

A STUDY OF THE GLOBAL SURETY BONDS MARKET: FUNDAMENTALS, COMPARATIVE TRENDS, AND INDIA'S STRATEGIC POSITIONING

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ABSTRACT

This research paper aims to perform an extensive analysis of the worldwide surety bonds market to assess India's strategic position in it. Through a quantitative analysis of worldwide market dimensions, growth projections, and prevalent bond categories, the research aims to identify essential comparative patterns and offer a standard for developing markets. The research also includes a qualitative evaluation of India's emerging surety market, highlighting the key legal, regulatory, and commercial obstacles that affect its feasibility. The results of this study enhance the comprehension of the prospects and systemic challenges within India's surety sector and educate stakeholders on the essential reforms required to align the local market with global standards.

Keywords: Surety Bonds, Suretyship, Risk Management, Specialty Commercial Insurance, Guarantees, Infrastructure Finance, IRDAI

INTRODUCTION

In the domain of extensive construction and infrastructure, minimizing the likelihood of contractor failure is essential. Surety bonds represent a type of non-deposit insurance that has developed into an effective method for addressing this problem. They function based on a tripartite agreement where a Surety (usually an insurer) assures the responsibilities of a Principal (such as a contractor) to an Obligee (like a project owner) if there is default or failure to perform. These bonds serve as tools for managing risk, guaranteeing that contractual commitments are fulfilled, especially in the infrastructure and construction industries. Surety bonds, in contrast to conventional bank guarantees, do not hinder the contractor's credit availability or require collateral, resulting in a more capital-efficient option. Prior to releasing the bond, the surety assesses the principal's abilities and reliability, and in the event of default, safeguards the obligee while fulfilling the indemnification clause, which makes the principal financially accountable.

The worldwide surety market continues to grow alongside infrastructure development. It was estimated at approximately USD 16 billion in 2021 and is expected to attain USD 24.4 billion by 2031, expanding at a 4.4% CAGR¹. North America, Europe, and Asia-Pacific lead the market, with contract bonds (including bid, performance, and advance payment bonds) making up most of the activity.

In India, surety bonds were launched in Budget 2022² as a regulatory substitute for bank guarantees. The IRDAI (Surety Insurance Contracts) Guidelines, 2022³, permit insurers to provide different types of bonds, such as bid, performance, advance payment, contract, and judicial bonds, starting from April 1, 2022. Modifications made in 2023, removed the maximum premium limit, lowered the solvency margin to 1.5×, and lifted the 30% per-contract exposure limit⁴. By 2025, surety bond products have been offered by insurers such as SBI General, Bajaj Allianz, New India Assurance, HDFC ERGO, TATA AIG, ICICI Lombard, GoDigit, Reliance General Insurance, and IFFCO Tokio. As of August 2024, the Finance Ministry stated that nearly ₹6,390 crore in bonds had been released, which includes ₹1,400 crore in performance bonds⁵. These statistics suggest a nascent market with minimal existing utilization, yet with great promise considering India's ambitious National Infrastructure Pipeline and the government's push for capital-efficient risk management strategies.

LITERATURE REVIEW

T. Scot Leo (1993) offers a fundamental legal examination, explaining that suretyship represents a type of credit centered on assessing a contractor's capability to execute, instead of concentrating on pricing actuarial risk⁶. Expanding on this, **Lin Yang (2023)** present new empirical findings indicating that this underwriting procedure offers substantial risk management benefits, as sureties acquire private insights that enable them to accurately forecast contractor financial difficulties⁷. **Jing J, Deng X, Maqbool R, Rashid Y, & Ashfaq S (2020)** further investigate the strategic use and impact of these bonds, finding that the structure of a bond is essential, as high-penalty conditional bonds offer a more robust deterrent to default compared to low-penalty unconditional bonds⁸. Examining upcoming global trends, the **UNEP Finance Initiative (2018)** highlights a significant shift in underwriting by promoting the incorporation of Environmental, Social, and Governance (ESG) factors as an essential 'Fourth C' in risk evaluation⁹. Analyzing the Indian landscape, **SPJIMR (2022)** emphasizes the significant disparity between the need for guarantees in the infrastructure realm and the restricted offerings from

conventional banks, measuring the possible market potential and presenting surety bonds as an essential option to enhance contractor liquidity¹⁰.

STATEMENT OF THE PROBLEM

The research paper intends to perform a quantitative assessment of the worldwide surety market by analyzing its present size, growth forecasts (CAGR), and prevalent bond categories in major nations, and leveraging these comparative insights to strategically assess the distinct challenges, opportunities, and future potential of India's emerging surety market.

RESEARCH METHODOLOGY

The research is based on secondary data sources.

Secondary Data Collection: Secondary data has been collected from academic journals, professional publications, white papers, and syndicated market research reports. Several governmental reports and regulatory guidelines, such as those from the IRDAI and the MoF, have also been utilized, along with financial news articles for industry context.

LIMITATIONS OF THE STUDY

- The study is based on secondary data sources and does not entail primary research.
- The quantitative scope of research is constrained to 2024 as surety bonds are a new type of financial product and hence there is limited availability of historical data for analysis.

RESEARCH OBJECTIVES

- To analyze the surety market size in 2024 across key global regions.
- To identify the dominant types of surety bonds in the global market in 2024.
- To examine the market's growth potential by comparing 2031 size estimations and the projected CAGR across these regions.
- To critically evaluate the strategic positioning of India's nascent surety market by analyzing its key regulatory, legal, and commercial challenges in the context of the established global trends.

DATA ANALYSIS

1) Analysis of the surety market size in 2024 across key global regions and countries

With an estimated total size of \$18.20 billion in 2024, the global surety market has become an important part of the specialty insurance industry. The distribution of this market, on the other hand, is very concentrated, indicating that different parts of the world have varying levels of economic maturity and regulatory development. A study of the market's composition is a key way to understand global trends and determine how best to position emerging markets like India.

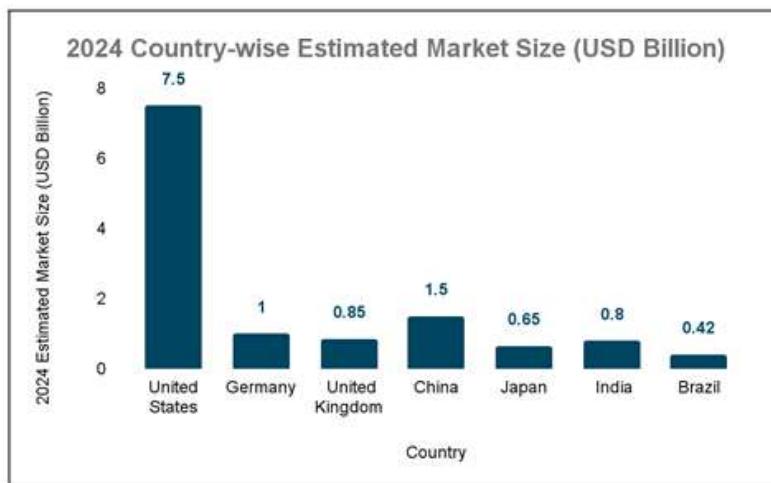


Source: Allied Market Research, "Surety Market Global Opportunity Analysis and Industry Forecast, 2021-2031".¹

The chart above shows that North America has the largest share of the global market, valued at approximately \$8.5 billion, or 46.7%. Following this, Europe is the next largest market, accounting for 28.9% of the total at \$5.26 billion. It is a mature and stable market.

The Asia-Pacific region is currently third with \$3.24 billion (17.8%), but it is a key area of focus because it has a lot of room to grow. The rest of the world, including Latin America, the Middle East, and Africa (LAMEA), constitutes the remaining 6.6%.

The analysis of the market by country below illustrates how concentrated it is and provides a clearer picture of India's current position.

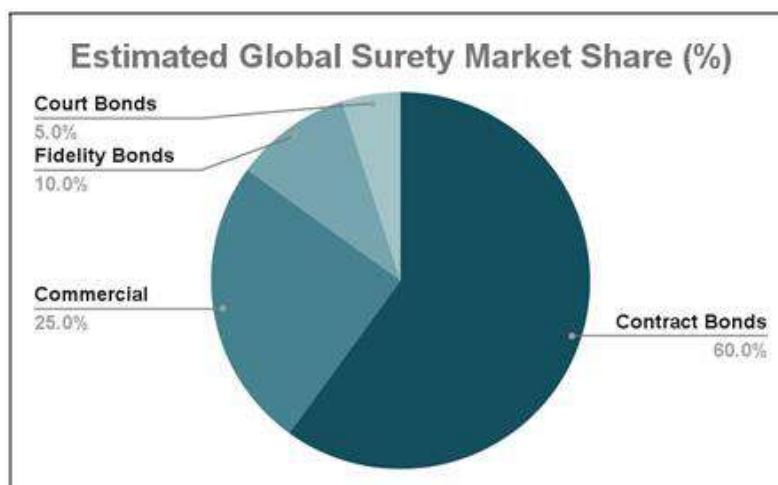


Source: Allied Market Research, "Surety Market Global Opportunity Analysis and Industry Forecast, 2021-2031"; Ministry of Finance, Government of India (for India data).¹

With a market size of \$7.5 billion, the United States is the clear global leader. It makes up almost 90% of the North American market and over 40% of the global market independently. This level of business is a direct consequence of the long-standing regulations that govern it, such as the Miller Act, which mandates surety bonds for public works, and the close link to the construction industry. In contrast, China (\$1.5 billion) and Germany (\$1 billion) are also major economies, but their markets are significantly smaller.

Most significantly for this study, the analysis demonstrates India's strong market entry. With a current market size of roughly \$0.80 billion⁵, India is not a minor participant but rather a substantial emerging market, on par with Japan's established market (\$0.65 billion) and akin to that of the United Kingdom (\$0.85 billion). This quantitative research provides a clear baseline: a mature, highly developed market in North America and Europe, alongside a dynamic landscape in Asia-Pacific, with India emerging as a notable new entrant. This context is critical for assessing the challenges and significant growth potential that India has as it expands its domestic surety business.

2) Identification of the dominant types of surety bonds in the global market in 2024.



Source: Allied Market Research, "Surety Market Global Opportunity Analysis and Industry Forecast, 2021-2031".¹

The pie chart above illustrates the composition of the \$18.20 billion global surety market by bond type in 2024. The data reveals a clear and fundamentally essential market structure: Contract Surety Bonds overwhelmingly dominate, accounting for an estimated 60% of the overall global market share.

This substantial majority is the most significant finding from the segmentation study. It emphasizes the primary purpose and economic driver of the global surety industry, which is its close interaction with the construction and infrastructure sectors. These bonds, which include bid and advance payment bonds, are critical financial tools for mitigating risk and ensuring project completion in large-scale construction. Other divisions, such as Commercial Bonds (25%) for regulatory compliance and Fidelity Bonds (10%), play vital roles, but their market share highlights their status as secondary purposes within the industry.

The finding has significant implications for India's strategic analysis. It establishes a clear global benchmark, indicating that India's policy of issuing surety bonds primarily to fund the National Infrastructure Pipeline aligns precisely with the established structure of the world's most mature and successful surety markets. It shows that focusing on infrastructure is more than a local concern; it represents the core economic model of the global surety sector, laying the groundwork for the Indian initiative's potential success.

3) Examination of the surety market's growth potential by comparing 2031 size estimations and the projected CAGR across regions and countries.

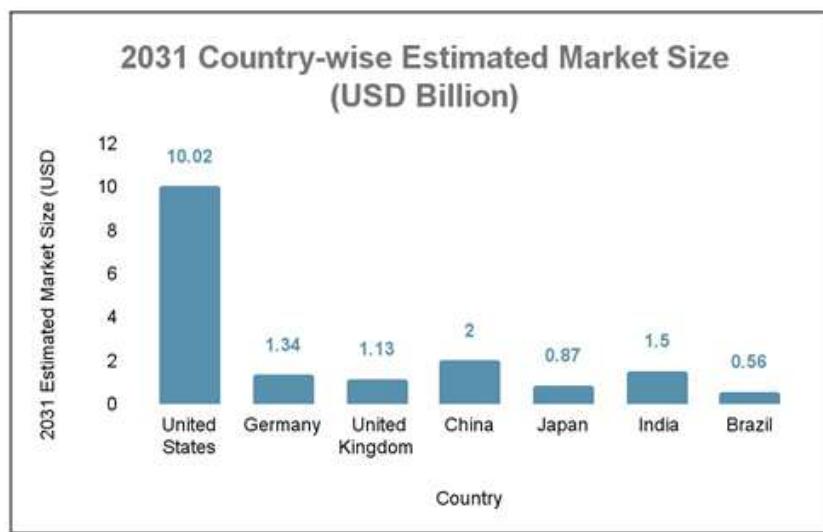


Source: Allied Market Research, "Surety Market Global Opportunity Analysis and Industry Forecast, 2021-2031".¹

Examining the growth potential of the surety industry reveals a dynamic and ever-evolving global marketplace. While the entire market is projected to grow significantly to \$24.4 billion by 2031, the drivers of this growth are not consistent worldwide. A comparative analysis of future market sizes and underlying growth rates illuminates emerging trends and the strategic positioning of major markets.

According to regional estimates for 2031, North America (\$11.39 billion) and Europe (\$7.05 billion) will continue to be the largest markets in absolute currency terms. However, Compound Annual Growth Rates (CAGR) provide the most insight into the underlying growth narrative. The Asia-Pacific region's expected CAGR is a world-leading 9.4%, surpassing the steady but moderate expansion of mature economies in North America and Europe. This indicates a clear trend: while established economies offer stability, Asia has the most rapid development and future potential.

The country-specific forecast graphic, presented below, provides a more detailed and compelling picture of this trend, particularly regarding India's strategic position.



Source: Allied Market Research, "Surety Market Global Opportunity Analysis and Industry Forecast, 2021-2031"¹; Ministry of Finance, Govt. of India (for India's 2024 base).⁵

The United States is expected to remain a behemoth, with its market expanding to \$10.02 billion. However, the most compelling tale is the growth of Asian markets. China's market is expected to grow to nearly \$2 billion. Most importantly for this report, India's market is projected to expand to \$1.50 billion.

This prognosis for India is the most significant discovery. It changes India from a new entrant in 2024 to a major market by 2031, placing it notably larger than the established economies like the United Kingdom (\$1.13 billion) and Japan's projected market (\$0.87 billion). The analysis reveals that India's high growth trajectory (9.4% CAGR) enables it to swiftly narrow the gap with older economies, establishing it as a crucial driver of future global growth in the surety industry.

4) Critical evaluation of the strategic positioning of India's nascent surety market by analyzing its key regulatory, legal, and commercial challenges in the context of the established global trends.

While quantitative data suggests significant expansion potential for India, the market's strategic position is now defined by substantial on-the-ground challenges that distinguish it from mature global markets. The government and the Insurance Regulatory and Development Authority of India (IRDAI) have established the necessary operating framework with the IRDAI (Surety Insurance Contracts) Guidelines, 2022³, and further amendments in 2023, which abolished premium and exposure restrictions⁴. Despite these enabling regulations, significant legal and business difficulties remain.

The primary hurdle is the legal position of surety providers under the Insolvency and Bankruptcy Code (IBC) of 2016¹¹. Unlike banks, which are recognized as secured financial creditors, insurers offering surety bonds are not treated similarly. This means that in the event of a contractor's bankruptcy, the insurer's ability to collect damages is unpredictable and subject to bank claims, posing a substantial risk. This legal ambiguity has a direct chilling effect on market capacity, as global reinsurers, crucial for financing high-value infrastructure projects, are hesitant to provide adequate support in the absence of stronger legal remedies.

This, in turn, presents a business quandary in which insurers must compete with well-established Bank Guarantees (BGs) while pricing their policies to reflect a much greater risk profile.

CONCLUSION

While India's surety market has created a substantial \$0.80 billion base in 2024, its journey to a projected \$1.50 billion by 2031 will involve overcoming underlying issues that distinguish it from developed markets. The key barriers include restrictive legislative frameworks under the IBC¹¹, a lack of reinsurance capacity¹², insufficient understanding with underwriting challenges, and fierce competition from traditional bank guarantees. However, these constraints are balanced by a strong government push for infrastructure development, as demonstrated by the ambitious \$1.4 trillion National Infrastructure Pipeline (NIP)¹³, as well as the product's inherent capital efficiency. This study finds that, despite initial challenges, the alignment of massive market demand with legislative objectives positions India's surety sector for a transformational and prosperous future.

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