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# Home warranty insurance

Home owners find little value for money when it comes to home warranty insurance.

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## 01.Home warranty insurance claims

Home warranty insurance is supposed to protect homeowners from incompetent builders. Unfortunately, it doesn't do much to protect against unscrupulous ones.

In every state except Tasmania, home builders and home renovators are required to take out the insurance for contracts of \$12,000 or more (or \$20,000 in [NSW](#) and [WA](#)). The premiums are then added to the homeowner's costs. To cover a newly built home in NSW you'll end up paying about \$1900. But it's generally not money well spent.

The idea with home building insurance is that you can have construction mistakes fixed or get your money back if you lodge a legitimate claim. The tricky part is that every state (except Queensland) operates a "last-resort" model - you can only claim if the builder goes broke, dies or disappears. If the builder simply refuses to repair the shoddy work or return your money, your only option is to take them to the consumer affairs tribunal in your state, which can be a lengthy and costly process.

And if your builder *does* go broke, dies or disappears before the complaint is resolved and you're forced to resort to your home warranty insurance, it won't cover legal costs against the builder, which can easily exceed the amount you're attempting to recover. (In one case cited by the [Consumer Action Law Centre](#), a claim for \$63,000 incurred about \$90,000 in legal fees.)



CHOICE called for an overhaul of home warranty insurance schemes (also known as builders warranty insurance, domestic warranty insurance, housing insurance and home indemnity insurance) in a submission to a Senate Economics Committee review in 2008, one of the many government inquiries into this issue over the years. But last-resort home warranty insurance remains a raw deal for consumers, especially where Victorian home builders are involved.

## Home warranty insurance cost and claims

The [Victorian Managed Insurance Authority](#) has reported that Victorian homeowners paid about \$87.8m in home warranty insurance premiums from May 2010 to May 2011, but only \$108,000 was paid out on a total of three successful claims. Over the same timeframe, about 250,000 Victorians suffered damage at the hands of Victorian home builders.

With little prospect for change on the horizon, some Victorian homeowners have launched their own campaign to change the home warranty insurance system. According to the [Building Compliance Reform Association](#) (BCRA), a fledgling consumer group set up to improve protections in Victoria, less than one per cent of policyholders meet the criteria for making a claim, and the rare successful claim isn't likely to cover your losses.

The BCRA says insurers in Victoria typically offer a pittance of what's asked for, such as \$17,500 for a \$900,000 claim. Victorians can take their insurer to the Victorian Civil and Administrative Tribunal (VCAT) to challenge the payout, but the insurer will likely prolong the process and you won't be covered for these legal costs.

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