
Cladding's insurance quandary costs Victoria \$7m

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Victoria's government is spending \$7 million on insurance to get builders and consultants to take on rectification work of the 500-plus residential buildings earmarked with combustible cladding, because the lack of policies that cover cladding is stopping many from bidding for the jobs.

Cladding Safety Victoria, the agency overseeing rectification of buildings most at risk from their use of aluminium polyethylene-core and expanded polystyrene panels, has secured the coverage out of its [\\$600 million](#) budget so companies it engages can secure cladding exemption-free professional indemnity cover and that their work will be covered after completion.



A man with a bespoke plan: Cladding Safety Victoria CEO Dan O'Brien. **Tash Sorensen**

The lack of cover has not stopped companies from taking on the work altogether. CSV has completed work on 11 buildings, has 72 others under way and wants the total to be 200 buildings by the end of June.

But the lack of providers with full insurance cover puts the five-year program at risk. At one point there were only two building surveyor firms CSV could tap, chief executive Dan O'Brien said.

"It has been a significant blockage to the program," he said.

"We're really looking at a program which has a heavy reliance on fire engineers, building surveyors, architects, quantity surveyors. Those first three in particular have had significant limitations on their policies that make it very difficult to get a good depth of market."

The revelation is the clearest sign that Australia's building ministers, [after years of discussions](#) following the Lacrosse and Grenfell Tower failures, have failed to reform the crucial industry and give insurers confidence that they can accurately assess risks and price policies.

CSV's bespoke arrangement with broker Lockton also shows that while state governments have been willing to reverse long-standing policy to let companies operate with exclusions for cladding on their PI policies – leaving themselves and clients uncovered in the case of future problems – they are not willing to leave their own work exposed.

One key unresolved problem is the conflict of interest arising out of the privatisation of building surveyors and certifiers, whereby they are paid by the builders whose work they have to assess.

We find ourselves in this situation because of the privatisation of building inspectors under a former Liberal government.

— Victoria Planning Minister Richard Wynne

"The independence normally applied that should be applied in the building industry isn't applied," said Peter Jeeves, the national manager for construction at Lockton Companies Australia.

"I don't think the government are addressing those issues in a real way. They're trying to paint over these issues."

Mr O'Brien said the independence of building surveyors was a "fundamental question" for the building industry.

Planning Minister Richard Wynne said the lack of professional indemnity insurance relating to cladding was an international problem, but blamed the previous

government for privatisation of building surveyors.

“We find ourselves in this situation because of the privatisation of building inspectors under a former Liberal government,” Mr Wynne said. “An expert advisory panel is reviewing the building system in Victoria. Following the review the panel will provide advice to the government on possible improvements to the system.”

The insurance, being provided by large global insurers and reinsurers including QBE and Liberty, could only be secured because CSV was deeply involved in each rectification job by hiring the companies and managing them through the process, and this allowed insurers to comfortably assess the risk to them of providing cover, Lockton’s Mr Jeeves said.

“The fact that CSV is taking a such a hands-on involvement in the project and is being able to sell that risk to insurers has provided that insurers are confident the risk is known, that it’s a managed and quantifiable risk they can underwrite,” he said.

The coverage of work for 10 years after completion was a better length of time than was generally available, said CSV’s director of legal and commercial, Luke Exell.

“It’s the longest that was available,” Mr Exell said. “The liability of building practitioners under the Building Act is 10 years. We think it’s good.”

Mr O’Brien said the number of buildings referred to CSV by the state-wide cladding audit for possible rectification had risen to 647, but 102 of those could be excluded as they were not residential towers falling under CSV’s scope or the work on them may already be complete.

This puts Victoria’s total of residential apartment buildings needing cladding rectification at 545.

“As the state of Victoria we’ve looked pretty closely at buildings three storeys and above,” Mr O’Brien said. “I’m not expecting a huge number of buildings – towers – to come into the program. Many of those have been identified.”

Credit Suisse Australia head of asset finance Will Farrant said Moelis joining the scheme would help it grow.

“For Credit Suisse, it enables us to grow what we do with Lannock faster, especially funding for cladding rectification, but also to enter other markets where Lannock wants to expand and support them with funding in those markets,” Mr Farrant said.

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