

RBI/279/2004-05

RPCD.CO.NB. BC.No. 59/03.03.116/2004-05

November 18, 2004

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

The issue of permitting Scheduled State Cooperative Banks/District Central Cooperative Banks to undertake insurance business has been examined and it has been decided to permit **scheduled or licensed SCBs and licensed DCCBs** to undertake insurance business as corporate agent **without risk participation** subject to their fulfilling the following terms and conditions:

- (i) The bank should be having a minimum positive networth [real or exchangeable value of paid-up capital and reserves as defined in Section 11 of the Banking Regulation Act, 1949(AACS)] of Rs. 100 crore as per the latest NABARD Inspection Report;
- (ii) The bank should have earned net profit for the last three years and should not have any accumulated losses;
- (iii) The Gross NPA of the bank should not be more than 10 per cent;
- (iv) The bank should not have violated prudential norms including individual and group exposure norms fixed by RBI / NABARD;
- (v) The bank should have complied with the instructions issued by RBI / NABARD on loans and advances to directors / relatives, firms etc;
- (vi) No premium collection accounts will be allowed to be opened with the bank and hence, premium collected should be directly paid to the insurance companies;
- (vii) The bank should comply with regulations of Insurance Regulatory and Development Authority (IRDA) for acting as corporate agent;

- (viii) The bank should submit an undertaking to the effect that banking business will not in any way get contaminated / affected on account of acting as agent of insurance companies;
- (ix) 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 and the customers should be allowed to exercise their own choice;
- (x) The bank should obtain prior permission from the concerned Regional Office of RBI before taking up the insurance agency business. The application should be routed through the concerned regional office of NABARD with their recommendation.

2. The SCBs /DCCBs 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 of RPCD through the concerned Regional Office of NABARD. **No SCB/DCCB should undertake insurance business without obtaining prior permission of the Reserve Bank of India.**

3. Permission granted to SCBs /DCCBs to undertake insurance business on non-risk participation basis as indicated above will be subject to their obtaining necessary authorisation / licence from IRDA. The SCBs /DCCBs 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 on the tri- partite agreement amongst insured, insurer and the agent.

4. Please note that the permission granted to an SCB/DCCB 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 SCB/DCCB 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 SCB/DCCB 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

(C.S.Murthy)
Chief General Manger-in-Charge