Kshema Surety Bond Insurance

FAQs

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
Nature of Instrument	Risk transfer and performance assurance tool	Financial security instrument
Parties Involved	Three parties: Principal (Contractor), Obligee (Project Owner), and Surety (Insurer)	Two primary parties: Applicant (Contractor) and Beneficiary (Project Owner)
Primary Purpose	Guarantees completion of contractual obligations	Guarantees payment of a specified amount
Focus of Evaluation	Surety evaluates contractor's technical, financial, and performance capability	Bank primarily evaluates availability of collateral or credit limits
Interest in Project Performance	Surety has a direct interest in successful	Bank has no active interest in project

	project completion	execution
Risk Assessment	Based on contractor's ability to perform the contract	Based on collateral and financial security provided
Claim Settlement	Claim is paid after validating default and contractual breach	Typically an on-demand instrument; paid upon beneficiary's request
Recovery Rights	Surety retains the right to recover paid claims from the contractor	Bank recovers payment through pledged collateral
Impact on Contractor's Liquidity	Minimal impact on cash flow and working capital	Blocks cash or credit limits, affecting liquidity
Dispute Consideration	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. Type 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.