

HBCF Reform  
Fair Trading Policy & Legislation  
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Dear Sir / Madam

### **Reform of the Home Building Compensation Fund**

The Insurance Council of Australia (ICA) appreciates the opportunity to provide comments on NSW Fair Trading's discussion paper (the discussion paper) on reform of the Home Building Compensation Fund (the HBCF).

The ICA is the representative body of the general insurance industry<sup>1</sup>. ICA members (IAG, Suncorp and QBE Insurance) have previously underwritten the HBCF prior to the NSW government becoming the sole provider of insurance under the HBCF in 2010. QBE continues to be involved in the HBCF as an agent for Insurance and Care NSW (I-Care).

ICA members may provide separate submissions responding to the consultation questions in the discussion paper.

The ICA agrees that, from a financial perspective, the HBCF requires significant reform for it to become sustainable and therefore welcomes the NSW Government's decision to conduct a comprehensive review of the scheme.

In response to the proposed reform options outlined in the discussion paper the ICA provides the following comments:

1. HBCF insurance premiums should be determined through risk based pricing;
2. Reforms to the HBCF should focus on encouraging best practice that reduces the likelihood of defective building work or insolvency, thereby reducing the number of claims on the HBCF;
3. A voluntary HBCF model is not appropriate;
4. Consideration be given for certain insurer-funded building work to be exempt from the HBCF.

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<sup>1</sup> Our members represent more than 90 percent of total premium income written by private sector general insurers. Insurance Council members provide insurance products ranging from those usually purchased by individuals (such as home and contents insurance, travel insurance, motor vehicle insurance) to those purchased by small businesses and larger organisations (such as product and public liability insurance, professional indemnity insurance, commercial property, and directors and officers insurance).

### **The importance of risk-based pricing**

As with other insurance products and statutory insurance schemes, the ICA supports risk-based pricing. A builder's eligibility for HBCF insurance and the premium they pay should be determined by the claims risk posed.

Risk-based pricing provides a price signal to builders and some incentive to reduce the risk of defective works and adopt more financially sound business models, which in turn can mitigate against the likelihood of claims.

It is also important that underwriters have appropriate access to information that allows for fair and accurate risk-based pricing. This is particularly important in relation to assessing builders' risk of insolvency, the basis of the vast majority of claims made on the HBCF.

### **Reforms must encourage best practice**

Reforms to the HBCF should encourage best practice in the residential building industry. Given insolvency is the major cause of claims under the scheme, reforms should focus on financial as well as building workmanship best practice.

Reforms to builders continuing professional development requirements should target problem areas that have a strong and established link with HBCF claims.

Similarly, reforms imposing training requirements on builders found to have previously undertaken defective work could assist in helping reduce claims and improve the overall financial position of the HBCF.

### **A voluntary HBCF model is not appropriate and will not be an effective solution**

The ICA does not support a voluntary 'last resort' home building insurance model as an alternative to the current mandatory HBCF model.

The failure of the voluntary insurance models adopted in Western Australia and Tasmania illustrate that a voluntary scheme would not be effective in providing 'last resort' financial protection to consumers from defective or incomplete residential building works.

### **Exemption from the HBCF for insurer funded and guaranteed building work.**

The ICA is of the view there is scope for certain insurer funded repair work to be exempt from the HBCF.

Some of our members offer an extensive warranty on all domestic building repair work they arrange and fund. These warranties are often more extensive than the statutory building warranties under the *Home Building Act 1989 (NSW)*. For example, some insurers offer lifetime warranties on building repair work.

Furthermore, some insurers also have extensive quality assurance measures in place to ensure that building repair work is completed to an appropriate standard.

Where extensive insurer warranties are provided it would be an extremely unlikely an insured consumer would ever need to make a claim on the HBCF. Therefore the requirement that this building work also be insured under the HBCF may be unnecessary.

We trust these comments are of assistance.

The ICA is happy to discuss this matter and the reforms raised in the discussion paper with you further.

If you have any questions, please contact Vicki Mullen, General Manager, Consumer Relations and Market Development Directorate via email [vmullen@insurancecouncil.com.au](mailto:vmullen@insurancecouncil.com.au), or phone (02) 9253 5120.

Yours sincerely



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