

Vero Underwriting Guidelines for Home Warranty Insurance

The assessment process

With Home Warranty Insurance, the underwriter is effectively guaranteeing the performance of the residential building contract up to required statutory levels (refer relevant state legislation).

One of the greatest claims risk faced is Insolvency, which is a measurable financial condition.

This is why Vero carefully assess the risk before accepting the builder for eligibility.

The financial assessment takes account of financial performance, level of growth sought, net tangible worth, building experience, individuals involved and any adverse information.

Key financial factors rated by Vero are:

- Gross profit margin
- Debtor collection days
- Creditor payment days
- Turnover growth
- Changes to work in progress
- Builder size and areas of construction activity
- Length of time in industry
- Adverse commercial and claims information
- Frequency of financial reporting
- Job costing system

The assessment comprises a rating of the builder on a scale of 1 (Strong financial position) to 5 (Technically Insolvent).

If the builder has minimal capital invested in their company, Vero may require an additional capital injection or some form of security document such as a Group Trading Agreement that would allow the inclusion of external related assets from Directors/Shareholders/other related entities.

Bank Guarantees are considered a last resort as they often tie up strategic working assets to the Bank as security to provide the comfort document to Vero. The very nature of the security document reduces available assets for liquidity purposes. (Refer to the 'Vero Warranty Supporting Securities' document on our website for further details).

How to achieve an Optimum Premium Category

As a guide to achieving an optimum premium category the following highlights the major items considered by Vero:

- Operating in the building industry for over 5 years
- Establishment of a minimum of 2 years trading with Vero or with their current insurer
- Net Tangible Worth (NTW) or capital invested in the trading entity, is adequate to support the turnover and growth of the business. The generally accepted minimum capital requirement is around 10% of the turnover requirements of the business (varies for builders turning over less than \$2m pa)
- Achieve gross profits in excess of 15% of turnover and net profit returns to principals of between 5%-8% of turnover
- Payments of creditors within 30 days and debtors payments are collected within 14 days
- No past claims or adverse credit history; and
- Showing tangible evidence of the technical skills required to complete the works being applied for, through references or identifying the past works completed.

NB: Quality information results in a quality decision

Once an assessment is approved, the builder receives a *Certificate of Eligibility*, which can be provided to Builder Licencing and Registration bodies. The *Certificate of Eligibility* sets out the builder's profile parameters such as:

- Total value of turnover approved (any increase requires a subsequent assessment)
- Maximum single contract amount for various types of work
- Approved type(s) of construction

Individual project applications

Following eligibility, each construction project requiring insurance must be declared individually and have a Project Application form submitted and premium paid through an intermediary. We then issue a copy of the *Certificate of Insurance* to; the builder, homeowner, intermediary and permit authority.

Ongoing assessment reviews

For details of how Vero will conduct its reviews, refer to the 'Vero Warranty Service and Certainty' document on our website.