



Berns Brett

Insurance Brokers : Risk Managers : Independent Financial Advisers



# Performance Bonds

A Contractor's Guide



## What is a Performance Bond?

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A performance bond is issued to one party of a contract as a guarantee against the failure of the other party to meet its obligations specified in the contract.

At BBi, we are frequently asked about the difference between insurance and a surety bond. Although a surety company is typically part of an insurance company, the surety bond is not a typical insurance policy.

A performance bond will protect the employer / financial institution against possible losses when a contractor fails to perform or is unable to deliver the project within the terms of their contract.

### How they help

In recent times, bonds have stepped into the spotlight due to the fall out from projects involving large contractors that prove to be facing financial difficulties.

On privately funded projects, bonds provide backing that creates a smooth transition from construction financing to permanent financing. Thus providing support to the contractor and ensuring project completion.

On public projects, surety bonds support prequalification of contractors, payment protection for subcontractors and contract completion protection for the public.

**“Significant financial distress in Construction industry grew 31% impacting 62,294 firms”**

- > Confirmed in June 2017
- > This is a UK Stat
- > Source: FT Markets



## Who needs a bond?



The Government and private sector require performance and payment bonds for contracts to protect the project owner or tax payer's investment. Performance and payments bonds for government projects can be required in projects involving building bridges, roads, hospitals, schools and much more.

### Applying for a Performance Bond

The underwriting information you will need to provide when applying for a performance bond is listed below.

Surety providers/Insurers have certain requirements and these change depending on the capacity of the contractor as well as the size and length of the project insured.

### Documents you need

Usually surety providers/ insurance companies will ask for the following information:

- At least two years of financial accounts or management accounts: no older than 6 months old.
- A copy of the bond wording from the project owner.
- Details of the type of work to be undertaken by you within that project.
- Application form which details the contract terms applicable, including any retention period.
- In some cases, the Surety may look for details of bank facilities from your financial institution.

**DOCUMENT CHECKLIST**

#### CHECKLIST:

Make sure you understand the process.

**Documents** 



## How long will this process take?

### The Process

From the receipt of all the documentation required, it can take up to 2 weeks, depending on the size and complexity of the bond, for terms to be agreed.

Once approved and agreed, a bond will only be released upon receipt of signed off documentation and payment.

When all the information has been approved, it will take a matter of days before the physical signed bond will be sent to the relevant parties.

Overall the process from beginning to end can take anything from 2 - 6 weeks before completion.

### Our process:

#### Step 1

##### Applying

With our specialist experience BBi will review your application. We may seek further details before sending it to the applicable insurers but we will help you respond to any follow up questions.

#### Step 2

##### Approval & Payment

BBi work with a team of accredited insurers. Once your application is approved, these insurers will submit terms. We will review and support you when considering the best terms for your business needs.

To formally approve the Bond Terms, there are several forms to be completed, including you signing off the original documentation.

Payment will be required before the bond, that meets your contractual needs, is issued after the wording has been supplied.

Now, you can begin work!

#### Step 3

##### Project Completed

Once Practical Completion of the Project is achieved, you will need to update BBi.

We will notify the Surety company and conclude the performance bond agreement.



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# BBi

## Performance Bonds with BBi



BBi pride ourselves on our specialised experience and do all we can to make the Performance Bond application seamless and simple for you.

We help you understand what is required and support you through the documentation provision process. We use an extensive range of regulated insurers and give you options and choices. We advise on the best outcome for your business and give peace of mind to your employer.

Get in touch to see how BBi can support you.

### Contact Details

The Old Court House  
191 High Road  
London, E18 2QF  
[www.bbicover.com](http://www.bbicover.com)  
Tel: +44 (0) 20 8559 2111

### Matthew Winter

Mob: +44 (0) 7867 482 360  
Email: [matthew.winter@bernsbrett.com](mailto:matthew.winter@bernsbrett.com)

### BBi Berns Brett

The Old Court House,  
191 High Road, London, E18 2QF  
Tel: +44 (0)20 8559 2111

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