

Surety Glossary of Terms

A

Administrator

A person or entity legally vested with the right of administration of an estate.

Advanced Payment Bond

This kind of surety guarantees that a principal who is given an advanced payment won't just abscond with the money and will use the funds for the purpose for which they were advanced.

Agent

A person authorized to act on behalf of another person or organization.

A.M. Best Rating

An independent opinion, based on a comprehensive quantitative and qualitative evaluation of a company's balance sheet strength, operating performance and business profile.

Applications

A form used to collect information to underwrite a risk/bond.

B

Balance Sheet

A financial statement listing assets, liabilities and net worth.

Bid Bonds

Bonds which provide financial assurance that the bid has been submitted in good faith, and that a contractor will enter into a contract at the amount bid and post the appropriate performance bonds. These bonds are used by owners to pre-qualify contractors submitting proposals on contracts.

Bonding Capacity

A term that refers to the aggregate total of bond amounts that a company has qualified for with their surety provider.

Bond Wording

This is the form of contract which states in what circumstances the bond is called upon. There are a number of standard bond wordings in use in Ireland, including ABI, FIDIC, Model Form 1 (public works contracts).

Broker

A person acting as representative of one or more insurance companies.

C

Capacity

In the surety underwriting world, this refers to the company's ability to handle all of the work on its plate.

Capital

Another underwriting term, this basically refers to money. Does the principal have enough of it within reach to fulfill its obligations and not go under.

Character

Character refers to personal qualities of honesty and integrity.

Collateral

A security or guarantee (usually an asset) pledged for the repayment of a loss should one occur. The most common forms of collateral in the surety industry are cash, irrevocable letters of credit and real estate equity.

Commercial Bonds

A general classification of bonds that refers to all bonds other than contract and performance bonds. Commercial bonds cover obligations typically required by law or regulation. Each bond is unique to the circumstances at hand.

Commission

Monies paid to an insurance intermediary or broker in recognition of the business written by the surety through the agency of the intermediary.

Contract Bonds

A general classification of bonds that provide financial security and construction assurance on building and construction projects by assuring the project owner (obligee) that the contractor (principal) will perform the work and pay certain subcontractors, laborers, and materials.

Corporate Counter Indemnity

Surety providers may seek a guarantee from the contractor/ principal which is issued by their company & signed by the directors. The corporate counter indemnity (CCI) usually states that in the event of the company becoming insolvent, and a likely call under the bond, that the company indemnifies the surety provider for the amount of the claim, and thereafter the surety becomes a creditor of the insolvent company. (Variations apply to the wording of this).

Co-surety

A situation when one or more than one surety provider is needed to get the job done. The need may be too big for a single surety, or may be too complex.

Court and Probate Bonds

Judicial and probate bonds, also referred to as fiduciary bonds, secure the performance on fiduciaries' duties and compliance with court order, e.g. administrators, executors, guardians, trustees of a will, liquidators, receivers, and masters. Judicial proceedings' court bonds include injunction, appeal, attachment, replevin, and admiralty.

Credit Bureau

A company that collects information from various sources and provides consumer credit information on individual consumers for a variety of uses. The most common credit bureaus are Dun & Bradstreet, Creditsafe & Experion.

Credit Report

A record of an individual's or company's past borrowing and repaying, including information on late payments to credit grantors.

Credit Score

A numerical expression based on a statistical analysis of a person's credit files to represent the creditworthiness of that person.

D

Directors guarantee

See Personal Guarantee

F

Fiduciary Bonds

Bonds which protect against dishonest accountings and a lack of faithful performance of duties by administrators, trustees, guardians, executors, and other fiduciaries. Fiduciary bonds, often referred to as probate bonds, are required by statutes, courts, or legal documents for the protection of those on whose behalf a fiduciary acts. They are needed under a variety of circumstances, including the administration of an estate and the management of affairs of a trust or a ward.

Funds Control

A method of taking control of a bonded project's cash flow to ensure subcontractors and suppliers will be paid appropriately. This method may be used when the contractor would not otherwise qualify for a bond.

I

Income Statement

A schedule of an individual or company's revenue versus expenses, which transform into their net income which shows whether the company or individual made or lost money during the time period being reported. Also known as profit and loss statement.

Indemnification

The act of holding another harmless in the event of a loss.

Indemnitor

Person, persons, company or partnership named in an indemnity document which may provide indemnity to the surety in the event of a call on the bond.

J

Joint and Several

A term used with personal guarantees, that each indemnitor or guarantor is jointly and equally liable for the debts of the group of indemnitors, should any individual be unable to pay, any or all other indemnitors are liable.

L

License and Permit Bonds

License and Permit Bonds are required to obtain a license or permit in many cities, counties, states or other political subdivisions. They may be required for a number of reasons, including the payment of certain taxes and fees or providing consumer protection as a condition to granting licenses related to selling things such as motor vehicles or contracting services.

Liquidated Damages

Damages whose amount the parties designate during the formation of a contract for the injured party to collect as compensation upon a breach of a contract due to delays in its completion.

M

Maintenance Bonds

Maintenance Bonds provide for upkeep of the project for a specified period of time after a project is completed. These bonds protect against defective workmanship or materials.

N

Non-Binding Indication

A rough estimate or quote that Surety may provide to the principal, in advance of final terms being agreed on a bond. A non-binding indication may not have fully completed the underwriting process and may be withdrawn subsequently.

O

Obligee

The person or entity for whom or which a surety provides protection due to the lack of performance of the principal's obligations. The obligee is usually the person who seeks the guarantee and is the beneficiary of the bond.

On-demand

This kind of guarantee can be triggered upon the complaint of the obligee, even if no default has taken place. It's considered friendlier to the obligee and more risky to the surety.

P

Payment Bonds

Payment bonds cover payment of the contractor's obligation under the contract for subcontractors, laborers, and materials suppliers associated with the project.

Penalty

A term used to refer to the monetary size or limit of bond. Also known as bond amount.

Performance Bonds

Performance Bonds cover performance of the terms of a contract. These bonds frequently incorporate payment bond (labor and materials) and maintenance bond liability. This protects the owner from financial loss should the contractor fail to perform the contract in accordance with its terms and conditions.

Personal Guarantee (also known as Director Guarantee)

In certain circumstances, a surety may require guarantees from directors of a limited company such as a personal guarantee. This makes one liable for one's own or a third party's debts or obligations (i.e. the limited company of which the person is a director). A personal guarantee signifies that the lender (surety) can lay claim to the guarantor's assets in case of the principle (contractor) default. Once signed, a personal guarantee can only be cancelled by the surety.

Practical Completion

"Practical completion" means that the works have reached the stage where the beneficiary (or their architect/engineer) certifies that they have been completed in accordance with the contract, except for minor omissions and, where applicable, has done all that they are required to do under the contract to enable a certificate of occupancy to be obtained.

Premium

A sum of money or fee paid as consideration for the bond.

Principal

The individual required to be bonded by the obligee or beneficiary.

Probate

A legal process of setting an estate of a deceased person, specifically resolving all claims and distributing the deceased person's property under the valid will.

Profit and Loss Statement

A schedule of an individual or company's revenue versus expenses which transform into their net income, which shows whether the company or individual made or lost money during the time period being reported. Also known as income statement.

R

Rates

The amount of money per thousand (or percentage) used to determine the bond premium.

Reinstatement Bonds

A bond which provides protection in the event that a person or entity does not restore land, that it has mined or otherwise altered, to its original condition.

Replevin

A legal proceeding used to recover specific personal property.

S

Statement of Affairs

Document usually prepared by individuals accountant and stamped by them, which sets out the estimated financial position of an individual including a summary of their assets and liabilities, with the assets shown at their estimated realisable values.

Subcontract Bond

A performance and/or payment bond issued by a subcontractor in favour of a general contract which guarantees the performance under the subcontract, as well as the payment of subcontractors and/or suppliers.

Supply Bonds

Supply Bonds cover performance of a contract to furnish supplies or materials. In the event of a default by the supplier, the surety indemnifies the purchaser of the supplies against the resulting loss.

Surety

A third-party entity (i.e. insurance company) that has agreed to put up a guarantee assuring that a business is going to deliver on its promises otherwise known as the guarantor.

Surety Bonds

Surety bonds are three-party agreements in which the issuer of the bond (the surety) joins with the second party (the principal) in providing protection to a third party (the obligee) regarding fulfillment of an obligation on the part of the principal. An obligee is the party (person, corporation or government agency) to whom a bond is given. The obligee/beneficiary is also the party protected by the bond against loss.

T

Time for Completion

The durations of time set forth in a contract for completion of the project.

Trustee

A trustee is a person or entity named to manage a business' assets and work with the business creditors.

U

Underwriting

The decision making process an insurer takes to assess the eligibility of a consumer to receive/qualify to be issued a bond.

Underwriting capacity

This refers to the aggregate capacity of an insurance company to write business on a particular line of risk.

W

Warranty Period

The amount of time set forth in a contract that the Principal must guarantee their performance.

Witness

Most bonds require an independent third party witness to authenticate the signature of the principal or contractor. It may also be accompanied by the company seal.

Work in Progress Report

Description and detail of current work being carried out .

Work-On-Hand Reports

A type of financial statement or schedule which lists a contractor's jobs in progress.