GPO Box 4052,
Sydney NSW 2001
www.hbcf.nsw.gov.au

FAQ - Understanding your new premium

icare HBCF Premium Increase and Changes to Risk Based Pricing System – 1 July 2018 (FAQs)

Background

The Home Building Compensation Fund was created following the collapse of the private sector home warranty insurance scheme in 2010. The Fund is not fully funded by premiums. icare is operating as the government monopoly insurer under State Insurance Regulatory Authority (SIRA) regulation until other providers are licensed by SIRA.

In November 2016, the NSW Government announced an overhaul of the NSW HBCF. Key elements of the reforms included the introduction of risk-based pricing, premium increases to ensure sustainability, the phasing out of broker commissions and the injection by the Government of additional funds to return the Fund to a surplus.

What has taken place already?

- Government funding: The Government has injected additional funds as part of returning the scheme to a surplus;

- Broker commissions have been removed: The guaranteed commissions previously paid to brokers by icare HBCF have been removed eliminating 15% of the cost of a policy;

- A Builder Self-Service Portal has been established: The portal provides a digital self-service capability for builders;

- Risk based premium pricing has been introduced: Premium prices now better reflect a builder's level of risk, resulting in high-risk builders paying a higher premium, and low-risk builders paying a lower premium; and

- Premiums will be sustainably priced: The shortfall between icare HBCF's costs and what is received through premiums was and is currently covered by the NSW Government. In its previous form the Home Building Compensation scheme was not sustainable. The subsidisation by the Government of premiums is being removed and over time premiums are being increased to ensure they meet the expected costs of future claims.

  icare has been moving to a solid financial footing by progressively increasing premiums to full break-even by 2018/19. Two previous premium increases, as part of this programmed return to sustainability, occurred in April and October 2017. A third increase as part of this program will come into effect on 1 July 2018 for most construction types with a final tranche proposed for 1 July 2019 ensuring that a break-even position will be reached.

  NB: *The categories of new multi-dwelling (unit) construction, alterations and additions (C02, C03, C08) remain under review to determine the pricing response as a stand-alone group to emerging experience in these segments.*

- Rehabilitation to breakeven premium rates: The rationale for the increases in premium is to bring the Fund to a breakeven point.

What is happening from 1 July 2018?

- There are two initiatives being implemented from 1 July 2018 involving an increase in premiums for all categories other than the multi-dwelling (unit) and some enhancements to the risk based pricing regime.

icare hbcf

Why are premiums increasing?

- In addition to the two increases in 2017, this premium increase and that scheduled for 1 July 2019 aim to take the Fund to a sustainable basis (or break-even position) consistent with the previously announced objectives of the Government's reforms.

What are the new premium rates?

- The below table details the new rates

Construction Type	Metro		Rural	
	Excl. GST & stamp duty (%)	Incl. GST & stamp duty (%)	Excl. GST & stamp duty (%)	Incl. GST & stamp duty (%)
C01 – New Single Dwelling Construction	0.95	1.14	0.76	0.91
C02 – Multiple Dwelling Alterations/Additions (Structural)	0.58	0.69	0.46	0.55
C03 – New Multiple Dwelling (Unit) Construction (Up To 3 Storeys)	1.72	2.06	1.38	1.65
C04 – Single Dwelling Alterations/Additions (Structural)	0.61	0.73	0.49	0.58
C05 –Swimming Pools	0.67	0.80	0.54	0.64
C06 – Single Dwelling Renovations (Non-Structural)	0.36	0.43	0.29	0.34
C07 – Other - not included in other construction types due to unusual circumstances	0.41	0.49	0.33	0.39
C08 – Multiple Dwelling Renovations (Non-Structural)	0.34	0.40	0.27	0.32
C09 – New Duplex, Dual Occupancy, Triplex and/or Terrace (attached) Construction	2.50	3.00	2.00	2.40

What is the size of the increases?

- The increases vary depending on construction type. The below table sets out the increase for each construction type. While the increase will vary depending on construction type the average will be approximately $418 per policy.

Construction Type	Base Rate Increase %	Av Policy $ At Present	Av Policy $ 1 July 2018
C01 – New Single Dwelling Construction	44	3,267	4,028
C02 – Multiple Dwelling Alterations/Additions (Structural)	0	1,562	1,562

C03 – New Multiple Dwelling (Unit) Construction (Up To 3 Storeys)	0	4,793	4,793
C04 – Single Dwelling Alterations/Additions (Structural)	5	1,458	1,471
C05 –Swimming Pools	2	408	396
C06 – Single Dwelling Renovations (Non-Structural)	6	214	210
C07 – Other - not included in other construction types due to unusual circumstances	21	216	209
C08 – Multiple Dwelling Renovations (Non-Structural)	0	917	917
C09 – New Duplex, Dual Occupancy, Triplex and/or Terrace (attached) Construction	46	4,793	6,696

Why have the premium rates for new duplexes, dual occupancies etc. and new multi-dwelling (unit) categories been separated?

- The rates for new multi-dwelling (units) and new duplex etc. construction types have been split to form their individual rate classes. This breakdown aims to better reflect the underlying risk profiles of the two construction types and removes cross-subsidisation between them. The rates aim to achieve a sustainable basis and better reflect the higher risks and claims experience associated with defects within these two construction types.

  NB: The categories of new multi-dwelling (unit) construction, alterations and additions (C02, C03, C08) remain under review to determine the pricing response as a stand-alone group to emerging experience in these segments.

What about the increases for the other categories?

- For the single-dwelling, other and pool construction types, the increases are relatively smaller. These increases are required to achieve a sustainable basis.

Will there be any further premium increases?

- There are currently no further planned material changes to premiums other than the multi-dwelling (unit) categories. However, we predict that premium filings to SIRA would be made if market circumstance and emerging trends suggest changes to premiums are required to ensure a financially sustainable Fund.

  NB: The categories of new multi-dwelling (unit) construction, alterations and additions (C02, C03, C08) remain under review to determine the pricing response as a stand-alone group to emerging experience in these segments.

What are the Changes to the Risk Based Pricing Regime?

- There are two main changes as elaborated on below. The first concerns the merging of previous separate factors of the period an entity's licence has been held and the structure of the entity.

- The second is the correction of an anomaly whereby a director's assets have been included as part of the entity's assets when calculating the ANTA position for pricing purposes.

What is the change to the premium weighting factors for the period entity licence held and entity structure?

- These factors previously calculated separately have been merged. The level of discounting and loading impact has been refined to change for each year an entity's licence is held (previously a longer period was applied). This means an increased discount (or lesser loading) will apply on each anniversary of issue of an entity's licence (until the overall maximum cap is reached).

- Sole traders and partnerships continue to receive a discount relative to companies and trusts. However, for each additional year an entity holds a licence, the level of reduction in loading or increase in discount will be higher for companies and trusts compared to sole traders and partnerships (until the overall maximum cap is reached). This change reflects the larger improvement in claims experience for an older company or trust compared to an older sole trader or partnership and a younger company or trust

What are the changes to the premium weighting factor for Adjusted Net Tangible Assets (ANTA) in entity

- This premium weighting factor is intended to be evaluated based on the latest (June 30) ANTA of an entity without consideration given to a director's personal ANTA. Currently, due to a system implementation issue, a director's personal ANTA in addition to the entity's ANTA over a two years average has been used as the basis of determining the weighting. This will be corrected from 1 July 2018.

- Company entities that have had a director's personal position included in their ANTA position are likely to experience a deterioration in the weighting for this factor.

What happens where there has been no recent Eligibility assessment undertaken?

- Where an assessment of a builder's or contractor's Eligibility has not been completed within the past two years (i.e. based on financials for 30 June 2016 onwards) the premium weighting will be based solely on the period the entity licence has been held and the entity structure.

Can a premium weighting change before 1 July 2018?

- A builder's premium weighting as 1 July 2018 may change from that notified on ~~4~~ 13 June 2018 should there be a completed assessment because of a programmed Eligibility review or builder profile change application after 7 June 2018. icare HBCF will contact the builder's broker with the new weighting.

When will the new rates and premium weighting factors start?

- The new rates and premium weighting factors will apply to all policies (certificates of insurance) quoted and issued from 1 July 2018 onwards.

How can I calculate my new premium?

- Builders can check premiums via the online calculator at www.icare.nsw.gov.au/premiumcalculator/.

What risk factors impact on the premiums?

- The final discount or loading will be a weighted outcome of all factors capped at either 30% discount or 30% loading impact. Each builder has been provided a risk based

premium discount or loading in a letter from icare HBCF dated ~~4~~ 13 June 2018. Builders and contractors should enquire with their broker if they have not received this letter.

- The factors do not differentiate on builder size, with all builders presented with the same criteria against any Eligibility review. Builders that are not required to submit annual programmed reviews and/or who have not had a review undertaken in the past two years (i.e. based on financials for 30 June 2016 onwards) are only assessed against the entity licence period / business structure risk factor.

Risk Factor	Pricing impact	Rationale
Entity licence period / business structure (i.e. sole trader, partnership, company) and trusts	Discount or loading	icare HBCF's claims experience is that claims are significantly less likely where entities operate as sole traders or partnerships and the longer a licence is held. As a result, sole traders and partnerships (other than partnerships that include a company) receive a discount as do entities that have been licensed for longer periods. Entities that operate as companies (and/or through a trust arrangement) and entities that have been licensed for shorter periods will attract a loading. The longest held licence of an entity in a group secured by a Group Trading Agreement (GTA) will apply to all group members. For entities that operate in other jurisdictions the longest held licence will apply. Refer to pages 3 & 4 for information on the merging of these previous separate factors. NB: *Where an assessment of a builder's or contractor's Eligibility has not been completed within the past two years (i.e. based on financials for 30 June 2016 onwards) the premium weighting will be based solely on this factor.*
Adjusted net tangible assets (ANTA) in entity	Discount or loading	The adjusted net tangible assets (ANTA) retained in an entity can generate either a discount or loading impact for a builder based on the latest (June 30) financials: ▪ Claims data shows the higher the levels of retained ANTA as a percentage of forecast revenue, the lower the frequency of insolvency; ▪ Builders can choose whether to permit the level of ANTA retained in an entity to exceed the minimum 3% benchmark to attract a discounting impact (e.g. reduce dividend payments, retain property assets or limit related loans for non-core activity); ▪ Builders who choose to keep ANTA at the minimum 3% threshold will pay a

		premium loading. For GTA secured groups this pricing factor will consider ANTA retained in the grouping against GTA group turnover. **NB:** *For companies 'retained' ANTA does NOT include a director's personal ANTA.*
Net profit before tax or taxable income	Discount or loading	Claims experience indicates that entities that have generated strong net margins for each of the past three trading years have a low likelihood of claims and as such will have a discounting impact. Entities that generate net losses for each of the past three trading years have a high likelihood of claims and as a result will have a loading impact. **NB**: *For GTA groups – this pricing factor is based on the combined Net Margin of the eligible builders within the GTA group (i.e. where only consolidated financials have been provided for the group the outcome will be a Nil impact).*
Adverse history	Loading	Applies where there is significant and recent history of builder principals being linked to failed entities which have generated HBCF insurance claims or material unpaid creditors or other characteristics are identified as part of an assessment that present a substantial risk to icare HBCF. These cases will attract a loading impact that recognises the increased risk. For GTA groups - adverse history relating to <u>one</u> eligible builder group member will generate a loading impact on all eligible builders in group.
Reviews not current	Loading	Reviews are scheduled for higher risk businesses earlier in the annual review program. A scheduled review that is 30 days overdue and does not permit an assessment to begin will attract a loading. Overdue reviews include cases where: ▪ no submission has been made within 30 days of a scheduled review date; or ▪ a submission has been made on time but is materially incomplete, so an assessment cannot commence. For GTA groups - the overdue review pricing factor will be applied should required information for any GTA group member be overdue (including builder or non-builder members).

Building Contract Review Program (BCRP) participation	Discount	Participation in the BCRP can be a condition of Eligibility or applied to a project. Builders in the BCRP are less likely to generate claims based on icare HBCF data and as such attract a discount. For GTA groupings – any group member in the BCRP will activate a discount for all eligible builders within the group.
Audited accounts	Discount	The existence of additional controls and financial testing of reports increases the comfort in the financial statements reviewed and shows business maturity. The discount applies where a builder has submitted prior year end external audited accounts (covering accounting standards compliance and ongoing concern disclosure); and the most recent year-end account submissions have been audited or will be subject to audit. For GTA groupings - the discount impact applies if the above criteria are met for the financials of **all** GTA group members.