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Insurance guarantees next round of infra build-up

TEAM TOI

Contractors bidding for infrastructure projects will find it easier to get on board with the government accepting surety bonds as a substitute for bank guarantees. The acceptance of surety bonds will also benefit gold importers.

Typically, in projects, successful bidders are asked to provide a bank guarantee that can be invoked if the contractor fails to deliver. Banks treat these guarantees as a form of credit and charge the borrower for the same. "Insurers will be able to provide surety bonds to reduce indirect cost for suppliers and work-contractors thereby diversifying their options and acting as a substitute for bank guarantee," said Tapan Singhel, MD & CEO, Bajaj Allianz General Insurance.

Last month, the Insurance Regulatory and Development Authority of India (IRDAI) came out with norms that allowed non-life companies to issue various types of surety contracts. "With these surety bonds, I believe, the initial project cost will slightly reduce and the overall project viability will improve," said Singhel.

COVER FOR CONTRACTORS

However, former IRDAI member K K Srinivasan says that caution is the keyword for insurers. "Surety bonds of this type is tremendously riskier than other classes. Expertise will take years to build. The present solvency norms may not be adequate. Risk-based capital norms will be required. Alternatively, additional capital for this class business based on the planned volume of business for the company may be required."

The bonds that insurers have been allowed to issue include advance payment bond, bid bond, contract bond, customs and court bond, performance bond and retention money.