



LOMBARD

Guarantee

Construction



What differentiates Lombard

We have an extensive partner network in Africa which allows for easy access to locally-issued guarantees in the respective markets. Regulation in most African territories prohibits non-local companies from issuing guarantees into such territories. To this end, Lombard has sought and secured partnerships with the leading players in various countries.

We are able to issue guarantees in most major currencies (USD, EUR, GBP), as well as most regional currencies.

Our guarantees are universally accepted by beneficiaries (eg. major utility providers, government departments, mining houses and the private sector) both in South Africa and the rest of Africa.

Unlike many institutions, we are flexible with the guarantee wording.

Unmatched reinsurance capacity enables Lombard to underwrite large guarantees.

Qualitative and quantitative analysis of a client's needs are undertaken through a team of in-house, industry professionals. This allows facilities to be structured favourably in both pricing and securities.

Decision-maker and relationship manager are usually one and the same, lending itself to faster decision-making.

Lombard is able to formulate contemporary, value-driven and customised solutions through its extensive network of industry professionals, multi-skilled in-house team and knowledge of the markets they serve.



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Construction Guarantee

A guarantee is a written undertaking by an insurance company (Lombard) or a bank in favour of a Beneficiary (Employer), whereby the insurance company or bank pledges to make certain payments on behalf of a Contractor, if the Contractor fails to perform in terms of a construction contract.

Parties to a guarantee (refer to figure 1)

Guarantees involve three main parties.

The Employer/Beneficiary

The party in whose favour the guarantee has been issued. The Employer requires an insurance mechanism in the event of the Contractor's non-performance or default in terms of the construction contract.

The Contractor

Applies for the Guarantee in fulfilment of the contractual obligations towards the Employer.

The Guarantor

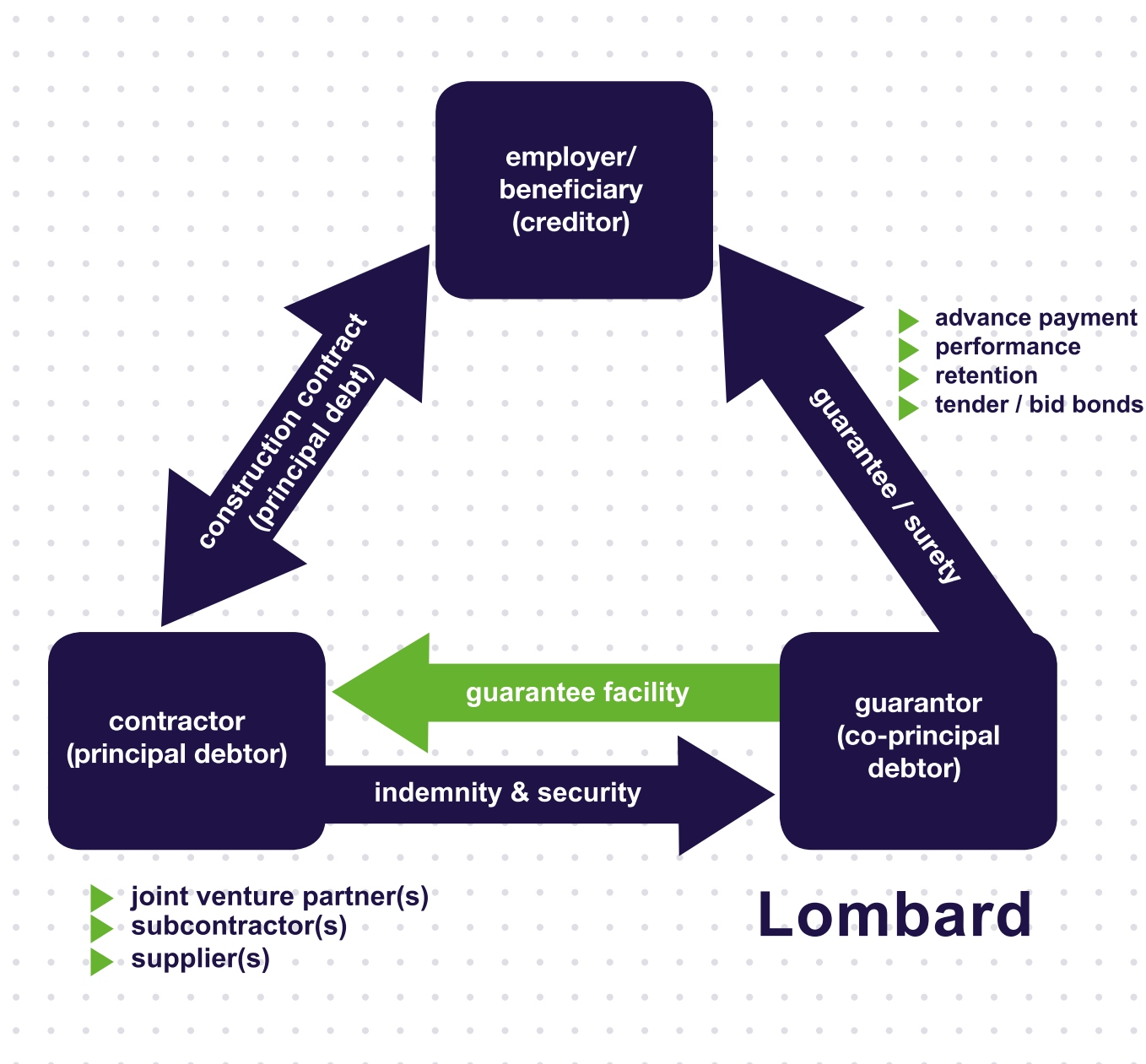
The insurance company or bank that issues the guarantee on behalf of the Contractor.



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Figure 1:

Graphical explanation of construction guarantee



Lombard Insurance Group offers you a variety of construction guarantees

Bid / Tender Bond

This guarantees the Beneficiary that the Tenderer (Contractor) will sign and execute the contract if awarded the tender.

Performance Guarantee

This offers protection to the Employer/Beneficiary for costs incurred due to the failure of the Contractor to execute the Contract, in which case the Guarantor undertakes to pay a specified sum of money to the Employer/Beneficiary. Performance guarantees are typically 10% of the contract value.

Retention Guarantee

Under the primary contract the Employer/Beneficiary is permitted to retain a certain percentage of the payment due to the contractor, normally 5% to 10%, as a safeguard against latent defects and to incentivise the Contractor to complete the contract. In order to secure the release of these retention monies, the Contractor must furnish a retention guarantee to the Employer/Beneficiary (should the Employer/Beneficiary be amenable to this).

Advance Payment Guarantee

This guarantee protects the Employer/Beneficiary, who makes an advance payment to the Contractor. A refund of the advance payment is guaranteed if the Contractor does not fulfil the terms of the contract.

Others

We also have a range of other guarantees typically used in the construction industry.

What we stipulate on our facility terms

- A facility limit
- A fee rate
- Security documents (see Indemnities and Securities)
- Collateral – this is discretionary and in tangible form (cash / cash-like assets, bond over fixed property, etc.)
- Payment terms

Indemnities and securities

Guarantees are similar to credit or financing business. A guarantee facility is therefore secured accordingly.

Indemnity

This legal document entitles the Guarantor (Lombard) recovery of damages incurred from the Contractor in the event of Lombard having to pay a claim to the Employer/Beneficiary.

Deed of Suretyship

This legal document is offered by an entity / individual who will stand as surety and co-principal debtor on behalf of the Contractor in case of default. This is mandatory from the owners / shareholders, unless it is a public company traded on the stock exchange.

Documents required to prepare securities

Company registrations, ID of members / shareholders, FICA documentation, amongst others.

Signing of legal documents

Documents must be signed at the designated attorney's offices in Johannesburg or a corresponding office in other locations.

Application process

Application for our Construction Guarantee facility can take between 6 to 15 days (refer to figure 2). Once this facility is in place, it can take approximately 48 hours to issue a guarantee, provided all documentation is submitted (this is also applicable to existing clients, provided the facility is up-to-date and the guarantee is acceptable).

Figure 2:
Construction guarantee facility application process and estimated time-lines

