

## insights

# Sweepstakes bonds 101: An interview with a bond broker

One little-understood aspect of sweepstakes law are surety bonds, which are required to [conduct sweepstakes in New York and Florida](#). For more insight on why sweepstakes sponsors need bonds and how the bonding process works, I turned to **Marcia Cesafsky**, a highly experienced bond broker who serves as Senior Broker of Specialty Surety for [Aon Risk Solutions](#).

### **Tell us a little about yourself and your work at Aon Risk Solutions**

As a Senior Broker of Specialty Surety for Aon Risk Solutions, I am responsible for the execution of surety marketing on specialty accounts and client advocate for surety services. I have underwritten or brokered surety bonds for more than 30 years. For the past 15 years, I have represented sweepstakes sponsors by answering questions, communicating with underwriters and coordinating document preparation.

### **What are bonds and how do they relate to a sweepstakes?**

The majority of surety bonds are required by governmental laws or regulations or they arise out of the need to guarantee a contractual obligation in the public or private arena.

More specifically to sweepstakes, license and permit bonds are required to protect the public welfare. Bonds for New York and Florida promotions guarantee that the sweepstakes sponsor will comply with the rules. They protect the public from fraud or credit losses. Our clients request the bonds so they can conduct their sweepstake in these two states and be in compliance.

Both states have their own bond forms and they are incorporated in the New York and Florida registration packets. As the forms and rules are completed for registration, you will need to state the monetary value of the prizes. The dollar total of the prizes is the bond limit.

### **How can a sweepstakes sponsor obtain the needed bonds?**

Contract your insurance agent or broker, as they will likely have a surety professional to respond to your request. In most cases, the process should take a few days.

To get a quote and be approved for the bonds, the surety agent will contact an underwriter at an insurance company and submit the rules for review. The types of prizes, length of time of the contest, and the client's credit worthiness are all considered when an insurance company determines whether it will underwrite the promotion.

When it comes to underwriting, cash prizes undergo stricter scrutiny than product prizes. Most sweepstakes are conducted for a short period of time and this is viewed favorably by the underwriters. With higher levels of prize values – such as those over \$100,000 – the underwriter may review credit reports, request financial statements, or require a signed indemnity agreement.

### **What does the client need to do?**

Once the underwriting has been completed, the agent will mail the bonds to the client and an officer will need to sign the bonds. States requiring bonds usually require original “wet” signatures from both the insurance company and the client. The original bonds then are sent to the state along with the other regulatory forms. The surety agent will invoice the bond premium, which on average will be 1-2% of the bond limit. The premium needs to be paid promptly.

### **What happens during and after the sweepstakes?**

After the bonds are sent, a sweepstakes sponsor may need to change the name, address or bond limit. This can be accomplished by issuing a rider. The rider will state the change, and the original must be sent to the state.

The bonds have no expiration date and cover the entire period of time that it takes for the compliance to be completed. Towards the end of a promotion period, the state will mail a termination letter that announces that the



work has been sufficiently completed and that the insurance company may close their file. This letter needs to be sent to the surety agent to make sure that the process is wrapped up with the underwriter.

The bond premium is invoiced for one year. Should the termination letter not arrive in one year, the underwriter may charge a renewal premium.

**Any suggestions for sweepstakes sponsors to ease the bond process?**

Begin early so there is plenty of time and be compliant any applicable state rules.

*This post was written by retired Thompson Coburn partner Dale Joerling. If you have any questions about the topics discussed in this post, please contact Thompson Coburn partner [Hap Burke](#).*

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