Surety Bonds vs Bank Guarantees: What's the Difference?

If you're running a business, you may be asked to provide a financial guarantee to prove you can meet your obligations. Two common ways to do this are through a surety bond or a bank guarantee. While they both serve a similar purpose, they work in different ways. Here's a simple explanation of the pros and cons of each.

Surety Bond (Also Called Surety Insurance)
A surety bond is a promise made by an insurance company (the surety) that you (the principal) will do what you've agreed to do for your client (the obligee).

- Pros:
  - Doesn't use up your bank credit lines.
  - May not appear as a liability on your balance sheet.
  - Often cheaper over time, especially for long-term projects.
  - Helps free up cash and borrowing capacity.
- Cons:
  - Insurance company will check your finances closely.
  - May not be accepted in some countries or industries.
  - If there's a claim, payment could take time or be disputed.

Bank Guarantee
A bank guarantee is a promise from your bank that it will pay your client if you don't meet your obligations.

- Pros:
  - Accepted almost everywhere.
  - Usually paid quickly if claimed.
  - Easy to get if you have a good relationship with your bank.

- Cons:
  - Uses up your available credit or may require collateral.
  - Often shows up as a liability on your balance sheet.
  - Can be more expensive than a surety bond.

Quick Comparison

Feature	Surety Bond	Bank Guarantee
Who issues it?	Insurance company	Bank
Affects your credit line?	No	Yes
Balance sheet impact	Usually not shown	Often shown
Accepted worldwide?	Sometimes	Yes
Claims process	Can take time	Usually, fast
Cost	Premium based on risk	Interest or fee based on credit