

Future of hwi in New South Wales

The NSW Government announced over the weekend that from 1 July 2010 the new home warranty insurance (HWI) scheme would be Government-underwritten and capitalised and funded by premiums.

Q. What is Home Warranty Insurance?

A. Home Warranty Insurance is an integral component of the Government's **consumer protection package** for NSW homeowners. It is mandatory in NSW under **Part 6** of the **Home Building Act 1989** for all home building work valued at more than **\$12,000**. It provides cover to consumers of up to **\$300,000** in circumstances where their builder is no longer capable or willing to complete a project or rectify defective work.

Q. What do we know?

A. The new scheme will be:

- underwritten and capitalised by the NSW Government and funded by premiums;
- managed by Treasury through the Self Insurance Corporation; and
- operated by private sector providers, selected by competitive tender, which will provide services in relation to the issue of project certificates, collection of premium and claims handling.
- distributed through brokers

Q. When does the scheme come into place?

A. The new scheme will commence on **1 July 2010**.

Q. What does this mean for Warranty Insurance in NSW?

A. At the moment the details released by the NSW Government are all we know.

Q. Why can't the NSW government commence it any earlier?

A. The Government has asked for further consultation with industry and consumers to occur prior to implementation as the Government want to ensure the best possible outcomes from the new scheme. There will also be a need to amend legislation to give effect to the new arrangements.

Q. What are the next steps?

A. The Government is working with insurers to ensure a smooth transition to the new arrangements. They are also looking to:

- The expansion of the current Home Warranty Insurance Scheme Board to include industry and consumer representation.
- Further consultation with industry and other jurisdictions, particularly Victoria, with a view to possibly harmonising new schemes.
- Development of the specifications for the tendering out of the operations of the scheme and the introduction of an amendment Bill into the Parliament in early 2010 to provide the framework for the new arrangements.

Q. How will Vero respond to the changes?

- A. Vero will work with the NSW Government and its agencies through July 1st to ensure a smooth transition for builders from their existing underwritten programs to the new government scheme.

We are also planning on responding to the tender when it is released to the market.

Q. How much capital will the NSW government inject into the new scheme?

- A. The Scheme will be fully funded for its emerging liabilities by premiums, with an injection of government capital for the solvency of the scheme.

Q. Why is this happening?

- A. Advice to Government from the Home Warranty insurance Scheme Board indicated that a substantial contraction of the market has occurred following the Global Financial Crisis. The announcements earlier this year by Lumley General and CGU Insurance Limited of their exit from the market is evidence of the tightening of the market. The advice to the Government is that this contraction and current market conditions will likely lead to further insurers exiting the market in the near future. Evidence to the Scheme Board and Government is that an increasing number of builders in NSW are unable to obtain cover. The Government is **acting decisively to protect jobs and give peace of mind to families.**

Q. What do you communicate to any builder or homeowner that may phone?

- A. As far as Vero is concerned, we remain committed to our brokers and their customers. We will do everything to ensure that business is conducted as usual, and will keep the communication open as we get more details from the NSW government.

If you should get calls from builders, please assure them that for Vero we are open for business as per our normal operating conditions for Warranty business.

Should a homeowner phone, please assure them that Vero is part of the Suncorp group and that we are an A rated insurer, properly reserved and audited by APRA. Cover for building projects **already issued** by insurers **will remain in force for the duration of the policy**, allowing consumers to make claims where necessary.

Q. How will the other States and Territories respond to the NSW Government decision?

- A. At this stage we have had no indication from any of the other states/territories if and how they will respond to the pending changes in NSW.

Q. What are the benefits for consumers?

- A. **Existing consumer benefits** provided by the current home warranty insurance scheme **will be maintained**. There will also be scope to provide and implement enhanced benefits (e.g. level and type of cover) and address

any problems **more effectively and quickly** under the new arrangements. Surplus funds from the new arrangements could be made available to Government to fund regulatory responsibilities.

Q. What happens now as CGU and Lumley will be issuing their last policies in a matter of weeks and now we have the NSW announcing a new scheme?

A. At the risk of sounding trite, Vero will be focussing on *business as usual*, which means that we service our brokers as we have done over the last 25 years - with passion and commitment. Please bear in mind that we are experiencing a huge inflow of applications and are currently processing these in about 15 days. We expect this to peak at the end of November.

Q. What does this mean for builders insured with Lumley and CGU?

A. Around **4,000** builders will need to obtain eligibility with another insurer prior to 1 December 2009 (CGU builders) or 1 January 2010 (Lumley General builders) in order to continue contracting for work requiring home warranty insurance, regardless of these future changes.

Transitional provisions will be in place to ensure the continued provision of home warranty insurance by the three remaining insurers (**Vero, QBE and Calliden**) until such time as the new arrangements come into effect which is expected to take six months.