

COMMUNICATIONS, MEDIA, AND TECHNOLOGY INDUSTRY PRACTICE – UK

Surety Bond Solutions

Providing security for financial transactions, importing goods, and protecting pensions has become increasingly complex and costly for communication, media, and technology (CMT) in recent years. Effective financing of this risk is more important than ever before as companies seek to provide their beneficiaries with an independent assessment of their financial capability to perform contractual obligations to deliver results.

Marsh's CMT Industry Practice understands your industry and the need for security to be provided as part of your normal course of business. Working alongside our Global Surety Practice, we are able to provide a complete solution for sourcing surety bonds; from arranging bond facilities and ensuring adequate capacity, to advice on bond wordings and indemnity negotiation.

VALUE CREATION

Surety bonds provide protection to beneficiaries against losses suffered due to the inability of the principal to perform its contractual obligation and can provide an alternative source of security. These bonds are being used extensively by many corporates as an alternative to bank guarantees.

CMT companies can benefit from using surety bonds to secure tenders, comply with contractual obligations, improve cash flow, defer payments, and provide security under government regulations.

Surety bonds can also be utilised as an alternative to bank guarantees and letters of credit (LoC). The surety market can provide replacement guarantees, on a like-for-like basis, often on more competitive terms than a bank. Additionally, utilising surety bonds does not impinge on working capital facilities and, as a contingent liability, they are effectively "off balance sheet".

Types of bonds for CMT companies

Types of Bonds	How CMT Companies Can Benefit	CMT Sectors
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. These bonds can be used for temporary importation, bonded warehouses, and also to move goods across various countries in the European Union (EU).	<ul style="list-style-type: none"> Technology manufacturers. Semiconductors. E-Commerce. Hardware and electrical.
Contractual	Many CMT companies need to 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, and failure to provide a bond can ultimately lead to disqualification from the bidding process.	<ul style="list-style-type: none"> Data and business outsourcing. Manufacturers. Software and consumer applications. Telecommunication operators.
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 in 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	We are able to arrange surety bonds which are a like-for-like replacement for LoC 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 can be at very competitive prices.	Companies currently utilising LoC for captive or deductible obligations in favour of insurers.

SPOTLIGHT: SOLUTIONS FOR PENSION DEFICITS

Marsh, in tandem with its sister company, Mercer, 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 bond (gilts) to the trustees. These gilts were expensive and the client was keen to find an alternative. The client did not want to pledge regular cash payments to trustees, which could be used for other purposes and lead to “trapped surplus” in the pension fund — neither did they want to take out LoC, which would impact on their existing bank facilities. As a solution, Marsh arranged a surety bond for the client, securing a committed bonding facility in excess of GBP500 million on very competitive terms from the surety market.

CASE STUDY

Most UK companies have at some point had a defined benefit (or final salary) pension scheme. An ageing population has meant that most of these schemes have run into deficit, leaving pension trusts without the necessary funds to honour their payment obligations. Companies have therefore had to find ways to reduce and ultimately clear these deficits, usually by pledging cash, LoC, or other forms of security to the pension trustees.



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ABOUT MARSH

Marsh is a global leader in insurance broking and innovative risk management solutions. Our CMT Industry Practice is dedicated to helping you identify, quantify, manage, and mitigate your composite risks.

The majority of companies in the CMT sector are on the frontier of emerging risks, pushing boundaries with their business models and disrupting industries. This means they require tailored advice and customised solutions which go way beyond “standard”. Our flexible approach combined with our significant human and knowledge resources enables us to advise across the entire journey of risk services, or advise on specific projects, risk categories, or challenges.

Our Surety Practice is a specialised unit, which focuses on surety bonds and guarantees. It is part of a global surety team comprising over 230 employees with many years’ experience of working within the surety industry, having built up a solid reputation and good relationships with the key bond providers.