

QUESTION 1

The Hon. MATTHEW MASON-COX: In last year's statement, from 2017 to 2018, there was a grant from the Government of \$181,000,372.

Ms DONNELLY: Yes.

The Hon. MATTHEW MASON-COX: When you add that back to the deficit in 2017, which is \$480,820,000, it grows to \$616,695,000.

Ms DONNELLY: Yes.

The Hon. MATTHEW MASON-COX: So an increase of \$136 million in 12 months. If you look back over the intervening years, there is a significant increase in that deficit. You can take that on notice and check those figures, if you like.

Ms DONNELLY: I am happy to

ANSWER:

This was addressed in my previous answers to questions taken on notice at the 12 August hearings of the Committee. My answer noted that I had checked this matter with icare, who had advised:

- The deficit of the scheme in the most recent year financial year 2018/19 is \$201.6 million.
- The accumulated deficit in the scheme is \$636.9 million. (\$201.6 million plus an accumulated loss of \$435.3 million to 30 June 2018).
- Approximately \$104.6 million of the \$201.6 million loss in financial year 2018/19 relates to policies that icare inherited and remain under-priced from inception. The remaining \$97 million loss is on the portfolio that was partly repriced during financial year 2018/19 and further price increases are scheduled to be enacted in 2019/20 and 2020/21.

I note that the accumulated deficit figure is the remaining amount after grants made from the Crown have been factored in. During 2017/18, icare received \$181.4m in grants from the Crown. icare received a further \$28.5m in September 2018. These amounts are detailed in icare's 'Insurance and Care NSW Financial Statements 2017-18' at page 211 (**Tab A**).

QUESTION 2

The Hon. MATTHEW MASON-COX: I suppose the question is: We are talking about effectively negative equity growing at about \$100-plus million a year, and this has been going on for years and the pricing and risk issues have been known for years. It is just getting worse. When are we going to fix this problem and how are you going to fix it?

Ms DONNELLY: I have agreed to take that on notice and I will give you back my answer looking at it as two categories of policies—the ones from the newer years where there is pricing closer to break-even, and I know you made a comment in there that I will address and I will also address the fact that there are years where there were policies written and the pricing was not adequate to price for the risk, and claims are still coming in from those. So

that, I hope, will give you the context that, while it is a longtail scheme and there are still claims coming in from previous years, over the longer term having adequate pricing will mean that it moves towards a sustainable basis

ANSWER:

The NSW Self Insurance Corporation (now trading as 'icare HBCF') became the sole provider of insurance in 2010. In terms of recent reforms, the insurance administered by icare under the scheme can be viewed as two portfolios, being insurance written from financial year 2010/11 to financial year 2017/18 ('pre-reform portfolio'), and insurance written in financial year 2018/19 and onwards ('post-reform portfolio'). Note this excludes policies of insurance issued until 2010 by former approved insurers.

Pre-reform portfolio

icare has advised me that \$583m of its \$636.9m accumulated deficit arise from anticipated future liabilities of icare's pre-reform legacy portfolio. If the pre-reform portfolio is viewed on a stand-alone basis, icare advises it is 31% funded as at 30 June 2019. The NSW Government has provided funding support to help manage this shortfall, in particular:

- During 2017/18, icare HBCF received \$138.4m in funding relating to reimbursements of prior year losses up to 30 June 2016; and
- In September 2018, icare HBCF received \$28.5m in funding relating to respect of realised losses from the 2016/17 financial year.

Post-reform portfolio

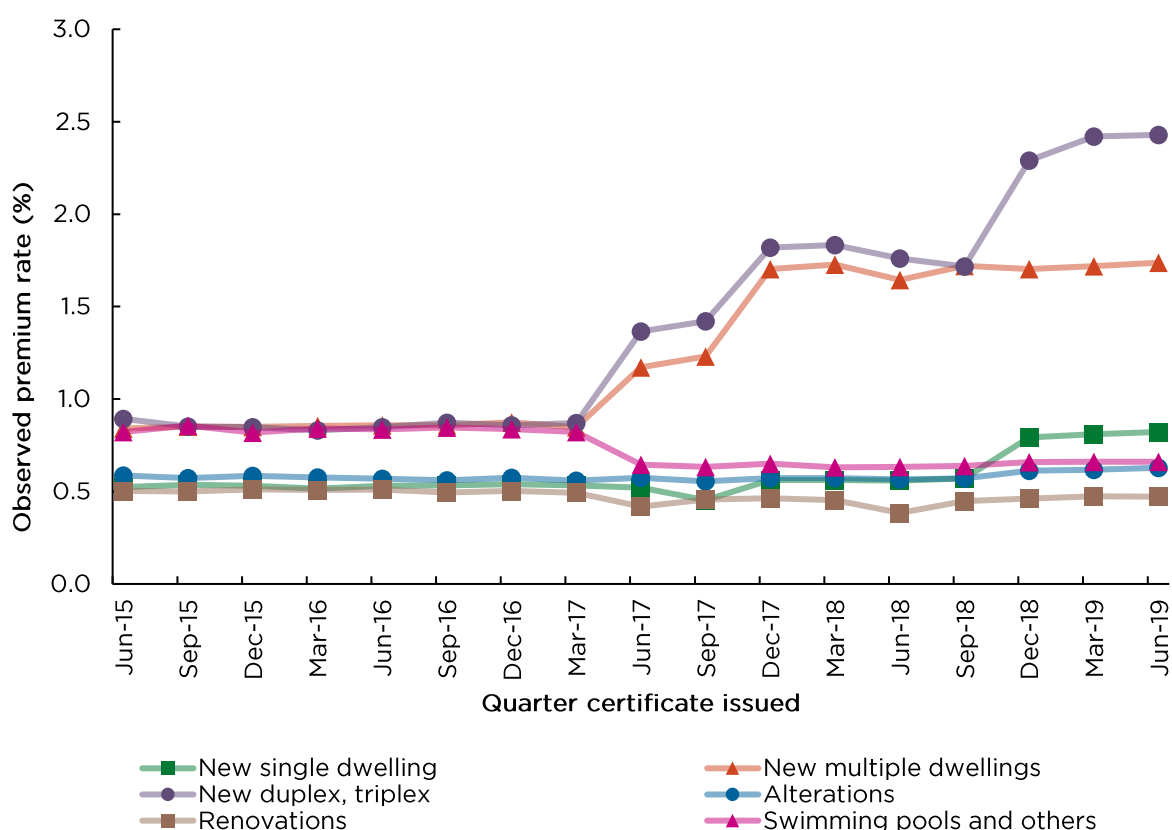
icare advises me that:

- icare's post-reform portfolio of insurance is 75% funded as at 30 June 2019;
- icare's current intention is for the post-reform portfolio to be operated on a sustainable or break-even basis by 2021 across all classes of constructions without need for further Treasury support;
- the majority of constructions, but particularly excluding multi-story constructions under 3 stories, are currently being charged break-even premiums (during 2017/18, icare HBCF received a grant from the Crown of \$43m to cover the expected continued underwriting losses from multi-unit policies written in the 2018/19 year);
- icare plans to raise rates for multi-storey units under 3 stories through four tranches across the two financial years ending 30 June 2021 (icare's proposed premiums through to 2020/21 financial year are published on its website, and a copy of icare's published 'premium increase frequently asked questions' outlining these matters is attached at **Tab B**).

I note that icare's adoption of its proposed premiums will be subject to icare complying with its post-reform obligations with respect to premiums under the *Home Building Act 1989* and the Home Building Compensation (Premium) Insurance Guidelines issued by SIRA under sections 103BD and 103ED of that Act. This includes that icare must file its premiums with SIRA at least every 12 months for the purposes of section 103BF of the Act, with supporting information demonstrating that icare's premiums comply with relevant requirements. Under section 103G of the Act, SIRA may reject a premium filing if:

- a) the premium is, having regard to actuarial advice and to other relevant financial information available to SIRA, excessive or inadequate, or
- b) the premium does not conform to the relevant provisions of the Insurance Guidelines.

I have included below a figure that shows how actual observed premium collected by icare has changed over time (expressed as a percentage of the contract value of the work being insured), by construction type and quarter, for the period spanning the pre-reform and post-reform portfolios (June quarter 2015 to June quarter 2019). I note this does not include subsequent premium rate changes that icare recently implemented in August 2019, in which icare has aligned base premium rates for 'new duplex, triplex' and 'new single dwelling' construction types at 0.95% of contract value for metropolitan locations, and 0.76% for regional locations (those premiums being the rates excluding GST and stamp duty).



QUESTION 3

The Hon. MATTHEW MASON-COX: Perhaps you can take this on notice. I think you alluded to the fact that you are going to provide some information over a course of years as to where it has gone, if you like, in terms of the deficit of the scheme. Then perhaps let us look at forward and what your projection might be in terms of bringing that back to a surplus as part of a plan, if indeed that is where this is going to really take it out of Government hands so that the Government is not continuing to lose hundreds of millions of dollars underwriting the building industry and all the regulatory problems that exist as a result—or perhaps not as a result, but they exist.

Ms DONNELLY: I am happy to take that on notice. Obviously, I will want my response to be factual.

ANSWER:

Please see my answers above, which outline the accumulated deficit and timing for moving premium pricing to break-even rates.