At a glance: Surety Bonds

Building contractors are increasingly turning to surety bonds as a financing option alternative to bank guarantees and retention monies.

What are Surety Bonds?

Surety bonds protect the principal against default by the building contractor. A bond is an undertaking by the bond provider to the principal. It is to ensure that the contractor acts under the terms and conditions of the contract. The bond issued is in favour of the principal, and the contractor pays the premium applicable to the bond provider.

Once the surety bond is issued, it is irrevocable by the bond provider, who is then committed to pay should the contractor default. In the event of a paid claim under a surety bond, the bond provider seeks recovery from the contractor through a Deed of Indemnity. In essence, bond providers undertake the credit risk of being unable to recover funds paid out by them under the bond from the contractor.

Surety bond facilities are available for a broad range of project types and are an accepted form of security by most principals including local, state and federal government departments.

Why use surety bonds?

The purchase of surety bonds from a bond provider (usually an insurance company) can deliver many benefits for business operations, such as cash flow advantages and free up working capital.

Surety bonds can be a valuable alternative to bank guarantees or cash retentions and an effective way of increasing a contractor's capital base. Unlike bank guarantees that are supported by collateral and tie up valuable working capital or other assets, surety bond providers evaluate the performance risk of the contractor and the contractor's ability to complete the works.

The contractor pays a premium to the bond provider on the amount of the bond issued, allowing the contractor to avoid incurring alternative costs, such as those associated with bank overdraft facilities.

25+ YEARS EXPERIENCE

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RELENTLESS COMMITMENT

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Bond and contract types

There are many different types of bonds available, depending on the particular requirements of the contract conditions. The type of bond could be in the form of Performance, Maintenance, Bid, Retention, Sub contractor payment or Advance payment.

Bonds are generally for an extensive range of contract types including residential, commercial, industrial, civil, mining, engineering, infrastructure and most major projects.

Exploring the most efficient way to finance your contract security obligations.

Cost comparison

In addition to the operational benefits of surety bonds, the premium payable in most cases is more competitive than bank guarantees when you take into account the total cost.

Advantages of using bonds

Some of the advantages of using surety bonds, compared to traditional bank guarantees and cash retentions or deposits include:

- No tangible security or collateral required, thereby freeing up assets for other purposes (such as business growth or procurement of additional working capital).
- Improved liquidity.
- Bonds enhance working capital by not having to use established credit lines for contingent liability purposes.
- A bond facility allows the contractor freedom to submit tenders, without the restrictions or limits imposed by banks.
- Contractors only pay for the bond limits used, not the whole facility.
- Individual certificates are issued within 48 hours, to meet contract deadlines.
- Bids may be viewed more favourably, as the contractor's financial status has been independently assessed by a third party (the bond provider) who is willing to issue the principal a written unconditional guarantee of the contractor's ability to perform the contract.

How can we help?

As the financial strength of the surety provider is a significant factor in gaining acceptance of bonds by contract principals, we can access some of the world's largest and most financially secure bond providers.

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