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Bancassurance : A Feasible Strategy for Banks in India ?

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This paper attempts to explore the scope for bancassurance models as feasible source of sustainable income to banking sector by exploiting the synergy in the context of India having the largest banking network on the one hand and lower insurance penetration and insurance density on the other hand. While analysing the present trend of banks handling insurance products, it also highlights some of the likely issues in general as well as specific from the point of regulator and supervisor. It concludes that going by the present pace, bancassurance would turn out to be a norm rather than an exception in future in India and it would be a 'win-win situation' for all the parties involved - the customer, the insurance companies and the banks.

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Introduction

World over the idea of separation of roles between banks and other financial activities has become redundant. Even in the United States which was known for strict separation of banking and non-banking activities during the Glass-Steagall Act regime broke the dividing wall. The post Gramm-Leach-Bliley (GLB) Act, 1999 scenario, it is stated to have indicated increased preference for banks coterminously dealing with other non-banking financial products, including the insurance products. In Asian countries (*e.g.,* Taiwan, Singapore, Japan, *etc.*) too the trend has been set towards financial supermarket. The financial liberalisation and financial innovations have drawn the worlds of banking and insurance closer together,

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desegmenting the financial industry and spurring competition (Knight, 2005). Therefore, banks dealing in insurance products have increasingly become accepted norm rather than exception.

In India, ever since espousing of financial reforms following the recommendations of First Narasimham Committee, the contemporary financial landscape has been reshaped. Banks, in particular, stride into several new areas and offer innovative products, *viz.*, merchant banking, lease and term finance, capital market / equity market related activities, hire purchase, real estate finance and so on. Thus, present-day banks have become far more diversified than ever before. Therefore, their entering into insurance business is only a natural corollary and is fully justified too as ‘insurance’ is another financial product required by the bank customers.

The Reserve Bank of India being the regulatory authority of the banking system, recognising the need for banks to diversify their activities at the right time, permitted them to enter into insurance sector as well. Furtherance to this line, it issued a set of detailed guidelines setting out various ways for a bank in India to enter into insurance sector (Annex I sketches out the guidelines). In the insurance sector, the Insurance Regulatory and Development Authority (IRDA), despite its recent origin in 2000, avowed to regulate and develop the insurance sector in India through calibrated policy initiatives. Given India’s size as a continent it has, however, a very low insurance penetration and low insurance density. As opposed to this, India has a well entrenched wide branch network of banking system which only few countries in the world could match with. It is against this backdrop an attempt is made in this paper to explore the ‘bancassurance strategy’ which integrates banking and insurance sector to harness the synergy and its allied problems and prospects in the Indian context. This paper is presented in four sections purely on pedagogic basis. Section I includes introduction, and a snap shot of reforms in insurance sector in India, Section II focuses on the status of insurance penetration in India, *vis-à-vis* select countries, the concept of ‘bancassurance’ as a distribution strategy and draws attention to the international experience. Section III analyses the scope for bancassurance in the Indian context from bankers and insurers' perspectives. Section IV dwells on different bancassurance models, present trend of bancassurance models in India, while it also highlights some issues in general as well as regulatory and supervisory related. Concluding remarks are presented in Section V.

Section I

Insurance Sector during Post Reforms - A snapshot

It is obvious that reforms in financial sector would not be complete if one of the key sub-sector, *viz.*, insurance sector is not being taken along. Therefore, the Government of India had appointed a Committee on Reforms in the Insurance Sector under the Chairmanship of Late R.N.Malhotra (known as Malhotra Committee) in 1994. There has been considerable time lag between reforms in the insurance sector and the rest of the financial sector, particularly in comparison with the banking sector. Incidentally, the experience with many other countries were also very similar. However, following the implementation of Malhotra Committee's far reaching recommendations, the insurance sector had undergone sweeping changes during the later 1990s and 2000 onwards and of which only a few developments are highlighted here. IRDA was established in the year 2000 as an exclusive Regulatory Authority for the insurance sector through the enactment of IRDA Act, 1999. A number of amendments were brought in various insurance related statutes, *viz.*, Insurance Act, 1938, LIC Act, 1956 and General Insurance Business Nationalisation Act, 1972 (GIBA). The Progress in the overall developments in the insurance sector were swift and more prominent after the establishment of IRDA. The four public sector non-life insurance companies were de-linked from being subsidiary of the General Insurance Company of India. Now they operate independently and compete with each other. The upshot of these developments was the breakage of monopoly by public sector in the insurance sector paving the way for the entry of private entities into the insurance market and the era of competition set in with availability of wide range of insurance products in the market than ever.

Insurance Market in India - A Quick look

With the progress of reforms, Insurance market has been flooded with a number of players. As at end-March 2006, among the life insurers, there were 15[1] companies in private sector and Life Insurance Corporation of India (LIC) was the solitary public sector company. Among non-life insurers, nine companies were in private sector and four companies were in public sector (Annex II). As regarding the present size of the insurance market in India, it is stated that India accounts not even one per cent of the global insurance market. However, studies have pointed out that India's insurance market is expected to grow rapidly in the next 10 years. Mathur (2004) for instance, stated that in spite of significant growth of life insurance business through the outstanding efforts of LIC, only 25 to 26% of insurable population in India has been insured.

In terms of 'insurance penetration ratio'(defined as ratio of insurance premium to GDP), a key indicator of the spread of insurance coverage and insurance culture, India compares poorly by international standards. The penetration ratio was less than one per cent in 1990s and it improved to 4.8% by end-March 2006. As against this, a Survey Report of Swiss Re revealed that the penetration ratio as at end-March 2006, in respect of some of the European countries, *viz.,* UK and Switzerland at 16.5% and 11.0%. In Asia, Taiwan and South Korea had registered their respective ratio of as high as 14.5% and 11.1%. Insurance Penetration ratio for the World was placed at 7.5% far greater than that of India (Table 1).

Thus in a country with more than 1.2 billion population, the poor penetration ratio indicates that a vast majority of population remain outside the reach of the insurance, especially in rural and semi-urban areas, in the context of the absence of social security schemes. This clearly suggests the presence of vast potential for tapping the insurance market particularly by widening the distribution channels. This is where the strategy of bancassurance could possibly become more relevant.

Table 1: Insurance Penetration – International Comparison-2006 (Select European and Asian countries)

Countries	Insurance Penetration # (Per cent)		
	Life	Non-life	Total
1	2	3	4
European Countries			
U K	13.1	3.4	16.5
Switzerland	6.2	4.9	11.1
France	7.9	3.1	11.0
Ireland	7.9	2.5	10.4
Nederland	5.1	4.3	9.4
Belgium	6.5	2.7	9.2
Portugal	6.1	2.9	9.0
Germany	3.1	3.6	6.7
Asian Countries			
Taiwan	11.6	2.9	14.5
South Korea	7.9	3.2	11.1
Japan	8.3	2.2	10.5
Hong Kong	9.2	1.2	10.4
Singapore	5.4	1.1	6.5
Malaysia	3.2	1.7	4.9
PR China	1.7	1.0	2.7
India	**4.1**	**0.7**	**4.8**
World	**4.5**	**3.0**	**7.5**
U.S.A	4.0	4.8	8.8
Canada	3.1	3.9	7.0

: Insurance penetration is measured by the ratio of insurance premium to GDP (in per cent).
Source: Swiss Re.

Section II

This section discusses the concept of bancassurance and international experience mainly focused to select European countries.

Bancassurance Strategy – The Concept

Bancassurance, *i.e.*, banc + assurance, refers to banks selling the insurance products. Bancassurance term first appeared in France in 1980, to define the sale of insurance products through banks' distribution channels (SCOR 2003). This term is extremely familiar among the European countries as banks selling insurance products in most of these countries are a common feature. Banks are being used as an effective alternate channel to distribute insurance products either as ‘stand-alone insurance products’ or ‘add-ons to the bank products’ by way of combining the insurance with typical banking products/services. According to IRDA, ‘bancassurance’ refers to banks acting as corporate agents for insurers to distribute insurance products. Literature on bancassurance does not differentiate if the bancassurance refers to selling of life insurance products or non-life insurance products. Accordingly, here ‘bancassurance’ is defined to mean banks dealing in insurance products of both life and non-life type in any forms. Banks in Europe though predominantly deal with life insurance products, they are also channeling the non-life insurance products. It is also important to clarify that the term bancassurance does not just refer specifically to distribution alone. Other features, such as legal, fiscal, cultural and/or behavioural aspects also form an integral part of the concept of bancassurance (SCOR 2003). Quite reverse of the concept of bancassurance, there is also a concept known as ‘assure banking’ which refers to the provision and distribution of financial and banking services by insurance companies.

International line - Select European Countries

The strategy of bancassurance has been highly successful in Europe, especially France and Portugal stated to be most successful in bancassurance wherein as much as 70 % of the insurance products were sold through the banking channel alone followed by Spain where more than 59 % of the insurance products were being sold through the banks. In countries such as Belgium and Italy, though the bancassurance concept has been in prevalence for some years but seems to be picking up only since the late 1990s. As opposed to the above, in the UK and the Netherlands the concept of bancassurance stated to be relatively less popular although banks sell the insurance products. In Germany although the system of universal banking is predominant, bancassurance does not seem to have showed up a big stride.

Table 2 : Bancassurance as Distribution Channel for Life Insurance Products in Select European Countries

(in per cent)

Countries #	Proportion of insurance products distributed by banks
1	2
France	70
Portugal	69
Spain	63
Belgium	42
Ireland	30
Sweden	22
Nederland	18
UK	12

 # : Data relates to the year 2000.
Source : (Sigma 2002), Swiss Re.

Most important factors for the success or otherwise of bancassurance in most of these countries cited in the literature is the favourable legal system in the respective country, supported by the availability of strong banking infrastructure coupled with the banking culture. The system of 'relationship banking' stated to have contributed amply in building up of bancassurance. It may be pointed out that a flexible banking system catering to understand the needs and requirements of the customers intimately is considered to be best suited for bancassurance. In other words, 'stronger the bank - customer relationship' higher the prospects for bancassurance. Above all, the reputation of the banks were also stated to have played a key role in popularising the concept of bancassurance in Europe. Fiscal factors in the form of tax incentives also played crucial role in some countries such as France (SCOR, 2003). Literature has also amply pointed out that besides diversifying their activity and optimizing the choice of products, bancassurance have contributed sizably to the banks' earnings in European countries especially when there was tremendous pressure on the banks' net interest margin due to stiff competition in the banking industry. Moreover, as the banking system in most of the European countries have reached a state of saturation with the traditional banking activities 'bancassurance' helped them in great deal to diversify their activity and also stated to have lent a helping hand to the banks to retain their customers' loyalty. It also equally helped the insurance companies to spread out their market network at relatively shorter time, efforts and above all with lower cost. Interestingly, regarding risk perception, Genetay and Molyneux (1998) had concluded that bancassurance expansion does not threaten with higher risk positions for banking institutions and instead, at the least, it may even result in reducing the risk position mildly. This is quite contrary to the general risk perception about banks involving in insurance business.

The flip side of the bancassurance as revealed by the international experience, are that, as some of the products of insurance, especially from the long term savings point of view, resemble closely that of the term deposits of the banks, there was apprehension that insurance products would supplant the bank products instead of supplementing. There has also been problem that not all the insurance products, the banks could market, in the European countries at least in the initial stage. Furthermore, there were also resistances, in the initial stages, from the insurance agents/ brokers due to apprehension of loss of business for them by channeling insurance products through banks. There was, of course, the issue of 'conflict of interest' within the financial sector. Partly all these could have contributed for the less success of 'bancassurance strategy' even among some of the European countries, as pointed out earlier. Nevertheless, bancassurance, by and large, has been successful among a number of European countries, and recent studies have pointed out that similar trend is being witnessed even among some of the Asian and Latin American countries. The apprehension that through bancassurance, the possibility of migration of risks arising out of insurance business to banking activities/ system still persists, despite studies by Graham and Boyd (1988) and Genetay and Molyneux (1998) had concluded with reassuring results, *viz.*, banks diversification into insurance business would only stand to gain in terms of risk/ return benefits.

Section – III
Bancassurance in India

With the above backdrop attempt is made here to analyse the scope for bancassurance in India focused mainly from the bankers' perspective, though issues arising from the points of view of insurance and customers were also being discussed.

Present Distribution Channels for Insurance Products in India

Insurance industry in India for fairly a longer period relied heavily on traditional agency (individual agents) distribution network IRDA (2004). As the insurance sector had been completely monopolised by the public sector organisations for decades, there was slow and rugged growth in the insurance business due to lack of competitive pressure. Therefore, the zeal for discovering new channels of distribution and the aggressive marketing strategies were totally absent and to an extent it was not felt necessary. The insurance products, by and large, have been dispensed mainly through the following traditional major channels: (1) development officers, (2) individual agents and (3) direct sales staff. It was only after IRDA came into existence as the regulator, the other forms of channels, *viz.*, corporate agents including bancassurance, brokers (an independent agent who represents the buyer, rather than the insurance company, and tries to find the buyer the best policy by comparison shopping[2]), internet marketing and telemarketing were added on a professional basis in line with the international practice. As the insurance sector is poised for a rapid growth, in terms of business as well as number of new entrants tough competition has become inevitable. Consequently, addition of new and more number of distribution channels would become necessary.

Scope for Bancassurance in India

By now, it has become clear that as economy grows it not only demands stronger and vibrant financial sector but also necessitates to provide with more sophisticated and variety of financial and banking products and services. Krueger (2004) pointed out that the history of the North America is a case in reference of one of financial strengthening and deepening in tandem with economic growth. As India is being considered one of the fast developing economy among the emerging market economies, financial sector has also grown much vibrant with the financial reforms. In fact, in recent years, it is surmised that even the 'global economic growth' hinges on growth prospects of the emerging economies like China and India to a greater extent. Significantly, Indian economy has recorded an average growth of over 8.5 per cent for the last four years, with macroeconomic and financial stability (RBI, 2006) and indications are that it may grow at even better rate in the near future provided there is good monsoon. Experience also showed that economic growth had strongly supported the expansion of middle income class in most of the Asian countries, and now it is the turn of India. Experience reveals that at the initial growing stage of the economy the primary financial needs are met by the banking system and thereafter as the economy moves on to higher pedestal, the need for the other non-banking financial products including insurance, derivatives, *etc.*, were strongly felt. Moreover, as India has already more than 200 million middle class population coupled with vast banking network with largest depositors base, there is greater scope for use of bancassurance. For instance as at end March 2005, there were more than 466 lakh bank accounts with scheduled commercial banks. It is worth being noted that, Swiss Re (2002) in its study on Asia pointed out that bancassurance penetration is expected to tangibly increase in Asia over next 5 years and this has been greatly proved.

In simple words, it is aptly put that bancassurance has promised to combine insurance companies' competitive edge in the "production" of insurance products with banks' edge in their distribution, through their vast retail networks (Knight, 2006).

i) Bankers' Perspective

In the post reforms, the financial sector has more number of players of both domestic and foreign and the dividing line between the banks and non-banking financial institutions' activities had considerably thinned down. Overlapping in one another's functions/ areas have become more common than exception. The direct upshot of these developments led to intensive competition in the banking sector and which in turn had a strong bearing on the banks' net interest margin (spread). In fact the emerging scenario is likely to bring down the banks' spread even thinner. As it can be seen from the Table 3 that the spread ratio has considerably come down cutting across all

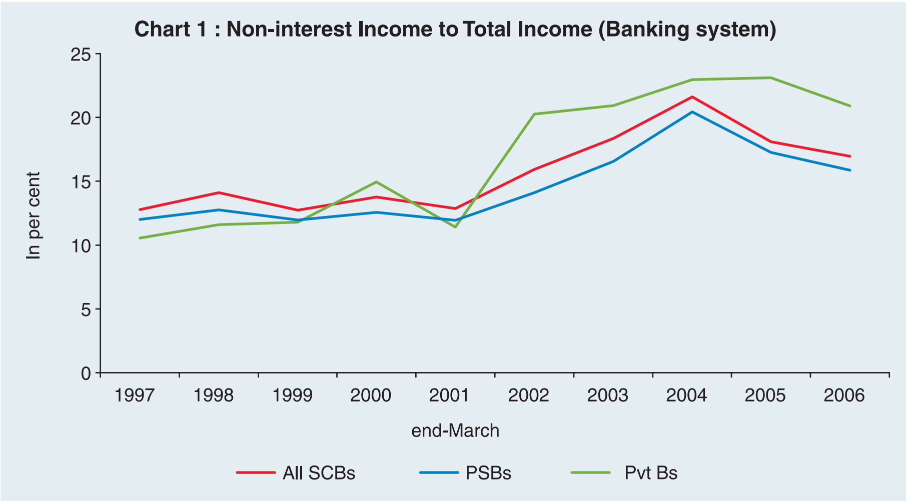
Table 3 : Interest Spread for Bank Groups in India
(Net interest margin as per cent to total assets)

Bank Group	1990-91	2003-04	2004-05	2005-06
1	2	3	4	5
Public Sector Banks	3.22	2.97	2.90	2.72
Private Sector Banks	4.02	2.18	2.34	2.30
Foreign Banks	3.92	3.46	3.33	3.51
Total Banking System*	3.31	2.86	2.83	2.78

* : includes all scheduled commercial banks.
Source : RBI publications.

the banking groups. For the banking system (scheduled commercial banks) the spread ratio decelerated from 3.31 per cent at end-March 1991 to 2.78 per cent at end-March 2006. In the case of Indian private sector banks it declined sharply from as high as 4.02 per cent at end-March 1991 to 2.30 per cent at end-March 2006. Public sector banks are no exception, despite their monstrous size, they registered a decline in spread ratio from 3.22 per cent to 2.72 per cent during the same period. Foreign banks operating in India were always known for the higher spread than the rest, even their spread had decelerated from 3.92 per cent to 3.51 per cent. Therefore, banks were compelled to be constantly on the look out for a stable alternate sources of earnings in the form of non-traditional and fee based sources of incomes.

Banks' response to these developments has been to migrate towards newer and non-traditional areas of operations especially relating to fee based activities / non-fund based activities. This is reflected in the sharp increase of proportion of non-interest income to total income in recent years (Chart 1). Further, banking system in India was prone to very high NPAs, the net NPA ratio of banking sector was as high as 15.7 per cent at end-March 1997, which, with concerted efforts declined sharply to around 1.20 per cent by end-March 2006. Although this was an unprecedent achievement in the Indian banking industry, diversification towards new areas such as bancassurance, promises greater scope for further enhancement in earnings with no menace of increase in NPAs. In the ensuing paradigm, the banking sector irrespective of public or private sector and foreign or domestic banks', their increased reliance on the non-fund based business activities would become inevitable.



Persistent endeavor in scouting for new technology, new products/ services/ new avenues, has become necessary for the growth as well as sustainability of banking system. It is in this context possibly, bancassurance could well be an appropriate choice for banks to increase their stable source of income with relatively less investments in the form of new infrastructure.

As far as banking sector's infrastructure is concerned, only a few countries could match with India for having largest banking network in terms of bank branches spreading almost throughout the length and breadth of the country. This is a direct outcome of the then prevailing deliberate policy thrust towards branch expansion. At end-March 2006, we have as many as 284 scheduled banks, of which 88 are commercial banks and 196 are Regional Rural Banks (RRBs). There are as many as 70,324 bank offices, of which, nearly 70% of the branches are located in rural and semi urban areas and the remaining around 30% are in urban and metropolitan areas. The population served by a bank office worked out to be around 16000 people at end-March 2006. Besides the commercial banking system, India has a large rural credit cooperatives as also urban cooperative banking network. Taken together these institutional set up, the ratio of population served by a bank branch would work out to be far lower. Thus, on the one hand we have a very low insurance penetration and low insurance density[3] as compared with the international standards, on the other hand, India has a widely stretched and well established banking network infrastructure. It is this contrasting situations to assimilate the two systems by way of 'bancassurance strategy' to reap the benefits of synergy. This is an opportune time for both banking and the insurance sectors to come closer and forge an alliance for the mutual benefit. For, both the regulators, *i.e.,* RBI and IRDA have already proffered appropriate policy guidelines and set in a congenial environment for such an endeavor. Besides, the Government of India's unequivocal policy to provide insurance cover to the low income households and the people at large at a minimum cost are also favourable.

Moreover, going by the present trend of mergers and acquisition and consequent consolidation, the emergence of financial supermarkets and financial conglomerates could not be ruled out in India, therefore bancassurance could as well be one more financial activity of the banks. There is also one more dimension to this activities, unlike the normal banking activities, international experience showed that bancassurance helped the banks to have a non-volatile source of income. Above all, in India still vast majority of banking operations are conducted through the manual operations at the banks' branch level with relatively less automation such as ATMs, tele-banking, internet banking, *etc.*, unlike many developed countries. This stands out as an added advantage for the banks to have direct interface with the customers, to understand their needs/ tastes and preferences, *etc.*, and accordingly customize insurance products. In fact there are also greater scope for innovation of new insurance products in the process. Bancassurance would therefore be uniquely suited to exploit the economies of scope for the banks in India. Bancassurance also becomes a blessing in disguise from the point of view of CRAR. Significantly, even customers stated to be preferring for banks entering into insurance. For instance, a survey conducted by FICCI revealed that 93 per cent of the respondents have preferred banks selling insurance products. Therefore bancassurance can be a feasible activity and viable source of additional revenue for the banks.

Studies have also portrayed that adding life insurance activities to banking operations allowed banks to increase their assets under management substantially and to diversify their earnings.

ii) Insurers' Perspective

Contemporaneously, with the sweeping financial reforms in the insurance sector and the consequent opening up of this sector, all the private entities plunged almost simultaneously with a very little spacing of time and the entire insurance sector has been exposed to stiff competition. A number of foreign insurance companies in both life and non-life segment have entered by way of joint ventures with an equity stake of upto 26 per cent in the local companies[4]. IRDA had reported that as much as Rs. 8.7 billion was brought in by these companies by way of foreign investments, with the extant provision of 26 per cent foreign capital. In the context of Indian insurance market being growing at an annual rate of 21.9 per cent (IRDA, 2005), any increase in the foreign participation in the capital would only intensify the competition with more number of fresh entrants, given the better growth prospects.

Life Insurance Segment

Life insurance market recorded a premium income of Rs.1,05,875.8 crore during the year 2005-06 as against Rs.82,854.8 crore during the last year recording a growth of 27.78 per cent . Sector-wise, private insurers together registered a growth of 95.19 per cent on top of 147.65 per cent recorded last year, while public sector, *viz.*, LIC recorded a growth of 20.85 per cent on top of 18.25 per cent (larger base) during the same period. Till recently the entire life insurance business in India was with the public sector, whose share has, however, come down sharply in recent years. In terms of gross premium underwritten, its market share has come down from around 95 per cent at end-March 2005 to 91 per cent by end-March 2006. In terms of first year premium LIC's share has come down sharply to 64.52 per cent from 73.41per cent during the same period reflecting tremendous pressure built up by the competition.

Non-Life Insurance Segment

The non-life insurance segment registered a growth of 16.46% from Rs. 17,480.59 crore at end-March 2005 to Rs.20,359 crore at end-March 2006. Falling in line with the trend observed in Life insurance, the non-life segment also showed sizable decline in the share of the public sector insurers to 73.66 per cent at end-March 2006 from 80.0 per cent in the previous year. The private sector insurers gaining the momentum at a greater speed, because of their aggressive marketing strategy coupled with offer of wider choice of innovative products.

It is significant to note that, of the total new policies issued, in respect of both life and non- life insurers, the share of private sector has sharply increased and correspondingly the public sector insurers' share has declined (Table 4). This implies that the freshers showing increased preferences towards the private sector insurers.

Nevertheless, the existing insurance business is by and large concentrated in and around the towns, cities and metros and still a vast majority of rural areas and even people in urban unorganised sector are yet to be covered. In India, especially the absence of proper social security schemes even more emphasizes the necessity for insurance coverage. It may be pointed out that, though the Insurance density ratio increased three fold from Rs. 370.80 at end-March 2000 to Rs. 1,140 as at end-March 2006, and similarly the Insurance penetration ratio increased from 1.9 to 4.8 per cent during the same period (Table 5), these ratios, however compare poorly with majority of the countries around the World including many countries in Asia.

Table No. 4 : New Policies Issued by Insurers in India

(percentage share)

	Life Insurance			**Non Life**		
	2003-04	**2004-05**	**2005-06**	**2003-04**	**2004-05**	**2005-06**
1	2	3	4	5	6	7
Public Sector	94.21	91.48	89.08	92.09	89.19	83.08
Pvt Sector	5.79	8.52	10.92	7.91	10.81	16.92

Source *:* IRDA Annual Reports.

Table 5 : Select Indicators of Insurance Business in India

Year	Insurance Density* (Rs)			Insurance penetration**(%)		
	Life	Non-life	Total	Life	Non-life	Total
1	2	3	4	5	6	7
1999-00	274.72	96.09	370.80	1.41	0.49	1.90
2000-01	342.48	98.99	441.47	1.66	0.48	2.14
2001-02	483.07	122.42	605.49	2.18	0.55	2.73
2002-03	528.32	135.90	664.22	2.27	0.58	2.86
2003-04	617.78	161.76	779.54	2.53	0.65	3.17
2004-05	760.14	160.37	920.51	2.65	0.56	3.21
2005-06	956.42	183.91	1140.00	4.10 $	0.70 $	4.80 $

* : It refers to Insurance premium per capita *i.e.*, total insurance premium income/population.
** : Premium as percentage to GDP.
$: The source for this data Swiss Re.
Note : Density of insurance for 2003-04 onwards has been worked out based on Mid-year population.
Source : IRDA, Annual Report, various issues.

The success or otherwise of any new business/ products/ service depends on how quickly and widely it reaches out to the customers/ potential customers. This holds good even for insurance products, the insurance companies can reach out the entire country at a greater speed with less cost through bancassurance. This has already been proved in India, to a significant extent. For instance, till banks were legally not permitted to deal in insurance products, the insurance penetration ratio was appallingly lower, and it was only after the passage of the Insurance Bill and the subsequent amendments to BR Act permitting the banks to deal in insurance products that the penetration ratio in general increased sharply in a short period as exhibited in Table 5.

The foremost advantage for insurers being that they will have the direct access to the large customer base, at relatively faster rate and at the lowest cost. Banks' prior knowledge about the customers and their financial standing and other background is a gold mine for the insurers not only to tap the market but also would help to device the products that suits customers the most. In fact studies in Europe have proved that bancassurance strategy had saved the cost to insurers to a greater extent. In one of the study by Swiss Re, it was observed that for the insurers, bancassurance have resulted in cost saving to the tune of 21.2 per cent and the expected revenue gain of 4.4 per cent (Sigma No 7, 2002). McKinsey in one of its study, also estimated a boost of 20 to 25 per cent increase in the life insurance business if its routed through banking network in US.

In the Indian case it would be all the more true, as not every new insurer had the advantage of being a subsidiary to the parent who happened to be a large commercial bank like SBI Life, HDFC Chubb and ICICI Prudential Insurance. All the insurers in private sector established in India have greatly benefited through collaborative arrangements with one or the other bank to reach the clients base without a huge investment in the form of infrastructure, as banks were already well established with a large branch network. Thus, *a la* Swiss Re green field start-up operations will be easier without even need to recruit a large number of insurance agents. Insurance companies at best needs to invest only on training the frontline bank staff that too in the case of corporate agency. In the case of referral arrangements, insurers' own agents could act upon the clients data base supplied by the banks. Possibilities of cost saving and expected revenue gain for insurance companies thus are high. Experience of banks' staff in understanding their clients' requirements would help the insurer in greater deal to innovate new products or to improvise the existing products at a greater speed.

For the insurance sector, it is now the most congenial policy environment to adopt bancassurance as IRDA has been encouraging banking institutions and the corporate sector to actively take part in the distribution system of insurance products by palliative changes in the earlier guidelines which required the Directors of the corporate agency to undergo the necessary training, *etc.* Similarly RBI as the regulator of banking system had smoothened the way for the banks to enter the insurance activities. The Central Government also took a number of proactive measures which, *inter alia,* are necessary amendments in the Banking Regulation Act, 1949 and other insurance related Acts so as to enable the banks and insurance sector to come closer and synchronize legitimately each other's activities. Thus it is a great opportunity for both banking system and the insurance sector to take advantage by acting swiftly. The present regulatory requirements of the insurance companies is that a certain proportion of sales should be met with the rural and social sector. This gives an added advantage for the insurance companies to seek the help of banking network for their strong and wider rural and semi urban branch network.

Bancassurance – What is in store for Customers ?

The most immediate advantage for customers is that, in insurance business the question of trust plays a greater role, especially due to the inbuilt requirement of a long term relationship between the insurer and the insured. In India, for decades, customers were used to the monopolistic attitude of public sector insurance companies, despite there were many drawbacks in their dealing, they enjoyed customer confidence, this trend continues even now mainly due to their Government ownership. The customers to move over to private insurance companies that are collaborated with foreign companies which are less known to the Indian public would take little more time. The void between the less known newer private insurance companies and the prospective insured could be comfortably filled by the banks because of their well established and long cherished relationship. Under these circumstances, any new insurance products routed through the bancassurance channel would be well received by the customers. Above all, in the emerging scenario, customers prefer to have a consolidation and delivery of all financial services at a single window in the form of ‘financial super market’, irrespective of whether financial or banking transactions, because such availability of wide range of financial/ banking services and products relieves the customers from the painstaking efforts of scouting for a separate dealer for each service/ product. Even internationally, the trend is towards the ‘one-stop-shop’. Customers could also get a share in the cost savings in the form of reduced premium rate because of economies of scope, besides getting better financial counseling at single point. Even in the case of developed countries the financial literacy and financial counseling has been increasingly stressed in recent years, these become essential especially when decision involves long term investments. In India, recently Reddy (2006) has been emphasising on the importance and necessity for financial counseling and financial literature. In that context too the bankers are better placed in extending such counseling or financial advises to the customer because of their well established long cherished relationship. The relationship between insurer and insured and bank and its client are different, the former involves taking decisions for long term parting of money, in such cases counseling is necessary, here too the bancassurance can be of reassuring for the customer.

Section IV
Bancassurance Models

I. Structural Classification

a) Referral Model

Banks intending not to take risk could adopt 'referral model' wherein they merely part with their client data base for business lead for commission. The actual transaction with the prospective client in referral model is done by the staff of the insurance company either at the premise of the bank or elsewhere. Referral model is nothing but a simple arrangement, wherein the bank, while controlling access to the clients data base, parts with only the business leads to the agents/ sales staff of insurance company for a 'referral fee' or commission for every business lead that was passed on. In fact a number of banks in India have already resorted to this strategy to begin with. This model would be suitable for almost all types of banks including the RRBs /cooperative banks and even cooperative societies both in rural and urban. There is greater scope in the medium term for this model. For, banks to begin with resorts to this model and then move on to the other models.

b) Corporate Agency

The other form of non-risk participatory distribution channel is that of 'corporate agency', wherein the bank staff is trained to appraise and sell the products to the customers. Here the bank as an institution acts as corporate agent for the insurance products for a fee/ commission. This seems to be more viable and appropriate for most of the mid-sized banks in India as also the rate of commission would be relatively higher than the referral arrangement. This, however, is prone to reputational risk of the marketing bank. There are also practical difficulties in the form of professional knowledge about the insurance products. Besides, resistance from staff to handle totally new service/product could not be ruled out. This could, however, be overcome by intensive training to chosen staff packaged with proper incentives in the banks coupled with selling of simple insurance products in the initial stage. This model is best suited for majority of banks including some major urban cooperative banks because neither there is sharing of risk nor does it require huge investment in the form of infrastructure and yet could be a good source of income. Bajaj Allianz stated to have established a growth of 325 per cent during April-September 2004, mainly due to bancassurance strategy and around 40% of its new premiums business (Economic Times, October 8, 2004). Interestingly, even in a developed country like US, banks stated to have preferred to focus on the distribution channel akin to corporate agency rather than underwriting business. Several major US banks including Wells Fargo, Wachovia and BB &T built a large distribution network by acquiring insurance brokerage business. This model of bancassurance worked well in the US, because consumers generally prefer to purchase policies through broker banks that offer a wide range of products from competing insurers (Sigma, 2006).

c) Insurance as Fully Integrated Financial Service/ Joint ventures

Apart from the above two, the fully integrated financial service involves much more comprehensive and intricate relationship between insurer and bank, where the bank functions as fully universal in its operation and selling of insurance products is just one more function within. Where banks will have a counter within sell/market the insurance products as an internal part of its rest of the activities. This includes banks having a wholly owned insurance subsidiaries with or without foreign participation. In Indian case, ICICI bank and HDFC banks in private sector and State Bank of India in the public sector, have already taken a lead in resorting to this type of bancassurance model and have acquired sizeable share in the insurance market, also made a big stride within a short span of time. The great advantage of this strategy being that the bank could make use of its full potential to reap the benefit of synergy and therefore the economies of scope. This may be suitable to relatively larger banks with sound financials and has better infrastructure. Internationally, the fully integrated bancassurance have demonstrated superior performance (Krishnamurthy, 2003). Even if the banking company forms as a subsidiary and insurance company being a holding company, this could be classified under this category, so long as the bank is selling the insurance products along side the usual banking services. As per the extant regulation of insurance sector the foreign insurance company could enter the Indian insurance market only in the form of joint venture, therefore, this type of bancassurance seems to have emerged out of necessity in India to an extent. There is great scope for further growth both in life and non-life insurance segments as GOI is reported have been actively considering to increase the FDI's participation to the upto 49 per cent.

II. Product-based Classification

i) Stand-alone Insurance Products

In this case bancassurance involves marketing of the insurance products through either referral arrangement or corporate agency without mixing the insurance products with any of the banks' own products/ services. Insurance is sold as one more item in the menu of products offered to the bank's customer, however, the products of banks and insurance will have their respective brands too, *e.g.*, Karur Vysya Bank Ltd selling of life insurance products of Birla Sun Insurance or non-life insurance products of Bajaj Allianz General Insurance company.

ii) Blend of Insurance with Bank Products

With the financial integration both within the country and globally, insurance is increasingly being viewed not just as a 'stand alone' product but as an important item on a menu of financial products that helps consumers to blend and create a portfolio of financial assets, manage their financial risks and plan for their financial security and well being (Olson 2004). This strategy aims at blending of insurance products as a 'value addition' while promoting its own products. Thus, banks could sell the insurance products without any additional efforts. In most times, giving insurance cover at a nominal premium/ fee or sometimes without explicit premium does act as an added attraction to sell the bank's own products, *e.g.*, credit card, housing loans, education loans, *etc.* Many banks in India, in recent years, has been aggressively marketing credit and debit card business, whereas the cardholders get the 'insurance cover' for a nominal fee or (implicitly included in the annual fee) free from explicit charges/ premium. Similarly the home loans / vehicle loans, *etc.*, have also been packaged with the insurance cover as an additional incentive.

III. Recent Trend of Bancassurance in India

Bancassurance proper is still evolving in Asia and this is still in infancy in India and it is too early to assess the exact position. However, a quick survey revealed that a large number of banks cutting across public and private and including foreign banks have made use of the bancassurance channel in one form or the other in India. Banks by and large are resorting to either 'referral models' or 'corporate agency' to begin with. Banks even offer space in their own premises to accommodate the insurance staff for selling the insurance products or giving access to their clients database for the use of the insurance companies. As number of banks in India have begun to act as 'corporate agents' to one or the other insurance company, it is a common sight that banks canvassing and marketing the insurance products across the counters. The present IRDA's regulation, however, restricts bankers to act as a corporate agent on behalf of only one life and non-life insurance company.

In the case of ICICI-Prudential Life Insurance company, within two years of its operations, it could reach more than 25 major cities in India and as much as 20 per cent of the life insurance sale are through the bancassurance channel (Malpani 2004). In the case of ICICI bank, SBI and HDFC bank insurance companies are subscribers of their respective holding companies. ICICI bank sells its insurance products practically at all its major branches, besides it has bancassurance partnership arrangements with 19 other banks as also as many as 200 corporate tie-up arrangements. Thus, among the private insurance companies, ICICI Prudential seem to exploit the bancassurance potential to the maximum. ICICI stated that Bank of India has steadily grown the life insurance segment of its business since its inception. ICICI prudential had also reported to have entered into similar tie-ups with a number of RRBs, to reap the potential of rural and semi-urban. In fact, it is a step in the right direction to tap the vast potential of rural and semi-urban market. It will not be surprising if other insurance companies too follow this direction.

Aviva Insurance had reported that it has tie-ups with as many as 22 banking companies, which includes private, public sector and foreign banks to market its products. Similarly, Birla Sun Life Insurer reported to have tie-up arrangements with 10 leading banks in the country. A distinct feature of the recent trend in tie-up arrangements was that a number of cooperative banks have roped in with bancassurance arrangement. This has added advantage for insurer as well as the cooperative banks, such as the banks can increase the non-fund based income without the risk participation and for the insurers the vast rural and semi-urban market could be tapped without its own presence. Bancassurance alone has contributed richly to as much as 45 per cent of the premium income in individual life segment of Birla Sun Life Insurer (Javeri, 2006).

Incidentally even the public sector major LIC reported to have tie-up with 34 banks in the country, it is likely that this could be the largest number of banks selling single insurance company's products. Ironically, LIC also has the distinction of being the oldest and the largest presence of its own in the country. SBI Life Insurance for instance, is uniquely placed as a pioneer to usher bancassurance into India. The company has been extensively utilising the SBI Group as a platform for cross-selling insurance products along with its numerous banking product packages such as housing loans, personal loans and credit cards. SBI has distinct advantage of having access to over 100 million accounts and which provides it a vibrant and largest customer base to build insurance selling across every region and economic strata in the country. In 2004, the company reported to have became the first company amongst private insurance players to cover 30 lakh lives.

Interestingly, in respect of new (life) business bancassurance business channel is even greater than the size of direct business by the insurers at 2.17 per cent. Even in respect of LIC around 1.25 per cent of the new business is through bancassurance. Considering the large base, even this constitutes quite sizeable to begin with in the case of LIC. This speaks for itself the rate at which the bancassurance becoming an important channel of distribution of insurance products in India. It is significant to note that the public sector giant LIC which has branches all over India, too moving towards making use of bancassurance channel.

It is significant to note that in the Indian case, all those insurers and banks who have taken the lead in identifying the bancassurance channel, at the early stage, are now reaping the maximum benefits of deeper existing customer relationship as also wider coverage of newer customers besides enhancing fee based income. During 2005-06, as much as 16.87 per cent of new business were underwritten through banks as corporate agent channel alone as compared with 6.61% through direct business (Table 6). However, banks as referrals taken together has sizeable chunk of business. This growth was primarily due to the aggressiveness witnessed in the private life insurance sector and one of the drivers for this

Table 6 : New Business (Life) Undertaken through various Intermediaries : 2005-06

(Per cent)

Insurers	Individual agents	Corporate Agents		Brokers	Referrals	Direct Business
		Banks	Others			
1	2	3	4	5	6	7
Private Insurers	59.71	16.87	8.92	0.83	7.06	6.61
LIC	98.37	1.25	0.32	0.06	0.00	0.00
Total	85.67	6.38	0.31	0.31	2.32	2.17

Source : IRDA, Annual Report, 2005-06.

substantial growth is the contribution of the banking industry (Financial Express January 1, 2006).

Bancassurance in India – Some Issues

The difference in working style and culture of the banks and insurance sector needs greater appreciation. Insurance is a 'business of solicitation' unlike a typical banking service, it requires great drive to 'sell/ market the insurance products. It should, however, be recognized that 'bancassurance' is not simply about selling insurance but about changing the mindset of a bank. Moreover, in India since the majority of the banking sector is in public sector and which has been widely disparaged for the lethargic attitude and poor quality of customer service, it needs to refurbish the blemished image. Else, the bancassurance would be difficult to succeed in these banks. Studies have revealed that the basic attitudinal incompatibility on the part of employees of banks and insurance companies and the perception of customers about the poor quality of banks had led to failures of bancassurance even in some of the Latin American countries.

There are also glitches in the system of bancassurance strategy in the form of 'conflict of interests', as some of the products offered by the banks, *viz.*, 'term deposits' and other products which are mainly aimed at long term savings/ investments can be very similar to that of the insurance products. Banks could as well feel apprehension about the possibility of substitution effect between its own products and insurance products and more so, as a number of insurance products in India come with an added attraction of tax incentives.

In case the Bancassurance is fully integrated with that of the banking institution, it is suitable only for larger banks, however, it has other allied issues such as putting in place 'proper risk management techniques' relating to the insurance business, *etc.*

As there is a great deal of difference in the approaches of 'selling of insurance products' and the usual banking services- thorough understanding of the insurance products by the bank staff coupled with extra devotion of time on each customer explaining in detail of each product's intricacies is a prerequisite. Moreover, insurance products have become increasingly complex over a period of time, due to improvisation over the existing products as well as due to constant innovation of new products, emanating from the excessive competition adding to even more difficulties in comprehension of the products and marketing by the bank staff. These can result in resistance to change and leading to problems relating to industrial relations.

Unlike, the banking service, there is no guarantee for insurance products that all efforts that a bank staff spends in explaining to a customer would clinch the deal due to the very nature of the insurance products. This frustration of the bank staff has the danger of spill over effect even on their regular banking business.

Bankers in India are extremely naïve in insurance products as there were no occasions in the past for the bankers to deal in insurance products, therefore they require strong motivation of both monetary and non monetary incentives. This would be more so in the emerging scenario due to complex innovations in the field of insurance / pension products at a rapid pace with the entry of a number of foreign insurance companies with vast experience in the developed countries' framework.

In view of the above, reorientation of staff in the public sector banks in particular, to be less bureaucratic and more customer friendlier would indeed be a challenging task, *albeit* it is a prerequisite for the success of bancassurance.

With the financial reforms and technological revolution embracing the financial system, there has been a great deal of flexibility in the mind set of people to accept change. The above outlined problems need not, however, deter the banking sector to embark on bancassurance as any form of resistance from the bank employees could be tackled by devising an appropriate incentive system commensurate with intensive training to the frontline bank staff.

Regulatory and Supervisory Issues

With the increased structural deregulation within the financial system and globalisation the banking system in India has been exposed to tough competition compelling them to move towards not only new vistas of business activity under one roof by moving towards the 'universal banking framework' and eventually the emergence of financial conglomerate. Such developments bring along some regulatory and supervisory concerns. Banks have all along been functioning strictly on a 'traditional banking style' with highly compartmentalised manner. Now that the banking system enjoys more of 'structural freedom' exposing themselves to non traditional activities such as insurance, derivatives, investments banking, *etc.*, there is possibility of migration of risks from the rest of the activities to the banking system. Thus, the increased market integration and globalisation are demanding new realism on the part of the regulator and supervisor for more stricter prudential regulation and supervisor on 'inter-sector' activities especially, considering the pace with which the system is moving. This process is referred in the literature as 'structural deregulation' and 'supervisory re-regulation'. While it is inevitable that Indian banks entering into insurance sector, given the size of the transactions in 'general insurance transactions', coupled with the type of built-in risks on the one side and that the banking system being the focal point of the payment and settlement on the other, any migration from the former to the latter will have a greater systemic implications. Therefore adequate and appropriate checks and balances are required to be put in place in time by all regulatory authorities concerned. Going by the international experience and specificity of the Indian system, the likely problem areas are being enumerated here:

- The problem of 'conflict of interest' would also arise in a different form; as banks are privy to a lot of information about the customer, especially in the context of know your customer (KYC) system being in place, these information could be used by the insurers for their unfair advantage.
- With more integration between and among various constituents of financial sector, there is greater possibility for 'contagion effect'.
- In India all insurance companies in private sector of recent origin and are in the process of stabilising, also highly aggressive due to

tough competition. The over ambitiousness should not smack their own limitation, especially in the case were insurance business is an internal organ of the universal banking system. Especially in a situation such as large scale natural calamities, *viz.*, Tsunami, earthquake, floods, *etc.*, would have a serious debilitating impact on the banking system, *via* insurance business. Therefore, the regulation and supervision needs to address the institution as a 'financial conglomerate' rather than each institution individually.

- The regulator of the insurance sector is of very recent origin unlike the banking sector regulatory authority, *viz.*, RBI. Although IRDA has done appreciable work within the short period, the regulation itself is a learning experience, any major migration of risk from insurance to banking would be more devastating if that was not handled appropriately at the right time.
- In the absence of a unified regulator or a single regulator, the possibility for 'regulatory arbitrage' could not be ruled out. Presently there is no statutory compulsion that the regulators should part with each other the sensitive information relating to their respective regulatory areas in order to read the signal, if any, which has systemic implications.
- Differences in the risk characteristics in banking and insurance will persist, relating, in particular, to the time pattern and degree of uncertainty in the cash flows and that has to be recognised and appropriately handled.
- The insurers' internal risk management and control systems for managing their asset market activities, and credit risk seems to be relatively less transparent unlike the banking system as also the prudential regulatory and supervisory system towards insurance is relatively recent one and less rigor as compared with the banking system, especially in the context of the banking system moving towards the Basel II framework.
- Conflicts of interest between different regulators also could not be ruled out.

- Ensuring transparency and disclosure on activity-wise may be difficult task for the regulators, *albeit* it is essential.
- Possibility of abuse of consumers by bankers from being coerced to buy insurance products against their will need to be guarded, which RBI has been already emphasising in its circular.
- Risk of 'double gearing' also possible as pointed out by Gentlay and Molyneux (1998).
- Possibility of banks using the long term insurance funds to meet their short term liquidity and the problem of asset - liability management also could not be ruled out.
- Recognising the value of sound risk management practices and hence also valuations on an aggregate portfolio basis - rather than individual instrument basis – would become essential to achieve alignment of underlying economic realities with financial statements, as the system is moving towards higher integration of varieties of activities including insurance.

Section V
Concluding Remarks

The success of bancassurance greatly hinges on banks ensuring excellent customers relationship, therefore banks need to strive towards that direction. As pointed out by Low (2004), the changing mindset is cascading through the banking sector in India and this would be a right time for banks to resorting to bancassurance, especially in the context of proactive policy environment of regulatory authorities and the Government. The fact that the banking operations in India, unlike in other developed countries, are still branch oriented and manually operated *vis-à-vis* highly mechanized and automated banking channels, *viz.*, internet banking, ATMs, *etc.* are all the more conducive for flourishing of bancassurance. Regulators could explore the possibility of allowing banks having tie-up arrangements with more than one insurance company, giving wider choice for the customers. In addition to acting as distributors, banks have recognised the potential of bancassurance in India and will take equity stakes in insurance companies, in the long run. This is somewhat similar a trend observed in the United Kingdom and elsewhere where banks started off as distributors of insurance but then moved on to the fully owned insurance subsidiaries. Going by the present pace, bancassurance would turn out to be a norm rather than an exception in future in India. Supervisory concerns as pointed out earlier, could best be tackled by way of closer and systematized coordination between the respective supervisory authorities. There needs to be a clear cut identification of activities between banking and insurance at the institution's level as also at the level of regulators. Adequate training coupled with sufficient incentive system could avert the banks' staff resistance if any. In sum, bancassurance strategy would be a 'win-win situation' for all the parties involved - the customer, the insurance companies and the banks.

Notes

[1] Bharti Axa Life Insurance also commenced operation.

[2] According to IRDA Insurance broker means a person for the time-being licensed by the Authority under regulation 11, who for a remuneration arranges insurance contracts with insurance companies and/ or reinsurance companies on behalf of his clients. The insurance broker means either 'direct broker', a reinsurance broker or a, composite broker. An individual, firm, a company, a cooperative society or any other person authorized by the IRDA.

[3] Measured by the ratio of total insurance premium income by population.

[4] The process of increasing this upto 49% is still stated to be under active consideration of the Government.

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ANNEX I

RBI Guidelines for the Banks to enter into Insurance Business

Following the issuance of Government of India Notification dated August 3, 2000, 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, RBI issued the guidelines on Insurance business for banks.

1. Any scheduled commercial bank would be permitted to undertake insurance business as agent of insurance companies on fee basis, without any risk participation. The subsidiaries of banks will also be allowed to undertake distribution of insurance product on agency basis.

2. Banks which satisfy the eligibility criteria given below will be permitted to set up a joint venture company for undertaking insurance business with risk participation, subject to safeguards. The maximum equity contribution such a bank can hold in the joint venture company will normally be 50 per cent of the paid-up capital of the insurance company. On a selective basis the Reserve Bank of India may permit a higher equity contribution by a promoter bank initially, pending divestment of equity within the prescribed period (see Note 1 below).

   The eligibility criteria for joint venture participant are as under:

   i. The net worth of the bank should not be less than Rs.500 crore;

   ii. The CRAR of the bank should not be less than 10 per cent;

   iii. The level of non-performing assets should be reasonable;

   iv. The bank should have net profit for the last three consecutive years;

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

3. In cases where a foreign partner contributes 26 per cent of the equity with the approval of Insurance Regulatory and Development

Authority/Foreign Investment Promotion Board, more than one public sector bank or private sector bank may be allowed to participate in the equity of the insurance joint venture. As such participants will also assume insurance risk, only those banks which satisfy the criteria given in paragraph 2 above, would be eligible.

4. A subsidiary of a bank or of another bank will not normally be allowed to join the insurance company on risk participation basis. Subsidiaries would include bank subsidiaries undertaking merchant banking, securities, mutual fund, leasing finance, housing finance business, *etc.*

5. Banks which are not eligible for 'joint venture' participant as above, can make investments up to 10% of the net worth of the bank or Rs.50 crore, whichever is lower, in the insurance company for providing infrastructure and services support. Such participation shall be treated as an investment and should be without any contingent liability for the bank.

   The eligibility criteria for these banks will be as under :

   i. The CRAR of the bank should not be less than 10%;

   ii. The level of NPAs should be reasonable;

   iii. The bank should have net profit for the last three consecutive years.

6. All banks entering into insurance business will be required to obtain prior approval of the Reserve Bank. The Reserve Bank will give permission to banks on case to case basis keeping in view all relevant factors including the position in regard to the level of non-performing assets of the applicant bank so as to ensure that non-performing assets do not pose any future threat to the bank in its present or the proposed line of activity, *viz.*, insurance business. It should 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 'arms length' relationship between the bank and the insurance outfit.

Notes:

1. Holding of equity by a promoter bank in an insurance company or participation in any form in insurance business will be subject to compliance with any rules and regulations laid down by the IRDA/Central Government. This will include compliance with Section 6AA of the Insurance Act as amended by the IRDA Act, 1999, for divestment of equity in excess of 26 per cent of the paid up capital within a prescribed period of time.

2. Latest audited balance sheet will be considered for reckoning the eligibility criteria.

3. Banks which make investments under paragraph 5 of the above guidelines, and later qualify for risk participation in insurance business (as per paragraph 2 of the guidelines) will be eligible to apply to the Reserve Bank for permission to undertake insurance business on risk participation basis.

Insurance Agency Business/ Referral Arrangement

The banks (includes SCBs and DCCBs) 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.

Annex II

Life Insurance Companies in India as at the end-March 2005

Private Sector Companies

1. Bajaj Allianz Life Insurance Co. Ltd.
2. Birla Sun Life Insurance Co. Ltd.
3. HDFC Standard Life Insurance Co. Ltd.
4. ICICI Prudential Life Insurance Co. Ltd.
5. ING Vysya Life Insurance Co. Pvt. Ltd.
6. SBI Life Insurance Company Limited
7. TATA-AIG Life Insurance Company Ltd.
8. Sahara India Life Insurance Co. Ltd.#
9. Aviva Life Insurance Co India Pvt. Ltd.
10. Kotak Mahindra OU Mutual Life Insurance Co. Ltd.
11. Max New York Life Insurance Co. Ltd.
12. Metlife India Insurance Co. Pvt. Ltd.
13. Reliance Life Insurance Co. Ltd.
14. Shriram Life Insurance Co. Ltd.
15. Bharti Axa Life Insurance Co. Ltd.

Public Sector Company

16. Life Insurance Corporation of India

: The only private sector insurance Co without a foreign collaboration.

Non Life Insurance Companies in India as at the end-March 2005

Private Sector Companies

1. Royal Sundaram Allianz Insurance Co. Ltd.
2. TATA-AIG General Insurance Co. Ltd.

3. Reliance General Insurance Co. Ltd.
4. IFFCO-TOKIO General Insurance Co. Ltd.
5. ICICI Lombard General Insurance Co. Ltd.
6. Bajaj Allianz General Insurance Co. Ltd.
7. HDFC Chubb General Insurance Co. Ltd.
8. Cholamandalam MS General Insurance Co. Ltd.
9. Star Health and Alhed Insurance Co. Ltd.

Public Sector Companies

10. The New India Assurance Co. Ltd.
11. National Insurance Co. Ltd.
12. United India Insurance Co. Ltd.
13. The Oriental Insurance Co. Ltd.
14. Export Credit Guarantee Corporation Ltd.
15. Agriculture Insurance Company Ltd.