

Here are the frequently asked questions about **Kshema Surety Insurance** and their answers.

### 1. What is Surety Insurance?

Surety Insurance provides assurance to the project owner through a bond that the contractor will complete the project in accordance with agreed terms and conditions. Kshema Surety Insurance acts as a risk transfer solution, protecting the project owner from potential losses if the contractor fails to meet contractual obligations.

### 2. Parties Involved:

There are three parties involved in Surety Insurance.

- 1. Principal:** A contractor who purchases a Surety Bond from an insurer as a guarantee and commits to fulfilling all contractual obligations.
- 2. Obligee or Beneficiary:** The project owner who requires the Surety Bond and is the ultimate beneficiary under the bond.
- 3. Surety:** The insurer, Kshema General Insurance Ltd., provides a guarantee to the Obligee/Beneficiary on behalf of the Principal, who is obligated to perform the contract as per agreed terms and conditions.

### 3. How does Surety Insurance differ from Bank Guarantee?

Aspect	Surety Insurance (Surety Bond)	Bank Guarantee
<b>Nature of Instrument</b>	Risk transfer and performance assurance tool	Financial security instrument
<b>Parties Involved</b>	Three parties: Principal (Contractor), Obligee (Project Owner), and Surety (Insurer)	Two primary parties: Applicant (Contractor) and Beneficiary (Project Owner)
<b>Primary Purpose</b>	Guarantees completion of contractual obligations	Guarantees payment of a specified amount
<b>Focus of Evaluation</b>	Surety evaluates contractor's technical, financial, and performance capability	Bank primarily evaluates availability of collateral or credit limits
<b>Interest in Project Performance</b>	Surety has a direct interest in successful project completion	Bank has no active interest in project execution
<b>Risk Assessment</b>	Based on contractor's ability to perform the contract	Based on collateral and financial security provided
<b>Claim Settlement</b>	Claim is paid after validating default and contractual breach	Typically an on demand instrument; paid upon beneficiary's request
<b>Recovery Rights</b>	Surety retains the right to recover paid claims from the contractor	Bank recovers payment through pledged collateral
<b>Impact on Contractor's Liquidity</b>	Minimal impact on cash flow and working capital	Blocks cash or credit limits, affecting liquidity
<b>Dispute Consideration</b>	Claims are subject to investigation and contractual terms	Paid regardless of disputes between parties

#### 4. Who can buy it?

Kshema provides Surety Bonds to construction and infrastructure (EPC) contractors, guaranteeing their future project performance to the awarding entity (Obligee).

#### 5. Who can issue Surety Bond?

Only licensed surety companies or authorized insurers are permitted to issue surety bonds, after evaluating the Principal's financial strength and credibility to ensure their ability to fulfill contractual obligations.

#### 6. Classification of Bonds

1. Unconditional Surety Bond:

Payable on demand like Bank Guarantee

2. Conditional Surety Bond:

Obligation is triggered only after a default is formally established and investigated. Protect the Principal from wrongful calls while ensuring legitimate claims are paid.

#### 7. Governing Act:

The Surety Bond structure and the entire arrangement is found in Sec.126 of the Indian Contract Act 1872 which defines a "Contract of Guarantee" as a promise to discharge liability of a third person in case of the default by the Principal. The person who gives the guarantee is called "Surety". The person in respect of whose default the guarantee is given is called the "Principal Debtor" and the person to whom the guarantee is given is called the "Creditor"

#### 8. Term of The Policy:

The policy tenure will be typically aligned to the tenure of the project and contract.

#### 9. Is a Surety Bond Refundable?

No, a Surety Bond is non refundable. The premium paid is a one time charge that is retained by the Surety once the bond is issued, even if the contract is terminated early or the bond is no longer required, as it covers underwriting and risk assessment costs.