

## FREQUENTLY ASKED QUESTIONS

### 1. What will change from 1 July 2010?

From 1 July 2010, the NSW Self Insurance Corporation takes over as the single insurer for the Home Warranty Insurance Fund in NSW. The NSW Self Insurance Corporation will replace the present insurers; QBE, Calliden and Vero.

The Home Warranty Insurance Fund has been established by the NSW Government. Home warranty insurance premiums will be deposited into this fund and claims will be paid from this fund.

The NSW Self Insurance Corporation will use an outsourced model for managing Home Warranty Insurance. QBE, Calliden and Vero (until 30 September 2010) will operate as agents of the NSW Self Insurance Corporation through a contractual arrangement. They will provide the same kind of functions they provided prior to 1 July 2010.

If a builder currently has Eligibility with QBE, Calliden or Vero, then in most cases that Eligibility will automatically transfer to the new Government insurer – so builders do not need to do anything unless they are contacted by their insurance broker.

Vero will cease to be a home warranty insurance agent on 30 September 2010. Vero will continue to issue new project certificates (i.e. certificates of insurance) from 1 July 2010 to 30 September 2010 to builders that currently have Eligibility with Vero. Vero brokers will work with builders during this time to select which insurance agent the builder wishes to transact home warranty business through, either QBE or Calliden.

If a builder requires a new Eligibility or project certificate for a NSW location, they should continue to contact their insurance broker – this has not changed.

Vero will not issue new Eligibilities or approve any changes to existing Eligibilities from 1 July 2010. A builder's broker will be able to request this cover through QBE or Calliden on behalf of the builder.

Premiums will remain unchanged from the existing rates on 30 June 2010. A new premium structure will be finalised soon.

A single premium structure will be implemented by the NSW Self Insurance Corporation in coming months which will ensure all premiums are calculated on the same basis for everyone, creating a level playing field. This premium structure will be phased in over time to ensure any impacts are managed for builders, brokers and homeowners.

### 2. What are the benefits of the new home warranty insurance arrangements from 1 July 2010?

The new insurance arrangements will have the capital backing of the NSW Government providing certainty to the building industry. A single premium structure will be implemented by the NSW Self Insurance Corporation which will ensure all premiums are calculated on the same basis for everyone, creating a level playing field. This premium structure will be phased in over time to ensure any impacts are managed for builders and homeowners. The proposed new arrangements will provide for a more streamlined operation of the scheme generally and greater transparency. Under the new arrangements builders will be given additional options to satisfy the requirements for obtaining home warranty cover. Some builders who may have been experiencing difficulties in obtaining Eligibility for home warranty insurance or the level of cover required may now be able to obtain cover. Insurance agents providing home warranty insurance on behalf of the NSW Self Insurance Corporation will be required to comply with the Government's Model Litigant Policy, thereby addressing concerns as to the alleged overly litigious approach of some insurers to

claims handling. Under the new arrangements there will be a close working relationship between NSW Fair Trading and the NSW Self Insurance Corporation. This link between the dispute resolution and home warranty processes will facilitate the improved delivery of services to homeowners.

### **3. What do I need to do when the new arrangements start on 1 July?**

The NSW Self Insurance Corporation is aiming to minimise disruption to builders during the changeover to the new arrangements.

- If you were previously insured with QBE or Calliden the changeover to the NSW Government insurer should be seamless in most cases. Your insurance broker will continue to provide you information.
- If you were previously insured with Vero, different transition requirements will apply. Your insurance broker will continue to provide you with detailed information.
- Builders who had their Eligibility with Vero will work with their broker between 1 July 2010 and 30 September 2010 to select which insurance agent the builder wishes to transact home warranty business through, either QBE or Calliden.
- Vero will not issue any new Eligibilities or make any changes to existing Eligibilities after 1 July 2010. A builder's broker will be able to apply for Eligibility through QBE and Calliden on behalf of the builder.
- Vero will continue to issue project certificates (i.e. certificates of insurance) until 30 September 2010 to builders that already hold a current Eligibility with Vero.

### **4. Can I continue to deal with my broker regarding home warranty insurance?**

- The role of the broker under the new arrangements has not changed.
- Builders should continue to contact their broker in the same way they did prior to 1 July 2010.

### **5. Am I still covered if I took out insurance before 1 July 2010?**

- Home warranty insurance policies issued before the commencement of the Government underwritten scheme will remain in force and the insurer that issued the policy will remain on risk for the duration of the period of cover.

### **6. Why do we need home warranty insurance?**

- Home warranty insurance is a vital component of a comprehensive consumer protection regime for homeowners undertaking building work in NSW.
- Home warranty insurance provides a safety net for homeowners where a builder is unable or unwilling to honour their fundamental responsibilities under a building contract, that is, to complete the construction of a dwelling or to return and rectify defective work.
- If a builder is unable to honour their commitments under a contract because of insolvency, death or disappearance the home warranty insurance scheme is there to protect homeowners.
- The scheme also protects homeowners where a builder simply refuses to meet their contractual obligations and has been found at fault by the Consumer, Trader and Tenancy Tribunal or a court.
- The homeowner is not required to enforce the Tribunal order or initiate insolvency proceedings... they are able to claim on their home warranty policy.

### **7. Where can I obtain copies of application forms, policy documents etc?**

- Builders can obtain these forms from their insurance broker.
- A copy of the certificate of insurance and the policy wording should be provided by the builder to the home owner prior to the construction project commencing

## **8. Who is the NSW Self Insurance Corporation?**

- The NSW Self Insurance Corporation is a part of NSW Treasury and was established in 2005.
- The NSW Self Insurance Corporation already manages the NSW Government's insurance arrangements for most classes of risk through an outsourced model.
- Home warranty insurance will also utilise outsourced management arrangements and the NSW Self Insurance Corporation will manage these arrangements.

## **9. How will the NSW Self Insurance Corporation make sure the insurance industry manages home warranty functions appropriately?**

- The NSW Self Insurance Corporation will be required to comply with the requirements for insurers under the Home Building Act 1989 including market practice and claims handling guidelines – as is the case currently.
- The NSW Self Insurance Corporation will publish service standards, and provide data and information on the operation of home warranty insurance to NSW Fair Trading and the Home Warranty Insurance Scheme Board.
- The NSW Self Insurance Corporation has appointed insurance agents to provide home warranty services on their behalf and has a commercial contract in place.
- The terms of the commercial contracts require insurance agents to meet service and performance standards.
- The NSW Self Insurance Corporation will regularly review the performance of insurance agents and has a right to audit and inspect records.
- Insurance intermediaries (i.e. brokers) will also be required to meet specified standards, have appropriate risk management systems in place, hold relevant insurances, and will be subject to audit.
- NSW Fair Trading will continue to regulate the home warranty insurance scheme and be responsible for monitoring the scheme to ensure it is operating effectively for builders and homeowners.

## **10. Will the role of NSW Fair Trading change under these new arrangements?**

- The role of NSW Fair Trading will not change under the new arrangements.
- The design, operation and structure of the home warranty insurance scheme will continue to be administered by Fair Trading through the Home Building Act 1989.
- This means all the consumer protections under the current arrangements, including the coverage of the scheme, time periods, amounts, risks insured, and grounds for lodging a claim, will not change.
- Fair Trading will continue to monitor the performance of the Government insurer against market practice and claims handling guidelines.
- The Home Warranty Insurance Scheme Board will also continue to provide advice to the Minister for Fair Trading on the operation and design of the scheme including making recommendations, where appropriate, for enhancements to the scheme.

## **11. Why did the Government select QBE & Calliden to be their agents?**

- The NSW Government went through a tender process and determined that both organisations demonstrated experience in home warranty and offered value for money.
- QBE and Calliden are both current licensed general insurers and have extensive expertise in Home Warranty insurance and operate in other states in Australia.

## **12. Why was Vero not appointed an insurance agent?**

- Vero and the NSW Government have participated in a competitive tender process over the past four months. Vero and the NSW Government were unable to agree commercially acceptable terms.

### **13. What will be Vero's involvement from 1 July 2010 to 30 September 2010?**

- Vero will cease to be a home warranty insurance agent for NSW Self Insurance Corporation on 30 September 2010.
- To enable a smooth transition, a three month changeover period from 1 July 2010 to 30 September 2010 will be available to allow builders insuring through Vero to transition to either Calliden or QBE.
- Vero will issue new project certificates on behalf of the NSW Self Insurance Corporation (i.e. certificates of insurance) from 1 July 2010 to 30 September 2010 to builders that currently have eligibility with Vero.
- Vero brokers will work with builders from 1 July 2010 to 30 September 2010 to select which insurance agent the builder wishes to transact home warranty business through, either Calliden or QBE.
- Vero will not issue new eligibilities or approve any changes to existing eligibilities from 1 July 2010. In line with its contract, Vero will also not issue owner builder policies, nor participate in the Builder Management Service. A builder's broker will be able to request this cover through Calliden and QBE on behalf of the builder.
- Builders requiring an increase in turnover limit or contract size, should contact their broker who will arrange a review with Calliden or QBE.

#### Eligibility Conditions and Security

### **14. Will all builders be able to obtain Eligibility for home warranty insurance from the Government insurer?**

- Builders will need to meet certain criteria and demonstrate they have the financial capacity to complete the construction project before they can obtain home warranty cover. Home owners need certainty that their builder has the financial capacity to complete their building project. This is the same as how the arrangements work now.
- Inexperienced builders and builders under financial stress who wish to obtain eligibility will be offered options to either increase the equity in their business through paid up capital, provide a security, or opt to participate in the builder management program.
- There may be a small number of builders who do not meet minimum requirements to obtain Eligibility and will be unable to obtain cover. If the financial situation of these builders improves they will be able to request consideration of cover again.

### **15. Will the Government insurer require builders to provide securities in order to issue Eligibility cover?**

- Bank Guarantees will not be sought by the Government as a condition for providing home warranty Eligibility to a builder, though a builder can provide a bank guarantee if they choose.
- For a small number of builders, the NSW Self Insurance Corporation may require security in the form of a Deed of Indemnity as a condition of Eligibility. Examples of when a security may be required include those builders who cannot demonstrate the required financial capacity to obtain Eligibility or whose trading history includes actions that have resulted in consumer detriment such as previous claims, disciplinary action by NSW Fair Trading and unsatisfied Tribunal orders.
- Importantly, the NSW Government will introduce changes to how Deeds of Indemnity are provided from 1 July 2010 to ensure a level of certainty to builders and to the third parties who provide these deeds.
- Under the new arrangements a Deed of Indemnity will include a limit of indemnity, will have an expiry date and a mechanism for a builder to request a review to determine if the Deed of

Indemnity is still required. None of these features are common practice under the current arrangements.

**16. Will the security I have supplied to my existing insurer automatically transfer to the NSW Self Insurance Corporation?**

- No. Securities will not automatically transfer. Securities that builders provided to QBE, Calliden and Vero prior to 30 June 2010 will remain in place until they are released by the insurers.
- Builders who are currently required to have a security will, in most cases, be required to provide a security to the NSW Self Insurance Corporation.
- Consultation with the industry has highlighted some issues with the types of securities builders are required to provide under the current scheme. To simplify the process, some changes have been made to the types of securities the NSW Self Insurance Corporation will require. For example a bank guarantee is no longer a required form of security.
- Builders will need to contact their broker who can explain the new process for providing security.
- Importantly, the NSW Government will introduce changes to how Deeds of Indemnity are provided from 1 July 2010 to ensure a level of certainty to builders and to the third parties who provide these deeds.
- Under the new arrangements a Deed of Indemnity will include a limit of indemnity, will have an expiry date and a mechanism for a builder to request a review to determine if the Deed of Indemnity is still required. None of these features are common practice under the current arrangements.
- NSW Self Insurance Corporation is allowing a three month transition period until 30 September 2010 for new security arrangements to be put in place.
- During this transition period builders will be able to obtain new insurance project certificates from either QBE, Calliden or Vero within the terms of their current eligibility conditions whilst they finalise their new security arrangements.

**17. Where can I get Eligibility for home warranty insurance?**

- QBE and Calliden have been appointed as agents of the NSW Self Insurance Corporation and they can provide Eligibility for home warranty insurance on behalf of the NSW Government insurer.
- Builders should contact their insurance broker who can explain what they need to do to obtain Eligibility from the new government insurer.

**18. When will the new underwriting criteria for Eligibility be available?**

- The new underwriting criteria have been developed in consultation with the industry and are close to being completed. Further details will be communicated to brokers and provided on [www.homewarranty.nsw.gov.au](http://www.homewarranty.nsw.gov.au) when they are available.
- Builders should contact their insurance brokers who can provide information on the underwriting criteria and how it works.

**19. I have previously been declined Eligibility by the insurers. Will the Government insurer grant me Eligibility?**

- Any licensed builder can make application for Eligibility to either QBE or Calliden through their insurance broker.
- Each Eligibility application will be assessed by QBE or Calliden against the underwriting criteria and if the criteria are met an Eligibility can be granted.
- An Eligibility will generally be granted subject to certain conditions including limits on the size of each project, annual turnover or the engagement of a building management service provider. Builders can choose if they wish to take out Eligibility with these conditions.

- A small number of builders will not be granted Eligibility as they do not meet the underwriting criteria. If a builder's circumstances change they will be able to reapply for Eligibility.

## **20. What happens if I cannot get Eligibility?**

- In NSW licensed builders cannot complete a residential construction project over \$12,000 unless they have home warranty insurance.
- Builders without Eligibility are able to carry out building and trade work not requiring home warranty insurance including work as a sub-contractor or working in other sectors of the building industry (e.g. commercial).
- A small number of builders will not be granted Eligibility as they do not meet the underwriting criteria. If a builder's circumstances change they will be able to reapply for Eligibility.

## **21. How can I apply to have my Eligibility profile changed?**

- A builder can apply through their broker to have their current Eligibility conditions reviewed. The broker will need to obtain certain financial and business information from the builder to support the request for change. When this information has been provided by the broker to the insurance agent, the request will be assessed.
- Eligibility reviews will be assessed against the NSW Self Insurance underwriting criteria.

## **22. I was offered Eligibility by one of the previous insurers prior to 1 July 2010, subject to providing a bank guarantee/indemnity. What should I do?**

- Builders should discuss any offer of cover by the previous insurers with their broker. The builder's insurance broker will be able to advise them what to do.

## **23. I have Eligibility with Vero. How do I get another building project certificate?**

- Vero will continue to issue new insurance project certificates until 30 September 2010 to builders that currently have Eligibility with Vero.

## **24. I have Eligibility with Vero. Do I need to take out a new Eligibility?**

- Builders with Eligibility granted by Vero will in most cases be automatically transferred to the new Government insurer – so builders do not need to do anything unless you are contacted by your insurance broker. Vero brokers will work with builders from 1 July 2010 to 30 September 2010 to select which insurance agent the builder wishes to transact home warranty business through, either QBE or Calliden
- If a builder requires a new project certificate, and they have an Eligibility with Vero, they should continue to contact their insurance broker – this has not changed.
- Vero will not issue Eligibilities to builders currently without Eligibility or approve any changes to existing Eligibilities from 1 July 2010. A builder's broker will be able to apply for Eligibility through QBE and Calliden on behalf of the builder.

## **25. I have a security with Vero. Do I need to provide a new security?**

- Securities that builders provided to Vero prior to 30 June 2010 will remain in place with Vero until they are released by Vero.
- Builders who are currently required to have a security will, in most cases, be required to provide a security to the NSW Self Insurance Corporation.
- Builders will need to contact their broker who will assist with arranging replacement securities.

- The NSW Self Insurance Corporation is allowing a three month transition period until 30 September 2010 for new security arrangements to be put in place where they are required.
- During this transition period builders will continue to be able to obtain project certificates within the terms of their current Eligibility conditions whilst they finalise their new security arrangements.

**26. I was insured with one of the previous insurers. What do I do if I need to make a claim?**

- All project certificates issued by Calliden, QBE or Vero up to and including 30 June 2010 remain valid.
- In the event of a claim, these three insurers will manage claims as they were the insurer at the time the cover was taken out. Any notification of claims should be made direct to the insurer who issued the insurance project certificate.

**27. What are building management service providers?**

- Builders who are having difficulty in satisfying the criteria for obtaining Eligibility for home warranty insurance will have the option of engaging the services of a building management service provider.
- The building management provider will review contract documentation; check the builder's costings and monitor the performance of work to ensure satisfactory completion.
- Builders will be able to choose a building management service provider that meets their specific needs from a panel of authorised providers.
- This initiative allows builders to continue their business while at the same time providing suitable protection for homeowners and the Home Warranty Insurance Fund.
- A builder would not be required to engage a building management service provider where they already satisfy the Eligibility criteria or where they elect another option such as increasing the equity in their business through paid up capital, or providing a Deed of Indemnity.

**28. When will the panel of building management service providers be announced?**

- A panel of providers is being established by the NSW Self Insurance Corporation through usual NSW Government procurement processes and this will be announced soon.

**29. Why do we need building management providers?**

- A building management provider will be available to assist new entrants to the building industry, as well as existing small to medium builders who may not have sufficient equity in their business or otherwise be able to satisfy the requirements for obtaining or retaining Eligibility for home warranty cover.
- In some situations, builders may wish to take on one-off projects that are outside their eligibility approval and a building management provider may be utilised for this purpose.

Premiums

**30. Will home warranty premiums change from 1 July 2010?**

- From 1 July 2010 home warranty premiums will remain unchanged from the rates charged by the insurers at 30 June 2010.
- For the time being, all insurance agents will continue to charge the premiums they were charging at 30 June 2010 until the NSW Self Insurance Corporation introduces its new premium structure.
- The NSW Self Insurance Corporation will introduce a single pricing structure for all builders, providing consistency and a fairer playing field for builders and consumers. This system will be introduced in coming months.

- It is intended to publish the new premium rates well in advance of commencement of the new arrangements.
- The new premiums will be announced to the industry with sufficient lead time for implementation.
- The Self Insurance Corporation is working closely with actuaries to finalise the pricing model for home warranty which is expected to be completed soon.

### **31. Where can I get a premium quotation?**

- Builders should continue to contact their insurance broker who can provide a quotation.

### **32. When will the new home warranty insurance premiums be available?**

- From 1 July 2010 home warranty premiums will remain unchanged from the rates charged by the insurers at 30 June 2010.
- For the time being all insurance agents will continue to charge the premiums they were charging at 30 June 2010 until the NSW Self Insurance Corporation introduces its new premium structure.
- The NSW Self Insurance Corporation will introduce a single pricing structure for all builders, providing consistency and a fairer playing field for builders and consumers. This system will be introduced in coming months.
- The new premiums will be announced to the industry with sufficient lead time for implementation.

## **Claims**

### **33. How will claims be managed under the new arrangements?**

- Claims will be managed by insurance agents on behalf of the NSW Self Insurance Corporation through outsourced arrangements under commercial contracts.
- Insurance agents are required to comply with the NSW Self Insurance Corporation's claims handling procedures (requiring adherence with claims handling guidelines and the Government's Model Litigant Policy).
- NSW Fair Trading will still be involved in resolving disputes, as they are today.
- Homeowners will still be able to make a complaint about claims handling to Fair Trading and will continue to have a right of appeal to the Consumer, Trader and Tenancy Tribunal if not satisfied with a decision on a claim – this is not changing.