



# Premium Rating

An explanation of the scheme

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## What is Premium Rating?

NHBC's Premium Rating scheme works on the same principle as your 'no claims' bonus for car insurance. Just as good drivers benefit from discount, good builders and developers pay reduced home-registration fees. Your premium rating is based on your claims record and the amount of time you have been on the NHBC Register. We use this rating to calculate how much you should pay to register homes. The scheme aims to encourage quality in the industry as builders with a poor claims record inevitably pay higher premiums. This should motivate builders to improve their standards.

Newly registered builders pay a standard rate, while registered builders who have kept up high standards over many years, benefit from a discounted rate. Because NHBC values good building practices, the typical fee for a good, long-serving builder will be about 60% less than that for a long-serving builder with a bad claims record.

The expressions 'home' or 'homes' referred to in this booklet shall include non-residential premises registered under Buildmark Link and Buildmark Connect.

## How are fees calculated?

Fees are determined by two factors:

### 1. How long a company has been on NHBC's register.

There are five categories:

A1\* Builders registered with NHBC for 20 years or more, having a loss ratio of less than 50% and registering with NHBC an exceptionally high number of homes each year (the number being variable at the discretion of NHBC, and the rating is awarded on a range of merits in each case).

A - 15 years or more

B - ten to under 15 years

C - five to under ten years

D - under five years

### 2. How a company's claims record compares with the national average - its 'loss'.

There are four categories:

1 - loss ratio under 50%

2 - loss ratio 50% to 149%

3 - loss ratio 150% to 499%

4 - loss ratio 500% or more

These two factors are then used to calculate the premium rating scale, which ranges from A1\* (long-serving registered builders with a good claims record) to D4 (builders who have been registered less than five years and who have claims more than five times the national average). There are 17 premium rating scales in total. Newly registered builders/developers are placed on the NHBC Register at an initial premium rating of D2, which is reviewed at the first annual premium rating review date following completion of a full year of registration. A builder who has complied fully with the NHBC Rules of Registration will then be considered for promotion to D1.

The Premium Rating matrix looks like this:

LOSS RATIO	YEARS ON THE REGISTER			
	under 5	5 to under 10	10 to under 15	15 and over
Under 50%	D1	C1	B1	A1
50% to 149%	D2	C2	B2	A2
150% to 499%	D3	C3	B3	A3
500% or more	D4	C4	B4	A4

## Loss ratio

A registered builder's loss ratio is a measure of how their claims record for defects first reported in years three to ten of the Buildmark policy compares with the national average cost for these claims. A registered builder with a loss ratio of 50% has a cost per home which is half the national average. One with a loss ratio of 200% has a cost which is twice the national average. Clearly the latter should pay higher fees. A brief explanation of how this calculation is carried out is given below.

## How are 'loss ratios' calculated?

Loss ratios are based on an annual assessment of NHBC's national claims experience, making due allowance for the split of claims by age of home. Loss ratios are a fair way of establishing the premium rating scale to be applied to an individual registered builder. This is because they take account not only of the actual cost of claims paid in respect of a particular registered builder, but also of how many homes the builder has built and how old those homes are.

## Why is time on the NHBC Register important?

There are two reasons. Firstly, about half of all NHBC registered builders allow their registration to lapse within 5 years of admission to the Register. They leave the NHBC to deal with any Buildmark obligations and NHBC is then unable to recoup its expenditure through the premium rating scheme. While the majority of these registered builders cause no claims, they are, as a group, a higher risk than longer-standing registered builders so it is right that they should make a larger contribution to NHBC insurance funds.

Secondly, the costs of rectifying most major defects are paid between 7 and 12 years after a home has been registered. Few claims are expected from registered builders who have been on the Register for say, 8 or 9 years so a good claims record at this stage is inconclusive. After 15 years on the Register the builder's claims record is more meaningful as a basis for calculating fees.

## Are large and small registered builders treated equally?

The only difference between large and small registered builders is the length of time over which their loss ratio is calculated.

The categories are:

No. of homes registered in the previous 3 calendar years	Length of time over which loss ratio is assessed
Over 150	2 years
31 - 150	4 years
30 or less	6 years

The actual claims for a large registered builder for a two-year period are compared with the calculated national average claims for that two-year period. In the case of a small registered builder the comparison is based on a six-year review period. This is because less than one in 20 homes give rise to major defect claims. Therefore, to assess a small registered builder fairly, his claims record must be considered over a comparatively long period.

## How often are premium ratings reviewed?

All registered builders' premium ratings are reviewed each year in February, taking account of any claims paid by NHBC and recorded against that registered builder during the previous calendar year (see previous question). Details of changes are sent to registered builders in mid-March with new premium ratings coming into effect from 1st April.

## How does the scheme work for groups of companies?

Companies under the same ownership and controlled by the same directors may elect to be treated as a single entity for premium rating purposes. Similarly, companies who are trading groups within the definition of the Companies Act have the same choice.

The parent company for premium rating purposes can be a nominated company within the group if the true parent or holding company is not registered with NHBC. The nominated parent company must be registered with NHBC.

All members of a group are placed on the same premium rating scale. The registration date of the earliest registered company determines the length of time on the register for the group. The group loss ratio is calculated from the record of all members of the group, including those who were in the group but are no longer registered with NHBC.

Once a group has been formed, individual companies cannot be taken out of the group without special dispensation from NHBC. Newly registered or newly acquired companies may be added to a group and will take the group premium rating scale. However, their claims (including claims before inclusion in the group) will be taken into account when calculating the group scale.

### Can registered builders repay the cost of claims?

Registered builders are notified by NHBC whenever a valid claim is made against them.

They can then choose to do one of the following:

Claims can be repaid retrospectively to protect the registered builder's premium rating provided that ALL claims in the review period are repaid and not only selected ones. Where a registered builder has opted to allow NHBC to settle a claim, the registered builder may not later dispute that the claim could have been settled more cheaply. Detailed arrangements for repayment must be agreed with the Commercial Manager.

Action by registered builder	Cost of work paid for by	Recorded against registered builder's PR record
Carry out work	Registered builder	No
Supply quote to NHBC for cost of work. If the quote is acceptable to NHBC, carry out work	NHBC	Yes
None	NHBC arranges and pays for work to be carried out	Yes

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