The Digital Future of Surety Bonds

Leaders in the surety industry recognize that to stay relevant, surety professionals must adopt technological solutions to enhance the issuance, delivery and security of surety guarantees, which are a vital part of commerce and regulation.

As one of the most conservative business sectors, the surety industry has been slow to evolve its business practices. Even in today's technology-dominated business place, almost all surety bonds are still printed on paper with an attached power of attorney and a raised, crimped corporate seal to signify it's an official act of the surety issuing the guaranty. It's not uncommon for the bond to also be notarized to affirm it's a legitimate, legal obligation. In the not-so-distant past, some obligees (the beneficiaries of the bond) required that the bond be completed by hand in blue ink.

We have made some progress in modernizing the surety bond issuing process. Restrictions stemming from the COVID-19 pandemic forced many obligees to relax some of their requirements to keep business moving. Notably, they started to accept "electronic bonds," which are simply PDF scans of a paper bond. Some obligees only accept the scan for a grace period while the paper bond is issued and delivered. While this progress toward electronic bonds has many benefits, a downside to electronic bonds is that they're easier to manipulate and use fraudulently.

Addressing the Problem

The National Association of Surety Bond Producers (NASBP) joined forces with other surety organizations around the world, including The Surety & Fidelity Association of America, Surety Association of Canada, Panamerican Surety Association, and International Credit Insurance & Surety Association to find a better way.

These industry leaders identified The RiskStream Collaborative, a unit of The Institutes (AICPCU), as a strategic partner to guide the process of modernizing the surety industry. RiskStream is a collaboration of insurers from around the globe set up to explore the use of blockchain technology in the insurance industry. Blockchain, a technology concept initially developed in the 1990s as the digital equivalent of a notarial acknowledgment, is particularly well suited for use with bonds due to its security and broad availability.

RiskStream formed a working group of representatives from over 170 sureties, reinsurers, agents/brokers, vendors and other industry stakeholders to develop a system to issue surety bonds digitally in a secure, efficient, verifiable way. Over the last few years, the working group designed and completed proof-of-concept trials to replicate the paper bonds and powers of attorney as an NFT (non-fungible token). NFTs are a type of crypto asset that is unique, as opposed to fungible assets like Bitcoin or dollars, which are all worth exactly the same amount. Because NFTs are each unique, they can be used to authenticate digital assets such as surety bonds effectively.

Going Forward

For the next step of the process, RiskStream is reaching out to various obligees in search of a partner for a pilot program to test a production model using NFTs for digital bonds. Several state and federal governmental agencies have expressed interest in participating. Leaders hope to have a pilot program up and running by the end of 2024. Once the pilot program is thoroughly tested, the industry will be in a position to start rolling it out around the globe.

Benefits of Using NFTs for Digital Surety Bonds

Widespread adoption and usage will take time as each obligee will need to accept the digital format. However, the benefits are significant:

- **Immediacy:** All parties to the bond will know immediately when the bond is in full force and effect. The time needed to put the bond in place will no longer take several days as the paper bond makes its way among the parties for signatures or filing. Updates, such as renewal, completion of the obligation or cancellation of the bond, will be immediately available to all parties, reducing record-keeping time and expense.
- **Reduced Costs:** The cost of overnighting bonds from the surety agent to the principal to the obligee will be eliminated.
- **Enhanced Security:** The opportunity for fraud related to the bond will be significantly reduced if not eliminated.

- **Greater Assurance:** There will no longer be any doubt that the bond obligation is valid and in force. This certainty will benefit all parties to the surety bond – whether it assures completion of a construction project, adherence to a regulation or any other guaranty covered by a surety bond.

Scott Insurance's surety bond team has the resources and expertise to provide tailored bond solutions specific to your needs, regionally, nationally and internationally. Working with major bonding companies as well as specialty sureties, we are able to ensure the most favorable programs and the highest possible level of confidentiality and convenience.

Learn more about the Scott Insurance surety bond offerings.

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Call Robert at **336.510.0072** if you have any questions or need any additional assistance.