

Contract Guarantee / Bond Insurance

PRODUCT DISCLOSURE SHEET

(Read this Product Disclosure Sheet before you decide to take out the Contract Guarantee/ Bond Insurance. Be sure to also read the general terms and conditions.)

Date:

1. What is this product about?

An Insurance Bond is basically a contract of guarantee given by an insurance company (the surety). The contract guarantees one party (the principal) that the insured will fulfil his obligations (to pay an amount of money or to perform a contract).

The most common types of bonds in use in connection with the construction industry are:

- i) Bid or Tender Bond
- ii) Performance Bond
- iii) Advance Payment Bond (for government contract only)

All Bond acceptances are guided by PIAM's Bond Underwriting Guidelines implemented on 1st June 2000.

2. What are the covers / benefits provided?

2.1 Bid or Tender Bond

This is a guarantee required in connection with the submission of tenders for contract jobs with Public Authorities or Private Principals where relevant.

The bond value is usually a fixed amount determined by the Principal.

The main objective of the bond is to guarantee that the contract who is awarded the contract will accept the Contract at the terms that was submitted by him to the Principal. If he is unable to maintain his quotation, the Bond will be liquidated, and the principal will request the surety to pay for the damages sustained up to the amount of the bond.

2.2 Performance Bond

This type of bond is usually required by the Principal to ensure that the Contractor fulfills his contractual obligations e.g. within the period specified or in accordance with the conditions of the contractor.

The bond value is usually 5% of the contract value but this may vary.

If the Contractor does not complete the contract within the time specified and if no extension in the period is allowed, then the Bond or Guarantee is liquidated.

2.3 Advance Payment Bond (For Government Contracts Only)

This type of bond is only allowed for Government Contracts under the PIAM's Bond Underwriting Guidelines.

This is required in the event a Contractor is applying for an advance payment from the Principal to help funding the preliminary costs and mobilization works of the contract.

The bond value usually ranging from 15% to 25% of the total contract value. The value of the bond decreases in accordance with the proportion of the total value performed.

Such advance payment will be repaid in stages by the contractor out of the progress payments for works executed, the quantum of which is determined by the Principal. However, if the contractor absconded with the money before work commences or abandoned the project midway before the Principal could fully recoup its advance payment out of the progress payment, the Principal has the right to invoke the bond.

The benefit(s) payable under this product is (are) protected by PIDM up to limits. For more information, please refer to PIDM's Takaful and Insurance Benefits Protection System brochure on our website www.zurich.com.my or on PIDM's website www.pidm.gov.my.

3. How much premium do I have to pay?

The total premium that you have to pay may vary depending on the underwriting requirements of the insurance company.

The estimated total premium that you need to pay is RM_____ (Tax [where applicable]).

A minimum premium of RM200.00 must be charged for every Bond.

Please refer to the agent or the Insurance company directly for more information.

4. What are the fees and charges that I have to pay?

Type

- Commission paid to the agent.
- All stamp duty charges payable under the Stamp Duty Act 1949 are to be borne by the Contractor.

Amount

- 10% of premium
The prevailing stamp duty charges are as follows:-
- i) Bond - RM10.00
 - ii) Letter of Indemnity - RM10.00 each

Note: Penalty charges incurred in stamping of documents after 30 days grace period must be borne by the Contractor unless the delay was caused by the Insurer. The penalties provided under the Stamp Duty Act are as follows: -

- a) Up to 3 months - RM25.00.
- b) Above 3 months up to 6 months - RM50.00; and
- c) Above 6 months - RM100.00

- Service Charge
- Tax (where applicable)
- Cash Collateral security

- Min. 0.25% per annum subject to a min. RM50.00
8% of premium
- i) Bonds RM2.0 million & below : Min. 20% of the sum insured of the Bond
 - ii) Bonds exceeding RM2.0 million: Min. 20% on the first RM2.0 million of the sum insured and min. 50% on the amount in excess of RM2.0 million

5. What are some of the key terms and conditions that I should be aware of?

5.1 Mode of Payment for Bonds: CASH-BEFORE-RELEASE

Payment (i.e. premium and cash collateral) shall be received by Insurers before the Bond is released.

5.2 Importance of receipt keeping and Other Key Terms & Conditions:

Please refer to this link: <https://zurich.com.my/en/services/corporate/key-terms-and-conditions>.

5.3 Every piece of document (as per our Bond Documents Checklist) is vital for the assessment of the financial viability of the project proposed and must be written most carefully. The contractor must be sound, both technically and financially, and have good track records. The most undesirable contractors are those companies who are set up to use their political advantage (not their experience and track records) to get contracts and then sub-contract the entire project to someone else. Under such arrangement, the main contractor usually loses control over the project and unless the sub-contractor is reputable and has a good track record, chances that the project will fail is much higher than a contractor who retains substantial control over the project.

5.4 There are certain peculiar features in Bonds:-

- a) A bond once given, cannot be cancelled before its expiry date and a discharge letter must be obtained from the Principal/ Beneficiary of the Bond.
- b) All bonds issued to contractors for Government projects are demand bonds (in the form of Insurance Guarantees) and are worded in such a way that they can be invoked by the holder of the bond without any reason and explanation. The Insurer is obliged to pay upon demand notwithstanding any dispute or protest by the contractor or insurer or any third party.

5.5 Bonds are mainly underwritten channeled through Agents who are well-versed in the trade.

6. What are the major exclusions under this policy?

There is no exclusion stipulated in the Bond wordings/ policy. However, Insurers are not allowed to underwrite financial guarantees and bond/ indemnity as listed below:-

- 1) Foreign Workers' agencies involved in recruiting foreign workers. This would include foreign maids agencies.
- 2) Tourist agencies for management of foreign tourists in Malaysia.
- 3) Lost share certificates.

The bond/ indemnity that cannot be underwritten by insurers includes but not limited to the list as specified above. This list is non-exhaustive. Please refer to the agent or the insurance company directly for more information.

7. Can I cancel my policy?

No. Once a Bond is given, it cannot be cancelled before its expiry date and a letter of discharge must be obtained from the Principal/ Beneficiary of the Bond.

8. What do I need to do if there are changes to my contact details?

It is important that you inform us of any changes in your contact details to ensure that all correspondences reach you in a timely manner.

9. Where can I get further information?

If have any enquiries, please contact us at: **Zurich General Insurance Malaysia Berhad**
Level 23A, Mercu 3, No. Jalan Bangsar, KL Eco City, 59200 Kuala Lumpur, Malaysia
Tel: 03-2109 6000 Faks: 03-2109 6888 Call Centre: 1-300-888-622 E-mail: CallCentre@zurich.com.my

10. Other types of Bond Insurance cover available.

None.

IMPORTANT NOTE:

ZURICH GENERAL INSURANCE MALAYSIA BERHAD IS LICENSED UNDER THE FINANCIAL SERVICES ACT AND REGULATED BY BANK NEGARA MALAYSIA.

IF THE PROPOSAL/ DECLARATION OF THE POLICYHOLDER / INSURED IS UNTRUE OR MISPRESENTED / MISSTATED IN ANY RESPECT, THEN THIS POLICY MAY BE VOID.

YOU SHOULD SATISFY YOURSELF THAT THIS POLICY WILL BE BEST SERVE YOUR NEEDS. YOU SHOULD READ AND UNDERSTAND THE INSURANCE POLICY AND DISCUSS WITH THE AGENT/BROKER OR CONTACT THE INSURANCE COMPANY DIRECTLY FOR MORE INFORMATION.

The information provided in this disclosure sheet is valid as at

IMPORTANT NOTICE

All premiums and fees shown in this document may be subject to tax or other government levies.

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