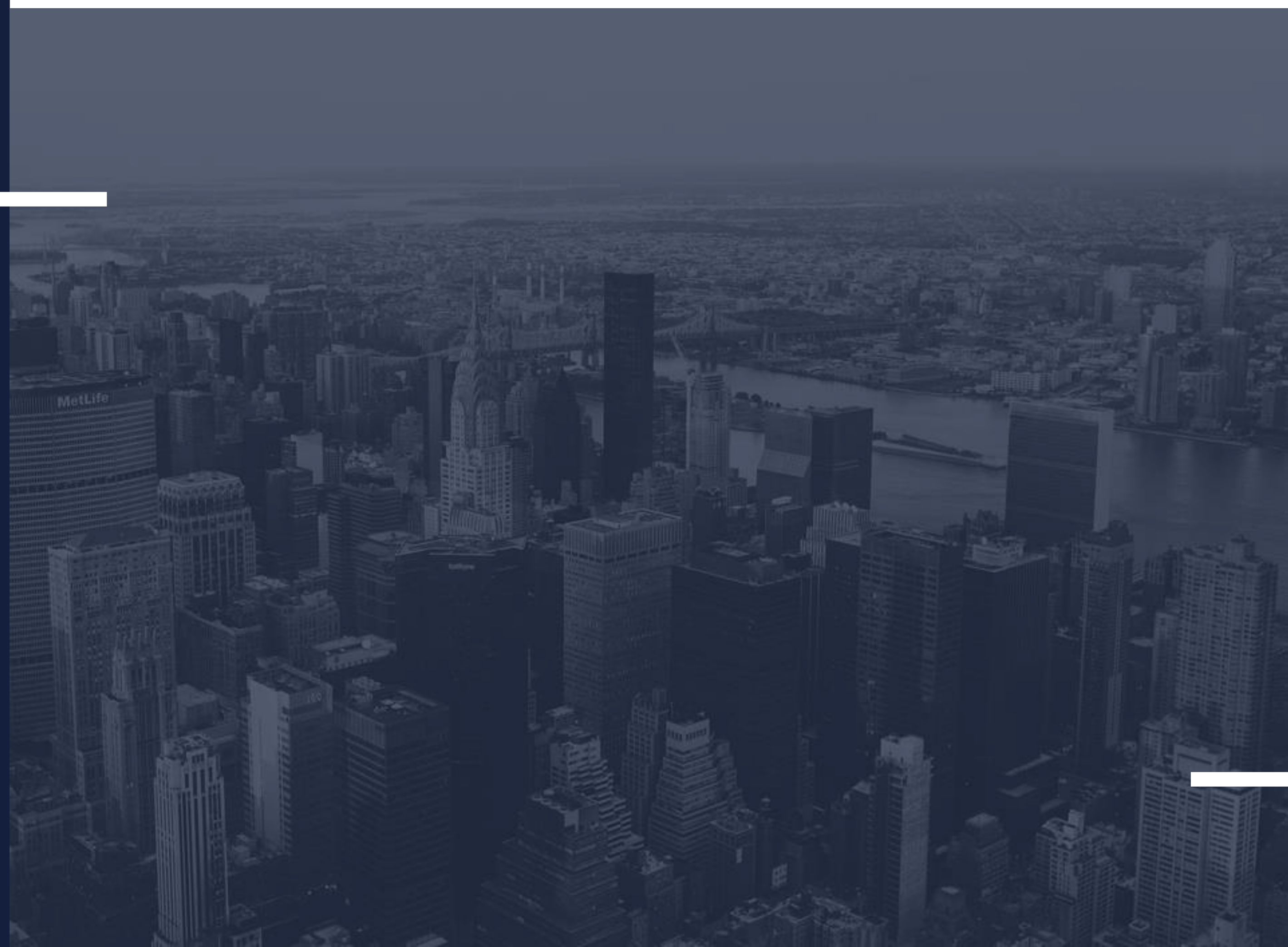
THE NEW INDIA ASSURANCE CO. LTD



SURETY BONDS

Surety bonds are like safety nets for agreements and contracts. They are needed to make sure that people or companies follow through on their promises. Imagine an organization is hiring a contractor to work on a large project. It wants assurance that they will finish the job and do it well. A surety bond ensures this. The bond pays you to fix the problem if the contractor does not deliver. They provide peace of mind and financial protection, making sure everyone keeps their word.

New India Assurance's Surety Bond ensures that you do not suffer financial losses. The bond issuer steps in to compensate you, so you are not left with the bill. New India Assurance's Surety Bond offers cost-effective, third-party assurance for contractual obligations without tying up cash collateral as required for a bank guarantee, often a more financially efficient option.

What is Surety Bond?

Surety bonds are legally binding contracts that provide financial protection and assurance by a third party (the surety) to ensure that a party fulfills its obligations or commitments, commonly used in various industries, including construction and licensing.

There are 3 parties involved:

- Obligee/ Beneficiary – Is the entity requiring the bond usually government entities like NHAI, Large corporations issuing contracts for projects mostly
- Principal/ Obligor – The company that is purchasing the bond to ensure performance of a particular task
- The Surety/ Insurer – The company that is issuing the bond on behalf the principal to obligee that the principal can fulfill the contractual task and indemnifies the assured amount to beneficiary in case of non-fulfilment
- Bonding Indemnifies the beneficiary in the event that a contractor fails to fulfill his obligation.

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Conditional Surety Bond (Performance Bond):
A conditional surety bond is issued with specific conditions or requirements outlined in a contract. These conditions define what the bonded party must fulfill or achieve for the bond to remain valid. Common in construction contracts, it ensures projects are completed on time, within budget, and according to specifications. Failure to meet the conditions can result in the bond being nullified, and the bond issuer may be required to compensate the obligee.
Typically, the obligee specifies the conditions and terms for the bond, and the surety company assesses the risk accordingly.

Unconditional surety bonds
These bonds do not require any specific performance conditions and offer comprehensive financial protection. They are typically used for providing a straightforward guarantee by the surety company. Unlike conditional surety bonds where meeting specific contractual conditions is must.

Types of Bonds by New India Assurance

- **Bid Bonds**

It is an obligation undertaken by a bidder promising that the bidder will if awarded the contract, furnish the prescribed performance guarantee and enter into a contract agreement within a specified period of time. It provides financial protection to an obligee if a bidder is awarded a contract pursuant to the bid documents, but fails to sign the contract and provide any required performance

- **Performance Bond**

It provides assurance that the obligee will be protected if the principal or contractor fails to perform the bonded contract. If the obligee declares the principal or contractor as being in default and terminates the contract, it can call on the Surety to meet the Surety's obligations under the bond.

Policy Coverage:
A surety bond covers financial losses incurred if the contractor fails to meet its contractual obligations or comply with legal requirements, providing protection to the principal (the party protected by the bond).

Exclusions:
· Specific events agreed upon in the contract between the Creditor and Principal Debtor.
· Changes in the Principal Debtor's liability due to negligent acts or omissions.
· Applicable laws that excuse the Principal Debtor from performing the contract.
· Any understanding or agreement that releases the Principal Debtor from their obligations, as determined by the Surety Insurer.
· An increase in the Principal Debtor's obligations through a voluntary new transaction after the bond issuance.

Premium Calculations:
The premium for a surety bond is typically calculated as a percentage of the bond amount, depending on factors like the type of bond, experience of the contractor, the contractor’s creditworthiness, project tenure and the level of risk involved.

Tenure:
Maximum bond tenure is 60 months (including contract, maintenance period and extensions) or based on the contract bond, whichever is lower.

Claims Procedure:

1. The creditor must provide a written demand to the principal debtor if a contract is terminated due to a default, allowing an opportunity for cure if the contract specifies a cure period.
2. The written demand is sent to the surety insurer, with a copy to the principal debtor, and must include relevant documentation, such as termination notices, payment certificates, and communications between the parties.
3. The principal debtor is legally obligated to repay the claim amount to the surety insurer according to the indemnity agreement terms.
4. The surety insurer has the discretion to review the demand and assess the extent of the default to determine the amount payable under the bond.
5. The surety insurer must give the principal debtor another opportunity to pay the claim amount before making a payment, and if the debtor does not pay within 14 days, the surety insurer pays within 45 calendar days of receiving the necessary documentation.