and losses to property and other assets. They protect against employee actions such as counterfeiting, forgery, embezzlement, identity theft, hacking, and the like.

Mar. 06, 2018

In their function, fidelity bonds are closer to insurance rather than to typical surety bonds. They are commonly required of businesses that operate in the field of finances or that handle customers' money or assets. Another way to refer to fidelity bonds is third-party employee dishonesty bonds, but this is only one of the type of such bonds.

In essence, this security instrument works both for the safety of your company and of your customers. On one hand, fidelity bonds protect your business in cases when your employees engage in unlawful activities such as theft or other types of dishonesty. Additionally, they safeguard the interests of your customers who may suffer damages as a result of illegal actions of your employees.

If you haven't used fidelity bonds before, it may be difficult to know when you need them and how exactly they function. Here are the basics you need to know as a small business owner.

How fidelity bonds work

Fidelity bonds are somewhat mistakenly called bonds, as they work like insurance for your business. In general, surety bonds are not protection for your company, but a safety net for legal authorities and the general public. Thus, you should know that fidelity bonds are actually close to insurance than to surety bonds.

There are a few common types of fidelity bonds – business services bonds, employee dishonesty bonds and ERISA bonds, among others. How exactly do they work? By getting bonded, you get insured by the bond provider that if an employee commits

When you should get such bonds

In many cases, your small business may need to meet fidelity bond requirements set by local, state or federal authorities. Obtaining such a bond may be set as a prerequisite for getting your license to operate legally.

For other companies, though not mandatory, getting fidelity bonds can be a good idea as well. On one hand, you can certainly advertise your business through this. Customers would generally prefer to use companies who guarantee protection from employee theft, embezzlement and similar problems.

But beyond that, fidelity bonds can also safeguard your own business from financial and other losses caused by illegal actions of your employees. You can make a bond claim and seek a compensation up to the bond amount.

Business services bonds are a good idea for a wide range of small businesses whose employees work at customers' premises. Some examples include pest care, cleaning services, repairs, catering, and the like.

Employee dishonesty bonds, known as commercial theft bonds, are a wise choice for companies in the financial sector, or that handle customers' assets and finances. There is another type of fidelity bonds called ERISA bonds. They are required of companies that operate with pension and employee benefits plans. Their goal is to protect against managers' malpractices in the handling of benefits.

The bonding process

In order to get bonded, you need to pay a small fraction of the bond amount. This is called a premium, and in the case of fidelity bonds it is similar to an insurance premium.

Your fidelity bond cost will depend on a number of factors. For example, the

Have further questions about the function of fidelity bonds for your small business? Don't hesitate to reach out in the comments below.

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Small Business