



New Home Warranties

The imminent release of a discussion paper on the creation of a building warranty and insurance scheme by Building and Construction Minister Nick Smith is welcomed by the CSG as a move toward strengthening quality control. The CSG notes that an Auckland Mayoral Task Force recommended earlier this month that Government investigate building and warranty schemes backed by insurers, thus allowing the capping of liability for territorial councils, and is also mindful of comments from the NZ Insurance Council querying whether the industry is insurable other than through selective areas that meet insurance criteria. A better industry quality assurance framework is needed if insurers are to become more interested in a universal new home warranty scheme.

Against this background, the CSG considers that moves to implement a new home warranty scheme should only take place if simultaneous reforms to strengthen industry performance are undertaken, including:

- Full implementation of the risk-based consenting approach signaled as an intention by the Government earlier in its term of office;
- An improved product assurance framework;
- A modernized occupational licensing structure;
- An updated and strengthened skills training system.

CSG believes that these combined steps would enhance quality assurance across the board, offering the insurance market sufficient assurance to assemble a risk matrix indicative of value propositions for both warranty provider and the insured parties. This, in turn, would provide the Government with good reason to encourage home owners to select builders that are able to offer insurance/warranty cover for their statutory liabilities; or those builders whose credentials are acceptable to insurance providers should the home owner opt to take out his/her own insurance cover to remain applicable to the new build.

CSG members recognise that as the New Zealand residential building sector is largely populated by small builders, a warranty model designed to encourage a lift in quality standards to meet insurable criteria may force some out of business; either because they fit a loosely defined “cowboy” category or their business model is unsustainable when new warranty costs are factored in. We do not regard this as a medium or long term issue but cite it as a possible concern against the background of pressure on the industry to lift new home building to meet demand.

We do believe, however, that over the medium and long term the fall-off of builders who cannot meet insurer conditions will be of benefit in lifting the capability and performance of those who remain and those who enter the industry. Businesses will be more sustainable, capable of meeting warranty costs and incentivised to ensure quality of build in order to minimize premiums which are likely to be performance based, as with auto-insurance.

The insurance industry has also made it clear to industry that were a universal home warranty scheme to be introduced, it would look at establishing either its own (or a contracted) inspectorate system of new builds to ensure quality appropriate to the warranties offered. A question then for the Government is, if such a private system were established, whether it would need to maintain the BCA administration to monitor or carry out the consent and compliance function. Consenting would almost certainly need to be maintained, taking into account the various considerations of town planning and environmental protection.

It can be postulated that the warranty related quality inspections could substitute for BCA compliance inspections if the results were filed with BCA's for scrutiny and record keeping.

CSG members are acutely conscious that the insurance industry must not be placed in a position of dictating all its terms, conditions and margin setting to residential building participants. In our view, a danger exists that "gold plating" would become a driver of quality rather than the establishment of a range of practical and realistic policy settings that would meet the range of new builds from lower cost and social housing to medium- and high-quality homes.

It is our belief that some 50% of the residential sector currently is covered by warranties, with up to 80% of these being provided by the existing schemes provided by the Registered Master Builders Association (RMBA), and the private insurer associated with Certified Builders Association of New Zealand (CBANZ). There are other schemes in the market offered by commercial insurers that unaligned builders may avail themselves of.

There are, however, many complexities in considering a comprehensive scheme. For example minimum requirements would need to be looked at. We note that some insurers have argued these should cover for new builds, building systems, including building workmanship, plumbing and gas fittings and electrical, for three years; water tightness for a minimum of five years and structural integrity for 10 years. We believe the rigor of insurance company risk minimization would act as an enforcement mechanism in respect of builders' resort to products and materials not specified by designers and thus contribute to a policing of non-conforming (non-compliant) building products and materials.

A question arises as to whether any form of state guarantee is needed to back up a more comprehensive scheme. We believe this may not be necessary provided that a) the reforms we advocate for product assurance, occupational licensing and the skills training system are implemented; and b) rigorous scrutiny is maintained over the solvency and capital adequacy of warranty providers. Experience of home warranty oversight entities in the United Kingdom and Canada may be well worth investigation.

We expect that warranty providers would scrutinise the sustainability of those building businesses requiring home warranties as well as their track record of quality performance. The end result in our view, would be a better performing residential industry; a "weeding out" of less scrupulous and questionable builder enterprises that are undercapitalized and a risk to prospective new home owners; encouragement for best quality builds in all market segments; and comfort for new home buyers that they will get what they have paid for.

Recommendations:

- 1) The Government establish a task force of Government, Industry and insurance representatives to investigate and recommend an appropriate model for a universal home warranty scheme in New Zealand.
- 2) The Government establish a panel of industry and Government representatives to advance an improved product assurance framework, a modernized occupational licensing structure and an updated and strengthened skill training system as a prelude to introduction of a universal home warranty scheme.