

Vero Warranty Procedures for Eligibility Monitor, Suspend and Cancel Decisions

Vero acknowledged the need for improved communication with builders and undertook a review mid 2004 of the tools it provides to builders and accountants to ease navigation through the home warranty insurance eligibility process.

As an outcome Vero believes the two key issues for builders; **service and certainty**, can be resolved.

Service

Vero acknowledges past service issues. Having coped with the dislocation of approximately 14,000 builders as a result of the HIH collapse, and the withdrawal of Dexta which added many more builders to that number, Vero believes that through our intermediary distribution channel delivery times will be brought into line with expectations.

Vero, however, is not waiting for market forces to determine what we do. We have embarked on a development program to build the tools necessary to ensure the delivery of superior service outcomes to our intermediaries and builder customers.

Vero has also developed service levels that will be implemented with our intermediaries over the course of the next three months to ensure service expectations for builders and intermediaries alike are met throughout the entire delivery chain.

Certainty

Builders have expressed concern that Vero could withdraw or suspend builders' home warranty insurance eligibility at a moments notice and without explanation. Concern has been expressed by some builders who say they have experienced being 'shut down' as a result of frivolous matters or issues which they have not had a chance to address. They also believe insurers are too focused on the consumer and fail to communicate adequately with builders when resolving issues with homeowners. Those builders are also of the view that, once having obtained home warranty insurance eligibility, they should be confident that it will continue, uninterrupted, for a clearly defined period. This, they believe, would reduce the chances of builders having projects held up as a result of what appeared to be arbitrary stops on their eligibility and engender greater confidence to plan for the future.

We believe that, to an overwhelming extent, Vero already acts in this manner. However, we note a communication gap that should, and can, be closed.

The revised procedures that follow embrace the builders' concerns.

A. Residential Builders with Turnover of up to \$2million

Vero currently provide a Small Builder Warranty product, Express Assess, for builders with turnover up to \$2million per annum and projects below \$350,000. This segment represents 80% of builders currently holding home warranty insurance eligibility with Vero.

Vero will implement the following practice for these builders:

1. Home Warranty Insurance eligibility will be achieved by completion of a simple application form submitted with a current copy of the builder's license.
2. No financials are required to be submitted; the assets and liabilities outlined in a simplified format in the application form. The builder simply makes a declaration that the details are accurate, the entity is capable of trading and is not insolvent. No accountant's or other declaration is required.
3. The financial requirements are a minimum Net Tangible Worth (as defined) of \$50,000 (where previous years turnover is greater than \$1million) OR 5% of previous years turnover (when less than \$1million).
4. Other threshold requirements are no claims or other adverse* information. NB: Any issue with this will be discussed with the applicant.
5. Builders currently insured with Vero and involved in projects over \$350,000 will continue to enjoy their higher limits.
6. Apart from reviews currently underway (or planned for Quarter 4 2004), Vero will not seek to review a builder again for two years other than in the following circumstances:
 - The builder requests a review in a bid to obtain a better rating category or a higher turnover or project limit (NB: There is in-built flexibility for a 25% upward movement on the standard limits without review)
 - Vero has a claim made against it and the builder does not co-operate to resolve the matter. Vero commits to making contact with the intermediary/builder (verbally, wherever possible) prior to taking any action
 - Vero receives adverse* information in relation to the builder
 - Vero conducts a random audit (NB: Audits will be restricted to less than 5% of our builders each year. Audits are conducted to give Vero a feel for the segment and how it is performing. They are not intended to be punitive but to enable Vero to maintain portfolio integrity)

- Vero changes its underwriting stance in relation to home warranty insurance generally or to particular builder or project segments
 - The builder is currently being 'managed' as a result of previous review findings or issues
7. Vero will not suspend or cancel a builder's eligibility other than in the following circumstances:
- Vero agrees to indemnify a homeowner or pays a claim involving defective work that the builder has not rectified (NB: Suspension or cancellation will not occur until adequate steps have been taken to communicate with the intermediary/builder)
 - The builder fails to submit documents requested to enable Vero to conduct an audit
 - The builders' licence is suspended or cancelled by the relevant licensing authority
 - The builder is unable to produce a current building licence
 - Vero receives a credit alert from a recognised credit rating bureau
 - Vero receives or is aware of other adverse* information
 - Vero changes its underwriting stance in relation to home warranty insurance generally or to particular builder or project segments

Note: Vero will discuss any issue with the intermediary/builder, allowing them time to address it or take remedial action prior to suspending or cancelling eligibility. Vero will provide a minimum 30 days (where no prior notice has been given) for the builder to rectify any issue capable of rectification.

B. Builders with a Turnover between \$2million and \$10million

Builders turning over between \$2million and \$10million have distinct characteristics and generally wish to avail themselves of the opportunity to obtain a profile that suits their specific business needs. From a risk perspective, this segment has the highest likelihood of failure or performance/management difficulties, particularly during growth phases. Despite this, Vero believes that the large majority of such builders can be provided with the certainty they require to trade with confidence. To this end, Vero has modified its procedures as follows:

1. The standard Vero application requirements will apply to this segment.
2. Vero's financial and management criteria will apply.
3. For those builders achieving a Vero Rating Category of 1, 2 or 3, Vero will not review them more than once in any 12 month period other than in the following circumstances:
 - The builder requests a review in a bid to obtain a better rating category or a higher turnover or project limit
 - Vero has a claim made against it and the builder does not co-operate to resolve the matter
 - Vero receives adverse* information in relation to the builder

4. For those builders currently enjoying Vero Rating Category 1, 2 or 3, Vero will not suspend or cancel eligibility other than in the following circumstances:
- Vero agrees to indemnify a homeowner or pays a claim involving defective work that the builder has not rectified (NB: This action will not be taken unless adequate steps have been taken to communicate with the builder)
 - The builder's license is suspended or cancelled by the relevant licensing authority
 - The builder is unable to produce a current building licence
 - Vero receives a credit alert from a recognised credit bureau
 - Vero receives or is aware of other adverse* information
 - Vero changes its underwriting stance in relation to home warranty insurance generally or to particular builder or project segments

Note 1: Vero will discuss any issue with the intermediary/builder and allow them time to address it or take remedial action prior to suspending or cancelling eligibility. Vero will provide 30 days (where no prior notice has been given) for the builder to rectify any issue capable of rectification.

Note 2: These conditions do not apply to those builders whom Vero assess as being Rating Category 4 or 5. These builders are considered by Vero to be distressed or on the point of failure. Vero will seek to manage those builders already on its books and provide assistance wherever possible. Vero will not accept any new Rating Category 4 or 5 builders.

Note 3: Any new builder to Vero presenting as Rating Category 3 will be asked to improve their position to Rating Category 2 or better prior to being accepted.

Note 4: Vero will not be accepting builders new to Vero with trust structures effective from 1 November 2004.

****Adverse information includes:***

1. *Unusual number of defect notifications*
2. *Evidence of dual insurance*
3. *Licensing body sanctions*
4. *Expulsion or suspension from an industry association*
5. *A failure to maintain CPD qualifications*
6. *Criminal records or activities*
7. *Winding up petition*
8. *Appointment of an administrator or filing for bankruptcy*
9. *Changes in corporate structure*
10. *Employment of supervisors with past adverse history*