PERFORMANCE OF VICTORIA'S DOMESTIC BUILDING INSURANCE SCHEME 2015-16

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GLOSSARY

Claims liability	The cost of a claim to an insurer. This includes money paid out as well as estimates of future costs.
Died, disappeared or insolvent (DDI)	The three triggers for a claim under Victoria's DBI scheme. On 1 July 2015, the VMIA added a fourth trigger — failure to comply with a Tribunal or Court Order.
Domestic building insurance (DBI)	A mandatory insurance that compensates home-owners for non-completion or defect where the builder is unable to rectify the works because they have died, disappeared or become insolvent (also referred to as Builders Warranty Insurance).
Dwelling	A home as described in a project certificate or policy that can be owned individually.
Eligibility	Pre-approval from an insurer for a builder to purchase domestic building insurance for domestic building projects up to an approved turnover limit.
Investment returns	The revenue earned by an insurer from investing premium revenue.
Liability period	The period of time that an insurer is liable for claims on a project certificate/policy.
Long-tail insurance	Insurance products where the full cost of claims is not known for a long time after the premium is charged.

New dwelling — One of four categories of domestic building insurance that refers to the building of a new home.

Owner-builder — A person who constructs or renovates a domestic building on his or her own land, who is not in the business of building.

Policy — For owner-builders, DBI coverage is issued in the form of a policy. Owner-builders are only required to take out a policy if they sell the property within six and a half years of completion of the building work.

Premium — The charge for insurance coverage.

Private insurers — Independently trading insurance companies that previously competed in the DBI market. Generally they were publicly listed entities trading for profit.

Project certificate — For registered builders, DBI coverage is issued in the form of a project certificate that is specific to the domestic building work undertaken in a domestic building contract.

Run-off period — The time after an insurer has stopped issuing insurance, but is still responsible for claims on existing policies.

Simple loss ratio — Net incurred costs relating to claims made on project certificates and policies issued in a given year, divided by the total premium earned for that year. Excludes the costs of claims that are yet to be made. Excludes: costs that the insurer incurs in administering the scheme, and income from investments.

Turnover limit — An insurer’s calculation of a builder’s capacity to undertake work. This is the total value of construction work that an insurer will issue certificates for in a 12 month period.

Victorian Building Authority	A statutory authority that oversees the quality and standard of professional services in the building industry in Victoria (from 1 September 2016 it includes the powers and responsibilities of the former Building Practitioners Board).
Victorian Managed Insurance Authority (VMIA)	A statutory body providing DBI insurance. As of 1 January 2014, the VMIA is the only insurer providing insurance to registered builders.

CONTENTS

EXECUTIVE SUMMARY

This is the Essential Services Commission's (the Commission) sixth annual report on the performance of Victoria's Domestic building insurance (DBI) scheme.

DBI is taken out by builders on behalf of home-owners. It is insurance to provide compensation to home-owners for losses resulting from non-completion or defects in domestic building work where the builder cannot be pursued directly because they have died, disappeared, or become insolvent.[1] In Victoria, it is compulsory for all domestic construction contracts over $16 000 in value to obtain DBI.[2]

DBI is provided in the form of a project certificate which is issued by an insurer to a registered builder for each building project. An insurer calculates the price of DBI — the premium — based on its assessment of the likelihood that a claim will be made, which is based on factors such as the contract value of the project, the type of work undertaken and the builder's risk rating.

A home-owner who is legally allowed to undertake building work over $16 000 in value on their property, must also take out DBI, if they sell the property within six and a half years of completion. DBI cover for owner-builders is referred to as a policy rather than a project certificate. Evidence of this policy must be provided to the new owner.

The Victorian Managed Insurance Agency (the VMIA)[3] is the main provider of DBI. Private insurers do not provide DBI to either registered builders or owner-builders (aside from one, AssetInsure, which recently entered the DBI market). However, they

1 Since 1 July 2015, the VMIA has added a fourth condition by which a homeowner can make a DBI claim — failure to comply with a Tribunal or Court Order.

2 This required amount was increased from $12 000 on 1 July 2014.

3 The VMIA is a statutory authority established by the Victorian Government and is the successor to the former State Insurance Office.

are still responsible for claims made on the project certificates and policies they issued before leaving the market.

Since it was introduced in 2002, the DBI market has undergone significant change. Between 2008 and 2010, all but one of five private insurers left the market. During that time, the VMIA began offering DBI. Calliden, the remaining private insurer at the time, continued to offer DBI to registered builders until 31 December 2013 and to owner-builders until 31 December 2015. Since these dates, the VMIA has been the main provider of DBI to registered builders and owner-builders. However, a new private insurer, AssetInsure, began offering DBI to owner-builders in late 2015 and registered builders in late 2016.[4]

Within this context, the Commission has terms of reference to report annually on the performance of Victoria's DBI scheme, covering: the number of eligible builders, the number of project certificates and policies, premium levels, and the number and amounts of claims. This latest performance report covers the period up to 30 June 2016.

DBI is a type of long-tail insurance, which means that claims have a lag. That is, claims can arise over an extended period of time (up to 11 years) after the issuing of a project certificate/policy. Because of the long period of liability, insurers must forecast the sufficiency of premiums collected in one year to meet the cost of claims incurred in future years, and to assess if their product is financially viable.

The period of time that insurers must consider home-owners' claims against a policy is known as the liability period. This period commences upon the issuing of a project certificate/policy and lasts for six years after completion of construction. This means the liability period can vary (from six years, up to 11 years). For our analysis, the Commission assumes that construction is completed 12 months after the project certificate or policy issue date. That is, we assume a liability period of seven years.

4 Data for this insurer will be included in the Commission's 2016-17 performance report.

SCHEME PERFORMANCE

The simple loss ratio provides a general measure of the sufficiency of the performance of the DBI scheme. For certificates and policies issued in a given year, it represents the cost of claims as a percentage of the premium revenue that was collected. Although not exact, this ratio provides a general indication of the collective performance of the market's ability to price DBI profitably.

For example, (as at 30 June 2016) for certificates and policies issued in 2009 (for which the liability period is assumed to have now expired), the simple loss ratio was 120 per cent. This means claims costs for 2009 exceed the premium revenue that was collected. On this basis, insurers appear collectively to have made a loss on DBI for certificates and policies issued in 2009. However, this may not necessarily be the case, as the simple loss ratio does not account for any income insurers may have earned from investing premium revenue while they wait to pay out claims.

ELIGIBILITY

Under the current arrangements, builders are required to obtain eligibility with a DBI insurer in order to be registered. Eligibility is a pre-approval from an insurer to take out DBI project certificates. Insurers use the eligibility process to evaluate the financial position of builders and impose an annual turnover limit, which is their assessment of the maximum value of building projects builders can take on without risking insolvency.

PROJECT CERTIFICATES

Following a peak at just over 62 414 in 2010, and falls in 2011 and 2012, the total number of certificates has since increased each year (reaching 69 247 in 2015). The total number of project certificates issued in the first half of 2016 indicates that further increases are likely again this year. Project certificates for new dwellings account for the largest share of total DBI certificates issued and of the premium pool.

PREMIUMS

From 2005 to 30 June 2016, the average premium for a project certificate has risen, with a 68 per cent increase overall. During this time, the annual rate of change has not been consistent. From 2005 to 2008, it decreased, reflecting competitive pressures; from 2009 to 2010, it was volatile as a result of all but one private insurer exiting the market; from 2011 until now, it has been increasing gradually, reflecting a stable situation where the majority of the market is provided by one provider, being the VMIA.

CLAIMS

As DBI is a long-tail insurance product, it is difficult to present claim numbers in their true context until at least seven years after the issue date of project certificates and policies. Nevertheless, on the whole it appears that claims are relatively infrequent in relation to the number of project certificates issued. The revised data for registered builders show that insurers have received 8219 claims (compared to 739 135 certificates issued) since the DBI scheme commenced in 2002.

Insolvency is by far the most common reason that claims on DBI are made. Over 50 per cent of claims received relate to a structural defect.

The average cost of a closed and finalised claim for work undertaken by a registered builder is around $31 600 (on a per dwelling basis). Claims for failure to complete are the most costly to insurers, 50 per cent above the average for all types of claims.

The time it takes for a claim to go through each stage of the claim process can be used to examine how the scheme is operating in general and may give an indication of how well consumers are being served. Since the scheme started in 2002, the average time between receiving a notification and a claim being finalised is 514 days, or just over 17 months.

OWNER-BUILDERS

The number of owner-builder policies has been declining for 10 years, in particular the last five years, for which the number has been at their lowest. The first six months of 2016 indicates this declining trend may continue, notwithstanding AssetInsure data, which has not been included in this report. The full data for 2016 will be included in the Commission's 2016-17 performance report, which will also include AssetInsure data.

Owner-builders are considered a higher risk category than registered builders and have a higher rate of claims, even though the total number of claims is very small (just 380 since 2002). The most common reason for claims against owner-builders is disappearance of the previous owner.

1 INTRODUCTION

This chapter outlines the background and some general concepts needed to understand the Victorian domestic building insurance market. Abbreviations and terms included in the glossary are highlighted in bold and italics.

1.1 WHAT IS DOMESTIC BUILDING INSURANCE?

Domestic building insurance (DBI), — also known as builders warranty insurance — is compulsory on all domestic construction contracts over $16 000 in value,[5] such as ***new dwellings***, renovations and swimming pools. It compensates a home-owner for losses resulting from non-completion or defects, where their builder cannot be pursued directly for redress because they have died, disappeared, or become insolvent (collectively abbreviated as ***DDI***).[6]

DBI is provided in the form of a ***project certificate*** which is issued by an insurer to a registered builder for each building project. An insurer calculates the price of DBI — the ***premium*** — based on factors such as the contract value of the project, the type of work undertaken and the builder's risk rating. Insurers then earn ***investment returns*** on the premium revenue they have collected, while they wait to pay out possible claims on the certificates they have issued.

DBI is taken out by builders on behalf of home-owners. It is paid by the builder, on behalf of the home-owner. A home-owner then has six years from a project's

5 This amount was increased from $12 000 on 1 July 2014.

6 Since 1 July 2015, the VMIA has added a fourth condition by which a homeowner can make a DBI claim — failure to comply with a Tribunal or Court Order.

completion to make a claim, although experience shows it is possible for claims to be made up to 11 years following the issuing of a certificate.[7]

A home-owner who is legally allowed to undertake building work over $16 000 in value on their property (defined as an ***owner-builder***), must also take out DBI, if they sell the property within six and a half years of completion. DBI cover for owner-builders is referred to as a policy rather than a project certificate.

1.2 THE DEVELOPMENT OF DOMESTIC BUILDING INSURANCE

The current DBI scheme was first introduced in 2002, when the market was served by five competing private sector insurers. In 2010, all but one of these insurers announced that they would cease issuing DBI. This was likely due to uncertainty in the profitability of DBI. At this point, the Victorian Managed Insurance Authority (VMIA) began offering DBI following an official mandate from the Government. Arrangements were made by the VMIA with QBE, for it to act as the agent that sells DBI for the VMIA.

One private insurer, Calliden, continued to offer DBI to registered builders until 31 December 2013 and owner-builders until 31 December 2015. Since these dates, the VMIA has been the main provider of DBI to registered builders and owner-builders. However, a new private insurer, AssetInsure, began offering DBI to owner-builders in late 2015 and registered builders in late 2016.[8] Aside from this insurer, no private insurers provide DBI to either registered builders or owner-builders, although they are still liable for any eligible claims made against DBI they issued before leaving the market.

7 An insurer is liable for a claim from the time a certificate is issued at the start of a project, until six years after the project has been completed. Therefore, the period for which the insurer is liable varies with the length of the project. In some circumstances, a home-owner can make a claim after the liability period has expired (s.54, *Insurance Contracts Act 1984* (Cth).

8 Data for this insurer will be included in the Commission's 2016-17 performance report.

1.3 WHAT ARE THE REQUIREMENTS FOR BUILDERS TO BE ELIGIBLE FOR DOMESTIC BUILDING INSURANCE?

All builders are required to obtain ***eligibility*** with a DBI insurer in order to maintain their registration with the ***Victorian Building Authority.***[9] Eligibility is a pre-approval from an insurer to take out DBI project certificates. Insurers use the eligibility process to evaluate the financial position of the builder and impose an annual ***turnover limit***, which is their assessment of the maximum value of building projects the builder can take on without risking insolvency. Since 1 January 2014, registered builders have only been able to obtain eligibility from the VMIA.[10]

1.4 HOW ARE HOME-OWNERS COVERED BY DBI?

DBI provides cover to a home-owner for defects in building work insured that occur up to six years from the completion of a building project.[11] It is referred to as ***long-tail insurance*** because of the long period of time faced by insurers between charging a premium and knowing the full cost of claims. This is distinct from other insurance products, like home contents policies or car insurance, where premiums are calculated annually and the ***claims liability*** is generally known within a few months of the year's end.

The period of time that insurers must consider home-owners' claims against a policy is known as the ***liability period***.[12] As noted above, this period can vary between six and 11 years. The construction of a domestic dwelling could take three years while a renovation could be completed in two or three months. For its analysis, the Commission assumes that construction is completed 12 months after the certificate issue date. Insurers do not collect data on completion times from builders.

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[9] Registration prior to 1 September 2016 was with the Building Practitioner's Board. Their functions, powers and responsibilities have since been transferred to the Victorian Building Authority.

[10] Registered builders will also be able to obtain eligibility from the new private insurer offering DBI, AssetInsure, in late 2016.

[11] Claims for 'failure to commence' or 'failure to complete' can be made if the builder is DDI before the project is completed.

[12] In some circumstances, a home-owner can make a claim after the liability period has expired (s.54, *Insurance Contracts Act 1984* (Cth)).

There is no limit in legislation on the time that can elapse between when a home-owner notifies an insurer of a claim and the submission of information required to open the claim. Over 90 per cent of claims to date have been received within 90 days of the initial notification. It is also possible for notifications that have been closed, to be re-opened for assessment years after being first received by an insurer.

It is difficult to calculate the length of the liability period on a project certificate given that the construction period varies and notifications can be re-opened. The Commission considers seven years to be a reasonable assumption for analysis, while accepting that the liability period could extend to 10 years or even longer. To date, only about 5 per cent of claims have been lodged more than seven years beyond the certificate issue date.

Insurers who leave the market are still liable for claims on the project certificates they issued before they left. This is known as a ***run-off period***, and will continue for at least six or seven years after the issue of a project certificate.

There are several key dates used to track a claim's progress that are used throughout this report (see table 1.1).

TABLE 1.1 KEY DATES IN THE DBI CLAIM PROCESS

Date	Description
Certificate issue date	The date the project certificate is issued by the insurer. This is at the commencement of construction. This date is also known as the 'underwriting date' as it is the time when the premium is charged.
Loss date	The date a claimant became aware of a defect or failure. This date is supplied by the claimant.
Notification date	The date the insurer first receives notification of a potential claim. These 'notification only claims' can be escalated into claims once the insurer has received the minimum information it needs to process it. If the notification has not been escalated within 90 days it is closed on the insurer's system, but can be re-opened at any time.
Claim received date	The date the insurer receives the minimum information required to open a DBI claim on their system.
Liability decision date	The date the insurer made the decision to accept or deny a claim. If no decision is made within 90 days, the claim is deemed to be accepted.
Claim finalised date	The date the claim was closed on the insurer's system with all costs paid out.

1.5 WHAT HAS THE COMMISSION BEEN ASKED TO DO?

Under terms of reference issued in July 2010 (see Appendix A), the Commission's role is to conduct an annual examination of the VMIA and outgoing private insurers' provision of DBI. This is the subject of this report, which covers the following:

- the overall performance of the DBI scheme (in Chapter 2)
- the share of registered builders eligible for DBI by turnover (in Chapter 3)
- the number of project certificates issued, according to the type of building work undertaken (also in Chapter 3)
- for registered builders, the amount of revenue collected from DBI premiums (also in Chapter 3)
- for registered builders, the number of DBI claims by type, cause, frequency, costs, and over time (in Chapter 4)
- for owner-builders, the number of DBI policies issued, the level of premiums charged and the number and costs of claims incurred (in Chapter 5).

In examining each of these areas, the Commission collects quarterly data from insurers. Although the Commission undertakes a series of checks, the data is not audited, so we rely on the accuracy of the data insurers provide. This latest performance report covers the period up to 30 June 2016.

The Commission also has another ongoing role in reporting on DBI. This is to undertake reviews every two years into the adequacy and validity of the VMIA's premiums. Our second review, covering premiums for the period 1 July 2012 to 30 June 2014, was released in April 2015, with our third premium review to be released in April 2017.

2 SCHEME PERFORMANCE

KEY MESSAGES

A general measure of the sufficiency of the DBI scheme is the simple loss ratio. It shows the cost of claims as a percentage of premium revenue collected.

There is a lag between when premium revenue is collected and when claims can be made, which we assume to be seven years. The lag means a comparable assessment of scheme sufficiency cannot be made for certificates or polices issued after 2009.

The simple loss ratio for certificates and policies issued in 2007, 2008 and 2009 is now over 100 per cent. While insurers collectively made a loss on DBI for each of these years, the simple loss ratio does not account for the income insurers may have earned from investment returns on the premium revenue they collected.

This chapter examines the overall performance of the domestic building insurance (DBI) scheme in Victoria through a simple measure of overall profitability that compares costs of claims to income from premiums.

Note, the analysis excludes the recent entry of private insurer, AssetInsure, into the DBI market. Data for this insurer will be included in the Commission's 2016-17 performance report.

2.1 BACKGROUND

Insurers' profitability depends on whether their revenue — that is, premiums combined with investment returns — sufficiently covers the cost of their claims expenses and other operating expenses. In order to cover these costs, insurers rely on predicting the number and cost of claims that could be made.

As DBI is a type of long-tail insurance, the cost of insurers' claims expenses will be unknown for several years. That is, there is a lag between when premium revenue for policies and certificates issued in a given year are collected and when claims can be made. For the purposes of our analysis, we assume this lag to be seven years.

The lag means that a reliable assessment of the overall profitability for certificates issued in a given year cannot be made until at least seven years after they have been issued. In the case of this report, such an assessment cannot be made for certificates or polices issued after 2009. The liability period for these certificates and policies is assumed to have not yet expired, meaning more claims could be made; hence further costs could be incurred in the future.

2.2 SIMPLE LOSS RATIOS

A measure of scheme sufficiency is the simple loss ratio, which shows the cost of claims as a percentage of premium revenue collected. It provides an indication of how much premium revenue insurers have available to meet their claims costs. However, the ratio does not account for inflation, investment returns or any other operating expenses.[13]

Specifically, the simple loss ratio compares, as a percentage, the total premium revenue collected against the total costs of claims, for certificates and policies issued in a given time period — this report uses calendar years.

[13] An insurer typically pools the money they receive in premiums and invests the money over time until it is needed to payout any claims or other costs.

The simple loss ratio for a given year usually increases over time until all claims on the certificates and policies from that given year have been exhausted. This is because the total premium revenue collected remains the same each year — as premium revenue is collected when DBI is issued — whereas the cost of claims changes over time as new claims come in. The simple loss ratio for a given year should stop increasing when the liability period has ended. We assume this period to end seven years after the project certificate and policy has been issued.

Table 2.1 shows the premium revenue received in each calendar year that certificates and policies were issued. It also shows the total claims costs incurred as at 30 June 2016, for those certificates and policies. These two data sets are used to calculate the simple loss ratios for each year. For reference, the assumed number of years of liability remaining and the number of certificates issued in each year, is also provided. (The data covers all insurers and all types of builders, both registered builders and owner-builders.)

TABLE 2.1 SCHEME PERFORMANCE — SIMPLE LOSS RATIOS

All insurers

Calendar Year	Number of certificates/ policies	Premium excluding charges ($000)	Net incurred costs ($000)[a]	Assumed years of liability remaining[b]	Simple loss ratio (%)
2002	17 731	10 661	4 825	0	45.3
2003	40 305	27 521	13 828	0	50.2
2004	34 720	27 536	18 660	0	67.8
2005	46 975	31 986	21 690	0	67.8
2006	53 142	32 119	23 905	0	74.4
2007	54 690	30 574	31 872	0	104.2
2008	53 113	27 650	41 366	0	149.6
2009	61 555	34 251	40 966	1	119.6
2010	65 101	41 881	38 700	2	92.4
2011	61 355	44 330	25 341	3	57.2
2012	57 703	46 678	17 568	4	37.6
2013	61 219	54 925	12 462	5	22.7
2014	66 818	67 688	6 647	6	9.8
2015	70 915	75 514	2 004	6	2.7
2016 Jan-Jun	36 820	39 833	89	7	0.2

[a] Includes all claim costs including for denied claims and notification only claims. Costs have been assigned to the year in which the project certificate was issued. [b] Assumes a 12 month construction period plus a six year liability period.

Figure 2.1 plots the simple loss ratios for each calendar year as at 30 June 2016 (as listed in the table above). For example, in 2006, there were $32.1 million of premiums received for certificates and policies issued during that year. There has also been a total of $23.9 million in claims costs assigned to those certificates and policies as at 30 June 2016. This provides a simple loss ratio of 74.4 per cent.

The figure shows that at 30 June 2016, the simple loss ratios, for certificates and policies issued in 2007, 2008 and 2009, are over 100 per cent. This means that claims costs for the certificates and policies issued in these years now exceed the premium revenue collected. On this basis, it would appear that collectively, insurers made a loss on DBI in each of these years. This may however not necessarily be the case, as the simple loss ratio does not account for income insurers may have earned from investment returns on the premium revenue they collected.

FIGURE 2.1 SIMPLE LOSS RATIOS FOR EACH CALENDAR YEAR

All insurers – as at 30 June 2016

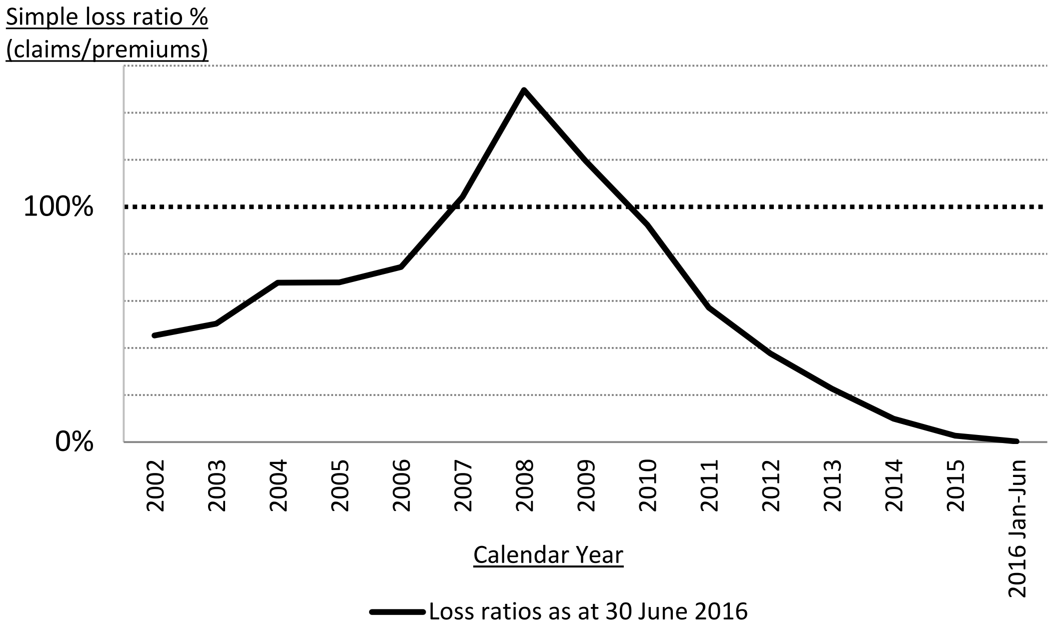


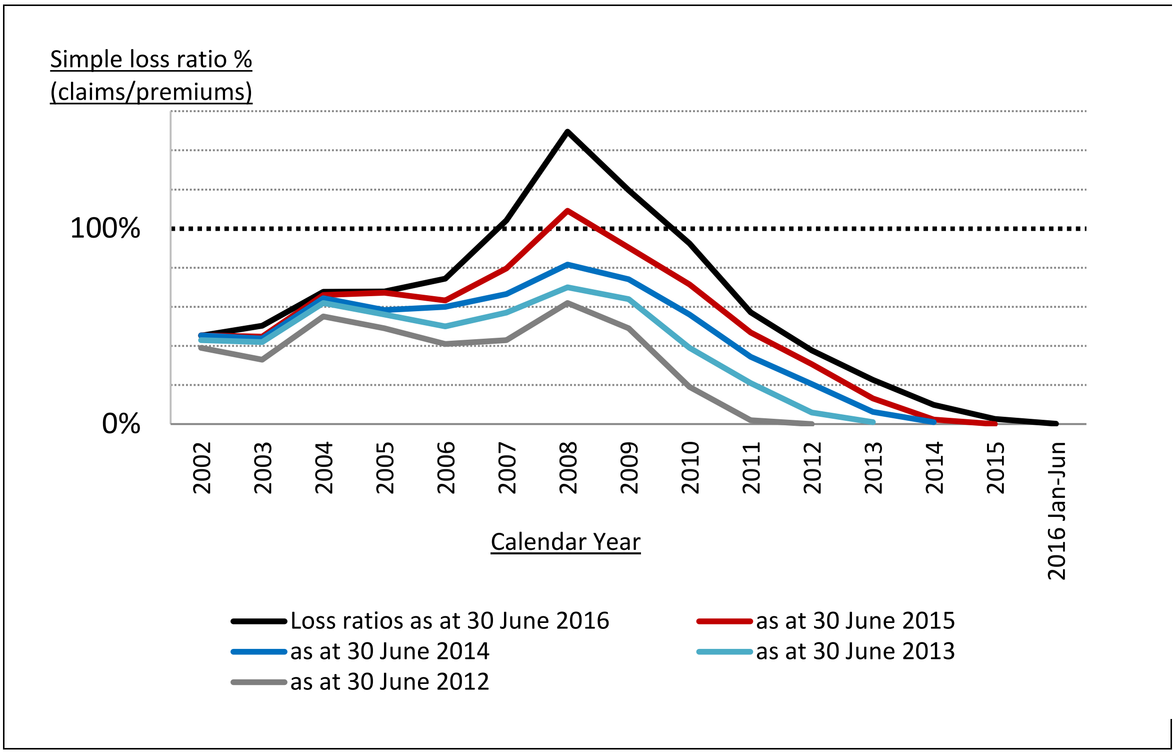
Figure 2.2 expands on figure 2.1 and shows how the simple loss ratios have changed over time for project certificates and policies received in each calendar year between 2002 and 2015. The figure plots the simple loss ratios as at 30 June 2016 in black (as listed in table 2.1), as at 30 June 2015 in red, as at 30 June 2014 in blue, as at 30 June 2013 in teal, and as at 30 June 2012 in grey.[14]

[14] The data used to plot the simple loss ratios as at 30 June in other years is available in previous year's reports.

The figure shows, as at 30 June 2016 (on the black line), three years being in excess of 100 per cent (2007, 2008 and 2009), whereas one year earlier, as at 30 June 2015 (the red line), only one year was in excess of 100 per cent.

The changes between last year's and this year's (simple loss ratios) line emphasises the long tail nature of DBI, as insurers are only now (as at 30 June 2016) appearing to have made a loss on certificates and policies that were issued eight to 10 years ago.

FIGURE 2.2 CHANGE IN SIMPLE LOSS RATIOS OVER TIME
All insurers – as at 30 June, 2012–2016



3 ELIGIBILITY, PROJECT CERTIFICATES AND PREMIUMS

KEY MESSAGES

Since 1 January 2014, the Victorian Managed Insurance Authority (VMIA) has been the main insurer offering domestic building insurance (DBI) to registered builders in Victoria (with AssetInsure only recently entering the DBI market).

The number of project certificates issued has continued to increase and the data for the first half of 2016 shows that further increases are likely.

New dwelling project certificates issued to registered domestic builders are the largest contributor to the number of DBI project certificates and the premium pool.

From 2005 to 30 June 2016, the average premium for a project certificate has risen, with a 68 per cent increase overall. During this time, the annual rate of change has not been consistent. From 2005 to 2008, it decreased, reflecting competitive pressures; from 2009 to 2010, it was volatile as a result of all but one private insurer exiting the market; from 2011 until now, it has been increasing gradually, reflecting a stable situation where the majority of the market is provided by one provider, being the VMIA.

In its first year, the VMIA adopted QBE's premium rates. It subsequently issued new premium schedules on 1 July 2011 and on 1 July 2013, which led to more cost reflective premium rates.

High volume, high value categories of building (such as new dwellings) have always had the lowest premium rates, while swimming pools have had the highest (on a per $1000 of project value basis).

This chapter presents a number of domestic building insurance (DBI) metrics for registered builders related to eligibility, project certificates and average premiums. It also compares the number of new dwelling project certificates to approval numbers as published by the Australian Bureau of Statistics.

Note, the analysis excludes Asset Insure, which began offering DBI to registered builders after the conclusion of the report period to 30 June 2016. Data for this insurer will be included in the Commission's 2016-17 performance report.

3.1 REGISTERED BUILDER ELIGIBILITY

Eligibility with an insurer for domestic building insurance (DBI) is a form of pre-approval for taking out project certificates. Under the *Domestic Building Contracts Act 1995*, each time a builder enters a domestic building contract over $16 000 with a customer, they must take out a project certificate specific to the works covered by the contract.

Before granting eligibility, an insurer reviews a builder's business history and finances, to assess their potential risk to the scheme. Insurers impose an annual turnover limit (the maximum value of building works the builder can undertake) based on their assessment of the value of works that a builder can prudently undertake given their financial position. In some circumstances insurers require financial security or indemnity of some form before granting eligibility.

Until recently, when AssetInsure entered the DBI market, registered builders could only seek eligibility with the Victorian Managed Insurance Authority (VMIA). Calliden ceased providing DBI to registered builders on 1 January 2014.

The VMIA entered the market in May 2010 following the exit of most private insurers. It adopted the eligibility and turnover limits from each builder's previous insurer to ensure continuity of cover. Since then, the VMIA has introduced its own underwriting criteria and has a commercial arrangement with QBE, which acts as its agent issuing policies and assessing builder eligibility via insurance brokers. The VMIA issues eligibility guidelines to QBE to ensure its underwriting standards are met.

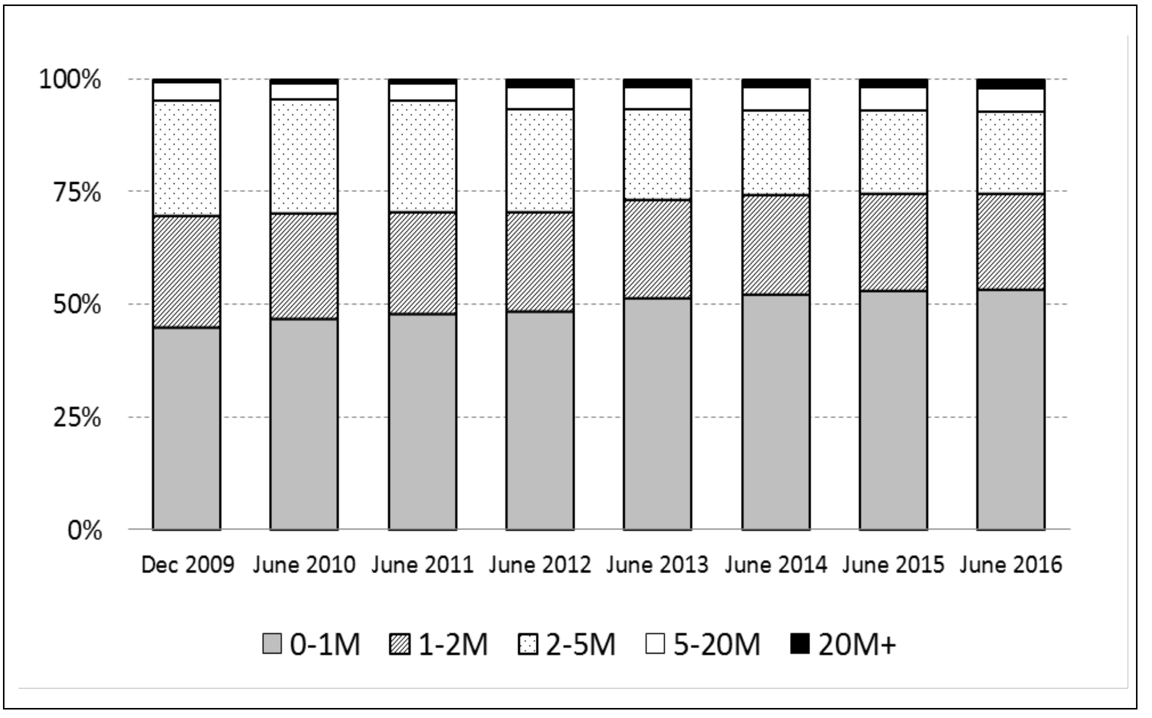
3.1.1 TURNOVER LIMITS

The VMIA imposes conditions on builder eligibility, using turnover limits to protect against over-exposure to builders at risk of insolvency.

These annual turnover limits effectively cap the total value of contracts an eligible builder can make with customers in a year. From the VMIA's perspective, the turnover limit is necessary to mitigate against a builder taking on more work than it can support financially and consequently becoming insolvent. For example, cash flow can be lumpy, builders may attempt to 'trade out of trouble' by taking on extra projects. This could be seen as risky by the VMIA, as it will be potentially liable for the cost of unfinished work if the builder becomes insolvent.

Figure 3.1 shows the share of eligible builders in each turnover band over time. In the last 12 months, the share of eligible builders within the various bands has remained relatively constant (see last two columns in figure 3.1). There has been, however, some gradual movement over the last seven years. The largest category, builders with turnover limits under $1 million, has increased gradually from 46 per cent to 53 per cent of the total number of builders. This is in contrast to gradual declines in the second and third largest categories, builders with turnover limits of $1 to $2 million and of $2 to $5 million. The $5 to $20 million and $20 million plus categories have also been gradually increasing.

FIGURE 3.1 ELIGIBLE BUILDERS BY TURNOVER BAND ($)
Registered builders - December 2009 to June 2016



3.2 PROJECT CERTIFICATES

Project certificates are issued in under four categories depending on the type of building work specified in the contract. The categories are: new dwellings, structural renovations, non-structural renovations and swimming pools.

Table 3.1 shows the relative contribution of each category over time to the total number of project certificates issued. Although the total number of certificates fell annually between 2010 and 2012, there have since been increases in 2013, 2014 and 2015. The data for the first half of 2016 indicates there may be another increase for 2016.

TABLE 3.1 NUMBER OF PROJECT CERTIFICATES ISSUED BY TYPE
Registered builders

Calendar year	New dwellings	Structural renovations	Non-structural renovations	Swimming pools	Total
2005	27 978	8 105	3 424	3 049	42 556
2006	30 052	10 125	3 887	3 273	47 337
2007	32 400	10 905	3 959	3 310	50 574
2008	32 155	9 377	4 301	4 113	49 946
2009	40 681	9 681	4 298	3 865	58 525
2010	43 474	10 778	4 997	3 165	62 414
2011	40 241	10 263	6 706	2 046	59 256
2012	34 684	12 205	7 270	1 759	55 918
2013	36 658	13 091	5 121	4 185	59 055
2014	43 141	13 616	4 103	4 057	64 917
2015	47 126	14 297	3 435	4 389	69 247
2016 (Jan-Jun)	25 277	7 356	1 722	2 105	36 460

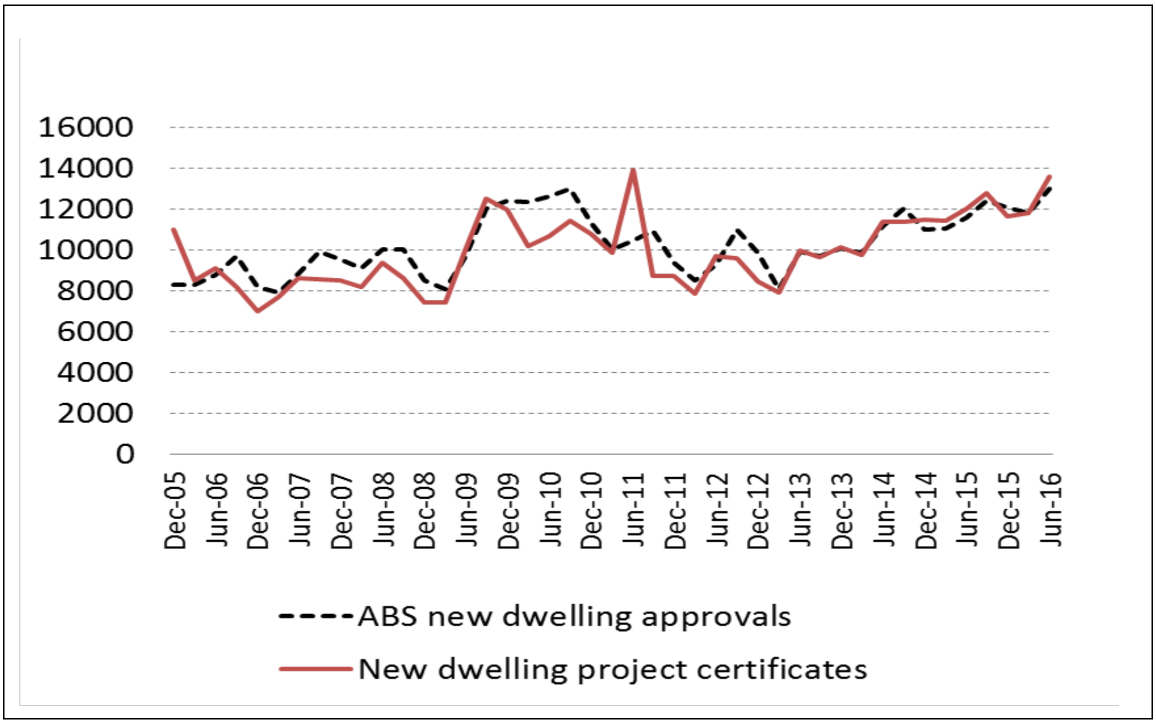
3.2.1 NEW DWELLING PROJECT CERTIFICATES

The majority of project certificates are issued for the construction of new dwellings. Around 68 per cent of certificates issued in 2015, were for new dwelling construction. This proportion of issuance has continued in the first half of 2016 (at 69 per cent).

Figure 3.2 compares the number of project certificates issued for new dwellings with the Australian Bureau of Statistics (ABS) quarterly data on building approvals. This comparison provides a check on whether builders are taking out insurance as required. However, the data series is not an exact match, because the ABS uses survey data and there are differences in the timing of when data is recorded.

The figure shows that the two data sets tracked closely until December 2009, when the withdrawal of insurers from the market may have led to delays in the processing of project certificates. This created a time lag between the issue of a building permit and the issue of a DBI certificate. In June 2011, there was a spike in certificates issued as high volume builders brought forward as many certificates as possible in advance of a premium increase on 1 July 2011. The number of project certificates has since stabilised and appears to track the ABS data reasonably closely.

FIGURE 3.2 NUMBER OF NEW DWELLING APPROVALS IN VICTORIA
Registered builders - December 2005 to June 2016



Data source: Data source: ABS 8731.0 Building Approvals, Australia, Table 23. Dwelling Units Approved in New Residential Buildings, Number and Value, Original — Victoria, Includes houses, semi-detached dwellings, and units apartments ≤ 3 storeys.

3.3 PREMIUMS

Insurers set premiums so that premium revenue, combined with investment and other income, adequately covers the expected future cost of claims and administration costs to ensure profitability. They calculate a premium for a specific project, taking into consideration the value of the work, the type of work and the builder's risk rating (as determined by the insurer).

Premiums differ according to project type, builder risk rating and project size (value).[15] The total premium pool in any year is a combination of the premium rates being charged and the total amount of domestic construction that commences. Table 3.2 shows for each year since 2005: the total premium pool collected (premiums), the average premium of a project certificate, the total value of projects insured and the average project value.

TABLE 3.2 TOTAL AND AVERAGE PREMIUMS
Registered builders — January 2005 to June 2016

Calendar year	Number of project certificates	Premiums ($m)[a]	Average premium of a project certificate ($)	Value of project certificates ($m)	Average project value ($000)	Average premium per $1000 project value
2005	42 554	27.4	644	6 839	174	$3.70
2006	47 337	28.3	598	8 035	170	$3.52
2007	50 574	27.3	540	8 779	173	$3.12
2008	49 946	25.2	504	8 954	179	$2.82
2009	58 525	32.0	541	10 718	182	$2.97
2010	62 414	39.7	637	12 195	195	$3.27
2011	59 256	42.3	727	12 059	203	$3.58
2012	55 918	44.9	804	10 917	195	$4.12
2013	59 055	52.9	893	11 609	197	$4.53
2014	64 917	65.9	1 014	13 828	213	$4.76
2015	69 247	73.9	1 067	15 750	227	$4.70
2016 (Jan-Jun)	36 460	39.5	1 082	8 684	238	$4.55

[a] Excludes GST, stamp duty and brokerage

[15] The VMIA publishes its premium schedule on its website (see appendix B) and it is based on the following parameters:
- the value of the contracted works (in bands)
- the category of work (structural, non structural, swimming pools) and
- the insurer's rating of the builder's individual risk (A, B, or C).

3.3.1 AVERAGE PREMIUM OF A PROJECT CERTIFICATE

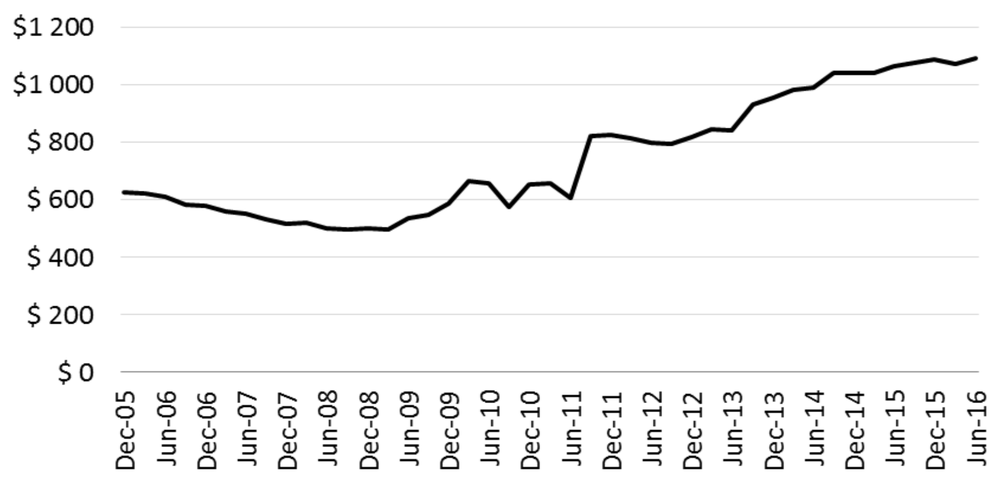
From 2005 to 30 June 2016, the average premium for a project certificate has risen, with a 68 per cent increase overall (in nominal terms). This may in part be due to an increase in the average value of a project (37 per cent) and in part due to insurers' revisiting their assessment of the risk for DBI. Figure 3.3 illustrates the quarterly changes of the average premium for a project certificate over the last 11 and a half years. Average premiums fell between 2005 and 2008. This discounting may have been due to strong competitive pressures and the newness of the DBI market at the time.

Premiums began to rise between 2008 and 2010 and were volatile between June 2010 and December 2011. By this time, all but one of the competing insurers had stopped offering DBI, and the VMIA was brought in by the Government to maintain the supply of the product. In its first year, the VMIA adopted QBE's premium rates before later issuing its own premium schedules. This in turn resulted in a more gradual increase in premiums over the next four to five years (2011 to 2016).

The VMIA's premiums are reviewed by the Commission every two years. In its second domestic building insurance Premium Validation Review, released in April 2015, the Commission concluded that the VMIA's premiums (for the 1 July 2012 to 30 June 2014 period) were appropriate and:

- sufficient to cover its expenses, risks and long-term claims costs, and
- not set above the level required by the VMIA to cover its expenses and the risks of long-term claims costs.

FIGURE 3.3 AVERAGE PREMIUM FOR A PROJECT CERTIFICATE [a]
Registered builders

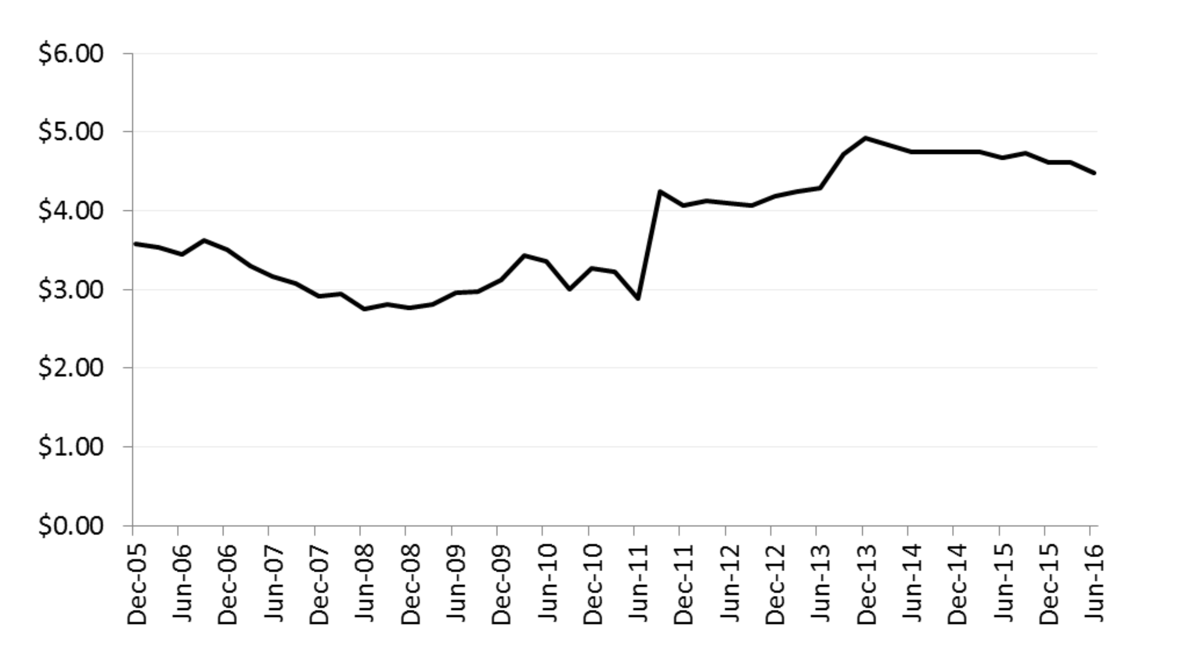


[a] Excludes GST, stamp duty and brokerage

3.3.2 AVERAGE PREMIUM PER PROJECT VALUE

Premiums can also be expressed per $1000 of project value, which allows for a comparison of premiums on a set level of project value over time. Figure 3.4 shows the average premium rates per $1000 of project value for the last 10 years.

FIGURE 3.4 AVERAGE PREMIUM PER $1000 OF PROJECT VALUE [a]
Registered builders

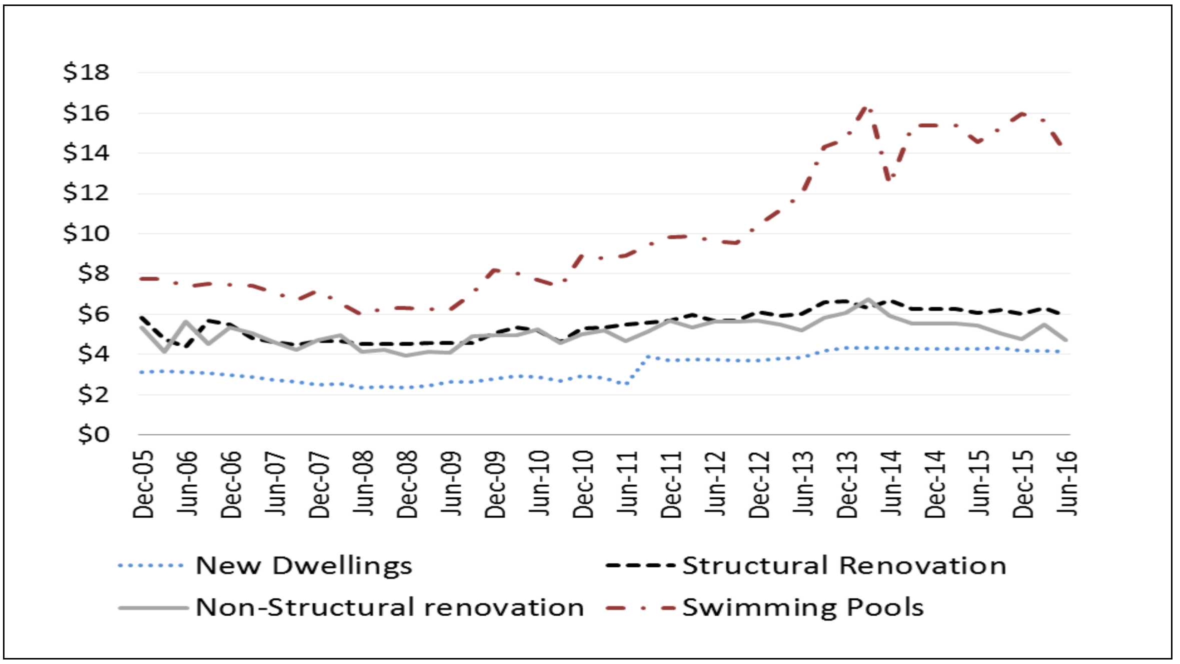


[a] Excludes GST, stamp duty and brokerage

The challenge for insurers is to set an efficient premium structure — that is, to match the premium paid for the project certificate with the risk to the insurer that is presented by the particular builder and project covered by the certificate.

When the VMIA premium schedule, see appendix B, is converted to premium rates, it shows a sliding scale, with higher value projects attracting lower premium rates. This approach is compatible with the historical trends in DBI, where high volume, high value categories of building (e.g. new dwellings) have always had the lowest premium rates. Swimming pools, which have an average project value of around $55 000, have the highest premium rates. This is shown in figure 3.5, which provides a breakdown of the average premium rate per $1000 of project value for each of the four different DBI project types over time.

FIGURE 3.5 AVERAGE PREMIUM RATE PER $1000 OF PROJECT VALUE [a]
Registered builders



[a] Excludes GST, stamp duty and brokerage

4 PROJECT CERTIFICATE CLAIMS

KEY MESSAGES

Domestic building insurance (DBI) claims are relatively infrequent compared to the number of project certificates issued each year (just above 1 in 100), with insurers having received 8219 claims from 739 135 certificates issued since the scheme was introduced in 2002. Of the claims received, 75 per cent of these claims were accepted.

Builder insolvency remains by far the most common reason that claims on DBI are made and almost half the claims received to date relate to a structural defect. The average cost of a closed and finalised claim is around $31 600 (on a per dwelling basis).

Claim turnaround times are an important indicator of scheme performance. Since the scheme began, the average time between receiving a notification and a claim being finalised is 514 days.

Insurers deny claims on the basis of several criteria. The most common reasons for denying claims are the reported fault was not deemed a defect or because the builder was not insolvent.

This chapter provides a breakdown of the domestic building insurance (DBI) claims made against project certificates since 2002 by claim status, type, cause, frequency, costs, time period and reasons denied.

Note, its focus is on claims, not notifications. Where notifications are included in figures or tables, this is indicated. Claims are presented on a one claim to one dwelling basis. Where a claim relates to a number of dwellings, this is presented as multiple claims.

As with Chapter 3, the analysis excludes Asset Insure data which will be included in the Commission's 2016-17 performance report.

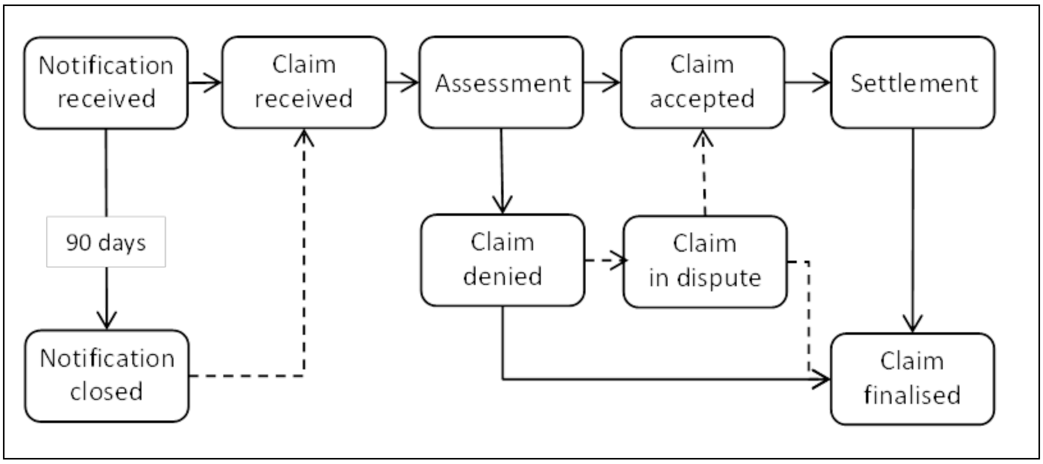
4.1 BACKGROUND

Claims under Victoria's DBI scheme can only be made under specific circumstances. The *Domestic Building Contracts Act 1995* contains a number of implied warranties concerning a builder's work. DBI claims are only available where rights under these warranties cannot be pursued because the builder has died, disappeared or become insolvent (collectively abbreviated as DDI).[16]

Claims are relatively infrequent in relation to the number of project certificates issued, but each one may present a significant inconvenience for a customer who is unable to resolve an incomplete or defective home building project with their builder because of death, disappearance or insolvency.

When a customer notifies their insurer they would like to make a claim, the claim passes through multiple stages as it is processed by the insurer, as illustrated in figure 4.1.

FIGURE 4.1 DBI CLAIMS PROCESS



[16] On 1 July 2015, the VMIA added a fourth condition under which a homeowner can make a DBI claim — failure to comply with a Tribunal or Court Order. This is in addition to what is required in legislation. The 2015-16 year is the first year of data where this condition might be observed.

NOTIFICATIONS

A certificate or policy holder may notify an insurer of a fault at any time after a project certificate has been issued, by providing very basic information. This notification does not escalate into a claim until the certificate holder provides the minimum amount of information the insurer needs to process it. If this minimum amount of information is not received within 90 days, the notification is closed, but remains on file. It is possible for a notification to be re-opened at a later stage and then escalated into a claim.

CLAIMS

In some cases, the required claims information is received immediately and a claim is opened without a notification period. Once a claim is opened (after the certificate holder passes on the required information to the insurer), the insurer is then able to complete its assessment and come to a decision about the liability of the claim.

In coming to a decision, the insurer may, among other things, investigate the builder to determine if their situation meets one of the triggers for a claim and examine the claimed defect or non-completion to see if it qualifies for compensation.

The assessment period may be a matter of days or months, depending on the individual circumstances. The insurer then accepts or denies liability for the claim. If the insurer accepts the claim, a settlement period begins in which the compensation is calculated and paid. It is not until the claim is fully settled with the claimant, that it is considered finalised and closed. If the claim is denied, the claimant has the opportunity to dispute the insurer's decision; otherwise, the claim is finalised and closed.

DBI is considered to be a type of long-tail insurance as claims can be made for up to two years after completion in relation to non-structural defects (for example, broken pipes), and for up to six years after completion in relation to structural defects. As there is a lag between when the project certificate is issued and when the work is completed, DBI claims can sometimes be made as late as 10 years after a certificate is issued. Therefore, the total number and cost of claims relating to certificates issued in any given year will not be known for a long period of time.

4.2 STATUS OF CLAIMS AND NOTIFICATIONS

The status of a notification can be considered as open or closed. While a notification is open, it can be escalated into a claim. A notification is opened when a certificate holder notifies an insurer by providing very basic information of a fault at any time after a project certificate has been issued. It is closed if no information is passed on to the insurer within 90 days.

The status of a claim can also be considered to be open or closed. They also have a liability status. The liability statuses used in this report are as follows: pending, accepted or denied. Even after a liability decision is made, a claim is still considered to be open until the claim is finalised and compensation is settled. Once this occurs, the claim is considered to be closed. No claim can therefore be categorised as closed while the liability decision is pending.

Table 4.1 shows the overall number of claims and notifications relating to registered builders since the introduction of the DBI scheme in 2002. Since the scheme began, insurers have received 8219 claims and 2344 notifications.

As at 30 June 2016, 83 per cent of claims (5149 of 6447) are closed/finalised and 99 per cent of notifications (2319 of 2344) are closed.

TABLE 4.1 TOTAL CLAIMS AND NOTIFICATIONS BY STATUS
Registered builders — January 2002 to June 2016

	Open	Closed / finalised	Total
Claims			
Accepted[a]	1 001	5 149	6 150
Pending[b]	297		297
Total accepted or pending	**1 298**	**5 149**	**6 447**
Liability denied	89	1 683	1 772
Total claims	**1 387**	**6 832**	**8 219**
Notifications	25	2 319	2 344
GRAND TOTAL	**1 412**	**9 151**	**10 563**

[a] Includes deemed, full, and partially accepted claims. [b] Includes claims being assessed and claims in dispute.

4.3 TYPES AND CAUSES OF CLAIMS

The cause of a claim is identified by its relevant trigger, that is, insolvency, death or disappearance.[17] The type of claim is specified by the type of work the claim relates to, that is, a failure to commence, failure to complete, structural defect or non-structural defect.

Table 4.2 provides a breakdown of all claims (open and closed, pending, accepted or not) by the reported cause and claim type. It shows that insolvency is by far the most common cause of a claim being made (at around 93.5 per cent). In terms of type of work, over half the claims received to date relate to a structural defect.

TABLE 4.2 CLAIMS RECEIVED BY TYPE AND CAUSE
Registered builders — January 2002 to June 2016

Cause (→) Type (↓)	**Insolvency**	**Death**	**Disappearance**	**Other / unspecified**	**Total**	Type (%)
Failure to commence	150	3	5	2	160	1.9%
Failure to complete	1 817	20	61	16	1 914	23.3%
Structural defect	4 167	64	291	6	4 528	55.1%
Non-structural defect	1 539	20	38	4	1 601	19.5%
Not yet determined	15	0	0	1	16	0.2%
Total	**7 688**	**107**	**395**	**29**	**8 219**	100%
Cause (%)	93.5%	1.3%	4.8%	0.4%	100%	-

Note: Excludes notifications

[17] Since 1 July 2015, the VMIA has added a fourth condition by which a homeowner can make a DBI claim — failure to comply with a Tribunal or Court Order. There is no data recorded for this fourth condition.

4.4 FREQUENCY OF CLAIMS

Claims can be made a number of years after the project certificate is issued. For the purposes of our analysis, we assume this can be up to seven years after issuance. After this, we assume the liability period of claims to be exhausted.

Table 4.3 compares the claims insurers have received (open and closed, pending, and accepted or not) in the corresponding project certificate issued year with the total number of project certificates issued in that year. In the table, years 2002 to 2009 have been shaded grey to indicate the years in which we assume the liability period to be exhausted. Years 2010 and later are still considered to be active for liability of claims.

For claims with exhausted liability, the table shows that on average between 2004 and 2008, around 1.7 per cent of project certificates ended up with claims, although there was a spike in claims on project certificates issued in 2005.

For claims with liability still remaining (the non-shaded years), 2010 had the highest percentage of certificates generating claims, at 1.54 per cent. However, it will not be known how the percentage of certificates issued in these years compares with those issued before 2009, until their liability expires.

TABLE 4.3 FREQUENCY OF CLAIMS RECEIVED OVER TIME
Registered builders — January 2002 to June 2016

Calendar year	Claims by certificate issue year	Project certificates issued	Percentage of claims to certificates (%)	Years of liability remaining[a]
2002	161	14 663	1.10	-
2003	434	36 935	1.18	-
2004	552	31 332	1.76	-
2005	908	42 556	2.13	-
2006	752	47 337	1.59	-
2007	896	50 574	1.77	-
2008	859	49 946	1.72	-
2009	788	58 525	1.35	-
2010	962	62 414	1.54	1
2011	794	59 256	1.34	2
2012	538	55 918	0.96	3
2013	310	59 055	0.52	4
2014	136	64 917	0.21	5
2015	109	69 247	0.16	6
2016 (Jan-Jun)	20	36 460	0.05	7
Total	**8 219**	**739 135**	**-**	**-**

Note: Data revised since previous report. Includes all open and finalised claims. Excludes notification only claims. [a] This is an assumed number of years of liability remaining.

4.5 CLAIM COSTS

The main measure of claim costs used in this report is net incurred costs. This is made up of several categories and represents the insurer's total liability at any given point in time (see box 4.1).

BOX 4.1 CALCULATING NET INCURRED COSTS

	$ paid to claimant	Payments made directly to the home-owner to date.
plus	$ paid to third party	Includes cost of investigation, structural assessments, legal fees, etc.
less	Third party recoveries	Monies recovered from builders, suppliers, other insurances, etc.
plus	Outstanding estimate	Insurer's estimate of the future costs relating to the claim. A finalised claim has no outstanding costs.

When setting premium levels, the total net incurred costs are more significant to insurers than the total number of claims received, as it is claim costs (as measured by net incurred costs) that drive insurers' profitability levels. For example, while some claims might be accepted and finalised with no claim-related costs to the insurer, other claims may incur claim-related costs for investigation even if they are not accepted.

Table 4.4 shows claim costs (net incurred and average) at different stages of claim development: notification only, open and pending, open and decided, and closed and finalised.

Average costs are lower for finalised claims ($31 600) compared with open and decided claims ($55 500), where the insurer is estimating the cost of the outstanding liability. This could indicate either that actual costs tend to come in under the insurer's estimate, or that the costs are higher for more recent claims which are not yet finalised.

TABLE 4.4 CLAIM COSTS AT DIFFERENT CLAIM STAGES

Registered builders — January 2002 to June 2016

	Notifications	Claims				
	Notification only	Open and pending[a]	Open and decided	Closed and finalised - **Total**	Closed and finalised – **Accepted**	Closed and finalised – **Denied**
Number of claims (no.)	2 319	297	1 090	6 832	5 149	1 683
Sum paid to claimant ($000)	0	3 862	11 996	196 622	196 319	303
(plus) Sum paid to third parties ($000)	218	934	5 097	26 059	24 266	1 793
(less) Sum of third party recoveries received ($000)	0	78	1 201	6 843	6 830	14
(plus) Sum of net outstanding ($000)	0	11 302	44 580	-	-	-
Sum of net incurred cost ($000)	**218**	**16 020**	**60 472**	**215 838**	**213 756**	**2 082**
Average cost per claim ($000)	0.1	53.9	55.5	31.6	41.5	1.2

[a] Includes claims in dispute

Table 4.5 illustrates how the type of claim impacts the average cost of claims (closed and finalised). It shows failure to complete claims are the most costly types of claim. The average cost of these, are almost double the next most costly type of claim, a structural defect.

TABLE 4.5 AVERAGE COSTS OF CLAIMS (ACCEPTED-FINALISED) BY TYPE
Registered builders — January 2002 to June 2016

	Number of accepted-finalised claims	Net incurred costs ($000)	Average cost per claim ($000)
Failure to commence	131	2 561	19.6
Failure to complete	1 510	93 041	61.6
Structural defect	2 484	91 834	37.0
Other (non-structural) defect	1 024	26 319	25.7
Total	**5 149**	**213 756**	**41.5**

The cost of a claim is influenced by many factors, some of which are outside the insurer's control. For example, the age of the property affected and the nature of the defect can greatly influence the cost of rectification. Over time, an insurer's ability to manage costs of investigation and repair will help to determine their profitability.

4.6 CLAIMS MANAGEMENT

4.6.1 ACCEPTED CLAIMS TURNAROUND

The assessment period (the time taken for the insurer to make a decision) may be a matter of days or months depending on the individual circumstances of the claim. An insurer can accept, partially accept, or deny liability (for a number of reasons). If an insurer accepts a claim, a settlement period begins in which compensation is calculated and paid. It is not until a claim is fully settled with the claimant, that it is considered finalised and closed. If a claim is denied or partially accepted, the claimant has the opportunity to dispute the insurer's decision; otherwise, the claim is finalised and closed if denied or compensation is calculated and paid if partially accepted.

The time it takes for a claim to go through each stage of the claim process can be used to examine how the scheme is operating in general and may give an indication of how well consumers are being served. Looking at the claims that have been accepted and finalised since the scheme started in 2002, the average time between receiving a notification and a claim being finalised is 514 days, or just over 17 months.

Of the average 514 days, 409 occur between the liability being decided and the claim being finalised, the last stage of the claim process. The length of time it takes to finalise can be influenced by many factors, such as an insurer's approach to claims handling or whether a claimant wishes to contest the insurer's decision about the liability of the claim.

In contrast, the initial stage of the claim process, between when claims are received and the liability decision occurs, accounts for 106 days (just over 20%) of the total average time. This much shorter length of time is likely a result of DBI legislation — if an insurer has not made a liability decision within 90 days of minimum claim information being received the claim is deemed to be accepted.[18] There are circumstances in which this period can be extended with the agreement of the claimant, but in general, insurers aim to make a liability decision within this time frame.

4.6.2 CLAIMS DENIED

There are several reasons why an insurer may deny a claim. Most claims (around 68 per cent) are denied either because the fault reported was not deemed a defect, or because the builder was not insolvent. A breakdown of the different reasons claims are denied is shown in table 4.6.

[18] Domestic Building Insurance Ministerial Order, section 29; Order made under sections 135, 137A and 137D of the *Building Act 1993*.

TABLE 4.6 REASONS FOR CLAIM DENIED

Registered builders — January 2002 to June 2016

Reason	Number	Proportion (%)
Incorrect insurer	44	2.7
Out of time	173	10.8
Builder found	91	5.7
Builder not dead	6	0.4
Builder not insolvent	306	19.1
Not deemed a defect	788	49.2
No loss	121	7.6
Owner did not proceed	72	4.5
Total	**1 601**	**100**

5 OWNER-BUILDER POLICIES, PREMIUMS AND CLAIMS

KEY MESSAGES

Owner-builders who carry out building work (over $16 000) on their own property, require domestic building insurance (DBI) if they sell that home within six and a half years of completion.

The number of owner-builder policies has been declining for 10 years. The data for the first six months of 2016 indicates this declining trend will continue.

Owner-builders are considered a higher risk category than registered builders and have a higher rate of claims, even though the total number of claims is very small (just 183 since 2002).

The average cost of a closed and finalised claim is around $17 500 (on a per dwelling basis).

The most common reason for claims against owner-builders is disappearance of the previous owner.

In the absence of a central licensing body, as exists for registered builders, it is more difficult for new owners of a property to track down the original owner-builder to rectify faults.

This chapter provides a snap-shot of policy numbers, premiums and claims data on owner-builder domestic building insurance (DBI).

Note, the analysis excludes Asset Insure, which began offering DBI to owner-builders in October 2015, prior to the conclusion of the report period to 30 June 2016. Data for this insurer will be included in the Commission's 2016-17 performance report.

5.1 BACKGROUND

An owner-builder is defined as someone who carries out building work on their own property. Owner-builders are generally not in the building industry but must obtain a 'certificate of consent' from the Victorian Building Authority[19] if their building work is valued at more than $16 000.

Owner-builders who sell a property within six and a half years of the completion of work, for which they have obtained a certificate of consent, must obtain domestic building insurance (DBI). They are required to provide the new owner with evidence of this DBI policy and a report on any building defects.[20] In this way, owner-builder DBI is quite distinct from the DBI purchased by a registered builder.

The insurance policy (which is similar to a project certificate issued to a registered builder) is for the benefit of the new owner and any subsequent new owners, in the event that the owner-builder dies, disappears or becomes insolvent, and the building work is defective.[21]

To obtain a DBI policy, an owner-builder must provide details of the cost of work, building inspections, a certificate of occupancy date and the location of the property. They must also provide a current defects report and a copy of the building permit. The policy does not commence until the contract of sale is signed.

[19] Certificates of consent prior to 1 September 2016 were obtained from the Building Practitioner's Board. Their functions, powers and responsibilities have since been transferred to the Victorian Building Authority.

[20] The report must be conducted by a prescribed building practitioner.

[21] As noted earlier, on 1 July 2015, the VMIA added a fourth condition by which a homeowner can make a DBI claim — failure to comply with a Tribunal or Court Order.

5.2 POLICIES AND PREMIUMS

5.2.1 POLICY TOTALS

Table 5.1 shows how many DBI policies are issued to owner-builders each year, as well as the total value of policies held and the total premiums paid for them. The number of owner-builder policies that are issued has been declining since 2006, from around 4000 to 5000 a year to less than 2000 a year. The data for the first six months of 2016 indicates this decline may continue.[22] Figure 5.1 provides a graphical representation of this data.

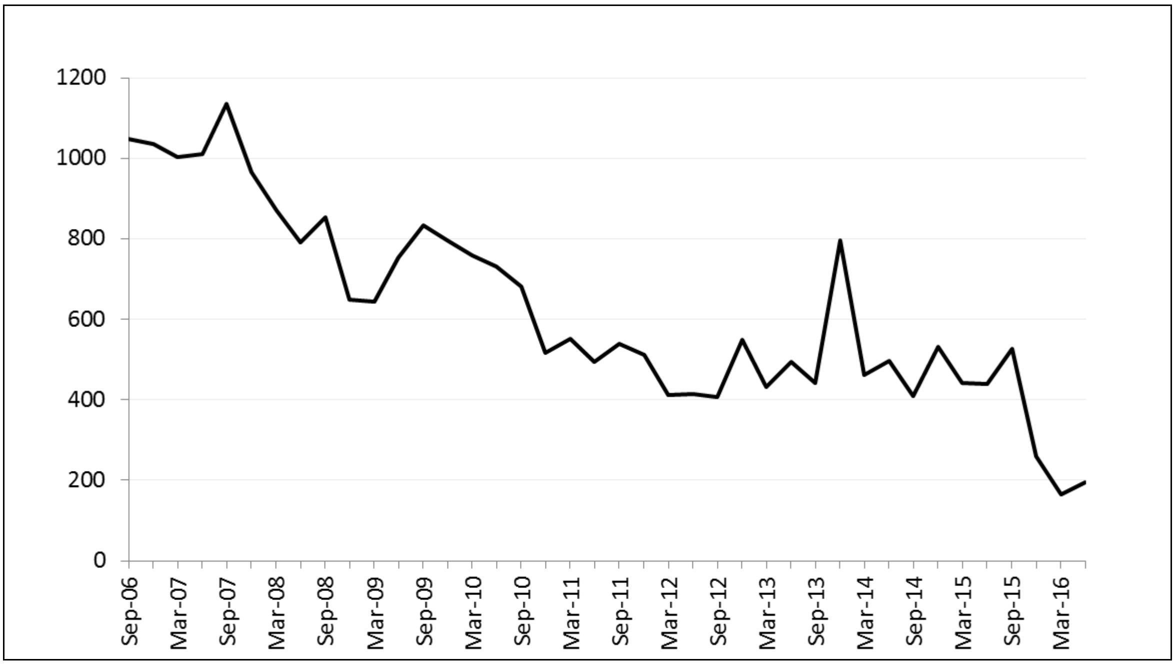
TABLE 5.1 POLICY TOTALS BY CALENDAR YEAR
Owner-builders

	Number of policies	Value of policies ($000)	Total premium ($000)
2002	3 068	363 702	645
2003	3 370	405 389	744
2004	3 388	457 190	3 714
2005	4 645	694 034	4 983
2006	5 805	952 246	3 804
2007	4 116	674 972	3 285
2008	3 167	549 537	2 470
2009	3 030	492 269	2 301
2010	2 687	471 311	2 196
2011	2 099	373 092	1 992
2012	1 785	318 538	1 731
2013	2 164	383 343	2 022
2014	1 901	359 358	1 803
2015	1 668	316 480	1 600
2016	360	66 922	369

[22] The full data for 2016 will be included in the Commission's 2016-17 performance report, which will also include AssetInsure data.

FIGURE 5.1 NUMBER OF POLICIES ISSUED BY QUARTER

Owner-builders — June 2006 to June 2016



5.2.2 PREMIUMS

Insurers treat owner-builders as a separate risk category from registered builders and have different premiums although the insurance coverage is very similar.

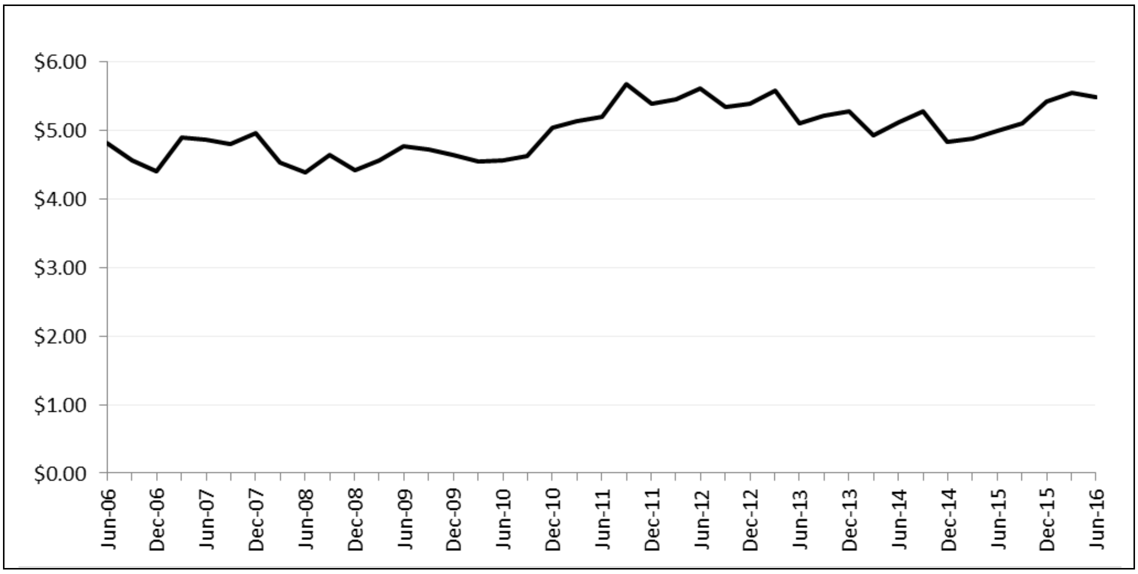
In comparison to registered builders, owner-builder policies cover structural and non-structural faults under the same rules as registered builder project certificates, but do not cover ‘failure to commence’ and ‘failure to complete’. The liability period may be shorter because the policy is only taken out when the house is sold. Insurers also have more information to assess risk at the time of writing the policy because construction is typically complete and a defect report is available.

The difference in insurers’ treatment of owner-builder risk (to registered builders) is shown by the difference between premiums. Premiums for owner-builders on average are $5.50 per $1000 of project value. This is above the average of registered builders at approximately $4.20 per $1000 project value.

Figure 5.2 shows how the average premium per $1000 of project value has changed over time. The rate has remained somewhat constant for the last 10 years at around $4.50 to $5.00 pre-2010 and $5.00 to $5.50 post-2010.

There has been some volatility in the owner-builder rate since it rose above $5.00 at the end of 2010, but has since continued to trend around $5.00. Due to the low number of policies issued, and the project-specific factors used to determine the cost of each policy, the quarterly average rate can easily be affected by the type of properties that are insured.

FIGURE 5.2 AVERAGE PREMIUM PER $1000 OF PROJECT VALUE
Owner-builders — June 2006 to June 2016



5.3 CLAIMS

Owner-builders are considered a higher risk category than registered builders and have a higher rate of claims even though the total number of claims is very small. As table 5.2 shows, since 2002, 178 claims have been accepted, while two claims have a liability decision pending. The ratio of accepted claims to denied claims is close to 1:1, whereas the same comparison for registered builders is roughly 3:1. The higher proportion of claims denied for owner-builders could be attributable to the lack of centralised information about the location of owner-builders, which leads consumers to use a DBI claim as a first step in investigating any problems.

TABLE 5.2 CLAIM NUMBERS BY STATUS
Owner-builders — January 2002 to June 2016

	Open	Closed	Total
Accepted[a]	12	166	178
Pending[b]	2	0	2
Total accepted or pending	**14**	**166**	**180**
Claims denied	1	199	200
Total claims	**15**	**365**	**380**
Notifications[c]	2	115	117
GRAND TOTAL	**17**	**480**	**497**

[a] Includes deemed, fully, and partially accepted claims. [b] Includes claims being assessed and claims in dispute. [c] Notification only claims can be escalated into claims on provision of minimum information. If the notification has not been escalated within 90 days it is closed on the insurer's system, but can be re-opened at any time.

As Table 5.3 indicates, the most common reason for claims against owner-builders is disappearance of the previous owner. In the absence of a central licensing body, as exists for registered builders, it is more difficult for the new owners of a property to track down the original owner-builders to rectify any faults.

TABLE 5.3 ACCEPTED CLAIMS BY CAUSE
Owner-builders — January 2002 to June 2016

Cause	Number	Proportion (%)
Insolvency	73	41
Death	5	3
Disappearance	100	56
Total	**178**	**100**

Note: Accepted claims only. Excludes claims pending a decision, claims denied and notifications.

Table 5.4 shows that 42 per cent of the 200 claims denied by insurers, were cases where the insurer was able to locate the original owner-builder. The other major reasons for insurers denying owner-builder claims include the builder not being insolvent or there being no defect.

TABLE 5.4 DENIED CLAIMS BY REASON
Owner-builders — January 2002 to June 2016

Reason	Number	Proportion (%)
Incorrect insurer	0	0.0
Out of time	21	10.5
Builder found	84	42.0
Builder not dead	2	1.0
Builder not insolvent	56	28.0
Not deemed a defect	36	18.0
No loss	0	0.0
Owner did not proceed	1	0.5
Total	**200**	**100**

Table 5.5 shows the average claim cost at different stages of claim development: notification only, open and pending, open and decided, and closed and finalised.

Average costs are much lower for finalised claims ($17 500) compared with open and decided claims ($67 000), where the insurer is estimating the cost of the outstanding liability. This could indicate either actual costs tend to come in under the insurer's estimate, or the costs are higher for more recent claims, which are not yet finalised.

Based on the 166 finalised claims accepted to date, the average cost of a claim on an owner-builder policy is $36 300.

TABLE 5.5 AVERAGE COST OF CLAIMS BY CLAIM STAGES
Owner-builders — January 2002 to June 2016

	Notifications	Claims				
	Notification only	Open and pending[a]	Open and decided	Closed and finalised - **Total**	Closed and finalised – **Accepted**	Closed and finalised – **Denied**
Number of claims (no.)	2	2	13	365	166	199
Sum paid to claimant ($000)	0.0	0.0	419	4,628	4,513	116
(plus) Sum paid to third parties ($000)	0.1	5.1	291	2,216	1,959	258
(less) Sum of third party recoveries received ($000)	0.0	0.0	-	446	446	-
(plus) Sum of net outstanding ($000)	0.1	90.6	162	-	-	-
Sum of net incurred cost ($000)	**0.2**	**95.7**	**871**	**6,399**	**6,026**	**373**
Average cost per claim ($000)	0.1	47.9	67.0	17.5	36.3	1.9

[a] Includes claims in dispute

APPENDIX A TERMS OF REFERENCE

Essential Services Commission Act **2001**

Essential Services Commission

Terms of Reference

Domestic Building Insurance – Data and Performance Monitoring

I, Tim Holding MP, Minister for Finance, WorkCover and the Transport Accident Commission, request the Essential Services Commission (the Commission) to provide ongoing monitoring reports on the pricing and performance of the Victorian Managed Insurance Authority's (VMIA) provision of domestic building insurance (DBI). The reports will cover claims management, the pricing of private domestic building insurers during the transition period from 29 March 2010 to the establishment of the new arrangements, and the claims management of the private domestic building insurers during the run-off period of their insurance policies.

Background

DBI has been compulsory in Victoria since 2002 for all residential building works in excess of $12,000 carried out by licensed builders.

DBI policies are taken out by the builder in favour of the homeowner and cover loss or damage resulting from non-completion of the work. This includes loss of deposit or breach of statutory warranty if the homeowner cannot recover compensation from the builder because of the death, disappearance or insolvency of the builder.

DBI was provided solely by private insurers. However, after a decrease in the number of private insurers and the associated levels of competition, the Government announced on 29 March 2010 that the VMIA would become a statutory monopoly provider of DBI after a transition period.

Scope of the Advice – Data and Performance Monitoring

The Commission is to annually monitor and report on the pricing and performance of the VMIA and private insurer's provision of DBI on an ongoing basis. The scope of the monitoring is to cover the:

- pricing and claims management of the VMIA;
- pricing of private domestic building insurers during the transition period; and
- private domestic building insurers' claims management during the run-off period.

The ongoing reporting is to be delivered in the form of annual reports.

The purpose of the annual reports is to inform the public of the performance of DBI.

The Commission will be required to publish a monitoring report each year that will be made publicly available. Any confidential or commercially sensitive material should be included in a separate attachment.

The purpose of the annual reports with the attachment is to inform the Government's consideration of DBI developments.

The annual reports will analyse quarterly data, including the number of eligible builders, project certificates, premiums levels, the number and amounts of claims for both the VMIA and private domestic building insurers and any other metrics the Commission and the Department of Treasury and Finance consider relevant.

Advice Process – Performance Monitoring

The monitoring reports are to be prepared independently by the Commission, under subsection 10(g) of the *Essential Services Commission Act* 2001 (the ESC Act), which provides the Commission with a general function to provide advice to the Minister for Finance.

The first data monitoring report is to cover the period from 1 July 2008 to 30 June 2010. Subsequent reports are to cover data for each financial year from 2010-11 onwards. The reports are to be provided by 30 November each year.

In providing this advice, the Commission is to have regard to its statutory objectives in section 8 of the ESC Act.

TIM HOLDING MP
Minister for Finance, WorkCover
and the Transport Accident Commission

Date: 9/07/2010

APPENDIX B VMIA PREMIUM SCHEDULE

Victorian Domestic Building Insurance Rate Chart

STRUCTURAL WORKS (Excludes MBW)

	CAT A Base	CAT A GST	CAT A Stamp Duty	CAT A Total	CAT B Base	CAT B GST	CAT B Stamp Duty	CAT B Total	CAT C Base	CAT C GST	CAT C Stamp Duty	CAT C Total
$12,000	$ 391.00	$ 39.10	$ 43.01	$ 473.11	$ 460.00	$ 46.00	$ 50.60	$ 556.60	$ 735.00	$ 73.50	$ 80.85	$ 889.35
$12001 - $25,000	$ 403.00	$ 40.30	$ 44.33	$ 487.63	$ 475.00	$ 47.50	$ 52.25	$ 574.75	$ 760.00	$ 76.00	$ 83.60	$ 919.60
$25,001 - $50,000	$ 429.00	$ 42.90	$ 47.19	$ 519.09	$ 500.00	$ 50.00	$ 55.00	$ 605.00	$ 805.00	$ 80.50	$ 88.55	$ 974.05
$50,001 - $75,000	$ 442.00	$ 44.20	$ 48.62	$ 534.82	$ 518.00	$ 51.80	$ 56.98	$ 626.78	$ 830.00	$ 83.00	$ 91.30	$ 1,004.30
$75,001 - $100,000	$ 480.00	$ 48.00	$ 52.80	$ 580.80	$ 561.00	$ 56.10	$ 61.71	$ 678.81	$ 900.00	$ 90.00	$ 99.00	$ 1,089.00
$100,001 -$150,000	$ 555.00	$ 55.50	$ 61.05	$ 671.55	$ 650.00	$ 65.00	$ 71.50	$ 786.50	$ 1,042.00	$ 104.20	$ 114.62	$ 1,260.82
$150,001 - $200,000	$ 669.00	$ 66.90	$ 73.59	$ 809.49	$ 785.00	$ 78.50	$ 86.35	$ 949.85	$ 1,255.00	$ 125.50	$ 138.05	$ 1,518.55
$200,001 - $250,000	$ 821.00	$ 82.10	$ 90.31	$ 993.41	$ 963.00	$ 96.30	$ 105.93	$ 1,165.23	$ 1,540.00	$ 154.00	$ 169.40	$ 1,863.40
$250,001 - $300,000	$ 946.00	$ 94.60	$ 104.06	$ 1,144.66	$ 1,110.00	$ 111.00	$ 122.10	$ 1,343.10	$ 1,780.00	$ 178.00	$ 195.80	$ 2,153.80
$300,001 - $350,000	$ 1,073.00	$ 107.30	$ 118.03	$ 1,298.33	$ 1,260.00	$ 126.00	$ 138.60	$ 1,524.60	$ 2,015.00	$ 201.50	$ 221.65	$ 2,438.15
$350,001 - $400,000	$ 1,199.00	$ 119.90	$ 131.89	$ 1,450.79	$ 1,410.00	$ 141.00	$ 155.10	$ 1,706.10	$ 2,255.00	$ 225.50	$ 248.05	$ 2,728.55
$400,001 - $450,000	$ 1,326.00	$ 132.60	$ 145.86	$ 1,604.46	$ 1,555.00	$ 155.50	$ 171.05	$ 1,881.55	$ 2,490.00	$ 249.00	$ 273.90	$ 3,012.90
$450,001 - $500,000	$ 1,386.00	$ 138.60	$ 152.46	$ 1,677.06	$ 1,630.00	$ 163.00	$ 179.30	$ 1,972.30	$ 2,610.00	$ 261.00	$ 287.10	$ 3,158.10
$500,001 - $750,000	$ 1,512.00	$ 151.20	$ 166.32	$ 1,829.52	$ 1,780.00	$ 178.00	$ 195.80	$ 2,153.80	$ 2,850.00	$ 285.00	$ 313.50	$ 3,448.50
$750,001 - $1,000,000	$ 1,639.00	$ 163.90	$ 180.29	$ 1,983.19	$ 1,930.00	$ 193.00	$ 212.30	$ 2,335.30	$ 3,080.00	$ 308.00	$ 338.80	$ 3,726.80
Over $1,000,001	$ 1,719.00	$ 171.90	$ 189.09	$ 2,079.99	$ 2,025.00	$ 202.50	$ 222.75	$ 2,450.25	$ 3,240.00	$ 324.00	$ 356.40	$ 3,920.40

NON-STRUCTURAL WORKS (Excludes MBW)

	CAT A Base	CAT A GST	CAT A Stamp Duty	CAT A Total	CAT B Base	CAT B GST	CAT B Stamp Duty	CAT B Total	CAT C Base	CAT C GST	CAT C Stamp Duty	CAT C Total
$12,000	$ 113.00	$ 11.30	$ 12.43	$ 136.73	$ 134.00	$ 13.40	$ 14.74	$ 162.14	$ 213.00	$ 21.30	$ 23.43	$ 257.73
$12001-$25000	$ 125.00	$ 12.50	$ 13.75	$ 151.25	$ 148.00	$ 14.80	$ 16.28	$ 179.08	$ 237.00	$ 23.70	$ 26.07	$ 286.77
$25,001 - $50000	$ 132.00	$ 13.20	$ 14.52	$ 159.72	$ 156.00	$ 15.60	$ 17.16	$ 188.76	$ 249.00	$ 24.90	$ 27.39	$ 301.29
$50,001 - $75000	$ 138.00	$ 13.80	$ 15.18	$ 166.98	$ 163.00	$ 16.30	$ 17.93	$ 197.23	$ 261.00	$ 26.10	$ 28.71	$ 315.81
$75,001 -$100,000	$ 151.00	$ 15.10	$ 16.61	$ 182.71	$ 178.00	$ 17.80	$ 19.58	$ 215.38	$ 284.00	$ 28.40	$ 31.24	$ 343.64
$100,001 -$150,000	$ 163.00	$ 16.30	$ 17.93	$ 197.23	$ 192.00	$ 19.20	$ 21.12	$ 232.32	$ 308.00	$ 30.80	$ 33.88	$ 372.68
$150,001 - $200,000	$ 189.00	$ 18.90	$ 20.79	$ 228.69	$ 222.00	$ 22.20	$ 24.42	$ 268.62	$ 355.00	$ 35.50	$ 39.05	$ 429.55
$200,001 - $250,000	$ 227.00	$ 22.70	$ 24.97	$ 274.67	$ 266.00	$ 26.60	$ 29.26	$ 321.86	$ 425.00	$ 42.50	$ 46.75	$ 514.25
Over $250,001	POA				POA				POA			

SWIMMING POOLS

	CAT A Base	CAT A GST	CAT A Stamp Duty	CAT A Total	CAT B Base	CAT B GST	CAT B Stamp Duty	CAT B Total	CAT C Base	CAT C GST	CAT C Stamp Duty	CAT C Total
$12,000	$ 488.00	$ 48.80	$ 53.68	$ 590.48	$ 575.00	$ 57.50	$ 63.25	$ 695.75	$ 920.00	$ 92.00	$ 101.20	$ 1,113.20
$12001-$25000	$ 505.00	$ 50.50	$ 55.55	$ 611.05	$ 592.00	$ 59.20	$ 65.12	$ 716.32	$ 950.00	$ 95.00	$ 104.50	$ 1,149.50
$25,001 - $50000	$ 535.00	$ 53.50	$ 58.85	$ 647.35	$ 630.00	$ 63.00	$ 69.30	$ 762.30	$ 1,005.00	$ 100.50	$ 110.55	$ 1,216.05
$50,001 - $75000	$ 552.00	$ 55.20	$ 60.72	$ 667.92	$ 650.00	$ 65.00	$ 71.50	$ 786.50	$ 1,035.00	$ 103.50	$ 113.85	$ 1,252.35
$75,001 -$100,000	$ 598.00	$ 59.80	$ 65.78	$ 723.58	$ 705.00	$ 70.50	$ 77.55	$ 853.05	$ 1,125.00	$ 112.50	$ 123.75	$ 1,361.25
Over $100,001	POA				POA				POA			

Victorian Domestic Building Insurance Rate Chart

CAT A

Multiple Building Works (MBW) - Structural

	Base	GST	Stamp Duty	Total
$12,000	$ 489.00	$ 48.90	$ 53.79	$ 591.69
$12001 - $25,000	$ 504.00	$ 50.40	$ 55.44	$ 609.84
$25,001 - $50,000	$ 536.00	$ 53.60	$ 58.96	$ 648.56
$50,001 - $75,000	$ 552.00	$ 55.20	$ 60.72	$ 667.92
$75,001 - $100,000	$ 600.00	$ 60.00	$ 66.00	$ 726.00
$100,001 -$150,000	$ 694.00	$ 69.40	$ 76.34	$ 839.74
$150,001 - $200,000	$ 836.00	$ 83.60	$ 91.96	$ 1,011.56
$200,001 - $250,000	$ 1,026.00	$ 102.60	$ 112.86	$ 1,241.46
$250,001 - $300,000	$ 1,182.00	$ 118.20	$ 130.02	$ 1,430.22
$300,001 - $350,000	$ 1,341.00	$ 134.10	$ 147.51	$ 1,622.61
$350,001 - $400,000	$ 1,499.00	$ 149.90	$ 164.89	$ 1,813.79
$400,001 - $450,000	$ 1,657.00	$ 165.70	$ 182.27	$ 2,004.97
$450,001 - $500,000	$ 1,732.00	$ 173.20	$ 190.52	$ 2,095.72
$500,001 - $750,000	$ 1,890.00	$ 189.00	$ 207.90	$ 2,286.90
$750,001 - $1,000,000	$ 2,049.00	$ 204.90	$ 225.39	$ 2,479.29
Over $1,000,001	$ 2,149.00	$ 214.90	$ 236.39	$ 2,600.29

Multiple Building Works (MBW) - Non Structural

	Base	GST	Stamp Duty	Total
$12,000	$ 141.00	$ 14.10	$ 15.51	$ 170.61
$12001-$25000	$ 156.00	$ 15.60	$ 17.16	$ 188.76
$25,001 - $50000	$ 165.00	$ 16.50	$ 18.15	$ 199.65
$50,001 - $75000	$ 172.00	$ 17.20	$ 18.92	$ 208.12
$75,001 -$100,000	$ 189.00	$ 18.90	$ 20.79	$ 228.69
$100,001 -$150,000	$ 204.00	$ 20.40	$ 22.44	$ 246.84
$150,001 - $200,000	$ 236.00	$ 23.60	$ 25.96	$ 285.56
$200,001 - $250,000	$ 284.00	$ 28.40	$ 31.24	$ 343.64
Over $250,001	POA			

CAT B

Multiple Building Works (MBW) - Structural

	Base	GST	Stamp Duty	Total
$12,000	$ 575.00	$ 57.50	$ 63.25	$ 695.75
$12001 - $25,000	$ 594.00	$ 59.40	$ 65.34	$ 718.74
$25,001 - $50,000	$ 625.00	$ 62.50	$ 68.75	$ 756.25
$50,001 - $75,000	$ 647.00	$ 64.70	$ 71.17	$ 782.87
$75,001 - $100,000	$ 701.00	$ 70.10	$ 77.11	$ 848.21
$100,001 -$150,000	$ 812.00	$ 81.20	$ 89.32	$ 982.52
$150,001 - $200,000	$ 981.00	$ 98.10	$ 107.91	$ 1,187.01
$200,001 - $250,000	$ 1,204.00	$ 120.40	$ 132.44	$ 1,456.84
$250,001 - $300,000	$ 1,387.00	$ 138.70	$ 152.57	$ 1,678.27
$300,001 - $350,000	$ 1,575.00	$ 157.50	$ 173.25	$ 1,905.75
$350,001 - $400,000	$ 1,762.00	$ 176.20	$ 193.82	$ 2,132.02
$400,001 - $450,000	$ 1,944.00	$ 194.40	$ 213.84	$ 2,352.24
$450,001 - $500,000	$ 2,037.00	$ 203.70	$ 224.07	$ 2,464.77
$500,001 - $750,000	$ 2,225.00	$ 222.50	$ 244.75	$ 2,692.25
$750,001 - $1,000,000	$ 2,412.00	$ 241.20	$ 265.32	$ 2,918.52
Over $1,000,001	$ 2,531.00	$ 253.10	$ 278.41	$ 3,062.51

Multiple Building Works (MBW) - Non Structural

	Base	GST	Stamp Duty	Total
$12,000	$ 167.00	$ 16.70	$ 18.37	$ 202.07
$12001-$25000	$ 185.00	$ 18.50	$ 20.35	$ 223.85
$25,001 - $50000	$ 195.00	$ 19.50	$ 21.45	$ 235.95
$50,001 - $75000	$ 204.00	$ 20.40	$ 22.44	$ 246.84
$75,001 -$100,000	$ 222.00	$ 22.20	$ 24.42	$ 268.62
$100,001 -$150,000	$ 240.00	$ 24.00	$ 26.40	$ 290.40
$150,001 - $200,000	$ 277.00	$ 27.70	$ 30.47	$ 335.17
$200,001 - $250,000	$ 332.00	$ 33.20	$ 36.52	$ 401.72
Over $250,001	POA			

CAT C

Multiple Building Works (MBW) - Structural

	Base	GST	Stamp Duty	Total
$12,000	$ 919.00	$ 91.90	$ 101.09	$ 1,111.99
$12001 - $25,000	$ 950.00	$ 95.00	$ 104.50	$ 1,149.50
$25,001 - $50,000	$ 1,006.00	$ 100.60	$ 110.66	$ 1,217.26
$50,001 - $75,000	$ 1,037.00	$ 103.70	$ 114.07	$ 1,254.77
$75,001 - $100,000	$ 1,125.00	$ 112.50	$ 123.75	$ 1,361.25
$100,001 -$150,000	$ 1,302.00	$ 130.20	$ 143.22	$ 1,575.42
$150,001 - $200,000	$ 1,569.00	$ 156.90	$ 172.59	$ 1,898.49
$200,001 - $250,000	$ 1,925.00	$ 192.50	$ 211.75	$ 2,329.25
$250,001 - $300,000	$ 2,225.00	$ 222.50	$ 244.75	$ 2,692.25
$300,001 - $350,000	$ 2,519.00	$ 251.90	$ 277.09	$ 3,047.99
$350,001 - $400,000	$ 2,819.00	$ 281.90	$ 310.09	$ 3,410.99
$400,001 - $450,000	$ 3,112.00	$ 311.20	$ 342.32	$ 3,765.52
$450,001 - $500,000	$ 3,262.00	$ 326.20	$ 358.82	$ 3,947.02
$500,001 - $750,000	$ 3,562.00	$ 356.20	$ 391.82	$ 4,310.02
$750,001 - $1,000,000	$ 3,850.00	$ 385.00	$ 423.50	$ 4,658.50
Over $1,000,001	$ 4,050.00	$ 405.00	$ 445.50	$ 4,900.50

Multiple Building Works (MBW) - Non Structural

	Base	GST	Stamp Duty	Total
$12,000	$ 266.00	$ 26.60	$ 29.26	$ 321.86
$12001-$25000	$ 296.00	$ 29.60	$ 32.56	$ 358.16
$25,001 - $50000	$ 311.00	$ 31.10	$ 34.21	$ 376.31
$50,001 - $75000	$ 326.00	$ 32.60	$ 35.86	$ 394.46
$75,001 -$100,000	$ 355.00	$ 35.50	$ 39.05	$ 429.55
$100,001 -$150,000	$ 385.00	$ 38.50	$ 42.35	$ 465.85
$150,001 - $200,000	$ 444.00	$ 44.40	$ 48.84	$ 537.24
$200,001 - $250,000	$ 531.00	$ 53.10	$ 58.41	$ 642.51
Over $250,001	POA			

As at 01/07/2013
Version 1.0

APPENDIX C CORRIGENDA

C.1 CLAIMS DATA ERROR

In late 2016, the Commission was notified of a significant error in the claims data received from a private insurer that had been included in the Domestic Building Insurance Performance Report 2015-16 delivered to the Minister for Finance on 30 November 2016.

The error was for a claim of around $18.3 million, which should have been $2.3 million. As a consequence, the net incurred costs for project certificates and polices issued in 2005, were reported as being almost $16 million higher than they otherwise should have been.

The error also resulted in the status of claims being incorrectly reported. The relevant claim should have been an open-pending claim, rather than an open-denied claim.

C.2 CORRECTIONS MADE TO DOMESTIC BUILDING INSURANCE PERFORMANCE REPORT 2015-16

The tables, figures and corresponding commentary within this Performance Report 2015-16 have been corrected.

TABLES

Corrections are shown in the following tables, with the colour red denoting a corrected number and the colour black (strikethrough) denoting a number as originally published.

TABLE 2.1 SCHEME PERFORMANCE — SIMPLE LOSS RATIOS
All insurers

Calendar Year	Number of certificates/ policies	Premium excluding charges ($000)	Net incurred costs ($000)[a]	Assumed years of liability remaining[b]	Simple loss ratio (%)
2002	17 731	10 661	4 825	0	45.3
2003	40 305	27 521	13 828	0	50.2
2004	34 720	27 536	18 660	0	67.8
2005	46 975	31 986	~~37 690~~	0	~~117.8~~
			21 690		67.8
2006	53 142	32 119	23 905	0	74.4
2007	54 690	30 574	31 872	0	104.2
2008	53 113	27 650	41 366	0	149.6
2009	61 555	34 251	40 966	1	119.6
2010	65 101	41 881	38 700	2	92.4
2011	61 355	44 330	25 341	3	57.2
2012	57 703	46 678	17 568	4	37.6
2013	61 219	54 925	12 462	5	22.7
2014	66 818	67 688	6 647	6	9.8
2015	70 915	75 514	2 004	6	2.7
2016 Jan-Jun	36 820	39 833	89	7	0.2

a Includes all claim costs including for denied claims and notification only claims. Costs have been assigned to the year in which the project certificate was issued. **b** Assumes a 12 month construction period plus a six year liability period.

TABLE 4.1 TOTAL CLAIMS AND NOTIFICATIONS BY STATUS

Registered builders — January 2002 to June 2016

	Open	Closed / finalised	Total
Claims			
Accepted[a]	1 001	5 149	6 150
Pending[b]	~~296~~		~~296~~
	297		297
Total accepted or pending	**~~1 297~~ 1 298**	**5 149**	**~~6 446~~ 6 447**
Liability denied	~~90~~	1 683	~~1 773~~
	89		1 772
Total claims	**1 387**	**6 832**	**8 219**
Notifications	25	2 319	2 344
GRAND TOTAL	**1 412**	**9 151**	**10 563**

[a] Includes deemed, full, and partially accepted claims. [b] Includes claims being assessed and claims in dispute.

TABLE 4.4 CLAIM COSTS AT DIFFERENT CLAIM STAGES
Registered builders — January 2002 to June 2016

	Notifications	Claims				
	Notification only	Open and pending[a]	Open and decided	Closed and finalised - **Total**	Closed and finalised – **Accepted**	Closed and finalised – **Denied**
Number of claims (no.)	2 319	~~296~~ 297	~~1 091~~ 1 090	6 832	5 149	1 683
Sum paid to claimant ($000)	0	~~1 562~~ 3 862	~~30 295~~ 11 996	196 622	196 319	303
(plus) Sum paid to third parties ($000)	218	~~884~~ 934	~~5 147~~ 5 097	26 059	24 266	1 793
(less) Sum of third party recoveries received ($000)	0	78	1 201	6 843	6 830	14
(plus) Sum of net outstanding ($000)	0	11 302	44 580	-	-	-
Sum of net incurred cost ($000)	**218**	**~~13 670~~ 16 020**	**~~78 820~~ 60 472**	**215 838**	**213 756**	**2 082**
Average cost per claim ($000)	0.1	~~46.2~~ 53.9	~~72.2~~ 55.5	31.6	41.5	1.2

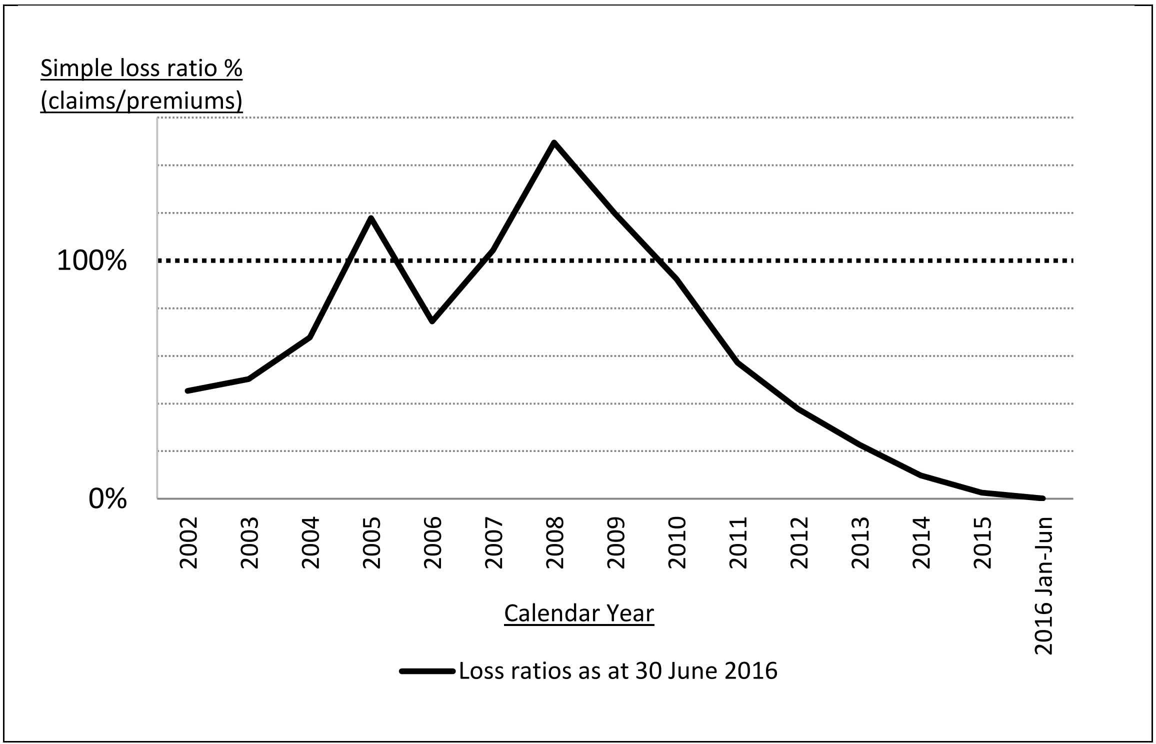
[a] Includes claims in dispute

FIGURES

Corrections are shown in the following figures. The first figure as originally published, is replaced by the corrected second figure.

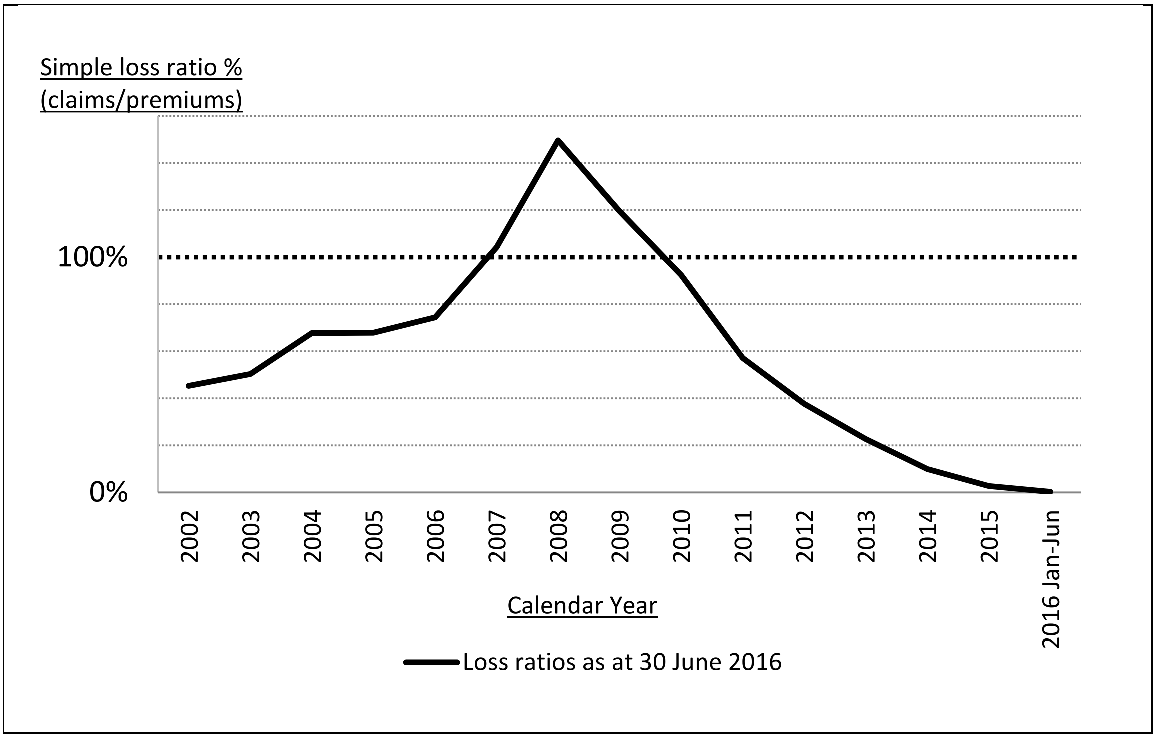
Originally published

FIGURE 2.1 SIMPLE LOSS RATIOS FOR EACH CALENDAR YEAR
All insurers – as at 30 June 2016



Corrected

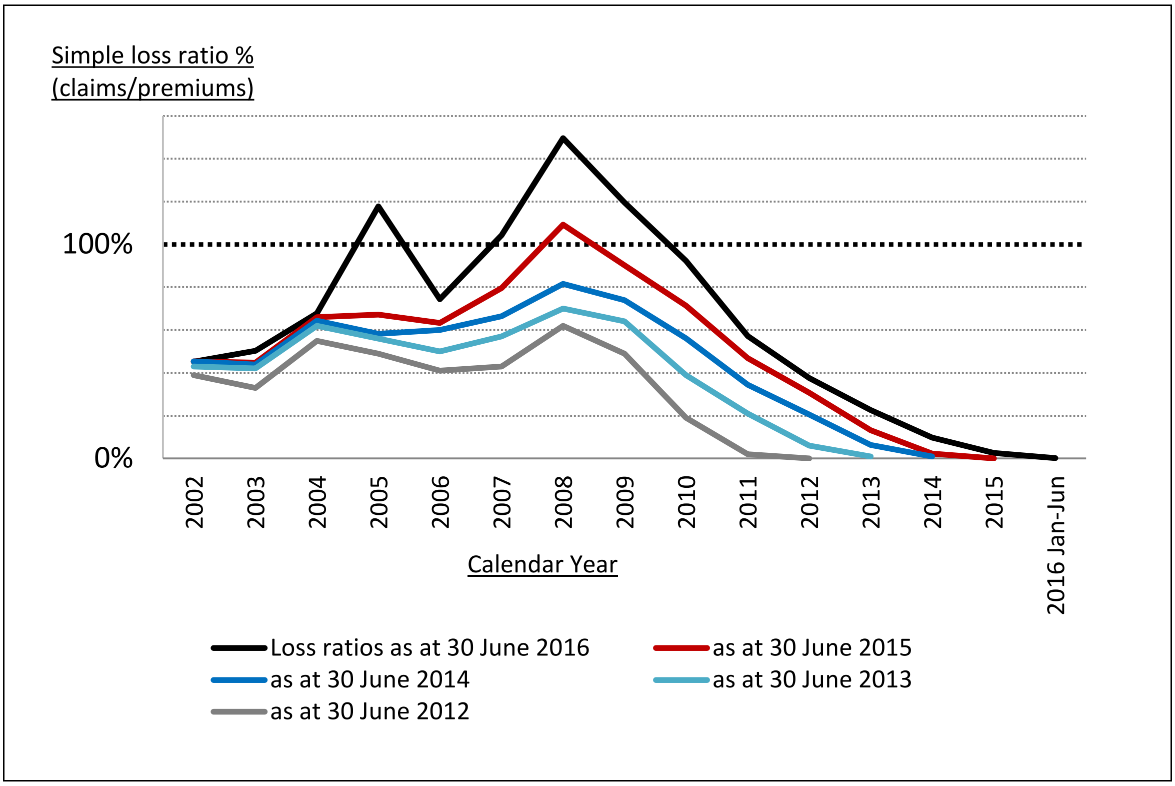
FIGURE 2.1 SIMPLE LOSS RATIOS FOR EACH CALENDAR YEAR
All insurers – as at 30 June 2016



Originally published

FIGURE 2.2 CHANGE IN SIMPLE LOSS RATIOS OVER TIME

All insurers – as at 30 June, 2012–2016



Corrected

FIGURE 2.2 CHANGE IN SIMPLE LOSS RATIOS OVER TIME

All insurers – as at 30 June, 2012–2016