

Approval to issue IRDAI (Surety Insurance Contracts) Guidelines, 2022

1. Background:

- a. The Authority, in its 114th meeting, held on 2nd September, 2021, had approved to place the draft IRDAI (Surety Insurance Contracts) Guidelines on IRDAI website and seek comments of stakeholders. Accordingly, vide Ref No. IRDAI/NL/WG/SB/299/2021-22 dated 8th September, 2021, the draft guidelines were placed on IRDAI's website for public consultation.
- b. Comments have been received from General Insurance Companies, Insurance Brokers, Ministry of Road Transport and Highways (MORTH), Confederation of Indian Industry (CII), International Credit Insurance & Surety Association (ICSCA) amongst others. The suggestions / comments received have been compiled and examined.

2. Key Modifications/Improvements carried out in the Guidelines

Upon consideration of suggestions / inputs of stakeholders, the draft guidelines have been modified/improved in respect of the following.

- i. The provisions regarding considering registration of monoline/ specialized insurer for underwriting Surety Insurance business have been removed.
- ii. The para on tri-partite contract has been removed from guidelines.
- iii. The definition of 'Retention Money' has been simplified.
- iv. The scope in offering of Surety Insurance Contracts has been enlarged to cover infrastructure projects of Government / Private in all modes.
- v. It is now added that insurers to work with contract awarding authorities as well in addition to banks or other financial institutions to evaluate the risk with more information.
- vi. The provision that no Surety Insurance contract shall cover financial guarantee in any form has been included with financial guarantee

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- vii. definition as given by International Credit Insurance & Surety Association.
- viii. The provision that no Surety Insurance contract shall be issued for credit enhancement of any financial instruments has been removed.

3. Important Features of IRDAI (Surety Insurance Contracts) Guidelines

Consequent to modifications and improvements brought out in the guidelines, the important features in the final guidelines are given hereunder.

- i. The objective of the guidelines is to promote and regulate sustainable and healthy development of Surety Insurance Business in India.
- ii. The essential features of a Surety Insurance contract contain reference to Contract of Guarantee under Section 126 of the Indian Contract Act, 1872.
- iii. The guidelines permit, general insurers meeting the requirement of maintaining a solvency margin not below 1.25 times of the control level of solvency specified by the Authority, to undertake Surety Insurance business with a maximum cap on gross written premium.
- iv. The insurers are mandated to have a Board approved underwriting policy specifically for Surety Insurance business with underwriting safeguards, risk management mechanism amongst other requirements.
- v. The general insurers may underwrite Surety Insurance contracts pertaining to infrastructure projects of Government as well as and private parties in all modes. The insurers may also underwrite Customs and Courts Bonds.
- vi. The limit of guarantee shall not exceed 30 percent of the contract value.
- vii. The data on Surety Insurance contracts underwritten by all general insurers shall be submitted to Insurance Information Bureau of India (IIBI) as may be prescribed.
- viii. The Surety Insurance products shall be subject to all provisions and relevant procedures of File & Use as stipulated under the Guidelines on Product Filing Procedures for General Insurance Products.

4. Decision requested:

The approval of the Authority is sought for issuing IRDAI (Surety Insurance Contracts) Guidelines, 2022, in exercise of the powers conferred under section 14 (2) (i) of IRDA Act, 1999, to enable all eligible general insurers to file the products and commence underwriting of Surety Insurance business with effect from 1st April, 2022.