Article Date	Headline / Summary	Publication
27 Oct 2024	Regulatory changes to provide necessary push to surety bonds business, say experts	The Economic Times

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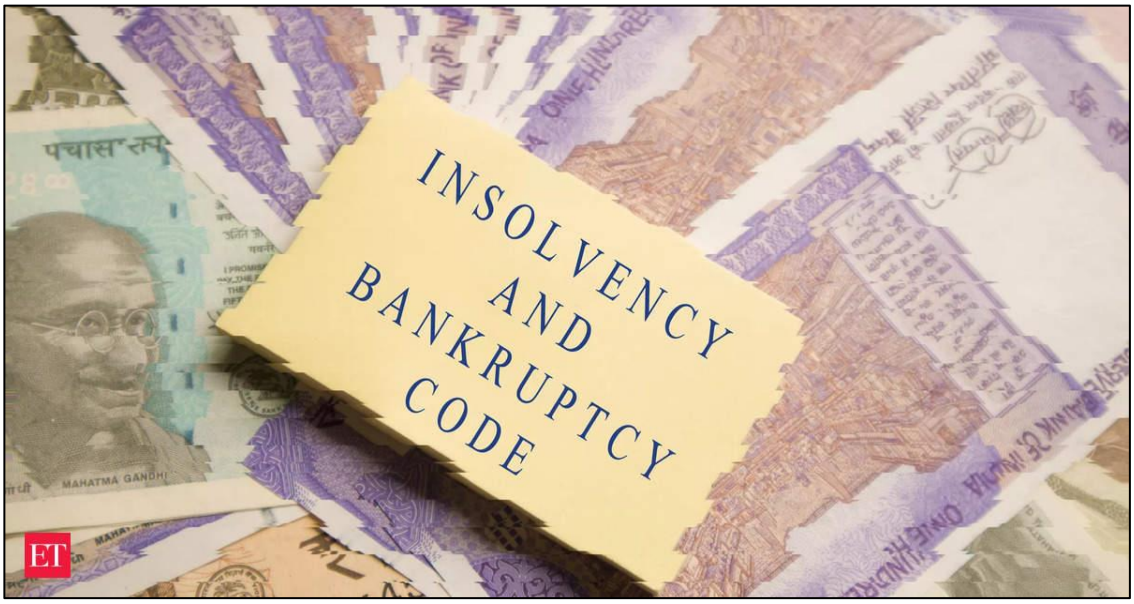

Regulatory changes and standardization are set to boost surety bonds introduced in 2022 by general insurance companies. These bonds will support India's infrastructure development, reduce reliance on bank guarantees, and allow banks to lend to other sectors. Legal and regulatory reforms are crucial for providing insurers equal recourse under the Insolvency and Bankruptcy Code.

Regulatory changes like amendment in the Insolvency & Bankruptcy Code and standardization of bond wordings would give a fillip to newly introduced product underwritten by general insurance companies , called surety bonds , experts said. This product launched in 2022 is going to play a crucial role in supporting India's infrastructure development and heavily reduce reliance on bank guarantees for project finance . As a result, banks can focus on other productive sectors for lending.

Bajaj Allianz General Insurance , which is the pioneer of the product said that it has been able to add more than 50 beneficiaries who have started accepting surety bonds.

According to Bajaj Allianz General Insurance Chief Technical Officer TA Ramalingam, possible amendments in the legal framework are crucial in providing insurance companies with equal legal recourse as banks under the Insolvency and Bankruptcy Code (IBC).

This parity would provide a level playing field, encourage fair competition and foster market growth for surety bonds, he told PTI.

According to a government official, the matter is before the concerned ministry and amendments in IBC may be tabled in Parliament in the due course of time.

"The expectation that surety bonds should be cheaper than bank guarantees is unsustainable for insurers. Issues related to pricing, reinsurance options, and lack of clarity on indemnity documents further hinder progress. The Indian Contract Act and Insolvency and Bankruptcy Code do not recognize the rights of insurers at par with financial creditors," Vara Technology founder Sunil Kanoria said.

These challenges, if addressed, would give a necessary push to surety bonds and help in unlocking economic development and infrastructure expansion, he added.

Ramalingam further said, "While the surety bond market faces significant challenges stemming from regulatory disparities, data limitations, reinsurance constraints, and lack of standardization, strategic initiatives focused on legal reform, data transparency, industry collaboration, and standardization hold the key to overcoming these obstacles."

By addressing these challenges proactively, he said, the surety bond market can unlock its full potential, offering robust alternatives to traditional bank guarantees and fostering broader economic growth.

To address these challenges and drive the growth of the surety bond market, the Insurance Regulatory and Development Authority of India (Irdai) and General Insurance Council recently constituted a task force comprising representatives from insurers and banks.

The task force will focus on developing strategies for risk sharing, enhancing collaboration between banks and insurers, and fostering a conducive environment for the growth of surety bond insurance.

Surety bonds are financial instruments, where insurers act as 'surety' and provide the financial guarantee that the contractor will fulfil its obligation as per the agreed terms.

The surety bond issued by a general insurance company is a three-party contract by which one party (the surety) guarantees the performance or obligations of a second party (the principal) to a third party (the obligee). The surety is a company that provides the financial guarantee to the obligee (usually a government entity) that the principal (business owner) will fulfil their obligations.