



Legislative Assembly

Home Building Amendment (Insurance) Bill Hansard

Extract

07/05/2002

Second Reading

Mr AQUILINA (Riverstone—Minister for Land and Water Conservation, and Minister for Fair Trading) [8.45 p.m.]: I move:

That this bill be now read a second time.

The home warranty insurance scheme was established under the Home Building Act and commenced in May 1997. The scheme, along with licensing, compliance and education, is a key component of the consumer protection regime for the home building industry. Cover is provided by the private insurance sector. In recent times a number of significant events, such as the collapse of HIH Insurance and September 11, have dramatically changed the insurance landscape. These events have impacted on a wide range of businesses, community groups and occupations. The difficulties created by these changes in the insurance market have been well publicised.

Home warranty insurance has not been immune from these developments, with major insurers indicating their belief that the current scheme is not viable. To ensure there is viable consumer protection for home owners, the New South Wales and Victorian governments negotiated in tandem with the major players in the home warranty insurance industry. The outcome is a sustainable home warranty insurance scheme provided through private insurers. On 13 March this year the New South Wales and Victorian governments announced uniform changes to their home warranty schemes. The bill provides for a number of these reforms, which I will outline shortly. In addition to announcing these structural changes to their schemes the New South Wales and Victorian governments have taken action to overcome a situation created by the withdrawal of reinsurance support for sectors of the market.

The New South Wales and Victorian governments have put in place arrangements to provide the necessary reinsurance in these areas. This has ensured that the three home warranty insurers—Dexta, Royal and Sun Alliance and Reward—can continue to offer insurance to builders, including cover for high-rise projects. These arrangements will operate in the short term. The Government is continuing to work towards a longer-term solution. The bill provides for amendments to both the Home Building Act and the regulation. Cover under the scheme will be provided on a last resort basis. Loss resulting from non-completion of work because of the insolvency, death or disappearance of the contractor will be covered. A home owner will also be able to lodge a claim where he or she is unable to recover compensation from the contractor or take action to have the contractor rectify the problem because of the insolvency, death or disappearance of the contractor.

Similar provisions will apply to claims in relation to owner-builder work and the supply of a kit home. The period of cover under the scheme for structural defects is to be six years after completion of the work or the end of the contract, whichever is later. For other defects, cover of two years will apply. Insurance covering building work or the supply of a kit home by a licensed contractor will still have to be taken out prior to the commencement of the work or the supply of the kit. However, in line with the new period of cover under the scheme, owner-builders will have to take out insurance only if they sell their home within six years of completion of the work. The amount of cover for defective work will remain at \$200,000. This will include cover for such reasonable legal and other costs as may be incurred by the claimant in seeking to recover compensation under the contract. In the case of a claim for non-completion of work the insurance contract may limit liability to an amount that is 20 per cent of the contract price of the job.

Because of the difficulties that the home warranty market has experienced, a number of industry bodies have been examining the feasibility of setting up alternative indemnity schemes to cover work. Provided such schemes deliver equal or better cover to the home warranty insurance scheme, they have the potential to benefit both industry and consumers. The problems relating to reinsurance to which I referred earlier also make it important for the Government to be able to act quickly to put in place arrangements to avoid dislocation to the building industry. The bill therefore provides that the Minister may approve alternative home building indemnity schemes or similar arrangements.

The reforms contained in the bill will enable builders to continue building while ensuring continuing viable consumer protection for home owners. Faced with global issues confronting the insurance industry, the Government has acted to maintain support for consumers and builders while providing a viable market for insurers. The bill provides for enabling provisions under which, if appropriate, the Building Insurers' Guarantee Fund may be used as a vehicle to administer arrangements such as the reinsurance amendments which the Government has recently put in place. The Guarantee Corporation currently handles claims under the Government's HIH rescue scheme. I commend the bill to the House.