

Home Warranty Insurance – Concrete Evidence

Sydney, 27 June 2008 – Vero Insurance Limited (Vero) is working hard behind the scenes to ensure that Beechwood homeowners who have home warranty insurance (HWI) eligibility and who have paid money for a deposit, have incomplete works on their property or are at practical completion, are being kept informed of the Receiver's progress and the status of their claim.

Vero has already paid and installed appliances into a number of homes that were at practical completion and the keys have been turned.

Ms Sue Repanellis, Vero Spokesperson said it was important that consumers and homeowners understood what their entitlements were under the home warranty schemes operating in their State without any added confusion.

“Many homeowners are now worried that they are not covered by home warranty insurance when in fact they are. It is important that Vero customers know what their insurance covers and doesn't, as well as the true consumer protection entitled to them,” she said.

The HWI scheme has undergone several improvements since being introduced in its current form in 1997. In 2004, as a result of the Grellman Inquiry, the NSW government put in place adequate and viable first resort options which ensured there was greater emphasis on providing adequate and appropriate first resort options for homeowners.

This, in conjunction with the last resort home warranty insurance scheme, has seen a reduction in complaints and a decrease in builder insolvencies in this State.

“The improvements were made so that homeowners have an enhanced ability to go back to their builders to rectify the faults and defects caused as a result of the builder's work – as ultimately it is the builder's responsibility to deliver a quality product to the homeowner for such an expensive investment,” Ms Repanellis said.

In New South Wales, home warranty insurance begins when a certificate of insurance is issued to the homeowner and provides cover to the homeowner for loss or damage due to a structural defect for up to six years after the home is completed, and loss or damage for non-structural defects for up to two years after the home is completed. The premium taken at the commencement of the project is for loss or damage that may arise at any time during this period. Claims can occur throughout the policy period and, typically, there is a spike in claims as the six year period is ending.

Ms Repanellis also said that a combination of tighter home warranty insurance eligibility criteria and improved economic conditions has seen a drop in the number of homeowners making claims because of builder insolvency, but they are still significant. Claims under Vero policies arising from builder insolvencies, deaths or disappearances were approx –

- 2000 – 165 builders with total claims of 2,150
- 2001 – 155 builders with total claims of 2,635
- 2002 – 110 builders with total claims of 1,880
- 2003 – 90 builders with total claims of 1,820
- 2004 – 95 builders with total claims of 1,885
- 2005 – 95 builders with total claims of 1,410
- 2006 – 100 builders with total claims of 1,260
- 2007 – 120 builders with total claims of 1,120
- 2008 – 70 builders with total claims of 400 to date (not including Beechwood)

“Vero has also contributed and provided relevant information to every government enquiry into the Scheme (current and previous) and has always recommended that it be constantly reviewed and improved,” she said.

The information below is a clarification of some common misconceptions:

Misconception	Facts provided by Vero
Claims to Premium Ratio	60-85% over recent years and significantly worse results for years prior to the July 2002 reforms [in NSW and Victoria].
Tasmanian Scheme did not make a payout in the last four years	For such a small market, Vero still averages two claims per month with larger claims averaging \$30,000 - \$40,000, down from two claims per week five years ago. From 1 July 2008 housing indemnity insurance in Tasmania will no longer be mandatory and we could see upwards of five Tasmanian homeowners each month (and maybe many more if the downturn in home building continues) with no backstop if their builder dies, disappears or becomes insolvent.
Average premiums for HWI	Average Vero premiums are currently at around. \$550 (which provides

have increased from \$400 in 2000 to \$2000 today	protection from when the HWI certificate is issued to six years after completion)
Vero has up to 80% of the national market for HWI	Vero has approx. 50-60% of the national market for HWI and approx. 45% - 50% of the NSW HWI market.
Insurance companies have dealt with just a handful of claims since 2000	Over 14,000 claims reported to Vero since Jan 2000 - currently averaging >1000 claims per year
Insurers deliberate drag out litigation to minimise payments and force inadequate settlements on claimants	Litigation is the least preferred option for all parties, however HWI claims are often complex and, at times, tribunals and courts are the only way to obtain clarity on responsibility. Vero pays more than 90% of claims made. Of the small number not paid, it is mainly because the builder has not disappeared, died or become insolvent. Less than 5% of claims handled in 2007 by Vero involved an action in tribunals or courts, which is quite an achievement given the complexities of most HWI claims.
Builders must give bank guarantees to the insurer	This is not Vero's preferred option, but sometimes it is the builder's preferred option so they don't have to inject extra capital into their business. <10% of Vero's builders have ever had eligibility secured. Currently only 5% of Vero's builders have eligibility secured.
Builders can't get eligibility	Over 97% of builders who apply for HWI with Vero, have got it. Vero's current acceptance rate is 96% - with rejected builders given written reasons why an application has been declined.
The builder becomes underwriter through the bank guarantee... equates to having car insurance and having to pay for any accident	The builder guarantees the quality of his work through ensuring that he has a sustainable business to be able to go back and fix defects that may occur from the time a HWI certificate is issued to six years after the home is complete..... equates to building a car and being responsible for making sure it runs. The insurance is there for the homeowner if the builder is no longer around to meet that obligation.
Qld charged \$374 premium for a \$48,000 contract, compared to \$1,651.60 for the equivalent work in states such as NSW	Premiums in NSW and other privatised HWI states vary based on a number of criteria. The only way to remove bias from such comparisons is to measure overall average premium which, for Vero in 2007, nationally, was \$550, while in Qld for the 2006/07 year the average premium was \$690.
Re the above – more than \$900 of that amount appeared to be paid as commission to a private broker	When a builder appoints a broker to handle their insurance requirements it is normal for a fee to be agreed with the broker. Vero has no involvement in those negotiations.
Scheme operates only in Victoria and NSW	The home warranty insurance product is available in similar formats in NSW, ACT, Victoria, Tasmania, South Australia and Western Australia although there are some differences in the scope of cover. The latter two States being 'last resort' from inception.
Two-thirds of claims lodged since 2002 have been rejected	Vero assumes this comment relates to the NSW HWI Scheme data. If so, it is a misrepresentation as that data shows 17.5% of claims are denied, mainly because a trigger event has not actually occurred (the builder has not disappeared, died or is insolvent. Vero's ratio for claims approval is currently at around 90%.
Increased number of people in CTTT and VCAT as a result of disputes with the insurer	The number of disputes in the CTTT and VCAT involving Vero has dropped from 230 in 2004 to 60 in 2007; the number of outstanding matters in the CTTT and VCAT representing less than 5% of claims Vero handled during 2007 - a surprisingly small proportion given these

	tribunals are the designated dispute resolution body for builders, homeowners and insurers. Insurers are also often joined to actions between the homeowner and builder without the insurer having processed a claim.
The insurance company is responsible for fixing building defects as a first resort	The builder is responsible for fixing building defects as a first resort as they are the ones providing the statutory warranties as to completion, quality and fitness.
Builders have no way of challenging any claims made by the insurer in the courts	Provided the builder is still around, they are always offered the opportunity to resolve the homeowner issues before the insurer is involved. If the builder is unable or unwilling to accept responsibility, and if the insurer makes any repairs or completes the home, the insurer subsequently seeks recovery of those costs from the builder.
Vero saw opportunity in the collapse of HIH	Vero was one of only two insurers who remained in the HWI market after the collapse of HIH. If Vero had withdrawn from the market it would have been as a result of the first resort nature of the insurance – which had been proven to be unsustainable. The Victorian and NSW governments understood the supply-side constraints on HWI post HIH and Vero accepted an ongoing role to stabilise the HWI market and allow time for other insurance companies to assess the viability of being involved in this class of cover. Among other actions during that period, Vero went out of its way to accommodate as many builders as possible.
HWI converted from a retail to a wholesale product, stripping out consumer protection requirements and oversight by APRA. That is why the exact figures on premiums taken compared with commissions and payouts made are not publicly available.	Vero, as part of a listed company, has continuously been subject to APRA and ASIC oversight, audit and review. In addition each State government has regular oversight and access to required data to assess the viability and progress of the HWI schemes. Much of this data is not made public as it is commercially sensitive. HWI is a compulsory insurance cover whose scope is pre-determined by legislation.

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