

Myths and Facts about Home Warranty Insurance

Myth : Home warranty insurance is for builders

Facts:

- ❑ Home warranty protects consumers who enter into contracts with builders. It is legally required insurance. If a builder dies, disappears or becomes insolvent before completing the home or fixing the defects, the homeowner will be covered up to legislated limits.
- ❑ Warranty insurance does not cover contractual disputes or defective work by a builder who is still in business. These are dealt with under consumer protection legislation and tribunals.
- ❑ Vero currently:
 - ✓ Protects over 700,000 homeowners throughout Australia.
 - ✓ Has over 30,000 Australian builders on its books.
 - ✓ Issues more than 100,000 warranty insurance certificates every year.
- ❑ Builders apply to the insurer for eligibility to have their work covered by a home warranty policy. The premium is then included in the total cost of building works which is paid by the homeowner.

Myth : Good builders can't get insurance

Facts:

- ❑ Some 99% of NSW builders who apply to Vero for warranty eligibility obtain it and get it for the turnover levels they request.
- ❑ Vero never turns a builder down without good reason. In most cases where a builder doesn't make the first cut, discussions continue into ways that the builder might be able to meet eligibility requirements.

Myth: Eligibility requirements are onerous and unfair

Facts:

- ❑ No-one wins when a builder goes broke so Vero's eligibility is designed to:
 - ✓ Minimise the possibility of builder collapses.
 - ✓ Ensure financially sound and technically competent builders can access warranty insurance.
 - ✓ Help ensure builders are better placed to ride out the next, inevitable, downturn.
- ❑ To be eligible for warranty insurance a builder must at least have real assets in a business equivalent to around 10% of their turnover and sufficient margin to allow them to keep that ratio as they grow.
- ❑ Builders are categorised on a risk scale of 1 to 5 (1 is the lowest, and 5 is the highest risk) by a financial analysis methodology used by the majority of Australian financial institutions to assess credit risk.
- ❑ This methodology works, as 80% of all insolvency claims are generated as a result of collapses of category 4 and 5 builders (who inevitably pay higher premiums).

Myth: Builders are leaving the industry in droves because they can't get insurance

Facts:

- ❑ There are more builders in Australia now than there were 3 years ago.
- ❑ In the year to June 2003, 169,000 new homes were started, nationally. Two years ago the number was just 115,000.
- ❑ Alterations and additions have risen by over 23% in the same period.
- ❑ Vero runs builder clinics, attends builder forums, and meets with industry groups to assist builders with the eligibility requirements – and works closely with the NSW Department of Fair Trading to promote these clinics to builders and homeowners.

Myth: Builders rarely go broke

Facts:

- ❑ Building is a cyclical industry. Underlying economic conditions have a significant impact on the likelihood of builder collapses. In 2000, the year GST was introduced, Vero received more than 1000 claims from homeowners as a result of builder insolvencies.
- ❑ Builders who became insolvent or died or disappeared were around:
 - ✓ 2000 – 300 builder insolvencies
 - ✓ 2001 – 350 builder insolvencies
 - ✓ 2002 – 290 builder insolvencies
 - ✓ 2003 – 190 builder insolvencies
 - ✓ 2004 – 160 builder insolvencies (to July 2004)

Myth: Home Warranty Insurance Schemes are worthless to consumers.

Facts:

- 1) A least 500 builders have gone insolvent since the July 2002 legislative reforms.
- 2) 3,900 homeowners have had their homes completed or defects rectified by Vero in that period.
- 3) When a builder is still trading and licensed they are required to complete their work or attend to defective work. Home Warranty Insurance schemes provide vital protection to homeowners whose builders are unable to complete or rectify as a result of their insolvency, death and disappearance.
- 4) The current schemes are well balanced in the provision of consumer protection and risk vs cost.

Myth: Vero caps the work I do

Fact:

- ❑ Builders are provided eligibility for warranty insurance up to the amount of turnover that the current assets in the business will support. Builders who are growing can request higher turnover eligibility and, provided they are earning sufficient margin on their new jobs, this is acceptable.
- ❑ Tying eligibility to turnover has been misrepresented as a 'cap' by those who want a return to a state run insurance scheme. In fact, less than 10% of builders, nationally, request an increase in their turnover eligibility.

Myth: Small builders and new builders are disadvantaged

Fact:

- Vero offers builders with a turnover less than \$2M eligibility up to \$2M, and a contract level of \$350,000 an easier assessment process and a rapid turnaround for applications. This caters for around 80% of all builders.
- Start-up/new builders can also apply for eligibility on a job by job basis without a requirement for capital until they build their business and are ready to move into a different classification.

Myth: Insurance companies aren't taking on any risk

Fact:

- A combination of tighter eligibility criteria and improved economic conditions has seen the number of homeowners making claims because of builder insolvency drop, but they are still significant. Vero received:
 - ✓ 1,000 insolvency claims during 2000
 - ✓ 1,100 insolvency claims in 2001
 - ✓ 600 insolvency claims in 2002
 - ✓ 540 insolvency claims in 2003
 - ✓ 380 insolvency claims up to July 2004