

Entry of banks into Insurance business

DBOD.No.FSC.BC.27 /24.01.018/2003-2004

September 22, 2003

All Scheduled Commercial Banks (excluding RRBs and LABs)

Dear Sir,

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. With effect from October 29, 2002, banks have also been allowed to undertake referral business through their network of branches. However, before entering into insurance business, banks are required to obtain prior approval of the Insurance Regulatory and Development Authority (IRDA) and Reserve Bank of India.

2. The matter has been reviewed by us and it has now been decided that banks need not obtain prior approval of the RBI for engaging in insurance agency business or referral arrangement without any risk participation, subject to the following conditions:

- (i) The bank should comply with the IRDA regulations for acting as 'composite corporate agent' or referral arrangement with insurance companies.
- (ii) The bank should not adopt any restrictive practice of forcing its customers to go in only for a particular insurance company in respect of assets financed by the bank. The customers should be allowed to exercise their own choice.
- (iii) The bank desirous of entering into referral arrangement, besides complying with IRDA regulations, should also enter into an agreement with the insurance company concerned for allowing use of its premises and making use of the existing infrastructure of the bank. The agreement should be for a period not exceeding three years at the first instance and the bank should have the discretion to renegotiate the terms depending on its satisfaction with the service or replace it by another agreement after the initial period. Thereafter, the bank will be free to sign a longer term contract with the approval of its Board in the case of a private sector bank and with the approval of Government of India in respect of a public sector bank.
- (iv) As the participation by a bank's customer in insurance products is purely on a voluntary basis, it should be stated in all publicity material distributed by the bank in a prominent way. There should be no 'linkage' either direct or indirect between the provision of banking services offered by the bank to its customers and use of the insurance products.

- (v) The risks, if any, involved in insurance agency/referral arrangement should not get transferred to the business of the bank.

3. However, banks satisfying the eligibility criteria laid down in our circular DBOD. No.FSC.BC/16/24.01.018/2000-2001 dated August 9, 2000 referred to above and intending to set up insurance joint ventures with equity contribution on risk participation basis or making investments in the insurance companies for providing infrastructure and services support, would continue to obtain the prior approval of the Reserve Bank.

4. Please acknowledge receipt.

Yours faithfully,

(B. Mahapatra)
Chief General Manager