

17th May 2023

Sir/Madam,

IRDAI Relaxes Norms for Surety Insurance Bonds Market

– Tool for adherence to contractual terms, smooth functioning of infra projects

Regulator Insurance Regulatory and Development Authority of India (IRDAI) has relaxed norms for 'surety bonds', a type of insurance policy protecting parties involved in a transaction or contract from potential financial losses due to a breach of contract or other types of non-performance. The changes are aimed at expanding the surety insurance market by increasing the availability of such products.

These norms serve as a risk mitigation tool for maintaining integrity, quality, and adherence to contractual terms, ultimately contributing to the smooth functioning of projects especially in infrastructure sector and fostering a healthy business environment.

Basis the evaluation of various representations received, the solvency requirement applicable for such products has now been reduced to control level of 1.5 times from 1.875 previously prescribed. Further, the prevailing 30% exposure limit applicable on each contract underwritten by an insurer, has also been removed. These amendments follow the earlier notification removing the cap on premiums that could be underwritten in a financial year by mono-line insurers transacting only Surety Insurance Business.

The current revisions are aimed to expand the Surety Insurance market by increasing the availability of such products and creating the opportunity for more Insurers to service the increasing demand from various sectors of the economy. Surety Insurance will increase liquidity of contractors and provide strong boost especially to the infrastructure sector.

A copy of said Circular and detailed guidelines issued on 3rd January 2022 is attached for your kind perusal.

With kind regards,

(Shiv Rawat)
Deputy Director

Circular

Ref: IRDAI/NL/CIR/SIC/104/5/2023

Date: 15-05-2023

**All General Insurers (Except ECGC Ltd, AIC Ltd
and Stand Alone Health Insurers)**

Re: Modification of Surety Insurance Guidelines

1. On the subject, the IRDAI (Surety Insurance Contracts) Guidelines, 2022 were issued vide Ref No. IRDAI/NL/GDL/SIC/01/01/2022 dated 3rd January, 2022 (hereafter referred as Surety Insurance Guidelines). Further, Circular No. IRDAI/NL/Cir/Misc/7/1/2023 dated 12th January, 2023 was issued.

2. The Authority has reviewed Surety Insurance Guidelines and makes the following revisions:

a. Clause 6.1 (a) replaced with the following

"Meeting the requirement of maintaining a solvency margin of not below the control level of solvency specified by the Authority. Provided that where the solvency margin of the insurer falls below the specified threshold limit at any point of time, the insurer shall stop underwriting new Surety Insurance business until its solvency margin is restored to above the threshold limit."

b. Clause 6.4(d) ('The limit of guarantee shall not exceed 30 percent of the contract value') is deleted

3. All other provisions of the within referred Surety Insurance Guidelines, 2022 and IRDAI Circular Ref: IRDAI/NL/Cir/Misc./7/1/2023 dated 12.01.2023 shall remain unaltered. 4. This circular shall come into force with immediate effect.

A. Ramana Rao

Chief General Manager (Non-Life)