Jargon Buster – Surety

ABI Model Form: These are bond wording documents that have been published by the Association of British Insurers (ABI) and act as a market standard suite of wordings that are widely used across the industry. There are some instances where we may agree a variation, please speak to your relevant Tryg Garanti representative who will be happy to discuss.

Admin Fees: It is market standard to charge an administration fee to cover underwriting and bond issuance expenses. This will be clearly set out with clients to ensure full transparency.

Advance Payment Bonds: Often, an Employer will make a deposit payment to you in order to assist with the purchasing of goods and services required under the contract. Tryg Garanti are able to offer Advance Payment Bonds which are designed to guarantee this payment in the event that you fail to fulfil your contractual obligations or become Insolvent.

Aged Debtor Report: This will be required by our Underwriters as part of their analysis in order to gain an understanding of how quickly you are paid by your customers on average and if there is any existing bad debt that needs to be considered.

Assignment Clause: This is a market standard clause within the bond wording that restricts the transfer of rights and benefits to a third party without the consent of yourselves and Tryg Garanti. There are some instances where we may agree some limited assignment rights. Please speak to your relevant Tryg Garanti representative who will be happy to discuss.

Bank Form: This will likely be required by our underwriters in support of your application. These forms show details of any banking facilities you may have and minimum and maximum balances over a period of time. These are used to check recent cash balances and any overdraft and loan obligations you may have.

Bank Guarantee: Traditionally, Surety markets were supported primarily by the banking sector. Banks can issue bonds in a similar fashion to the insurance sector, albeit with differing capital requirements. Bank guarantees are generally secured against either cash or a companies' credit portfolio, this can be quite restrictive.

Beneficiary: Also known as the Employer (See Employer definition below). This is the party within the agreement with whom you are contracted to perform the works for.

Bond Expiry: Typically, Surety Bonds are released upon one of 3 different events occurring. The date of issue of the certificate of practical completion, the date of issue of the notice of making good of defects, or an agreed fixed date.

Call: When the Employer believes that you have defaulted on your contract, due to failure to perform or Insolvency, they will send a notice to Tryg Garanti informing us that they intend to make a claim against the bond.

Capital Requirements: These are standards imposed by regulatory authorities that outline the level of liquidity (easily sold assets) a bank or financial institution must hold given the level of their overall assets. With increasing capital requirements imposed upon banks and financial institutions, the insurance sector with established providers such as Tryg Garanti are becoming more and more popular as an alternative solution in the Surety market, as we do not have the same capital requirement framework as the banks.

Certificate of Making Good Defects: This is a document confirming that the defects liability period has expired and that you have made good any defects that have appeared during this period. It can be an expiry event for the bond, where the bond is release upon issuance of this certificate.

Certificate of Practical Completion: This is a document that is issued upon successful completion of the project and can be an expiry event where the bond is released upon issuance of this certificate.

Conditional Bonds: These are bond wordings that require the Employer to prove a loss as a result of a breach of contract or Insolvency before any benefits of the bond become payable.

Contingent Liability: These are potential obligations that may arise from an event that has not yet occurred and are not recorded on a companies' balance sheet. Surety Bonds are classed as a contingent liability for accounting purposes.

Deductible Guarantee: Compulsory liability insurance, like employers' liability, requires insurers to settle claims without deducting any excess. If you opted for a higher excess to lower your premium, your insurer might ask for a deductible guarantee as security in case you cant pay the excess due to insolvency. This ensures that the insurer will still be covered even if you can't pay your share of the claim.

Deed of Accession: This is an agreement that attaches to the Deed of Indemnity and is required when an entity needs to be added to the existing Deed of Indemnity, for example in the event of an acquisition.

Deed of Indemnity: This is an agreement between yourselves and Tryg Garanti that provides for Tryg Garanti to seek reimbursement from you in the event that Tryg Garanti has to make a payment under the Bond. Should you be part of a group, Tryg Garanti may require the group to be named on the agreement.

Default: This is your failure to meet your contractual obligations under your contract with the Employer. This will be as a result of a failure to perform, or due to Insolvency.

Disputed Debt: This is where there is a disagreement with a debtor as to the amount or terms of an obligation owed to you by them. This is increasingly important from an underwriting perspective and is information that must be disclosed within your submission.

Employer: This is the beneficiary of the bond and is the party with whom you are contracted to in the underlying contract.

Expiry: This is the date of which the bond is released and is no longer in effect. Generally, this is usually upon a contractual milestone such as Practical Completion/Making Good of Defects, or an agreed calendar date.

Governing Law Clause: A clause within the bond wording that outlines which legal jurisdiction the bond will be subject to. In the UK market, bonds are subject to the laws of England and Wales and only the courts of England and Wales have jurisdiction.

Highways & Sewer Bonds: These guarantees are in relation to works comprising the completion of new roads and/or sewers. They provide comfort primarily to local authorities or utility companies that the works will be completed to an adoptable standard.

HMRC/Duty Deferment Bonds: These guarantee the delayed payment of duty and VAT payable from the importing of goods from outside the UK. The duty and VAT are otherwise payable immediately as goods arrive at the UK border. These bonds can therefore provide some much needed cashflow support by delaying these payments for a certain time period allowing cash to be deployed elsewhere.

Insolvency: This is the state of which an entity is unable to pay their debts as and when they fall due or where there has been the appointment of an administrator.

Joint and Several Liability: Where two or more parties are liable for their own liabilities and also of the other parties. As an example, yourselves and Tryg Garanti are jointly and severally liable for the bond amount in respect of the Employer.

Maximum Aggregate Liability: This is the highest sum of which Tryg Garanti are liable for in the event of a valid call on the bond. This cannot exceed the bond value.

National House Building Council "NHBC" Bonds: These are maintenance bonds that cover post-completion maintenance projects on properties within the period covered under NHBC Building Warranty.

NEC Rider Clause: Under NEC contracts, the project manager has the autonomy to estimate the level of damages under a breach or termination of contract and they are able to certify an amount for payment. Sureties will generally therefore include an "NEC Rider Clause" within the bond wording clarifying that the Surety is not bound simply by the assessment of the project manager.

Non-Binding Indication: We may be able to give you an uncommitted estimate of pricing prior to receiving all of the required information from you. This is subject to change upon further review of any additional requested information.

On Demand Wordings: In contrast to a conditional wording, these wordings do not require the damages to be established and ascertained prior to the Surety being obliged to make a payment. The Surety is liable to pay the full amount requested upon the initial bond call. These are deemed higher risk than a conditional bond and may therefore be subject to pricing amendments.

Performance Bond: These are a tri-party agreement where Tryg Garanti will guarantee to an Employer that you will carry out your contractual obligations with them in accordance with your contract.

Personal Guarantees: In some instances, we may ask for a Personal Guarantee from one or more of the Directors of the entity/group of which we are guaranteeing. This is an additional form of security against the bond and leaves the individual(s) liable for the sum up to the value of the payment made under a bond call.

Premium: Traditionally in the UK, Surety providers request full up front premium before a bond is issued. Tryg are offering premium payable via quarterly instalments. This can have a huge impact on your cashflow levels when procuring any bonds and is an extremely useful tool for our clients representing some much needed breathing space. Premium is charged against the value of a bond.

Restoration Bonds: These guarantee to an employer that the landscape will be returned to its original state following completion of a project.

Retention Bonds: These are required where the employer has retained funds held against the contract for a period of time after Practical Completion in order to safeguard against any defects that may occur that you are unable to remedy. They alleviate the requirement for the deduction of a retention and ensures that you receive the full amount of the agreed contract payment.

"Subject to": You will likely see this phrase contained in our quote/non-binding indication correspondence. These are generally conditions within the correspondence with regards to requests for further information/clarification or requests for certain actions to be met for the quote to remain valid. The quote is therefore 'subject to' these conditions being met.

Surety: Us! Tryg Garanti is one of the largest Scandinavian providers of surety bonds, guarantees and trade credit solutions, with offices located across Europe. Tryg Garanti is part of the 'A1' Moody's rated, largest Scandinavian general insurer Tryg which generates €3 billion turnover with 7,000 staff and headquartered in Denmark. With roots going back to the great Copenhagen Fire in 1728, Tryg is today listed on the Nasdaq OMX in Copenhagen with a market capitalisation of approximately £12bn and its performance additionally secured through close cooperation with the world's leading reinsurers.

Surety Bonds: These are a tri-party agreement where the Guarantor (Tryg Garanti) provides financial compensation to an Employer in the event that you fail to meet your obligations within your contract with the Employer. An alternative to Bank Guarantees, Surety Bonds are not generally secured against cash or credit lines, this can be transformative from a cash flow perspective.

Uncommitted Facility Agreement: This is an agreement that outlines the framework in which bonds can be drawn down from the Surety. Generally, aggregate limits, premium rates and terms and conditions are included in this document. It is uncommitted, meaning Tryg Garanti retains the right to decline a bond request should we not wish to support.