

What are Surety bonds?

Surety bonds are a form of security that are used to support a client's underlying performance obligation, and the security is required under a contract.

In essence, a surety bond is a promise to pay a nominated party or entity should a client not meet their contractual obligations. Different to other insurance products, surety bonds are unconditional, on-demand instruments.

For example, if our client (a contractor) is constructing a building, the surety bond/s protect the building owner should our client not complete the building in which case the beneficiary may call on the bond because of non-performance under the contract. If however the client completes the project without issue, the bond is returned to us for cancellation.

Surety bonds or bank guarantees?

Liberty can issue unconditional on-demand bonds that are typically 5% to 10% of the contract value. The contract stipulates the amount and the type of security required, which can be either surety bonds or bank guarantees. Therefore, surety bonds and bank guarantees are almost identical in purpose.

There are however important differences between surety bonds and bank guarantees which make surety bonds a preferred choice for many of our clients.

Key benefits

The key benefit of surety bonds for clients is freeing up their working capital and bank facilities. This is made possible because surety bonds are generally unsecured by the assets of the client, compared to many bank guarantees, which are generally secured by cash or the assets of that client.

Aside from only being issued by insurers, surety bonds:

- ▶ **Are an unsecured product.** It's a better option for clients because they don't need to secure their assets or cash to support them. The client can free up their working capital and bank facilities.
- ▶ **Don't incur facility fees** when a client has a surety bond facility with Liberty Specialty Markets (Liberty).

Industries and types of bonds

Surety bonds are predominately used in the construction and civil engineering industries however Liberty also provides commercial bonds, including mining rehabilitation, workers' compensation and licensing bonds.

We provide different types of surety bonds including performance, maintenance, retention, offsite materials, advance payment as well as regulatory guarantees to both publicly traded and privately-owned companies that have annual revenue above A\$250m.

Liberty* is the largest global surety provider. We are well placed to help contractors and businesses access the surety bonds they need. Our clients are backed by the strength of a group that's larger than the entire Australian insurance industry.

*Liberty Specialty Markets is a trading name of Liberty Mutual Insurance Company, Australia Branch (ABN 61 086 083 605) incorporated in Massachusetts, USA (the liability of members is limited).

Global reach. Financial strength. Local authority.

Distinct, complex and constantly evolving – every business is as unique as their insurance needs.

To confidently progress in the face of risk and uncertainty requires a level of security you can only achieve through working with specialists.

Liberty Specialty Markets offers a breadth of world-class insurance and reinsurance services to brokers and insured clients. We bring value and solutions to more than 26,000 of Asia Pacific's most significant business and government organisations – helping protect what they earn, build and own.

We're part of the global Liberty Mutual Group, a Fortune 100 company that's been in business since 1912 with a Standard & Poor's 'A' (strong) rating.

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