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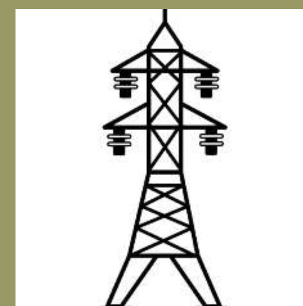

Bonds & Guarantees for Infrastructure Development

8th June, 2018

GENESIS RISK MANAGERS

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surety that
Deeds
match
Words

Else the Defaulting Party Bears the Financial Cost

Enforcement of Contract

1. **Aggressive Pricing -** Realization of potential losses

2. **Financial Mismanagement -** Bankruptcy in the course of project

3. **Drastic Increase in Raw Material Costs -** Cost Overruns making the project delivery unviable

4. **Poor Project Management -** Cost Overruns

Collapse of U.K. Construction Giant Rattles the Government

Carillion construction cranes at a building site in London on Sunday. Carillion, a construction company that helped the government run day-to-day operations, filed for bankruptcy.

LTA seeks $500m from failed contractor

It files claims against Austrian builder for not completing two MRT projects

Christopher Tan, Senior Transport Correspondent

THE Land Transport Authority (LTA) has filed some $500 million in claims against bankrupt contractor Alpine Bau for not completing two MRT projects, in what is believed to be the biggest claim of its kind in Singapore.

Enforcement of Contract

1. Mediation
2. Police Complaint
3. Legal Proceedings

Objectives of Owners

1. Completion of the Project
2. Within Defined Budget
3. With Defined Features and Quality

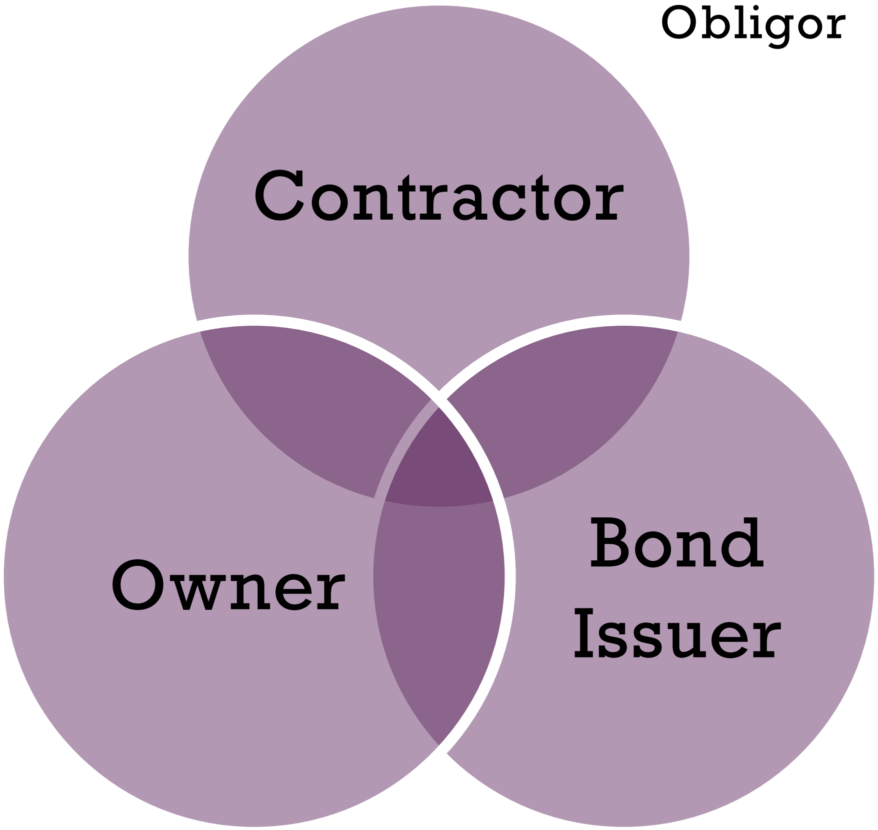
Bonds Help in

Achieving These Objectives

Parties to a Bond

Principal

Obligor



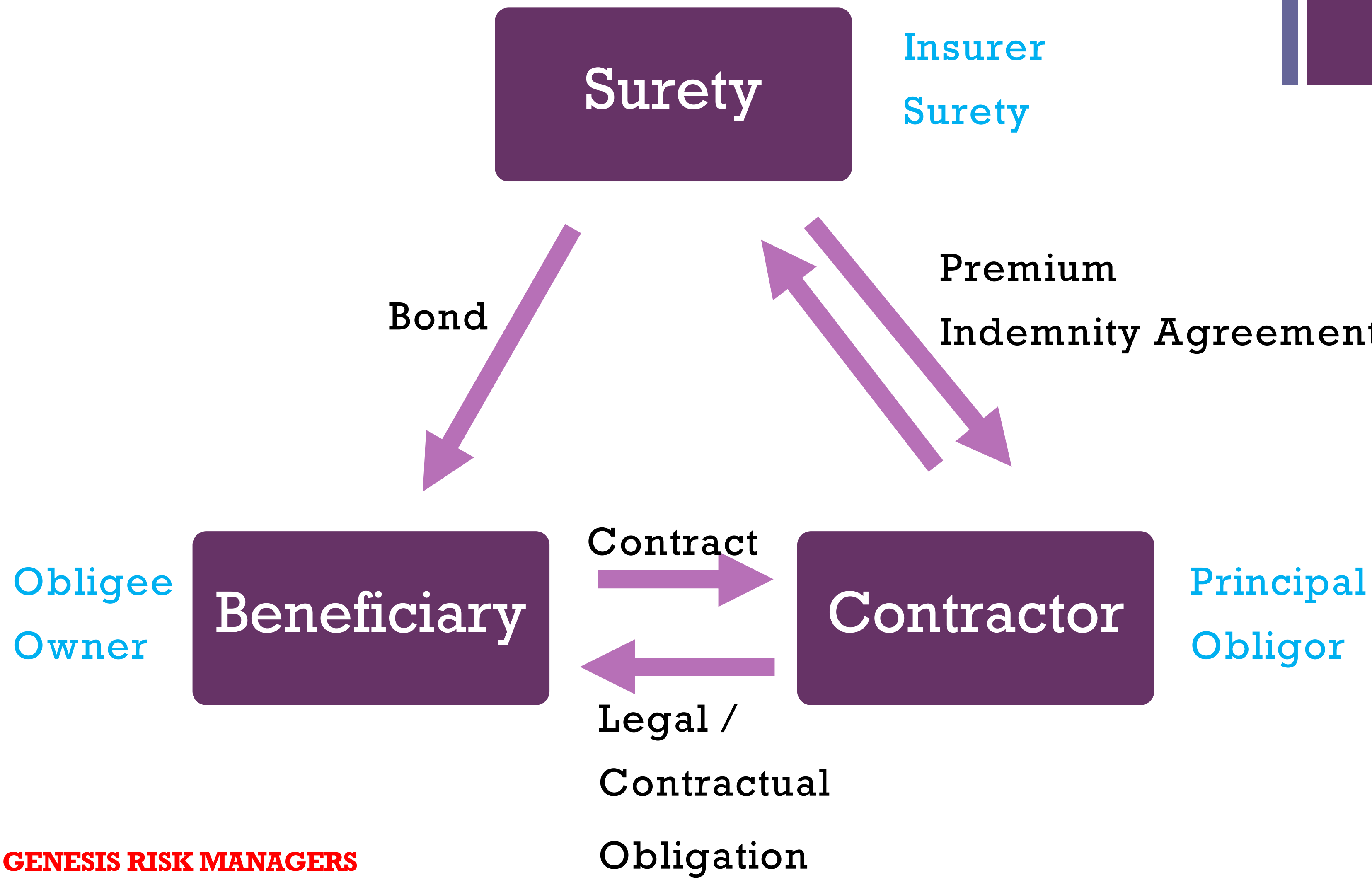
Obligee

Beneficiary

Insurer

Surety

Relationship Among Parties



Types of Bonds in Infrastructure

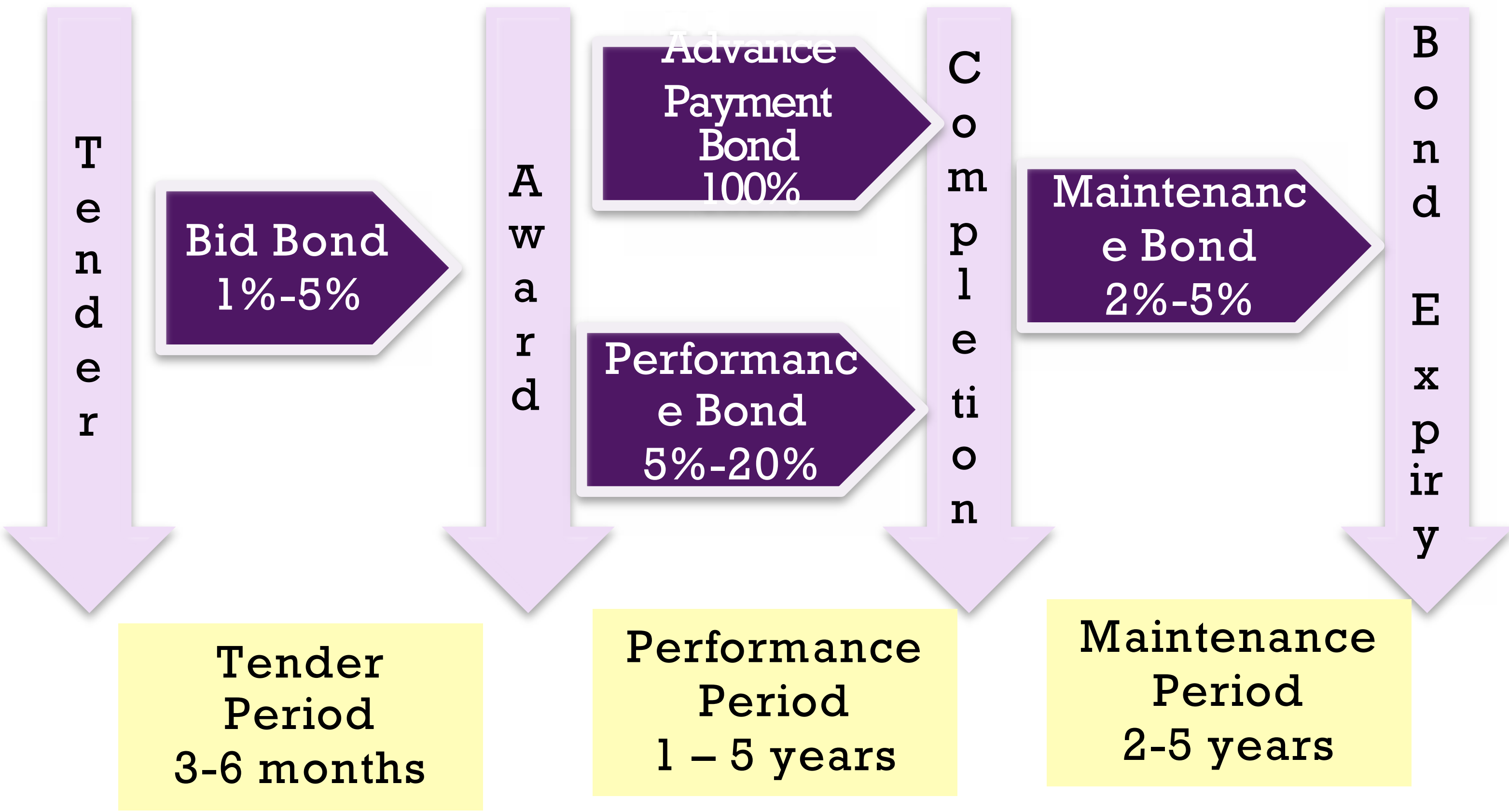
1. Bidding - Bid Bonds

2. Construction / Erection

    - Advance Payment Bonds

    - Performance Bonds

3. Maintenance Period – Retention Bonds


Tender
Bid Bond
1%-5%
Award
Advance Payment Bond
100%
Performance Bond
5%-20%
Completion
Maintenance Bond
2%-5%
Bond Expiry
Tender Period
3-6 months
Performance Period
1 – 5 years
Maintenance Period
2-5 years

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Bid Bonds

Bid bonds ensure that contractors will submit serious bid proposals.

Bid bonds put the project developer's mind at ease knowing that bidders have the financial stability needed to accept the job.

If a bid is chosen and the contractor turns down the job, the project developer will be able to make a claim on the bond to regain the difference between that bid and the next highest one.

Bid Bonds

The obligations from the surety bond expire:

- For the winner, when he fulfils the conditions of the tender.
- For the other bidders, when the contract is awarded.

The bond document is returned to those bidders that are not awarded the contract

Relatively short term: 3 – 6 months

Loss amount

Difference between the bid submitted by the risk and that of the next highest bidder (perhaps involving additional tendering costs), but limited to the surety bond amount

Advance Payment Bonds

Advance payment bonds guarantee the Owner (Beneficiary) that the Contractor will either execute the performance to which the advance payment pertains or refund that part of the advance payment that has not been used accordingly.

Advance Payment Bonds

Generally runs in parallel to the performance bond

Surety bond amount: 100% of the advance payment

Advance payment bonds often contain liability reduction clauses to account for the performance executed by the construction company up to the given stage of completion

Loss amount
Part of the advanced payment which has not been used as contractually agreed (maximum: bond amount)

Performance Bonds

A performance bond secures that a contractor will finish the project in compliance with the contractual agreement.

If a contractor fails to do this, the project developer can make a claim on the bond to receive the money and use it to pay for a second contractor to complete the project.

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Performance Bonds

Coverage of all contractual obligations of the Principal (technical conditions / deadlines)

In the event of a claim, the Beneficiary is generally reimbursed the additional costs for transferring the contract to another contractor

As a general rule, 5 – 20% of the contract value

Term of the bond identical with execution of the contract. Bond expires with the obligation (e.g. final acceptance)

Loss amount
Difference between performance agreed and performance delivered (maximum: bond amount)

Maintenance Bonds

A maintenance bond secures a guarantee against any flawed materials or workmanship for a set time duration following a finished project.

If the project is discovered to be flawed during this duration, the bond’s amount can be used to pay for any damages and repairs that need to be made.

Maintenance Bonds

The period begins with acceptance of the building

Surety bond amount: 2 – 5%

Term of the bond: 2 – 5 years, in some countries longer

Performance and maintenance bonds can also be combined into a comprehensive surety bond

Loss amount
Amount needed to remedy the defects (maximum: bond amount)

Types of Bonds in Infrastructure

1. Supply Bonds

2. Payment Bonds

Supply Bonds

A supply bond guarantees that the suppliers are accountable for supplying materials and equipment, as described in the purchase order.

If the supplier does not provide the agreed upon supplies, the bond amount can than be used to compensate the purchaser for their loss.

Payment Bonds

Payment bonds guarantee the payment for services if the contractor goes bankrupt while working on the project.

The bond amount will be able to repay the subcontractors and suppliers who were working on the project if the contractor is not able to pay them.

Insurers Point of View

Can the contractor finish the project?

Is the contractor willing to finish the project?

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Insurers Point of View

1. Character
2. Conditions
3. Capital
4. Capacity
5. Contract
6. Collateral

Insurers Point of View
Character

1. Company Risk Profile
   i. History – market reputation, past experience of
   ii. Ownership
   iii. Company Structure
2. Industry Risk Profile

Insurers Point of View
Capital

1. Does the contractor have sufficient financial strength?
2. How will this financial strength hold in case of worsening environment or project hurdles?
3. In case of a default will the contractor be able to pay the claim to the insurer?

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Insurers Point of View

Capital

Last 3 years Financial Statements

Notes to the balance sheets

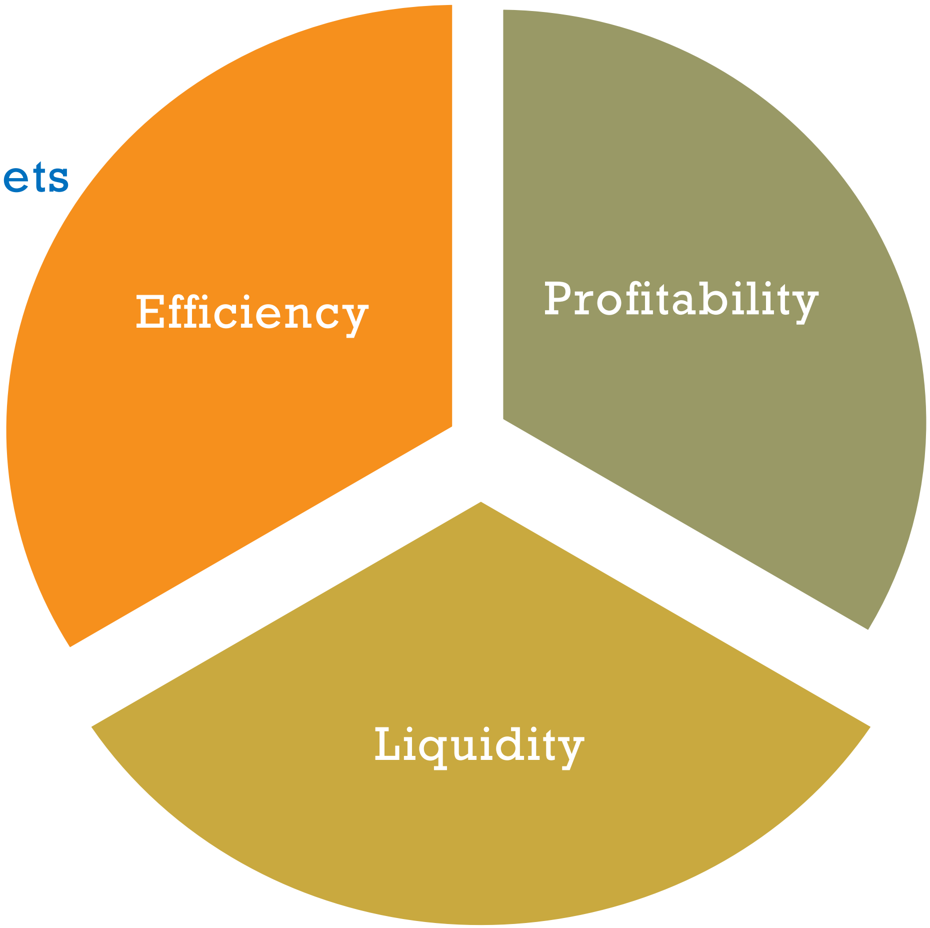
Credibility of the auditors

Key Ratios

Insurers Point of View

Capital

- Return on Equity
- Return of Assets



- Gross Profit Margin
- Net Profit After Tax

- Current Ratio
- Quick Ratio
- Cash Ratio

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Insurers Point of View
Conditions

1. Environmental Aspects
2. Social Aspects
3. Governance Aspects

Insurers Point of View
Capacity – Track Record

1. Has the contractor carried out projects of similar characteristics / technology successfully?
2. Has the contractor carried out projects of similar size successfully?

Insurers Point of View
Capacity – Technical

1. Is adequate staff and equipment available?
2. Is the estimated period sufficient for the project?

Insurers Point of View
Capacity – Technical

1. Is adequate staff and equipment available?
2. Is the estimated period sufficient for the project?

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Insurers Point of View

Collateral

1. Liquidity of Collateral
2. Quality of Collateral – will it/can it deteriorate over time?
3. Legal Enforceability

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Insurers Point of View

Contract

1. Payment Structure
2. Price Adjustments, Escalations
3. Potential Increase in Contract Amount
4. Third Party Monitoring of Quality
5. Declaration of Default

Benefits to Contractors

1. The requirement of the bond prevents unreliable contractors from bidding for the contract
2. Frees up capital for the contractor
3. A surety bond company can offer technical and financial assistance to the contractor. This significantly increases the chances of successful completion of the project.
4. Ensure that the contractor will fulfil it's obligations

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Thank You

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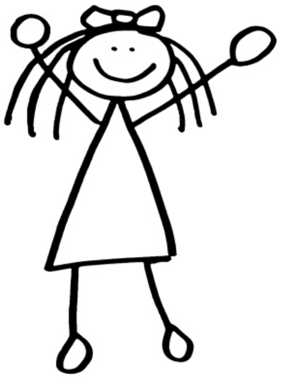

Happy to Help

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