



# Research Brief

May 2007

## Gaps in New Home Warranty Coverage Across Canada

### Background

The Consumers Council of Canada, with support from Industry Canada's Office of Consumer Affairs' Contributions Program for Non-profit Consumer and Voluntary Organizations, investigated Gaps in New Home Warranty Coverage Across Canada. The study was conducted between July 2006 and March 2007. For complete references and methodology, please refer to the full report.

Warranty programs in Canada are intended to protect the substantial capital investment made by consumers in regard to the purchase of a new home and to guard against builders who are unable or unwilling to remedy problems in the construction of a new home. This paper explores the various warranty programs in Canada and in selected countries around the world. Mandatory, non-profit and for profit programs were examined and compared with the objective of identifying gaps in new home warranty coverage across Canada.

### Methodology

The gaps in new home warranty coverage across Canada were identified through a series of key informant interviews which included representatives from every warranty provider in Canada. An international literature search was completed which identified characteristics of warranty schemes in Canada and in other countries. Finally a survey of 6000 Canadians was conducted to quantify homebuyer perceptions and expectations.

Key informant interviews were conducted with individuals from all existing Canadian non-profit warranty programs and two for-profit programs. Specifically the following organizations were contacted:

- The Atlantic Home Warranty Program (AHWP),
- Regie du Batiment du Quebec (RBQ),

- Ontario's TARION Warranty Corporation,
- The New Home Warranty Program of Manitoba Inc.,
- The Alberta New Home Warranty Program,
- New Home Warranty Program of Saskatchewan Inc.,
- British Columbia's Homeowner Protection Office (HPO),
- The National Home Warranty Programs Ltd.,
- Progressive Home Solutions Inc.

Further, the following organizations were contacted for specific information used within the study:

- Statistics Canada,
- Canadian Association of Home and Property Inspectors,
- Canadian Home Warranty Council,
- Consumer Advocacy & Support for Homeowners (C.A.S.H.),
- Canadians for Properly Built Homes,
- Ontario's Ministry of Government Services,
- Canada Mortgage and Housing Corporation,
- Office of Consumer Affairs, Industry Canada.

A full literature search was conducted which included print publications and internet sources. Papers presented at various conferences and forums were reviewed and analyzed along with studies completed by KPMG Consulting, J.D. Power and Associates, and TARION Corporation. Articles respecting new home purchasers' difficulties were reviewed and follow-up conducted with their authors where necessary.

Finally, quantitative research was completed using a Canada-wide survey instrument developed by the Consumers Council of Canada and conducted by Maritz Research via Omnitel a national telephone omnibus. Data was collected via telephone interviews from facilities in Toronto, Montreal, Edmonton, Sudbury and Canso. The fieldwork for this project was conducted over three waves of the Omnitel omnibus beginning January 25<sup>th</sup> and finishing on February 20<sup>th</sup> 2007.

A random sample was drawn for each wave of the Omnitel survey. For each wave a sample of 2000 adults was drawn with interviews disproportionately allocated by region as follows:

Atlantic	250 interviews
Quebec	500 interviews
Ontario	500 interviews
Manitoba/Saskatchewan	250 interviews
Alberta	250 interviews
British Columbia	250 interviews

Within the regional quotas of Quebec, Ontario and British Columbia, Census Metropolitan Area quotas were assigned to ensure a proportionate number of interviews were completed in Canada's three largest markets Montreal, Toronto and Vancouver. The sample was then weighted in tabulation to replicate actual population distribution by sex and age within the region. The Yukon, Nunavut and Northwest Territories were excluded from the sample selection. In total 6041 adults were interviewed over three waves resulting in 565 completed surveys.

### The Study

By the end of 1976, every region in Canada except the Northwest Territories had established a new home warranty program. Despite the relatively short time warranty programs have been in Canada, programs have diverged to such an extent that very significant differences now exist from province to province. While some difference may be justified, the Council believes that a new home buyer in Dartmouth should be afforded the same coverage as a new home buyer in Mississauga. The lack of uniformity extends to the standards that underpin the warranty. Efforts are in place to harmonize the development and interpretation of building codes nationally, however, with the emergence of regional construction practice standards or guidelines the effort needs to extend to these new standards. Particularly troubling is the lack of consumer involvement in their development.

Survey results point to serious concerns with respect to home buyer information. Consumers in some parts of the country likely are paying more than they should for the warranty coverage they get. Consumers seem to not know or understand the most basic aspects of warranty coverage including whether they have a choice and how much it costs.

Consumers do not understand building construction and performance. In most cases, they have no experience with the new home buying process or the new home as a product. They have no benchmark that defines industry practice or housing quality against which their new home can be compared. Inserted into this uncertainty is a deep mistrust expressed by some survey respondents of both builder and warranty provider. This makes it doubly difficult for builder and warranty provider to make their customers happy. Improved customer service focusing on response time, improved information and disclosure and active consumer education is needed to remediate relationships with consumers. More than 1 in 4 survey respondents believed they are not very well or not at all well protected by Canada's new home warranty programs.

In regard to claim settlement, of those consumers surveyed who had an opinion, almost a third believed that claims were not fairly settled. Respondents suggested that they had no trust in the warranty provider, attributing the unfairness to a bias towards builders among the more traditional reasons for insurance claim dissatisfaction. These include low claim success rates, long settlement time, lack of comprehensive of coverage and bad claim experiences.

## Recommendations

Based on the findings of this research, twenty eight recommendations were made, key among them are the following:

Note: Jurisdictions which are the subject of each recommendation are shown in brackets.

1. All new home consumers in Canada should be afforded new home warranty protection.
2. All new home buyers should have warranty coverage or be legally required to sign a waiver where they declare they have chosen not to purchase coverage and understand that possible defects are therefore not warranted. (All provinces except BC, Ontario and Quebec)
3. All builders in Canada should be required to be registered with their provincial warranty providers.
4. Warranty providers should use a range of tactics to better inform and educate consumers including those that use the builder channel to the home buyer. All warranty programs across the country have an obligation to inform and educate consumers. (Alberta, Saskatchewan, Manitoba, Nova Scotia, New Brunswick, PEI, Newfoundland)
5. Consumers should be protected in a similar fashion in every province. (All provinces)
6. Canadians should be afforded the same protection against building defects regardless of tenure. (All provinces)
7. Consumers should be afforded the same protection in every region of the country regardless of the size and use of the building. (All provinces)
8. Renovation warranties should be offered by warranty companies across the country. (All provinces except BC)
9. Warranty providers should demonstrate how they measure claim satisfaction and the steps they are taking to improve the settlement process in response to the data. Various reasons are cited in this report for dissatisfaction in claims settlements (e.g. timeliness of settlement, apprehension of bias, etc.). (All provinces)

To order copies of *Gaps in New Home Warranty Coverage Across Canada*, or for more information on the Council, please visit our website at: [www.consumerscouncil.com](http://www.consumerscouncil.com)

## ABOUT THE CONSUMERS COUNCIL OF CANADA

*The Consumers Council of Canada is an independent, not-for-profit organization federally incorporated in 1994 to provide a consumer voice and help business and government manage today's consumer issues. Our goal is to work collaboratively with consumers, business and government to solve marketplace problems. Our co-operative, practical engagement contrasts with the more traditional, adversarial approach to advocacy. The Council's independent research has come to be valued by business and government alike.*

*Our members, individual and corporate, acknowledge and support through policies and procedures the eight international consumer rights and responsibilities. Our non-voting corporate members demonstrate their commitment to corporate social responsibility, accountability to their customers and a connection to the community by aligning their organization with our "citizen brand". The Council believes it is good business to manage consumer issues effectively. We encourage organizations to look to the Council as a partner in addressing consumer issues.*

*The Council is funded through membership and project work with a variety of private and public sector partners.*

### The Council's Vision

**An efficient, equitable and effective marketplace for consumers.**

### The Council's Mission

**To provide credible, fact-based representation of the consumer interest to government and business to enhance policy development and programming.**



**CONSUMERS COUNCIL OF CANADA**

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