

RBI move permitting banks' entry into insurance broking biz hailed

Insurers say it will help expand coverage, offer more choice to the insured

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The Reserve Bank of India's move to permit banks to act as insurance brokers will expand coverage and offer more choice to customers, insurers have said.

The RBI on Friday issued draft guidelines permitting banks to undertake insurance broking business departmentally.

According to the eligibility criteria prescribed for undertaking the business, a bank's capital-to-risk weighted assets ratio (CRAR) should not be less than 10 per cent (as against the regulatory minimum of 9 per cent); and its net non-performing assets ratio should not be more than 3 per cent.

Further, the bank should have made profits for the last

three consecutive years; its net worth should not be less than Rs 500 crore; and the track record of the performance of the subsidiaries/joint ventures, if any, should be satisfactory.

The RBI guidelines follow those issued by the Insurance Regulatory and Development Authority (IRDA) for the sector earlier.

CORPORATE AGENTS

At present, banks are allowed to function only as corporate agents, and are permitted to sell policies of one life and one non-life insurer.

"It is nice that the draft guidelines have been issued signifying some movement from the banking regulator," P. Nandagopal, Managing Director and Chief Executive Officer of India First Life

Insurance Company told *Business Line* on Saturday.

Once the guidelines are finalised, banks working as corporate agents may consider switching over to insurance broking, he said.

"In any case, liberalisation of distribution will help in the long run by creating a level playing field in the non-digital space," he added.

Manoj Kumar Jain, CEO of Shriram Life Insurance Company, said the move will help customers have a wider choice of insurance products.

"As of now, a small proportion of banks (not more than 15,000 branches) are selling insurance. The proposed norms will help expand this distribution base and penetration of insurance," he said.

As per the latest IRDA data,

life insurance penetration in the country was only 3.86 per cent of its Gross Domestic Product (GDP).

Our Mumbai bureau reports: In order to avoid any conflict of interest, banks undertaking the insurance broking business cannot enter into agreements either for corporate agency or for referral arrangements for insurance, either departmentally or through subsidiaries/group companies.

The RBI said banks must ensure that persons involved in the insurance broking services should not be entrusted with any other approval/transactional process at bank branches.

The staff engaged in insurance broking services cannot be paid incentive (cash or non-

cash) linked directly or indirectly to the income received from the broking business.

Further, the staff of the bank are also not permitted to receive any incentive (cash or non-cash) directly from the insurance company.

In order to ensure transparency, banks are required to disclose to the customers, details of remuneration (in any form) received from various insurance companies for the broking business.

The details of fees/brokerage received in respect of insurance broking business undertaken by them also have to be disclosed in the 'Notes to Accounts' to their Balance Sheet.

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