

INSURANCE PERFORMANCE GUARANTEES

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SAIRAC

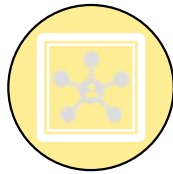


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Welcome and context



Specialist Short-Term
Insurance Broker



Focused expertise in
Insurance Guarantees



26 years' industry
experience



Experience working
with major South
African insurers



Extensive exposure to
construction and
engineering risks



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WHAT IS A CONTRACTUAL GUARANTEE?

A financial risk-transfer instrument

Protects the employer or principal

Activated by non-performance

A standard contractual requirement

Not a penalty or sign of mistrust



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Why Employers require guarantees

Protects against
contractor default

Ensures project
completion

Safeguards employer
cash flow

Allows replacement
of a failing contractor

Required by funders
and governance
structures



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Who actually needs guarantees

Not all SAIRAC members require guarantees

Relevant to members who:

- Undertake larger installation contracts
- Carry performance risk

Work on long-term or high-value projects

Contracts where guarantee apply



Commercial HVAC installations



Industrial refrigeration projects



Cold storage & food processing facilities



Hospitals, shopping centres & data centres



Public and private sector projects



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Bank guarantees – key features

Issued by Commercial Banks

Typical require:

- Cash cover or facilities
- Fixed deposits or security

Reduces overdraft capacity

Longer approval timelines



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Insurance guarantees – key features

Issued by Licenced Short-Term Insurers

Risk-based underwriting approach

Focus on:

- Financial strength
- Track record
- Contract profile

Minimal or no cash collateral required

Faster issuance

Reviewed annually



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Why Employers accept Insurance Guarantees

Legally enforceable

Issued by regulated Insurers

Aligned with JBCC / NEC /
FIDIC contracts

Widely accepted in private
sector projects



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Practical considerations for Contractors using Insurance guarantees



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Example: Shopping Centre HVAC Installation

Contract Value: ±R18 million

Scope:

- Chillers & AHUs
- Ducting & controls
- BMS integration

Guarantee Requirement:

- 10% Performance Guarantee (R1.8 million)
- Guarantee issued for the contractual period until Completion, let's assume its 12 months

Cost comparison:

	BANK	INSURER
Collateral	R1 800 000	R180 000
Fee / Premium	R27 000 (based on a rate of 1.5% p.a.)	R54 000 (based on a rate of 3% p.a.)



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Key Takeaways for SAIRAC Members

Guarantees are standard on larger projects

Insurance guarantees preserve cash flow

Faster turnaround than banks

Enables sustainable business growth



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Questions and Discussion

Questions, Scenarios & Member Experiences

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