ESSENTIAL SERVICES COMMISSION

PERFORMANCE OF VICTORIA'S DOMESTIC BUILDING INSURANCE SCHEME 2014-2015

November 2015

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GLOSSARY

Building Practitioners Board	A statutory authority that oversees the quality and standard of professional services in the Victorian building industry.
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 purchase domestic building insurance for domestic building projects.
Investment returns	The revenue earned by an insurer by investing premium revenue.
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.
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 Managed Insurance Authority (VMIA)	A statutory body providing DBI insurance. As of 1 January 2014, the VMIA is the only insurer providing insurance to registered builders.

CONTENTS

EXECUTIVE SUMMARY

This is the Essential Services Commission's (the Commission) fifth annual report on the performance of Victoria's Domestic Building Insurance (DBI) scheme.

DBI is taken out by builders on behalf of home-owners. It compensates home-owners 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. In Victoria, it is compulsory for all domestic construction contracts over $16 000 in value.[1]

DBI is provided in the form of a project certificate which is issued by an insurer to a registered builder for each building project. An insurer calculates the price of DBI — the premium — based on its assessment of the likelihood that a claim will be made, which is based on factors such as the contract value of the project, the type of work undertaken and the builder's risk rating.

A home-owner who is legally allowed to undertake building work over $16 000 in value on their property, must also take out DBI, 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. Evidence of this policy must be provided to the new owner.

The DBI market has undergone significant change since it was introduced in 2002. In 2010, all but one of five private insurers left the market. During that time, the Victorian Managed Insurance Authority (VMIA) began offering DBI. Calliden continued to offer DBI to registered builders until 31 December 2013. Since then, the VMIA has been the sole provider of DBI to registered builders. The VMIA and Calliden provide DBI to

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

owner-builders. Private insurers are still liable for any claims against DBI they issued before leaving the market.

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. This latest performance report covers the period up to 30 June 2015.

DBI is a type of long-tail insurance, which means that claims have a lag. That is, they can come in over a long period of time (up to 11 years) after the issuing of the certificate or policy. Because of this, insurers must forecast the sufficiency of premiums collected in 1 year to meet the cost of claims incurred in future years, and to assess if their product is financially viable.

The period of time that insurers must consider home-owners' claims against a policy is known as the liability period. This period can vary between 6 and 11 years. For its analysis, the Commission assumes that construction is completed 12 months after the certificate issue date. That is, we assume the liability period to be 7 years.

SCHEME PERFORMANCE

The simple loss ratio measures the viability or performance of the DBI scheme. It shows the cost of claims as a percentage of premium revenue collected.

For certificates and policies issued in 2008 (for which the liability period is assumed to have now expired), the simple loss ratio was 109 per cent, as at June 2015. This means claims costs for 2008 exceed the premium revenue collected. On this basis, insurers appear collectively to have made a loss on DBI for certificates and policies issued in 2008. However, this may not necessarily be the case, as the simple loss ratio does not account for any income insurers may have earned from investing premium revenue while they wait to pay out claims.

ELIGIBILITY

Under the current arrangements, builders are required to obtain eligibility with a DBI insurer in order to be registered. 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 builders and impose an annual turnover limit, which is their assessment of the maximum value of building projects builders can take on without risking insolvency.

PROJECT CERTIFICATES

Following a peak at just over 62 400 in 2010, and falls in 2011 and 2012, the total number of certificates has since increased each year (reaching 64 917 in 2014). The total number of project certificates issued in the first half of 2015 indicates that further increases are likely again this year. Project certificates for new dwellings account for the largest share of total DBI certificates issued and of the premium pool.

PREMIUMS

The average premium of a project certificate 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.

CLAIMS

As DBI is a long-tail insurance scheme, it is difficult to present claim numbers in their true context until at least 6 years after the issue date of project certificates. Nevertheless, on the whole it appears that claims are relatively infrequent in relation to the number of project certificates issued. The revised data for registered builders show that insurers have received 6 650 claims (compared to 667 523 certificates issued) since the DBI scheme commenced in 2002.

Insolvency is by far the most common reason that claims on DBI are made. Nearly 40 per cent of claims received relate to a structural defect. Non-structural defects also account for around 40 per cent of claims.

The average cost to an insurer of a DBI claim for work undertaken by a registered builder is around $34 600 per claim (although this falls to around $29 200 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.

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 491 days, or just over 16 months.

OWNER-BUILDERS

The number of owner-builder policies has declined 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 183 since 2002). The most common reason for claims against owner-builders is disappearance of the previous owner.

1 INTRODUCTION

This chapter outlines the background and some general concepts needed to understand the Victorian Domestic Building Insurance market. Abbreviations and terms included in the glossary are highlighted in bold and italics.

1.1 WHAT IS DOMESTIC BUILDING INSURANCE?

Domestic Building Insurance (DBI), — also known as builders warranty insurance — is compulsory on all domestic construction contracts over $16 000 in value,[2] such as new dwellings, renovations and swimming pools. It compensates a home-owner for losses resulting from non-completion or defects, where their builder cannot be pursued directly for redress because they have died, disappeared, or become insolvent (collectively abbreviated as **DDI**).

DBI is provided in the form of a ***project certificate*** which is issued by an insurer to a registered builder for each building project. An insurer calculates the price of DBI — the ***premium*** — based on factors such as the contract value of the project, the type of work undertaken and the builder's risk rating. Insurers then earn ***investment returns*** on the premium revenue they have collected, while they wait to pay out possible claims on the certificates they have issued.

DBI is taken out by builders on behalf of home-owners. It is paid by the builder, on behalf of the home-owner. A home-owner then has 6 years from a project's completion

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

to make a claim, although experience shows it is possible for claims to be made up to 11 years following the issuing of a certificate.[3]

A home-owner who is legally allowed to undertake building work over $16 000 in value on their property (defined as an owner-builder), must also take out DBI, 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.

1.2 THE DEVELOPMENT OF DOMESTIC BUILDING INSURANCE

The current DBI scheme was first introduced in 2002, when the market was served by five competing private sector insurers. In 2010, all but one of these insurers announced that they would cease issuing DBI. At this point, the Victorian Managed Insurance Authority (VMIA) began offering DBI following an official mandate from the Government. Arrangements were made with QBE to act as the agent that sells DBI for the VMIA.

One private insurer, Calliden, continued to offer DBI to registered builders until 31 December 2013. Since then, the VMIA has been the sole provider of DBI to registered builders. Calliden continues to provide DBI to owner-builders. Private insurers are still liable for any eligible claims against DBI they issued before leaving the market.

1.3 WHAT ARE THE REQUIREMENTS FOR BUILDERS TO BE ELIGIBLE FOR DOMESTIC BUILDING INSURANCE?

All builders are required to obtain ***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

[3] An insurer is liable for a claim from the time a certificate is issued at the start of a project, until 6 years after the project has been completed. Therefore, the period for which the insurer is liable varies with the length of the project. In some circumstances, a home-owner can make a claim after the liability period has expired (s.54, *Insurance Contracts Act 1984* (Cth).

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. Since 1 January 2014, registered builders can only obtain eligibility from the VMIA.

1.4 HOW ARE HOME-OWNERS COVERED FOR CLAIMS?

DBI covers a home-owner for defects that occur up to 6 years from the completion of the building project.[4] It is referred to as ***long-tail insurance*** because of the long period of time faced by insurers between charging a premium and knowing the full cost of claims. This is distinct from other insurance products, like 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.

The period of time that insurers must consider home-owners' claims against a policy is known as the ***liability period***.[5] As noted above, this period can vary between 6 and 11 years. The construction of a domestic dwelling could take 3years while a renovation could be completed in 2 or 3 months. For its analysis, the Commission assumes that construction is completed 12 months after the certificate issue date. Insurers do not collect data on completion times from builders.

There is no limit in legislation on the time that can elapse between when a home-owner notifies an insurer of a claim and the submission of information required to open the claim. Over 90 per cent of claims to date have been received within 90 days of the initial notification. It is also possible for notifications that have been closed, to be re-opened for assessment years after being first 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 7 years to be a reasonable assumption for analysis, while

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

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

accepting insurers' comments that the liability period could extend to 10 years or even longer. To date, only about 5 per cent of claims have been lodged more than 7 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 6 or 7 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 that are used throughout this report (see table 1.1).

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 time when 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 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.

1.5 WHAT HAS THE COMMISSION HAS BEEN ASKED TO DO?

Under terms of reference issued in July 2010 (see Appendix A), the Commission has two ongoing roles in reporting on DBI. One role is to undertake reviews every 2 years on the adequacy and validity of the VMIA's premiums. Our second review, covering premiums for the period 1 July 2012 to 30 June 2014, was released in April 2015.

Our other role is to conduct an annual examination of the VMIA and outgoing private insurers' provision of DBI. This is the subject of this report, which covers the following:

- the overall viability of the DBI scheme (in Chapter 2)
- the number of registered builders eligible for DBI (in Chapter 3)
- the number of project certificates issued, according to the type of building work undertaken (also in Chapter 3)
- for registered builders, the amount of revenue collected from DBI premiums (also in Chapter 3)
- for registered builders, the number of DBI claims by type, cause and over time (in Chapter 4)
- for owner-builders, the number of DBI policies issued, the level of premiums charged and the number and costs of claims incurred (in Chapter 5).

In examining each of these areas, the Commission collects quarterly data from insurers. Although the Commission undertakes validation checks, the data is not audited, so we rely on the accuracy of the data insurers provide. This latest performance report covers the period up to 30 June 2015.

2 SCHEME PERFORMANCE

KEY FINDINGS

The simple loss ratio measures the viability of the Domestic Building Insurance (DBI), which shows the cost of claims as a percentage of premium revenue collected.

There is a lag between when premium revenue is collected and when claims can be made, which we assume to be 7 years. The lag means an assessment of scheme viability cannot be made for certificates or polices issued after 2008.

For certificates and policies issued in 2008, the simple loss ratio is 109 per cent, as at June 2015. This means claims costs for that year exceed the premium revenue collected. While it would appear insurers collectively made a loss on DBI for 2008, the simple loss ratio does not account for the income insurers may have earned from investment income (on the premium revenue they collected for 2008).

Insurers' profitability depends on whether their revenue — that is, premiums combined with investment returns — sufficiently covers the cost of their claims expenses and other operating expenses. In order to cover these costs, insurers rely on predicting the number and cost of claims that could be made.

As Domestic Building Insurance (DBI) is a type of long-tail insurance, the cost of insurers' claims expenses will be unknown for several years. There is a lag between when premium revenue for policies and certificates issued in a given year is collected and when claims can be made. Although it can vary, for the purposes of our analysis, we assume this lag to be up to 7 years.

The lag means an assessment of whether claims have covered the premium revenue collected for a given year cannot be made until at least 7 years after DBI has been issued. In the case of this report, such an assessment cannot be made for certificates or polices issued after 2008. The liability period for these certificates and policies is assumed to have not yet expired, meaning more claims could be made; hence further costs could be incurred in the future.

2.1 SIMPLE LOSS RATIOS

A measure of scheme viability is the simple loss ratio, which shows the cost of claims as a percentage of premium revenue collected. It provides an indication of how much premium revenue insurers have available to meet their claims costs. However, it does not account for investment returns or any other costs an insurer faces aside from direct claim costs.

Specifically, for certificates and policies issued in a given year, the simple loss ratio compares the total premium revenue collected against the total costs of claims. The ratio is represented as total claims costs as a percentage of total premium revenue. While premium revenue collected in a given year is fixed[6], the 7 year lag means the cost of claims will change over time. As such, the simple loss ratio will continue to change, until the period for claims against which certificates and polices could be made, has expired.

Table 2.1 shows the premium revenue and claims costs data used to calculate the simple loss ratio for all insurers from 2002 to 2015. The data is presented for all types of builders. That is, it includes registered builders and owner-builders. The assumed number of years of liability remaining and the number of certificates and policies is also provided for reference.

[6] No allowance is made for inflation.

TABLE 2.1 SCHEME PERFORMANCE — SIMPLE LOSS RATIOS

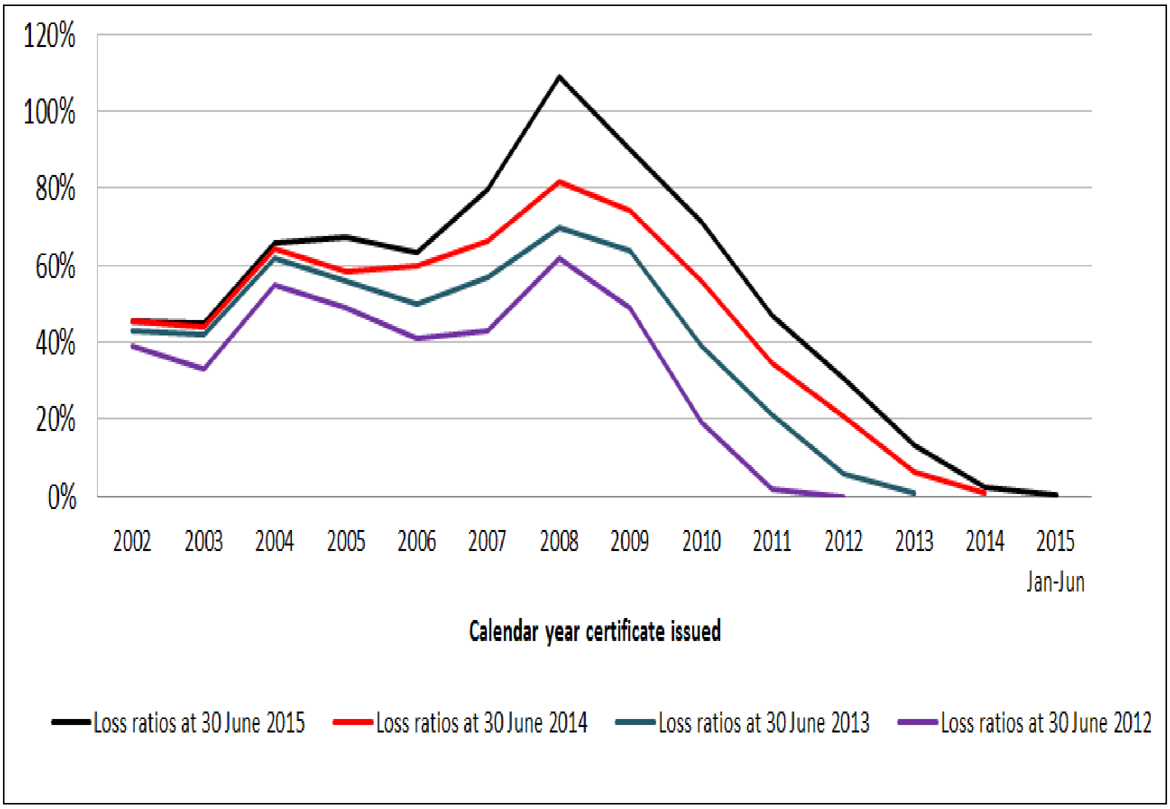
All insurers

Year	Number of certificates/ policies	Premium excluding charges ($000)	Net incurred costs ($000)[a]	Assumed years of liability remaining[b]	Simple loss ratio (%)
2002	17 731	10 661	4 834	0	45.3
2003	40 305	27 521	12 337	0	44.8
2004	34 720	27 536	18 189	0	66.1
2005	46 975	31 986	21 498	0	67.2
2006	53 142	32 119	20 333	0	63.3
2007	54 690	30 574	24 331	0	79.6
2008	53 113	27 650	30 195	0	109.2
2009	61 555	34 251	30 899	1	90.2
2010	65 101	41 881	29 919	2	71.4
2011	61 355	44 330	20 783	3	46.9
2012	57 703	46 678	14 306	4	30.6
2013	61 219	54 925	7 236	5	13.2
2014	66 818	67 688	1 544	6	2.3
2015 Jan-Jun	34 975	36 748	34	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 the simple loss ratios have changed over the last 4 years. It plots the simple loss ratios for certificates and policies issued in each year, as at 30 June 2015 (listed in the table above), which are indicated by the black line in figure 2.1. This can be compared with the simple loss ratios calculated as at 30 June for the previous 3 years, as marked by the red, blue and purple lines. As an example that illustrates the changes over time, figure 2.1 shows the simple loss ratio for certificates and polices issued in 2006 increasing from around 41 per cent, when it was calculated for 30 June 2012 (on the purple line), to just over 63 per cent for 30 June 2015 (on the black line).

FIGURE 2.1 CHANGE IN SIMPLE LOSS RATIOS OVER TIME
All insurers



As illustrated in figure 2.1, the simple loss ratio for certificates and policies issued in 2008 is now over 100 per cent. That is, claims costs have exceeded the premium revenue collected (in 2008), resulting in a simple loss ratio of 109 per cent. On this basis, it would appear that collectively, insurers made a loss on DBI for 2008. However, the simple loss ratio does not account for the income insurers may have earned from investments on 2008 certificates and policies.

3 ELIGIBILITY, PROJECT CERTIFICATES AND PREMIUMS

KEY FINDINGS

Since 1 January 2014, the Victorian Managed Insurance Authority (VMIA) has been the only insurer offering Domestic Building Insurance (DBI) to registered builders in Victoria.

The number of certificates issued increased in 2013 and 2014. The data for the first half of 2015 shows that further increases are likely.

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 premium of a project certificate 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, the VMIA adopted QBE's premium rates. It subsequently 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.

3.1 OBTAINING DBI ELIGIBILITY

Eligibility with an insurer for Domestic Building Insurance (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.

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

Registered builders can only seek eligibility with the Victorian Managed Insurance Authority (VMIA). Calliden ceased providing DBI to registered builders at the end of 2013, but continues to provide insurance for owner-builders.

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.

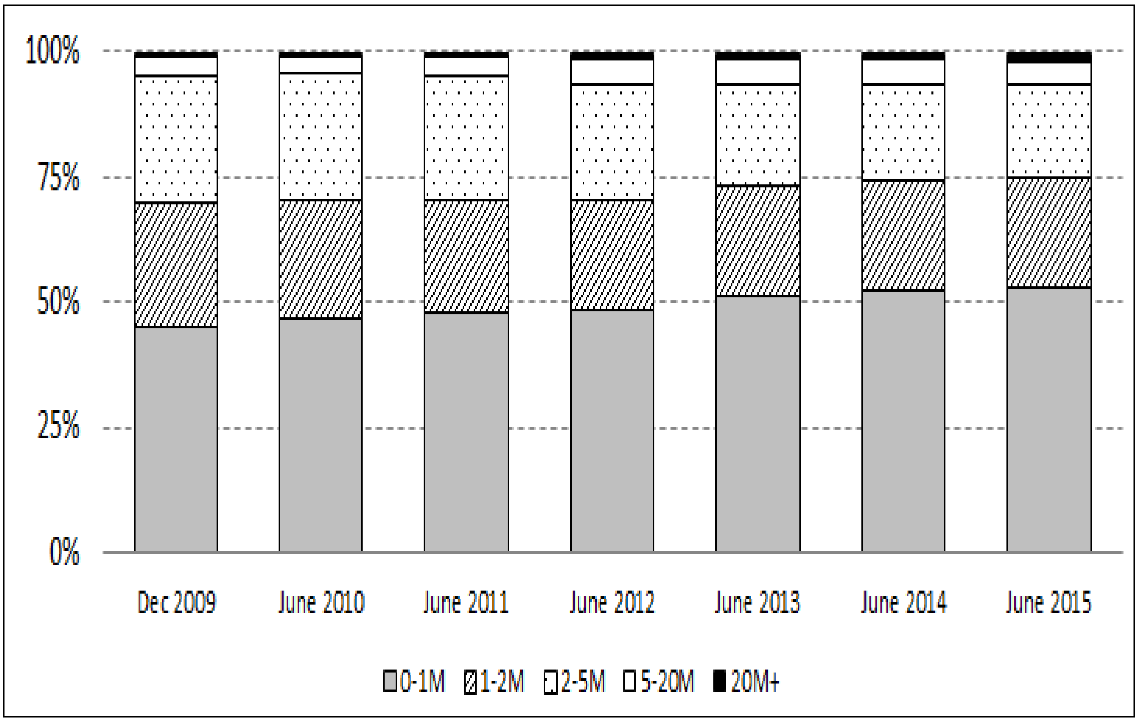
3.1.2 TURNOVER LIMITS

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 consequently becoming insolvent. Domestic building is capital intensive and cash flow is lumpy. 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 12 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 2015



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 2014, new dwelling construction constituted around 66 per cent of certificates issued. The figures for the first half of 2015 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	43 141	13 616	4 103	4 057	64 917
2015 (Jan-Jun)	23 056	7 125	1 809	2 105	34 095

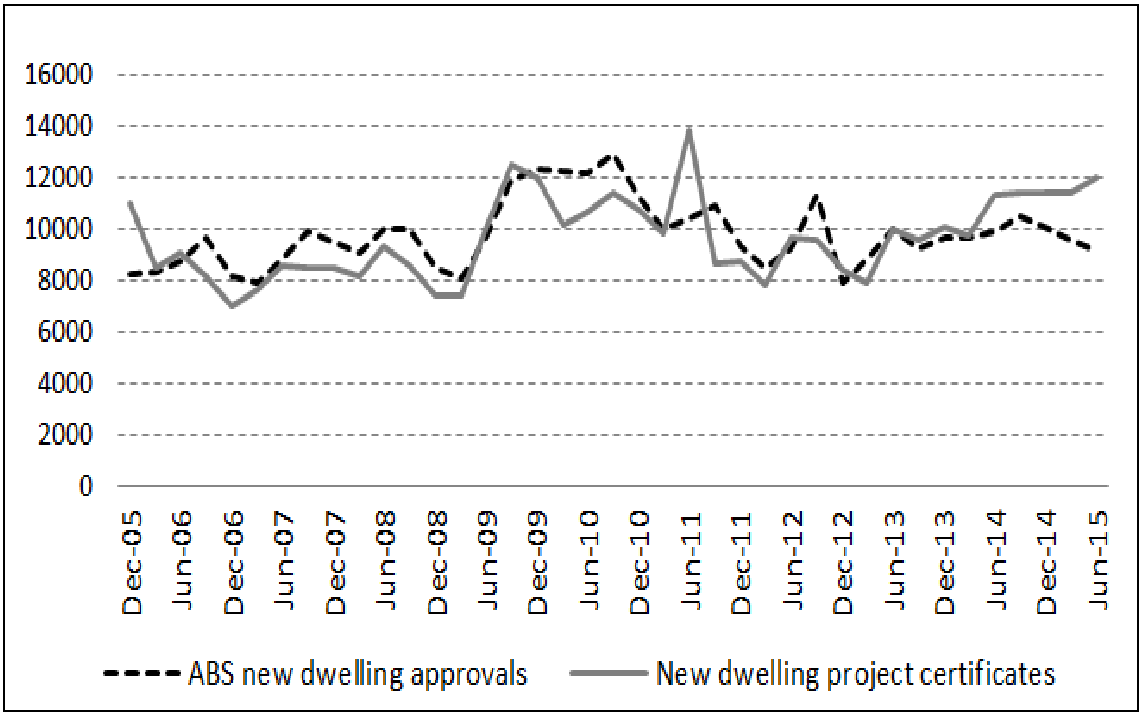
Although the total number of certificates fell annually between 2010 and 2012, there have since been increases in 2013 and 2014. The data for the first half of 2015 indicates there will also be an increase in 2015.

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 to the premium pool. Figure 3.2 compares the number of project certificates issued for new dwellings with ABS quarterly data on building approvals. This comparison provides a check on whether builders are taking out insurance as required. However, the data series is not an exact match, because the ABS uses survey data and differences in the timing of when data was provided.

Figure 3.2 shows that the two data sets tracked closely until December 2009, when the withdrawal of insurers from the market may have led to delays in the processing of project certificates. This created 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 track the ABS data reasonably closely, although there are signs of some divergence in the most recent quarters.

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. They calculate a premium for a specific project, taking into consideration the value of the work, the type of work and the builder's risk rating (as determined by the insurer).

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 premium 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, in relation to the project certificates that were issued. During this time, the average premium for a project certificate has increased by 64 per cent. This is partly explained by an increase in the average value of a project of 39 per cent and partly due to insurers' reassessments of the risk for DBI.

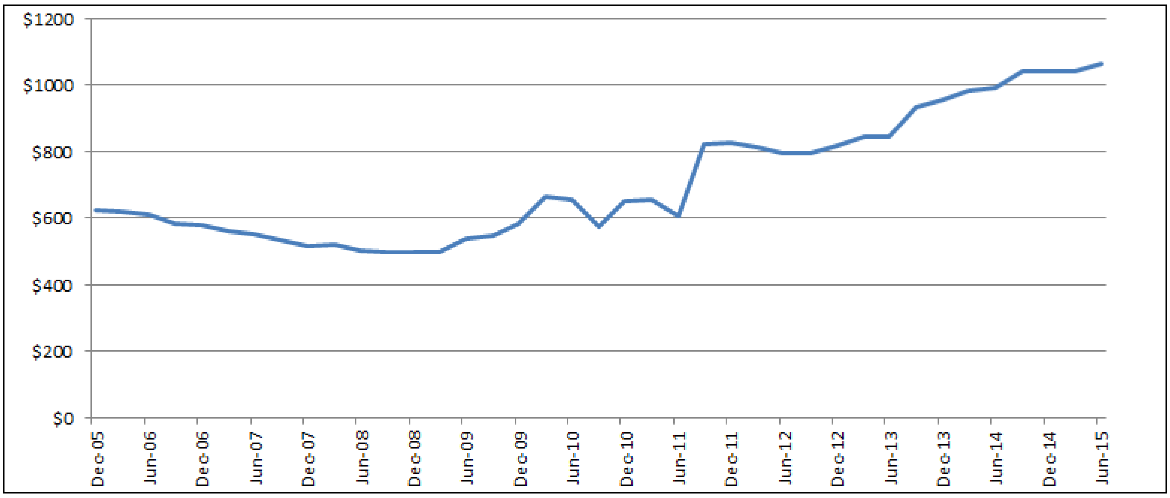
TABLE 3.2 TOTAL ANNUAL PREMIUM
Registered builder (excludes GST, stamp duty and brokerage)

	Number of project certificates	Value of project certificates ($m)	Premiums ($m)	Average project value ($)	Average premium of a project certificate ($)
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	64 917	13 828	65.88	213 010	1 015
2015 (Jan-Jun)	34 095	7 627	35.92	223 694	1 054

3.3.2 AVERAGE PREMIUM OF A PROJECT CERTIFICATE

Following a period of some volatility between June 2010 and September 2011, the average premium for a project certificate has steadily increased, to be over $1000 since June 2014 (see figure 3.3).

FIGURE 3.3 AVERAGE PREMIUM FOR A PROJECT CERTIFICATE
Registered builder (excludes GST, stamp duty and brokerage)



Since the withdrawal of competing insurers in 2010, the average premium of a project certificate has been rising. The average premium of a certificate 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 claims costs may have driven premiums below cost reflective levels. By June 2010, all but one of the competing insurers had stopped offering DBI, and the VMIA was brought in by the Government to maintain the supply of the product. In its first year, the 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 second Domestic Building Insurance Premium Validation Review, released in April 2015, the Commission concluded that the VMIA's premiums (for the 1 July 2012 to 30 June 2014 period) were appropriate and:

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

3.3.3 PREMIUM RATES

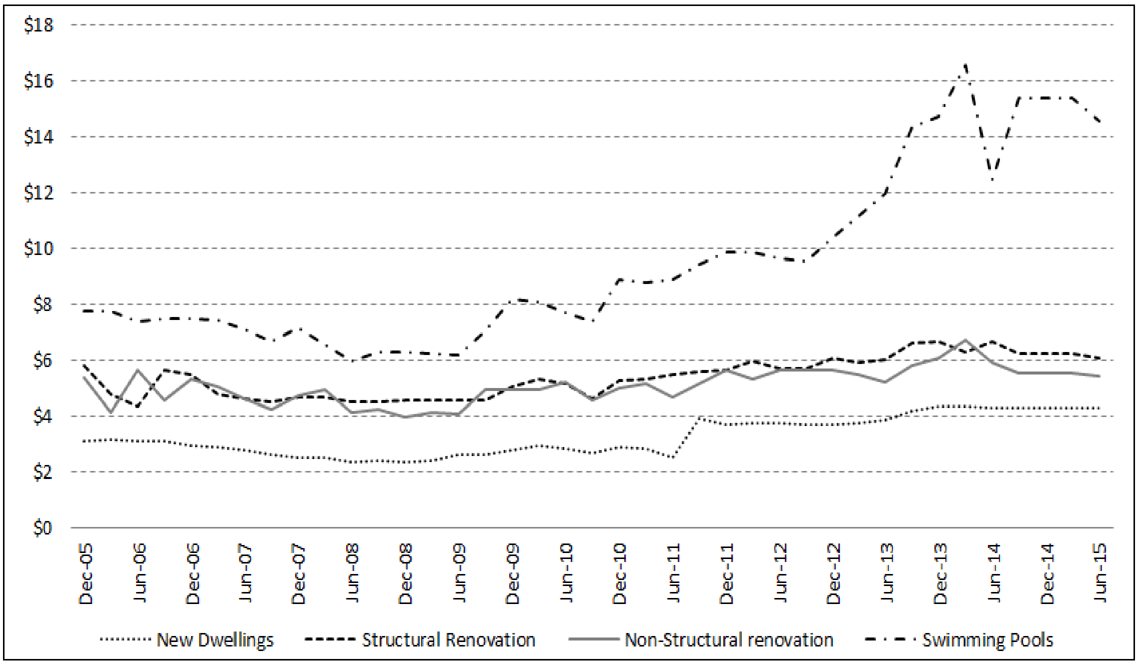
Premiums can also be expressed per $1000 of project value, to enable comparisons between insurers and over time. Figure 3.4 shows the average premium rates for different project types over time. Some of the lowest average rates for all project types were recorded from mid-2008 to mid-2009, which preceded the exit of most private insurers from the DBI market.

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 $55 000, have the highest premium rates.

4 CLAIMS

KEY FINDINGS

Domestic Building Insurance (DBI) claims are relatively infrequent compared to the number of project certificates issued each year, with insurers having received 6 650 claims from 667 523 certificates issued since the scheme was introduced in 2002. Of the claims received, 73 per cent of these claims were accepted.

Builder insolvency remains the most common reason that claims on DBI are made and almost half the claims received to date, relate to a structural defect. The average cost of a DBI claim for a registered builder is around $34 600.

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 491 days.

Insurers deny claims on the basis of several criteria. The 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 (collectively abbreviated as DDI).

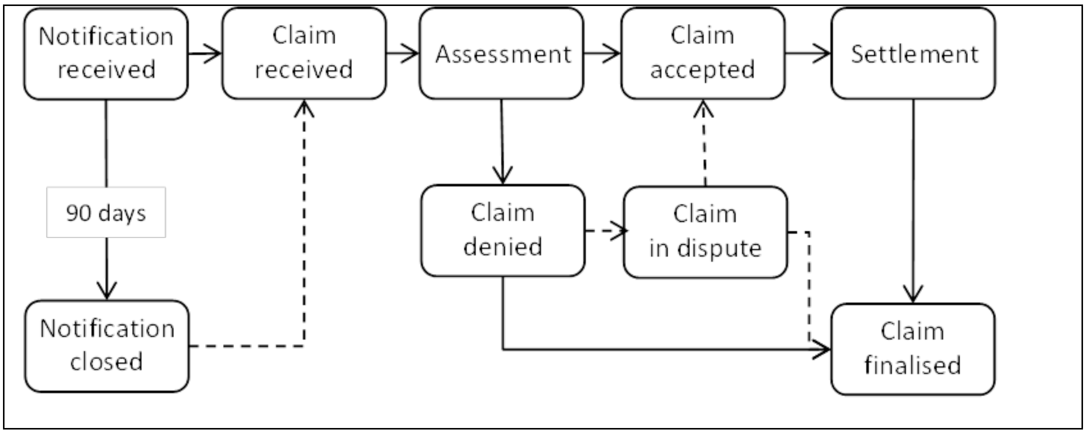
This chapter presents data for registered builders relating to claims frequency and cost since the current scheme began in 2002. As has been mentioned in our previous reports, the long liability period for DBI means that it is difficult to present claim numbers in their true context until at least 6 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 customer notifies their insurer they would like to make a claim, the claim passes through multiple stages as it is processed by the insurer, as illustrated in figure 4.1.

FIGURE 4.1 DBI CLAIMS PROCESS



NOTIFICATIONS

A certificate or 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 does not escalate into a claim, until the claimant provides the minimum amount of information an insurer needs to process it. If this minimum amount of information is not received within 90 days, the notification is closed, but remains on file. (It is also possible for a notification to be re-opened at a later stage and escalated into a claim.)

CLAIMS

In many cases, the required claims information is received immediately and a claim is opened without a notification period. Once the information is received, an insurer assesses the claim. 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 insurer accepts the claim, a settlement period begins in which the compensation is calculated and paid. It is not until the claim is fully settled with the claimant, that it is considered finalised and closed. If the claim is denied, the claimant has the opportunity to dispute the insurer's decision; otherwise, the claim is finalised and closed.

The focus of the Commission's analysis in this report is on claims that have graduated beyond the notification stage (where notifications are included, this is noted). We have also examined particular cross sections of claims, such as those for which a decision has been made.

DBI is considered to be a type of long-tail insurance, as claims can be made for up to 2 years after completion, in relation to non-structural defects, and for up to 6 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 10 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 6650 claims and 1979 notifications. As at 30 June 2015, 73 per cent of finalised claims were accepted by insurers.

TABLE 4.1 TOTAL CLAIMS AND NOTIFICATIONS BY STATUS
Registered builder — January 2002 to June 2015

	Open	Closed/finalised	Total
Claims			
Accepted[a]	635	3994	4629
Pending[b]	232		232
Total accepted or pending	**867**	**3994**	**4861**
Liability denied	62	1727	1789
Total claims	**929**	**5721**	**6650**
Notifications	35	1944	1979
GRAND TOTAL	**964**	**7665**	**8629**

[a] Includes deemed, full, and partially accepted claims. [b] Includes claims being assessed and claims in dispute.

Table 4.2 splits all claims received, whether accepted or not, by the reported cause and claim type. It shows that insolvency is by far the most common reason (at around 92 per cent). Almost half the claims received to date, relate to a structural defect.

TABLE 4.2 CLAIMS RECEIVED BY TYPE AND CAUSE
Registered builder — January 2002 to June 2015

	Insolvency	Death	Disappearance	Other/ unspecified	Total
Failure to commence	144	3	5	2	154
Failure to complete	1 670	23	70	35	1 798
Structural defect	2 906	57	211	11	3 185
Non-structural defect	1 379	23	64	19	1 485
Not yet determined	19		5	4	28
Total	**6 118**	**106**	**355**	**71**	**6 650**

Note: Excludes notifications

Table 4.3 compares the claims insurers have received with the corresponding project certificates issued since the scheme was first introduced. Around 1.1 per cent to 1.7 per cent of the certificates issued in each year before 2008 generated claims. The liability period for these certificates may now be considered to be exhausted (as indicated by the grey shaded area). The data also shows that the percentage of certificates that generated claims in each year after 2008 does not exceed the highest percentage prior to 2008 (of 1.67 per cent in 2007). At present, 2010 has the highest percentage of certificates generating claims, at 1.33 per cent. However, it will not be known how the percentage of certificates issued in these years compares with those issued before 2008, until their liability expires.

TABLE 4.3 CLAIMS RECEIVED OVER TIME

Registered builder — January 2002 to June 2015

	Claims by certificate issue year	Project certificates issued	Percentage of claims to certificates	Years of liability remaining
2002	160	14 663	1.09	-
2003	402	36 935	1.09	-
2004	363	31 332	1.16	-
2005	556	42 556	1.31	-
2006	592	47 337	1.25	-
2007	843	50 574	1.67	-
2008	728	49 946	1.46	-
2009	609	58 525	1.04	1
2010	829	62 414	1.33	2
2011	751	59 256	1.27	3
2012	507	55 918	0.91	4
2013	251	59 055	0.43	5
2014	55	64 917	0.08	6
2015 (Jan-Jun)	4	34 095	0.01	7
Total	**6 650**	**667 523**	**n/a**	**n/a**

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

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.

While some claims will be accepted and finalised with no claim-related costs to the insurer, other claims may incur claim-related costs for investigation even if they are not accepted.

When setting premium levels, the total net incurred costs are more significant to insurers than the total number of claims received, as it is claim costs (as measured by net incurred costs) that drive insurers' profitability levels.

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

TABLE 4.4 CLAIMS COSTS BY STATUS

($000) Registered builder — January 2002 to June 2015

	Open			Closed		Total
	Accepted	Denied	Pending	Accepted	Denied	
Number of claims	635	62	232	3 994	1 727	6 650
Properties affected (no.)[a]	1 013	78	280	4 707	1 798	7 876
Sum paid to claimant (	28 001	0	1 098	154 810	10	183 919
(plus) Sum paid to third parties	4 529	134	1 316	19 080	1 573	26 633
(less) Sum of third party recoveries received	788	0	121	6 186	14	7 108
(plus) Sum of net outstanding	13 655	2 433	10 585	0	2	26 674
Sum of net incurred cost	**45 397**	**2 566**	**12 878**	**167 704**	**1 572**	**230 118**
Average cost per claim	71.5	41.4	55.5	42.0	0.9	34.6
Average cost per property	44.8	32.9	46.0	35.6	0.9	29.2

[a] Reflects adjustments for claims on common property at multi-dwellings.

Average costs are lower for finalised accepted registered builder claims ($42 000) compared with open and accepted claims ($71 500), where the insurer is estimating the cost of the outstanding liability. This could indicate either 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 $34 600, this drops to around $29 200 when the figures are adjusted for claims relating to multiple properties.[7] 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 COSTS OF CLAIMS (ACCEPTED-FINALISED) BY TYPE
Registered builder — January 2002 to June 2015

	Number of accepted-finalised claims	Number of properties[a]	Net incurred costs ($)	Average cost per claim ($)	Average cost per property ($)
Failure to commence	126	126	2 420 980	19 214	19 214
Failure to complete	1 354	1 372	79 160 549	58 464	57 697
Structural defect	1 726	2 264	65 685 879	38 057	29 013
Other (non-structural) defect	788	945	20 436 934	25 935	21 626
Total	**3 994**	**4 707**	**167 704 343**	**41 989**	**35 629**

Note: [a] Reflects adjustments for claims on common property at mult-dwellings.

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.

[7] 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 491 days, or just over 16 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 FOR CLAIMS (ACCEPTED-FINALISED) FROM CLAIM RECEIPT TO FINALISATION
Registered builder — January 2002 to June 2015

	Number of accepted-finalised claims	Time between claims received and liability decision[a] (days)	Time between liability decision and finalisation[b] (days)	Total time (days)
All insurers	3994	83	407	491

[a] The time between 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

There are several reasons why an insurer may deny a claim. Most claims (around 69 per cent) are denied either because the fault reported was not deemed a defect, or because the builder was not insolvent. A breakdown of the different reasons claims are denied is shown in table 4.7.

TABLE 4.7 REASONS FOR CLAIM DENIED
Registered builder — January 2002 to June 2015

	Denied claims (number)	Proportion (%)
Incorrect insurer	94	5.3
Out of time	146	8.2
Builder found	133	7.4
Builder not dead	7	0.4
Builder not insolvent	422	23.6
Not deemed a defect	811	45.3
No loss	80	4.5
Owner did not proceed	96	5.4
Total	**1 789**	**100**

5 OWNER BUILDERS

KEY FINDINGS

Owner-builders who carry out building work (over $16 000) on their own property, require Domestic Building Insurance (DBI) if they sell that home 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 183 since 2002).

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

In the absence of a central licensing body, as exists for registered builders, 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 work on their own property. Owner-builders are generally not in the building industry and must obtain a **Certificate of Consent** from the Building Practitioners Board if their building work is valued at more than $16 000.

Owner-builders require Domestic Building Insurance (DBI) if they sell the property for which they have undertaken building work, within six and a half years of completion and where the value of that work is equal to or greater than $16 000 (previously $12 000). They are required to provide the new owner with evidence of this DBI policy and a report on any building defects[8]. In this way, owner-builder DBI is quite distinct from the DBI purchased by a registered builder.

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

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

5.1 POLICIES AND PREMIUMS

The majority of owner-builders who have been issued domestic building permits do not require DBI, as most properties are not sold within the relevant timeframes (six and a half years). Table 5.1 shows how many DBI policies are issued to owner-builders each year, as well as the total value of policies held and the total premiums paid for them. The number of owner-builder policies that are issued has been declining since 2006, although it has remained fairly stable since 2011, at around 500 per quarter.

[8] The report must be conducted by a prescribed building practitioner.

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	4 645	694 034	4 983
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	1 901	359 358	1 803
2015	880	167 518	826

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 5 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 2015

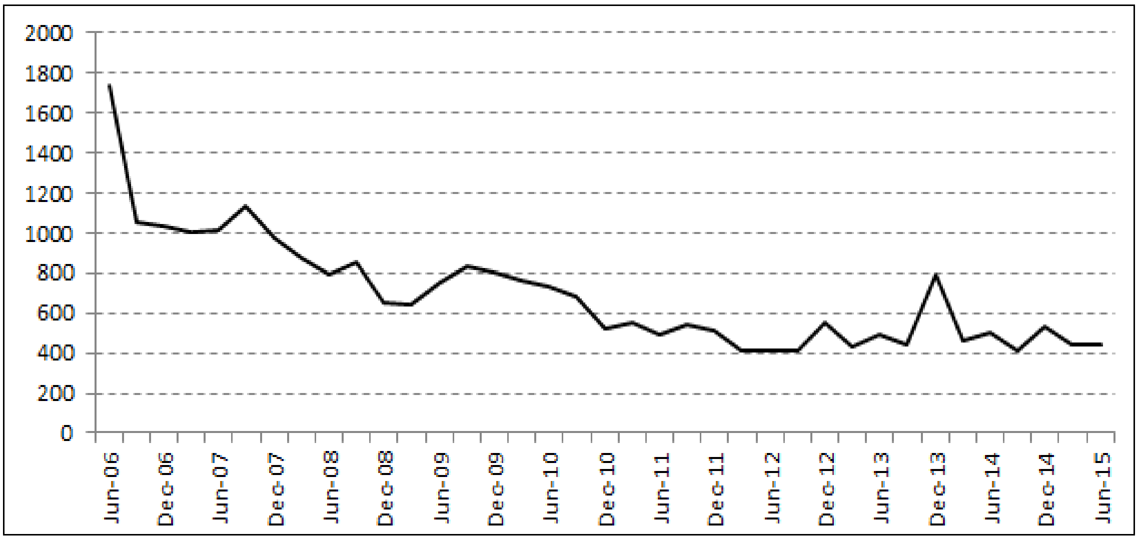
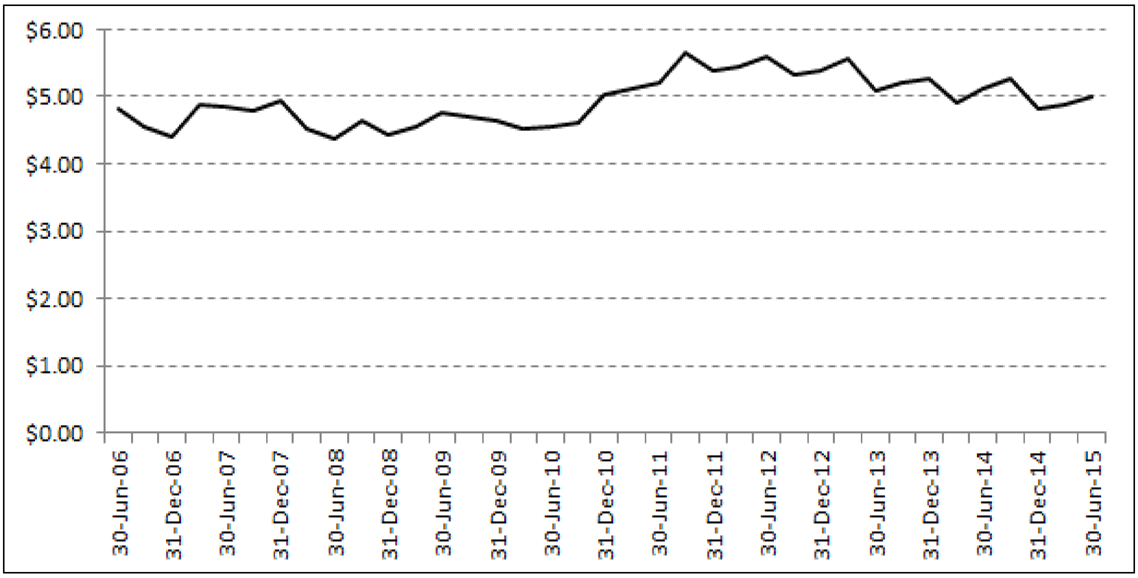


Figure 5.2 shows how the average premium per $1000 of project value has changed over time. Compared with registered builders, owner-builders pay a higher average premium rate.

There has been some volatility in the owner-builder rate since it rose above $5.00 at the end of 2010, but has since continued to trend around $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 2015



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. As table 5.2 shows, since 2002, 183 claims have been accepted, while one claim has a liability decision pending. There have been nearly as many claims denied as accepted in this time. Whereas, for registered builders the ratio of claims accepted to denied is roughly 3:1. The higher proportion of claims denied for owner-builders 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.

Around half of the 166 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 5.2 CLAIM NUMBERS BY STATUS
Owner-builders — January 2002 to June 2015

	Open	Closed	Total
Accepted[a]	14	169	183
Pending[b]	1	0	1
Total accepted or pending	**15**	**169**	**184**
Claims denied	3	163	166
Total claims	**18**	**332**	**350**
Notifications[c]	2	61	63
GRAND TOTAL	**20**	**393**	**413**

[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.

As Table 5.3 indicates, the most common reason for successful claims against owner-builders is disappearance of the previous owner. 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.

TABLE 5.3 CLAIMS BY CAUSE
Owner-builders — January 2002 to June 2015

	Number	Share (%)
Insolvency	71	39
Death	5	3
Disappearance	107	58
Total	**183**	**100**

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

Based on the 183 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 first inquiry will cover the period 1 June 2010 to 30 June 2012 and subsequent inquiries will be biennial. The inquiries will report by 30 April of the following 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
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