भारतीय रिज़र्व बैंक
RESERVE BANK OF INDIA
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RBI/2014-2015/409
DBR.No.FSD.BC.62/24.01.018/2014-15 **January 15, 2015**

All Scheduled Commercial Banks
(excluding RRBs)

Dear Sir/ Madam,

Entry of Banks into Insurance Business

Please refer to our Circular DBOD.No.FSC.BC.16/24.01.018/2000-2001 dated August 9, 2000 which, *inter alia,* permitted banks to set up insurance joint ventures on risk participation basis and also to undertake insurance business as agents of insurance companies on fee basis, without any risk participation by banks and their subsidiaries, consequent to the notification of Government of India specifying "Insurance" as a permissible form of business that could be undertaken by banks under Section 6(1)(o) of the Banking Regulation Act,1949. Subsequently, banks were also permitted to undertake referral activities vide our circular DBOD.No.FSC.BC.27/24.01.018/2003-04 dated September 22, 2003.

2. With the objective of increasing insurance penetration using the entire network of bank branches, the Finance Minister in the budget speech 2013-14 announced that banks will be permitted to act as insurance brokers. Consequent to the announcement, IRDA formulated and notified the IRDA (Licensing of Banks as Insurance Brokers) Regulations, 2013 to enable banks to take up the business of insurance broking departmentally. Reserve Bank of India had also issued *Draft Guidelines on Entry of Banks into Insurance Business- Insurance Broking Business* on November 29, 2013 for public comments. Taking into account the comments received from various stakeholders in response to the draft guidelines, the guidelines have now been finalized.

3. Accordingly, the extant instructions on conduct of insurance business by banks have been reviewed. It is advised that banks may undertake insurance business by setting up a subsidiary/joint venture, as well as undertake insurance broking/

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insurance agency/either departmentally or through a subsidiary subject to the conditions given in the Annex. However, it may be noted that if a bank or its group entities, including subsidiaries, undertake insurance distribution through either broking or corporate agency mode, the bank/other group entities would not be permitted to undertake insurance distribution activities, ie, only one entity in the group can undertake insurance distribution by either one of the two modes mentioned above.

4**.** i) **Banks setting up a subsidiary/JV for undertaking insurance business with risk participation**

Banks are not allowed to undertake insurance business with risk participation departmentally and may do so only through a subsidiary/JV set up for the purpose. Banks which satisfy the eligibility criteria (as on March 31 of the previous year) given below may approach Reserve Bank of India to set up a subsidiary/joint venture company for undertaking insurance business with risk participation:

a) The net worth of the bank should not be less than Rs.1000 crore;

b) The CRAR of the bank should not be less than 10 per cent;

c) The level of net non-performing assets should be not more than 3 percent.

d) The bank should have made a net profit for the last three continuous years;

e) The track record of the performance of the subsidiaries, if any, of the concerned bank should be satisfactory.

RBI approval would factor in regulatory and supervisory comfort on various aspects of the bank's functioning such as corporate governance, risk management, etc.

It may be noted that a subsidiary of a bank and another bank will not normally be allowed to contribute to the equity of the insurance company on risk participation basis.

It should be also be ensured that risks involved in insurance business do not get transferred to the bank and that the banking business does not get contaminated by any risks which may arise from insurance business. There should be an 'arms length' relationship between the bank and the insurance outfit.

ii) **Banks undertaking insurance broking/corporate agency through a subsidiary/JV**

Banks require prior approval of RBI for setting up a subsidiary/JV. Accordingly, banks desirous of setting up a subsidiary for undertaking insurance broking/corporate agency and which satisfy the eligibility criteria (as on March 31 of the previous year) given below may approach Reserve Bank of India for approval to set up such subsidiary/JV:

a) The net worth of the bank should not be less than Rs.500 crore **after** investing in the equity of such company;

b) The CRAR of the bank should not be less than 10 per cent;

c) The level of net non-performing assets should be not more than 3 per cent.

d) The bank should have made a net profit for the last three continuous years;

e) The track record of the performance of the subsidiaries, if any, of the concerned bank should be satisfactory.

As hitherto, RBI approval would also factor in regulatory and supervisory comfort on various aspects of the bank's functioning such as corporate governance, risk management, etc.

5**. Banks undertaking corporate agency functions/broking functions departmentally**

Banks need not obtain prior approval of the RBI to act as corporate agents on fee basis, without risk participation/undertake insurance broking activities departmentally, subject to IRDA Regulations, and compliance with the conditions given in the Annex.

6**. Banks undertaking referral services**

In terms of IRDA (Sharing of Database for Distribution of Insurance Products) Regulations 2010, no bank is presently eligible to conduct insurance referral business.

7. In view of the stipulations contained in this circular, we advise that the instructions contained in our circulars DBOD.No.FSC.BC.16/24.01.018/2000-2001 dated August 9, 2000 and DBOD.No.FSC.BC.27/24.01.018/2003-04 dated September 22, 2003 on *Entry of Banks into Insurance Business* stand withdrawn.

Yours faithfully

(Sudarshan Sen)
Chief General Manager-In-Charge

Encl: As above

Annex

Guidelines for Banks undertaking Insurance Broking and Agency Business

Banks may undertake insurance agency or broking business departmentally and/or through subsidiary, subject to the following stipulations:

1. Board Approved Policy

A comprehensive Board approved policy regarding undertaking insurance distribution, whether under the agency or the broking model should be formulated and services should be offered to customers in accordance with this policy. The policy will also encompass issues of customer appropriateness and suitability as well as grievance redressal. It may be noted that as IRDA Guidelines do not permit group entities to take up both corporate agency and broking in the same group even through separate entities, banks or their group entities may undertake either insurance broking or corporate agency business.

2. Compliance with IRDA guidelines

a) The IRDA (Licensing of Corporate Agents) Regulations, 2002/ IRDA (Licensing of Banks as Insurance Brokers) Regulations, 2013 and the code of conduct prescribed by IRDA, as amended from time to time, as applicable, should be complied with by banks undertaking these activities.

b) The deposit to be maintained by an insurance broker as per the IRDA (Licensing of Banks as Insurance Brokers) Regulations, 2013, as amended from time to time, should be maintained with a scheduled commercial bank other than itself.

3. Ensuring Customer Appropriateness and Suitability

While undertaking insurance distribution business, either under the corporate agency or broking model under the relevant IRDA Regulations, banks must keep the following in view:

a) All employees dealing with insurance agency/ broking business should possess the requisite qualification prescribed by IRDA.

b) There should be a system of assessment of the suitability of products for customers. Pure risk term products with no investment or growth components that are simple and easy for the customer to understand will be deemed universally suitable products. More complex products with investment components will require the bank to necessarily undertake a customer need assessment prior to sale. It should be ensured that there is a standardized system of assessing the needs of the customer and that initiation/transactional and approval processes are segregated.

c) Banks should treat their customers fairly, honestly and transparently, with regard to suitability and appropriateness of the insurance product sold.

4. Prohibition on Payment of Commission/Incentive directly to Bank Staff

There should be no violation either of Section 10(1)(ii) of the BR Act, 1949 or the guidelines issued by IRDA in payment of commissions/brokerage/incentives. This may be factored in while formulating a suitable performance assessment and incentive structure for staff. Further, it must be ensured that no incentive (cash or non-cash) should be paid to the staff engaged in insurance broking services by the insurance company.

5. Adherence to KYC Guidelines

The instructions/ guidelines on KYC/AML/CFT applicable to banks, issued by RBI from time to time, may be adhered to, in respect of customers (both existing and walk-in) to whom the services of insurance broking are being provided.

6. Transparency and Disclosures

a) The bank should not follow any restrictive practices of forcing a customer to either opt for products of a specific insurance company or link sale of such products to any banking product. It should be prominently stated in all publicity material distributed by the bank that the purchase by a bank's customer of any insurance products is purely voluntary, and is not linked to availment of any other facility from the bank.

b) Further, the details of fees/ brokerage received in respect of insurance broking business undertaken by them should be disclosed in the 'Notes to Accounts' to their Balance Sheet.

7. Customer Grievance Redressal Mechanism

A robust internal grievance redressal mechanism should be put in place along with a Board approved customer compensation policy for resolving issues related to services offered. It must also ensure that the insurance companies whose products are being sold have robust customer grievance redressal arrangements in place. Further, the bank must facilitate the redressal of grievances.

8. Penal Action for Violation of Guidelines

Violation of the above instructions will be viewed seriously and will invite deterrent penal action against the banks.

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