What is surety? A guide for business owners.

If you're running a business, applying for licenses, or taking on contracts, you may encounter the term surety. But what is surety, and why do so many businesses rely on it? We'll help you understand the what, why, and how so you can move forward with confidence.

What is surety?

At its core, surety is a three-way agreement designed to ensure obligations are met. It involves three parties:

- **The principal:** This is the business or individual responsible for completing a task or fulfilling a requirement.
- **The obligee:** This is the party requiring the assurance, such as a government agency or a client.
- **The surety:** This is the insurance company that guarantees the obligation will be honored, like Frankenmuth Insurance.

Unlike traditional insurance, surety is not meant to cover losses. Instead, it protects the obligee and provides a structured way to resolve claims if obligations aren't met.

What are the types of surety bonds?

There are two main types of surety bonds: Construction and commercial.

- **Construction surety.** These bonds are common on public and private projects. They guarantee that work will be completed according to the contract and that suppliers and subcontractors will be paid. For public projects, these bonds also protect taxpayers and ensure building standards are met. For private projects, performance and payment bonds protect the owner and the lenders financing the construction.
- **Commercial surety.** These bonds help businesses meet licensing, permit, or statutory requirements. Posting a bond in place of other forms of security allows business owners to retain capital while still providing assurance. The surety also adds protection for the principal by participating in the claims process, ensuring disputes are managed fairly.

Let us break it down with a surety bond example.

Imagine a specialty food company needs a health permit to expand into new locations. The local health department says they need a commercial surety bond to guarantee compliance with safety regulations.

In this example, the specialty food company is the principal, the health department is the obligee, and the surety is the insurance company providing the bond.

If the specialty food company fails to comply with safety standards, the surety steps in to resolve any claims, but the company is still responsible for reimbursing the surety. This allows the business to grow while giving regulators confidence that obligations will be met.

Why is surety a powerful tool?

Surety is a centuries-old concept that guarantees the faithful performance of an obligation. It’s more than just a requirement; it’s a credit-based relationship and a business opportunity. Virtually every business, commercial and construction, will benefit by being able to post security, whether it’s for compliance with statutory requirements or as security on a construction project.

Surety bonds are the most efficient form of security available to business owners. A strong partnership with a surety can do things like pre-qualify a contractor or business for projects, provide assurance to lenders, clients, and regulatory agencies, and open new markets that may otherwise be inaccessible.

In this way, surety is a powerful ally and can add significant value. An expert can help you walk through a policy and see how it can benefit your unique situation. Talk to a local, independent agent today.

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