What are Surety insurance bonds?

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In news- In the Budget speech, the Union Finance Minister has said that the **use of surety bonds as a substitute for bank guarantee will be made acceptable in government procurements** to reduce indirect cost for suppliers and work-contractors.

About Surety insurance bonds-

- Surety bonds are mainly **aimed at infrastructure development, mainly to reduce indirect cost for suppliers and work-contractors thereby diversifying their options** and acting as a substitute for bank guarantee.
- It is **provided by the insurance company on behalf of the contractor to the entity which is awarding the project.**
- When a principal breaks a bond's terms, the harmed party can make a **claim on the bond to recover losses.**
- It **can effectively replace the system of bank guarantee issued by banks** for projects and help reduce risks due to cost overrun, project delays and poor contract performance.
- **As per IRDAI guidelines for surety bonds,** the **premium charged for all surety insurance policies underwritten in a financial year, including all installments due in subsequent years for those policies, should not exceed 10 percent of** the total gross written premium of that year, **subject to a maximum of Rs 500 crore.**
- The limit of guarantee should not exceed 30 percent of the contract value.
- Surety Insurance contracts **should be issued only to specific projects and not clubbed for multiple projects.**