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The Chennai-based Indian Bank is considering owning a stake in a life insurance company.

Speaking to Financial Chronicle on the sidelines of an investor/analyst meet, T M Bhasin, CMD of Indian Bank, said: “Three or four insurers have approached us and are willing to give us equity free of cost. We will float a request for proposal soon. We want to pick up 20-25 per cent in an insurance company so that we’ll have a share in their profits.”

He said the bank was looking at an insurance company with significant presence in areas where the bank had strong presence.

Free equity is not allowed as per insurance regulations. But an insurance company can offer discounted equity to banks and the discount in the share price has to be treated as advance commission and amortised over a period not extending beyond three years.

Existing insurance regulations allow a bank to sell products of one life insurance company and one non-life insurance company only.

While the final bancassurance guidelines are still awaited from the insurance regulator, many life insurers have been requesting Irda to allow banks to have tie-ups with multiple insurers.

As it stands today, the insurance industry with 24 life insurers is categorised into three groups. The first category includes insurers promoted by banks (example: ICICI Prudential, SBI Life Insurance, HDFC Life, Star Union Daiichi, Canara HSBC Life, India First Life, ING Vysya Life).

The second category consists of insurers not promoted by banks but have distribution tieups with them (example: LIC, Tata-AIG, Bajaj Allianz, Birla Sun). In the third category insurers, banks are neither promoters nor distribution partners (example: Aegon Religare, Future Generali, Shriram Life, DLF Pramerica, Bharti-Axa).

According to industry officials, several life insurance companies are desperate to rope in banks as distribution partners and are even ready to pay upfront money.

In doing so, an insurer gets ready access to the customer base of the bank through its large branch network and a cost-effective distribution setup.

According to an analyst, as a thumb rule, the cost of a retail agency, corporate agency and broking channel is 1.2 to 1.5 times a bancassurance channel, where bank staff sells insurance policies along with normal banking products.

Anand Pejawar, executive director for marketing of SBI Life, said: “In Singapore, Malaysia, Indonesia and many European countries, the bancassurance channel is most cost effective.”

SBI Life, using the bancassurance model, was able to break even in its fifth year and has been making profits consistently. Many insurers get their profits largely from lapsed or surrendered policies.

There have been quite a few similar deals between banks and insurance firms in recent time. In 2011, PNB bought 30 per cent in Metlife Insurance. In 2010, Axis Bank bought 4 per cent in Max Life. According to the arrangement, Axis Bank will distribute Max Life’s insurance policies for 10 years with effect from May 1, 2010.

Providing equity to a bank ensures that it is locked to sell the insurer’s policies over a longer term.

Monish Shah, Deloitte India director, said, “Life insurance companies are capital starved and a bank buying into it will not only bring in capital but also push insurance products to its customers. Banks benefit by participating in the insurance growth story.”

Finance minister P Chidambaram announced in the budget that banks would be permitted to act as insurance brokers so that their branches could be used to increase insurance penetration. Being an insurance broker allows a bank to sell policies of multiple insurance companies. However, the remuneration is lower as a broker.