

# Home building compensation scheme report

**31 December 2017**

28 August 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 December 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 31 December 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 September 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 31 December 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 31 December 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 [www.sira.nsw.gov.au](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 31 December 2017, there was an increase of \$43 million, or six 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 December 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.

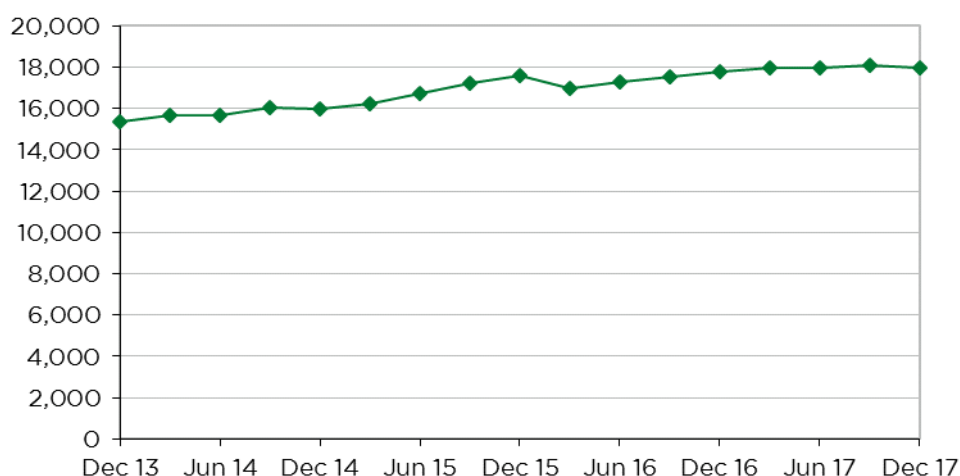
**Table A1: Number of builder eligibilities by open job limit (previously annual turnover limit) band**

Turnover band (\$' m)	\$0 - <0.5m	\$0.5 - <1m	\$1 - <2m	\$2 - <3m	\$3 - <5m	\$5 - <20m	\$20+m	Total
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
Dec-17	2,059	5,039	5,618	3,002	1,217	917	151	18,003

As at 31 December 2017, the average eligibility open job limit was \$2.1 million. The proportion of builders with an eligibility limit of less than \$1 million was 39 per cent, \$1 million to less than \$5 million was 55 per cent, and \$5 million and over was six per cent.

The chart shows that the total number of builders eligible to apply for home building compensation insurance has steadied in the last 12 months to around 18,000 as at December 2017.

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



## 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.

### 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
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%
Dec 17	1	3,135	#593	3,729	19%

# As at 31 December 2017, 272 builders have concurrent in-force group trading agreement and deeds of indemnity.

### 3. Builder project certificate information

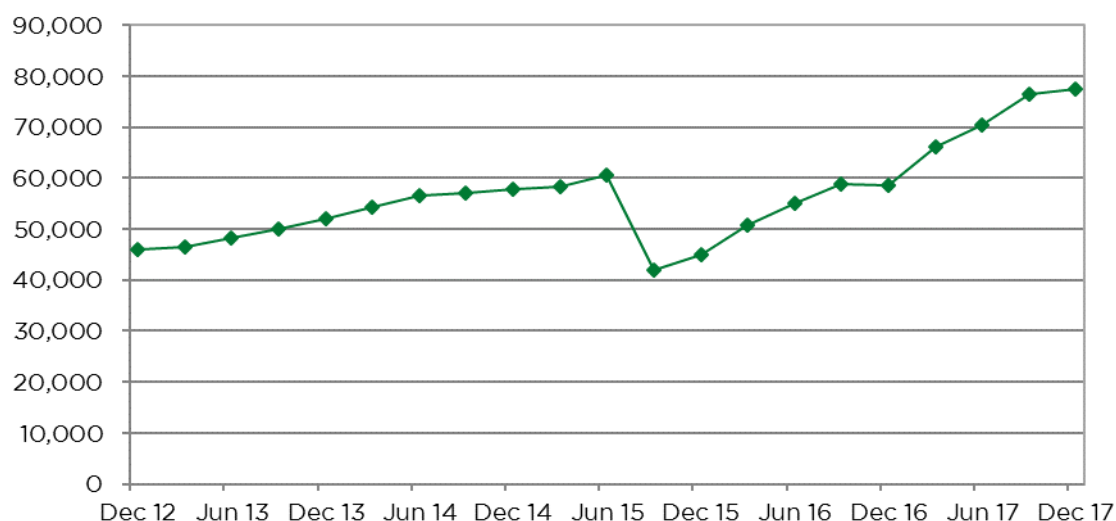
A project certificate, which is evidence of the insurance contract, is generally issued before building work starts. The number of current project certificates refers to projects still in progress at the end of the quarter.

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**



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 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 (three storeys or less) *	Alterations /additions #	Swimming pools	Renovations (including kitchens and bathrooms) ^	Other	Total
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
Dec 17	5,843	2,243	4,242	1,321	4,068	1	17,718

\* 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 (17,718) in the December 2017 quarter has fallen 16 per cent from last quarter. A seasonal decline pattern has been apparent between the September and December quarters in each of the past four years. For the 12 months to December 2017, the total number of certificates issued (77,255) has risen nine per cent year-on-year, continuing the upward trend since 2012 reflecting higher levels of residential building activity.

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

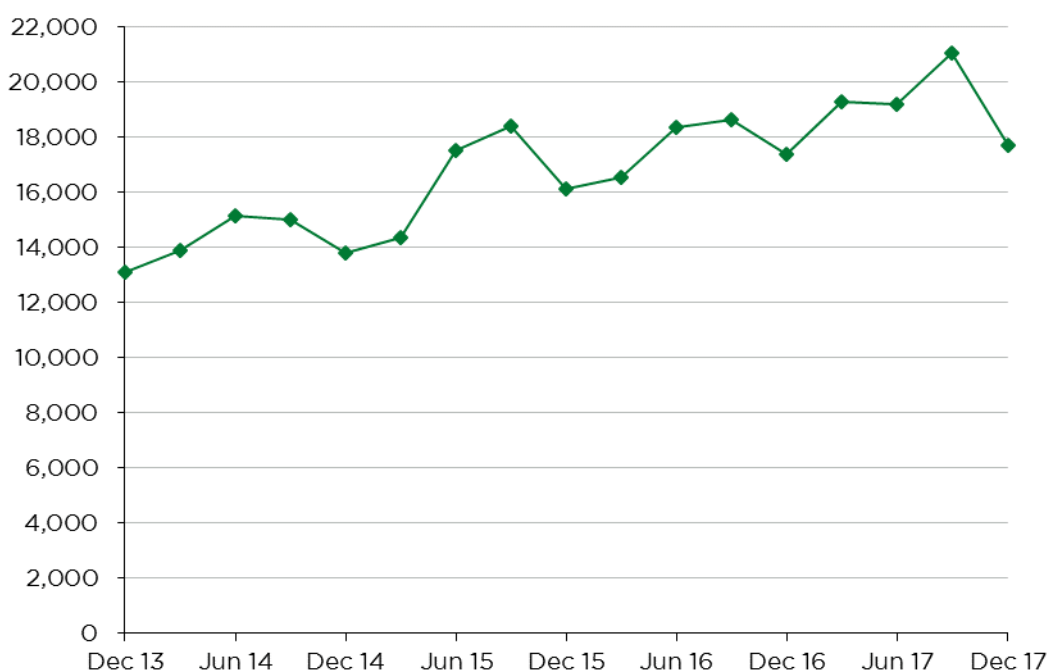


Table C2.1: Value of project certificates issued by type of cover during each quarter (\$'million)

Quarter /type of cover	New single dwelling construction	New multi-dwelling (three storeys or less) *	Alterations /additions #	Swimming pools	Renovations (including kitchens and bathrooms) ^	Other	Total (\$'million)
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
Dec 17	2,405	676	786	65	218	0	4,150

\* 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 (three storeys or less) *	Alterations /additions #	Swimming pools	Renovations (including kitchens and bathrooms) ^	Average (all cover types)
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
Dec 17	412	301	185	49	54	234

## 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)
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	9,857	78%	2,550	2,900	88%
Mar-16	7,585	8,703	87%	2,598	2,583	101%
Jun-16	8,295	10,354	80%	2,813	3,069	92%
Sep-16	8,439	9,992	84%	2,954	3,009	98%
Dec-16	8,555	9,611	89%	2,967	2,953	100%
Mar-17	9,514	9,640	99%	3,269	2,998	109%
Jun-17	8,711	10,408	84%	3,159	3,228	98%
Sep-17	9,619	11,255	85%	3,504	3,577	98%
Dec-17	8,086	9,805	82%	3,081	3,089	100%
Average	8,251	9,645	86%	2,820	2,881	98%

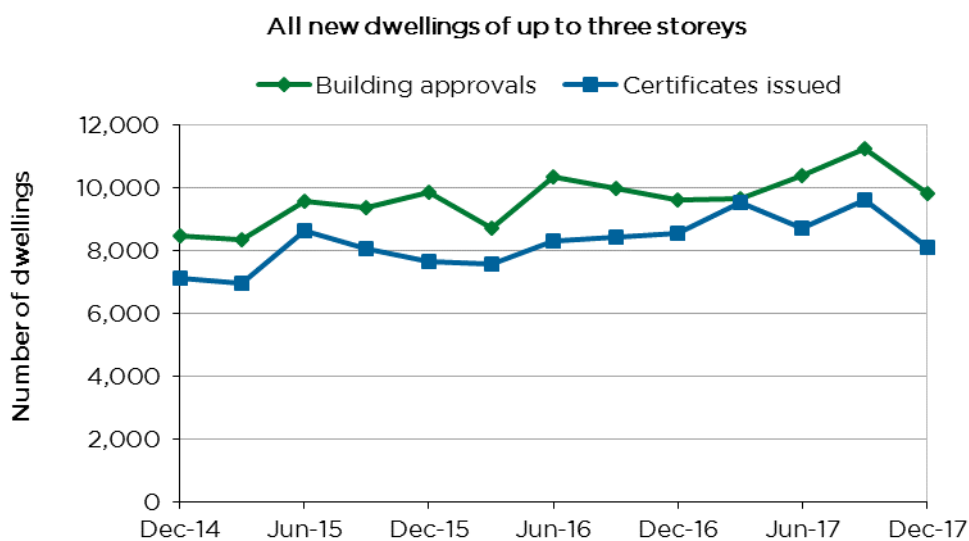
Notes: ABS8731.0 Building Approvals, Australia; Tables 12, 22 and 43 "Dwelling units approved in new residential buildings - New South Wales". Both builder and owner-builder data is included in the above table as ABS did not distinguish between type of builder in its statistics. From 15 January 2015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

Public sector work has been excluded from the building approval data to enable like-for-like comparison.

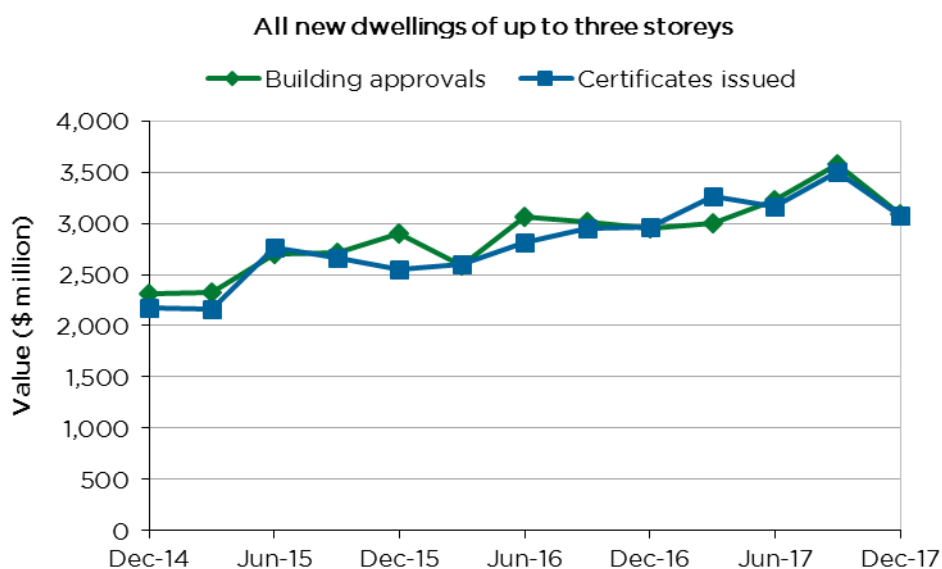
Figures for more recent quarters may change where the ABS revises its estimates, and continued differences due to factors such as timing of reporting and the scope and coverage of ABS statistics. Also, insurance certificates have not been issued to owner-builders who sold their properties since 15 January 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**



**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 (GST and stamp duty) 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.

Further premium rates changes are applicable from 2 October 2017 and 1 July 2018.

### 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 (three storeys or less) *	Alterations /additions #	Swimming pools	Renovations (including kitchens and bathrooms) ^	Other	Total (\$'000)
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
Dec 17	16,046	14,152	5,463	509	1,202	1	37,373

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

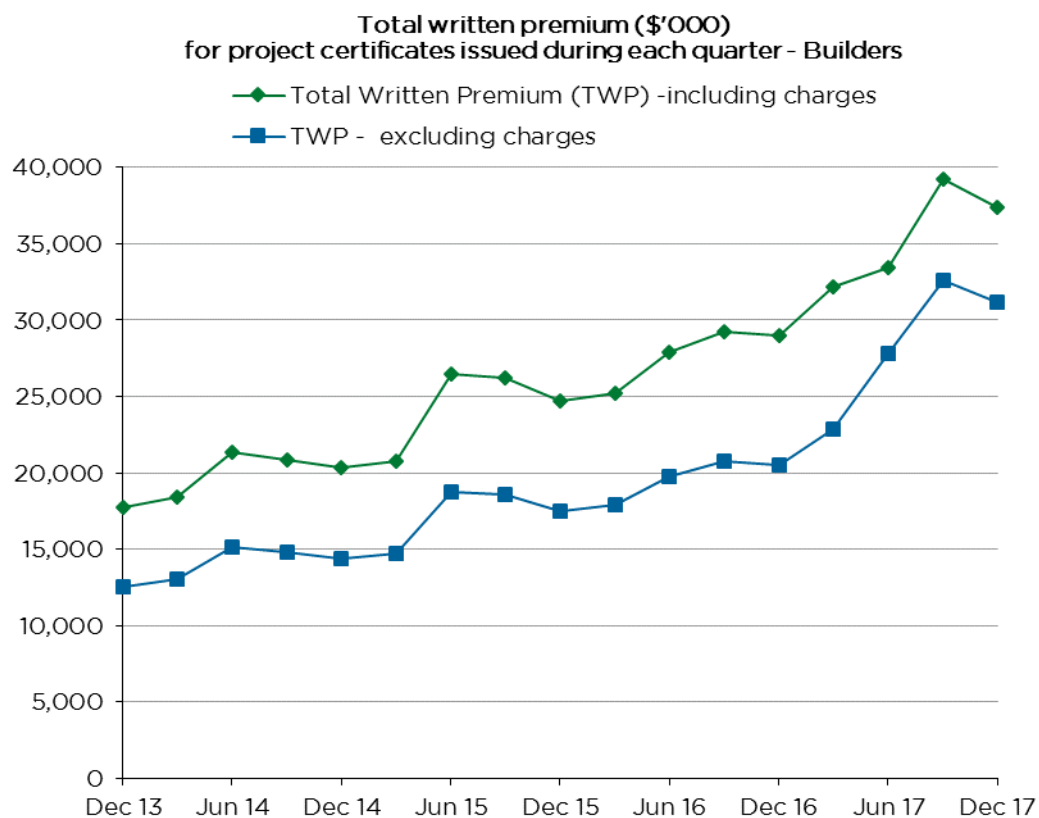
Quarter /type of cover	New single dwelling construction	New multi-dwelling (three storeys or less) *	Alterations /additions #	Swimming pools	Renovations (including kitchens and bathrooms) ^	Other	Total (\$'000)
Dec 14	7,655	3,264	2,613	335	526	4	14,397
Mar 15	7,835	3,040	2,921	338	570	2	14,706
Jun 15	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
Dec 17	13,389	11,808	4,546	424	1,003	0	31,170

\* 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 tradework 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 \$
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
Dec 17	2,746	6,309	1,288	385	296	563	2,109

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 (three storeys or less) *	Alterations/ additions #	Swimming pools	Renovations (including kitchens and bathrooms) ^	Other	Average rate per \$1,000 project value \$
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
Dec 17	6.67	20.93	6.96	7.79	5.51	4.79	9.01

\* 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
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
Dec 17	6,379	1,771	2	94	3,851	12,097

# As at 31 December 2017, there were 3,840 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
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



Quarter	Incorrect insurer	Out of time	Builder found	Builder not dead	Builder not insolvent	Not deemed a defect	Total
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
Dec 17	14	318	111	5	497	826	1,771

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 31 December 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	5,353	441,298,544	39,260,808	480,559,352	89,774
Death	55	3,889,284	184,911	4,074,195	74,076
Disappearance	297	20,420,683	1,729,287	22,149,970	74,579
<b>Total</b>	<b>5,705</b>	<b>465,608,511</b>	<b>41,175,006</b>	<b>506,783,517</b>	<b>88,831</b>

\*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#	618	142,017,391	23,245,397	65,724,028	230,986,816	373,765
Death	4	141,326	41,677	502,421	685,424	171,356
Disappearance	52	8,394,832	1,129,870	1,525,609	11,050,311	212,506
<b>Total</b>	<b>674</b>	<b>150,553,549</b>	<b>24,416,944</b>	<b>67,752,058</b>	<b>242,722,551</b>	<b>360,122</b>

\*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	248	5,567,934	212,948	5,780,882	23,310
Failure to complete	1,700	132,976,960	9,311,076	142,288,036	83,699
Major defect <sup>§</sup>	3,333	307,212,950	29,422,527	336,635,477	101,001
Other defect <sup>§</sup>	424	19,850,667	2,228,455	22,079,122	52,073
<b>Total</b>	<b>5,705</b>	<b>465,608,511</b>	<b>41,175,006</b>	<b>506,783,517</b>	<b>88,831</b>

<sup>§</sup> 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	3	142,917	4,636	750	148,303	49,434
Failure to complete	68	9,388,228	1,957,321	3,325,219	14,670,768	215,747
Major defect <sup>§</sup>	584	138,379,336	21,859,088	62,053,736	222,292,160	380,637
Other defect <sup>§</sup>	19	2,643,068	595,899	2,372,353	5,611,320	295,333
<b>Total</b>	<b>674</b>	<b>150,553,549</b>	<b>24,416,944</b>	<b>67,752,058</b>	<b>242,722,551</b>	<b>360,122</b>

**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	3,514	239,643,665	19,782,859	259,426,524	73,827
New multi-dwelling (greater than three storeys)	9	4,792,362	756,543	5,548,905	616,545
New multi-dwelling (three storeys or less)	854	125,523,318	12,280,875	137,804,193	161,363
Alterations/additions	833	73,849,677	6,419,663	80,269,340	96,362
Swimming pools	297	6,913,354	872,467	7,785,821	26,215
Renovations (including kitchens and bathrooms)	151	12,821,620	954,405	13,776,025	91,232
Other	47	2,064,515	108,194	2,172,709	46,228
<b>Total</b>	<b>5,705</b>	<b>465,608,511</b>	<b>41,175,006</b>	<b>506,783,517</b>	<b>88,831</b>

**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	302	22,814,130	4,821,869	10,452,882	38,088,881	126,122
New multi-dwelling (greater than three storeys)	10	28,299,548	4,420,224	2,200,973	34,920,745	3,492,075
New multi-dwelling (three storeys or less)	197	80,269,234	12,628,963	34,613,390	127,511,587	647,267
Alterations/additions	127	15,589,751	1,532,612	17,836,006	34,958,369	275,263
Swimming pools	19	565,904	183,300	169,654	918,858	48,361
Renovations (including kitchens and bathrooms)	18	3,014,982	826,559	2,468,868	6,310,409	350,578
Other	1	0	3,417	10,285	13,702	0
<b>Total</b>	<b>674</b>	<b>150,553,549</b>	<b>24,416,944</b>	<b>67,752,058</b>	<b>242,722,551</b>	<b>360,122</b>

## 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	31,092,406	4,392,934	5,956,922	41,442,262	304,723
2003	378	80,021,313	10,044,985	9,670,255	99,736,553	263,853
2004	566	61,293,879	8,790,191	1,446,632	71,530,702	126,379
2005	508	50,958,343	6,076,385	1,024,312	58,059,040	114,289
2006	663	63,144,494	6,458,180	3,766,124	73,368,798	110,662
2007	930	63,190,018	7,674,483	3,842,165	74,706,666	80,330
2008	652	48,674,320	5,130,460	3,799,561	57,604,341	88,350
2009	490	43,329,774	5,095,696	6,661,578	55,087,048	112,423
2010	535	48,044,670	4,088,694	5,108,907	57,242,271	106,995
2011	612	55,538,036	4,012,650	7,899,016	67,449,702	110,212
2012	401	33,519,972	2,323,870	3,687,902	39,531,744	98,583
2013	174	16,639,738	1,118,947	4,026,705	21,785,390	125,203
2014	199	13,699,270	862,879	5,712,635	20,274,784	101,883
2015	177	15,850,208	810,378	3,344,874	20,005,460	113,025
2016	83	4,691,326	222,832	1,769,335	6,683,493	80,524
2017	8	411,679	9,192	576,546	997,417	124,677
<b>Total</b>	<b>6,512</b>	<b>630,099,446</b>	<b>67,112,756</b>	<b>68,293,469</b>	<b>765,505,671</b>	<b>117,553</b>

Table E9 shows the claims experience to date split by the year the project certificate was issued. For reasons explained in 'Caution in interpreting the information' on page 4 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 \$26 million has been recovered or just over three per cent of estimated total claims cost to date. Overall for the scheme, there were 56 more accepted liability claims (a one per cent increase) during the quarter. However, the estimated total cost declined by \$8 million (down one percent) due to icare hbcf's correction of over statement of prior quarter's net outstanding case estimates.

## 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 1 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 (three storeys or less) *	Alterations /additions #	Swimming pools	Renovations (including kitchens and bathrooms) ^	Other	Total
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 (three storeys or less) *	Alterations /additions #	Swimming pools	Renovations (including kitchens and bathrooms) ^	Other	Total (\$'000)	Average value per project certificate (\$'000)
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	Total
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 (three storeys or less) *	Alterations /additions#	Swimming pools	Renovations (including kitchens and bathrooms) ^	Other	Total (\$'000)
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
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
Dec 17	133	220	0	4	153	510

# As at 31 December 2017, all the 153 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
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
Dec 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 31 December 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	56	6	6,806,622	7,277,383	129,953
Death	5	0	171,939	171,939	34,388
Disappearance	72	6	8,479,631	8,550,281	118,754
<b>Total</b>	<b>133</b>	<b>12</b>	<b>15,458,192</b>	<b>15,999,603</b>	<b>120,298</b>

'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	126	11	14,839,117	15,343,192	121,771
Other defects	7	1	619,075	656,411	93,773
<b>Total</b>	<b>133</b>	<b>12</b>	<b>15,458,192</b>	<b>15,999,603</b>	<b>120,298</b>

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	102	8	11,544,242	12,049,009	118,128
C03: New multi-dwelling (three storeys or less) *	2	0	238,867	238,867	119,434
C04: Alterations/additions	28	4	3,572,464	3,609,108	128,897
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
<b>Total</b>	<b>133</b>	<b>12</b>	<b>15,458,192</b>	<b>15,999,603</b>	<b>120,298</b>



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State Insurance Regulatory Authority, Level 6, McKell Building, 2-24 Rawson Place, Sydney NSW 2000

Customer Service Centre 13 10 50

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