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Banks to be liable for the insurance they sell

Irdai chief T S Vijayan says intermediaries should work in the best interest of insurance policyholders

BS REPORTER
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The Insurance Regulatory and Development Authority of India (Irdai) is set to make corporate agents, including banks and their employees, liable for all insurance policies they sell. On Thursday, Irdai Chairman T S Vijayan said the regulator would consider corporate agents an intermediary, which would benefit the customer.

As of now, corporate agents are considered entities working on behalf of an insurance company, a distributor of its products. An insurance broker, on the other hand, sells products of multiple insurers. While an insurance broker can be held liable for the sale of an insurance product, agents can't.

Currently, banks act as corporate agents through bancassurance agreements with insurance companies. As corporate agents, banks were earlier allowed to sell policies of one life, one non-life and one standalone health insurer. Now, they can sell the products of three life, three non-life and three standalone health insurers.

Banks are the largest distributors of private life insurers' channel mix, accounting for 43.6 per cent of the sales.

"If there is a complaint, Irdai should have ready-made access to the record as to which person in the bank (or corporate agency) sold the policy. We will implement this in due course," Vijayan said at an event here. He added intermediaries should work in the best interest of customers and be responsible for all their sales.

INSURANCE JVs

SBI Life
- State Bank of India: 74%

IDBI Federal Life
- IDBI bank 48%
- Federal Bank 26%

Star Union Dai-ichi Life
- Bank of India 48%
- Union Bank 26%

IndiaFirst Life Insurance
- Bank of Baroda 44%
- Andhra Bank 30%

PNB MetLife
- Punjab National Bank 30%
- Jammu & Kashmir Bank 5%

ICICI Prudential Life
- ICICI Bank 74% (73.7%)

Canara HSBC OBC Life
- Canara Bank 51%
- OBC holds 23%

Kotak Life Insurance
Kotak Bank 74%

"We noticed banks did not have much of an idea of the policies being procured through their network. This loophole is being plugged so that whenever there is any complaint, we can ask the bank to respond."

Amitabh Chaudhry, managing director and chief executive of HDFC Life, said banks would now have to handle complaints. "According to the new norms, banks will be liable for the policies they sell. This is the cost they will pay for being corporate agents and they will be expected to take onus and ownership of the sales," he said.

Narendra Ganpule, partner, Ernst & Young, said, "This is a clear signal for agents — they will not be able to take the responsibility lightly." He added this wouldn't result in a volume slowdown for banks.

A senior public sector bank executive, however, said, "There will be an impact on the volumes in the short term." Banks would have to build a cadre of employees to sell insurance products, which would come at a cost, he added.

While the Reserve Bank of India and Irdai have allowed banks to become insurance brokers, none have been eager because if in that case, they will be liable for all the policies sold. Bankers have said they don't want to be liable for the policies, as this isn't their core business.

Turn to Page 16 ›

IndiaFirst LIFE INSURANCE

FROM PAGE 1

Banks to be liable for...

According to the Insurance Amendment Act, 2015, an 'intermediary' or an 'insurance intermediary' refers to insurance brokers, re-insurance brokers, insurance consultants, corporate agents, third-party administrator, surveyors, loss assessors and other such entities. Vijayan said in line with the Act, corporate agents were being made liable.

This means banks have to ensure no product/policy is sold without proper disclosures about its features or to a person who doesn't require it.

A report by the Confederation of Indian Industry and EY in August said with other channels struggling to match the new realities after the 2010 changes, bancassurance was the only major channel that performed favourably. A captive customer base, strong brand recognition, the ability to sell insurance as an add-on with other banking products and a rapidly expanding branch network allowed private banks to scale up their insurance business.

It said in FY15, bancassurance-dominated insurers had performed well, owing to the increased adoption of insurance through an expanding private bank branch network (the top three private banks increased their combined branch count from 4,700 in March 2010 to 10,653 in March 2015).

Irdai will also seek certificates from the chief executive and the chief financial officer of corporate agents (including banks), stating there's no forced selling of insurance products to customers. This will be on the lines of the commission/remuneration received by these banks and other corporate agents, usually disclosed on a quarterly basis.

Anup Rau, chief executive, Reliance Life, said as banks were large institutions, they had to be accountable for sales. "It is a good move by Irdai. As large institutions, banks have to effectively manage the sales of insurance products. It is a positive move to fix accountability on them," he said.