What are Surety Bonds?

In this article I am attempting to describe and explain what exactly a surety bond is and when people use them, because I for one was completely lost first time I heard of them. Surety bonds originated in the U.S hundreds of years ago as a mechanism through which trade over long distance could be encouraged. According to the Surety & Fidelity Association of America annual US surety bond premiums are worth approximately $3.5 billion.

A surety bond is a contract among at least three parties, these three parties are the:

1. The Recipient
2. The Principal,
3. The Surety

Below is break down of their roles in a surety bond:

- The recipient is the party who is the beneficiary of the duty
- The principal is the main party who will be performing a contractual duty
- The surety is the person who ensures that the principal's duties will be carried out.

Through the agreement of a surety bond, the surety agrees to uphold the contractual promises (duties) made by the principal. In the event that the obligations are not met by the principal, the recipient will recover their losses via the surety bond from the surety. It's a bit confusing I know but imagine a bet with a mate, you are saying a team will win if they don't you pay your mate the agreed amount if they do win you collect your winnings (the bond). I know that's not exactly how it works but it's a simple way to describe the process.

The contract is formed so as to encourage the recipient to fulfill the contract with the principal, i.e., the surety is attempting to demonstrate the credibility of the principal and guarantee performance and completion of duties by the principal as agreed.

About the Author

Surety bonds are used by a Bonding Company as a guarantee that another party will complete a task or a transaction if they are given the opportunity.

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