Welcome to this module that is guaranteed

definition and types of bank guarantees.

Banks duty to honour guarantee precaution

to be taken for issuance of bank guarantee,

deferred payment guarantees,

purpose of the PGS and methods of payments.

Mrs from Munich to that is types of

securities and modes of creating charge.

This is the outline of the module.

The student will be able to understand

the meaning of bank guarantees, its type,

bankers duty to honour guarantee,

precautions to be taken for

issuance of bank guarantee.

Concept of deferred payment,

guarantee its purpose and

its method of payments.

Bank guarantee - the term bank guarantee,

briefly stated,

means or guarantee given by a bank

to a third person to pay him

a certain sum on behalf of the

Bank's customer on the customer.

Failing to fulfill any contractual or

legal obligations towards the third person.

From the above,

it can be seen that there should be a

commitment on the part of the customer to

fulfill certain obligations to a third party.

This could be a contractual or

legal that is imposed by law.

The commitment of the customer

is guaranteed by a bank,

and if the customer fails to

honour his commitment,

the banker pays the amount

it has promised a topic.

Once the banker gives a guarantee,

then its commitment to honour

the guarantee is onerous,

and as such it is prudent that a

banker before issuing or guarantee

on behalf of the customer,

takes appropriate security

and understands his rights.

And duties various types of bank guarantees.

There are three types of guarantees.

First, One Financial guarantee.

These are guarantees issued by banks

on behalf of the customers in lieu of

the customers requirement to deposit

or cash security or earnest money.

These kinds of guarantees are

mostly issued on behalf of customers

dealing with government departments.

Such guarantees are issued in situations

where a party is required to deposit

a cash as a part of the contract.

Most government departments insist

that before the contract is awarded

to the contractor,

he should show that he is willing to

perform the contract and to ensure

that no frivolous tenders are made.

They insist on an honest money deposit.

However, in lieu of the earnest money,

government departments are generally

willing to accept a banker guarantee

in the case the contractor does

not take up a contract.

Awarded then the Government

Department invoke the guarantee and

collect the amount from the banks.

Second type of guarantee is

a performance guarantee.

These are guarantees issued by the

Bank on behalf of its customers,

whereby the bank in shores or shores,

a third party that the customer

will perform the contract entered

into by the customer as per the

conditions stipulated in the contract.

Failing which,

the bank will compensate the third party up to the amount specified in the guarantee.

These types of guarantees are

usually issued by the bankers

on behalf of their customers

who have entered into contracts

to do certain things on

or before a given date.

Though the bank assures that the

conditions as stipulated in the contract

will be compiled by the customer,

in practice the banks on being

served a notice of default.

By the third party pays over the

amount guaranteed without going into

the technicality of the contract,

third type of guarantee is a

deferred payment guarantee

under this type of guarantee,

the banker guarantees payment of

installments spread over a period.

This type of guarantee is required

when goods or machinery are purchased

by a customer on long term credit

and the payment is to be made in

installments on a specified date.

Spread over more than a year

in terms of contract of sale,

the seller draws drafts that is

Bill of exchange of different

maturities on the customer which is

to be accepted by the banks which

is to be accepted by the customers,

not the banks.

The bankers guarantee do payment

of these drafts.

A default payment guarantee constitutes

an undertaking on the part of the bank.

To make payment of deferred installments

to the seller on the due date.

In the event of default by the customer

while issuing a default payment guarantee,

the bank has to assess the ability

and sources of funds of the

customer to Horner the payment of

the installments on due dates.

Bankers duty to honour guarantee.

The obligation of the banker is to

honour his commitment to a guarantee

given by him being primary cause.

A duty on the bank to honour it,

irrespective of the disputes,

the beneficiary and the day to

This has been accepted by courts

in India and they have refused to

grant injunctions against banks from

making payment under the guarantee

except in cases of fraud or special

equities in favour of the person on

whose the guarantee has been issued.

Precautions to be taken for

issuance of bank guarantee.

The liability of the bank under a guarantee

depends on two fundamental criteria.

That is,

the amount guaranteed and

the period of the guarantee.

These two factors have to

be specifically stated,

since in the absence of any one

or both of these factors,

the banks liability could be unlimited,

either in the amount guaranteed

or the period guaranteed.

The banker should also obtain account

to guarantee from his customer on whose

behalf he has given the guarantee,

so that in case he is required

to pay the guarantee,

he can fall back on the counter guarantee

to claim the amount paid by him.

In the guarantee agreement,

the amount has to be specifically

stated both in figures and words,

while stating the amount the bank

would guarantee to pay care should

be taken to state whether or not the

amount is inclusive of all interest charges,

taxes and other levies.

Banks should also specify the period

for which they are guaranteed,

subsist,

and an additional period during

which a claim has to be made on

the bank to make payment.

Taking into account the time to communicate,

the invocation, etc.

The claim period should be at least 15

to 30 days after the validity period.

Though the bank guarantee

is a contingent liability,

it is always prudent for a banker to

secure such contingent liability to

cover himself in case it is enforced.

This can be done by obtaining

a counter guarantee.

Come indemnity executed by the

customer in favor of the bank.

Before the payment guarantee.

Before payment guarantee is a

guarantee that indicates that

deferred or postponed payments.

Suppose a bank customer were to import

capital goods on a deferred payment

credit where the prize is to be paid

in installments spread over 5 year period.

The exporter will have to wait

for each installments mature

until the whole amount is paid.

In the meantime,

the chances of the importer going

bankrupt or failing to pay may arise.

To avoid such situations,

the exporter can request the importer

to obtain a guarantee that the

payment in installments will be made.

The importer would therefore

approach his banker to guarantee

the payments in installments.

This guarantee of the bank assuring

the exporter of timely payment of

the installment is in short called

as deferred payment guarantee.

What is the purpose of deferred

payment guarantee?

When the importer or exporter of raw

material or consumer goods is made,

the payment is done either

immediately or within 360 days.

This speeder is a short term period.

However, in the case of capital goods,

the amount involved being quite substantial.

Short term credit would not be of

much help to the bio unless he has

made arrangements to get a term loan.

Also, the requirement of the substantial.

Amount of foreign exchange may place

the bio at a greater disadvantage.

To overcome this payment problem,

concept of deferred payment was introduced

in India in a deferred payment agreement.

The buyer or importer is not

required to make the entire

payment of the goods at one time.

Instead,

the price of the goods is paid

in installments over a period of

time as per the terms mutually

agreed to with the seller here or

a third party that is mostly a

bank or a financial institution.

Guarantees the payment of the

instalments method of payment.

The payment is usually done

on the following terms.

Advanced payment of 10% to 15% of the

price of the goods is made by the bio.

Another 10% to 15% on the receipt of

the documents under letter of credit.

The balance amount is paid in installments,

spread over a period of 1 to 7 years,

which is secured by all deferred payment

guarantee in a deferred payment guarantee.

What is guaranteed is the timely

payment of instalments.

An interest if provided.

This is done by showing a deferred

payment guarantee in which the

following terms are mandatory supply

of goods by the seller to the

buyer and the seller agreeing to

postpone the payment of the prize,

this being the consideration

of the guarantee.

The payment schedule of both the

installments and interest and the

unconditional and irrevocable assurance

of the bank that it would make

payments on the invocation of the guarantee.

These were the references used for

this module. Thank you.