

**RBI/2004-05/456**

**RPCD.CO.NB. BC.No. 98 /03.03.116/2004-05**

**May 6, 2005**

**Chairmen of all State Cooperative Banks / District Central Cooperative Banks**

**Dear Sir,**

**Entry of State Cooperative Banks (SCBs) / District Central Cooperative Banks (DCCBS) into insurance business**

A reference is invited to our circulars RPCD.No.NB.BC.No.59/03.03. 116/2004-05 and RPCD.No.NB.BC.78/03.03.116/2004-05 dated November 18, 2004 and February 17, 2005 respectively allowing scheduled or licensed SCBs and licensed DCCBs complying with certain norms to undertake insurance business as corporate agent without risk participation.

2. On a review, it has now been decided to allow all State Co-operative Banks and District Central Cooperative Banks to undertake insurance business on a referral basis, without any risk participation through their network of branches. Under the referral arrangement, banks provide physical infrastructure within their select branch premises to insurance companies for selling their insurance products to the bank's customers with adequate disclosure and transparency, and in turn earn referral fees on the basis of premia collected. The above permission is subject to the following conditions:

- i. The bank should comply with the IRDA regulations for undertaking referral business 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.

- 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 risk, if any involved in referral arrangement should not get transferred to the business of the bank.

The banks need not obtain prior approval of the RBI to undertake referral business.

3. Please acknowledge receipt of the circular to our Regional Offices.

Yours faithfully

**(C.S.Murthy)**  
**Chief General Manager-in-Charge**