



Fuel Guarantee Product

The Basis of an Insurance Fuel Guarantee

Due to the nature of the fuel business and the high cost of holding stock, cash flow is one of the keys to the success of the business.

The Fuel Retail business is highly specialised, with Dealers having to balance the franchise requirements of the fuel suppliers, fuel price fluctuations, the needs of customers, staff and the risks associated with operating a 24-hour business. All the above put strain on the working capital requirements of the business.

The business needs to generate enough revenue to meet daily, weekly and monthly expenses, and at the same time maintain stock levels to ensure uninterrupted trading in accordance with the fuel companies' requirements. Cashflow positions therefore need enough margin to deal with demand and supply fluctuations. Without a guarantee in place with the fuel supplier, the retailer effectively trades on a 'hard cash' basis. Fuel revenues need to be in the fuel account prior to payment for fuel and delivery is only scheduled following payment. The retailer will typically either take out a large loan or apply for an adequate overdraft facility to deal with cash demands.

This working capital required can be costly, both due to high prime interest rates and the lost opportunity cost of investment.

With the introduction of the Garagesure insurance product, the fuel guarantee alleviates the need for a cash on demand guarantee and allows the service station owner to utilise his or her capital where it is best required. A monthly premium is established and while the premium is paid the guarantee remains in force. The Dealer's financial position is assessed and used as a backing for the guarantee, by being committed to the amount owed with sureties in case a recovery is required against the Dealer by the Insurer.

Having more capital in the business can improve the cash flows further and reduce risks of trading.

The strong backing of our insurer, Compass Insure (AA(ZA) by GCR), means that our guarantee is accepted by most Oil Majors.

Important Risks to consider when entering into a Fuel Guarantee contract

- The calling up of a Fuel Guarantee by the Oil Major/Supplier makes the Dealer liable for the incurred debt.
- A Fuel Guarantee is effectively an improvement of the Dealer's credit worthiness and his agreed obligations to the Oil Major/Supplier.
- Sureties are signed by the Directors/ Members of the operating Company (Personal and Corporate capacity) and require settlement with Garagesure in case of the call-up of a guarantee.
- Garagesure will institute legal recovery proceedings against Dealers who fail to settle their obligations to the Oil Major/ Supplier.

