

# HBCF Changes FAQ



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## General Questions

### What is icare HBCF changing?

icare HBCF is taking over Risk Management Services from Corporate Scorecard (CSC).

- In June 2021, we successfully transitioned Eligibility Risk Management services for major builders in-house. On 1 June 2022, we will transition these services for all other builders.
- These changes are in response to the latest reports from IPART and icare's Customer Advocate. These reports recommended improvements to the eligibility assessment process, risk management, administrative overheads, and the use of plain English in communications and documentation.
  - ✓ Taking over all Eligibility Risk Management services enables icare HBCF to simplify and streamline risk management and administrative process.
  - ✓ Simpler processes explained in plain English language will make eligibility assessments easier to understand.
  - ✓ Greater consistency in the data capture and monitoring process.

icare HBCF is streamlining the eligibility assessments for System Reviewed and Small Builders (as defined in version 10 of the Eligibility Manual). The main improvement we are bringing to the industry is a new Auto-assessment process for System Reviewed and Small Builders.

### When will the changes happen?

- icare HBCF has already taken over Risk Management services for the Major Builder segment of HBCF builders (in June 2021).
- On 4 April 2022, we expect to take over Underwriting and Risk Management services for all other builders.
- By 1 July 2022, we expect to introduce the auto-assessment option.
- However, because existing eligibility decisions remain valid, builders will experience the changes over the next three years, when their assessment is due

### What are the benefits?

One icare HBCF team

- Direct access to the icare HBCF team
- Better communication with icare HBCF
- Closer collaboration with icare HBCF
- Fewer and simpler processes

Faster, easier assessment

- Most applications will require minimal paperwork
- Far less financial information will be required
- Most applications will be decided within two business days
- Simpler processes will enable innovation and better customer service
- Better identification of higher risk builders will mean increased eligibility limits for the

majority of builders

## How will it impact me?

Approximately 94% of icare HBCF builders will qualify for auto-assessment. Most eligible builders will be able to submit an application for eligibility and receive an outcome within two business days.

## Who can I contact if I have general questions?

For general enquiries about this change and other general questions, you can contact icare HBCF at [enquiries.hbcf@icare.nsw.gov.au](mailto:enquiries.hbcf@icare.nsw.gov.au).

Our credit report agency will also have a dedicated team to respond to enquiries from customers.

## Automated Builder Scorecard Review (ASR) Questions

### What is Automated Builder Scorecard Review (ASR)?

icare's investigation of the existing eligibility process has determined that by taking a risk-based approach, we can limit the number of builders that require in-depth financial assessment. For the majority of builders, we can use a commercial credit score and apply a few other simple criteria to assess eligibility, in a more accurate, consistent, and transparent way than we do it now.

### How does the ASR process work?

The findings contained in December 2020 IPART and Customer Advocate reports, noted that the process for obtaining home building compensation eligibility from icare HBCF, particularly for builders with small operations, was quite onerous.

icare HBCF engaged Equifax Australia, a multinational credit reporting agency, in early 2021 to analyse the information it holds on its portfolio of builders in combination with Equifax's own data sources. The engagement resulted in the development of a bespoke scoring algorithm which:

- Assesses builders based on various risk characteristics.
- Reduces the information a builder needs to provide for eligibility assessment to a simple application form.
- Reduces the expected turnaround time for eligibility assessment decisions from average of one month to two business days.
- Better identifies 'risky' builders than the previous manual underwriting process for Small and System Reviewed Builders.

The ASR process will be applicable for (based on existing Builder Size classifications in Eligibility Manual v10):

- New Builders
- System Reviewed Builders
- Small Builders

To assist with implementing the new automated process, builders are planned to undergo a phased transition (subject to Builder Profile Changes etc. initiated after implementation date) based on:

- New Builders: Once the automated assessment process commences
- System Reviewed Builders: When their current Certificate of Eligibility expires
- Small Builders: When their 2022 PER is scheduled for submission

The algorithm utilises the following characteristics to generate an Eligibility Score for a builder for an automated assessment:

Characteristic	Description
Entity Type	Type or structure of the entity at the origination date (e.g. sole trader, company)
Credit File Enquiries	Total number of broker dealer enquiries made of the builder within the last five years
Commercial Adverse Developments	Total number of commercial adverse developments within the last five years (equal to the sum of numbers of commercial Writs and Summons, Defaults and Judgements)
Credit Enquiries	Total dollar value of credit enquiries made more than 12 months ago but less than five years ago for the builder
Proprietorships	Number of Proprietorships associated with the builder
Adjusted Bureau In-depth Trading History Score	<p>A score which obtains a full picture of a company, its proprietors and directors and any other commercial entities associated with them.</p> <p>Characteristics in In-depth Trading History score include all available credit and demographic attributes from Equifax databases to form future risk estimates. Some examples of the final characteristics that form the In-depth Trading History score are as follows:</p> <ul style="list-style-type: none"> <li>• Age of file</li> <li>• Time since incorporation</li> <li>• Number of trading addresses</li> <li>• Security information</li> <li>• Trade payment data</li> <li>• Directors' information</li> <li>• Public record information for instance defaults, judgements, and court writs,</li> <li>• ASIC information</li> </ul>

In summary, the automated eligibility process will work by:

1. A broker submitting a completed Builder Eligibility and Profile Change Application form for a builder in the Builder Eligibility Assessment Tool (BEAT)
2. An underwriter using the information in the form to assess whether the builder is eligible for automated assessment
3. If eligible, an underwriter obtains an Eligibility Score for the builder from Equifax Australia
4. Subject to no Unacceptable Risks being identified (i.e. Eligibility can be offered to the builder), and the Eligibility Score being sufficient for an automated outcome to be issued, a broker receives an email from BEAT outlining:
  - Approved Open Job Value (**OJV**)
  - Unlimited Open Job Number (**OJN**) so long as it does not exceed the approved OJV (this will be their approved Open Job Value divided by \$20,000)
  - Standard construction profile limits (subject to licence class and previous higher construction limit approvals)
  - Whether the builder will be subject to participation in the Building Contract Review Program (BCRP) (for New Builders only)
  - A report outlining the builder's Eligibility Score for the assessment and the key factors contributing to the score

## What is the Minimum Eligibility Score Threshold to obtain Eligibility?

Below is the range of scores that each characteristic can generate for a builder for an automated assessment.

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

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

Builders will need to achieve the minimum Eligibility Score to obtain or maintain Eligibility:

Builder size	Open Job Value	Minimum Eligibility Score required (subject to change)
New Builder	\$1M	406 (below this score requires manual review)
System Reviewed Builder (Tier 1) (formerly System Reviewed Builder)	\$1M	406 (below this score requires manual review)
System Reviewed Builder (Tier 1)	\$2M	577
System Reviewed Builder (Tier 1)	\$3M	736
System Reviewed Builder (Tier 2) (formerly Small Builder)	\$3M	444 (below this score requires manual review)
System Reviewed Builder (Tier 2)	\$4M	555
System Reviewed Builder (Tier 2)	\$5M	697

The above tables may subject to change.

Builders seeking to transition from delivering \$3m or less to delivering between \$3m and \$5m will also require a financial assessment to assess whether they meet the minimum financial requirement for a \$3m+ Eligibility Profile.



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

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

If the builder is:

Tier 1 Builder (<\$3m): Builder will be offered \$1M OJV

Tier 2 Builder (\$3m+): Builder will be offered \$4M OJV

## How does Equifax determine credit scores?

The primary purpose of Equifax Commercial Trading History scorecards is to predict the likelihood of a future adverse event (i.e., includes default, court judgement, court writ, insolvency) being lodged on a commercial bureau file within the next 12 months, for a business, company or individual applying for commercial credit. These bureau scorecards are designed to be utilised by commercial parties reliant on third-party credit, in any industry, for any type of financial reliance, including commercial loan, credit card, trade credit, lease etc.

## How different are the drivers of credit scores from the current factors used by icare HBCF to determine eligibility?

The Eligibility Score shares the following common drivers with icare HBCF's scores in determining eligibility under the current manual assessment process.

Equifax score	icare HBCF scores
Entity types	Trading Structure
Age of file, Time since incorporation, Number of trading addresses	Years trading
Directors' information, including director's commercial adverse	Director's information, including director's commercial adverse



Public record information for instance past insolvencies, defaults, judgements, and court writs	Public record information for instance past insolvencies, defaults, judgements, and court writs
Trade payment data	Trade history and commercial track record

## When will icare HBCF provide details about the ASR process to the builders?

More detail about the ASR process, criteria and dispute handling procedures will be included into the icare HBCF Eligibility Model Submission made to SIRA by January 2022. The above information may be changed, subject to SIRA's endorsement. We will release further details and provide training to home building compensation distributors prior to July 2022 and expect to publish the new version 11 of Eligibility Manual around June? 2022.

## Will manual assessments change?

Where required, manual assessments will remain largely unchanged.

## Who can builders contact about their assessment outcome?

Builders should contact their brokers about the outcome of eligibility assessments (as they do today).

For general enquiries, the icare HBCF team may be contacted:

- Email: [enquiries.hbcf@icare.nsw.gov.au](mailto:enquiries.hbcf@icare.nsw.gov.au)
- Phone: (02) 9216 3224

## Dispute questions

### What is a dispute?

A dispute is an issue, or part of an issue raised by a customer, that is recognised as a 'dispute' or equivalent by relevant scheme legislation or regulation and has a prescribed process for resolution involving parties external to icare HBCF but does not include Complaints escalated to SIRA. Disputes include requests to review eligibility and premium determination decisions.

### Will the dispute process change?

The process of raising the dispute will not change and all disputes must be raised through BEAT.

The main changes to the dispute process are:

- CSC is no longer involved. This makes the process simpler because you only deal with icare HBCF.
- The auto-assessment process includes very few factors to dispute. This further simplifies and streamlines the process.
- icare HBCF will determine decisions on all disputed matters.
- The outcome of the icare HBCF Underwriting Appeals process (including appeals within

that process) is the final decision, with less layers of review.

- A builder may request that SIRA review icare HBCF's handling of an application if the builder believes that icare HBCF has not complied with the Act, the Regulation, the Guidelines, or its published processes.

## **What is the dispute process?**

The process of raising the dispute will not change and all disputes must be raised through BEAT. Builders, via their broker, are required to formally dispute the decision in writing and provide supporting information for HBCF to investigate. For details of the process, please refer to 'HBCF Complaint and Dispute Handling Procedures for Eligibility'.

## **How should brokers respond to disputes?**

The broker must raise a dispute through BEAT and provide supporting documents provided by the Builder, within allowed timeframes.

## **Can the builder dispute an automated assessment decision?**

Yes. The builder (or broker on behalf of builder) will be able to dispute an automated assessment decision through BEAT. Because auto-assessment is based on the eligibility score and there is less financial complexity in the assessment, there are fewer things to dispute. This makes the dispute process much simpler.

Where a builder's Eligibility Score is low due to adverse considerations, icare HBCF can at its absolute discretion, initiate a manual assessment or review on the builder rather than applying the Eligibility Score. This will protect the HBCF against deteriorating or unacceptable risk factors when we identify them.

The builder must contact Equifax to answer any questions about their score.

## **Can a builder reapply for eligibility after a dispute?**

Yes, the builder or distributor on behalf of builder, will be able to reapply for eligibility at any time after 30 days from the finalisation of previous disputed assessment.

## **What is the timeframe for disputes?**

For auto assessments, the broker must raise a dispute within five (5) business days of receiving the eligibility assessment outcome.

For manual assessments, there is no change. The broker must raise a dispute within twenty (20) business days.

## Technology questions

### What will change in BEAT?

For manual assessments, BEAT process will largely remain unchanged.

For automated assessments, key changes include:

- A simplified builder screen will include the following:
  - A Builder tier to identify the corresponding builder classification (that is, Tier 1 or Tier 2).
  - Two new questions for experienced builders in relation to their building experience (not new builders).
  - Eligibility details in other states (if applicable).
- The simplified eligibility details screen will no longer show the assumed NSW HBCF turnover.
- The simplified checklist screen will include only one mandatory document - the 'Eligibility Application form'.
- The modified output screen:
  - Will show the eligibility score, for Automated Business Scorecard Review (ASR) assessments.
  - Will no longer include an option to download Builder Eligibility Assessment Report (BEAR).
  - Will include an option for the builder to either accept or dispute the outcome.

### What will change in CIMS?

The CIMS process will largely remain unchanged.

### Will there be new forms?

There will be a new eligibility application form for automated assessments.

### Will there be training?

Yes. icare HBCF will provide training in the second quarter of 2022. We will provide further information about the training schedule in 2022 as it becomes available.