

14 April 2008

Submission to:

Committee Secretary
Senate Economics Committee
Department of the Senate
PO Box 6100
Parliament House
Canberra City ACT 2600



The purpose of this submission is to briefly outline my personal experience with Home Warranty Insurance which we paid several thousand dollars for in 2004 at which time my partner and I contracted a local builder to build our home in Lawson, NSW.

The building was 90% complete when the builder became insolvent. The building work was (and remains) of excellent quality, we do not have any issues with the builder.

Our claim to **Vero Insurance Limited** was accepted by them with a subsequent inspection of the building.

We had not received a decision from Vero regarding our claim 45 days following receipt of the acceptance letter and were informed by staff at the Dept. for Fair Trading (NSW) that this is deemed as a refusal. We then made application to the Consumer Trader & Tenancy Tribunal.

Communication throughout the 45 days we were waiting for a response from Vero was minimal and on all but one occasion was instigated by us. At no time did they request further information.

Vero were blatant in their refusal to assist following our claim on the policy. They asserted that we did not suffer a loss despite their policy which states

“...we will pay you if you suffer: (a) loss or damage resulting from non-completion of the work because of the insolvency, death or disappearance of the builder,” *Vero NSW Residential Construction Warranty Insurance*.

The Consumer Trader & Tenancy Tribunal hearing was in January 2005 at Penrith and the main points were:

- Vero's claim that we had not suffered a loss – even though we argued that we had suffered a consequential loss.
- Vero required more financial information from us regarding the claim.
- Dates were set for us to present further financial information and for Vero to respond.

Meanwhile we approached another financial institution who financed the completion of the building works. **Our original lender would not advance the final payment until the building was finished, therefore we were stuck with an unfinished building and no finance to engage another builder.**

In the meantime, Vero failed to attend the second hearing of the Tribunal, sending a message by facsimile several minutes before it was due to commence.

Problems with the site such as excess water runoff and silt build up were encountered due to the stopping of the project. We were left to manage the project with great difficulties due to our lack of building and site management experience. Extra cost was incurred as a result of the contracting a new builder and the interim management of the site.

I agree with the following key points of the Productivity Commission's Draft Report on the, *Review of Australia's Consumer Policy Framework* as follows:

(p. 73) that

- **action is required to improve ADR and licensing mechanisms in the home building sector, and to ensure that builders' warranty insurance offers value for money to consumers and that consumers understand the product**

draft recommendation 5.5 for

- **a revamping of compulsory builders' warranty insurance to ensure that it is of genuine value to consumers and that consumers understand the product.**

People engage builders/architects and other professionals as they do not have the necessary skills to manage the project. Building a home is probably the largest and most important investment carried out by people.

Consumers rely on project managers/professionals to take care of aspects of home building which they do not know, such as, building, site protection, prevention of silt erosion, development application processes and local government consent and inspection.

Consumers can be vulnerable regarding contracts such as BWI and require support to make claims when problems occur.

When a builder/project manager becomes insolvent this leaves the consumer to do all tasks without the necessary skills. The consumer is left to liaise with the insurance provider, local government and lending authorities.

- BWI needs to be a first resort rather than last resort product
- Consumers need building insurance cover which will finish the building as per the contract including all the necessary liaison with local government and their lending authority.
- Information about engaging new builders is required, in situations such as insolvency or disappearance of the builder.
- The insurance cover needs to ensure that assistance is available for the consumer to proceed up to the 149 stage to enable occupancy as per the contract. This should include extending insurance cover to new builders who take on unfinished house building.
- Consumers in all states of Australia should have access to adequate BWI with all State Governments legislating accordingly.


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