Publication: **Business Standard** | Region: **Delhi** | Date: **10/03/2015** | Page No.: **06**

Regulator mulls multiple insurer tie-ups for banks

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Mumbai, 9 March

The Insurance Regulatory and Development Authority of India (Irdai) is mulling newer options for the open architecture of bancassurance (the selling of insurance products through banks).

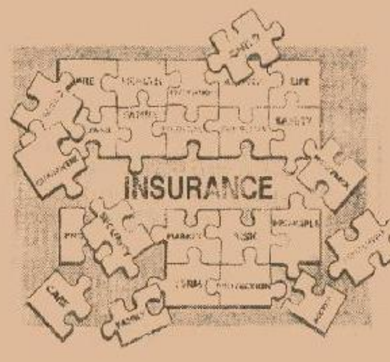
These include tying up with more than one insurer in the life, non-life and standalone health insurance segments. Sectoral sources said this was to ensure banks are not dissuaded from opening their branch network to other insurers.

Since some insurance companies do not have a bank partner and with the entire branch network still to be fully utilised, those in the sector say the regulator wishes to open this channel.

"The regulator does not want this channel to be exclusively working with only one life, one non-life and standalone health insurer. Hence, we could see banks being permitted to tie-up with more than one insurer in each of the three segments," said the head of distribution at a private life insurer.

A presentation by Reliance Life says public sector banks, with 400 million accounts, have an insurance penetration of just over one per cent. And, that a rise in penetration in public sector banks alone to 15 per cent can add 50 million customers and generate another ₹60,000 crore in life insurance premium over the next five years.

Earlier, Irdai had issued several proposals for an open architecture of bancassurance. For instance, models where a bank could tie-up with one insurer in one region and with another in a different region. However, banks felt this would lead to confusion, especially as there is a large migrant population which shifts from one place to another in search of livelihood.



Later, the regulator had enabled banks to also become insurance brokers. However, no bank has come forward with a proposal to do so.

The Reserve Bank of India (RBI) recently issued regulations enabling banks to become insurance brokers. A bank can, these say, enter insurance broking only if their capital-to-risk (weighted) assets ratio is at least 10 per cent and their level of net non-performing assets is not above three per cent. And, RBI said, the bank's net worth should not be less than ₹1,000 crore.

A hurdle could be a possible rush to tie-up with the country's largest insurer, Life Insurance Corporation of India

The bancassurance market size, from a Reliance Life presentation, was ₹9,500 crore in 2013-14 (individual segment) and was likely to show significant growth, driven by unit-linked insurance products, in FY15.

Corporate agents and brokers are now insurance intermediaries, according to the new ordinance. The previous definition included only brokers, with corporate agents defined as 'agents'. The ordinance makes it possible for banks, as corporate agents, to sell products of multiple insurers without having to become brokers, subject to enabling guidelines being notified by Irdai.

The biggest obstacle for banks going into the broker route was joint venture agreements with partners in insurance companies. However, experts suggest once banks are adequately incentivised to sell products of more than one insurer, they would automatically follow the open route.

Another hurdle could be a possible rush to tie-up with the country's largest insurer, Life Insurance Corporation of India (LIC). The chief executive of a large life insurer explained banks would be vying for an LIC tie-up since the latter's base business is very high.

"If all banks compete to tie-up with only LIC, this could be detrimental for others which do not have a bank tie-up. Hence, a middle path is being worked out where there is no conflict of interest, to ensure multiple banks do not end tying up with the same set of high-profit, high new business premium-generating insurers," he added.