Deposit Bond origins & QBE

The origins of the ‘short-term’ Deposit Bonds dates back to 1989, when banks started accepting Deposit Bonds as a faster & more streamlined process as a substitute for the longer & more expensive ‘bridging finance’ offering, where people were swapping family homes or buying investment properties.

Deposit Bonds are now widely used and indeed, all the major banks have their own ‘white label’ Deposit Bond products. Banks are in a very good position to judge the credit worthiness of Deposit Bond issuers.

2001 saw the introduction of long-term Deposit Bonds for the ‘off the plan’ markets and are widely accepted by both large and small vendors/developers Australia wide.

The credit strength of Deposit Bonds was further enhanced when, in November 2000, the Australian Prudential Regulatory Authority’s monitoring powers were expanded to include General Insurers (APRA was already monitoring banks under the Banking Act 1959 and Life Insurance Companies under the Life Insurance Act, 1995).

This change in legislation placed licensed General Insurers on an equal assessment process and credit rating structure as licensed banks and placed the credit worthiness of Bank Guarantees and Deposit Bonds on an equal footing, re., if a bank is rated A+ and the insurer A+, then both products have equal credit status. There’s also the implicit financial guarantees given by the Commonwealth Government for both the licensed banking & insurance sectors.

For an increasing number of vendors/developers, especially for ‘off the plan’ purchases, greater emphasis is being placed on Deposit Bonds, as applicants have to undergo a stringent assessment process to determine their likelihood of being able to settle on their Contract of Sale. Cash Deposits and Bank Guarantees don’t test the buyer’s ability to settle and their financial status remains unknown to vendors/developers until settlement occurs.

As per the undertakings on both the Deposit Bond Application Form and the Deposit Bond Certificate, a call on a Deposit Bond, where a buyer has failed to complete their property purchase, is ‘unconditional’ and is made ‘without reference to the Purchaser’ (noted on the Deposit Bond Certificate) and once the original Deposit Bond Certificate is presented to a QBE Insurance office, QBE has an internal commitment to settle the call to the Vendor (or their representative) within two (2) business days.

Typically, this is done by advanced notification of a bond call and the original Deposit Bond being swapped for a QBE cheque within two (2) business days. Where there is an established relationship, the original Deposit Bond maybe lodged with QBE and settlement occurs via EFT, within two (2) business days.

As referred above, QBE Deposit Bonds are the most widely accepted Deposit Bonds in Australia and indeed a number of large vendors & their legal advisers insist on QBE Deposit Bonds only (this is typically contained the actual Contract of Sales signed by the Purchasers).

QBE issues Deposit Bonds out to 60 months and 66 months in Queensland to comply with relevant real estate legislation.

In addition to Deposit Bonds, QBE Insurance also issues Contract / Performance Bonds for large and small-scale construction contracts and their bonds are accepted by all levels of Government and Corporate/Business entities and where involved, licenced Australian banks.