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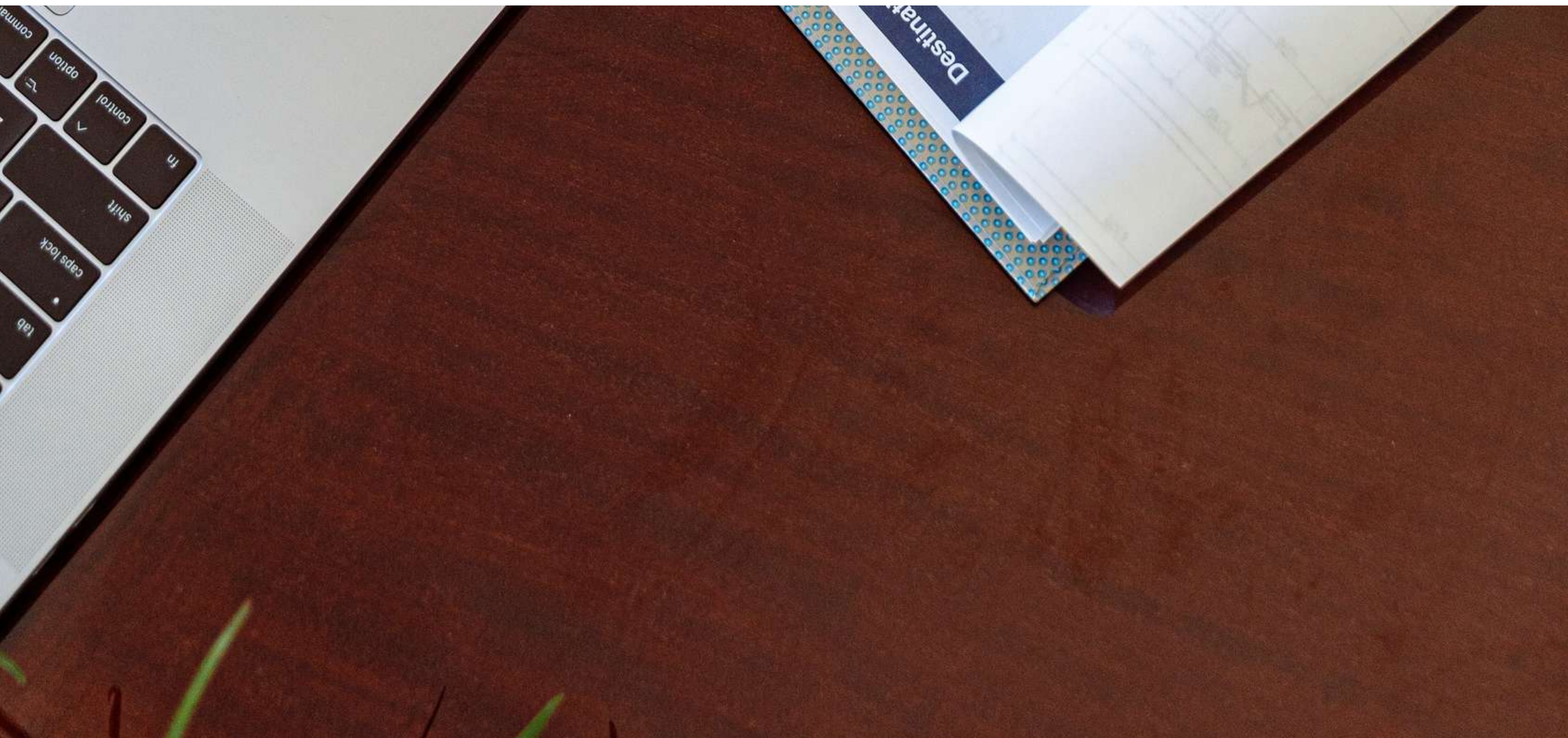

IRDA issues final guidelines for the issuance of surety bonds by the insurance companies.

Surety bonds are a tool that assists in mitigating risks in various projects. Through this system, surety shall ensure the project owner that the contractor shall perform the contract terms as decided by the parties. The surety acts as a guarantor to the contractor. In case of default, the surety would pay the project owner and later recover that amount from the contractor, including reimbursement and legal fee, etc. This concept is prevalent throughout the world, especially in cases of public work projects which involve high stakes.

Insurance Regulatory and Development Authority of India (IRDA) finalized the guidelines regarding the issuance of various types of surety bonds in India. Last year, the Ministry of road transport and Highway requested IRDA to develop regulations with which general insurance companies could issue surety bonds. Government has nearly Rs 7 trillion investment ready for infrastructure projects for the next 2-3 years. This move is set to facilitate that.

The proposed guidelines state that any entity that wants to be in surety insurance should be an Indian insurance company which has been registered with the IRDA. The draft also has a provision to register as a specialized company that will solely deal in surety and credit services, but the initial paid-up capital for the same shall be Rs.100 crore, which is equal to that of a general insurance company which has a diverse line of business.

The different types of surety contracts which are mentioned in the draft are:

Advance Payment Bond: In this case, the surety agrees to pay the outstanding amount of the advance payment if the contractor fails to complete the obligation of the contract.

Performance Bond: if the contractor fails to perform the terms agreed by the parties, the obligee holds the contractor in default and then terminates the contract. Then the surety will have to compensate the obligee.

Bid Bond: The bidder shall make a promise that if the contract is awarded to them, then they shall furnish a performance guarantee and enter into contract within the stipulated period of time. It protects the obligee when the contractor is awarded the bid but later fails to sign the contract.

Retention money: It is a part of the amount payable to the contractor, which is retained and payable at the end after successful completion of the contract.

Customs and court bond: This is a type of guarantee where the obligee is a public office such as tax office, customs administration or the court, and it guarantees the payment of a public receivable incurred from opening a court case, clearing goods from customs or losses due to incorrect customs procedures.

Contract bond: This acts as an assurance to a public entity, developers, subcontractors and suppliers that the contractor will full his obligation and adhere to the contract during the project. These bonds may include Bid Bonds, Performance Bonds, Advance Payment Bonds and Retention Money.

The IRDAI (Surety Insurance Contracts) Guidelines, 2022 will come into effect from April 1, 2022, the regulator said in a notification.

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