

## **RBI announces Final Guidelines for Entry of NBFCs into Insurance**

**June 9, 2000**

Any non-banking financial company (NBFC) registered with the Reserve Bank of India RBI having net owned fund of Rs 2 crore as per the last audited balance sheet would be permitted to undertake insurance business as agent of insurance companies on fee basis, without any risk participation.

All NBFCs registered with the Reserve Bank that 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 an NBFC 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 NBFC initially, pending divestment of equity within the prescribed period [see Note (1) below]. The eligibility criteria for joint venture participant will be as per the latest available audited balance sheet and as under:

- (i) The owned fund of the NBFC should not be less than Rs. 500 crore.
- (ii) The CRAR of the NBFC engaged in loan and investment activities holding public deposits should be not less than 15 per cent and for other NBFCs at 12 per cent irrespective of their holding public deposits or not.
- (iii) The level of non-performing assets should be not more than 5 per cent of the total outstanding leased/hire purchase assets and advances taken together.
- (iv) The NBFC 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 NBFC should be satisfactory.
- (vi) Regulatory compliance and servicing public deposits, if held.

The provisions of the Reserve Bank of India Act would be applicable for such investments while computing the net owned funds of the NBFC.

In case 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 NBFC may be allowed to participate in the equity of the insurance joint venture. As such, participants will also assume insurance risk, only those NBFCs that satisfy the criteria given in paragraph 2 above, would be eligible.

No NBFC would be allowed to conduct such business departmentally. A subsidiary or company in the same group of an NBFC or of another NBFC engaged in the business of an non-banking financial institution or banking business will not normally be allowed to join the insurance company on risk participation basis.

NBFCs registered with RBI that are not eligible as joint venture participant, as above can make investments up to 10 per cent of the owned fund of the NBFC or Rs.50 crore,

whichever is lower, in the insurance company. Such participation would be treated as an investment and should be without any contingent liability for the NBFC. The eligibility criteria for these NBFCs will be as under:

- (i) The CRAR of the NBFC (applicable only to those holding public deposits) should not be less than 12 per cent if engaged in equipment leasing/hire purchase finance activities and 15 per cent if it is a loan or investment company ;
- (ii) The level of net NPA should not be more than 5 per cent of the total outstanding leased/hire purchase assets and advances;
- (iii) The NBFC should have net profit for the last three continuous years.

All NBFCs registered with RBI entering into insurance business as agents or investors or on risk participation basis will be required to obtain prior approval of the Reserve Bank. The Reserve Bank will give permission to NBFCs on a case to case basis keeping in view all relevant factors. It should be ensured that risks involved in insurance business do not get transferred to the NBFC and that the NBFC's business does not get contaminated by any risks which may arise from the insurance business.

**Notes:**

(1) Holding of equity by a promoter NBFC 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) For applications received during the financial year 2000-2001, any fresh capital infused after the audited balance sheet date for 1999-2000 would also be taken into account. The unaudited and certified balance sheet as on a latest date may be reckoned for determining the eligibility criteria and the audited balance sheet for the above date would be submitted to the Reserve Bank as soon as possible.

(3) For subsequent years, the eligibility criteria would be reckoned with reference to the latest available audited balance sheet for the previous year.

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