

Scrap exclusivity clause with foreign firms: FinMin

Under the present arrangement, banking partners can't sell multiple insurers' products in their branches

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The confusion over the Union finance ministry's order to public sector banks (PSBs) to sell products of all insurance companies via a broking arm is getting into a bigger controversy. The government is now asking the banks to amend their existing contracts with foreign insurers.

PSBs, when they entered into a joint venture with foreign insurers, had agreed to only sell insurance products of the JV. This 'exclusivity clause' differs from one company to the other. While some signed five-year exclusivity deals, others had opted for 10-year agreements. Once this agreement is signed, under no circumstances can the partner sell multiple insurers' products in their branches.

However, after RBI allowed banks to become insurance brokers last November and unveiled the guidelines, the finance ministry asked all PSBs to start insurance broking by January 15, a deadline extended after banks petitioned. A committee has since been formed to look into this.

Foreign insurance JV part-

ners of banks have made their reservations clear, pointing to the exclusivity clause.

The chief executive of a large foreign partner in an Indian insurance JV with a PSB said, "We have written to the ministry, expressing our dissatisfaction. However, we are yet to get any response."

In a meeting last week between the ministry and PSBs, the former asked the lenders to change their JV arrangements to remove the exclusivity clause.

"Though we understand the ministry wants to push insurance distribution, we are

unable to see any immediate benefits. Only some players will be benefited, at the risk of existing JVs going through tremendous stress," said the senior official of a foreign partner in a large insurance company with a PSB promoter.

On December 20, 2013, a letter from the finance ministry, addressing PSB chiefs, said all these banks should become insurance brokers and leverage their branch network for greater insurance penetration. Earlier in the year, in his budget speech, Finance minister P Chidambaram had only said

he'd relaxed the rules on banks being permitted to become insurance brokers.

Bankers said the ministry wants consumers to have the choice of getting all products from all insurers.

Bancassurance, which refers to banks selling insurance products, now follows a corporate agency structure. This means banks sell insurance as a corporate agent; these regulations allow each bank to sell insurance products of one life, one general and one standalone health insurance company each.

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INDIAN BANK PARTNER (S)	INSURER	FOREIGN PARTNER
Punjab National Bank, Jammu & Kashmir Bank	PNB Metlife Insurance	Metlife
State Bank of India	SBI Life Insurance	BNP Paribas Cardif
IDBI Bank, Federal Bank	IDBI Federal Life Insurance	Ageas
Canara Bank, Oriental Bank of Commerce	Canara HSBC OBC Life Insurance	HSBC
Bank of India, Union Bank of India	Star Union Dai-ichi Life Insurance	Dai-ichi Mutual Life Insurance
Bank of Baroda, Andhra Bank	IndiaFirst Life Insurance	Legal & General
Allahabad Bank, Indian Overseas Bank, Karnataka Bank	Universal Sampo General Insurance	Sampo Japan Insurance Inc.
State Bank of India	SBI General Insurance	Insurance Australia Group