

Proposed Bancassurance Reforms

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The Insurance Regulatory and Development Authority (IRDA) recently set up a committee to examine the scope, content and objective of a new set of regulations for the bancassurance model. The committee will also look into the desirability of differential treatment of insurance intermediation by banks and examine whether any changes need to be made to the role played by banks in the discharge of the bancassurance function. The committee has been set up in response to requests from insurers to relax the requirement that a bank can enter into a bancassurance arrangement with only one life or one general insurer or one life and one general insurer.

The existing Indian insurance rules and regulations allow only properly licensed agents, corporate agents or brokers to receive commission or remuneration for the solicitation and procurement of insurance business for insurers.

There are two categories of unlicensed person to whom payments based on or referenced to insurance sales can be made. The first category is banks that have entered into referral arrangements with an insurer in accordance with the IRDA's referral circular of February 14 2003. According to this circular, a bank can enter into a referral arrangement with only one life or one general insurer in order to provide access to its database, share physical infrastructure or display publicity material. The second category is non-bank database owners that have agreed to share information on their membership with an insurer in accordance with the second proviso to R10 of the IRDA (Advertisement and Disclosure) Regulations 2000.

Therefore, banks can either be licensed corporate agents or enter into a referral arrangement with an insurer. Agency distribution arrangements through banks are commonly referred to as 'bancassurance'. Banks usually have large, well-maintained databases and a frequent physical interface with customers, which makes them attractive to insurers as referral partners or corporate agents. Most registered banks in India have a tie-up with a life or general insurer or one of each.

In the last few years requests have been made to the IRDA to relax this requirement and allow banks to be agents for more than one insurer. The Indian Banks' Association has also made a similar request to the IRDA.

The May 2008 report of the distribution committee appointed by the IRDA to study distribution channels in India also made some recommendations on bancassurance, but there has been no corresponding guidance from the IRDA on bancassurance since.

In response to these requests, the IRDA issued an order on May 4 2009 stating that:

"The extensive bank branch network could be significantly leveraged for extending insurance penetration in India. The extant regulatory structure on intermediaries does not facilitate multiple tie-ups and also requires specified approval processes for multiple agencies within a group and related structures."

For these reasons the IRDA has decided to reexamine the existing regulatory framework on bancassurance.

The order went on to state that a committee has been set up, among other things, to examine:

- the desirability of differential treatment of insurance intermediation by banks under the bancassurance model consistent with international best practices and modified to meet domestic requirements;
- the scope, content and objective of a separate set of regulations for the bancassurance model;
- whether any changes need to be made to the role played by banks in the discharge of the bancassurance function, bearing in mind the market conduct requirements and focusing on the protection of policyholders' interests; and
- the recommendations made in the distribution committee's report of May 13 2008.

This order does not directly specify whether any changes will be made to the referral model structure, or whether banks with referral arrangements will be able to act for more than one insurer. However, given that the committee is dealing with a long-standing demand for multiple representations by banks, its recommendations, as well as the IRDA's reactions, will be eagerly anticipated.

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