

Glossary of Surety Industry Terms

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Administrator

A person or entity legally vested with the right of administration of an estate.

Applications

A form used to collect information to underwrite a risk.

Attachment

The legal process of taking possession of a defendant's property when the property is in dispute.

Balance Sheet

A financial statement listing assets, liabilities and net worth.

Bank Depository Bonds

Bonds covering the deposit of public funds.

Bankruptcy Trustee Bonds

Bonds which provide protection to the beneficiaries of the bankruptcy action that the bonded trustees, appointed in a bankruptcy proceeding, will perform their duties and handle the affairs according to the rulings of the court.

Common types of bankruptcies are:

- [Chapter 7](#): calls for the "liquidation" of a business and allows for the sale of the assets to pay outstanding debts.
- [Chapter 11](#): calls for the "reorganization" of a business and the debtor remains in possession of the assets after the filing of a plan for the reorganization.

Bid or Proposal Bonds

These bonds are used by owners to pre-qualify contractors submitting proposals on contracts. The coverage provided by a Bid or Proposal Bond is that the bidder, if awarded the contract within the time stipulated, will enter into the contract and furnish the prescribed Performance & Payment Bond(s). Default will ordinarily result in liability of the surety not to exceed the dollar value set forth in the bond for the difference between the amount of the principal's bid and the next low bidder who can qualify for the contract.

Blanket Bonds

Bonds which protect against dishonesty of all of the employees of an entity to the stated amount of the bond.

Blanket Position Bonds

Bonds which protect against dishonesty of each of the employees of an entity stated on the bond to the stated amount of the bond.

Blanket Public Official Bonds

Blanket public official bonds cover all public employees of the public entity stated on the bond to the stated amount of the bond.

Blanket Position Public Official Bonds

The blanket position public official bond covers each public employee of the public entity stated on the bond to the stated amount of the bond.

Capacity

A term that refers to the size of a bond which a surety is able to write.

Commercial Bonds

A general classification of bonds that refers to all bonds other than contract and performance bonds. Commercial bonds cover obligations typically required by law or regulation. Each bond is unique to the circumstances at hand.

Commercial Blanket Bonds

These bonds provide a single amount of coverage to cover dishonest acts of employees, regardless of the number of employees involved in the loss. In other words, this type of bond covers all employees to the amount stated on the bond.

Conservator

A person, official, or entity designated to take over and protect the interest of an incompetent or minor.

Contract Bonds

A general classification of bonds that provide financial security and construction assurance on building and construction projects by assuring the project owner (obligee) that the contractor (principal) will perform the work and pay certain subcontractors, laborers, and material suppliers.

Court and Probate Bonds

Judicial and probate bonds, also referred to as fiduciary bonds, secure the performance on fiduciaries' duties and compliance with court order, e.g. administrators, executors, guardians, trustees of a will, liquidators, receivers, and masters. Judicial proceedings court bonds include injunction, appeal, indemnity to sheriff, mechanic's lien, attachment, replevin, and admiralty.

Damages

Refers to monetary measure of harm or injury asserted by a claim.

Defendant

The term that refers to the person or entity being accused in a court case.

Defendant Bonds

Defendant bonds counteract the effect of the bond that the plaintiff has furnished. They often require the posting of collateral to be written.

Employee Retirement Income Security Act

The 1974 federal legislation that created a requirement for a bond to be posted, in the amount of ten percent of the funds, on the fiduciary of pension funds and profit-sharing plans.

Errors and Omissions Insurance

A policy that provides coverage for an insured in the event of unintentional mistakes. Errors and Omissions Insurance, commonly referred to as E&O, covers damages arising out of the insured's negligence, mistakes, or failure to take appropriate action in the performance of business or professional duties.

Executor

A person or entity appointed to execute a will.

Fidelity Bonds

Bonds designed to protect against dishonesty. Generally, the bond protects against dishonesty of employees. These bonds cover losses arising from employee dishonesty and indemnify the principal for losses caused by the dishonest actions of its employees.

Fiduciary

One who is appointed to act in the best interests of another. A fiduciary is a person or entity appointed by the court to handle the affairs of persons who are not able to do so themselves. Fiduciaries are often requested to furnish a bond to protect against a lack of faithful performance of their duties.

Fiduciary Bonds

Bonds which protect against dishonest accountings and a lack of faithful performance of duties by administrators, trustees, guardians, executors, and other fiduciaries. Fiduciary bonds, often referred to as probate bonds, are required by statutes, courts, or legal documents for the protection of those on whose behalf a fiduciary acts. They are needed under a variety of circumstances, including the administration of an estate and the management of affairs of a trust or a ward.

Funds Control

A method of taking control of a bonded project's cash flow to ensure subcontractors and suppliers will be paid appropriately. This method may be used when the contractor would not otherwise qualify for a bond.

Indemnification

The act of holding another harmless in the event of a loss.

Individual Bonds

A term generally used with public official bonds, which refers to bonds written in the name of the specific public official.

Large Deductible Plans

A type of insurance program bond in which the insurer pays all losses, including those that fall within the deductible, and seeks reimbursement from the policyholder on a monthly or quarterly basis. The bond protects the insurer in the event the policyholder does not reimburse the insurer for losses within the deductible.

License and Permit Bonds

License and Permit Bonds are required to obtain a license or permit in many cities, counties, states or other political subdivisions. They may be required for a number of reasons, including the payment of certain taxes and fees or providing consumer protection as a condition to granting licenses related to selling things such as motor vehicles or contracting services.

Maintenance Bonds

The normal coverage provided by a Maintenance Bond is a guarantee against defective workmanship or materials for a specified period of time after a project is completed. Maintenance periods range from one to several years; however, the standard is one year.

Minor

A person who is not of legal majority.

Miscellaneous Bonds

Miscellaneous Bonds cover performance of contracts and agreements with private parties and government agencies. e.g. lost securities, utility deposit, wages and welfare.

Name Schedule Bonds

A type of public official or fidelity bond that lists the specific names and amounts of each named individual bonded. Name schedule bonds use one bond, but attach a schedule of individual names of the bonded public officials. Each name will list a specific dollar amount for which that individual is being bonded. These may be used to bond a panel of city council members or similar body of officials.

Name Schedule Public Official Bonds

Name schedule bonds use one bond, but attach a schedule of individual names of public officials being bonded. Each name will list a specific dollar amount for which that individual is being bonded. These may be used to bond a panel of city council members or similar body of officials.

Notary Public Bonds

Include bonds that are required by statutes to protect against losses resulting from the improper actions of notaries.

Obligee

The person or entity for whom or which a surety provides protection due to the lack of performance of the principal's obligations.

Open Penalty

A term used to refer to the unlimited liability of the surety on a particular bond.

Ordinance

A municipal regulation.

Payment or Labor & Material Bonds

The coverage provided by a Payment Bond or Labor & Material Bond is that the contractor will pay for certain labor and material used in the prosecution of the work which he is obliged to perform under the contract. Since liens may not be placed on public jobs, the payment bond may be the only protection for those supplying labor or materials to a public job.

Penalty

A term used to refer to the monetary size or limit of bond.

Pension

A fixed sum of money regularly paid to a person.

Performance Bonds

The coverage provided by a Performance Bond is that the principal will faithfully perform the terms and conditions of a written contract. These bonds frequently incorporate payment bond (labor and materials) and maintenance bond liability. This protects the owner from financial loss should the contractor fail to perform the contract in accordance with its terms and conditions.

Plaintiff

The person or entity that brings an action in a court of law.

Plaintiff Bonds

Plaintiff bonds are required of a plaintiff in an action of law. They generally protect against damages to the defendant caused by the plaintiff's legal action, should the court decide for the plaintiff.

Position Schedule Bonds

A type of fidelity or public official bond, which lists specific positions and their corresponding penalty amounts. Position schedule bonds use one bond, but attach a schedule of positions to be bonded. Each name will list a specific dollar amount for which that individual is being bonded. This type of bond may be used to bond certain positions that have a high amount of turnover. Using a position instead of a name will reduce the paperwork involved year-to-year.

Premium

A sum of money paid as consideration for an insurance policy or bond.

Principal

The individual required to be bonded by the obligee.

Public Official Bonds

Public Official Bonds protect against dishonesty and lack of faithful performance by a public official. These bonds are required by statutes and ordinances.

Public Officials

One who holds public office.

Rates

The amount of money per thousand dollars (or percentage) used to determine the bond premium.

Reclamation Bonds

A bond which provides protection in the event that a person or entity does not restore land, that it has mined or otherwise altered, to its original condition.

Replevin

A legal proceeding used to recover specific personal property.

Retrospective Plan Bonds

Type of insurance program bond in which the final premium is a combination of incurred losses and an administrative charge. Retrospective plans are loss-sensitive insurance plans. Since final loss costs may take years to develop, the bond covers payment of the final premium amount.

SBA

An acronym for the Small Business Administration. The SBA has a program to help small and minority owned contracting businesses obtain surety bonds.

Self-Insurers Retention Plan Bonds

A type of insurance program bond that is commonly used with Workers' Compensation insurance, General Liability coverage or other liability coverage where limited coverage is available or coverage, when available, may not be affordable.

Supply Bonds

Supply Bonds guarantee performance of a contract to furnish supplies or materials. In the event of a default by the supplier, the surety indemnifies the purchaser of the supplies against the resulting loss.

Surety

A person or entity which covers the acts of another.

Surety Bonds

Surety bonds are three-party agreements in which the issuer of the bond (the surety) joins with the second party (the principal) in providing protection to a third party (the obligee) regarding fulfillment of an obligation on the part of the principal. An obligee is the party (person, corporation or government agency) to whom a bond is given. The obligee is also the party protected by the bond against loss.

Surety Industry

The surety industry is composed of contract surety business and commercial surety business. The products comprising each are sold through the same type of distribution system – agents and brokers.

Treasury Listing

A financial rating published by the federal government that lists the maximum size of federal bond a surety is allowed to write.

Trustee

A trustee is a person or entity named to manage a business' assets and work with the business creditors.

Work-On-Hand Reports

A type of financial statement or schedule which lists a contractor's jobs in progress.

Workers' Compensation Self-Insurers Bond

Workers' Compensation laws, at the state and federal level, require employers to compensate employees injured on the job. An employer may comply with these laws by purchasing insurance or self-insuring by posting a workers' compensation bond to guarantee payment of benefits to employees. This is a hazardous class of commercial surety bond because of its "long-tail" exposure and potential cumulative liability. The "long-tail" exposure stems from the two statutory bond forms:

- Traditional – bond form: The surety is liable for payment of the principal's workers' compensation obligations occurring during the time the bond is in force. When the bond is canceled, the surety continues to have liability for all workers' compensation claims incurred between the effective date of the bond and the cancellation date of the bond.
- Last surety on – bond form: The surety assumes all past, present and future liability to pay the principal's self-insurers workers' compensation obligations. The surety is released from all accrued liability if the surety cancels the bond and the principal later posts an acceptable replacement security.

This glossary attempts to illustrate common usage of surety industry terms. These brief descriptions are not intended as legal interpretations. Consult an insurance dictionary or an industry professional from CNA Surety for more complete information.