SIRA PROGRAM EVALUATION

HOME BUILDERS COMPENSATION SCHEME REFORM

STATE INSURANCE REGULATORY AUTHORITY

EVALUATION REPORT

FINAL REPORT

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ACKNOWLEDGMENTS

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EXECUTIVE SUMMARY

REFORM OF THE HOME BUILDING COMPENSATION SCHEME

The Home Building Compensation (HBC) Scheme provides compensation to homeowners in the event that a builder is unable to complete building work or fix defects. This scheme has recently been reformed to open the market for HBC to private insurance providers, introduce regulatory oversight by State Insurance Regulatory Authority (SIRA) for providers and premiums, create an operational fund for administrative costs, and establish better data sharing functions.

THE EVALUATION

ARTD was engaged in February 2020 to undertake process evaluations of four of SIRA's programs of activity. The purpose of the evaluation was to gain insights into the strengths and weaknesses of the reform of the HBC Scheme implementation to inform SIRA's organisational learning and quality improvement processes. The evaluation adopted a mixed-methods approach to answer the evaluation questions, drawing on existing documentation and interviews with selected key stakeholders (internal and external) involved in the design and delivery of activities. The evaluation methods were implemented as intended, without any limitations.

KEY FINDINGS

HAVE THE REFORM ACTIVITIES BEEN IMPLEMENTED AS INTENDED?

A majority of stakeholders reported that reform implementation activities had been completed mostly as planned. The legislative and regulatory framework has been enacted as intended and SIRA has taken on the role of regulator for the HBC Scheme. The organisation's corporate knowledge around the Scheme is growing. However, there are still elements of the reforms that need to be implemented, foremost the transition to business as usual.

There were several enablers to the implementation of the reform as identified by internal and external stakeholders:

- **key people with critical knowledge:** experts provided crucial information.
- **the SIRA team:** the quality of the policy team, their commitment and knowledge **involvement of Fair Trading:** enabling connections with stakeholders that SIRA was not usually in contact with (for example, the building industry).

The implementation of the HBC Scheme reform faced a number of challenges.

- **Transitioning the Scheme to business as usual:** Stakeholders identified some elements of the Scheme were not sufficiently 'owned' by parts of SIRA and that there was a lack of clarity around the role of business units within SIRA in relation to operational aspects of

the Scheme. This may be a result of the long and complex history of the scheme and concern about sufficiency of funding for these elements.

- **Managing stakeholders:** There were difficulties managing a highly vocal and politically connected stakeholder group and engaging with stakeholders that were critical to the Scheme but not highly interested (for example, homeowners).
- **Lack of technical knowledge:** As most other SIRA schemes focus on health and medical issues, early on there were sector-specific issues for this Scheme that were not familiar to SIRA staff.
- **Developing legislation and regulation:** The legislation and regulatory framework that was established through the reform was challenging to develop and there was a limited timeframe to fully consider issues as they arose during the reform.

HAS THE REFORM ACHIEVED ITS INTENDED OUTCOMES?

The main aim of the reform was to open the market to include private providers, in order to ensure the Scheme became financially sustainable (self-funded) and support choice and innovation. While this has been achieved in law, the majority of stakeholders expressed a view that, as iCare remains the only provider in the Scheme and has not fully repriced its insurance products to self-funding levels, the reform has not yet fully achieved its intended outcomes.

Progress has been achieved through the reform implementation. This progress includes a shift towards improved customer experience and obligations that iCare must continue to move towards sustainable pricing.

When hypothesising why new entrants to the market have not yet been successful, the majority view of interviewees was that this has been due more to contextual factors than the implementation of the reforms themselves.

LESSONS FOR CONSIDERATION

While the program has experienced a number of challenges, these have generated useful insights that can be applied not only to this program, but also to the management and implementation of future projects.

- When a project is completed, consider the importance of a formal transition from policy to business as usual, supported by executive leadership buy-in, clear accountability and adequate resourcing.
- Ensure that projects involving novel or complex legislative changes have sufficient time and resources to be completed.
- When strong stakeholder groups are lobbying, this project demonstrates that these issues can be mitigated by regular and proactive engagement with the Minister's office.

1.   PROGRAM BACKGROUND

1.1   PROGRAM OVERVIEW

The Home Building Compensation (HBC) Scheme is a program that provides compensation to homeowners in the event that a builder is unable to complete building work or fix defects due to insolvency, death, disappearance or license suspension for non-compliance with a money order made by a court or the tribunal.

Key elements of the reformed Scheme include:

- opening the market for HBC to private insurers and alternative indemnity product providers
- the implementation of regulatory oversight by State Insurance Regulatory Authority (SIRA) for providers and premiums, including licensing, performance management, and powers to assess and, if required, reject premiums which do not meet guidelines
- the creation of an operational fund for administrative costs and a Home Building Insurers Guarantee Fund to ensure protection in case of provider insolvency
- establishment of better data sharing functions.

2.   EVALUATION OVERVIEW

2.1   PURPOSE OF THE EVALUATION

ARTD was engaged to evaluate the HBC Scheme from February to June 2020. The purpose of the evaluation was to gain insights into the strengths and weaknesses of the project implementation to inform SIRA's organisational learning and quality improvement processes.

2.2   EVALUATION SCOPE

The evaluation focused on activities to implement the reforms to the HBC Scheme and examined the high-level outcomes to date. As little time has passed since the reforms to the Scheme took effect, the evaluation includes initial outcomes only.

2.3   PROGRAM LOGIC

The first stage of the evaluation involved working with the project team to develop a program logic (see Figure 1). A program logic is a one-page diagram that shows the important components of a program and its expected outcomes. The diagram lays out the set of inputs that are required to successfully implement the Scheme and how these link to the reform outcomes as well as the immediate, intermediate and long-term outcomes of the reform.

The logic is read from the bottom to the top, with the lower-level outcomes being where SIRA has the largest amount of control, and higher-level outcomes where SIRA has least control.

The bottom of the diagram shows that the foundational aspects of the reform were ensuring it was appropriately designed and resourced—that is, it had effective risk management, planning, high-level support, funding, partnerships, government, change management, parameters, and stakeholder management and consultation. The foundational assumption of a program logic is that if these inputs are in place, then the reform should be successfully implemented. The reform outcomes are:

- SIRA being established as the regulator
- funding arrangements for the Scheme being in place
- the required data and digital platforms being implemented
- existing protections being maintained while the regulatory systems are implemented
- licenced contractors feeling that they have been heard
- regulator capability and systems are developed.

Once these reform outcomes have been achieved, it is hypothesised that there will be a causal chain of positive outcomes. For the Scheme, the immediate outcomes include:

- the ability of private insurers and alternative indemnity product providers to enter the market

- processes for licensing, purchasing and claiming being effective and efficient
- home builders and associated professionals being aware of the Scheme
- licensed builders believing that the Scheme is fairly and effectively regulated.

A set of intermediate outcomes would then lead to the ultimate outcomes—that the Scheme itself is sustainable and fit for purpose, that homeowners are informed and protected, and that policy holders have access to an affordable Scheme.

FIGURE 1.   HOME BUILDING COMPENSATION SCHEME REFORM PROGRAM LOGIC
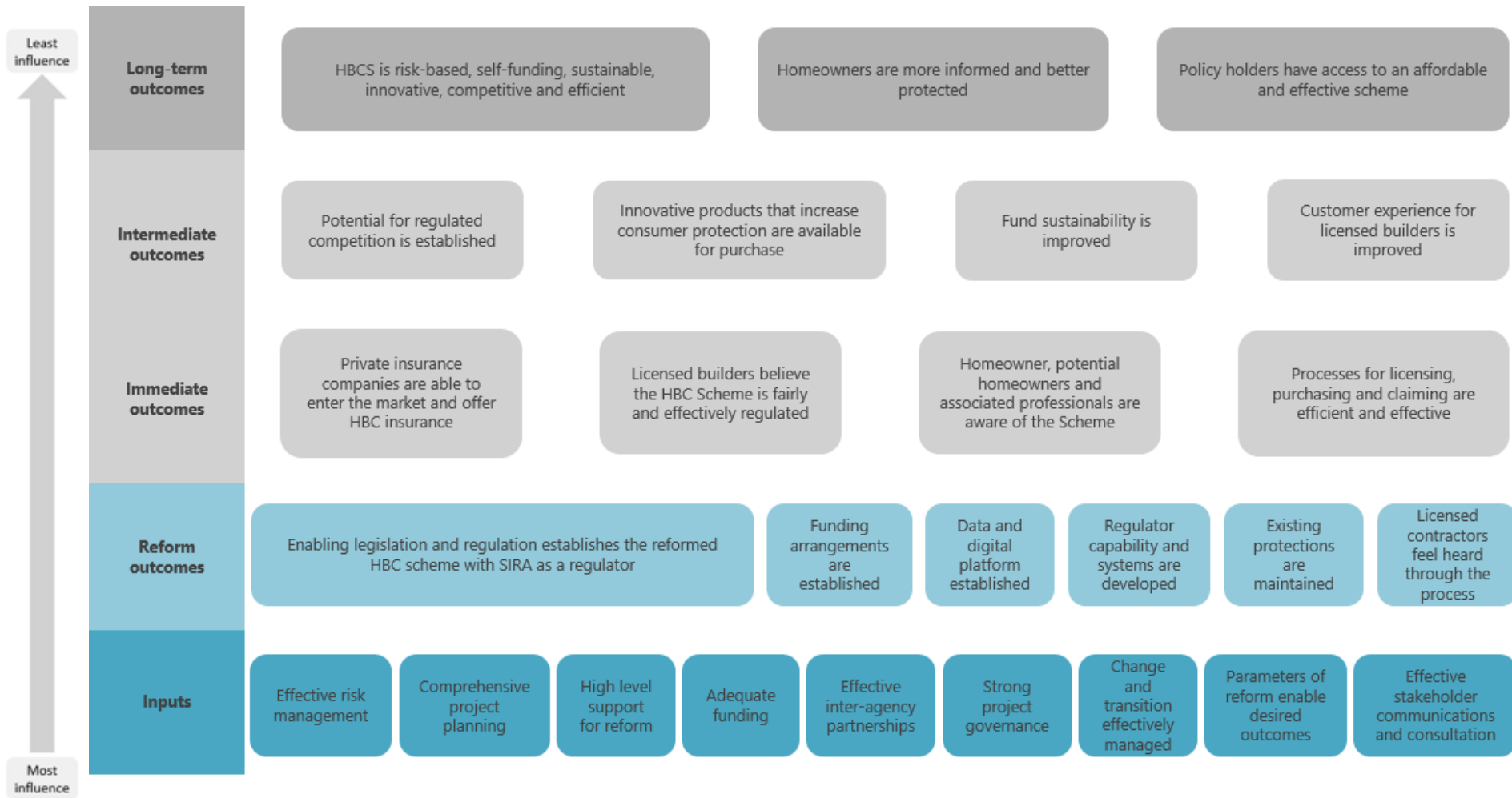
2.4   KEY EVALUATION QUESTIONS

The key questions that are the focus of this evaluation aim to examine the implementation and early outcomes of implementing the reform.

- To what extent have the activities to enact the reform been completed?
- To what extent has the reform achieved the intended outcomes?
    - If those outcomes have not been fully achieved, what has contributed to this? Was this due to the Scheme or to external factors?
    - To what extent did the design of the reform enhance or limit the achievement of the intended outcome?
- What can be learned about change management from the reform implementation?
- What contextual factors have impacted on the reform implementation?
- What were the barriers and enablers for implementing the reform?

2.5   EVALUATION DESIGN

The evaluation adopted a mixed-methods approach to answer the evaluation questions, drawing on existing documentation and interviews with selected key internal and external stakeholders involved in the design and delivery of activities. Table 1 presents a matrix linking each of the methods with the key evaluation questions they intended to answer.

TABLE 1.   EVALUATION QUESTIONS AND METHODS

Evaluation question	Administrative Documents	Program staff interviews	External stakeholder interviews
1. To what extent have the activities to enact the reform been completed?	X	X	

2. To what extent has the reform achieved the intended outcomes?
  o If those outcomes have not been fully achieved, what has contributed to this? Was this due to the Scheme or to external factors?
  o To what extent did the design of the reform enhance or limit the achievement of the intended outcome?
	X	X	X

3. What can be learned about change management from the reform implementation?		X	X
4. What contextual factors have impacted on the reform implementation?		X	X
5. What were the barriers and enablers for implementing the reform?		X	X

2.5.1   ADMINISTRATIVE DOCUMENTS

We completed a desktop analysis of program documentation, including:

- Future State Blueprint
- Program Closure Report
- Benefits Realisation Plan
- Data and Digital Roadmap
- EY Data and Digital Plan
- Revised Change Plan
- Revised Scheme Transition Approach

- Communication Strategy
- Implementation Plan
- Decision Log
- Legislative Policy Mapping
- Reform Governance
- Lessons Learned Log

Together, these documents provided insights into the process that underpinned the implementation of the reform, the extent to which it was implemented as planned, and the extent to which it has achieved the intended outcomes. The documents were reviewed in detail to synthesise with interview data.

2.5.2   SEMI-STRUCTURED INTERVIEWS

Desktop research was supported by primary research through interviews. This enabled us to ask detailed questions about process delivery, outcomes and the achievement of policy priorities, as well as to identify opportunities for program enhancement.

Program staff from SIRA were interviewed, including project officers, team leaders, and relevant staff from iCare. Other stakeholders from outside SIRA were also interviewed to add a broader understanding of the reform to the evaluation process. In all, 15 interviews were undertaken, 11 with SIRA staff and an additional four with external stakeholders. The interview guide is provided in Appendix 1.

2.5.3   CONFIDENCE IN THE FINDINGS

The methods were implemented largely as intended, including completion of a significant number of interviews and documents reviewed as planned. Based on data gathered through these activities, there is sufficient evidence to identify lessons for consideration for management and implementation of the ongoing multi-year program and future SIRA projects.

3.   EVALUATION FINDINGS

3.1   IMPLEMENTATION OF THE REFORM

In general, most stakeholders reported that reform implementation activities had generally been completed as planned, although there was a diversity of views. Three interviewees were of the view that the activities had been completed as planned, five indicated that believed the activities were mostly completed and two responded that the activities had been partially completed.

In general, stakeholders said that the legislative and regulatory framework has been enacted as intended and SIRA has taken on the role of regulator for the HBC Scheme and the organisation's corporate knowledge around the Scheme is growing. According to interviewed stakeholders, improvements were implemented to the data and digital aspects of the Scheme and overall the project was successfully implemented, albeit with challenges.

Of the eight interviewees who felt that implementation had some limitations, these related to the following areas:

- the Scheme has not fully transitioned to business as usual as some areas of the organisation have not yet fully taken responsibility for parts of the Scheme
- some of the legislative and regulatory framework would benefit from further clarity to enable its interpretation in practice
- the data and digital reforms have not been fully realised.

3.1.1   ENABLERS FOR IMPLEMENTATION

Despite the challenges facing the reform and its implementation (detailed in section 3.1.2, below), the project was successfully implemented. There were several enablers identified as supportive of this success.

KEY PEOPLE WITH CRITICAL KNOWLEDGE

Seven interviewees mentioned specific people who shared their critical knowledge, enabling the reform to progress. This included people from a range of knowledge bases, including the reform content itself, actuarial advice and legal advice, among others. These individuals were instrumental in providing information that enabled the reform to be successfully implemented.

THE SIRA TEAM

Six interviewees noted the quality of the SIRA team involved in implementing the reforms. Their commitment and knowledge were identified as significant enablers in achieving the reform. In addition, the leaders of the team were identified as keeping the project moving and making critical decisions when needed.

Two interviewees noted that the team was, particularly toward the end of the project, well-resourced to engage team members and external advice. As noted elsewhere, this external advice was critical to the success of the project.

INVOLVEMENT OF FAIR TRADING

Three interviewees noted that the relationship SIRA had with Fair Trading was significant, particularly in terms of connecting with stakeholders that SIRA was not usually in contact with (for example, the building industry). Most of the legislation being reformed is administered jointly with Fair Trading and, thus, this is a key relationship now and going forward.

3.1.2   BARRIERS TO IMPLEMENTATION

The implementation of the HBC Scheme reform faced a number of challenges. The issues are described below in order of their relative importance, depending on how frequently the issue was mentioned by interviewees.

MANAGING STAKEHOLDERS

The most common issue raised by interviewees was in managing the stakeholders for the Scheme, an issue mentioned 12 times by eight interviewees. There were two key concerns in engaging with stakeholders. The first, and most significant, was the difficulty in managing a stakeholder group that was highly vocal and politically connected. This group sought to influence the reform and required a high level of engagement and management.

The second concern related to engaging with stakeholders that were critical to the Scheme but not highly interested. This included both external stakeholders, such as homeowners and internal stakeholders, such as SIRA leadership. Homeowners and those involved with purchasing homes have a lower level of understanding and knowledge of the HBC Scheme, likely because they are not the purchasers of the insurance. While the insurance customer (the builder) is relatively interested and familiar with the product and, therefore, easier to engage, the insurance consumer (the homeowner) is less closely linked to the product and is, therefore, less easy to engage. This is particularly salient for the Scheme, where most homeowners will never need to be consumers and aren't expecting to be.

Engaging with stakeholders was also made more complex because SIRA did not have established lines of communication with some elements of the building industry and homeowners. This was because this stakeholder group was new to SIRA. Overcoming these barriers required support from Fair Trading, who interviewees noted were helpful in connecting SIRA to new stakeholder groups.

CHANGE MANAGEMENT - TRANSITIONING THE SCHEME TO BUSINESS AS USUAL

The next most commonly cited issue by interviewees was the difficulties associated with transitioning the Scheme to business as usual. Five of the interviewees discussed their

concerns that elements of the Scheme were not sufficiently 'owned' by parts of SIRA and that there was a lack of clarity around the role of SIRA in relation to the Scheme.

> *With internal governance, we had low attendance and low attachment* – Internal stakeholder

> *Internally in SIRA, outside the policy team [there were] lower levels of engagement with [the reform] project* – Internal stakeholder

> *SIRA wasn't really sure how it was to be handled either* – Internal stakeholder

Overall, a lack of clarity and issues with funding and scope, as well as the difficult history of the Scheme, seem to have contributed to a reluctance from operational parts of SIRA to take on business as usual functions.

The Policy team was responsible for the project to reform the Scheme but relied on operational areas to take over the ongoing management of the Scheme. Interviewees also noted that it was difficult to engage with internal leaders at SIRA and interest them in participating in governance processes, such as the Steering Committee.

The incomplete transition is likely due, at least in part, to the complex and difficult history of the Scheme, including a market failure that lead to all private insurers withdrawing from the Scheme. It is also likely related to a lack of technical knowledge of the subject matter of the Scheme (home building legislation and insurance) on the part of SIRA.

Interviewees also noted that concerns about funding contributed to these issues. Parts of the organisation were concerned that they were not sufficiently resourced to take on elements of the Scheme. In addition, there was limited direction about who was responsible for those elements.

LACK OF TECHNICAL KNOWLEDGE

The third most commonly raised barrier for implementation was a lack of technical knowledge within SIRA. The nature of the Scheme is markedly different from the other schemes managed by SIRA, which mostly focus on health and medical issues. This meant that there were sector-specific issues that were not well understood by SIRA leadership. This was particularly problematic early in the project, where the information needed to make decisions was not easily available.

> *[I] was surprised at [the] complexity of the product itself – I didn't know subject matter beforehand* – Internal stakeholder

> *The modelling ought to have been part of the process more centrally. At the time in SIRA, there was a lack of experience in insurance regulation. Doing the modelling wasn't considered to be business as usual as a regulator. If the modelling was there, I didn't see it. As a process, I think modelling is key.* – External stakeholder

This lack of technical knowledge within SIRA did create difficulties, however it was mitigated to an extent through engaging with external experts who provided critical input when

required. Stakeholders noted the value of this expertise, which is explored as a key enabler to the project.

DEVELOPING LEGISLATION AND REGULATION

It was the view of several interviewees that the legislation and regulatory framework that was established through the reform was challenging to develop. This was because:

- there was a limited timeframe to fully consider issues as they arose during the reform
- there were technical and legal complexities (particularly surrounding the alternative indemnity product)
- there were unavoidable gaps in knowledge about how the situation might play out, in terms of creating the alternative indemnity product.

There hadn't been a proper marriage between the policy thinking and the practicalities of how this would work – Internal stakeholder

While there was a lot research done, there were things that probably should have happened in legislation that could have been done differently – Internal stakeholder

OTHER BARRIERS

The issues discussed above were the main barriers raised in the interviews. However, several other issues (some related to or mentioned above) were raised, as outlined below.

- History: the Scheme has a long and complex history, which makes any action in this space riskier and more complicated.
- Time: the timeframes for the reform were very compressed, leaving little time for in-depth thinking and development.
- Political environment: the political environment of the building industry is complex, which influenced the project.
- Relative scale and priority: some interviewees noted that because of the relatively small scale of the Scheme compared to others schemes regulated by SIRA and perhaps because it was less familiar, it tended to be "crowded out" in terms of resourcing and attention.
- Issues with data quality from the iCare.

3.2   HAS THE REFORM ACHIEVED THE INTENDED OUTCOMES?

There was general agreement from interviewees that the main aim of the reform was to open up the market to include private providers to ensure the Scheme became financially sustainable (self-funded). This has not been achieved to date, as iCare remains the only provider. Moreover, the financial status of the Scheme has not yet improved, according to four of those interviewed; however, future adjustments to premiums could rectify this.

Four of the 13 interviewees noted that progress has been achieved through the reform implementation, including:

- the legislative regulatory structure being in place to provide for competition going forward
- a shift towards improved customer experience.

When hypothesising why new entrants to the market have not yet been successful, the majority view of interviewees was that this has been due more to contextual factors than the design or implementation of the Scheme itself. These contextual factors have been discussed in the section above, but in summary, primarily relate to:

- the complex and difficult history of the Scheme, including previous market failure
- the Scheme itself not yet being commercially attractive (changes to achieve this were outside of the scope of the reforms, largely because these would potentially compromise its role as a safety net).

4.   CONCLUSIONS AND LESSONS FOR CONSIDERATION

4.1   CONCLUSIONS

Overall, the reform to the HBC Scheme was implemented successfully, despite myriad challenges. The project had all the hallmarks of a difficult project—complex subject matter, compressed timeframes, charged political environment, and challenging stakeholders. In addition to this, the implementation occurred at a time of change when SIRA had only recently been established.

Despite this, the project was successfully implemented in terms of completing the reform and establishing a regulatory and legislative framework that provides for the possibility of competition in the Scheme. This was enabled through the input of key experts, a high quality and committed team, good resourcing, and support from Fair Trading.

To date, the Scheme has not attracted any successful new entrants and, thus, the key objective of the reform has not yet been achieved. The majority of interviewees attributed this to broader contextual factors, rather than the process of implementing the reforms. This includes the fact that currently the scheme is not commercially attractive and the difficult history of the scheme.

The ongoing challenge with the reform is successfully completing the transition from the policy team to business as usual. Elements of the Scheme have not yet been fully operationalised by the organisation. This is likely due to a combination of factors such as a lack of direction about who is accountable, a concern about a lack of resourcing, and the difference of the Scheme from other schemes regulated by SIRA.

4.2   LESSONS FOR CONSIDERATION

There are several lessons for future project that emerged from the evaluation. These are outlined below.

- When a project is completed, consider the importance of a formal transition from policy to business as usual, supported by executive leadership buy-in, clear accountability and adequate resourcing.
- Ensure that projects involving novel or complex legislative changes have sufficient time and resources to be completed.
- Where there are strong stakeholder groups lobbying, this project demonstrates that these issues can be mitigated by regular and proactive engagement with the Minister's office.

APPENDIX 1.   INTERVIEW GUIDE

Questions

1. What was your involvement in the reform process?
2. [Internal] In your view, were the activities to enact the reform implemented as you expected?
    - o   If not, which elements were not implemented?
    - o   Why do you think they weren't implemented as planned?
3. What external factors impacted on the implementation?
    - o   Prompts: transition of scheme to SIRA, establishment of SIRA, political environment, commercial changes
4. Are you aware of any challenges encountered during the reform? What did you do to address the challenges? How could future reforms avoid/ overcome similar challenges?
    - o   Prompt – change management, SIRA's role as a regulator
5. What surprised you about how the activities were implemented? Were there any consequences for SIRA [or your organisation] or the project?
6. What factors can you identify that enabled the implementation?
7. [Internal] What would you do differently if you were undertaking up a similar reform and why?
    - o   Prompt – SIRA's role as regulator
8. [External] Were you satisfied with your organisation's consultation and engagement in the reform?
9. [External] What worked well about the consultation/ engagement? What would have worked better?
10. In your view what were the intended outcomes for the reform?
11. To what extent have these been achieved?
    - o   If not, what has contributed to this? How could this have been avoided? Is there anything that could be changed that would change this? How did the design of the reform impact on the outcome?
12. From your perspective, what does it look like if a regulatory scheme is working effectively?
13. Do you have any other comments you would like to make about the reform process?