BONDING

AMAN UNION

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Bonds Presentation - Agenda

Introduction

1 - Overview Global Bonding Market

2 - Products

3 - Characteristics

4 - Atradius Re’s expertise

Introduction

- Surety has been around almost as long as business contracts. The earliest surviving surety contract dates back to 2750 BC, which guaranteed the performance of a farming contract. Over the centuries the product has adapted to new needs although the essence of the surety contract remains the same.

- Surety bonds or guarantees secure the fulfillment of a contract or an obligation up to the limit of the bond. They protect the beneficiary against acts or events which impair the underlying obligations of the so called “principal”. Underlying obligations can either be negotiated or can have a statutory (legal) character.

- Today, they play a vital part in domestic and international trade and in particular protect taxpayers against the loss of public funds . As a result, Bonding is a country by country market where several companies operate generally only locally

Bond Insurance Market 2011, some figures

Global Bond premiums were estimated at around EUR 8.8 billion

- Main markets are the USA-Canada, Italy, Korea, Mexico, Brazil, Japan, Colombia and other Latin America countries

USA-Canada	**USD**	**5.000.000.000**
Italy	**EUR**	**500.000.000**
Korea	**USD**	**450.000.000**
Brazil	**USD**	**400.000.000**
Mexico	**USD**	**375.000.000**
Colombia	**USD**	**300.000.000**
Japan	**USD**	**300.000.000**
Germany	**EUR**	**200.000.000**
Argentina	**USD**	**200.000.000**
France	**EUR**	**100.000.000**
Spain	**EUR**	**>50.000.000**
Holland	**EUR**	**>25.000.000**

The market is growing especially under the impulsion of Latin America.

***No official source available: Based on market estimation**

Actors worldwide

Although in many countries originally banks mainly issued bonds, the security provided by an insurer has proven equally acceptable.

This has enabled many enterprises to set up separate lines of credit and bonds with surety or insurance companies. In doing so, they protect their lines of credit with banks, which might otherwise be blocked at such time when this working capital was needed.

Countries	Surety company	Banks
USA	100%	0
Brazil	75-80%	20-25%
Chile	20-25%	75-80%
Colombia	90%	10%
Korea	90%	10%

Actors in Europe

Countries	Surety company	Banks
Denmark	75-80%	20-25%
Finland	10-30%	70-90%
France	10%	90%
Germany	20%	80%
Ireland	85%	15%
Italy	80-90%	20%-10%
Netherlands	10-15%	85-90%
Norway	15-30%	70-85%
Portugal	5-10%	90-95%
Spain	10%	90%
Sweden	20%	80%
Switzerland	20%	80%
UK	40%	60%

The Insurance Companies

- Monoliners

- They underwrite only Bonds (some times also Credit)

- Professionalism

- Acceptance (In Beneficiaries, Contractors, Brokers, etc.)

- Efficient

- Specialized

- Without being exclusive (monoliners) they have an important portfolio (in terms of the Company's portfolio or in Market share)

- They have characteristics similar to the previous group, but some particular features could jeopardize independent underwriting

The Insurance Companies

- Multiliners (General Insurance)

- They ocassionally have some policies, but not as their main business
- Not enough professional underwriting
- Less efficient and slower replies

Products

- There is a huge number of bonds available from construction or service contracts, to licensing, to commercial undertakings. Almost any sale, service or compliance agreement can be secured by a surety bond and is tailor made to the legal framework of the country.

I would distinguish three big categories:

Unconditional bonds
An unconditional bond is a primary obligation where the guarantor promises to pay a certain amount on receipt of a written demand. There is no obligation to prove the non performance of the obligee.

This type of bonds are very close to a bank guarantee and are regularly met in Latin America.

They can easily be subject to an unfair call therefore the risk attached to the beneficiary has to be carefully considered.

Products

Conditional bonds

They are the most common type of bonds. In this case the beneficiary has to justify the calling of the bond thus giving the bonding company some options to delay and/or prevent the payment of the claim.

US Surety

They are not fundamentally different from any other type of bonds, but the liability of the guarantor is engaged up to 100% of the contract value. Sureties are very much engage in the realisation of the contract itself. They will monitor the quality and advancement of the works…

Type of bonds – contract bonds

Commonly regroup in two types: **Contract bonds and commercial bonds**

Contract Bonds
Contract bonds, used heavily in the construction industry, are a guarantee from a Surety to a project's owner (Obligee) that a general contractor (Principal) will adhere to the provisions of a contract. Included in this category are:

bid bonds (guarantee that a contractor will enter into a contract if awarded the bid)

Advance payment bond (guarantee supplied by a party receiving an advance payment to the party advancing the payment. It provides that the advanced sum will be returned if the agreement under which the advance was made cannot be fulfilled.

Type of bonds – contracts bonds

performance bonds (guarantee that a contractor will perform the work as specified by the contract), payment bonds (guarantee that a contractor will pay for services and materials)

maintenance bonds (guarantee that a contractor will provide facility repair and upkeep for a specified period of time).

Contract bonds have a defined tenor: the duration of the obligation is related to the project.

Once a bond has issued, there is no way back! - The guarantee remains valid for the duration of the project or the period stated in the bond **(in some policies, it is mentioned that the policy will be in force until the policy holder perform its obligations).**

The only way to reduce exposure on a client is by letting bonds expire and by not issuing new ones.

Percentage of contract value bonds worldwide

Countries	Bid bond	Performance bond	Maintenance bond
USA	2-20%	100%	100%
Japan	3-5%	10%	10%
Korea	5%	10%	5%
Countries	**Bid bond**	**Performance bond**	**Maintenance bond**
Austria	-	5-20%	3-5%
Belgium	5%	10%	5-10%
Denmark	-	10%	10%
Finland	-	10%	2-5%
France	-	5%	5%
Germany	5%	5-10%	2-5%
Italy	1%-2%	5-10%	2%-15%
Netherlands	5-10%	5-20%	5%
Norway	2%	10%	2-5%
Portugal	2,5%	5-10%	5%
Spain	2%	4-10%	4-10%
Switzerland	-	10-20%	5-10%
UK	-	10%	-

Bonding – Commercial bonds

- Also known as Commercial or Non Contract bonds, generally involved other situations where a bond guarantees the performance of legal or regulatory obligations. Most common types are:
  - Custom bonds
  - Legal or Juridical bonds
  - Concession bonds
  - Subsidies, Contributions bonds
  - Tax Bonds
  - Payment Bonds
  - Rental Bonds…

Bonding – Underwriting

- Besides the risk of the bond, the technical and financial risk of the client are to be assessed
- The basic question is whether the client is able to meet the obligations referred in to the bond. Can the Contractor build the bridge, can he produce the equipment in time, can carry out the process agreed ? This is the technical risk
- Second question is: if the client does not meet the obligations, will he be able to bear the financial consequences without going bankrupt? This is the financial risk
    - Solvency assessment
    - Cash-flow assessment

Bonding – Underwriting

- Another point of view (and an important one) also is his behavior and reputation; not only his skills, financials and collaterals. It is very important that he wants to perform his obligation.

- Starting point is always the zero-loss assumption: a risk is only acceptable if the underwriter sincerely believes that there will not be any losses

Bonding – Underwriting Summary

- Make a deep analysis of Policy Holder's business
- Evaluation on Contractor skills to perform current and future obligations defined in the contract
- Technical capacity, operational skills.
- Financial capacity; Rating
- Policy Holder History and behaviour (background, finished works, reputation, etc.)
- Management and Company Structure analysis
- Business plan analysis and monitoring
- Commercial and banking references, line of credit granted in recognized banks
- Details of finished and in force works
- Experience and professionalism performing contractual obligations
- Collaterals

Atradius Re solutions

- Atradius Re has been reinsuring bonding for more than 20 years
- For 2012, our Treaty Bonding Exposure will exceed 10 billion Euros
- We are providing 200 millions EUR of capacity through facultative reinsurance on specific projects
- We can provide further assistance than capacity alone as we have a wide range of expertise at our fingertips
- For example, local bonding companies have a problem with beneficiaries in foreign markets where they are unknown. Acceptance of bonds by beneficiaries in those markets may be a problem. Solution could be the Atradius Re International Bonding Facility.

THANK YOU !!