

Plumbing Industry Insurance Issues and Opportunities

Contents

1. Introduction.....	3
2. Purpose	4
3. Context	5
3.1 Insurance – an essential part of the Victorian regulatory framework for plumbing....	5
3.2 Relevant types of insurance.....	6
3.3 The “drop in drop out” insurance provider market	6
4. Issues	8
4.1 Cost of cover	8
4.2 Adequacy of cover	10
4.3 Availability of cover	12
5. Opportunities	15
6. Conclusion.....	15



1. Introduction

“Insurance” in the Plumbing industry (the industry) is a critically important practical element of a successful, viable, safe, and sustainable industry. The nature of plumbing work, in all its forms and to varying degrees, carries hazards to consumers and practitioners, hence it being a highly licenced and regulated trade profession. Plumbing work brings with it inherent health, building integrity, consumer, practitioner, and financial risks.

In theory, the various risks and hazards associated with plumbing work are reduced, prevented, managed, and/or mitigated through the application of regulatory measures (input and output controls) contained in the National Construction Code (NCC) and the various State and Territory administered regulatory frameworks.

No regulatory framework is foolproof or perfect, and failures, deliberate breaches of regulations, and old-fashioned accidents do and will happen. When they do, it is insurance which, notionally and variously, addresses the failure, protects the consumer, covers the practitioner, ensures third parties are protected, and otherwise cleans up and sorts out the mess.

In practice, we know it is not that simple. Insurance is **complex**. It takes many forms – Public Liability, Defect Warranty, Professional Indemnity and more. There are a range of providers, agents, brokers, and underwriters, offering various insurance products and policies. Insurance related documentation, contracts, and policies are often laden with detail and fine print and can include multiple clauses, disclaimers, exemptions, and exceptions. Often, there is a gap between what coverage practitioners and consumers think they have, and what they actually have. It is the nature of insurance products (ex post) that the shortcomings, limitations, and gaps in coverage of relevant policies are not known or well understood by all parties until a claim is made. In this sense, plumbing insurance often suffers from the same complexity which led the Insurance Council of Australia to develop a code of practice for plain language policies for general insurance. Although, many people still enter contracts without reading or understanding the product disclosure statement or contract terms.

In the Plumbing industry there is **no national consistency** when it comes to the requirements for the various insurance types, with each State and Territory having different requirements. For example, Victorian plumbers are the only practitioners in Australia who must hold specific types of insurance as a condition of their license. No insurance: no license.

There are also significant and real issues around the **scope of the coverage** attached to various insurance types; about where one contractor’s liability ends, and another’s begins; and about the currency, suitability, and utility of the existing insurance models being applied in the industry. The **increasing cost** and reducing **availability** of suitable industry insurance is also a significant issue, with concerns being expressed across the sector that premium costs, especially for Public Liability insurance, are becoming prohibitive. In some cases, insurance is hard to find or unavailable to contractors.

Insurance is necessary and important for consumer, practitioner, and third-party protection. Well-designed insurance arrangements -, which is contemporary, industry tailored and includes well-balanced products (between cost of premium and adequacy of coverage) - help facilitate industry development and consumer protection.

On the other hand, ineffective insurance regimes with dated or otherwise not-for-purpose products, which do not align with modern industry practice, have the potential to significantly hamstring the sector at this vitally important time in Victoria’s development.

Anecdotal evidence, obtained while preparing this Paper and through other channels, suggests that the current insurance-related complexities, costs, availability, and challenges are increasingly significant, so much so that for some they could be the key determining factor on whether a practitioner remains in the industry.

When the insurance framework for the industry is the reason practitioners are thinking about exiting the industry, something is seriously wrong.

For other practitioners, insurance is a lower order issue. Although, this may be a function of those practitioners not really appreciating how limited their insurance is, particularly as their policy (although being sold to them as being compliant with the Ministerial Order – as discussed further in this Paper) may contain exemptions which leave them exposed and unaware of that exposure. And, when the practitioner is not covered, neither is the consumer nor is the community, creating a lose-lose, high risk cycle.

Over the next decade and beyond, the industry will have a key catalytic and enabling role in building the infrastructure and delivering the clean energy the economy requires. It is therefore imperative that the industry, and the economy more broadly, avoid any drag effect related to an insurance mix that is no longer industry relevant or fit for purpose (is too complex, confusing, expensive and in some cases unavailable).

It is in this context that this Paper poses a series (8) of Discussion Questions aimed at facilitating decision making about the scale and acuteness of the problem, the extent to which the various aspects of the problem are within Master Plumbers' capacity to influence, and what form that action could potentially take.

2. Purpose

The purpose(s) of this Discussion Paper is to:

- identify, draw out and better understand the **major insurance related issues** currently impacting the industry; and
- pose discussion questions to help **guide further thinking, discussion and strategy** regarding the extent to which Master Plumbers can positively impact those identified issues, and what form that should take moving forward.

3. Context

The focus of this paper is Victoria. Insurance related issues relating to the national industry, or localised issues arising in other state jurisdictions, are relevant, and will arise as part of this process. These have been noted in the Paper and flagged for discussion as appropriate.

3.1: Insurance – an essential part of the Victorian regulatory framework for plumbing

Self-certification of regulated plumbing work applies in Victoria and licenced plumbers are required to certify that their work complies with Part 12A of the Building Act – which drops down to the various Australian Standards and to the Plumbing Regulations 2018.

A key element of the Victorian regulatory framework for plumbing is mandatory insurance. Like all the other regulatory measures which comprise the framework, mandatory insurance is intended to form part of the overall regulatory approach to consumer protection and compliance, rather than a standalone mechanism. (Further commentary about the co-dependencies between insurance, self-certification, audit and inspection, and so on is contained under Issues).

All Licenced Plumbers in Victoria are required to have mandatory insurance which provides them with comprehensive cover for both themselves and their clients. Under Victorian arrangements, not only is a licenced plumber insured for liability type disasters, but also for their actual workmanship.

Victorian plumbers cannot be licensed unless they hold insurance cover against:

- Public Liability
- Defective plumbing work (Warranty)
- Trade Practices Liability
- Non-Completion of Work
- Completed Works

Insurance Cover addressing all the above criteria is a legislated requirement in Victoria, as defined by the Ministerial Order – Licensed Plumbers General Insurance Order 2002 (the Ministerial Order). A second Order, the Licensed Plumbers (Type B Gasfitting work) Insurance Order (2002), prescribes the minimum insurance required by all persons who are licensed in Type B gasfitting.

Practitioners seeking to be licensed in Type B gasfitting and any other class of plumbing must have insurance that complies with both Ministerial Orders.

None of these types of insurance is compulsory in other States and Territories of Australia, (although many contracts will stipulate that plumbing professionals carry at least some level of Public Liability insurance).

The Ministerial Order requires that licensed plumbers hold an insurance policy which indemnifies them in respect of domestic plumbing work:

- for public liability and completed work liability for an amount of at least \$5,000,000 for any one occurrence; and
- for all other liability under Part 2 for an amount of at least \$50,000 for any one claim or series of claims in relation to a compliance certificate (or if the compliance certificate relates to more than one home, at least \$50,000 for each home); and
- for the reasonable legal costs and expenses associated with the successful enforcement of a claim against the plumber or the insurer.

In Victoria, before being eligible to be licensed, a practitioner needs to demonstrate to the VBA that he or she has a minimum:

- \$5,000,000 public liability insurance; and
- \$50,000 consumer protection insurance and/or \$100,000 for commercial.

Both coverages are usually offered under a single policy.

The insurances apply to all work that requires a Compliance Certificate, ie:

- any plumbing work that has a total value of \$750 or more, including labour, materials, appliances and fixtures (regardless of who purchased them);
- all work carried out on below ground sanitary drains;
- all work involving the installation, relocation, replacement of any gas-using appliance;
- all work involving the installation, modification or relocation of consumer gas piping; and
- all work involving the construction, installation, relocation, alteration or replacement of cooling towers.

For rectifying defective work and consequential loss and non-completion of work, the **period of insurance coverage is six years** from the date the work was completed, or from the date the licensed plumber provided the consumer with a compliance certificate for the work. The insurance continues for a six-year period even if the plumber ceases to be licensed or does not renew their policy during this period.

Public liability insurance is also included for six years from the date the work was completed or from the date the licensed plumber provided the consumer with the Compliance Certificate for the work.

3.2: Relevant types of Insurance

Public Liability

In Victoria, before a practitioner can be licensed, he or she must hold public liability (PL) insurance to the value of at least \$5M. Public Liability insurance is intended to protect practitioners where the work carried out results in personal injury or damage to property.

\$20M worth of public liability cover, as required by the Ministerial Order, will cost a Victorian practitioner, on average, about \$2300. \$5M in PL cover costs, on average, around \$1600 per annum. The cheapest PL insurance available to Victorian practitioners is about twice as expensive as the cheapest available cover in other jurisdictions.

Defective (Warranty) Insurance

This cover is designed to protect both the client and the practitioner and applies to the costs of rectification of defective plumbing work. Policy holders in Victoria must have Defect Warranty insurance to at least \$50,000 value per home for domestic work and \$100,000 for non-domestic work.

Trade Practices Liability

Trade practices liability is any liability that arises because of conduct by the plumber in connection with the plumbing work that contravenes section 52, 53, 55A or 74 of the Trade Practices Act 1974.

Non completion of work

The purpose of this insurance type is to protect the consumer in case a plumber disappears, dies or for any other reason fails to complete contracted works which have already been paid for.

Completed works

In the normal insurance sense, it usually refers to cover paid for in advance to protect against liabilities which might arise after the job is completed and handed over.

*** Note that Professional Indemnity insurance is not a licencing requirement for Victorian practitioners. The extent to which practitioners require this insurance type, and what percentage of practitioners currently hold PI insurance is an issue for consideration.*

3.3: The “drop in drop out” insurance provider market

The provider market for plumbers’ insurance could be characterised as fluid and profit driven, with insurers being prepared to enter and exit the market as profit potential dictates. Insurance is the business of pricing risk, and as risk factors in terms of potential payouts increase (see discussion under costs in Issues section below) insurers can show a level of reluctance to insure plumbers, reflecting a reduced appetite to take on construction related and “wet trades” risk in particular.

Rather than fostering long-term relationships between insurers and insureds, this level of fluidity – **insurers dropping in and out of the market** – can mean practitioners are continuously, sometimes on job-by-job basis, searching for adequate insurance cover within a reducing and sometimes reluctant insurance sector.

Whereas some insurers will be transparent about their reduced appetite for plumbing risk and just stop writing policies, at least until the risk profile improves, others continue to write policies for plumbers, but do so in such a way as to mitigate their payout risk. This can be by simply adjusting up premium prices, but also through what is sometimes referred to as “exemption creep” and is examined further in the discussion about Adequacy of Cover under the Issues section below.

Although there are potentially as many providers of Plumbers’ Insurance products as there are insurance companies, in the Victorian industry the provider market is dominated by a few major players. The VBA recently undertook some relevant analysis, examining the insurance providers used by 12,500 plumbing practitioners registered with Authority. It found approximately 70% of the surveyed plumbers are insured by QBE, CGU (AIG), and Pacific Underwriting (owned by Chubb Insurance Australia).

This market dynamic can tend to exacerbate the effect of the “drop in-drop out” approach to insuring plumbers, because it only takes one or two insurers to reduce their appetite for plumbing risk for insurance to become challenging to obtain.

That is not to say it is impossible, but it can require extensive work to obtain, including the provision of often highly detailed and extensive project specific and company information. Even with a broker to assist, being continuously on the hunt for insurance, and dealing with multiple insurers, can present a genuine red tape burden in terms of time, resources, and stress for practitioners.

On the other hand, having only a few major providers does increase the opportunity to work with those providers with a view to **adopting a more partnership-based approach** to the relationship between practitioners and insurers.

4. Issues

Different practitioners and industry participants have different experiences - and therefore different views - of insurance and how well or otherwise it is working for them. For some practitioners, for example, the issues are all around costs. For these plumbers, who perhaps have not been the subject of a claim or made claims themselves, the costs and complexities of insurance are often seen as a necessary cost of business and is not a high priority problem for them.

For others, with different experiences, the perceived shortcomings of the current insurance models as they are being applied is a much higher order issue. They may, for example, have found themselves underinsured when a claim was made against their insurance, they may have been hit with large premium increases, have received poor advice, or found themselves liable for work, the quality of which they had little or no control over. There are as many experiences of insurance as there are licensed plumbing contractors.

The challenge moving forward is to prioritise the relevant insurance issues. To enable that to occur, it is important to identify and collate them into one place. That is what the following section of this Paper is intended to be – an unordered, yet to be prioritized, list of the relevant industry insurance issues which are grouped under the following headings:

- Cost (of cover)
- Availability
- Adequacy

4.1: Cost of cover

There is agreement amongst stakeholders that, as a general statement, plumbing premiums have been increasing in recent years. Premium costs are not generic across industry, and an individual's premium reflects their claim history and a range of other risk factors. Anecdotal evidence from Master Plumbers members indicates that for plumbing practitioners with a good record in terms of claims, **premiums have increased in the order of 5-10 per cent year on year** in recent years. For those with a higher risk profile (a history of claims) year on year increases have been as high as 20 per cent. Annual premium increases of 30 per cent are not unheard of.

In part, these cost increases are driven by factors beyond the sphere of influence of industry, such as increasingly intense and extreme weather events (fire, flood, etc), and increasing global costs around third-party liability (increasing costs of personal injury claims).

Whilst we currently do not have the data to support this, a potential contributor is a perception within industry that the premium cost increases are a direct result of an increase in claims volume (ie: the insurers are paying out more often, and more readily). Whereas historically, plumbing insurance has been a last resort product protecting consumers in the event that a plumbing practitioner does not rectify defective work following a consumer's request or rectification notice from the regulator, there is, anecdotally at least, a different approach being adopted by the Victorian Building Authority (VBA). There is a perception, backed by verified instances, that the **VBA have passed on the insurance details of practitioners to consumers, enabling them to lodge a claim directly with the practitioner's insurer** in the first instance, rather than seeking rectification from the relevant practitioner.

This increase in claims frequency is potentially a further factor contributing to higher premium costs, and those higher costs could be incentivising some practitioners to seek cheaper coverage, which may be inadequate (not

consistent with the Ministerial Order – contain exemptions), which further exacerbates the problem by adding costs to insurers, practitioners and consumers. It also detracts from the Victorian regulatory approach in which the practitioner is responsible in the first instance for rectification of defects and denies procedural fairness to the plumber in their ability to dispute the claim.

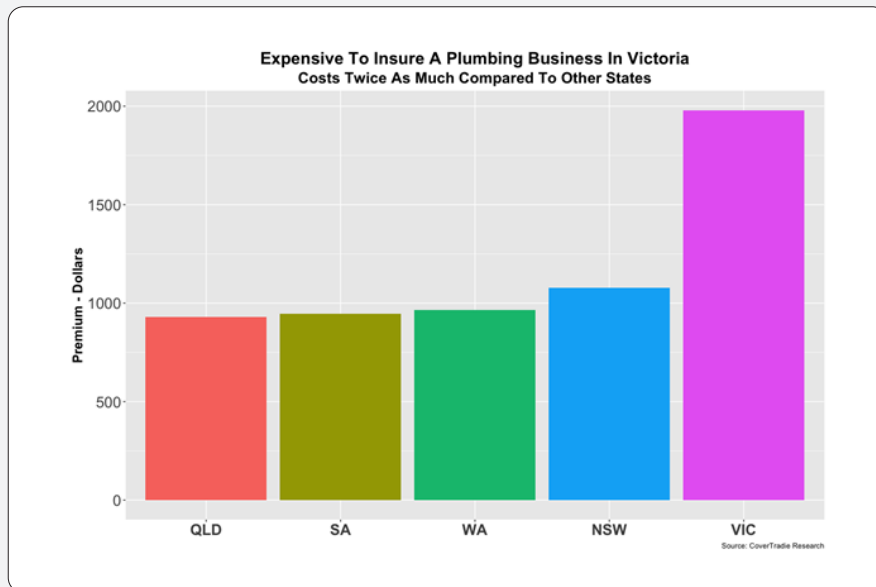


Figure 1: Insurance costs by State (source Cover Trade Research 2020)

The extent to which Plumbing Insurance costs (or availability) was a Victorian issue or an Australia wide industry issue was discussed with brokers with the prevailing view expressed that: “in general the insurance market does not see the Victorian system (self-certification) or the Victorian industry as being an issue, with premiums going up across the country”.

The price of risk

However, Figure 1, which is based on 2020 data from Cover Trade Research, suggests Victorian premiums are significantly higher than in other jurisdictions, 100 per cent higher when compared to Queensland. Insurers are interested in

risk, and it makes sense that they would price risk (and therefore premiums) at a higher rate than in other jurisdictions.

If the regulatory framework in Victoria was administered in such a way that it operated as intended, risk in Victoria could be expected to be no higher, or even lower, than in other jurisdictions. However, that does not appear to be the case.

A system which was designed to be a series of regulatory measures working together, each carrying its share of the regulatory load, is not operating as designed. Inspection rates are low, and inspectors are generally non-experts (in plumbing). Actual audit rates (which are random, and not risk-based) of below two per cent are so low as to be statistically insignificant, and it can be argued renders the audit scheme ineffective. Add to that the apparent underperformance by the VBA of its role in dispute resolution/rectification (pre-claim) as discussed above, and the regulatory framework becomes unbalanced.

As a result, compulsory insurance, which was included in the regulatory framework to act as a last line of regulatory protection, coming into play only when the other regulatory measures had failed, has in many respects, become the principal regulatory instrument.

It is unsurprising then, that insurers appetite for risk in the Victorian market is priced more highly than in other Australian jurisdictions (those with staged inspection systems, utilising expert inspectors). Making this observation is not an argument against the Victorian self-certification regime per-se, rather an illustration that such a scheme is co-dependent on an effective and competitive insurance market.

4.2: Adequacy of cover

Currently in the plumbers' insurance market it is possible to buy budget insurance in the form of insurance with exclusions (things the policy will not cover the plumber for). In general terms, these are policies which ostensibly comply with the requirements of the Ministerial Order(s), but in reality, exempt activities which are central to the intent of the Order. The effect is that practitioners take out insurance which, while less expensive than other products, is also significantly less value in terms of practitioner or consumer protection.

A common example is the two-storey height limit, where policies specifically exclude from coverage any work undertaken above the second level of a building. Another is what is termed an underground services exclusion. The intent of this is to make sure a "Dial before you Dig" type underground survey is conducted before works commence. If a practitioner cannot show that he or she checked the underground services prior to digging, a claim may be declined. There are also examples of limitations on welding or "hot work", and some particular to locations or sites, such as exclusions from welding in coldstores or abattoirs.

Other exclusions or limitations are less overt and are buried in the detail of policy terms and conditions. These can include tighter definitions around liability for things like faulty workmanship, cross liability (with other contractors), and limitations around design liabilities. The meaning and significance of these types of clauses, in terms of the limits they place on coverage, is not straightforward or easy to understand, especially for people not well versed in the finer points of insurance liability, like plumbing contractors.

In some instances, plumbers are aware of the coverage limitations, but choose to purchase the insurance anyway, most likely attracted by the lower price. These practitioners are essentially chancing that there will not be a claim relevant to the excluded work. However, they are also effectively gambling with other people's money, because if something does go wrong on work which was excluded by the policy, nobody is insured – including the consumer.

As a regulatory device, (or as a consumer/practitioner/public protection device), insurance which contains these exemptions is not fit for purpose and could

therefore be regarded as "junk" insurance. (It is noted here that the VBA has recently indicated that it is obtaining legal advice on whether a policy with exclusions complies with the Ministerial Order. If that advice was that insurance with relevant exemptions is deemed to satisfy the Order, then it begs the question as to why have the Order as part of the regulatory framework at all).

In other cases, and supporting data here would be particularly useful, practitioners take the insurance with the exemptions because they do not fully appreciate that that is what they are signing up for. Insurance can be very complex, and some practitioners have neither the time nor the capacity to pore over the details of their insurance package. For most, purchasing insurance which meets the mandatory criteria at a reasonable price is the sole focus.

It may be then, that there are many practitioners, who, because of taking out this type of limited insurance, who are significantly underinsured. The members survey discussed further under 4.3 will inform this.

While there may be some practitioners underinsured, in other parts of the sector, over insurance is an issue. Informal feedback from contractors would suggest that on some projects, in particularly the larger and more complex Tier 1 and 2 projects, the insurance requirements on all contractors (building surveyors, builders, designers, and plumbers) are both significant, but also duplicative.

Consider Public Liability insurance for example. On a major project, in combination, the various contractors on a project could be carrying hundreds of millions of public liability cover, potentially well in excess of what would be within scope of a potential claim. This layering effect, where every contractor at every stage of a project is required to carry a high level of coverage, is inefficient, and could potentially be adding significant costs to projects.

The **layering of insurances**, and the extent to which it is adding unnecessary costs to project builds, is an issue which effects consumers and practitioners right across the construction sector. Master Plumbers will therefore be seeking to work collaboratively with our partners and other construction industry stakeholders to further examine the insurance layering/duplication issue and determine what can be done from a whole of sector perspective.

A further issue relating to adequacy of cover relates to the amounts of coverage specified in the Ministerial Orders. As outlined above, the Ministerial Orders specify the minimum amount of coverage a practitioner must obtain to be eligible to be licensed. The requisite coverage amounts, in dollar terms, have not been updated since the Orders were made, giving rise to questions about their current relevance. For example, the \$100,000 minimum insurance threshold for Warranty insurance on commercial installations, appears to be woefully inadequate in terms of being a useful consumer protection mechanism.

A major plumbing failure of a new apartment complex development could involve rectification costs ten times higher than that, or more. Anecdotally, this market sector is one which is known for consumers (apartment owners) to access rectification of defects through Owners Corporation (or similar) insurance as a first resort rather than navigate rectification through the practitioner or regulator.

Periods/Timeframes of cover

A further issue in the “Adequacy of Cover” group of issues relates to the **inconsistency** between the periods of cover mandated by the Ministerial Order (six years), and the liability period plumbers are subject to under other related legislation – namely the Domestic Building Contracts Act 1995 and the Building Act 1993 - which both attach a liability period of 10 years to all works, including plumbing work.

For defect/warranty insurance, and for public liability, the period of a plumber’s insurance coverage is six years from the date the work was completed or from the date the licensed plumber provided the consumer with a Compliance Certificate for the work/lodged the Compliance Certificate. The insurance continues for a six-year period even if the plumber ceases to be licensed or does not renew their policy during this period.

Public liability insurance is also included for six years from the date the work was completed or from the date the licensed plumber provided the consumer with the Compliance Certificate for the work.

If a claim is made in years 6-10 post an installation, as the period of cover (six years) has expired, no claim against the plumbing insurance can be made.

However, if the contract relates to domestic plumbing work, there are implied warranties under the Domestic Building Contracts Act 1995. Either the plumber (where a contract exists with the owner) or builder (where the plumber was a subcontractor) may be liable for 10 years from the completion of the work.

Implied warranties apply to all building work. The Building Act 1993 allows action to be brought against a builder (or a sub-contractor – plumber) for up to 10 years from the date the work was completed.

For the period from year 6-10 then, the insurance status of the licensed plumber is not clear. It is opaque at best, and the potential (at least) exists for plumbers to be liable and unprotected for that period, unless they were able to actively choose to extend and pay for extended (beyond six years) additional cover.

However, in the current market there is no “run off” insurance available to plumbers to cover them for that four-year gap. Insurers, it seems, are not interested in taking on that additional risk, leaving practitioners (and third parties) exposed .

Complex plumbing

Another insurance related issue which falls into the broad category of adequacy of coverage relates to complex plumbing.

Under existing Victorian arrangements responsibility (for compliance and insurance) for plumbing work resides with the licenced plumber (the practitioner who lodges the Compliance Certificate). In effect, the licensed plumber is responsible for the design and installation of plumbing work, even though he or she has most likely not undertaken or even sighted the relevant design. Currently, there is provision for Mechanical Services work and Fire Protection work to be designed by a suitably qualified individual under the Building Regulations, but this is not the case for other plumbing scopes such as Sanitary, Water Supply, Drainage and Roofing.

The situation can and does occur whereby a hydraulic engineer, or similar, designs a plumbing system which is subsequently installed by a licensed plumber. The plumber could complete the design exact to specifications and yet, the system could still fail in one respect or another, resulting in damage and insurance claims. The failure and resultant damage may well be attributable

to the design, yet it is the licenced plumber's insurance which is potentially the subject of a claim (as opposed to the Hydraulic Designer's insurance) under Victoria's regulatory scheme.

There is a clear misalignment between the responsibilities attributed to licensed plumbers (by the regulations, the regulator, and insurers) and the capacity of those plumbers to influence or control what they are being held responsible for.

This is an anomaly which, on its face, is suggestive of a lack of natural justice or procedural fairness. It is a subject which Master Plumbers and other industry stakeholders have raised in a range of policy and regulation review type settings, yet the anomaly remains.

To protect themselves, licensed plumbers working on installing complex systems which they have not designed, are increasingly seeking to take out a suitable level of Professional Indemnity (PI) insurance. Anecdotal evidence suggests that obtaining a level of PI coverage which is commensurate with the potential risks and liability is proving challenging for many practitioners. It is also very costly.

Whilst many of the complex plumbing designs might be confined to larger "commercial" constructions, plumbers do additionally have the option under the National Construction Code to design/install plumbing systems as either a "deemed to satisfy" provision (i.e. according to the requirements of the appropriate Australian Standard), or via a performance solution.

A **performance solution** was originally intended to make use of new products or systems of plumbing design which may have not yet been considered under an Australian Standard and would have the necessary sign off by appropriately qualified persons to ensure it meets the intended outcome. Far more frequently plumbers who are not able to install or design a plumbing outcome that meets the Australian Standards conditions are motivated to use a performance solution. This is becoming most common in residential roofing, where a lack of oversight in the planning and certification process means that the installing plumbers are left with little option other than a performance solution. It remains unclear whether the minimum insurance cover required by the Ministerial Orders would provide the necessary cover for the plumber in this scenario or whether they should have additional Professional Indemnity insurance.

4.3: Availability of cover

An issue which has been raised by several industry participants relates to their ability to obtain plumbers' insurance (as the insurances which comprise mandatory insurance for Victorian plumbers are sometimes collectively referred to). This issue can be broken down by thinking of it as the ability to find adequate cover at a reasonable cost, as opposed to the ability to find any cover at all.

There is no available data on how many practitioners have ceased to operate in Victoria because of an inability to obtain insurance or obtain it at a price that was viable for them, and/or can no longer afford the burden of repeatedly seeking new cover with all the associated administrative costs. Anecdotal evidence suggests that there are some, however, and it is not unreasonable to forecast that if the status quo continues, there will be more.

Given that insurance underpins the entire industry, its availability, both now and more importantly going forward, is crucial. Availability is primarily about cost and coverage, but a part of insurance cover being available, and being seen by industry to be available, is about it being accessible and understandable for practitioners. To understand fully the issues around insurance availability – and the issues around cost and adequacy of coverage discussed above – there are several notional data sets which would be instructive.

A survey of members has been designed with a view to eliciting baseline data on things like the time and costs involved for practitioners in obtaining and maintaining their insurance; and the frequency with which practitioners change insurers.

All members are strongly encouraged to complete the brief survey, which is available at [\(Insert survey link\)](#). The more members complete the survey, the more robust the survey findings are, and the better informed we can be about how members are experiencing the current insurance market in Victoria.

The survey responses will help us to sharpen our advocacy to government about improved insurance arrangements moving forward. Members' views will help us understand and then convey to government decision makers exactly what aspects of the current insurance arrangements for industry we believe need to change. It will enable us to develop and present to government, a set of improvement options aimed at making meaningful improvements to the existing costs and coverage pressures discussed throughout this Paper. This is expected to relate to things like changes to the scope and prescribed insurance coverages in the Ministerial Order(s); and the role of the regulator and government going forward.

Just as insurers have differing tolerances for risk, so do practitioners.

Some will work under insurance policies with minimum coverage and pay little attention to the risks in doing so. They also have different tolerances around administrative burden and premium costs. Some will be driven from the industry by a combination of both.

When any competent and qualified practitioner is effectively forced out of the industry because of insurance (be it availability, complexity, or coverage or cost related) it is a poor indictment on the system. **It indicates that a key component of the regulatory framework is not working effectively;** and addressing it should be a very high order priority for the Victorian Government and the body responsible for administering that framework in Victoria, the VBA.

In terms of risk, the exiting altogether of practitioners from the industry, represents the lesser of two evils. The real risks – to public health, the environment, consumers and other third parties and practitioners - arises where practitioners remain in the industry but operate either uninsured or under insured.

5. Opportunities

The following commentary is intended to facilitate discussion about the possible ways to improve the overall insurance situation (costs, complexity, coverage, etc.) and about the **potential role Master Plumbers could have in influencing positive change**.

As discussed above under “issues”, there are clearly a series of factors which, to varying degrees, are working independently and at times together to deliver what can best be described as subprime outcomes for practitioners (and by extension consumers).

What can be done about it?

There are some parts of the overall insurance picture which are beyond the industry’s capacity to influence. The global cost of risk for example. However, there are other pressure points within all three of the identified issue groups – cost, adequacy, and availability - which Industry could play a role in positively influencing.

With respect to **premium costs**, for example, if it can be established that a part of the premium cost rises is attributable to an increase in claims, and that increase in claims can be linked to the VBA passing on insurance details of practitioners to consumers directly (without going through a dispute resolution/rectification process first), then something can be done about it. It can be addressed by policy and/or procedural change at the VBA, and industry could play a role in pushing for that change.

In a similar way, **incremental improvements to the other elements of the regulatory framework** (those intended to work in conjunction with insurance – as opposed to relying on insurance to do the work of those other regulatory arms) could help reduce costs. For example, there could be opportunities to carve out some high-risk work from the self-certifications scheme (complex plumbing) and apply a staged inspection system for that element of work. Audit rates could be lifted, as could inspection rates (potentially funded by a compliance certificate cost increase). This could have the effect of improving

quality and compliance, reducing claims and putting a check on, if not downward pressure on, premiums costs.

Adequacy of coverage issues relate primarily to the design of the rules governments have created in legislation or regulation. Theoretically, at least, that means they are all changeable. In practice, however, achieving legislative change is difficult. Consider the issue of the coverage gap created by the anomalous situation regarding responsibility and liability for complex plumbing work, for example. This issue has been on the radar of Industry and the VBA for at least five years. Despite a significant whole of Industry effort, including multiple written submissions, the issue remains unresolved. The risk profile attached to this anomaly has only increased over that time.

Similarly, the misalignment between insurance terms, prescribed by the Building Act and the relevant Ministerial Order, is addressable through legislative change. To that extent, it is something Industry can influence, notwithstanding the challenges of achieving legislative change.

In relation to the **availability of cover** type issues there are some potential influence points for Industry also. Consider the issues around the overall administrative burden and general headache of obtaining and maintaining adequate coverage. As described by several Master Plumbers members during consultations, that headache can be very significant - “insurance has consumed my life for over a year”.

One of the problems facing plumbing contractors, and described earlier in this document, is insurers entering and then leaving the market as profitability shifts. This means practitioners are on a kind of insurance treadmill, just keeping up. There is no time to **establish a long-term relationship with an insurer, or for the insurer to gain an understanding of a particular business**, and its operational and risk environment, which can vary significantly across the practitioner cohort.

In this context, the work Master Plumbers is currently engaged in with Marsh –

to develop a partnership, and a better understanding of the variety of plumbing issues and businesses. This is a very positive step forward. Noting that Marsh, as a broker, is not an insurer and while they and other brokers can help insurers to understand plumbers needs, there is still an inherent level of disconnect in terms of relationship and understanding between the insurer and the insured (plumber).

Any actions which had the effect of **improving relationships** (time and understanding) between plumbers and insurers could help reduce premiums, make premiums better reflect a particular business and its risk, and to reduce complexity – leading to plumbers having a better understanding of where their insurance coverage begins and ends. This is an element of the insurance landscape Industry can clearly influence.

6. Conclusion

This Paper is intended to inform Master Plumbers members, industry partners and stakeholders about the **major insurance related issues** currently impacting the industry. Its aim is to provide a starting point for discussion within Master Plumbers and between industry stakeholders. It is intended that the Paper will illicit **feedback and contributions from readers**. This will help inform Master Plumbers' policy on insurance-related matters and determine its strategy and direction in terms of advocating for necessary change.

The insurance industry is a rapidly changing and developing field, and as it evolves so do the opportunities and challenges for the broader plumbing industry. This Paper will evolve accordingly as further information becomes available, and readers are strongly encouraged to provide feedback and further information to ensure its continued relevance.

Please forward this to info@plumber.com.au for consideration.