

To Whom It May Concern

July 2008

Insurance Bonds V Bank Guarantees

We are regularly approached by intermediaries frustrated that landlords or principals won't accept 'insurance bonds' and want to stick with the tradition of insisting on 'bank guarantees'.

Yes, we would readily understand landlord and principal's concerns if 'insurance bonds' are less secure than 'bank guarantees', however, this is clearly not the case.

Australian Insurance companies (including Lloyds) and banks are both governed and regulated by APRA (the same government authority that approves and licenses Australian financial institutions) and equally assessed by various global credit rating agencies. The reality is that there's absolutely no reason for a landlord or principal to differentiate between the credit worthiness of a 'bank guarantee' or an 'insurance bond'.

The Blake Dawson legal opinion dated 8th July 2008 (available at www.insurebonds.com.au) confirms the validity of 'insurance bonds'. Indeed, 'insurance bonds' have been around for decades, but more focused on 'performance & contracting', rather than the now broader application.

Many don't realise that Deposit Bonds, used instead of cash deposits for real estate purchases, are a form of 'insurance bond'. Deposit Bonds originated in 1989, however, wide spread usage also required a 'mind shift'. Today, Deposit Bonds are now used for most real estate purchases and can be issued for periods up to 5 years.

We're also miffed by the challenged acceptance by some of 'insurance bonds' given that:

1. Major Australian corporates and landlords readily accept 'insurance bonds' and their internal legal and compliance are very strenuous. So why not others?
2. Major legal firms have worked with various insurance companies to ensure their 'insurance bond' products are compliant. Legal firms of all shapes and sizes are daily involved in handling and accepting 'insurance bonds' their own use or for their clients.
3. Insurance companies are APRA licensed and must meet stringent compliance standards with respect to insurance products and process.
4. Landlords and principals will happily place \$5M, \$10M, \$25M+ Property Insurance ('short tail risk exposure') or indeed, \$5M, \$10M, \$25M+ Public Liability Insurance ('long tail risk exposure') with an licensed Australian insurer, yet, will then question the security of the same insurers over a \$50K, \$100K or \$250K+ insurance bond.

We're available to further discuss as required. There's new ways to deliver smarter solutions.

Kerry Henry, CEO

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