

Tasmanian Home Warranty Insurance (HWI) Consultation.

Certainty for Consumers and Industry.

Chris Lehmann 1st June 2022



Introduction

Master Electricians Australia (MEA) is the trade association representing electrical contractors recognised by industry, government and the community as the electrical industry's leading business partner, knowledge source and advocate. Our website is www.masterelectricians.com.au

Submission

Do you think the proposed parameters, including 'last resort', claim value limits and application triggers, are appropriate for the HWI in Tasmania? Why?

MEA are broadly in favour of the proposed parameters, and strongly in favour of the "last resort" model to limit costs and ensure that builders still in operation are responsible for rectifying defects.

MEA believe that the monetary figures for triggers and claim value limits should be indexed in the legislation to ensure that these benchmarks keep pace with changes in market pricing.

What changes would you propose to enhance consumer protection or reduce costs?

1. MEA are concerned that with a contract manager model especially it may be difficult to enforce universal uptake and to audit compliance of builders and consumers signing up to the scheme.

i.e. In the situation where a homeowner pays a premium to a builder, the builder receipts this money and does not purchase an insurance, if there is a subsequent problem no coverage for repairs will be available. It is not clear from the consultation paper what mechanism will be used to ensure this universal uptake is to be achieved.

2. MEA believe that Statutory Payment Trusts be introduced in line with the findings of the Murray Review, in concert with the HWI scheme to support its aims. This would ensure that monies set aside for a project, are spent entirely on that project. If a builder were to become insolvent or to be unable to complete a project, the progress payment monies already in the trust would be available to complete the aspects of work for that stage, reducing disruption to the consumer and ensuring payments for the sub-contractors.

Do you consider that the proposed exemption, exclusion, transitional, owner builder and transfer of insurance on sale arrangements are desirable for the future HWI scheme? Why?

MEA believes that the exemptions for publicly funded works and exclusions for commercial works, in line with other jurisdictions is reasonable.

MEA believe it is reasonable and equitable for the transfer of HWI coverage to subsequent buyers for the term of the coverage period, and the requirement for Owner Builders to purchase HWI to protect subsequent owners.

Do you consider that the proposed way forward, of Tasmania implementing a framework for a contract manager model in the short is appropriate?

Whilst MEA understands the small size of the Tasmanian market and no existing state self-insurance entity, we have concerns that the “Contract manager” model will be difficult to enforce universal uptake and to audit compliance. There have been many parliamentary enquiries into the effectiveness of such schemes ¹ with numerous articles² and papers³ written on the problems associated with administering them.

Third party insurers have also charged higher and higher premiums and/or requested bank guarantees or directors guarantees to offset their calculated risks. MEA believes that the Tasmanian government should monitor the operation of a Contract Manager model over the initial introduction period and consider moving to an Entity Model if a Contract Manager Model is not viable in the Tasmanian market.

Do you support a legislative approach that provides for competition over time?

As long as the proposed Contract Manager Model proves commercially viable and the market can support other approaches, MEA would support competition.

Conclusion

This initiative is especially timely considering the challenges the building industry is facing with price rises of materials and labour and the increased instances of insolvencies. That is why MEA believes that the introduction of Statutory Trusts for building projects to ensure that monies remitted for a project are spent on that specific project, would be a logical additional reform to support the aims of HWI.

MEA supports the aims of the Tasmanian HWI scheme and looks forward to being involved in further consultations on this issue. MEA has consistently supported moves to improve standards and work practices in the construction industry and believe that a properly constituted, transparent and viable HWI scheme is a positive move.

¹ <https://www.parliament.nsw.gov.au/researchpapers/Documents/home-warranty-insurance/home%20warranty%20insurance.pdf>

² <https://buildingconnection.com.au/2018/07/24/home-warranty-insurance-wrestling-the-beast/>

³ <https://www.mbansw.asn.au/sites/default/files/draft-report-efficiency-and-effectiveness-of-the-nsw-home-building-compensation-fund-september-2020.pdf>