

14th April 2008

Committee Secretary
Senate Economics Committee
Department of the Senate
PO Box 6100 Parliament House
CANBERRA. A.C.T. 2600
AUSTRALIA.

Re: Submission – Senate Inquiry Home Building and Warranty Insurance

Dear Senators

Having been involved in the building industry for approximately 40 years as a registered builder, Managing Director of my own building company for 25 years, an associate member of the Institute of Arbitrators and Mediators Australia (IAMA), committee member of the Builders Collective of Australia and one of the architects of the unsuccessful attempt to establish Builder's Mutual in Western Australia, gives me some authority to comment on what I believe is one of the greatest injustices placed on the builders and building consumers since my time in the industry.

The original intent of Warranty Insurance was to protect consumers, yet from the very beginning and especially after amendments to the Act, it has had a detrimental and misleading affect on all involved.

You will have many submissions telling you what is wrong with the Warranty Insurance and I would probably agree with most of them. You will also have submissions supporting the so called Warranty Insurance in its present form. I ask the senators to look at those submissions of support and I am absolutely confident that none are from the consumers or consumer organisations. They will be from associations and organisations that are reaping massive profits from this disgraceful and farcical insurance.

I am sure they will say everything is working and there is no need for change. The fact is if we didn't have Warranty Insurance nothing would be any different, investigations have concluded there have been very few successful claims from consumers against insurers.

Warranty Insurance has played a role in pushing affordability to breaking point in the home building industry.

In WA we have over 5,000 registered builders that build approximately 20,000 homes per year. The majority of these homes (approx 80%) are now being built by just a handful of large building groups that trade under numerous names. These fortunate building groups are the chosen few, who through their connections with building organisations, (who act as the broker for the insurers) can trade with no restrictions to their business. Due to the lack of competition, massive overheads and inflated profits these larger builders are now working on margins of approx' 30%-40% on building costs.

The majority of builders, including many small to medium building companies are now unable to expand their business due to the unreasonable restrictions placed on them by the insurer.

The great tragedy of Warranty Insurance is that it created the opposite of what it was intended to do. It has stifled competition. Many good and creditable builders who had a long and unblemished history decided that the demands of the insurer was too much of a burden, a risk to them and their families and made the decision to leave the industry.

I am sure it is also preventing many young, bright and enthusiastic young people from entering into a career in building.

A proper Warranty Insurance managed correctly, structured on integrity, with the aim of improving the home building industry would be welcomed and supported by all the home building public and builders alike.

The insurers who have never understood the warranty product they are providing, (frankly it has nothing to do with insurance) created the scenario of issuing insurance on the proviso if there is a claim, it would be paid by the person taking out the insurance. Also on the advice of some building associations they concluded that it would be in their interest to reduce the number of builders building the majority of homes, knowing that under the Act the tax paying public will pick up the bill on any claims over \$10 million.

Insurers are now a little more comfortable issuing Warranty Insurance, until of course something goes wrong and they revert back to their aggressive and burdensome approach of the past.

The opportunism and greed displayed by the directors of some building association's is astonishing, that it has been allowed to continue as long as it has, is unbelievable. I hope this enquiry will rectify that situation.

The hundreds of millions that have been taken from the home building consumer under the pretence of Home Warranty Insurance have gone forever. We now have the opportunity to provide Warranty Insurance based on national guide lines, administered by each State Government through their building regulator. It has to be part of a total package that will encourage more participation that includes encouraging builders to re-enter the market, removing the unnecessary restrictions on good builders, increase trade training to deal with the shortage of skilled workers and include consumer bodies to address the concerns as they arise...

There are many that would participate in formulating a workable solution to the present problems. Funding a new and genuine Warranty on home building construction can easily be obtained by a very small levy based on the value of the project.

Home building costs and faulty workmanship will reduce sharply if these issues are addressed. The consumer will feel more confident that his investment in building will be protected.

In conclusion it is well overdue to rectify this problem and I sincerely hope after this enquiry the senators in there good judgement have a much clearer picture of the misconception of what has happened over the past decade.

An appreciation and acceptance of the injustice to the consumer and builder alike would be most welcome.

Yours Sincerely

RAY DOHMEN