

COMMENT & DEBATE

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State must end building insurance ripoff

For most people, the compulsory cover is all but worthless.

BUILDING a home calls for a big financial commitment. Every project has its difficulties but Victorians imagine they are buying peace of mind with home building insurance. The reality is starkly different when things go wrong. Last year, *The Age* reports, three owners out of more than 53,000 Victorians paying compulsory premiums made successful claims. Not for nothing is the scheme condemned as "a disaster", "an outright scam", "junk insurance" and "an absolute joke".

Consumers have complained for years, but only now has the Baillieu government, to its credit, revealed the details of

builders warranty insurance for the first time in the schemes 10-year history. The figures tell the story. In the past 12 months, consumers paid an estimated \$87.8 million to cover home building projects. The state insurance arm, the Victorian Managed Insurance Authority, collected \$38 million in premiums, while \$39.8 million went to other costs such as brokerage commissions and administration fees. The three successful claims totalled \$108,476. In other words, the payout to consumers who are compelled to take out insurance amounted to 12c for every \$100 they pay.

HIA Insurance and QBE are the beneficiaries of this business. No wonder the industry wanted the details kept secret as "commercial in confidence" figures. The vanishingly low rate of payouts is not because no builders go broke, abandon projects or do faulty work. The

criteria that claims must meet are just too restrictive. HIA chief executive Gill King says the scheme is the most workable available but admits it is "perhaps too legalistic" and a "quick, simple, cheap, independent mechanism" is needed to resolve disputes.

He is right about that. As we report today, the Victorian Small Claims Tribunal and Consumer Affairs do not offer adequate and affordable redress. Last year, VCAT heard 878 disputes between owners and builders and 86 appeals against insurers' decisions, but the tribunal would not reveal the results — which hardly promotes transparency.

Insurers are wrong to claim the scheme is workable. The example of Queensland, where insurance is accessible as a first rather than last resort, points to a better way to cover owners when things go wrong. Tasmania has adopted a similar

model, having abandoned a Victorian-style approach. The scheme that the Bracks government set up in 2002, following the collapse of the insurer HIFI, is long overdue for a shake-up.

Whereas insurers may have been vulnerable a decade ago, it is now builders that face a crisis of confidence, with building approvals well below the long-term average. The Australian Bureau of Statistics has recorded five falls in residential approvals in six months, led by a 3.5 per cent fall for houses in April. Take out rebuilding in Queensland after recent disasters, and new dwelling approvals plunged 5.6 per cent. Given the impacts of a housing shortfall on affordability, the government should do everything it can to give Victorians the confidence to build homes.

As the state has made home building insurance mandatory and its insurance arm collects the premiums, the government

is morally obliged to act on "the worst bad-faith product that you could ever find" in the words of the Builders Collective of Australia, representing small builders. Finance Minister Robert Clark says the government is concerned but suggests long insurance "falls" — which involves making provision for payouts for years to come — mean comparisons between current premiums and payouts are "not valid". However, building owners have only six years to lodge a claim; at the current rate of payouts, it would take 833 years to match the money collected in the past year.

The whole scheme may need to be restructured, based on insurance models that have served interstate consumers better and more fairly. Rather than just looking at ways that Victoria's scheme can be "improved", the government must act with urgency to end this insurance rot.