

13 May 2013

Bill Scanlan
Assistant Director, References
Economic Regulation Authority
PO Box 8469
Perth Business Centre
Perth WA 6849

RE: Draft Report on the Inquiry into Western Australia's Home Indemnity Insurance Arrangements

Calliden has reviewed the draft report from the Economic Regulation Authority on Home Indemnity arrangements in Western Australia.

The report notes the relevant issues currently facing the market. We agree with the report that there is a continued need for the product to protect consumers. We also note the distinct profile of the housing industry in question including the highly cyclical nature and the comparatively high market share of the largest builders in the WA market. Finally we agree that the current arrangements cannot be relied upon to elicit long term private insurer market supply.

The fundamental recommendation of the report is to replace the existing model by one that separates the construction period coverage from warranty period coverage.

Calliden is of the view that this does not provide a solution to the underlying issues. Concerns that Calliden has with the proposed model include

- As noted in the report, the construction period of insurance has potential for large losses and a corresponding need for high capital reserves. This is magnified by the high concentration of residential building in the larger WA builders. Consequently private insurers would still rely upon capital support from reinsurance. As the international supply of financial lines reinsurance for such a product is virtually non-existent the WA government would likely continue to bear the capital risk as it currently does.
- It is possible that a reduction in the premium pool from the splitting of the product, without a similar reduction in capital intensity, would make it less attractive for private insurers to enter the market.
- While we welcome the innovative thought process we doubt that the separation will attract more insurers to the market particularly in the short term. The credit risk presented by home indemnity would still be present and as such we doubt that such a change is likely to encourage more insurers into the market.
- A private insurer offering does not enable a consistent approach to risk assessment and acceptance that would be preferred under such a compulsory consumer protection product.
- In the event of a builder insolvency the management of claims would need to be coordinated between the insurer(s) for the non-completion risk and the new body

established by the building industry association for the defect claims. The duplication of systems and processes between these entities would reduce the overall efficiency of the market.

Calliden maintains, as per it's previous submission to the WA government enquiry, that the preferred model for all stakeholders is one with the WA government being the sole insurer, with distribution managed through professional agents experienced in this market. This model provides a market that competes on service, whilst enacting consistent risk assessment and acceptance.

If you have any questions regarding this input please contact the undersigned.

Yours sincerely,

Stephen Fay
Group Executive, Insurance Business