Your Quick Guide to *Surety Bonds*

What Is a Surety Bond?

A surety bond is a guarantee provided by a third party, such as a bank or insurance company, to ensure that your obligations under a contract are fulfilled. If you are unable to deliver as promised, the bond provides financial protection to cover any losses.

A surety bond is not a contract of insurance, but it does provide financial protection for the beneficiary against loss if the principal breaches contract and does not discharge damages.

These bonds are especially common in the construction industry, helping businesses secure contracts by demonstrating reliability and financial stability.

Why Choose a Surety Provider Over a Bank?

- Banks often require 100% cash as collateral, which ties up your funds.
- Surety bonds free up your cash flow, letting you use it for other things.
- Surety providers don't usually demand personal guarantees like banks do.

Types of Surety Bonds

Performance Bonds
Guarantee you will deliver on your contract.

Retention Bonds
Protect the employer if a contractor goes bankrupt or fails to fix defects.

Advance Payment Bonds
Safeguard upfront payments made to contractors.

Highway Act Bonds
Ensure roads and sewers are finished and maintained until they are handed over to local authorities.

Restoration Bonds
Cover environmental restoration once a project is done.

HMRC Bonds
Help importers manage duty payments to HMRC.

How Do Surety Bonds Work?

Three key players make a bond work:

1. **Principal** — This is you, the one making the promise.
2. **Obligee** — The person or organisation relying on your promise.
3. **Surety** — The company guaranteeing you will deliver.

An obligee can request a principle obtain a surety bond as part of their contract. Underwriters will consider risks, terms and conditions and evaluate the applicant. Once an application is received, the surety underwriter will firstly determine the bonding risks by:

» Assessing the obligation required.

» Considering bond wording and any other rules or regulations.

» Determining the applicant's capacity to perform.

» Understanding terms and conditions

Underwriters will check your financial strength and project plans before giving you a bond. Once approved, you pay a small fee to secure it.

Stages of Securing a Surety Bond

Identify the Bond You Need

Determine the specific type of bond required for your industry or project. Understanding the requirement is the first step, whether it's a performance bond for a construction job or an HMRC bond for imports.

Application

Provide information about your business, financial standing and the project requiring the bond.

Underwriting

The provider evaluates your application to assess the risk involved. This includes checking your financial standing, creditworthiness and track record.

Approval and Premium Payment

Once approved, you pay a small percentage of the bond amount as a premium. This cost depends on factors like the bond type, amount and your financial profile.

Bond Issuance

The bond is issued, signed and delivered to the obligee (the party requiring the bond). You can then proceed with your project or activities with confidence.

At Thomas Carroll, we have access to a wide range of surety providers and in-depth knowledge and understanding of the market.

Get in touch to learn more

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