

Myths and Facts About Home Warranty Insurance

Myth : Home warranty insurance is for builders

Facts:

- ❑ Home warranty insurance protects consumers who enter into contracts with builders. It is legally required. If a builder dies, disappears or becomes insolvent before completing the home or fixing the defects, the homeowner will be covered up to the legislated limits.
- ❑ Home warranty insurance does not cover contractual disputes or defective work by a builder who is still in business. These are dealt with under consumer protection legislation and tribunals.
- ❑ Vero currently:
 - ✓ Protects over 700,000 homeowners throughout Australia.
 - ✓ Has 20,000 Australian builders on its books.
 - ✓ Issues more than 100,000 home warranty insurance certificates every year.
- ❑ Builders apply to the insurer for eligibility to have their work covered for home warranty insurance. The cost of the home warranty insurance certificate for a home is usually passed on to the homeowner in the contract price.

Myth : Good builders can't get home warranty insurance

Facts:

- ❑ Some 97% of builders who apply to Vero for home warranty insurance eligibility obtain it and get the turnover levels they request.
- ❑ Vero never turns down a builder without good reason. In most cases where a builder doesn't make the first cut, discussions continue into ways that the builder might restructure their business to meet eligibility requirements.

Myth: Eligibility requirements are onerous and unfair

Facts:

- ❑ No-one wins when a builder goes broke so Vero's home warranty insurance eligibility is designed to:
 - ✓ Minimise the possibility of builder collapses.
 - ✓ Ensure only financially sound, technically competent, builders can access home warranty insurance.
 - ✓ Help ensure builders are better placed to ride out the next, inevitable, downturn.
- ❑ To be eligible for home warranty insurance a builder must have real assets in a business equivalent to around 10% of their turnover and sufficient margin to allow them to keep that ratio as they grow.
- ❑ Builders are categorised on a risk scale of 1 to 5 (1 is the lowest, and 5 is the highest risk) by a financial analysis methodology used by the majority of Australian financial institutions to assess credit risk.
- ❑ This methodology works as 80% of all insolvency claims are generated as a result of collapses of category 4 & 5 rated builders (who inevitably pay higher premiums).

Myth: Builders are leaving the industry in droves because they can't get home warranty insurance

Facts:

- ❑ There are more builders in Australia now than there were 4 years ago.
- ❑ During 2004 170,000 new homes were started, nationally. Four years ago the number was just 115,000.
- ❑ The annual amount spent on home renovations has risen 70% in the same period.
- ❑ Vero runs builder clinics, attends builder forums, and meets with industry groups to assist builders with their eligibility requirements.

Myth: Builders rarely go broke

Facts:

- ❑ Building is a cyclical industry. Underlying economic conditions have a significant impact on the likelihood of builder collapses. In 2000, the year GST was introduced, Vero received more than 1000 claims from homeowners as a result of builder insolvencies.
- ❑ Builder insolvencies, deaths or disappearances which resulted in claims on Vero were around –
 - ✓ 2000 – 165 builders
 - ✓ 2001 – 155 builders
 - ✓ 2002 – 110 builders
 - ✓ 2003 – 130 builders
 - ✓ 2004 – 150 builders
 - ✓ 2005 – 60 builders so far.
- ❑ The average builder insolvency affects at least 5 homeowners.

Myth: Vero caps the work I do

Fact:

- ❑ Builders are provided eligibility for home warranty insurance up to the amount of turnover that the current assets in the business will support. Builders who are growing can request higher turnover eligibility and, provided they are earning sufficient margin on their new jobs, the request is approved.
- ❑ Tying eligibility to turnover has been misrepresented as a 'cap' by those who want a return to a state run insurance scheme or home warranty insurance abandoned as a consumer protection mechanism. In fact, less than 10% of builders, nationally, request an increase in their turnover eligibility. Eligibility utilisation rates by Vero builders runs at just 1/3rd of the aggregate amount on issue.

Myth: Small builders and new builders are disadvantaged

Fact:

- ❑ Vero offers builders with a turnover less than \$2m home warranty insurance eligibility up to \$2m with a contract level of \$350,000 along with an easier assessment process and a rapid application turnaround. This caters for around 80% of all builders.
- ❑ Start-up/new builders can also apply for home warranty insurance eligibility on a job by job basis without a requirement for capital until they build their business and are ready to move into a different classification.

Myth: Insurance companies aren't taking on any risk

Fact:

- A combination of tighter home warranty insurance eligibility criteria and improved economic conditions has seen the number of homeowners making claims because of builder insolvency drop, but they are still significant. Vero received –
 - ✓ 1,000 insolvency claims during 2000
 - ✓ 1,000 insolvency claims in 2001
 - ✓ 650 insolvency claims in 2002
 - ✓ 600 insolvency claims in 2003
 - ✓ 650 insolvency claims in 2004
 - ✓ In 2005 we have received 200 insolvency claims so far.