

Item No. 11

Draft IRDAI (Surety Insurance Contracts) Guidelines

1. Background:

- a. The Department of Financial Services had requested IRDAI to examine the proposal of National Highways Authority of India (NHAI) to permit Insurers to issue 'Surety Bonds' as insurance products to NHAI on behalf of contractors engaged in road projects across the country. In this context, IRDAI had set up a Working Group to study the feasibility of general insurers to underwrite Surety Insurance.
- b. While recommending that insurers may be allowed to enter into Surety Bond business, the Working Group also gave recommendations on the need for separate guidelines, a sound underwriting philosophy, proper reinsurance arrangements, additional legal framework, a partnership approach with banks, a centralized database, suggested registration requirements and the types of Surety Bonds that may be permitted. The report was placed on IRDAI's website for stakeholders' comments.
- c. The Authority, upon examining the recommendations of the Working Group report, stakeholders' comments and considering the specific nature of Surety Bonds as a product, has proposed separate draft guidelines to regulate the business of Surety Bond Insurance. In this context, an internal working group was constituted to draft the Surety Insurance Contract guidelines and the internal working group submitted draft guidelines on the subject.

2. Important features of the draft guidelines:

- a. The objectives of the guidelines are to promote and regulate sustainable and healthy development Surety Insurance Business in India.

- b. It is proposed to permit insurers meeting the requirement of maintaining a solvency margin not below 1.25 times of the control level of solvency to undertake Surety Insurance business with a maximum cap on gross written premium.
- c. The new applicants intending to commence Surety Insurance business are encouraged to register as specialized mono-line insurer for offering Surety Insurance. Such insurer may also offer Trade Credit Insurance.
- d. The insurers shall have underwriting philosophy specifically for Surety Insurance business with underwriting safeguards, risk management mechanism amongst other requirements.
- e. Insurers may underwrite Surety Insurance contracts pertaining to infrastructure projects of Government as well as and private parties by offering contract bonds. Insurers may also underwrite Customs and Courts Bonds.
- f. The limit of guarantee offered shall not exceed 30 % of the project value.

3. Proposal:

It is proposed to place the draft IRDAI (Surety Insurance Contracts) Guidelines on the IRDAI's website to seek comments of various stakeholders and the Authority's approval is hereby sought for the same.

Submitted for the approval of the Authority.