

## RESPONSE TO QUESTIONS TAKEN ON NOTICE PAEC – Inquiry into the 2023-24 Budget Estimates – Assistant Treasurer

Monday 5 June 2023

### 1. Has DTF done any modelling on the impact of premium increases on the building market?

*(Asked by Danny O'BRIEN Pages 5-6 of the transcript)*

*Transcript extract:*

Andrew DAVIES: We have been reviewing the domestic building insurance premium, and we do every year. We believe that we need to put more risk margin into that premium given the current environment, so we are looking at that premium as we speak.

Danny O'BRIEN: So you would expect that premiums will be rising in the next financial year?

Andrew DAVIES: The unfortunate thing about insurance, with a lot of claims the premiums will rise. So, yes, we are expecting the premiums to rise.

Danny O'BRIEN: Can you give the committee an estimate of how high?

Andrew DAVIES: No. We are still going through the process of assessing what that claim impact is and what we anticipate the premium should be. That process will work through our capital and risk committees, our board and others in the short course.

Danny O'BRIEN: It is going to go up. Do you expect it is going to be dramatically different?

Andrew DAVIES: We would anticipate that the risk environment at the moment is greater than what we had previously. For these liabilities we do anticipate that we will have to put up the premium – some material increase in that premium – to make it an adequate premium. But if we think about where it is today, it is a very low premium today, and if you think about where Victoria is relative to other jurisdictions, it is a very low premium compared with other jurisdictions.

Danny PEARSON: It is also a very low percentage in terms of the total build, so I think the average premium is around about \$1200, \$1300.

Andrew DAVIES: Correct.

Danny PEARSON: So if you are looking to build at \$300,000, \$350,000, it is a vitally important premium to take out, but it is a relatively small percentage of your total build.

Danny O'BRIEN: What did you say the average was – \$1200 to \$1300?

Andrew DAVIES: It is about average at the moment for an A-grade builder.

Danny O'BRIEN: And I would note, Assistant Treasurer, that is true, it is a very small proportion. But if we keep putting taxes and things on – they are all a very small proportion

– then they all add up. So I wonder, Secretary or Mr Barrett, I am not sure whether Treasury has done any modelling on the impact of premium increases on the building market.

David MARTINE: I would need to probably take that on notice. I do not think we have done anything specific, but we have obviously been informing the economic forecast in the budget; we have obviously been having a close look at the building industry. But it is very hard when you do modelling to pick a very granular change. It might be your average \$1200, \$1300. Even if it went up 10 per cent, that impact on the broader economy is so negligible it does not really come out in economic modelling.

**Response**

The economic forecasts in the 2023-24 Budget include judgments about the outlook for industry sectors and their impact on overall economic growth. The department has not undertaken specific modelling on the impact of DBI premium increases on the building sector, as the impact on the broader economy is negligible.

**2. In relation to the target claim processing time for DBI claims, if there is a response to an application for further information, does that reset the clock on the target? What percentage of claims that are received are refused?**

*(Asked by Nicholas McGOWAN Page 9 of the transcript)*

*Transcript extract:*

Nicholas McGOWAN: Mr Davies, in respect to the DBI claims, you were asked about by Mr O'Brien before, if you respond to an application for further information, does that reset the clock on the 90 days?

Andrew DAVIES: If we do not have all the information to support a claim as we request, yes, it will.

Nicholas McGOWAN: And what percentage of claims have their clock reset essentially?

Andrew DAVIES: I would have to take that question on notice.

Nicholas McGOWAN: Could you take that on notice? Okay. What percentage of the claims that are received are refused?

Andrew DAVIES: Very low. I would have to take that on notice. We have very low decline rates of all claims across our books.

**Response**

Over the financial years 2020-21 and 2021-22, VMIA has required further information from claimants in 21 per cent of cases.

In 2020-21 and 2021-22, VMIA received 3725 claims and refused 591 (16 per cent) of these claims. Claims were refused because:

- the loss was excluded under our policies (for example, because the period of cover had expired, or the defect claimed was not deemed a defect); or

- there was no financial loss to the owner.

There were a further 370 claims received that did not trigger the policy because:

- the builder had not died;
- the builder had not disappeared;
- the builder had not become insolvent;
- the builder had not failed to comply with a tribunal or court order; or
- VMIA was not the insurer (i.e. the DBI policy was issued by another insurer).

**3. In a brief entitled 'Insolvencies in the residential construction sector and options to de-risk consumers,' what were the risks referred to in this brief? Were specific residential construction companies identified in the brief? What were the options to de-risk consumers canvassed? What action did the minister ask the department to take in response to the risks and options identified in the brief? Has the department provided any other advice to government in relation to these issues? Provide a name or list of those briefs in relation to this advice.**

*(Asked by Nicholas McGOWAN Page 14-15 of the transcript)*

*Transcript extract:*

Nicholas McGOWAN: Thank you. Secretary, on 11 July 2022 your department provided a brief entitled 'Insolvencies in the residential construction sector and options to de-risk consumers.' What were the risks referred to in this brief, Secretary?

David MARTINE: Thanks for the question. Given I do not have the brief in front of me it is a bit hard to comment exactly on its content.

Nicholas McGOWAN: That is okay. Can you provide a copy of that brief to the committee?

David MARTINE: I am happy to take your question on notice.

Nicholas McGOWAN: Please do. Thank you. Were specific residential construction companies identified in the brief, to your recollection?

David MARTINE: I would need to take that on notice.

Nicholas McGOWAN: Okay. Thank you. What were the options to de-risk consumers canvassed, do you recall?

David MARTINE: Likewise, without the brief I will take that on notice.

Nicholas McGOWAN: Thank you very much. What action did the minister ask the department to take in response to the risks and options identified in the brief, do you recall, if any?

David MARTINE: I would need to take that on notice, but I will say that at various times through the course of last year the Assistant Treasurer certainly asked us to follow up on certain issues, which we did and gave a supplementary briefing towards the end of last

calendar year and also into this year. Some of that advice was also based on input from VMIA in what they were seeing in the building market as well.

Nicholas McGOWAN: Thank you. So if you can just take that on notice in terms of the other options to de-risk.

David MARTINE: Yes – happy to take that on notice.

Nicholas McGOWAN: Further on from your answer, though – thank you for the answer – has the department provided any other advice to government in relation to these issues?

David MARTINE: Most of our advice obviously is to the Assistant Treasurer. I probably need to take on notice whether there was any other advice, including to the Treasurer. Obviously given the announcements government has made there have been decisions that the relevant cabinet subcommittees have made, so in the course of that process we would have prepared appropriate advice to the cabinet subcommittee and also to our two ministers in that context.

Nicholas McGOWAN: Okay. If you could take that on notice, thank you, and just provide a name or list of those briefs for the advice. Has the department been instructed to conduct any preparatory work on potential legislative reform to present to the Parliament in order to de-risk communities or consumers specifically?

David MARTINE: I think the Treasurer actually made a comment about this on Friday. The government has indicated that it has got some more things to say about housing and the housing market in the coming period.

#### **Response**

The brief entitled 'Insolvencies in the residential construction sector and options to de-risk consumers' (the Brief) indicated that in mid-2022 the building and construction industry was experiencing a range of pressures that were impacting on the financial and delivery performance of individual building companies, including:

- an unprecedented level of demand for both commercial and residential construction;
  - a shortage of skilled workers needed to meet that demand;
  - shortages of building materials as a factor of both local and global demand and bushfire damage;
- and
- delays in the delivery of critical building components such as roof trusses and glass as a result of demand, skills shortages and supply issues.

These conditions were causing increased costs and delays in building projects which were placing increasing strain on residential builders.

The Brief noted that a small number of Australian building companies had collapsed over the past year. However, available data on insolvencies in the construction industry at the time were showing that insolvency numbers were generally at standard levels.

While acknowledging that Domestic Building Insurance (DBI) cover already provides an important protection for consumers in case of builder insolvency, the Department had developed a range of options with the potential to further strengthen consumer protections. These options involved a number of potential measures to mitigate further the risk of any adverse impacts on consumers due to the difficulties experienced by the residential building sector.

Preferred options have been further explored and/or pursued as requested by the Assistant Treasurer.

**4. In a brief entitled ‘domestic building insurance abandonment cover,’ what is domestic building insurance abandonment cover? What options are canvassed in this brief? What actions did the minister ask the department to take in response to the advice on that brief?**

*(Asked by Nicholas McGOWAN Pages 15 of the transcript)*

*Transcript extract:*

Nicholas McGOWAN: Secretary, on 19 September 2022 your department provided a brief to the government entitled ‘Domestic building insurance abandonment cover’. Secretary, what is domestic building insurance abandonment cover as outlined in this brief?

David MARTINE: Once again, without the brief in front of me, I would need to take on notice exactly what we said in that particular brief. But I am happy to take that on notice.

Nicholas McGOWAN: Thank you. If you could please do that, and also could you take on notice the options canvassed in that brief?

David MARTINE: Happy to take that on notice.

Nicholas McGOWAN: Okay. What actions did the minister ask the department to take in response to the advice on that brief? Could you take that on notice as well?

David MARTINE: I am happy to take that on notice.

**Response**

Currently, consumers are eligible to lodge a Domestic Building Insurance (DBI) claim with VMIA in four circumstances (triggers): builder’s death, disappearance, insolvency, or failure to comply with a Tribunal or Court Order after 28 days.

Domestic Building Insurance Abandonment Cover referred to in the brief of the same name (the Brief) is a type of insurance cover that would apply in situations where a builder walks away from a contract before being declared insolvent.

The Brief also noted that opportunities to improve building insurance were under consideration by the Building System Review and Residential Construction Costs Working Group at that time.

Following the Brief, the Department has continued to collaborate with other departments and agencies to identify reforms to improve Victoria’s domestic building consumer protection framework. An example of this collaboration is the recently announced Government major building reform agenda to improve protections for Victorians building or renovating their homes, including reforming the *Domestic Building Contracts Act 1995*, strengthening domestic building insurance requirements, and strengthening regulators’ powers.

