



Legislative Council

Home Building Amendment

(Insurance) Bill Hansard - Extract

09/05/2002

Second Reading

The Hon. JOHN DELLA BOSCA (Special Minister of State, Minister for Industrial Relations, Assistant Treasurer, Minister Assisting the Premier on Public Sector Management, and Minister Assisting the Premier for the Central Coast) [3.42 p.m.]: I move:

That this bill be now read a second time.

As the second reading speech has been delivered in the other place, I seek leave to have it incorporated in *Hansard*.

Leave granted.

The home warranty insurance scheme is 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 and the events of 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 homeowners, the NSW and Victorian Governments negotiated in tandem with the major players in the home warranty insurance industry. The outcome is a sustainable home warranty scheme provided through private insurers.

On March 13, 2002 the NSW 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 NSW and Victorian Governments have taken action to overcome the situation created by the withdrawal of reinsurance support for sectors of the market. The NSW 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 & 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 last resort basis. Loss resulting from non-completion of the work because of the insolvency, death or disappearance of the contractor will be covered. A homeowner 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 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 commencement of the work or supply of the kit. However, in line with the new period of cover under the scheme owner-builders will only have to take out insurance if they sell their home within 6 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 from 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% 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 which I mentioned before 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 homeowners. 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 re-insurance arrangements 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.