

RBI/2004-05/ 252

RPCD.CO. RRB.BC.No. 51 /03.05.33 (G)/ 2004-05

October 27, 2004

Chairmen of all Regional Rural Banks / All Sponsor Banks

Dear Sir,

Entry of Regional Rural Banks into insurance business

As you are aware, under Section 6 (1)(o) of the Banking Regulation Act, 1949, "Insurance" has been notified as a permissible form of business that could be undertaken by banks. Further, in terms of Section 18 of the Regional Rural Banks Act, 1976, a Regional Rural Bank (RRB) may engage in one or more forms of business specified in sub-section (1) of Section 6 of the Banking Regulation Act, 1949. The Insurance Regulatory and Development Authority (Licensing of Corporate Agents) Regulations 2002 also recognises Regional Rural Banks (RRBs) as one of the entities eligible to act as corporate agent or composite corporate agent. The issue of permitting RRBs to undertake insurance business has been examined and it has been decided to permit RRBs to undertake insurance business as corporate agent ***without risk participation*** subject to their fulfilling the following terms and conditions:

- (i) The RRB should have positive net worth.
- (ii) The bank should have complied with the prudential norms on income recognition, asset classification, provisioning, investment norms, exposure norms.
- (iii) The bank should not have violated any directive in last two years.
- (iv) The Gross NPAs of the RRB should not be more than 10%
- (v) The bank should be in net profit during last three years and should not have any accumulated losses.
- (vi) The bank should comply with the IRDA regulations for acting as a corporate agent.

- (vii) 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.
- (viii) The risk, if any, involved in insurance agency should not get transferred to the business of the bank.
- (ix) The RRB should obtain prior permission from the concerned Regional Office of RBI before taking up the insurance agency business. The application should be recommended by the sponsor bank and routed through NABARD for their recommendation.

2. RRBs fulfilling the above norms and desirous of undertaking insurance business as corporate agents, may forward their applications along with certified copy of the Board Resolution in support thereof and details of their financial position as at the end of the previous quarter to the respective Regional Office. **No RRB should undertake insurance business without obtaining prior permission of the Reserve Bank of India.**

3. Permission granted to RRBs to undertake insurance business on non-risk participation basis as indicated above will be subject to their obtaining necessary authorisation / licence from IRDA. RRBs are advised that our permission should not be construed as a permission to adjust the dues of the insured from out of the proceeds of insurance claims. As regards the adjustment of dues of these banks against the insurance claims, it is to be decided based on the tri-party agreement amongst insured, insurer and the agent.

4. Please note that permission granted to an RRB for taking up insurance agency business as indicated above, will be normally valid for two years subject to review before expiry of the said period. The RRB has to get the approval renewed from the respective Regional Office of RPCD subject to its fulfilling the terms and conditions of the permission. If an RRB fails to fulfil the terms and conditions at any time subsequent to grant of permission, the same will be liable to be withdrawn.

5. Please acknowledge receipt of this circular to our respective Regional Office.

Yours faithfully,

(G. Srinivasan)
Chief General Manager