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## Banks say no to insurance broking

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Banks have refused to give up their corporate agency license to become insurance brokers.

This came as a response after the Reserve Bank of India issued (on Thursday) the final guidelines permitting banks to undertake insurance broking business departmentally or by setting up a subsidiary/joint venture.

Banks told Financial Chronicle that they found the regulations onerous. Since the banks have floated insurance companies through joint ventures with own significant stakes in them, they would continue to sell policies of their subsidiary insurance companies. P K Gupta, deputy managing director and chief financial officer of State Bank of India, said, "We are not looking at becoming an insurance broker. It is a matter of trust and convenience. SBI bank customers are normally comfortable with the same brand and therefore we want to continue to sell products of our own companies (SBI Life and SBI General Insurance)."

Arun Tiwari, chairman and managing director, Union Bank, said, "By becoming an insurance broker we may be able to provide a wider choice of insurance products to our customers but the risks will increase manifold. The insurance broking regulations are onerous and bring a lot of fiduciary responsibility compared to the corporate agency model."

"Besides providing training our staff to sell a vast gamut of insurance products of multiple companies, we will have to conduct customer due diligence, have a full time designated principal officer for the broking company in the rank of a general manager and would be held responsible for any mis-selling. We are not geared up to offer insurance broking," added Tiwari.

Union Bank and Bank of India have floated a joint venture with Dai-ichi Mutual Life Insurance called to Star Union Dai-ichi Life Insurance.

R K Gupta, executive director, Bank of Maharashtra said, "We have no plans to become an insurance broker. We will continue as a corporate agent of Life Insurance Corporate of India (LIC). We refer our customers to agents of LIC who are responsible for the insurance sale. Our accountability and responsibility will increase manifold for which we are not prepared."

Ashish Vohra, senior director and chief distribution officer at Max Life Insurance said, "My sense is that there will not be a lot of interest at this point of time as banks priorities are expanding into SME and mid market segment, penetrating the under banked areas, lending, chasing rural targets and customer service. Over the years when the banking sector becomes saturated, they may look at insurance broking as has been witnessed in several countries."

Under the existing insurance regulations, a bank is allowed to act as a corporate agent and distribute policies of one life and one non-life insurer. By becoming an insurance broker, a bank can sell policies of multiple insurance companies. While an agent

represents the insurer, a broker represents the customer. There are nearly 55,000 bank branches that have never sold a life insurance policy.

As per the final RBI norms, a bank wanting to offer broking would have to train its staff to sell the products of multiple insurers, and will carry fiduciary liability in their books. The norms state that the net NPA of a bank should be less than three per cent of overall assets to be eligible for insurance broking, a bank can enter insurance broking only if their capital to risk (weighted) assets ratio is 10 per cent and above, and the net worth of the bank should not be less than Rs 1,000 crore.

There are many banks that have floated joint venture insurance companies and hold significant stakes in them. Insurance companies floated by banks would find a conflict of interest in the broking idea said head of a private life insurer. For instance ICICI Bank holds 74 per cent stake in ICICI Prudential Life and ICICI Lombard General Insurance, State Bank of India holds 74 per cent stake in SBI Life and SBI General, HDFC Ltd (mortgage lender) holds similar stake in HDFC Life and HDFC Ergo General Insurance, Kotak Bank holds 74 per cent stake in Kotak Life Insurance. Besides IDBI Federal Life Insurance, Star Union Dai-ichi Life Insurance, India First Life Insurance, Canara HSBC Life Insurance also have banks as their promoters.

The remuneration too is lower for a broker. While, as a corporate agent, a bank can earn up to 40 per cent (35 per cent in case the insurance company they represent have completed 10 yrs of operations) of the first year premium as commission for selling a life insurance policy while as a broker, it would be entitled to a maximum of 30 per cent of the first year commission. Once the policy turns up for renewals, an individual agent and corporate agents can earn up to 7.5 per cent of the premium amount in the second and third year and up to five per cent in the fourth year onwards till the maturity of the policy while as a broker, banks will earn a maximum of 5 per-cent renewal commission from the second year of the policy.

Insurers without banks as promoters had long been demanding that banks be allowed to enter insurance broking. This is because in roping a bank as a distribution partner, an insurer gets ready made access to the customer base of the bank, access to large branch network of the bank pan India (especially in the case of nationalised banks), and cost effective distribution. According to an analyst, as a thumb rule, the cost of a retail agency, corporate agency and broking channel is

1.2 to 1.5 times a bancassurance channel provided the traditional/integrated bancassurance channel is practiced where the bank employee sells the insurance policy along with normal banking products.

Internationally, in countries such as Singapore, Malaysia, Indonesia, and many European countries the bancassurance channel is most cost effective compared to traditional models of distribution such as retail agency, broking, corporate agency and Independent Financial Advisors. Take for instance, SBI Life Insurance company using the bancassurance model was able to breakeven in the fifth year of its operations and has been making profits consistently.

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