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**hbcf**

## **Eligibility and Underwriting**

This Fact Sheet provides important information for Builders on the requirements for obtaining eligibility for insurance under the Home Building Compensation Fund (HBCF).

On 1 July 2010 the NSW Self Insurance Corporation (SICorp) trading as HBCF became the sole provider of insurance under the HBCF cover in NSW.

HBCF has contracted through Scheme Agents to assess eligibility and to issue insurance policies.

### What is Eligibility?

Eligibility is the term used to describe the entitlement that a builder has to apply for a project specific Certificate of Insurance and the conditions under which the certificate may be granted.

Builder eligibility conditions take account of the following major criteria:

- Builder's capabilities
- Builder's history
- Builder's financial backing
- The ability to obtain compensation from or on behalf of the builder, or directors, or related entities, or third party related indemnifiers should there be a claim.

All Builder eligibilities have an appropriate Eligibility Profile including:

- Open job limit
- Individual job type contract limits.

It is essential that the turnover/job limit sought by a Builder accurately represents the level of activity intended to be undertaken. The Eligibility Profile may also include relevant conditions such as:

- Maintaining capital levels;
- Maintaining specified security levels
- Reporting financial information frequently
- Utilising a Building Contract Review Program (BCRP)
- Other requirements as may be appropriate from time to time.

### How does a builder apply for eligibility?

Builders complete the *Eligibility Application* form or ask their insurance Distributor/Broker for assistance in completing the form. The form is available on the HBCF's website at [www.icare.nsw.gov.au](http://www.icare.nsw.gov.au)

The application form provides a checklist of all the information builders must provide with their application. The Builder's Distributor/Broker submits the application form to the Scheme Agent for assessment by an underwriter who uses the Builder's financial statements to assess their financial viability and may make further enquiries to seek clarification.

### How is an application assessed?

In providing insurance cover to a Builder, the HBCF takes on a risk that the Builder is unwilling or unable to complete the construction of a dwelling or to return and rectify defective work. To reduce this risk, an underwriting assessment must be carried out on the Builder's application for eligibility prior to purchase of the insurance.

Detailed information about how an eligibility application is assessed by the Scheme Agents is available in the Underwriting Guidelines at [www.icare.nsw.gov.au](http://www.icare.nsw.gov.au)

The Eligibility Assessment process includes:

1. Assessment of the financial performance of the Builder or Builder Group by analysis of the following criteria:
  - Requested Turnover and Turnover Growth
  - Assessed Net Tangible Assets (ANTA)
  - Builder's Margins and Profitability
  - Working Capital
  - Overhead Expenses
  - Capital and Retained Earnings
  - Return on Assets
  - Creditor Days
  - Debtor Days.
2. Assessment of other factors relating to the Builder or Builder Group such as:
  - Trading Structure



- Number of continuous years trading in this structure - experience
- Builder's licence history (including any adverse incidents)
- Trade credit history
- Previous insurance claim history with consideration of the builder's size and trading history
- Directors/principals profile
- Directors/principals experience.

The Scheme Agent advises the Distributor/Broker of the outcome of the Eligibility Assessment. The Distributor/Broker passes on the information, including the Scheme Agent's formal advice, to their client the Builder.

Where Builders are assessed as a higher risk this may result in the Eligibility Application being declined or special conditions included.

Once the application has been assessed, approved Builders are issued a Certificate of Eligibility. The eligibility conditions are applied when assessing a new project application, including:

- Job limits
- Maximum individual construction value
- Type of construction permitted
- Any specific limitations or conditions applied through the underwriting assessment process and conditions such as:
  - Maintaining specified capital levels
  - Maintaining specified security levels
  - Utilising a BCRP service provider
  - Restrictions on concurrent projects
  - Other requirements appropriate from time to time.

### Declinature, Cancellation, Suspension, and Modifications of Eligibility

Some Builders may have their eligibility declined, cancelled, suspended, or have restrictive modifications applied by the Scheme Agent, who must provide the Builder with reasons for the decision and give 10 business days' notice of any decision.

Certificates of Insurance cannot be issued against a cancelled or suspended eligibility.

Eligibility is cancelled where a Builder has entered into insolvency or the Builder's licence has been cancelled or suspended by NSW Fair Trading under the *Home Building Act 1989*.

Where a licence has been surrendered or has expired for longer than three months (i.e. the licence cannot be renewed or restored) the Scheme Agent is not required to give 10 days' notice.

### Eligibility Profile Changes Initiated by the Builder

Builders seeking to change their profile, e.g. from single dwelling to multi-unit development construction, increase the job limit etc., must submit a completed a *Builder Eligibility and Profile Change Application* form to the Scheme Agent through their Distributor/Broker.

Profile changes can have negative financial consequences for a Builder such as changes to working capital requirements, building cycles, available resources and management. Consequently, Scheme Agent underwriters must examine all factors that may affect future viability when they make their assessment.

### Ongoing Review of Eligibility

Eligibility is generally subject to review. The frequency of the review is determined by the Scheme Agent on completion of the underwriting assessment, and by the HBCF through its periodic review requirements which are explained in the Underwriting Guidelines. The Scheme Agent may initiate a special review if a Builder's circumstances have changed or if a change to the eligibility conditions has been requested by the Builder.

### Builders not subject to review

The HBCF has decided to not ask certain small Builders and Contractors to comply with the Periodic Eligibility Review (PER) requirements and has created a new classification of eligibility referred to as *Non-Reviewed Small Builders*.

The HBCF will not conduct a full Periodic Eligibility Review where a builder satisfies all of the following conditions:

- They have a total business turnover, including group activity, of \$1.0 million or less [or \$500,000 if a specialist contractor]
- They have Eligibility within the following limits:
  - New single dwelling - \$600,000 or less
  - Alterations and additions (i.e. structural work) - \$350,000 or less
  - Renovations (i.e. non-structural work) - \$100,000 or less.
- They have been contracting residential building work for over 12 months
- They do not have an adverse trading history, e.g. previous insolvencies, past claims, outstanding NCAT orders etc. including key managers
- They have not sought Eligibility to undertake the construction of new multi-dwelling projects (including duplexes, town houses etc.) or the construction of swimming pools.

The Scheme Agent continues to undertake checks on licensing and credit defaults at least once every

three (3) years. If the Scheme Agent does identify emerging risk issues then an immediate Special Eligibility Review (SER) may be triggered.

### Lodging a Complaint

If a Builder is dissatisfied with the way their Eligibility Application or Eligibility Review has been assessed they can, through their Distributor/Broker, request a review by the Scheme Agent. The builder can subsequently request that their complaint be escalated to the Scheme Agent's Underwriting Committee and potentially to the HBCF's Underwriting Committee.

### Further Information

Further information regarding eligibility and the underwriting requirements for seeking HBCF Insurance cover can be obtained from a Distributor/Broker or through the icare website. The website contains the *Underwriting Guidelines* which are a key reference source and guideline for Builders, Business Advisors, and insurance Distributor/Brokers when making application for insurance under the HBCF.

References on this Fact Sheet to **builder** and **building work** include and apply to work undertaken by trade contractors and other building contractors such as electricians, plumbers, carpenters, and swimming pool builders etc.