

Owners, renovators left in an insurance vacuum

Ben Butler

THE Brumby Government has missed a self-imposed deadline to sort out an insurance scheme that protects homebuyers and renovators when their builder goes out of business.

Its stand-in plan for the compulsory insurance is yet to write a single policy, despite promises the scheme would be operating by March 31.

It had planned to have the Victorian Managed Insurance Authority issue insurance, but it would be illegal for the VMIA to do so.

And the VMIA fears the plan may drive the remaining private sector players out of the market.

The Government was forced to step in earlier this year after Vero, a Suncorp division that provided more than half the cover, said it would quit the market by the end of June.

It is believed Vero, which gave no reason for its withdrawal, already has stopped taking on new customers.

However, *BusinessDaily* can reveal the company's senior legal counsel had doubts about the legality of some domestic building policies and tried to warn the company as long ago as 2004.

Home building insurance, also known as builder's warranty insurance, is compulsory in Victoria for builders of new domestic housing and is supposed to protect homeowners if their builder goes broke, dies or disappears.

The scheme has been under the spotlight this year with a Victorian parliamentary inquiry underway over claims it costs too much and insurance companies seldom pay out.



Tim Holding: running late.

In a March 29 press release, Finance Minister Tim Holding promised that the VMIA would "be available to provide insurance on a commercial basis" from March 31.

But the VMIA has yet to write a single policy.

Legislation to make the VMIA a "designated insurer", as required by law before it can issue policies, is to be debated by Parliament on Thursday.

"We are not writing policies ourselves at this stage, as we feel strongly that writing policies in competition with the market would disrupt an orderly transition, and thus disrupt domestic building activity," the VMIA said in a statement.

"Our goal is to work with the existing insurers to ensure an orderly transition to the government provider, and we are close to finalising these negotiations."

Vero provided "in excess of 50 per cent" of home building insurance, according to Mr Holding, but some industry estimates are that it provided about 90 per cent of cover.

In a 2004 memo, Vero's senior legal counsel Michelle Bain warned company management the product might be of little value and was unlikely to comply with the law.

According to the memo, tabled in Tasmanian Parliament in 2008, an indemnity signed by some homeowners meant they could not claim under their policy when their loss was a result of the builder's actions.

"Thus, while the policy is not completely useless with the indemnity, it does effectively exclude the majority of the cover," Ms Bain said.

But Ms Bain's opinion was overruled in an email from other company executives.

Vero told *BusinessDaily* it had "always provided home warranty insurance in accordance with the legislation of the various state governments and all regulatory requirements".

"All current Vero home warranty insurance policies remain valid for the relevant term and Vero's claims team will continue to process any valid claims received on all certificates issued."

Henry SUN - 27-4-2010