Insurance & Reinsurance - India

Redeveloping bancassurance: banks permitted to operate as insurance brokers

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Introduction

The proposed amendment to the insurance distribution structures for banks was one of the most significant changes anticipated for the insurance sector in 2013. The Insurance Regulatory and Development Authority (IRDA) had earlier issued the IRDA (Licensing of Bancassurance Entities) Regulations 2012, which included a proposal to permit banks to operate as bancassurance brokers. This exposure draft required banks to incorporate a separate company to act as an insurance broker, rather than conducting insurance broking departmentally through their existing structure.

Press reports in mid-2013 indicated that the exposure draft was being considered internally by the IRDA and that final regulations could be in the offing. This anticipation was followed by publication of the IRDA (Licensing of Banks as Insurance Brokers) Regulations in August 2013. In contrast with the exposure draft, which would have required banks to incorporate a separate entity to carry out insurance broking business, the finalised regulations permitted 'scheduled banks' to apply to the IRDA for a licence to act as an insurance broker, provided that the applicant had obtained the prior approval of the Reserve Bank of India (RBI). The finalised regulations also made clear that:

- there were no specific capital requirements for banks to act as insurance brokers;
- insurance broking would be carried out by a bank in addition to its main objectives;
- the calculation of non-Indian interest in the bank would be in accordance with the limits applicable to the banking sector, rather than the 26% foreign investment limit applicable to insurers and other insurance brokers; and
- any disputes arising out of insurance transactions would be settled by the IRDA, but information pertaining to these disputes would be furnished by the IRDA to the RBI.

Draft guidelines

Following the IRDA's regulations, on November 29 2013 the RBI issued draft guidelines that (once finalised) would permit scheduled banks to undertake insurance business departmentally, subject to the requirements specified in the guidelines. Among other things, the draft guidelines specify the following eligibility conditions:

- The net worth of the bank should be no less than Rs5 billion and the capital to risk asset ratio should be no less than 10%;
- The level of non-performing assets should be no more than 3%; and
- The bank should have made profits in the past three consecutive years and the track record or the performance of its subsidiaries and joint ventures should be satisfactory.

In addition, the draft guidelines specify that insurance broking services can be offered only in accordance with the bank's comprehensive policy approved by its board of directors, and that banks which are approved to act as insurance brokers cannot enter into corporate agency or referral arrangements either through themselves or through their subsidiaries.

Comment

The RBI called for comments on the draft guidelines by December 31 2013. It is unclear when the guidelines will be finalised by the RBI, but thereafter there are likely to be a number of applications made by scheduled banks to the RBI and then to the IRDA to act as insurance brokers. The immediate impact will be on existing corporate agency arrangements that permit the bank to distribute the insurance products of only one life insurer and one general insurer, which are likely to be terminated in favour of the insurance broking model, whereby the bank will be able to distribute the insurance products of all insurers.

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