

Dear commissioners,

Thank you for allowing me to present this written statement re the current privatised insurance arrangements masquerading falsely and deceptively as consumer protection in Vic, NSW, WA and Tasmania with Government consent and statutory support. It should be noted that the HIA/MBA over the last 40 years historically have mouthed the mantra of being for consumer protection in the public domain and that it be affordable and not effect housing affordability. That is it should be cheap, affordable and genuine consumer protection.

The reality historically in fact has been the reverse as supported and promoted by the HIA/MBA on the issue of consumer protection. The latest public example being Mr Graham Wolfe, HIA executive director NSW comments on affordability on the ABC 7.30 report of 11/1/07, in which he supported the current privatised arrangements and cautions that to upgrade them to meet consumer expectations as to benefits would possible require the doubling of current premiums to consumers and effect affordability adversely. The Australian Consumers Association on the same program described the current insurance arrangements as JUNK INSURANCE and 'a mockery of consumer protection'.

Mr Wolfe as past Queensland executive director, HIA knows well the operations of the Queensland scheme and its benefits to consumers and HIA members which include not having to pay 15% (percentage known according to brokers) commission to HIA as is the case with the current post 1/7/02 privatised 'last resort' scheme. In fact a 2002 report prepared by the Queensland branch of the MBA comparing the then proposed Vero insurance arrangements with the still current QUEENSLAND scheme found the Vero proposals not in the industries or consumers interest.

Mr Wolfe also previously occupied the same position in Victoria and he well knows that prior to the HIH collapse the private insurers were providing a similar level of consumer protection coverage in Victoria based on a variation of the Queensland model and the earlier Victorian scheme run by the Housing Guarantee Fund Ltd on behalf of the Victorian Government by the HIA /MBA. The HGF Ltd provided similar coverage to the Queensland model, except in the area of subsidence. Similar provisions to HGF Ltd previously existed in NSW also.

The HIH collapse changed that in March 2001 and as of post 1/7/02, in negotiations in which the HIA were intimately involved with Vero (formally Royal and Sun Alliance) and the Victorian Government, the premiums were quadrupled and all consumer protection provisions covering defects and subsidence were abolished. That is similar coverage provided by the Queensland scheme and the old HGF Ltd was no

longer available in Victoria. Please note that through various business arrangements with the insurers the HIA and MBA, 'not for profit organizations' currently skims at least 15% undisclosed to consumers commission of each post 1/7/02 policy sold to their members and that the policies only cover the consumer against the builders Death, Disappearance and Insolvency. The legal framework to skim the 15% commission was established about the time of privatisation of the state legislated NSW and Victorian schemes in the 90's.

I put it to you that coverage only for Death, Disappearance and Insolvency is a actuarial and statistical nonsense, which Mr Jameson of Vero finally confirmed publicly in the AFR article of 8/1/07, identifying the post 1/7/02 arrangements correctly as Professional Indemnity Insurance (PII) after years of falsely claiming on the public record they were consumer protection policies. A close examination of the facts will quickly demonstrate the vast amount of deliberate misinformation placed in the public domain since 2002 by Government's that were mislead and misinformed by the insurers and there business partners in the building industry.

Some of these issues are covered in more detail in the earlier postings on my web page as are some details of my background just Google me. The insidious nature of this deliberate misinformation in the market place, dare I say in part based on the professional incompetence of amongst others the Victorian equivalent of the Productivity Commission, the Victorian Competition and Efficiency Commission (VCEC) report on building regulation, April 06 and excepted as gospel by many when it fact it's conclusions are based on falsehood, is part of the problem. The VCEC report inter-alia asserts with no evidence and no factual examination of facts that the current arrangements are the best available and in the community interest as articulated in my annual report. The only basis of VCEC's support identified for the present arrangements is the Commercial in Confidence submission by Vero. My mantra is simple, if it's commercial in confidence then it's a statutory fraud.

Please note that Vero also declined, I am advised by a presiding member of the NSW Legislative Council inquiry, (which commenced in Nov.06) to submit a submission re the financials of its builders warranty professional indemnity insurance for the inquiries consideration. It is as already stated my assertion that if it is Commercial in Confidence then it is a FRAUD and Vero and the other insurers nowadays involved are laughing all the way to the bank by selling JUNK insurance as consumer protection knowing full well that its a statistical nonsense and a FRAUD on the public aided and abetted by the HIA /MBA. In my experience public sector organisations/commissions like VCEC either don't have the independent will or the professional competence or both to examine the economic and social facts on an industry basis and base their conclusions on fact.

In fact too often they are used as the captured creatures of powerful lobbyists such as the HIA/MBA and the insurers in this case and their conclusions are based on the political convenience of perceived wisdom. I hope that this will not be the case on this occasion and that the Productivity Commission will undertake the necessary independent economic, financial and social cost benefit studies to verify its conclusions. I put it to the commission if that is the case the studies will reveal that the only beneficiaries of the current arrangement are the rent seekers, which include the insurers, the HIA /MBA and their other business associates and the consumer benefit of a successful claim on post 1/7/02 policies is statistically in the order of winning the lottery, an improbable event, a nonsense.

I base this statement on the back of the envelope calculations re the economics of the industry and its demographic profile in Victoria and then comparing it to the known facts of the Queensland scheme as per the annual reports to the Queensland parliament. The result is that which ever way one massages the figures and assumptions re Victoria, the Queensland scheme wins hands down in the consumer protection stakes at approx half the cost, \$120 million in premiums in Victoria and \$60 million in Queensland and vastly superior benefits to consumers. My comparative working assumption is that given that Victoria and Queensland have similar populations of just over 4 million then if one assumes that other factors such as building starts, break up between new and renovations, number of registered builders etc are reasonably similar or statistical adjusted for comparison purposes then why do Victorians pay approx double in premium payments on a statewide basis for in effect statistically no coverage when compared to Queensland.

The only other answer to lobbying fraud by the rent seekers in establishing the post 1/7/02 arrangements in Victoria is that the regulatory arrangements in Victoria are so incompetent that they are a disgrace and part of the problem costing Victorians untold and in part unquantified multi millions in additional premiums and regulatory costs due to failures in the overall regulatory framework - costs which are eliminated by the Queensland regulatory model. These 2 factors combined are costing the Victorian public a minimum of \$60 million in additional premiums payments plus the unknown additional regulatory cost plus a quantifiable amount in un-necessary legal costs that can be eliminated and producing a nil consumer benefit that is accurately described as JUNK insurance because it is a statistical nonsense.

My position is clear if the Productivity Commission does not undertake a consumer comparative cost benefit analysis of the Vero and Queensland scheme and base its conclusions on that analysis then like VCEC report on the issue the Productivity Commission will have failed the test of its mandate as did VCEC, that is to eliminate

rent seeking waste and redirect community resources to productive use. In this case, a minimum of approximately halving insurance premium costs in Vic, NSW, WA and Tasmania that total it is estimated currently in excess of \$350 million Australia wide, that is a minimum savings to the community in the order of approx \$175 million in insurance premiums annually and at the same time if the Queensland model is introduced into those States vastly increasing the consumer protection benefits to consumers.

In Victoria at least there would be a further community monetary benefit in that a lot of the wasteful and useless legal expenditure at the Victorian and Civil Administrative Tribunal (VCAT) would also be eliminated. So depending on the scope of benefits identified from cost benefit studies I would expect that the saving in Victoria alone would be in the order of a minimum, say \$60 million in premiums alone, by introducing a Queensland consumer protection scheme. The benefit rising to maybe in excess of \$100 million with changed regulatory arrangements, as well as the contraction of the VCAT building list to a fraction of its present size.

Conclusion, at best Vero's Professional Indemnity Insurance is a statistical nonsense, falsely and deceptively passed of as a service providers warranty were as consumers and the community expect and falsely believes it is being offered a contract performance warranty by the service provider as in Queensland. The evidence is that Queensland scheme can be provided to all Australian consumers at half the price of Vero's product whose price reflects market failure and market abuse post the HIH collapse and is based on a deliberate misinterpretation of the legal definition of warranty.

I commend this submission to you for your consideration and detailed analysis.

Yours

Andris Blums 16/3/07