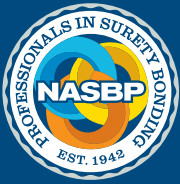


# International Surety Bonds

Navigating Surety  
Around the World





# International Surety Bonds: Navigating Surety Around the World

## What is Contract Suretyship?

In the United States, contract surety bonds are a cornerstone and well-established construction risk management tool, typically issued by insurance companies for 100% of the contract value and backed by a rigorous, time-tested prequalification process. Surety bond producers and companies have been evaluating contractor and subcontractor performance for over a century, bringing deep expertise, objectivity, and insight to the underwriting process. Before issuing a bond, the surety must be fully confident that the contractor has strong references and reputation, the financial strength to support the work, the experience and equipment to meet contract requirements, and a solid credit history and banking relationship. This thorough vetting not only reduces the likelihood of default but also provides project owners, lenders, and architects with peace of mind that the contractor is capable of delivering the project on time, within budget, and to specifications. U.S. surety practices commonly include premiums ranging from 0.5% to 3% of the contract price, and bid bonds are often provided at no cost when performance and payment bonds are required. A 12-month maintenance bond may also be included.

## Suretyship in Overseas Markets

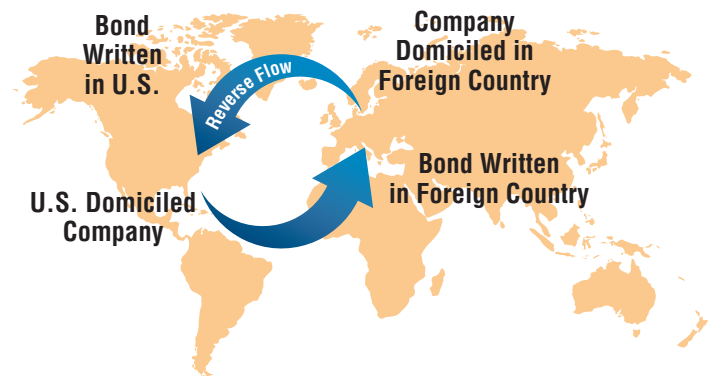
Surety practices can differ widely across international markets. When navigating global surety, it's common to encounter a diverse range of standards, requirements, and expectations that contrast with those in the U.S.

Market indicators suggest that demand for international surety bonds will continue to trend upward. The international surety market has been experiencing steady growth, driven by several key global trends. As U.S. companies increasingly pursue projects abroad—particularly in infrastructure, energy, and technology—the demand for international surety bonds continues to rise. Public-Private Partnerships (PPPs) are expanding worldwide, often requiring bonding from international firms. This is especially evident in the U.S., where reverse-flow bonding is growing due to the influx of foreign companies participating in domestic projects. Additionally, cross-border mergers and acquisitions are introducing new bonding requirements for firms that previously operated only within the U.S. Navigating this evolving landscape requires a well-informed underwriting strategy and a clear understanding of the associated risks.

## Reverse Flow

When referring to the underwriting and issuance of “international bonds” in the United States, the term generally applies to two distinct scenarios. The first involves bonds issued on behalf of a U.S.-domiciled company undertaking work in a foreign country. The second, commonly known as “reverse flow,” pertains to situations where a foreign-based and domiciled company is required to provide a bond for a project located within the United States.

Each scenario presents unique challenges and underwriting considerations. The following comparison between U.S. and international surety practices offers valuable insights into the general differences involved in securing international bonds.



The insights gained from comparing U.S. and international surety practices can help guide the evaluation of key underwriting considerations when placing international bonds:

- **Bond Type:** Is the bond conditional or unconditional? Does it include on-demand language or a specific percentage requirement?
- **Political Risk:** Are there current or emerging political instabilities in the host country that could impact the project or bond enforcement?
- **Governing Law:** Where will disputes be resolved? How reliable are local legal interpretations, and what is the likelihood of enforcing contractual rights or recovering losses?
- **Experience:** Does the principal have prior international experience or familiarity with the obligee? How will they manage labor, logistics, and operations abroad?



## U.S. Surety: A Comparison to Foreign Countries

United States	Foreign Countries
Required by law (Miller Act or Little Miller Act)	Not typically required by law
Surety's primary obligation is to complete the project (step in and mitigate loss)	Surety's obligation is to pay the bond amount
Indemnity agreements have well established legal foundation	Indemnity agreements often resemble banking facilities
Extensive case law history supporting surety principles	Legal frameworks vary by country with unique interpretations
Underwriting is done at both the account and project level	Underwriting is typically done at only account level
Rates are regulated at the state level	Market drive rates
Bond amount usually always equals 100% contract value	Bond amount typically is a percentage of contract (10% to 20%)
Conditional bond forms (claim on bond must be tied to default of contract, allows for investigation)	On-demand bond forms (claims can be for any reason, surety's have fewer defenses)
Banks are prohibited from issuing surety bonds (100% brokered by licensed agents)	Insurance companies compete with banks for issuing bonds (brokered and direct channels)
Account business is on contracted surety facilities basis or by program	Bonds are placed transactionally at project level

- **Fronting Partner:** Is there a local surety partner or affiliate with market expertise? Will reinsurance be necessary?
- **Obligee:** Is the obligee a U.S. government entity, a foreign government, or a private organization?
- **Financial Resources:** Can the company manage international fund transfers, withstand payment delays, address tax implications, and access local banking services?
- **Surety Market Appetite:** Which sureties are active in the target country, and which are willing to support reverse-flow obligations?

As noted above, the international surety landscape differs significantly from domestic markets in several important ways. Legal frameworks vary widely by country, with some lacking established case law related to surety, which can create uncertainty in enforcement and interpretation. Bond forms also differ, with many countries favoring on-demand bonds over the conditional bonds more common in the U.S.—a distinction that agents must fully understand due to its implications on risk and claims handling. Underwriting practices abroad tend to be more transactional and project-specific, requiring a tailored approach. Additionally, the competitive landscape often includes banks alongside insurers, and fronting arrangements are frequently used to meet local requirements or facilitate cross-border bonding.

## Surety Backed Letters of Credit (SBLCs)

In this diverse global environment, surety-backed letters of credit (SBLCs) can serve as a valuable tool for bridging the gap between differing market expectations. These hybrid financial instruments combine the liquidity and enforceability of a bank-issued letter of credit with the credit support and underwriting expertise of a surety company. In essence, the surety indemnifies the bank, allowing the contractor to access a letter of credit without tying up traditional credit lines. In jurisdictions where traditional surety bonds are less common or not well understood, SBLCs offer a familiar and bank-recognized format that satisfies local beneficiary requirements while still leveraging the strength of a surety. SBLCs are particularly useful in regions where on-demand instruments are



preferred or where regulatory frameworks favor bank-issued guarantees, such as parts of Europe, Asia, and the Middle East. When structured appropriately, SBLCs provide the flexibility needed to meet local standards without compromising the contractor's bonding capacity or overall risk profile, helping firms navigate unfamiliar regulatory environments while remaining competitive and compliant.

## Concluding Thoughts and Takeaways

As the international surety market continues to evolve, NASBP agents and producers play a critical role in guiding

clients through its complexities. This includes educating clients on the key differences in international bonding practices and helping them prepare accordingly. Building strong relationships with surety partners and international partners—such as fronting sureties and reinsurers—is essential for smooth execution. It is critical to manage client expectations, as timelines, documentation, and regulatory requirements can vary significantly from one country to another. Finally, staying informed about global trends, sanctions, and regulatory developments ensures surety professionals remain valuable strategic advisors in an increasingly interconnected marketplace.

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**Be Guaranteed**  
**to Succeed®**

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