

Draft home building compensation business plan guidelines

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1. Introduction

- 1.1 The Home Building Compensation (HBC) Business Plan Guidelines provide an enforceable framework for HBC providers to prepare business plans as required under Section 105S of the *Home Building Act 1989*.
- 1.2 The State Insurance Regulatory Authority (the Authority) regulates the HBC Scheme.
- 1.3 HBC providers and potential providers are required to submit business plans to the Authority for review as part of an application to become a licensed provider of HBC products in NSW (or renew a licence) and in association with premium filings. This enables the Authority to assess whether the provider or potential provider has capability and capacity to provide sustainable and competitive products to protect consumers from losses caused by defective or incomplete work in the event of the death, disappearance or insolvency of a contractor.
- 1.4 These guidelines should be read in-conjunction with other insurance guidelines issued by the Authority including those that govern prudential standards, market practices and claims handling of HBC providers.
- 1.5 To assist in the interpretation of these guidelines, the Authority may publish practice notes from time to time.

2. Commencement

- 2.1 The guidelines apply to all claims made on or after [XX January 2018] under the HBC Scheme.

3. Guideline-making powers

- 3.1 These guidelines specify the minimum requirements for HBC licensed providers when providing business plans to the Authority. They also describe how the Authority will assess the HBC licensed provider's business plans.
- 3.2 These guidelines are made under section 105S of the Act, which requires that:
 - 3.2.1 A HBC licensed provider must prepare and deliver to the Authority a business plan for its insurance business under Part 6 or its alternative indemnity product business for cover under Part 6B as soon as practicable after it is requested to do so by the Authority.
 - 3.2.2 The HBC licensed provider must revise its business plan:
 - a) whenever it departs significantly from its business plan, and
 - b) at intervals of not less than 12 months, as the Authority directs.
 - 3.2.3 The HBC licensed provider must, as far as practicable, conduct its insurance business for insurance under part 6 or its alternative indemnity product business for cover under part 6B in accordance with its current business plan, but if it departs significantly from that plan the HBC licensed provider must notify the Authority accordingly.

- 3.2.4 A business plan must be prepared in accordance with the insurance guidelines.
- 3.2.5 A business plan must describe the manner in which the HBC licenced provider's business for insurance under part 6 or its alternative indemnity product business for cover under part 6B is to be conducted (including claims handling, management, expenses and systems).
- 3.2.6 It is a condition of a licence granted under this Act that the HBC licensed provider complies with this section.

4. Definitions

In these guidelines, terms that are defined in the Act or the Home Building Regulation 2014 (the Regulation) have the same meaning as they do in the Act or Regulation unless otherwise specified.

Term	Definition
The Act	<i>Home Building Act 1989</i> (NSW)
APRA	Australian Prudential Regulation Authority
The Authority	State Insurance Regulatory Authority
The Guidelines	The Home Building Compensation (HBC) Business Plan Guidelines
HBC	Home Building Compensation
Insurance guidelines	Other insurance guidelines issued by SIRA including those that govern prudential standards and market practices of HBC providers.
HBC licensed provider or licensed provider	An insurer or alternative indemnity provider who holds a current licence granted under division 1 of part 6C of the Act.
Regulation	Home Building Regulation 2014

5. Scope of guidelines

- 5.1 These guidelines apply to all HBC licensed providers.

6. Business plan requirements

- 6.1 The business plan for each HBC licensed provider is to be prepared in accordance with section 105S of the Act and must:

- 6.1.1 be approved by the HBC licensed provider's board or corporate trustee prior to submission to the Authority
- 6.1.2 describe the manner that the HBC licensed provider's business will be conducted (including distribution channels, premium setting and collection, claims handling, team management, expenses and systems)
- 6.1.3 include the provider's strategic objectives for their HBC business together with targets, timeframes and planned activities to achieve the strategic objectives. The strategic objectives should, as a minimum include the following:
 - a) premium setting and policy administration in compliance with the Authority's HBC market practice and premiums guidelines
 - b) financial protection of the end-consumer against defective or incomplete work when the builder disappears, dies or becomes insolvent
 - c) efficient and effective customer service and complaints resolution processes (for builders and end-consumers)
 - d) developing and improving internal resource capability or identifying external expertise to conduct HBC business
 - e) building a strong governance and corporate culture, and
 - f) a statement as to how the HBC licensed provider's business model will deliver competitive and innovative products and services.

- 6.2 The business plan must include or be supported by:

- 6.2.1 a claims management model and organisation structure
- 6.2.2 HBC business objectives, mission and vision
- 6.2.3 internal resource capability (and external expertise if applicable)
- 6.2.4 HBC business targets, timeframes and planned activities to achieve objectives
- 6.2.5 an operational and organisational risk management plan (including the identification, assessment and mitigation of those risks)
- 6.2.6 customer service and complaints resolution model (in line with the requirements explained in the claims handling guidelines)
- 6.2.7 distribution plan (including channels, category of builders targeted and ensuring ease of access)
- 6.2.8 evidence of a strong governance framework, including a structural chart and summary of roles in the governance oversight committees, and

6.2.9 documents to satisfy compliance with prudential standards required under the Authority's HBC guidelines.

7. Business plan filing process

Frequency of business plan submission

- 7.1 A HBC licensed provider is to provide their business plan within the first three months of the financial year.
- 7.2 A revised business plan is to be submitted as per section 105S (2) (a) if the HBC licensed provider departs significantly from the objectives of the previously submitted business plan.
- 7.3 HBC licensed providers are required to notify the Authority, and may need to submit a revised business plan, where a significant event may impact the HBC licensed provider's ongoing operations and viability.

Assessment and management of business plans

- 7.4 The Authority will assess the business plans of HBC licensed providers against the requirements set out in sections 6.1 and 6.2 of these guidelines.
- 7.5 The Authority may request additional information or amendments to business plans in order to ensure business plan requirements and the objectives of the HBC Scheme are met.
- 7.6 Business plans may be used by the Authority to assist in the assessment of compliance with other HBC insurance guidelines including:
 - 7.6.1 market practice guidelines
 - 7.6.2 premium guidelines
 - 7.6.3 prudential requirements, and
 - 7.6.4 licensing guidelines.
- 7.7 The Authority will monitor and review the business plan compliance and/or HBC business of HBC licensed providers in accordance with these guidelines.
- 7.8 HBC licensed providers are to provide the Authority six monthly updates on the implementation of the business plan.

8. Consultation questions

1. Is the minimum and supporting content to be supplied in a business plan appropriate (refer to section 5 of these guidelines)?
2. Are there any elements that should be excluded, added, or further clarified to assist the preparation of business plans by providers, and subsequent evaluation by the Authority?
3. What time horizon should the business plan cover? Is three years an appropriate horizon?
4. Should these guidelines set targets for performance monitoring? For example financial targets such as gross written premium and market share or non-financial targets.
5. Should business plans and progress reports submitted to the Authority include details of top-up products? If so, how should the Authority consider these when evaluating business plans?
6. Is it desirable to have a standard reporting template to track progress against business plan objectives or targets? What elements should be mandatory to report and how frequently?
7. The Authority plans to review these business plan guidelines within 18 months. Is this the correct timeframe for review?

Disclaimer

This publication may contain information that relates to the regulation of workers compensation insurance, motor accident third party (CTP) insurance and home building compensation in NSW. It may include details of some of your obligations under the various schemes that the State Insurance Regulatory Authority (SIRA) administers.

However to ensure you comply with your legal obligations you must refer to the appropriate legislation as currently in force. Up to date legislation can be found at the NSW Legislation website legislation.nsw.gov.au

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