

# Why FinMin wants public sector lenders to rush into selling insurance

M SARASWATHY & MANOJIT SAHA  
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Close on the heels of the Reserve Bank of India (RBI) releasing draft guidelines on banks acting as insurance brokers, the finance ministry has issued instructions to public sector banks to become insurance brokers.

The move comes even before the final guidelines are released. The central bank had sought feedback on the draft norms, the deadline of which was December 31.

The finance ministry, in a letter to public sector bank chief executives, asked, "Public sector banks may join the insurance broking business in order to increase insurance penetration and avoid mis-selling on insurance products."

Banks have been asked to send the progress report to the secretary, financial services, the finance ministry, by January 31.

Why is the finance ministry asking banks to open broking shops? Bankers said, one of the reasons might be the non-performing asset (NPA) norms. In the draft guidelines, one of the eligibility criteria is that, the net non-performing assets of a bank should be less than three per cent for the previous financial year.

In 2012-13, most banks' net NPA was less than three per cent. If the first six months of the current financial year is an indication, then most

## AN UNPLEASANT PICTURE

Net NPAs (%)

	Mar '13	Sep '13	Chg (basis points)
United Bank (I)	2.87	5.39	252.00
Bank of Maha	0.52	1.76	124.00
IDBI Bank	1.58	2.82	124.00
Andhra Bank	2.45	3.54	109.00
Corporation Bank	1.19	2.20	101.00
St Bk of Mysore	2.69	3.69	100.00
Syndicate Bank	0.76	1.66	90.00
Central Bank	2.90	3.77	87.00
Pun & Sind Bank	2.16	2.98	82.00
SBI	2.10	2.91	81.00

Source: Capitaline

Compiled by BS Research Bureau

of the banks will end the current financial year with more than three per cent net NPA, which will make them ineligible to apply for insurance broking in the next financial year.

In the first half of the financial year, out of 24 public sector banks (including State Bank of India's associate banks), only two banks — Bank of India and UCO Bank — have seen a drop in net NPA. Some of the banks increase in net NPA in the range of 100 to 200 basis points (bps). Net NPA of banks like State Bank of India, Punjab and Sind bank and IDBI Bank have moved up to the three per cent mark in the September quarter. Bankers said, given the stress in the system, there is no case to believe

there will be any relief going ahead.

At present, bancassurance follows the corporate agency model where a bank can only tie up with one life, one non-life and one health insurer to sell its insurance products. Hence, non-bank promoted insurance companies and late entrants to the sector do not have any bank partner to sell their policies. The finance ministry circular said the model of corporate agency be dispensed with and each bank needed to train and orient its staff to conform to the Finance Minister's Budget announcement.

"You are requested to implement the spirit of the Budget announcements within the framework of guidelines by Irda and RBI in this

regard under intimation to this department (department of financial services) by January 15, 2014," said the circular.

There are several public sector banks that have insurance joint ventures. Hence, companies like Canara-HSBC-OBC Life Insurance, SBI Life Insurance, IndiaFirst Life Insurance (with Bank of Baroda and Andhra Bank as two of the JV partners), PNB Metlife India Insurance among others, will have to part with their strong existent bancassurance network, and strengthen agency network and other channels of distribution. Since the circular came at a time when the insurers were getting ready to launch products under the revised product guidelines, company officials said they were not prepared for the move. "If there was a discussion paper from the ministry, inviting our views before taking this decision, the process would have been smoother," said a senior executive of a life insurance company promoted by a public sector bank.

Insurance sector officials also added that if given a choice, public sector banks would not choose to become brokers. "Broking requires different skills and set-up. This is not something that a bank with core focus on banking and allied activities would wish to undertake," said the chief executive of a large state-owned bank promoted insurance company.



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