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

Dear Sir/Madam

**Master Builders Association of the ACT  
Submission into the Inquiry into Australia's Mandatory Last Resort Home  
Warranty Insurance Scheme**

Thank you for the opportunity to provide a submission to the above Inquiry. The ACT Master Builders Fidelity Fund is not an insurance company, however, the Fund provides the same level of consumer protection as provided for by Home Warranty Insurance providers. For your information I have provided the following background on the establishment of the Master Builders Fidelity Fund:

**Background**

The ACT Master Builders Fidelity Fund was established in 2002, under provisions of the ACT Building Act, introduced in response to the withdrawal of one major insurer from the Home Warranty insurance market, following the collapse of HIH and the reluctance of other insurers to step into this gap. The Master Builders Fidelity Fund is a discretionary fund operating under a Trust Deed. The Fund operates under a Prudential standard established by regulation and reporting to ACT Treasury. This also implies a slightly different terminology from insurance: requests instead of claims and contributions instead of premiums.

The first certificates were issued by the Fidelity Fund on 24 June 2002. Since that time over 11,000 certificates have been issued to licensed builders in the ACT.

Under the provisions of the ACT Building Act, Builders Warranty Insurance, up to a maximum sum insured of \$85,000 per unit, must be provided against the insolvency of the builder during construction and against latent defects. This Warranty Insurance must be provided for all residential construction and alterations with a contract price of \$12,000 or more, but not for residential buildings of above three habitable storeys. Landscaping, swimming pools, driveways and similar works are not covered.

The warranty period is six years from completion for structural defects and two years for non-structural defects. Successors in Title who purchase a speculative unit or house, are also covered under the above provisions.

### **Security for consumers and builders**

The Master Builders Fidelity Fund was established to secure the future of the construction industry in the ACT at a time when insurance companies were collapsing or withdrawing from the Housing Indemnity market and imposing hefty premium increases, which of course were ultimately passed on to the consumers by the builders.

The MBA recognised that a long-term solution was required and the current Fidelity Fund, administered by the Master Builders Association of the ACT, delivers warranty insurance to builders at the lowest possible premium rates. Consumers and builders have confidence in the stability and the security of the Fidelity Fund and can be certain that capital remains in the ACT and it is securely invested and used for the betterment of ACT builders and consumers. ACT consumers can be certain that their protection will continue, irrespective of the fortunes of major insurance companies or foreign investment markets.

### **Assessment and auditing of builders**

The Fidelity Fund requires builders to undergo a risk and financial assessment before admission to the Fund. The assessment process is carried out by an independent auditor to ensure consistent standards. Provided builders meet the requirements of the Fidelity Fund's risk and financial assessment, the Fund promises a totally transparent cost structure combined, with an efficient approval and issue of certificates for cover.

To protect the interests of consumers and to ensure satisfactory standards of building work are being maintained, the Fidelity Fund auditor undertakes regular onsite inspections of building work during varying stages of construction and works with builders to ensure non-conforming work is rectified at critical stages in the construction process.

### **Publications to assist consumers and builders**

The Master Builders Fidelity Fund produces regular technical newsletters and publications to assist builders and consumers in understanding and applying the Building Code and the relevant Australian Standards, thereby ensuring higher standards and quality of building work. The objective of the Master Builders Fidelity Fund is to work with the industry to deliver the best possible product to the consumers acknowledging that this is the greatest investment that a consumer will make in their lifetime.

### **Information sessions for consumers**

The Master Builders Fidelity Fund also conduct regular forums for consumers in gaining a better understanding of the contractual process and their obligations when entering into contracts with builders in undertaking residential building work.

### **Processing of claims by consumers**

Claims by consumers are dealt with in a speedy manner. Claims are assessed within 14 days. The entire process of selecting contractors to complete work by the builder who has disappeared, died or become insolvent is managed by the Fidelity Fund and works completed, inspected and certified in the shortest possible timeframe.

### **Appropriateness and effectiveness of the Master Builders Fidelity Fund**

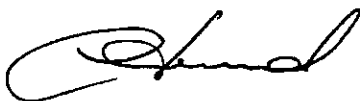
The Master Builders Fidelity Fund offers a unique service to consumers and builders, whereby the builders have a sense of ownership and non-performing or non-credible builders are not allowed access to the Fund. The Fund provides an effective level of protection where builders fail to complete work, or in circumstances where defects occur in the building work during the statutory warranty period. High performance builders are rewarded by reduced premium rates, with the benefits being passed on to consumers. Builders who, during the audit process, are deemed to not be providing a satisfactory standard of building work are required to undertake specific training as a condition of being issued further certificates of cover by the Fund.

### **Conclusion**

We believe that the Fidelity Fund is in a unique position when compared to other state and private insurance providers, in that the Master Builders Fidelity Fund engages with consumers and builders to ensure that increases in premiums are minimised and that consumers are provided with a rapid resolution where claims are made against the Fund.

Should you require further detailed information on how the Fidelity Fund operates, please do not hesitate to contact me.

Yours sincerely

A handwritten signature in black ink, appearing to read "Jerry Howard", written in a cursive style.

Jerry Howard  
Deputy Executive Director