

Entry of Banks into Insurance Business

RESERVE BANK OF INDIA
CENTRAL OFFICE
DEPARTMENT OF BANKING OPERATIONS AND DEVELOPMENT
CENTRE - 1, WORLD TRADE CENTRE
CUFFE PARADE, COLABA, MUMBAI - 400 005

DBOD.No.FSC/BC.16/24.01.018/99-2000

August 9,2000

All Scheduled Commercial Banks (except RRBs)

Dear Sir,

Entry of banks into Insurance business

Please refer to paragraph 58 of the Governor's statement on the "Monetary and Credit Policy for the year 2000-2001" forwarded vide Circular MPD.No.BC. 196/07.01.279/99-2000 dated 27th April 2000 on the captioned subject. The guidelines on entry of banks into insurance business were set out in the Annexure thereto and the same are enclosed herewith for ready reference.

2. The Insurance Regulatory & Development Authority (IRDA) has recently issued Regulations on registration of Indian insurance companies. Government of India has also since issued a Notification 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. It may be noted that insurance business will not be permitted to be undertaken departmentally by the bank. Any bank intending to undertake insurance business in the manner set out in the Annexure should obtain prior approval of Reserve Bank of India before engaging in such business. Banks may, therefore, submit the necessary applications to us furnishing full details in respect of the parameters as specified in the above guidelines, details of equity contribution proposed in the joint venture/strategic investment, the name of the company with whom the bank would have tie-up arrangements in any manner in insurance business, etc. The relative Board note and Resolution passed thereon, approving the bank's proposal together with viability report prepared in this regard may also be forwarded to us.

3. Please acknowledge receipt.

Yours faithfully,

Sd.
(A.Ghosh)
Chief General Manager-in-Charge.

Encl: As above

Annexure

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 will be as under as on March 31, 2000:

- (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 continuous 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 as joint venture participant, as above, can make investments up to 10% of the networth 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 continuous 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. Audited balance sheet for the year ended March 31, 2000 will be considered for reckoning the eligibility criteria. For subsequent years, the eligibility criteria would be reckoned with reference to the latest available audited balance sheet for the previous year.
- 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.