PERFORMANCE OF VICTORIA'S DOMESTIC BUILDING INSURANCE SCHEME 2013-2014

February 2015

An appropriate citation for this paper is:

Essential Services Commission 2015, *Performance of Victoria's Domestic Building Insurance Scheme 2013-2014*, February.

GLOSSARY

Building Commission	A statutory authority that oversees the building control system in Victoria.
Building Practitioners Board	The licensing arm of the Building Commission.
Claims liability	The cost of a claim to an insurer. This includes money paid out as well as estimates of future costs.
Died, disappeared or insolvent (DDI)	The three triggers for Victoria's DBI scheme.
Domestic building insurance (DBI)	A mandatory insurance that compensates home-owners for non-completion or defect where the builder is unable to rectify the works because they have died, disappeared or become insolvent (also referred to as Builders Warranty Insurance).
Eligibility	Pre-approval from an insurer for a builder to be issued project certificates.
First resort	An insurance scheme that provides compensation regardless of the builder's circumstances (as opposed to a last resort scheme).
Investment returns	The revenue earned by an insurer by investing premium revenue.
Last resort	An insurance scheme where compensation is only available where all other avenues for resolution have been exhausted
Liability period	The period of time that an insurer is liable for claims on a policy.

Long-tail insurance

Insurance products where the full cost of claims is not known for a long time after the premium is charged.

Owner-builder

A person who constructs or renovates a domestic building on his or her own land, who is not in the business of building.

Policy

For owner-builders, DBI coverage is issued in the form of a policy. Owner-builders are only required to take out a policy if they sell the property within six and a half years of completion.

Premium

The charge for insurance coverage.

Private insurers

Independently trading insurance companies that compete in the market. Generally they are publicly listed entities, trading for profit.

Project certificate

For registered builders, DBI coverage is issued in the form of a project certificate that is specific to the domestic building work undertaken in a domestic building contract.

Rectification Order

A binding order issued by the VBA requiring the performance of building work; the payment of money to the builder, or into a trust account for release upon completion of work.

Run-off period

The time after an insurer has stopped issuing insurance, but is still responsible for claims on existing policies.

Simple loss ratio

Net incurred costs relating to claims made on project certificates issued in a year, divided by the total premium earned for that year. Excludes the costs of claims that are yet to be made. Excludes costs that the insurer incurs in administering the scheme or income from investments.

Turnover limit	An insurer's calculation of a builder's capacity to undertake work. This is the total value of construction work that an insurer will issue certificates for in a 12 month period.
Victorian Building Authority (VBA)	Regulates building and plumbing practitioners. The VBA replaced the Building Commission, the Plumbing Industry Commission and the Architects Registration Board of Victoria.
Victorian Managed Insurance Authority (VMIA)	A statutory body providing DBI insurance. As of 1 January 2014 VMIA is the only insurer providing insurance to registered builders.

CONTENTS

EXECUTIVE SUMMARY

This is the Essential Services Commission's (the Commission) fourth annual report on the performance of Victoria's domestic building insurance (DBI) scheme. The DBI market has undergone significant change since this mandatory insurance scheme was introduced in 2002.

DBI (which is also known as builders' warranty insurance) is taken out by builders and compensates a home-owner for losses resulting from non-completion or defects in domestic building work where the builder cannot be pursued directly because they have died, disappeared, or become insolvent. It is compulsory for all domestic construction contracts over $16 000 in value.[1]

When the current scheme was first introduced in 2002, the market was served by five competing private sector insurers. From 2009, all but one of these insurers left the market (although they remain liable for claims against the policies they wrote before their exit from the scheme). In response to this development, and following an official mandate issued by the Victorian Government in March 2010, the Victorian Managed Insurance Authority (VMIA) began offering DBI.

Within this context, the Commission has terms of reference to report annually on the performance of Victoria's DBI scheme, covering the number of eligible builders; the number of project certificates (policies); premium levels; and the number and amounts of claims. In examining each of these areas, the Commission collects quarterly data from insurers. This data is not audited and the Commission relies on insurers providing accurate data.

This latest performance report covers the period up to 30 June 2014.

---

[1] This required amount was increased from $12,000 on 1 July 2014.

One of the key features of DBI is that it is a long-tail insurance scheme, which means that claims come in over a long period of time (up to ten years) after the issuing of the policy. Because of this, insurers must forecast the sufficiency of premiums collected in one year to meet the cost of claims incurred in future years, and to assess if their product is financially viable.

A key measure of DBI scheme performance is the simple loss ratio, which shows the cost of claims as a percentage of the premium collected. A period of premium discounting between 2006 and 2009 coincided with an increase in claims, resulting in rising simple loss ratios. This led to the progressive exit of five private insurers from the DBI market. For policies issued in 2008, the updated data indicate that claim costs have reached around 82 per cent of premium reserves, higher than any other year.

Calliden and VMIA are currently the only two insurers offering DBI in Victoria, with the latter having the vast majority of the market.[2] Under the current arrangements, DBI eligibility with an insurer is a pre-requisite to a builder's registration. Eligibility is like pre-approval from an insurer to take out DBI project certificates. Insurers use the eligibility process to evaluate the financial position of the builder and impose an annual turnover limit, which is their assessment of the maximum value of building projects the builder can take on without risking insolvency.

After peaking at just over 62 400 in 2010, the total number of certificates has fallen annually, until 2013. The total number of project certificates issued in 2014 are expected to increase based on the data collected for the first half of the year. Project certificates for new dwellings account for the largest share of total DBI project certificates issued and the premium pool.

Premiums charged for DBI differ according to project type, builder risk rating and project size (value). Average premiums reached their lowest point in 2008 and since the withdrawal of most private sector insurers in 2009, average DBI premiums have risen. The average cost of a project certificate has almost doubled since 2008.

Around 2008, competition between insurers was strong, but the market for DBI was still in its infancy, and a lack of information about costs could have driven premiums below

2 Calliden ceased providing DBI to registered builders at the end of 2013, but continues to provide insurance to owner-builders.

cost reflective levels. In its first year, VMIA adopted QBE's premium rates and has since issued new premium schedules on 1 July 2011 and on 1 July 2013, which led to more cost reflective rates.

In its Domestic Building Insurance Premium Validation Review, released in May 2013, the Commission concluded that the VMIA's premiums (for the 2010 to 2012 period) were appropriate and :

- sufficient to cover its expenses, risks and long-term claims costs;

- not set above the level required by the VMIA to cover its expenses and the risks and long-term claims costs.

The Commission will release its second review of the adequacy of the VMIA's premiums in April 2015.[3]

The long-tail nature of the DBI scheme means that it is difficult to present claim numbers in their true context until at least six years after the issue date of project certificates. Nevertheless, it appears that claims are relatively infrequent in relation to the number of project certificates issued. The revised data show that 5598 claims have been lodged (with 3 943 of these claims accepted) since the DBI scheme commenced in 2002. Nevertheless, there are signs that the frequency of DBI claims is rising.

Each claim represents a major inconvenience for customers who suffer from defective building work and the stress of trying to locate their builder. Claims are complicated for insurers to manage, and can take a long time to finalise due to the technical nature of the investigations and repairs. Insolvency is by far the most common reason that claims on DBI are made, and almost half the claims received related to a structural defect.

The average cost of a DBI claim for work undertaken by a registered builder is around $33 000 per claim (although this falls to around $31 000 per property when the figures are adjusted for claims relating to multiple properties, such as common property defects in multiunit developments). Claims for failure to complete are the most costly to insurers, making up almost half of all finalised claims costs.

[3] This review will cover premiums for the 2012 to 2014 period.

The time it takes for a claim to go through each stage of the claim process can be used to examine how the scheme is operating in general and may give an indication of how well consumers are being served. Since the scheme started in 2002, the average time between receiving a notification and a claim being finalised is 345 days, or about twelve months.

1 INTRODUCTION

This introduction provides the basic background and vocabulary needed to understand this report. Abbreviations and terms included in the glossary are highlighted in bold and italics.

Domestic Building Insurance (DBI) compensates a home-owner for losses resulting from non-completion or defects in domestic building work where the builder cannot be pursued directly for redress because they have died, disappeared, or become insolvent. These three triggers are collectively abbreviated as ***DDI***. DBI is known as a ***last resort*** insurance scheme as it is only available where all other avenues for resolution have been exhausted. A ***first resort*** scheme provides compensation for defects even if the builder is still trading.

Changes to the scheme increasing the level of building work where DBI is required from $12 000 to $16 000 and increasing the cap on claims costs from $200 000 to $300 000 took effect from 1 July 2014.

ELIGIBILITY

Currently, all builders are required to have ***eligibility*** with a DBI insurer in order to maintain their registration with the ***Building Practitioners Board***. Eligibility is a pre-approval from an insurer to take out DBI project certificates. Insurers use the eligibility process to evaluate the financial position of the builder and impose an annual turnover limit, which is their assessment of the maximum value of building projects the builder can take on without risking insolvency.

PROJECT CERTIFICATES AND PREMIUMS

In Victoria, DBI cover is compulsory for all domestic building works with a contract value over $16 000. When a contract for the work has been agreed, the builder takes out a DBI policy known as a ***project certificate*** on behalf of the customer. The project certificate is specific to the work in the associated contract. A ***premium*** is calculated by the insurer based on the contract value, and is paid by the builder.

OWNER-BUILDER POLICIES

A home-owner is legally allowed to undertake building work on their property as an ***owner-builder*** subject to certain regulatory requirements. Owner-builders are not registered builders, and must obtain consent from the ***Victorian Building Authority*** to do any work with a value over $16 000. Owner-builders do not require DBI to commence work, but must take out a ***policy*** to cover defects if they sell the property within six and a half years of completion. DBI cover for owner-builders is referred to as a policy rather than a project certificate.

CLAIMS

DBI covers a home-owner for defects that occur up to six years from the completion of the building project.[4] DBI is referred to as ***long-tail insurance*** because of the length of time faced by insurers between charging a premium and knowing the full cost of claims. This is distinct from home contents policies or car insurance where premiums are calculated annually and the ***claims liability*** is generally known within a few months of the year's end. Insurers earn ***investment returns*** on the premium pool while they wait to pay out claims. In long-tail insurance, this revenue can be significant over the years it takes for claims to occur.

[4] Claims for 'failure to commence' or 'failure to complete' can be made if the builder is DDI before the project is completed.

The period of time that insurers must consider claims against a policy is known as the ***liability period***.[5] For its analysis, the Commission assumes that construction is complete 12 months after the certificate issue date, but the construction of a domestic dwelling could take three years while a renovation could be completed in two or three months. Insurers do not collect data on completion times from builders.

There is no limit in legislation on the time that can elapse between notification of a claim and the submission of information required to open a claim. Over 90 per cent of claims to date have been received within 90 days of the first notification, but closed notifications can be re-opened for assessment years after being received by an insurer.

It is difficult to calculate the length of the liability period on a project certificate given that the construction period varies and notifications can be re-opened. The Commission considers seven years to be a reasonable assumption for analysis, while accepting insurers' comments that the liability period could extend to 10 years or even longer. To date, only about five per cent of claims have been lodged more than seven years beyond the certificate issue date.

Insurers who leave the market are still liable for claims on the project certificates they issued before they left. This is known as a ***run-off period***, and will continue for at least six or seven years after the issue of a project certificate as claims are made by home-owners.

There are several key dates used to track a claim's progress (see table 1.1)

[5] In some circumstances, a home-owner can make a claim after the liability period has expired (s.54, *Insurance Contracts Act 1984* (Cth)).

TABLE 1.1 KEY DATES IN THE DBI CLAIM PROCESS

Date	Description
Certificate issue date	The date the project certificate is issued by the insurer. This is at the commencement of construction. This date is also known as the 'underwriting date' as it is the point where the premium is charged.
Loss date	The date a claimant became aware of a defect or failure. This date is supplied by the claimant.
Notification date	The date the insurer first receives notification in writing of a potential claim. These 'notification only claims' can be escalated into claims on provision of minimum information. If the notification has not been escalated within 90 days it is closed on the insurer's system, but can be re-opened at any time.
Claim received date	The date the insurer receives the minimum information required to open a DBI claim on their system.
Liability decision date	The date the insurer made the decision to accept or deny a claim. If no decision is made within 90 days, the claim is deemed to be accepted.
Claim finalised date	The date the claim was closed on the insurer's system with all costs paid out.

2 SCHEME PERFORMANCE

KEY FINDINGS

A period of premium discounting between 2006 and 2009 coincided with an increase in claims, resulting in rising simple loss ratios. From 2009, the five private insurers exited from the DBI market.

A key measure of the viability of DBI is the simple loss ratio, which shows the cost of claims as a percentage of premium collected. An insurer's simple loss ratio will suffer if claims incidence and costs exceed the estimate made at the time premiums were set.

For certificates and policies issued in 2008, the simple loss ratio has increased to around 82 per cent, as at June 2014.

An insurer's profitability will depend on whether revenue — that is, premiums combined with investment returns — covers the cost of claims expenses and other operating expenses. An insurer's ability to estimate this cost relies on predicting the number and cost of claims that will be made by policy holders. In DBI, the lag between setting premiums and knowing the total cost of claims means that any assessment of the scheme relies on the gradual build-up of claims information and assumptions about future claims.

2.1 SIMPLE LOSS RATIOS

The nature of long-tail insurance means that claims continue to come in over a long period of time after the issuing of the policy — for DBI this could be up to ten years from certificate issue date. Because of this, insurers must forecast the sufficiency of the premiums collected in one year to meet claims costs of subsequent years and to assess if their product is financially viable.

A key measure of viability is the simple loss ratio, which shows the cost of claims as a percentage of premium collected. It provides an indication of how much premium insurers have available to meet their claims costs. This measure does not account for investment returns or any other costs an insurer faces aside from direct claim costs. An insurer’s simple loss ratio will suffer if claims incidence and costs exceed the estimates made at the time premiums were set.

Table 2.1 shows high level data for premium and claims costs since 2002, including the simple loss ratio. Between 2006 and 2009, premium revenue was not increasing at the same rate as the number of project certificates being issued. This period of premium discounting coincided with an increase in claims as the portfolio matured. Since 2010 total premium revenue has been steadily increasing.

TABLE 2.1 SCHEME PERFORMANCE — SIMPLE LOSS RATIO
All builders

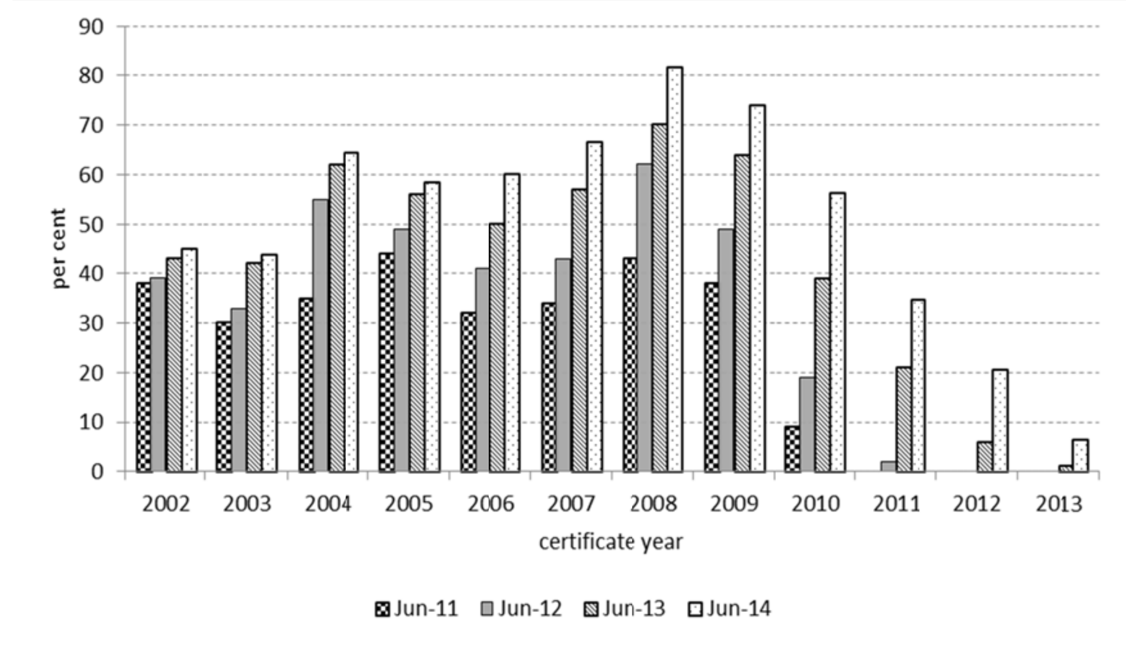
Year	Number of project certificates	Premium excluding charges ($000)	Net incurred costs ($000)[a]	Assumed years of liability remaining[b]	Simple loss ratio (%)
2002	17 731	10 661	4 839	0	45.4
2003	40 305	27 521	12 043	0	43.8
2004	34 720	27 536	17 742	0	64.4
2005	46 975	31 986	18 661	0	58.3
2006	53 142	32 119	19 284	0	60.0
2007	54 690	30 574	20 320	0	66.5
2008	53 113	27 650	22 573	1	81.6
2009	61 555	34 251	25 332	2	74.0
2010	65 101	41 881	23 511	3	56.1
2011	61 355	44 330	15 316	4	34.5
2012	57 703	46 678	9 572	5	20.5
2013	61 219	54 925	3 472	6	6.3
2014 Jan-Jun	32 449	32 000	19	7	0.1

a Includes all claim costs including for denied claims and notification only claims. Costs have been assigned to the year in which the project certificate was issued. **b** Assumes 12 month construction period plus 6 year liability period.

Figure 2.1 shows how, for each year in which certificates were issued, the simple loss ratio changes over time. Each year, as new claims are lodged and existing claims are settled or re-estimated, any changes in costs are assigned to the premium reserves for the year the certificate was written.[6] As an example, Figure 2.1 shows that claims costs as a share of premium reserves (simple loss ratio) for 2004 certificates increased from 35 per cent in 2011 to 64 per cent in 2014.

[6] In calculating the simple loss ratio premium reserves do not change. That is, no allowance is made for inflation.

FIGURE 2.1 CHANGE IN SIMPLE LOSS RATIO OVER TIME
All builders



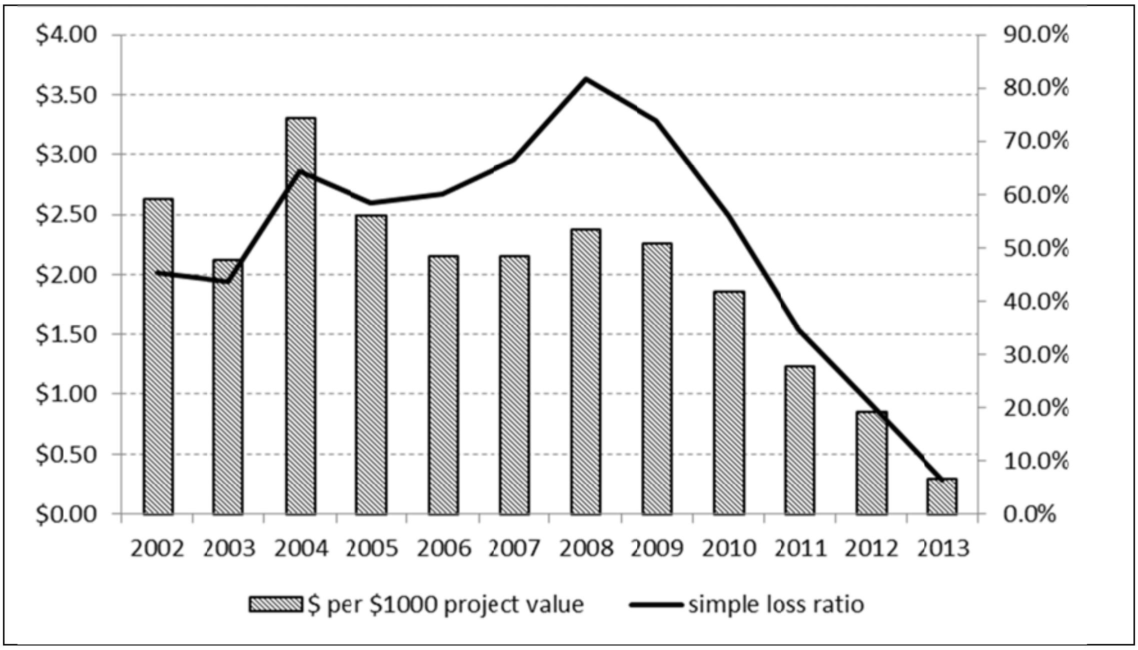
Previous performance reports have noted that the simple loss ratio for 2008 certificates rose relatively quickly as new claims progressively came in and amounts for existing claims were finalised. By June 2014, six years into the liability period, claims costs had reached just under 82 per cent of collected premium.

2.1.1 EFFECT OF COSTS AND PREMIUM ON LOSS RATIO

If the premium charged was too low or costs are higher than expected for a given year, claims costs will exceed the funds set aside, and insurers will face a loss. In figure 2.2 the black line shows the simple loss ratio for each year in the 11 years to 2013. The columns show claims costs as a share of the total value of projects insured each year. Between 2006 and 2009, claims costs are fairly consistent relative to the total value of building work, but rise as a share of premium collected. During this time, competing insurers discounted premiums in a buoyant construction market.

FIGURE 2.2 CLAIMS COSTS AS A SHARE OF PREMIUM AND TOTAL PROJECT VALUE

All builders — January 2002 to December 2013



3 ELIGIBILITY, PROJECT CERTIFICATES AND PREMIUMS

KEY MESSAGES

From 1 January 2014, the VMIA is the only insurer offering DBI to registered builders in Victoria.

The number of certificates issued increased for the first time in 2013 since 2010. The data for the first half of 2014 shows the increase is likely to continue in 2014.

New dwelling project certificates issued to registered domestic builders are the largest contributor to the number of DBI project certificates and the premium pool.

The average cost of a project certificate almost doubled between 2008 (when average premiums were at their lowest) and 2014. Around 2008, competition between insurers was strong, but the market for DBI was still in its infancy, and a lack of information about costs could have driven premiums below cost reflective levels.

In its first year, VMIA adopted QBE's premium rates and has since issued new premium schedules on 1 July 2011 and on 1 July 2013, which led to more cost reflective premium rates

In terms of premiums per $1000 of project value, high volume, high value categories of building (such as new dwellings) have always had the lowest premium rates, while swimming pools have had the highest.

Builders must take out Domestic Building Insurance (DBI) on every building contract exceeding $16 000 in value.[7] Before a builder takes out a DBI project certificate in relation to a specific building project, they must first have 'eligibility' with an insurer, which sets out the terms and conditions under which the insurer will offer DBI to the builder. Under current regulations, eligibility with an insurer is a pre-requisite to a builder's registration, without which they cannot enter into a domestic building contract with a consumer or perform work for another builder.

The premium is calculated specifically to the project, taking into consideration the value of the work, the type of work and the builder's risk rating (as determined by the insurer) and the policy is referred to as a 'project certificate'.

3.1 OBTAINING DBI ELIGIBILITY

Eligibility with an insurer for DBI is a form of pre-approval for taking out project certificates. Under the *Domestic Building Contracts Act 1995*, each time a builder enters a domestic building contract over $16 000 with a customer, they must take out a project certificate specific to the works covered by the contract with the consumer.

Before granting eligibility, an insurer reviews a builder's business history and finances, to assess their potential risk to the scheme. Insurers impose an annual turnover limit (the maximum value of building works the on builder can undertake) based on their assessment of the value of works that a builder can prudently undertake given their financial position. In some circumstances insurers require a financial security or indemnity of some form before granting eligibility.

3.1.1 MARKET SHARE AND COMPETITION IN DBI

From 1 January 2014, registered builders can only take out eligibility with the VMIA. Calliden ceased providing DBI to registered builders at the end of 2013, but continues to provide insurance for owner-builders.

[7] Prior to 1 July 2014, DBI was required for building contracts above $12 000.

The VMIA entered the market in May 2010 following the exit of most private insurers, and adopted the eligibility and turnover limits from each builder's previous insurer to ensure continuity of cover. Since then, the VMIA has introduced its own underwriting criteria and has a commercial arrangement with QBE, which acts as its agent issuing policies and assessing builder eligibility via insurance brokers. The VMIA issues eligibility guidelines to QBE to ensure its underwriting standards are met.

3.1.2 TURNOVER LIMITS

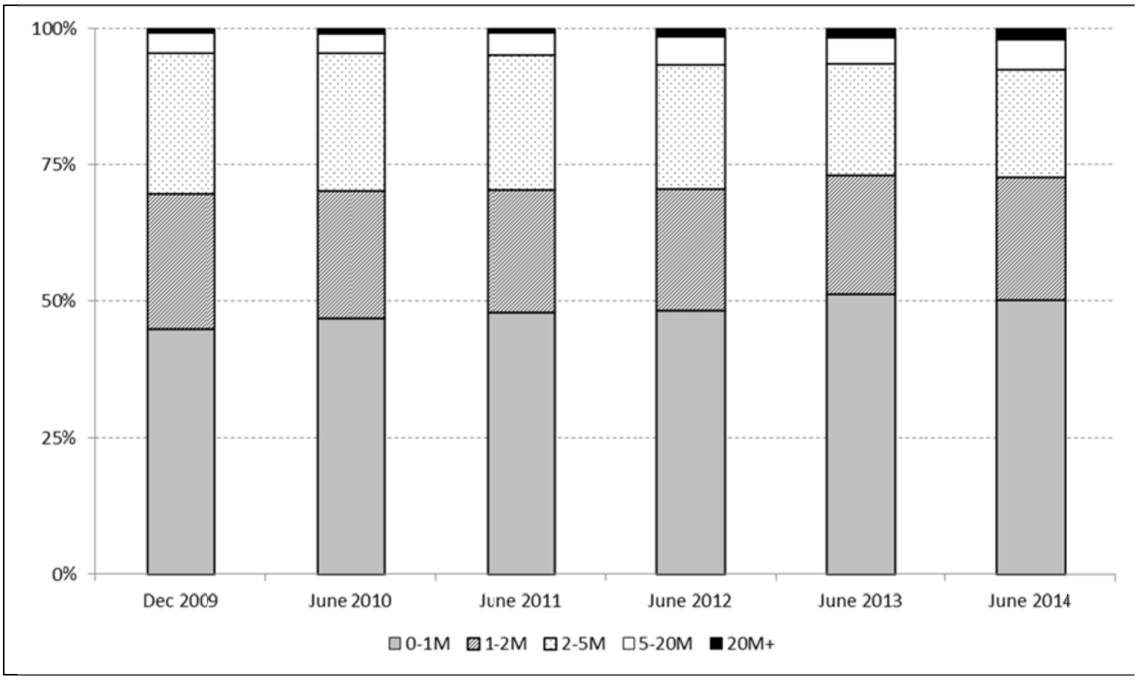
Insurers impose conditions on builder eligibility. The VMIA and Calliden (prior to leaving the registered builder market) both use turnover limits to protect against over-exposure to builders at risk of insolvency.

Annual turnover limits effectively cap the total value of contracts an eligible builder can make with customers in a year. From an insurer's perspective, the turnover limit is necessary to mitigate against a builder taking on more work than it can support financially, and becoming insolvent. Domestic building is capital intensive and cash flow is lumpy, and attempts to 'trade out of trouble' by taking on extra projects could be seen as risky by insurers who will be liable for the cost of unfinished work if the builder becomes insolvent.

Figure 3.1 shows the share of eligible builders in each turnover band over time. In the last twelve months, the share of eligible builders within the various bands has remained relatively constant (see last 2 columns in figure 3.1).

FIGURE 3.1 ELIGIBLE BUILDERS BY TURNOVER BAND

$ Registered builders December 2009 to June 2014



3.2 DBI PROJECT CERTIFICATES

Project certificates are issued in several categories depending on the type of building work specified in the contract.

Table 3.1 shows the relative contribution of each category over time to the total number of project certificates issued. The vast majority of project certificates are issued for the construction of new dwellings. In 2013, new dwelling construction constituted around 62 per cent of certificates issued. The figures for the first half of 2014 are consistent with this pattern.

TABLE 3.1 NUMBER OF PROJECT CERTIFICATES ISSUED BY TYPE

	New dwellings	Structural renovations	Non-structural renovations	Swimming pools	Total
2005	27 978	8 105	3 424	3 049	42 556
2006	30 052	10 125	3 887	3 273	47 337
2007	32 400	10 905	3 959	3 310	50 574
2008	32 155	9 377	4 301	4 113	49 946
2009	40 681	9 681	4 298	3 865	58 525
2010	43 474	12 357	3 418	3 165	62 414
2011	40 241	10 263	6 706	2 046	59 256
2012	34 684	12 205	7 270	1 759	55 918
2013	36 658	13 091	5 121	4 185	59 055
2014 (Jan-Jun)	20 709	6 588	2 305	1 887	31 489

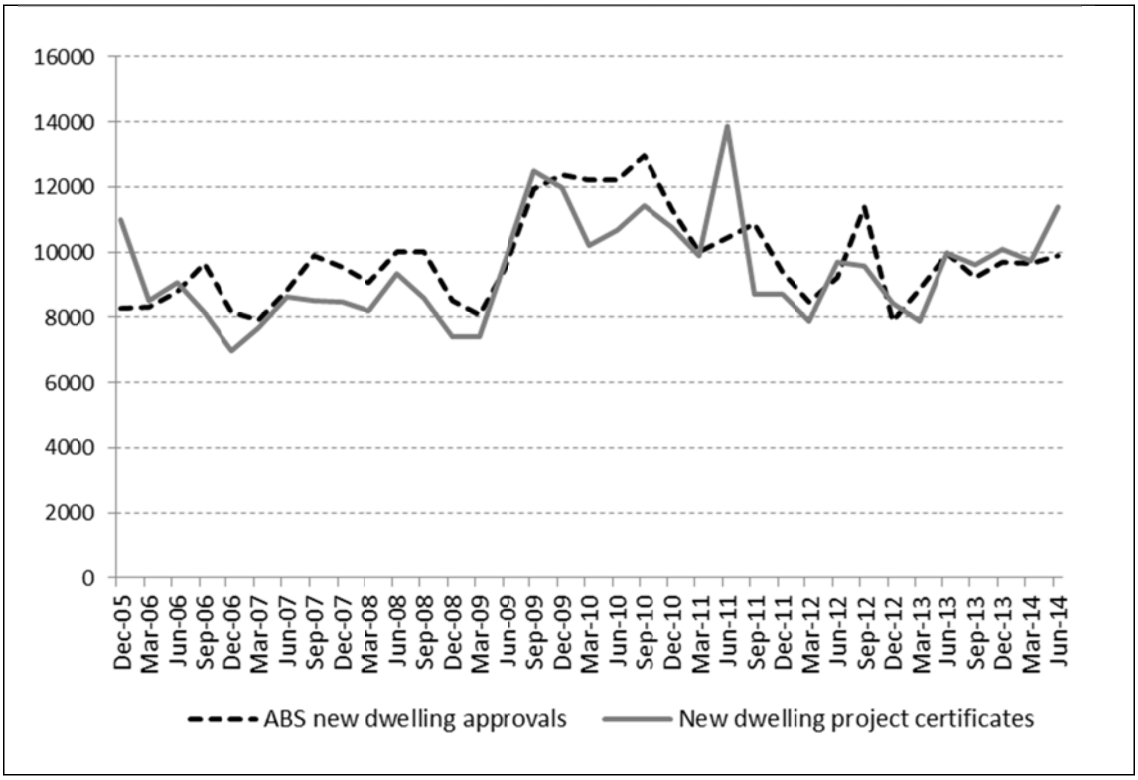
Although the total number of certificates fell annually between 2010 and 2012, there was an increase in 2013. The data for the first half of 2014 continues to show a further expected increase.

3.2.1 NEW DWELLING PROJECT CERTIFICATES

New dwelling project certificates issued to registered domestic builders are the largest contributor to the number of DBI project certificates and the premium pool. Figure 3.2 compares the number of project certificates issued for new dwellings with ABS quarterly data on building approvals. It is a way to check that builders are taking out insurance as required. However, the data series will not be an exact match, mainly because the ABS uses compiled survey data and differences in the timing of data provision.

The two data sets in figure 3.2 tracked closely until December 2009, when the withdrawal of insurers from the market may have led to delays in processing of project certificates, creating a time lag between the issue of a building permit and the issue of a DBI certificate. In June 2011, there was a spike in certificates issued as high volume builders brought forward as many certificates as possible in advance of a premium increase on 1 July 2011. The number of project certificates has since stabilised and appears to be tracking the ABS data reasonably closely.

FIGURE 3.2 NUMBER OF NEW DWELLING APPROVALS IN VICTORIA



Data source: Data source: ABS 8731.0 Building Approvals, Australia, Table 23. Dwelling Units Approved in New Residential Buildings, Number and Value, Original — Victoria, Includes houses, semi-detached dwellings, and units apartments ≤ 3 storeys.

3.3 PREMIUMS

Insurers set premiums so that premium revenue, combined with investment and other income, adequately covers the expected future cost of claims and administration costs to ensure profitability.

3.3.1 AGGREGATE PREMIUM

Premiums differ according to project type, builder risk rating and project size (value). The total premium pool in any year is a combination of the rates being charged and the total amount of domestic construction that commences. Table 3.2 shows the total premium pool collected each year since 2005.

TABLE 3.2 TOTAL ANNUAL PREMIUM
Registered builder (excludes GST, stamp duty and brokerage)

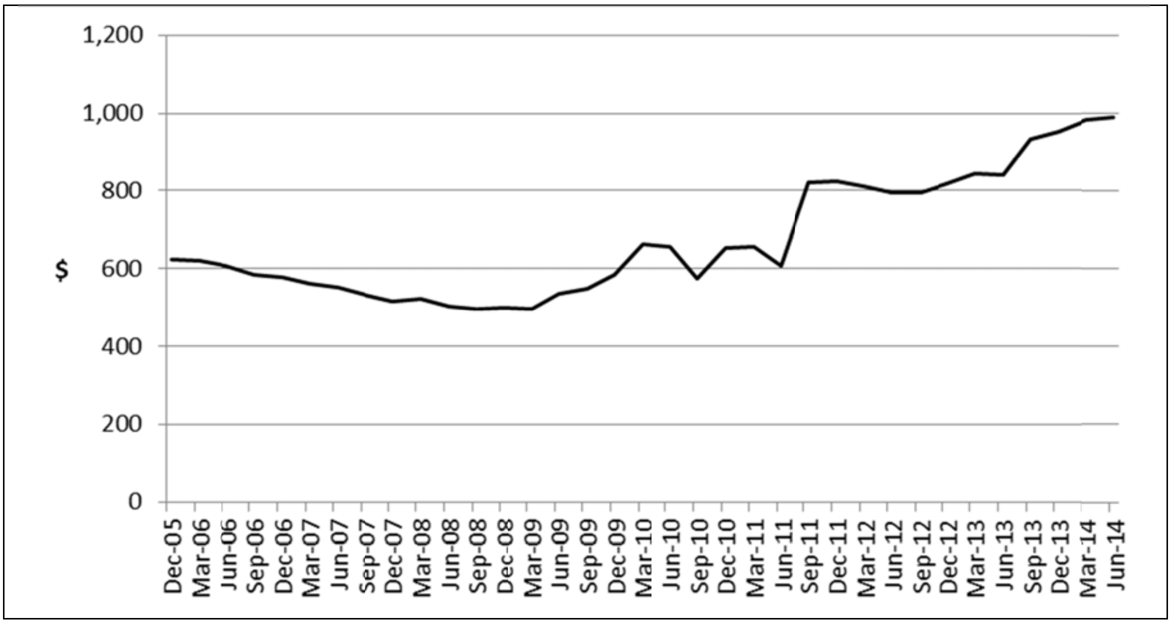
	Number of project certificates	Value of project certificates ($m)	Premiums ($m)	Average project value ($)	Average cost of a project certificate ($)
2005	42 556	6 839	27.36	160 706	643
2006	47 337	8 035	28.32	169 732	598
2007	50 574	8 779	27.29	173 579	540
2008	49 946	8 954	25.18	179 270	504
2009	58 525	10 718	31.95	183 134	546
2010	62 414	12 195	39.68	195 392	636
2011	59 256	12 059	42.34	203 501	714
2012	55 918	10 917	44.95	195 236	804
2013	59 055	11 609	52.90	196 575	896
2014 (Jan-Jun)	31 489	6 493	31.07	206 185	987

3.3.2 AVERAGE COST OF A PROJECT CERTIFICATE

Following a period of some volatility between June 2010 and September 2011, the average cost of a project certificate has steadily increased to just under $1000 for the June 2014 quarter (see figure 3.3).

FIGURE 3.3 AVERAGE COST OF A PROJECT CERTIFICATE

Registered builder (excludes GST, stamp duty and brokerage)



Since the withdrawal of competing insurers in 2009, the average cost of a project certificate has been rising and the average cost of a certificate almost doubled between 2008 (when average premiums were at their lowest) and 2014.

Around 2008, competition between insurers was strong, but the market for DBI was still in its infancy, and a lack of information about costs could have driven premiums below cost reflective levels. By June 2010 all but one of the competing insurers had stopped offering DBI, and the VMIA had been brought in by the Government to maintain the supply of the product. In its first year, VMIA adopted QBE's premium rates and has since issued new premium schedules on 1 July 2011 and on 1 July 2013, which led to more cost reflective rates.

In its Domestic Building Insurance Premium Validation Review, released in May 2013, the Commission concluded that the VMIA's premiums (for the 2010 to 2012 period) were appropriate and :

- sufficient to cover its expenses, risks and long-term claims costs;

- not set above the level required by the VMIA to cover its expenses and the risks and long-term claims costs.

The Commission will release its second review of the adequacy of the VMIA's premiums in April 2015.

3.3.3 PREMIUM RATES

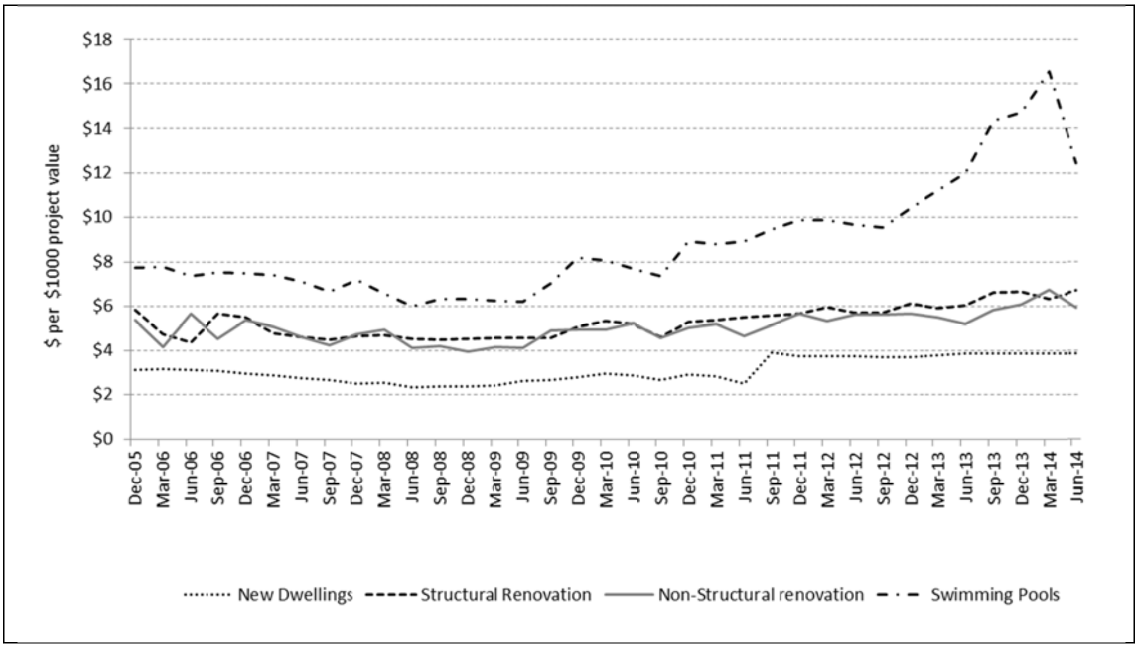
Premiums can also be expressed per $1000 of project value, to enable comparison between insurers and over time. Figure 3.4 shows premium rates for different project types over time. The average rates for all project types were at their lowest before September 2008.

The challenge for insurers is to set an efficient premium structure — to match the premium paid for the project certificate with the risk to the insurer that is presented by the particular builder and project covered by the certificate.

The VMIA publishes its premium schedule on its website (see appendix B) and it is based on the following parameters:

- the value of the contracted works (in bands)
- the category of work (structural, non-structural, swimming pools) and
- the insurer's rating of the builder's individual risk (A, B, or C).

FIGURE 3.4 AVERAGE PREMIUM RATE PER $1000 OF PROJECT VALUE
Registered builder (excludes GST, stamp duty and brokerage)



When the VMIA premium schedule is converted to premium rates, it shows a sliding scale, with higher value projects attracting lower premium rates. This approach is compatible with the historical trends in DBI, where high volume, high value categories of building (e.g. new dwellings) have always had the lowest premium rates. Swimming pools, which have an average project value of around $50 000, have the highest premium rates.

4 CLAIMS

KEY FINDINGS

DBI claims are relatively infrequent compared to the number of project certificates issued each year, with only 5695 lodged since the scheme was introduced in 2002. Nevertheless, there are signs that the frequency of DBI claims is rising.

Builder insolvency remains the most common reason that claims on DBI are made, and almost half the claims received related to a structural defect.

The average cost of a DBI claim for a registered builder is around $33 000.

Claim turnaround times are an important indicator of scheme performance. Since the scheme began, the average time between receiving a notification and a claim being finalised is 345 days.

Insurers deny claims on the basis of several criteria. This most common reasons for denying claims are that the reported fault was not deemed a defect or because the builder was not insolvent.

Claims under Victoria's Domestic Building Insurance (DBI) scheme can only be made under specific circumstances. The *Domestic Building Contracts Act 1995*, contains a number of implied warranties concerning a builder's work. DBI claims are only available where rights under these warranties cannot be pursued because the builder has died, disappeared or become insolvent. These three triggers are collectively abbreviated as DDI.

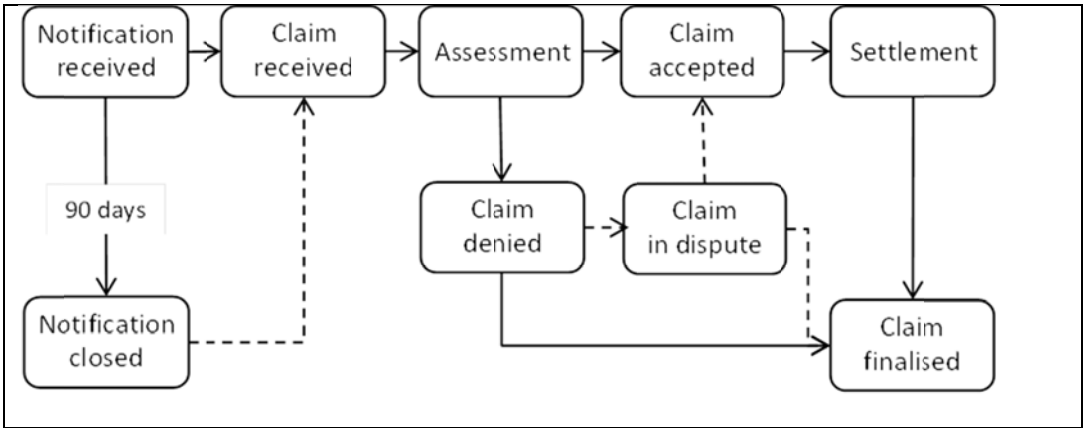
This chapter presents high level data relating to claims frequency and cost since the current scheme began for registered builders in 2002. As has been mentioned in our previous reports, the long liability period for DBI means that it is difficult to present claim numbers in their true context until at least six years after the issue date of project certificates.

4.1 DBI CLAIMS PROCESS

Claims are relatively infrequent in relation to the number of project certificates issued, but each one represents significant inconvenience for the customer whose home building project is incomplete or defective and who is unable to resolve these issues with their builder because of death, disappearance or insolvency.

When a consumer notifies their insurer they would like to make a claim, it passes through multiple stages as it is processed by the insurer, as illustrated in figure 4.1.

FIGURE 4.1 DBI CLAIMS PROCESS



A policy holder may notify an insurer of a fault at any time after a project certificate has been issued by providing very basic information. This notification escalates into a claim when the claimant provides minimum claims information. If the minimum information is not received within 90 days, the notification is closed, but remains on file. The notification may be re-opened at a later stage and escalated into a claim with provision of minimum information. The Commission's analysis concentrates on claims that have graduated beyond the notification stage. In many cases, the minimum claims information is received immediately, and a claim is opened without a notification period.

The insurer assesses a claim when minimum claims information has been provided. This involves investigating the builder to determine if they are DDI, and examining the claimed defect or non-completion to see if it qualifies for compensation. The assessment period may be a matter of days or months depending on the individual circumstances. The insurer then accepts or denies liability for the claim. If the claim is denied, the claimant has the opportunity to dispute the insurer's decision, otherwise the claim is finalised. If the insurer accepts the claim, a settlement period begins in which the compensation is calculated and paid. When the claim is fully settled with the claimant it is considered finalised, and closed.

DBI a long-tail insurance as claims can be made for up to two years after completion in relation to non-structural defects, and for up to six years after completion in relation to structural defects. As there is a lag between when the project certificate is issued and when the work is completed, DBI claims can sometimes be made as late as ten years after a certificate is issued. Therefore, the total number and cost of claims relating to certificates issued in any given year will not be known for a long period of time.

4.2 OVERVIEW OF CLAIMS

Table 4.1 shows the overall number of claims relating to registered builders since the introduction of the DBI scheme in 2002. Since the scheme began, insurers have received 5598 claims and 1908 notifications. As at 30 June 2014, 70 per cent of finalised registered builder claims were accepted by insurers.

TABLE 4.1 CLAIM NUMBERS BY STATUS
Registered builder — January 2002 to June 2014

	Open	Closed / finalised	Total
Claims			
Accepted[a]	622	3 321	3 943
Pending[b]	324		324
Total accepted or pending	**946**	**3 321**	**4 267**
Liability denied	33	1 298	1 331
Total claims	**979**	**4 619**	**5 598**
Notifications[c]	72	1 836	1 908
GRAND TOTAL	**1 051**	**6 455**	**7 506**

[a] Includes deemed, full, and partially accepted claims. [b] Includes claims being assessed and claims in dispute. [c] Notification only claims can be escalated into claims on provision of minimum information. If the notification has not been escalated within 90 days it is closed on the insurer's system, but can be re-opened at any time.

Table 4.2 splits all claims received against registered builders, whether accepted or not, by the reported cause and claim type. Insolvency is by far the most common reason (around 95 per cent of all claims received to date) that claims on DBI are made for registered builders and almost half the claims received relate to a structural defect.

TABLE 4.2 CLAIMS RECEIVED BY TYPE AND CAUSE
Registered builder — January 2002 to June 2014

	Insolvency	Death	Disappearance	Other / unspecified	Total
Failure to commence	131	3	3		137
Failure to complete	1 541	17	56		1 614
Structural defect	2 533	41	139		2 713
Non-structural defect	1 064	14	28	2	1 108
Not yet determined	24		2		26
Total	**5 293**	**75**	**228**	**2**	**5 598**

Note: Excludes notifications.

Table 4.3 illustrates the progressive build-up of claims since the scheme was first introduced. The annual total by the year of claim notification shows more claims coming in every year. In the right hand column, the same claims have been distributed into the year in which the affected project certificate was issued.

TABLE 4.3 CLAIMS RECEIVED OVER TIME
Registered builder

	Claims by year of notification	Claims by certificate issue year
2002	2	160
2003	40	402
2004	56	359
2005	148	549
2006	187	575
2007	317	772
2008	458	606
2009	577	519
2010	632	640
2011	671	562
2012	958	320
2013	989	129
2014 (Jan-Jun)	563	5
Total	**5 598**	**5 598**

Note: Data revised since previous report. Includes all open and finalised claims. Excludes notification only claims.

Organising claims by the year that the affected certificate was issued helps to put the rising number of claims in context. If we consider the liability period to be exhausted for certificates issued in the years before 2007, there are signs that the frequency of DBI claims is rising. Between 2008 and 2014, insurers have received on average 693 claims a year compared to 125 claims a year between 2002 and 2007. Almost half of the claims received over the life of the scheme relate to certificates issues from 2008 onwards.

4.3 CLAIM COSTS

The development of claim costs over time will depend on the number of claims, as well as the type of claims (e.g. non-completion or structural). Insurers record costs against each claim. Net incurred costs is the main measure of claim costs. This is made up of several categories and represents the insurer's total liability at any given point in time (see box 4.1).

BOX 4.1 CALCULATING NET INCURRED COSTS

	$ paid to claimant	Payments made directly to the home-owner to date.
plus	$ paid to third party	Includes cost of investigation, structural assessments, legal fees.
less	Third party recoveries	Monies recovered from builders, suppliers, other insurances etc.
plus	Outstanding estimate	Insurer's estimate of the future costs relating to the claim. A finalised claim has no outstanding costs.

Some claims will be accepted and finalised with no costs, and a claim may incur costs for investigation even if it is not accepted. The total cost is more significant to insurers than the number of claims received, as it is the test of their premium setting and drives their profitability.

Table 4.4 shows the average claim cost at different stages of claim development.

TABLE 4.4 CLAIMS COSTS BY STATUS

($000) Registered builder only as at June 2014

	Open			Closed		Total
	Accepted	Denied	Pending	Accepted	Denied	
Number of claims	622	33	324	3 321	1 298	5 598
Properties affected (no.)[a]	681	95	324	3565	1322	5987
Sum paid to claimant (	26 551	485	27	124 851	1 230	153 144
(plus) Sum paid to third parties	3 931	212	467	15 613	1 559	21 782
(less) Sum of third party recoveries received	508	10	0	5102	72	5692
(plus) Sum of net outstanding	12 112	669	4 495	0	0	17 275
Sum of net incurred cost	**42 087**	**1 355**	**4 989**	**135 361**	**2 718**	**186 509**
Average cost per claim	67.7	41.1	15.4	40.8	2.1	33.3
Average cost per property	61.8	14.3	15.4	38.0	2.1	31.2

[a] Reflects adjustments for common property claims.

Average costs are lower for finalised accepted registered builder claims ($40 800) compared with open and accepted claims ($67 700), where the insurer is estimating the cost of the outstanding liability. This could indicate that actual costs tend to come in under the insurer's estimate, or that the costs are higher for more recent claims which are not yet finalised.

Even though the average cost of a DBI claim for a registered builder is around $33 300, this drops to around $31 200 when the figures are adjusted for claims relating to multiple properties.[8] These averages are influenced by the inclusion of denied claims, which tend to have lower costs than claims where rectification work is required. Average claim costs for finalised, accepted claims are shown by claim type in table 4.5, which are a more accurate indication of the costs faced by insurers. Claims for failure to complete are the most costly to insurers, making up almost half of all finalised claims costs.

TABLE 4.5 AVERAGE CLAIM COST BY CLAIM TYPE
Registered builder — January 2002 to June 2014

	Number of claims	Number of properties[a]	Net incurred costs	Average cost per claim ($)	Average cost per property ($)
Failure to commence	105	105	214 5766	20 436	20 436
Failure to complete	1180	1226	64 956 285	55 048	52 982
Structural defect	1456	1555	53 437 826	36 702	34 365
Other (non-structural) defect	580	679	14 821 265	25 554	21 828
Total	**3 321**	**3 565**	**135 361 143**	**40 759**	**37 969**

Note: Finalised, accepted claims only. [a] Reflects adjustments for common property claims.

The cost of a claim is influenced by many factors, some of which are outside the insurer's control. The age of the property affected and the nature of the defect influences the cost of rectification. Over time, an insurer's ability to manage costs of investigation and repair will help to determine their profitability.

[8] Generally, a claim relates to a single property and can be tracked back to a single project certificate, but there are instances where one claim is lodged which is shared between multiple properties (and therefore multiple project certificates). These claims are for common property defects in multi-unit developments.

4.4 CLAIMS MANAGEMENT

4.4.1 ACCEPTED CLAIMS TURNAROUND

The time it takes for a claim to go through each stage of the claim process can be used to examine how the scheme is operating in general and may give an indication of how well consumers are being served. Looking at the claims that have been accepted and finalised since the scheme started in 2002 (see table 4.6), the average time between receiving a notification and a claim being finalised is 345 days, or just under twelve months. The bulk of this time seems to be between the liability being accepted and the claim being finalised.

Under DBI legislation, if an insurer has not made a liability decision within 90 days of minimum claim information being received, the claim is deemed to be accepted. There are circumstances in which this period can be extended with the agreement of the claimant, but in general, insurers aim to make a liability decision within this time frame. After a claim has been accepted, the length of time it takes to finalise can be influenced by many factors, including an insurer's approach to claims handling.

TABLE 4.6 AVERAGE TIME FROM CLAIM RECEIPT TO FINALISATION BY INSURER
Registered builder, finalised and accepted claims — January 2002 to June 2014

	Number of claims	Claims received to liability decision[a] (days)	Liability decision to finalisation[b] (days	Total days
All insurers	3321	82	263	345

[a] The time between the when the claim is received and the date the insurer made the decision to accept or deny a claim. If no decision is made within 90 days, the claim is deemed to be accepted. [b] The time between the claim being accepted and the date the claim was closed on the insurer's system with all costs paid out.

4.4.2 CLAIMS DENIED

Insurers can deny claims on the basis of several criteria. Most claims (around 73 per cent) are denied either because the fault reported was not deemed a defect, or because the builder was not insolvent (see table 4.7).

TABLE 4.7 REASONS FOR CLAIM DENIED
Registered builder — January 2002 to June 2014

	Denied claims (number)	Proportion (%)
Incorrect insurer	61	4.6
Out of time	113	8.5
Builder found	105	7.9
Builder not dead	5	0.4
Builder not insolvent	363	27.3
Not deemed a defect	605	45.5
No loss	43	3.2
Owner did not proceed	36	2.7
Total	**1331**	**100**

5 OWNER BUILDERS

KEY FINDINGS

Owner-builders carry out building work on their own property, and require DBI if they sell the home that they have constructed within six and a half years of completion.

The number of owner-builder policies has been declining since 2006, although it has remained fairly stable since 2011, at around 500 per quarter.

Owner-builders are considered a higher risk category than registered builders and have a higher rate of claims, even though the total number of claims is very small (just 173 since 2002).

The most common reason for claims against owner-builders is disappearance.

It is more difficult for new owners of a property to track down the original owner-builder to rectify faults.

An owner-builder is defined as someone who carries out building on their own property. Owner-builders are generally not in the building industry and must obtain a Certificate of Consent from the Building Practitioner's Board to obtain a building permit for domestic building work valued at more than $12 000.

Owner-builders require DBI if they sell the home that they have constructed within six and a half years of completion and the value of the work was equal to or greater than $16 000 (previously $12 000). They are required to provide the purchaser with evidence of a DBI policy and a report on any building defects by a prescribed building practitioner. In this way, it is quite distinct from DBI purchased by a registered builder.

The insurance policy (an owner-builder policy is similar to a project certificate issued to a registered builder) is for the benefit of the purchaser and subsequent owners, in the event that the owner-builder dies, disappears or becomes insolvent, and the building work is defective.

To obtain DBI they must provide details of the cost of work, building inspections and certificate of occupancy date and location of the property. They must also provide a current defects report and a copy of the building permit. The DBI policy does not commence until the contract of sale is signed.

5.1 POLICIES AND PREMIUMS

Table 5.1 compares the number and value of building permits issued to owner-builders for new domestic buildings with owner-builder DBI policies issued. The majority of domestic building permits issued to owner-builders do not require DBI as the property is not sold within the relevant time frame.

TABLE 5.1 OWNER-BUILDER ACTIVITY

	Number of DBI policies	Value of DBI policies ($ 000)	Total premium ($000)
2002	3 068	363 702	645
2003	3 370	405 389	744
2004	3 388	457 190	3 714
2005	4 419	672 393	4 625
2006	5 805	952 246	3 804
2007	4 116	674 972	3 285
2008	3 167	549 537	2 470
2009	3 030	492 269	2 301
2010	2 687	471 311	2 196
2011	2 099	373 092	1 992
2012	1 785	318 538	1 731
2013	2 164	383 343	2 022
2014	960	184 417	926

Insurers treat owner-builders as a separate risk category from registered builders and have different premiums although the insurance coverage is very similar. Owner-builder policies cover structural and non-structural faults under the same rules as registered builder project certificates, but do not cover ‘failure to commence’ and ‘failure to complete’. The liability period may be shorter because the policy is only taken out when the house is sold. Insurers also have more information to assess risk at the time of writing the policy because construction is typically complete and a defect report is available.

Figure 5.1 shows the number of owner-builder policies being issued has been declining since 2006, but has remained fairly stable in the last few years at around 500 per quarter (despite a spike in the December 2013 quarter).

FIGURE 5.1 NUMBER OF OWNER-BUILDER POLICIES ISSUED

Owner-builders — June 2006 to June 2014

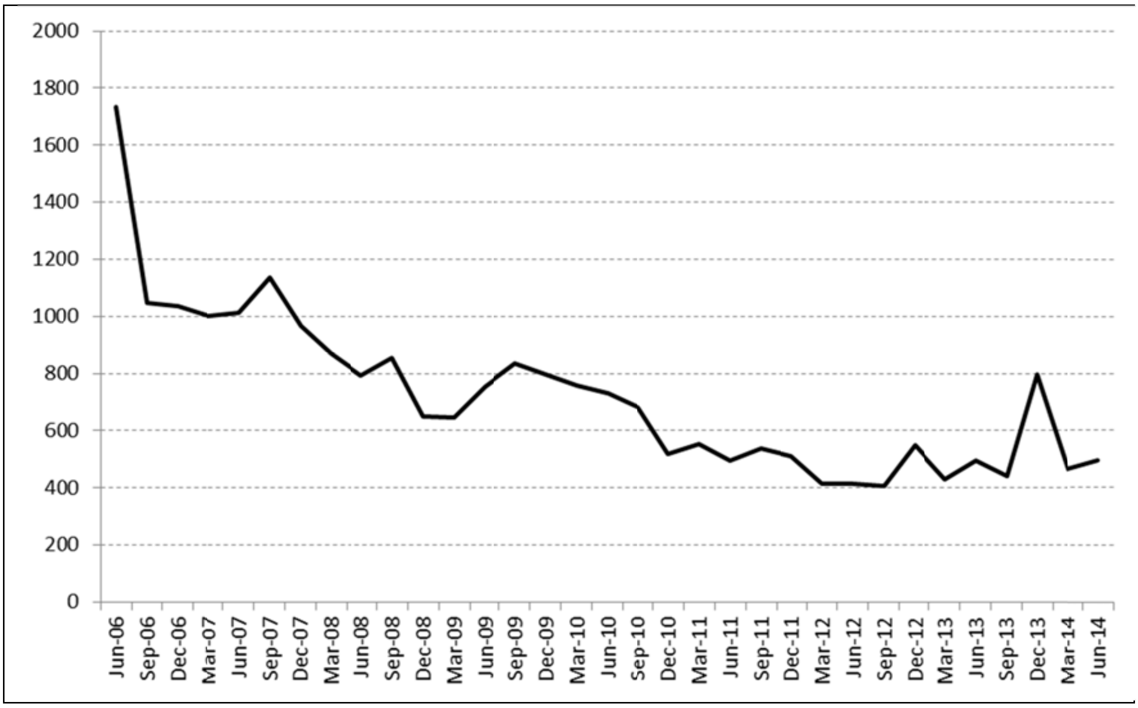
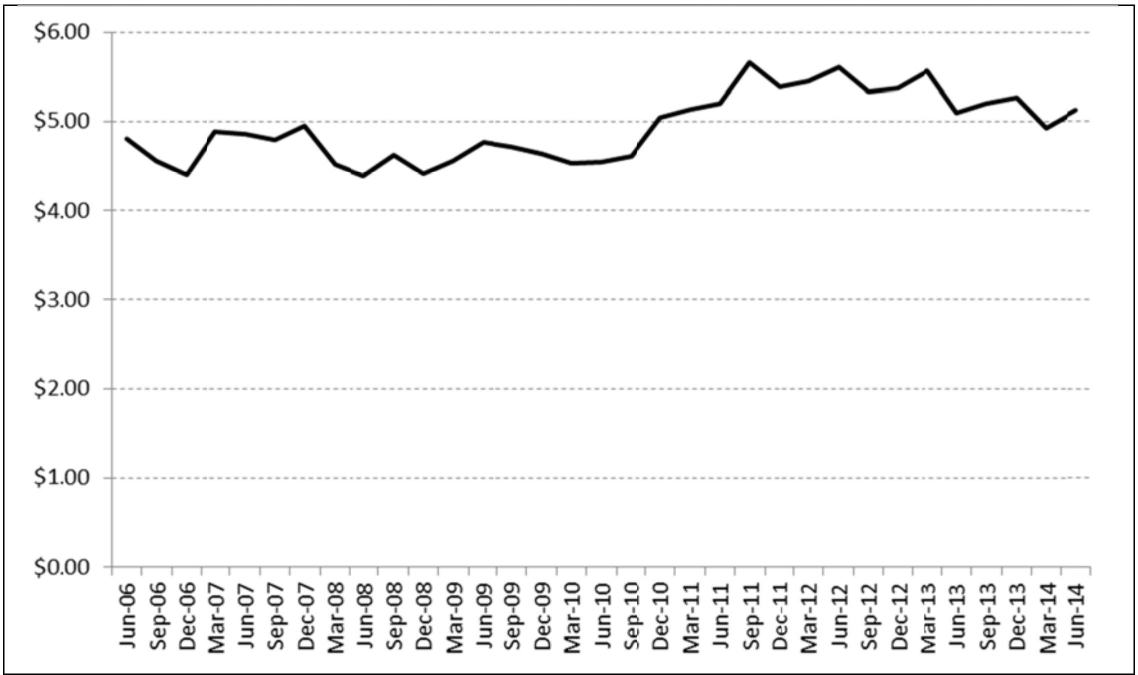


Figure 5.2 shows how the average premium per $1000 of project value has changed over time. Compared with registered builders, owner-builders pay a higher average premium rate.

There has been some volatility in the owner-builder rate since it rose above $5.00 at the end of 2010, but it continues to trend back down to $5.00. Due to the low number of policies issued, and the project-specific factors used to determine the cost of each policy, the quarterly average rate can easily be affected by the mix of properties insured.

FIGURE 5.2 AVERAGE PREMIUM PER $1000 OF PROJECT VALUE
Owner-builders — June 2006 to June 2014



5.2 CLAIMS

Owner-builders are considered a higher risk category than registered builders, and have a higher rate of claims even though the total number of claims is very small. Since 2002, 200 claims have been accepted, and a further eight have a liability decision pending. There have been nearly as many claims denied as accepted in this time. For registered builders, the ratio of claims denied to accepted is closer to 3:1. This could be attributable to the lack of centralised information about the location of owner-builders, which leads consumers to use a DBI claim as a first step in investigating any problems.

TABLE 5.2 CLAIM NUMBERS BY STATUS
Owner-builders —January 2002 to June 2014

	Open	Closed	Total
Accepted	19	181	200
Pending	8	0	8
Total accepted or pending	**27**	**181**	**208**
Claims denied	5	164	169
Total claims	**32**	**345**	**377**
Notifications	4	52	56
GRAND TOTAL	**36**	**397**	**433**

The most common reason for successful claims against owner-builders is disappearance. In the absence of a central licensing body, as exists for registered builders, it is more difficult for the new owners of a property to track down the original owner-builders to rectify any faults. Around half of the 169 claims denied by insurers were cases where the insurer was able to locate the original owner-builder. The other major reasons for insurers denying owner-builder claims include the builder not being insolvent or there being no defect.

TABLE 5.3 CLAIMS BY CAUSE
Owner-builders —January 2002 to June 2014

	Number	Share (%)
Insolvency	80	40
Death	5	3
Disappearance	115	58
Total	**200**	**100**

Note: Accepted claims only. Excludes claims pending a decision, claims denied and notifications.

Based on the 200 claims accepted to date, the average cost of a claim on an owner-builder policy is $25 628.

APPENDIX A TERMS OF REFERENCE

Essential Services Commission Act **2001**

Essential Services Commission

Terms of Reference

Domestic Building Insurance – Data and Performance Monitoring

I, Tim Holding MP, Minister for Finance, WorkCover and the Transport Accident Commission, request the Essential Services Commission (the Commission) to provide ongoing monitoring reports on the pricing and performance of the Victorian Managed Insurance Authority's (VMIA) provision of domestic building insurance (DBI). The reports will cover claims management, the pricing of private domestic building insurers during the transition period from 29 March 2010 to the establishment of the new arrangements, and the claims management of the private domestic building insurers during the run-off period of their insurance policies.

Background

DBI has been compulsory in Victoria since 2002 for all residential building works in excess of $12,000 carried out by licensed builders.

DBI policies are taken out by the builder in favour of the homeowner and cover loss or damage resulting from non-completion of the work. This includes loss of deposit or breach of statutory warranty if the homeowner cannot recover compensation from the builder because of the death, disappearance or insolvency of the builder.

DBI was provided solely by private insurers. However, after a decrease in the number of private insurers and the associated levels of competition, the Government announced on 29 March 2010 that the VMIA would become a statutory monopoly provider of DBI after a transition period.

Scope of the Advice – Data and Performance Monitoring

The Commission is to annually monitor and report on the pricing and performance of the VMIA and private insurer's provision of DBI on an ongoing basis. The scope of the monitoring is to cover the:

- pricing and claims management of the VMIA;
- pricing of private domestic building insurers during the transition period; and
- private domestic building insurers' claims management during the run-off period.

The ongoing reporting is to be delivered in the form of annual reports.

The purpose of the annual reports is to inform the public of the performance of DBI.

The Commission will be required to publish a monitoring report each year that will be made publicly available. Any confidential or commercially sensitive material should be included in a separate attachment.

The purpose of the annual reports with the attachment is to inform the Government's consideration of DBI developments.

The annual reports will analyse quarterly data, including the number of eligible builders, project certificates, premiums levels, the number and amounts of claims for both the VMIA and private domestic building insurers and any other metrics the Commission and the Department of Treasury and Finance consider relevant.

Advice Process – Performance Monitoring

The monitoring reports are to be prepared independently by the Commission, under subsection 10(g) of the *Essential Services Commission Act* 2001 (the ESC Act), which provides the Commission with a general function to provide advice to the Minister for Finance.

The first data monitoring report is to cover the period from 1 July 2008 to 30 June 2010. Subsequent reports are to cover data for each financial year from 2010-11 onwards. The reports are to be provided by 30 November each year.

In providing this advice, the Commission is to have regard to its statutory objectives in section 8 of the ESC Act.

TIM HOLDING MP
Minister for Finance, WorkCover
and the Transport Accident Commission

Date: 9/07/2010

APPENDIX B VMIA PREMIUM SCHEDULE

Victorian Domestic Building Insurance Rate Chart

STRUCTURAL WORKS (Excludes MBW)

	CAT A				CAT B				CAT C			
	Base	GST	Stamp Duty	Total	Base	GST	Stamp Duty	Total	Base	GST	Stamp Duty	Total
$12,000	$ 391.00	$ 39.10	$ 43.01	$ 473.11	$ 460.00	$ 46.00	$ 50.60	$ 556.60	$ 735.00	$ 73.50	$ 80.85	$ 889.35
$12001 - $25,000	$ 403.00	$ 40.30	$ 44.33	$ 487.63	$ 475.00	$ 47.50	$ 52.25	$ 574.75	$ 760.00	$ 76.00	$ 83.60	$ 919.60
$25,001 - $50,000	$ 429.00	$ 42.90	$ 47.19	$ 519.09	$ 500.00	$ 50.00	$ 55.00	$ 605.00	$ 805.00	$ 80.50	$ 88.55	$ 974.05
$50,001 - $75,000	$ 442.00	$ 44.20	$ 48.62	$ 534.82	$ 518.00	$ 51.80	$ 56.98	$ 626.78	$ 830.00	$ 83.00	$ 91.30	$ 1,004.30
$75,001 - $100,000	$ 480.00	$ 48.00	$ 52.80	$ 580.80	$ 561.00	$ 56.10	$ 61.71	$ 678.81	$ 900.00	$ 90.00	$ 99.00	$ 1,089.00
$100,001 -$150,000	$ 555.00	$ 55.50	$ 61.05	$ 671.55	$ 650.00	$ 65.00	$ 71.50	$ 786.50	$ 1,042.00	$ 104.20	$ 114.62	$ 1,260.82
$150,001 - $200,000	$ 669.00	$ 66.90	$ 73.59	$ 809.49	$ 785.00	$ 78.50	$ 86.35	$ 949.85	$ 1,255.00	$ 125.50	$ 138.05	$ 1,518.55
$200,001 - $250,000	$ 821.00	$ 82.10	$ 90.31	$ 993.41	$ 963.00	$ 96.30	$ 105.93	$ 1,165.23	$ 1,540.00	$ 154.00	$ 169.40	$ 1,863.40
$250,001 - $300,000	$ 946.00	$ 94.60	$ 104.06	$ 1,144.66	$ 1,110.00	$ 111.00	$ 122.10	$ 1,343.10	$ 1,780.00	$ 178.00	$ 195.80	$ 2,153.80
$300,001 - $350,000	$ 1,073.00	$ 107.30	$ 118.03	$ 1,298.33	$ 1,260.00	$ 126.00	$ 138.60	$ 1,524.60	$ 2,015.00	$ 201.50	$ 221.65	$ 2,438.15
$350,001 - $400,000	$ 1,199.00	$ 119.90	$ 131.89	$ 1,450.79	$ 1,410.00	$ 141.00	$ 155.10	$ 1,706.10	$ 2,255.00	$ 225.50	$ 248.05	$ 2,728.55
$400,001 - $450,000	$ 1,326.00	$ 132.60	$ 145.86	$ 1,604.46	$ 1,555.00	$ 155.50	$ 171.05	$ 1,881.55	$ 2,490.00	$ 249.00	$ 273.90	$ 3,012.90
$450,001 - $500,000	$ 1,386.00	$ 138.60	$ 152.46	$ 1,677.06	$ 1,630.00	$ 163.00	$ 179.30	$ 1,972.30	$ 2,610.00	$ 261.00	$ 287.10	$ 3,158.10
$500,001 - $750,000	$ 1,512.00	$ 151.20	$ 166.32	$ 1,829.52	$ 1,780.00	$ 178.00	$ 195.80	$ 2,153.80	$ 2,850.00	$ 285.00	$ 313.50	$ 3,448.50
$750,001 - $1,000,000	$ 1,639.00	$ 163.90	$ 180.29	$ 1,983.19	$ 1,930.00	$ 193.00	$ 212.30	$ 2,335.30	$ 3,080.00	$ 308.00	$ 338.80	$ 3,726.80
Over $1,000,001	$ 1,719.00	$ 171.90	$ 189.09	$ 2,079.99	$ 2,025.00	$ 202.50	$ 222.75	$ 2,450.25	$ 3,240.00	$ 324.00	$ 356.40	$ 3,920.40

NON-STRUCTURAL WORKS (Excludes MBW)

	CAT A				CAT B				CAT C			
	Base	GST	Stamp Duty	Total	Base	GST	Stamp Duty	Total	Base	GST	Stamp Duty	Total
$12,000	$ 113.00	$ 11.30	$ 12.43	$ 136.73	$ 134.00	$ 13.40	$ 14.74	$ 162.14	$ 213.00	$ 21.30	$ 23.43	$ 257.73
$12001-$25000	$ 125.00	$ 12.50	$ 13.75	$ 151.25	$ 148.00	$ 14.80	$ 16.28	$ 179.08	$ 237.00	$ 23.70	$ 26.07	$ 286.77
$25,001 - $50000	$ 132.00	$ 13.20	$ 14.52	$ 159.72	$ 156.00	$ 15.60	$ 17.16	$ 188.76	$ 249.00	$ 24.90	$ 27.39	$ 301.29
$50,001 - $75000	$ 138.00	$ 13.80	$ 15.18	$ 166.98	$ 163.00	$ 16.30	$ 17.93	$ 197.23	$ 261.00	$ 26.10	$ 28.71	$ 315.81
$75,001 -$100,000	$ 151.00	$ 15.10	$ 16.61	$ 182.71	$ 178.00	$ 17.80	$ 19.58	$ 215.38	$ 284.00	$ 28.40	$ 31.24	$ 343.64
$100,001 -$150,000	$ 163.00	$ 16.30	$ 17.93	$ 197.23	$ 192.00	$ 19.20	$ 21.12	$ 232.32	$ 308.00	$ 30.80	$ 33.88	$ 372.68
$150,001 - $200,000	$ 189.00	$ 18.90	$ 20.79	$ 228.69	$ 222.00	$ 22.20	$ 24.42	$ 268.62	$ 355.00	$ 35.50	$ 39.05	$ 429.55
$200,001 - $250,000	$ 227.00	$ 22.70	$ 24.97	$ 274.67	$ 266.00	$ 26.60	$ 29.26	$ 321.86	$ 425.00	$ 42.50	$ 46.75	$ 514.25
Over $250,001	POA				POA				POA			

SWIMMING POOLS

	CAT A				CAT B				CAT C			
	Base	GST	Stamp Duty	Total	Base	GST	Stamp Duty	Total	Base	GST	Stamp Duty	Total
$12,000	$ 488.00	$ 48.80	$ 53.68	$ 590.48	$ 575.00	$ 57.50	$ 63.25	$ 695.75	$ 920.00	$ 92.00	$ 101.20	$ 1,113.20
$12001-$25000	$ 505.00	$ 50.50	$ 55.55	$ 611.05	$ 592.00	$ 59.20	$ 65.12	$ 716.32	$ 950.00	$ 95.00	$ 104.50	$ 1,149.50
$25,001 - $50000	$ 535.00	$ 53.50	$ 58.85	$ 647.35	$ 630.00	$ 63.00	$ 69.30	$ 762.30	$ 1,005.00	$ 100.50	$ 110.55	$ 1,216.05
$50,001 - $75000	$ 552.00	$ 55.20	$ 60.72	$ 667.92	$ 650.00	$ 65.00	$ 71.50	$ 786.50	$ 1,035.00	$ 103.50	$ 113.85	$ 1,252.35
$75,001 -$100,000	$ 598.00	$ 59.80	$ 65.78	$ 723.58	$ 705.00	$ 70.50	$ 77.55	$ 853.05	$ 1,125.00	$ 112.50	$ 123.75	$ 1,361.25
Over $100,001	POA				POA				POA			

Victorian Domestic Building Insurance Rate Chart

CAT A

Multiple Building Works (MBW) - Structural

	Base	GST	Stamp Duty	Total
$12,000	$ 489.00	$ 48.90	$ 53.79	$ 591.69
$12001 - $25,000	$ 504.00	$ 50.40	$ 55.44	$ 609.84
$25,001 - $50,000	$ 536.00	$ 53.60	$ 58.96	$ 648.56
$50,001 - $75,000	$ 552.00	$ 55.20	$ 60.72	$ 667.92
$75,001 - $100,000	$ 600.00	$ 60.00	$ 66.00	$ 726.00
$100,001 -$150,000	$ 694.00	$ 69.40	$ 76.34	$ 839.74
$150,001 - $200,000	$ 836.00	$ 83.60	$ 91.96	$ 1,011.56
$200,001 - $250,000	$ 1,026.00	$ 102.60	$ 112.86	$ 1,241.46
$250,001 - $300,000	$ 1,182.00	$ 118.20	$ 130.02	$ 1,430.22
$300,001 - $350,000	$ 1,341.00	$ 134.10	$ 147.51	$ 1,622.61
$350,001 - $400,000	$ 1,499.00	$ 149.90	$ 164.89	$ 1,813.79
$400,001 - $450,000	$ 1,657.00	$ 165.70	$ 182.27	$ 2,004.97
$450,001 - $500,000	$ 1,732.00	$ 173.20	$ 190.52	$ 2,095.72
$500,001 - $750,000	$ 1,890.00	$ 189.00	$ 207.90	$ 2,286.90
$750,001 - $1,000,000	$ 2,049.00	$ 204.90	$ 225.39	$ 2,479.29
Over $1,000,001	$ 2,149.00	$ 214.90	$ 236.39	$ 2,600.29

Multiple Building Works (MBW) - Non Structural

	Base	GST	Stamp Duty	Total
$12,000	$ 141.00	$ 14.10	$ 15.51	$ 170.61
$12001-$25000	$ 156.00	$ 15.60	$ 17.16	$ 188.76
$25,001 - $50000	$ 165.00	$ 16.50	$ 18.15	$ 199.65
$50,001 - $75000	$ 172.00	$ 17.20	$ 18.92	$ 208.12
$75,001 -$100,000	$ 189.00	$ 18.90	$ 20.79	$ 228.69
$100,001 -$150,000	$ 204.00	$ 20.40	$ 22.44	$ 246.84
$150,001 - $200,000	$ 236.00	$ 23.60	$ 25.96	$ 285.56
$200,001 - $250,000	$ 284.00	$ 28.40	$ 31.24	$ 343.64
Over $250,001	POA			

CAT B

Multiple Building Works (MBW) - Structural

	Base	GST	Stamp Duty	Total
$12,000	$ 575.00	$ 57.50	$ 63.25	$ 695.75
$12001 - $25,000	$ 594.00	$ 59.40	$ 65.34	$ 718.74
$25,001 - $50,000	$ 625.00	$ 62.50	$ 68.75	$ 756.25
$50,001 - $75,000	$ 647.00	$ 64.70	$ 71.17	$ 782.87
$75,001 - $100,000	$ 701.00	$ 70.10	$ 77.11	$ 848.21
$100,001 -$150,000	$ 812.00	$ 81.20	$ 89.32	$ 982.52
$150,001 - $200,000	$ 981.00	$ 98.10	$ 107.91	$ 1,187.01
$200,001 - $250,000	$ 1,204.00	$ 120.40	$ 132.44	$ 1,456.84
$250,001 - $300,000	$ 1,387.00	$ 138.70	$ 152.57	$ 1,678.27
$300,001 - $350,000	$ 1,575.00	$ 157.50	$ 173.25	$ 1,905.75
$350,001 - $400,000	$ 1,762.00	$ 176.20	$ 193.82	$ 2,132.02
$400,001 - $450,000	$ 1,944.00	$ 194.40	$ 213.84	$ 2,352.24
$450,001 - $500,000	$ 2,037.00	$ 203.70	$ 224.07	$ 2,464.77
$500,001 - $750,000	$ 2,225.00	$ 222.50	$ 244.75	$ 2,692.25
$750,001 - $1,000,000	$ 2,412.00	$ 241.20	$ 265.32	$ 2,918.52
Over $1,000,001	$ 2,531.00	$ 253.10	$ 278.41	$ 3,062.51

Multiple Building Works (MBW) - Non Structural

	Base	GST	Stamp Duty	Total
$12,000	$ 167.00	$ 16.70	$ 18.37	$ 202.07
$12001-$25000	$ 185.00	$ 18.50	$ 20.35	$ 223.85
$25,001 - $50000	$ 195.00	$ 19.50	$ 21.45	$ 235.95
$50,001 - $75000	$ 204.00	$ 20.40	$ 22.44	$ 246.84
$75,001 -$100,000	$ 222.00	$ 22.20	$ 24.42	$ 268.62
$100,001 -$150,000	$ 240.00	$ 24.00	$ 26.40	$ 290.40
$150,001 - $200,000	$ 277.00	$ 27.70	$ 30.47	$ 335.17
$200,001 - $250,000	$ 332.00	$ 33.20	$ 36.52	$ 401.72
Over $250,001	POA			

CAT C

Multiple Building Works (MBW) - Structural

	Base	GST	Stamp Duty	Total
$12,000	$ 919.00	$ 91.90	$ 101.09	$ 1,111.99
$12001 - $25,000	$ 950.00	$ 95.00	$ 104.50	$ 1,149.50
$25,001 - $50,000	$ 1,006.00	$ 100.60	$ 110.66	$ 1,217.26
$50,001 - $75,000	$ 1,037.00	$ 103.70	$ 114.07	$ 1,254.77
$75,001 - $100,000	$ 1,125.00	$ 112.50	$ 123.75	$ 1,361.25
$100,001 -$150,000	$ 1,302.00	$ 130.20	$ 143.22	$ 1,575.42
$150,001 - $200,000	$ 1,569.00	$ 156.90	$ 172.59	$ 1,898.49
$200,001 - $250,000	$ 1,925.00	$ 192.50	$ 211.75	$ 2,329.25
$250,001 - $300,000	$ 2,225.00	$ 222.50	$ 244.75	$ 2,692.25
$300,001 - $350,000	$ 2,519.00	$ 251.90	$ 277.09	$ 3,047.99
$350,001 - $400,000	$ 2,819.00	$ 281.90	$ 310.09	$ 3,410.99
$400,001 - $450,000	$ 3,112.00	$ 311.20	$ 342.32	$ 3,765.52
$450,001 - $500,000	$ 3,262.00	$ 326.20	$ 358.82	$ 3,947.02
$500,001 - $750,000	$ 3,562.00	$ 356.20	$ 391.82	$ 4,310.02
$750,001 - $1,000,000	$ 3,850.00	$ 385.00	$ 423.50	$ 4,658.50
Over $1,000,001	$ 4,050.00	$ 405.00	$ 445.50	$ 4,900.50

Multiple Building Works (MBW) - Non Structural

	Base	GST	Stamp Duty	Total
$12,000	$ 266.00	$ 26.60	$ 29.26	$ 321.86
$12001-$25000	$ 296.00	$ 29.60	$ 32.56	$ 358.16
$25,001 - $50000	$ 311.00	$ 31.10	$ 34.21	$ 376.31
$50,001 - $75000	$ 326.00	$ 32.60	$ 35.86	$ 394.46
$75,001 -$100,000	$ 355.00	$ 35.50	$ 39.05	$ 429.55
$100,001 -$150,000	$ 385.00	$ 38.50	$ 42.35	$ 465.85
$150,001 - $200,000	$ 444.00	$ 44.40	$ 48.84	$ 537.24
$200,001 - $250,000	$ 531.00	$ 53.10	$ 58.41	$ 642.51
Over $250,001	POA			

As at 01/07/2013
Version 1.0