

# Surety bond solutions

Marsh UK&I Technology Industry Practice





Providing security for financial transactions, supporting major transformation or building projects, importing goods, employee-related obligations and court appeals have become increasingly complex and costly for technology companies in recent years. Effective financing of these risks is more important than ever as companies seek to provide their stakeholders with an independent assessment of their financial capability to perform contractual obligations and deliver results.

Marsh's Technology Practice understands your industry and the need for security to be provided as part of your normal course of business. Working alongside Marsh's Global Surety Practice, we provide a complete solution for sourcing surety bonds — from arranging bond facilities and ensuring adequate capacity, to advising on bond wordings, bespoke bond requests, and indemnity negotiations.

We serve companies across the entire technology industry spectrum and have built a knowledge base that delivers industry-specific solutions to match your specific risk and insurance needs.

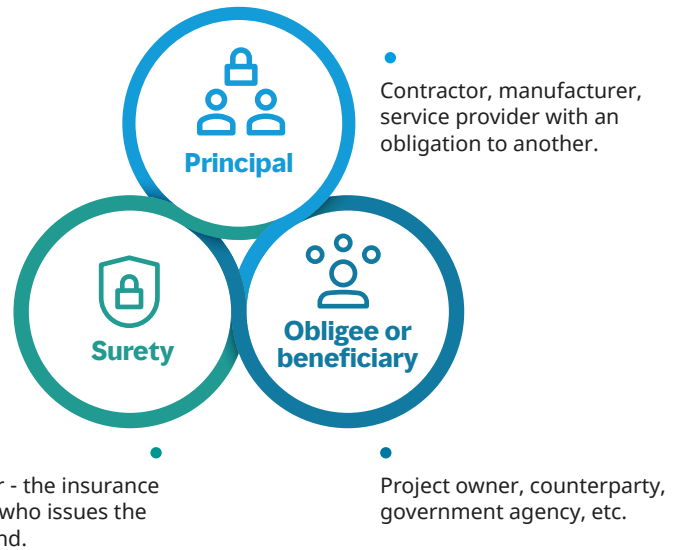


# Value creation

Surety bonds provide protection to beneficiaries against losses suffered due to the inability of the principal to perform its contractual obligation.

Surety bonds and the security they provide can be key to contractual negotiations whilst in turn providing a more favourable solution to alternative sources of security which companies could use.

## Three parties of a surety bond



Similar to, banking lines, surety lines of credit are managed by a corporate's Finance and Treasury department, and many companies are using surety bonds extensively as an alternative to bank guarantees and letters of credit (LOCs). The surety market can provide replacement guarantees on a like-for-like basis, and often on more competitive terms than a bank. Crucially, using surety bonds does not impinge on working capital facilities and as a contingent liability; they are effectively "off-balance sheet". This means for a technology company, the same working capital facilities, can be freed up and deployed on more value-adding activities.

Technology companies can utilise surety bonds to secure tenders, comply with contractual obligations, and provide alternative security under government regulations or for court appeal requirements. Technology companies with Surety arrangements in place benefit by:



Improving their cash flow for growth and strategic initiatives - unlocking cash and deferring payments.



Preserving bank capacity and increasing working capital.



Reducing costs when compared to existing security (i.e., a LOC).



Diversifying issuers of guarantees.

## EXAMPLE APPLICATIONS OF BONDS FOR TECHNOLOGY COMPANIES

### → Importers



The ability to defer payment of duty and taxes can provide importers with significant cash flow advantages.

HMRC will allow payments to be deferred in return for a guarantee, issued by a third party and therefore significantly enhance the company's liquidity.

These bonds can be used for temporary importation, bonded warehouses, and to move goods across various countries in the European Union (EU).



- Technology manufacturers
- Semiconductors
- E-commerce
- Hardware and electrical
- Resellers/distributors
- Consumer electronics

### → Contractual



Many technology companies should provide their clients with performance bonds and other third-party guarantees, such as advance payment bonds, to ensure contractual obligations are met.

The ability to provide such bonds and guarantees can be a critical differentiator when bidding for contracts; failure to provide a bond can ultimately lead to disqualification from the bidding process.



- Data and business outsourcing
- Manufacturers
- Software and consumer applications
- Telecommunications

### → Pension bonds



A surety bond can be used to provide the trustees of a defined-benefit pension scheme with substantial additional security.

Sponsors can reduce immediate cash commitments or other assets to the scheme, and manage the risk of trapped surplus if scheme funding improves in the future. Bonds can be structured for the full value of the deficit, or on a contribution basis.



FTSE 250 companies with balance sheets to support these types of obligations.

### → Letters of credit (LOC) replacement



Surety bonds, which are a like-for-like replacement for letters of credit, are provided to insurers for the deductible liabilities on insurance policies and in relation to captive retentions.

This has the advantage of freeing up working capital for core working activities, and garner competitive prices.



Companies currently using LOCs for captive or deductible obligations in favour of insurers as well for third party security to regulators in regard to payment services.

→ Type of bonds

⊕ How technology companies can benefit

🌐 Technology sectors

## → Tax appeal (Brazil)



Due to the complex tax system, nearly every multinational in Brazil has multiple tax disputes (local, state, and federal). Clients are required to provide security for their appeals during this process, however, both capacity and duration can sometimes be an issue.

The Marsh Brazil Surety team has in-depth knowledge when it comes to this, and has a collaborative approach - combining the 'home country' HQ engagement and local teams in Brazil. Given the volume and complexity, Marsh utilises its established technology and processes plus market knowledge to assist clients and provide cost-effective solutions.



Multinational technology companies that have subsidiaries in Brazil.

## → Court appeal (Europe)



For those technology companies under scrutiny by European regulators for alleged activities, many choose to appeal and as a result, are required to provide third party security. The significance of this is not to be understated, with some fines being in excess of US\$ billion issued by the European Commission (EC) and other regulators in Europe.

To assist, Marsh can obtain security via the Surety market to support these appeals being assessed by the EC. This provides an alternative form of security for the company, which may have had to secure the security via their banking line, restricting working capital and potentially at a greater cost.



Potentially all technology companies that are regulated by the European Commission or similar.

## → Payment services/ money transmitter



For companies that collect customer funds - must provide third party security to regulators to support such activities as a Money Transmitter under EU Payment Service Regulations.

This security protects customers or third parties from insolvency of the entity collecting (such as a technology company). Such security can be satisfied by holding case, a bank guarantee or a Surety guarantee. However, the benefit of using Surety allows for the company to keep banking lines free, whilst also providing a cost-effective solution both short term and long term given the perpetual obligations



Suitable for FinTech related activities such as:

- PayTech
- E-banks





# Spotlight technology case studies

## PENSION DEFICIT GUARANTEE

Technology companies are often required to provide third party security covering employee-related obligations, with a key focus area being underfunded pension liabilities. Marsh, in tandem with Mercer, a Marsh McLennan company, has worked with several clients to find alternative solutions to funding deficits in defined benefit pension schemes.

One such client, a communications company, had been pledging government bonds (gilts) to the trustees. These gilts were expensive, and the company was keen to find an alternative. The company did not want to pledge regular cash payments to trustees, which could be used for other purposes and lead to a “trapped surplus” in the pension fund — neither did they want to take out LOCs, which would affect their existing bank facilities. As a solution, Marsh arranged a surety bond, securing a committed bonding facility in excess of GBP500 million on competitive terms from the surety market. This approach also allowed for flexibility to increase and decrease in accordance with the current deficit position of the scheme.

## PERFORMANCE BOND

Marsh frequently assists with more traditional bond types for technology clients including contract performance bonds, which ensure the payment of taxes or VAT for customer contracts or customs obligations.

Marsh worked with a large mobile network provider to secure a performance bond for a landmark contract in the EU. The client had initially approached, both Marsh and its bank, to obtain indicative terms and structuring for this bespoke bond. The client considered both proposals and awarded Marsh the mandate to arrange the bonding via the surety market, due to more favourable pricing and bond tenor.

Securing the bond was a crucial element of contract negotiations, which covered over EUR100s millions for the three stages of the build-out, as well as a three-year extension to cover the steady operations phase of the contract.

The bond was a condition for the mobile network provider to secure the contract and Marsh generated competitive support via the surety the market and assisted to establish a structure for the client’s future contracts.



## PAYMENT SERVICES

Regulators require firms who collect funds from clients ahead of service or disbursement to segregate funds, robbing the firm of the ability to “float” funds. Firms can use third party security, including surety bonds to unlock cash held, protecting their customers. Marsh secured a US\$950 million surety capacity for a US provider of internet-related services and products, which was required to provide third party security to support activity as a money transmitter under the EU Payment Services Regulations. For guarantees of this nature, Sureties will respond on first demand in the event of insolvency (the payment period is three days). Marsh was able to release a significant amount of cash for the client whilst also securing the required level of security in cost-effective way.

## COURT APPEAL

Technology companies are under heavy scrutiny from European regulators concerning alleged activities relating to anti-competitive practices, tax schemes, and consumer privacy violations. The European Commission and other regulators in Europe are assessing fines of which many clients appeal, requiring them to prepay or provide third party security. Marsh assisted a US semiconductor manufacturer, arranging EUR600 million in surety bonds to support the appeal of a fine assessed by the EC relating to charges of anti-competitive trade practices. This was the largest amount of bonds ever issued in favour of the EC, illustrating Marsh’s unique experience in this field. In addition to providing an alternative solution for the client, it is important to note that cases of this nature typically last for many years, so the cost savings compound over time.


“**Surety bonds can be highly invaluable (alternative) treasury tools, which can be used to support technology industry companies across multiple scenarios.**”





# Marsh's surety specialists

A global surety broker with a local presence.



Marsh's Surety Practice is a specialised unit, focusing purely on surety bonds and guarantees. With a global team of 320 surety professionals, Marsh brings many years of experience working within the surety industry, having built up a solid reputation and strong relationships with the key regulated bond providers.

We provide a complete solution for sourcing surety bonds; from arranging bond facilities and ensuring adequate capacity, to advice on bond wordings and indemnity negotiation. The team delivers exceptional services, facilitating the use of surety to enhance liquidity by developing alternatives to bank guarantees and releasing vital cash. This further enhances growth and strategic initiative for our clients.

**Some of the services and benefits we provide include:**

-  > Readily available local experts with an extensive understanding of bond solutions and local markets.
-  > Access to competitive terms and capacity through leading and regulated surety markets around the world.
-  > Market updates and information on important developments that may impact client surety facilities.
-  > Access to clear and independent advice regarding indemnity documents and surety facility structures.
-  > Ability to benchmark and negotiate competitive terms for both rates and capacity.
-  > Ongoing facility management, ensuring enough capacity is in place with regular review of usage and arranging additional capacity where needed.





# Marsh's Technology Industry Practice

We work with more than 4,000 technology industry clients internationally, from start-ups to scale-ups, to some of the world's largest diversified global technology companies.

We provide clients with the best of Marsh, the wider Marsh McLennan family of companies, and the external (re)insurance market and other risk partners.

Our ability to channel the most appropriate resources and talent means we can better understand new and emerging risks, and also develop highly innovative solutions.

With 1,000 technology industry experts globally, Marsh offers worldwide technology industry expertise and delivery. Through Marsh's international operations we can provide seamless service and advice. Our technology industry specialism is global, and we have strong positions in all the key technology markets and sectors, providing us with increased market leverage that we will use to benefit our clients.

Marsh UK & Ireland Technology Industry Practice expertise and resources can be accessed here:

[Technology | Insurance Broking & Risk Management | Marsh](#)

## CONTACTS

For more information about surety bonds and other insurance solutions for technology companies visit [marsh.com](https://www.marsh.com) or contact your local Marsh representative.

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## About Marsh

Marsh is the world's leading insurance broker and risk advisor. With around 45,000 colleagues operating in 130 countries, Marsh serves commercial and individual clients with data-driven risk solutions and advisory services. Marsh is a business of Marsh McLennan (NYSE: MMC), the world's leading professional services firm in the areas of risk, strategy and people. With annual revenue nearly \$20 billion, [Marsh McLennan](#) helps clients navigate an increasingly dynamic and complex environment through four market-leading businesses: [Marsh](#), [Guy Carpenter](#), [Mercer](#) and [Oliver Wyman](#). For more information, visit [marsh.com](#), follow us on [LinkedIn](#) and [Twitter](#) or subscribe to [BRINK](#).

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