

➤ RISK FINANCING:
BOND BENEFITS

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Support act: Why businesses need bonds post-lockdown



As lockdowns ease, business is picking back up and conditions are extremely competitive. Bonds help firms pitch successfully – safe in the knowledge that they have a trusted guarantor.



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Business across the globe have been significantly impacted by the coronavirus pandemic, local lockdowns and the beginning of the deepest recession in 300 years. No company can even dream of not being hit – or at least touched – by the effects of the current global crisis.

This volatility and uncertainty means that the risks of doing businesses are greater than ever before. Companies pitching for tenders need to convince their would-be bosses that they have the capital and staying power to do a good job. Regulators expect those organisations to have bonds in place to protect investments and consumers.

WHAT KINDS OF BONDS ARE AVAILABLE?

Broadly speaking, bonds can be grouped into two large categories. The first is **contract-related bonds**. These are bonds that businesses must have in order to submit an RFP for a job.

While there are lots of different contract-related bonds, the most common are: bid bonds, performance bonds, maintenance bonds and advance payment bonds.

If a construction company wants to pitch for public works such as a new library, they must enter a public tender process. In order to be admitted for the tender, the company is required to present a **bid bond**.

Upon signature of the contract, the company will have to present a **performance bond**. A bond provider thereby covers the risk that their client will not be able to execute the works as they are described in the contract. Typically, such bonds have a cap that is always a fraction of the respective contract.

Once the contract has been accomplished and works have been accepted, a **maintenance bond** might be required to create a warranty. The maintenance bond provides security that any issues will be fixed either by providing money or by doing the job.

The last contract-related bond is an **advance payment bond**. If a business takes on a substantial

piece of work that it may struggle to fund upfront, it may negotiate advance payments, e.g., to fund purchases of construction material. An advance payment bond then ensures monies received are employed accordingly.

The second group of bonds are **concession bonds** (or commercial bonds in the US). These are usually an expression of consumer protection or regulation applicable to an industry imposed by the legislator. For instance, a travel agent that takes deposits upfront must have a bond in place to protect its customers' money. Tour operators must provide cover for whatever commitments they have made towards travellers.

These kinds of concession bonds apply to a multitude of different industries. For instance, if you are an insurance broker or a real estate broker and you operate collection of monies from customers, you're handling third-party funds and you need a bond to cover that.

Both kinds of bonds – contract and concession – are almost always driven by regulation.

HAS DEMAND FOR BONDS CHANGED IN THE WAKE OF THE COVID CRISIS?

In most cases the bonds are an accessory to the business and as such the need is not necessarily different to that prior to lockdown.

However, while having bonds available is one thing, you might see a situation where a bond requirement changes just because of the lockdown. For instance, an organisation might want sharper wording or want the terms of the bond to be more comprehensive.

This is where we work together with our customers to look at what is required, and work on the bond wording – sometimes together with the beneficiary. In these cases, we are often in the position of counsel to our customers.

When you put yourselves in the position of the beneficiary, it's easy to see why they want the bond to be as extensive as possible, but we need to highlight those areas where the wording could be harmful to our clients' businesses. We can work as a go-between, negotiating to tune the bond wording so that it is balanced, appropriate and meets the needs of both sides.

ATRADIUS BONDING: THE STATS

MORE THAN
45k
customers supported

MORE THAN
300
types of bonds issued

MORE THAN
140k
new bonds issued each year

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WHAT SHOULD BUSINESSES CONSIDER WHEN CHOOSING A BOND PROVIDER?

Depending on the market, you might have a very standardised environment in terms of bond types and wordings, so they become more of a commodity. In regions where this is the case, such as the Scandinavian countries and France, businesses should be seeking a provider that offers a very quick service

with short response times. In these markets, cost, convenience and administration are the most significant factors.

In other markets, such as Italy, businesses need bespoke solutions with extreme support starting with the underlying contracts.

Contracts can be very complex and may entail certain onerous obligations. The right bond provider can support you in spotting such risks and assist in translating them into balanced bond wordings. In those cases, your bond issuer is not just providing credit for your signature, but also acting as a technical counsellor.

This is really important, because the vast majority of businesses are not legal experts – they're construction companies, tour operators, waste management facilities – so they need to consult with a specialist.

Of course, some customers might also just need bonding capacity. There are some multinationals so big that they are doing bonding with the majority of the market just because they need a certain amount of leeway. However, for mid-sized companies, what they need is somebody who provides them with a quick and reliable service, with a particular focus on the counselling side.

WHY CHOOSE ATRADIUS?

At Atradius, we fiercely believe that if we understand what a customer does, what their competencies are, how they manage risk and how they performs on contracts, we can provide excellent bond services.

When COVID-19 reached pandemic status, we had the benefit of having already established such strong contacts with our customers. This meant we could talk to them to see what impact lockdown was having on their businesses and whether we could help.

This customer context enabled us to very selectively tune restrictive measures and make sure we had bonding capacity available when clients needed it.

One of our core differentiators is this in-depth relationship that we have with our customers. We take

interest in our customers' businesses and see our role as really supporting their operations, not by just being the cheapest or the fastest, but by providing good content.

Atradius is the first choice for companies that are subject to bond obligations. This is because our brand is so well-known to the authorities, which gives them comfort that our bonds meet all legal requirements. Our customers continue coming back to us because we quickly and professionally respond to their needs and in most cases, we can issue bonds within 24 hours.

Atradius is a bond underwriter, not a capacity provider. This means we issue bonds willingly based on our assessments of contracts. Our goal is to help customers grow their business safely. **SR**



BEST IN A SUPPORTING ROLE

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Tailor-made solutions that fit your needs and strategies

Whatever your bonding needs are, we have the expertise and knowledge to provide tailored surety bonds. Our wide range of bonding products can make the difference to boost your performance, your business growth and enhance your reputation.

We offer a unique bonding service, which will provide complete partnership support to your business needs both locally and internationally.

For further information please visit the Atradius website for your local market.