

DRS Bond Management

Founded in 2009, in the wake of the banking crisis, London based DRS has grown rapidly to become the UK's leading independent surety bond specialist. DRS covers the whole of the UK, Ireland and international companies.



Chris Davies and Fiona Recker,
Founders and Joint MDs

Surety is transformational: releasing working capital, alleviating the need for liquid security and reducing strain on banking facilities. DRS also arranges a variety of risk-sharing arrangements with banking partners that add vital capacity for business growth.

The surety market's principal advantages are:

- » zero collateral starting point, over 98% of DRS' bonds are issued without cash collateral;
- » DRS typically negotiates 'on default' bond wordings, with clear trigger events, that are fully explained to all parties and protect against iniquitous claims;
- » 'on demand' bonds can be issued where appropriate;
- » superior release of liability advice;
- » rates are competitive with banks, often cheaper;
- » bonds issued by banks are hard liabilities;
- » bonds issued by sureties are contingent liabilities i.e. 'off balance sheet'.

Where appropriate, 'on demand' bond wordings may also be sourced, for example, letter of credit replacement guarantees and security for pension deficit obligations.

Most guarantees are still arranged within the banking sector. This typically ties up 100% of the bond sum as collateral. All bank bonds are 'on demand', regardless of the bond wording, which is an unacceptable commercial risk. Also, bonds issued by the bank may be difficult to release.

Bank rates, for guarantees, may be impacted by other bank debt. With increasing regulatory pressure, banks are becoming more restrictive in their acceptance of new facilities. In contrast, the surety market is vibrant and dynamic, with a growing appetite.

Standards

DRS utilises sureties with investment grade ratings (minimum 'A-' Standard & Poor's or equivalent). This negates counter party risk for project funders. DRS has developed its own tailored software platform within Blueprint OneWorld, the world's leading solution for global entity management and corporate governance software. DRS' objective is to make this the industry standard for efficiently processing surety bonds. All security documentation is accompanied by an executive summary prepared by Irwin Mitchell, a top 20 legal firm.

Communications

Historically, surety has been sold through the insurance market. This causes confusion and misunderstanding as there is no risk transfer. DRS listen closely to their clients and regularly hold events for leaders of British industry. DRS publishes guides on bonding, finance and governance best practice. This supports stable surety facilities.

AT A GLANCE

DRS Bond Management

- » contract value advised on: £10Bn+;
- » bonds sourced without cash collateral: £1Bn+;
- » 75 years of surety experience on the board;
- » FY17 revenue growth: 40%.

» CASE STUDY: PAVING THE WAY FOR A BETTER USE OF BANKING

Specialist contractor wanted to borrow £1M from their bank.

Their bank said no because they had £1M in bonds swallowing up their facility.

DRS transferred the £1M of bonds to surety, releasing the bank to lend the £1M at much better rates for the bank than those achieved by providing performance bonds. A positive outcome for all parties.



» CASE STUDY: NO MORE TIME WASTED

Fortune 500 company required a bond to ship waste from Brazil to Denmark.

The bond had an open-ended expiry and no bank would issue it. The waste was sitting at the port for 2 years whilst a solution was sought.

DRS did the deal in one day, at a fraction of the cost.



What is a surety bond?

- » a contract guarantee;
- » a contract guarantee can be provided by banks and sureties;
- » surety is an alternative to bank guarantees;

When might a surety bond typically be needed?

- » council wants new school built – £5M contract sum;
- » council needs protection against contractor failure to perform or insolvency;
- » council request performance bond – 10% of the contract sum – £500K bond;

What are the contractor's options?

- » allow council to hold £500K for duration of works, OK for one job not several;
- » guarantee bond from bank who typically require 100% cash collateral i.e. £500K held for duration of works;
- » obtain surety bond from DRS, without cash collateral, subject to balance sheet strength.

DRS invests heavily in marketing, to maintain growth and give surety the widest possible audience.

Organisational methods

Surety broking has previously suffered from a lack of an established process. DRS has built and digitised a process which enables accurate data recording, efficient processing and robust reporting.

DRS is often called upon to negotiate with employers on bond wordings and DRS' expertise enables the delivery of bonds that are equitable to all parties, do not preclude SMEs from bidding for work and ensure pre-contract budget certainty.

Financial challenges

DRS is regulated to maintain a satisfactory level of working capital to ensure compliance with the Financial Conduct Authority's capital requirements threshold. This is similar to a guarantee. This allowed the board to understand fully how guarantees drive investment at both micro and macro level.

HM Government's research & development tax credits scheme provided financial recognition for the challenges overcome in developing the DRS process and digitising it.

Challenges faced and overcome

Historically, there has been no structured or recognised training programme for surety practitioners. In conjunction with the Institute of Chartered Secretaries & Administrators ('ICSA'): The Governance Institute and the Association of Corporate Treasurers ('ACT'), DRS has developed a chartered training programme. Both associations are internationally valued and recognised. This is run simultaneously with a professional development programme.

Educational

DRS is committed to unravelling misinformation around surety, allowing clients, banks, employers and their agents to become more aware of the benefits

of surety. DRS is prominent in identifying the rising stars of industry, both within and outside our organisation, to drive up standards of expertise.

Culture

The overarching culture of DRS is precision. Through rigorous management training and a dedication to professional development, DRS is committed to the exponential growth and application of surety. Our team undertake a detailed discovery of clients' past, current and future requirements and apply that knowledge through a thorough examination of the surety market, before arranging bonds in an accurate and timely manner.

We ensure that our clients avoid disruption to the stability of their surety facilities and discuss all options to enhance this stability where further capacity is required.

DRS works closely with:

- » investment grade sureties;
- » Ayming: an R&D Tax Credit consultant, that specialises in the construction industry;
- » URICA: a supply chain finance provider (a British Business Bank initiative), that does not require security or seek recourse for non-payment by debtors.

All partners deliver enhanced cash flow, critical for companies with a growth mindset.

Strategy

DRS is committed to growth, not only of our top and bottom line but that of the wider UK economy. We will make surety accessible to all of the UK. As thought leaders, DRS are focused on widening the application of surety, to tackle topical issues such as, deficits for legacy defined benefit pension schemes. DRS supports the delivery of strong and sustainable growth in the UK economy.