

Insurance Surety Bonds

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About Insurance Surety Bonds:

- These bonds can be defined in its simplest form **as a written agreement to guarantee compliance, payment,** or performance of an act.
- These are instruments where **insurance companies act as 'Surety'** and provides the financial guarantee that the contractor will fulfil its obligation as per the agreed terms.
- Surety is a unique type of insurance because it **involves a three-party agreement.**
- The three parties in a surety agreement are:
 - **Principal:** The party **that purchases the bond** and undertakes an obligation to perform an act as promised.
 - **Surety:** The insurance **company or surety company** that guarantees the obligation will be performed. If the principal fails to perform the act as promised, the surety is contractually liable for

losses sustained.

- **Obligee:** The party **who requires, and often receives the benefit** of the surety bond. For most surety bonds, the obligee is a local, state or federal government organization.

What are the advantages?

- It will act **as a security arrangement for infrastructure projects** and will insulate the contractor as well as the principal.
- The product will cater to the requirements of a diversified group of contractors, many of whom are operating in today's increasingly volatile environment.
- The product gives **the principal a contract of guarantee** that contractual terms and other business deals will be concluded in accordance with the mutually agreed terms.
- In case the contractor doesn't fulfil the contractual terms, **the Principal can raise a claim on the surety bond and recover the losses** they have incurred.
- Unlike a bank guarantee, the Surety Bond Insurance does not require large collateral from the contractor thus freeing up significant funds for the contractor, which they can utilize for the growth of the business.
- The product will also **help in reducing the contractors' debts** to a large extent thus addressing their financial worries.

Q1) What is Insurance?

Insurance is a financial arrangement that provides protection against the risk of financial loss or uncertain events. It involves an agreement between an individual or organization (the insured) and an insurance company (the insurer) where the insured pays a premium in exchange for the promise of compensation or coverage in case of specified events.

Source: [NHAH holds discussions with Stakeholders on Insurance Surety Bonds](#)

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