

# BONDS & GUARANTEES BETTER FROM AN INSURER

Sureties such as bonds and guarantees are required in almost all sectors. They are especially indispensable in the import and export industry as well as in mechanical engineering and construction. In addition, tax and customs bonds and litigation guarantees are increasingly called for in cross-border transactions. Companies often use bonds or guarantees from banks for this purpose. There are other options, however.

## ALTERNATIVE TO BANK GUARANTEES

Customers, business partners and also the state frequently require sureties from the companies they engage in the form of bonds or guarantees. These safeguard financial advances by the customer as well as indemnities for the eventuality that an order is not executed as contractually agreed. They are also used to remedy defects which are not discovered until after the work has been signed off.

Bank guarantees play a major role in this. These can also be procured from the private insurance market, however. Shifting them from a bank to an insurance company can free up bank credit lines and thus create greater financial flexibility.

So-called guarantee insurers often require lower collateral than banks and offer their products at more competitive conditions. The requirement is that the policyholder is in good credit standing and under certain circumstances also has an existing business relationship with the insurer.

## RELIEF FOR CREDIT FINANCING

Banks are legally required to secure a portion of their approved credit lines with equity. Furthermore, Tier I capital requirements under Basel III are making lending by banks more expensive and consequently are increasing the costs for borrowers. On top of this, guarantee credit lines additionally require total credit lines from banks. By outsourcing guarantees to guarantee insurers, the credit lines at the bank can be used for other purposes.

## PARTICIPATION IN CREDIT LINES

Other than issuing bonds directly, guarantee insurers can also participate in existing credit lines from banks

and thus help to relieve credit lines or also to release collateral (e.g. cash retentions).

## WHAT ARE THE BENEFITS OF GUARANTEE INSURANCE?

Guarantee insurance offers the following benefits over bank guarantees:

- Relieve existing credit lines and thus create greater financial independence
- Reduce costs thanks to lower premiums
- Improve liquidity
- Simplify processing due to online application, framework contracts, standard guarantee certificates
- Enjoy wide acceptance among guarantee recipients
- No cash retention by building owner in the case of construction guarantees

## HOW KESSLER SUPPORTS YOU

In its capacity as international insurance broker Kessler harnesses its global network to offer cross-border solutions tailored to clients' specific requirements. Kessler enlists the services of a wide range of insurers on behalf of its clients which have enjoyed long-standing success with guarantee products in their respective industries and are backed by the necessary capital base. Advice is provided by Kessler's team of seasoned credit specialists.

## INTERESTED? CONTACT US.

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