

SURETIES AND BONDS FROM EFCIS

Types of Bonds

- Performance Bond
- Construction Guarantee Bond
- Retention Bond
- Advance Payment Bond
- Off-Site Materials Bond
- Bid / Tender Bond
- Duty Deferment Guarantee / VAT Guarantee / Warehouse Guarantee
- Contract Bonds



Surety bonds can be referred by various different headings titles – retention bonds, performance guarantees, rent guarantee, retention bond, deferred payment guarantee, advance payment guarantee, bid bonds, trade credit guarantee, rolling purchase guarantee, media guarantee, gap guarantee, construction guarantee, maintenance guarantee, contract guarantee, contract surety, completion guarantee, to mention just a few.

Surety bonds protect their acceptors against contract default, insolvency or proven non-performance under contract.

Surety bonds are normally a tripartite agreement between the two contracting parties and the third party surety provider often called the bondsman, who undertakes to pay a sum of money or be responsible for (makes good) the default to the acceptor (beneficiary). When party being guaranteed (Contractor) fully performs his contractual obligations, the performance bond naturally expires (practical completion).

The most common form of surety bond is a conditional bond, meaning there is a need to prove that the acceptor (beneficiary) has suffered a loss. On demand bonds are less common, do not require proof of loss and as such are imprudent for the party being guaranteed (Contractor) in many situations.

Surety bonds can be obtained from Bondsmen & Banks although Banks rarely issue conditional

bonds and on demand performance bonds will hold 100% counter indemnity against the party being guaranteed (Contractor), normally as a charge against cash held or credit lines.

Bondsmen or surety can be more flexible with counter indemnity and more reputable providers will make separate Insurance arrangements particularly against the insolvency of a guaranteed party.

Types of Bonds

Performance Bond - a type of bond in which the surety provider agrees to pay an employer damages in the event of contractual non-performance.

Construction Guarantee Bond - these bonds are essentially performance bonds, which are geared towards the construction sector and specific forms of construction contracts.

Retention Bond - a type of bond in which an employer agrees to pay the contractor monies, which would otherwise have been held by way of retention.

Advance Payment Bond – a bond that guarantees an employer their upfront payment to a contractor for goods or services.

Off-Site Materials Bond – similar to an advance payment bond in so far as this bond guarantees the payments made for goods that are held by a contractor off site before they are required for a project.

Bid / Tender Bond – a bond which is often submitted with a tender to demonstrate to the employer the ability of the party tendering to commence the contract if it is awarded to them.

Duty Deferment Guarantee / VAT Guarantee / Warehouse Guarantee – these are guarantees in favour of HMRC.

Contract Bonds - A contract bond is a guarantee issued by an insurance company in support of an underlying contract.

The parties to a contract bond are the contractor, the employer (such as a main contractor or public body) and the guarantor – the insurer.

For guidance or advise on Sureties and Bonds please contact Andy Moylan, Managing Director at amoylan@efcis.com or call our Hastingwood Office on 01279 437662

