

# Victorians fleeced on insurance

## Home building cover 'an outright scam'

By **ADAM CAREY**

VICTORIA'S home building insurance scheme has been exposed as a multimillion-dollar ripoff, with thousands of people forced to pay premiums — and barely any getting anything in return.

A few big insurance companies, backed by state laws, have been raking in tens of millions of dollars a year in compulsory premiums for a scheme that is supposed to protect consumers against defective or incomplete home building works.

But figures released by the Baillieu government have revealed just how little is being paid back to consumers under the scheme, which was set up by the former Bracks government almost a decade ago.

In the past 12 months, more than 53,000 Victorians paid an estimated \$87.8 million for warranty insurance on home building projects.

But just three owners made successful insurance claims against their builders. They received a total of \$108,476 — a minuscule claims-loss ratio of 0.12 per cent.

The state government's insurance arm, the Victorian Managed Insurance Authority, collected \$38 million in premiums. The other \$39.8 million was swallowed by add-on costs such as brokerage commissions and administration charges.



### WARRANTY WOES

**What went in** \$87.8 million in home building insurance premiums

**What home owners got back** \$108,476 (3 successful claims)

**Payout ratio: 0.12 per cent**

According to the Builders Collective of Australia, a group that represents small builders, the insurance offers consumers virtually no protection because its criteria for successful claims are so narrow.

"The insurance is an unmitigated disaster. It's the worst bad-faith product that you could ever find," Builders Collective president Phil Dwyer said. "While it was originally conceived as an important consumer protection device, it has devolved into an outright scam and an unmitigated failure of public policy."

Builders warranty insurance is mandatory in Victoria and is paid out only as a last resort, when a builder dies, disappears

or becomes insolvent, leaving the works incomplete or faulty. It has been described by consumer group Choice as "junk insurance".

It was introduced in 2002 in response to a crisis in the building industry brought on in part by the collapse of insurer HIH. Domestic builders must take out the insurance and collectively they underwrite the scheme. Most of the cost is passed on to consumers.

HIA Insurance and QBE have a stranglehold on builders warranty insurance in Victoria and are understood to profit handsomely from the scheme.

HIA's chief executive for Victoria, Gil King, defended builders warranty insurance as the most workable scheme available, but acknowledged it was "perhaps too legalistic".

"Where there is a dispute about workmanship, there needs to be a quick, simple, cheap, independent mechanism to resolve those," Mr King said.

Thousands of people unable to claim on their warranty have taken their cases to the Victorian Civil and Administrative Tribunal.

Last year, VCAT heard 878 disputes between owners and builders, and 86 appeals against insurers' decisions. VCAT would not reveal how many owners' cases were successful.

▶ Continued **PAGE 6**

▶ Editorial **PAGE 16**