



**SUBMISSION TO THE
ECONOMIC REGULATION AUTHORITY**

ON:

Western Australia's Home Indemnity Insurance Arrangements

May 2013

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ALCOCK BROWN-NEAVES GROUP

About the Alcock Brown-Neaves Group (ABN Group)

Proudly Australia's leader in construction, property and finance, the Alcock Brown-Neaves Group is an industry powerhouse, boasting an impressive portfolio of 20 companies in Western Australia and Victoria.

The ABN Group's founding partners, Dale Alcock and Garry Brown-Neaves, joined forces in 1987 with flagship residential construction companies Webb & Brown-Neaves and Dale Alcock Homes. Over the past 25 years, the Group has experienced spectacular yet controlled growth to now include 10 retail residential housing brands which profitably service all market segments, from first homebuyers through to luxury, as well as home improvements, regional homebuyers and property investors. The company has constructed more than 53,000 homes and builds over 3,000 homes every year, generating close to \$1billion in revenue per annum.

Ranked 2nd in the 2011-2012 HIA Housing Top 100 list, the ABN Group's individual companies are all leaders in their own markets, trusted brands renowned for their quality and innovation. To date, the Group has received over 700 Master Builders Association and Housing Industry Association State and National awards.

Branching into financial services in 1997 with the launch of mortgage broker Resolve Finance, and later mortgage lender Bluebay Home Loans and conveyancing company, Axiom, the Group provides homebuyers access to finance, critical in the current lending environment. To date, the ABN Group has provided finance for more than 21,000 home owners and continues to develop new and innovative financial products, particularly to help first homebuyers to own their own home.

Through the company's property development arm, ABN Developments, its builders have access to exclusive land releases, generating affordable house and land packages for homebuyers. The company's name is behind numerous commercial and residential projects and land estates, totalling more than \$350million of value.

Completing the company's portfolio and ensuring it has an ever-ready supply chain and unequalled buying power are;

- Commercial Construction (PACT)
- Licensed real estate agency (ABN Realty)
- Plumbing company (Boeing Plumbing)
- Concreting arm (Concretus)
- Wall and ceiling fixing company (Ceiling Solutions)
- Roofing provider (Hi-Point Roofing)
- Kitchen design and installation company (The Maker).

Branching into the Victorian market in 2008, the ABN Group is the first Western Australian builder to do so successfully and has progressively moved from rank 16 to 9 in the Housing Industry Association's Top Builders list in the state.

Employing over 1,500 people across both states, and with an estimated 1,000 teams involving over 3,000 individual contractors, employees and contractors are committed to delivering exceptional customer service and homes that their owners can be proud of.

Future focussed, the Group established its dedicated Apprenticeship Training program in 2004 to train and nurture young tradespeople and to ensure the ongoing availability of skilled labour. ABN Training employs more apprentices than any other builder in Australia and has trained over 750 apprentices and produced over 500 new trades people.

The Group's Managing Director Dale Alcock is highly regarded as a respected voice of the industry, with Dale speaking out on industry issues and asked regularly to provide industry comments by the media. Much of the Group's success must be attributed to his relentless and passionate leadership and Dale has been recognised Australia-wide for his entrepreneurial spirit and contribution to the industry including:

- Western Australian of the Year Nomination (2013 winner to be announced)
- Ernst & Young Western Region Entrepreneur of the Year Winner for Industry (2012)
- Australian of the Year Nomination (2012)
- MBA Robert Law Award (2008)
- National HIA Sir Phillip Lynch Award (2005) in recognition of outstanding service to the Australian Housing Industry
- Ernst & Young Western Australian Entrepreneur of the Year Award (2001)
- President of the Housing Industry Association (HIA) (1997-1999)

Community minded, the ABN Group has always generously given back to those in need and in 2006 formalised its giving by establishing the ABN Foundation. The Foundation is a registered charitable organisation that provides medical research foundations and other Western Australian charitable causes, a much-needed funding boost. Since June 2006 alone, the ABN Group has committed funds of more than \$6.4million to various worthy causes.

As an industry leader and respected name in the community, the ABN Group is in an unequalled position to provide comment to the ERA on the topic of Home Indemnity Insurance.

Executive Summary

The ABN Group welcomes the opportunity to comment on the Draft Report – Inquiry into Western Australia’s Home Indemnity Insurance Arrangements and on Home Indemnity Insurance (“HII”) generally.

HII is an important issue to the building industry, and it is essential that government fully understands the implications of any changes to the model that has operated so successfully in WA.

It is our view that the WA HII model has proven to be the best model in the country over the last 20 years, and we would be happy for the current structure to continue. However, the commercial reality is that the insurance industry does not have an appetite to continue with this model, so some change is inevitable.

We believe it is imperative that any new model that is adopted does not lose the key elements that have made the current model successful.

In general, the ABN Group is supportive of the approach taken by the ERA, and the recommendation made.

However, we have various concerns and points that we would like to raise, grouped under the following areas:

1. Why has the WA model been more successful than other states?
2. Why it has to be a Private Sector Model
3. The Effect on Housing Affordability and
4. Implementation Risk

These areas of concern are explored below in more detail.

Our Concerns

1. Why has the WA Model been more successful than other states?

- Very few builders in WA have experience with the HII models adopted by the other states. As a builder also operating outside WA we are therefore in a rare position to comment on HII experience in other jurisdictions.
- The WA model has always been viewed as the best HII model in Australia.
- The “Last Resort” nature of the WA model has been a key advantage and must be retained in any new model moving forward. The fact that other states have moved away from “First Resort” models proves this argument.
- The use of a private sector model in WA is another key reason for the success of the WA system relative to other states. This is explored further below.
- It is no coincidence that the WA model has seen the lowest premiums in the country, yet been the most profitable state for insurers.
- Keeping HII premiums in WA well below those of other states has greatly assisted housing affordability in WA.

2. Why it has to be a Private Sector Model:

- A model based on private sector insurance will always be preferred to a government controlled model.
- Whilst government has an important role in ensuring consumer protection, the best model will always allow the free market to determine the cost of that protection.
- A private sector model will encourage builders to build their balance sheets, in order to improve their “insurability”, reduce HII premiums and increase their market competitiveness.
- Fidelity funds and other models in other states do not have this positive effect on the builders.
- This in turn can increase the chances of a builder ultimately becoming insolvent, and a claim being made under HII, because they have not improved their financial position.
- The best results for the industry will be where there is not just a private sector model, but where government has been able to attract a level of competition to the model.
- Separating the non-completion risk from the warranty period risk sounds like a logical step, as long as it is acceptable to the insurance market.
- If the warranty risk is to be provided outside of a private sector model, we believe it should be a totally voluntary scheme.
- Consumers are ultimately far more able to manage their own risk for structural defects than they are the non-completion risk, which justifies allowing builders and/or consumers to opt out of this cover.

- ABN's preference is for this cover to be made attractive enough to attract private sector insurers back into the market, although we are not in a position to determine how this may be done.

3. The Effect on Housing Affordability:

- The comments in the draft report on the effect of an increase in the HII premiums on housing affordability illustrate a dangerous trend when talking of housing affordability.
- By expressing the cost of HII as a percentage of the average building contract in WA, the effect of any change in cost on housing affordability is made to sound insignificant.
- However, housing affordability is under threat on numerous fronts that can be made to sound insignificant in this way (trade shortages due to the mining industry and a lack of investment in training, environmental costs, energy rating increases, increased safety requirements, increased government red tape, increased taxation, land shortages and planning delays to name a few).
- The combined effect of all these supposedly "insignificant" costs is a very significant risk to housing affordability for current and future generations of Western Australians.
- The government cannot underestimate the impact of HII on housing affordability when considering changes to the HII model.

4. Implementation Risk:

- The industry cannot afford any disruption to the flow of jobs to site.
- The government will therefore need to ensure that any changes made in the HII area do not impact on the flow of jobs to site commencement.
- Delays to site commencements, as occurred on the introduction of the new Building Act in May 2012, would cause serious disruption to the cash flows of all builders and could result in the financial collapse of some builders.
- It would also impact significantly on the livelihoods of trades and contractors whose incomes rely on the regular flow of work in the building industry.
- The introduction of the new Building Act was unfortunately a great example of how not to introduce new legislation. There were too many technical issues that had not been thought through, and practicalities that had not been considered.
- Better collaboration with all stakeholders is the only way that this can be avoided if changes are made to the structure of HII.

Conclusion

As stated previously, we believe the recommendation of the ERA report is sound, subject to our queries and concerns raised above.

We look forward to the opportunity to work with the government and other major stakeholders to ensure that the industry is not adversely affected by any changes required to the HII model in WA.

If you wish to know more about any of our concerns raised above, please contact:

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