

Insight

Nothing to write home about

The fourth inquiry in three years into home building insurance is due to report by the month's end. But has the State Government the political will to change a system that builders say is unworkable, asks Linda Morris.

HUGH Webster has been renovating and restoring homes in the eastern suburbs for more than 20 years. In that time he has won nine housing awards and says he has a sound record. Yet he is considering getting out of residential building and moving into commercial work or project management because he says he can't get enough insurance to run his business. And he is not alone.

The owner of Rodera, a small- to medium-sized building firm, Webster suggests "without wishing to be alarmist" that the industry "as we know it is on the brink of collapse" and predicts a trade shortage "bigger than Ben Hur" as others like him leave the industry.

The fourth inquiry into home warranty insurance, which is compulsory for all building work worth more than \$12,000, is due to report at the end of the month. No one, least of all those in the insurance and building industries, expects the findings of Richard Grellman to be revelatory.

After all, builders such as Webster have been complaining since the collapse of HIH that they have been increasingly unable to obtain sufficient insurance to run their businesses or have been asked to put up their homes and huge sums of capital as surety.

The system's failings, too, have been raked over before. Last year, Professor Percy Allan's report to the ministerial council on consumer affairs declared home warranty insurance in crisis.

But matters have only gone from bad to worse for Webster. His insurer, Dextra, walked out of the NSW home warranty market in December, leaving Royal & Sun Alliance and a smaller Melbourne-based player, Reward, as the sole providers of the insurance originally designed to protect the consumer from poor workmanship and bankruptcies.

In March he applied for insurance to cover an annual turnover of \$4 million, offering insurance for a maximum turnover of \$2.8 million, conditional upon a capital injection of \$585,000 or the provision of a bank guarantee of \$1.17 million. He has asked why such guarantees are necessary if the home owner can only make a claim if the builder is bankrupt, missing or dead.

Waiting for insurance approval, Webster says he has laid off his apprentice and reduced the hours of his office manager by 40 per cent. The question remains, he says, does the Special Minister of State, John Della Bosca, have the political will to change a system that is unworkable?

Insurance against bankrupt builders or faulty work has been compulsory in NSW since 1972. It was implemented as a government-run scheme administered by the Builders' Licensing Board and then the hugely unpopular Building Services Corporation (BSC).

In 1997, the State Government abolished the BSC and handed over the scheme to private insurers, who became the de facto regulators of the industry, vetting builders for insurance but not able to police building quality.

Until HIH's collapse, the market was competitive and premiums were pegged at similar levels to those of the government scheme. Once HIH fell, insurers began to more cautiously reassess their risk. Builders complained they could not get insurance, could not get enough of it or were being unfairly asked to put up their family homes as surety.

Private insurers threatened to withdraw from the market, forcing the Government to scale back mandatory insurance requirements. Consumers now realise that insurance might be cold comfort since claims are only recognised if their builder has died or gone out of business. Home building regulations are failing to provide sufficient protection for consumers, builders and insurers or offer quick and inexpensive remedies if things go wrong.

"Who else is asked to put up surety and pay for insurance as well?" the NSW president of the Royal Australian Institute of Architects, Caroline Pidcock, says. "You don't put up your house to pay for car insurance. It's outrageous."

Despite the stream of complaints to MPs and noisy bowling club protests, Elizabeth Crouch, the Housing Industry Association's NSW executive director, is one who believes the crisis has been overstated. While conceding there have been "service difficulties" in builders obtaining prompts policy cover, rising renovation costs and a shortage of builders reflect high demand, she says. Quite simply Crouch says, it's a boom time for Australia's housing industry.

"Every time people talk about a crisis in the housing industry, they damage consumer confidence. Have a look at approval figures, building figures and



House of cards ... award-winning builder Hugh Webster says he is thinking about getting out of residential work because he can't get enough insurance. And he's not alone. Photo: David Moir

medium-sized builders out of the project home market and into the renovation sector.

In any event, says Crouch, there are benefits from insurers' demands for greater financial accountability. Manufacturers and suppliers are coping with fewer bad debts, consumers are better protected and there is reduced need for

one wins when a builder becomes bankrupt. It can be devastating for them personally for their customers, suppliers and for their staff and subcontractors.

"On the other hand, an industry based on financially secure, well-run businesses is most likely to be competitive and prosperous. In 2000 we received and dealt with more than 1300 insolvency of their builder. In 2002 there were still 600 claims despite the booming market.

"Building is a cyclical industry and the best way for a good builder to survive is for the business to have sufficient assets to allow them to live through the cycle and ride out the unexpected financial hiccups that all businesses face."

A general insurance broker, Norm Verity, says the system isn't working and sourcing home warranty insurance for builders is a "nightmare". Delays of six months in processing applications are common. "I've got ones that have taken longer than six months. The volume of paperwork in my files is unbelievable. What these people don't realise is that they're sending builders broke. No credence is given to a builder's record. He could be the world's worst builder

and if he had enough money in the bank he'll get insurance."

Verity is also a TAFE teacher. He says the inability of builders to find sufficient insurance is reflected in the growing numbers of people queuing for tech courses that qualify them as owner-builders. Enrolments in TAFE owner-builder courses to July almost exceeded

Owner-builders act as virtual project managers and contract the work out to tradesmen. Once building is complete, they must buy home warranty insurance but only if they intend selling within six years. The result is that risk is being transferred from the tradesmen, not all of them competent, to the owner, Verity says. Ironically, the legacy could be a long list of defects, resulting in more, not fewer, claims against private insurers.

"In seeing cases where thousands of dollars of bathroom tiles are having to be pulled out because a \$300 waterproof membrane is missing."

Despite the clamour, there are few signs the Government wants back into the home warranty business. In the past, it has played a waiting game, hoping a new player such as the NRMA would step in and provide the extra insurance capacity and competition. The NRMA for its part wants the Government to

introduce tighter licensing standards. The Government says it can't act until the Grellman inquiry reports.

The building industry expects the inquiry to support the status quo but with a few incentives to entice new players and make it attractive for existing insurers to remain in the market.

Queensland's Building Services Authority holder for NSW, told the NRMA as late as last week it had not been contacted by inquiry staff for detailed information on the operation of its scheme.

Keeping the system of self-regulation will do nothing to improve consumer protection, says Verity. The industry's problems will not be erased until builders' work is independently certified. As long as the Government does not police the industry and inspect the quality of work, consumers will fall victim to poor workmanship.

"Everybody is cutting corners. Another

insurer is not the answer, we've got to get back to basics."

Kirk says those who want a return to a government scheme should ask themselves whether NSW taxpayers could afford to do anything greatly different.

But, the MBA's Seidler says, "I see this as the last opportunity to get genuine reform of the industry. We get this money from a generation of Victorian dad builders with it."

If it's simply a boom, why have four inquiries into home warranty insurance? BRIAN SEIDLER, Master Builders' Association

the rate of commencements and you tell me there is a crisis. We are at historically high levels of building activity."

Across Australia, the HIA calculates some \$12 billion of renovations and building work are in the pipeline, about double normal levels. In NSW construction activity in the pipeline is worth \$4.4 billion. The backlog represents five months' work.

For Crouch, reality TV shows such as *The Block* have played a part, stimulating demand for renovations as home owners seek to capitalise on inflated land values and low interest rates.

Crouch says Sydney's acute shortage of land is also forcing small- and

regulations requiring payments be set aside during the contract period.

But Brian Seidler, the Master Builders' Association's executive director, asks: "If it's simply a boom, why have four inquiries into home warranty insurance?"

Royal & Sun Alliance, NSW's biggest home warranty insurer, says it is only acting in the interests of consumers. Less than 3 per cent of builders are ever rejected. Only one builder in nine ever comes back to apply for the cap on turnover to be removed.

Nick Kirk, Royal & Sun Alliance's general manager of specialty products, says rigorous checks are made to ensure the financial viability of builders. "No

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