



# HBCF Eligibility Manual

Version 12

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This document has been prepared by:

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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# Division 1: Document information

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This division explains the purpose of the Eligibility Manual and outlines the main changes since its last release.

## 1.1 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 (HBC) insurance protects homeowners and what can be the most important purchase of their life. We issue this version 12 as part of meeting our Eligibility model submission requirements to State Insurance Regulatory Authority (SIRA).

## 1.2 Scope of this manual

This Manual is a key reference source for icare Distributors, Builders, homeowners and other relevant advisors (such as accountants).

It contains guidelines for applying for and maintaining Eligibility under Part 6 of the Home Building Act 1989 (NSW) (the Act) through the HBCF.

## 1.3 Terminology

This Manual contains technical terms that are defined in the [Glossary](#).

## 1.4 Significant changes in this version

### 1.4.1 Extended ASR assessment type

We have extended the Automated Scorecard Review (ASR) to eligible Builders with an Open Job Value (OJV) of up to \$12 million. These Builders may now qualify as System Reviewed Builders to be assessed with ASR.

The ASR Assessment process uses an Eligibility score calculated by a commercial credit bureau. This indicates the level of risk a Builder represents. The ASR method provides an outcome within two business days and is simpler and more accurate for Builders, Distributors, beneficiaries, and icare HBCF. More than 90 per cent of HBCF Builders will qualify for an ASR assessment using the Eligibility Score.

For more details on ASR, please refer to [Division 5.1](#) Automated Scorecard Review—ASR.

Eligibility for System Reviewed Builders now has been extended to three Tiers (up from two).

**Tier 1:** OJV of \$1.5M to \$3M

**Tier 2:** OJV of \$3.5M to \$8M

**Tier 3:** OJV of \$8.5M to \$12M

For more information on System Reviewed Builders and how to transition to another Tier, refer to Division 5 System Reviewed Builders

## 1.4.2 Decommissioned Building Contract Review Program (BCRP)

The BCRP is a discretionary condition applied through the HBCF Eligibility Manual. It was introduced to support Builder onboarding by requiring independent reviews of building contracts for certain higher-risk or newly eligible Builders. The BCRP panel has been in place since 1 July 2013.

While not a legislated requirement, the BCRP was designed to enhance risk oversight and ensure quality in the early stages of residential construction. Over time, feedback from Builders, underwriters, and broader scheme analysis indicated that the program was delivering limited value and duplicating other regulatory processes. Following this, icare made the decision to decommission the program.

## 1.4.3 Eligibility considerations for discretionary trusts

The Manual requires that where a company holds a licence but operates its business through a discretionary trust, icare will assess Eligibility and provide insurances based on the financial information of the company holding the licence. Assets held in discretionary trusts are not included for ANTA.

We propose to include a provision that gives icare HBCF the sole discretion to allow certain businesses operating through discretionary trusts to maintain Eligibility, provided they can demonstrate a strong trading history, meet icare HBCF financial requirements, and establish a credible track record. For a more detailed description of changes, see [Version Control](#).

## 1.4.4 Increase in Builder Profile limits

Construction profile limits have been increased for System Reviewed Builders. For new Builders, the OJV has been increased from \$1M to \$1.5M. These changes respond to the rising cost of construction and aim to ensure that Builders can continue to grow sustainably and within an appropriate risk framework. For more information, see [Division 3.3](#) Tables 4A and 4B.

## Division 2: Overview of Eligibility

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This division provides introductory information on HBC insurance, including contractor licensing, the Eligibility assessment process and Construction Types.

### 2.1 Objectives of the icare HBCF Eligibility model

Our Eligibility model consists of a series of rules and processes to ensure a consistent, transparent and fair approach to assessing applications for insurance from Builders.

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 Act and comply with all applicable 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.

### 2.2 Contractor licensing

Builders and contractors entering into residential building contracts that require 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 same person or entity holding the licence i.e. the name of the Builder or contractor must be the same on all the following documents:

- Building contract
- Contractor licence
- icare HBCF Eligibility Certificate
- icare HBCF Insurance Certificate

If the Builder receives an Automatic Mutual Recognition (AMR) number from the Building Commission NSW, the Builder will only be eligible for the construction categories permissible under the Mutual Recognition Act 1992 (MRA) in conjunction with the state-based mutual recognition laws.

For more information, visit: <https://www.nsw.gov.au/business-and-economy/licences-and-credentials/automatic-mutual-recognition>

## 2.3 Sole traders, companies or partnerships and Trusts

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 (COE). 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.

Builders and contractors entering into residential building contracts requiring HBC insurance are assessed on the entity that holds the contractor licence. If a company holds a licence but runs their business through a discretionary trust, then icare will assess Eligibility and provide insurances based on the financial information of the company holding the licence.

Notwithstanding any other provision of this Manual, icare HBCF may, in its sole discretion, deem a Builder that operates through a discretionary trust to be eligible for cover if it satisfied that:

- the Builder demonstrates a strong trading history that meets icare HBCF's financial requirements; and
- the Builder establishes a credible track record of compliance with all relevant statutory and contractual obligations.

## 2.4 Company or partnership and supervisors

In the case of a company or partnership, icare HBCF requires an active nominated supervisor to be responsible for the work contracted by the company or partnership. This is generally the director of the company but can also be a member of the partnership or a genuine full-time employee.

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 laws, regulations, approvals, ordinances, codes are complied with
- that suitable materials are used.

icare HBCF determines/verifies the Builder licence records, Nominated Supervisor and licence conditions through Service NSW (link below). It is the Builder's responsibility to comply with Building licensing requirements in accordance with the Act.

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>

## 2.5 Builder's responsibility for insurance

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 Building Commission NSW or SIRA, which administers the Act.

## 2.6 Builder Eligibility overview

Holding active Eligibility status with icare HBCF allows Builders to apply for and purchase a Certificate of Insurance (COI) with us for individual building projects that require HBC insurance cover. A Builder's COE outlines the conditions that apply to any COI that we issue<sup>1</sup>. Conditions could include, but are not costed to:

- Open Job Limits (OJL) number and value
- Types of construction and maximum contract price.

[Division 6.19](#) Eligibility conditions describe a range of Eligibility conditions. We may apply any other special condition (based on individual circumstances) that are not covered in the Division above.

A Builder must hold active Eligibility before they can purchase a COI for a specific project that requires HBC insurance cover.

Division 6.19 Eligibility conditions describe a range of Eligibility conditions. We may apply any other special condition (based on individual circumstances) that are not covered in the Division above.

A Builder must hold active Eligibility before they can purchase a COI for a specific project that requires HBC insurance cover.

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<sup>1</sup> It is a condition of Eligibility that the Builder pay the premium, including any variations. Where icare HBCF receives the premium directly from the Builder, the policy/COI will be issued only after icare HBCF has received the premium.

## 2.7 Eligibility Assessments

When an Eligibility application is submitted to icare HBCF, a risk assessment is conducted by underwriters. Assessments are either automatic or manual, depending on whether the Builder meets the criteria for ASR, which include the following:

### For automatically assessed Builders:

- The Eligibility Score<sup>2</sup>

For more information, see [Division 5 System Reviewed Builders](#).

### For manually assessed Builders:

- Builder's financial performance and financial position, including profitability, working capital and the 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).

For more information, see [Division 6 Manually Reviewed Builders](#).

All Eligibility approvals provide Builders with a COE which includes:

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

Builders that have not been automatically assessed will have a COE that limits the number of individual jobs they can have 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. icare HBCF underwriters may revise, suspend, or cancel Eligibility at any time by following the principles and processes described in this Manual.

<sup>2</sup> When we complete an ASR assessment, we will provide a Builder Report with the Builder's Eligibility Score and factors contributing to it. Refer to [Division 5.1 ASR](#) for more information.

The Eligibility approval conditions are explained in detail throughout this Manual. Approval could be conditional on one or more of the following (or other conditions):

- offering security from the director(s), adult beneficiary trustee guarantee and/or related entities
- providing a Group Trading Agreement (GTA)
- maintaining capital levels or trade credit balances
- monitoring of job completion times and close out margin reporting
- increasing the frequency of financial or other reporting
- submitting a Job Specific Deed of Indemnity (JSD)
- having controlled reductions or increases in OJL.

icare HBCF can place other restrictions to protect the Fund and community as required (where these are proportionate and within the relevant regulations).

Underwriters review a Builder's Eligibility at regular periods. These could be scheduled or event-based risk assessments. When an underwriting assessment is completed, the underwriter will decide how often to hold future reviews. Review requirements are defined in this Manual ([Division 4](#) Types of Eligibility Assessments and information requirements). Depending on the risk a Builder presents, at our sole discretion, icare HBCF may change the next review due date, scope, or requirement for review. When changing a review date, we will provide at least 40 business days' notice of the due date of an upcoming Programmed Eligibility Review (PER).

**Note:** The paragraphs 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.

icare HBCF Eligibility Assessments focus on managing the risk around the total number and value of jobs that a Builder has in progress at the same time. This focus applies whether these jobs are covered by icare HBCF or another provider. It is possible that a Builder holds more than one HBC insurer:

- under the New South Wales HBC Insurance framework, or
- in any other state.

In these cases, the underwriter will include the number and value of jobs insured with the other provider 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 [Division 6.6](#) Assessment of Open Job Limits—OJL—and assumed turnover.

## 2.8 How to apply for insurance

An eligible Builder can apply for cover for an individual project in the following ways:

1. Lodge a submission with a copy of signed contract in the icare HBCF Portal.
2. Submit a project application form and attach the signed copy of contract through the Builder Self-Service Portal (BSSP) or to the Distributor.

Forms are available on the icare website: <https://www.icare.nsw.gov.au/>

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

Underwriters assess the applications for individual projects, which they may reject, accept or apply specific conditions if those projects do not satisfy underwriting criteria. Refer to [Division 9](#) Underwriting considerations for Certificates of Insurance for more information.

## 2.9 Builder Eligibility application and assessment procedure

The information below outlines the tools and procedures that contribute to icare HBCF's decision making when assessing a Builder Eligibility Application.

### 2.9.1 Purpose of Eligibility Assessment

The Eligibility Assessment allows Builders to purchase insurance and is largely an assessment of the strength and capability of the Builder's business.

HBC insurance cover indemnifies and protects the current homeowner, and anyone they sell their property to, if the contractor who purchases the insurance dies, disappears, or becomes insolvent.

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, we must fairly assess Builders against the risk of these events.

### 2.9.2 Eligibility decision-making framework

icare HBCF has a decision-making framework to achieve consistency and reduce administration and scheme costs for Builders and icare HBCF.

Sometimes, special consideration may apply to an individual applicant's unique circumstances. This consideration also applies to ASR assessments. Although the automated outcomes are suitable to support the business of most Builders, there are always exceptional cases.

To obtain Eligibility, a Builder must successfully complete an Eligibility Assessment. Depending on the Eligibility Profile the Builder is seeking, icare HBCF will decide the type of 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 ([Division 5.1](#) Automated 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 outlined in [Division 5.1](#) Automated Scorecard Review—ASR), icare HBCF will do a manual financial assessment on the Builder instead of applying the Eligibility Score.

icare HBCF sometimes identifies adverse considerations (or risks) that the Eligibility Score has not properly captured. In these cases, icare can, at its discretion, perform a manual financial assessment on the Builder instead of applying the Eligibility Score. This protects icare HBCF by identifying any risk factors that could become worse over time.

Builders must meet icare HBCF's financial and/or non-financial assessment criteria. If the Builder does not meet these standards, they must show the underwriter how they are reducing the risk. The underwriter will assess whether these actions are enough to mitigate the risk.

The underwriter assesses Eligibility criteria by:

- applying their professional judgement
- referring to this Manual as well as instructions, guidelines or written directions that icare HBCF may give.

The figures below present options for types of Builder Eligibility assessment depending on their classification:

Figure 1: Eligibility assessment options for HBCF Builders

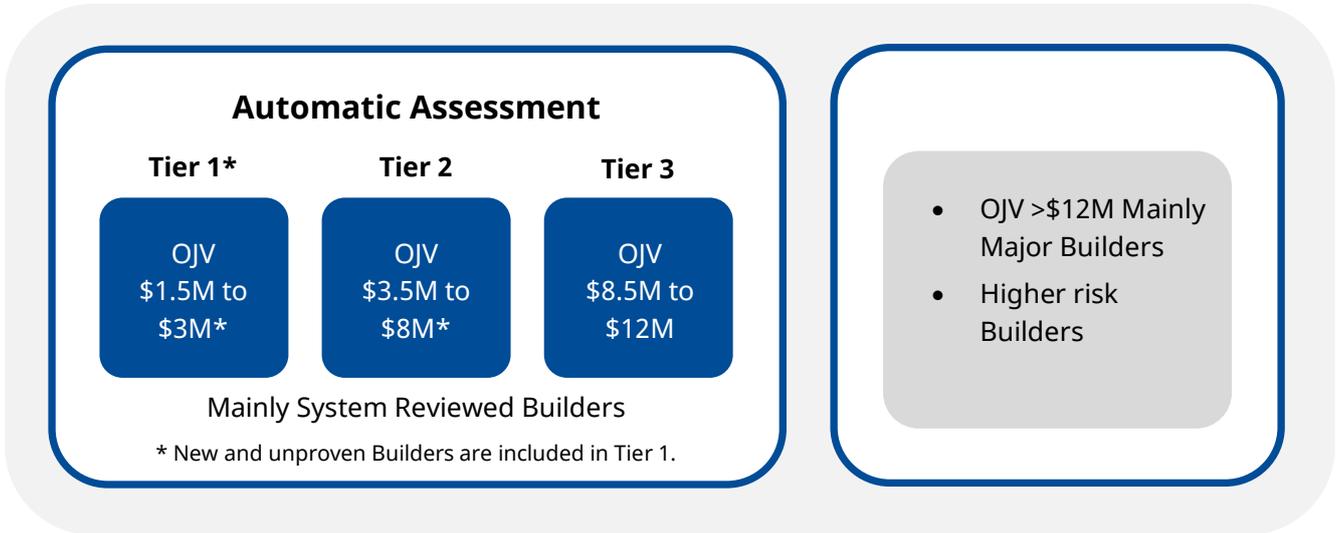
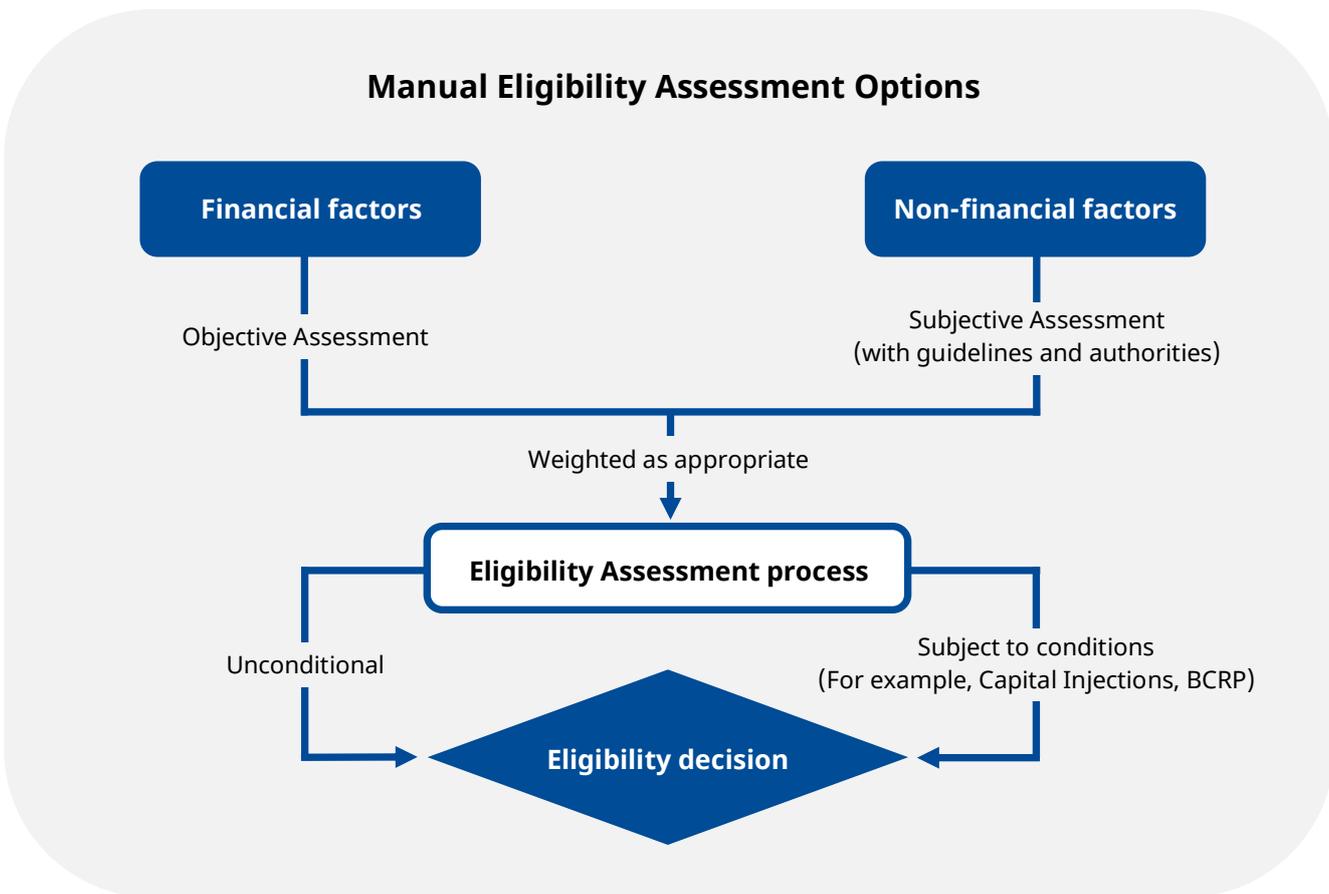


Figure 2: Manual Eligibility assessment options for HBCF Builders



## 2.9.3 Complaints and disputes

If a Builder, Contractor or Distributor has a complaint or dispute about an Eligibility decision, they can refer to the HBCF Complaint and Dispute Guide for Builders. This guide is available for download on the icare HBCF website under *Builders & Homeowners*: <https://www.icare.nsw.gov.au>

The guide does not allow for requests to change the guidelines in this Manual.

Our website also has information on how to lodge a complaint or dispute:

<https://www.icare.nsw.gov.au/Builders-and-homeowners/disputes/lodge-a-dispute>

## 2.10 Transacting through the HBCF Portal

When transacting through the HBCF Portal, Builders may choose to engage a service provider for support. Any such agreement must be expressly agreed upon between the Builder and their chosen service provider, and will not be managed by icare HBCF.

Some Builders may wish to continue working with entities from the current Distributor Panel for support with icare HBCF matters via the HBCF Portal. However, it is important to note that existing distribution arrangements do not extend to services provided through the HBCF Portal. If a Builder chooses to engage a former Distributor for assistance with the HBCF Portal, they must enter into a direct agreement with that service provider.

Any service provider supporting a Builder on the HBCF Portal is not acting in the capacity of a Distributor. Builders are free to select their own service providers and will not be directed or restricted by icare HBCF.

## 2.11 Underwriting review

The information below outlines the functions of the underwriters in the Assessment process.

Through icare HBCF core systems, underwriters perform the following:

- Analyse a Builder's financial reports and calculate accounting ratios (e.g. turnover, net profit, net tangible assets and other industry specific indicators).
- Store COEs, conditions of Eligibility and applicable risk-based pricing factors.
- Review financial reports and risk warnings for Eligibility decisions affecting Builders.
- Conduct the day-to-day management of Eligibility Assessments.
- Generate a report setting out the results of the analysis and conditions of Eligibility including applicable risk-based pricing factors.
- Store financial reports and supporting documents submitted for an Eligibility Assessment.
- Review current Work in Progress (WIP) report.
- Generate deeds for Builders to complete (such as a Deed of Indemnity).

## 2.12 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. These icare HBCF appointed advisors may also assess related entities when required and appropriate. These external advisors may include forensic accountants, legal advisors, experts in building, construction and engineering. They may:

- assist with applications or reviews
- assist with disputes or appeals as industry representatives.

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, where appropriate, the Builder's Distributor.

The external advisor must declare any conflicts of interest (for example, if the Builder is already known to them).

## 2.13 Risk mitigating conditions

Underwriters must consider a Builder's Eligibility conditions when making decisions.

Where conditions have been applied to a Builder's Eligibility to address identified weaknesses, these weaknesses must be re-evaluated in each subsequent Eligibility Assessment. The underwriter must also assess the Builder's compliance with the previously applied conditions. Each Eligibility Assessment constitutes a new and separate Eligibility decision, and earlier decisions do not remain valid without re-assessment.

The objective of Eligibility conditions is to reduce risks over time through changed Builder behaviour.

## 2.14 Construction Types

*Table 1: Construction Types* sets out the way icare HBCF identifies different Construction Types for:

- premium setting
- policy application requirements
- Construction Profile approval.

In Table 1 below, the references to a "Class 1a", "Class 2" or "Class 10" or "mixed-use building or structure" have the same meanings as they do for the purposes of the National Construction Code (NCC) published by or on behalf of the Australian Building Codes Board. Further guidance on the definitions of Building Class can be obtained from NCC or SIRA Guidelines.

Table 1: 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	<p>New Residential Apartment Building Construction</p> <p>Includes previously used category C03</p>	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.	<p>Low rise residential apartment buildings and associated structures (for example, a swimming pool, garage, shed)</p> <p>Low rise buildings containing a mix of commercial space and dwellings and associated structures (for example, a swimming pool, garage, shed).</p>
H04	<p>Building Work to an Existing Dwelling</p> <p>Includes previously used categories C04 and C06</p>	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.	<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>
H05	<p>Swimming Pools</p> <p>Includes previously used category C05</p>	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.

## Division 3: Builder Size Classification

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This division outlines Builder Size Classifications, icare HBCF Builder segments, and standard construction profile limits.

### 3.1 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 OJV as:

- New Builders
- System Reviewed Builders (divided by size into Tier 1, Tier 2 and Tier 3)
- Major Builders.

The current Builder Size Classifications are set out in the table below:

*Table 2: Builder Size Classification*

Primary icare HBCF Builder segment	OJV Approved	Builder Size
New dwelling construction	\$1.5M to \$3M	System reviewed Builder (Tier 1)
Building work to a residential apartment building	\$1.5M to \$3M	System Reviewed Builder (Tier 1)
New residential apartment building construction	N/A	System Reviewed Builder (Tier 1)
Building work to an existing dwelling <sup>3</sup>	\$1.5M to \$3M	System Reviewed Builder (Tier 1)
Swimming pools	\$1.5M to \$3M	System Reviewed Builder (Tier 1)
New dwelling construction	\$3.5M to \$8M	System Reviewed Builder (Tier 2)
Building work to a residential apartment building	\$3.5M to \$8M	System Reviewed Builder (Tier 2)
New residential apartment building construction	\$3.5M to \$8M	System Reviewed Builder (Tier 2)
Building work to an existing dwelling	\$3.5M to \$8M	System Reviewed Builder (Tier 2)
Swimming pools	\$3.5M to \$8M	System Reviewed Builder (Tier 2)
New dwelling construction	\$8.5 M to \$12M	System Reviewed Builder (Tier 3)
Building work to a residential apartment building	\$8.5 M to \$12M	System Reviewed Builder (Tier 3)
New residential apartment building construction	\$8.5 M to \$12M	System Reviewed Builder (Tier 3)
Building work to an existing dwelling <sup>1</sup>	\$8.5 M to \$12M	System reviewed Builder (Tier 3)
Swimming pools	\$8.5 M to \$12M	System reviewed Builder (Tier 3)
New dwelling construction	>\$12M	Major Builder
Building work to a residential apartment building	>\$12M	Major Builder
New residential apartment building construction	>\$12M	Major Builder
Building work to an existing dwelling <sup>1</sup>	>\$12M	Major Builder
Swimming pools	>\$12M	Major Builder

icare HBCF gives all manually assessed Builders (usually Major Builders) a single combined OJL that recognises the variety of projects they expect to commence.

<sup>3</sup> Building work refers to additions, alterations, decorative or protective treatment, extensions, maintenance, renovations, rectification, repairs etc.

## 3.2 Primary icare HBCF Builder segment

Underwriters determine a Builder's primary icare HBCF Builder segment by referring 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 and cross-referencing with Table 3: below.

Underwriters consult this table based on the main Construction Type purchased (where historical purchasing of Certificates of Insurance is available).

*Table 3: Referencing construction codes to primary icare HBCF Builder Segment*

Construction Code	Construction Type (Reference: Table 1: Construction Types)	Primary icare HBCF Builder segment (Reference: Table 2: Builder Size Classification)
H01	New Dwelling Construction Includes previously used category C01 and C09 and some forms of C03	New Homes
H02	Building Work to an Existing Residential Apartment Building Includes previously used categories C02 and C08	Building work, Structural and Non-structural – Multi-units
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
H05	Swimming Pools Includes previously used category C05	Swimming Pools

### 3.3 Standard construction values by Builder and Construction Type

Tables 4A and 4B show standard construction value by Builder size and Construction Type. The underwriter must test for demonstrated experience if applications for construction profile have limits that exceed these values.

*Table 4A: Standard construction values by Builder and Construction Type*

Construction Code	Construction Type	New or unproven Builder	System Reviewed Builder	System Reviewed Builder	System Reviewed Builder	System Reviewed Builder	System Reviewed Builder	System Reviewed Builder	System Reviewed Builder
		Tier 1 (\$1.5M OJV)	Tier 1 (\$1.5M OJV)	Tier 1 (\$2.25M OJV)	Tier 1 (\$3M OJV)	Tier 2 (\$3.5M OJV)	Tier 2 (\$4M OJV)	Tier 2 (\$6M OJV)	Tier 2 (\$8M OJV)
H01	New Dwelling Construction Includes previously used category C01 and C09 and some forms of C03	\$750K	\$750K	\$750K	\$850K	\$850K	\$1M	\$1M	\$1.75M
H02	Building Work to an Existing Residential Apartment Building Includes previously used categories C02 and C08	No	\$150K	\$200K	\$350K	\$350K	\$1M	\$1.25M	\$1.5M
H03	New Residential Apartment Building Construction Includes previously used category C03	No	No	No	No	No	\$1.25M	\$1.75M	\$2M
H04	Building Work to an Existing Dwelling Includes previously used categories C04 and C06	\$750K	\$750K	\$750K	\$850K	\$850K	\$1M	\$1M	\$1.75M
H05	Swimming Pools Includes previously used category C05	\$75K (for pool specialist only)	\$75K (for pool specialist only)	\$100K (for pool specialist only)	\$100K (for pool specialist only)	\$100K	\$150K	\$250K	\$300K

Table 4B: Standard construction values by Builder and Construction Type

Construction Code	Construction Types	System Reviewed Builder Tier 3 (\$8.5M OJV)	System Reviewed Builder Tier 3 (\$9M OJV)	System Reviewed Builder Tier 3 (\$10.5M OJV)	System Reviewed Builder Tier 3 (\$12M OJV)	Major Builder
H01	New Dwelling Construction Includes previously used category C01 and C09 and some forms of C03	\$1.75M	\$2M	\$2.5M	\$3M	\$4M
H02	Building Work to an Existing Residential Apartment Building Includes previously used categories C02 and C08	\$1.5M	\$1.75	\$2M	\$2M	\$2.5M
H03	New Residential Apartment Building Construction Includes previously used category C03	\$2M	\$2M	\$2.5M	\$3M	\$4M
H04	Building Work to an Existing Dwelling Includes previously used categories C04 and C06	\$1.75M	\$2M	\$2.5M	\$3M	\$4M
H05	Swimming Pools Includes previously used category C05	\$300K	\$350K	\$350K	\$350K	\$450K

The below points outline considerations for granting Construction Profiles and for checking for the necessary experience that a Builder must demonstrate when requesting a higher than standard construction profile.

1. Builders will be granted a Construction Profile consistent with their history, skills, licence conditions<sup>4</sup> and experience and do not have to be granted Eligibility for all Construction Types.
2. Builders seeking higher than the standard construction profile limit must support their application with evidence of appropriate construction history and experience. This can be demonstrated through references from a structural engineer, architect or similar.

References must detail:

- address of the work
- construction value
- date completed
- scope of work
- licensed Builder's role
- principals and key management personnel involved.

The underwriter must be satisfied that the references support the Builder's competence within the proposed work/limit.

3. 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.
4. The construction values in Tables 4A and 4B *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.

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<sup>4</sup> Refer to: <https://www.fairtrading.nsw.gov.au/> for more information.

## Division 4: Types of Eligibility Assessments & information requirements

This division is relevant for all Builders (New, System Reviewed and Major non-project or Major Project Home Builders). It describes a range of Eligibility Assessment types and outlines the information required when seeking Eligibility.

### 4.1 Types of Eligibility Assessments

The objectives of the Eligibility model are to:

- identify risks outside icare HBCF's appetite
- inform Builder 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 establish policy and guidelines.

icare HBCF classifies underwriting work into different types of Eligibility Assessments.

#### New Eligibility Review for New Builders

A NEW application is from New Applicant seeking Eligibility for the first time or for those transitioning from being a sole trader to a company. This type of review is usually done with an ASR Assessment ([Division 4.2](#) New Eligibility Review—NEW). However, 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 icare HBCF suspended or cancelled the Eligibility.

#### Automated Scorecard Review (ASR)

ASR is a type of Eligibility Assessment for Builders that uses data held by commercial bureau reporting agencies ([Division 4.3](#) Automated Scorecard review—ASR. icare HBCF engages these agencies who use an algorithm to assess the data and determine an Eligibility score and appropriate Eligibility Profile. Therefore, ASR assessments do not require the collection and underwriting of detailed financial information from each

Builder (for example, tax returns and externally prepared financial statements).

**Programmed  
Eligibility Review**

A PER is undertaken by all Builders (except for System Reviewed Builders) to assess compliance on financial matters to maintain Eligibility ([Division 4.4](#) Programmed Eligibility Review—PER). 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 a PER more frequently (See [Division 4.4.2](#) Intensively monitored Builders for further information).

**Special Eligibility  
Review (SER)**

The underwriter initiates an SER to investigate one or more potential risk management issues (See [Division 4.5](#) Special Eligibility Review— SER for further information).

**Builder Profile Change  
(BPC)**

A BPC is a request by a Builder to change their Eligibility Profile or maximum contract value for a Construction Type. An underwriter may require a Builder to undertake a BPC assessment before a project application is approved ([Division 4.6](#) Builder Profile Change—BPC).

The applicable Eligibility Assessment type depends on Builder size.

Table 5: Types of Eligibility Assessments and applicability based on Builder Size

Builder Size	NEW Builder initiated	ASR Builder or icare HBCF initiated	PER icare HBCF initiated	SER icare HBCF initiated	BPC Builder initiated
System Reviewed Builder	Y	Y	N1	Y	Y
Major Builder	Y	N	Y (Annual/IMB6/ IMB3)	Y	Y

#### <sup>1</sup> 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 \$3M
- there is an approaching expiration date of the current COE where the Eligibility criteria for ASR are not met
- a Builder is subject to a GTA ([Division 6.26](#) Group entities and Group Trading Agreements—GTA)
- a Builder is associated with another Builder with Eligibility
- the underwriter wants to intensively monitor the Builder to monitor identified risk issues
- the Builder's Eligibility Score drops below the required threshold ([Table 9](#): 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.

## 4.2 New Eligibility Review—NEW

This information below describes New Eligibility Reviews and should be considered together with [Division 4.7 Eligibility Assessment](#) information requirements:

The application for New Builder Eligibility is for Builders who:

- 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.

**Note:** For New Builders, we aim 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.

**Note:** New Builders are allowed maximum OJV of \$1.5M.

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.

icare HBCF can allow rare exceptions to these conditions where a new Builder has industry experience in the relevant construction category and has appropriate financial arrangements and capital position.

### 4.2.1 NEW Assessment (including following suspension or cancellation)

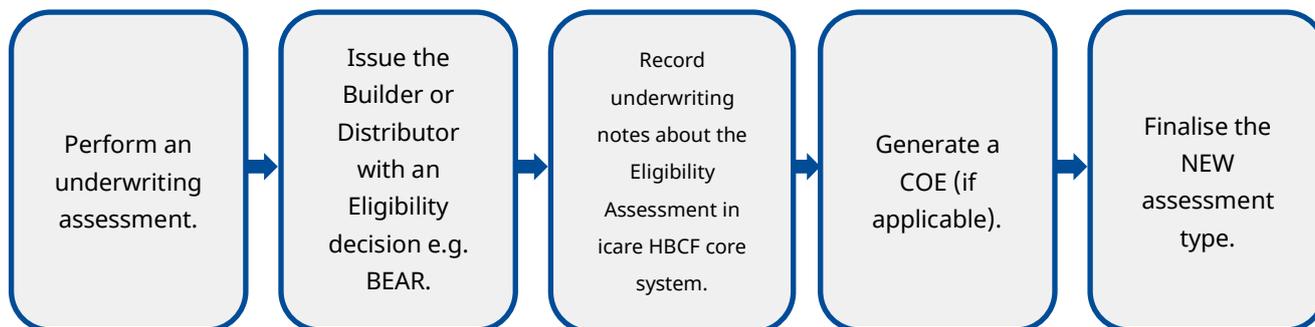
A NEW assessment evaluates applications from Builders who do not currently hold active Eligibility either because they are applying for the first time or their previous Eligibility was suspended or cancelled. Builder applying for the first time may qualify for ASR; where ASR applies, no financial or other supporting information is required. If a Builder does not qualify for ASR, the Builder (or their Distributor) must submit financial and any other necessary information to the underwriter.

### 4.2.2 NEW Assessment process

The information below explains how the underwriter issues and processes a NEW Eligibility decision.

The underwriter must perform an assessment and issue the Builder or, where relevant, their Distributor with an Eligibility decision, for example, a Builder Eligibility Assessment Report (BEAR). The next step is to record appropriate underwriting notes about the Eligibility Assessment before generating a COE and finalising the NEW assessment type. Underwriting notes will be accessible for Builders and, where relevant Distributors.

Figure 3: Issue a NEW Eligibility Decision



**Note:** icare HBCF can copy relevant documents from a recently finalised Eligibility Assessment if those documents are relevant for the current one (for example, receiving a NEW application from a Builder who was recently suspended due to one or more conditions of Eligibility not being met within allowed timeframes. See [Division 8.6](#) Communicating and enacting an Eligibility Profile.

## 4.3 Automated Scorecard Review—ASR

Those who qualify as System Reviewed Builders undergo an automated Eligibility Assessment. An ASR uses data held by commercial bureau reporting agencies. icare HBCF engages these agencies who use an algorithm to assess the data and determine an Eligibility score used to determine a suitable Eligibility

The underwriter will restrict the OJL for Builders in this segment of Eligibility to the maximum OJV as set out in [Table 2: Builder Size Classification](#). The COE issued defines the period of Eligibility and the OJL.

icare HBCF reserves the right to add a System Reviewed Builder to the PER and intensive monitoring review schedule. Refer to [Division 4.4](#) Programmed Eligibility Review—PER.

ASR is the most common type of Eligibility Assessment and has its own division in this Manual ([Division 5](#) System Reviewed Builders). It contains more comprehensive information, including how the Eligibility Score is calculated, Builder Tier classification and how to transition to a different Tier.

## 4.4 Programmed Eligibility Review—PER

This information below explains the Programmed Eligibility Review and the information should be considered together with [Division 4.7](#) Eligibility Assessment information requirements.

A PER is an annual financial assessment HBCF conducts for Major Builders. 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 a PER more frequently. Refer to [Division 4.4.2](#) Intensively monitored Builders for further information.

System Reviewed Builders do not usually have a PER. Builders qualifying for system review are set out in [Division 3](#) Builder Size Classification. However, icare HBCF reserves the right to add a System Reviewed Builder to the PER and intensive monitoring review schedule.

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

All Builders subject to a PER 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
- any other application factors icare determines.

Builders should include the desired changes to approved OJV, approved OJN and maximum Construction Type limits in the PER assessment. This will minimise the need to undertake a BPC ([Division 4.6](#) Builder Profile Change—BPC) before the next PER is due for submission.

## 4.4.1 The PER process

To conduct a PER, a Builder or, where relevant, their Distributor will provide the underwriter with the information required to complete the assessment ([Division 4.7](#) Eligibility Assessment information requirements). The underwriter may also request additional information either before, or during the assessment ([Division 6.20](#) Eligibility decisions).

The underwriter will complete the PER, attaching all documents and including all underwriting notes. Eligibility will not be granted without an Eligibility Assessment being finalised. This will have a valid Builder licence recorded and set out the Eligibility Profile.

The underwriter will consider the results of the review in the context of the Builder's existing Eligibility and associated conditions, as well as the desired changes the Builder requested in their application form. They will then determine whether they should maintain or restrict the Builder's Eligibility Profile and terms ([Division 8.6](#) 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

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

- revised Eligibility conditions, including but not limited to:
  - security or additional security
  - additional capital
  - release or amended security.
- increased frequency of Eligibility Assessments ([Division 4.4.2](#) 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 ([Division 8.8](#) Escalation and disputes).

Builders and/or their Distributors (where relevant) receive notice when a PER is required or when it is overdue. For details, refer to [Division 11.4](#) Notice period service standards.

The underwriter must implement a risk management strategy if the Builder does not provide a submission or satisfactory explanation within 30 business days of the annual review date.

Options for consideration could be:

- completing the PER based on information that is readily available

**Note:** The underwriter will exercise discretion in requesting information previously provided by the Builder.

- reducing the approved OJL to used levels, restricting growth
- increasing the frequency of Eligibility Assessments ([Division 4.4.2](#) Intensively monitored Builders)
- recommending a risk loading on the premium
- suspending or cancelling Eligibility ([Division 8.2](#) Suspended Eligibility and [Division 8.3](#) Cancelled Eligibility).

A PER is scheduled annually but subject to other reviews superseding them, which could include:

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

## 4.4.2 Intensively monitored Builders

If there are material changes to the Builder's Financial and Operational Circumstances (that are not considered as a serious impact on the ability of the Builder in respect to current open COIs), icare HBCF may choose to increase the frequency of a Builder's Eligibility Assessments. This includes (but is not limited to) the following:

- 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)

- reduced turnover
- trade credit deterioration – terms reduced/removed
- mercantile alerts obtained from third party credit reporting agency
- complaints from homeowners
- 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 that are triggering more frequent assessments continue, or new issues arise.

An annual PER can be reinstated once the Builder's Eligibility is no longer considered high risk, and the underwriter removes the intensive monitoring condition of Eligibility.

icare HBCF Underwriting will implement a management strategy if the Builder does not 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 readily available.

**Note:** The underwriter will exercise discretion in requesting information from the Builder.

- reducing the approved OJL to used levels restricting growth ([Division 8.6](#) Communicating and enacting an Eligibility Profile)
- increasing the frequency of reviews
- recommending a risk loading on the premium
- suspending or cancelling Eligibility ([Division 8.2](#) Suspended Eligibility and [Division 8.3](#) Cancelled Eligibility).

## 4.5 Special Eligibility Review—SER

An SER is applicable for all Builder sizes and is triggered when a major risk management issue is identified. Major risk management issues are listed as follows:

- a noticeable change in trends (compared to the previous 12 months), including:
  - 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 being outside the Builder’s estimated completion timeframes
- adverse market information received, such as (but not limited to):
  - not attending the site when required
  - not communicating with consumers and homeowners
  - non-payment of sub-contractors or suppliers
  - not contactable on telephone numbers provided.
- adverse information received through commercial credit bureau reports (for example, payment defaults, writs or summons etc.)
- changes (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.
- 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 Building Commission NSW (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)
- dishonoured or significantly overdue premium payment transactions (other than unintentional isolated incidents)
- 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
- Australian Securities and Investments Commission (ASIC) notices and strike-off action<sup>5</sup>
- risk alert or referral of matter from Building Commission NSW and SIRA to icare HBCF
- provision of false or misleading information in connection with Eligibility or Certificates of Insurance.

<sup>5</sup> For detailed definitions of these terms, please refer to the ASIC website:  
<https://connectonline.asic.gov.au/HLP/references/glossary-of-terms/index.htm>

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

## 4.5.1 The SER process

During the SER, which should be undertaken within 30 business days of receiving the adverse information, the issuing of COIs should be put on hold if issuing the certificate would cause immediate harm to icare.

The underwriter must provide the Builder with at least 10 business days' written notice of any decision to discontinue issuing certificates along with the reasons for the decision. This notice must include the opportunity for the Builder or a Distributor to escalate the decision for review in line with the guidance provided in the Complaint and Dispute Guide for Builders.

Immediate discontinuation of issuing Certificates applies under certain circumstances [Division 8.6](#) Communicating and enacting an Eligibility Profile).

To conduct an SER, the underwriter will ask the Builder or, where relevant, their Distributor to provide current information to complete the review. Generally, the information required will be the same as for a PER except that internal interim financial reports completed by qualified accounting 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
  - security
  - additional capital.
- suspension of Eligibility (pending resolution of any outstanding issues)
- cancellation of Eligibility.

At the end of the review, where it is 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 of the option to escalate, whether directly or through a Distributor, the decision for review to icare HBCF Underwriting in line with the guidance provided in the Complaint and Dispute Guide for Builders.

Immediate implementation of suspension or cancellation applies under certain circumstances ([Division 8.6](#) Communicating and enacting an Eligibility Profile).

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

## 4.6 Builder Profile Change—BPC

A BPC is a request by a Builder to change their Eligibility Profile. A Builder may have to undertake a BPC assessment before receiving approval for their project application. This may occur if the application is referred to an underwriter for assessment before a COI can be issued. For example, an underwriter may receive a referral to assess the application if automated approval could result 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. These can include changes to:

- working capital requirements
- building cycles
- available resources
- management.

The underwriter should examine all factors that could affect future viability. The underwriter will also assess overall financing requirements for the OJV, OJN, Construction Type and maximum contract value sought unless the BPC seeks an increase in one or more Construction Type limits ([Division 4.8.6 Construction Type limit increase](#)).

icare HBCF may request a Builder to submit a BPC in the following circumstances:

- A Builder with an approved OJV of under \$3M has a total value of open jobs of greater than 60 per cent of their approved OJV.
- A Builder with an approved OJV of greater than \$3M has a total value of open jobs of greater than 80 per cent of their approved OJV.
- At the underwriter's discretion, there is both reasonable grounds for an additional review and no more urgent assessments that would be deferred by the BPC.

### 4.6.1 The BPC process

The Distributor will initiate a BPC by submitting the next review earlier than scheduled. The Builder can initiate the BPC directly through the HBCF Portal. The Builder or their Distributor will include changes to the proposed OJL or construction limits and attach the required supporting reports and documents. Where a Builder has been reviewed for a BPC within the previous 12 months, an underwriter may, at their discretion, finalise the BPC as 'Not Proceeding' and not review the submission further.

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 reduce 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 because of material changes presented and assessed for example, a BPC requesting an increase in OJV, would result in a higher assumed turnover, therefore, a change in minimum ANTA requirement.

The outcomes from these 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
  - provision of security or additional security
  - injection of additional capital.
- suspension of Eligibility (pending resolution of an outstanding issue)
- cancellation of Eligibility.

## 4.6.2 Mitigating Builder exposure risk

Where a Builder review indicates the need to reduce the exposure a Builder represents, the underwriter may use techniques such as:

- reducing the existing OJL
- declining the increase in OJL
- requiring the Builder to provide 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 which strategies to use in consultation with the Builder and/or their Distributor.

## 4.7 Eligibility Assessment information requirements

Below is an outline of the information Builders and/or Distributors need to provide for different types of Eligibility Assessments.

After receiving an icare HBCF Eligibility decision, the Builder or their Distributor can request a meeting with the underwriter to discuss the outcome of the Eligibility Assessment.

The following guidelines cover situations that can occur when seeking further information during or after an Eligibility Assessment (or PER).

- icare HBCF reserves the right to contact the Builder to resolve any identified concerns once an assessment has started. When possible, icare HBCF will explain to the Distributor why the direct contact is needed.
- Financial accounts provided for a PER for a financial year end review must be externally prepared and signed by the Builder. Internally prepared management accounts are sufficient for other Eligibility Assessments (subject to [Division 6.18](#) Financial Statements inconsistency).

We will assess most New and System Reviewed Builders using Automated Scorecard Review, which only requires an Eligibility Application form. However, in some cases we may manually assess some System Reviewed Builders. In such cases, refer to the assessment information requirements outlined in the table below.

*Table 6: Eligibility Assessment information requirements*

Information required	System Reviewed Builders <sup>1</sup>	Major Non-Project Home Builders <sup>2</sup>	Major Project Home Builders <sup>2</sup>
Details of home building compensation Eligibility held <sup>3</sup>	If applicable	If applicable	If applicable
Details of corporate structure including details of related parties and ownership structure <sup>4</sup>	If applicable	If applicable	If applicable
Trust deed for applicants operating as a trustee (if not previously provided)	If applicable	If applicable	If applicable
A project pipeline forecast for the next 12 months	Y (if seeking an increase in OJV)	Y (can be incorporated into Business Plan)	Y (can be incorporated into Business Plan)
Business Plan <sup>5</sup>	N	Y	Y
Details of any franchise arrangements, brand licensing or group buying schemes and any external marketing operations <sup>6</sup>	If applicable	If applicable	If applicable
Current Statement of Personal Assets and Liabilities (SPAL) <sup>7</sup>	Y (sole trader/ partnership) If applicable (company)	Y (sole trader/ partnership) If applicable (company)	Y (sole trader/ partnership) If applicable (company)

Information required	System Reviewed Builders <sup>1</sup>	Major Non-Project Home Builders <sup>2</sup>	Major Project Home Builders <sup>2</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 (<a href="#">Division 7.2 Unacceptable risk scenarios</a>) 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 (if not in Builder Eligibility and Profile Change Application	Y (if not in Builder Eligibility and Profile Change Application	Y (if not in Builder Eligibility and Profile Change Application
Tax returns or externally prepared, signed and dated financial accounts (as applicable for building entity type) <sup>8,9</sup>	Y	Y	Y
Bank statements (if financial statements not audited)	Y	Y	Y
Aged debtors listing corresponding to the balance date of the latest financial statements under review	Y	Y	Y
WIP summary <sup>10</sup>	If applicable	N	N

Information required	System Reviewed Builders <sup>1</sup>	Major Non-Project Home Builders <sup>2</sup>	Major Project Home Builders <sup>2</sup>
WIP schedule <sup>11</sup>	N	Y	Y
Contract WIP valuation statement <sup>12</sup>	N	N	Y
Standard residential progress payment schedule in building contracts	N	If applicable	If applicable
Land holding and display home information <sup>13</sup>	N	If applicable	Y
Aged creditors listing corresponding to the balance date of the latest financial statements under review	Y	Y	Y
Australian Taxation Office (ATO) client account statements for both GST and Income Tax <sup>14</sup>	Y	Y	Y
A detailed breakdown of related party loan balances and related transactions <sup>15</sup>	If applicable	If applicable	If applicable
External funding facilities <sup>16</sup>	Y	Y	Y

**Note:** System Reviewed Builders (including New Builders) eligible for ASR only need to complete the Builder Eligibility and Profile change application form.

Notes for *Table 6: Eligibility Assessment information requirements*:

1. [Division 5](#) System Reviewed Builders—If we cannot automatically assess the Builder (by conducting an ASR Assessment), we will do a manual assessment. When a System Reviewed Builder is subject to a manual review, additional information requirements apply.
2. [Division 6.1](#) Eligibility Assessments for Major Builders
3. Details provided must include:
  - a. HBC Eligibility held with other HBC insurers for residential building work undertaken in NSW
  - b. residential building work being undertaken outside of NSW.
4. The underwriter may request a corporate tree showing all related parties and ownership structures (directors and shareholders).

5. 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. market segments and geographical regions targeted
  - d. current gross margin targets on new sales
  - e. staff organisational chart
  - f. CVs for all key managers
  - g. 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).
6. [Division 6.5](#) Franchise, marketing or buying group participation
7. 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 [Division 6.12.2](#) Additional asset or liability evidence.
8. There should be trading evidence for the past three years. If there is less than three years' trading history, then the underwriter uses what is available.
  - Tax Assessment notices are not acceptable if providing tax returns. When Builders or Distributors submit tax returns to the underwriter, they must mask or hide the Tax File Number so that it is unreadable.
9. icare HBCF produces more up to date assessment results when the annual financial reports are most recent. Results may not be most up to date when the 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. At the time of the receipt of a submission, if the assessment is reliant on financial accounts older than 12 months, the Builder or the Distributor must submit interim management accounts no more than six months old as well as the annual accounts. Financial annual reports must be signed and dated.
  - 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, the assessment considers a group in the broadest context where control is common to the building entity.
  - The publicly available ASIC and Australian Securities Exchange (ASX) reports are used for publicly listed entities or groups.

10. The WIP summary must contain all projects under construction including interstate projects and NSW projects that don't need HBC cover.
11. The WIP 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.
12. The external accountants or auditors must provide a WIP valuation statement in which:
  - a. the AASB15 accounting standard has been applied to the WIP and unearned turnover values in the balance sheet
  - b. land and buildings for resale or speculative construction WIP is based on the directors' best estimate of realisable value or at cost, whichever is the lesser amount
  - c. all amounts shown as WIP are current assets.
13. 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).
14. ATO tax portal statement for the last 12 months and details of any repayment plans
15. 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.
16. 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 that were taken.

## 4.8 Eligibility Assessment: non-financial requirements

The information below outlines the non-financial aspects of the business we may consider when conducting an Eligibility assessment.

(In some circumstances, such as a manual review, you may need also to refer to [Division 6.11](#) Eligibility Assessment: financial measures).

### 4.8.1 Previous business history and capacity

Business history is viewed as a reasonable indicator of future potential, and it must be thoroughly considered in terms of risk.

Builders are prohibited from engaging in phoenix corporate activities (that is transferring assets to a new entity to avoid debts and liabilities, thereby leaving the original company insolvent and unable to pay its creditors). However, a Builder that has previously suffered insolvency may regain its standing if it can demonstrate improved financial stability and sound operational practices.

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 avoiding 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 these persons prosecuted for any offences in connection with the insolvency or found personally liable for the debts of the failed enterprise?

If the underwriter is considering a new application with an adverse history, they can consider the following as mitigating factors:

- There is clear evidence that the previous insolvency or adverse event was not the result of mismanagement.
- The Builder's history does not include repeated instances of the same type of adverse activity.
- At least five years have passed since the event, during which there have been no HBCF claims, and creditors were not adversely impacted.

Unless five years have passed since the adverse history, the underwriter must only favourably consider the Builder's future Eligibility if there is at least 10 per cent ANTA or DOI and at least 5 per cent ANTA.

## 4.8.2 Claims notifications, NCAT or court order and Builder's 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.

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

An adverse claims history indicates potential risk. In these cases, the underwriter will assess the Builder's risk and make a judgement based on the available information and the Builder's current position. The underwriter can contact the icare HBCF Claims Manager for information on insurers operating in the private market from 2002 to 2010 and any related claims.

The underwriter must also consider orders against the Builder (or an associated entity) made by a court or NCAT, especially if the Builder has not complied with the order. The number of matters being referred to the Tribunal may indicate that the Builder is in difficulty. Building Commission NSW 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 of its relative significance (for example, that it is 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 matter is resolved. The underwriter may also need to initiate an SER.

When icare HBCF becomes aware of possible breaches of the Act (or other relevant legislation), it is our policy to notify Building Commission NSW and where applicable, SIRA.

As examples, we may notify the relevant authority of a Builder who:

- undertakes work beyond the scope of their category of licence
- starts work or takes money before obtaining HBC insurance.

## 4.8.3 Nominated supervisor record

The nominated supervisor is considered a key manager as set out in [Division 7.3.2](#) Key managers. If the nominated supervisor has an adverse track record, this must be investigated and appropriately mitigated before progressing with the application.

A nominated supervisor can be exempted from requirements for investigation and mitigation of any adverse track record (or lesser mitigations may be required) if the Directors are sufficiently experienced. For example, they can show construction industry experience, capital adequacy and business management to support the requested project limits. The context of the Builder's operations must reflect this.

No exemption can be granted for New Builders. Exemptions for System Reviewed Builders are rare and must be supported by strong evidence.

## 4.8.4 Previous jobs running over time

When the Builder applies for a COI, the underwriter will check whether there is evidence of the Builder running over time with their insured residential construction work. If the circumstances appear to be significant, this could be a potential trigger to investigate the Builder's financial position ([Division 4.5 Special Eligibility Review—SER](#)).

To decide whether a Builder running over time 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.)
- the overall business position of the Builder.

## 4.8.5 OJL increase declinature

When 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.

## 4.8.6 Construction Type limit increase

The information below explains the differences in assessment for a Construction Type limit increase versus a change in approved OJL.

The underwriter does not need to conduct a full financial underwriting assessment based only on 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. This is treated as a BPC (unless incorporated in a Programmed Eligibility Review [Division 4.4](#) Programmed Eligibility Review—PER).

## 4.8.7 Temporary OJL increases

The underwriter may consider a temporary OJL increase (by a project referral to an underwriter) even where it exceeds the OJL outside the underwriting criteria. This increase 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.

## Division 5: System Reviewed Builders

This division explains automated Eligibility Assessments and the Eligibility Score for System Reviewed Builders. It also explains how Builders are classified into three 'Tiers' and how they can move (or transition) to other Tiers.

In some circumstances, you may also need to refer to [Division 6: Manually Reviewed Builders](#) (for example, if a Builder is referred for a manual review or is transitioning between Tiers).

### 5.1 Automated Scorecard Review—ASR

ASR Eligibility Assessments use data on Builders that is held by commercial bureau reporting agencies engaged by icare HBCF. These agencies use an algorithm to assess the data. This means that ASR assessments do not require the collection and underwriting of detailed financial information from each Builder (for example, tax returns and externally prepared financial statements).

Note: We expect to use the ASR assessment type to determine Eligibility for many of the Builders in the icare HBCF portfolio.

An ASR should allow:

- ✓ Builders to spend less time preparing information for Eligibility Assessment
- ✓ Eligibility decisions to be made more quickly than 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 2: Builder Size Classification](#) for a System Reviewed Builder.
- not associated with another entity. For example:
  - not subject to a Group Trading Agreement (GTA) [Division 6.26](#) Group entities and Group Trading Agreements—GTA)
  - not a current principal (e.g. director, nominated supervisor, partner, shareholder or senior manager) of another Builder that has active Eligibility.
- not seeking a New Residential Apartment Building construction limit greater than \$3M.

Builders must have a contractor licence with a 'Current' status to conduct HBC building work in NSW.

When undertaking an ASR assessment:

1. The Builder (or Distributor) submits a completed 'Builder Eligibility and Profile Change Application Form' Forms are available on the icare website: <https://www.icare.nsw.gov.au/>.
2. The underwriter reviews the Eligibility form and uses it to obtain an Eligibility Score from a commercial reporting agency engaged by icare HBCF.

The Builder does not need to provide extra financial information apart from the form.

During the Builder's period of Eligibility, the underwriter may perform the following types of reviews for System Reviewed Builders (Tier 1, Tier 2 and Tier 3)

- special Eligibility Reviews ([Division 4.5](#) 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 ([Division 4.6](#) Builder Profile Change—BPC) which may result in the underwriter reclassifying the Builder as another Builder size (that is, System Reviewed or Major Builder).

A BPC or SER review result may cause the Builder's Eligibility to be:

- unchanged
- modified
- restricted
- suspended
- cancelled.

**Note:** icare HBCF reserves the right to add a System Reviewed Builder to the PER and intensive monitoring review schedule ([Division 4.4](#) Programmed Eligibility Review—PER).

## 5.1.1 What is an Eligibility Score?

icare HBCF engages a commercial bureau reporting agency to generate an Eligibility Score number using an algorithm. We use this number to determine an appropriate Eligibility Profile to offer a Builder.

The Eligibility Score number is obtained from six key variables. Actuarial analysis has determined that these are good indicators to determine how likely a Builder is to trigger future claims (for example, become a Business Closure within the next five years).

Table 7: Eligibility Score key variables

Model attributes	Description
Adjusted Bureau In-depth Trading History	A score calculated by a commercial bureau reporting agency which incorporates a full picture of the Builder's Business.
Individual Commercial Score	A score calculated by a commercial bureau reporting agency which incorporates a full picture of the Director's or Business Owner of the Builder.
Commercial Credit Enquiries	The total dollar value of commercial credit enquiries made to a commercial bureau about the Builder within five years of the score being calculated
Longest Directorship	The total months served of the longest current director or business owner of the Builder
Previous Directorship	The total number of previous directorships in the last 10 years for each director or business owner
Commercial Adverse	The total number of commercial adverse information available (for example, court writs and summons, default judgements)

If the underwriter does not identify any unacceptable risks ([Division 7.2](#) Unacceptable risk scenarios), they will use the Eligibility Score to determine the Builder's Eligibility Profile:

- OJV is determined by the Builder's Eligibility Score
- OJN set to maximum allowable jobs based on OJV and HBC requirement threshold.

**Note:** icare HBCF does not limit the number of projects that ASR assessed Builders can undertake at any one time if it does not exceed the approved OJV.

**Construction limits:** These are determined by using [Tables 4A](#) and [4B: 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 Tables 4A and 4B, those limits will be maintained (if they do not exceed the OJV determined by their Eligibility Score).

If the underwriter identifies any unacceptable risks during an ASR assessment ([Division 7.2](#) Unacceptable risk scenarios), then they 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 ([Division 4.5](#) 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 Complaint and Dispute Guide so the Builder can decide whether to dispute the decision within the timeframe allowed.

## 5.1.2 Eligibility Score range

The table below shows different Builder characteristics. Each characteristic has a range of scores that are generated for a Builder through an ASR Assessment.

*Table 8: Eligibility Score range against individual characteristics*

Characteristic	Description	Score range
Adjusted Bureau In-depth Trading History	A score calculated by a commercial bureau reporting agency which incorporates a full picture of the Builder's Business.	-114 to 715
Individual Commercial Score	A score calculated by a commercial bureau reporting agency which incorporates a full picture of the Director's or Business Owner of the Builder.	0 to 545
Commercial Credit Enquiries	The total dollar value of commercial credit enquiries made to a commercial bureau about the Builder within five years of the score being calculated	-33 to 28
Longest Directorship	The total months served of the longest current director or business owner of the Builder	-17 to 71
Previous Directorship	The total number of previous directorships in the last 10 years for each director or business owner	-71 to 55
Commercial Adverse	The total number of commercial adverse information available (for example, court writs and summons, default judgements)	-40 to 2

### 5.1.3 Minimum Eligibility Score threshold

Builders will need to achieve the minimum Eligibility Score to obtain their desired OJV as outlined in the table below:

Table 9: Eligibility Score and associated Open Job Value

Builder size	Open Job Value	Minimum Eligibility Score requirement
New Builder	\$1.5M (maximum)	523
<b>Tier 1</b>		
System Reviewed Builder	Triggers manual review, with a maximum \$1.5M outcome	<523
System Reviewed Builder	\$1.5M	523
System Reviewed Builder	\$2.25M	606
System Reviewed Builder	\$3M (maximum)	686
<b>Tier 2</b>		
System Reviewed Builder	Triggers manual review with a maximum \$3.5M outcome	<523
System Reviewed Builder	\$4M	523
	\$6M	650
System Reviewed Builder	\$8M (maximum)	767
<b>Tier 3</b>		
System Reviewed Builder	Triggers manual review with a maximum \$8.5M outcome	<523
System Reviewed Builder	\$9M	523
System Reviewed Builder	\$10.5M	686
System Reviewed Builder	\$12M (maximum)	839

Below is an example of an Eligibility Score calculation for a Builder. It contains characteristics for the Score calculation and indicative numbers.

Table 10: Example of Eligibility Score calculation (containing six characteristics for the score calculation and indicative number)

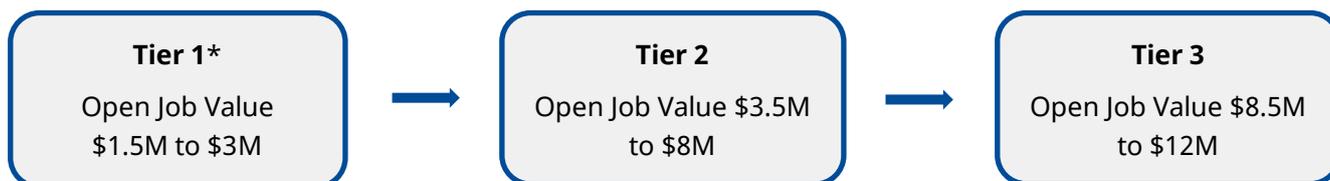
Characteristics	Data return	Eligibility Score contribution
Adjusted Bureau In-depth Trading History Score	"811"	293
Individual Commercial Score	"700"	317
Commercial Credit Enquiries (\$)	"\$150 000"	6
Longest Directorship	"200 months"	36
Previous Directorship (last 120 months)	"0"	55
Commercial Adverse	"0"	2
<b>Eligibility Score</b>		<b>709</b>

If the Builder is:

- Tier 1: Builder will be offered \$3M
- Tier 2: Builder will be offered \$6M
- Tier 3: Builder will be offered \$10.5M

## 5.1.4 Builder Tiers

Eligibility for System Reviewed Builders is divided into three Tiers:



\*New and unproven Builders are included in Tier 1.

When a Builder has their first ASR review, we place them in Tier 1, Tier 2 or Tier 3 based on their existing approved OJV, then assess them against the criteria and Eligibility Score for that Tier.

**Note:** We use the Eligibility Score to determine a suitable OJV to offer a Builder (where appropriate).

Subsequent ASR assessments are based on the Builder's requested OJV. When a Builder with a 'Not active' Eligibility status seeks re-instatement through ASR, their approved OJV (as per their last COE) will be considered to classify their Tier.

If no ASR assessment has been performed previously, icare HBCF will conduct an ASR assessment to assess the renewal of Eligibility for Builders as their COE expiry date approaches. The outcome of the assessment will determine their Eligibility as Tier 1, Tier 2 or Tier 3 System Reviewed Builders.

As Builders seek to increase their OJL in the System Reviewed Builder category, the Builders move between Tiers. When this happens, they need to meet the Eligibility criteria and satisfy all requirements set out below.

Builders who already have a COE must stay within the limits defined in that COE. COEs issued after the finalisation of an Eligibility Assessment will be subject to the new limits as defined in [Table 2](#): Builder Size Classification and the construction values in [Tables 4A](#) and [4B](#): *Standard construction values by Builder and Construction Type*.

## 5.1.5 Tier 1 Builders

The following Builders will be classified as Tier 1:

- Existing Builders with active Eligibility of \$3 million or less in OJV; and
- New and existing applicants requesting \$3 million or less in OJV.

**Note:** New applicants (except for New Builders) will be classified as Tier 1. Builders who wish to obtain higher limits must comply with and satisfy all requirements under the transition rules.

## 5.1.6 Transition requirements from Tier 1 to Tier 2

A Tier 1 System Reviewed Builder can seek a higher OJV and transition to Tier 2 if they meet all the following requirements:

- They have a current utilisation\* of at least 60 per cent (if applicable).
- They undertake a Builder Profile Change to ensure minimum ANTA\*\* requirement for OJV based on Eligibility Score
- They have an Eligibility score that is sufficient for Tier 2 OJV.

If a Builder has not utilised their OJL while operating in Tier 2 (i.e., average utilisation over last 12 months is within the Tier 1 limits), icare HBCF may reduce the OJL to a Tier 1 Builder at the expiry of their Eligibility.

**\*Note:** Utilisation is defined as the aggregate amount of open policies.

**\*\*Note:** icare HBCF will generally calculate the ANTA requirement based on the OJV that would be granted based on the Builder's Eligibility Score.

## 5.1.7 Transition requirements from Tier 2 to Tier 3

Builders with OJV from \$3.5 million to \$8 million or less (existing) are classified as Tier 2 Builders.

A Builder operating as a Tier 1 Builder or a New Applicant can apply to be a Tier 3 Builder, where:

- there is credible evidence requiring Tier 3 limits
- they can demonstrate industry experience in the relevant construction category; and
- they undertake an assessment to ensure minimum ANTA requirement for OJV based on Eligibility Score.

A Tier 2 System Reviewed Builder can seek a higher OJV and transition to Tier 3 if they meet all the following requirements:

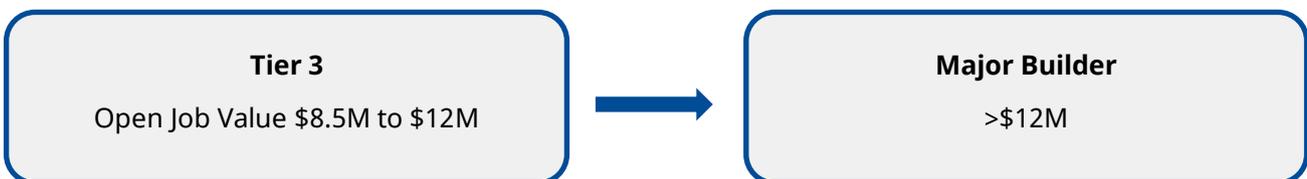
- There is a current utilisation of at least 80 per cent (if applicable)
- They undertake a Builder Profile Change to ensure minimum ANTA requirement for OJV based on Eligibility Score; and
- The Builder has operated as a Tier 2 Builder successfully (i.e., no adverse history or unreasonable overdue open projects) for at least 12 months and has utilised total OJV of greater than 80 per cent of their current approved OJV or have credible and evidenced submission regarding OJV requirements of Tier 3.

The principal(s) and/or key management personnel of a Tier 3 Builder must demonstrate that they:

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

If a Builder has not utilised their OJLs while operating in Tier 3 (i.e., average utilisation over last 12 months is within the Tier 2 limits), icare HBCF may reduce the OJL to a Tier 2 Builder at the expiry of their Eligibility.

## 5.1.8 Transition requirements from Tier 3 to Major Builder



Builders with OJV greater than \$12 million will be classified as Major Builders.

For a Builder seeking a higher OJV and transitioning to Major Builder, the Builder will need to satisfy the following requirements:

- have a current utilisation of at least 80 per cent or provide a credible and evidenced submission regarding the OJV requirements of a Major Builder
- undertake a full financial BPC assessment to evaluate whether the Builder meets the minimum financial requirements for Eligibility
- meet all parameters set out in [Division 6.1](#) Eligibility Assessment for Major Builders

Where a Builder has been reviewed for a Builder Profile Change ([Division 4.6](#) Builder Profile Change—BPC) within the previous 12 months, and the Builder cannot provide documented evidence of a material change in their position, an underwriter may, at their discretion, finalise the BPC as 'Not Proceeding' and not review the submission further.

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

**Note:** Utilisation is calculated based on the aggregate amount of open policies.

## 5.2 Communicating the new Eligibility Profile to ASR assessed 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 put into effect immediately.

An Eligibility profile can have conditions attached to it and any conditions will be communicated to the Builder. [Division 6.19](#) Eligibility Conditions describes a range of Eligibility conditions. We may apply other special conditions (based on individual circumstances) that are not covered in the Division above.

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

Where a Builder is undergoing their first review through the ASR process and there is a 30 per cent or more reduction in the new OJV, icare HBCF will cap the reduction at 30 per cent to minimise the impact of the transition to the new methodology. If the reduction is less than 30 per cent, the new reduced OJV will be realised when the ASR is finalised.

icare HBCF can refer the Builder for SER if the any of the following are identified:

- an unacceptable risk scenario ([Division 7.2](#) Unacceptable risk scenarios),
- general adverse criteria considered material to Scheme outcomes ([Division 8.1](#) General adverse criteria)
- other extraordinary characteristics.

Refer to [Division 4.5](#) Special Eligibility Review—SER for more information.

If the matters are urgent, icare HBCF may immediately modify or suspend the Builder's Eligibility as per [Division 8.4](#) Urgent unacceptable scenarios and urgent adverse risks.

The underwriter may identify considerations indicating that ASR assessment is not appropriate for a particular Builder, such as one that primarily undertakes insurance repairs, exclusively undertakes painting contracts for developers that guarantee the work or exclusively works on not-for-profit or government construction projects. In these circumstances, icare HBCF may refer the Builder to undertake an SER for a more thorough consideration of the additional context. This referral requires the approval of the Team Leader. The Builder's Eligibility depends on the outcome of the SER. These referrals are uncommon and will be reported to SIRA as per regulatory reporting requirements.

### 5.3.1 Adverse impact to Eligibility Profile: Example 1

#### Tier 1 Builder

- existing approved OJV: \$3M
- Eligibility Score via an ASR: 530
- new OJV based on [Table 9](#): Eligibility Score and associated Open Job Value: \$1.5M (greater than 523 but less than 606)
- reduction in OJV: \$1.5M (50 per cent)
- final OJV offered (Transition period): \$2.1M (cap 30 per cent)
- Builder remains at Tier 1.

### 5.3.2 Adverse impact to Eligibility Profile: Example 2

#### Tier 2 Builder

- existing approved OJV: \$6M
- Eligibility Score via an ASR: 530
- new OJV based on [Table 9](#): Eligibility Score and associated Open Job Value: \$4M (greater than 523 but less than 650)
- reduction in OJV: \$2M (33 per cent)
- final OJV offered (Transition period): \$4.2M (cap 30 per cent)
- Builder remains at Tier 2.

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

**Note:** The minimum thresholds for ASR (all Tiers) is 523.

If a Builder's Eligibility Score is below the Minimum Eligibility Score, an Eligibility offer must be carefully assessed and determined. These Builders will need to undertake an SER to either obtain or maintain Eligibility ([Division 4.5](#) 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 (\$1.5M for Tier 1 and \$3M for Tier 2 and \$8.5M for Tier 3) in [Table 9](#): *Eligibility Score and associated Open Job Value*.

A Builder needs to successfully complete an 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 523
- System Reviewed Builder (Tier 2): greater than or equal to 523
- System Reviewed Builder (Tier 3): greater than or equal to 523

For example, if a Tier 2 Builder with an OJV of \$4M does not get the minimum score for Tier 2, the underwriter will decline the ASR and initiate an SER. When the Builder supplies all required documents, the underwriter will schedule and conduct an SER to determine Eligibility. If the assessment is successful, Eligibility is provided for the lowest OJV in that Tier. In this case, the Builder's OJV would be reduced from \$4M to \$3.5M.

If the underwriter identifies an unacceptable risk through the SER process, at icare HBCF's discretion, the Builder's Eligibility can be modified, suspended, or cancelled. Please refer to [Division 4.5](#) Special Eligibility Review—SER.

If a Builder asks for an ASR assessment within 180 business days of failing an ASR assessment, the underwriter 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 before undertaking a new ASR assessment within 180 business days.

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

## Division 6: Manually Reviewed Builders

This division is a comprehensive guide for Builders who need a manual Eligibility review either because they are ineligible for an automated assessment or have been referred for a manual review. This division outlines how icare HBCF assesses financial information required for the review.

For an overview of Eligibility Assessment types, refer to [Division 4](#) Types of Eligibility Assessments and information requirements.

To see how icare HBCF reviews non-financial information, refer to [Division 4.8](#) Eligibility Assessment: non-financial requirements.

### 6.1 Eligibility Assessment for Major Builders

Builders with OJV greater than \$12 million will be classified as Major Builders.

We divide Major Builders into two categories:

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

The information requirement for each category is set out in [Division 4.7 Table 6: Eligibility Assessment information requirements](#) plus the following:

The principal(s) and/or key management personnel of a Major Non-Project Home Builder must demonstrate any one or more of the following:

- They have traded as a licensed Builder in the System Reviewed category for at least five years.
- They can show adequate financial performance over a three-year period, or more than five years' experience as a manager or supervisor with other System Reviewed (Tier 3) or major licensed Builders in the building Construction Type sought.
- They can demonstrate at least the equivalent of other suitable and relevant experience.

Major Project Home Builders mostly 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 (Programmed Eligibility Review: PER). icare HBCF will review publicly listed companies, trusts and groups on publicly available financial reports and ASX announcements.

## 6.2 Work in Progress (WIP) reports

WIP information helps the underwriter assess how current construction activity could impact on a Builder's future cash flow.

A WIP report 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)
- estimated building cost to complete (Builder populated).

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

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.

## 6.3 Delays in completion

Where there are delays, the underwriter must consider these factors:

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

## 6.4 Stages of construction

Ideally, a Builder has a balanced spread of projects by stage of completion. A high proportion of projects at any one stage of completion may indicate current or future issues. For example, a disproportionate number of contracts in the early stages of construction could indicate the Builder is trying to address a cash flow problem through taking many deposits or performing front-end loaded work stages only.

In these cases, the underwriter can extend a detailed assessment to consider 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), it could indicate that the later progress payments will not cover the higher construction costs.

For many home Builders, the Progress Payments are likely to be linked to an unearned turnover liability. That is, progress payments received will exceed the cost of work completed plus margin.

## 6.5 Franchise, marketing or buying group participation

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

The underwriter can review the group heads of agreement document to understand the nature of the relationship between the parties (subject to any confidentiality arrangements).

This category of Builder presents potential additional risk since added contractual obligations and requirements may apply within the relationship, including:

- upfront participation costs
- immediate opportunities for unsustainable growth
- payments or royalties payable to the group from operating turnover
- the Builder's arrangement to source material, labour or other inputs from inside the group arrangements.

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

The information below outlines factors an underwriter considers when assessing OJL and assumed turnover. This does not apply to Builders who are assessed automatically using the ASR assessment process unless they need to have a manual assessment (except when transitioning to another Tier).

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:

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

The assumed turnover calculation accounts for the Builder's current average completion time from purchasing cover to completion, as well as the past 12 months' average contract values. icare HBCF core systems use the assumed turnover to test ANTA and other financial 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.

**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. 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.

An underwriter assesses the assumed turnover for Eligibility purposes by working with the assumed turnover calculation automatically generated by icare HBCF core system. It is based on the Builder's requested Eligibility Profile.

If the underwriter sees that the system generated assumed turnover appears significantly higher or lower than their own estimate, they may change the figure and provide an appropriate comment explaining the change.

Note: An example of when the underwriter may need to amend the system generated assumed turnover is for pool Builders who have 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 when determining an appropriate assumed turnover may be longer than the construction cycle determined by icare HBCF.

Table 11: 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

## 6.7 Assumed turnover and OJL growth

The information below helps underwriters evaluate OJL growth. This information only applies to manual assessments since most Builders are assessed automatically using the ASR assessment process.

For manually assessed Builders, the underwriter will compare the assumed turnover of the Builder with previous financial years to identify any abnormal growth expectations. icare HBCF core system 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. Therefore, 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.

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

**Note:** We will assess most Builders automatically using the ASR assessment process. The information below does not apply to automatically assessed Builders.

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

## 6.9 OJL growth

The information below covers how underwriters assess OJL growth requests for manually assessed Builders.

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

Underwriters evaluate automatically assessed Builders based on their ASR score in regard to opportunity for growth. However, Builders seeking to change Tiers or transition to a Major Builder will be subject the information in this division as part of any manual review.

Growth requires capital until there is increased cash flow and profits to cover the higher overheads associated with the growth. icare 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 with 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— day to day management of each project becomes increasingly delegated to others
- 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. For example, if growth is being driven by a relationship with a marketing entity, the underwriter considers the following:

- 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 is there is a risk that the Builder will not be able to effectively control the level of concurrent jobs?

There is an increased risk where the growth request is seeking to address cash flow shortages through collecting deposits or through a disproportionate number of contracts in early stages. Financial assessment, appropriate questioning and a review of the WIP (including a check that there is a suitable mix across work stages) may help assess this risk type.

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

## 6.10 Eligibility Assessment: financial assessment scope

The information below outlines how the underwriter performs the financial assessment of an Eligibility Application.

To see how icare HBCF reviews non-financial information, refer to [Division 4.8](#) Eligibility Assessment: non-financial requirements.

**Note:** We will assess most Builders automatically using the ASR assessment process. This information below does not generally apply to Tier 1 -3 Builders who are assessed using the ASR assessment process unless they need to undergo manual assessment (for example, when transitioning between Tiers).

The underwriter will conduct the financial assessment component as follows:

- For sole traders and partnerships (between individuals), the underwriter must assess the personal assets of the individual.
- For partnerships, the underwriter must aggregate the financial information of business partners as well as consider the financial circumstances of the individual partners 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 regarded as a Group and the underwriter must, where possible, apply the criteria to the consolidated accounts of all entities with building operations. 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 ABN the business uses is the best test of which entity is trading.
- For franchise businesses, the underwriter should apply the criteria to each individual franchise business and the franchisor (if required) as separate entities.

**Note:** It is important that the underwriter understand the franchisee, franchisor, the agreement, and respective obligations and guarantees the parties have for, and to, each other. For example, what happens 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.

## 6.11 Eligibility Assessment: financial measures

The information below outlines the financial factors underwriters consider, and the evidence they gather, to make an informed underwriting decision for Eligibility Assessments.

Note: We will assess most Builders automatically using the ASR assessment process. This information below does not generally apply to Tier 1 -3 Builders who are assessed using the ASR assessment process unless they need to undergo manual assessment (for example, when transitioning between Tiers).

## 6.12 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 shutdown
- 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).

### 6.12.1 How ANTA is calculated

icare uses assumed turnover when assessing the ANTA for Eligibility ([Division 6.6](#) Assessment of Open Job Limits—OJL—and assumed turnover).

A Builder's OJL is converted to the assumed turnover as if that limit was completely 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 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 per cent to meet Eligibility requirements. icare HBCF encourages Builders (through a premium discount) to retain ANTA in the actual building entity or related group of companies, secured by a GTA ([Division 6.26](#) Group entities and Group Trading Agreements—GTA).

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), then 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 considered for certain assets and liabilities. For example, the value of real estate assets is taken at 85 per cent 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 the assets considered in meeting the ANTA requirements make allowances for either security, or the ability to be easily converted to cash through sale.

The table below sets out icare HBCF discounting policy in respect to the most common assets and liabilities in arriving at the ANTA calculation.

*Table 12: 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). Refer to <a href="#">Division 6.13</a> 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 <a href="#">Division 6.13</a> Working capital requirements and assessment.	100%
WIP/land/speculative building	85%
Net Contract WIP	0%
Prepayment (current assets)	50%

Assets	Weighting
Land and Buildings (non-current assets)	85%
Intangible assets (that is, good will)	0%
Plant and Equipment (non-current assets)	50%
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%
Discretionary Trust Assets	0%

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%

*Notes for Table 12: ANTA discounting policy*

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

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.

If the assets of a Discretionary Trust are incorporated into the integral group financials, the Trust assets will not be included in the calculation of the group ANTA. However, these assets can, with appropriate commitment by the Discretionary Trust, be used to offset or mitigate the deficiency.

icare reserves sole discretion to determine the appropriateness of the commitment.

## 6.12.2 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 13 (below): *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 13: Additional evidence to support asset declarations

Item	Acceptable Evidence (if detailed review is required)
<b>Assets</b>	
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 of 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
WIP	<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>
<b>Liabilities</b>	
Mortgages/Secured property loans	Copy of Bank Facility letter (All evidence must be recent, that is, within three months of the Eligibility application submission)
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

## 6.13 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 sizable positive working capital, then they 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.

Generally, businesses that do not address adverse working capital trends early require stronger remediation later.

**Note:** We will assess most Builders automatically, using the ASR assessment process. This information below does not apply to Tier 1-3 Builders who are assessed using the ASR assessment process.

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.

### 6.13.1 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.

### 6.13.2 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 per cent ([Division 6.12.1](#) How ANTA is calculated)
- C = Speculative WIP not accepted by the underwriter to contribute to ANTA ([Division 6.13.4](#) 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 ([Division 6.13.5](#) 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 from [Division 6.11 Eligibility Assessment: financial measures](#) (and its subdivisions) when requiring working capital mitigation as a condition of Eligibility.

### 6.13.3 Additional working capital considerations

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

Other key factors to consider 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.
- **WIP levels:**  
Are WIP levels consistent with previous years or have they increased 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 ([Division 6.13.4 Turnover of inventory—speculative WIP](#))
- **Agreed terms for suppliers and subcontract labour:**  
Are these agreed terms greater than the benchmarks used in icare HBCF core system?  
What do the trends 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)?  
Is it appropriate for the underwriter to consider treating these balances as non-current loans? ([Division 6.13.5 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 aspects to consider when determining working capital are the turnover of speculative WIP and treating related party liabilities as a working capital mitigant.

### 6.13.4 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.

Assets of this kind are included as speculative WIP 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 assessment notes for inventory mitigation.

### 6.13.5 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. If applying this mitigant, the underwriter must add a comment/explanation in the assessment notes.

Where current related liabilities are to be treated as a non-current liability mitigant of working capital weaknesses, the underwriter needs a copy of a loan agreement that confirms non-repayment in the next 12 months. If applying this mitigant, add a comment/explanation in the assessment notes.

icare HBCF will record the actual financial data as contained in the financial statements.

### 6.13.6 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 total gearing ratio will be less than 70 per cent. The total calculation applies the group rules as set out in this Manual.

Gearing of more than 70 per cent 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 could place significant strain on the Builder over and above the ability to service the liability. A source of working capital available to a building entity could come from funding the lender has secured (such as an overdraft or loan) on an asset that 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 an acceptable mitigant for unprofitable trading without evidence that the adverse profit performance is fully mitigated by management responses and changes to the business strategy with demonstrated effectiveness or justified future business outcomes.

## 6.14 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 that holds a strong ANTA in its own right
- the related party is directly related to the Builder.

**Retentions:** Retentions arising out of contractual obligations with previous customers are generally not included in ANTA as at there is often uncertainty around their ability to be collected. This depends 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 the if track record of collection and level of dependency on recovery of retention payments has been examined and considered acceptable.

**WIP:** Because of the potential unreliability of WIP valuations, the standard action is not to include WIP 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 according to 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 external accountant certifies that the financial accounts provided for the Builder's 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 (subject to the WIP testing provisions in [Division 6.2 Work in Progress—WIP—reports](#)).

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

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

**Deferred tax assets:** Deferred tax assets are only useful in reducing future tax liabilities and are not included in ANTA calculations nor 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.

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

## 6.15 Gross margins

There are two ways of expressing gross margin:

- Most Builders and icare HBCF 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 of the margins are considered equally.

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

Inadequate gross margin is the primary cause of cash flow deficiency in the industry. 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 are 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.

## 6.16 Cash flow projections and budgets

Cash Flow projections and budgets are an important part of the forward planning of a business if they are sustainable based on reasonable forecast assumptions. In some circumstances in which 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, the underwriter must test the reasonableness and accuracy of these projections and budgets in the current and later assessments until the concerns are mitigated.

## 6.17 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 both ANTA and working capital conditions of Eligibility at the same time (for example, a company undertaking a capital injection) while other methods will only mitigate an ANTA condition of Eligibility (for example, providing a DOI ([Division 6.21](#) 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 – [Division 6.13.6](#) Gearing ratio and undrawn lines of credit).

The underwriter will provide Builders with sufficient time ([Division 11.1](#) Eligibility Assessment and Review service standards) to mitigate these conditions of Eligibility. If the Builder does not undertake mitigation measures, it may result in suspension or modification of a Builder's Eligibility ([Division 6.13.6](#) Gearing ratio and undrawn lines of credit).

### 6.17.1 Mitigating an ANTA deficiency

A Builder must meet the minimum ANTA requirements to obtain or maintain Eligibility ([Division 6.12](#) Adjusted Net Tangible Assets—ANTA).

A Builder usually generates an ANTA deficiency that requires mitigation in the following situations:

- 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 it 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 listed below:

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

- A post injection balance sheet reflecting the effect of the capital injection or a bank statement showing a cash injection deposit.
- A copy of the minutes of the company's board meeting that resolves to receive the capital into the business and 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.

**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 a letter of undertaking from the 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 the 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 per cent of Net Profit After Tax (NPAT) for the next 12 months.”

Underwriters can use professional judgement to determine:

- whether to apply the above retention conditions to either an individual building entity, or group entities under a GTA
- 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 reflecting the effect of the loan’s conversion to equity
- written confirmation from the related party lender consenting to the loan being converted into equity for 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 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): At the end of the Eligibility Assessment Underwriting process, an Eligibility Assessment report is issued with instructions on how to execute and return a DOI to the underwriter.

A DOI is not a sufficient form of ANTA deficiency mitigation in every circumstance. For further information about using this mitigation option see the following divisions:

- [Division 6.21](#) Deeds of Indemnity Agreement—DOIs—as security
- [Division 6.22](#) Security sources
- [Division 6.23](#) Determining value of DOIs.

Executing a GTA: For further details about using this mitigation option, refer to [Division 6.26](#) Group entities and Group Trading Agreements—GTA.

## 6.17.2 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 reflecting 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) 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 can be totalled.

## 6.18 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.

## 6.19 Eligibility conditions

The information below explains the rules around the underwriter requesting conditions of Eligibility, such as security instruments.

## 6.20 Eligibility decisions

After an Eligibility review, the underwriter will provide the Builder or, where relevant, their 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 ([Division 2.13 Construction Types](#)) for which the Builder is eligible to obtain COIs (subject to [Division 9 Underwriting considerations for Certificates of Insurance](#))
- 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 System Reviewed Builders.

When undertaking an Eligibility Assessment, to assist Builders in understanding what is required, the underwriter will generally provide brief written reasons for:

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

## 6.21 Deed of Indemnity Agreement (DOI) and Bank Guarantee as security

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

If the Eligibility Assessment process identifies issues such as the 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 not mandatory, and Builders can simply choose to comply with basic icare HBCF underwriting requirements (for example, by making a capital injection to meet minimum ANTA requirements).

DOIs are not intended to be the only remedy for uncertain financial situations. icare HBCF reserves the right to determine the most appropriate security document (if any) or to apply other Eligibility conditions ([Division 6.17](#) Mitigation of Eligibility financial measures), 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 ([Division 8.9](#) Builder's risk mitigation on Eligibility Assessment) and while a DOI may form part of the risk management strategy, icare HBCF expects that the strategy will require more than this.

Where a Builder's Eligibility Score is below the Minimum Eligibility Score and they are directed for an SER, an underwriter may require a fixed amount of security and capital injection to meet the ANTA requirement as part of the manual assessment. This must be combined with appropriate risk management ([Division 8.9](#) 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. For details, please refer to [Division 6.22](#) Security sources.

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 address:

- 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 the requested OJL.

We do not require DOIs on ASR assessed Builders when determining 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 this may be different in some cases.

Where a DOI is not an appropriate remedy (for example, a listed company), the underwriter should look for more appropriate remedies to address the identified deficiencies. Where icare HBCF requires an alternative remedy, we will liaise with the Builder and, where relevant, their Distributor about appropriate alternate arrangements.

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 the information they need to obtain the bank guarantee and deliver it to icare HBCF. The typical information requirements for a bank guarantee are as follows:

- The bank guarantee must be unconditional.
- The bank guarantee must provide cover to icare HBCF for the entire Eligibility period with 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 (generally 'AA minus' or above from Standard & Poors or 'Aa3' or above from Moody's). icare determines this minimum threshold and may occasionally review it.
  - 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, no additional action is generally needed to release a previous DOI.

icare HBCF will hold the original DOIs. The underwriter is responsible for ensuring that the Builder has provided the original and correctly completed DOI to icare, whether directly or through their Distributor, before issuing a COE.

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

## 6.22 Security sources

The table below shows security sources that 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 not considered when determining the available support for a security.

Table 14: 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 15: *Order of preference* provides a ranked guide for suitable associated parties that may be able to provide a DOI for Eligibility.

Table 15: 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.
4	Related unit trust	This would depend on the trust deed allowing this kind of undertaking.
5	Related discretionary trust	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.  If provided, such a security would not be included in the financial assessment and ANTA calculation for the Builder applicant.

When we use the auto-assessment process to assess Eligibility for System Reviewed Builders (with OJV up to \$12M), the following points apply:

- 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 System Reviewed Builders (with OJV up to \$12M) due to high risk:

- We consider ANTA.
- The minimum value of a DOI is \$200,000.

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

The underwriter must document the ANTA assessment of the indemnity provider in the Builder's 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.

## 6.23 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:

1. applying the relevant asset and liability weightings in Table 12: ANTA discounting policy in Division 6.12.1 How ANTA is calculated
2. discounting the net asset value to 80 per cent, determined in Step 1 above. This 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 12: ANTA discounting policy)  
= \$200,000/0.8 = \$250,000 (**Note:** \$200,000 x 120% = \$240,000)

DOI amount is \$250,000.

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

## 6.24 Determining the value of bank guarantees

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

Table 16: Bank guarantee example

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

If the Builder generates most of their income (greater than or equal to 60 per cent) from other sources and activities (for example, commercial, industrial, or civil), the underwriter excludes that income from their assumed turnover calculations. In these cases, the underwriter calculates the assumed turnover based on the income generated from the conversion of the Builder's OJV into turnover using their assessed construction cycle from residential activities from NSW and other states.

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

## 6.25 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) that has requested that their Eligibility be surrendered or has previously allowed it to expire (former Builder). See [Division 8.3](#) 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 that 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.

**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. 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.

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

## 6.26 Group entities and Group Trading Agreements—GTA

Where the GTA tests (listed below) apply, a corporate group may be submitted 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 may not require a GTA. However, icare HBCF will test the wider current and non-current liabilities and external guarantees of the indemnifying party.

Underwriters must exercise particular care in assessing appropriate GTA entities in these cases:

- 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 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
- 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 features listed below will prompt 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 year to year fluctuations in current or non-current related loan balances.
- 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 have Eligibility with icare HBCF, then the application cannot proceed until the following are 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.

**Note:** icare HBCF prefers its own drafted GTA wording 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-including-for-wholly-owned-entities/>

The outcome of a group assessment allows 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.

## 6.27 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 if the 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 ([Division 9.7](#) Certificate referral requirements).

A JSD may be appropriate where the Builder's financial strength is inadequate, or where a third party has control under the contract (for example, a developer). A JSD from companies or principals with an interest in the successful completion of the project (excluding the homeowner) and robust financial resources may help reduce risk.

The value of JSDs must be 10 per cent of the Contract Value or 50 per cent of the maximum loss available under the Act for the project, whichever is the lesser figure. 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.

## 6.28 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. Therefore, 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). Using separate deed documents is not appropriate as the most recent deed could cause all previous deeds to be terminated.

## 6.29 Review of deeds

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

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 getting a permanent capital injection or a new deed for a revised amount.

If a new deed is provided, generally it 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). The underwriter does not need to return these previous deeds to the indemnifiers.

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

## 6.30 Provision of security documents to icare HBCF

The information below explains how deeds are processed.

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

Builders are required to send through an executed Deed to underwriters upon execution.

Where a Builder is represented by a Distributor, the Distributor must ensure that any executed deed they receive 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).

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

## 6.31 Release of securities and Bank Guarantee

If the Builder or, where relevant, their Distributor consider that 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 of Indemnity or Bank Guarantee 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 [Division 6.12](#) Adjusted Net Tangible Assets—ANTA and [Division 6.21](#) Deeds of Indemnity Agreement (DOIs) and Bank Guarantee 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 System Reviewed 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.

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

## 6.32 Irregular Contract Arrangements Deed of Indemnity—ICD

Custom deeds are sometimes required for unique risk scenarios. For example, the Builder or, where relevant, their Distributor must notify icare HBCF where:

- a project is an HBC project with 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 these circumstances, the underwriter will provide an ICD to be completed by parties relevant to the construction contract.

This deed has limited application only to indemnify claims by the contracting party to address an ambiguity in the *Act*.

## Division 7: Risk scenarios

This division identifies Eligibility Assessment 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.

### 7.1 Builder 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.

### 7.2 Unacceptable risk scenarios

icare HBCF considers that certain factors make a Builder ineligible for insurance (both new applications and reviews) and the impact of these overrides any Eligibility decision. The factors below typically cause us to decline Eligibility.

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

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

1. The underwriter has assessed Business financial measures\* as showing a high probability of current insolvent trading, except where supported by an 'unqualified going concern' statement by an auditor.
2. There have been 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 last 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 and these claims involved the directors or key managers of the Builder and with one or more policies of the Builder (that was subject to the Business Closures or unpaid Building Claim Orders) still being within the maximum time limit for claims.

If the Builder/Director/Key Manager (as applicable) has provided a Deed of Indemnity, bank guarantee or other financial instrument, such a Deed of indemnity in Respect of Former Business (DFB), icare HBCF can decide, at its own discretion, whether we are comfortable that the risk is entirely mitigated.

**Note:** HBCF claim refers to the loss date recorded by icare for the COI.

4. There have been NSW Civil and Administrative Tribunal (NCAT)<sup>5</sup> 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<sup>‡</sup> (regardless of whether those orders were later satisfied).
  - a. A contractor licence, supervisor certificate or trade certificate (including any of the Builder, its directors, principals and/or key managers) has been suspended or cancelled in the last five years<sup>‡</sup> for any reason except a failure to pay fees.

**Note:** NCAT order refers to the date the order was issued.

5. Building Commission NSW has suspended a contractor licence or supervisor certificate held by a director or key manager for non-compliance with an NCAT<sup>5</sup> or court order or successful prosecution against those persons in the last five years<sup>‡</sup>.
6. A business is 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 is 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<sup>1</sup> (such as on the basis of the documented terms of the proposed DOCA or other compromise arrangement).
8. There is a significant adverse creditor<sup>†</sup> payment history other than arising from commercial transactions in dispute involving the directors or key managers in the last five years<sup>‡</sup>.  
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 to assess whether a Builder's adverse creditor<sup>†</sup> payment history is significant.
9. There is insufficient ANTA available that cannot be fully mitigated through icare HBCF methodology or agreed alternative approach.
10. There are current winding-up petitions by creditor<sup>†</sup> (with the discretion reserved to icare HBCF regarding the consequences for a contractor's Eligibility even where a petition is later dismissed).
11. The Builder being reviewed has a key manager, director or principal who has been a director or key manager of another business within nine months of that business undergoing a Business Closure. The following evidenced is used 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 Building Commission NSW 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. A business has provided false or misleading information in connection with Eligibility or Certificates of Insurance without reasonable explanation or is under icare HBCF investigation for having provided false or misleading information in connection with Eligibility or Certificates of Insurance.

**Notes:**

\* Business financial measures in this division include, but are not limited to:

- adjusted Current Ratio less than 1
- an Eligibility Score lower than the minimum threshold required for Eligibility ([Division 5.1.2](#) Eligibility Score Range and [Division 5.1.3](#) Minimum Eligibility Score threshold).

† A 'creditor' in this division 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.

‡ The start date of the 'last five years' is calculated from:

- Building Claim Order date: the date the order was issued.
- Business Closure date: the date the external administrator or trustee was appointed, the Chapter five body corporate event was otherwise registered by ASIC, or Builder's licence was suspended (as applicable).

§ NCAT order refers to the date the order was issued.

**Note:** We will only consider it an acceptable risk for Eligibility if a period of five years has passed since a key manager, director, or principal of the Builder was discharged from bankruptcy. If a key manager, director or principal of the Builder has been subject to bankruptcy, a debt agreement or PIA within the meaning of the *Bankruptcy Act* within the last 5 years, we will consider it an unacceptable risk for Eligibility.

## 7.3 Assessment of the principals and key managers

This information below outlines how underwriters assess key personnel and include legislation used to guide decision making.

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 Major Builders, the underwriter will perform an assessment of succession planning in the organisation. This will evaluate the capabilities and depth of the Builder's management team and its structure and ensure that the business will continue regardless of key personnel changes.

### 7.3.1 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
- NSW Government contractors and tradespeople register: <https://verify.licence.nsw.gov.au/home/Trades>
- other State licensing register
- ABN lookup: <https://abr.business.gov.au/> (ABN lookup)
- Mercantile Agency or equivalent, including a full director's history extract on each director and nominated supervisor.

The underwriter must fully investigate any aspects that may affect risk, such as director disqualifications or financial relationships that may lead to conflicts of interests. The underwriter will enquire about any irregularities with the Builder or, where relevant, their Distributor and, where necessary, reject the application unless the issues have been addressed.

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

### 7.3.2 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 because of their essential experience.

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.

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

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

- Industry Association and Professional Institution Membership for training, compliance, development, and technical building standards
- Building history experience to support the requested Eligibility Profile, including the three largest residential construction or other building projects the Builder has been involved in, with professional technical references
- 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 any weaknesses with one or more of the following actions:

- denying or reducing Eligibility
- denying an OJL or Construction Type maximum contract value increase in Eligibility
- implementing restrictive measures (for example, limiting the number of open projects).

Underwriters must consider the role of a key manager who, although not a director or principal of a Builder business, is likely to:

- direct the critical decision making
- exert influence on other key managers.

In these cases, the underwriter considers any adverse history of that person as part of the Eligibility Assessment.

The following roles may not be considered as key managers under certain circumstances:

- nominated supervisors
- executive officers
- senior managers.

These roles can be exempted if the Directors are sufficiently experienced; for example, they can show construction industry experience, capital adequacy and business management to support the requested project limits. The context of the Builder's operations must reflect this.

No exemption can be granted for New Builders. Exemptions for System Reviewed Builders are rare and must be supported by strong evidence.

The underwriter will refer the definition of a close associate in the Act to decide whether a person or entity is a key manager of a business. The Act 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<sup>1</sup>, relevant position<sup>2</sup> or relevant power<sup>3</sup>.

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<sup>4</sup>
- a child, grandchild, sibling, parent, or grandparent, whether derived through the above circumstances or otherwise.

**Notes:**

1. 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.
2. Relevant position means the position of director, manager, and other executive positions and secretary; however, those positions are designated.
3. 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.
4. For a definition of 'De facto partner', refer to [section 21C](#) of the *Interpretation Act 1987*

## Division 8: Builders experiencing adverse conditions

This division outlines factors that can lead to a change in Eligibility status (i.e. cancellation, suspension or modification). It also explains situations in which provisional Eligibility may be appropriate. It serves as a guide for underwriters and Builders or, where relevant, their Distributor.

## 8.1 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 [Division 7.2](#) Unacceptable risk scenarios
- the overall outcome of an Eligibility Assessment
- no 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 homeowner complaints have not been addressed (including, but not limited to advice by Building Commission NSW of increased complaint occurrence)
- claim 'triggers' have been activated
- licensing authority sanctions (including advice by Building Commission NSW of disciplinary action or intended disciplinary action)
- expulsion from industry association
- 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 (that is not an Unacceptable Risk Scenario)
- evidence of trading through other entities without disclosure to the underwriter during any Eligibility Assessment
- inactivity for two or more years
- failure to provide additional information that is fairly and reasonably requested by the underwriter
- failure to rectify inaccurate disclosures in arranging insurance within 20 business days of being requested to make the correct disclosure
- 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 [Division 7.2](#) 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 [Division 7.3.2](#) Key managers. Therefore, if the nominated supervisor has an adverse track record, the underwriter must do an appropriate investigation as a part of considering adverse risk.

A nominated supervisor can be exempted from requirements to investigate and mitigate any adverse track record, or they can require lesser mitigations, if 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. Exemptions for System Reviewed Builders are rare and must be supported by strong evidence.

A Builder who would receive a 'Decline' rating if subject to an initial Eligibility Assessment must either have their Eligibility cancelled or become subject to intensive management. The underwriter will use professional judgement to decide which option is the most appropriate 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 line with the delegated individual underwriting authorities.

## 8.2 Suspended Eligibility

The Builder or, where relevant, their 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 to commence by the due date or SER to be satisfactorily addressed within the expected timeframe.
- has not provided the necessary information to allow the underwriter to complete a review in a reasonable time
- has not satisfactorily responded to requests for information
- is not co-operating with reasonable requests from the underwriter
- displays evidence of any Unacceptable Risk Scenario as set out in [Division 7.2](#) Unacceptable risk scenarios. Suspension is an interim measure before cancellation of Eligibility to allow the underwriter to confirm or investigate that the information is true and accurate
- unable to meet (agreed/set) terms within the timeframe.
- displays any of the general adverse criteria as set out in [Division 8.1](#) General adverse criteria, and the adverse information is sufficient reason for cancellation if there are no agreed mitigations.

Before suspending Eligibility, the underwriter will give the Builder, or where relevant, their Distributor 10 days' written 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 [Division 8.4](#) 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, or where relevant through their Distributor, that the decision be reviewed in line with the guidance provided in the Complaint and Dispute Guide for Builders.

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

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

icare HBCF will reinstate a suspended Eligibility as a current Eligibility following successful completion of a New Eligibility Assessment ([Division 4.2](#) New Eligibility Review—NEW).

## 8.3 Cancelled Eligibility

A cancelled Eligibility is one which has been revoked. The Builder can no longer use the Eligibility to obtain Certificates of Insurance. Where 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 call for immediate cancellation or when the Builder requests a voluntary and immediate cancellation. This notice period is not required for Urgent Adverse Risks, as set out in [Division 8.4](#) Urgent unacceptable scenarios and urgent adverse risks.

icare HBCF will provide the reasons for the decision before the effective date of the cancellation. We will also advise the Builder of their right to request or, where relevant, request through their Distributor, a review of the decision in line with the guidance provided in the Complaint and Dispute Guide for Builders. However, the suspension or cancellation will not be delayed awaiting the outcome of investigation of a Builder's dispute.

Where Building Commission NSW 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.

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

icare HBCF will reinstate a cancelled Eligibility as a current Eligibility following successful completion of a New Eligibility Assessment ([Division 4.2](#) New Eligibility Review—NEW).

## 8.4 Urgent unacceptable scenarios and urgent adverse risks

icare HBCF may suspend or cancel a Builder's Eligibility without the usual notice periods when a Builder that is continuing to undertake new HBC insurances presents an urgent risk to consumers and to the scheme. These urgent unacceptable scenarios are when a Builder:

- is no longer licensed. That is, the licence has been:
  - surrendered by the Builder
  - suspended by Building Commission NSW
  - cancelled by Building Commission NSW
  - expired for longer than three months and for this reason, cannot be renewed or restored.
- holds a licence that is not 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, cancellation of 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 such a high risk to icare HBCF following an 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 [Division 8.1](#) General adverse criteria. In some cases, even though there is a strong basis for immediate action, suspension could pose greater risk to the community 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 action 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).

A Builder or, where relevant, their Distributor can request for either an Urgent Unacceptable Scenario or an Urgent Adverse Risk decision to be escalated in line with the guidance provided in the Complaint and Dispute Guide for Builders.

## 8.5 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.

If a Builder is not eligible for an ASR assessment, an affected Builder will be provided with 60 business days' notice before their Eligibility expires advising them that they must complete an Eligibility Assessment to maintain Eligibility ([Division 11.4](#) Notice period service standards).

If a Builder is eligible for an ASR assessment at the time their COE is set to expire, an ASR assessment will be performed automatically by icare HBCF to renew Eligibility (i.e. no submission required from Builder), with the Builder being assessed on their existing limits and tier at the time of the review.

## 8.6 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 or, where relevant, their Distributor, of:

- their new Eligibility Profile
- any associated conditions of Eligibility
- instructions on how to request, through their Distributor (where relevant), the decision to be escalated to icare HBCF as outlined in the Complaint and Dispute Guide for Builders.

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, or where relevant, their Distributor.

If the Builder has no conditions of Eligibility to meet 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, giving 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 guidance provided in the Complaint and Dispute Guide for Builders
- 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
- submit a satisfactory dispute in line with the guidance provided in the Complaint and Dispute Guide for Builders.

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.

## 8.7 No advice to be provided

When the underwriter provides the Builder with the reasons for the Eligibility 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 (where relevant) 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 (where relevant) to the Eligibility Manual, including relevant information regarding mitigations.

## 8.8 Escalation and disputes

If the Builder is not satisfied with the way any matter has been handled, they can escalate their concerns by referring to the Complaint and Dispute Guide for Builders. This guide is available for download on the icare HBCF website under Builders & Homeowners: <https://www.icare.nsw.gov.au>

**Note:** All Eligibility letters sent to Builders include information about the Complaint and Dispute Guide for Builders.

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
- **Contact:** <https://www.sira.nsw.gov.au/contact-us>
- **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

**Note:** Refer to the document *Complaint and Dispute Guide for Builders* for guidance on the handling of complaints and disputes in relation to underwriting decisions involving Eligibility and Certificates.

## 8.9 Builder's risk mitigation on Eligibility Assessment

The information below outlines the rules and conditions the underwriter may consider when assessing for provisional Eligibility, including when a Builder is recovering from adverse conditions or undertaking an orderly withdrawal from the market.

## 8.10 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 system generated scoring and weightings.

If exceptional circumstances justify it, the underwriter can override the automatic result to enact the requirements of this Manual and the Home Building Compensation (Eligibility) insurance guidelines more appropriately. The underwriter may also consider other factors that come to their attention either before or after the initial assessment decision.

## 8.11 Provisional Eligibility for Builders recovering from adverse conditions

HBCF Eligibility financial criteria ensure that Builders:

- operate responsibly and sustainably
- have a financial buffer against shocks when they experience adverse conditions or events.

After adverse conditions or events, Builders may need a suitable recovery period to rebuild their financial position.

If a Builder cannot mitigate ANTA, working capital or other financial deficiencies as per the Eligibility requirements in [Division 6.17](#) Mitigation of Eligibility financial measures, the underwriter is usually required to either mitigate or suspend, decline or reduce Eligibility in line with the approach set out in this Manual.

Under this division, if a Builder experiences a temporary deficiency that they are unable to mitigate, icare HBCF may accept a Risk Mitigation Proposal. This allows for an alternative approach so a Builder can maintain provisional Eligibility through a recovery period even though ongoing cash flow is dependent on starting new contracts.

Builders may qualify for a recovery period of provisional Eligibility where these requirements are met:

- The Builder cannot reasonably mitigate the full financial deficiency (for example through capital injection, bank guarantee or DOI).
- There is no evidence that the deficiencies were the result of actions within the control of the directors, principals or key managers seeking Eligibility, other than financial or operational decisions.

**Note:** Decisions by previous directors, principals or key managers can be disregarded if those parties are no longer associated with the Builder.

- There are no unacceptable risk scenarios other than scenario 1 (business financial measures) or scenario 9 (insufficient ANTA).
- There are no significant creditor actions, claims or disputes assessed as likely to impact ongoing trading.
- The Builder provides icare with a credible Risk Mitigation Proposal for mitigating working capital, ANTA or other deficiencies that demonstrates:
  - sufficient cashflow for the Builder to sustain operations for the next 12 months, where the underwriter has tested the assumptions used to create the forecast and found those assumptions to be reasonable
  - business mitigations of any working capital deficiencies such as overhead reductions, improved margins or other changes in business strategy
  - retained earnings forecasts that permit ANTA restoration within a period appropriate to the characteristics of the Builder, the adverse conditions and the prospects of recovery (usually 12 months)
  - risks identified from any general adverse criteria ([Division 8.1](#)) are mitigated or explained to the satisfaction of the underwriter.
- It is the underwriter's documented view that the risk to homeowners and the scheme is reduced rather than increased by accepting the Risk Mitigation Proposal (including consideration of risk of an insolvency being triggered by suspension or cancellation, impacts on homeowners with current contracts, etc).

The underwriter must assess the contributions and actions of the directors, principals or key managers who are seeking Eligibility to the deficiencies. This assessment must consider whether the deficiencies were within the control of these key persons and resulted from the financial or operational decisions they made while in their roles.

The underwriter must make a professional judgement and the determination is solely at icare HBCF's discretion. The purpose of the determination is to ensure that icare HBCF is not accepting risk for inappropriate or unethical conduct (such as personal enrichment) at the expense of their business, homeowners, or the HBCF scheme. Underwriters must consider aspects such as:

- whether the actions were reasonable for a director, principal or key manager to take in the course of performing their roles
- whether the main reason for the resulting deficiencies was adverse conditions/events or due to actions taken by directors, principals or key managers
- whether these actions, and the intent behind them, were consistent with financial and operational decisions a key person makes on behalf of their business
- whether there is credible evidence that the directors, principals or key managers seeking Eligibility took action with other intentions (for example, disadvantaging their customers or inappropriately benefiting from withdrawing funds from the business' finances).

Where provisional Eligibility (under [Division 8.11](#) Provisional Eligibility for Builders recovering from adverse conditions) is offered then, until normal Eligibility criteria can be met, the Builder must meet additional Eligibility conditions as determined by the underwriter. These could include, but are not limited to:

- no increases to the Builder's OJV and OJN, though the underwriter may consider one-off acceptance of retrospectively purchased policies above the Builder's OJV or OJN.
- Where OJV and OJN are reduced below current utilisation (including through one-off acceptance of retrospectively purchased policies), tapering conditions (for example 'one job on, two jobs off') are to be implemented gradually to bring the Builder's exposures to a sustainable level.
- a formal commitment, in a way that is suitable to the Builder entity type, to earnings being retained within the business (except for modest living expense drawings to directors/principals) for the exclusive use of funding the performance of the Builder's obligations under their building contracts.
- Deeds and other securities as conditions, in line with the other requirements of the Eligibility Manual, though these do not need to fully mitigate the identified deficiencies.
- intensive monitoring arrangements, including but not limited to:
  - additional information outside normal Eligibility submission requirements
  - more frequent financial reporting
  - detailed WIP reporting at least quarterly
  - progress reporting by key persons as to progress against the Risk Mitigation Proposal.

Any approval under [Division 8.11](#) Provisional Eligibility for Builders recovering from adverse conditions is fully discretionary and requires the approval of the Head of HBCF Underwriting.

The Eligibility provided to a Builder under this division is provisional, and can be cancelled, suspended or reduced at any time at icare's discretion. We will apply this discretion considering:

- the Builder's adherence to their Risk Mitigation Proposal and the imposed conditions
- potential risk to homeowners through the Builder undertaking new contracts
- the continuing credibility of the Builder's capacity to recover from the adverse conditions.

## 8.12 Provisional Eligibility for Builders making an orderly withdrawal from the market

icare HBCF suspends or cancels Eligibility to ensure the scheme is insuring Builders sustainably. Where a Builder is no longer in a supportable financial position and is anticipated to be trading insolvent, the underwriter is usually required to suspend, decline or reduce Eligibility in line with the approach set out in this Manual.

Where a Builder credibly intends an “Orderly Exit” from the market, in rare cases, it may be reasonable to reduce their OJV and OJN in gradual stages to minimise market, consumer and scheme impact.

By allowing Builders to complete limited commercial work and funding building contract completion, the underwriter can mitigate the adverse impact on homeowners and the scheme. This is because possible suspension or cancellation could unnecessarily trigger insolvency and associated claims. However, the commercial uncertainty around Orderly Exits means that this approach always comes with risk and cannot be at the risk of new homeowners.

Builders can qualify for provisional Eligibility for an Orderly Exit in the following circumstances:

**Note:** Decisions by previous directors, principals or key managers can be disregarded if those parties are no longer associated with the Builder.

- There is no evidence that the deficiencies were the result of actions within the control of the directors, principals or key managers seeking Eligibility, other than financial or operational decisions
- It is the underwriter’s documented view that the risk to homeowners and the scheme is reduced rather than increased by accepting the Orderly Exit (including consideration of risk of insolvency being triggered by immediate suspension, impacts on homeowners with current contracts, etc).

The underwriter must assess the contributions and actions of the directors, principals or key managers who are seeking Eligibility to the deficiencies. This assessment must consider whether the deficiencies were within the control of these key persons and resulted they from financial or operational decisions they made while in their roles.

The underwriter must make a professional judgement, and the determination is solely at icare HBCF’s discretion. The determination ensures that icare HBCF is not accepting risk for inappropriate or unethical conduct, such as personal enrichment, at the expense of their business, homeowners, or the HBCF scheme. underwriters must consider aspects such as:

- whether the actions were reasonable for a director, principal or key manager to take in the course of performing their roles
- whether the main reason for the resulting deficiencies was adverse conditions/events or due to actions taken by directors, principals or key managers
- whether these actions, and the intent behind them, were consistent with financial and operational decisions a key person makes of behalf of their business.
- whether there is credible evidence that the directors, principals or key managers seeking Eligibility took action with other intentions (for example, disadvantaging their customers or inappropriately benefiting from withdrawing funds from the business’ finances). There is nothing

in this division that prevents icare from considering any aspect of the Orderly Exit or any eventual suspension or cancellation in future Eligibility or claims decisions. If the Builder (or its principals, directors and/or key managers), returns to the market in the future, special conditions may be applied to any Eligibility granted. These conditions may depend on the ultimate outcome of the Orderly Exit.

The Builder must meet additional Eligibility conditions as determined by the underwriter, including:

- having the lowest possible OJV and OJN to support the Orderly Exit
- implementing tapering conditions such as ‘one job on, two jobs off’ to reduce the icare HBCF exposures as quickly as is reasonable
- retaining earnings within the business (except for modest living expense drawings to directors/principals) for the exclusive use of funding the performance of the Builder’s obligations under their building contracts.
- permitting Eligibility only for commercial contracts with developers or for the construction and sale of speculative properties after completion (to minimise non-completion risk)
- demonstrating budgeted commitment to after-sales support function (in-sourced or contracted) or ongoing warranty provision in wind-down accounts.
- undertaking intensive monitoring arrangements, including but not limited to:
  - more frequent financial reporting
  - detailed WIP reporting at least quarterly
  - progress reporting by key persons as to progress towards an Orderly Exit.
- having a target completion date of all jobs within no more than 24 months.

icare HBCF reserves the right to require a Deed of Indemnity or other security to an amount of icare’s discretion, noting that Builders who fall within this category will not be able to demonstrate sufficient assets to fully mitigate deficiencies. These securities are intended to mitigate icare HBCF’s exposure long-term and for the purpose of ensuring key person commitment to execution and completion of planned wind-down.

Any application of [Division 8.12](#) Provisional Eligibility for Builders making an orderly withdrawal from the market is fully discretionary and requires the approval of the General Manager, HBCF.

This Eligibility is provisional, and it can be cancelled, suspended or reduced at any time at icare’s discretion. This discretion will be applied in consideration of:

- the balance of risk to homeowners and to icare HBCF
- the continuing credibility of the Builder’s ability to make an Orderly Exit.

## Division 9: Underwriting considerations for Certificates of Insurance

This division explains aspects the underwriter considers when assessing project applications referred to them for individual underwriting.

## 9.1 Underwriting of new residential apartment building projects

The information below applies to residential apartment building projects. The underwriter must take special care in assessing developer in the following cases:

- 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 ([Division 6.32 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. Matters that may require detailed consideration are as follows:

- **Scope of works:** the underwriter may need to have its technical services unit assess the application.
- **Proof of funding for contract:** identify the financing arrangements in place and whether the developer has the funds to pay for them (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 to what extent the terms may be weighted in favour of the developer.

When assessing these applications, the underwriter must do the following:

- 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 further assessment is not needed?
- 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
  - whether the developer's parent company (or related company) can provide the necessary financial strength
  - whether, in the example of the Builder or developer being an SPV, 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 17: Certificate referral requirements in Division 9.7](#). If the Builder cannot satisfy the requirements, the underwriter must decline the application.

## 9.2 Medium and high-rise<sup>6</sup> residential Apartment Buildings

### 9.2.1 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 and which contain 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 HBC 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.

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<sup>6</sup> SIRA defines low-rise residential apartment buildings as those not more than three stories high (excluding a carpark, pool, gym, etc.)

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 to what extent 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 17: Certificate referral requirements](#) in [Division 9.7](#).

## 9.3 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.

The 'spec' Builder must arrange insurance cover under Part 6 of the Act on the proposed residential building work even if they have stated their intention to retain the property for investment or rental purposes. 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 rather than 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 it is a residential apartment building project). The sale arrangements may imply the work will be completed; therefore, the risk would include non-completion and loss of deposit.

## 9.4 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 if there is an upward variation (or sequential or cumulative variations) of greater than 20 per cent of the original contract price (or the revised contract price if the Builder or, where relevant, their Distributor has already notified icare HBCF of a variation or variations).

icare HBCF will provide a refund if there is a downward variation (or sequential or cumulative variations) of greater than 20 per cent of the original contract price (or the revised contract price if the Builder or, where relevant, their Distributor has already notified icare HBCF of a variation or variations). In line with the HBC Scheme's purposes, HBCF will not pay these premium refunds where the subject Builder has triggered an insolvency event or any other claim events.

In cases where a contract variation is reduced to a point where the Builder and homeowner's interest is adversely impacted, an explanation and declaration signed and dated by both parties agreeing to the final contract value is needed.

The 20 per cent margin for variations (upwards or downwards) that do not attract premium changes is for the administrative convenience of Builders and homeowners and recognises the normal variations in most residential building work. Where there is a reasonable basis to believe a Builder is repeatedly or systemically using the margin of variation to reduce premiums, icare HBCF reserves the right to audit contracts and seek additional premiums.

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.

Builders should notify icare HBCF by submitting a contract variation request as soon as they become aware that a variation to the contract amount exceeds 20 per cent of the original contract amount. When the Builder sends a variation notification to icare HBCF, they must prove the scope of the variation by providing 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 ([Division 9.4.1](#) Unpaid contract variations):

- the underwriter identifies a variation (or sequential/cumulative variations) of greater than 20 per cent 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 (at current rate) within icare HBCF's standard terms of invoice payment before a loading is applied. The outstanding premium is calculated on a pro rata basis for the difference from the previous contract price.

**Note:** Variations may put the project outside the Builder's Eligibility Profile. However, as icare HBCF is at risk for the project anyway, 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 an SER to determine the appropriate Eligibility Profile for the Builder.

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

Variations requests made two years after a COI is made (e.g. changing subdivision from Strata to Torrens title to receive premium refunds) will not be accepted or processed.

## 9.4.1 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 per cent 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. Failure to pay additional premium may result in the suspension of Eligibility or the application of 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.

**Note:** Builders' liability for premium may change depending on aspects of the building project such as the building contract price or value of the building work if there is no contract. Any failure to notify icare HBCF of changes or make payment of any premium in accordance with this Manual (and general principles of insurance) may lead to suspension or cancellation of a Builder's Eligibility and legal action against them for recovery of any outstanding premium or differences in premium. To avoid this risk, icare HBCF recommends early contact by Builders to ensure that changes are notified and any adjustments in premium are paid (or refunded in the event of a downward variation).

## 9.5 Contracts originally under the legislative threshold

Where variations increase the contract price to an amount over the monetary threshold during construction (as established in the Act), or where a Builder is not aware of the value of the project at the time the contract is entered, the Builder must apply for a COI as soon as they become aware that the project price is likely to exceed the legislatively prescribed 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. If the owner does not provide a letter of satisfaction, an inspection report and notification to Building Commission NSW is required.

Underwriting considerations and document requirements for retrospective applications for insurance are contained in [Table 17: Certificate referral requirements in Division 9.7](#).

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

## 9.6 Retrospective cover

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

**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 or, where relevant, their Distributor may submit an application for retrospective cover in the following situations:

- after payment of a deposit but before the work has started
- during construction
- after the work is completed.

icare HBCF has objectives around consumer protection, so apart from the exception outlined the note above, cover will not be withheld where:

- the underwriting criteria have otherwise been satisfied
- there is no dispute
- 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 17: Certificate referral requirements in Division 9.7](#).

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 an SER and possible cancellation of Eligibility. The underwriter must also notify Building Commission NSW of repeat offences by a Builder.

## 9.7 Certificate referral requirements

[Table 17](#): *Certificate referral requirements* (below) describe the circumstances and the action to take for referral of project applications to the underwriter. It outlines document requirements; however, the underwriter may ask for further 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.

### All certificate referral requirements

1. An application form provided (not required if submitted in BSSP by a BSSP user).
2. Project Copy of the building contract (which must be signed and dated). Exceptions can be made in rare circumstances by an underwriter, e.g. general insurance rectification Builders who receive contracts through other type of supporting documents (work orders), or Builder seeking to use HBC exemption for work involving licensed contractors).

Table 17: Certificate referral requirements

Issue	Document requirements
New residential apartment building construction	<ol style="list-style-type: none"> <li>1. Documents from 'All certificate referral requirements' above</li> <li>2. Evidence of property ownership (ICD is required if the property owner is a separate entity to the contracting party)</li> <li>3. Proof of final unconditional funding approval</li> <li>4. Sufficient drawings and specifications</li> <li>5. JSD is required if JSD for 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>
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</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>
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> </ol>

Issue	Document requirements
<p>A close relationship, excluding Prescribed Relationships (<a href="#">Division 7.3.1</a> Directors, principals, and key managers) between Builder and homeowner (non-arm's length) that may create a risk.</p>	<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>

Issue	Document requirements
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 OJL (for Builders in the same GTA)</li> <li>3. consideration of temporary OJL increases (<a href="#">Division 4.8.7</a> Temporary OJL increases).</li> </ol>
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 was not 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 Builder or, where relevant, their Distributor must also supply a copy of the engineer's Professional Indemnity cover.</li> <li>5. Where construction work is beyond 'Footings' stage – the Builder or, where relevant, their Distributor 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. The Builder or, where relevant, their Distributor must also supply a copy of the consultant's Professional Indemnity cover</li> <li>6. Where construction work involves renovation and/or rectification, — the Builder or, where relevant, their Distributor 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. The Builder, or where relevant, their Distributor must also supply a copy of the consultant's Professional Indemnity cover.</li> </ol>

Issue	Document requirements
<p>Retrospective Cover (estimated completion date is in the past)</p>	<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.</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. 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 completed to an acceptable standard and is within the contract requirements</li> </ol> <p>The Builder, or where relevant, their Distributor must also supply a copy of the engineer's Professional Indemnity cover.</p> <ol style="list-style-type: none"> <li>c. a 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. 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. a letter of satisfaction from the owner confirming all works are complete and they are satisfied with the quality of workmanship, and no claims are pending.</li> </ol> </li> <li>5. A copy of the email that the Builder, or where relevant, their Distributor has sent to Building Commission NSW, advising works commenced without HBC insurance being in place.</li> </ol> <p><b>Email address:</b> <a href="mailto:regulatoryassessments@customerservice.nsw.gov.au">regulatoryassessments@customerservice.nsw.gov.au</a></p> <p>The Distributor can send this notification on behalf of the Builder.</p>

Issue	Document requirements
Retrospective Cover which was originally under \$20,000	<ol style="list-style-type: none"> <li>Documents from All certificate referral requirements above.</li> <li>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> </ol> <p>An inspection report and notification to Building Commission NSW are not normally required in these cases unless the owner's satisfaction letter is not supplied.</p>
Records show no current NSW contractors' licence and/or not licensed for the contracted work	Do not proceed. A current, valid licence is required.
Policy for the same site exists	<ol style="list-style-type: none"> <li>Documents from All certificate referral requirements above</li> </ol>

The underwriter will follow up irregularities with the Builder, or where relevant, their Distributor. The underwriter will fully investigate any identified risks and reject the application unless satisfied with the outcome of the investigation or the situation is rectified.

## 9.8 Cancelled and amended Certificates of Insurance

### 9.8.1 Cancellation and early termination of Certificates of Insurance

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

The Builder or, where relevant, their Distributor is responsible for gathering 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 passed 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 (if applicable) as to whether work is properly characterised as Residential Building Work (as per the Act).

The following documentation is required to cancel Certificates of Insurance:

- letter from Builder addressed to the Distributor (where relevant) or icare HBCF advising the reasons for cancellation
- confirmation in writing from the homeowner (or developer) stating that:
  - no building work has started, including land clearance
  - the reasons for the cancellation along with a copy of any document terminating the contract between the building entity and the owner
  - no claim exists in connection to 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 applicable deposit paid by the homeowner has been refunded in accordance with the executed building contract.

A COI must never be cancelled so that it can be reissued with a new date of issue. This is because there are important provisions under the Act where the rights and obligations of Builders and homeowners depend on the date of issue of a COI.

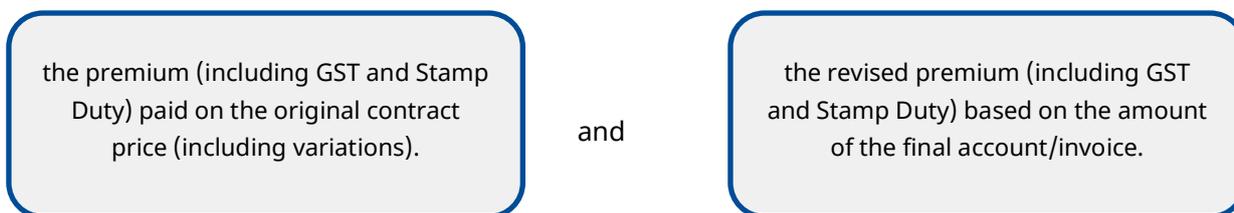
The underwriter must decline any request from a Distributor (where relevant), Builder or homeowner for the cancellation and reissue of a COI with an amended date.

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

Where work has started or monies have been paid, icare HBCF is at risk. Therefore, 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).

Consequently, icare HBCF treats any early termination of a contract as a variation and amends the premium to reflect the value of the works completed.

The partial refund of the premium is the difference between



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 Builder or, where relevant, their Distributor must:

- obtain the original COI
- obtain a statutory declaration from the Builder detailing the stage of works completed
- confirm the final contract value with both the Builder and the homeowner
- 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.

Builders will be refunded premium paid (or where originally paid to a Distributor and the Distributor paid icare HBCF, the Distributor will provide the refund). All relevant documentation must be provided to icare prior to release of funds.

**Note:** icare HBCF may request a demarcation report from incoming Builder to continue the project.

## 9.8.2 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 these 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 under the following conditions:

- 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 proven with a written statement by the Builder or, where relevant, their Distributor, along with copies of promotional material, sales records or other documentation judged as appropriate by icare HBCF.

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

Changing the issue date may misrepresent the Builder's compliance with legislation requiring insurance to be in place prior to the commencement of building work. Additionally, homeowners may have specific legal rights and protections in circumstances where insurance was not in effect when work commenced. For this reason, issue dates must accurately reflect the date the policy was formally issued.

The underwriter must decline any request from a Builder or, where relevant, their Distributor, or homeowner to change a COI's date of issue.

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

Each COI issued exposes icare HBCF to the maximum indemnity under the policy, so there must be appropriate reasons for a Builder or homeowner requiring a further COI for works at the same site.

Where a Builder applies for a second and additional COI 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 is determined that the work under the original contract was completed 12 or more months ago and the new contract:

- covers new work legitimately not predicted at the time of the original contract
- or where it had always been planned that the work would be undertaken in stages (and the same Builder was the successful tenderer for the next stage).

If the underwriter determines, after reviewing the submitted documentation, 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 underwriter will instead treat the matter as an amendment to the original COI ([Division 9.4](#) Contract variations and [Division 9.8.3](#) Amendments to Certificates of Insurance—not contract variations).

In some cases, it appears that the work to be covered by an 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 the new arrangements 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 for assessment to determine whether to approve the application for the further COI. Again, the underwriter must find out the reasons for entering into new contractual arrangements.

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

## 9.8.5 Fraudulent Certificates of Insurance—receipt of information

Where a Builder or, where relevant, their Distributor receives (and informs the underwriter) of information alleging the provision of fraudulent COI by any person or entity (including a Builder, developer, owner-Builder, homeowner, Distributor, staff member etc.), the underwriter must record and immediately start an SER (where the Builder holds current Eligibility). The underwriter must also report this information to Building Commission NSW for assessment.

## 9.9 Other special underwriting considerations

The information below provides the legal definition of 'developers' and contains guidance for underwriters relating to kit homes, marketing groups and franchises, and tax file numbers.

### 9.10 Developers

Under the Act, a developer is an individual, partnership or corporation that has residential building work done on their behalf. This work is 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 who owns, or will 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 HBC 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 has a record of ANTA of at least 10 per cent 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.

## 9.11 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).

## 9.12 Marketing groups and franchises

An important factor when analysing a group member is that the heads of agreement document have evidence that the Builder has control over their 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 determine 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.

## 9.13 Tax file numbers

icare HBCF must not seek or store Tax File Numbers (TFN) from the information supplied by the Builder or, where relevant, their Distributor. Builders and/or, where relevant, their Distributor must not provide their TFN to icare and must ensure any documentation provided to icare, whether electronically or physically, does not contain their TFN.

Where a TFN has been provided to icare HBCF, these documents will be deleted and/or disposed of immediately upon identification and replacement documents, with the TFN removed, will be required.

# Division 10: Distributor involvement

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This division outlines rules and policies for Distributors who deal with Builders, contractors and icare HBCF.

icare HBCF has a fixed panel of approved Distributors.

Builders or contractors can choose an approved Distributor to apply for a COE or a COI before starting work on a building project. An approved Distributor submits complete and accurate information on behalf of the Builder.

## 10.1 The icare HBCF Distributor Panel

Although the number of Distributors is fixed, icare HBCF occasionally evaluates distribution tenders to add Distributors to the icare HBCF Distributor Panel. If the evaluation is successful, icare HBCF will specify the form of distribution deed that the Distributors must execute before being admitted to the panel.

## 10.2 Authorised representatives

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

## 10.3 The role of Distributors

Distributors support the Eligibility model's objectives of consistency and procedural fairness.

The principal role of a Distributor is to:

- transact through the icare HBCF core systems
- manage the Builder's requirements for making new Eligibility applications
- manage the Builder's responsibilities for the Eligibility Assessment
- ensure that the Builder meets all Eligibility conditions
- work with icare HBCF to ensure the fairness, transparency and sustainability of the Fund

The above is subject to the requirements under the Distribution Deed entered with icare HBCF and the procedures set out in this Manual.

## 10.4 Submission of policy application

When a Distributor processes a policy application or a Builder submits an application for cover through the Builder Self-Service Portal (BSSP), Distributors must ensure the application follows within:

- the agreed service standards
- a Builder's conditions of Eligibility
- the Eligibility Manual COI issuance guidelines.

## 10.5 Distributor involvement for Eligibility Assessments

### 10.5.1 Manual Assessments

In making a complete Eligibility application submission on behalf of the Builder, Distributors help icare HBCF underwriters make an informed decision on Eligibility. The Distributor must disclose all matters and knowledge 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. The Distributors must not knowingly advocate for the Builder to seek a lesser period of Eligibility which may later require an increase.

### 10.5.2 Automated Assessments

The Distributor must ensure that the information used in the ASR assessment is accurate and that they disclose all matters and knowledge relevant to the Eligibility Assessment.

## 10.6 Distributor communications

Part of the Distributor's role is to maintain effective communication with underwriters and Builder clients.

When communicating with underwriters, the Distributors must:

- obtain information the underwriter needs to conduct risk assessments and to monitor and manage ongoing risks
- help minimise unnecessary disruption to projects due for commencement and identify concerns to the underwriter as appropriate.

When communicating with Builder client, the Distributor must communicate icare HBCF's requirements and decisions to Builder clients clearly and promptly. The Distributor needs to understand the reasons behind the requirements or requests for further information. They can achieve this by always using the current version of the HBCF Eligibility Manual available on the icare website:

<https://www.icare.nsw.gov.au/>

The Distributor must also follow the requirements and processes for:

- new Eligibilities, including documentation requirements and the minimum financial benchmarks
- Programmed Eligibility Reviews (PER), including frequency cycles and documentation requirements
- issuing Certificates of Insurance.

The Distributor also needs to maintain communications with the underwriter and follow any directions they give.

### 10.6.1 icare HBCF's direct communication with Builder

icare HBCF may deal directly with Builder during the assessment process to seek clarity or further information.

These direct communications between the icare HBCF and Builder ensure:

- decisions are made on the most up to date information
- time delays are reduced
- Builders are given direct access to the icare HBCF completing the assessment.

As a courtesy, icare HBCF aim to provide the Distributor with a copy of communications between icare HBCF and Builders.

## 10.7 Distribution reserving policy

The term 'Reserving' refers to an insurer choosing to provide a quotation to one Distributor exclusively even though they may have been approached by more than one Distributor. This means the insurer has 'reserved' the policy for the chosen Distributor 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.

## 10.8 Premium credit terms and premium payments

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

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

Where a Builder has not appointed a Distributor, the Builder is liable to icare HBCF for all premium payments, including any variations applicable (for example, due to changes to building contract price or the value of building work where there is no contract).

## 10.9 Change of Distributor

If there is a change in Distributor, the new Distributor must submit a Letter of Appointment to icare HBCF within 24 hours.

Access to the Builder COE will be provided to the new Distributor, as well as conditions of Eligibility approval and the review schedule. icare HBCF will 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 it is still in progress.

## 10.10 Multiple Builders with Eligibility covered in the same GTA

Where more than one Builder with Eligibility is covered by the same Group Trading Agreement ([Division 6.26](#) 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 and as a group.

# Division 11: Scheme administration

This division explains icare HBCF’s policies and standards for customer service and complaints handling.

## 11.1 Eligibility Assessment and review service standards

SIRA’s Home Building Compensation (Eligibility) Insurance Guidelines require icare HBCF to meet certain service standards. Our customer service aims to comply with the Customer Service Conduct Principles implemented by SIRA in November 2019.

The following measurable service standards (detailed in Tables 18-21 below) apply:

*Table 18: 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 (PER 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.	within seven business days of receipt of the documents
<b>Note:</b> This does not apply to ASR assessments.	
Complete Eligibility Assessment and communicate Eligibility Profile, terms, and conditions to the Builder or, where relevant, their 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)

Eligibility Assessment and review	Underwriter requirement for completion
Finalise an Eligibility Assessment.	<p>within 40 business days (10 business days for ASR assessments) of communicating Eligibility Profile, terms, and conditions to the Builder or, where relevant, their Distributor unless:</p> <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 line with the guidance provided in the Complaint and Dispute Guide for Builders.</li> </ul>

## 11.2 Project application service standards

Table 19: 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 the application for COI and advise the Builder or, where relevant, their Distributor of the decision, including any proposed conditions on the approval.	within five business days of receipt of complete information or completion of review (whichever later)
Issue decision to Builder or, where relevant, their Distributor.	within two business days of receipt of Builder accepting underwriting conditions

## 11.3 Response to enquiries service standards

Table 20: Service standard for responses to enquiries

Enquiries service standards	Underwriter requirement for completion
<p>Respond to queries from icare HBCF, SIRA or Building Commission NSW</p> <p>(For example, the underwriter may regularly receive enquiries from icare HBCF, SIRA or Building Commission NSW. Some may be of an Eligibility-specific nature while others may be related to scheme policy).</p>	<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>

## 11.4 Notice period service standards

Table 21: Notice period

Type of notices	Underwriter Requirement for notice period
Expiry of Eligibility	At least 60 business days' written notice is issued ( <a href="#">Division 8.5</a> Expired Eligibility).
Suspension of Eligibility	<p>At least 10 business days' written notice is issued (<a href="#">Division 8.2</a> Suspended Eligibility).</p> <p>Immediate suspension applies under limited circumstances (<a href="#">Division 8.2</a> Suspended Eligibility).</p>
Cancellation of Eligibility	<p>At least 30 business day's written notice is issued (<a href="#">Division 8.3</a> Cancelled Eligibility).</p> <p>Immediate cancellation applies in certain circumstances (<a href="#">Division 8.3</a> Cancelled Eligibility).</p>
Communicating and Enacting Eligibility Profile and Terms	<p>At least 30 business days' (5 business days' for ASR assessments) notice is issued including:</p> <p>immediate implementation of Eligibility Profile</p> <p>at least 20 business days' written notice is issued of that decision and any conditions associated with the Eligibility Profile</p> <p>at least 10 business days' written notice of any decision to discontinue issuing Certificates.</p> <p>Immediate implementation to discontinue issuing Certificates under certain circumstances (<a href="#">Division 8.6</a> Communicating and enacting an Eligibility Profile).</p>

Type of notices	Underwriter Requirement for notice period
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 (<a href="#">Division 4.5</a> Special Eligibility Review— SER).</p> <p>Immediate implementation to discontinue issuing Certificates of Insurance under certain circumstances (<a href="#">Division 8.6</a> Communicating and enacting an Eligibility Profile)</p> <p>Immediate suspension applies under limited circumstances (<a href="#">Division 8.2</a> Suspended Eligibility).</p>
Overdue PER	<p>icare HBCF must provide the Builder or, where relevant, their Distributor with at least 40 business 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 (<a href="#">Division 4.4</a> Programmed Eligibility Review—PER).</p>

**Note:** icare HBCF must communicate with the Builder, or where relevant, their Distributor as soon as reasonably possible where it believes it cannot meet the service standards before the due date for delivery. icare HBCF will advise the reasons for the delay and the expected actual delivery date. Notification of delay does not limit the Builder or the Distributor's rights of complaint or redress but is required as part of transparent and fair administration.

## 11.5 Complaints against icare HBCF

The SIRA regulates the NSW HBC scheme. Although SIRA cannot overturn an individual decision, SIRA can review icare HBCF's compliance with the legislation, guidelines, and policy.

icare HBCF must comply with SIRA's Home Building Compensation (Eligibility) Insurance Guidelines. The guidelines are on SIRA's website: <https://www.sira.nsw.gov.au/>

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
- **Contact:** <https://www.sira.nsw.gov.au/contact-us>
- **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

The Guidelines state that icare HBCF must establish and maintain an internal complaint handling process. This is outlined below:

## 11.6 icare HBCF Complaint and Dispute Guide for Builders

The Complaint and Dispute Guide for Builders outlines how icare HBCF manages complaints and disputes, service standards and underwriting decisions.

This guide is available for download on the icare HBCF website: <https://www.icare.nsw.gov.au>

Our website also has information on how to lodge a complaint for dispute:

<https://www.icare.nsw.gov.au/Builders-and-homeowners/disputes/lodge-a-dispute>

## 11.7 General insurance code of practice—buying insurance

Although the Code of Practice does not strictly apply to State insurance, icare HBCF believes that many 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 as outlined in the Complaint and Dispute Guide for Builders.
- Where the Builder, Distributor, or underwriter identifies an error or mistake in assessing the application for Eligibility or a COI, the underwriter will immediately take action to correct it.
- If the underwriter cannot provide insurance, they will give reasons for this.
- The underwriter will advise the Builder about their options to make a complaint or request a review if they are dissatisfied with the decision in line with the guidance provided in the Complaint and Dispute Guide for Builders.
- If the underwriter cancels Eligibility, they will send any money owed to the Builder or, where relevant, their 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.

**Note:** The Code of Practice can be accessed at <https://insurancecouncil.com.au/cop/>

## 11.8 Standard document list

Below is list of standard document templates and key information that underwriters are required to use when communicating with stakeholders.

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 are to include (where appropriate and in line with the requirements set out in this Manual):

- advice of the effective date of a decision to suspend, cancel or modify an Eligibility or to stop issuing Certificates of Insurance to a Builder (at least 10 business days' notice is required)
- notification of compliance review and complaint options to SIRA
- 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 in line with the guidance provided in the Complaint and Dispute Guide for Builders
- 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  
Contact: <https://www.sira.nsw.gov.au/contact-us>  
Address: State Insurance Regulatory Authority, Locked Bag 2906, Lisarow NSW 2252.

## 11.9 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 Act 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.

## 11.10 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) 8378 0560 General Enquiries 9am to 5pm

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>

## 11.11 Supporting References

The table below contains references and links for information used in this Manual.

*Table 22: 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="https://www.icare.nsw.gov.au/">https://www.icare.nsw.gov.au/</a>
HBCF	HBCF Complaint and Dispute Guide for Builders	Published by icare HBCF and available on its website at: <a href="https://www.icare.nsw.gov.au/">https://www.icare.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>

Provider	Reference material	Location
State Insurance Regulatory Authority (SIRA)	<p>Home building compensation (Claims Handling) insurance guidelines</p> <p>Home building compensation (Eligibility) insurance guidelines</p> <p>Home building compensation (Premium) insurance guidelines</p> <p>Home building compensation (Prudential) insurance guidelines</p> <p>HBC standard licence conditions for insurers</p> <p>NSW Self Insurance Corporation conditions – Home building compensation regulation</p> <p>Customer service conduct principles</p>	<p>Published by SIRA and available on its website at:</p> <p><a href="https://www.sira.nsw.gov.au/">https://www.sira.nsw.gov.au/</a></p>

## Division 12: Glossary

This division explains terms used in the Eligibility Manual.

Term	Definition
\$	Australian dollars
AASB	Australian Accounting Standards Board
ACR	Adjusted Current Ratio
ADI	Accredited Deposit-taking Institution
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> <ul style="list-style-type: none"> <li>A) All Current assets: \$500,000</li> <li>B) All current assets assigned a 0% ANTA weighting: \$50,000</li> <li>C) Speculative WIP: \$100,000</li> <li>D) Undrawn funding facility: \$50,000</li> <li>E) All current liabilities: \$400,000</li> <li>F) Progress Payments received in advance: \$50,000</li> </ul>

Term	Definition
	<p>G) Related liabilities treated as quasi working capital: \$50,000</p> $\text{ACR} = (A-B-C+D)/(E-F-G)$ $= (500,000 - 50,000 - 100,000 + 50,000)/(400,000 - 50,000 - 50,000)$ $= 400,000/300,000$ $= 1.3$ $= 1:1.3$
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.
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 available on our website: <a href="https://www.icare.nsw.gov.au/">https://www.icare.nsw.gov.au/</a></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>
ASIC	Australian Securities and Investments Commission
ASR	<p>Automated 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>
ASX	Australian Securities Exchange
ATO	Australian Taxation Office
Average Creditor Days (days)	<p>This indicates how long it takes the business to pay its bills 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>
Average Debtor Days (days)	<p>This indicates how long it takes a business to get paid and is calculated by dividing the total value of the outstanding debtors by the total sales and then multiplying that number by 365.</p> <p>For example, if the total of your outstanding debtor accounts is \$50,000 and the total sales is \$1,000,000, the Average Debtor Days = <math>(50,000/1,000,000)*365 =</math></p>

Term	Definition
	0.05*365 = 18.25 days.
Bankruptcy Act	<i>Bankruptcy Act 1966 (Cth)</i>
BEAR	<p>Builder Eligibility Assessment Report</p> <p>BEAR is a standardised report template used by an underwriter to communicate the outcome of the Eligibility Assessment. The report will typically include information such as:</p> <ul style="list-style-type: none"> <li>• approved OJV, Approved Open Job Number and Construction Profile Limits</li> <li>• an underwriter’s summary of the Eligibility Assessment outcome</li> <li>• any conditions that need to be met to finalise the Eligibility Assessment and obtain/maintain Eligibility</li> </ul> <p>a Builder’s options if they are not happy with the outcome of the Eligibility Assessment.</p>
BEAT	<p>Builder Eligibility Assessment Tool</p> <p>An HBCF developed 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>
BSSP	<p>Builder Self-Service Portal</p> <p>An online portal developed by HBCF that enables Builders to apply for a COI online and access their HBCF information.</p> <p>For further information and details on how to access the BSSP, go to the icare website: <a href="http://www.icare.nsw.gov.au">www.icare.nsw.gov.au</a></p>
Builder	<p>A person including a contractor licensed to undertake residential building work in NSW under the Act and required by Part 6 of the Act to enter into a building cover contract. This also extends to any party the Builder engages to act on their behalf through the HBCF Portal.</p> <p>Where this manual imposes requirements on Builders for any process or practice concerning Eligibility applications and Reviews, icare HBCF acknowledges that Builders may have representatives such as accountants, business managers or brokers (for Builders not covered by the icare HBCF Distributor Panel). Actions by those representatives will be attributed to the Builder for the purposes of this Manual.</p>

Term	Definition
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 Act. 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 Commission NSW	<p>The Building Commission NSW is the building regulator that oversees and regulates the construction industry, ensuring the quality of residential buildings.</p> <p>Building Commission NSW website: <a href="https://www.nsw.gov.au/departments-and-agencies/building-commission">https://www.nsw.gov.au/departments-and-agencies/building-commission</a></p>
building cover contract	<p>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.</p>
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 <i>Bankruptcy Act</i> (regardless of whether subsequently annulled, discharged, or released, unless the annulment was under s153 of the <i>Bankruptcy Act</i>).</li> <li>A company which was a Chapter 5 body corporate within the meaning of the <i>Corporations Act</i> (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):</li> </ul>

Term	Definition
	<ul style="list-style-type: none"> <li>○ subject to bankruptcy, a debt agreement or PIA within the meaning of the <i>Bankruptcy Act</i> (regardless of whether subsequently annulled, discharged, or released, unless the annulment was under s153 of the <i>Bankruptcy Act</i>).</li> <li>○ a Chapter 5 body corporate within the meaning of the <i>Corporations Act</i> (regardless of whether that external administration or other Chapter 5 body corporate event was subsequently terminated, released, discharged, or otherwise ended).</li> <li>○ subject to dissolution or winding up within the meaning of the <i>Partnership Act</i>.</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 <i>Corporations Act</i> (regardless of whether that external administration or other Chapter 5 body corporate event 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 <i>Corporations Act</i> (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 of the Act.</li> </ul> <p>A Builder entering Member’s Voluntary Liquidation is a complex solvency event that typically indicates the Builder intends to deregister the company. It can be used for a variety of business purposes and can have different implications depending on wider questions of business structure. In general practice, icare HBCF will suspend the Eligibility of a Builder that has gone into a Member’s Voluntary Administration in line with the principles set out above.</p> <p>However, if an eligible Builder voluntarily deregistered one of its related entities (particularly, one not undertaking residential construction activities in NSW or in other Australian jurisdictions) through a Member’s Voluntary Liquidation process, icare will not usually suspend the Builder’s Eligibility but will instead conduct an SER to ensure there is no material impact on Builder’s financial performance as a result.</p> <div style="background-color: #e6f2ff; padding: 10px; border: 1px solid #0056b3;"> <p><b>Note:</b> We will only consider it an acceptable risk for Eligibility if a period of five years has passed since a key manager, director, or principal of the Builder was discharged from bankruptcy. If a key manager, director or principal of the Builder has been subject to bankruptcy, a debt agreement or PIA within the meaning of the <i>Bankruptcy Act</i> within the last five years, we will consider it an unacceptable risk for Eligibility.</p> </div>
Business days	Monday to Friday, excluding public holidays
Capital and retained	To find this percentage you divide the Paid-up Capital and Retained Earnings by

Term	Definition
earnings to turnover	<p>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.
CIMS	<p>Claims Information Management System</p> <p>The icare HBCF IT Transaction System.</p>
claim	A claim for indemnity by a claimant under a building cover contract.
COE	<p>Certificate of Eligibility</p> <p>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.</p> <p>The certificate records:</p> <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>
COI	<p>Certificate of Insurance</p> <p>A COI is required for residential building projects valued at over \$20,000 including GST. Builders should purchase a COI before commencing work on the project and before taking any money, including a deposit under the building contract.</p>
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 bureaus 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.
Complaint and Dispute Guide for Builders	A guide that outlines how Builders or their Distributors (where relevant) can raise complaints and disputes about Eligibility decisions or other icare HBCF concerns.
Construction Profile	A term for Construction Type limits requested or approved for a Builder
Construction Type	A SIRA-defined classification of residential construction works requiring home building compensation cover.

Term	Definition
	<p>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.</p> <p>See <a href="#">Division 2.14</a> Construction Types for further information about the various classifications of construction work and their associated construction codes.</p>
contract of insurance	A contract of insurance under Part 6 of the Act.
Corporations Act	<i>Corporations Act 2001 (Cth)</i>
Credit enquiry	Related to Distributor 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.
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	<p>Deed of Indemnity in Respect of Former Business</p> <p>An agreement between HBCF and a Builder to indemnify HBCF in certain circumstances against any insurance claims made under any COIs HBCF has issued to a Builder that no longer has Eligibility (for example, dissolution of a partnership who had Eligibility and subsequently seeking Eligibility as a building company).</p>
dispute	<ul style="list-style-type: none"> <li>• A dispute regarding a licence holder's Eligibility decision for a contractor (Eligibility dispute). When a Builder or, where relevant, their Distributor 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.</li> <li>• A dispute regarding a licence holder's decision regarding the claim (claim dispute).</li> </ul>
Distributor	Builders may use a Distributor to apply for Eligibility and HBC insurance. A

Term	Definition
	reference to Distributor in this document refers to a Distributor on the Distributor Panel. icare lists approved Distributors and their fees on the icare website.
Distributor Panel	A fixed panel of Distributors approved by icare HBCF. The Distributor is selected based on a competitive tender process and appointed pursuant to a Direct Distribution Deed entered with icare HBCF.
DOI	Deed of Indemnity
Eligibility	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.
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 Review (PER)</li> <li>• Builder Profile Change (BPC)</li> <li>• Special Eligibility Review (SER)</li> <li>• New Eligibility Review (NEW)</li> <li>• Automated Scorecard Reviews (ASR).</li> </ul>
Eligibility Manual or 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 <i>Act</i> .
Eligibility Profile	A collective term for OJV, OJN and Construction Profile. It is typically used to refer to the approved OJV, approved OJN and approved Construction Profile for a Builder recorded on their COE.
Eligibility Score	<p>This is a number derived from an algorithm by a commercial bureau reporting agency based on various data sources. It determines an appropriate Eligibility Profile to offer a Builder without needing to manually underwrite the Builder's financial information (for example, with 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>• Distributor enquiries: The total number of Distributor 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> </ul>

Term	Definition
	<ul style="list-style-type: none"> <li>• Entity type: The structure of the Builder (for example, sole trader, partnership, company)</li> <li>• Commercial adverse information: 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.</li> </ul> <p>Key characteristics that form this score are:</p> <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 (sourced from the Personal Property Securities Register, which is an electronic register that allows security interests in personal property to be registered and searched in accordance with the New Zealand <i>Personal Property Securities Act 1999</i> and the <i>Australian Personal Property Securities Act 2009</i>)</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>
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

Term	Definition
	infrequent in nature, and is unlikely to recur in the foreseeable future. Extraordinary losses are disclosed separately in the financial statements.
gross margin	<p>There are two ways of expressing gross margin:</p> <ul style="list-style-type: none"> <li>• Most Builders and icare HBCF 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> <p>It is essential that the correct comparison and communication be made.</p> <p>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 <math>50,000/125,000 = 40\%</math></p>
gross profit margin ratio	<p>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.</p> <p>gross profit margin = gross profit/sales: 1.0</p>
Gross profit versus net profit	<p>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.</p> <p>Example of gross profit versus net profit:</p> <p>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:</p> <ul style="list-style-type: none"> <li>• Sales = \$450, cost of goods = \$300</li> <li>• Gross profit = sales - cost of goods = \$450 - \$300 = \$150</li> <li>• Net profit = gross profit - operating costs = \$150 - \$80 = \$70</li> </ul>
GTA	<p>Group Trading Agreement</p> <p>A type of deed which allows for a Builder's Eligibility for HBC cover to be assessed by combining the financials of the Builder with other entities (See <a href="#">Division 6.26</a> Group entities and Group Trading Agreements— GTA for further information).</p>
HBC	Home Building Compensation
HBC legislation	Includes the <i>Act</i> and Regulation and any Insurance Guidelines made under the <i>Act</i> .
HBCF or icare HBCF	<p>Home Building Compensation Fund</p> <p>HBCF is a provider of HBC cover under Part 6 of the <i>Act</i>, 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>

Term	Definition
	A reference to HBCF in HBCF documents includes a reference to icare and SICorp.
HBCF Portal	An online portal allowing Builders to directly engage with icare HBCF on all Eligibility and project application matters.
Home Building Act	<i>Home Building Act 1989</i> (NSW)
icare	Insurance and Care NSW 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 Act. A reference to HBCF in this document includes a reference to icare.
ICD	Irregular Contract Arrangements Deed of Indemnity 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. 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 landowners).
JSD	Deed of Indemnity Agreement – Job Specific 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 ( <a href="#">Division 6.27</a> Job Specific Deed of Indemnity Agreement —JSD—and values for further information). This type of deed is usually requested to mitigate the risk associated with a higher-value or higher-risk project.
Letter of Appointment	A document intended to confirm a Builder's appointment of an insurance Distributor to act on their behalf in relation to HBC cover with HBCF.
licence holder	A licensed insurer or a licensed provider under the Act
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 will not be able to pay its bills.
Major Builder	A Builder Size Classification based on the Builder's approved OJL and primary Builder segment. A Builder may be treated as a Major Builder based on their requested OJL as part of an Eligibility Assessment (for example, a System Reviewed Builder (Tier 3) may submit a requested OJL as part of a BPC, which if successful would result in the Builder being classified as a Major Builder). A Major Builder is required to undertake a PER annually (at minimum) as a condition of ongoing Eligibility for HBC cover with HBCF.

Term	Definition
Major Non-Project Home Builder	A sub-classification of Major Builder where the Builder's sales turnover is not predominantly generated through display homes ( <a href="#">Division 6.1 Eligibility Assessment for Major Builders</a> ).
Major Project Home Builder	<p>A sub-classification of Major Builder where the Builder's sales turnover is predominantly generated through display homes (<a href="#">Division 6.1 Eligibility Assessment for Major Builders</a>).</p> <p>Major Project Home Builders generally offer a series of standard new home designs and build a large number of homes per year.</p>
margin	<p>A margin shows how much of each sale is profit (as a percentage). It helps to make budgeting and pricing decisions. Lenders and investors use your margin to decide if you are 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.
NCAT	<p>NSW Civil and Administrative Tribunal</p> <p>It 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) Building Commission NSW may recommend a homeowner refer their dispute to NCAT for resolution.</p>
NCC	National Construction Code
NPAT	Net Profit After Tax
net margin	<p>Net margin is your gross margin less your business overhead expenses. It is the profit before paying tax. Tax is not 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,</p>

Term	Definition
	then your net profit before tax is 50,000/500,000 = 10%.
NEW	<p>New Eligibility Review</p> <p>A type of Eligibility Assessment recorded by icare HBCF 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 for Builders who fall within both of 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>
NSW	New South Wales
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>
OJN	<p>Open Job Number</p> <p>This represents the total number of COIs a Builder is permitted to have incomplete at any point in time. It can be expressed as:</p> <ul style="list-style-type: none"> <li>• <b>Approved OJN:</b> The total number of building projects a Builder is permitted to have incomplete at any point in time. This number is recorded on a Builder's COE.</li> <li>• <b>Requested OJN:</b> 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>• <b>Used OJN:</b> The total number of incomplete COIs a Builder has incomplete at a point in time.</li> </ul>
OJV	<p>Open Job Value</p> <p>This represents the total contract value of COIs a Builder is permitted to have incomplete at any point in time. It can be expressed as:</p> <ul style="list-style-type: none"> <li>• <b>Approved OJV:</b> The maximum total contract value of building projects a Builder is permitted to have incomplete at any point in time. This total contract value is recorded on a Builder's COE.</li> </ul>

Term	Definition
	<ul style="list-style-type: none"> <li>• <b>Requested OJV:</b> 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>• <b>Used OJV:</b> 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>It is 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	<i>Partnership Act 1892 (NSW)</i>
PCA	Principal Certifying Authority
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 <a href="#">Division 4.4</a> Programmed Eligibility Review—PER for further information. System Reviewed Builders may be required to undertake a PER if they wish to maintain Eligibility. See <a href="#">Division 8.5</a> 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 (<a href="#">Division 4.4.2</a> 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>
Person	Includes an individual, a corporation and a body corporate or politic as defined in the <i>Interpretation Act 1987 (NSW)</i> .
PIA	<p>Personal Insolvency Agreement</p> <p>A form of personal insolvency appointment made under Part X <i>Bankruptcy Act</i>.</p>
Profit	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.
Proprietorship	Proprietorship is the fact or state of being a proprietor. A sole proprietorship is the simplest and most common structure chosen to start a business. It is an unincorporated business owned and run by one individual with no distinction between the business and the owner.
Ratios	The most common types of ratios are:

Term	Definition
	<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
Secondary dwelling	A secondary dwelling is one that is on the same lot of land as the principal dwelling.
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 <a href="#">Division 4.5</a> Special Eligibility Review— SER for further information.</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 Act 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 HBC 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> <p>Contact SIRA: <a href="https://www.sira.nsw.gov.au/contact-us">https://www.sira.nsw.gov.au/contact-us</a></p>
SIRA Guidelines	<p>SIRA Guidelines include:</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> <li>Home Building Compensation (Business Plan) 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</p>

Term	Definition
	purpose/task (for example, a development project). Once that purpose/task has been completed the entity is deregistered/liquidated.
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> <p>Stock or inventory turnover = cost of goods sold/0.5 x (opening inventory + closing inventory): 1.0</p>
System Reviewed Builder	<p>A Builder Size Classification based on the Builder's approved OJL and primary Builder segment. See <a href="#">Division 3</a> Builder Size Classification and <a href="#">Division 3.2</a> 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 HBC cover with HBCF. However, the Builder is still subject to:</p> <ul style="list-style-type: none"> <li>an SER initiated by the underwriter. See <a href="#">Division 4.5</a> Special Eligibility Review— SER for further information.</li> <li>a PER in order to maintain their Eligibility if it is about to expire. See <a href="#">Division 8.5</a> 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 <a href="#">Division 6.2</a> Work in Progress—WIP—reports for further information.</p>

## 12.1 Document control

Document Name	icare HBCF Eligibility Manual
Document owner	Head of HBCF Underwriting
Approving authority	General Manager, HBCF
Status	Approved
Last approval date	July 2025
Review frequency	Annual or as required

## Version control

Version	Revision Description	Date	Author
7.0	<p>Amended to address the following specific changes:</p> <ul style="list-style-type: none"> <li>pricing reforms effective 3 April 2017</li> <li>OJL Eligibility controls introduced August 2015</li> <li>icare's current thinking on Builder Eligibility categories</li> <li>icare's current thinking on Eligibility processes</li> <li>distribution agreements direct with icare</li> </ul> <p>State Insurance Regulatory Authority regulatory framework</p>	3 October 2017	Acting General Manager icare HBCF
7.1	<p>Minor edits to allow document to be issued</p> <p>This version has been significantly revised as part of the HBCF reforms announced by the NSW Government in November 2016</p>	31 December 2017	Contract Performance Manager icare HBCF
8.0	<p>This version has been revised to be compliant with SIRA Home building compensation (Eligibility) insurance guidelines (issued January 2018) and address minor issues throughout</p>	1 January 2019	Underwriting Manager icare HBCF

Version	Revision Description	Date	Author
8.1	Amendments to the Delegated Underwriting Authority structure (Table 21, Table 22, deletion of section 22.6 and other changes in section 25 Eligibility Risk Manager Responsibilities)	4 March 2019	Underwriting Manager icare HBCF
8.2	Amendments to Referrals to HBCF requirements (Table 17)	16 September 2019	Underwriting Manager icare HBCF
9.0	Revisions as part of 2019 Eligibility submission to SIRA for implementation in 2020	1 March 2020	Underwriting Manager icare HBCF
10.0	Revisions as part of the 2020 Eligibility model submission to SIRA for implementation in 2021	1 March 2021	Underwriting Manager icare HBCF
11.0	Revisions as part of: <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 "26. Disclaimer" on page 128.</li> </ul>	30 June 2022	icare HBCF Technical Writer

Version	Revision Description	Date	Author
11.1	<p>This version has been revised to amend the following sections,</p> <ul style="list-style-type: none"> <li>• 18.2 - Provisional Eligibility for Builders recovering from adverse conditions (revision)</li> <li>• 18.3 - Provisional Eligibility for Builders making an orderly withdrawal from the market (new addition)</li> <li>• 9.1 - Unacceptable risk scenarios (new addition)</li> </ul>	1 March 2023	Head of HBCF Underwriting
11.2	<p>The version has been revised to amend the following key sections:</p> <ul style="list-style-type: none"> <li>• 10.1 - Builder Size Classification (table 4)</li> <li>• 10.3 - Standard Construction Profile limits (table 6A and table 6B)</li> <li>• 11 – Eligibility Assessment information requirements</li> <li>• 19.3 - Builder Profile Change- BPC</li> <li>• 19.5 - Automated Scorecard Review- ASR</li> <li>• Minor change in other sections</li> </ul>	1 November 2023	Head of HBCF Underwriting
12.0	<p>The content has been reorganised into 'Divisions' that contain updated information, including:</p> <p><a href="#">Division 3.3</a> Standard Construction Values by Builder and Construction Type (Tables 4A &amp; 4B)</p> <p><a href="#">Division 5</a> System Reviewed Builders (Extended ASR and reviewed Tiers)</p> <p><a href="#">Division 5.1.2</a> Eligibility Score Range and <a href="#">Division 5.1.3</a> Minimum Eligibility Score Threshold (update of Tables 9 and 10)</p> <p><a href="#">Division 5.3.3</a> If a Builder's Eligibility Score is lower than the minimum threshold (Minimum score update)</p> <p>The content for the following Divisions has been updated, including:</p> <p><a href="#">Division 2.3</a> Sole traders, companies or partnerships and Trusts: Addition of a</p>	30 July 2025	icare HBCF Technical Writer

Version	Revision Description	Date	Author
	<p>provision allowing icare HBCF discretion to maintain Eligibility for certain businesses operating through discretionary trusts, subject to assessment of trading history, financial requirements and track record.</p> <p>Division 9.1 Applications by Builders subject to the BCRP and Division 10 Building Contract Review Program (BCRP): Removal of BCRP due to limited value identified through feedback from industry stakeholders and duplication with existing regulatory processed (previous divisions removed and replaced with updated divisions).</p> <p><a href="#">Division 10</a> Distributor involvement: Inclusion of HBCF Portal to support Builder initiated Eligibility submissions.</p>		

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