

FREQUENTLY ASKED QUESTIONS

About Residential Construction Warranty Insurance

Q: Why do builders need Warranty Insurance?

A: It is a legislative requirement for all builders with the regards to residential projects under three storeys.

Q: What does Warranty Insurance cover?

A: To provide consumer protection in the event of a builder being unable to complete or rectify their work by reason of death, disappearance or insolvency.

Assessment process and premium calculation

Q: What is required to access Royal & SunAlliance (R&SA) Residential Construction Warranty Insurance, if the builder is currently insured elsewhere?

A: Letter of appointment and full assessment documentation.

Q: What information is required for a builder's initial assesment?

A: A builder must be licensed in the state in which he operates. He needs to complete and sign the assessment form and provide up to date financials to demonstrate his financial capacity. We also require a statement of assets and liabilities.

Q: What are the financial requirements for the turnover I am asking for?

A: This is normally a net tangible worth equal or greater than 10% of the annual turnover limit sought by the builder.

Q: What happens if the builder does not have sufficient capital in the business to support turnover requirements?

A: The broker will be notified of the underwriter's requirements for builders capitalisation or bank guarantee in writing and the assessment set pending verification of compliance.

Q: When can the builder expect to be notified of the approval of their assessment?

A: R&SA individually evaluate each assessment. This process will not commence until all documents and information required to support the assessment have been presented. Once a decision has been made it will be communicated via the broker.

Beyond assessment

Q: What will R&SA issue after the assessment process is complete?

A: The builder will be provided with a letter of certification via their broker which will state turnover limits, premium rates and individual contract limits.

Q: How does a builder obtain individual project certificates?

A: The insurance broker is to provide a complete application for each individual project. When received, R&SA will issue the certificates, via the broker, to the builder, the permit authority and the home owner (subject to the builder having current eligibility; R&SA reserves the right to withdraw eligibility or refuse individual project applications).

Q: Why do premiums vary for builders on similar projects?

A: Builders are categorised individually based on their financial capacity and net tangible worth, the higher the category the higher the perceived risk and subsequent premium.

Q: How can builders reduce their premiums?

A: Builders can reduce their premiums by achieving a lower category rating. A rating is a product of net worth, financial performance, stability, experience and turnover. As these variables improve with the builder's improved performance the category rating will decrease. Therefore, the lower the rating the lower the premium

Q: How does the builder become a category one?

A: The category rating system is based on the assessed financial risk of a builder and is affected by such factors as level of equity, gross profit margin, debtor days, creditor days, turnover growth, changes to work in progress, builder size and areas of construction, length of time in business, adverse information, frequency of financial reporting and job costing system. Improvement in each of these factors over time will produce an improved category rating.

Q: What is an annual limit?

A: An annual limit relates to the \$ amount of construction exposure given the experience and net worth of a builder. If a Builder wishes to increase these limits a profile reassessment will be required.

Q: How often is a builder required to be assessed?

A: All builders will require reassessment once a year, however in the following instances reassessment may be triggered at more frequent intervals. These include; excessive turnover growth, dishonoured cheques, adverse information, performing work outside their profile. Builders showing signs of distress will probably require assessment six monthly depending on their position.

Residential Construction Warranty Insurance

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Legislation changes and requirements

Q: What impact will the recent legislative changes have on warranty insurance?

A: Residential warranty insurance has undertaken a significant journey during the past few months. Insurers have been working with governments and industry groups to protect the long term viability of the building sector.

Q: How does the builder get their building licence if they don't have insurance?

A: Once a builder is eligible for Residential Construction Warranty Insurance, they will be provided with a certificate that they can use to obtain a building licence.

Q: Why can't a builder apply for eligibility in their own name, when they only use a company for taxation purposes?

A: Only a builder eligible for warranty insurance cover can enter into a residential building contract with an owner. The performance of a builder is assessed in respect of all contracts entered into. It is important to apply for Residential Construction Warranty Insurance eligibility in the name of the party with which the builder contracts with owners.

Q: Why does a builder need a company licence, when they are licensed as a sole trader/partner?

A: The insured is entitled to a contract in the name of the entity which they feel they are dealing with.

Financial controls

Q: A condition of the builder's approval was a bank guarantee. When can they get their bank guarantee released?

A: The underwriter may seek a bank guarantee to support the builder's application based on the perceived risk. The warranty provided by a builder to an owner is for a prescribed period (refer individual state legislation) following completion. Providing there are no claims, the bank guarantee will be released at the completion of this period.

Q: Does the builder require any deeds of indemnity?

A: General deeds of indemnity are no longer required. However, builders will still need to demonstrate that they have the financial capacity and experience to complete building works or rectify defects if required. Job specific deeds of indemnity will be required for developer projects and any projects for a family member or related entity.

MYTHS AND FACTS

M: The builder is the beneficiary of home warranty insurance.

F: The home owner or consumer is the beneficiary of the insurance. Home Warranty insurance is a legislative requirement designed to protect consumers - not builders.

M: Builders can't easily obtain warranty insurance.

F: Over 97 per cent of builders obtain the warranty insurance they apply for. Approximately three per cent of builders

are continuing to work through the process of obtaining their required cover. Builders who may have difficulty can access "Builder Assist", a NSW government sponsored program that provides free advice on structuring and improving the financial positions of their companies.

M: Insurers take little risk for the premiums they collect.

F: The risk to the home owner and insurer when a builder becomes insolvent is enormous. A home warranty policy has a limit for each job and lasts for a prescribed number of years. Two builder insolvency cases in 2001 alone left 36 unfinished contracts totalling over \$4.5m. A small builder doing 10 jobs per year who goes "bust" could leave unfinished or completed but defective homes costing home owners undreds of thousands of dollars and creating a maximum potential liability of up to \$14 million in some states for the insurer.

M: Home warranty insurance has stalled the building industry.

F: The housing industry has enjoyed the strongest recovery on record. Leading indicators (housing finance figures) have increased substantially over the last 12 months and building commencement have remained strong.

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