

FACT SHEET 7 - PREMIUMS

New Premiums from 1 October 2010

This fact sheet provides important information for Builders and Brokers regarding the new premiums effective 1 October, 2010.

The new Home Warranty Insurance (HWI) arrangements for New South Wales commenced on 1 July 2010 when the NSW Self Insurance Corporation became the sole provider of home warranty insurance. The NSW Self Insurance Corporation will trade as NSW Home Warranty Insurance Fund (HWIF). On 1 October 2010, a new pricing structure will be implemented, which will be fairer and more transparent for both builders and homeowners.

What are the changes to HWI premiums?

Under arrangements in place prior to 1 July 2010, different premiums were often charged for similar types of building works completed by different licensed builders even where the contract prices were also similar. An actuarial analysis has indicated that this approach resulted in a significant degree of inequity between builders.

The new HWI premium pricing structure will provide a level playing field for all builders and homeowners. The objective of the new approach is to provide a system that is fair to everyone ensuring that the premium paid on behalf of a homeowner is the same, for a given job, no matter which licensed builder is chosen by the homeowner.

How will the new premiums be calculated?

The calculation of premiums under the new pricing structure incorporates an assessment of a number of risk factors which are generally project specific and include such matters as the location of the project, the value of the works (contract price) and the risk presented by the type of work (e.g. structural, non-structural, owner-builder etc).

The assessment of a builder's financial capability and licensing history is reflected in the overall turnover and individual project size limit and the number of projects permitted to be undertaken by the builder (i.e. eligibility profile) but does not impact on the price of the premium that builders and homeowners are required to pay.

The new premium rates have been calculated over an average seven-year building cycle, to facilitate more stable premiums over the long term. A downturn in the building industry should not require an increase in premium rates which has been the approach adopted in the past.

How can I find out what premium the HWIF will charge?

The Home Warranty Insurance Fund (HWIF) provides a premium calculation tool on www.homewarranty.nsw.gov.au. This will calculate the total premium payable including stamp duty and GST for any project type and value up to \$1million. Brokers can arrange a premium quote for contract values >\$1million. Builders should contact their insurance broker who can provide more information regarding their specific circumstances and any additional fees the broker may charge. Further information can be obtained on www.homewarranty.nsw.gov.au or from the NSW Government Contact Centre on 133 NSW or 133 679.

What are the new Home Warranty Insurance premium rates?

- Single Dwelling premium rate: 0.60%¹ in metropolitan² areas and 0.48% for country locations.
- Non-structural premium rate: 0.42% in metropolitan Areas and 0.34% for country locations
- Swimming pool projects and multi-dwelling developments premium rates: 0.90% in metropolitan areas and 0.72% for country locations.
- The premium rate for owner-builder work completed within four years of the application for insurance is 40% more than the rate for the same type and price of work undertaken by a licensed builder;
- Current premium rate discounting for volume builders will be phased out over five years;
- A minimum premium rate of \$160 will apply to all projects; and
- The premium rate for projects with a contract price greater than \$1 million will be available on application (POA).

What impact will the new premium rates have on builders?

Average premiums will go down in the first year. Builders who undertake more risky activities, such as multi-unit dwellings, will attract a higher rate than less risky activities such as non-structural renovations. The majority of builders will pay a lower premium rate under the new system and most small builders will experience a rate reduction. There will be a small number of builders who will receive an increase that reflects the level of risk of their project. Builders should contact their insurance broker to discuss their specific circumstances.

Transitional arrangements have been put in place to limit the maximum increase for any builder, on a like-for-like basis, in any one year to 30% for the next five years.

How will the premium transition arrangements work?

In the majority of cases Insurance Agents will automatically cap the maximum premium increase to 30%. Where builders consider their premium has increased by more than 30%, their insurance broker will arrange for a premium comparison. If a builder has paid more than they should, they will be refunded.

The builder's most recent "like for like" project certificate issued after 1 April 2010 will be used to compare premiums to determine if the 30% premium cap applies. If a builder has not had a project certificate issued since 1 April 2010, or the project is for a multi-unit development or large contract >\$1million, the premium rates applicable to the builder on 30 June 2010 will be used to compare premiums.

For volume builders, their average premium rate effective at 30 June 2010 + 30% is deemed to be the maximum rate payable until 30 June 2011 provided the builder's profile remains the same. If a builder's profile changes during this period the average premium rate will be adjusted in proportion. Requests for cover outside their profile will be priced on application.

References in this fact sheet to builders and building work include and apply to trade contractors and other building contractors (e.g. electrical contractors, plumbers, carpenters, swimming pool builders etc.) and to trade and other residential building work (e.g. electrical wiring, plumbing, carpentry, swimming pool construction/installation etc.).

¹ All premium rates quoted exclude GST and Stamp Duty

² Metropolitan areas include Greater Sydney, Central Coast and Newcastle