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# Building Insurers' Guarantee Corporation

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## AUDIT OPINION

The audit of the Corporation's financial statements for the year ended 30 June 2010 resulted in an unqualified Independent Auditor's Report. However, the Independent Auditor's Report drew attention to significant uncertainty in the valuation of the Corporation's outstanding claims liability.

The Corporation administers one of the Government's rescue packages created in response to the collapse of the HIH Insurance Group (HIH). The Corporation recognises a liability in respect of home warranty insurance claims on policies issued by HIH. The Treasury provides funding to the Corporation for all approved claim payments.

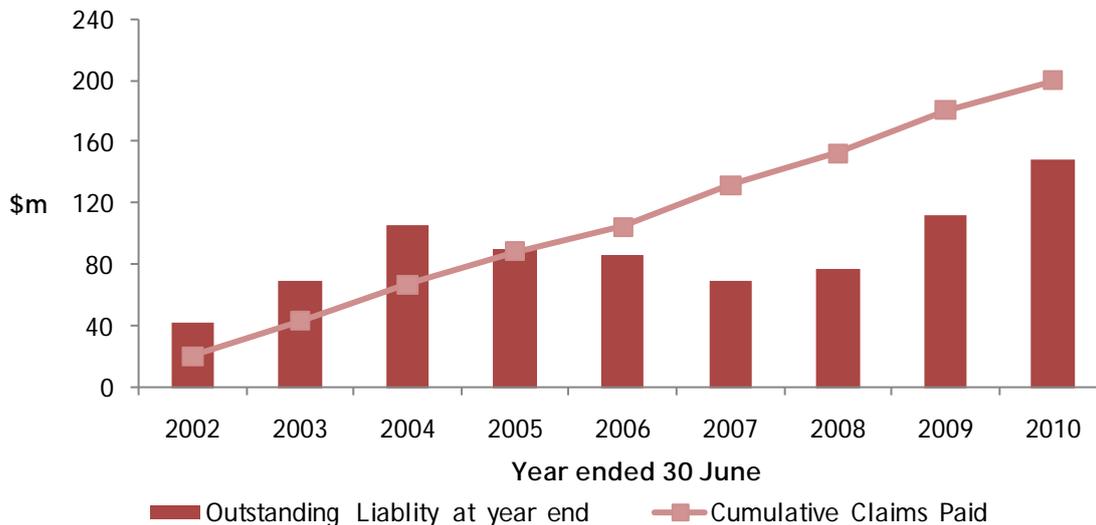
The liability is expected to reduce over time as claims are settled. However, the estimated liability has increased significantly in 2010 due to variability of claims costs during the period. This indicates a significant uncertainty exists with the estimation of the liability at 30 June 2010.

## KEY ISSUE

I recommend the Corporation continue to closely monitor the claims liability.

The Corporation has paid a total of \$200 million for claims made against HIH insurance policies up to 30 June 2010. Offsetting this, the Authority has received a total of \$91.1 million in recoveries from the HIH liquidators and reinsurers.

On top of the \$200 million paid to date, a further \$167 million in claims payments are expected.



After initial growth in the estimate of claims, the claims liability was expected to decrease as claims were settled. However, the estimated claims liability has significantly increased in 2009 and 2010.

The increase in the liability is mainly due to a significant deterioration in claim estimates. Payments made in recent years for open and settled claims were significantly higher than expected. The expected cost of the claims remaining has increased based on this experience.

In 2009, I recommended that the Corporation closely monitor the claims liability and take any practicable steps to obtain better data on claims to help improve the accuracy of claims liability estimates. Since then, the Corporation has made changes to its estimation processes and implemented regular monitoring practices.

## FINANCIAL INFORMATION

### Abridged Statement of Comprehensive Income

Year ended 30 June	2010 \$'000	2009 \$'000
Government contributions	22,400	33,900
Other	375	126
<b>TOTAL REVENUE</b>	<b>22,775</b>	<b>34,026</b>
Net insurance claims and provisions	54,255	62,755
Administrative services	3,007	3,418
Other operating expenses	2,152	3,966
<b>TOTAL EXPENSES</b>	<b>59,414</b>	<b>70,139</b>
<b>DEFICIT</b>	<b>36,639</b>	<b>36,113</b>
<b>TOTAL COMPREHENSIVE INCOME</b>	<b>36,639</b>	<b>36,113</b>

Government contributions are payments from The Treasury to meet claims on the home insurance policies of insolvent insurers and other costs of the Corporation. The amount of contribution received each year is largely dependent upon the amount of claims paid during the period.

## Abridged Statement of Financial Position

At 30 June	2010 \$'000	2009 \$'000
TOTAL ASSETS	1,372	1,791
TOTAL LIABILITIES	148,031	111,811
NET LIABILITIES	146,659	110,020

The estimated outstanding claims liability increased to \$148 million (\$112 million). This creates a net liability position of \$147 million (\$110 million) at 30 June 2010. The Corporation relies on payments from The Treasury from the Building Insurer's Guarantee Fund to meet claims costs and administration expenses.

## CORPORATION ACTIVITIES

The Corporation's principal role is to administer the Building Insurers' Guarantee Fund. The Fund is established under the *Home Building Act 1989* as a consequence of the collapse of the HIH Insurance Group in March 2001. This collapse created a range of serious home warranty insurance difficulties for consumers, builders and developers in New South Wales. The Fund provides indemnity for homeowners to the same extent that would have applied under home warranty policies issued by the HIH Insurance Group.

The Corporation is managed and controlled by the Minister for Commerce jointly with the Minister for Fair Trading.