.

Insurers do manage to recover some claim payments, generally as creditors of insolvent builders or from third parties. Since the scheme commenced, some \$25 million has been recovered or about three per cent of estimated total claims cost to date.

Overall for the scheme, there were 84 more accepted liability claims (a one per cent increase) and the reported costs increased by \$17 million (or two 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 licensed 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 after the 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
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)
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
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)
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), such as kitchen or 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
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
Jun 17	132	219	1	2	148	502
Sep 17	132	220	1	1	150	504

As at 30 September 2017, all the 150 Notification-Only were finalised and never became a claim and closed with nil indemnity payment.

OB.E2: Reasons owner-builder claims were denied

Quarter	Out of time	Owner-builder found	Owner-builder not dead	Owner-builder not insolvent	Not deemed a defect	Total
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
Jun 17	17	136	1	49	16	219
Sep 17	17	137	1	48	17	220

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 30 September 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	7	6,766,008	7,859,290	142,896
Death	5	0	171,940	171,939	34,388
Disappearance	72	9	8,170,802	8,869,709	123,190
Total	132	16	15,108,750	16,900,938	128,037

'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 owner-builders is the main cause of claims against owner-builders, in contrast to claims against licensed builders which are predominantly for 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	124	15	14,461,625	16,222,153	130,824
Other defects	8	1	647,125	678,785	84,848
Total	132	16	15,108,750	16,900,938	128,037

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	101	12	11,456,755	12,921,412	127,935
C03 : New multi dwelling (3 storeys or less) *	2	0	238,867	238,867	119,434
C04 : Alterations/Additions	28	4	3,310,509	3,638,040	129,930
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	132	16	15,108,750	16,900,938	128,037

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