

**RESPONSE TO NSW STATE INSURANCE REGULATORY AUTHORITY DISCUSS PAPER
HOME BUILDING COMPENSATION PREMIUM GUIDELINES**

#	Focus Question	SecureBuild's Response
1	What premium principles should apply to the HBC Scheme?	<p>It should be noted that the HBC market is significantly different to the Workers Compensation and Motor Accidents schemes in a number of ways.</p> <p>Firstly, the premium pool sizes are vastly different. Where the WC and CTP scheme pools are in the magnitude of \$B's the HBC premium pool is somewhere around \$150m p.a.</p> <p>Secondly, the costs associated with assessing eligibility and administering the HBC product are significantly higher than for WC and CTP. HBC is a very rare product and is well known to be the most expensive product class to be involved in.</p> <p>In addition to this, the level of risk being transferred by the HBC product is vastly different to both WC and CTP.</p> <p>Given these factors any guidelines or regulatory frameworks developed to support the HBC reforms cannot comprise a simple 'cut and paste' of the principles and requirements contained within the guidelines for other product classes also regulated by SIRA.</p> <p>Notwithstanding the above, principles 1 to 4 contained within the discussion paper provide a good basis from which to work from. Premium setting need to be fair, reflective of risk and not be unduly volatile of excessive. Premiums should provide incentives for risk management, good practices and be consistent with the 'provider's' capital requirements</p>
2	Are there particular principles applied in the workers compensation or motor accidents insurance regimes that should apply or not apply in the HBC Scheme?	As mentioned above, the HBC scheme is vastly different to these two other schemes. For example, there is no need for equations for the calculation of some aspects of the HBC premium.
3	How detailed or prescriptive should the premium principles be about how they will be interpreted or applied?	<p>In a similar vein to the eligibility guidelines, in being too prescriptive is likely to reduce product differentiation and the delivery of a competitive market and choice to the builders of NSW.</p> <p>The need for detailed and prescriptive principles for the WC and CTP schemes are well understood and accepted. However, given the nature of the HBC market (as outlined above) there is absolutely no need to apply these same principles to the HBC premium guidelines.</p>
4	What should the premium guidelines require for filings by licensed HBC providers to ensure that premiums are not excessive or inadequate?	<p>The guidelines should require the premium filing to include a breakdown of the base premium to be charged. Amongst other things this could include:</p> <ul style="list-style-type: none"> • Acquisition costs;

		<ul style="list-style-type: none"> • Administration costs; • Agent fees; • Risk mitigation costs; • Reinsurance costs; and • Other costs
5	Is there any additional information or other matters that the premium guidelines should require that licensed HBC providers submit with a premium filing?	SIRA will require the provider's underwriting (eligibility) policy so that it can determine whether the premium levels are adequate. A report from the providers actuary will confirm premium adequacy.
6	What, if any, matters should the premium guidelines prescribe about maximum fees payable to the agents of licensed HBC providers and other expenses that may be included in the determination of premiums?	The guidelines should not be overly prescriptive on any aspect other than in relation to premium filing requirements. The fees payable by a HBC provider to an agent should be based on commercial arrangement between the parties. SIRA would simply need to satisfy itself that there are no commissions flowing back to the provider as a result of their arrangements with agents.
7	Should SIRA publish a standard premium filing template and information to support the premium filing process?	SIRA should do this. However, given the possible likely approaches to providing the HBC product by providers it may not be possible to compare premium filings.
8	What information should be required in a standard template?	Those elements outlined in response to question 4.
9	Are there any other issues or risks that SIRA should be addressing through the premium guidelines?	No.
10	Is there information or data from premium filing documentation that should be published by SIRA or that SIRA should require that licensed HBC providers publish?	No. Premium filings contain commercially sensitive information and should not be released to any other party or be made publicly available. Premiums will be made available for customers to scrutinize and within a competitive market they will shop around and select a product who's pricing and service elements best suits their needs.
11	What period should the premium guidelines allow for rejecting a premium filing?	The guidelines should allow 28 days for the rejecting of premium filings.
12	How should the relative riskiness of contractors be assessed?	As per the underwriting policy lodged with SIRA by the HBC provider. The risk represented by contractors will be assessed against the criteria set out within the providers underwriting policy. The criteria used should be clear, unambiguous and clearly understood.
13	What approach should SIRA take to location-based pricing of premiums?	SIRA should have no role to play in the setting of premium price settings. HBC providers will set premium based upon their assessment of the risk profiles and assessments undertaken by them and their actuaries. Given that actuarial analysis has shown lower loss experience in regional locations, it is highly probable that all HBC providers will offer a region discount to premium as is currently the case.

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14	Are there any issues with the current risk-based pricing model?	<p>Yes, it is not clearly understood and is solely focused on remotely attempting to mitigate financial risk. Current loadings being used a crudely punishing builders for astutely utilising trusts and other company arrangements.</p> <p>The current risk-pricing model punishes 98% of good builders for the sins of the 2%. It lacks proper incentives required to change behaviors within the industry.</p>
15	Should SIRA regulate risk-rating criteria that must be considered, or should individual HBC providers be able to determine their own risk rating methodologies for the purpose of pricing their products?	As mentioned previously, SIRA should not to attempt to prescriptive regulate risk-rating criteria as it will stifle innovation and competition.
16	How can SIRA best support evidence-based risk-ratings that support best practice in the building industry (e.g. through giving licensed HBC providers better access to data or data analytics services)?	HBC providers should be utilising the data that they collect to test the evidence and assumptions surrounding their setting of risk-rating premiums. SIRA should focus on analyzing other data sets that will benefit builder, providers and the industry.
17	Should SIRA place controls or limits on how providers apply risk loadings or discounts to contractors? If so, why and what should they be?	Again, SIRA should allow the market to determine the optimal level of premiums, loadings and discounts.
18	What, if any requirements should SIRA impose on licensed HBC providers to ensure that risk-based pricing is done in a clear and transparent fashion that ensures contractors understand why ratings have been applied and how contractors can improve their rating?	The guidelines should require HBC providers to publish 'plain English', simple and easy to understand documents on their approaches to risk-rated premiums. In doing do, builders will be incentivized to change their behavior or capability so that they and their home owner clients can benefit from lower premiums.
19	<p>Should risk-based pricing accommodate more flexible eligibility standards, (e.g. to allow contractors to pay a premium loading or surcharge to take on work beyond their current eligibility limit without the need for it to be reviewed)? What issues would such arrangements need to address?</p> <p>o Note: we have asked related questions in our discussion paper about contractor eligibility standards.</p>	Yes, there should be flexibility for providers to adopt such an approach.
20	How should SIRA approach managing the sharing or equalisation of risks across different HBC providers in the HBC Scheme?	SIRA should not seek to apply this approach to the HBC scheme. Again, the HBC scheme is distinctly different to other insurance schemes. Caution should be exercised in attempting to apply approaches from other schemes. The premium pool is too small to adopt this approach. Additionally, if it is adopted by SIRA then it would constitution a further disincentive to providers to enter the market.

21	Are there ways that the premium guidelines could facilitate licensed HBC providers to offer innovative products?	Yes, by not being overly prescriptive in nature.
22	How should the premium guidelines assess the pricing of split cover products, products that indemnify other risks or losses, or products that include additional services or options?	As above.
23	Should SIRA assess premiums only in respect of the component relating to the minimum standards required for HBC cover, or the total price inclusive of any innovative features that exceed minimum requirements?	The minimum standard required for HBC cover.
24	How can the premium guidelines support transparency for contractors and home owners about the cost of HBC products, including product innovations that exceed minimum requirements?	Again, within a competitive market builder will be free to shop around to get the best deal for themselves and their home owner clients.
25	What, if any, controls should SIRA place on HBC product policy wording and conditions that relate to premiums or other fees or charges associated with HBC products?	Require them to be simple, concise, not legalistic and easy to read and understand.
26	What if any requirements for premiums should SIRA apply to support the entry of new providers in a competitive market, but also support sustainability?	As outline above.
27	What if any controls should SIRA place on licensed providers offering premium discounts for bundling HBC cover with other separate products that SIRA does not regulate?	Such practices are controlled by Commonwealth legislation.

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