

**PROJECT REPORT:
REVIEW OF ISSUES AND OPTIONS
FOR CERTIFICATION OF HOME INSPECTORS**

**FOR THE HOMEOWNER PROTECTION OFFICE
FINAL REPORT
September 16, 2005**

CONSULTANT: M. REINSTEIN AND ASSOCIATES

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REVIEW OF ISSUES AND OPTIONS FOR CERTIFICATION OF HOME INSPECTORS

Executive Summary

Background

The use of home inspection services by homebuyers has been growing steadily in recent years. At present, there are no government requirements for licensing, certification, training, conduct or insurance for home inspectors in British Columbia.

In 2002, the BC chapter of the Canadian Association of Home and Property Inspectors, CAHPI (BC), approached the minister responsible for housing with a proposal for “right to practice” legislation which would have made membership in CAHPI (BC) mandatory for anyone engaged in home inspection in BC. Since then, CAHPI (BC) presented a revised proposal for the province to establish uniform standards, and offered to work with other organizations to provide training and certification. As a result of these discussions, the Minister directed the HPO to lead a review of the possible need for mandatory certification and training of home inspectors in British Columbia.

The Home Inspection Industry Today

The home inspection industry is highly fragmented. There are numerous industry associations operating across Canada and the US, as well as many franchises. The most commonly known associations in British Columbia are:

- the Canadian Association of Home and Property Inspector (CAHPI),
- the British Columbia Institute of Home and Property Inspectors (BCIPI),
- the Independent Canadian Home Inspectors of BC (ICHIBC),
- the National Institute of Building Inspectors (NIBI), and
- the National Association of Certified Home Inspectors (NACHI).

Most associations require their members to subscribe to a code of ethics and practice standards. It is not known how widely the practice standards of the various industry associations differ. Major associations, such as CAHPI (BC) and BCIPI, have disciplinary processes. However, if one industry association disciplines an inspector there is nothing to prevent the inspector from continuing to practice either independently or as a member of another association.

The following factors are leading a growing number of homebuyers to have inspections done:

- The increasing complexity of modern construction methods and standard home components
- Heightened consumer awareness as a result of the leaky condo crisis
- The growth of the home inspection industry, and its marketing efforts

Homebuyers have no ready means of distinguishing between associations that serve the industry's professional interests rather than its competitive interests within the marketplace. By displaying the logos of one or more of the many existing industry associations, and using terms such as "registered", "certified" and "accredited", an inspector can present an appearance of professionalism and accountability that may or may not be justified by his or her education, experience, or affiliations.

Errors and Omissions Insurance

Most insurers have stopped underwriting errors and omissions insurance for home inspectors. From the insurer's perspective, in an unregulated industry inspectors may or may not be qualified to do a well-rounded inspection. Insurers are also concerned that homebuyers may have unrealistic expectations of what a standard home inspection is able to discover, leading them to blame the inspector if hidden problems become apparent. Where insurance is available, annual premiums can range from \$2000 to \$3000, with a deductible of \$5000.

Stakeholder Survey

During July, a brief, informal questionnaire was sent to potentially interested parties to obtain their views on the state of the industry and any consumer protection issues. The purpose of the questionnaire was to initiate consultation with a spectrum of interested parties and elicit their views on the need for mandatory certification. It was not designed as a scientific survey from which to draw statistical conclusions on the views of all stakeholders. Rather, the information obtained from the questionnaire provided a starting point for more in-depth discussions and other research.

About half of those who responded to the questionnaire believe that it is difficult to find a qualified home inspector. Almost three-quarters do not believe that consumers are adequately protected. Nearly all believe that the industry requires mandatory standards and some form of oversight, but views varied widely on who should perform the oversight and what the governance model should be. About half believe that government needs to be involved in some capacity.

Three quarters believe that mandatory standards would have a positive effect on their own industry or interest group.

Critical Issues For Consumers

From a consumer perspective, the critical issues are as follows:

- Most homebuyers rely upon home inspections to help them in their home buying decisions.
- A homebuyer has little way of judging whether an inspector is qualified, or whether the standards they say they meet are appropriate ones.
- When realtors refer home inspectors, there is a risk they will favour inspectors who are less likely to discover problems that might hinder the sale.
- It is difficult for consumers to know whether an inspector carries adequate insurance
- When things go wrong, the costs to the consumer can be enormous, yet there is little recourse other than the court system.
- Some consumers lack confidence in the quality of new home construction, and, acknowledging their own limitations in terms of recognizing defects, believe they need a third party examination of the home before they sign off on the purchase.
- Some consumers expect their inspection to cover items that current industry practice standards specifically exclude.
- Consumers may expect a home inspection to reveal hidden problems that may not be in evidence during a three- or four-hour non-invasive inspection.

Critical Issues For Industry

The following critical issues emerged from the consultations with the home inspection, home construction, and real estate industries:

- There is nothing to prevent unqualified individuals from operating as home inspectors.
- At present, home inspectors cannot be held to account for errors, negligence or unethical practices.
- Good home inspectors suffer as a result of unprofessional conduct by under-qualified or unethical inspectors.

- Without mandatory standards, there is a potential conflict of interest when realtors refer home inspectors to their clients.
- The involvement of home inspectors with new homes is a duplication of British Columbia's main consumer protection measures (builder licensing and mandatory home warranty insurance).
- Fragmentation of the home inspection industry makes professional development of the overall industry more difficult.
- Other components of the housing industry feel that the home inspection component does not carry its full share of responsibilities, given its role in real estate transactions. In particular, the homebuilders are concerned that third party inspections can adversely affect the transaction between the builder and the homebuyer.

Options to Consider

Four broad options for addressing these critical issues are:

1. Maintain the status quo
2. Facilitate industry development solutions
3. Establish mandatory certification by a self-governing body
4. Establish mandatory certification by government or a government agency

Conclusion

In response to the Minister's request and the concerns of the home inspection industry, a thorough review was conducted by the HPO of issues pertaining to certification of home inspectors. The review identified a number of critical issues for consumers, the home inspection industry, homebuilders and other major players in the housing industry.

Four options were identified for consideration. At this stage, however, given the breadth of issues that emerged, it is difficult to identify one approach that would satisfy the concerns of all parties. At a minimum, the question of mandatory certification of home inspectors would benefit from additional focused consultation with the full range of interested parties to clarify their concerns and identify appropriate means to resolve them.

REVIEW OF ISSUES AND OPTIONS FOR CERTIFICATION OF HOME INSPECTORS PROJECT REPORT

Background and Purpose of This Review

The use of home inspection services has been growing steadily in recent years, as a result of increased consumer consciousness and a tendency among lending institutions to require home inspections before approving loans. At the present time, there are no government requirements for licensing, certification, training, conduct or insurance for home inspectors in the province.

In 2002, the BC chapter of the Canadian Association of Home and Property Inspectors (CAHPI BC) approached the minister responsible for housing with a proposal for “right to practice” legislation which would have made membership in CAHPI (BC) mandatory for anyone engaged in home inspection in British Columbia. The proposed legislation would have empowered CAHPI to conduct disciplinary activities subject to appeal to the Commercial Appeal Commission (since eliminated). The Minister responded with a reference to the government’s deregulation policy that would render acceptance of the proposal unlikely.

In March, 2005, CAHPI (BC) presented the Minister with a revised proposal for the province to establish uniform standards, and offered to work with any other organizations to make sure training and certification are provided. As a result of these discussions, the Minister directed the HPO to lead a review of the possible need for mandatory certification and training of home inspectors in British Columbia.

The HPO hired Marnie Reinstein, of M. Reinstein and Associates, to conduct necessary research and consultation for this review and prepare a report on the matter for the HPO Board of Directors.

What Has Been Done So Far

A consultation process was carried out during July and August of 2005 to obtain the views of interested parties on the subject of mandatory certification of home inspectors. Consultations centred on the distribution of an informal, nine-question survey to a wide range of stakeholder groups: home inspectors and industry associations, consumers, builders, lenders, realtors, and local governments. The purpose of the questionnaire was to initiate consultation with a spectrum of interested parties and elicit their views on the need for mandatory certification. It was not designed as a scientific survey from which to draw

statistical conclusions. Rather, the information obtained from the questionnaire provided a starting point for further discussion and research.

Some questionnaire recipients and other parties were contacted for more in-depth, information-gathering interviews, and research was done on approaches to home inspector certification in other provinces and countries.

A large quantity of information, reports and studies was collected and reviewed, including information on national-level initiatives in Canada to promote uniform standards, insurance issues, the range of home inspection industry associations and the services they provide, and the experience of homebuyers who hire inspectors to conduct pre-purchase inspections.

Description of the Home Inspection Industry Today

Home and property inspection has emerged, over the past twenty years, as one of the fastest growing sectors in the housing market. The home inspection industry includes sole operators, firms and franchised businesses. The industry provides the following services:

- Pre-purchase inspection of existing homes
- Pre-delivery review of properties
- Pre-renovation consultation for properties
- Property management
- Provision of legal testimony/opinion
- Supervision of new construction
- Problem solving related to structure/conditions of homes and other small buildings
- Inspections in response to insurance claims
- Pre-sale inspections

The number of home inspection businesses and home inspectors operating in British Columbia is not known. However, it is recognized as a growing sector, with an estimated 50 – 55% of all homes sold now being inspected. Homebuyers are increasingly advised by realtors and lenders to have home inspections done. Although some lenders require home inspection reports, it remains largely a matter of consumer choice whether or not to use a home inspector. The fact that homebuyers increasingly choose to do so is due to factors such as the following:

- the increasing complexity of modern construction methods and standard home components
- heightened consumer awareness as a result of the leaky condo crisis, and their desire for information that will give them confidence in their homebuying decisions

- the growth of the home inspection industry, and its marketing efforts

This practice has burgeoned since the leaky condo crisis. In fact, it is now virtually the norm for purchasers of strata properties to include a satisfactory report by a home inspector among the 'subject tos' of their offers to purchase.

Home and property inspection is a consumer service, and differs in this regard from building code inspections with their focus on adherence to minimum standards for the protection health and life safety. Most consumers who hire a home and property inspector want information on matters well beyond the scope of the building code. They want to know what repairs and maintenance issues they may be facing, and what the costs would be. Many want opinions on the quality of kitchen and laundry appliances, painting, carpet and other fixtures.

Survey Results

To initiate consultation, a brief questionnaire was sent out to a wide sample of stakeholders to obtain their views on the home inspection industry and the degree to which consumers are protected. The questionnaire generated a high level of interest, with more than two-thirds responding, and a total of 59 completed questionnaires returned. The lowest response rate occurred among the ten construction associations and homebuilders' associations surveyed. However, the Canadian Home Builders' Association provided background information describing their views on this matter from a national and B.C. perspective. A full list of the groups and individuals contacted as part of this review is attached as Appendix A.

Major findings from the questionnaire are as follows:

- About half of those surveyed believe that it is difficult to find a qualified home inspector.
- Almost three-quarters do not believe that consumers are adequately protected.
- Nearly all believe that the industry requires mandatory standards and some form of oversight, but views varied widely on who should perform the oversight and what the governance model should be. About half believe that government needs to be involved in some capacity.
- Three quarters believe that mandatory standards and some form of oversight would have a positive effect on their own industry or interest group.

Aside from the matters noted above, where an opinion was shared by a clear majority overall (are consumers protected, and should there be mandatory standards), the questionnaire responses did not indicate unanimity of opinion within any one interest group (consumers, lenders, insurers, builders, or home inspectors).

The questionnaire did not distinguish between new home and re-sale home inspections. The comments received suggest that many respondents had re-sale inspections primarily in mind. A number of respondents noted that new-home purchasers were adequately protected by warranties and other requirements.

Overall, the questionnaire revealed very strong interest in the review of issues and options for certification of home inspectors. The response rate was high, despite the short time to respond. Most of those who responded would like to be included if any further consultations take place on this subject.

The questionnaire and details on the responses received are attached in Appendix B and Appendix C.

Home Inspection Industry Associations

The home inspection industry is highly fragmented, not only in British Columbia but across North America. The most commonly known associations in British Columbia are:

- the Canadian Association of Home and Property Inspector (CAHPI),
- the British Columbia Institute of Home and Property Inspectors (BCIPI),
- the Independent Canadian Home Inspectors of BC (ICHIBC),
- the National Institute of Building Inspectors (NIBI), and
- the National Association of Certified Home Inspectors (NACHI).

There are additional industry associations throughout Canada and the U.S. such as the American Society of Home Inspectors (ASHI) and the National Association of Home Inspectors (NAHI). Membership in industry associations entitles the inspector to display of the association logo. Many home inspectors are members of two or more industry associations, and many have other professional credentials and maintain memberships in professional organizations such as the Association of Professional Engineers and Geoscientists of BC (APEGBC), or the Applied Science Technologists and Technicians of BC (ASTTBC).

Brief descriptions of the predominant associations in BC are provided below.

CAHPI (BC)

CAHPI (BC) is the BC chapter of the Canadian Association of Home and Property Inspectors. CAHPI (BC) has just over 200 members. CAHPI (BC) members subscribe to a Code of Ethics and Standards of Practice, and are required to either carry errors and omissions insurance or become a member of the CAHPI (BC) Legal Benefits Plan. This plan is a combined third party and self-insurance program, established in July 2004 to address the high cost and

difficulty of obtaining third party errors and omissions insurance. Members must also carry general comprehensive liability insurance.

CAHPI (BC) provides a series of seven supervised examinations and an optional high quality home study program leading to the designation “Registered Home Inspector”. Members must achieve a 75% grade on the CAHPI exams within 12 months in order to obtain Associate Member status.

After becoming Associate Members, members can obtain Registered Home Inspector status by submitting a list of 250 fee-paid inspections that they have performed. The CAHPI (BC) Registrar will randomly select five inspections for verification.

CAHPI (BC) provides a process for consumers to register complaints, and can take disciplinary action to require the inspector to complete additional education, or, if warranted, to suspend the inspector’s registration.

BCIPI

The British Columbia Institute of Property Inspectors (BCIPI) is an institute within the Applied Science Technologists and Technicians of British Columbia (ASTTBC). BCIPI has approximately 80 members, each of whom are registered members of the Applied Science Technologists and Technicians of BC (ASTTBC). ASTTBC is a self-governing professional association with over 9,000 members. ASTTBC’s mandate under the *Applied Science Technologists and Technicians Act* is the certification of technology professionals in a manner that serves the public interest.

BCIPI members subscribe to a Code of Ethics and standards of practice, and are required to purchase errors and omissions insurance which is underwritten by ENCON and procured for them by ASTTBC. ASTTBC awards BCIPI members, based on achieved educational and experiential criteria, the designations Certified House Inspector (CHI) for the inspection of residential buildings and Certified Property Inspector (CPI), for the inspection of both commercial and residential buildings. ASTTBC has exclusive use of the terms CHI and CPI. Inspectors who are working toward certification are known as Associate Inspectors.

To obtain certification, members must satisfactorily complete a British Columbia Institute of Technology training program, or equivalent, as well as an ASTTBC Ethics Exam and Professionalism in Practice Self-Study Module. Members must complete continuing education requirements to maintain their certification.

Consumers can direct complaints about a home inspector’s performance to ASTTBC’s Practice Review Board. If an inspector is found to have missed something he or she should have caught, ASTTBC can take disciplinary action to require the inspector to complete additional education, or, if warranted, to suspend the inspector’s certification.

ICHIBC

The Independent Canadian Home Inspectors of BC (ICHIBC) is a small organization of a half dozen BCIP members who have pledged to work independently of real estate agents to avoid the potential for conflicts of interest.

NIBI

NIBI is based in New Jersey, and trains and certifies home inspectors throughout the US and Canada. NIBI training programs were originally developed for the HouseMaster franchise system. Now, NIBI offers training for both HouseMaster franchisees and non-franchisees, both in-class and through on-line courses. The NIBI website provides course outlines, and lists for each course the various U.S. state licensing programs and home inspection associations that award continuing education credits for completion of NIBI courses. ASHI and NAHI recognize NIBI courses; NACHI does not.

NACHI

NACHI (the National Association of Certified Home Inspectors) is a USA-based association that is expanding throughout North America. There are four Canadian chapters at present, in BC, Alberta and Ontario. NACHI appears to be the only association to provide free on-line examinations and training. Publicly accessible areas on the NACHI website provide detailed advice on marketing and brochure development, along with downloadable NACHI logos and banners “for member use”. On the subject of brochures, the website advises that “[t]he word *Certified* creates the most positive response from the general public which is why you should write out the words *Member of the National Association of Certified Home Inspectors*, not just use the acronym *NACHI*.”

Franchises

There are numerous home inspection franchises, including HouseMaster, Homescan, Global Property Inspections, Home-Alyze (whose founder and President Peter Salmon was a co-founder of CAHPI in 1992), Pillar to Post, Ameri-Spec, and National Property Inspectors, among others. Each offers some form of training to their franchisees, and franchisees often join other associations to access additional training resources and other benefits.

For example, Pillar to Post has training headquarters in Toronto where all Pillar to Post inspectors must undergo an initial two-week training program. The Pillar to Post website states that the franchise “supports” NAHI, NIBI, and CAHPI and

encourages their inspectors to become members of whichever association “offers them the most benefit”.

Current Regulation

There is no mandatory regulation of home inspectors in British Columbia at this time.

BCIPI members are governed by provincial statute as members of ASTTBC. ASTTBC is a self-governing regulatory body under the terms of the *Applied Science Technologists and Technicians Act*. The *Act* provides for restrictive and exclusive use of professional titles (i.e., “right to title” legislation), including the titles Certified Home Inspector and Certified Property Inspector, and requires the association to “regulate the standards of training and practice of and for its members and to protect the interests of the public” (s. 3 (b), “Objects of the Association”). The *Act* requires ASTTBC to maintain professional accountability and take appropriate disciplinary decisions and action through a Practice Review Board.

It is not known how widely the practice standards of each of the numerous home industry associations differ. Very likely, most present appropriate and high quality standards. What is missing, in all cases with the possible exception of BCIPI with its right to title legislation for its members through the ASTTBC legislation, are formal accountability mechanisms that are governed by some degree of external oversight. And, if one industry association disciplines an inspector there is nothing to prevent the inspector from continuing to practice either independently or as a member of another association.

Errors and Omissions Insurance

It has become very difficult, in recent years, for home inspectors to obtain errors and omissions insurance. Increased claims payouts and lower investment returns led the insurance industry to drop areas that were costly to underwrite, and, for most underwriters, this included errors and omissions insurance for home inspectors.

From the insurer’s perspective inspectors may have some qualifications, related to specific aspects of home construction, but may not have all the qualifications needed to do a well-rounded inspection. In addition, many in the insurance industry are concerned that many homebuyers have unrealistic expectations of what a standard home inspection is able to uncover, leading them to blame the inspector if hidden problems become apparent.

The decisions to stop underwriting errors and omissions for home inspectors were nationwide, and were based on a history of claims across Canada.

Companies may, however, decide to underwrite in some provinces and not others. They may also decide to underwrite for a particular group.

There is an advantage to being part of a group with established educational and performance standards, sound governance, and the ability to discipline members for non-compliance. ASTTBC, using the leverage of its 9000-strong membership and its public interest governance structure, is able to procure errors and omissions insurance for its 80 ASTTBC certified BCIPI members. CAHPI has apparently been less successful. CAHPI (BC) is developing an alternative to formal errors and omissions insurance, in the CAHPI (BC) Legal Benefits Plan.

For non-BCIPI home inspectors, annual errors and omissions insurance premiums can range from \$2000 to \$3000, with a deductible of \$5000.

Other Jurisdictions

National - CMHC

No Canadian provinces currently regulate home and property inspectors. However, Canada Mortgage and Housing Corporation (CMHC) has attempted in recent years to facilitate the development of a national occupational standard and national standards of practice.

In April 2000, CMHC formed and convened the Canadian Home Inspection and Building Officials (CHIBO) Steering Committee for National Occupational Standards. CHIBO's mandate was to develop uniform national occupational standards for those employed as home inspectors and municipal building officials.

CHIBO is comprised of CAHPI (representing the home inspection sector provide inspection services primarily to existing residential buildings) and the Alliance of Canadian Building Officials Association (ACBOA), representing building officials who monitor new construction and minimum levels of health, fire and life safety under building codes and local bylaws.

Faced with a large number of individual home inspection industry associations, CMHC involved one association in each province to function as the industry spokesperson for that province. Because CAHPI had provincial chapters across Canada, the provincial chapters were accepted as a proxy for the industry overall. In the event, —perhaps inevitably, given the large number of well-established organizations—many in the BC home inspection industry have felt disenfranchised from the national initiative.

CMHC published CHIBO's Occupational Standards for Professional Home and Property Inspectors in May 2001, and has since developed draft national certification standards, to be administered by CAHPI. Some in the home inspection industry expect the certification standards will be implemented some time this year.

Ontario

The Ontario Association of Home Inspectors (OAHI) was accorded “right to title” legislation by the Province of Ontario in 1994. *An Act respecting the Ontario Association of Home Inspectors* (Bill Pr158) allows OAHI “to become incorporated for the purpose of carrying out its objects, to enable it to govern and discipline its members and to grant to its members the right to the exclusive use of the designations ‘Registered Home Inspector’ and ‘R.H.I.’”.

Bill PR158 is a private bill. Unlike public bills, which deal with matters of public policy, private bills are applied for by a person or organization outside the Legislative Assembly, and deal with issues that affect only that person or group. Typically, a private bill will accord to the applicant special powers or exemptions from the general law.

A number of other industry associations in Ontario have merged into OAHI in recent years, including CAHPI’s former Ontario chapter. Not all Ontario home inspectors belong to OAHI (according to one OAHI official “there are more outside than inside”), and not all industry associations have merged in.

United States

Many US states regulate the home inspection industry. Some (such as Connecticut) have state-administered laws that both certify and licence inspectors. Others (Maryland, Montana and Georgia, among others) regulate through trade practices legislation. These states require home inspectors to do such things as disclose their qualifications, and provide specific types of information in their written reports. They also prohibit inspectors from certain activities.

For example, in Montana an inspector may not disclose information on the results of an inspection without the client’s written approval, may not accept compensation from more than one party with a financial interest in the property, and cannot fail to disclose information to a client about any business interests that might affect the client. Montana also prohibits an inspector from not issuing a written report unless the client agrees in writing to release the inspector from that obligation.

Some states, such as Illinois, regulate through an arm’s length agency with mandated responsibility for licensing, standards setting and oversight. Other states (Massachusetts is one example) have mandated some form of self-governance through a specially created board or institution.

United Kingdom

The United Kingdom is introducing a new requirement that takes regulation a step further by requiring home inspections. Beginning January 2007, home inspections by nationally licensed inspectors must be undertaken by the vendor and the results made available to prospective purchasers in a 'home information packet'.

This requirement, along with its companion legislation for mandatory licensing, has not been designed as a consumer protection measure. Rather, its stated intent is to improve the efficiency of the housing market. At present, 30% of real estate transactions in the UK fail when prospective purchasers rescind their offers to buy. This initiative is intended to reduce this rate of failure by ensuring that prospective purchasers have full information on a property before their offer is placed.

Critical Issues

For Consumers...

A 2004 consumer survey carried out by a market research firm on behalf of the HPO indicates that 89% of prospective new homebuyers in BC rate private home inspections as "very" or "somewhat" important in the buying process. Having a private inspection topped the list of steps these prospective homebuyers will take to minimize the risk of buying a home with faulty construction.

Among recent purchasers of new homes with warranty insurance, 25% said that they had their home inspected by a private inspector. For this group of new homeowners, the large majority (96%) felt it was "very important" or "somewhat important" to have a private inspection done in order to feel confident about their purchase.

The number and nature of consumer complaints against home inspectors in BC are not known. From speaking with Better Business Bureaus and individuals involved in consumer complaint processes, it appears that many consumer complaints arise when consumers expect more than may be reasonable from a 3 or 4 hour, non-invasive observation of a property. Only a minority of complaints arise from either serious negligence or the failure of the home inspector to observe something that should not have been missed. While cases of serious negligence may be relatively rare, when they do occur the financial implications for the homebuyer can be enormous.

Consumers can protect themselves somewhat by hiring Inspectors who carry errors and omissions insurance. However, it has become increasingly difficult and very costly for inspectors to obtain this insurance. And, in an unregulated industry, consumers may not know who is insured and who is not.

A homebuyer who hires an inspector who belongs to an industry association will have some recourse through the association, and the association may take disciplinary action against the inspector. However, not all inspectors belong to associations. When they do not, or when the association does not resolve the complaint, the homebuyer's only recourse is through the courts.

The task of hiring a home inspector generally occurs at the point of placing an offer on a property. Homebuyers generally select a home inspector in a hurry, smack in the midst of negotiating for a particular home. Unless they have turned their minds to the choice of home inspector beforehand, they will often select an inspector from among a list presented by their realtor, and sometimes based on a direct recommendation by a friend, family member or realtor. Consumers may not be aware of the potential conflict of interest when realtors refer home inspectors to them. Some realtors may favour inspectors who they know are less likely to identify problems that could hinder a sale.

Most homebuyers are ill equipped to judge who is competent or not on the basis of referrals, yellow page listings, or which association they may or may not belong to. The average homebuyer has never heard of BCIPI, CAHPI or any other association, and has no ready means of distinguishing between associations that serve the industry's professional interests rather than its competitive interests within the marketplace. By displaying the logos of one or more of the many existing industry associations, and using terms such as "registered", "certified" and "accredited", an inspector can present an appearance of professionalism and accountability that may or may not be justified by his or her education, experience, or affiliations.

It is fair to say that the average homebuyer has very limited knowledge of the complexities of a modern home, and may have, in consequence, unrealistic expectations of what a home inspection can discover. The home inspection industry is generally aware of the need for consumers to gain a better understanding of the limitations of a home inspection. One well-known property inspection firm in Ontario—Carson, Dunlop & Associates—provides the following information to consumers:

"Some problems can only be discovered by living in a house. They cannot be discovered during a few hours of a home inspection. For example, some shower stalls leak when people use the shower but don't leak when you simply turn on the tap. Some roofs and basements only leak when specific weather conditions exist. Some problems will only be discovered when carpets are lifted, furniture is moved or finishes are removed. As such, we cannot and do not offer a guarantee on the house. We can warrant our inspectors judgments and opinions."

In other respects, as well, there is a significant mismatch between consumer expectations and the home inspection industry's own view of its role. Some purchasers of strata property believe that home inspections should include a review of the registered strata plan, and information on property boundaries and

common property elements. However, some industry practice standards (CAHPI BC, BCIPi, and OAHl in Ontario, for example) identify these items as areas that a home inspector is not required to inspect.

For many consumers, and some consumer advocacy groups, there are questions that need to be explored. What should home inspections include? Do most consumers want more than existing industry practice standards provide for? What are reasonable expectations for a non-invasive inspection procedure? Are consumers willing to pay more to get more from an inspection, or to be assured that their inspector is qualified? Members of the real estate industry suggest that \$500 to \$800 is more than many homebuyers can afford, particularly since they may have to pay for more than one inspection in the course of choosing a home.

In summary, the main issues from a consumer perspective include:

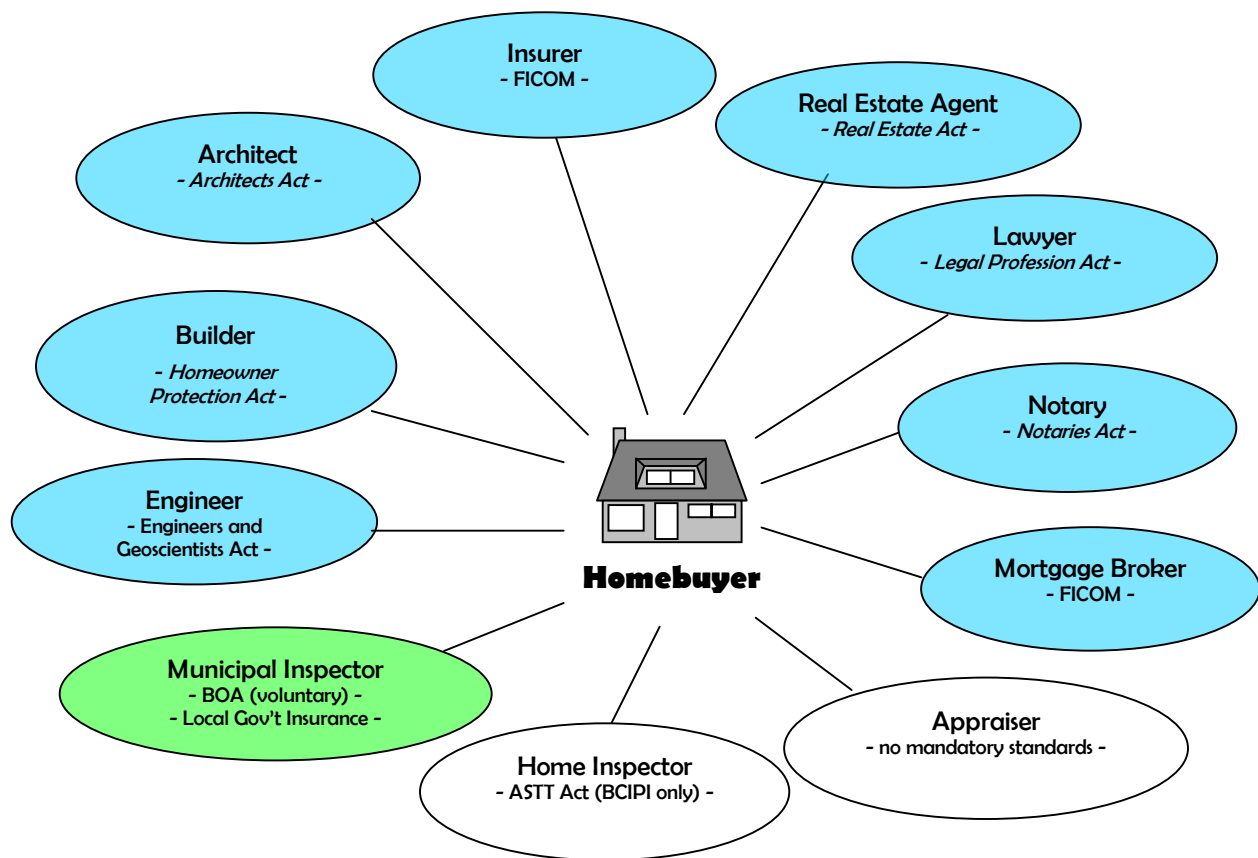
- Most homebuyers rely upon home inspections to help them in their home buying decisions.
- A homebuyer has little way of judging whether an inspector is qualified, or whether the standards they say they meet are appropriate ones. When realtors refer home inspectors, there is a risk they will favour inspectors who are less likely to discover problems that might hinder the sale.
- It is difficult for consumers to know whether an inspector carries adequate insurance
- When things go wrong, the costs to the consumer can be enormous, yet there is little recourse other than the court system.
- Some consumers lack confidence in the quality of new home construction, and, acknowledging their own limitations in terms of recognizing defects, believe they need a third party examination of the home before they sign off on the purchase.
- Some consumers expect their inspection to cover items that current industry practice standards specifically exclude.
- Consumers may expect a home inspection to reveal hidden problems that may not be in evidence during a three- or four-hour non-invasive inspection.

For Industry...

The homebuilding and real estate industries see a 'wide open' home inspection industry as an anomaly. Some form of mandatory professional standards or criteria governs many of the major players that the homebuyer deals with during the purchase of a home. Engineers, architects, lawyers and notaries are governed by "right to practice" legislation that establishes qualifications and standards, and limits authority to perform specified functions to individuals who

have met those standards. Real estate agents are licensed under the self-governing provisions of the *Real Estate Act*. Insurers and mortgage brokers are regulated by the BC Financial Institutions Commission. Residential builders are licensed under the terms of the *Homeowner Protection Act* and must offer warranty coverage for the homes they build. Municipal inspectors are not regulated, but do have voluntary self-regulation under the “right to title” *Building Officials Association Act* (similar to the provisions of the ASTT Act). Errors and omissions by municipal inspectors would be covered by liability insurance that may be carried by their local government employers. Property appraisers and home inspectors are not subject to any form of mandatory licensing or certification.

Those players who carry errors or omissions or professional liability insurance can be left with the lion’s share of the financial costs for successful ‘joint and several’ liability actions. Based on this brief scan it appears that, excepting home inspectors and appraisers, most of the occupations that a homebuyer will deal with during the construction and purchase of a home are either held to some mandated professional standard and/or are likely to be backed by some form of liability insurance.



The research indicates that large urban centers are well served by a large number of well-qualified home inspectors. Although this competition tends to put poorly qualified inspectors out of business, there is nothing to prevent any individual from entering the field. This ease of entry has led to concerns, on the part of the industry, consumers, realtors, lenders and homebuilders, about the significant financial risk that arises when an under-qualified inspector becomes involved in a real estate transaction.

Homebuilders are primarily concerned with home inspections on new construction, believing that third party inspections can adversely affect the transaction between the builder and the customer. The lack of mandatory standards and accountability creates a risk for them as homebuilders, but none for the home inspector, if a poorly done Pre-Delivery Inspection (PDI) leads a homebuyer to back out of a purchase, delay construction closing or seek a reduced price. For homebuilders, PDI may be viewed as interference in the purchase of a new home by a home inspector who may or may not be accountable for their actions or who may or may not be qualified to carry out the inspection. In British Columbia, with its system of builder licensing and mandatory warranty insurance coverage for new homes, the involvement of a home inspector can duplicate or complicate the functioning of these consumer protection mechanisms for new homebuyers.

The real estate industry and the home inspection industry are both concerned by the potential conflict of interest when a realtor recommends a particular home inspector. While most realtors will keep the best interests of the homebuyer in mind, there is a risk that some will avoid recommending 'deal breakers', and favour inspectors they can rely upon to not raise too many flags for the homebuyer. Individual home inspectors and their associations are concerned that without mandatory standards and accountability reputable inspectors may be tagged as 'deal breakers' simply for having done their jobs well.

In summary, the main issues from an industry perspective are:

- There is nothing to prevent unqualified individuals from operating as home inspectors.
- At present, home inspectors cannot be held to account for errors, negligence or unethical practices.
- Good home inspectors suffer as a result of unprofessional conduct by under-qualified or unethical inspectors.
- Without mandatory standards, there is a potential conflict of interest when realtors refer home inspectors to their clients.

- The involvement of home inspectors with new homes is a duplication of British Columbia's main consumer protection measures (builder licensing and mandatory home warranty insurance).
- Fragmentation of the home inspection industry makes professional development of the overall industry more difficult.
- Other components of the housing industry feel that the home inspection component does not carry its full share of responsibilities, given its role in real estate transactions. In particular, the homebuilders are concerned that third party inspections can adversely affect the transaction between the builder and the homebuyer.

Options to Consider

Four broad options for addressing these critical issues are:

1. Status quo
2. Industry development solutions
3. Self-governance
4. Certification by government or government agency

Each of these options is discussed below.

1. Status Quo

With this option, the onus would continue on the home inspection industry to develop appropriate professional standards.

However, left to its own devices, despite the efforts of some industry members, it is highly unlikely that the home inspection industry will achieve uniform professional and practice standards and voluntary compliance. While some rationalization may occur, and some existing associations will grow, new associations will continue to emerge with their own particular standards; new franchises will continue to develop, with proprietary interests in their training and support programs; and, highly successful individual inspection firms will have little incentive to change from their current practices.

Continued fragmentation of the industry makes it more difficult for consumers to make informed decisions. The existence of a number of smaller organizations, particularly those with a market development rather than an industry development focus, makes it more difficult for these businesses to obtain errors and omissions insurance. The home inspection industry will likely continue to lobby government for mandatory certification.

If a 'status quo' option is considered, concerns with consumer expectations and consumer protection could continue to be required through educational initiatives such as those currently employed by HPO, CMHC, realtor associations and others.

2. Industry development solutions

As an alternative to the status quo, government or a government agency could lead a process for the home inspection industry to develop uniform practice and conduct standards, training standards, and ethical codes. This would require a long-term facilitated process, and could be taken as the first step toward one of the following options. Other stakeholders would need to be involved.

This approach could achieve many of the benefits of regulation, and could make it easier for consumers to choose a qualified and dependable home inspector.

It would, however, require a significant commitment from the government agency that leads it, because of the numerous organizations and associations, some of long-standing, some with distinctly different mandates, with a vested interest in their own way of doing things.

As long as compliance remains voluntary, this option may not address the difficulty of access to errors and omissions insurance. In addition, it would require the consolidation of all existing organizations to provide the resources for proper oversight and make training accessible in all parts of the province. Judging from past and recent experience, this will be extremely difficult to do.

The home inspection industry would likely continue to lobby government for mandatory certification.

3. Self-governance

Under a self-governance option, a non-governmental body would be mandated to govern mandatory certification for the industry. This body could be a new or existing home inspection industry association, or a new or existing institute.

As with the preceding option, this would require a commitment by government to lead consultations with the many interested parties and facilitate agreement among them. Although there would be many issues to resolve, the very strong support by all stakeholders for mandatory certification suggests that this would be achievable.

With a uniform standard for practice (certification) as well as uniform conduct standards, and with mandated professional accountability, this option would help to resolve the present difficulties in obtaining errors and omissions insurance. Bringing the industry into one group will make it easier to achieve the 'critical mass' needed to support proper governance and accessible training.

Mandatory certification with professional accountability would protect consumers at the front end, and give them recourse through the governing body for problems they might experience. However, this may increase prices for consumers, and could lead to shortages of inspectors if competition was stifled. Care would be needed to ensure that the self-governance scheme serves the public interest and could not be undermined by private (industry) interests, that it would function in a transparent manner, and be fully accountable. These are particularly important issues, given the inherent difficulty of government 'undoing' an established self-governance scheme in order to either deregulate or replace it with government regulation. Time would be required to develop appropriate legislation.

4. Certification by government or government agency

Under this option, government or a government agency would establish standards, certify home inspectors, and provide oversight to ensure accountability.

A government-administered certification scheme would best protect the public interest as the system could be less readily 'captured' by industry interests. As with self-governance, care would be required to ensure the government-administered scheme did not lead to greatly increased prices or shortages of inspectors. This option would require an ongoing commitment by government to administer the certification program and provide oversight.

A uniform standard for practice (certification) and uniform conduct standards, backed by government oversight and government-administered accountability mechanisms would give consumers confidence that they were hiring qualified individuals, and provide them with recourse when problems arose. A government-administered certification program would also help to resolve the industry's present difficulties in obtaining errors and omissions insurance. It would allow government to address any conflicts between the operation of home inspectors and British Columbia's existing consumer protection measures for new homebuyers.

Certification by government would provide the quickest resolution to the issues facing consumers and the home inspection industry today. However, it would still be a major undertaking, requiring extensive consultation and facilitation of agreement among the many interested groups. It would also require time to develop appropriate legislation, particularly with the dearth of other Canadian models.

Conclusion

In response to the Minister's request and the concerns of the home inspection industry, a thorough review was conducted by the HPO of issues pertaining to certification of home inspectors. A great deal of information was obtained from the full spectrum of interested parties: consumers, the home inspection industry, the home construction industry, realtors, and insurers. All sectors expressed a very high degree of interest in this review, and nearly everyone contacted would like to hear the outcomes and be involved at the next stages.

The review identified a number of important issues. For consumers, the most critical issues are as follows:

- A homebuyer has little way of judging whether an inspector is qualified, or whether the standards they say they meet are appropriate ones.
- It is difficult for consumers to know whether an inspector carries adequate insurance
- When things go wrong, the costs to the consumer can be enormous, yet there is little recourse other than the court system.

The home inspection industry and other major players in the housing industry have the following key concerns:

- There is nothing to prevent unqualified individuals from operating as home inspectors.
- Good home inspectors suffer as a result of unprofessional conduct by under-qualified or unethical inspectors.
- Other components of the housing industry feel that the home inspection component does not carry its full share of responsibilities, given its role in real estate transactions.
- Homebuilders, in particular, feel that the involvement of home inspectors with new homes is a duplication of British Columbia's main consumer protection measures (builder licensing and mandatory home warranty insurance).

Four options were identified for consideration. At this stage, however, given the breadth of issues that emerged, it is difficult to identify one approach that would satisfy the concerns of all parties. At a minimum, the question of mandatory certification of home inspectors would benefit from additional focused consultation with the full range of interested parties to clarify their concerns and identify appropriate means to resolve them.

APPENDIX A

ORGANIZATIONS CONTACTED

The following organizations were contacted during this review by questionnaire or by telephone. Not all that received the questionnaire responded to it.

- Canadian Association of Home and Property Inspectors (CAHPI)
- BC Institute of Property Inspectors
- Independent Canadian Home Inspectors of BC
- National Association of Certified Home Inspectors
- Building Officials Association of BC
- Homepro Victoria Inspections
- Homeguard Inspections (Victoria)
- HouseMaster (NIBI and CAHPI)
- Eagleye Home Inspections Ltd (Member of CAHPI)
- Fairfield Building Inspections
- HomeCheck System (Victoria)
- Association of Professional Engineers and Geoscientists of BC
- Architectural Institute of BC
- Applied Science Technologists and Technicians of BC
- Urban Development Institute
- Independent Contractors and Business Association of BC
- BC Construction Association
- Canadian Home Builders Association of BC
- Canadian Home Builders Association (Ottawa)
- Canadian Home Builders Association (Kelowna)
- Greater Vancouver Home Builders Association
- Construction Association of Victoria
- Northern BC Construction Association
- Vancouver Regional Construction Association
- Canada Mortgage and Housing Corporation (Vancouver)
- Canada Mortgage and Housing Corporation (Ottawa)
- Union of BC Municipalities
- District of Saanich
- City of Nanaimo
- City of Kelowna
- City of Surrey
- Town of Comox
- Terrace and District Chamber of Commerce
- Pemberton District Chamber of Commerce
- Victoria Chamber of Commerce
- Surrey Chamber of Commerce
- Insurance Council of BC
- Financial Institutions Commission
- Credit Union Central of BC
- Canadian Bankers Association
- Real Estate Council of BC
- BC Real Estate Association
- Better Business Bureau of Mainland BC

- Better Business Bureau of Vancouver Island
- Willis Canada Inc
- Warranty insurance provider
- Lombard Canada Ltd, Western Region
- Royal and SunAlliance
- Commonwealth Insurance Company
- St. Paul Guarantee Insurance Co
- National Home Warranty
- ENCON
- XL Insurance
- Consumers' Association of Canada (BC)
- Condominium Homeowners Association of BC
- Pacific Condominium Association of BC
- Vancouver Island Strata Association
- Strata-Sphere Condo Services (Nanaimo)
- CASH
- Municipal Insurance Association
- Morris and Mackenzie Insurance Brokers (Vancouver)
- Ontario Ministry of Municipal Affairs

APPENDIX B
QUESTIONNAIRE ON CERTIFICATION OF HOME INSPECTORS

At present, the professional qualifications of home inspectors are not regulated by any level of government. Some home inspection industry associations, consumers, financial institutions and insurance companies have expressed the need for reliable qualifications and standards.

The Homeowner Protection Office (HPO) has been asked to lead a review of these issues with the full spectrum of interested parties including: consumers, and the residential construction, home inspection, real estate sales, insurance and lending industries.

The attached brief questionnaire is one of the first steps in this review. The information you provide will help the HPO and the provincial government to fully understand the range of issues and views on this matter, and develop appropriate options for consideration.

The timeframe for gathering questionnaire feedback is brief. However, this initial review is important, as it will help to identify options that the Minister Responsible for Housing may wish to pursue.

The comments you provide at this initial stage are both valued and appreciated.

Please respond by July 29th to the attention of Marnie Reinstein at:

M&R@m-reinstein.com

or

By fax: 250-474-8844

or

By mail: M. Reinstein & Associates
#6 – 4560 West Saanich Road
Victoria, British Columbia
V8Z 3G4

QUESTIONNAIRE

Respondent Information

Your Name and Title: _____

Organization: _____

Telephone: _____ Fax: _____

Mailing Address:

E-mail: _____

Stakeholder group (please check all that apply):

- Home inspector (member of an association) _____
- Home inspector (not member of association) _____
- Consumer _____
- Real state sales _____
- Residential construction _____
- Local government _____
- Lending institution _____
- Insurance _____
- Other (specify) _____

1. Please describe the nature of your experience or your familiarity with the home inspection industry in British Columbia.

2. What protection or assistance do home buyers currently have in choosing a qualified home inspector?

3. Is it becoming more difficult, or less difficult, for a home purchaser to find a qualified home inspector?

4. Do you feel that homebuyers are adequately protected under the existing system of no regulated standards for the home inspection industry?

5. Do you believe that the home inspection industry should be regulated in BC?

Yes _____ No _____

6. If no, why?

7. If yes, who do you think should administer the regulations?

Government or a government agency? _____

A specially-created independent institute or association, with a government-appointed board of directors? _____

A home inspection industry association? _____

Other (please specify) _____

I need more information before forming an opinion. _____

8. If you believe the industry should be regulated, what should the regulations cover (check all that apply):

Training _____
Certification _____
Conduct standards _____
Complaints and discipline procedures _____
Dispute resolution _____
Insurance _____
Licensing _____
Other (specify) _____

9. If the home inspection industry were regulated in the future, how would this positively/negatively affect your industry?

10. Would you like to be informed of the results of this review? _____

11. Would you like to be involved if a consultation period is planned as a result of this review? _____

Thank you for taking the time to complete this questionnaire.

APPENDIX C

SURVEY RESULTS

A brief, informal questionnaire (attached in Appendix B) was distributed to 57 interested parties from the following stakeholder groups:

- 4 home and property inspection industry associations
- 6 home and property inspection businesses
- 4 associations of professionals involved in design, construction or building code inspection
- 10 construction associations
- 5 local governments
- 4 Chambers of Commerce
- 2 lenders organizations
- 2 real estate organizations
- 2 BC Better Business Bureaus
- 2 home warranty brokers
- 4 home warranty providers
- 2 errors and omissions insurance providers
- 6 consumer or homebuyer organizations
- the Municipal Insurance Association, CMHC, UBCM , FICOM and the Insurance Council of BC.

Four questionnaire recipients declined to participate, and two did not submit a completed questionnaire but did contact the consultant directly with information. Of the remaining 51, 36 (or 71%) responded with completed questionnaires. Two survey recipients distributed the questionnaire to their members so that a total of 59 completed questionnaires were returned.

The lowest response rate occurred among the ten construction associations and homebuilders associations surveyed, with three out of ten surveys returned.

The questionnaire asked if it is becoming more, or less, difficult to find a qualified home inspector, and provided space for comment. Overall, the views on this matter can be summarized as follows:

- More difficult: 12
- Less difficult: 7
- Don't know: 12
- Not difficult: 2
- Difficult to know who is qualified: 6

Those surveyed were asked if they felt that consumers were adequately protected under the current system of no regulated standards. A large majority, 37 (73%) felt that consumers were not adequately protected. Only five respondents felt that consumers were adequately protected, another 2 felt that only new homebuyers were adequately protected, and two felt that consumers were partly protected. Three respondents either did not know or had no opinion.

When asked if they believe that the industry in BC should be regulated, nearly all respondents (46 out of the 51, or 90%) believed that it should be. Four do not believe it should be regulated, and 2 are not sure.

The questionnaire asked recipients who should administer the regulations. Three different governance models were listed, as well as an “Other” category, and an opportunity to indicate if they needed more information before forming an opinion. The responses to this question were far from conclusive:

- Many respondents supported more than one model.
- 6 believe that government alone should administer the regulations.
- 2 believe that government together with a specially created institution with a government appointed board of directors should administer the regulations.
- 4 believe that an industry association should administer the regulations, while another 4 believe that a specially created institution and/or industry association should administer the regulations.
- 8 believe that the regulations should be administered solely by a specially created institute with a government-appointed board.
- 5 support a combination of specially created institute and an industry association.
- 1 supports a combination of government and industry association.
- 11 need more information before forming an opinion.

Those who indicated ‘other’ as the administrative body mentioned AIBC (1 respondent), ASTTBC (2 respondents), “an existing professional association” (1), a Better Business Bureau (1), “self-regulation with oversight” (1), HPO (2), and “any qualified agency” (1).

The questionnaire presented a list of items for possible inclusion in any regulations, and asked recipients to check off any that they believe should be included. The results were as follows:

- Training: 30
- Certification: 31
- Conduct Standards: 30
- Complaints and discipline procedures: 26
- Dispute resolution: 21

- Insurance: 26
- Licensing: 26

Finally, the questionnaire asked whether regulation of the home inspection industry would have a positive or negative impact on the respondent's industry. They responded as follows:

- Positive effect: 35
- Negative effect: 1
- Little or no effect: 9
- Unknown, or depends on the details of the regulations: 4

Respondents provided a wealth of additional comments and information, even in response to "yes or no" questions.

Overall, the questionnaire revealed very strong interest in this initiative. The response rate was high, despite the short time they were given to respond. Virtually all of those contacted, including some of those who declined to participate, wish to be informed of the results of the review, and 36 of the 51 want to be included in any further consultations.