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Banks can be insurance brokers

Mumbai: Banks can now offer their customers policies from a host of life and non-life insurance companies with the government notifying regulations for licensing of banks as insurance brokers. Until now, brokers had to be dedicated intermediaries for insurance distribution. The new regulation allows this business to be carried departmentally within a bank.

In one stroke, the regulations remove all roadblocks that prevented banks from distributing policies of multiple insurance companies. They allow even majority foreign-owned banks to become insurance brokers, with the chief executive not required to be an expert in insurance.

Selling policies of multiple companies would be subject to two conditions: first, clearance from the Reserve Bank of India and second, the desire of the bank itself to become a broker

Many insurers feel that banks might not choose to get into this new role which leaves them susceptible to being sued by customers for mis-selling. As a corporate agent, banks would direct all customer complaints to the insurance companies. This cannot continue for a bank that has opted to become a broker

The proposal to allow banks to become insurance brokers was first announced by the finance minister in his February 2013 Budget speech.

The proposal was aimed at providing a cost-efficient distribution network to the insurance industry which was split over this issue. At one end were the top insurers with a bank in the group such as HDFC Life, ICICI Prudential, SBI Life, Canara HSBC, Star Union Daichi, and IndiaFirst, all of them promoted by banks. At the other end were life insurers which did not tie up with a bank and wanted banks to be free to sell any company's policies.