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PSBA/Notice-257 **September 07, 2026**

NOTICE FOR MEMBERS

STRENGTHENING THE REGULATORY FRAMEWORK FOR CREDIT AND SURETYSHIP BUSINESS IN PAKISTAN

Dear Members,

This is in reference to the consultation paper dated September 04, 2026 (attached), whereby the SECP has invited the comments:

In this regard, the members are hereby requested to kindly submit your comments, if any, at psamail024@gmail.com latest by **October 01, 2026,** so that a consolidated response can be forwarded to the authorities for their consideration.

_______**sd**_________
AKBER ALI
Officer - Secretariat

Copy to:

1. PSBA Website

SECURITIES AND EXCHANGE
COMMISSION OF PAKISTAN

CONSULTATION PAPER ON STRENGTHENING THE REGULATORY FRAMEWORK FOR CREDIT AND SURETYSHIP BUSINESS IN PAKISTAN

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1 Executive Summary

1.1. Credit and suretyship business play an important role in supporting trade, infrastructure development, public procurement, customs operations, and commercial activity by providing financial guarantees and performance assurance mechanisms. In Pakistan, this segment primarily includes bid bonds, performance bonds, mobilization advance guarantees, customs guarantee, and travel-related bonds issued by insurers in favour of government and commercial beneficiaries.

1.2. The regulatory framework governing the credit and Suretyship business was introduced through the Credit and Suretyship (Conduct of Business) Rules, 2018, to strengthen regulatory oversight and enhance the protection to beneficiaries and policyholders. However, the increasing scale and complexity of bond/ guarantee contracts in the country, particularly in the construction and transit trade sectors, have highlighted the need for further strengthening of the regulatory and risk management framework. In particular, disputes relating to the interpretation and enforceability of guarantee obligations, especially in the case of unconditional guarantees, have in several instances resulted in delays in claim settlement and prolonged litigation. Such developments may adversely affect beneficiary confidence, create uncertainty regarding the timely honouring of guarantees, and underscore the need for clearer contractual standards, stronger claim-paying capacity, and more robust prudential safeguards within the sector.

1.3. This consultation paper provides an overview of international market practices, assesses the current landscape of the credit and suretyship market in Pakistan, identifies key operational and market challenges, and outlines the rationale for the proposed regulatory reforms.

1.4. The proposed reforms aim to strengthen the regulatory framework through enhanced solvency and reserving requirements, clearer contract documentation, mandatory indemnity arrangements, strengthened reinsurance support, and inclusion of credit and suretyship business within the restricted classes of insurance business under the Insurance Rules, 2017. The objective is to support the sound and sustainable development of the bond/ guarantee contracts business while ensuring adequate protection for policyholders, beneficiaries, and the overall insurance sector.

1.5. Through this public consultation process, the SECP seeks stakeholder feedback to help develop a balanced and effective regulatory framework aligned with the evolving needs of the Pakistani market

2 Background and objective of the report

2.1. The overall objective of this paper is to improve the regulatory framework of the bond/guarantee contracts business by insurers, through public consultation with an aim to enhance the soundness and sustainability of the credit and suretyship insurance market, improve protection for beneficiaries and policyholders, and facilitate the development of a more transparent, efficient, and internationally aligned regulatory framework for the credit and suretyship business in Pakistan.

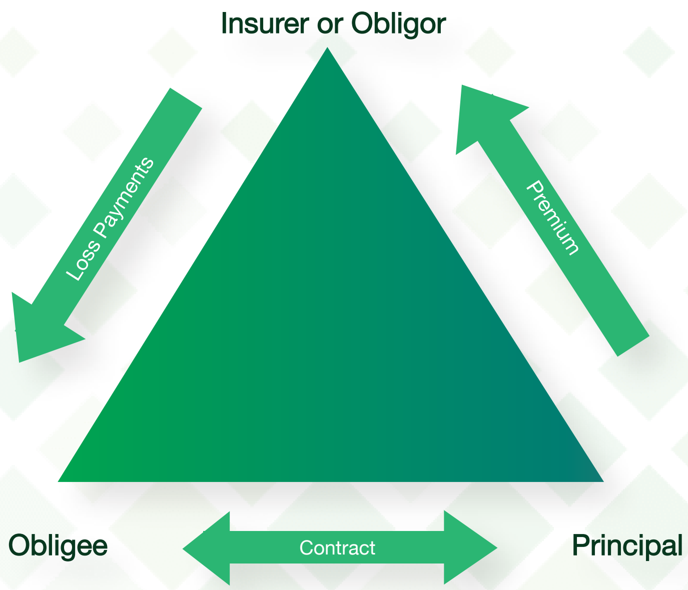
2.2. This paper has been formulated in the context of the recently proposed amendments issued by the SECP for public consultation through the relevant circulars. The paper provides the background, market analysis, key gaps and challenges, and the regulatory rationale underlying the proposed changes, including the need to strengthen governance, underwriting standards, risk management practices, disclosure requirements, and policyholder and beneficiary protection. In several instances, differing interpretations of guarantee terms, particularly in unconditional guarantees, have led to delays in claim settlement and prolonged litigation. This may lead to reduced beneficiary confidence, and reinforces the need for clearer contractual arrangements alongside stronger regulatory and risk management safeguards in the sector. This paper is intended to enable stakeholders to participate in a more informed and effective manner and to provide meaningful and constructive feedback on the proposed amendments.

3 Introduction: What are the surety bonds and their usage globally?

3.1. A surety bond is a promise to be liable for the debt, default, or failure of another. It is a three-party contract by which one party (the surety) guarantees the performance or obligations of a second party (the principal) to a third party (the obligee). When pursuing new project opportunities, businesses, regardless of size or complexity, contractors aim to present their capabilities in the best way possible. Despite an impressive track record and a solid balance sheet, project owners consistently seek guarantees regarding the completion of proposed work and the provision of appropriate compensation if agreements are not met. This need for assurance extends beyond the bidding stage, encompassing comprehensive security for advance payments, overall performance, warranties, and post-project maintenance.

3.2. Surety bonds and guarantees emerge as crucial instruments in addressing these requirements. These financial tools offer a commitment that a company will fulfil the terms outlined in a bond, fostering confidence and trust in the relationship between the contractor and the project owner, the beneficiary of the bond. Typically issued by insurance companies (either directly or through brokers) or by banks in the form of bank guarantees, surety bonds play a vital role in various industries.

3.3. While certain industries like construction and machinery frequently rely on surety bonds, they are also widely used in other sectors such as energy, logistics, and commodities. The necessity for different types of surety bonds at various project stages is evident, with bid, performance, warranty, and payment bonds being the most common. In substantial construction or infrastructure projects, a bank guarantee or surety bond often becomes a contractual requirement set by the project owner as a precondition for awarding a contract to a contractor. In the event of contract non-compliance, the bank or insurance company is summoned to fulfil the bond, ensuring the completion of the contractual obligation. This not only mitigates risks but also enhances the relationship between project owners and contractors, creating a more secure and trustworthy business environment.



3.4. The two basic types of surety bonds are:

- **Contract surety bond** which guarantees the performance of a bonded contractor. The primary type of contract bond includes Bid bonds, Performance bonds, Payment bonds and Maintenance bonds

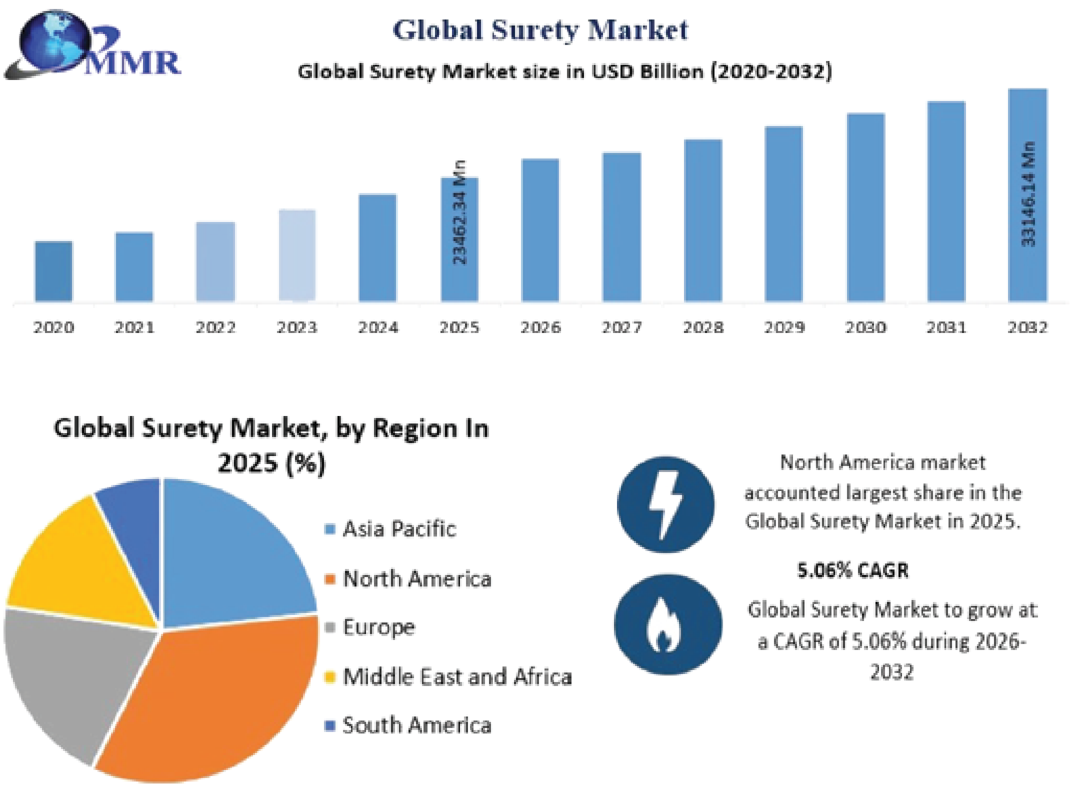
- **Commercial surety bond** Commercial surety bonds are bonds required by governments, courts, or other entities to ensure that a business complies with laws, regulations, contractual obligations, or licensing requirements etc. These types of surety bonds include customs or tax bonds, bonds concerning concessions or licenses, judicial bonds etc.

4 Global scale of surety market and salient feature of some of the international regimes

4.1. The Surety Market size was valued at USD 23.5 billion in 2025 and the total Surety revenue is expected to grow at 5.06% from 2025 to 2032, reaching nearly USD 33.1 billion by 2032.[1] The global market encompasses a substantial number of market players operating in it resulted in a fragmented global market. However, the market includes a selected number of prominent market players operating in it such as Travelers indemnity company, Liberty Mutual Insurance Company, the Hartford, Chubb and CAN Financial corporation with the considerable customer base and strong market position. At present the global surety market is dominated by the developed regions such as North America and Europe, accounting for more than 75% of surety business collectively. Factors such as aging infrastructure in developed countries and need for massive restoration and acceptance of Public Private Partnership model are contributing significant market share consolidation of the surety market companies in North America and Europe.

4.2. Based on end user, in 2025, the Construction segment leads the Surety Market, capturing the largest share mainly due to contract bonds for infrastructure and public works projects, fuelled by strong infrastructure investments. Automotive & Transport and Machinery & Equipment Manufacturers follow, driven by performance and supply guarantees in manufacturing and logistics. The IT & Telecommunications and Electronics sectors are growing due to increasing project-based contracts requiring surety. Chemical, Metal & Mining, and Food Industry industries contribute moderately through compliance and license bonding needs, while others—including healthcare, hospitality, and SME sectors—round out the market with smaller but steady demand.

Table 1: Global Surety business – Scale 2025



[1] MMR. Surety Market by Bond Type, End User, Industry and Region - Global Market Size Estimation, Industry-Wide Analysis, Competitive Landscape Assessment & Long-Term Forecast to 2032, January 2026.

Table 2: Global Surety business - Key segments and regions - 2025

Surety market Coverage		
Segments	By Bond Type	• Contract Surety Bond, Commercial Surety Bond, Fidelity Surety Bond, Court Surety Bond, Others
	By Industry	• IT & Telecommunications, Construction, Machinery & Equipment, Manufacturers, Chemical, Electronics, Food Industry, Metal & Mining, Automotive &Transport, Others
Regions	North America	• United States, Canada, and Mexico
	Europe	• UK, France, Germany, Italy, Spain, Sweden, Austria, and the Rest of Europe
	Asia Pacific	• China, South Korea, Japan, India, Australia, Indonesia, Malaysia, Vietnam, Taiwan, Bangladesh, Pakistan, and the Rest of APAC.
	Middle East and Africa	• South Africa, GCC, Egypt, Nigeria, and the Rest of ME&A
	South America	• Brazil, Argentina Rest of South America.

USA

4.3. In the United States, almost all surety bonds are written by insurance companies regularly engaged in the business of acting as a surety. Surety companies typically are authorized and qualified to do business by the state insurance commissioner. The state departments of insurance regulate surety companies, which must meet minimum capital requirements and file periodic financial reports in those jurisdictions where they are authorized to do business, and are subject to market conduct investigations, among other regulatory requirements and actions.

4.4. Law clearly provides for the subrogation rights of the insurers and general agreement for indemnification. The Surety pricing is primarily market driven, however, analytics from internal data and Industry organizations has emerged to supplement underwriting and the industry is slowly moving toward data driven decision making.

Brazil

4.5. In Brazil, Surety and Bank guarantee co-exist side by side and slowly surety is taking more prominent role in public projects. Surety providers in Brazil and in Latin America are also active beyond construction sector and in some parts, surety providers are cooperating with banks to provide back-to-back cover for risk that increase bank's capacity or business interest.

4.6. Performance bond can be equivalent up to 30% of the contract value in the country. Surety bond being an insurance product excludes acts generated by the beneficiary and also have force majeure exclusion. Indemnity agreement is executed as separate contract along with surety mandate and it is mandatory to have indemnity agreement. Indemnity agreement is linked to principal's contractual obligation and triggered with non-execution of the contract. The surety may have free access, supervise the execution of the main contract and attest to the conformity of the services and materials employed in the execution of the agreed terms, perform technical and accounting audits, and request clarification from the technical responsible for the work or the supply etc.

Mexico

4.7. Mexico has new Insurance and Surety Institutions Law also known as LISF, marking, amongst other things, a new regulatory framework on insurance surety law. The new law brings into play a new surety insurance product in Mexico called Insurance Bond merging insurance and surety products and blending the legal provisions that apply to both in a relatively revolutionary way. LISF expressly provides that surety insurance shall be recognized and accepted for guaranteeing obligations assumed with the Federal and Local Governments. Insurance companies that desire to offer surety insurance must operate as mono-line insurers. The only other product that may be underwritten by mono-line surety insurance companies is credit insurance. Under the Insurance Bond, the Insurer is bound up to the insured amount that is stipulated in the policy itself rather than the norm of a surety bond which is for the value of the main collateral agreement. A claim would be triggered by a breach of the provisions of the terms of the policy with recovery of a claim through the courts, as opposed to a breach of the main agreement.

UK

4.8. The United Kingdom has a well-established surety bond market, particularly in construction, infrastructure, public procurement, and commercial contracts. Surety bonds are issued by authorized insurers and are widely accepted as an alternative to bank guarantees. Unlike India, the UK does not have dedicated surety insurance regulations; instead, surety business is governed through contract law and insurance regulation. Surety insurers are regulated by the Prudential Regulation Authority and the Financial Conduct Authority and must comply with capital, solvency, governance, and risk-management requirements.

4.9. An indemnity agreement is a standard requirement in UK surety practice and provides the surety with rights of recourse against the principal, including recovery of claim payments and the right to request additional collateral where necessary. Sureties assess the contractor's financial strength, experience, and performance capability before issuing bonds. Most UK surety bonds are conditional, requiring the beneficiary to demonstrate contractor default before payment is made. The surety may rely on defences available under the underlying contract and investigate claims before settlement. After payment, the surety has the right to recover losses and expenses from the principal under the indemnity agreement.

Germany

4.10. The German Civil Code (BGB) regulates the Surety insurance business and Sureties in Germany are permitted to exclude Force Majeure events (Political risk, Terrorism Pandemic risks). The Surety insurance are legally equivalent to bank guarantees. In Germany, also due to the low percentage of the bond, the surety generally does not step into the contractor's rights to finish the obligation / project. Some sureties can take collaterals if the financials are poor or deteriorating and Premium is annual payable.

4.11. Indemnity agreement is must for any surety contract and indemnity agreement gives the right of recourse to the surety; the right to ask for further collateral; the right to cancel the line. Indemnity agreement is part of surety mandate. The beneficiary has to prove that the principal has defaulted on the underlying obligation. However, in case of accessory/conditional bond on first demand, the beneficiary here can call without having to prove the default of the principal, however due to the accessory/conditional character of the bond the surety has the right to claim back the amount unduly paid back from the beneficiary. In principle, the surety can oppose all defences which the principal has against the beneficiary. Additionally, he can object to pay out in case the principal has a right to refute the underlying contract or is able to offset the debt against another receivable due to him.

India

4.12. The regulatory framework for insurance surety bonds in India was established through the IRDAI (Surety Insurance Contracts) Guidelines, 2022. The guidelines formally allowed general insurers to underwrite surety bonds for the first time. This original framework permitted six categories of surety bonds, imposed a 30% single-contract exposure cap, limited surety premiums to 10% of gross written premium (GWP) or ₹500 crore (whichever was lower), required insurers to maintain solvency at 1.25 times the control level, and mandated board approval and regulatory reporting before commencing surety business.

4.13. In January 2023, IRDAI removed the premium cap for monoline surety insurers, enabling specialized surety insurers to expand their business without volume restrictions. In May 2023, IRDAI further relaxed the framework by removing the 30% single-contract exposure cap and reducing the solvency requirement from 1.25 times the control level to the standard control level. These amendments were aimed at increasing market participation, enhancing underwriting capacity, and making insurance surety bonds a more viable alternative to traditional bank guarantees.

4.14. The regulatory developments were consolidated through the IRDAI Master Circular on General Insurance Business issued in June 2024, which clarified that surety bonds could be used in all commercial contracts except financial guarantees and offshore transactions. The framework was further strengthened in September 2024 when the Department of Financial Services (DFS), Ministry of Finance directed all central government departments to accept insurance surety bonds issued by IRDAI-registered insurers. This transformed surety bonds from merely permissible instruments under public procurement rules into mandatory accepted forms of security, creating a supportive demand-side environment and reinforcing the commercial viability of the Indian surety insurance market.

5 The existing regulatory Framework in Pakistan

INSURERS

5.1. Credit and Suretyship business by insurer is regulated by SECP under the Insurance Ordinance, 2000 (the Ordinance). As per the Insurance Ordinance, 2000, credit and suretyship business is classified as a main class of non-life insurance business. The Ordinance defines “credit and suretyship business” to include:

I. *contracts of insurance against loss to the policyholder arising from the failure, whether through insolvency or otherwise, of debtors to pay debts when they fall due;(ii) contracts of*
II. *insurance against loss to the policyholder arising from the policyholder having to perform contracts of guarantee entered into by him; and*
III. *contracts for fidelity bonds, performance bonds, administration bonds, bail bonds, customs bonds, or similar contracts of guarantee.*

5.2. In Pakistan, the predominant form of credit and suretyship business currently undertaken by insurers primarily relates to guarantees and bonds falling under clause (iii) above. Accordingly, in 2018, the SECP introduced a specific regulatory framework governing guarantee business with the objective of strengthening prudential oversight and ensuring protection of policyholders and beneficiaries.

5.3. These rules define the types of guarantees and bonds that insurers are permitted to issue, including fidelity bonds, bid bonds, mobilization advance guarantees, payment bonds, performance bonds, administration bonds, bail bonds, customs bonds, and any other guarantees or bonds approved by the regulator. It also sets conditions for their classification, that require each to be clearly defined with an expiry date and a capped liability, and establishes that these are insurer-issued instruments rather than bank guarantees.

5.4. The framework was designed to limit the exposure undertaken by insurers in relation to guarantees issued by them by capping the per-risk exposure at 2.5% of the insurer’s equity. In addition, insurers were required to obtain specified forms of collateral in advance to ensure their ability to honour guarantees in the event of invocation. The framework also introduced annual reporting requirements whereby insurers were required to submit the status of each guarantee issued by them to the Commission.

5.5. Subsequently, in 2022, the regulatory framework was further amended to strengthen risk management and improve operational efficiency within the sector. Insurers have been required to develop and implement risk assessment mechanisms for evaluating the technical capability and financial strength of persons on whose behalf bonds or guarantees are issued. Furthermore, the amendments also reduced the minimum cash collateral requirement to 10% of the bond value and linked it to the gross sum insured.

BANKS (BANK GUARANTEES)

5.6. Bond and guarantee contracts issued by Banks are governed by the State Bank of Pakistan (SBP). The guarantee requirements for banks/DFIs are described by Prudential Regulation mainly R-7, which mandates full security except for certain specified cases. It also sets conditions for issuing guarantees based on counter-guarantees from rated banks. The exposure limits for guarantees are defined under Prudential Regulation R-2, which caps contingent liabilities at 10 times the bank's equity, with bid/mobilization/performance bonds weighted at 50%. The single obligor limit is 20% and group exposure is 25% of the equity.

5.7. A detailed comparison of the differences in the regulatory framework of bank guarantees and bonds/guarantee contracts by insurers is given in the table below:

Table 3: Comparison of regulatory framework in Pakistan for contracts of bonds/ guarantees issued by insurers and bank guarantees

Sr	Area	Bank Guarantees	Bond/ guarantee contracts
1	**Applicable Framework**	Prudential regulation by SBP	Credit and Suretyship (Conduct of Business Rules), 2018 by SECP
2	**Secured/ Unsecured**	**All guarantees** issued by banks/DFIs shall be fully secured.	There is **no requirement for the guarantees to be fully secured.**
3	**Collateral requirements**	There is **no specific requirement for obtaining liquid collateral.**	**An insurer shall procure cash/ liquid collateral** in case of guarantees/bonds of **an amount equivalent to at least 10% of the sum insured** / amount of bond/guarantee
4	**Definition of Secured/ collateral**	The definition of "secured" is significantly broad. Banks accept a wide range of collateral including items such as as pledged stocks, mortgages on fixed assets, hypothecation of receivables etc. The definition covers the following: • Liquid assets like cash. • Pledged stock or inventory. • Mortgages on land, plant, buildings, machinery, and other fixed assets. • Hypothecation of stock, assignment of receivables, lease rentals, and contract receivables. • Generally, household goods are excluded as acceptable collateral. Guarantees may be issued against back-to-back/counter-guarantees of banks/DFIs rated at least 'A' or equivalent. For local counter-guarantees, the local credit rating applies; for foreign counter-guarantees, the international credit rating applies	The insurer's definition of collateral is restrictive. It allows only cash and liquid assets as collateral. The definition includes: • Cash that is readily available and circulates as money. • Bearer bonds (negotiable instruments). • Approved security as defined in the Ordinance. • Liquid assets pledged with the insurer. • Any other security approved by the Commission. • Back-to-back / counter-guarantees of banks/DFIs/NBFIs rated at least 'A' or equivalent

Sr	Area	Bank Guarantees	Bond/ guarantee contracts
5	**Aggregate exposure limit**	For bid/mobilization advance/ performance bonds exposure limit: 20 times **of the equity of the Bank/DFI**	The **aggregate net retained exposure on all outstanding and in-force guarantees/bonds shall not exceed the greater of 100% of the shareholders equity** or such other percentage as the Commission may notify. from time to time through notification.
6	**Limit of exposure per party**	**The limit for a single obligor is 20% of a bank's/DFI's equity and for an obligor group is 25% of a bank's/DFI's equity.**	An **insurer's net retained exposure under any type of guarantee / bond** issued by the insurer to a party or a group **shall not exceed 2.5 percent of the insurer's shareholders' equity** as per the latest available audited accounts of the insurer on the date of issuance of a guarantee/bond.

6 Comparison between bank guarantees and surety bonds by insurers and why Surety bonds are the preferred option - Global perspective

6.1. According to the International Credit Insurance & Surety Association (ICISA), Surety bonds are typically conditional whereas bank guarantees are paid on demand. There are certainly surety bonds that are also paid on demand. Although in many countries, banks have been traditionally used for guarantees, the bond provided by surety companies has proven equally acceptable.

6.2. A demand guarantee (or unconditional guarantee) is typically issued by a bank and operates as a two-party undertaking between the bank and the beneficiary, requiring payment upon demand regardless of disputes under the underlying contract. In contrast, a suretyship guarantee (surety bond) is a three-party arrangement involving the contractor, the beneficiary, and the surety, under which the surety becomes liable only if the contractor defaults on its contractual obligations.

6.3. Bank guarantees and surety bonds both serve as financial security instruments that assure project owners or beneficiaries that contractual obligations will be fulfilled; however, they differ significantly in their structure, risk allocation, and financial implications. Bank guarantees are issued by financial institutions and are generally unconditional, requiring the bank to make payment upon demand by the beneficiary, regardless of any dispute between the contracting parties. In contrast, surety bonds are issued by specialized surety or insurance companies and are conditional in nature, requiring evidence of contractor default before the surety becomes liable. Furthermore, bank guarantees typically require collateral, personal guarantees, or the utilization of existing credit facilities, thereby reducing a contractor's available borrowing capacity and working capital. Surety bonds, on the other hand, are underwritten based on the contractor's financial strength, experience, and performance capability, and generally do not consume bank credit lines.

6.4. The following are the key advantages of surety bonds that make them a preferred choice for business as compared to bank guarantees.

RELEASING LIQUIDITY

Surety bonds from insurers release greater liquidity for the business. By not using a bank facility, the existing bank credit lines are not stretched, and that typically frees up liquidity for other activities: to tender for further business, to invest in capital equipment, meet ongoing payment obligations, and more.

APPETITE FOR GREATER RISK

A bank's maximum guarantee capacity is typically determined by the value of collateral or security provided by the contractor, such as cash deposits, mortgages, or other pledged assets, which limits the amount of credit the bank is willing to extend. In contrast, insurance-backed surety providers generally do not rely on hard collateral, instead assessing the contractor's financial strength, operational capability, track record, and overall creditworthiness. This enables surety providers to support larger bonding capacities while preserving the contractor's liquidity and borrowing facilities.

LONGER PROJECT HORIZONS

For a project that could run for several years, a surety bond from an insurer is likely to be the best approach. Banks are more inclined to issue guarantees up to five years; beyond that, such a long-term bank guarantee is likely to require extended due diligence, security and greater capital costs.

7 Landscape of credit and suretyship insurance in Pakistan

7.1. In the year 2025, approximately 19 non-life insurance companies were engaged in the bonds/ guarantee contracts business. Notably, the majority of this business, accounting for 98%, was underwritten by 7 companies. The key players, including United, EFU, Shaheen, East and West, TPL and Alfalah each recorded gross written premium approximately 40 million and above. Collectively, these 7 major players hold a substantial market share, which underscores their significant presence and influence in the sector.

7.2. United Insurance is the market leader in the terms of gross premium with 60% market share and its C&S is approx. 10% of its total business. Similarly, in terms of volume of business United Insurance has 52 % share in the market. Overall, there has been a significant decline in the number of bonds and guarantees issued over the last three years, primarily due to a restriction on insurance bonds and guarantees in transit trade and restrictive business by some major players. However, in terms of premium, there has been no material change, largely attributable to general price increases and more prudent underwriting practices by insurers.

Table 4 : The credit and suretyship business by the Pakistan insurance Industry 2023-25 – key statistics

Year	Number of guarantees/ bonds issued	Sum insured Amount (PKR -millions)	Gross Premium Written Amount (PKR - millions)	Claim paid	
				Number	Amount PKR millions
2023	67,385	602,740	1,765	71	571
2024	46,460	323,445	2,011	89	948
2025	15,020	319,348	2,073	186	1,155

Table 5 : The credit and suretyship business by the Pakistan insurance Industry 2023-25 – Key ratios

Year	Premium rate	Claim ratio*	Claim incidence ratio**
2023	0.29%	32%	0.30%
2024	0.62%	47%	0.65%
2025	0.65%	56%	2.95%

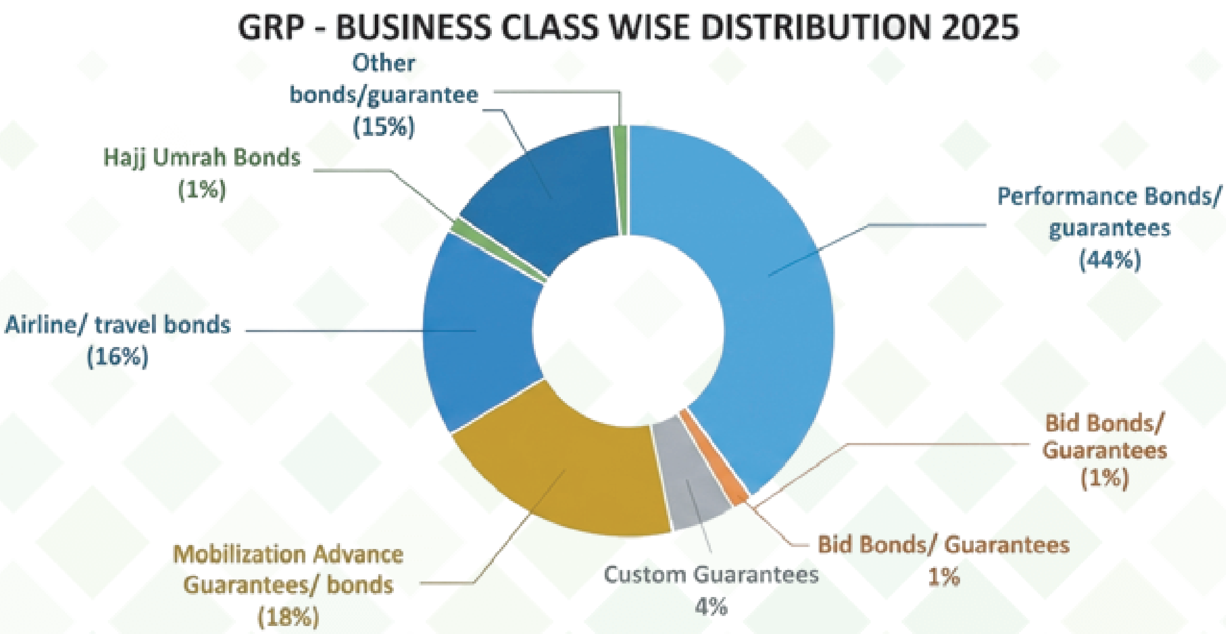
* (Claims Paid ÷ gross written premium) × 100
** (Number of claims paid ÷ Number of bonds/ guarantees issued) x 100

Table 6 : Details of claims for the Credit and Suretyship Business for the years 2023-25

Years	Claims Paid		Claims Outstanding		Claims Under Litigation	
	Number	Amount (PKR-millions)	Number	Amount (PKR-millions)	Number	Amount (PKR-millions)
2023	71	571	133	3,689	120	3,169
2024	89	948	214	3,299	107	2,675
2025	186	1,155	256	2,922	136	2,680

Table 7 : Business class wise details of Credit and Suretyship Business for the years 2023-25

	2023			2024			2025		
	Number of guarantees / bonds issued	Sum insured Amount PKR (millions)	Gross Premium Written Amount PKR (millions)	Number of guarantees/ bonds issued	Sum insured Amount PKR (millions)	Gross Premium Written Amount PKR (millions)	Number of guarantees/ bonds issued	Sum insured Amount PKR (millions)	Gross Premium Written Amount PKR (millions)
Performance Bonds/ guarantees	8,606	76,244	552	8,629	83,511	502	4,806	125,416	902
Bid Bonds/ Guarantees	2,740	13,328	42	1,115	5,887	19	698	7,428	23
Custom Guarantees	50,209	420,195	186	27,271	85,852	50	2,468	29,220	77
Mobilization advance guarantees/ bonds	2,223	54,796	275	2,327	62,420	293	1,459	78,741	395
Airline/ travel bonds	1,704	27,900	560	2,236	41,799	604	2,683	24,495	338
Hajj Umrah Bonds	847	6,628	74	360	5,816	31	107	9,429	12
Othersbonds/ guarantee	1,056	3,649	58	4,522	38,210	513	2,799	44,619	326
Total	**67,385**	**602,740**	**1,765**	**46,460**	**323,445**	**2,011**	**15,020**	**319,348**	**2,073**



7.3. In Pakistan, the following are the main categories of guarantees and bonds:

BID BONDS, PERFORMANCE BONDS, AND MOBILIZATION ADVANCE GUARANTEES

Bid bonds ensure that contractors will enter into a contract if their bid is accepted. For Government beneficiaries, these bonds are required under PPRA Rules, with a bid security limit of up to 5% of the estimated procurement value.

Performance bonds guarantee that a contractor will complete a project as per contract terms. PPRA rules require performance guarantees of up to 10% of the contract amount.

Mobilization/advance payment guarantees protect government agencies against contractor default on advance payments made for executing the projects.

Main beneficiaries of these bonds and guarantees are government organizations including NHA, WAPDA, SNGPL, OGRA, FWO, NLC and various ministries in Federal and Provincial governments, etc

CUSTOM BONDS

Custom guarantees enable Pakistan Customs to recover amounts due from the principal, up to the guaranteed amount, if the principal defaults. They are commonly used to secure customs duties, compliance with re-export conditions for temporarily imported goods, bonded carriers, revolving guarantees for transport operators, Transport International Routers (TIR) operations, and duty-free import schemes under the Customs Rules, 2001. Recent reforms under the Afghanistan–Pakistan Transit Trade Agreement (APTTA) and the Azerbaijan–Pakistan Transit Trade Rules, 2024 are expected to increase demand for insurance guarantees as financial security for transit goods. SRO 1396(I)/2023 introduced financial security requirements in the form of bank guarantees for Afghan transit cargo, However, the Economic Coordination Committee (ECC) approved the use of insurance guarantees in place of bank guarantees for DAP imports through Gwadar Port under APTTA in January 2025. Although restrictions on insurers in certain guarantee arrangements reflect risk-management concerns, limiting insurers' participation is not a sustainable long-term approach, as it reduces competition, constrains market development, and limits alternative financial security instruments that facilitate trade.

IATA AND HAJJ AND UMRAH TRAVEL BONDS

These bonds serve as financial guarantees for travel agents ensuring their obligation to the International Air Transport Association (IATA) or airlines for the payment of issued tickets. The Ministry of Religious Affairs and Interfaith Harmonization also requires Hajj and Umrah operators to seek guarantees for their obligations for Hajj and Umrah travels.

7.4. The majority of the bid bonds, mobilization advance and performance bonds are related to construction business, whereby the requirements of the beneficiaries is for unconditional guarantee or bank guarantee. Major claim incidence is in the categories of performance bonds and mobilization advances.

7.5. Out of 256 outstanding claims as of December 31, 2025, court cases were initiated against 136 cases by the contractors, obtaining stay from the court not to invoke guarantee against them. Insurance companies are also made party to such cases.

8 Major issues highlighted in the industry

Lack of clarity in terms and conditions of bonds and guarantee contracts

8.1. The majority of the performance bonds and mobilization advance guarantee contracts in Pakistan relate to the construction sector, where beneficiaries generally require unconditional insurance guarantees or bank guarantees to ensure immediate enforceability in the event of contractor default. However, in practice, in a few instances policy documents simultaneously describe these guarantees as unconditional while also incorporating clauses subjecting disputes or payment obligations to arbitration or assessment of contractual breach. Such contradictory provisions create uncertainty regarding the true nature of the instrument and frequently lead to disputes at the claim stage, particularly where the insurer or guarantor seeks to assess the contractor's default before making payment.

8.2. In the Pakistani market, there is a prevailing perception that all the guarantees and bonds contracts operate on an unconditional basis, primarily due to the long-standing treatment of bank guarantees. Nevertheless, Insurance guarantees may contain conditional elements requiring fulfilment of specified contractual conditions before payment can be enforced. In such cases involving contractor performance shortfalls, insurers may seek to determine whether the underlying contractual obligations and conditions precedent have been satisfied prior to honouring the claim.

8.3. It is now a well-established principle of law that a bank or insurance guarantee containing an unconditional and absolute undertaking to pay constitutes an independent contract, separate and distinct from the underlying agreement between the parties. Consequently, the guarantor is legally bound to honour its obligations under the guarantee strictly in accordance with its terms, irrespective of any dispute concerning the performance or alleged breach of the primary contract. For instance, the Honourable Supreme Court in its judgment dated 16 February 2021 passed in CPLA Nos. 3209 and 3359 of 2020, wherein the Court categorically held that the guarantor must discharge its obligations under the contract of guarantee independently of any dispute relating to the underlying contract. In paragraph 5 of the judgment, the Honourable Supreme Court observed that a bank or insurance guarantee containing a categorical undertaking imposing an absolute obligation upon the guarantor to pay the guaranteed amount is an independent contract, and the guarantor is bound to honour the same in accordance with its terms. In the said order, the Court further reaffirmed this principle by relying upon its earlier judgment in National Construction Ltd. v. Aiwan-e-Iqbal Authority (PLD 1994 SC 311), wherein it upheld the refusal of the courts below to restrain the encashment of an unconditional bank guarantee.

8.4. Accordingly, there is a clear need for guarantee and bond contract documentation to expressly, clearly, and consistently define whether the instrument is unconditional or conditional in nature. Where a guarantee is intended to be unconditional, it is of utmost importance that the contract and related security documents do not contain contradictory provisions permitting reassessment of liability, arbitration or adjudication of payment entitlement, or evaluation of contractor default prior to payment. The beneficiary should be clearly designated as the sole judge of whether a default has occurred under the contract and, upon such determination, be entitled to invoke the guarantee accordingly. Beneficiaries shall also ensure that the underlying contract, guarantee, and ancillary documentation are aligned and consistently drafted so as to avoid ambiguity, reduce disputes, and ensure certainty in claim handling and enforcement within the Pakistani market

Credit and Suretyship Business is not classified as restrictive business

8.5. Currently, the credit and suretyship business is not included as a restrictive class of business as per Insurance Rules, 2017 which results in allowing all insurance companies to undertake credit and suretyship business.

8.6. Surety underwriting is a critical process particularly in the context of providing bonds and guarantees for large value complex construction projects. Underwriters in the surety business needs to assess the risk associated with issuing bonds by the contractor's financial strength to gauge their liquidity, solvency, and overall financial stability. Additionally, underwriters need to delve into the contractor's track record, examining past projects, performance history, and adherence to contractual obligations. The underwriting process also involves a comprehensive evaluation of the specific project risks, considering factors such as project size, complexity, and contractual terms to determine the appropriateness of issuing a surety bond.

8.7. Under the current regulatory framework, several classes of business, including motor third-party compulsory business, workers' compensation business, accident and health business, proportional treaty business, and non-proportional treaty business, are designated as restricted classes of business. Such classification enables the regulator to specifically assess and determine, at the licensing stage, whether an insurer possesses the requisite financial capacity, technical expertise, governance framework, and operational capability to undertake such business.

In this context, credit and suretyship business should likewise be designated as a restricted class of business under the regulatory framework. Given the specialised nature and risk profile of such business, this classification would enable the regulator to undertake enhanced scrutiny of insurers seeking to conduct these operations, including assessment of their financial strength, underwriting expertise, risk management systems, and reinsurance arrangements.

Lack of proper tool for legal recourse

8.8. By virtue of Section 145 of the Contract Act, 1872, a guarantor or surety is inherently entitled to indemnification, as every contract of guarantee carries an implied promise by the principal debtor to indemnify the surety for all sums rightfully paid under the guarantee. Further, insurance companies issuing guarantees, performance bonds, or mobilization advance guarantees generally obtain securities from the principal debtor in order to secure the guaranteed amount. Section 141 of the Contract Act, 1872 further provides that a guarantor or surety is entitled to the benefit of every security held by the creditor against the principal debtor at the time the contract of suretyship is entered into, irrespective of whether the surety was aware of such security. If the creditor loses or parts with such security without the consent of the surety, the surety stands discharged to the extent of the value of the security so lost.

In many developed markets, including the USA and Germany, these rights are further strengthened through separate Surety-based Indemnity Agreements executed between the contractor/principal and the surety insurer. Such agreements expressly provide for indemnification, reimbursement, collateral enforcement, and subrogation rights in favor of the insurer in the event the insurer is required to honor a guarantee or bond. These agreements enable the insurer, after payment of a claim, to step into the shoes of the beneficiary and pursue recovery against the contractor or other responsible parties.

8.9. However, in Pakistan, there is generally no separate standardized indemnity agreement executed between the parties specifically governing indemnification and recovery rights in credit and suretyship business. Instead, insurers primarily rely upon the implied indemnity protections available under Sections 141 and 145 of the Contract Act, 1872, together with securities obtained from the principal debtor such as cash margins, counter guarantees, promissory notes, undated cheques, and mortgaged properties. The absence of a dedicated and standardized indemnity framework may create practical difficulties in recovery, subrogation enforcement, and claim settlement, particularly in cases involving disputed contractor default and prolonged litigation.

8.10. Under the current regulatory framework, several classes of business, including motor third-party compulsory business, workers' compensation business, accident and health business, proportional treaty business, and non-proportional treaty business, are designated as restricted classes of business. Such classification enables the regulator to specifically assess and determine, at the licensing stage, whether an insurer possesses the requisite financial capacity, technical expertise, governance framework, and operational capability to undertake such business.

8.11. In this context, credit and suretyship business should likewise be designated as a restricted class of business under the regulatory framework. Given the specialised nature and risk profile of such business, this classification would enable the regulator to undertake enhanced scrutiny of insurers seeking to conduct these operations, including assessment of their financial strength, underwriting expertise, risk management systems, and reinsurance arrangements.

Limited Claim Payment Capacity and the Need for Financial Strengthening

8.12. Bond and guarantee claim often involve large exposure values. Unlike banks, which commonly secure guarantees through substantial collateral arrangements, insurers in Pakistan issue guarantees with relatively lower levels of security hereby increasing exposure risk in the event of default or invocation. As per law, the minimum cash deposit is at least 10% of sum insured. In cases involving multiple high-value claims, this may place considerable pressure on insurers' liquidity and solvency positions. Accordingly, insurers undertaking credit and suretyship business should possess strong solvency positions and adequate capital resources, to ensure timely payment of valid claims and effective management of guarantee exposures. However, there are no specific additional capital adequacy or solvency margin requirements applicable to insurers undertaking credit and suretyship business.

Limited Claim Payment Capacity and the Need for Financial Strengthening

8.13. Reinsurance arrangements play a critical role in enhancing claim-paying capacity. Appropriately structured reinsurance, whether proportional or excess of loss, can help absorb large claim shocks, reduce net retention, and stabilize liquidity during periods of high claim activity. However, reinsurance must be properly designed, secured, and enforceable, with clear documentation and timely recoverability, to be effective in supporting claim settlements.

8.14. Further, another key requirement is to strengthened technical provisioning, particularly the maintenance of full or adequately conservative claim reserves in insurers' books. Where claims are disputed or subject to litigation, insurers should ensure that provisions reflect the worst-case exposure, rather than relying on expected recovery outcomes. This improves financial transparency and ensures that capital is not overstated during periods of uncertainty.

8.15. Accordingly, for strengthening claim-paying capacity in this segment there is a need for a combined approach involving adequate full provisioning for disputed claims, adequate reinsurance support and solvency margins and prudent net retention management.

Pending court cases and need for Strengthening the judiciary mechanism

8.16. As discussed in section 7 above, out of the outstanding claims, majority of the cases are pending court adjudication. Strengthening the capabilities of courts to effectively address cases related to bonds and guaranteed contracts business is paramount for ensuring a fair and efficient legal framework. The implementation of dedicated court divisions or specialized courts can contribute to expediting the resolution of such cases. This specialization can lead to more consistent rulings, reduced case backlog, and improved overall efficiency in addressing disputes related to surety bonds.

9 The proposed regulatory changes in the Credit and Suretyship Rules, 2018 and Insurance Rules, 2017

9.1. In light of the evolving landscape of Credit and Suretyship (C&S) business and the need to strengthen prudential safeguards, market discipline, contractual clarity, and policyholder protection, the Commission is considering certain amendments to the Credit and Suretyship Rules, 2018 and the Insurance Rules, 2017. These proposed amendments are aimed at enhancing legal certainty in bond/guarantee contracts, strengthening insurers' financial resilience, ensuring sound underwriting and reserving practices, and promoting the sustainable development of the Credit and Suretyship insurance market. The key proposed amendments are as under;

Restriction on using ambiguous and conflicting terms in bonds/ guarantee contracts

9.2. It is proposed to require all bond and guarantee contracts to clearly define and document their terms and conditions to ensure clarity regarding the obligations and liabilities of all stakeholders. In particular, contracts may be required to explicitly specify whether the bond or guarantee is payable on the beneficiary's first demand without requiring proof of contractor default, along with a clear confirmation of the insurer's obligation to honor such demand without conflicting qualifications. Conversely, where payment is conditional upon proof of default, the contract may be required to expressly state such condition and prescribe a transparent mechanism for determination and verification of default. It is further proposed to prohibit contradictory or inconsistent clauses that may create ambiguity in interpretation or enforcement.

C & S Business to be included in restrictive classes of business

9.3. It is proposed to amend Rule 5 of the Insurance Rules, 2017 to include Credit and Suretyship Business within the scope of restricted classes of insurance business. The objective is to enable the Commission to impose entry barrier for insurers seeking to undertake such business, including minimum financial strength, operational capacity, expertise, governance arrangements, and risk management standards, considering the specialized nature and risk profile of the business.

Enhanced solvency margin requirement for bonds/ guarantee contracts business

9.4. To strengthen prudential safeguards and ensure that only financially sound insurers undertake bond and guarantee business, it is proposed to require insurers underwriting such business to maintain, at all times, an enhanced solvency margin equal to 1.5 times the solvency margin prescribed under Section 36 of the Ordinance or an amount equivalent to the minimum paid-up capital requirement for non-life insurers under Section 28(2) of the Ordinance, whichever is higher. It is further proposed that insurers falling below the enhanced solvency threshold shall cease underwriting new bond and guarantee business until the required solvency level is restored.

Reserving against unconditional guarantee claims

9.5. It is proposed to require insurers to maintain full reserves in their financial statements against all reported and outstanding claims arising from unconditional bond or guarantee contracts, including claims under litigation or investigation, where payment obligations remain enforceable irrespective of underlying disputes. This measure is intended to ensure adequate financial provisioning and accurate reflection of liabilities in solvency assessments.

Adequate reinsurance arrangement

9.6. It is proposed to mandate insurers undertaking Credit and Suretyship business to establish adequate treaty reinsurance arrangements commensurate with the size, nature, and risk exposure of their bond and guarantee portfolio, to strengthen risk absorption capacity and mitigate concentration risk.

Mandating indemnification agreement

9.7. It is proposed to require insurers to enter into indemnification agreements with contractors/principals for each bond or guarantee contract to strengthen legal recourse mechanisms and improve recoverability in the event of claims payments.

Adequate pricing

9.8. It is proposed to require that bond and guarantee contracts be priced on a prudent and risk-based basis, reflecting the underlying risk exposure and aligned with sound actuarial and underwriting principles. Pricing may be required to adequately account for expected claims, expense loading, reinsurance costs, capital costs, and a reasonable margin for sustainability and profitability.

10 Feedback and Public Consultation

10.1. The SECP invites all interested stakeholders, including, insurers, industry associations, professional bodies, policyholders, and members of the public, to review this Concept Paper and provide written comments and recommendations on the issues and potential reform areas identified herein.

10.2. Stakeholders are particularly encouraged to provide practical, evidence-based views on the identified challenges, proposed policy directions, implementation considerations, and any alternative regulatory approaches that may better address the issues highlighted. Comparative insights and international experiences relevant to the Pakistani market context are also welcomed.

10.3. The feedback received will guide the Commission on further assessment of the proposed policy directions and assist in determining the most appropriate regulatory approach. Following this initial consultation and internal review process, the Commission may finalize amendments to the Credit and Suretyship (Conduct of Business) Rules, 2018, and the Insurance Rules, 2017.

Consultation Period	30 days from the date of publication of this Concept Paper
Submission Format	Written comments submitted by email or post
Contact – Insurance Division	Ms. Shazia Rehman, Joint Director, Insurance Division Securities and Exchange Commission of Pakistan NIC Building, Jinnah Avenue, Blue Area, Islamabad www.secp.gov.pk

10.4. The SECP is committed to an open, transparent, and consultative regulatory process. All stakeholder feedback will be carefully reviewed and considered in shaping the future regulatory framework for insurance surveyors in Pakistan.

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