

Increasing Home Warranty Insurance Coverage

Strata Community Association (NSW) Submission
November 6 2023

INTRODUCTION

1. Strata Community Association (NSW) Overview

Founded in 1980, Strata Community Association (NSW) was formerly known as the Institute of Strata Title Management. SCA (NSW) serves as the peak industry body for Strata and Community Title Management in New South Wales. The association proudly fulfils a dual role as both a professional institute and consumer advocate.

2. Membership

SCA (NSW) boasts a membership of over 3,000 members, including lot owners, suppliers, and professional strata managers who oversee, advise, and manage a combined property portfolio estimated to be worth over \$450 Billion.

3. Strata and Community Title Schemes in NSW

NSW is home to 89,049 Strata and Community Title Schemes. A significant 95 per cent of these schemes are comprised of residential lots. Altogether, the total number of Strata and Community Title lots in NSW stands at 1,043,690.¹

4. NSW as a Leader in High-Density Living

According to the 2022 Australasian Strata Insights Report, there are 2,501,351 people residing in apartments across Australia. A majority of these apartment dwellers (51 per cent) are in NSW. ² NSW also leads the way in the trend to higher density living in Australia and boasts the highest proportion of apartment households relative to all occupied private dwellings, standing at 22 per cent.

5. Employment Impact

Strata is a significant employer, directly providing jobs to 1,413 managers throughout NSW, as well as an additional 1,317 other related employees. ³

6. Promoting Professionalism

1. SCA (NSW) is dedicated to fostering a high standard of professionalism in the strata industry with initiatives like the Professional Standards Scheme (PSS), which contributes to ensuring strong consumer outcomes for over 1 million strata residents in NSW.
2. SCA (NSW) membership encompasses a wide range of entities, from large corporate companies to small family businesses to dedicated volunteers. Members possess expertise in all aspects of strata management, service provision, and governance.

For further information about this consultation, please contact Dylan Lin, Policy and Advocacy Officer, SCA (NSW). Dylan.lin@strata.community

¹ Hazel Easthope, Danielle Hynes, Yi Lu and Reg Wade, Australasian Strata Insights 2022, City Futures Research Centre, UNSW, Accessed at https://cityfutures.adu.unsw.edu.au/documents/717/2022_Australasian_Strata_Insights_Report.pdf

² Ibid, p.8-13.

³ Ibid, p.8.

INCREASING HOME WARRANTY INSURANCE COVERAGE

1. Introduction

The Home Building Amendment Bill 2011 introduced notable revisions to the Home Building Act 1989 in NSW. Among these changes was the minimum home warranty insurance coverage increase from \$300,000 to \$340,000 per dwelling, effective 1 February 2012. While this adjustment was a positive stride, the escalating building costs in the current market necessitate a further increase of the minimum coverage amount. The cost of construction materials has continued to rise, making the existing coverage limit insufficient to address the financial ramifications of incomplete building work and/or building defects in today's market. **Consequently, SCA (NSW) robustly believes an urgent increase in the minimum cover for home warranty insurance is crucial to ensure homeowners are financially protected from rising building costs.**

2. HWI Overview

Home Warranty Insurance (HWI) plays an important role in safeguarding the interests of homeowners by providing a financial safety net to address building defects and/or incomplete building work.

1. HWI is designed to protect homeowners and strata schemes from financial losses associated with defective or incomplete construction work. The coverage is governed by the Home Building Amendment Bill 2011 and offers financial protection by ensuring homeowners have access to compensation in case of defects in residential building work.
2. The insurance becomes necessary for residential building works with a price exceeding \$20,000 or involving labour and materials worth over \$20,000. The definition of residential building work is intricate, encompassing construction, repairs, and decorations of dwellings.
3. HWI offers coverage for a specified period after the completion of residential building work and is intended to cover the costs of rectifying defects that may arise during this period. The coverage includes both first resort insurance and last resort insurance. Under this system, homeowners may be required to make claims during the period of cover, ensuring that they have a financial safety net for addressing building defects.

4. The current scheme in place is the Home Building Compensation Fund. It offers coverage when homeowners cannot recover from builders or developers due to certain circumstances. However, HWI is subject to certain limits, specifically a minimum of \$340,000 per dwelling, along with an excess of \$250 (aggregated, not per lot). The insurance policy ensures that if the contract price (including GST) for the work exceeds \$20,000 multiplied by the number of lots, it provides coverage for each dwelling in the building, with a minimum of \$340,000 per dwelling. Conversely, if the contract price (including GST) falls below the threshold of \$20,000 multiplied by the number of lots, the insurance policy must guarantee a total coverage amount of no less than \$340,000.²

3. Escalating Building Costs: The Imperative for an Immediate Increase to Insurance Coverage

Since 2012, building costs have maintained a persistent upward trend, while HWI insurance coverage has remained unchanged, failing to consider these escalating costs in providing adequate coverage for homeowners. This surge can be attributed to rising inflation rates, labour shortages, and significant disruptions in the supply chain, all culminating in the highest prices for building materials and construction in 20 years.³ In particular:

5. According to CoreLogic's Construction Cost Report 2022, national residential construction costs in 2022 had an annual growth rate of 11.0%, marking the highest rise since the introduction of the GST in March 2001.⁴ Furthermore, as indicated in the table below, construction costs in six of Australia's major capital cities have been consistently rising yearly since 2012, according to estimates from the Australian Bureau of Statistics **(For more information, click [here](#)).**

² Bannermans Lawyers, BL. "When Do You Need Home Warranty Insurance?" Bannermans Lawyers, May 3, 2017.

³ Coverforce Smart Insurance Solutions, C. "Building Costs Are Rising - Is Your Insurance Keeping Up? | Coverforce Insurance Brokers." www.coverforce.com.au, 2022. <https://www.coverforce.com.au/insurance-news/news/building-costs-are-rising---is-your-insurance-keeping-up/800514294/>.

⁴ CoreLogic, C. "Australia's Construction Costs Continue to Rise at Record Rates." CoreLogic Australia, October 7, 2022. <https://www.corelogic.com.au/news-research/news/2022/australias-construction-costs-continue-to-rise-at-record-rates>.

Table of Building Cost Increases by Year

| Year | Annual Change (%) |
|-------------|--------------------------|
| 2012 | 1.1% |
| 2013 | 0.1% |
| 2014 | 1.6% |
| 2015 | 1.7% |
| 2016 | 1.4% |
| 2017 | 1.1% |
| 2018 | 3.2% |
| 2019 | 0.6% |
| 2020 | 1.8% |
| 2021 | 12.0% |
| 2022 | 14.2% |
| 2023 | 7.4% |

Source: Australian Bureau of Statistics - Producer Price Indexes ⁵

6. Master Builders Australia’s analysis of ABS Producer Price Indexes reveals the annual change in cost of all materials used in housing buildings for NSW in 2022 was 13.4%. On average, the pace of increase between 2012 and 2022 for the different types of building materials in NSW was:
- a. Timber, board and joinery products (16.2%)
 - b. Ceramic products (4.8%)
 - c. Concrete, cement and sand (5.2%)
 - d. Metal products (9.3%)
 - e. Plumbing products (8.6%)
 - f. Electrical equipment (3.9%)
 - g. Installed gas and electrical appliances (5.4%)
 - h. Other house building materials (6.2%) ⁶

⁵ Australian Bureau of Statistics, A. “Producer Price Indexes, Australia, June 2023 | Australian Bureau of Statistics.” [www.abs.gov.au](https://www.abs.gov.au/statistics/economy/price-indexes-and-inflation/producer-price-indexes-australia/latest-release#:~:text=Input%20to%20the%20house%20construction%20industry&text=Input%20prices%20to%20house%20construction), July 28, 2023. <https://www.abs.gov.au/statistics/economy/price-indexes-and-inflation/producer-price-indexes-australia/latest-release#:~:text=Input%20to%20the%20house%20construction%20industry&text=Input%20prices%20to%20house%20construction>.

⁶ Master Builders Australia, M. “Building Material Costs Increasing at Their Fastest Pace since 1980 | Master Builders Association.” www.mbansw.asn.au, 2022. <https://www.mbansw.asn.au/media/industry-news/building-material-costs-increasing-their-fastest-pace-1980>.

7. Despite the unrelenting and substantial rise in building costs, minimum HWI coverage has remained stagnant since 2012. This lack of adjustment is concerning as the coverage amount of \$340,000 has failed to keep pace with ever-increasing building costs. **SCA (NSW) strongly advocates for an immediate increase in the minimum coverage amount of \$340,000 for HWI.** The association emphasises the continuous upward trajectory in building costs necessitates a thorough re-evaluation of insurance coverage to strengthen protection for homeowners.

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