



HBCF

# HBCF Eligibility Manual Manual

Version 11.0 – 1 July 2022

This document has been prepared by icare HBCF.

Insurance and Care NSW (icare) provides services in the administration of the Home Building Compensation Fund for the NSW Self Insurance Corporation.

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Version	Revision Description	Date	Author
11.0	<p>Revisions as part of:</p> <ul style="list-style-type: none"><li>▪ Improved readability enhancements</li><li>▪ Implementation of automated underwriting for previously system reviewed and small Builders</li><li>▪ Revisions as part of the 2021 Eligibility model submission to SIRA for implementation in 2022</li><li>▪ Implementation of IPART recommendations</li><li>▪ Implementation of SIRA Home building compensation (eligibility) insurance guidelines published in December 2021</li><li>▪ Implementation of SIRA new Construction Types and definitions published in December 2021</li><li>▪ Addition of a disclaimer. New chapter added. Refer to Disclaimer on page 104.</li></ul>	30 June 2022	icare HBCF Technical Writer

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## 1 Preamble

Insurance and Care NSW (icare) provides services in the administration of the Home Building Compensation Fund (HBCF) for the NSW Self Insurance Corporation (SICorp). Home Building Compensation insurance protects homeowners and what can be the most important purchase of their life. We issue this version 11 as part of meeting our Eligibility model submission requirements to SIRA for 2022.

### 1.1 Significant changes in this version

#### 1.1.1 New Construction Types

Following the recent Independent Pricing and Regulatory Tribunal (IPART) review of the home building compensation scheme, SIRA reviewed their Insurance Guidelines. In December 2021, SIRA published new guidelines for managing HBC insurance premiums and Eligibility.

SIRA does not expect these changes to affect the overall costs or benefits of the scheme as a whole. This is because the total scope of risks insured by the scheme remains the same.

<sup>1</sup>SIRA's December 2021 guidelines change Construction Type definitions to align more closely with building classifications in the <sup>2</sup>National Construction Code. SIRA believes that these changes will:

- improve the way they regulate premiums for different types of construction projects
- result in a fair allocation of the cost of insuring different types of work
- apportion the risks and costs more evenly across different types of projects
- standardise descriptions of Construction Types and building classifications that are understandable and practical for users.

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**Note:** These changes reduce the number of Construction Type categories from nine to five from October 2022. For more information about Construction Types, please see section 8.5 Construction types.

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#### 1.1.2 Key changes to Construction Types

- Because it is rarely used (fewer than five instances in the last year), the C07 (Other works) Construction Type will no longer be used.
- SIRA's guidelines reduce the number of Construction Types from nine to five based on whether work is on a Class 1a building or Class 2 building, and whether work is to build new homes or work on existing homes, or work relating to a swimming pool.
- The structural and non-structural categories are merged (C04 and C06, C02 and C08) to reduce complexity.
- We no longer use land title as a basis for premium setting and Construction Types (Torrens, strata, or community on C03 and C09).

These are the five modified Construction Types and their relationship to the previous types.

- New Dwelling Construction (C01, C09, and some forms of C03)
- New Residential Apartment Building Construction (C03)

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<sup>1</sup> You can find more information about the changes to the guidelines on the SIRA website: <https://www.sira.nsw.gov.au>.

<sup>2</sup> The National Construction Code (NCC) is Australia's primary set of technical design and construction provisions for buildings (<https://ncc.abcb.gov.au/>).



- Building Work to an Existing Dwelling (C04 and C06)
- Building Work to an Existing Residential Apartment Building (C02 and C08)
- Swimming Pools (C05)

Detailed descriptions and examples are in Table 2: Construction Types.

### 1.1.3 New ASR assessment type

We have created a new automated assessment type (Automated [Builder] Scorecard Review—ASR) to streamline the Eligibility Assessment process. This is part of icare's commitment to making the complex simple. The ASR model will streamline the process, reducing both the costs and onerous compliance requirements for most builders in NSW without increasing the overall risk to the Fund.

This new process uses an Eligibility score calculated by a commercial credit bureau to indicate the level of risk a Builder represents. Working with an Australian commercial bureau reporting agency and icare Actuaries, we have developed this new risk-based automated underwriting method, which is a simpler, more accurate indicator of a Builder's risk profile. The Eligibility Score will also provide the basis for future harmonisation between icare HBCF Eligibility risk determinations and the <sup>3</sup>iCIRT builder rating tool.

More than 90% of current HBCF Builders will qualify for an ASR assessment using the Eligibility Score.

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***Note: Using the Eligibility Score enables us to automate Eligibility Assessments and provide an assessment outcome within two business days. This is a significant change to the way we assess Eligibility and offers many benefits to Builders, Brokers, homeowners and icare HBCF.***

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For more details about the new ASR assessment, please refer to section 19.5 Automated (Builder) Scorecard Review—ASR.

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<sup>3</sup> For more information about the Independent Construction Industry Rating Tool (iCIRT), please go to:  
<https://www.nsw.gov.au/news/icirt-apartment-rating-system>.

## 2 Objectives of the icare HBCF Eligibility Model

The objectives of the icare HBCF Eligibility model are to:

- Provide insurance that satisfies the requirements for a licensed insurer under Part 6 of the *Home Building Act 1989 (NSW)*—(the Act)—and comply with all SIRA guidelines.
- Ensure that Builders can take on a level of work (and have access to insurance cover) that matches their ability to successfully complete that work.
- Minimise unnecessary disruption to the NSW residential construction industry and ensure a consistent approach to insurance underwriting without consideration of market influences and to support a strong and viable residential building industry.
- Deliver services in a financially prudent basis to manage the risk of loss.
- Take an even-handed and consistent approach to underwriting and minimise the risk of events (such as Builder insolvency) which are grounds for a claim. As icare HBCF assumes liabilities that extend for six years from completion of building works (or sometimes beyond) it is fundamental to our objectives that businesses trade without financial stress and with the capacity to absorb external shocks.

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**Note:** *Because of icare HBCF's complex underwriting requirements, this document contains, unavoidably, a lot of technical language and defined terms. We have placed all of these defined terms in section 29 Glossary.*

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**Note:** *Distributors are sometimes referred to as Brokers.*

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### 3 Scope of this manual

The material in this manual provides icare Distributors, Builders, and other relevant advisors (such as accountants) with a key reference source and guidelines for applying for and maintaining Eligibility under Part 6 of the *Act* through the Home Building Compensation Fund (HBCF). We have defined the terms used in this document in the glossary. Please refer to the Glossary in section 29 in this Manual.

- A reference to icare HBCF or HBCF includes a reference to SICorp and icare.
- Terms variously used are 'Builder', 'contractor', 'person' (per *Interpretations Act 1987*), and all are intended to simply reflect a person who must be licensed to undertake residential building work in NSW under the *Act*.

## 4 Supporting references

Table 23 contains supporting reference materials relevant to the icare HBCF Eligibility model.

*Table 1: Supporting reference materials for Eligibility model*

Provider	Reference material	Location
icare HBCF	HBCF Eligibility Manual	Published by icare HBCF and available on its website: <a href="http://icare.nsw.gov.au">icare.nsw.gov.au</a>
icare HBCF	HBCF Underwriting Procedures Manual	icare HBCF Underwriting follows the procedures in this manual.
icare HBCF	HBCF Complaint and Dispute Handling Procedures for Eligibility and Premiums	Published by icare HBCF and available on its website: <a href="http://icare.nsw.gov.au">icare.nsw.gov.au</a>
NSW Fair Trading	NSW Guide to standards and tolerances 2017	Published by NSW Fair Trading and available on its website: <a href="https://www.fairtrading.nsw.gov.au/housing-and-property/building-and-renovating/after-you-build-or-renovate/guide-to-standards-and-tolerances">https://www.fairtrading.nsw.gov.au/housing-and-property/building-and-renovating/after-you-build-or-renovate/guide-to-standards-and-tolerances</a>
Law and Justice	NSW Government's Model Litigant Policy	Published by the NSW Department of Justice and available on its website: <a href="https://www.justice.nsw.gov.au/legal-services-coordination/Pages/info-for-govt-agencies/model-litigant-policy.aspx">https://www.justice.nsw.gov.au/legal-services-coordination/Pages/info-for-govt-agencies/model-litigant-policy.aspx</a>
State Insurance Regulatory Authority (SIRA)	<ul style="list-style-type: none"> <li>Home building compensation (claims handling) insurance guidelines</li> <li>Home building compensation (eligibility) insurance guidelines</li> <li>Home building compensation (premium) insurance guidelines</li> <li>Home building compensation (prudential) insurance guidelines</li> <li>HBC standard licence conditions for insurers</li> <li>NSW Self Insurance Corporation conditions – Home building compensation regulation</li> <li>Customer Service Conduct Principles</li> </ul>	Published by SIRA and available on its website: <a href="https://www.sira.nsw.gov.au">https://www.sira.nsw.gov.au</a>

## 5 Contractor licensing

Builders and contractors entering into residential building contracts requiring HBC insurance cover must hold a current contractor licence issued under the *Act*.

The person or entity seeking and holding icare HBCF Eligibility must be the person or entity holding the licence (that is, the name of the Builder or contractor appearing on the contract, licence and icare HBCF Eligibility and insurance certificates should be the same).

If a Builder operates their business as a sole trader, then the Builder's own name should appear on the contractor licence. If the licence is issued to a company (corporation) or a partnership, the name of the company or the names of every member of the partnership will be shown on the licence.

Contractor licences are not issued to Trusts and neither are licences issued in the name of 'The Trustee for ...' nor 'ABC Pty Ltd as Trustee for ...'. Contracts to undertake residential building work must be entered in the same name as is displayed on the contractor licence and entity holding a Certificate of Eligibility. If the licence has been issued to a company or partnership, the contract must be in this name. Similarly, if the licence has been issued to an individual, the contract must be in that person's name.

In the case of a company or a partnership, icare HBCF requires a director of the company, member of the partnership, or a genuine full-time employee to be nominated as the supervisor responsible for the work contracted by the company or partnership.

This supervisor must also hold a supervisor certificate under the *Act*. A holder of a qualified supervisor certificate is responsible for all work carried out under their supervision, and for ensuring:

- the work is done with due care and skill
- the relevant regulations, ordinances, codes are complied with
- that suitable materials are used.

You can find out more about supervisor certificates at Service NSW:

<https://www.service.nsw.gov.au/services/business-industries-and-employment/building-and-construction-industry/qualified-supervisor>

It is not icare HBCF's role to determine whether insurance is required for a project under Part 6 of the *Act*. This is the role of the builder, and it is an offence if the builder fails to purchase insurance if required. As an underwriting principle, icare will consider the records or advice of the Principal Certifying Authority (PCA) engaged for the project under the *Environmental Planning and Assessment Act 1979* in regards to the builder's compliance, and may refer matters to Fair Trading or SIRA, which administer the *Home Building Act 1989 (NSW)*.

## 6 Builder Eligibility overview

'Eligibility' is the term used to describe the approval to enable a Builder to obtain a Certificate of Insurance (COI) for specific projects and under what conditions. A licensed contractor must hold active Eligibility before they can purchase a COI for a specific project that requires HBC insurance cover. Underwriters are appropriately authorised icare HBCF staff who perform an underwriting, risk management assessment for each Builder when they receive an Eligibility application.

Builder Eligibility Assessments evaluate each of the following criteria:

For Builders who are automatically assessed:

- the Eligibility Score<sup>4</sup>

For Builders who are manually assessed:

- Builder's financial performance and financial position, including Adjusted Net Tangible Assets (ANTA) exposed to the building operations
- Builder's history and management structure
- Builder's technical qualifications and business capabilities
- existing Eligibility and conditions imposed by other licence holders (if any).

All Eligibility approvals provide Builders with a Certificate of Eligibility (COE) including:

- The value and number of individual jobs permitted under construction at any one time (referred to as Open Job Limits—OJL).
- The maximum contract price for individual Construction Types the Builder is approved for.

Builders who are not automatically assessed, will have a COE that limits the number of individual jobs permitted under construction at any one time. This limit is called the Open Job Number (OJN).

Builders cannot exceed their OJN. If they are using the full quota of their OJN, they must complete one job before starting another. A Builder's Eligibility may also include ongoing conditions on the business or conditions for specific projects.

The Eligibility approval is not a standing entitlement or contract of insurance and underwriters may revise, suspend, or cancel Eligibility at any time, following the principles and the process set out in this manual.

The Eligibility approval conditions explained in detail throughout this manual could include:

- security from the director(s), adult beneficiary trustee guarantee and/or related entities
- a Group Trading Agreement (GTA)
- maintaining capital levels or trade credit balances
- participation in icare HBCF's Building Contract Review Program (BCRP)
- monitoring of job completion times and close out margin reporting
- increased frequency of financial or other reporting
- Job Specific Deed of Indemnity (JSD)
- controlled reductions or increases in OJL
- by agreement with the builder, other restrictions as required to protect the Fund and community, where proportionate and within the relevant regulations

Underwriters will review Eligibility at regular intervals. When an underwriting assessment is completed, the underwriter will determine the frequency of future reviews. Review requirements are defined in this manual (section 11 Eligibility Assessment information requirements). Depending on the risk a Builder

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<sup>4</sup> When we complete an ASR assessment, we will provide a Builder Report with the Builder's Eligibility Score and factors that contribute to it.

presents, at our sole discretion, icare HBCF may amend the next review due date, scope, or requirement for review. When changing a review date, icare HBCF will provide at least 40 business days notification of an upcoming Programmed Eligibility Review (PER) on the specified due date.

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***Note:** The paragraph immediately below will only apply if a second or subsequent HBC insurance or alternative indemnity provider is licensed by SIRA and offers cover in the market*

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icare HBCF Eligibility Assessments are predicated on managing the risk associated with the total number and value of jobs which a Builder has underway at any given time, regardless of whether those jobs are covered by icare HBCF or another provider. If a Builder holds Eligibility with more than one home building compensation insurer or provider under the New South Wales Home Building Compensation Insurance framework, the underwriter will automatically include the number of jobs insured with the other provider and their value in their OJL and OJV calculations. If the Builder undertakes jobs that do not require HBC insurance under the legislation, these will also be considered, though they may not directly contribute towards OJL and OJV utilisation. The approach to Builders operating in multiple states or territories is set out in section 9.3 Assessment of Open Job Limits—OJL—and assumed turnover.

## 6.1 Form of insurance cover offered

icare HBCF offers a 'project specific' form of insurance cover.

An eligible Builder applies for cover for an individual project by lodging their submission with a copy of the contract in the icare HBCF Builder Self-Service Portal, or by submitting one of the following Project Application forms to their Distributor:

- Project Application form – All Work (excluding residential apartment building Projects)
- Project Application form – Residential apartment building Projects (that is, for Residential building work relating to the construction of a Class 2 building (or a mixed-use building with a Class 2 component) with a rise in storeys of up to three and any associated Class 10 buildings or structures.)

Once approved by icare HBCF, Distributors may provide a digital solution to collecting the equivalent of the above forms.

Underwriters may reject applications for individual projects or apply specific conditions if those projects do not satisfy underwriting criteria.

## 7 Distribution and advocacy

### 7.1 Distributors

From time to time, icare HBCF evaluates Distribution Tenders to add Distributors to the icare HBCF distribution panel. If the evaluation is successful, icare HBCF will specify the form of distribution deed that the Distributor must execute before being admitted to the icare HBCF distribution panel.

### 7.2 Role of authorised representatives

Authorised representatives of Distributors are NOT permitted to act as icare HBCF Distributors.

### 7.3 Distributor functions

The objectives of consistency and procedural fairness provide a right for all Distributors to advocate on behalf of Builders.

The principal role of a Distributor (subject to the requirements under the Distribution Deed entered with icare HBCF and subject to the procedures set out in this manual) is to:

- transact through the icare HBCF IT Transaction Systems (Claims Information Management System – CIMS, and Builder Eligibility Assessment Tool – BEAT)
- manage the Builder's requirements for making new Eligibility applications
- manage the Builder's responsibilities for Eligibility Assessment
- ensure that the Builder meets all Eligibility conditions
- work with icare HBCF to ensure the fairness, transparency and sustainability of the Fund
- advocate on behalf of Builder clients.

### 7.4 Policy issuance

When a Distributor enters a policy application in CIMS or a Builder submits cover through the Builder Self Service Portal (BSSP), Distributors must submit and bind policy applications and cover within:

- the agreed service standards
- a Builder's conditions of Eligibility
- this manual's COI issuance policy
- the CIMS User Guide policy.

### 7.5 Distributor advocacy

#### Manual Assessments

When the Distributor makes a complete submission (as defined in this manual) their advocacy will help the underwriter to make an informed decision. The Distributor must disclose all matters in their possession and knowledge that are relevant to the Eligibility Assessment. This includes seeking approval for an Eligibility Profile that will represent the Builder's insurance requirements for the next 12 months (not for a lesser amount, which will knowingly require an increase within the following 12 months).

#### ASR Advocacy

When a Distributor makes a complete simplified submission (as defined in this manual), their advocacy role remains for those elements relevant to the streamlined process. This includes ensuring the accuracy of the information the ASR assessment has relied upon and disclosing all matters in their possession and knowledge that are relevant to the Eligibility Assessment.



## 7.6 Distributor communications with Builders

The Distributor must communicate icare HBCF's requirements and decisions clearly and in a timely manner and help get information that the underwriter needs to conduct risk assessments and to monitor and manage ongoing risks.

The Distributor will help minimise unnecessary disruption to projects due for commencement and identify such concerns to the underwriter as appropriate.

When communicating with Builder clients the Distributor should always ensure they have a clear understanding of the reasons behind the requirements to allow effective communication. These communications may include requests for further information.

To carry out this function effectively and efficiently, a Distributor must be very familiar with the current versions of the following content published on the icare HBCF website:

- HBCF Eligibility Manual
- the requirements for new Eligibilities, including documentation requirements and the minimum financial benchmarks
- the requirements for Programmed Eligibility Reviews (PERs), including frequency cycles and documentation requirements
- communications and directions made by the underwriter
- processes and requirements for issuing Certificates of Insurance.

During the actual assessment process, icare HBCF encourages underwriters to deal directly with Builders where clarity or further particulars are required. Direct communications should ensure:

- decisions are made on the most contemporary information
- time delays are minimised
- Builders are given direct access to the underwriter completing the assessment.

As a courtesy, underwriters should endeavour to provide the Distributor with a copy of communications between underwriters and Builders.

## 7.7 Distribution reserving policy

Reserving is the term given when an insurer chooses to provide a quotation to one Distributor exclusively, even though they may have been approached by more than one Distributor. In those circumstances, the insurer has 'Reserved' the policy for the Distributor it selected to receive the exclusive quotation.

Underwriters will not reserve terms and must provide terms to the Distributor who is holding a current and valid Letter of Appointment or authority to seek terms for their Builder client.

## 7.8 Premium credit terms and payment of premiums

Distributors will comply with the credit terms agreed in HBCF Distribution Deed and CIMS User Guide.

Distributors are held responsible for any premium payments (other than payment dishonours, which were initially collected in good faith). The Distributor will actively pursue Builder payment dishonours, resubmit payment to icare HBCF and immediately advise icare HBCF of potential credit concerns.

## 7.9 Change of Distributor protocol

If there is a change of Distributor, the new Distributor must submit a Letter of Appointment to icare HBCF within 24 hours. This allows the icare Distribution Team to update the Builder's record in the Builder Eligibility Assessment Tool (BEAT).

BEAT access will provide the new Distributor with the Builder COE, conditions of Eligibility approval

and the review schedule. The icare Distribution Team will use BEAT to send the previous Distributor written notification of the change.

A Builder cannot change to a new Distributor if the underwriter has started an Eligibility Assessment and is yet to finalise the assessment (that is, the underwriter has not finalised the Eligibility Assessment in BEAT).

## **7.10 Multiple Builders with Eligibility covered in the same GTA**

Where more than one Builder with Eligibility is covered by the same GTA (section 16.7 Group entities and Group Trading Agreements—GTA) the same Distributor must represent all these Builders. This ensures that Eligibility Assessments for all the Builders in a GTA with Eligibility occur at the same time, with the assessments being undertaken on a group basis.

## 8 Builders Eligibility Application and Assessment Procedure

### 8.1 Eligibility decision-making framework

HBC insurance cover indemnifies the current homeowner and anyone to whom they sell their property. The risk to the insurer arises from the death, disappearance, or insolvency of the contractor who purchases the insurance. The HBC safety net also protects homeowners if a Builder has their licence suspended because they failed to comply with an NSW Civil and Administrative Tribunal (NCAT) or court order to pay compensation to the homeowner. Therefore, the Eligibility to purchase insurance is primarily an assessment of the Builder's business strength and capability.

We have put a decision-making framework in place to achieve consistency and to reduce administrative obligations and scheme costs for Builders and for icare HBCF, but we also recognise that judgments may apply on an individual applicant's situation, their explanations, and possibly unique circumstances. This principle continues to apply to ASR assessments, for while the automated outcomes are suitable to support the business of the overwhelming majority of builders, there always remain exceptional cases.

To obtain Eligibility, a Builder must successfully complete an Eligibility Assessment. Depending on the Eligibility Profile the Builder is seeking, we will determine their assessment based on one of the following two options.

1. An ASR assessment where an Eligibility Score is received from a commercial bureau reporting agency engaged by icare HBCF (section 19.5 Automated (Builder) Scorecard Review—ASR).
2. A manual assessment of relevant financial and/or non-financial factors defined in this Manual.

Where a Builder's Eligibility Score is low (for example, the score is below the Minimum Eligibility Score as set out in section 19.5 Automated (Builder) Scorecard Review—ASR), icare HBCF will initiate a manual financial assessment on the Builder instead of applying the Eligibility Score. Where icare has identified adverse considerations not properly captured by the Eligibility Score, icare can, at our discretion, initiate a manual financial assessment on the Builder instead of applying the Eligibility Score. This will protect the HBCF against deteriorating risk factors when we identify them. Please refer to section 19.5 Automated (Builder) Scorecard Review—ASR.

Builders must meet icare HBCF's financial and/or non-financial assessment criteria. If the Builder is outside the preferred parameters, they must show the underwriter how they are reducing the risk.

The underwriter will assess whether this is sufficient mitigation to present an acceptable risk.

The underwriter assesses the criteria by applying their professional judgement in accordance with this Manual, BEAT, and instructions, guidelines or written directions occasionally given by icare HBCF.

The HBCF Complaint and Dispute Handling Procedures for Eligibility and Premiums document (CDHP) describes how icare HBCF manages complaints and disputes about Eligibility decisions. Escalation of complaints or disputes must follow the process defined in the CDHP. The CDHP does not apply to requests for reviews or changes to the guidelines in this manual. You can download the CDHP for Eligibility and Premiums from the icare website at <https://www.icare.nsw.gov.au>.

Figure 1: Eligibility Assessment options for HBCF Builders

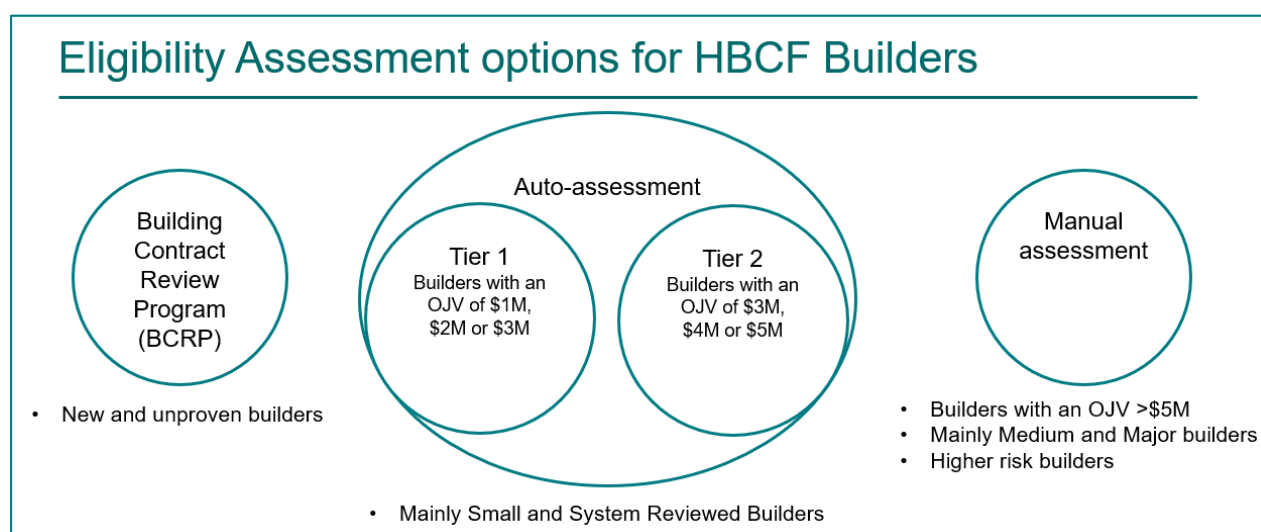
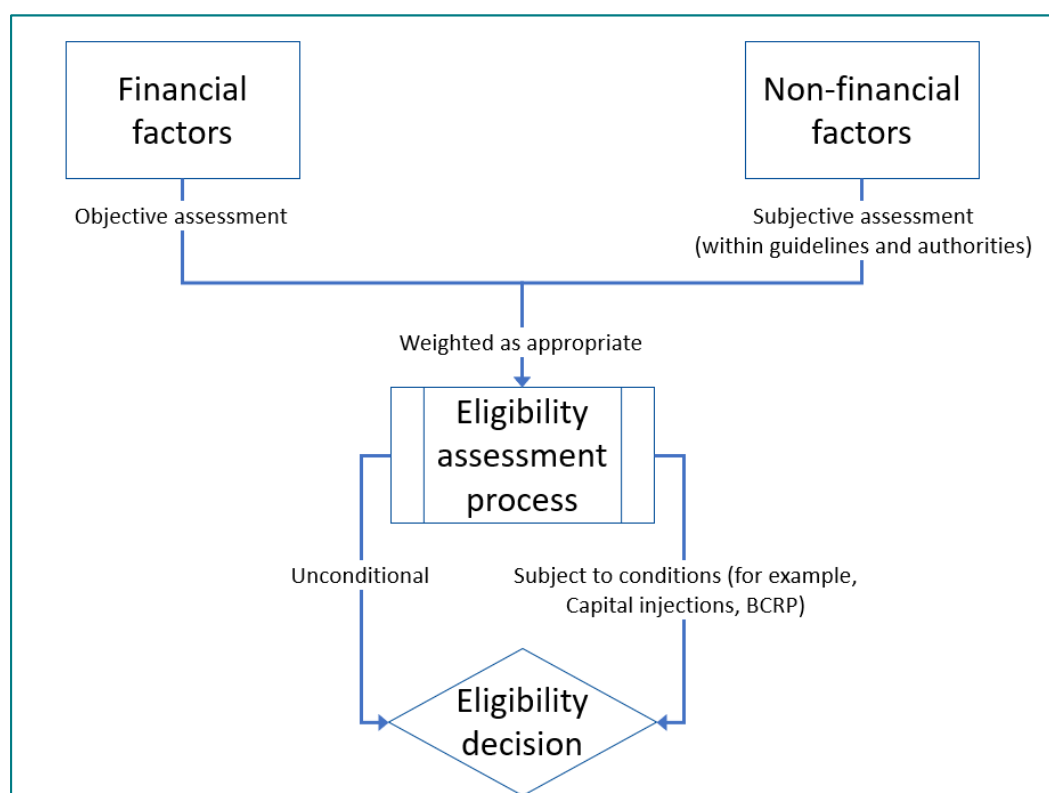


Figure 2: Manual Eligibility Assessment options



## 8.2 Builder Eligibility Assessment Tool—BEAT

icare HBCF has developed an internet-based Builder Eligibility Assessment Tool (BEAT) for managing Builder Eligibility and Eligibility Assessments. As well as serving as an assessment tool, BEAT provides vital data to other core IT transaction systems and the pricing calculator.

BEAT provides the following functions for underwriters and Distributors:

- The analysis of a Builder's financial reports and calculation of accounting ratios (for example, turnover, net profit, net tangible assets and other industry specific indicators).

- The storage of all COEs, conditions of Eligibility and applicable risk-based pricing factors.
- Financial reports and risk warnings for Eligibility decisions affecting Builders.
- The day to day management of Eligibility Assessments.
- A report setting out the results of the analysis and conditions of Eligibility including the applicable risk-based pricing factors.
- The storage of financial reports and supporting documents submitted for an Eligibility Assessment.
- Current work in progress (WIP) report.
- Generation of deeds for Builders to complete (such as a Deed of Indemnity).

BEAT is a tool for official icare HBCF record-keeping, Distributor communication and process streamlining. It does not supersede the underwriting guidelines or delegations issued by icare HBCF or replace the need for professional judgement by icare HBCF underwriters.

### 8.3 External advisors

icare HBCF may appoint an appropriately skilled and experienced external advisor to help with the financial assessment of Builders, or classes of Builder. When required and appropriate, these icare HBCF-appointed advisors may also assess related entities. These external advisors may include forensic accountants, legal advisors, experts in building, construction or engineering, assisting with applications or reviews or industry representatives assisting with disputes or appeals.

icare HBCF will not provide Builders or Distributors with any external advisor's name or contact details and will not share the advisor's recommendations with them.

If the external advisor needs direct contact with the Builder to complete their report, they will advise icare HBCF and the Builder's Distributor.

### 8.4 Risk mitigating conditions

It is vital that, where conditions apply to a Builder's Eligibility to remedy weaknesses, the underwriter must re-evaluate the weaknesses and compliance with conditions within each subsequent Eligibility Assessment. The objective of Eligibility conditions is to reduce risks over time through changed Builder behaviour.

### 8.5 Construction types

Table 2: Construction Types sets out the way icare HBCF identifies different Construction Types for premium setting, policy application requirements, and Construction Profile approval.

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***Note:** SIRA defined these Construction Types in December 2021 and icare HBCF expects to implement these changes from October 2022.*

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Table 2: Construction Types

Construction code	Category	Description	Examples or further detail
H01	<p>New Dwelling Construction</p> <p>Includes previously used category C01 and C09 and some forms of C03</p>	Residential building work relating to the construction of a Class 1a building and any associated Class 10 buildings or structures.	<p>A single dwelling being a detached house including any associated structures (for example, a swimming pool, garage, shed).</p> <p>One or more attached dwellings being a duplex, semi-detached house, row house, terrace house, town house, villa unit etc. including any associated structures (for example, a swimming pool, garage, shed).</p> <p>A modular/transportable house or kit home including any associated structures (for example, a swimming pool, garage, shed).</p> <p>A secondary dwelling (for example, a granny flat) whether attached to the principal dwelling or whether built in conjunction with a new principal dwelling or in addition to an existing principal dwelling.</p> <p>On-site work to install a manufactured home to the extent covered by the legislation.</p>
H02	<p>Building Work to an Existing Residential Apartment Building</p> <p>Includes previously used categories C02 and C08</p>	Residential building work relating to an existing Class 2 building (or a mixed-use building with a Class 2 component) and any associated Class 10 buildings or structures that involves work on multiple dwellings or any common property.	<p>Structural and non-structural building work comprising of additions, alterations, decorative or protective treatment, extensions, maintenance, renovations, rectification, repairs etc. to low, medium, and high-rise residential apartment buildings and associated structures (excluding the addition of a new dwelling, or addition of an in-ground or above-ground swimming pool).</p> <p>Structural and non-structural building work comprising of additions, alterations, decorative or protective treatment, extensions, maintenance, renovations, rectification, repairs etc. to low, medium, and high-rise buildings containing a mix of commercial space and dwellings and associated structures (excluding the addition of a new dwelling, or addition of an in-ground or above-ground swimming pool).</p>

Construction code	Category	Description	Examples or further detail
H03	New Residential Apartment Building Construction  Includes previously used category C03	Residential building work relating to the construction of a Class 2 building (or a mixed-use building with a Class 2 component) with a rise in storeys of up to three and any associated Class 10 buildings or structures.	Low rise residential apartment buildings and associated structures (for example, a swimming pool, garage, shed).  Low rise buildings containing a mix of commercial space and dwellings and associated structures (for example, a swimming pool, garage, shed).
H04	Building Work to an Existing Dwelling  Includes previously used categories C04 and C06	Residential building work relating to an existing Class 1a building and any associated Class 10 buildings or structures, or work within one existing dwelling in a Class 2 building that does not include work on common property.	Structural and non-structural building work comprising of additions, alterations, decorative or protective treatment, extensions, maintenance, renovations, rectification, repairs etc. (excluding the addition of a new secondary dwelling or swimming pool).  Any work to home unit, residential flat, or apartment that does not involve common property.
H05	Swimming Pools  Includes previously used category C05	Residential building work involved in the construction, renovation, alteration, repair, extension, maintenance, or decorative or protective treatment of a swimming pool associated with a Class 1a or Class 2 building (excluding construction or installation of a swimming pool that will be located within a Class 2 or mixed-use building, such as a roof-top or basement swimming pool).	Excavation and installation of a swimming pool (of any material), and associated work such as filtration systems or heating, paving, and fencing to provide a child resistant safety barrier surrounding the pool, and soft landscaping.

## 9 Builder's Eligibility Assessment

There are different approaches to Builder Eligibility Assessment based on the complexity of a Builder's corporate structure, market segments and scale of operations.

### 9.1 Unacceptable risk scenarios

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***Note:** This section identifies considerations for businesses that have a greater than normal reputational risk to icare HBCF, or businesses where mismanagement has caused homeowners, insurers, or creditors to suffer losses.*

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icare HBCF deems that some factors make a Builder ineligible for insurance (both new applications and reviews) and should have an overriding impact on any Eligibility decision. The factors below are an overriding impediment for Eligibility and typically cause us to decline Eligibility.

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***Note:** For System Reviewed Builders who we automatically assess (by ASR assessment), considerations 1 and 9 below are not generally applicable, though icare HBCF may require a manual assessment to examine them by exception.*

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When these factors exist, they must be supported by objective facts that can be externally reviewed:

1. Business financial measures are assessed by the underwriter to indicate a high probability of current insolvent trading, except where supported by an 'unqualified going concern' statement by an auditor.
2. Losses to creditors arising from business closures or unpaid building claim orders involving the directors or key managers in the last five years.
3. icare HBCF or an equivalent warranty or residential building compensation insurer (anywhere in Australia):
  - a. has paid claims arising from business closures or unpaid Building Claim Orders involving the directors or key managers in the past five years
  - b. has new claims or significant loss notifications under investigation involving the directors or key managers
  - c. has paid claims arising from business closures or unpaid Building Claim Orders, involving the directors or key managers of the Builder, with one or more policies of the Builder subject to the business closures or unpaid Building Claim Orders still being within the maximum time limit for claims (unless the Builder/director/key manager, as applicable, has provided a Deed of Indemnity, bank guarantee or other financial instrument in Respect of Former Business (DFB) and icare HBCF is comfortable, at its own discretion, that the risk is entirely mitigated).
4. There have been NSW Civil and Administrative Tribunal (NCAT) or court orders in favour of a homeowner arising from business closures, or insolvencies involving the directors or key managers in the last five years (regardless of whether those orders were later satisfied).
5. Fair Trading has suspended a contractor licence or supervisor certificate held by a director or key manager for non-compliance with an NCAT or court order or successful prosecution against those persons in the last five years.
6. Businesses trading because of a Deed of Company Arrangement (DOCA) within the meaning of the *Corporations Act* or Debt Agreement or Personal Insolvency Agreement (PIA) within the meaning of the *Bankruptcy Act*.



7. A business suspected of applying for Eligibility to provide funding to a business that is subject to a DOCA within the meaning of the *Corporations Act* or other compromise arrangement with creditors (such as on the basis of the documented terms of the proposed DOCA or other compromise arrangement).
8. Significant adverse creditor payment history other than arising from commercial transactions in dispute involving the directors or key managers in the last five years. In determining whether a Builder's adverse creditor payment history is significant, the underwriter will consider the amount and the number of adverse events relative to the overall size of the Builder, the construction type mix, and the overall financial position of the Builder.
9. Insufficient ANTA available that cannot be fully mitigated through icare HBCF methodology or agreed alternative approach.
10. Current winding-up petitions by creditors (with the discretion reserved to icare HBCF regarding the consequences for a contractor's Eligibility even where a petition is later dismissed).
11. A key manager, director or principal of the Builder being reviewed has been a director or key manager of another business within nine months of that business undergoing a Business Closure. When calculating the immediate nine months before a business closure:
  - a. Directorship: The nine-month period is assessed to have started from the date a notice was lodged with ASIC confirming the director has resigned their directorship (that is, the date of lodgement and not the 'effective' date of the notice).
  - b. Nominated supervisor: The nine-month period is assessed to have started from the 'END' date recorded on Fair Trading's Tradesperson and contractor licence check.
  - c. All other positions: The nine-month period is assessed to have started from the date the person confirmed their resignation from the former business in writing as attested to icare HBCF in a statutory declaration.
12. Provided false or misleading information in connection with Eligibility or Certificates of Insurance without reasonable explanation, or under icare HBCF investigation for having provided false or misleading information in connection with Eligibility or Certificates of Insurance.

Business financial measures in this section include but are not limited to:

- Adjusted Current Ratio less than 1.
- An Eligibility Score lower than the minimum threshold required for Eligibility. (Section 19.5.2 Eligibility Score Range and Minimum Eligibility Score Threshold)

A creditor in this section includes all the following (without limitation):

- Suppliers of materials and services
- Government instrumentalities, including the ATO
- Workers compensation insurer
- Bank, finance or credit provider and utility companies
- Employees with outstanding entitlements
- Subcontractors and contractors
- Homeowners.

When calculating the start date for 'last five years' in this section of the Manual:

- Building Claim Order date: Is the date the order was issued.
- Business closure date: Is the date the external administrator or trustee was appointed, or Builder's licence was suspended (as applicable).

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***Note:** If a key manager, director, or principal of the Builder is still subject to bankruptcy, a debt agreement or PIA within the meaning of the Bankruptcy Act more than five years after the trustee was appointed, it will be considered an unacceptable risk for Eligibility until the bankruptcy, debt agreement or PIA is finalised.*

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- NCAT order: Is the date the order was issued.
- HBCF claim: Is the loss date recorded in CIMS for the COI.

## 9.2 Assessment of the principals and key managers

Due to the nature of cover, the underwriter must consider the history of all directors, major shareholders and other key managers defined below, including details of any related entities, former business associations and former key manager roles.

For Medium and Major Builders, the underwriter will perform an assessment of succession planning in the organisation. This assessment will ensure continuation of the business in the event of key personnel changes and assess the capabilities and depth of the Builder's management team and its structure.

### 9.2.1 Directors, principals, and key managers

A key factor in the success of a company is the past performance and experience of its principals and key managers. The underwriter will perform checks to identify possible previous adverse associations through:

- ASIC
- Fair Trading licensing register
- Other State licensing register
- [abr.business.gov.au](http://abr.business.gov.au)
- Mercantile Agency or equivalent, including a full director's history extract on each director and nominated supervisor. This will enable the underwriter to verify the personal information of each director, partner or business proprietor and identify any adverse features.

The underwriter must fully investigate any identified characteristics that may affect risk – such as director disqualifications, financial relationships that may lead to conflicts of interests, and where necessary, reject the application unless rectified. The underwriter will pursue this and any other irregularities with the Builder's Distributor.

The underwriter will assess disqualifications of non-directors who become the direct or indirect source of finance, executive control, or other support to the Builder, as if they were the disqualifications of a director, partner, or principal of the Builder.

### 9.2.2 Key managers

A key manager includes anyone who directs the critical decision making of the Builder business, or is likely to exert influence on the business based on essential experience they hold.

Key managers include, but are not limited to:

- Directors or principals
- Material shareholders (including parent entities and key managers of parent entities)
- Nominated licensed building supervisors
- Chief executive officer (CEO) and operations managers
- Chief financial officer (CFO) and finance managers
- Senior managers including construction managers and senior project managers
- Sales and marketing managers.

Builders will need to demonstrate that their key managers have the necessary experience.

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*Note: For Builders who are not automatically assessed (by ASR assessment), if the principal can demonstrate a strong background and experience, the underwriter will not extend checks to key managers.*

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When they are assessing the Builder's ability to undertake projects with the limits they are seeking, the underwriter will consider the following experience:

- Industry Association and Professional Institution Membership will be considered for training, compliance, development, and technical building standards.
- Building history experience to support requested Eligibility Profile, including the three largest residential construction or other building projects the Builder has been involved in, with professional technical references provided.
- Tertiary qualifications or specific training in the areas of accounting, business management, and building related degrees (including civil or structural engineering, project management or architecture).

The underwriter will address deficiencies by one or more of the following:

- Denying or reducing Eligibility
- Denying an OJL or Construction Type maximum contract value increase in Eligibility
- Requiring the Builder to enter the BCRP.

Where it appears that a person who is not a director or principal of a Builder business but, as a key manager, may direct the critical decision making or is likely to exert influence on other key managers, then the underwriter must consider the role of that person, including any adverse history, as part of the Eligibility Assessment. Nominated supervisors, executive officers and senior managers can be exempted from being considered key managers, where the Directors are sufficiently experienced (for example, they demonstrate construction industry experience, capital adequacy and business management capability) to support the requested project limits and this view is supported by the context of the Builder's operations. No exemption can be granted for New Builders, and should be rare and particularly well-evidenced for System Reviewed or Medium Builders.

In determining whether a person or entity is a key manager of a business, the underwriter will refer to the definition of a close associate contained in the *Act*, which states:

A person is a close associate of a Builder for, or holder of, a contractor licence, or of a Builder for the renewal or restoration of such a licence if the person:

- is a partner of the Builder or holder
- is an employee or agent of the Builder or holder
- is a corporation, or a member of a corporation, partnership, syndicate, or joint venture, in which the Builder or holder or a person referred to above has a beneficial interest
- has a 'prescribed relationship' to the Builder or holder
- is a corporation that is a subsidiary (within the meaning of the *Corporations Act* of the Commonwealth) of the Builder or holder
- holds or is entitled to exercise, in respect of the Builder or holder or the business of the Builder or holder, any other 'relevant financial interest', 'relevant position' or 'relevant power'.

A person has a 'prescribed relationship' to a Builder or holder of a licence if the relationship is that of:

- a spouse
- an existing or former de facto partner
- a child, grandchild, sibling, parent, or grandparent, whether derived through the above circumstances or otherwise.

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***Note:** 'De facto partner' is defined in section 21C of the Interpretation Act 1987.*

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Relevant financial interest means:

- any share in the capital of the business
- any entitlement to receive any income, other than salary, derived from the business, whether the entitlement arises at law or in equity or otherwise.

Relevant position means the position of director, manager, and other executive positions and secretary; however, those positions are designated.

Relevant power means any power, whether exercisable by voting or otherwise and whether exercisable alone or in association with others:

- to participate in any directorial, managerial, or executive decision
- to elect or appoint any person to any relevant position.

### 9.3 Assessment of Open Job Limits—OJL—and assumed turnover

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***Note:** We will assess most Builders automatically, using the ASR assessment process.*

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*This section does not apply to automatically assessed Builders, unless they need to undergo manual assessment. For example, during transition from Tier 1 to Tier 2.*

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The approved OJL are the limits governing access to HBC insurance policies for NSW residential projects that must be insured under the Act. Eligibility Assessments test the assumed annual turnover to identify whether there is sufficient ANTA and working capital.

The assumed turnover is the total turnover likely to be generated from all the activities below:

- if the Builder was trading at the maximum volumes permitted by the OJL
- any non-HBCF activity (for example, commercial construction works)
- usage of Eligibility limits from equivalent interstate Eligibility approvals.

It takes account of the Builder's current average completion time from purchasing cover to completion, as well as the past 12 months average contract values. BEAT uses the assumed turnover to test ANTA and other BEAT ratios.

When determining the assumed turnover of a Builder, an underwriter will consider:

- the assumed turnover that will be generated by the icare HBCF OJL
- the additional business turnover of related entities under the same management control or ownership
- the business turnover of entities under the control of the same parent entity
- all turnover producing activity, including residential work undertaken outside of NSW, including non-residential construction
- budgeted construction costs for jobs under project management agreements.

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***Note:** The definition of 'related entity' and 'control' will be interpreted to cover all businesses with common director or shareholder interest, or control of the building operations being assessed.*

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In assessing assumed turnover for Eligibility purposes, an Underwriter should work with the assumed turnover calculation automatically generated by BEAT, based on the Builder's requested Eligibility

Profile. If the underwriter's opinion is that the assumed turnover generated by BEAT appears materially higher or lower than their own estimate, they may change the figure in BEAT and provide sufficient commentary in BEAT for doing so.

***Note:** An example of Builders where the underwriter may need to amend the assumed turnover automatically generated in BEAT, is pool Builders with a 'sleeper pool' aspect to their used OJN. A 'sleeper pool' is a pool job that has started but cannot be completed because it is awaiting the completion of unrelated building work on site. In these situations, the appropriate construction cycle to use for the Builder when determining an appropriate assumed turnover, may be longer than the construction cycle determined by BEAT.*

Table 3: Example of assumed turnover calculation

Assumed turnover factor	Calculation
(A) Requested OJV	\$1,000,000
(B) Construction cycle (in years)	0.5
(A / B = C) Assumed turnover requiring HBC insurance	\$2,000,000
(D) HBCF equivalent insurance work in other states (for example, QLD, VIC)	\$200,000
(E) Residential building work not requiring HBC insurance (for example, NSW residential projects less than \$20,000)	\$200,000
(F) Commercial / Industrial / Civil construction work	\$500,000
(G) Other income	\$100,000
(= C + D + E + F + G) Assumed turnover used to determine minimum ANTA requirements for Eligibility	\$3,000,000

### 9.3.1 Assumed turnover and OJL growth

***Note:** We will assess most Builders automatically, using the ASR assessment process.*

*This section does not apply to automatically assessed Builders.*

The underwriter will compare the assumed turnover of the Builder with previous financial years to identify any abnormal growth expectations. BEAT will calculate the assumed turnover from the trading history and OJL.

Changes to the category and type of construction activity can have major implications on the business, its sustainability and overall profitability. For example, residential versus commercial or contract versus speculative.

Builders who seek to increase their OJL significantly must demonstrate their financial and technical ability to undertake these jobs.

The underwriter will evaluate the following factors when assessing OJL:

- technical ability and experience
- number and size of current projects
- gross margins
- capital available to fund overhead growth
- geographic spread to enable span of control to be exercised
- complexity of contracts
- confirmation of financing abilities and sources
- ability to source qualified and competent subcontractors
- day-to-day management of subcontractors.

### 9.3.2 Determining Open Job Number—OJN—and Open Job Value—OJV

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***Note:** We will assess most Builders automatically, using the ASR assessment process.*

*This section does not apply to automatically assessed Builders.*

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During assessment of appropriate OJL, the underwriter must consider:

- contracts currently under construction including non-HBCF activity or interstate activity
- demonstrated construction times
- estimated contracts to be started in the next 12-month period
- ANTA
- length of time the business has been operating
- industry, construction, and contractual experience
- benchmark comparisons for peer Builders.

The financial strength of the business, personal financial position of the directors/partners, together with the building expertise of the principals will determine the level of the approved OJL.

### 9.3.3 Previous jobs' time over-runs

When the Builder applies for a COI, if there is evidence of the Builder running overtime with his insured residential construction work and the circumstances appear to be significant, this will be a potential trigger for the underwriter to investigate the Builder's financial position (section 19.2 Special Eligibility Review—SER).

In determining whether a Builder running overtime is significant, the underwriter will consider the number of jobs relative to the overall size of the Builder, the construction type mix (for example, single dwellings, swimming pools, residential apartments, etc.) and the overall business position of the Builder.

### 9.3.4 OJL growth

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***Note:** We will assess most Builders automatically, using the ASR assessment process.*

*This section does not apply to automatically assessed Builders.*

---

Growth requires capital until increased cash flow and profits cover the increased overheads associated with the growth.

BEAT considers growth in OJL in the balanced scorecard approach to risk.

Growth in OJL increases overhead cost (staff, systems, plant and machinery, vehicles, offices). These

additional costs must be funded until the extra projects generate sufficient profit to fund the additional costs, placing pressures on working capital.

Funding growth from retained earnings helps to reduce or eliminate this risk. In time, the Builder can use the extra profit to help cover additional overhead costs.

The entity must have the management experience to manage the requested level of growth in OJL including:

- managing a greater geographic spread of projects
- managing jobs of varying complexity
- managing a higher number of project managers or supervisors, as with a higher number of projects, day to day management of each project becomes increasingly devolved
- sourcing and managing a higher number of subcontractors
- coordinating the cash flow in relation to a higher number of jobs at different stages.

The underwriter must understand the source of the increased sales projections.

- If growth is being driven by a relationship with a marketing entity:
  - What is the fee structure to the marketing agent, and how it will affect Builder margins?
  - To what extent can the Builder control job scheduling, and whether there is a risk that the Builder will not be able to effectively control the level of concurrent jobs?
- There is a heightened risk where the growth request is seeking to address cash flow shortages, through deposit collection or through a disproportionate number of contracts in early stages. Financial assessment, appropriate questions, and a review of the work in progress (including a check that there is a suitable mix across work stages), may assist to gauge this risk type.

An increase in construction values driving an OJV increase is more about technical competence. An increase in the volume of work may be about the strength of the business management and financial capacity, as well as the way in which the Builder generates and costs these sales.

### 9.3.5 OJL increase declination

Where an underwriter declines an application for a limit increase, they must clearly explain the reasons and invite a submission from the Builder addressing the concerns.

### 9.3.6 Construction Type limit increase

This is not the same as a change in approved OJL. As such, a full financial underwriting assessment is not required by sole reason of a request for a Construction Type limit increase unless there is an outstanding Eligibility Assessment requirement.

The underwriter will assess the Construction Type limit increase, where the OJL does not exceed the approved level, based on experience and satisfactory technical references, using the BCRP where an experience deficiency is identified and undertaken as a BPC in BEAT (unless incorporated in a PER - section 19.1 Programmed Eligibility Review—PER).

### 9.3.7 Temporary OJL increases

The underwriter may consider a temporary OJL increase (by a project referral to an underwriter in CIMS) even where it exceeds the OJL outside the underwriting criteria. This must be referred to an appropriately authorised underwriter for approval. Consideration will be given where:

- the review is current and up to date
- there are no jobs overdue for completion (or, there is a reasonable explanation for overdue for completion jobs)

- the increase is temporary
- the used OJN will not exceed the approved OJN by more than one. Allowance is made for New Dwelling Construction (former CO9) projects where the number of certificates required for a single project may result in approved OJN being breached by more than one.



## 10 Builder size classification

### 10.1 Builder size classification

icare HBCF uses some customised Eligibility rules targeted at various segments of the residential construction industry. Builders are classified based on the requested and approved OJL. Builders are classified as either:

- New Builders
- System Reviewed Builders (divided by size into Tier 1 and Tier 2)
- Medium Builders
- Major Builders

The current Builder size classifications are as set out below.

Table 4: Builder Size Classification

Primary icare HBCF Builder segment	OJV Approved	OJN Approved	Builder Size
New dwelling construction	≤ \$3M	N/A	System reviewed Builder (Tier 1)
<sup>5</sup> Building work to an existing dwelling	≤ \$3M	N/A	System Reviewed Builder (Tier 1)
New residential apartment building construction	N/A	N/A	System Reviewed Builder (Tier 1)
Building work to a residential apartment building	≤ \$3M	N/A	System Reviewed Builder (Tier 1)
Swimming pools	≤ \$3M	N/A	System Reviewed Builder (Tier 1)
New dwelling construction	\$3M to \$5M	N/A	System reviewed Builder (Tier 2)
Building work to an existing dwelling	\$3M to \$5M	N/A	System Reviewed Builder (Tier 2)
Building work to a residential apartment building	≤ \$5M	N/A	System Reviewed Builder (Tier 2)
New residential apartment building construction	≤ \$5M	N/A	System Reviewed Builder (Tier 2)
Swimming pools	\$3M to \$5M	N/A	System Reviewed Builder (Tier 2)
New dwelling construction	>\$5M to < \$10M	1 to 29	Medium Builder
Building work to an existing dwelling	>\$5M to < \$10M	1 to 49	Medium Builder
Building work to a residential apartment building	>\$5M to < \$10M	1 to 4	Medium Builder
New residential apartment building construction	> \$5M to < \$10M	1 to 49	Medium Builder
Swimming pools	>\$5M to < \$10M	1 to 99	Medium Builder
New dwelling construction	≥ \$10M	≥ 30	Major Builder
Building work to an existing dwelling	≥ \$10M	≥ 50	Major Builder
Building work to a residential apartment building	≥ \$10M	≥ 5	Major Builder
New residential apartment building construction	≥ \$10M	≥ 50	Major Builder
Swimming pools	≥ \$10M	≥ 100	Major Builder

<sup>5</sup> Building work refers to additions, alterations, decorative or protective treatment, extensions, maintenance, renovations, rectification, repairs etc.

All Builders, except those we assessed automatically, will be allocated a single combined OJL in recognition of the variety of projects they anticipate commencing. Where a Builder's approved OJV and approved OJN indicate different Builder sizes, the lower of the two Builder sizes prevails.

In the example below, icare HBCF would determine that the Builder size is a Medium Builder:

- primary icare HBCF Builder segment: New Homes
- approved OJV: \$15M (that is, Builder size is Major Builder)
- approved OJN: 20 (that is, Builder size is Medium Builder)

## 10.2 Determining a Builder's Primary icare HBCF Builder segment

A Builder's Primary icare HBCF Builder segment is inferred with reference to either:

- the primary Builder segment selected by the Builder when they apply for Eligibility
- historical purchasing of Certificates of Insurance in the last three years, cross-referencing the matrix contained in Table 5: Referencing construction codes to Primary icare HBCF Builder Segment, based on the predominant Construction Type purchased (where historical purchasing of Certificates of Insurance is available).

*Table 5: Referencing construction codes to Primary icare HBCF Builder Segment*

Construction code	Construction type (Reference: Table 2: Construction Types)	Primary icare HBCF Builder segment (Reference: Table 4: Builder Size Classification)
H01	New Dwelling Construction Includes previously used category C01 and C09 and some forms of C03	New Homes
H03	New Residential Apartment Building Construction Includes previously used category C03	New Multi-unit (low rise)
H04	Building Work to an Existing Dwelling Includes previously used categories C04 and C06	Building work, Structural and Non-structural – Single dwellings
H02	Building Work to an Existing Residential Apartment Building Includes previously used categories C02 and C08	Building work, Structural and Non-structural – Multi- units
H05	Swimming Pools Includes previously used category C05	Swimming Pools

### 10.3 Standard Construction Profile limits

Table 6 shows standard construction value by Builder size and Construction Type. Applications for Construction Profile limits that exceed these values are to be tested by underwriters for demonstrated experience.

*Table 6: Standard construction values by Builder and Construction Type*

Construction code	Construction type	New Builder	System Reviewed Builder Tier 1	System Reviewed Builder Tier 2	Medium Builder	Major Builders
H01	New Dwelling Construction  Includes previously used category C01 and C09 and some forms of C03	\$450K	\$450K	\$700K	\$700K	\$1.150M
H02	Building Work to an Existing Residential Apartment Building  Includes previously used categories C02 and C08	No	On application	\$750K	\$750K	\$750K
H03	New Residential Apartment Building Construction  Includes previously used category C03	No	No	\$1M	\$1M	\$1.5M
H04	Building Work to an Existing Dwelling  Includes previously used categories C04 and C06	\$350K	\$350K	\$550K	\$550K	\$1.050M
H05	Swimming Pools  Includes previously used category C05	\$50K  (for pool specialist only)	\$50K  (for pool specialist only)	\$100K	\$150K	\$150K

13. Builders will be granted a Construction Profile consistent with their history, skills, licence conditions (refer to Fair Trading website for more information) and experience and need not be granted Eligibility for all Construction Types.
14. Where Builders are seeking higher than the standard construction profile limit, applications must be supported by an appropriate construction history and experience demonstrated through references from a structural engineer, architect or similar. References must detail the address of the work, construction value, date completed, scope of work, licensed Builder's role and the principals and key management personnel involved. The underwriter must be satisfied that the references support the Builder's competence within the proposed work/limit.
15. The Builder must demonstrate previous experience in:
  - managing contracts with homeowners
  - engaging and supervising a wide range of subcontractors
  - satisfying the specifications and building codes on projects
  - completion of projects on time and to budget.
  - The construction values in Table 6: Standard construction values by Builder and Construction Type are the standard amounts allowable for each Construction Type. The underwriter can adjust these values up or down, based on the Builder's construction history and experience. Builders are free to apply for higher than standard profile limits.

## 11 Eligibility Assessment information requirements

The information requirements for an Eligibility Assessment are summarised in Table 7: Eligibility Assessment information requirements. The information review requirements should be read in conjunction with section 19 Types of Eligibility Assessments.

In relation to Eligibility Assessments:

- icare HBCF reserves the right to contact the Builder to resolve any identified concerns once an assessment has started. When possible, icare HBCF will inform the Broker why the direct contact is needed.
- As part of its review, icare HBCF reserves the right to engage external advisors without notifying the Builder or the Broker. Where icare HBCF deems it necessary to perform a more intensive review that requires further information from a Builder, icare HBCF will advise the Broker before icare HBCF or its external advisors make direct contact with the Builder.
- Financial accounts provided for a PER must be externally prepared and signed by the Builder. Internally prepared management accounts are sufficient for other Eligibility Assessments (subject to section 15 Financial statements inconsistency).
- After they receive an icare HBCF Eligibility decision, the Broker or the Builder, through their Broker, can request a meeting to discuss the outcome of an Eligibility Assessment with the underwriter.

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**Note:** *This arrangement is to ensure that the underwriter can conduct an independent and streamlined review in a professional manner. The Builder's Broker should upload any supporting documents about the Eligibility application from the Builder into BEAT.*

**Note:** *The definition of 'related entity' and 'control' is to be interpreted in the broadest context to cover all building activity, assets, equity and/or liabilities.*

**Note:** *Assumed turnover covers residential and non-residential work undertaken in and outside of New South Wales and includes:*

- *the business turnover of related entities under the same management control or ownership*
  - *the business turnover of entities under the control of the same parent entity*
  - *budgeted construction costs for jobs under project management agreements.*
-

*Table 7: Eligibility Assessment information requirements*

Information required	New Builders <sup>1</sup>	System Reviewed Builders <sup>2</sup>	Medium Builders <sup>3</sup>	Major Non-Project Home Builders <sup>4</sup>	Major Project Home Builders <sup>5</sup>
Completed Builder Eligibility and Profile Change Application	Y	Y	Y	Y	Y
Details of home building compensation Eligibility held <sup>6</sup>	N	N	Y	See Business Plan	See Business Plan
Details of corporate structure including details of related parties and ownership structure <sup>7</sup>	N	N	If applicable	If applicable	If applicable
Trust deed for applicants operating as a trustee (if not previously provided)	N	N	Y	Y	Y
A project pipeline forecast for the next 12 months	N	N	Y	See Business Plan	See Business Plan
Business Plan <sup>8</sup>	N	N	N	Y	Y
Details of any franchise arrangements, brand licensing or group buying schemes and any external marketing operations <sup>9</sup>	N	N	Y	Y	Y
Current Statement of Personal Assets and Liabilities (SPAL) <sup>10</sup>	N	N	Y	If applicable	If applicable

Information required	New Builders <sup>1</sup>	System Reviewed Builders <sup>2</sup>	Medium Builders <sup>3</sup>	Major Non-Project Home Builders <sup>4</sup>	Major Project Home Builders <sup>5</sup>
<p>In relation to the Builder and relevant persons of the Builder, details of any:</p> <ul style="list-style-type: none"> <li>▪ Builder licence cancellations or refusals</li> <li>▪ Insurance declinatures</li> <li>▪ Tribunal or court orders resulting in orders for rectification work for, or payments to, homeowners and other parties</li> <li>▪ Current or historical external administrations, receiverships and/or bankruptcies (section 9.1 Unacceptable risk scenarios) if applicable</li> <li>▪ Name and licence number of other Builders or close associates that icare HBCF has insured in the last five years (including claims history if applicable)</li> <li>▪ Claims paid by HBCF, interstate HBCF equivalents and predecessor insurers in the last ten years</li> </ul>	Y	Y	Y	Y	Y
Tax returns or externally prepared financial accounts (as applicable for building entity type) <sup>11,12</sup>	N	N	N	N	N
Externally prepared financial statements <sup>12</sup>	N	N	N	Y	Y
Bank statements (if financial statements not audited)	N	N	Y	Y	Y



Information required	New Builders <sup>1</sup>	System Reviewed Builders <sup>2</sup>	Medium Builders <sup>3</sup>	Major Non-Project Home Builders <sup>4</sup>	Major Project Home Builders <sup>5</sup>
Aged debtors listing as at the balance date of the most recent financial statements subject to review	N	N	Y	Y	Y
Work in progress summary <sup>13</sup>	N	N	Y	Y	N
Work in progress schedule <sup>14</sup>	N	N	N	N	Y
Contract Work in Progress Valuation Statement <sup>15</sup>	N	N	N	N	Y
Standard residential progress payment schedule in building contracts	N	N	N	Y	Y
Land holding and display home information <sup>16</sup>	N	N	N	N	Y
Aged creditors listing as at the balance date of the most recent financial statements subject to review	N	N	Y	Y	Y
ATO integrated client account statements <sup>17</sup>	N	N	Y	Y	Y
A detailed breakdown of related party loan balances and related transactions <sup>18</sup>	N	N	N	Y	Y
External funding facilities <sup>19</sup>	N	N	Y	Y	Y
Internal controls statement <sup>20</sup>	N	N	N	N	Y

Notes in relation to Table 7: Eligibility Assessment information requirements:

1. Section 11.1 Eligibility Assessment for New Builders. If we cannot automatically assess the Builder (by conducting an ASR Assessment), we will manually assess them using a PER. When a New Builder is subject to a PER, information requirements are the same as those for Medium Builders.
2. Section 11.2 Eligibility Assessment for System Reviewed Builders. If we cannot automatically assess the Builder (by conducting an ASR Assessment), we will manually assess them using a PER. When a System Reviewed Builder is subject to a PER, information requirements are the same as those for Medium Builders
3. Section 11.3 Eligibility Assessment for Medium Builders.
4. Section 11.4 Eligibility Assessment for Major Builders.
5. Section 11.4 Eligibility Assessment for Major Builders.
6. Details provided must include:
  - a. Home building compensation Eligibility held with other home building compensation insurers for residential building work undertaken in NSW.
  - b. Residential building work being undertaken outside of NSW.
7. The underwriter may request a corporate tree showing all related parties and ownership structures (directors and shareholders) .
8. A Business Plan is required setting out the following:
  - a. Current and anticipated total sales turnover.
  - b. Proposed icare HBCF OJL and Construction Type requirements for the next 12 months.
  - c. Details of home building compensation Eligibility held:
    - i. with other home building compensation insurers for residential building work undertaken in NSW
    - ii. for residential building work being undertaken outside of NSW
  - d. Market segments and geographical regions targeted.
  - e. Current gross margin targets on new sales.
  - f. Staff organisational chart.
  - g. CV's for all key managers
  - h. Group corporate tree with shareholder details.

For Major Project Home Builders this will also include:

  - i. Concise history of the group for up to five years before and a comprehensive Business Plan.
  - ii. The building and business history of directors, key managers including licence holders, and shareholders (with more than a 25% shareholding).
9. Section 12.5 Franchise, marketing or buying group participation.
10. Information requirements for the SPAL are contained in the Builder Eligibility and Profile Change Application form. Supporting evidence for assets and liabilities recorded for the SPAL are defined in section 14.1.2 Additional asset or liability evidence
11. There should be trading evidence for the past three years. If there is less than three years'
12. trading history, then the underwriter uses what is available.

Tax Assessment notices are not acceptable if providing tax returns. When Distributors submit tax returns to the underwriter, they must mask or hide the Tax File Number so that it is unreadable.

13. The ratings tools produce more reliable assessment results when the annual financial reports are current and up to date. Results will be less reliable when financial information is not available or out of date.

The assessment requires the latest annual financial reports for the past three years (or all years of trading, if less than three years). Where a previous entity traded, the total of three years' annual financial reports can include the previous trading entity (for example, two years trading as a sole trader and one year as a company, would satisfy the three-year requirement).

There is no need to resubmit accounts if they have already been provided for a previous assessment.

The assessment relies on annual reports no older than 12 months. If the assessment is reliant on accounts older than 12 months, the Broker must submit interim management accounts no more than six months old as well as the annual accounts.

Builders who are intensively monitored quarterly (IMB3) must present interim management accounts that are no more than three months old.

For group structures, the same requirements for financial reporting will apply to all related entities that have balance sheet related loans with the Builder; if those loans affect the ANTA or current ratio of the Builder and where group treasury arrangements are in place. In this case the assessment considers a group in the broadest context where control is common to the building entity.

The publicly available ASIC and ASX reports are used for publicly listed entities or groups.

14. This summary must contain all projects under construction including interstate projects and NSW projects that don't need home building compensation cover.
15. This schedule must show all current construction job details for the last reported financial period-end, including:
  - a. contract price
  - b. site commencement date
  - c. stage of progress
  - d. cost to complete
  - e. undrawn contract value
  - f. each project as either NSW residential, other State residential or commercial
16. The external accountants or auditors must provide a Work in Progress Valuation Statement in which:
  - a. The AASB111 (or AASB15 as applicable) accounting standard has been applied to the work in progress and unearned turnover values in the balance sheet.
  - b. Land and buildings for resale or speculative construction WIP is based on the directors'
  - c. best estimate of realisable value or at cost whichever is the lesser amount.
  - d. All amounts shown as WIP are current assets.
17. Required land holding and display home information, for each holding and display home, includes:
  - a. ownership/leasehold/contract terms
  - b. address
  - c. stage of development
  - d. estimated current market value
  - e. method of valuation (directors' or independent market or sworn valuation)
18. ATO tax portal statement for the last 12 months and details of any repayment plans.
19. Information should include a detailed breakdown of related party loan balances (both assets and liabilities) and related transactions (such as turnover, management fees, rent, hire fees etc.) at the

balance date for each financial period, together with the purposes and repayment agreements.

20. Information regarding external funding facilities must include:

- a. The purpose of external funding
- b. Financial institution confirmation of facilities in place, including limits, when facilities mature or are due for renewal, details of any loan covenants, any breach of covenant, and any actions were taken.

21. An Internal Controls Statement is a director's declaration on the Builder's letterhead, capable

22. of external testing, that defines the following controls:

- a. The business principal or their authorised manager authorises tender submissions or building quotes with sales margins that are less than the company gross margin targets.
- b. The management team monitors individual projects for movement to forecast gross profit margin:
  - i. at contract signing
  - ii. before construction starts following confirmed orders to major suppliers, and supply and install contractors
  - iii. during construction monthly
  - iv. at practical completion.
- c. There is a control to address systemic margin erosion by amending estimating procedures, master pricing files and standard model pricing as appropriate.
- d. Estimating master pricing files have a forward pricing contingency based on forecast market conditions.
- e. There is monthly management review of:
  - i. dynamic cash flow forecast for current year and with a minimum of six months into the future
  - ii. profit and loss results against the initial budget set and against current forecast with ongoing changes to the profit and loss forecast as required
  - iii. YTD balance sheet, aged debtors, and aged creditors reports.
- f. All projects undergo a close-out review of gross margin and construction defects at 90 days from handover and controls exist to adjust gross margin targets on future sales estimates.

## 11.1 Eligibility Assessment for New Builders

The application for New Builder Eligibility is for residential Builders who fall within the following criteria:

- Have not previously contracted direct with homeowners.
- Have not previously operated their own building business (including being a Director/Key Manager of a building company) in NSW or other States in Australia.

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**Note:** *We will not approve trust corporate structures for New Builders.*

**Note:** *For New Builders, we try to automatically assess Eligibility (using the ASR assessment). When we conduct an ASR assessment, the Builder does not have to provide any additional financial information.*

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In most cases, the conditions that apply to Eligibility are:

- The Builder must use the services of a BCRP service provider for all contracts valued at \$250,000 and over.

- Maximum OJV of \$1 million.
- The following Construction Types are not generally available to New Builders:
  - Architect/Designer tendered and managed projects
  - New Residential Apartment Building Construction (Multiple-dwelling developments)
  - Building work to an existing Residential Apartment Building (High-rise multi-unit rectification,) Developer owned projects.

Rare exceptions to these conditions can be granted where a new Builder has industry experience in the relevant construction category and have appropriate financial arrangements and capital position.

Before a New Builder can transition to a System Reviewed Builder, they must successfully complete the BCRP (section 22 Building Contract Review Program—BCRP).

## 11.2 Eligibility Assessment for System Reviewed Builders

The underwriter will restrict the OJL for Builders in this segment of Eligibility to the maximum OJV as set out in Table 4: Builder Size Classification. The COE defines the period of Eligibility and the OJL.

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***Note:** For System Reviewed Builders, we try to automatically assess Eligibility (using the ASR assessment). When we conduct an ASR assessment, the Builder does not have to provide any additional financial information.*

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Eligibility for System Reviewed Builders is divided into two Tiers (Tier 1 and Tier 2).

Builders who already have a COE will be bound by the limits defined in that COE until their next Eligibility Assessment after 30 June 2022. COEs issued after 30 June 2022 will be subject to the new limits, as defined in Table 4: Builder Size Classification and Table 6: Standard construction values by Builder and Construction Type

As their COE expiry date approaches, we will conduct ASR assessments to assess Eligibility for Builders we previously classified as System Reviewed Builders (in version 10 of the Eligibility Manual). These assessments will determine their Eligibility as Tier 1 System Reviewed Builders.

When their first scheduled PER after 30 June 2022 is due, we will conduct ASR assessments to assess Eligibility for Builders we previously classified as Small Builders (in version 10 of the Eligibility Manual). These assessments will determine their Eligibility as Tier 2 System Reviewed Builders.

A Tier 1 System Reviewed Builder can transition to a Tier 2 System Reviewed Builder by meeting both of the following two criteria:

- undertaking a financial BPC assessment to assess whether the Builder meets the minimum ANTA requirements for Eligibility (we will not assess working capital adequacy in this assessment)
- having an Eligibility score that is sufficient for Tier 2 OJV.

If a Tier 2 System Reviewed Builder has been operating within Tier 1 OJV limits during their current period of Eligibility, we may transition them to a Tier 1 System Reviewed Builder when their Eligibility expires.

During their period of Eligibility, the underwriter may perform the following types of reviews on the System Reviewed Builders (Tier 1 and Tier 2)

- Special Eligibility Reviews (section 19.2 Special Eligibility Review—SER ) triggered for a variety of reasons, including icare HBCF-monitored risk alerts.
- A full financial assessment when seeking a change in approved OJL (section 19.3 Builder Profile Change—BPC) which may result in the underwriter reclassifying the Builder as another Builder size (that is, Medium Builder or Major Builder).

- A BPC or SER review result may cause the Builder's Eligibility to be:
  - unchanged
  - modified
  - restricted
  - suspended
  - cancelled

icare HBCF reserves the right to add a System Reviewed Builder to the PER and intensive monitoring review schedule (section 19 Types of Eligibility Assessments).

### 11.3 Eligibility Assessment for Medium Builders

The underwriter will restrict the approved OJL of Builders in this segment of Eligibility to the maximum OJV and OJN as set out in Table 4: Builder Size Classification.

The principal(s) and/or key management personnel of a Medium Builder must demonstrate that they have:

- Traded as a licensed Builder for at least two years in the Medium or System Reviewed Builder category and have adequate financial performance.
- More than three years' experience as a manager or project manager with other System Reviewed and medium licensed Builders in the building Construction Type sought, or at least equivalent other suitable and relevant experience.

The underwriter will review publicly listed companies, trusts and groups on publicly available financial reports and ASX announcements.

### 11.4 Eligibility Assessment for Major Builders

We divide Major Builders into two categories:

- Major Non-Project Home Builders
- Major Project Home Builders.

The criteria for each category are set out in Table 7: Eligibility Assessment information requirements plus the following:

- The principal(s) and/or key management personnel of a Major Non-Project Home Builder must demonstrate that they have either:
  - traded as a licensed Builder in the small and medium category for at least five years
  - adequate financial performance over a three-year period, or more than five years' experience as a manager or supervisor with other medium and major licensed Builders in the building Construction Type sought
  - at least equivalent other suitable and relevant experience.

Major Project Home Builders predominantly generate sales through display homes.

icare HBCF's risk management strategy for major Builders requires that we perform a comprehensive annual review of the financial position of the Builder. icare HBCF will review publicly listed companies, trusts and groups on publicly available financial reports and ASX announcements.

## 12 Consideration of other non-financial requirements

### 12.1 Previous business history and capacity

History can reasonably be viewed as a sound indicator of the future potential and must be thoroughly considered in terms of risk.

Builders are not permitted to engage in phoenix corporate activity (that is, using the corporate veil to start up new operations where previous homeowners, home building compensation insurers or creditors have suffered a loss through a prior associated business).

However, it is also be noted that the past may have been a learning process and Builders may be able to demonstrate that they have redeemed a previous position. It is the Builder's responsibility to justify new Eligibility being granted.

The underwriter must consider the circumstances of the past insolvency of any direct or related entity. The following questions may identify whether the history is adverse:

- Are there previous insolvencies where the Builder principals or key managers had an association or related group entities?
- Is the latest insolvent event under five years old?
- Is there evidence of avoidance of trade creditors, building disputes or tax liabilities?
- Is there a history of building disputes?
- Was there evidence that the principals had withdrawn funds before an external administration or deregistration?
- Were such persons prosecuted for any offences in connection with the insolvency or found personally liable for the debts of the failed enterprise?

In considering a new application where adverse history is applicable, the underwriter can consider the following as mitigants:

- Evidence is clearly provided that the substantial causes of the insolvency were not because of mismanagement.
- History does not include repeat instances of the same type of adverse activity.
- At least five years has passed and there are no HBCF claims and trade creditors were not impacted by the history event.

There is an expectation of at least 10% ANTA (or DOI and at least 5% ANTA) for the underwriter to favourably consider the Builder's future Eligibility, unless five years have passed since the adverse history.

### 12.2 Claims notifications, NCAT or court orders and Builders licence incident record

When the underwriter identifies a previous entity association they will investigate and assess the materiality and relevance of any claims history. This claims history may be from the 'first resort' period or from a business failure under the 'last resort' scheme.

The underwriter must always investigate previous business associations, possible related entities, claims and claims notifications held on BEAT and CIMS.

The underwriter must check Fair Trading's public register for previous claims. If necessary, the underwriter will ask Fair Trading for additional details (for example, the insurer's name).

An adverse claims history indicates potential risk. In this case, the underwriter will assess the risk the Builder poses and make their judgement based on the available information and the Builder's current position. For information about insurers operating in the private market from 2002 to 2010, and any related claims, the underwriter can contact the icare HBCF Claims Manager to provide help.

The underwriter must also consider orders against the Builder (or an associated entity) made by a court or the NCAT, especially if the order has not been complied with. The number of matters being referred to the Tribunal may be an indication of a Builder being in difficulty. Fair Trading provides these reports directly to icare HBCF.

Where the underwriter becomes aware of a non-compliance with a Tribunal or Court order, they must seek an explanation as to its relative significance (for example, not a minor oversight from or action against a major volume Builder) and, if judged sufficiently serious, consider suspending Eligibility (after issue of required notice) until the issue is rectified. The underwriter may also need to initiate a Special Eligibility Review.

The nominated supervisor is deemed a key manager as set out in 9.2.2 Key managers. As such, if the nominated supervisor has an adverse track record, this must be investigated and appropriately mitigated, before the application proceeds. A nominated supervisor can be exempted from such requirements for investigation and mitigation of any adverse track record, or lesser mitigations may be required, where the Directors are sufficiently experienced (for example, construction industry experience, capital adequacy and business management capability) to support the requested project limits. No exemption can be granted for New Builders, and should be rare and particularly well-evidenced for System Reviewed or Medium Builders.

It is icare HBCF policy and practice to bring instances of possible breaches of the *Act* (or other relevant legislation) to the attention of Fair Trading, and where applicable SIRA, when it becomes aware of those instances.

As examples, icare HBCF may notify the relevant authority of Builders:

- undertaking work beyond the scope of their category of licence
- starting work or taking money before obtaining HBC insurance.

## 12.3 Unpaid contract variations

It is a condition of a Builder's Eligibility that they pay an additional premium where, for any project covered by a policy, the building contract is subject to an upward variation (or sequential/cumulative variations) of greater than 20% of the original contract price.

icare HBCF will consider non-reporting and non-payment of premium variations to be adverse events when assessing a Builder's 'adverse history' for premium pricing purposes, and will apply a loading to future premiums.

icare HBCF will provide the Builder with an opportunity to pay the outstanding premium (calculated on a pro rata basis for the difference to the original contract price) before the loading is applied.

## 12.4 Work in Progress—WIP—reports

WIP information can help the underwriter to understand the impact of the current construction activity on a Builder's future cash flow.

### 12.4.1 Delays in completion

- Is the Builder having difficulty sourcing material or subcontractors or having significant disputes?
- A Builder completing earlier contract stages, with front-end loaded progress payments, but not progressing sufficiently through subsequent stages, will have cash flow constraints in the future with pre-earned income.

### 12.4.2 Stages of construction

Ideally, there is a proportionate spread of projects by stage of completion. A high proportion of projects at any stage of completion may indicate current or future issues.



- If there is a disproportionate number of contracts in the early stages of construction, this could indicate the Builder is seeking to address a cash flow problem through taking a large number of deposits or performing front-end loaded work stages only.
- A detailed assessment could extend to considering the progress payments schedule when compared against the construction stages (footings, frame, fit-out, lock-up etc.). If the progress payments are front-end loaded (that is, the progress payment received is significantly greater than cost of construction for that stage) this means the latter progress payments will not cover the higher construction costs.
- For many home Builders, the Progress Payments schedule is likely to be conducive to an unearned turnover liability. That is, progress payments received will exceed the cost of work completed plus margin.

A Work in Progress Report (WIP) sets out the following:

- name of homeowner (prepopulated)
- site address (prepopulated)
- start date (Builder populated)
- current stage of works (Builder populated)
- estimated completion date (Builder populated)
- contract value (Builder populated)
- balance of progress payments outstanding (Builder populated)
- building costs to date (Builder populated)
- estimated building cost to complete (Builder populated).

The underwriter must review the provided work in progress information to determine whether the treatment of WIP in the financial statements is reasonably reliable and make supporting notes on BEAT.

Major Project Home Builders must support all financial Eligibility Assessments with an accountant's declaration that the balance sheet treatment of WIP valuation complies with the relevant Australian Accounting Standard.

## **12.5 Franchise, marketing or buying group participation**

icare HBCF policy is to assess each franchisee or buying group participant as independent businesses.

Subject to confidentiality arrangements between the parties, the underwriter should get and assess the group heads of agreement to understand the nature of the relationship.

This category of Builder presents potential additional risk as additional contractual obligations and requirements may apply within the relationship:

- upfront participation costs
- immediate opportunities for unsustainable growth
- payments or royalties payable to the group from operating turnover
- Is the Builder permitted to source material, labour, or other inputs outside of the group arrangements?

## 13 Financial assessment scope

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**Note:** *We will assess most Builders automatically, using the ASR assessment process.*

*This section does not generally apply to Tier 1 and Tier 2 Builders who are assessed using the ASR assessment process, unless they need to undergo manual assessment. For example, when transitioning from Tier 1 to Tier 2.*

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The underwriter will conduct the financial assessment component of an Eligibility Assessment as follows:

- For sole traders and partnerships (between individuals), the underwriter must assess the personal assets of the individual.
- For partnerships, by aggregating the financial information of the partners of the business. The financial circumstances of the individual partners must also be considered separately, as this may indicate that one partner is higher risk, which leads to the partnership being higher risk.
- For partnerships (between entities or trusts), the underwriter must assess the assets of the entities and the trusts separately.
- Groups of building companies under common control or shareholding may be deemed a Group as detailed in this manual and the underwriter should where possible apply the criteria to the consolidated accounts of all entities with building operations. In any event, the same underwriter will concurrently review all building entities within a group.
- For trust structures, the underwriter must assess the financial statements of the trading entity (Trust or Trustee). Often the best test of which entity trades is the ABN used by the business.
- For franchise businesses, the underwriter should apply the criteria to each individual franchise business and the franchisor (if required) as separate entities. It's important to have knowledge of the franchisee, franchisor, the agreement, and respective obligations and guarantees, for and to each other, that is, what if a problem arises? How will the franchisor react and what are their obligations? If the franchisee is a multiple franchisee, the underwriter should assess the Builder's individual franchise business and a consolidation of all the franchisee's businesses.

The extent to which the underwriter will investigate will depend upon the apparent risk of intercompany transactions, rights, and obligations.

## 14 Eligibility financial measures

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**Note:** We will assess most Builders automatically, using the ASR assessment process.

*This section does not generally apply to Tier 1 and Tier 2 Builders who are assessed using the ASR assessment process unless they need to undergo manual assessment. For example, when transitioning from Tier 1 to Tier 2.*

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### 14.1 Adjusted Net Tangible Assets—ANTA

ANTA is intended to represent the net ‘fire sale’ position of assets, less third-party liabilities.

ANTA is viewed as a ‘buffer’, available to the Builder business to help them withstand normal business disruptions or ‘shocks’, such as:

- a dispute with a homeowner over a progress payment
- seasonal issues, such as a building industry shut down
- periods of extended inclement weather
- other difficulties encountered that result in not being able to progress sites or collect progress payments
- errors and unbudgeted unfavourable variances in pricing
- errors and unbudgeted unfavourable variances in direct costs
- errors and unbudgeted unfavourable variances in overhead expenses
- abnormal and extraordinary expenses (such as inventory write – downs).

#### 14.1.1 How is ANTA calculated?

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**Note:** We will assess most Builders automatically, using the ASR assessment process.

*This section does not apply to Tier 1 and Tier 2 Builders who are assessed using the ASR assessment process, unless they need to undergo manual assessment. For example, during transition from Tier 1 to Tier 2.*

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icare uses assumed turnover when assessing the ANTA for Eligibility (section 9.3 Assessment of Open Job Limits—OJL—and assumed turnover).

A Builder’s OJL is converted to the assumed turnover as if that limit was fully used during a full year. The underwriter uses average construction time and average contract values to forecast assumed turnover.

There may also be additional activity added to the assumed turnover for assessing whether sufficient ANTA exists. This includes non-residential activity and residential activity that does not require HBCF and interstate activity. The underwriter uses the total as the turnover to test the ANTA percentage.

Where interstate or non-residential building activity is included in the assumed turnover, the underwriter must ensure that they understand the total turnover and undertake the assessment based on total activity. The building entity must meet icare HBCF criteria for the total turnover and not just the NSW limits sought. The underwriter must obtain a copy of the equivalent interstate insurance Eligibility approval.

Builders need a minimum threshold of 3% to meet Eligibility requirements. icare HBCF encourages Builders to retain ANTA in the actual building entity or related group of companies, secured by a GTA (section 16.7 Group entities and Group Trading Agreements—GTA), through a premium discount.

When arriving at the final ANTA calculation, the underwriter considers the past two financial year-end ANTA figures. The final ANTA figure will be the lesser of:

- the most recent financial year end
- the average of the last two financial year-ends

If a Builder is subject to intensive monitoring, and the ANTA position in an intensive monitoring submission is substantially worse than the last financial year end assessment (for example, ANTA is negative), the final ANTA figure will be the ANTA position in the intensive monitoring submission.

This approach determines the ANTA for all assessment types, including requests to release DOIs (not JSDs). Assets located outside of Australia are not included in the calculation of ANTA.

ANTA will adjust the value taken up for certain assets and liabilities. For example, the value of real estate assets is taken at 85% of valuation to allow for market variations and selling costs. The book value of real estate assets in the company balance sheet is deemed to be the valuation.

icare HBCF must ensure that the assets considered in meeting the ANTA requirements allow for either security or can be easily converted to cash through sale.

Table 8: ANTA Discounting Policy sets out icare HBCF discounting policy in respect to the most common assets and liabilities in arriving at the ANTA calculation.

*Table 8: ANTA Discounting Policy*

Assets	Weighting
Cash (current assets)	100%
Cash (encumbered) For example, cash is held in a term deposit to support a bank guarantee facility)	0%
Debtors (current assets) excluding debtors over 30 days	100%
Debtors (current assets) aged more than 30 days (subject to result of underwriter review)	0%
Retention payments (where no track record of collection or level of dependency on recovery of retention payments is available) (section 14.2 Working capital requirements and assessment)	0%
Retention payments (where track record of collection and level of dependency on recovery of retention payments has been undertaken and considered acceptable). Refer to section 14.2 Working capital requirements and assessment.	100%
WIP/land/speculative building	85% (refer to note below)
Net Contract WIP	0% (refer to note below)
Prepayment (current assets)	50%
Land and Buildings (non-current assets)	85%
Intangible assets (that is, good will)	0%
Plant and Equipment (non-current assets)	50%

Assets	Weighting
Right of Use assets (under AASB16)	100%
Motor Vehicles (non-current assets)	50%
Other Investments (Related Entities)	0%
Listed Companies equity	75%
Other Investments (Not Related Entities)	50%
Other non-current Assets	0%
Related Party Loans	0%
Any debt owing to a Builder under dispute or subject to legal proceedings	0% (refer to note below)
Liabilities	Weighting
Current Liabilities (excluding related party loans)	100%
Non-Current Liabilities (excluding related party loans)	100%
Current Related Party Loans an underwriter accepts as non-payable	0%
Non-Current Related Party Loans an underwriter accepts as non-payable	0%

***Note:** Unless the underwriter accepts that the Builder has proven it a tangible value, we will not consider WIP arising from building contract activity to be a contributor to ANTA.*

***Note:** If a debt owing to a Builder is under dispute, or subject to legal proceedings, we will not include the value in the calculation of ANTA or working capital ratios, unless the underwriter accepts that recovery of the debt is virtually certain.*

***Note:** To promote fairness and protect public interest, we will exclude a director's primary residential property when calculating the SPAL position for DOI purposes.*

#### 14.1.2 Additional asset or liability evidence

The underwriter does not usually request additional asset or liability evidence from the Builder when they lodge a new application or review submission. When the underwriter is looking for additional evidence arising from the assessment, they should refer to Table 9: Additional evidence to support asset declarations as a guideline. The underwriter may ask for additional asset or liability evidence on a 'post balance date' basis (for example, during an Eligibility Assessment using balance sheet information at 30 June, seeking cash at bank evidence for periods after 30 June).

*Table 9: Additional evidence to support asset declarations*

Item		Acceptable Evidence
		(if detailed review is required)
Assets		
Cash at bank		Bank account statements over previous six months
Residential Property		Council Rates notice or proof of purchase
Motor vehicles		Make and registration number
Inventory (land and buildings)		Council rates notice or proof or purchase
Other investments (exclude any investments in unlisted companies)		Share scrip, etc. Details of valuation methodology
Plant and tools		Copy of asset register or declared insurance values
Trade debtors		Copy of accounts receivables listing, copies of invoices for major receivables
Work in Progress		<ul style="list-style-type: none"><li>▪ Details of all incomplete projects: Name of the homeowner</li><li>▪ Site address, commencement date, current stage of works, estimated completion date, contract value</li><li>▪ Progress payments outstanding</li><li>▪ Estimated cost to complete</li></ul>
Liabilities		
Mortgages/Secured property loans		<sup>6</sup> Copy of Bank Facility letter
Overdraft		Copy of Bank Facility letter
Vehicle finance		Copy of Finance Facility letter
Unsecured loans		Copy of Bank Facility letter
Credit cards		Credit Card Statements
Trade creditors		Copy of accounts payable listing, copies of invoices for major supplies, ATO tax portal statement

## 14.2 Working capital requirements and assessment

Working capital is a measure of a company's liquidity, operational efficiency, and its short-term financial health. If a Builder has substantial positive working capital, then it should have the potential to invest and grow. If a Builder's current assets do not exceed its current liabilities, then they may have trouble growing or paying their creditors, or even become insolvent.

In icare HBCF's experience, businesses that do not fundamentally address adverse working capital trends early, require more drastic remediation later.

<sup>6</sup> All evidence must be recent, that is, within three months of the eligibility application submission.

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**Note:** We will assess most Builders automatically, using the ASR assessment process.

*This section does not apply to Tier 1 and Tier 2 Builders who are assessed using the ASR assessment process*

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Builders showing signs of working capital deficiency must submit a current snapshot of their working capital position (no more than 30 days old) in addition to the financial statements. This schedule will list the Current Assets and Current Liabilities of the business and the underwriter will use it to confirm the Builder's liquidity, ongoing viability, and ability to undertake and complete projects.

#### 14.2.1 Adjusted Current Ratio—ACR

icare HBCF has developed an 'Adjusted Current Ratio' to assess the working capital adequacy of Builders (assets located outside of Australia are not considered in assessing working capital).

icare HBCF considers the benchmark for the ACR to be greater than or equal to 1.

#### 14.2.2 How is ACR calculated?

icare HBCF calculates ACR as:

- $(A - B - C + D) / (E - F - G)$

Where:

- A = All current assets
- B = All current assets assigned an ANTA weighting of 0% (section 14.1.1 How is ANTA calculated?)
- C = Speculative WIP not accepted by the underwriter to contribute to ANTA (section 14.2.3.1 Turnover of inventory—speculative WIP)
- D = Undrawn portion of an overdraft or similar debt facility (if applicable)
- E = All current liabilities
- F = Progress payments received in advance (applicable if the underwriter has not included WIP in ANTA calculations)
- G = Related liabilities treated as quasi working capital (section 14.2.3.2 Related liabilities as quasi-working capital).

Where a Builder has an ACR less than 1, the underwriter may calculate the dollar value required to mitigate the ACR to 1 as a condition of Eligibility. The underwriter will consider the key factors (section 14 Eligibility financial measures and its sub-sections) when requiring working capital mitigation as a condition of Eligibility.

#### 14.2.3 Additional working capital considerations

The emerging trend is fundamental to a consideration of working capital. Weakening trends require explanation other than ANTA or security as mitigation.

Other key factors considered include:

- **Overdraft balance and available limit:**

Have bank statements and loan documents been supplied to confirm limits and availability? Are the facilities secured off balance-sheet and not part of a DOI or GTA requirement?

- **Taxation and GST liabilities:**

Have these been paid post balance day and confirmed by ATO statements? If so, the underwriter

may consider making an allowance for this in ACR calculations.

- **Work in progress—WIP—levels:**

Are WIP levels consistent with previous years or has it spiked substantially? What is the make-up of WIP? How long before invoices issued and WIP turned into Debtors? Has speculative WIP been tested for inclusion in ACR (section 14.2.3.1 Turnover of inventory—speculative WIP)?

- **Agreed terms for suppliers and subcontract labour:**

Are these agreed terms greater than the benchmarks used in BEAT? What do the trends in BEAT show? Are they consistent? Longer terms shown will improve working capital.

- **Directors' loans:**

How are these balances recorded on the balance sheet (current or non-current)? Should the underwriter consider treating these balances as non-current loans (section 14.2.3.2 Related liabilities as quasi-working capital)?

- **Aged list of creditors and debtors:**

Do schedules at balance date and post-balance date show movement in debtors greater than 30 days, which may be evidence of their payment and allow for inclusion in ANTA and ACR calculations?

- **Bank facilities letter and letter from bankers confirming banking covenants have been met:**

Have these been provided for review as part of the Eligibility Assessment?

Other things to consider when determining working capital are the turnover of speculative WIP and treating related party liabilities as a working capital mitigant.

#### 14.2.3.1 Turnover of inventory—speculative WIP

Where there is evidence of working capital investments that may be readily convertible to cash (either as security for borrowing or sale in the next 12 months) the underwriter can accept the cost invested in the inventory as a mitigant for an ACR deficiency.

Such assets are included as speculative WIP in BEAT and will contribute to ANTA. To realise this asset as working capital the underwriter will examine the:

- Builder's track record of realising inventory sales within expected timeframes and values
- the basis of the balance valuation (contract of sale in place, pending settlements within current period, cost assumptions).

Where there is a high degree of dependence on the inventory for short-term liabilities the underwriter will question this mitigation. The underwriter must include the appropriate comments and explanations in the BEAT assessment notes for inventory mitigation.

#### 14.2.3.2 Related liabilities as quasi-working capital

The underwriter can consider the current related liabilities as non-current where there is evidence of a current related liability that has not changed over the previous two years' financial statements. The exercise of this mitigant must have the appropriate comment and explanations included in the BEAT assessment notes.

Where current related liabilities are to be treated as a non-current liability mitigant of working capital weaknesses, the underwriter requires a copy of a loan agreement that confirms non-repayment in the next 12 months. The exercise of this mitigant must have the appropriate comment and explanations included in the BEAT assessment notes.

The BEAT data input will contain the actual financial data as contained in the financial statements.



#### 14.2.4 Gearing ratio and undrawn lines of credit

A gearing ratio is the percentage of total third-party debt compared to total discounted assets. icare HBCF recognises that the appropriate target gearing ratio will be a total gearing ratio of less than 70%. The total calculation applies the group rules as set out in this manual.

Gearing of more than 70% may indicate that the Builder will have difficulty in accessing additional working capital through external funding.

The off-balance sheet activities of the Builder could indicate that the Builder is in financial distress and place significant adverse strain on the Builder, over and above the requirement to service the liability in question. A source of working capital available to a building entity could come from funding (such as an overdraft, loan) which the lender has secured on an asset which is not held in the balance sheet of the Builder. Quite often, the secured asset holder is a director or a related entity.

The underlying assumption is that a successful building entity is generating consistent positive net wealth. This wealth may be:

- retained in the Builder's balance sheet (hence strong Builder ANTA position providing possible premium discounts)
- diverted to the balance sheet of a related entity
- held in the personal position of a director/shareholder.

An undrawn line of credit is never acceptable as a mitigant for unprofitable trading without evidence that such adverse profit performance is fully mitigated by management responses and changes to the business strategy with demonstrated effectiveness or justified future business outcomes.

### 14.3 Balance sheet considerations

**Cash:** If cash is used to support an off-balance sheet obligation (for example, a bank guarantee) it will not be included in ANTA calculations.

**Trade Debtors:** Where trade debtors are aged greater than 30 days it will not be included in ANTA calculations unless evidence is provided by the Builder of their payment (for example, remittance advice, post balance date debtor ageing).

**Related party debtors / loans:** These asset balances will only be considered as assets for ANTA calculations if the:

- full value of the loan remains on the balance sheet of the related party holding a strong ANTA in its own right
- related party is directly related to the Builder.

**Retentions:** Retentions arise out of contractual obligations with previous customers are generally not included in ANTA as uncertainty often exists as to their collectability, depending on the specific underlying contract and the record of accomplishment of the Builder in terms of previous retention releases.

Retentions can be included in ANTA if track record of collection and level of dependency on recovery of retention payments has been undertaken and considered acceptable.

**Work in progress:** Due to potential unreliability of WIP valuations the standard treatment in BEAT is for WIP not to be included in ANTA calculations.

The underwriter can include WIP in ANTA calculations where there is evidence of one or more of the following:

- The Builder's financial accounts have been audited with WIP prepared in accordance with the relevant Australian Accounting Standard (currently AASB 15 - [https://www.aasb.gov.au/admin/file/content105/c9/AASB15\\_12-14\\_COMPsep18\\_01-19.pdf](https://www.aasb.gov.au/admin/file/content105/c9/AASB15_12-14_COMPsep18_01-19.pdf)).
- An accountant, external to the Builder, certifies that the financial accounts provided for

Eligibility Assessment are compliant with the relevant Australian Accounting Standard for WIP (currently AASB 15).

- If the balance sheet WIP value is validated with a robust Builder WIP valuation methodology, then this WIP value can be added to the ANTA by registering this on BEAT (subject to the WIP testing provisions – section 12.4 Work in Progress—WIP—reports).

BEAT allows for the WIP Contract Value to be included in the business assets, by the underwriter registering that the closing WIP value reported on the financial reports is satisfactory.

**Intangible assets:** Such assets including but not limited to goodwill, establishment costs, licence fees and franchise fees are not included in ANTA calculations.

**Deferred tax assets:** Deferred tax assets are only useful in reducing future tax liabilities and are not included in ANTA calculations and not available to fund working capital requirements.

**Contingent liabilities:** Unless supported by cash on the balance sheet, contingent liabilities are taken at face value in ANTA calculations. The underwriter will assess any contingent liabilities for their likelihood and impact, by obtaining further information from the Builder and Distributor.

**Deferred tax liabilities:** Deferred tax liabilities are not included in ANTA calculations.

**Liabilities secured off balance sheet:** Such liabilities, not used to underpin DOIs or GTAs, may be discounted in ANTA calculations.

## 14.4 Gross margins

There are two ways of expressing gross margin.

- Most Builders and BEAT will benchmark margin as a mark-up on the cost of sales (on-cost margin).
- Financial advisors and accountants will express the margin as a percentage of sales turnover (on-sales margin).

To ensure that all Builders' gross margins are compared fairly, it is essential that the correct comparisons be made on the same basis.

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***Note:** We use the on-cost margin when assessing Eligibility.*

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Inadequate gross margin is the primary cause of cash flow deficiency in the industry. Where there is a demonstrated weakness in the gross margin due to under-pricing, Builder participation in the BCRP is often an appropriate Eligibility condition. Such participation may not be valuable where the Builder is large, where the under-pricing has only occurred over a short period of time, or there is reason to believe the under-pricing is deliberate.

The underwriter will consider the amount of industrial or commercial turnover when assessing the gross margins of the business. Traditionally the gross margins obtained from commercial and industrial projects are lower than those obtained from residential building, therefore, the underwriter will consider any change in Eligibility Profile against historical performance.

A consideration of the way overheads is accounted in the profit and loss report will affect gross margins. A Builder who charges all direct overheads costs to a project will report a lower gross margin.

## 14.5 Cash flow projections and budgets

If sustainable based on reasonable forecast assumptions, Cash Flow projections and budgets are an important part of the forward planning of a business. In some circumstances where growth is requested from a poor working capital position, a cash flow statement can be useful to management. This report can focus the Builder on the need for cash flow control.

The underwriter may request cash flow projections and budgets to investigate the concerns about growth performance. If they exist, underwriters must test the reasonableness and accuracy of these projections and budgets in the current and subsequent assessments until the concerns are removed.

## 14.6 Mitigation of Eligibility financial measures

The underwriter may ask a Builder to mitigate a deficiency in ANTA and/or working capital to either obtain or maintain Eligibility.

There are various ways to mitigate ANTA and working capital conditions. Some methods can mitigate ANTA and working capital conditions of Eligibility at the same time (for example, a company undertaking a capital injection) whereas other methods will only mitigate an ANTA condition of Eligibility (for example, providing a DOI - section 16.2 Deeds of Indemnity Agreement—DOIs—as security) or a working capital condition of Eligibility (for example, obtaining a line of credit in the name of the Builder - section 14.2.4 Gearing ratio and undrawn lines of credit).

The underwriter will provide Builders with sufficient time (section 23.1 Eligibility Assessment and Review service standards) to mitigate these conditions of Eligibility. If the Builder does not undertake mitigation it may result in suspension or modification of a Builder's Eligibility (sections 14.2.4 Gearing ratio and undrawn lines of credit).

### 14.6.1 Mitigating an ANTA deficiency

A Builder must meet the minimum ANTA requirements to obtain/maintain Eligibility (section 14.1 Adjusted Net Tangible Assets—ANTA).

A Builder usually generates an ANTA deficiency that requires mitigation where:

- The assumed turnover used for the Eligibility Assessment is too high and may require reconsideration by an underwriter.
- The OJV the Builder is seeking is greater than what is needed, based on their pipeline of work and/or historical OJL use and should be reduced.
- The Builder has distributed a high proportion of their retained earnings (for example, related party loans, dividends) to close associates and requires repatriation to the Builder to meet minimum ANTA requirements.

The most common methods available to mitigate an ANTA deficiency are:

**Capital injection:** Underwriters need to obtain evidence that a capital injection condition has been met, such as:

- A post injection balance sheet, which reflects the effect of the capital injection or bank statement showing cash injection deposit.
- A copy of the minutes of the company's board meeting, resolving to receive the capital into the business and resolving to:
  - retain the capital in the business and not to loan these funds out of the business
  - use these funds for the productive use by the business.
- Conducting a mercantile agency search as part of any future review to confirm that the injection has been registered with ASIC.

**Capital and /or Profit retention:** Underwriters need to obtain evidence that a capital and /or profit retention condition has been met, such as:

- A copy of letter of undertaking from director(s) restricting loan advances - this applies when a high proportion of the Builder's retained earnings have been distributed to close associates and required repatriation to the Builder to meet minimum ANTA requirement. This condition

requires the Builder to provide a letter of undertaking signed by the director(s) on company letter stating, “No further loans to be advanced to related parties for the next 12 months.”

- A copy of letter of undertaking from director(s) restricting dividend payments- this applies when a high proportion of the Builder’s retained earnings have been distributed to close associates and required repatriation to the Builder to meet minimum ANTA requirement. This condition requires the Builder to provide a letter of undertaking signed by the director(s) on company stating, “No dividends payments to exceed 50% of Net Profit After Tax (NPAT) for the next 12 months”

Underwriters can determine whether to apply the above retention conditions to either an individual building entity, or group entities under a GTA. The underwriter can determine whether to apply one or both retention conditions at the same time.

**Conversion of related party loan(s) to equity:** Underwriters need to obtain evidence that a related party loan has been converted to equity, such as:

- A post loan conversion balance sheet, which reflects the effect of the loan’s conversion to equity.
- Written confirmation from the related party lender consenting to the loan being converted into equity in the Builder.
- A copy of the minutes of the company’s board meeting, resolving to issue new capital in the business to the related party lender and resolving to:
  - retain the loan capital in the business and not to loan these funds out of the business
  - use these funds for the productive use by the business.

The underwriter will conduct a mercantile agency search as part of any future review, to confirm that the injection has been registered with ASIC.

**Executing a Security document (for example, a DOI):** Instructions on how to execute and return a DOI to the underwriter are contained in the Builder Eligibility Assessment Report issued at the end of the Eligibility Assessment underwriting process.

A DOI is not an appropriate form of ANTA deficiency mitigation in all circumstances. For further information about using this mitigation option see the following sections:

- 16.2 Deeds of Indemnity Agreement—DOIs—as security
- 16.3 Security sources
- 16.4 Determining value of DOIs

**Executing a GTA:** For further details about using this mitigation option section 16.7 Group entities and Group Trading Agreements—GTA.

## 14.6.2 Mitigating a working capital deficiency

A Builder is generally required to have an ACR greater than or equal to 1, mainly generated by having more near-term assets than liabilities.

A Builder cannot mitigate a working capital deficiency by seeking a reduction in their OJV (that is, the deficiency will remain the same no matter what the OJV is).

The most common methods available to mitigate a working capital deficiency are:

- **Capital injection:** Underwriters need to obtain evidence that the Builder has met the capital injection condition, such as:
  - A post injection balance sheet, which reflects the effect of the capital injection or bank statement showing cash injection deposit.
  - A copy of the minutes of the company’s board meeting, resolving to receive the capital into the

business and resolving to:

- retain the capital in the business and not to loan these funds out of the business
- use these funds for productive use by the business.
- The underwriter will conduct a mercantile agency search as part of any future review, to confirm that the injection has been registered with ASIC.
- **Restriction on loan repayments:** Underwriters need to obtain evidence that a loan repayment restriction condition has been met, such as:
  - A copy of letter of undertaking from director(s) restricting repayment of loans - this applies when current related liabilities are treated as quasi working capital to assist in remediation of working capital weakness. This condition requires the Builder to provide a letter of undertaking signed by the director(s) on company letter stating ,”No repayment of loan injections by related parties for the next 12 months”.
- **Unused line of credit:** The ACR factors in the portion of a line of credit (for example, overdraft facility) which is not currently used by the Builder.
  - Underwriters need to obtain evidence that a line of credit can mitigate the working capital deficiency from an up to date letter from the financial institution confirming the value of undrawn facilities.
  - The line of credit must be in the name of the Builder entity. Multiple facilities may be totalled.

## 15 Financial statements inconsistency

If the underwriter comes to a view that the accounts as presented are not a fair representation of the Builder's financial position, they will ask the Builder to provide:

- amended accounts with explanations of their concerns
- externally prepared financial statements.

## 16 Eligibility conditions

### 16.1 Eligibility decisions

After an Eligibility review, the underwriter will provide the Builder's Distributor with written notification of the following information (as a minimum):

- the Builder's Eligibility outcome (for example, approved, approved with conditions, decline)
- the Construction Types (section 8.5 Construction types) for which the Builder is eligible to obtain Certificates of Insurance (subject to section 20 Certificate of Insurance Underwriting Issues)
- the maximum project cost of an individual job the Builder can undertake for a Construction Type (that is, construction limits)
- the maximum:
  - total cost of jobs they can undertake at any point in time (that is, OJV)
  - number of projects they can undertake at any one time (that is, OJN). ( **Note:** This is not applicable for Tier 1 and Tier 2 Builders)

When undertaking an Eligibility Assessment, the underwriter will provide written reasons for:

- requiring further information from the Builder
- declining Eligibility, including on re-assessment
- not providing the OJL sought by the Builder
- any conditions the Builder must comply with for Eligibility
- amending the terms and conditions of a Builder's Eligibility or revoking Eligibility, including on re-assessment.

### 16.2 Deeds of Indemnity Agreement—DOIs—as security

In some circumstances the underwriter may request security to protect icare HBCF and expose assets outside of the eligible building company that icare HBCF considers are essential to meet the Builder's ANTA thresholds.

If the Eligibility Assessment process identifies issues such as building entity experiencing a deficiency in ANTA, this indicates that the Builder may represent a higher risk. When the Builder submits a DOI as a security, this can give some reassurance about the potential risk these issues may represent. A DOI for Eligibility is never mandatory and Builders will always have a choice to simply comply with basic icare HBCF underwriting requirements (for example, by making a capital injection to meet minimum ANTA requirements).

DOIs are not intended as the sole remedy for any uncertain financial situations. icare HBCF reserves the right to determine the most appropriate security document (if any) or impose other Eligibility conditions (refer to section 14.6 of this Manual), rather than requesting a DOI when offering Eligibility.

Where a Builder with an existing Eligibility has their financial position deteriorate to such an extent that their ANTA becomes less than zero, the Builder will be subject to risk management (section 18 Builder's risk mitigation on Eligibility Assessment) and while a DOI may form part of the risk management strategy, icare HBCF expects that a DOI will not be the extent of that strategy.

Where a Builder's Eligibility Score is below the Minimum Eligibility Score and they are directed for an SER, an underwriter may as part of that manual assessment require a fixed amount of security and capital injection to meet ANTA requirement. This should be combined with appropriate risk management (section 18 Builder's risk mitigation on Eligibility Assessment) and only used where appropriate.

The underwriter may need a security (JSD or Irregular Contract Arrangements Deed of Indemnity—ICD) when assessing the risk presented by a project application for a COI. Please refer to section 16.3

Security sources for details.

The main reason for seeking security is to ensure the support of the indemnifying parties if the building entity experiences a deficiency in working capital, ANTA, or other business issue.

DOIs will not address all deficiencies. DOIs effectively provide additional reserve capital to a business, which can address weaknesses in a Builder's net assets or ANTA.

DOIs must not be used to remedy:

- non-financial deficiencies, for example the Builder's history or experience
- deficiencies in working capital, gross margin, or profitability
- perceived lack of financial capacity to support requested OJL.

We do not require DOIs on ASR assessed Builders when we determine their Eligibility using their Eligibility score.

icare HBCF's preferred security instruments are its own drafted DOIs. DOIs generally expire three years after construction is completed on the last policy that icare HBCF issued, although it may be different in some cases.

Where a DOI is not an appropriate remedy (for example, a listed company), the underwriter should look for other, more appropriate remedies for addressing the identified deficiencies. Where icare HBCF requires an alternative remedy, they will liaise with the Builder and its Distributor about appropriate alternate remedies. Where, at the request of the Builder, icare HBCF determines that a bank guarantee is an appropriate alternate remedy, icare HBCF will provide the Builder with information necessary for them to obtain the bank guarantee and deliver it to icare HBCF. These are the typical information requirements for a bank guarantee:

- The bank guarantee must be unconditional.
- The bank guarantee must provide cover to icare HBCF for the entire Eligibility period and no expiry date
- The bank providing the bank guarantee needs to:
  - be an ADI (Accredited Deposit-taking Institution) that is regulated and classified by APRA as an Australian owned bank or Foreign subsidiary bank
  - not be subject to any ADI conditions imposed by APRA that restrict its abilities to provide guarantees to icare HBCF
  - meet a minimum long-term credit rating threshold (<sup>7</sup>generally 'AA minus' or above from Standard & Poors or 'Aa3' or above from Moody's), as determined by icare HBCF from time to time.
  - Provide specific written undertakings about icare HBCF's ability to make a claim on the bank guarantee.

During annual Eligibility Assessments, where DOIs are a condition of the Builder's Eligibility, the underwriter will re-assess whether the DOIs are still necessary and if their values are sufficient. If needed, the underwriter will ask the Builder to execute a new DOI.

DOI wording generally states that when a new Eligibility DOI is executed, it automatically terminates the previous Eligibility DOIs (subject to an existing right under those deeds where there has been notifications or claims). Therefore, generally, there is no additional action needed to release a previous DOI.

icare HBCF will hold the original DOIs. It is the underwriter's responsibility to ensure that the Builder has provided the original, correctly completed DOI to the Distributor before issuing a COE. It is both the underwriter's responsibility, and the Distributor's responsibility, to ensure that the Distributor provides the original DOI to the underwriter in a timely fashion (section 16.11 Provision of security

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<sup>7</sup> Find out more about credit ratings at <https://www.spglobal.com/ratings/en/> and <https://www.moodys.com/>



documents to icare HBCF).

The DOI is also intended to help positively influence the behaviour of the indemnifiers over the financial management of the building business. The intention is that the business is run in such a way to as to ensure its long-term sustainability to avoid exposure to secured assets.

### 16.3 Security sources

The security sources in Table 10: DOI security by Builder structure types are allowed and are required when there are doubts regarding (or as a supplement towards) the ANTA of the Builder, where that party has the financial capacity to back the security. Assets located outside of Australia are excluded from consideration in determining the available support for a security.

*Table 10: DOI security by Builder structure types*

Builder Structure	Possible Security
Individual – sole trader	Nil
Partnership	Nil
Trust	Adult beneficiaries of the Trust or the Trustee provided a directorship exists with the eligible Builder
Standalone company	Directors
Company as part of a group	Nil (a GTA should be considered in this instance)
Minimum Mandatory DOI Value	\$200,000 (for all structure types)
Minimum Mandatory DOI Value where Builder's Eligibility Score is below the Minimum Eligibility Score	\$50,000 (for all structure types)

Table 11: Order of preference provides a guide for the order of preference of suitable associated parties that may be able to provide a DOI for Eligibility.

*Table 11: Order of preference*

Preference Order	Indemnifier	Comment
1	Related Companies	Other than related group entities securing a GTA.  This also includes developers, in the case of a multi-dwelling project, where the Builder building entity has a deficient ANTA level, or where the underwriter cannot determine the ANTA within the Builder entity.
2	Directors of the building entity	We will not accept DOIs from an 'unrelated' party, partner, spouse or family member, or a party who is not involved with the management of the building entity as a director. For example, we will not accept a DOI from a spouse who is not a director of the building entity.
3	Beneficiaries of a related trust	This is dependent on those beneficiaries having an interest in the building entity, through directorship and/or shareholding.

Preference Order	Indemnifier	Comment
4	Related unit trust	This would depend on the trust deed allowing such an undertaking.
5	Related discretionary trust	<p>This is a last resort and is only to be used as a proactive behaviour influencing mechanism. It is unlikely that icare HBCF would derive any financial benefit from such a security.</p> <p>If provided, such a security would not be included in the financial assessment and ANTA calculation for the Builder applicant.</p>

When we use the auto-assessment process to assess Eligibility for Tier 1 and Tier 2 Builders (with OJV up to \$5m):

- we do not require a DOI.
- we do not use ANTA as a risk-based pricing factor
- we accept the director's SPAL without the need to obtain a DOI.

When we use the manual assessment process to assess Eligibility for Tier 1 and Tier 2 Builders (with OJV up to \$5m) due to high risk:

- we consider ANTA
- the minimum value of a DOI is \$200,000

The Builder can simply comply with basic icare HBCF underwriting requirements (for example, by making a capital injection to meet minimum ANTA requirements).

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***Note:** We may decline Eligibility if the risk is too high.*

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The underwriter must document the ANTA assessment of the indemnity provider in the Builder's BEAT assessment file. The underwriter may only accept the indemnity if the indemnifier has demonstrated sufficient financial strength and there is no evidence of poor past dealings or previous indemnifier financial impairment.

## 16.4 Determining value of DOIs

The underwriter uses Assumed Turnover in assessing the ANTA and subsequent value required under a DOI.

The underwriter determines the personal or related entity indemnifier's net asset value (that is, gross asset values less gross liability values) after applying:

1. The relevant asset and liability weightings in Table 8: ANTA Discounting Policy
2. Discounting the net asset value to 80%, determined in Step 1 above, needs to be sufficient to cover the ANTA deficiency. For example:

ANTA deficiency = \$200,000

net asset value required (after applying the relevant weightings in Table 8: ANTA Discounting Policy) =  $\$200,000 / 0.8 = \$250,000$  (Please note:  $\$200,000 \times 120\% = \$240,000$ )

DOI amount is \$250,000.

icare HBCF requires a DOI value to have a 20% buffer. We will exclude a director's primary residential property when calculating the SPAL position for DOI purpose.

## 16.5 Determining the value of bank guarantees

When we assess the value required for a bank guarantee to meet minimum ANTA requirements, we consider the Builder's assumed turnover. Assumed turnover is the income generated from the conversion of a Builder's Open Job Value into turnover using their assessed construction cycle plus the income from building projects in other states.

*Table 12: Bank guarantee example*

Example	Value
Builder Open Job Value	\$120,000,000
Assessed construction cycle (years)	0.75
<b>Assumed turnover</b>	<b>\$160,000,000</b>
Other state turnover (for example, VIC)	\$40,000,000
<b>Assumed and other state turnover</b>	<b>\$200,000,000</b>
Requirement (assumed turnover %):	3%
<b>Bank guarantee required</b>	<b>\$6,000,000</b>

If the Builder generates most of their income (greater than or equal to 60%) from other sources of activities (for example, commercial, industrial, or civil), we exclude that income from our assumed turnover calculations. In these cases, we calculate the Assumed turnover based on the income generated from the conversion of the Builder's Open Job Value into turnover using their assessed construction cycle from residential activities from NSW and other states.

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***Note:** The minimum acceptable bank guarantee value is \$3,000,000. The acceptance of a bank guarantee to meet ANTA requirements is at icare HBCF's sole discretion*

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## 16.6 New Eligibilities following dissolution of partnerships/trusts/companies

The underwriter must ask for a Deed of Indemnity in Respect of Former Business (DFB) in situations where:

- icare HBCF has issued COIs to a Builder (other than a Builder operating as a sole trader) who has requested that their Eligibility be surrendered or has previously allowed it to expire (Former Builder - Section 17.3 Cancelled Eligibility)
- A previous or current principal or shareholder of the Former Builder either seeks, or maintains, Eligibility with another Builder.

Examples include:

- A director of a Former Builder applies for Eligibility through a new company
- A Builder, who is part of an existing GTA with one or more other Builders, ceases operations and surrenders its Eligibility

The DFB covers icare HBCF's exposure to the Former Builder, partly as security for any issues that may have led to the dissolution of the former licensee.

## 16.7 Group entities and Group Trading Agreements—GTA

Where the GTA tests set out below exist, a Distributor can submit a corporate group for assessment to allow icare HBCF to take a consolidated view of ANTA and working capital.

Where the ANTA and requirements of this manual can be satisfied by a DOI or capital injection, the underwriter should not also require a GTA. In this instance icare HBCF will test the wider current and non-current liabilities and external guarantees of the indemnifying party.

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*Note: It is not intended for icare HBCF's use of the term 'group' or 'GTA group' to align with the provisions in the Corporations Act, including the definitions of subsidiary, connected entity, consolidated entity, holding company, related entities or related parties.*

*Note: It is icare HBCF's first choice to assess the individual Builder and use a DOI to allow other group assets to support identified ANTA weaknesses.*

*Note: icare HBCF will generally limit the number of entities comprising a group assessment to 10.*

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Underwriters must exercise exceptional care in assessing appropriate GTA entities where:

- The related entity is a property owner who has entered a joint venture with a developer.
- The related entity is an SPV formed to manage the property development and then be dissolved after completion of the development project (or on sale of all dwellings).
- The primary asset of the SPV is the proposed development that is usually provided to the bank as security.
- There are no other unencumbered assets in the SPVs, other than the proposed development or loan receivables with other related entities, that may or may not be assessed by icare HBCF
- The SPV may share the common directorship between a Builder and the SPV or majority shareholding/controlling interest.

Because of the elevated risk, icare HBCF will not take SPVs into a GTA for ANTA inclusion purposes, except where there is strong evidence of the SPV's long-term contribution to the group position and that its inclusion is necessary for an accurate reflection of the group's financial performance.

A GTA:

- enables a risk assessment to be conducted across a group
- provides a level of assurance that corporate groups will meet the ongoing statutory warranty obligations of a Builder entity, if the building entity is wound up or sold
- permits for building group deployment of capital for maximum returns
- allows a group treasury arrangement to exist for working capital and borrowing support,
- will be a condition of Eligibility approval across all entities within the assessed group (except for listed companies) when the underwriter performs a consolidated assessment.

Where a consolidated group assessment determines that the Builder (or group) meets the ANTA Eligibility requirements as set out in this manual, the underwriter will not require any other form of indemnity (other than the GTA).

Where the consolidated assessment identifies a deficiency in ANTA, the underwriter will require an additional form of security to meet the Eligibility requirements as set out in this manual.

Any of the following properties identify the need for the underwriter to consider a consolidated assessment and subsequent GTA:

- Related loans activity (a group treasury function) moves funds between group members and there are fluctuations in current or non-current related loan balances from year to year.
- The building entity/entities exchange management or licensing fees with other related entities at non-commercial rates.
- There is evidence of internal cost recovery between related entities.

- The assets in a non-building related entity provide security for an external loan facility in the building entity which would have a material impact on the building entities borrowing capacity.
- There are collateral liabilities (third party borrowings in a related entity or cross guarantee) on a building entity.

If there are related entities with common directorships and these related entities are licensed in NSW, then the application cannot proceed until the following is implemented:

- A group assessment must be conducted and a GTA entered.
- The Builder entity must indemnify the first entity, as a condition of any terms offered to the New Builder entity.

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***Note:** icare HBCF prefers its own drafted GTA agreement when a Group assessment is required. Occasionally, at the Builder's request, the underwriter may consider waiving the requirement of signing a GTA if the underwriter is satisfied that all relevant entities from the above analysis are subject to a deed of cross-guarantee (see ASIC Corporations - Wholly owned Companies - Instrument 2016/785 - <https://asic.gov.au/regulatory-resources/financial-reporting-and-audit/preparers-of-financial-reports/relief-from-corporate-finance-provisions/relief-for-wholly-owned-entities-under-asic-corporations-wholly-owned-companies-instrument-2016-785/>)*

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The outcome of a group assessment should enable the underwriter to establish a total OJL that is offered to all Builders in the group. A GTA allows the sharing of OJV and OJN for group entities within the total approved OJL without further Eligibility Assessment.

## 16.8 Job Specific Deed of Indemnity Agreement —JSD—and values

The underwriter should consider using remediation options to mitigate the risk associated with a high-value or high-risk project. Where a Builder's financials are not strong or there are inadequate:

- experience levels
- established history
- contractual arrangements,

the underwriter must consider project-specific remediation for the following types of projects:

- multi-unit projects
- developer projects
- speculative developments
- architect or designer managed projects
- high value projects
- related party projects (section 20.8 Certificate referral requirements).

A JSD may be appropriate where the financial strength of the Builder is not strong, or where under the contract a third party has control, for example, a developer. A JSD from companies or principals with a vested interest in the successful completion of the project (excluding the homeowner) and robust financial resources may help to reduce risk.

The value of JSDs must be 10% of the Contract Value or 50% of the maximum loss available under the *Act* for the project, whichever is the lesser. Generally, JSDs will expire six years after completion of construction to align with the insurer's liability under issued policies.

When the underwriter obtains a JSD, the underwriter will ensure the ANTA of those indemnifiers is greater than the value of the JSD.

## 16.9 Multiple indemnifiers

icare HBCF intends that indemnifiers be jointly and severally liable for any amount sought to be recovered under a DOI, GTA, JSD, DFB or ICD. Accordingly, where there are multiple indemnifiers for the one Builder, only one deed document can be submitted on behalf of the Builder.

Different indemnifiers are not allowed to provide separate deeds (including separate amounts). Because the most recent deed could cause all prior deeds to be terminated, using separate deed documents is not appropriate.

## 16.10 Review of deeds

Each time the underwriter completes an Eligibility Assessment, they must review and, if necessary, amend deed requirements attached to a Builder's Eligibility.

If for any reason the deed provided by the Builder becomes void, voidable, illegal, unenforceable, ineffective or insufficient, then the underwriter will seek an immediate satisfactory alternative (such as a permanent capital injection or a new deed for a revised amount, in which case the underwriter must get a new deed for the revised amount).

If a new deed is provided, generally this will automatically terminate any prior deeds of the same type (for example, a new DOI will revoke any previous DOIs but not any JSDs or GTAs). It is not necessary to return such prior deeds to the indemnifiers.

Changes in the amount of the DOI from the existing DOI require a new DOI to be obtained.

## 16.11 Provision of security documents to icare HBCF

The underwriter is responsible for preparing any deeds that a Builder needs to execute as a condition of their Eligibility.

When they receive an executed deed, the Distributor must ensure the deed has been executed correctly. The Distributor must forward a copy of all executed original deeds to the underwriter at the close of each week. icare HBCF will consider that the requirements of providing a deed have been met where:

- the Distributor confirms to the underwriter that they hold the original executed deed in their office
- the Distributor has reviewed the deed to ensure it has been completed properly
- the Distributor provides the underwriter with an electronic copy of the deed (for example, by email).

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***Note:** Because a new deed generally terminates any prior deeds of the same type, it is not possible for two deeds to co-exist. The Builder will execute a new deed for the total revised value.*

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## 16.12 Release of securities

If the Builder (and their Distributor) consider the Builder's financial position (or other circumstances) has improved, the Builder may request an Eligibility Assessment. The Builder will provide all the relevant information to enable the underwriter to complete a full Eligibility Assessment. Builders can only seek a full Eligibility Assessment once a year.

The decision on whether to release a deed is driven by whether the Builder has satisfied the minimum ANTA conditions. To see how this is determined for all assessment types, including requests to release DOIs (not JSDs), please read section 14.1 Adjusted Net Tangible Assets—ANTA. and section 16.2 Deeds of Indemnity Agreement—DOIs—as security for exemptions from the requirement to provide a DOI.

After completing the Eligibility Assessment, if the underwriter is satisfied that the security is no longer

required, they will ask icare HBCF to write to the Builder to confirm that they have released the security.

For Tier 1 and Tier 2 Builders whose Eligibility is determined by the Eligibility Score and the ASR process, the DOI (not a JSD, ICD or DFB) is no longer a condition for their Eligibility. Upon successful completion of an ASR, the Underwriter may decide to release the DOI. Under this circumstance, the Underwriter will write to the Builder to confirm that they have released the security. However, there is no need to return the security document itself.

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***Note:** The provisions of security documents allow icare HBCF to release indemnifiers from a security without needing to physically return the document to them.*

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### 16.13 Irregular Contract Arrangements Deed of Indemnity—ICD

Sometimes custom deeds are required for unique risk scenarios. For example, Brokers must notify icare HBCF where:

- A project is a multi-unit project (that is, four or more houses or apartments under one contract).
- The party or parties entering into the building contract with the Builder is/are not the owners of the land but some other person or company (such as a company created by the landowners).

In such circumstances the underwriter will provide an ICD for completion by the relevant parties to the construction contract.

## 17 Declinature, cancellations, suspensions, and modifications of Eligibility

### 17.1 General adverse criteria

icare HBCF may decline, cancel, suspend, restrict, or impose conditions on Eligibility if the Builder or any director, principal, or key manager of the Builder entity, poses an adverse risk. Any of the following may indicate an adverse risk that requires some action from the underwriter:

- the presence of any Unacceptable Risk Scenario as set out in section 9.1 Unacceptable risk scenarios
- the overall outcome of an Eligibility Assessment
- does not have a current Builder licence
- currently unprofitable/negative cash flow
- adverse trade credit listing
- significant defect claim notifications (with the meaning of 'significant' to be considered relative to the size of the Builder and the number of completions it undertakes over the period)
- advice and evidence that homeowners' complaints have not been addressed (including, but not limited to advice by Fair Trading of increased complaint occurrence)
- claim 'triggers' have been activated
- licensing authority sanctions (including advice by Fair Trading of disciplinary action or intended disciplinary action)
- industry association expulsion
- evidence of poor workmanship
- criminal proceedings or record
- court actions, collections, defaults, court actions against directors/owners/partners/trustees where this does not constitute an Unacceptable Risk Scenario
- current winding-up petitions by creditors
- adverse claims history for any warranty work where this does not constitute an Unacceptable Risk Scenario
- trading through other entities without disclosure to the underwriter during any Eligibility Assessment
- has been inactive for two or more years
- failure to provide additional information that is fairly and reasonably requested by the underwriter
- evidence of non-disclosure or provision of inaccurate information where there is insufficient evidence to qualify as the unacceptable risk scenario of fraud and misrepresentation under section 9.1 Unacceptable risk scenarios
- threatening or intimidating behaviour towards staff, homeowners, subcontractors, Distributors, or icare HBCF officers

The list above applies to any director, principal, or key manager of the Builder entity. The nominated supervisor is deemed a key manager as set out in 9.2.2 Key managers. As such, if the nominated supervisor has an adverse track record, this must be investigated as part of considering adverse risk.

A nominated supervisor can be exempted from such requirements for investigation and mitigation of any adverse track record, or lesser mitigations may be required, where the Directors are sufficiently experienced (for example, construction industry experience, capital adequacy and business management capability) to support the requested project limits. No exemption can be granted for New Builders, and should be rare and particularly well-evidenced for System Reviewed of Medium Builders.

A Builder who would receive a 'Decline' rating, if it were subject to an initial Eligibility Assessment,



must either have their Eligibility cancelled or become subject to intensive management, where it is the underwriters professional judgement that this is an appropriate way to mitigate the icare HBCF exposure to the Builder's insured jobs.

Declinature, restrictions, cancellations, suspensions, or conditions of Eligibility must always be approved in accordance with the Delegated Individual Underwriting Authorities

## 17.2 Suspended Eligibility

The Distributor must submit completed Eligibility Applications by the due date. The underwriter will suspend Eligibility where the Builder or their Distributor:

- has not submitted sufficient information to allow a PER or SER to commence by the due date
- has not provided the necessary information to allow for completing a review in a timely manner
- has not responded to previous requests for information
- is not co-operating with reasonable requests from the underwriter
- displays the possible presence of any Unacceptable Risk Scenario as set out in section 9.1 Unacceptable risk scenarios, as an interim measure before cancellation of Eligibility while they confirm or investigate that the information is true and accurate
- displays any of the general adverse criteria as set out in section 17.1 General adverse criteria, the adverse information forms a sufficient basis for cancellation in the absence of agreed mitigations.

Before suspending Eligibility, the underwriter will put the Distributor or Builder on written 10 days' notice that the Builder's Eligibility will be suspended if the required information is not provided by a specified date. This notice period is not required for Urgent Adverse Risks, as set out in section 17.4 Urgent Unacceptable Scenarios and Urgent Adverse Risks.

The notice must include the reasons for the decision before the effective date of the suspension. The notice must also advise of the Builder's right to request, through their Distributor, that the decision be reviewed in accordance with the CDHP for Eligibility and Premiums.

Suspension of Eligibility does not affect building cover contracts already provided for complete and in-progress building projects.

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***Note:** icare HBCF will not issue Certificates of Insurance against a suspended or cancelled Eligibility.*

***Note:** icare HBCF will reinstate a suspended Eligibility as a current Eligibility following successful completion of a New Eligibility Assessment (section 19.4 New Eligibility Review—NEW).*

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## 17.3 Cancelled Eligibility

A cancelled Eligibility is one which has been revoked. The Builder can no longer use the Eligibility to obtain Certificates of Insurance. When the underwriter has decided to cancel a Builder's Eligibility, they must provide the Builder with at least 30 business days' notice, except in circumstances which warrant immediate cancellation. This notice period is not required for Urgent Adverse Risks, as set out in section 17.4 Urgent Unacceptable Scenarios and Urgent Adverse Risks.

icare HBCF will provide the reasons for the decision before the effective date of the new Eligibility. We will also advise the Builder of their right to request, through their Distributor, a review of the decision in accordance with the CDHP for Eligibility and Premiums. The implementation of suspension or cancellation will not be delayed pending the outcome of investigation of a Builder's dispute through the CDHP process.

Where Fair Trading lifts a licence suspension or reissues an expired licence following a new application

by the Builder, the underwriter will not reinstate Eligibility without completing a New Eligibility Assessment. The New Eligibility Assessment must consider the reasons for the licence suspension or expiry.

Cancellation of Eligibility does not affect building cover contracts already provided for complete and in progress building projects.

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***Note:** icare HBCF cannot issue Certificates of Insurance against a suspended or cancelled Eligibility.*

***Note:** icare HBCF will reinstate a cancelled Eligibility as a current Eligibility following successful completion of a New Eligibility Assessment (section 19.4 New Eligibility Review—NEW).*

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## 17.4 Urgent Unacceptable Scenarios and Urgent Adverse Risks

icare HBCF may suspend or cancel a Builder's Eligibility without the usual notice periods where the Builder continuing to undertake new HBC insurances poses an urgent risk to consumers and to the Scheme. These Urgent Unacceptable Scenarios are where a Builder:

- is no longer licensed. That is, the licence has been:
  - surrendered by the Builder
  - suspended by Fair Trading
  - cancelled by Fair Trading
  - expired for longer than three months and as such, cannot be renewed or restored.
- Holds a licence that isn't adequate to support the COE requirements (for example, resignation of nominated supervisor means the Builder is no longer licenced to undertake residential building work)
- is subject to a business closure
- ceases to exist – for example has died (for an individual) or has been wound up or deregistered (for a company) or has been dissolved (partnership)
- has disappeared (within the meaning of the *Act*)
- has requested that their Eligibility be immediately surrendered or suspended or cancelled (for example, cancel the Builder's sole trader Eligibility after obtaining Eligibility through a company)
- has, based on icare HBCF's determination, provided false, fraudulent, or misleading information in connection with Eligibility or a project application or provided an external party with a fraudulent COI or COE
- poses an immediate risk to icare HBCF or to the community if Eligibility were to be maintained during a suspension notification period (such as where reliable adverse information has been obtained from media, mercantile, homeowner and/or other information sources that a Business Closure is imminent)
- is considered to be such a high risk to icare HBCF following a SER or PER, that the Builder's Eligibility should be suspended or cancelled.

A Builder may also pose an Urgent Adverse Risk where they display general risk criteria as set out in section 17.1 General adverse criteria, and there is strong basis to take immediate action, but suspension is believed to pose greater risk to the community and icare HBCF than continued trading. In these limited circumstances, icare HBCF may immediately enact a detrimental Eligibility Profile (for example, reduction of approved OJV and/or OJN and/or approved construction limits). This may be the result of an Eligibility Assessment without notice if it is determined that the Builder poses a risk to icare HBCF during a suspension notification period (for example, a Builder where adverse information has been obtained from media, mercantile, homeowner and/or other information sources that indicates

that a business closure is likely to occur soon).

Through their Distributor, a Builder can request for either an Urgent Unacceptable Scenario or an Urgent Adverse Risk decision to be escalated in line with the processes outlined in the CDHP for Eligibility and Premiums.

## 17.5 Expired Eligibility

icare HBCF typically grants a Builder a COE for a period of no less than one year and no greater than three years.

When a Builder's Eligibility expires, they must successfully complete a PER or ASR Eligibility Assessment to renew their Eligibility.

The underwriter will provide an affected Builder with 60 business days' notice (please refer to 23.4 Notice Period service standards) before their Eligibility expires, advising them that they must complete an Eligibility Assessment to maintain Eligibility.

## 17.6 Communicating and enacting an Eligibility Profile

Following an Eligibility Assessment or otherwise, the underwriter may determine to modify the existing Eligibility Profile and associated conditions for a Builder (subject to the application of relevant delegations and authority levels). The underwriter will advise the Builder, through the Builder's Distributor, of:

- their new Eligibility Profile
- any associated conditions of Eligibility
- instructions how to request, through their Distributor, for the decision to be escalated to icare HBCF according to the processes defined in the CDHP for Eligibility and Premiums.

Implementation of the Builder's Eligibility Profile is subject to the Builder meeting any associated conditions of Eligibility (for example, capital injection, provision of a DOI) within 20 business days of the Eligibility Profile being communicated to the Builder's authorised Distributor.

If the Builder does not have to meet any conditions of Eligibility before the Eligibility Profile is enacted, icare HBCF will implement the Eligibility Profile immediately.

icare HBCF will provide the Builder with 10 business days' written notice of Eligibility suspension and/or decision to discontinue issuing certificates of insurance together with reasons for the decision if:

- the Builder does not meet Eligibility conditions within 20 business days
- icare HBCF does not receive a satisfactory dispute submission in line with the processes outlined in the CDHP for Eligibility and Premiums
- the Builder has not demonstrated they are taking steps to meet the conditions associated with their Eligibility Profile and has sought an extension of time to meet those conditions.

If a Builder undertakes an ASR assessment and is offered an Eligibility Profile, the Builder has five business days to either:

- Accept the Eligibility Profile offered.
- Make a satisfactory dispute submission in line with the requirements in the CDHP for Eligibility and Premiums.

If the Builder does not undertake either of the steps above, icare HBCF will finalise the ASR assessment after five business days and enact the offered Eligibility Profile.

## 17.7 No advice to be provided

When the underwriter provides the Builder with the reasons for the decision, they should not provide advice on potential remediation to the Builder, either directly or indirectly.

Specifically, the underwriter must not advise a Builder on any strategy or course of action to:

- obtain Eligibility
- maintain Eligibility
- improve the financial position of the Builder's business generally.

The underwriter must not provide financial advice through the Builder's Distributor or otherwise advise the Builder on the operation or management of their business. The underwriter will advise the Builder to get their own financial advice from a suitably qualified professional.

Underwriters may communicate whether a proposed mitigation is sufficient to amend an Eligibility outcome. They may also direct Builders and Distributors to the Eligibility Manual, including relevant sections regarding mitigations.

## 17.8 Escalation and disputes

If the Builder is not satisfied with the way any matter has been handled, they can escalate their concerns according to the process described in the Complaint and Dispute Handling Procedures for Eligibility and Premiums. All Eligibility letters that are sent to Builders include information about the CDHP for Eligibility and Premiums.

The State Insurance Regulatory Authority (SIRA) regulates the State Home Building Compensation scheme. Although SIRA cannot overturn an individual decision, SIRA can review icare HBCF's compliance with the legislation, guidelines, and policy.

A Builder may ask SIRA to conduct a regulatory compliance review to investigate potential breaches of the *Act*, the Home Building Regulation or SIRA's Insurance Guidelines.

SIRA:

- Phone: 13 10 50
- Email: [contact@sira.nsw.gov.au](mailto:contact@sira.nsw.gov.au)
- Website: <https://www.sira.nsw.gov.au/disputes-and-complaints/home-building-compensation-disputes>
- Address: State Insurance Regulatory Authority, Locked Bag 2906, Lisarow NSW 2252

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**Note:** Refer to the HBCF CDHP for Eligibility and Premiums for details on the handling of complaints and disputes in relation to underwriting decisions involving Eligibility and Certificates of Insurance.

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## 18 Builder's risk mitigation on Eligibility Assessment

### 18.1 Builder's risk profile

If the Eligibility Assessment identifies risk, the Builder may have to take steps to mitigate, or reduce that risk.

icare HBCF will not disclose the BEAT scoring and weightings and if the underwriter finds out this information, they should not disclose it to the market. BEAT is the basic tool used by underwriters in their assessment, but not a definitive determination in all circumstances. If exceptional circumstances warrant it, the underwriter can override the automatic result to more appropriately enact the requirements of this Eligibility Manual and the Home building compensation (eligibility) insurance guidelines. The underwriter may also consider other extraneous factors, which come to their attention either before or after the initial assessment decision (for example, Builder and Distributor advocacy).

### 18.2 Eligibility for Builders recovering from adverse events

While the approach under section 14.6 Mitigation of Eligibility financial measures sets out the general approach to mitigating ANTA deficiencies, in some rare cases such as where the builder is involved in Members Voluntary liquidation (solvent liquidation), icare HBCF may adopt an alternate approach whereby Builders can submit an Eligibility Assessment even though ongoing cash flow is dependent on starting new contracts.

The Builder can qualify for ongoing Eligibility if:

- There is no deficiency in working capital or they have fully mitigated working capital deficiencies.
- The proposed OJL do not exceed pre-adverse event levels, or a lower level that icare HBCF considers appropriate
- There is no evidence that the adverse event was a result of actions within the control of the directors or principals seeking Eligibility, other than financial or operational decisions impacting on working capital.

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***Note:** Financial or operational decisions by previous key managers can be discounted where those managers are no longer associated with the Builder.*

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- There are no creditor actions or disputes likely to impact ongoing trading.
- They have reasonably mitigated previous KPI deteriorations for the going forward position.
- They have provided a sustainable cash flow for the next 12 months and the underwriter has tested the assumptions used to create the forecast and found those assumptions to be reasonable.
- Retained earnings forecasts should permit ANTA restoration within 12 months.

Until normal ANTA criteria are restored, the Eligibility conditions listed below will normally apply. The Builder must agree to:

- more frequent financial reporting by external accountants
- detailed WIP reporting quarterly
- close out reports for each completed project
- retain earnings retention (except for modest living expense drawings to directors/principals) in the business for the exclusive use of building contract funding
- implement an icare HBCF risk reduction strategy where there is KPI deterioration between reviews.

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***Note:** icare will not support a proposal for a Builder to trade using a DOCA (section 9.1 Unacceptable risk scenarios).*

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## 19 Types of Eligibility Assessments

The objectives of the Eligibility model are to:

- identify risks outside icare HBCF's appetite
- inform Builder management of any below benchmark performance
- establish appropriate future review intervals and scope
- contribute to improved standards of financial management and business controls
- enforce icare HBCF adverse history rules to reduce phoenix operations
- identify industry trends to inform portfolio policy and guidelines.

icare HBCF classifies underwriting work into five different types of Eligibility Assessments and two categories:

- Manual assessments:
  - Programmed Eligibility Reviews (PERs)
  - Builder Profile Changes (BPCs)
  - Special Eligibility Reviews (SERs)
  - New Eligibility Reviews (NEWs) -Reinstatement of Eligibility after suspension/cancellation
- Automated assessments:
  - Automated [Builder] Scorecard Reviews (ASRs).
  - New Eligibility Reviews (NEWs) for New Builders

PERs are scheduled on an annual basis. BEAT sets out the schedule of PERs, subject to other reviews superseding them, which include:

- Builders subject to intensive monitoring (IMB3/IMB6)
- Builders requesting a BPC to change their existing Eligibility, which initiates a review
- SERs triggered by a risk management issue (for example, adverse credit, significant growth, delays in actual completion dates)
- any modified review requirements icare HBCF issues or the underwriter recommends.

In 2021, following a review of recommendations (contained in reports from the icare Customer Advocate review of icare HBCF and the Independent Pricing and Regulatory Tribunal of the NSW HBC market), icare HBCF extended the number of Builders that qualify for system review. This is based on:

- Assessing Eligibility for Builders using an algorithm derived from commercial bureau information held by mercantile agencies. This removes the need to resort to the underwriting of financial information (for example, tax returns, externally prepared financial accounts).
- Project volumes that the licensed Builder can manage and where delays in construction are a better indicator of difficulty.

Compared to annual approved turnover limits, data on delays in construction time is essential when applying OJL. Data on delays in construction times is more dynamic and current than relying on Builder review WIP Reports. icare HBCF actively monitors delays in construction times on COIs and uses this information in initiating SERs.

Our ASR assessments use mercantile information when assessing Builders with an OJL profile at the lower end of the portfolio spectrum. This is designed to reduce the administrative burden for these Builders while ensuring icare HBCF provides appropriate risk assessment and management.

Table 13: Types of Eligibility Assessments and applicability based on Builder size

Builder Size	PER icare HBCF initiated	BPC Builder initiated	SER icare HBCF initiated	NEW Builder initiated	ASR Builder or icare HBCF initiated
System Reviewed Builder	N*	Y	Y	Y	Y
Medium Builder	Y (Annual/IMB6/IMB3)	Y	Y	Y	N
Major Builder	Y (Annual/IMB6/IMB3)	Y	Y	Y	N

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**\* When do we ask a System Reviewed Builder to complete a manual assessment?**

*In some cases, we ask a System Reviewed Builder who is usually automatically assessed (ASR assessment) to complete a manual assessment (BPC, SER, PER assessments). This may occur when:*

- *a Builder is seeking a New Residential Apartment Building construction limit greater than \$1M*
  - *a Builder is subject to a GTA*
  - *a Builder is associated with another Builder with Eligibility (section 16.7 Group entities and Group Trading Agreements—GTA)*
  - *the underwriter wants to intensively monitor the Builder to monitor identified risk issues*
  - *the Builder's Eligibility Score drops below the required threshold (Table 16: Eligibility Score and associated Open Job Value)*
  - *the underwriter identifies unacceptable or high risk through an ASR assessment process*
  - *the Builder requests a change to their Builder Profile.*
-



## 19.1 Programmed Eligibility Review—PER

Unless the Builder qualifies as a System Reviewed Builder, the underwriter and the Distributor must conduct an annual financial assessment. Builders qualifying for system review are set out in Table 4: Builder Size Classification.

A BEAT scheduled date is set for each PER and the underwriter generates a blank Eligibility Assessment pending the review.

The underwriter will complete the PER in BEAT, being sure to attach all documents, and include all underwriting notes in BEAT. No Eligibility will be granted without an Eligibility Assessment being finalised in BEAT, with a valid Builder licence recorded, setting out the Eligibility Profile.

All Builders will be priority assigned a scheduled date for their PER based on the following:

- financial risk profile of last Eligibility Assessment
- annual or intensive monitoring conditions.

Builders should include desired changes in approved OJV, approved OJN and maximum Construction Type limits into the PER assessment. This will minimise the need to undertake a BPC before the next PER is due for submission.

To conduct a PER, a Builder's Broker will provide the underwriter with the information required to complete the assessment (section 11 Eligibility Assessment information requirements). The underwriter may also request additional information either before, or during, the assessment (section 16.1 Eligibility decisions).

The underwriter will consider the results of the review in the context of the Builder's existing Eligibility and associated conditions, as well as those the Builder requested in their application form. They will then determine whether they should modify or restrict the Builder's Eligibility Profile and terms (sections 17.6 Communicating and enacting an Eligibility Profile). The possible actions include:

- no change to Eligibility Profile
- modified Eligibility Profile (increase or reduction) and Construction Type limits

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**Note:** *The underwriter will assess the Builder based on the OJL and Construction Type limits they have requested.*

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- revised Eligibility conditions, including:
  - the Building Contract Review Program
  - security or additional security
  - additional capital
  - release or amended Security.
- increasing the frequency of Eligibility Assessments (section 19.1.1 Intensively monitored Builders)
- suspension or cancellation of Eligibility (pending resolution of any outstanding issues).

If a Builder disputes the outcome of the PER, they can access various escalation and dispute options (section 17.8 Escalation and disputes).

BEAT will provide Distributors with at least 40 business days' email notice that a PER is required. BEAT provides online reporting of upcoming and overdue reviews to the underwriter and Distributors.

The underwriter will implement a management strategy if the Builder does not provide a submission or satisfactory explanation within:

- 30 business days of the annual review due date

- 20 business days of an underwriter requesting information to undertake the PER.

Options for consideration could be:

- Completing the PER based on information that is readily available (The underwriter will exercise discretion in requesting information that is provided previously by the Builder or available in BEAT and CIMS).
- Reducing the approved OJL to used levels restricting growth.
- Increasing the frequency of Eligibility Assessments (sections 19.1.1 Intensively monitored Builders).
- Recommending a risk loading on the premium.
- Suspension or cancellation of Eligibility (sections 17.2 Suspended Eligibility and 17.3 Cancelled Eligibility).

### **19.1.1 Intensively monitored Builders**

If the deterioration is not considered a serious impact on the ability of the Builder in respect of current open COIs, these would be valid reasons for increasing the frequency of reporting:

- deteriorating actual completion times
- gross margin deterioration – Builder may be ‘buying’ projects
- creditor days extending
- escalating purchase rate of insurance contracts, gaining deposit monies to source cash
- trading losses; deteriorating ANTA position
- restructuring of Groups – asset transfers/quarantining assets
- strategic change in the nature/focus of the business (relative to that traditionally undertaken)
- deteriorating financial trends (liquidity, profitability)
- diminished turnover
- trade credit deterioration - terms reduced/removed
- mercantile alerts obtained from third party credit reporting agency
- change in management or ownership
- change in financial institution
- change in progress payment patterns
- high growth.

The Builder will be subject to intensive monitoring while the issues triggering more frequent assessments continue or new issues arise. The BEAT Builder assessment must have the intensive monitor period (quarterly or half yearly) added as condition of Eligibility.

Annual PERs can reoccur once the Builder’s Eligibility is no longer considered high risk. BEAT will have the intensive monitor condition of Eligibility removed.

icare HBCF Underwriting will implement a management strategy if the Builder doesn’t provide a submission or a satisfactory explanation within 30 business days of the annual review due date.

Options for consideration could be:

- Completing the assessment recommendation based on information that is readily available (The underwriter will exercise discretion in requesting information that is provided previously by the Builder or available in BEAT and CIMS).
- Reducing the approved OJL to used levels restricting growth (section 17.6 Communicating and enacting an Eligibility Profile).
- Increasing the frequency of reviews.
- Recommending a risk loading on the premium.
- Suspension or cancellation of Eligibility (sections 17.2 Suspended Eligibility and 17.3 Cancelled Eligibility).

Eligibility).

## 19.2 Special Eligibility Review—SER

SERs are applicable for all Builder sizes and are triggered where there is a major risk management issue identified. Major risk management issues may include:

- A noticeable change in trends (compared to the previous 12 months) being an increase in:
  - the number of certificates requested by a Builder (generally in a short timeframe), where there may be concern regarding the capacity of the Builder
  - a Builder seeking to exceed or increase their approved OJL
- A material number of incomplete projects are outside the Builder's estimated completion timeframes.
- Receipt of adverse market information, including (but not limited to) not attending the site when required, failure to communicate with consumers and homeowners, non-payment of sub-contractors or suppliers, or not contactable on telephone numbers provided.
- Adverse information received through commercial credit bureau reports (for example, payment defaults, writs or summons etc.)
- Changes (that are of a negative nature) in trade credit days beyond the 30-day ageing category.
- Significant deterioration in the Builder's financial or operational circumstances (identified through interim accounts or other sources).
- Potentially significant loss notifications received by icare HBCF's Claim Agent.
- Financial accounts containing specific 'adverse' commentary relating to any component of the reports.
- Complaints, including consumer and homeowners' complaints to icare HBCF and complaints notified to icare HBCF by Fair Trading (including any disciplinary or intended disciplinary action).
- Court or Tribunal actions,
- Non-compliance with Court or Tribunal orders, Licence Infringements
- Alerts received through credit referencing or credit monitor facilities (for example, non-payment of trade account \$2,000).
- Dishonoured and significantly overdue premium payment transactions – other than innocent isolated incidents.
- Adverse report by a BCRP service provider (where applicable).
- Change in Builder ownership (that is, partners or directors) and share structure.
- Change in the nominated supervisor deemed to be a key manager.
- Filing of an application for the winding up of a Builder.
- <sup>8</sup>ASIC notices and Strike off
- Risk alert or referral of matter from SIRA to icare HBCF.
- Provision of false or misleading information in connection with Eligibility or Certificates of Insurance.

If the underwriter receives adverse information about a Builder (for example, a complaint from a homeowner) that would ordinarily trigger a SER, but the provider of the adverse information will not consent to the adverse information being disclosed to the Builder, a SER will not be triggered.

During the SER, which should be undertaken within 30 business days, issuing Certificates of Insurance

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<sup>8</sup> For detailed information, please refer to the ASIC website: <https://connectonline.asic.gov.au/HLP/references/glossary-of-terms/index.htm>

should be put on hold if the issue of the certificate would be to the immediate detriment of icare HBCF. The underwriter must provide the Builder with at least 10 business days' written notice of any decision to discontinue issuing certificates together with reasons for the decision. This notice must include the opportunity for the Builder to ask their Distributor to escalate the decision for review according to the Complaint and Dispute Handling Procedures for Eligibility and Premiums. Immediate implementation to discontinue issuing Certificates applies under certain circumstances (section 17.6 Communicating and enacting an Eligibility Profile).

To conduct a SER, the underwriter will ask the Builder's Distributor to provide current information for the review to be completed. Generally, the information required will be the same as for a PER, except that internal interim financial reports completed by accounting qualified staff are acceptable.

The outcomes from such reviews could be any of the following:

- no change to Eligibility
- restriction to Eligibility profile, and/or conditions, including:
  - reduced OJV or OJN
  - the BCRP
  - security
  - additional capital
- suspension of Eligibility (pending resolution of any outstanding issues)
- cancellation of Eligibility.

At the end of the review, where they have determined to suspend or cancel a Builder's Eligibility, the underwriter must provide the Builder with at least 10 business days' written notice of that decision. The reasons for the decision must be provided before the effective date of the suspension or cancellation. The underwriter will advise the Builder that they can ask their Distributor to escalate the decision for review to icare HBCF Underwriting according to the Complaint and Dispute Handling Procedures for Eligibility and Premiums. Immediate implementation of suspension or cancellation applies under certain circumstances. (section 17.6 Communicating and enacting an Eligibility Profile).

If appropriate, the underwriter may also resolve that the Builder should be subject to ongoing intensive monitoring.

### 19.3 Builder Profile Change—BPC

A BPC is a request by a Builder to change their Eligibility Profile. A Builder may be required to undertake a BPC assessment before the project application is approved. This may occur following the referral of a project application for underwriter approval in CIMS (for example, Project application has referred to an underwriter in CIMS because automated approval would have resulted in a breach of the Builder's approved OJV, approved OJN and/or maximum Construction Type limit).

Changes to Eligibility Profile can create negative financial consequences for the Builder. Ramifications include changes to working capital requirements, building cycles, available resources, and management. The underwriter should examine all factors that could affect future viability. The underwriter will also assess overall financing requirements for the OJV, OJN, and Construction Type and maximum contract value sought unless the BPC will seek an increase in one or more Construction Type limits (section 9.3.6 Construction Type limit increase).

The Distributor will initiate a BPC in BEAT by submitting the next scheduled review earlier than required by BEAT, with changes to the proposed OJL or construction limits, and they will attach the required supporting reports and documents.

Where a Builder is not a System Reviewed Builder, desired changes in approved OJV, approved OJN and maximum Construction Type limits will be incorporated into the Builder's PER to minimise the need to undertake a BPC before the next PER is due for submission. Requested changes of OJN will be assessed on a non-financial basis.

Profile changes do not automatically result in a reassessment of a Builder's premium loading or discount. Non-financial basis profile changes do not result in a reassessment of a Builder's premium loading or discount. A financial basis profile change may result in a reassessment of a Builder's premium loading or discount as a result of material changes presented and assessed (for example, receipt of audited accounts).

The outcomes from such reviews could be any of the following :

- no change to Eligibility
- modification to Eligibility profile, and/or conditions, including:
  - increased or reduced OJV or OJN
  - participation in the BCRP
  - provision of security or additional security
  - injection of additional capital.
- suspension of Eligibility (pending resolution of an outstanding issue)
- cancellation of Eligibility.

### 19.3.1 Mitigating Builder exposure risk

Where a Builder review indicates the need to reduce the exposure a Builder presents, the underwriter should look to employ techniques such as:

- reducing the existing OJL
- declining the increase in OJL
- requiring the Builder seek additional security
- requiring the Builder seek new lines of credit or injection of capital
- increasing monitoring frequency
- reviewing and monitoring a mitigation strategy proposed by the Builder and accepted by icare HBCF

The underwriter will determine such strategies in consultation with the Builder and their Distributor.

## 19.4 New Eligibility Review—NEW

We use NEW assessments to consider applications from New Builders seeking Eligibility for the first time, who we try to assess using an ASR assessment (refer to section 11.1 of this Manual). This can include instances of Builders transitioning from being a sole trader to a company. We also use NEW assessments to reinstate Eligibility following suspension or cancellation. When assessing a NEW Eligibility application following suspension or cancellation, the underwriter can request and conduct a full financial assessment to ensure there has been no material change in circumstances since we suspended or cancelled the Eligibility.

When considering whether to reinstate Eligibility following suspension or cancellation, the underwriter can decide to perform a full financial assessment. In this case, the Distributor must submit financial and other necessary information to the underwriter.

For detailed Eligibility Assessment requirements for New Builders, please refer to section 11.1 Eligibility Assessment for New Builders.

An underwriter must issue the Distributor with an Eligibility decision (for example, a Builder Eligibility Assessment Report) and record appropriate underwriting notes about the Eligibility Assessment in BEAT, before they can generate a COE (if applicable) and finalise the NEW assessment type.

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***Note:** BEAT has functionality to allow an underwriter to copy relevant documents from a recently finalised Eligibility Assessment if those documents are relevant for the current Eligibility Assessment (for example, receiving a NEW from a Builder who was recently suspended due to one or more conditions of Eligibility not being met within allowed timeframes, section 17.6 Communicating and enacting an Eligibility Profile)*

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## 19.5 Automated (Builder) Scorecard Review—ASR

ASR Eligibility Assessments use data about Builders that is held by commercial bureau reporting agencies engaged by icare HBCF. They use an algorithm to assess the data and determine appropriate Eligibility Profiles. This means that ASR assessments don't require the collection and underwriting of detailed financial information from each Builder (for example, tax returns and externally prepared financial statements).

We expect to use the ASR assessment type to determine Eligibility for more than 90% of the Builders in the icare HBCF portfolio.

ASRs should enable:

- Builders to spend less time preparing information for Eligibility Assessment
- Eligibility decisions to be made in a fraction of the time of manual assessments
- a consistent risk-based underwriting approach to the granting of Eligibility Profiles
- icare HBCF to provide better service to most Builders in our portfolio at a reduced operating cost.

Builders who qualify for an ASR Eligibility Assessment:

- Are those seeking an OJV in line with the thresholds contained in Table 4: Builder Size Classification for a System Reviewed Builder.
- Are not associated with another entity. For example:
  - Are not subject to a GTA (section 16.7 Group entities and Group Trading Agreements—GTA)
  - Are not associated with another Builder who has Eligibility (section 16.7 Group entities and Group Trading Agreements—GTA)
- Are not seeking a New Residential Apartment Building construction limit greater than \$1m

Must have a contractor licence with a 'Current' status to conduct HBC building work in NSW. When undertaking an ASR assessment:

- An underwriter reviews the completed Builder Eligibility and Profile Change Application form that the Builder submitted and uses it to obtain an Eligibility Score from a commercial reporting agency engaged by icare HBCF.
- No separate financial information is required from a Builder.

### 19.5.1 What is an Eligibility Score?

The commercial bureau reporting agencies engaged by icare HBCF gather data from various sources and use an algorithm to derive the Eligibility Score number. We use this number to determine an appropriate Eligibility Profile to offer a Builder. This removes the need to manually underwrite the Builder's financial information (for example, tax returns, externally prepared financial statements).

The Eligibility Score number is derived from six key variables. Actuarial analysis has determined that these are good indicators to determine the likelihood of a Builder to trigger future claims (for example, become a business closure within the next five years):

*Table 14: Eligibility Score key variables*

Eligibility Score key variables	Description
Broker enquiries	<ul style="list-style-type: none"> <li>The total number of Broker dealer enquiries made to a commercial bureau about the Builder within the last five years of the score being calculated</li> </ul>
Credit enquiries	<ul style="list-style-type: none"> <li>The total dollar value of commercial credit enquiries made to a commercial bureau about the Builder within 1-5 years of the score being calculated</li> </ul>
Entity type	<ul style="list-style-type: none"> <li>The structure of the Builder's business (for example, sole trader, partnership, company)</li> </ul>
Commercial adverse information	<ul style="list-style-type: none"> <li>The total number of commercial adverse information available (for example, court writs and summons, default judgements) within the last five years of the score being calculated</li> </ul>
Proprietorships	<ul style="list-style-type: none"> <li>Number of proprietorships associated with the Builder</li> </ul>
Adjusted Bureau In-depth Trading History	<p>A score calculated by a commercial bureau reporting agency which incorporates a full picture of the Builder, including its proprietorships, directors and any other commercial entities associated with it. Key characteristics that form this score are:</p> <ul style="list-style-type: none"> <li>Age of file (shows the amount of time the Builder has traded)</li> <li>Time since Builder incorporation (shows the amount of time the Builder has traded)</li> <li>Number of trading addresses</li> <li>Security information</li> <li>Enquiry activity such as number of enquiries, frequency, time since last enquiry</li> <li>Dollar amount of enquiries</li> <li>Trade payment data (a common component with icare's existing scores in determining Eligibility which shows the Builder's trade credit payment history)</li> <li>Directors' information (a common component with icare's existing scores in determining Eligibility which shows the Builder's principals' adverse information)</li> <li>Public record information for instance defaults, judgements, and court writs (a common component with icare's existing scores in determining Eligibility which shows the Builder's trade credit payment history)</li> <li>ASIC information</li> </ul>

If we don't identify any unacceptable risks (section 9.1 Unacceptable risk scenarios) we will use the Eligibility Score to determine the Builder's Eligibility Profile:

- OJV is determined by the Builder's Eligibility Score
- OJN is unlimited.



*Note: icare HBCF will no longer limit the number of projects that ASR assessed Builders can undertake at any given time, so long as it does not exceed the approved OJV at any given time.*

**Construction limits:** Determined by using Table 6: Standard construction values by Builder and Construction Type to approve standard construction type limits (subject to the Builder's licence class). If the Builder already has one or more construction limits approved above the thresholds contained in Table 6 those limits will be maintained (as long as they don't exceed the OJV determined by their Eligibility Score).

If we identify any unacceptable risks during an ASR assessment, (section 9.1 Unacceptable risk scenarios) then we will:

- Decline Eligibility if the Builder currently has Eligibility. The Builder will need to undertake an SER to maintain Eligibility. Their Eligibility depends on the outcome of the SER (section 19.2 Special Eligibility Review—SER)
- Decline Eligibility if the Builder does not currently have Eligibility. The Builder will need to undertake a NEW financial assessment to obtain Eligibility
- Notify the Builder of our CDHP process so the Builder can decide whether to dispute the decision within the timeframe allowed.

### 19.5.2 Eligibility Score Range and Minimum Eligibility Score Threshold

Below is the range of scores that each characteristic can generate for a Builder through an ASR assessment.

*Table 15: Eligibility Score range on six characteristics*

Characteristic	Description	Score range
Intercept	Starting point for every Eligibility Score generated	204
Entity Type	Type or structure of the entity at the origination date (for example, sole trader, company)	-87 to 177
Credit File Enquiries	Total number of Broker dealer enquiries made of the Builder within the last five years	-37 to 2
Commercial Adverse Developments	Total number of commercial adverse developments within the last five years (equal to the sum of numbers of commercial Writs and Summons, Defaults and Judgements)	-24 to 0
Credit Enquiries	Total dollar value of credit enquiries made more than 12 months ago but less than five years ago for the Builder	-2 to 1
Proprietorships	Number of Proprietorships associated with the Builder	-2 to 62



Characteristic	Description	Score range
Adjusted Bureau In-depth Trading History Score	<p>An <sup>9</sup>Equifax score which obtains a full picture of a company, its proprietors and directors and any other commercial entities associated with them.</p> <p>Characteristics in In-depth Trading History score include all available credit and demographic attributes from Equifax databases to form future risk estimates. Some examples of the final characteristics that form the In-depth Trading History score are as follows:</p> <ul style="list-style-type: none"> <li>▪ Age of file</li> <li>▪ Time since incorporation</li> <li>▪ Number of trading addresses</li> <li>▪ Security information</li> <li>▪ Trade payment data</li> <li>▪ Directors' information</li> <li>▪ Public record information for instance defaults, judgements, and court writs</li> <li>▪ ASIC information</li> </ul>	0 to 600
<b>Eligibility Score</b>		52 to 1,046

Builders will need to achieve the minimum Eligibility Score to obtain their desired OJV as outlined in Table 16: Eligibility Score and associated Open Job Value below.

*Table 16: Eligibility Score and associated Open Job Value*

Builder size	Open Job Value	Minimum Eligibility Score requirement
<b>New Builder</b>	\$1M (maximum)	406
<b>Tier 1</b>		
System Reviewed Builder	\$1M (minimum)	406
System Reviewed Builder	\$2M	577
System Reviewed Builder	\$3M (maximum)	736
<b>Tier 2</b>		
System Reviewed Builder	\$3M (minimum)	444
System Reviewed Builder	\$4M	555
System Reviewed Builder	\$5M (maximum)	697

Below is an example of an Eligibility Score calculation for a Builder (containing attributes for the Score calculation and indicative numbers).

*Table 17: Example of Eligibility Score calculation (containing six attributes for the Score calculation)*

<sup>9</sup> Equifax is a commercial credit bureau. Find out more about Equifax here: <https://www.equifax.com.au/about-us>

and indicative number)

Characteristics	Data return	Eligibility Score Contribution
Intercept	Same for all scores generated	204
Entity Type	"Company"	-46
Credit File Enquiries (#)	"N/A"	2
Commercial Adverse Developments	"0"	0
Credit Enquiries (\$)	"\$15,000"	0
Proprietorships	"0"	-2
Adjusted Bureau In-depth Trading History Score	"811"	406
<b>Eligibility Score</b>		<b>564</b>

If the Builder is:

- Tier 1 Builder: Builder will be offered \$1M OJV
- Tier 2 Builder: Builder will be offered \$4M OJV

### 19.5.3 Communicating the new Eligibility Profile to the ASR Builders

Following an ASR, the underwriter will communicate the new Eligibility profile to the Builder, based on the Eligibility Score received from the credit score agency. An outcome will be provided to the Builder, highlighting the Builder's Eligibility Score and key factors that contribute to it.

If the new Eligibility Profile (OJV) is higher than the existing OJV, the new OJV will be enacted immediately.

### 19.5.4 If a Builder's Eligibility Profile is adversely impacted

If the Builder does not achieve the Eligibility Score required to obtain their desired OJV, or maintain the existing approved OJV, the underwriter may override the new OJV. Generally, this is to allow additional time for the Builder to transition to their new OJV.

Where there is a 30% or more reduction in the new OJV, icare HBCF will cap the reduction at 30% to minimise the impact. If the reduction is less than 30%, the new reduced OJV will be enacted when the ASR is finalised.

If icare HBCF identifies an Unacceptable Risk Scenario, General Adverse Criteria deemed material to Scheme outcomes, or other extraordinary characteristics, however, we can refer the Builder for SER, and if the matters are urgent, immediately modify or suspend the Builder's Eligibility as per section 17.4 Urgent Unacceptable Scenarios and Urgent Adverse Risks. Please refer to Section 19.2 Special Eligibility Review—SER.

We may identify underwriting considerations that indicate the ASR assessment is not appropriate for a Builder, such as a Builder that primarily undertakes insurance repairs, exclusively undertakes painting contracts for developers that guarantee the work, or works exclusively on not-for-profit or government construction projects. In such circumstances, icare may refer the Builder to undertake an SER for more fulsome consideration of the additional context. This referral requires the approval of the team leader. The Builders Eligibility depends on the outcome of the SER (section 19.2 Special Eligibility Review—SER). Instances of such referrals are to be rare, and will be reported to SIRA as per regulatory reporting requirements.

#### 19.5.4.1 Adverse impact to Eligibility Profile - Example 1

##### Tier 1 Builder

- Existing approved OJV: \$3M
- Eligibility Score via an ASR: 500
- New OJV based on Table 16: Eligibility Score and associated Open Job Value: \$1M (greater than 406 but less than 577)
- Reduction in OJV: \$2M (67%)
- Final OJV offered (Transition period): 2.1M (cap 30%)
- Builder remains at Tier 1

#### 19.5.4.2 Adverse impact to Eligibility Profile - Example 2

##### Tier 2 Builder

- Existing approved OJV: \$5M
- Eligibility Score via an ASR: 500
- New OJV based on Table 16: Eligibility Score and associated Open Job Value: \$3M (greater than 444 but less than 555)
- Reduction in OJV: \$2M (40%)
- Final OJV offered (Transition period): \$3.5M (cap 30%)
- Builder remains at Tier 2.

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***Note:** The transition period above is limited to 12 months after the first ASR is finalised. If icare HBCF identifies an unacceptable risk scenario, we will suspend or cancel the Builder's Eligibility regardless of whether the review is during the transition period.*

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#### 19.5.5 If a Builder's Eligibility Score is lower than the minimum threshold

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***Note:** These are the minimum thresholds:*

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- Tier 1 Builders: less than 406
  - Tier 2 Builders: less than 444
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If a Builder's Eligibility Score is below the Minimum Eligibility Score, offering Eligibility must be carefully assessed and determined. These Builders will need to undertake an SER to either obtain or maintain Eligibility (section 19.2 Special Eligibility Review—SER). If the assessment is successful, the maximum OJV the Builder will be able to obtain is the lowest OJV available for their Tier (\$1M for Tier 1 and \$3M for Tier 2) in Table 16: Eligibility Score and associated Open Job Value.

A Builder needs to successfully complete a SER, if they are unable to obtain the following Eligibility Score from an ASR assessment:

- System Reviewed Builder (Tier 1): greater than or equal to 406
- System Reviewed Builder (Tier 2): greater than or equal to 444

For example, if a Tier 2 Builder with an OJV of \$4M fails to get the minimum score for Tier 2, we will decline the ASR and initiate a SER. When we receive all required documents from the Builder, we will schedule and conduct a SER to determine Eligibility. If the assessment is successful, we provide Eligibility for the lowest OJV in that tier. In this case, the Builder's OJV would be reduced from \$4M to \$3M.

If icare HBCF identifies an unacceptable risk through the SER process, we can, at our sole discretion modify, suspend, or cancel the Builder's Eligibility. Please refer to Section 19.2 SER.

If a Builder asks for an ASR assessment within 30 business days of failing an ASR assessment, we will ask them to provide evidence that their commercial bureau file has changed (for example, email confirmation of a change by icare HBCF's nominated commercial bureau reporting agency). This evidence is required to undertake a new ASR assessment within 30 business days.

If the Builder's commercial bureau file has not changed, the likely outcome is the same as the previous ASR assessment. In such circumstances, an underwriter may finalise the ASR assessment as 'Not Proceeding' and not obtain an updated Eligibility Score for the Builder.

## 20 Certificate of Insurance Underwriting Issues

This section sets out the nature of the specific underwriting issues the underwriter should consider when assessing project applications referred to them for individual underwriting.

### 20.1 Applications by Builders subject to the BCRP

The underwriter must only approve a COI for that Builder after both of the following have occurred:

- the Builder has appointed a Building Contract Review Program service provider, selected from the Service Provider Panel, for that project
- the Building Contract Review Program service provider has made an initial report to the underwriter, and that report is favourable and makes no adverse findings that would be detrimental to icare HBCF in respect to the building work to which the COI applies.

### 20.2 Underwriting of new residential apartment building projects

The provisions of this section apply to <sup>10</sup>residential apartment building projects. The underwriter must exercise special care in assessing developer risk where:

- The property owner is a separate entity to the contracting party (including where the owner and developer are related entities) in which case an ICD must be obtained from icare HBCF (section 16.13 Irregular Contract Arrangements Deed of Indemnity—ICD).
- The property owner has entered into a joint venture with the developer.
- The developer is an SPV formed to manage the development and then be liquidated after completion of the project (or on sale of all dwellings). Characteristics that should be used to assist to identify SPVs are:
  - recent date of incorporation
  - primary asset is the proposed development
  - name of the company.
- The developer and Builder are related entities (for example, common directorship between a Builder and developer or majority shareholding/controlling interest).

The underwriter must critically assess the Builder's technical and managerial skills. Where there is reasonable doubt as to the Builder's capabilities to successfully complete the development project, the underwriter should not issue a COI. Some issues that may require detailed consideration:

- Scope of works: the underwriter may need to have its technical services unit assess the application.
- Proof of funding for contract: what financing arrangements are in place and whether the developer has the funds to pay this (for example, a recent funding offer letter, on the institution's letterhead).
- Terms of the contract: the underwriter will obtain a copy of the contract and assess the extent to which the terms may be weighted in favour of the developer.

In considering such applications, the underwriter must follow these steps:

- Determine if the Builder stands on their own merits, that is, does the Builder have sufficient financial capacity (ANTA and Working Capital) and proven experience in successfully completing similar projects so that it is not necessary to assess further.

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<sup>10</sup> SIRA defines a residential apartment building as a Class 2 building (or a mixed-use building with a Class 2 component) with a rise in storeys of up to three and any associated Class 10 buildings or structures.

- If the Builder does not stand on their own merits, determine whether:
  - the developer has the financial capacity and proven experience in successfully completing similar projects
  - the developer's parent company (or related company) can provide the necessary financial strength
  - if, for example, the Builder or developer is an SPV, whether the director(s) or shareholders can provide the necessary financial strength.

Underwriting considerations and document requirements for insurance for new residential apartment building project applications are contained in Table 18: Certificate Referral Requirements. If the Builder cannot satisfy the requirements, the underwriter should decline the application.

## 20.3 Medium and high-rise<sup>11</sup> residential Apartment Buildings

### 20.3.1 Underwriting of building work for existing residential apartment buildings

New medium and high-rise residential apartment building construction (where there are more than three stories) is automatically exempted from the requirement to obtain insurance cover under the *Act*. In general terms, medium and high-rise residential apartment buildings are those that have a rise in storeys of more than three (not counting a storey only used as a car park) and which contains two or more separate dwellings.

However, this exemption does not apply to works carried out on existing residential apartment buildings, such as building work to either the building's common property or to individual apartments. These works require the Builder to get Home Building Compensation insurance where the contract price is above the legislated threshold, or where the reasonable market cost of the labour and materials involved exceeds the legislated threshold (if the contract price is not known).

Construction work on residential apartment buildings, including work carried out on existing residential apartment buildings over three stories, requires some specialist skills, and has some risks that need to be managed.

Relevant examples of where cover is required for residential building work undertaken on an existing residential apartment building, include building work such as:

- the installation of new or the replacement of old handrails or balustrades or balconies
- repairing or maintaining air-conditioning systems, plumbing or electrical works
- painting corridors, stairwells, hallway doors
- waterproofing repairs
- concrete spalling repairs
- repairing roofs and guttering.

These examples would also apply where the work is carried out on the common area of a residential apartment buildings owned by one entity.

To obtain a COI, the Builder must have an Eligibility Profile to match the project requirements. The underwriter must critically assess the Builder's technical and managerial skills.

Sometimes the project is the result of an insurance claim. In such cases, the underwriter should get confirmation that the project is being contracted by the insurer, such as:

- a work request document on the insurer's letterhead
- a description of the works
- terms of the contract: The underwriter will obtain a copy of the contract and assess the extent

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<sup>11</sup> SIRA defines low-rise residential apartment buildings as those not more than three stories high (excluding a carpark, pool, gym, etc.)

to which the terms may be weighted in favour of the property owner.

Underwriting consideration and document requirements for insurance for existing residential apartment building project applications are contained in Table 18: Certificate Referral Requirements.

## 20.4 Speculative 'spec' construction

A 'spec' Builder is the general term for an individual, company or partnership that carries out residential building work on land that they own—that is, residential building work carried out that is not under a building contract with another party. The building work is speculative in that the property is generally intended for resale when the work is completed.

Regardless of any stated intention to retain the property for investment or rental purposes, the 'spec' Builder must arrange insurance cover under Part 6 of the *Act* on the proposed residential building work. The spec Builder must arrange the insurance cover before starting the work and attach the COI as evidence of this insurance cover to any contract for sale of the property that occurs within six years of completion of the building work.

Under the *Act*, it is an offence for any Builder who does residential building work other than under a contract, to start the work before taking out insurance cover on the proposed work. It is also an offence for the 'spec' Builder to enter into a contract for sale of the property on which the Builder carried out the building work, without attaching a COI to the contract for sale as evidence of this insurance cover.

The purchaser of a property from a 'spec' Builder may have the right to rescind the contract for sale before settlement if a COI is not attached to the contract for sale.

Generally, the risk for work undertaken by a 'spec' Builder is related to defective work and not non-completion of work. However, like work undertaken on behalf of a developer, there may be cases where a 'spec' Builder enters into arrangements to sell a property before completion of the building work (including off the plan sales if a residential apartment building project) that imply the work will be completed and, therefore, the risk would include non-completion and loss of deposit.

## 20.5 Contract variations

All contract variations between the Builder and homeowner (or principal) must be in writing. The owner's copy of the COI lists the original contract price. The Builder must pay an additional premium in the event of an upward variation (or sequential or cumulative variations) of greater than 20% of the original contract price (or the revised contract price if the Broker has already notified icare HBCF of a variation or variations). icare HBCF will provide a refund in the event of a downward variation (or sequential or cumulative variations) of the original contract price (or the revised contract price if the Broker has already notified icare HBCF of a variation or variations).

The 20% margin for variations that do not draw premium changes is adopted for the administrative convenience of Builders and homeowners and in recognition of the normal variations in most residential building work. Where there is a reasonable basis for icare HBCF to believe a Builder is repeatedly or systemically using the margin of variation to reduce premiums, we reserve the right to audit contracts and seek additional premium.

If the final contract amount for the project is below \$20,000 the COI will not be cancelled. To address this issue, the contract amount will be entered into icare's records as \$20,001 to produce a premium refund and so a completion date can be added to the project.

When the Builder sends a variation notification to icare HBCF, they must verify the scope of the variation with a copy of the variation to contract documentation. The underwriter will consider the following to be adverse events when assessing a Builder's 'adverse history' for premium pricing purposes and will apply a loading to future premiums (section 12.3 Unpaid contract variations):

- The underwriter identifies a variation (or sequential/cumulative variations) of greater than 20% of the contract price

- the Builder has not asked for an amendment to the COI
- the Builder has not paid an additional premium in relation to the variation.

The underwriter will give the Builder an opportunity to pay the outstanding premium within icare HBCF's standard terms of invoice payment before the loading is applied. The outstanding premium is calculated on a pro rata basis for the difference from the previous contract price.

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**Note:** *Variations may put the project outside the Builder's Eligibility Profile. However, as icare HBCF is at risk for the project in any event, there is no need for any further risk assessment at the project level to approve the change to the COI. However, where a Builder has a history of projects where variations circumvent their Eligibility Profile (or a substantial variation on a single project) then the underwriter should consider conducting a SER to determine the appropriate Eligibility Profile for the Builder.*

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*Variations or multiple contracts at the same site could have put the original project outside of the Builder's Eligibility Profile. In such cases, the underwriter should conduct a SER. However, as icare HBCF is on risk for the project in any event, an application to amend a COI because of a contract variation should be treated on its own merits and separate to any Eligibility Assessment.*

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## 20.6 Contracts originally under the legislative threshold

Where variations increase the contract price to an amount over the monetary threshold as established in the Act during construction, or where a Builder is not aware of the value of the project at the time the contract is entered, the Builder will apply for a COI as soon as they become aware that the project price is likely to exceed the legislatively proscribed monetary threshold. The Builder must not request or receive any (further) payment under the contract until a new COI is issued.

The application for the COI amendment will be accompanied by a letter of satisfaction from the building owner or Owners Corporation (or strata manager) confirming that all the work done to date is satisfactory and there are no disputes. An inspection report and notification to Fair Trading are not normally required in these cases unless the owner's satisfaction letter is not forthcoming.

Underwriting considerations and document requirements for retrospective applications for insurance are contained in Table 18: Certificate Referral Requirements.

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**Note:** *A licensed Builder must hold active Eligibility before purchasing a COI for a specific project that requires HBC insurance cover.*

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## 20.7 Retrospective cover

Most Builders are aware of their statutory obligations to obtain insurance cover before commencement of work (and before receiving any payment, including a deposit, under a contract).

**Note:** icare HBCF has no appetite for retrospective cover for residential apartment building work contracts involving multiple apartments. icare HBCF will not issue cover for such projects, where the work started more than 30 days ago.

Where a Builder has not taken out cover for a job due to an oversight, and later tries to obtain retrospective cover for the work, there is a risk that the Builder is seeking cover because a problem, a defect, or a customer complaint has arisen.

A Builder's Broker may submit an application for retrospective cover after payment of a deposit but before the work has started, during construction, or after the work is completed.



Given the objectives of icare HBCF in relation to consumer protection, subject to the exception above, cover will not be withheld where the underwriting criteria have otherwise been satisfied, where there is no dispute and where the inspection report is satisfactory (that is, cover may be granted throughout the statutory warranty period of cover).

Underwriting considerations and document requirements for retrospective applications for insurance are contained in Table 18: Certificate Referral Requirements.

Repeat offences by a Builder (to be evaluated considering the scale of the Builder, the lateness of the notifications, and other relevant context) are a trigger for a SER and possible cancellation of Eligibility. The underwriter must also notify NSW Fair Trading of repeat offences by a Builder.

## 20.8 Certificate referral requirements

Table 18: Certificate Referral Requirements describes the circumstances and the action to take for referral of project applications to the underwriter. It outlines document requirements. In addition to the document requirements listed in Table 18: Certificate Referral Requirements, the underwriter may ask for additional information where there is a reasonable doubt about the Builder's capabilities to successfully complete the project. icare HBCF, at its absolute discretion, may request additional project documentation for insurance, audit, or compliance purposes.

*Table 18: Certificate Referral Requirements*

Issue	Document requirements
All certificate referral requirements	<ol style="list-style-type: none"> <li>1. Project application form provided (not required if submitted in BSSP by a BSSP user)</li> </ol>
New residential apartment building construction	<ol style="list-style-type: none"> <li>1. Documents from All certificate referral requirements above</li> <li>2. Copy of the contract (which must be signed and dated)</li> <li>3. Evidence of property ownership (ICD is required if the property owner is a separate entity to the contracting party)</li> <li>4. Proof of final unconditional funding approval</li> <li>5. Sufficient drawings and specifications</li> <li>6. JSD is required if JSD for residential apartment buildings is a condition of Eligibility. Financials for the contracting party will be required to assess if they can sign the JSD</li> </ol>
Building work on existing residential apartment buildings	<ol style="list-style-type: none"> <li>1. Documents from All certificate referral requirements above</li> <li>2. Scope of works and/or a copy of the contract (which must be signed and dated)</li> <li>3. Proof of funding for contract (however not required for work undertaken on behalf of an owners' corporation)</li> <li>4. JSD is required if a JSD for existing residential apartment buildings is a condition of Eligibility. The underwriter will need to assess the contracting party's financial information, if they can sign the JSD.</li> </ol>

Issue	Document requirements
Building work on residential apartment buildings (insurance claim)	<ol style="list-style-type: none"> <li>1. Documents from All certificate referral requirements above</li> <li>2. A work request document on the insurer's letterhead</li> <li>3. A description of the works</li> <li>4. Copy of the contract (which must be signed and dated) to assess the extent to which the terms may be weighted in favour of the owner</li> </ol>
A close relationship, excluding Prescribed Relationships (section 9.2.1 Directors, principals, and key managers) between Builder and homeowner (non-arm's length) that may create a risk.	<ol style="list-style-type: none"> <li>1. Documents from All certificate referral requirements above</li> <li>2. JSD may be required from related party and/or directors of building company unless both the Builder the homeowner are parties to the same GTA</li> <li>3. Bank Funding evidence may be required for residential apartment building construction or equivalent evidence of the true value of the work and materials as determined at the discretion of icare HBCF</li> <li>4. If policy is for residential apartment buildings development, bill of quantities prepared by quantity surveyor may be required to determine true value of work being undertaken</li> </ol>
Profile Limit Breach (that is, OJV, OJN, construction limit)	<p>Underwriters will need to conduct an Eligibility Assessment to re-assess the Builder's Eligibility profile, if the Builder still has insufficient available Eligibility Profile for the project, after adjusting for:</p> <ol style="list-style-type: none"> <li>1. Non-quoted policies</li> <li>2. Potential re-allocation of approved Open Job Limits (for Builders in the same GTA)</li> <li>3. Consideration of temporary OJL increases (section 9.3.7 Temporary OJL increases)</li> </ol>

Issue	Document requirements
Retrospective Cover (estimated start date is more than 30 days in the past)	<ol style="list-style-type: none"> <li>1. Documents from All certificate referral requirements above.</li> <li>2. Written explanation from Builder detailing why the job wasn't registered prior to work commencing.               <ol style="list-style-type: none"> <li>a. An underwriter should Investigate whether the Builder has a history of purchasing policies after commencement. Consider whether it was an isolated administrative oversight, emergency building work or preliminary demolition work – all of which can be excused.</li> <li>b. Where the project is for building work on a residential apartment building property which has been on foot for more than 30 days, the underwriter should decline the application.</li> </ol> </li> <li>3. Where works have commenced but are yet to be completed – obtain copy of the Building Contract (which must be signed and dated).</li> <li>4. Where construction work is to 'Footings' but not beyond – we require an engineer's report confirming the footings have been completed to an acceptable standard and is within the requirements of the contract. The Broker must also supply a copy of the engineer's Professional Indemnity cover.</li> <li>5. Where construction work is beyond 'Footings' stage – the Broker must also supply the Building Consultant's Defects Report confirming work completed is to a satisfactory standard, is within the requirements of the contract, and the payments schedule is consistent with the value of works completed.</li> </ol>

Issue	Document requirements
Retrospective Cover (estimated completion date is in the past)	<ol style="list-style-type: none"> <li>1. Documents from All certificate referral requirements above.</li> <li>2. Written explanation from Builder detailing why the job was not registered before work started and confirmation of actual start and completion dates.               <ol style="list-style-type: none"> <li>a. If the underwriter's review determines that there has been repetition of the instances of starting work without HBC insurance, they should schedule a review to determine whether the Builder should maintain Eligibility. Serious repeat offences should bring about suspension of Eligibility or a requirement for the Builder to enter the BCRP for contracts of \$250,000 and over (the Builder will be permitted to undertake contracts below \$250,000 without alternatives being required to be adopted, unless there are other impediments applying).</li> <li>b. Where the project is for building work on a residential apartment building property which has been on foot for more than 30 days, the application should be declined.</li> </ol> </li> <li>3. Where works have started but are yet to be completed - obtain:               <ol style="list-style-type: none"> <li>a. copy of the Building Contract (which must be signed and dated)</li> <li>b. (Where construction work is to 'Footings' but not beyond) an engineer's report confirming the footings have been completed to an acceptable standard and are within the contract requirements. The Broker must also supply a copy of the engineer's Professional Indemnity cover.</li> <li>c. Building Consultant's Defects Report confirming work completed is to a satisfactory standard, is within the requirements of the contract and the schedule of progress payments is consistent with the value of works completed.</li> </ol> </li> <li>4. Where works are 100% complete - Obtain:               <ol style="list-style-type: none"> <li>a. Final Inspection Report (Defects Report - cannot be older than six months and must be completed by an independent registered building surveyor/ inspector, architect or engineer together with a copy of PI cover from the provider of the report).</li> <li>b. Letter of satisfaction from the owner confirming all works are complete, they are satisfied with the quality of workmanship and no claims are on foot.</li> </ol> </li> <li>5. Copy of the email the Distributor has sent to Fair Trading - Home Building Service, advising works commenced without Home Building Compensation insurance being in place (Email address: <a href="mailto:IRAB@customerservice.nsw.gov.au">IRAB@customerservice.nsw.gov.au</a>). The Broker can send this notification on behalf of the Builder.</li> </ol>

Issue	Document requirements
Retrospective Cover which was originally under \$20,000	<ol style="list-style-type: none"> <li>1. Documents from All certificate referral requirements above</li> <li>2. Letter of satisfaction from the building owner/Owners Corporation (or strata manager) confirming that all the work done to date is satisfactory and there are no disputes</li> <li>3. An inspection report and notification to Fair Trading are not normally required in these cases, unless the owner's satisfaction letter is not forthcoming</li> </ol>
Builder is subject to BCRP	<ol style="list-style-type: none"> <li>1. Documents from All certificate referral requirements above</li> <li>2. BCRP components 1, 2 and 3 report provided (section 22.3 Overview – operation of Building Contract Review Program)</li> </ol>
Records show no current NSW contractors' licence and/or not licensed for the contracted work	Do not proceed. Require valid, current licence.
Policy for the same site exists	<ol style="list-style-type: none"> <li>1. Documents from All certificate referral requirements above</li> <li>2. Copy of the building contract (which must be signed and dated), plans &amp; specifications and scope of works</li> </ol>

The underwriter will pursue irregularities with the Builder's Distributor. The underwriter should fully investigate any identified risks and reject the application unless satisfied with the outcome of the investigation or the situation is rectified.

## 20.9 Cancelled and amended Certificates of Insurance

### 20.9.1 Cancelled Certificates of Insurance

Cancellations or amendments to Certificates of Insurance previously issued by icare HBCF may occur in circumstances where the certificate has been issued well in advance of building commencement and changes have occurred to the owner's or the developer's original plans.

It is the responsibility of the Builder or holding Distributor to gather the information required for a COI cancellation.

Conditions for a COI to be considered for a cancellation are:

- A period of no more than two years has lapsed since the date of issuance of the certificate and the date the underwriter received the request to cancel.
- There is no contractual dispute between the Builder and the homeowner.
- Work has not started and no payment has been made to the Builder under the contract (or if a deposit has been paid and work has not started, that the deposit has been refunded in full).

Advice of the PCA as to whether work is properly characterised as residential. The following documentation is required to cancel Certificates of Insurance:

- Letter from Builder addressed to the Distributor advising the reasons for cancellation.
- Confirmation in writing from the homeowner (or developer) stating:
  - No building work has started, including land clearance
  - The reasons for the cancellation and attaching a copy of any document terminating the contract between the building entity and the owner.
  - No claim exists in respect of the project for which the certificate has been issued and that the homeowner or developer agrees not to rely on the certificate.
  - The certificate has not been provided to any third party (for example, PCAs, Councils, prospective purchasers, conveyancers, real estate agents, finance providers).
  - Any deposit paid by the homeowner has been refunded in full.

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***Note:** The letter from the homeowner (or developer) is not required for Builders who issued 50 or more policies in the last completed calendar year.*

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The underwriter will attach the required cancellation documentation to CIMS.

Under no circumstances is a COI to be cancelled in order that it can be reissued with a new date of issue. There are important provisions under the *Act* where the rights and obligations of Builders and homeowners are reliant on the date of issue of a COI. The underwriter must decline any request from a Distributor, Builder or homeowner for the cancellation and reissue of a COI with an amended date.

### 20.9.2 Cancellation where development modified to exceed three storeys

Construction of a residential apartment building above three storeys is exempt from the requirements of the HBC scheme in New South Wales. Occasionally, a development will be planned as three storeys (or below) and be modified to exceed three storeys (which would ordinarily trigger the exemption).

In those circumstances, since the development is fundamentally different (one which required insurance, to one which did not require insurance), any policies of HBC insurance previously issued for the development can be cancelled, as long as:

- Certificates of Insurance have not been given to any other party.
- There have been no off the plan sales for the development.

- There has been no mention of HBC insurance cover in advertising, promotional material or in negotiations/discussions with prospective purchasers etc.
- These factors can be evidenced by a written statement by the Builder or their Distributor, along with copies of promotional material, sales records or other documentation and deemed appropriate by icare HBCF.

### 20.9.3 Amendments to Certificates of Insurance—not contract variations

Under no circumstances is the date of issue of a COI to be changed or the names of the contracting parties amended to another party. There are provisions under the *Act* where the rights and obligations of Builders and homeowners are reliant on the date of issue of a COI.

The underwriter must decline any request from a Broker or Builder or homeowner to change a COI's date of issue.

As indicated in section 20.5 Contract variations, the Builder may need to pay an additional premium where the contract price has increased by more than 20%. All contract variations between the Builder and homeowner (or principal) must be in writing. To verify the scope of variation requests above 20%, the Broker must provide the underwriter with a copy of the variation to contract documentation.

### 20.9.4 Early termination of the building contract

There will be instances where a building contract between a Builder and homeowner is terminated after work has started or monies have been paid under the building contract and before the work is completed.

Where work has started or monies have been paid, icare HBCF is at risk. As such, where a contract is terminated after work has started (even if the amount of work carried out is minor), icare HBCF is unable to cancel the policy (and even if it did, it would still be at risk for the work undertaken under the original contract).

Accordingly, icare HBCF has determined to treat any early termination of a contract as a variation and to amend the premium to reflect the value of the works completed. The partial refund of the premium would be the difference between the premium (including GST and Stamp Duty) paid on the original contract price (including variations) and the revised premium (including GST and Stamp Duty) based on the amount of the final account/invoice.

The COI will be amended (and a replacement certificate issued) to show the new contract amount (that is, the amount of the final account/invoice).

For the COI to be amended and for a refund to occur the Distributor must:

- obtain the original COI
- obtain a statutory declaration from the Builder detailing the stage of works completed
- confirm the final contract value
- get confirmation that there is no dispute between the parties as to the value of the work performed
- confirm that there are no monies outstanding to icare HBCF.

If the parties are in dispute as to the final contract value, it will not be possible to partially refund the premium until the dispute is resolved. The resolution of the dispute should require evidence of the final account or invoice.

The Distributor will refund any premium to the Builder that paid the premium, through the Distributor. All documentation will be uploaded to the policy record on CIMS so that it is available.

### 20.9.5 Subsequent applications involving the same parties or site

As each COI issued exposes icare HBCF to the maximum indemnity under the policy, it is important to



ensure that the reasons for a Builder or homeowner requiring a further COI for works at the same site are appropriate.

Where a Builder applies for a second and additional Certificate of Insurance for work to be undertaken at the same site and for the same homeowner (or a related person or entity or an owners corporation) the underwriter must get a copy of the building contract, plans, specifications, and scope of works.

The underwriter may approve a COI application where it has determined that the work under the original contract has been completed and the new contract covers new work legitimately not envisaged at the time of the original contract or where it had always been planned that the work be undertaken in stages (and the same Builder was the successful tenderer for the next stage).

After reviewing the submitted documentation, if the underwriter determines that the work is being undertaken as a variation to the original building contract (that is, there is no new contract) then a further COI must not be issued. The matter will instead be treated as an amendment to the original certificate of insurance (sections 20.5 Contract variations and 20.9.3 Amendments to Certificates of Insurance—not contract variations).

- Where it appears that the work to be covered by the additional COI would normally be treated as a variation, but the parties are entering into new contractual arrangements, the underwriter must find out the reasons for doing so before issuing a COI for the work covered by the new contract.
- Where it is determined that there is a new contract in place, the underwriter must check whether the combined total of the contracts would result in the Builder exceeding their OJL. If so, the underwriter must advise the Builder to submit a BPC application so the underwriter can assess that application to determine whether to approve the application for the further COI. Again, the underwriter should find out the reasons for entering into new contractual arrangements.

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***Note:** Section 92(5) of the Act states that where a Certificate of Insurance is already in place and a Builder is returning to a site to rectify defective work, that the existing Certificate of Insurance continues to apply to that work. In such circumstances, the underwriter must decline an application for a new COI covering the rectification work.*

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## 20.9.6 Fraudulent Certificates of Insurance – receipt of information

Where a Distributor receives information alleging the provision of fraudulent Certificates of Insurance by any person or entity (including a Builder, developer, owner-Builder, homeowner, Distributor, staff member etc.) the underwriter must record and immediately start a SER (where the Builder holds current Eligibility). They must also report this information to NSW Fair Trading for assessment.

## 21 Other special Underwriting considerations

### 21.1 Developers

Under the *Act* an individual, partnership or corporation is a developer where residential building work is done on their behalf in connection with an existing or proposed building or residential development where four or more of the existing or proposed dwellings are or will be owned by the individual, partnership or corporation.

A developer of residential building work also includes the owner of the land where the development is carried out and who owns, or will in future own, four or more of the existing or proposed dwellings.

The definition also provides that if another person or organisation who will also own four or more of the units in the development entered into the building contract for the work, then they are also considered to be the developer. A company that owns a building under a company title scheme is not a developer for the purposes of the *Act*.

Under the *Act*, a residential building contract entered into by a Builder with a developer is treated the same as any other contract for the purposes of obtaining Home Building Compensation insurance.

The Builder must obtain insurance cover for each dwelling covered by the contract. The developer must attach the COI to the contract for sale of each dwelling.

The *Act* also provides that a person who is the immediate successor in title to a developer who has done residential building work on land, is entitled to the benefit of the statutory warranties as if the developer were required to hold a contractor licence and had done the work under a contract with that successor in title to do the work.

Residential building work done on behalf of a developer is taken to have been done by the developer. Accordingly, a developer (in addition to the Builder) must demonstrate their financial capacity to be involved in residential apartment building development projects.

A developer may demonstrate their financial capacity by being a well-established developer (that is, not a Special Purpose Vehicle—SPV) and which has a record of ANTA of at least 10% of the contract price or proposed value of the project. Otherwise, the developer (or its director/s or a related entity) must provide suitable security (for example, Related Party Undertaking).

Generally, the risk for work undertaken on behalf of a developer is only related to defective work and not non-completion. This is because a developer is excluded from being a beneficiary under HBC insurance. However, there may be rare or unusual cases where a developer enters into arrangements to sell a property before completion of the building work (including off the plan sales) that imply the work will be completed and, therefore, the risk might include non-completion and loss of deposit.

Usually, a contract to purchase is signed in relation to off the plan sales, but the contract completion date will not be until the building is completed and the strata plan is registered. The purchaser usually pays a deposit and pays the balance when the contract is 'settled' upon the building's completion.

### 21.2 Kit homes

The scheme does not provide cover for suppliers of Kit Homes, but cover is required for contracts which include the erection/construction of such homes, subject to existing minimum threshold values.

Where the supplier is also the Builder, the supplier must declare and insure both the supply and installation of the kit home (that is, the contract is for the supply and installation/erection of the kit).

### 21.3 Marketing groups and franchises

Of central importance to the analysis of a group member is that the heads of agreement can provide evidence that the Builder has control over its business yet can source/receive improved business support.

The underwriter should understand what support is offered to icare HBCF in the event of a group member becoming insolvent.

The underwriter should also consider the degree of dependence on the parent group to ascertain whether they need to assess the financial position of the group or franchise licensee.

The underwriter may seek a DOI from the group or licensee company (and/or its principals) as an added precaution.

## 21.4 Tax file numbers

The underwriter must not seek or store Tax File Numbers (TFN) from the information supplied by Distributors. Distributors must not upload documents to BEAT where a TFN can be identified. Where this has not been done by the Builder or Distributor:

- The underwriter should remove copies of the documents from BEAT. Where the underwriter cannot remove the documents from BEAT, they will notify icare HBCF.
- The underwriter will ask the Distributor to resubmit the document(s) with all TFNs masked or hidden.
- The underwriter will notify icare HBCF of instances of a Distributor or Builder uploading a document to BEAT without having masked or hidden the TFN.

## 22 Building Contract Review Program—BCRP

### 22.1 Underwriting considerations

The BCRP aims to assist new entrants to the building industry, as well as existing small to medium Builders, to obtain Eligibility (or cover for a specific project) where they are unable to provide suitable evidence of experience in the proposed building activity.

The BCRP is intended to be a transition phase and Builders can apply in future to have the condition removed. It is expected that a New Builder will participate at least three times in the BCRP before icare HBCF permits them to contract for similar projects without the program. The underwriter will use the BCRP service providers' reports during all Eligibility Assessments. The underwriter will give the participating Builder a copy of all BCRP final reports.

Subject to minimum Eligibility requirements having been satisfied, Builders are generally required to engage a BCRP service provider for contracts of \$250,000 and over as a condition of Eligibility or approval for a specific project. This requirement can be waived where the underwriter is satisfied that the Builder:

- Has appropriate construction history, project experience and building experience (for example, commercial projects) supported by references from a structural engineer, or similar
- Has worked on similar projects with previous building experience from other jurisdictions of Australia

The BCRP must be used as a condition of Eligibility in the following instances (where all other relevant financial and non-financial considerations are satisfactory):

- Where the Builder has never contracted and successfully completed a new single dwelling or alteration project for a homeowner.
- Where the Builder is proposing to contract a significantly larger or more complex project than the Builder's experience supports.
- Where the Builder has never contracted with a developer and successfully completed a residential apartment building project (as the residential apartment building contractor or key manager within a building business).

The BCRP is also appropriate where the Gross Margins of the Builder are an issue of concern. The program can assist a Builder to correctly price contracts and test actual cost against budget.

Under the BCRP, Builders must participate in a process whereby the contractual arrangements for a project (including scheduled payments) are reviewed and approved, costings checked, residential building work inspected and, where appropriate, progress payments endorsed.

The underwriter will consider reducing the threshold on a BCRP project to \$50,000 if the underwriter identified significant deficiencies in Builder's building experience and business management capability through a manual financial assessment. In any case, CIMS will not issue a COI to a Builder required to participate in the BCRP for a project where the contract price is \$250,000 or over (or such other threshold as determined by the underwriter) until:

- a Builder has used the BSSP to get a quote from BCRP service provider(s) selected from the provider panel, then has appointed one such provider in respect of that project
- the BCRP service provider notifies the underwriter (using the Online BCRP Application) that the project will be covered by the provider's program
- the BCRP service provider confirms to the underwriter (using the Online BCRP Application) that:
  - they have examined the contractual documentation for a project and assessed it as satisfactory
  - the Builder has provided a detailed budget which provides a gross margin that is reasonable for

the project requirements, type, size, and value.

- the BCRP service provider determines (and advises the underwriter and Distributor) the number of site and off-site construction reviews required, considering the nature of the project.

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***Note:** The intent of the BCRP is to ensure that the Builder's supervision and contract administration is appropriate and that the project is running to budget and contracted completion date.*

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icare HBCF may at its sole discretion modify the operation or application the BCRP. Therefore, icare HBCF can modify application of the BCRP as a condition of Eligibility for any Builder. This could involve (without limitation):

- changing BCRP provider relationships
- requiring Builders to change BCRP providers
- removing or modifying the BCRP condition for any Builder, or all Builders.

## 22.2 Outline of BCRP Eligibility and certificate process

### 22.2.1 Eligibility

- Builder applies for Eligibility through Distributor.
- In cases where the underwriter is not satisfied that the Builder fully meets the Eligibility criteria, the Builder may need to participate in the BCRP for projects with a contract price of \$250,000 or more (or such higher threshold as determined by the underwriter).
- Builder accepts Eligibility conditions (including participation in the BCRP).
- Eligibility is granted on condition that the Builder participates in the BCRP for each of their contracted projects with a contract price of \$250,000 or more (or such higher threshold as determined by the underwriter).

### 22.2.2 Certificates of insurance

- Builder selects preferred BCRP service provider from provider panel and accepts quotation.
- Builder submits contract documentation and detailed project budget to the BCRP service provider.
- BCRP service provider reviews and confirms that the contract documents (including construction period) are appropriate and the project budget and scheduled progress payments are reasonable. The service provider also determines the number of Builder performance reviews (site visits and remote site visits). Where the service provider is unable to sign off on these components or if work has started (or payment made to the Builder) under the building contract, the service provider will notify icare HBCF.
- BCRP service provider notifies the Distributor and icare HBCF to confirm that the contract documents are appropriate, the project budget is reasonable, progress payments are scheduled, and provides a schedule of Builder performance reviews.
- Distributor applies (on behalf of Builder) to icare HBCF for a COI for the project attaching the BCRP service provider's confirmation and Builder performance review schedule.
- icare HBCF approves the issue of a COI for the project.
- The BCRP service provider conducts Builder performance reviews during project.
- On completion of the final review, the BCRP service provider confirms that the project has been completed and forwards a final report to the Builder and icare HBCF.

## 22.3 Overview – operation of Building Contract Review Program

A competitive tender has been used to select and establish a panel of BCRP service providers from which Builders may choose. The BCRP providers will deliver all the following components of the program for each engagement.

### 22.3.1 BCRP component 1 – contract document review

Reviewing contract documentation for each project to ensure that:

- The correct parties to the residential building contract are identified, site address, etc.
- The correct name and licence number of the Builder's trading entity is shown on all documentation (that is, name on building contract, COI application and licence are the same).
- The licence held by the Builder's trading entity covers all the work being contracted.
- The building contract terms do not create a commercial risk for the completion of the project because of unfair terms, provisions, etc. (including contracts with developers and architect administered contracts).
- The project application for insurance is consistent with the BCRP service provider's understanding of the project.
- The project's construction schedule the Builder provided is appropriate for the type and complexity of the project.

### 22.3.2 BCRP component 2 – reasonableness of budget and progress payments

- Ensure that the Builder provides a detailed budget, providing for a gross margin that is reasonable for the project requirements, type, size, and value.
- Adequately test the Builder's detailed budget completeness and realistic costs, including contingency allowance. Verify as much as possible, likely contingencies including cost erosion and wage assumptions.
- Review and confirm that the scheduled payments under the building contract directly relate to the progress of work carried out at each stage that a payment is scheduled (that is, progress payments do not exceed the cost of work performed and materials supplied under the contract plus margin).

### 22.3.3 BCRP component 3 – Builder performance review schedule

Determine the number of reviews (site visits and remote site assessments) that must be completed, considering the nature of the project (and as determined by icare HBCF), to ensure that:

- The Builder's supervision of the project construction works is of an acceptable industry standard.
- The project is progressing to contractual completion date and budget.

Site visits require the BCRP service provider to attend the project site.

Remote site assessments do not require a site visit. The service provider must review sufficient information and make any necessary enquiries. The completion of a remote site assessment can include (as an example) a review of project photographs or relevant documentation and phone enquiries with the Builder.

Site visits and remote site assessments do not reflect the mandatory certification inspection dates. Site visits will be determined based on the specific project and the requirements under component 4 of the BCRP.

### 22.3.4 BCRP component 4 – Builder performance review

- Obtain a copy of the COI for the project from the Builder and check that all details correspond with the contract and the Builder's trading entity licence.
- Undertake reviews as determined under BCRP component 3 - Builder Performance Review Schedule.
- At the time of each site visit or remote site assessment:
  - review all scheduled progress payments invoiced to determine that progress claims were appropriate.
  - review all third-party certificates (including engineers' inspections, mandatory PCA inspections, trade compliance certificates etc.) issued since the previous BCRP review.
  - review contract variations ensuring they are in writing and properly costed.
  - review progress in accordance with the project construction schedule and terms of contract and investigate reasons for any significant delays.
  - review the Builder's competence in site supervision for all works carried out since the previous report, and any areas previously identified as a concern, including:
    - set out and levels
    - sequencing of trades
    - general standard of finish
    - frame integrity
    - cavity drainage integrity
    - external weep holes
    - termite barrier integrity
    - sill and window flashings
    - wet area treatment
    - stormwater disposal
    - future integrity of footings against drainage
    - other works still required to be completed.
- For each site visit or remote site assessment, prepare a report and include dated photographs, any concerns (including about items above) and notes covering an observation of the following:
  - general site presentation
  - workflow of trades and materials
  - competence of the trades
  - appropriateness of the materials being used.
- Immediately report to icare HBCF any concerns over the Builder's competency to complete the project (including concerns as to time delays, standard of work performed, any evidence of cash flow issues and where payments have been made or sought other than as scheduled under the building contract).
- Provide timely copies of all completed Builder Performance Review Reports to the Builder and icare HBCF.

### 22.3.5 BCRP component 5 – final report on completion of project

On completion of the project, prepare a final report including:

- Confirmation that all Builder Performance Reviews identified in component 3 of the BCRP have been completed.
- Details of any resolved issues of concern.
- Comment on the progression or development of the Builder's competency relating to specific areas that have been reviewed as part of the BCRP for the project.

### 22.3.6 Services to icare HBCF or Distributors

To enable a Builder to obtain a COI for a specific project, and icare HBCF to approve it:

- BCRP component 1, 2 and 3 – Confirmation:
  - Confirm the cost of the BCRP to the Builder.
  - Confirm the requirements of BCRP components 1, 2 and 3 have been completed satisfactorily, or have been adjusted to be satisfactory (through icare HBCF and the Builder's Distributor).
  - Provide the Builder (and icare HBCF and Builder's Distributor) with the number and timing of site visits or remote site assessments required during the project.
- BCR component 1,2 and 3 – Incomplete notice:
  - If the Builder does NOT satisfactorily complete the requirements of BCRP components 1, 2 and 3, the BCRP service provider must notify the underwriter of this fact within seven days of the due date of the requested information.
- BCRP component 1, 2 and 3 –Project started notice:
  - If the Builder has already started works under the project contract, the BCRP service provider must notify icare HBCF of this fact immediately.

### 22.3.7 During the project

The BCRP provider must immediately report to icare HBCF any concerns over the Builder's competency to complete the project (including concerns as to time delays, standard of work performed, any evidence of cash flow issues and where payments have been made or sought other than as scheduled under the residential building contract) including copies of all Builder Performance Review Reports completed to that time.

The BCRP provider should also provide timely copies of all completed Builder Performance Review Reports for the project to the Builder and icare HBCF. Such reports should be placed on the BEAT record for the Builder and referred to during PERs.

### 22.3.8 On completion of the project

BCRP component 5 - Final report on completion of the project

- On completion of the project, the BCRP provider must prepare a final report using the standard icare HBCF template and provide a copy to the Builder and icare HBCF. The final report will be placed on the BEAT record for the Builder and referred to during PERs.
- The content of the final report will include:
  - confirmation that all Builder performance reviews identified in BCRP Component 3 have been completed
  - details as to whether there are any unresolved issues of concern
  - comment on the progression or development of the Builder's competency relating to the specific areas that have been reviewed as part of the BCRP for the project.

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***Note:** icare HBCF will seek feedback from all Builders who have participated in the BCRP.*

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## 22.4 Exiting the BCRP program

icare HBCF will closely monitor all Builders holding Eligibility subject to use of the BCRP.

icare HBCF can consider removing the condition requiring participation in the BCRP after three completed projects. icare HBCF should contact the BCRP service providers and refer to the final



reports and individual Builder Performance Review Reports to determine whether it is appropriate for the Builder to 'graduate' out of the BCRP.

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***Note:** An Eligibility Assessment undertaken to determine if a Builder can exit the BCRP will be conducted on a non-financial basis.*

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## 23 Customer service

icare HBCF's focus will be upon customer service, responding technically correctly and in a timely manner to all customer and other stakeholder enquiries, both technical and procedural.

### 23.1 Eligibility Assessment and Review service standards

SIRA's Home building compensation (eligibility) insurance guidelines require icare HBCF to meet certain service standards. Customer service should also be in line with the Customer Service Conduct Principles that SIRA implemented in November 2019.

The following quantitative service standards, detailed in Table 19 to Table 22 apply:

*Table 19: Service standard for Eligibility Assessment and Review*

Eligibility Assessment and review	Underwriter Requirement for completion
Issue notice to the Builder commencing an Eligibility Assessment process asking them to provide information and documentation by a specified due date (PERs only)	Notice issued at least 40 business days before the due date.
Acknowledge receipt of Eligibility application or Eligibility Assessment documents	Within two business days of receipt of the documents
The application or review documents have been received but are deficient. The underwriter must ask the Builder for additional information to progress the application or review. <b>Note:</b> This does not apply to ASR assessments.	Within seven business days of receipt of the documents
Complete Eligibility Assessment and communicate Eligibility Profile, terms, and conditions to the Builder (through the Distributor)	Within two business days of receipt of complete information (for ASR assessments). Within 10 business days of receipt of complete information (for all non-ASR assessments).
Finalise an Eligibility Assessment	Within 40 business days (10 business days for ASR assessments) of communicating Eligibility Profile, terms, and conditions to the Builder (through the Distributor) unless: <ul style="list-style-type: none"> <li>the Builder provides evidence they are taking steps to meet one or more conditions of Eligibility but will not satisfy the condition(s) within this timeframe</li> <li>the Builder has lodged a dispute about the Eligibility decision in accordance with the CDHP for Eligibility and Premiums.</li> </ul>

## 23.2 Project applications service standards

*Table 20: Service standard for Project Applications*

Project Applications service standards	Underwriter requirement for completion
Assess whether additional information or a BPC is required. If required, request additional information, or initiate a BPC review.	Within two business days of receipt of the application for a Certificate
Underwrite application for COI and advise the Builder's Broker of the decision, including any proposed conditions on the approval, for example, security, Building Contract Review Program (BCRP).	Within five business days of receipt of complete information or completion of review (whichever later)
Issue decision through CIMS to Distributor	Within two business days of receipt of Builder accepting underwriting conditions

## 23.3 Response to enquiries service standards

*Table 21: Service standard for responses to enquiries*

Enquiries Service Standards	Underwriter Requirement for completion
Respond to queries from icare HBCF, SIRA or Fair Trading  (For example, the underwriter may regularly receive enquiries from icare HBCF, SIRA or Fair Trading. Some may be of an Eligibility specific nature while others may be related to scheme policy)	<ul style="list-style-type: none"> <li>▪ Within two business days for general requests</li> <li>▪ Within four business hours for urgent queries (such as where there is Ministerial involvement)</li> </ul>

## 23.4 Notice Period service standards

*Table 22: Notice period*

Type of notices	Underwriter Requirement for notice period
Expiry of Eligibility	At least 60 business days' written notice is issued (section 17.4 Expired Eligibility)
Suspension of Eligibility	At least 10 business days' written notice is issued (section 17.2 Suspended Eligibility)  Immediate suspension applies under limited circumstances (section 17.2 Suspended Eligibility)
Cancellation of Eligibility	At least 30 business day's written notice is issued (section 17.3 Cancelled Eligibility)  Immediate cancellation applies (section 17.3 Cancelled Eligibility)

Type of notices	Underwriter Requirement for notice period
Communicating and Enacting Eligibility Profile and Terms	<p>At least 30 business days' (five business days' for ASR assessments) notice is issued including:</p> <ul style="list-style-type: none"> <li>▪ Immediate implementation of Eligibility Profile</li> <li>▪ At least 20 business days' written notice is issued of that decision and any conditions associated with the Eligibility Profile</li> <li>▪ At least 10 business days' written notice of any decision to discontinue issuing Certificates</li> <li>▪ Immediate implementation to discontinue issuing Certificates under certain circumstances (section 17.5 Communicating and enacting an Eligibility Profile).</li> </ul>
SER	<p>At least 10 business days' written notice is given of any decision to discontinue issuing Certificates, or to restrict existing approved OJL and Construction Type limits, Terms or to Suspension of Eligibility (section 19.2 Special Eligibility Review— SER)</p> <p>Immediate implementation to discontinue issuing Certificates of Insurance under certain circumstances (section 17.5 Communicating and enacting an Eligibility Profile).</p> <p>Immediate suspension applies under limited circumstances (section 17.2 Suspended Eligibility)</p>
Overdue PERs	<p>The underwriter must provide the Builder's Broker with at least 40 days' notification before a specified due date for a scheduled review</p> <p>The underwriter may suspend, restrict, or cancel a Builder's Eligibility if no submission or satisfactory explanation has been received from the Builder (section 19.1 Programmed Eligibility Review—PER).</p>

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**Note:** *icare HBCF must communicate as soon as reasonably possible with the Builder's Distributor where it believes it cannot meet the service standards before the due date for delivery. icare HBCF will advise of the reasons for the delay and the expected actual delivery date. Notification of delay does not limit the Builder or the Distributors rights of complaint or redress but is required as part of the transparent and fair administration.*

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## 24 Complaints against icare HBCF

icare HBCF must comply with SIRA's *Home building compensation (eligibility) insurance guidelines*. You can find the Guidelines on SIRA's website: <https://www.sira.nsw.gov.au>.

Under the Guidelines icare HBCF must establish and maintain an internal complaint handling process. For more information, please refer to the HBCF Complaint and Dispute Handling Procedures For Eligibility and Premiums (CDHP) document on the icare website: <https://www.icare.nsw.gov.au/Builders-and-homeowners/disputes/lodge-a-dispute>.

### 24.1 General insurance code of practice - buying insurance

Although the Code of Practice does not strictly apply to State insurance, icare HBCF believes that aspects are good practice for the underwriter. The following standards have been adapted to apply to the initial enquiry and buying of insurance and renewal of cover.

- The underwriter will only ask for and consider relevant information when undertaking an Eligibility Assessment.
- The Builder will have access to information about them that the underwriter has relied on in assessing the application and an opportunity to correct any mistakes or inaccuracies. On request, the underwriter will provide its reasons in writing. In special circumstances, the underwriter may decline to release information, but it will not do so unreasonably. In these circumstances, icare HBCF will give the Builder reasons and they will have the right to request a review of the decision through the procedures described in the HBCF CDHP for Eligibility and Premiums.
- Where the Builder, Distributor, or underwriter identifies an error or mistake in assessing the application for Eligibility or a COI, the underwriter will immediately initiate action to correct it.
- If the underwriter cannot provide insurance, they will:
  - give reasons
  - refer the Builder to icare HBCF, or the National Insurance Brokers Association (NIBA - <https://www.niba.com.au/>) for information about options (unless they already have someone acting on their behalf)
- advise the Builder about their options to make a complaint or request a review if they are dissatisfied with the decision. These options are defined in the HBCF CDHP for Eligibility and Premiums. If the underwriter cancels Eligibility, they will send any money owed to the Distributor within 15 business days. All sales processes are to be conducted in a fair, honest, and transparent manner to the extent that the underwriter has influence over it.

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**Note:** The Code of Practice can be accessed at [www.codeofpractice.com.au](http://www.codeofpractice.com.au)

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### 24.2 icare HBCF Complaint and Dispute Handling Procedures for Eligibility and Premiums—CDHP for Eligibility and Premiums

The HBCF CDHP for Eligibility and Premiums document explains how icare HBCF handles complaints and disputes in relation to standards of service and underwriting decisions. The CDHP for Eligibility and Premiums sets out the role and operation of the icare HBCF Underwriting Committee.

You can access the CDHP for Eligibility and Premiums can be accessed on the icare HBCF website: [www.icare.nsw.gov.au](http://www.icare.nsw.gov.au)

## 25 Standard document list

icare HBCF has developed the templates and standard formats (e-mail/fax/letter) for the documents listed below:

- Advice of decision to decline an application for Eligibility or Eligibility Profile Change
- Advice of outcome of a Review
- Advice of decision to suspend or cancel a Builder's Eligibility
- Advice of decision to modify the conditions of a Builder's Eligibility (including monitoring and/or management of a Builder)
- Advice of decision to decline an application for a COI
- Advice of decision to halt issuing Certificates of Insurance to a Builder
- Advice of outcome of consideration by the icare HBCF Underwriting Committee
- General letterhead
- All Checklists

Templates and standard format to include, where appropriate and in accordance with the requirements set out in this document (icare HBCF Eligibility Manual):

- Advice of the effective date of a decision to suspend, cancel or modify an Eligibility or to halt issuing Certificates of Insurance to a Builder (at least 10 business days' notice is required).
- Notification of compliance review and complaint options to the State Insurance Regulatory Authority.
- The templates and standard format to include icare HBCF logo.
- Advice of the complaints and dispute resolution process including the opportunity for a Builder to escalate a matter for further review, as defined in the CDHP for Eligibility and Premiums.
- Advice that a Builder may request that SIRA undertake a regulatory compliance review to investigate potential breaches of the Act, the Home Building Regulation or SIRA's Insurance Guidelines.
- Include SIRA's contact details:

Telephone: 13 10 50

Email: [contact@sira.nsw.gov.au](mailto:contact@sira.nsw.gov.au)

Address: State Insurance Regulatory Authority, Locked Bag 2906, Lisarow NSW 2252.

## 26 Disclaimer

Please note that this document cannot be relied upon for any purpose other than the determination of icare compliance with eligibility requirements in accordance with the Home Building Act 1989 and associated regulations. Beyond that purpose, the intention of this document is to provide general guidance in plain language and there are a variety of documents, guidelines, legislation, and other information to which should be referred to rather than relying on this document. icare HBCF will not accept any liability arising from reliance or use of this document.

## 27 Contact us

Please contact us if you need help or you would like to provide feedback.

- Email: [enquiries.hbcf@icare.nsw.gov.au](mailto:enquiries.hbcf@icare.nsw.gov.au)
- Phone: (02) 9216 3224

You can make a complaint by calling us or completing a form on our website.

- Phone: 13 99 22
- Website: <https://www.icare.nsw.gov.au/contact-us/complaints>

## 28 Supporting References

Table 23 contains supporting reference materials relevant for icare HBCF's Eligibility model.

*Table 23 Supporting reference materials for Eligibility model*

Provider	Reference material	Location
HBCF	HBCF Eligibility Manual	Published by icare HBCF and available on its website at <a href="http://www.icare.nsw.gov.au">www.icare.nsw.gov.au</a>
HBCF	HBCF Underwriting Procedures Manual	Made available to the ERM by HBCF
HBCF	HBCF Complaint and Dispute Handling Procedures	Published by icare HBCF and available on its website at <a href="http://www.icare.nsw.gov.au">www.icare.nsw.gov.au</a>
NSW Fair Trading	Guide to Standards & Tolerances Consumer Building Guide	Published by NSW Fair Trading and available on its website at <a href="http://www.fairtrading.nsw.gov.au">www.fairtrading.nsw.gov.au</a>
Law and Justice	NSW Government's Model Litigant Policy	Published by the NSW Department of Justice and available on its website at <a href="http://www.lawlink.nsw.gov.au">www.lawlink.nsw.gov.au</a>
State Insurance Regulatory Authority (SIRA)	Home building compensation (claims handling) insurance guidelines Home building compensation (eligibility) insurance guidelines Home building compensation (premium) insurance guidelines Home building compensation (prudential) insurance guidelines HBC standard licence conditions for insurers NSW Self Insurance Corporation conditions – Home building compensation regulation Customer Service Conduct Principles	Published by SIRA and available on its website at <a href="http://www.sira.nsw.gov.au">www.sira.nsw.gov.au</a>

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**Note:** *Trust corporate structures will not be approved for New Builders.*

**Note:** *A full financial assessment is not required other than complying with ANTA requirements.*

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## 29 Glossary

Term	Definition
\$	Australian dollars
%	Per cent
AASB	Australian Accounting Standards Board
ACN	Australian Company Number
ACR	See Adjusted Current Ratio
Act	Home Building Act 1989 (NSW)
Adjusted Current ratio (ACR)	<p>The Adjusted Current Ratio is equal to (All Current Assets minus All Current Assets assigned an ANTA weighting of 0% minus Speculative WIP plus undrawn funding facility) divided by (All current liabilities minus Progress Payments received in advance minus Related liabilities treated as quasi working capital).</p> <p>Example:</p> <p>A) All Current assets: \$500,000</p> <p>B) All current assets assigned a 0% ANTA weighting: \$50,000</p> <p>C) Speculative WIP: \$100,000</p> <p>D) Undrawn funding facility: \$50,000</p> <p>E) All current liabilities: \$400,000</p> <p>F) Progress Payments received in advance: \$50,000</p> <p>G) Related liabilities treated as quasi working capital: \$50,000</p> <p>ACR = (A-B-C+D)/(E-F-G)</p> <p>= (500,000 - 50,000 - 100,000 + 50,000)/(400,000 - 50,000 - 50,000)</p> <p>= 400,000/300,000</p> <p>= 1.3</p> <p>=1:1.3</p>
Adverse trading history	<p>A contractor is considered to have an adverse trading history if any of the following events has occurred:</p> <ul style="list-style-type: none"> <li>▪ previous insolvencies</li> <li>▪ past HBC claims</li> <li>▪ contractor licence suspension/cancellation/fines/penalties</li> <li>▪ outstanding NSW Civil and Administrative Tribunal/court orders</li> <li>▪ unresolved complaints or disputes at NSW Fair Trading</li> <li>▪ loss notifications.</li> </ul>
Aged debtors listing	An aged debtor list is a detailed account of which customers (debtors) owe your company money, how much they owe your company, and when they are supposed to complete payment.
AIP	AIP alternative indemnity product
ANA	Adjusted net assets

Term	Definition
ANTA	<p>Adjusted Net Tangible Assets</p> <p>ANTA is a measure developed by HBCF intended to represent the net 'fire sale' position of assets, less third-party liabilities. ANTA is viewed as a 'buffer', available to the Builder business for successful withstanding of normal business disruptions or 'shocks'.</p> <p>For an overview of ANTA, see the ANTA Fact Sheet.</p>
ANTA to Requested Turnover (%)	<p>ANTA to Requested Turnover (TO) is calculated by dividing ANTA by the Total Requested TO.</p> <p>For example, if your ANTA is \$300,000 and your Total Requested TO is 10,000,000, the percentage would be <math>300,000/10,000,000 = 0.03 = 3\%</math></p>
APRA	The Australian Prudential Regulation Authority established by the Australian Prudential Regulation Authority Act 1998 and any successor authority.
APRA Regulated licence holder	Licensed insurers regulated by APRA
Arm's length transaction	An arm's length transaction refers to a business deal in which buyers and sellers act independently without one party influencing the other. These types of sales assert that both parties act in their own self-interest and are not subject to pressure from the other party; furthermore, it assures others that there is no collusion between the buyer and seller. In the interest of fairness, both parties usually have equal access to information related to the deal.
ASR	<p>Automated Builder Scorecard Review</p> <p>A type of Eligibility Assessment that uses data held by commercial bureau reporting agencies about Builders to algorithmically determine appropriate Eligibility Profiles based on an Eligibility Score.</p>
Assumed turnover	<p>The assumed turnover is the total turnover likely to be generated:</p> <ul style="list-style-type: none"> <li>▪ if the Builder was trading at the maximum volumes permitted by the OJL,</li> <li>▪ from any non-HBCF activity (for example, commercial construction works),</li> <li>▪ by using equivalent interstate Eligibility approvals.</li> </ul> <p>It takes account of the Builder's current average completion time from purchasing cover to completion, as well as the past 12 months average contract values. BEAT uses the assumed turnover to test ANTA and other BEAT ratios.</p>
ASX	Australian Securities Exchange
ATO	Australian Taxation Office
authorised person	A person to whom SIRA has delegated a function under section 26 of the State Insurance and Care Governance Act 2015.
Authorised Representative	A person or body corporate appointed by the holder of an Australian financial services licence to provide specified financial services on its behalf.
Average Creditor Days (days)	<p>This indicates how long it takes the business to get paid and is calculated by dividing the total value of the outstanding creditors by the total cost of sales and then multiplying that number by 365.</p> <p>For example, if the total of your outstanding creditor accounts is \$50,000 and the cost of sales is \$200,000, then Average Creditor Days = <math>(50,000/200,000)*365 = 0.25*365 = 91.25</math> days.</p>

Term	Definition
Average Debtor Days (days)	<p>This indicates how long it takes a business to pay its bills and is calculated by dividing the total value of the outstanding debtors by the total cost of sales and then multiplying that number by 365.</p> <p>For example, if the total of your outstanding creditor accounts is \$50,000 and the cost of sales is \$200,000, then Average Debtor Days = <math>(50,000/200,000) \times 365 = 0.25 \times 365 = 91.25</math> days.</p>
Bankruptcy Act	Bankruptcy Act 1966 (Cth)
BCRP	<p>Building Contract Review Program</p> <p>A program implemented by HBCF to assist new entrants to the building industry, as well as existing Builders, to obtain Eligibility (or cover for a specific project) where the Builder is unable to provide suitable evidence of experience in the proposed building activity (see HBCF Eligibility Manual section 22 Building Contract Review Program—BCRP for further information).</p>
BEAT	<p>Builder Eligibility Assessment Tool</p> <p>HBCF developed internet-based Eligibility assessment tool for managing COEs, Eligibility Assessments and provision of data to other core IT transaction systems including CIMS and the pricing calculator.</p>
BPC	<p>Builder Profile Change</p> <p>A type of Eligibility Assessment, usually initiated by a Builder, to request a change in their:</p> <ul style="list-style-type: none"> <li>▪ OJL</li> <li>▪ Permitted Construction Types</li> <li>▪ Maximum contract value for a Construction Type.</li> </ul> <p>The underwriter may suggest a Builder submit a BPC in order to reduce the number of COI applications triggering a referral for manual review by an underwriter in CIMS (for example, submitting a COI for a contract value greater than the maximum contract value for a Construction Type recorded on their COE. See HBCF Eligibility Manual section 19.3 Builder Profile Change—BPC for further information).</p>
Break-even	<p>The break-even point shows the sales your business needs to make in dollars or units before your expenses are covered and you can start making a profit (before tax).</p> <p>Break-even analysis is helpful when preparing and updating your business plan. You can use your break-even to set sales targets for yourself or your staff.</p> <p>Use the following calculations to find where your profits start. To calculate your break-even (dollar value) before net profit:</p> <ul style="list-style-type: none"> <li>▪ Break-even (\$) = overhead expenses ÷ (1 – (COGS ÷ total sales))</li> </ul> <p>If you know the unit's sale price and cost price and the business operating expenses, you can calculate the number of units you need to sell before you start making a profit.</p> <p>To calculate your break-even (units to sell) before net profit:</p> <ul style="list-style-type: none"> <li>▪ Break-even (units) = overhead expenses ÷ (unit selling price – unit cost to produce)</li> </ul>
Broker	Builders must use a Broker to apply for Eligibility and HBC insurance. icare lists approved Broker Distributors and their fees on the icare website. The terms Broker and Distributor can be used interchangeably.

Term	Definition
BTC	Builders Trade Credit
Building Claim	<p>A homeowner can claim under a policy issued by the Home Building Compensation Fund if their Builder caused incomplete and/or defective work and the Builder has:</p> <ul style="list-style-type: none"> <li>disappeared and cannot be located</li> <li>become insolvent and unable to complete the work</li> <li>died before the completion of the work including defective work</li> <li>had their licence suspended due to non-compliance with an order by Tribunal or court to pay you money.</li> </ul>
Building Claim Order	<p>An order of a court or NCAT in respect of a building claim that arises from a supply of building goods or services whether under a contract or not, or that arises under a contract that is collateral to a contract for the supply of building goods or services, and includes a claim for the payment of an unspecified sum of money that arises from a supply of building goods or services as defined in section 48A of the Home Building Act 1989. It does not include a claim that the Home Building Regulation 2014 (NSW) declares not to be a building claim. The order may be for:</p> <ul style="list-style-type: none"> <li>the payment of a specified sum of money</li> <li>the supply of specified services</li> <li>relief from payment of a specified sum of money</li> <li>the delivery, return or replacement of specified goods or goods of a specified description</li> <li>a combination of two or more of the remedies referred to above.</li> </ul>
building cover contract	A contract of insurance under Part 6 of the Act or a contract or arrangement for the provision of cover by means of an alternative indemnity product
Building work	<p>Single or Multi-Dwelling</p> <p>Structural and non-structural building work comprising of additions, alterations, decorative or protective treatment, extensions, maintenance, renovations, rectification, repairs etc. (excluding the addition of a new secondary dwelling or swimming pool).</p> <p>Any work to home unit, residential flat, or apartment that does not involve common property.</p> <p>Residential apartment building</p> <p>Structural and non-structural building work comprising of additions, alterations, decorative or protective treatment, extensions, maintenance, renovations, rectification, repairs etc. to low, medium, and high-rise residential apartment buildings and associated structures (excluding the addition of a new dwelling, or addition of an in-ground or above-ground swimming pool).</p> <p>Structural and non-structural building work comprising of additions, alterations, decorative or protective treatment, extensions, maintenance, renovations, rectification, repairs etc. to low, medium, and high-rise buildings containing a mix of commercial space and dwellings and associated structures (excluding the addition of a new dwelling, or addition of an in-ground or above-ground swimming pool).</p>

Term	Definition
Business Closure	<p>Business Closure includes all the following events in the last five years:</p> <ul style="list-style-type: none"> <li>▪ A person who was subject to bankruptcy, a debt agreement or PIA within the meaning of the Bankruptcy Act (regardless of whether subsequently annulled, discharged, or released, unless the annulment was under s153 of the Bankruptcy Act)</li> </ul> <hr/> <p><i>Note: If a key manager, director or principal of the Builder is still subject to bankruptcy, a debt agreement or PIA within the meaning of the Bankruptcy Act more than five years after the trustee was appointed, it will be considered an unacceptable risk for Eligibility until the bankruptcy, debt agreement or PIA is finalised.</i></p> <hr/> <ul style="list-style-type: none"> <li>▪ A company which was a Chapter 5 body corporate within the meaning of the Corporations Act (regardless of whether that external administration was subsequently terminated, released, discharged, or otherwise ended).</li> <li>▪ A partnership where a partner was (or partners were): <ul style="list-style-type: none"> <li>◦ subject to bankruptcy, a debt agreement or PIA within the meaning of the Bankruptcy Act (regardless of whether subsequently annulled, discharged, or released, unless the annulment was under s153 of the Bankruptcy Act).</li> <li>◦ a Chapter 5 body corporate within the meaning of the Corporations Act (regardless of whether that external administration was subsequently terminated, released, discharged, or otherwise ended).</li> <li>◦ subject to dissolution or winding up within the meaning of the Partnership Act.</li> </ul> </li> <li>▪ A person who was a director, secretary, shareholder, officer or key manager of any company which was a Chapter 5 body corporate within the meaning of the Corporations Act (regardless of whether that external administration was subsequently terminated, released, discharged or otherwise ended).</li> <li>▪ A company whose director, secretary, shareholder, officer or key manager was a director, secretary, shareholder, officer or key manager of any company which was a Chapter 5 body corporate within the meaning of the Corporations Act (regardless of whether that external administration was subsequently terminated, released, discharged or otherwise ended).</li> <li>▪ Suspension of a Builder's licence under section 42A Home Building Act 1989.</li> </ul>
business days	Monday to Friday, excluding public holidays
business structure	The structure of the contractor entity that holds the contractor licence, that is, sole trader, partnership, trust, or company.
Capital and retained earnings to turnover	<p>To find this percentage you divide the Paid-up Capital and Retained Earnings by the total turnover (sales).</p> <p>For example, if your Paid-up Capital is \$30,000 and your retained earnings are \$500,000 and your total sales are \$8,000,000, then <math>(30,000 + 500,000) / 8,000,000 = 530,000 / 8,000,000 = 0.66 = 6.6\%</math></p>
Cash in hand	Physical cash held, that is, petty cash and cash in the till.

Term	Definition
CDHP For Eligibility and Premiums	HBCF Complaint and Dispute Handling Procedures for Eligibility and Premiums A document containing the established processes for handling complaints and disputes received from homeowners and Builders in relation to home building compensation cover provided by HBCF.
claim	A claim for indemnity by a claimant under a building cover contract
Claims Manager	An external claims agency engaged by HBCF to act as its agent to perform various claims management tasks and responsibilities delegated to it.
COE	Certificate of Eligibility A certificate outlining the conditions under which HBCF has approved a Builder to purchase COIs for residential work requiring home building compensation cover. Getting a COE is the first step towards being able to purchase COIs from HBCF for residential building work in NSW. The certificate records: <ul style="list-style-type: none"> <li>▪ Approved OJL</li> <li>▪ Approved Construction Type and associated maximum contract value limits</li> <li>▪ Date of COE issuance and expiry.</li> </ul>
COGS	Cost of the Goods Sold
cohort	A subset of the licensed insurer's portfolio that exhibits claims experience that is statistically different from other subsets. Examples include construction type and project size.
Commercial adverse information	Commercial bureau's collect adverse information that relates to businesses. This information may include court writs and summons, default judgements, etc. icare HBCF reviews adverse information as part of our Eligibility Assessment process.
Construction Profile	A term for Construction Type limits requested or approved for a Builder.
Construction Profile Limit	Each builder will be granted construction profile limits on their Eligibility profile. The construction profile limits consist of construction value and construction type. Table 6 of this Manual provides standard construction profile limits by builder size. Applications for Construction Profile limits that exceed standard values and types are to be tested by underwriters for demonstrated history, experience, skills and licence conditions.
Construction Type	A classification of residential construction works a Builder is permitted to undertake by HBCF requiring home building compensation cover. A Builder nominates which classification(s) of construction work they want to be permitted to undertake, as well as a maximum contract value for each, as part of an Eligibility Assessment. If successful, the Construction Type and maximum contract value will be recorded on the Builder's COE and referred to as their Construction Profile. The construction type as defined in section 7.13 of the Sira Home Building Compensation (premium) insurance guidelines document (of December 2021) See HBCF Eligibility Manual section 8.5 Construction types for further information about the various classifications of construction work and their associated construction codes.
contract of insurance	A contract of insurance under Part 6 of the Act

Term	Definition
contractor	A person who is required by Part 6 of the Act to enter into a building cover contract
Corporations Act	Corporations Act 2001 (Cth)
Credit enquiry	Related to Broker dealer enquiries. If the enquiry mentions a dollar value. For example, reviewing the Builder's commercial bureau file to determine if a trade credit account of \$10,000 should be provided.
Current Assets	Current assets include money in the bank, petty cash, money received but not yet banked (see 'cash in hand'), money owed to the business by its customers, raw materials for manufacturing, and stock bought for re-sale. They are termed 'current' because they are expected to be used or turn into cash within 12 months.
Current Liabilities	Current liabilities include bank overdrafts, short term loans (less than a year), and what the business owes its suppliers. They are termed 'current' for the same reasons outlined under 'current assets', in that they are due for payment within 12 months.
Current ratio (x)	The current ratio is the Total Current Assets divided by the Total Current Liabilities.  For example, if your total current assets are \$500,000 and your total current liabilities are \$400,000, then your current ratio is $500,000/400,000 = 1.25 = 1:1.25$
Day listings	These are lists that the business maintains to track how many days the debtors have been waiting for payment from the business and how many days the business has been waiting for payments from customers (creditors).
Debtors	Debtors are individuals or businesses that owe money to your business.
DFB	Deed of Indemnity in Respect of Former Business  An agreement between HBCF and a Builder to indemnify HBCF in certain circumstances against any insurance claims made under any COIs HBCF issued to a Builder which no longer has Eligibility (for example, dissolution of a partnership who had Eligibility and subsequently seeking Eligibility as a building company. See HBCF Eligibility Manual section 16.5 New eligibilities following dissolution of partnerships, trusts or companies for further information).
Dispute	A dispute regarding a licence holder's Eligibility decision for a contractor (Eligibility dispute). When a Builder (or Broker) makes a complaint about a decision, the appropriate authority will review the decision and make a recommendation. If the Builder is unhappy with that determination, they can refer the complaint to icare HBCF as a dispute.  A dispute regarding a licence holder's decision regarding the claim (claim dispute).
Distribution Deed	An agreement between HBCF and a successful insurance Broker tenderer to distribute home building compensation cover on HBCF's behalf.
Distributor	Builders must use a Broker to apply for Eligibility and HBC insurance. icare lists approved Broker Distributors and their fees on the icare website. The terms Broker and Distributor can be used interchangeably.  Broker is called Distributor in CIMS PolicyCenter.
DOCA	Deed of Company Arrangement  A form of external administration under Part 5.3A Corporations Act.



Term	Definition
DOI	<p>Deed of Indemnity agreement</p> <p>An agreement between HBCF and applicable party or parties to indemnify HBCF in certain circumstances against any insurance claims made under any COIs HBCF issues to the Builder (see HBCF Eligibility Manual section 16 Eligibility conditions and its subsections for further information).</p> <p>This type of deed is usually requested where a Builder (typically a company) cannot meet the minimum ANTA requirements for Eligibility, but can remediate this ANTA shortfall by exposing assets outside the Builder (typically the personal assets of a director of the Builder) to insurance claims.</p>
DUA	<p>Delegated Underwriting Authority</p> <p>The written underwriting parameters that HBCF and the Eligibility Risk Manager authorised officers use to approve (or deny) the acceptance of specified risks for HBCF (for example, approve an OJV and OJN exposure for a particular Builder, approve a COI application underwriter referral in CIMS).</p>
Eligibility	<p>The term used to describe the approval to enable a Builder to obtain a COI for specific projects and under what conditions. A licensed contractor must hold active Eligibility before purchasing a COI for a specific project that requires home building compensation cover.</p>
Eligibility Assessment	<p>A term used to describe the process of underwriting a Builder's application to obtain or maintain Eligibility.</p> <p>HBCF classifies Eligibility Assessments into different categories:</p> <ul style="list-style-type: none"> <li>▪ Programmed Eligibility Reviews (PERs).</li> <li>▪ Builder Profile Changes (BPCs).</li> <li>▪ Special Eligibility Reviews (SERs).</li> <li>▪ New Eligibility Reviews (NEWs).</li> <li>▪ Automated Builder Scorecard Reviews (ASRs).</li> </ul>
Eligibility Model	<p>An Eligibility model is comprised of Eligibility criteria, conditions, decisions, the duration, reviews, suspensions, cancellations, and any other structures that may affect a contractor's Eligibility.</p>
Eligibility Profile	<p>A collective term for OJV, OJN and Construction Profile. It is typically used to referred to the approved OJV, approved OJN and approved Construction Profile for a Builder recorded on their COE.</p>
Eligibility Risk Manager or ERM	<p>An external underwriting agency engaged by HBCF to act as its agent to perform various underwriting tasks and responsibilities delegated to it.</p> <p>The HBCF Eligibility Manual makes various references to underwriting tasks as being the responsibility of the Eligibility Risk Manager. These references do not preclude HBCF from undertaking these tasks at its discretion.</p>



Term	Definition
Eligibility Score	<p>A number, derived from an algorithm by a commercial bureau reporting agency, based on various data sources, to determine an appropriate Eligibility Profile to offer a Builder without needing to manually underwrite the Builder's financial information (for example, tax returns, externally prepared financial statements).</p> <p>The number is derived from six key variables, outlined below, which have been assessed to be good indicators in determining the likelihood of a Builder to trigger future claims (for example, become a Business Closure within the next five years):</p> <ul style="list-style-type: none"> <li>▪ Broker enquiries: The total number of Broker dealer enquiries made of the Builder within the last five years of the score being calculated</li> <li>▪ Credit enquiries: The total number of credit enquiries made of the Builder within 1-5 years of the score being calculated</li> <li>▪ Entity type: The structure of the Builder (for example, sole trader, partnership, company)</li> <li>▪ Commercial adverse: The total number of commercial adverse information (for example, court writs and summons, default judgements) within the last five years of the score being calculated</li> <li>▪ Proprietorships: Number of proprietorships associated with the Builder</li> <li>▪ Adjusted Bureau In-depth Trading History: A score calculated by a commercial bureau reporting agency which incorporates a full picture of the Builder, including its proprietorships, directors and any other commercial entities associated with it. Key characteristics that form this score are: <ul style="list-style-type: none"> <li>▪ Age of file (a common component with HBCF's existing scores in determining Eligibility which shows the amount of time the Builder has traded)</li> <li>▪ Time since Builder incorporation (a common component with icare's existing scores in determining Eligibility which shows the amount of time the Builder has traded)</li> <li>▪ Number of trading addresses (a common component with icare's existing scores in determining Eligibility)</li> <li>▪ Security information</li> <li>▪ Enquiry activity such as number of enquiries, frequency, time since last enquiry</li> <li>▪ Dollar amount of enquiries</li> <li>▪ Trade payment data (a common component with icare's existing scores in determining Eligibility which shows the Builder's trade credit payment history)</li> <li>▪ Directors' information (a common component with icare's existing scores in determining Eligibility which shows the Builder's principals' adverse information)</li> <li>▪ Public record information for instance defaults, judgements, and court writs (a common component with icare's existing scores in determining Eligibility which shows the Builder's trade credit payment history)</li> <li>▪ ASIC information</li> </ul> </li> </ul>

Term	Definition
EM or Manual	HBCF Eligibility Manual A document providing the public with a key reference source and guidelines for HBCF's underwriting of home building compensation cover under Part 6 of the Home Building Act 1989.
Extraordinary loss	An extraordinary loss is an accounting term that refers to an abnormal loss that is not generated from the ordinary business operations of a company, is infrequent in nature, and is unlikely to recur in the foreseeable future. Extraordinary losses are disclosed separately in the financial statements.
Fair Trading	NSW Fair Trading Responsible for the administration of the Home Building Act 1989 including contracts, licensing, and dispute resolution. Where grounds for a claim under a COI issued by HBCF are not yet established (for example, the Builder has not died, disappeared, or become insolvent) homeowners can access a dispute resolution service provided by Fair Trading.
FCR	Financial condition report
Gross Margin	There are two ways of expressing gross margin. <ul style="list-style-type: none"> <li>Most Builders and BEAT will benchmark margin as a mark-up on the cost of sales (on-cost margin).</li> <li>Financial advisors and accountants will express the margin as a percentage of sales turnover (on-sales margin).</li> </ul> It is essential that the correct comparison and communication be made. At icare we use the on-cost margin. For example, if your gross profit is \$50,000 and the cost of goods sold is \$125,000, then your gross (on-costs) margin is $50,000/125,000 = 40\%$
Gross profit margin ratio	This shows you the proportion of profit for every sales dollar before expenses. An acceptable gross profit margin ratio varies from industry to industry. In general, the higher the margin the better. <ul style="list-style-type: none"> <li>Gross profit margin = gross profit/sales : 1.0</li> </ul>
Gross profit versus net profit	You can easily see the difference between your gross profit and net profit on your profit and loss statement. Your gross profit is your sales minus your cost of goods sold, but does not factor in your business operating expenses. Net profit is a better indication of profit, as it factors in your operating expenses. Example of gross profit versus net profit During May, Jeff sells 30 products at \$15 each. Each product costs him \$10 to produce. His overall operating costs for the month are \$80. Jeff's gross and net profits for the month are as follows: <ul style="list-style-type: none"> <li>Sales = \$450, cost of goods = \$300</li> <li>Gross profit = sales - cost of goods = <math>\\$450 - \\$300 = \\$150</math></li> <li>Net profit = gross profit - operating costs = <math>\\$150 - \\$80 = \\$70</math></li> </ul>
GTA	Group Trading Agreement A type of deed which allows for a Builder's Eligibility for home building compensation cover to be assessed by combining the financials of the Builder with other entities (see HBCF Eligibility Manual section 16.7 Group entities and Group Trading Agreements—GTA for further information).
HBC	Home Building Compensation

Term	Definition
HBC legislation	Includes the Act and Regulation and any Insurance Guidelines made under the Act
HBCF or icare HBCF	<p>Home Building Compensation Fund</p> <p>HBCF is a provider of home building compensation cover under Part 6 of the Home Building Act 1989, a safety net for homeowners who have contracted building works but where Builders/contractors are unable to honour their commitments due to insolvency, death, or disappearance.</p> <p>A reference to HBCF in HBCF documents includes a reference to icare and SiCorp.</p>
Home Building Act	Home Building Act 1989 (NSW)
ICAAP	Internal Capital Adequacy Assessment Procedures
icare	<p>Insurance and Care NSW</p> <p>Icare provides services to the insurer, SiCorp, under section 10 of the State Insurance and Care Governance Act 2015 (NSW in relation to the provision of insurance under Part 6 of the Home Building Act 1989. A reference to HBCF in this document includes a reference to icare.</p> <p>A reference to “we” or icare HBCF in this document includes a reference to icare as Scheme operator and insurer for HBC insurance.</p>
ICD	<p>Irregular Contract Arrangements Deed of Indemnity</p> <p>An agreement between HBCF and applicable party or parties to indemnify HBCF in certain circumstances against HBCF’s loss if any insurance claims are made under any COIs issued to a specified Builder in respect to a specified site (see HBCF Eligibility Manual section 16.2 Deeds of Indemnity Agreement—DOIs—as security for further information).</p> <p>This type of deed is usually requested where the party or parties entering into a building contract with the Builder is/are not the owners of the land where the residential construction work will be undertaken, but some other person or company owns the land (such as a company created by the land owners).</p>
IMB3	A condition of Eligibility requiring a Builder to submit PERs on a quarterly basis to maintain Eligibility.
IMB6	A condition of Eligibility requiring a Builder to submit PERs on a half yearly basis to maintain Eligibility.
JSD	<p>Deed of Indemnity Agreement – Job Specific</p> <p>An agreement between HBCF and applicable party or parties to indemnify HBCF in certain circumstances against any insurance claims made for one or more specified COIs HBCF issues to the Builder (see HBCF Eligibility Manual section 16.8 Job Specific Deed of Indemnity Agreement —JSD—and values for further information).</p> <p>This type of deed is usually requested to mitigate the risk associated with a high-value or high-risk project.</p>
Letter of Appointment	A document intended to confirm a Builder’s appointment of an insurance Broker to act on their behalf in relation to home building compensation cover with HBCF.
licence holder	A licensed insurer or a licensed provider under the Act

Term	Definition
Liquidity	At its most basic level, liquidity is the ability to access cash when it is needed to pay bills as required. Liquidity risk is the risk that a business will have insufficient funds to meet its financial commitments in a timely manner, that is, the business won't be able to pay its bills.
Major Builder	<p>A Builder size classification based on the Builder's approved OJL and primary Builder segment (see HBCF Eligibility Manual, section 10.1 Builder size classification and section 10.2 Determining a Builder's Primary icare HBCF Builder segment for further information).</p> <p>A Builder may be treated as a Major Builder based on their requested OJL as part of an Eligibility Assessment (for example, a Medium Builder may submit a requested OJL, as part of a BPC, which if successful would result in the Builder being classified as a Major Builder).</p> <p>A Major Builder is required to undertake a PER annually (at minimum) as a condition of ongoing Eligibility for home building compensation cover with HBCF.</p>
Major Non-Project Home Builder	A sub-classification of Major Builder where the Builder's sales turnover is not predominantly generated through display homes (see HBCF Eligibility Manual section 11.4 Eligibility Assessment for Major Builders for further information).
Major Project Home Builder	A sub-classification of Major Builder where the Builder's sales turnover is predominantly generated through display homes (see HBCF Eligibility Manual section 11.4 Eligibility Assessment for Major Builders for further information).
Margin	<p>A margin shows you how much of each sale is profit (as a percentage). It helps you make budgeting and pricing decisions. Lenders and investors use your margin to decide if you're a good candidate for finance.</p> <p>Margin = ((sales – cost of goods sold)/sales) x 100</p> <p>For example, if you 'sell' three building projects for \$25,000 each (\$75,000) and it costs you \$20,000 to complete each project (\$60,000), then this is your margin:</p> <ul style="list-style-type: none"> <li>▪ ((sales – cost of goods sold)/sales) x 100</li> <li>▪ = ((75,000-60,000)/75,000) x 100</li> <li>▪ = (15,000/75,000) x 100</li> <li>▪ = 0.20</li> <li>▪ = 20%</li> </ul>
Material loss	A realised capital loss, or material loss, occurs when an investor sells an asset for a lower price than they initially paid for it.
Medium Builder	<p>A Builder size classification based on the Builder's approved OJL and primary Builder segment (see HBCF Eligibility Manual section 10.1 Builder size classification and section 10.2 Determining a Builder's Primary icare HBCF Builder segment for further information).</p> <p>A Builder may be treated as a Medium Builder based on their requested OJL as part of an Eligibility Assessment (for example, a System Reviewed Builder may submit a requested OJL, as part of a BPC, which if successful would result in the Builder being classified as a Medium Builder).</p> <p>A Medium Builder is required to undertake a PER annually (at minimum) as a condition of ongoing Eligibility for home building compensation cover with HBCF.</p>

Term	Definition
NCAT	<p>NSW Civil and Administrative Tribunal</p> <p>Provides a forum to resolve disputes and review administrative decisions.</p> <p>In some dispute resolution cases (for example, where the Builder refuses to rectify defects) Fair Trading may recommend a homeowner refer their dispute to NCAT for resolution.</p>
NCC	<p>The National Construction Code (NCC) is Australia's primary set of technical design and construction provisions for buildings. The NCC is defined by the Australian Building Codes Board.</p>
NCC Building Classifications	<p>The NCC Building Classifications are defined by the Australian Building Codes Board.</p>
Net margin	<p>Net margin is your gross margin less your business overhead expenses. It's your profit before you pay tax. Tax isn't included because tax rates and tax liabilities vary from business to business.</p> <p>Net margin can be expressed as a percentage value or as a dollar value (called net profit).</p>
Net profit margin before tax	<p>The pre-tax profit margin reflects the level of profit a company generates before it pays its taxes. It is calculated from the information given on a company's income statement.</p> <p>For example, if your profit before tax is \$50,000 and the total sales is \$500,000, then your net profit before tax is <math>50,000/500,000 = 10\%</math>.</p>
NEW	<p>New Eligibility Review</p> <p>A type of Eligibility Assessment recorded in BEAT to consider:</p> <ul style="list-style-type: none"> <li>▪ Applications from a Builder to obtain Eligibility for the first time</li> <li>▪ Re-instatement of Eligibility for a Builder following Eligibility suspension (for example, failing to submit a PER on time) or Eligibility cancellation (for example, due to Builder licence expiry).</li> </ul>
New Builder	<p>A Builder size classification (see HBCF Eligibility Manual section 10.1 Builder size classification and 11.1 Eligibility Assessment for New Builders for further information) for Builders who fall within the following criteria:</p> <ul style="list-style-type: none"> <li>▪ Have not previously contracted direct with homeowners.</li> <li>▪ Have not previously operated their own building business in NSW or other states in Australia (including being a Director/Key Manager of a building company).</li> </ul>
NIBA	<p>National Insurance Brokers Association</p>
Non-APRA Regulated licence holder	<p>SI Corp and licensed providers not regulated by APRA.</p>
NSW	<p>New South Wales</p>
OJL	<p>Open Job Limits</p> <p>A collective term for OJV and OJN. Can be expressed as:</p> <ul style="list-style-type: none"> <li>▪ Approved OJL</li> <li>▪ Requested OJL</li> <li>▪ Used OJL</li> </ul>

Term	Definition
OJN	<p>Open Job Number</p> <p>Represent the total number of COIs a Builder is permitted to have incomplete at any point in time. Can be expressed as:</p> <ul style="list-style-type: none"> <li>Approved OJN: The total number of incomplete COIs a Builder is permitted to have incomplete at any point in time. This number is recorded on a Builder's COE.</li> <li>Requested OJN: The total number of incomplete COIs a Builder requests to be permitted to have incomplete at any point in time as part of an Eligibility Assessment. If successful, the requested OJN will become the Builder's approved OJN and be recorded on their COE.</li> <li>Used OJN: The total number of incomplete COIs a Builder has incomplete at a point in time.</li> </ul>
OJV	<p>Open Job Value</p> <p>Represent the total contract value of COIs a Builder is permitted to have incomplete at any point in time. Can be expressed as:</p> <ul style="list-style-type: none"> <li>Approved OJV: The maximum total contract value of COIs a Builder is permitted to have incomplete at any point in time. This total contract value is recorded on a Builder's COE.</li> <li>Requested OJV: The maximum total contract value of COIs a Builder requests to be permitted to have incomplete at any point in time as part of an Eligibility Assessment. If successful, the requested OJV will become the Builder's approved OJV and be recorded on their COE.</li> <li>Used OJV: The total contract value of COIs a Builder has incomplete at a point in time.</li> </ul>
Paper loss	<p>Paper Profit and Loss is temporary fluctuation in the values of investments.</p> <p>Also known as an unrealised loss, a loss on paper occurs when the value of an asset or security drops below its original price, but the investment is not yet sold. These profits or losses are tracked for accounting and tax purposes.</p>
Partnership Act	Partnership Act 1892 (NSW)
PCA	Principal Certifying Authority
PCR	prudential capital requirements
PER	<p>Programmed Eligibility Review</p> <p>A type of Eligibility Assessment required to be undertaken by all Builders (except System Reviewed Builders) to assess compliance with minimum ANTA, working capital and other matters to maintain Eligibility (see HBCF Eligibility Manual section 19.1 Programmed Eligibility Review—PER for further information). System Reviewed Builders may be required to undertake a PER if they wish to maintain Eligibility (see HBCF Eligibility Manual section 17.5 Expired Eligibility for further information).</p> <p>Most Builders only need to undertake a PER on their annual financial statements. However, some Builders may have a condition of Eligibility requiring them to undertake PERs more frequently (see HBCF Eligibility Manual section 19.1.1 Intensively monitored Builders for further information).</p> <p>Builders are encouraged to request any changes in OJL and Construction Type limits in their PER to avoid needing to undertake a BPC before their next PER is due for submission.</p>

Term	Definition
PIA	<p>Personal Insolvency Agreement</p> <p>A form of personal insolvency appointment made under Part X Bankruptcy Act.</p>
Profit	<p>The residual amount that remains after expenses (including capital maintenance adjustments, where appropriate) have been deducted from income. Any amount over and above that required to maintain the capital at the beginning of the period is profit.</p>
Quick Ratio	<p>The quick ratio or acid test ratio is like the current ratio except it excludes inventory (which can be slow moving). This is a much more conservative measure of liquidity. A ratio of 1:1 means you have no working capital left after paying bills. So generally, the higher the ratio, the better off your business will be. Lenders will use your quick ratio to help them determine your capacity to repay a loan.</p> <p>Quick ratio = (current assets – inventory)/current liabilities:</p> <p>For example, if cash and receivables are \$100,000, inventory is \$10,000, and liabilities are \$80,000, then the Quick Ratio is:</p> <ul style="list-style-type: none"> <li>▪ <math>(100,000 - 10,000) / 80,000</math></li> <li>▪ <math>= 90,000 / 80,000</math></li> <li>▪ <math>= 1.125</math></li> <li>▪ Ratio = 1:1.25</li> </ul>
Ratios	<p>The most common types of ratios are:</p> <ul style="list-style-type: none"> <li>▪ profitability ratios – to measure business performance</li> <li>▪ liquidity ratios – to work out how solvent your business is</li> <li>▪ financing ratios – to evaluate financing and investment</li> <li>▪ turnover (efficiency) – to analyse stock turnover and cash flow</li> </ul>
Regulation	Home Building Regulation 2014
Related entity	<p>For insolvency purposes in relation to a person, the Bankruptcy Act 1966 defines it as:</p> <ul style="list-style-type: none"> <li>a) a relative of the person</li> <li>b) a body corporate of which the person, or a relative of the person, is a director</li> <li>c) a body corporate that is related to the body corporate referred to in paragraph (b)</li> <li>d) a director, or a relative of a director, of a body corporate referred to in paragraph (b) or (c)</li> <li>e) a beneficiary under a trust of which the person, or a relative of the person, is a trustee</li> <li>f) a relative of such a beneficiary</li> <li>g) a relative of the spouse, or de facto partner, of such a beneficiary</li> <li>h) a trustee of a trust under which the person, or a relative of the person, is a beneficiary.</li> </ul>
Scheme Agents	Collective term in the HBCF Eligibility Manual for Claims Manager and Eligibility Risk Manager.
Secondary dwelling	A secondary dwelling is one that is on the same lot of land as the principal dwelling.



Term	Definition
SER	<p>Special Eligibility Review</p> <p>A type of Eligibility Assessment that the underwriter initiates to investigate one or more potential risk management issues (see HBCF Eligibility Manual section 19.2 Special Eligibility Review—SER for further information).</p>
service provider	<p>A person engaged by a licence holder, other than an employee or officer of the licence holder to investigate, assess, handle, or settle a claim (or to do more than one of those things) on behalf of the licence holder</p>
SICorp	<p>NSW Self Insurance Corporation</p> <p>Administers several Government managed funds schemes and issues certain insurances, including insurance under Part 6 of the Home Building Act 1989 and principal-arranged construction insurance. A reference to HBCF in this document includes a reference to SICorp.</p>
SIRA	<p>State Insurance Regulatory Authority</p> <p>SIRA regulates various statutory insurance schemes in NSW including the Workers Compensation Scheme and home building compensation for which HBCF is a provider of cover (see <a href="https://www.icare.nsw.gov.au/Builders-and-homeowners/disputes/fair-trading-and-sira">https://www.icare.nsw.gov.au/Builders-and-homeowners/disputes/fair-trading-and-sira</a> for further information).</p>
SIRA Guidelines	<p>SIRA Guidelines</p> <ul style="list-style-type: none"> <li>▪ Home Building Compensation (Claims Handling) Insurance Guidelines</li> <li>▪ Home Building Compensation (Eligibility) Insurance Guidelines</li> <li>▪ Home Building Compensation (Premium) Insurance Guidelines</li> <li>▪ Home Building Compensation (Prudential) Insurance Guidelines</li> </ul>
SPAL	<p>Statement of Personal Assets and Liabilities</p> <p>An account of a person's various assets and liabilities. This account is typically used to test:</p> <ul style="list-style-type: none"> <li>▪ The minimum ANTA requirements for a Builder operating as a sole trader or partnership.</li> <li>▪ Whether an individual has sufficient net assets to support a DOI or JSD.</li> </ul>
SPV	<p>Special Purpose Vehicle</p> <p>An entity (typically a company) which has been established for a specific purpose/task (for example, a development project). Once that purpose / task has been completed the entity is deregistered / liquidated.</p>
Stock (inventory) turnover ratio	<p>This ratio measures how efficient you are at turning over your stock. A low ratio suggests your stock is either naturally slow moving, or you need to increase sales, so stock spends less time in storage.</p> <ul style="list-style-type: none"> <li>▪ Stock or inventory turnover = cost of goods sold/0.5 x (opening inventory + closing inventory) : 1.0</li> </ul>



Term	Definition
System Reviewed Builder	<p>A Builder size classification based on the Builder's approved OJL and primary Builder segment (see HBCF Eligibility Manual section 10.1 Builder size classification and section 10.2 Determining a Builder's Primary icare HBCF Builder segment for further information).</p> <p>A System Reviewed Builder is not required to undertake a PER annually (at minimum) as a condition of ongoing Eligibility for home building compensation cover with HBCF. However, the Builder is still subject to:</p> <ul style="list-style-type: none"> <li>▪ SERs initiated by the underwriter (see HBCF Eligibility Manual section 19.2 Special Eligibility Review—SER for further information).</li> <li>▪ A PER in order to maintain their Eligibility if it is about to expire (see HBCF Eligibility Manual section 17.5 Expired Eligibility for further information).</li> </ul>
TFN	Tax File Number
Turnover Change from the highest of the past three years	<p>This percentage shows how much of an increase the requested turnover (TO) is over the highest turnover of the previous three years.</p> <p>For example, if your highest TO for the last three years is \$8,000,000 and the requested TO is \$10,000,000, then the TO change is <math>(10,000,000 - 8,000,000) / 8,000,000 = 2,000,000 / 8,000,000 = 0.25 = 25\%</math></p>
WIP	<p>Work in Progress</p> <p>An asset account assigning a valuation of the raw materials, labour and overhead costs incurred for various construction projects at a particular point in time (see HBCF Eligibility Manual section 12.4 Work in Progress—WIP—reports for further information).</p>

