बीमा विनियामक और विकास प्राधिकरण

INSURANCE REGULATORY AND DEVELOPMENT AUTHORITY

No. IRDA/AGENTS/CIR/BANC/ 115 /06/2011 June 7, 2011

CIRCULAR

Re: Report of the Committee on Bancassurance – Reg.

The IRDA had constituted a Committee on Bancassurance vide Order No. IRDA/AGENTS/ORD/02/APR 2009 dated May 4, 2009 to study the distribution of insurance products through Banks. The Committee had invited for comments/views from key stakeholders, insurers, consumer associations, distributors, etc., and after analysis of these views the Committee had submitted their recommendations to the IRDA on 26th May, 2011. Chairman, IRDA had addressed the Governor, Reserve Bank of India for his remarks on the recommendations made by the Committee.

The Report of the said Committee is annexed. The comments are invited from general public, stakeholders, consumer bodies, etc., which may be sent to the following address **on or before 10th July, 2011**:

Mr. R K Sharma
Deputy Director
Insurance Regulatory and Development Authority
3rd Floor, Parisrama Bhavan, Basheer Bagh
Hyderabad - 500 004
Email: rksharma@irda.gov.in
Ph: (040) 2338 1300 (B)
Fax: (040) 6682 3334

(A Giridhar)
Executive Director

परिश्रम भवन, तीसरा तल, बशीरबाग, हैदराबाद-500 004. भारत
✆ : 91-040-2338 1100, फैक्स: 91-040-6682 3334
ई-मेल: irda@irda.gov.in वेब: www.irda.gov.in

Parisharam Bhavan, 3rd Floor, Basheer Bagh, Hyderabad-500 004. India.
Ph.: 91-040-2338 1100, Fax: 91-040-6682 3334
E-mail : irda@irda.gov.in Web.: www.irda.gov.in

Report of the Committee on
BANCASSURANCE

INSURANCE REGULATORY AND DEVELOPMENT AUTHORITY

Parishram Bhavan, Basheerbagh, Hyderabad – 500 004.
Andhra Pradesh, India.
www.irda.gov.in

बीमा विनियामक और विकास प्राधिकरण
INSURANCE REGULATORY AND DEVELOPMENT AUTHORITY

Hyderabad, the 26th May, 2011

The Chairman
Insurance Regulatory and Development Authority
Hyderabad

Dear Sir,

Committee on Bancassurance

I have immense pleasure in submitting the report of the Committee on 'Bancassurance' appointed vide Order dated May 4, 2009 (copy enclosed).

On behalf of the Members of the committee, and on my own behalf, I sincerely thank you for entrusting this responsibility to us. I also thank you for granting extension of time to the Committee to work on the areas that formed part of terms of reference and the opportunity to report thereon has been utilized to come up with a more comprehensive report.

With regards,

Yours sincerely,

(A Giridhar)
Executive Director
Convenor of the Committee

परिश्रम भवन, तीसरा तल, बशीरबाग, हैदराबाद-500 004. भारत
✆ : 91-040-2338 1100, फैक्स: 91-040-6682 3334
ई-मेल: irda@irda.gov.in वेब: www.irda.gov.in

Parisharam Bhavan, 3rd Floor, Basheer Bagh, Hyderabad-500 004. India.
Ph.: 91-040-2338 1100, Fax: 91-040-6682 3334
E-mail : irda@irda.gov.in Web.: www.irda.gov.in

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INSURANCE REGULATORY AND DEVELOPMENT AUTHORITY

IRDA/AGENTS/ORD/02/APR 2009 May 4, 2009

ORDER

At present insurance companies have a choice of distribution channels viz., corporate agents, agents & brokers. Banks are engaged in the different distribution activities on their own and/or through separate legal entities subject to the general conditions specified by the Authority for the concerned channel. The agency distribution arrangement through banks is generally understood as "Bancassurance" model.

The Authority has been receiving requests from various Life and General Insurance Companies to relax the requirement that the banks cannot have agency tie-ups with more than one insurer. Indian Banks' Association in their representation to IRDA stated that the banks have wide network throughout the country and are well suited to market insurance products in the areas of low insurance penetration.

A Committee constituted by IRDA in September 2007 (Chairman, Shri N. M. Govardhan) to study the functioning of various distribution channels, their effectiveness and weaknesses and make recommendations to make them more professional, had also looked into various aspects relating to Bancassurance. The recommendations of the Committee are being examined separately.

Currently, the commercial and other banks regulated by RBI have enormous outreach via branches across length and breadth of the country. The extensive bank branch network could be significantly leveraged for extending insurance penetration in India. The extant regulatory structure on intermediaries does not facilitate multiple tie-ups and also require specified approval processes for multiple agencies within a group and other related structures. The banks are also required by RBI to address certain regulatory issues before setting-up broking entities. In the above background, it has

परिश्रम भवन, तीसरा तल, बशीरबाग, हैदराबाद-500 004. भारत
✆ : 91-040-2338 1100, फैक्स: 91-040-6682 3334
ई-मेल: irda@irda.gov.in वेब: www.irda.gov.in

Parisharam Bhavan, 3rd Floor, Basheer Bagh, Hyderabad-500 004. India.
Ph.: 91-040-2338 1100, Fax: 91-040-6682 3334
E-mail : irda@irda.gov.in Web.: www.irda.gov.in

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been decided to have a relook at the existing regulatory architecture on Bancassurance Intermediation Model and the attendant implications of modifications thereof.

Accordingly, a Committee has been constituted with the following terms of reference:-

i) To examine the desirability for a differential treatment of insurance intermediation by banks under the Bancassurance model consistent with international best practices and modified suitably to meet domestic regulatory requirements.

ii) To examine the scope, content and objective of a separate set of Regulation for Bancassurance model to meet the issue at (i) above.

iii) To examine changes, if any, needed on the role played by banks in the discharge of Bancassurance function keeping in view the market conduct requirements and focus on the protection of interests of policyholders.

iv) To examine recommendations made by the IRDA Committee on Intermediaries of Bancassurance scheme (Chairman, Shri N. M. Govardhan).

v) Any other matter issues of relevance to Bancassurance model of intermediation.

The following Members are nominated to the Committee:-

i) Shri Deepak Satwalekar, Retd. CEO of HDFC Standard Life Ins. Co.
ii) Shri G. V. Rao, Former CMD, Oriental Insurance Co. Ltd.
iii) Shri S. V. Mony, Non Ex-Chairman, Cholamandalam General Insurance Co. Ltd.
iv) Shri Sandeep Bakshi, CEO, ICICI Lombard.
v) Shri R. Krishnamurthy, Managing Director, Watson Wyatt
vi) Shri NM Govardhan, Ex Chairman, LIC.
vii) Shri A. Giridhar, Executive Director, IRDA (Convenor)

The Committee may submit the report in a period of two months for the consideration of the Authority.

(J. Hari Narayan)
Chairman

परिश्रम भवन, तीसरा तल, बशीरबाग, हैदराबाद-500 004. भारत
✆ : 91-040-2338 1100, फैक्स: 91-040-6682 3334
ई-मेल: irda@irda.gov.in वेब: www.irda.gov.in

Parisharam Bhavan, 3rd Floor, Basheer Bagh, Hyderabad-500 004. India.
Ph.: 91-040-2338 1100, Fax: 91-040-6682 3334
E-mail : irda@irda.gov.in Web.: www.irda.gov.in

Acknowledgement

The Committee gratefully acknowledges the valuable inputs given by the organizations and key stakeholders with whom the Committee had the opportunity to interact directly or indirectly.

The Committee would like to express its appreciation to Mr. S. B. Mathur, Secretary Life Insurance Council and Mr. S. L. Mohan, Secretary General Insurance Council who ably coordinated the production of the report.

The Committee would also like to record its appreciation of the excellent support received from Mr. N. Srinivasa Rao, Former Financial Advisor, IRDA who provided valuable assistance by way of carrying out analysis.

The Committee acknowledges with appreciation the role of Mr. Suresh Mathur, Joint Director who coordinated all the meetings and organized presentations to the Committee from various stakeholders.

The Committee also acknowledges the valuable inputs given by various officials of IRDA and in particular Dr. R. K. Sinha, Mr. V. Sai Kumar - Officers on Special Duty, Mr. S. Karthikeya Sharma, Mr. R. Partha Saradhi, Mr. Mohammad Ayaz - Assistant Directors for making available the data for carrying out analysis.

Ms. R. Sangeetha, Junior Officer, Mr. M. Prasad and Mr. A. Manohar worked untiringly in preparation of the report and deserve a special mention of commendation.

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EXECUTIVE SUMMARY

Bancassurance is defined as the insurance distribution model where insurance products are sold through bank branch network. The presence of several banking groups as promoters of insurance companies is of great significance to this model. With a network of over 80,000 branches, spread across the length and breadth of the country banks are having the necessary potential to make bancassurance the most efficient way to achieve financial inclusion in insurance sector also. The bank customers with higher average premium per-capita provide quicker means to grow for insurers. The complementary nature of insurance products towards the bank advances (e.g. credit life) provide synergies in operations to the entire financial sector. The ease of access to bank customers reduces servicing costs, contributes to lower lapsation of insurance policies and hence lower costs to the economy.

Banks see value in insurance business due to complementarity of products, fee income derived from the distribution of insurance and ease of recovery of advances in case of death of the borrower or destruction of properties. Several banks being promoters of the insurance companies also gain when valuation of those companies goes up due to synergies derived from bancassurance.

The growth of Bancassurance was phenomenal in initial years of opening. The premium collected through Bancassurance has gone up to ₹ 21947 crore in the financial year 2009-10 which is 7.31% of the total premium income of life and non-life insurance sectors. In the year 2009-10, the total compensation received by banks is approximately ₹ 2744 crore. There are 17 banks with shareholding in insurance companies. The total paid up capital infused by the banks as on 31.03.2009 was ₹ 3328.36 crore and as on 31.03.2010, it was ₹ 3735.31 crore. However the premium growth seems to have reached a plateau due to the inability of both banker & Insurance companies in exploiting full potential of bank customer profile. Not even 10% of the housing advances are covered either by credit life or mortgage insurance. This is of concern when we consider the low levels of insurance penetration in the country.

The reasons for such low utilisation of potential of bancassurance are manifold, principal ones being the monopolistic relations, low levels of training, lack of operational coordination, unequal relationship, short duration of tie-ups, lack of specially designed products, non utilisation of technology platform and poor servicing standards prevailing in bancassurance channel.

The banking regulator has set up enviable standards in customer servicing, redressal of grievances, transparency in charges apart from stringent control over operational procedures. It is necessary to provide similar set of standards in bancassurance business also. For achieving the higher insurance penetration, and density, higher levels of policy holder servicing and for providing a proper regulating framework the committee made the following recommendations:

1) The Bancassurance channel may be allowed to operate on principles of tied agency preserving the current legal status of the bank as an agent of the insurer.

2) Banks may be allowed to have tie-up with any two sets of insurers .
   - Two in life insurance sector
   - Two in non-life insurance sector excluding health
   - Two in health insurance sector
   - ECGC and AIC.

3) Constitution

A 'Bank' defined as per Banking Regulation Act 1949, and any subsidiary of a bank constituted as a special purpose vehicle for insurance distribution exclusively with RBI's approval and NBFCs, including HFCs, accepting deposits and branches of foreign banks operating in India may be permitted to conduct insurance business in India under the 'Bancassurance'. Each banking group may be permitted to tie up with the same set of insurers, irrespective of the number of corporate agent licenses the group has.

4) i) Compensation to Banks: The banks shall not be eligible for any compensation other than the commission payable for distribution of insurance products. The current stipulation in Corporate Agency Regulations, barring all other payments shall be applicable to the banks also. The CEO and CFO of the bank shall certify the sum total of all payments or reimbursements received by bank and its affiliates from the insurers and their affiliates on annual basis.

ii) Discount in valuation of Equity share given by insurers to bank distribution partners and all other types of payments in cash or kind shall be valued as per accounting standards, at arms length and treated as advance commission and amortised in a period not extending beyond three years.

iii) The Bancassurance regulations shall provide for recovery of any compensation received in excess of the permitted commission, from banks and their affiliates.

5) Accounts and certification

i) The bancassurers shall have to maintain an appropriate form of auditable accounts. A Compliance Certificate from CEO and CFO shall be prescribed.

ii) They shall furnish the periodical returns to the Authority in the formats as prescribed by the Authority.

iii) Provisioning for operational risk by bancassurers for the insurance distribution may be prescribed by RBI.

iv) Insurance vertical of the bank/SPV shall be headed by an officer who reports directly to Board of Directors of the Bank.

v) Corporate governance norms regarding disclosure shall have to be complied by the banks treating Bancassurance as integral part of bank's business operations.

6) Training

i) Regulations shall mandate that the bank staff be fully trained in handling insurance products so that the sale process is transparent and the policyholder gets full disclosure of the features of the product. One-time rigorous training may be given to the sales personnel of the bank, with added stress on complex products along with stricter certification at renewal.

ii) The bancassurers shall market insurance products only in those branches where specified person is posted.

7) Code of Conduct

i) Mis-selling of Insurance Products: Any malfeasance, misfeasance or nonfeasance by the bank staff shall be strictly dealt with by RBI. Banking Ombudsmen may be mandated by RBI to accept complaints from policyholder, whenever the bank or its staff is found

in default. However, the Insurer is always answerable to the policyholder, as long as 64VB of Insurance Act is satisfied.

ii) Claim settlement: The agreement between the banker and the insurer may provide for banker to assist the policyholder in making the claim and processing the claim as per the procedures prescribed by the insurance company.

iii) Policy Servicing: The insurers and bancassurers shall enter into a detailed Service Level Agreement (SLA) regarding the policy servicing activities to be undertaken by the insurer.

iv) The insurer may be allowed to rely on the due diligence and KYC carried out by the bank for its existing relationships.

v) The sale of insurance products by bank staff shall compulsorily be preceded by Needs Analysis.

vi) A joint grievance mechanism with senior staff of bank and insurer has to be set up to review complaints at pre-ombudsmen stage, at the end of every quarter.

8) Inspection and Supervisory terms

i) The Bancassurance regulation may provide for IRDA and RBI to inspect any of the Bancassurance partners.

ii) IRDA shall strengthen the inspection and off site monitoring of distribution partners as they account for the largest component of expenses.

9) Agreement between the banker and the insurer

i) The tenure of the agreement between the banker and the insurer shall not be less than five years.

10) Referral System

It is observed that the referral model is costlier than the corporate agency model. Inequitable relationship between the banker and the insurer has resulted in higher premium on the policyholder. The referral system shall not be available to bancassurers.

11) IT and other Infrastructure

Technology platform built by banks is of immense use for them in Bancassurance business. Efforts shall be made to leverage the technology to improve efficiency of distribution.

12) The permission to tie up with multiple insurers as per these recommendations shall be contingent upon banks fulfilling all the conditions specified in these recommendations.

It is expected that the above recommendations, when implemented will result in a vibrant bancassurance channel, benefiting the policy holders, banker and insurer.

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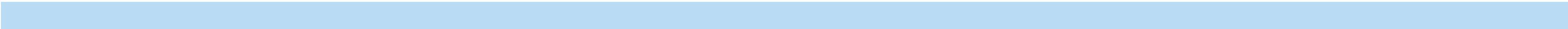


CHAPTER – I

Bancassurance

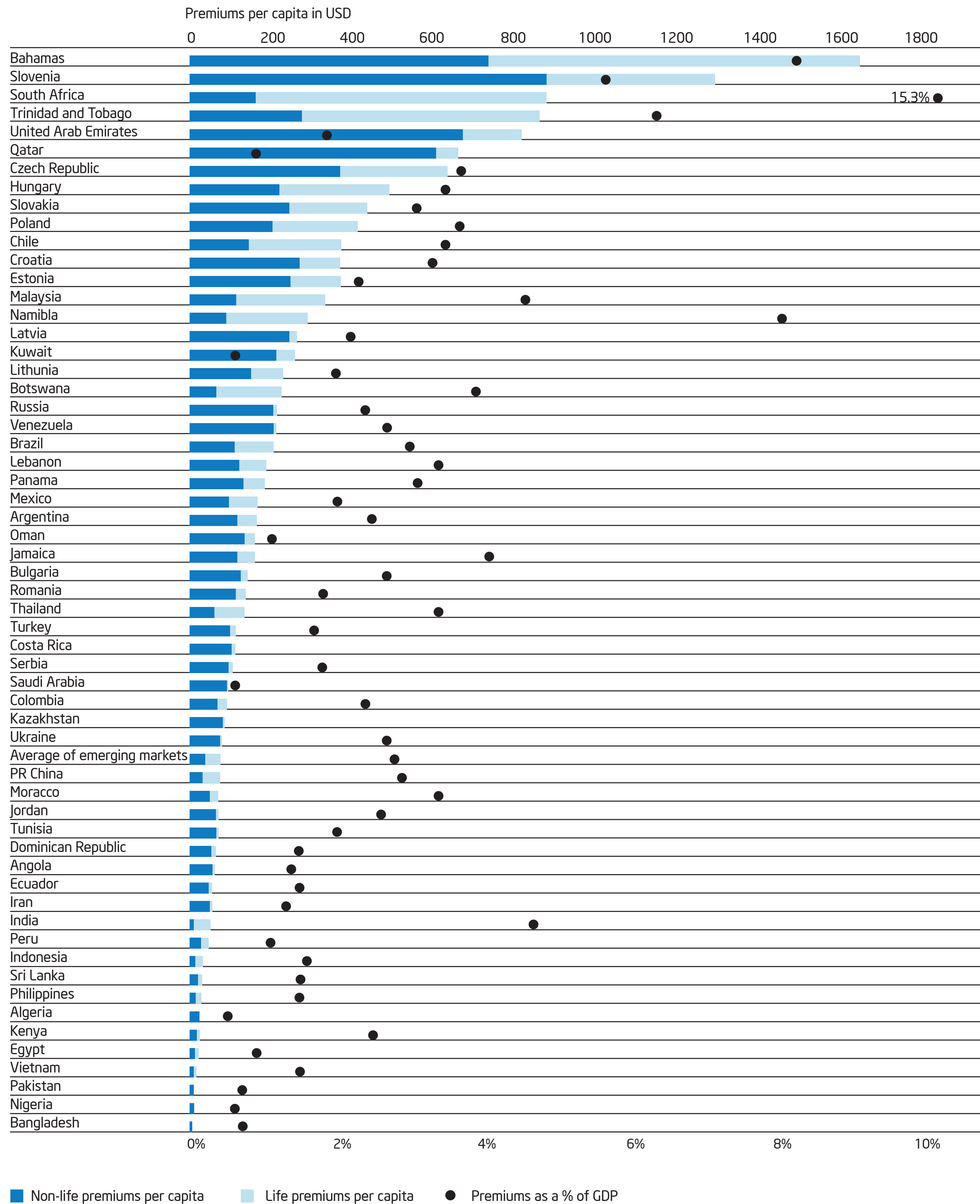
Bancassurance as a distribution strategy involves selling insurance products via branch network of banking organisations. This channel of distribution involves various combinations of both banking and insurance activities. Bancassurance is the common factor that unites "an insurance arm with a banking arm" and the "basic rationale behind bancassurance is to improve earnings of the bank by selling the products of one arm to the customers of the other arm. Bancassurance in Europe developed out of a need to find ways to protect, grow, and diversify revenue streams as both banking and insurance industries were in a relatively mature stage of development." Bancassurance – a term coined by combining the two words bank and insurance (in French) – connotes distribution of insurance products through banking channels. This concept gained currency in the growing global insurance industry and its search for new channels of distribution.

Bancassurance is an established and growing channel for distribution of insurance products, though its penetration varies across different markets in the World. Europe has the highest Bancassurance penetration rate when compared to Asia and North America, reflecting regulatory restrictions there. The evolution of Bancassurance has thrown up a number of opportunities and challenges. Economic, social and cultural factors interacting on each other, stage of development of the sector, legislative hurdles, and regulatory laws, have largely dominated the study and literature on Bancassurance.

(Bancassurance is gaining popularity in Asia, particularly in China and India where Regulation is relatively liberal.)

Figure-1 given below shows the spread of insurance amongst the developed as well as emerging economies of the world through all channels. The scope for improvement in the distribution of insurance products in under developed markets in the emerging economies given the low insurance density and penetration in these countries as compared to the advanced nations is also clearly brought out by the graph.

Figure -1



Source: Swiss Re Sigma 2008

A brief description of the various existing Bancassurance models in different countries is given here for understanding the methods adopted and the strategies employed in steering the insurance business through the bank channels.

Bancassurance business models across the world

Europe

The most successful Bancassurance players in France, Italy, and Spain operate either through fully owned insurance subsidiaries or through joint ventures that have an exclusive distribution agreement with the bank. In these countries insurance business is deeply integrated with the banks' processes. Premiums are collected by the bank, usually by direct debit from the customer's current account held in the bank. New business data entry is done in the bank branches and workflows between the bank and the insurance companies are automated. In most cases, asset management is done by the bank's asset management subsidiary. Insurance products are distributed by branch staff, which is sometimes supported by specialised insurance advisers for more sophisticated products or for certain types of clients such as preferred customers. Life insurance products are fully integrated in the bank's range of savings and investment products and the trend is for branch staff to sell a growing number of insurance products that are becoming farther removed from its core business, e.g., protection, health, or non-life products. Products are mainly medium- and long-term tax-advantaged investment products. They are designed specifically for Bancassurance channels to meet the needs of branch advisers in terms of simplicity and similarity with banking products. In particular, these products often have a low risk insurance component. Bank branches receive commissions for the sale of life insurance products. Part of the commissions can be paid to branch staff as commissions or bonuses based on the achievement of sales targets.

Insurance products are sold by selected branch staff members who are given appropriate product training, but are not usually licensed as insurance agents in **Central Europe**. Banks in these regions distribute an extensive range of insurance products including savings products that normally compete with their banking products. Unlike the Southern European model, these products are similar to products sold through traditional insurance channels, although the increasing trend is to develop tailored products designed for distribution through bank branches to facilitate the sales process and to avoid channel conflict for insurance companies distributing through multiple channels. Most business is regular premium savings, usually with profit endowment and unit-linked, often offered with a range of rider benefits such as accidental death, permanent disability, and critical illness.

Partnerships with single, external underwriters also constitute the most commonly occurring operating model for business of insurance, which is the lead model in **Spain** relative to other operating models. However, the use of internal brokerage divisions and panels spanning several underwriters is much lower. In a handful of cases, external brokers have won significant Bancassurance distribution mandates. The use of external brokers by banks for commercial insurance policies is widespread only in Austria, Italy, UK and Ireland.

The internal brokerage systems, which are quite popular and can be witnessed with a significant degree of frequency in Austria, France, Italy, Netherlands, Spain and UK / Ireland. Captive insurers are dominant in commercial lines of Bancassurance in France, Italy and Portugal. The use of banks' captive underwriters for business insurance policies, on the other hand, is mostly in evidence in Belgium, France and Portugal. In Belgium, the leading four banking institutions - Dexia, Fortis, ING and KBC - insure a majority of the commercial policies

offered on a captive basis while this is also the approach of Crédit Mutuel in France and of both Banco Espírito Santo and Caixa Geral de Depósitos in Portugal.

With respect to joint venture underwriters, they account only for a small proportion of commercial non-life insurance products offered in Europe by banks in France, Italy, the Netherlands and Portugal.

Hong-Kong Model

The trend in recent years in Honk-Kong has been for banks to establish wholly owned subsidiaries or joint ventures with an insurance company or to set up exclusive Bancassurance agreements with a single life insurer. In general, most life insurance companies perform all business processing and asset management functions in Hong-Kong. Bancassurance business is predominantly sold by bank staff but in some cases, the staff of insurance company works in the branches of the partner bank. Most insurance products are sold through banks along with savings and investment products. The most popular products that are sold at present are single and regular premium traditional endowments with limited premium terms and single premium investment linked savings with negligible life cover. Banks normally receive commissions and fee income from the insurers and the sales personnel are normally paid a fixed salary, but also receive a sales-related bonus or commission.

Private Banks offer life insurance products as part of their wealth management services and usually operate through non-exclusive agreements with several insurance companies. They tend to select different providers for each type of product to leverage the wealth management expertise of the best life insurance providers. Specific tailored products are demanded by most banks to meet the needs of their high net worth clients (in terms of premiums, guarantees, or choice of funds within unit-linked products)[1]. The share of Bancassurance in life insurance business in Hong Kong is around 35 per cent.

Bancassurance in Latin America

Foreign insurance companies have largely relied on the local banking network, which already enjoys an extremely strong geographical presence to create partnerships or sometimes simply to take over the partner bank. This transfer of ownership has turned out to be one of the main reasons for the success of Bancassurance in Latin America. That is why, despite its status as a "developing market" in many spheres, and the disparity observed from one country to the other and given the domination of traditional networks of brokers and agents, Latin America is the region where Bancassurance is in the process of becoming a major distribution channel. *Following the deregulation of the financial services sector in most Latin American countries, banks were authorized to sell insurance products directly.* By contrast with the European experience, the first products sold were non-life policies (mostly fire or motor insurance). In recent years, however, it is life insurance products that have become more popular in several of the countries in the Latin American region.

In **Brazil**, the law makes it compulsory for an approved broker to be involved in all insurance sales. As a result, both insurance companies and banks sometimes have their own brokers. However, the banks have been active in the insurance market since the 1970s. This experience explains why they now play a dominant role in the distribution of insurance policies with almost one quarter of premiums being generated through this channel (including more than half of life premiums). In **Argentina**, big international banks (Citigroup, HSBC, BBVA and Banco Santander) have acquired stakes in Argentinian life insurance companies and pension funds, and sales of life insurance products by the banks are growing substantially in recent times. However, the

[1] New Trends in World Bancassurance, Milliman Research Report, by Corrine Legrand, 2004.

traditional distribution channels continue to dominate the market in Argentina when compared to the Bancassurance channel of distribution.

In **Chile**, banks have been legally allowed to sell life insurance products since 1997. However, an authorized intermediary must be present for every insurance sale in a bank. Between 1999 and 2003, Bancassurance enjoyed an astonishing average annual growth rate of 29%, reaching 10.6% of total insurance premiums (life + property) in 2003. Most life insurance products sold by the networks consist of group insurance (88.1% in 2003). Nevertheless, although individual life policies only represent 11.9% of total sales at the moment, growth in this sector has been extremely buoyant over the past 4 years with an average of 53.8% compared with 25.9% for group policies. At the same time, the property market is still growing fast mainly as a result of growth in the sale of fire insurance policies in bank branches. In **Mexico**, banks played an important role in the establishment of pension funds after the 1997 reform. Since then, many foreign insurance companies have gone into partnership with local banks. In 2001, between 10% and 15% of total life and annuity premiums came from bank sales. The potential for growth in Bancassurance in Latin America is still enormous, since the penetration rate in these countries is very low.

One of the reasons for the success of Bancassurance in certain countries is that big banks or international insurance companies have sought to move into countries where the penetration rate of insurance is quite low. Most of these big banks successfully created alliances or partnerships with insurance companies that were familiar with the customs and needs of local consumers, or with local banks that already had dense and organized branch networks. Through these formal arrangements, Bancassurance was often able to be established at relatively low cost, yet very fast and effectively. The best example is undoubtedly that of Spain, but also certain countries in Latin America where foreign banks and insurance companies have a very high presence.

Bancassurance in South Korea

South Korea's Bancassurance regime, started in August 2003, has emerged as a major sales channel for the insurance industry in that country. The latest available data from the Financial Supervisory Service (FSS) suggest that Bancassurance accounted for more than 7% of total insurance premiums from April to June 2006, which was more than double the penetration recorded in financial year 2003-04, when the regime was first launched. Shortly after the Bancassurance launch in 2003, concerns from insurers about the potential destabilizing impacts on pricing and the existing 300000-strong sales agents force began to surface in South Korea.

Even at the current pace of liberalization, Bancassurance has already transformed the insurance competitive landscape considerably. According to the Financial Sector Regulator, Bancassurance accounted for only 3.5% of life policy sales for the top three life insurers in 2005-06, but among the remaining domestic and foreign insurers, the corresponding ratios were 22% and 11% respectively. This is an indicator of the potentially large redistributive effects in marketing power from Bancassurance tending to favour the less established players. It also helps to explain a marked decline in market concentration in the life insurance industry in recent years, when the combined market share of the top 5 domestic life insurers fell from 83% in 2003-04 to 75% in 2005-06.

Bancassurance in Malaysia

Bancassurance in Malaysia started with the establishment of Mayban Life Insurance in 1992 as a dedicated Bancassurance arm of Maybank of Malaysia, one of the largest banks in Malaysia. Maybank employed

the Bancassurance model to leverage on the bank's brand name and branch network to market the life insurance business in the Malaysian market. The highly integrated model employed (Maybank Life Insurance is a subsidiary of Maybank) allowed the life insurers to exploit the customer base of its parent company about five million customers through 265 Maybank and 100 Mayban Finance branches. The company was able to pass on some of the cost savings to customers. It has also succeeded in using bank's other capabilities like payment services. In a similar fashion, Mayban General Assurance (Berhad) was established later in a partnership with Fortis to distribute non-life insurance products.[2]

Bancassurance in China

In China, commercial banks have quickly become a major distribution channel of insurance since the Insurance Law was revised in 2003 which lifted restrictions stating that banks were no longer limited to being agents for one insurance firm. **Annexure-1** gives a brief overview of the Chinese bancassurance market.

Bancassurance has become the dominant sales channel for life insurance in China in recent years leading to a rapid growth in premium volumes. Banks in China have considerable marketing power in the financial services arena and they are also permitted to sell multiple brands of insurance - although until recently they were not allowed to own insurers outright. The resulting model is one in which banks often sell relatively unsophisticated savings-type products – offerings that carry a variety of brand names – in an untargeted way. However, the breadth and sophistication of currently available products, as well the overall quality of customer service, still lag behind Bancassurance activities in many other countries. There is also a growing recognition that the present market structure in China is not a sustainable one and China Insurance Regulatory Commission (CIRC) have recently made regulations reforming Bancassurance in order to promote orderly growth and policy holder protection.

"The proposed new partnerships can take four basic forms: exclusive distribution partnerships; joint ventures; financial holding companies; and integrated lines of business. Companies that both make the right strategic choices and that excel in swift implementation of a more advanced and customer centric Bancassurance model will find themselves wielding considerable power in China's opportunity-rich financial services market. Chart I below shows the penetration levels in China as compared to some other prominent countries where growth of insurance is expected to rise in the coming years"[3].

The loosening of previously tight control on bank distribution of insurance products had contributed significantly to the growth of Bancassurance in China. Other markets have also benefited from the willingness of regulators to permit cross-selling by different financial intermediaries. Many emerging markets lack one of the key ingredients that have helped the growth of European Bancassurers, i.e., fiscal incentives[4]. It can be said that despite the lack of such incentives in most emerging markets, Bancassurance has successfully emerged as one of the key distribution channels in selected markets.

Bancassurance growth in emerging markets

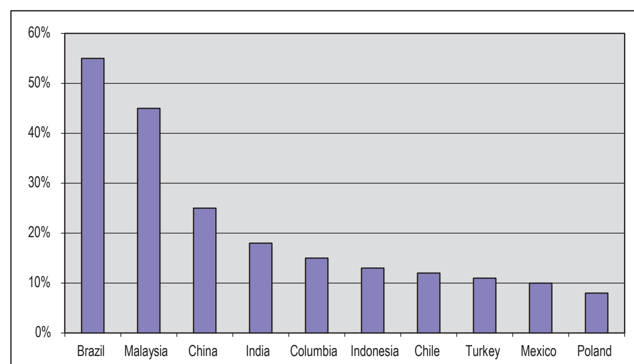
The growth of Bancassurance in emerging markets in recent years has been quite strong. Bancassurers' success in continental Europe is partly on account of its use of simple and standardized policies to sell to bank customers in as short an interface time as possible. The same factors also seem to be underpinning the success of Bancassurance in many emerging markets based on an analysis carried out by Swiss Re. The Chart below depicts the growth of Bancassurance in some of the emerging economies.

[2] Source: from Sigma 7/2002

[3] Sigma December, 2009

[4] While life insurance products enjoy tax concessions in certain emerging markets, insurance products are generally not taxed differently if sold through banks.

Chart-1



Bancassurance penetration in selected emerging life insurance markets, 2005

Source: *Swiss Re Sigma No. 5/2007- National Insurance Authorities, Swiss Re Economic Research and Consulting*

According to the report of Focus on Bancassurance[5], a major explanation for the runaway success of Bancassurance in certain countries is that big banks or international insurance companies have sought to move into countries where the penetration rate enjoyed by insurance is still low. They successfully created alliances or partnerships with insurance companies that were familiar with the customs and needs of local consumers, or with local banks that already had dense and organized branch networks. Through these agreements, Bancassurance was often able to set up at relatively low cost, yet very fast and effectively. Recently many countries in Asia are also following this development pattern, which is corroborated by the growth of Bancassurance as depicted in the above chart for the emerging economies.

It is important that India learns from the experience in Europe, where the strengths of banking sector were exploited by insurance companies to provide customers highly useful products like pensions and market linked savings, fuelling extraordinary growth of the insurance business. We also need to look at these models as we have important Joint ventures between banks and MNC insurers like in Europe. Similarly, we also need to look at Chinese developments very recently as the two markets are at similar stage of development. While Chinese authorities have come full circle of restriction, liberalisation and again partial clamp down in banking regulations, Indian authorities have the advantage of borrowing the successful models from Chinese experiment. Subsequent Chapters of the report extensively draw upon the experiences across the Europe and China.

A brief snapshot of various regulatory structures for Bancassurance in some of the major countries is given in the following table:

[5] Analysis of Bancassurance and its status around the world, Focus – Oct, 2005

COMPARATIVE REGULATIONS

Name of the Country	Regulatory Process
Singapore	The Bancassurance channel was introduced in 1992. Regulator monitors sales practices through mandatory fact finding processes, mystery shopping exercises etc.
Malaysia	The Bancassurance channel was introduced in 1996. Regulator monitors sales practices through fact-finding processes, mystery-shopping exercises etc. Fact-finding guidelines are part of regulatory guidelines.
Indonesia	The Bancassurance channel was introduced in late 90s. The sales processes are governed through the central bank. Mystery shopping exercises are undertaken. The insurers file with the regulator, details of the arrangement entered into with the bank. Banks act as brokers for distribution of life insurance products.
Hong Kong	The Bancassurance channel was introduced in 2001. Banks are allowed to tie up only with two life insurers. Sales control processes are generally conducted by the insurers themselves. The regulator conducts occasional onsite checks.
South Korea	The Bancassurance channel was introduced in 2003. There was phase-wise de-regulation process, and now is fully deregulated. The regulator keeps a check on sales practices through regular bank auditing procedures.
UK	The sale of insurance through banks was initiated in 2001. The regulator exercises regular monitoring through compliance visits etc. The sale of life insurance products by bank staff has been limited by regulatory constraints since authorized financial advisers who have obtained a minimum qualification can only sell most Investment-based products. Following the reform of the polarization regime, banks will have the possibility to become multi-tied distributors offering a range of products from different providers.
France	The Bancassurance channel was introduced in 2000. The regulator exercises regular monitoring. Banks act as brokers for distribution of life insurance products
China	The Bancassurance channel was introduced in 2001 and the Insurance Law was revised in 2003 to lift restrictions stating that banks were no longer limited to being agents for one insurance firm. According to the CIRC, in the first three quarters of 2007, banks channeled more than 100 billion Yuan in premiums, accounting for 61 percent of the total income for insurers from institutional agencies.
Philippines	The Bancassurance channel was introduced in 2002.
Japan	The Bancassurance channel was opened in 2001 and is fully de-regulated. Banks usually have non-exclusive distribution agreements with several companies, but the regulation imposes restrictions to protect consumers, respect privacy and security of data.

CHAPTER – II

Structure of Commercial Banks in India

It is important that the structure, business strategies, efficiency and geographical spread of banking industry are understood before any meaningful discussion is undertaken on the subject of Bancassurance. It is of great importance to insurers in India to look at the synergies which can be tapped from banking industry for increasing their market. It is also important that insurers understand how these synergies can be tapped and pit falls avoided in the process. This chapter looks at mainly the strengths of banking sector in India which form basis for recommendations on the bank distribution channel.

Structure of Banking Sector

Post independence, the major historical event in the financial sector was the nationalization of 14 major banks in the year 1969. Nationalization of banks was considered as a major step in achieving the socialistic pattern of society in India. Further, in 1980 six more banks were nationalized taking the total number of nationalized banks to twenty with the objective of accelerating the economic development of the country as these banks were assigned the responsibility of lending to priority sectors such as agriculture and rural development.

The Banking Regulation Act, 1949 clearly lays down the structure and composition of scheduled commercial banks in India. Under the provisions of the Act, the composition of the board of directors of a scheduled commercial bank shall consist of a whole time chairman and Section 10A of the Banking Regulation Act, 1949 provides that not less than fifty-one per cent of the total number of members of the Board of directors of a banking company shall consist of persons who shall have special knowledge or practical experience in respect of one or more of the matters including accountancy, agriculture and rural economy, banking, co-operation, economics, finance, law, small-scale industry, or any other matter the special knowledge of, and practical experience in which would, in the opinion of the Reserve Bank, be useful to the banking company. Out of the aforesaid number of directors, not less than two shall be persons having special knowledge or practical experience in respect of agriculture and rural economy, co-operation or small-scale industry.

Besides the above the board of the scheduled bank shall consist of the directors representing workmen and officer-employees. The Reserve Bank of India and the Central Government also have a right to appoint their nominees on to the board of the banks. RBI has also mandated that ownership of all scheduled commercial banks be widely dispersed avoiding concentration in a few hands.

Present scenario of the banks in India

Banks are instrumental in the creation of purchasing power in the form of bank notes, cheques, bills, drafts etc, and also bring borrowers and lenders together, encourage the habit of savings among people. Banks

have played a substantial role in the growth of Indian economy as they formed the critical base through which a plethora of financial services are offered. At present in India there are 20 nationalized banks, out of which the largest group is headed by State bank of India and its seven Associate banks, 21 old private sector banks and 8 new private sector banks. Apart from the above mentioned banks there are more than 30 foreign banks either operating themselves or doing business through their branches in India. The graphs below show the financial position of the banks as at the end of March, 2009. Parameters such as networth, number of offices, deposits and advances give a broad idea of the growth and reach of banking services in the country.

Position of Banks in India (Year 2008-09)

Chart-2

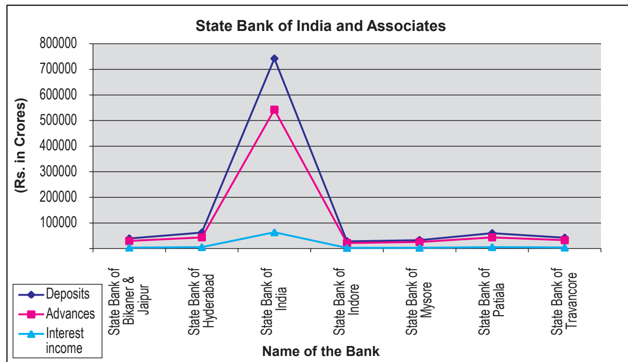


Chart-2(a)

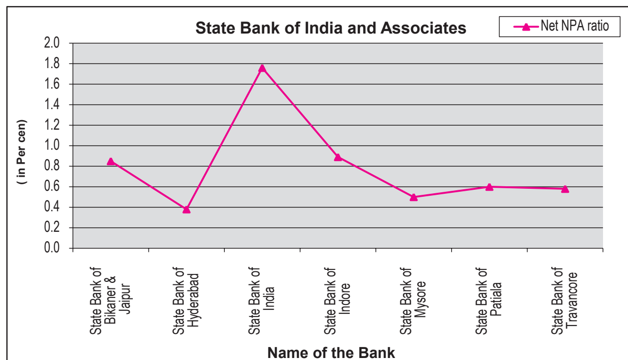


Chart-3

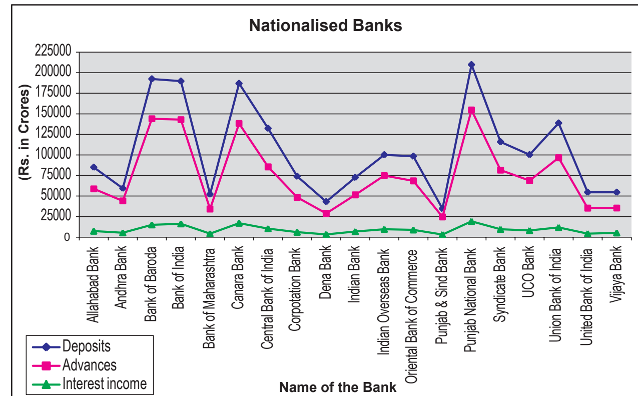


Chart-3(a)

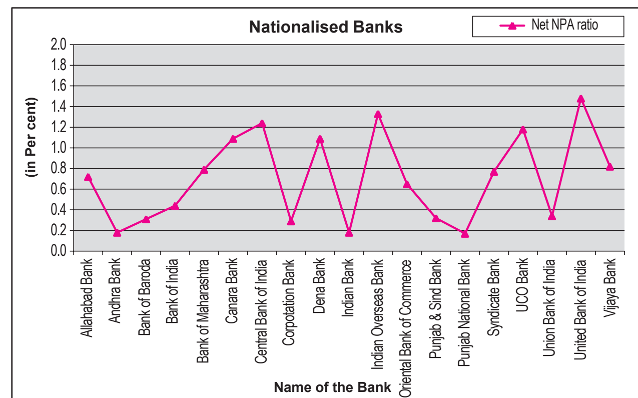


Chart-4

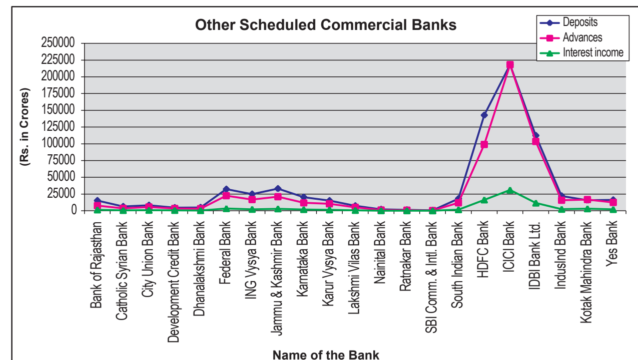


Chart-4a

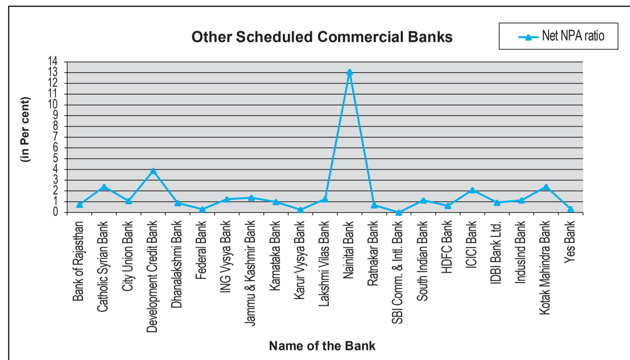
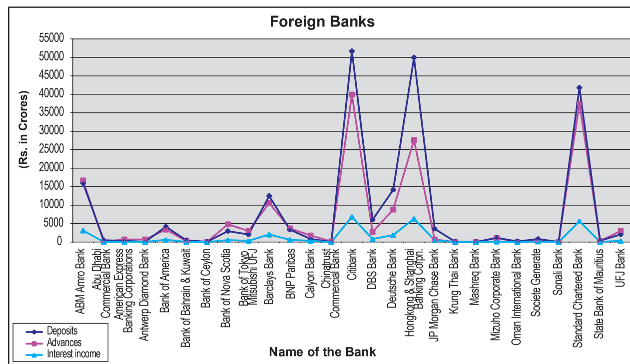


Chart-5



The banks in India are operating through a network of over 80,000 branches. All the banks together had a net worth of ₹ 367224 crore as on 31st March, 2009. The banks also had an average deposit base of ₹ 51970 crore and average advances of ₹ 38389 crore, taking the average business per employee to ₹ 7.5 crore, a substantial increase over the previous years. During the year 2008-09, the banks had earned an interest income of ₹ 387816 crore. The average net NPA ratio of all the banks at 1.05% in year 2008-09 shows a marked improvement from levels of above 2% in 2006-07.

State Ownership in the Banking Sector

The Indian banking system can be characterized by a large number of banks with mixed ownership. However, 27 public sector banks namely, banks owned and controlled by the state continue to dominate the Indian commercial banking landscape. Together, these banks account for three quarters of the market share. Even though these public sector banks have access to capital markets, government policy is to ensure that its equity interest does not, as a result of public issues by banks, go below 51 percent. As is the case with many developed and developing countries, the efficiency of the state-owned banks has been a concern for India as analysis of key financial ratios based on recent data reveals that public sector banks have been consistently outperformed by private sector banks. The effort to restructure the state-owned banks is still a policy issue in the area of financial sector reform in India.

Banking Supervisory System in India

The Reserve Bank of India Act, 1934 is entrusted, interalia, with the sole responsibility of regulation and supervision of banks under the Banking Regulation Act, 1949. Section 35 of the Banking Regulation Act vests powers in RBI for inspection of books of any banking company at any time. The main instrument of supervision is the periodical on-site inspection of banks that is supplemented by off-site monitoring and surveillance. Since 1995, on-site inspections are based on CAMELS (Capital adequacy, asset quality, management, earnings, liquidity and systems and controls) model and aim at achieving the following objectives:

i) Evaluation of bank's safety and soundness

ii) Appraisal of the quality of Board and top management

iii) Ensuring compliance with prudential regulations

iv) Identifying the areas where corrective action is required to strengthen the bank

v) Appraisal of soundness of bank's assets,

vi) Analysis of key financial factors such as capital, earnings, and liquidity and determination of bank's solvency,

vii) Assessment of the quality of its management team and evaluation of the bank's policies, systems of management, internal operations and controls; and

viii) Review of compliance with banking laws and regulations as well as supervisory guidance on specific policies.

The domestic banks are rated on CAMELS model while foreign banks are rated on CACS model (capital adequacy, assets quality, compliance and systems). The frequency of inspections is generally annual, which can be increased / reduced depending on the financial position, methods of operation and compliance record of the bank. The inspection teams base their reports on the primary records at selected representative cross section of branches, controlling offices and the head office of the bank. Other inputs used for on-site inspection are off-site surveillance reports, market reports, internal audit and concurrent audit reports of the bank, Long Form Audit Reports (LFAR) and report forming part of annual accounts given by the statutory auditors and RBI nominee directors' reports/communications. Onsite findings and areas of concern are discussed with top management of the bank and corrective steps taken by the bank are followed up by RBI. RBI is gradually moving towards a risk-based supervisory framework that is based on both off-site and on-site inputs. Pursuant to the new supervision strategy approved by the BFS, the RBI has introduced a formal Supervisory Reporting System.

Further, the RBI is vested with powers to issue directions under the Banking Regulation Act where necessary in the interest of banking policy, in public interest or where the affairs of the banking company are being conducted in a manner detrimental to the interest of the depositors. Regulatory violations in complying with prudential requirements attract imposition of monetary penalties and issue of letters of displeasure to the bank's management. In extreme cases, the Top Management of the bank or the Directors on the Board may be replaced. In the case of banks which do not meet capital adequacy regulations, restrictions on branch expansion, asset expansion and setting up of subsidiaries are imposed. The Central Bank also has the authority to restrict declaration of dividend by private banks to bring about corrective action. Most importantly, country of origin does not confer any special status on foreign banks operating in India. They are generally subject to the same legislation and regulatory requirements as applicable to domestic banks. RBI has the necessary powers to share information with overseas supervisors.

The Prompt Corrective Action (PCA) Framework was introduced to enable timely intervention in case of any incipient stress in a bank. The latest supervisory initiative has been the introduction of risk-based supervision of the banks so as to move away from transaction audit and to enable the modulation of the supervisory efforts in tune with the risk profile of the banks and to achieve optimal deployment of scarce supervisory resources. The most important initiative, the Board for Financial Supervision (BFS), constituted in 1994 under the Chairmanship of the Governor, RBI has been the guiding force in securing the transformation in the regulatory and supervisory apparatus of the banking system.

Further, banks have been given more teeth to tackle the Non Performing Assets (NPAs) through the passage of the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002 (SARFESI Act). Under this Act, the banks can take over the assets of the defaulters either by themselves or with the help of Court. This power is in addition to the power to recover through the Debt Recovery Tribunals (DRTs).

Financial Inclusion

Under the recently introduced Business Correspondent (BC) model, RBI allows banking correspondents to operate in a 30 km radius from a bank branch to source deposits and even offer small loans but with riders. Banks are allowed to use the services of NGOs, SHGs, Micro-finance Institutions, civil society organizations as business facilitators / correspondents for extending banking services. The usage of technology and the widespread telecom network could make physical limits redundant and allow the unorganised sector workers to transact with a bank situated far away. With over 740 million mobile subscribers in India, the use of telecom network for financial inclusion has the potential to take Indian banking to the next orbit by connecting the last mile for banks with the customers.

Business correspondent and business facilitator models will be effective for this kind of financial inclusion. Banks like SBI, Indian Bank and Punjab National Bank have lined up significant investments in the areas of rural banking and branchless banking and even mobile banking. Software firms are expecting a huge IT spending by the Indian banks over the next 12 months with an increased impetus on financial inclusion and smarter ways of banking over the mediums such as Internet and mobile.

State governments like Andhra Pradesh and Karnataka are making pension and other payments under NREGS through Smart Cards. This has paved the way for fast track innovative banking which could be used for covering large sections of people in unbanked rural and semi-urban areas. For instance, SBI has initiated the usage of smart cards for opening accounts with bio-metric identification and link to mobile / hand held connectivity devices which ensures transactions getting recorded in bank's records in real-time basis. The usage of smart cards paves the way for extending financial services such as banking and insurance instantaneously to large number of poor people. IT solutions enable large transactions like processing, credit score, credit record and follow up etc. The unique identity card under "Aadhaar" project is having specific focus on enabling the cardholder to open a bank account. This card will serve to fulfill KYC requirement of card holder and also ready IT enabled verification mechanism for field functionaries of the banks.

The main focus of the banks in the country has been towards using business correspondents for reaching out to the unbanked population. However, with the increasing penetration of telecommunications in the country and greater reach, mobile based business models (also referred to as M-Banking) will prove to be very crucial in realizing branchless banking and taking it to higher levels through lower costs and real time transactions over secure networks.

Use of Technology

The banking industry has achieved significant success in leveraging IT through the implementation of core banking solutions and it has helped them in streamlining, standardizing, and expanding their services portfolio. Information, Communication, and Technology (ICT) solutions will continue to help banks in providing seamless systems to capture customer data, ensure unique identification, and facilitate financial transaction services using remote connectivity through mobile devices. These systems will also ensure uninterrupted service delivery, consumer data protection, customized products, dissemination of information on credit options, and multiple financial products in local languages. Customers have become more demanding and they need several value added services from the banks. Most of the foreign banks have raised the expectations of the customers inducing the banks to invest strongly in the use of IT in improving the reach as well as market the banking services aggressively. The Indian banks

have started to meet the expectations of the people by opening both onsite and offsite ATMs. Banks have also started telebanking, anytime/anywhere banking, mobile banking and Internet banking to provide various customer friendly facilities to the customers. Banks have also started adopting the RBI sponsored technology programmes like mail messaging, National Electronic Fund Transfers (NEFT), Structured Financial Messaging System (SFMS), Real Time Gross Settlement (RTGS), Centralized Fund Management System (CFMS) and Negotiated Dealing System / Public Debt Office (NDS/ PDO).

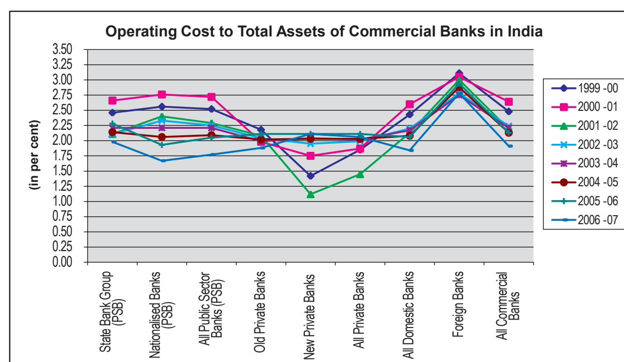
CHAPTER – III

Efficiency and Productivity in Banking Sector in India

An efficient system of financial intermediation generally contributes to the risk mitigation process in the economy. For instance, enhanced efficiency in banking can result in greater and more appropriate innovations, improved profitability as well as greater safety and soundness when the improvement in productivity is channeled towards strengthening capital buffers that usually absorb risks. Moreover, efficiency or productivity measures could act as leading indicators for evolving strengths or weaknesses of the banking system and could enable pre-emptive steps by the regulator when necessary. Intermediation cost, interest spread, operating expenditure, cost to income ratio, return on assets, return on equity, business per employee, income per employee and business per branch, among others, are some of the commonly used financial measures for assessing the efficiency and productivity of a banking unit.

The analysis follows a sequence and each of these ratios is inter-linked. For example, cost to income ratio can be termed as an overall efficiency measure of the bank. It is a proxy of how efficiently bank undertakes its overall operations. Deposit mobilization and credit creation is the core of banking business. Hence, the intermediation cost which relates income from credit and cost of deposit would illuminate bank's efficiency in its core function of raising deposits from savers and on lending to various user groups. Similarly, bank's investment in Government and non-Government securities can be assumed to be sourced from borrowed funds, raised either domestically or internationally. The net interest margin ratio relates how efficiently banks manage their pecuniary risk arising from asset-liability mismatch. The chart below gives operating cost to total assets ratio of both private and public sector banks in India during 1999-00 to 2006-07.

Chart-6



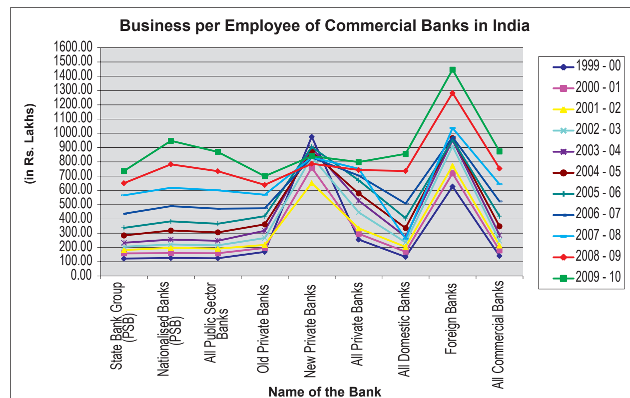
Business per Employee

In India, banks are of different sizes. These banks, irrespective of their size, have diversified into many new activities such as merchant banking, insurance and several other fee based activities. The business measured in terms of deposits plus credit per employee of commercial banks in India increased by more than eleven times from ₹ 46.66 lakh in 1991-92 and ₹ 5.12 crore in 2008-09. The rise in business per employee was observed across all the bank groups. The growth in business per employee was more pronounced for public sector banks and old private sector banks compared

with other bank groups, due to their very low base during the early 1990s. However, despite this increase, productivity of these bank groups was still less than half of that enjoyed by foreign and new private sector banks. During 2008-09 and 2009-10, business per employee was the highest for foreign banks, followed by new private sector banks, nationalised banks, old private sector banks and State Bank group.

This clearly suggests that these banks have a lot of catching up to do on the productivity front. They would also be well advised to allocate a greater share of their resources to bancassurance activities since these banks are ideally positioned to leverage on their existing clientele for distribution of insurance products at a negligible additional cost.

Chart-7



The capital adequacy ratio measures the amount of a bank's capital in relation to its risk weighted credit exposures and is most widely used measure of soundness of banks. It determines the capacity of a bank to withstand the unexpected losses arising out of its operations. The risk weighting process takes into account, the relative riskiness of various types of credit exposures that banks have, and incorporates the effect of off balance sheet items on credit risk. The higher the capital adequacy ratio a bank has, the greater would be its capacity to absorb any unexpected losses before becoming insolvent. Higher CRAR provides a "cushion" for potential losses, which protects the bank's depositors or other lenders. The CRAR of all the bank groups in India has improved over the years. The CRAR of nationalised banks and old private sector banks, which was quite low at end-March 1996, gradually improved to more than 13 per cent by end-March 2010. There has also been significant improvement in the asset quality of banks, which is now close to the global levels.

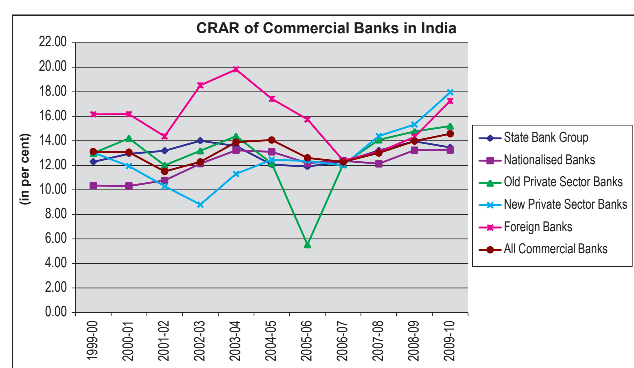
This indicates that banks are now required to pump in a higher amount of capital for every additional unit of risk taken up, which in turn means that while they are now more solvent than earlier, their businesses are that much more inefficient in terms of profit per unit capital deployed.

Banks therefore would have to look at generating new sources of income from their existing resources in order to sustain their bottom lines. In view of severe under-penetration of different classes of insurance products in the country, bancassurance presents itself as a timely opportunity for substantial increase in revenues of banks for a minimal commitment of resources. They would be well served if they attempted to tap into the clientele database and pitched products of appropriate category and ticket-size to clients in order to ensure not only higher sales but also greater persistency of the policies sold.

The RBI study on Banking efficiency and productivity states that "the high intermediation cost of banks in India, to a large extent, was due to high operating costs. The need, therefore, is to bring down the high operating costs. One area of concern for public sector banks is the business per employee, which is almost one half of new private sector banks. Non-interest sources of income constitute a very small share in total income of banks in India. In future, net interest margins are likely

to come under pressure. Banks, therefore, are seeking new sources of income to sustain their profitability. There is enough evidence to suggest that resources are not being utilised in the most efficient manner. Several banks operated at the three-fourths of the efficiency levels of the most efficient banks". This situation opens a definitive window to insurers to exploit the spare resources of banks for expanding their market and for banks to improve their revenue.

Chart-8



The soundness of the banking sector as well as all bank groups in terms of CRAR also improved over the years. The above chart gives figures for CRAR for the years 1999-00 to 2009-10 for different bank groups in India. The trend in the CRAR ratio of nationalized banks is clearly upward as it improved from a level of 10.35 per cent in 1999-00 to 13.25 per cent in 2009-10, making the entire group as Basel-II compliant.

Regional push to Banking

As banks are approaching close to 100% coverage of individuals with incomes above 2 lakh irrespective of geographical location, there is huge scope for marketing Bancassurance products based on the consumer credit advances.

According to India Financial Protection Survey of Max New York Life and NCAER, there are 20.59 crore households in the country, of which 30 percent (6.14 crore) live in urban areas and the rest (14.45 crore) in rural areas. From out of a total population of 102.7 crore the estimated households are 20.59 crore with an average household size of 5, the number of earners per household being 1.40.

Out of total urban households, close to 82% hold an account in financial institutions be it commercial bank, Regional Rural Banks, Cooperative Society or a post office. For rural households the percentage comes to an estimated 59%. For the country as a whole 66% of households have accounts in the financial institutions.

Taking the average size of household of 5, if we convert the percentage of urban and rural households having accounts in financial institutions based on number of earners per household it would come to 28.83 crore, out of which the number of urban households stands at 8.20 crore and rural at 20.63 crore. From out of the total household earners in the country of 28.83 crore, 19.83 crore (68%) of households have just a single earning member, while 6.83 crore (23.7%) have two earning members and 2.17 crore (7.5%) have more than two earning members.

Ownership of an account in financial institutions is mostly determined by the source of income and also by age and education of the prime earner. As per RBI data for the year 2008-09, household sector has accounted for ₹ 15.50 lakh crore of deposits in the form of current savings and term deposits, which turn out to be 57.4% of the total deposits in the country.

An analysis of deposits and credits of scheduled commercial banks across the regions in India reveals a co-relation of high credit deposit ratio to high per capita income of the states in that region. For instance, northern region consisting of states Haryana, Himachal Pradesh, Jammu & Kashmir, Punjab, Rajasthan, Chandigarh and

Delhi has a credit deposit ratio of 66.6% as against an all India ratio of 74.2%. North Eastern region and the Eastern region have the lowest credit deposit ratio of 39% and 51.2% respectively, which also co-relates with their low per capita incomes and they are well below the national average on both counts. Whereas, the advanced western and southern regions having per capital incomes above national average have very high credit deposit ratios of 88.8% and 89.3% respectively. Inter-state differences in financial coverage can largely be explained by wide differences in incomes and savings amongst the states.

Based on the number of households having accounts and the regional variation in the per capita incomes and the concentration of credit deposit ratio it can be stated that the scope for bancassurance varies across the regions in the country, which would call for region specific strategies to be in place in order to tap the potential in the Bancassurance module of intermediaries to improve the insurance business. Further, the report of the Committee on Financial Sector Reforms Headed by Sri Raghuram Rajan titled 'A Hundred Small Steps' states that most important financial services for the poor are vulnerability reducing instruments like safe and remunerative methods of saving, remittances, insurance and pension. As per the report within insurance, crop insurance for farmers and health insurance for the poor in general are major vulnerability reducers. It further emphasized that efforts at financial inclusion needs to move away from sectors to segments of people that are excluded. Competition, technology as well as the use of low cost methods, local organizations for outreach will have to play a greater role in any strategy of financial inclusion. The rich-poor divide has replaced the conventional rural-urban divide as measured by the basic parameter of distribution of savings accounts.

Banks are steadily expanding their operations in eastern and north eastern regions for exploring, untapped opportunities. For instance, the likes of State Bank of India, Allahabad Bank, UCO Bank and United Bank of India collectively opened 1,075 branches in the eastern region in the past two years. While in the Northeast, they added 167 branches to shore up their tally to 2,114 till March, 2009. If one takes the case of West Bengal, banks have opened 370 odd branches in the last two financial years. As can be seen from next chapter, this expansion of banking sector is of great significance to insurance industry as the agency channel is very weak in this region. Insurers can expect to ride on the infrastructure created by the banks.

Reach and Potential of Banking sector in India

Commercial banks in India operate through a huge network of over 80000 branches covering all classes of locations across the country – including over 14000 metro, 16000 urban, 18000 semi-urban and 32000 rural branches. The coverage of the banks also spreads across different income, occupation and age groups. This network and coverage affords them a remarkable reach that is not easily matched by any other sector.

The number of savings bank accounts in the country is 310 million. But given the number of multiple accounts, the total number of individuals having bank accounts is expected to be around 200 million. Many of these account holders have a long standing relationship with their bankers and there is a good amount of comfort and trust between the two.

Banks have a complete knowledge of the financial profile of their clients including their assets, income, liquidity and loans. Coupled with the tremendous clout they enjoy over the clients, this information gives them a great advantage in cross-selling other financial products. Also, thanks to their long and extensive presence in the country and to the largely trustworthy conduct, banks

have built a formidable reputation, goodwill and brand value/recognition which could be leveraged in tapping new opportunities.

The huge base of well-trained and experienced employees numbering over 8,69,000 is an asset to the banks in India. These employees are multi-skilled and have the capacity to handle not only core banking operations but also many other functions in the financial domain. It is also a fact that some of the banks, as a result of computerization, networking and process-reengineering, are laden with excess staff that can be readily deployed in new business avenues.

The pressure to offer higher interest rates on deposits coupled with the compulsion to offer loans at competitive rates has resulted in a squeeze on the net interest margins of the banks. As a result, the fund-based incomes of the banks are not catching up as much as one would have liked them to. At the same time, banks are also facing the burden of shareholder expectations. Therefore they are compelled to look for other sources of income, especially fee/commission based incomes, in an attempt to shore up their revenues.

Banks, thus, have both the need to look for new avenues and also the resources and capability to manage them. In this backdrop bancassurance emerges as a great opportunity for the banks.

Emerging issues in Indian banking

Role in Increase of Savings Ratio

Commercial banks together with cooperative banks account for nearly 70 per cent of the total assets of Indian financial institutions. Significant financial deepening has been taking place in Indian economy over the years as seen from Credit-GDP, M3-GDP ratios as well as flow of funds indicators. In comparison to a number of countries, an important feature discernible in Indian context is that the rise in indicators of financial deepening takes place along with a noticeable rise in the domestic savings rate of the economy as it averages around 35 per cent of GDP for the past few years. In order to tap these savings of the growing economy the role of bancassurers is critical and they must be in a position to provide citizens a combination of life and property cover, pension and market linked investment products with ease of purchase and simple product design.

Key Strengths of Banking System

Banks are major players in the Indian Financial System and they have the second largest reach after the post offices in the country. This makes them eminently suitable as vehicles of distribution for the insurance products along with banking services. Insurance companies can reach out to the entire country at a greater speed with less cost through Bancassurance. This has already been proved to a significant extent in India as evident from the growth witnessed in the recent years in the insurance business generated through Bancassurance. Some of the inherent strengths of the banking system in India which could be used as main pillars for consolidating and deepening the banking and insurance businesses in India are listed below:

- Credibility of banks make them potential marketing agencies for various insurance products on both life and non-life side.
- Public Sector Banks, private banks and foreign banks put together have a huge network across the country, which could be used as a strong distribution mechanism for marketing insurance products.
- Banks can offer fee-based incentives to the employees for conducting insurance sales. Fee-based selling helps in increasing the staff productivity levels in banks.
- Complementarity between some bank products and insurance products such as home loans and property cover, auto loans and motor insurance

provide ample scope for generating business through viable partnerships between banks and insurance companies.

- Reliability of Banks as important financial intermediaries provides good ground to sell insurance products.
- Banks can retain customer loyalty by offering a wide range of expanded financial products including insurance instead of just the traditional savings deposits.
- Acquisition cost of insurance customers through banks is quite low. European experience of Bancassurance has shown that Bancassurance firms have low expense ratio.
- Given low levels of insurance penetration in emerging economies such as India with a strong banking branch network, insurers can use the banking reach as a cheaper alternative to building from the scratch. This has been the experience in Southern Europe (e.g., Spain and Italy).
- Declining NPA ratios of banks in recent years make banks comfortable in directly entering into life insurance and health insurance business.
- Bancassurance tie-ups with cooperative banks and regional rural banks are seen as a cost-effective vehicle for insurers to tap into rural communities and fulfill their rural sector obligations.
- Brick & Mortar Model of Banking-Approximately 80% of Banking Transactions are done at the Bank Branches
- Over 40% of financial household savings currently lie with the banks, offering a huge opportunity for Bancassurance. Banks offer convenience / ease of use to the customer - the biggest influence on customers.

Further, Banks have access to multiple communications channels, such as e-mail, Mobile-banking, direct mail, ATMs, telemarketing, etc. which enables them to cross-sell to existing customers. Their proficiency in using technology has resulted in great improvements in transaction processing and high-end customer service. Also the regulations requiring certain proportion of sales to the rural and social sectors makes for a good reason for the banks to adopt Bancassurance as banks can make their rural branches more profitable and also offer rural population as slew of simple insurance products which add value to the property and crop loans. Tying up with a bank with an appropriate customer base can give an insurer relatively easier and cost effective access to such sectors.

As poverty levels decline and households have greater levels of discretionary incomes, there will be many first time financial savers. They will, therefore, need to have easy access to formal financial systems to get into the ambit of banking. Banks will need to innovate and devise newer methods of including such customers into their fold. The importance of 'no-frills' account and expanding the range of identity documents that are acceptable for opening an account without sacrificing objectivity of the process is to be kept uppermost in devising any policy of financial inclusion. It is only with the help of ICT solutions that financial inclusion can be completely achieved.

CHAPTER – IV

Review of Insurance Industry in India

Insurance Reforms

The reforms in insurance sector need to be viewed in the light of the overall economic reforms initiated by the Government. The Economic Reforms in 1990s undertaken subsequent to the balance of payments crisis encompassed all the sectors of the economy. The reforms process in the financial sector was oriented towards building a strong and resilient banking system. Towards this objective, the regulatory and supervisory norms were tightened while inducing greater accountability and market discipline among the participants. As a result, the banking system acquired strength, efficiency and vibrancy necessary to meet global competition. There has been a noted improvement in the financial health of banks in terms of capital adequacy, profitability and asset quality with an increased focus on risk management systems.

It may be recalled that while the reforms in various sectors of the economy were either welcomed or considered essential to overcome the crisis, there was considerable debate on the need for reforms in insurance industry. There were many who maintained that since insurance contracts are between insurers and the insured involving special fiduciary obligations, it is better if those obligations are guaranteed by the State ownership of insurance companies. In spite of sound legislative framework the life insurance industry had to be nationalized in 1956 because of threat of insolvencies and gross misuse of policyholders' funds by the insurance companies. All the life insurance companies were merged into a single corporation and that's how the LIC was created. When the general insurance companies were later nationalized, the model adopted was different and the private companies were organized into four major companies fully owned by Government of India.

On both the occasions, the nationalization of insurance industry was justified on the ground that (i) the State would be in a better position to apply the massive resources generated through insurance for nation building activities; (ii) the existing insurance companies tend to be urban centric and the vast majority of the population that live in the rural areas are denied the benefit of insurance and the State would have the means and the motivation to reach out to this section of the population and (iii) the governance standards in some of the companies were low and that there was a threat of insolvency.

The major objective of this historic initiative has largely been fulfilled, as the subsequent developments have proved. The Life Insurance Corporation had become a household name thanks to a million-strong agency force and it had succeeded in penetrating the rural areas and carried the message of insurance to the rural masses. The vast network of offices provided easy access to the customers to avail of the services provided by the Corporation.

The nationalized general insurance industry had also provided insurance cover for small and medium enterprises located in small towns and major panchayats and initiated a number of schemes to extend cover to householders, small shop keepers and occupational groups involved in hazardous professions. Nationalisation of insurance industry did give a rural and social orientation to insurance. However, over a period of time it was recognized that there was a wide gap in terms of market potential and its exploitation by the nationalized industry. The public sector companies suffered from overstaffing and poor customer service. There was a growing recognition that the consumer did not benefit in the absence of competition in terms of wider choice and competitive pricing. It was realized that the reach of the nationalized companies was limited, the range of products offered restricted and the service to the consumers inadequate. It was felt in 1990s that the scale of economic activity attained in the mid-eighties and the momentum generated through the economic reforms process in other sectors of the economy cannot be sustained by state-controlled insurance industry and that insurance penetration and enlargement of the market could be accomplished only when a large number of companies competed with each other. It was also realized that the objectives of the nationalization of the industry can largely be accomplished through appropriate regulatory measures and a state monopoly was no longer necessary. Against this back drop Government appointed the Malhotra Committee to look into various aspects of opening up the insurance industry.

The Malhotra Committee appointed in 1993 to examine the structure of the insurance industry had recommended changes to make it more efficient and competitive and allowed private enterprise to enter the insurance sector for the following reasons:

i) Competition would result in better customer service and help improve range, quality and price of insurance products;

ii) Though nationalized industry has built up large volumes of business, overall insurance penetration is quite low and entry of private players would speed up the spread of life and general insurance;

iii) When competition exists in banking, mutual funds, merchant banks and other non-banking financial institutions, there is no reason why the insurance sector should not be exposed to competition;

iv) The dominant public opinion was in favour of introducing competition;

v) The state owned insurance companies have the financial strength and professional competence to face the competition from the private sector.

The recommendations of the Malhotra Committee were widely discussed and there was support for the opening of the sector with a strong and effective regulatory authority. The government established an interim regulatory authority by an executive order in September 1996 and decided to bring in legislation to establish an independent regulatory authority for the insurance sector along with modifications required to remove the State monopoly in this area.

The IRDA Bill was passed in December 1999 and became an Act in April 2000. After the first meeting of the Insurance Advisory committee, 11 essential regulations relevant for players entering the Indian market were notified in July, 2000. In October 2000, six licenses to new players in the life and non-life sectors were issued.

The proposal for opening up of the sector for private participation had at times thrown up serious apprehensions in this country, but once the legislation was put through, the actual process of inducting private players into the market had gone off smoothly and the

transition from state monopoly to free market has taken place in the first few years. The Regulations that were framed helped in harmonizing the various points of view, without losing focus on internationally accepted best standards. The consultation process adopted by the IRDA with the stakeholders had helped in framing Regulations which not only incorporated some of the internationally acclaimed standards but were also found acceptable to most stakeholders. It is worth remembering that supervision of insurers is a relatively new phenomenon in India. Insurance supervision is one of oversight to ensure that insurers have financial resources required to pay all claims as they fall due; and that insurers treat consumers in an equitable manner in all financial dealings. Insurance supervision has, however, acquired a new significance with the opening up of the sector to private participation.

The opening of the sector has resulted in a large number of business concerns and banking establishments entering the insurance arena resulting in a sudden increase in the capacity to underwrite risk. The supervisory system had to be, therefore, geared to assess effectively the financial soundness of the insurers and ensure that these companies have safeguards in position so that they are, at all times, in a position to meet the financial obligations to the policyholders. These concerns regarding solvency are generally addressed through prudent regulatory measures. Such measures include stringent capital adequacy and solvency requirements, prudent investment and reserving rules and regular monitoring of the activities of the insurers to ensure that they comply with the regulations.

IRDA has been keen to see the industry develop in terms of product innovation and the use of alternative distribution channels. The emphasis was on encouraging only those applicants who have a sound track record in their respective fields. Many of the Indian promoters have collaborated with foreign insurance companies who had long years of experience in marketing insurance products in emerging markets. Verification with the home regulator of these companies was done to ascertain their record of compliance with regulations.

While rigorous scrutiny of applicants at the entry level would ensure that only companies with sound finances are licensed to do insurance business, it is equally important that they remain solvent at all times. Insurance is a long term business and those who wish to enter the business should have the ability to inject more capital as the business expands. In order to protect the interests of the policyholders the solvency requirements have been placed at 1.5 times the normal solvency requirements. While the Insurance Act prescribed that assets should match the liabilities the prudential requirement has been kept deliberately at a higher level so that there is complete protection to the policyholders.

Sound regulations coupled with periodic inspections to ensure compliance is the best protection that can be offered to policyholders. In addition to a rigorous scrutiny of the companies at the entry level, diligent monitoring of their activities with special reference to maintenance of solvency margins and prudent investment policy would ensure that the companies remain viable with ability to meet their commitments. The experience so far in India is that the local partners are sound with an excellent track record in their respective fields, and their foreign collaborators are very well established insurance companies with vast experience in both developed and emerging insurance markets. As regards insurance products, there is a wide array of products for the consumers to choose from. There is a bewildering variety of products and most consumers feel the need for expert guidance from the Agents and the marketing force to enable them to select the right policy.

After eight years of opening up of the insurance industry, IRDA constituted a Committee under the Chairmanship of Mr. N. M. Govardhan, Ex Chairman of LIC to consider various aspects of distribution channel regulation in the country.

The recommendations of the committee are tabulated in the (Annexure-2) **(Govardhan Committee)**. Certain measures were taken to implement the recommendations of the committee during the year 2010 by bringing in modifications in Guidelines on Corporate Agents and by notifying new regulations on Referrals.

LIFE INSURANCE

The premium underwritten in India and abroad by life insurers in 2009-10 has increased by 19.69 per cent as against a lower growth of 10.15 per cent in 2008-09 which is mainly due to the global financial crisis that adversely affected the financial sector. The trend of growth in the overall life insurance premium generated by both the public and private insurers for the past ten years is given in **Table-IV.1**. It is clear from the table that the CAGR for total life insurance premium during this period is a healthy 22.74 per cent. If we compare the performance of LIC to that of private life insurers, it is evident that the opening of the sector led to a better performance on the part of private insurers compared to LIC, as they have recorded a CAGR of 86.90 per cent as against a CAGR of 15.84 per cent of LIC. This is also further corroborated by the fact that the share of LIC in the overall industry's life insurance premium collections declined from a high of 99 per cent in 2001-02 to 69.66 in 2009-10. However, LIC's overall share in the industry's total life insurance premium remained around 71 per cent during the past three years.

With large population and untapped market, insurance is a big opportunity in India. The insurance business (measured in the context of first year premium) registered an impressive CAGR of 23 per cent during 2002-03 to 2009-10. This has resulted in increasing insurance penetration in the country. Insurance penetration or premium volume as a ratio of GDP, for the year 2009 stood at 4.17 per cent for life insurance and 0.60 per cent for non-life insurance. The level of penetration, particularly in life insurance, tends to rise as income levels increase. India, with its huge middle class households, has exhibited growth potential for the insurance industry. First year premium, including single premium accounted for 46.54 per cent of the total life premium, whereas renewal premium accounted for the remaining during the year 2009-10. First year premium including single premium recorded a negative growth of 7.16 per cent in 2008-09 compared to a growth of 23.88 per cent in 2007-08, mainly on account of the global financial crisis which had affected the Indian insurance industry also **(Table-IV.2)**. However, private life insurers have increased their market share from 14.25 per cent in 2005-06 to 31.44 per cent in 2009-10. In the case of general insurers the growth was 10.59 per cent in 2009-10 as against 9.11 per cent in the previous year. In 2009-10, the four public sector general insurers have reported a growth of 7.44 per cent (7.26 per cent in the previous year) in underwriting of premium within and outside India whereas 22 private sector insurers reported a growth of 15.47 per cent in 2009-10 as compared to a growth of 12.09 per cent in 2008-09. The market share of private insurers has increased to 34.72 per cent compared to 26.34 per cent in 2008-09 implying a decline in the market share of the public sector insurers. The number of policies underwritten by the private insurers increased by 51.48 per cent whereas it declined by 2.25 per cent for public insurers.

There has been a noticeable rise in volatility in the international financial markets with increased financial globalization and due to the exposure of emerging markets to risky financial assets. This has led to increased

risk appetite of institutional investors in search of high yields across various markets in the world.

The number of new policies written at the industry level increased by 4.52 per cent in 2009-10 as against a negligible growth of 0.10 per cent in the previous year. The number of policies written by LIC increased by 8.21 percent during 2009-10 as against a negative growth of 4.52 per cent in 2008-09 whereas in the case of private insurers, there was a negative growth of 4.32 per cent in 2009-10 as against a positive growth of 13.19 per cent in 2008-09 **(Table-IV.3)**.

The total capital of the life insurers at the end of March 2007 stood at ₹ 8124.41 crore. The addition to the capital during 2006-07 was ₹ 2232.36 crore and the entire capital was brought in by the private insurers **(Table-IV.4)**. The domestic and the foreign joint venture partners added ₹ 1777.96 crore and ₹ 454.40 crore respectively.

Premium

Life insurance industry recorded a premium income of ₹ 2,65,450.37 crore during 2009-10 as against ₹ 2,21,785.48 crore in the previous financial year, recording a growth of 19.69 per cent **(Table-IV.5)**. The regular premium, single premium and renewal premium in 2009-10 and their contribution to total premium were ₹ 60,241.95 crore (23.03 per cent); ₹ 49,235.45 crore (18.82 per cent); and ₹ 152095.05 crore (58.15 per cent), respectively. In 2000-01, when the industry was opened up for the private players, the life insurance premium was ₹ 34,898.48 crore which comprised of ₹ 6966.95 crore (19.96 per cent) of the regular premium, ₹ 25,191.07 crore (72.18 per cent) of renewal premium and ₹ 2,740.45 crore (7.86 per cent) of single premium.

The penetration of life insurance (as a proportion of the Gross Domestic Product) increased from 2.15% from 2001 to 4.60% by the year 2010. The expectations set out by the Malhotra Committee were focused on deepening the penetration of life insurance and introducing innovative practices in the Indian market. In hindsight, it is generally accepted that the industry rose to the challenge and has exceeded expectations all round. From a single channel industry viz. the individual tied agent, the industry has embraced a few other channels such as corporate agents and brokers and continues to experiment with a few more. The evolution of Bancassurance was driven by the desire of these players to meet all financial needs for their existing customers and a timely development of the regulatory framework. Some of the other channels – direct sales models, tele-marketing, on-line selling – are still in their formative stages.

Channel strategies have played a key role in expanding footprint of the life insurance industry. The contribution from channels, other than the tied agent, is noteworthy especially for the private sector. The changes being considered for Bancassurance model and the possible role of banks could lead to the next major change in the industry landscape.

During the past 9 years, it is observed that the number of offices in the private sector increased from a mere 116 in 2002 to 8768 in 2009. Similarly, LIC's offices have increased from 2190 to 3250 during the same period and the total number of offices increased from 2306 to 12018 **(Table-IV.6)**.

GENERAL INSURANCE

General Insurance has witnessed radical changes since the opening of the market in 2000-01. The industry grew at 10.26% per annum between the years 2007-08

and 2009-10. Some of the key growth drivers that have been identified for faster growth are as follows:

- Growing economy
- Low insurance penetration as a % of GDP
- Higher disposable income and savings
- Increasing urbanization and awareness

Non-life insurers underwrote a premium of ₹ 35815.85 crore during the financial year 2009-10 recording a growth of 13.96 per cent over ₹ 31428.40 crore underwritten during 2008-09 **(Table-IV.7)**. The private sector non-life insurers underwrote a premium of ₹ 13977.00 crore during 2009-10 as against ₹ 12321.09 crore in the previous year, recording a growth of 13.44 per cent. Public sector non-life insurers underwrote a premium of ₹ 21838.85 crore in 2009-10 which was higher by 14.30 per cent over the previous year (₹ 19107.31 crore in 2008-09). The market share of the public insurers, and the private players during 2009-10 was 59.07 and 40.93 per cent respectively. ECGC underwrote credit insurance of ₹ 744.68 crore as against ₹ 668.37 crore in the previous year, a growth of 11.42 per cent. Segment wise the premium underwritten in the Fire, Marine and Motor segments was ₹ 3869 crore, ₹ 2168 crore and ₹ 15047 crore recording a growth of 11.18 per cent, 6.26 per cent and 43.46 per cent, respectively as compared to the previous year **(Table-IV.10)**. The corresponding number of policies segment wise was 16.59 lakh, 6.88 lakh and 251.02 lakh respectively. i.e., a growth of -2.56, 1.45 and 28.49.

There has been a persistent demand for freeing the general insurance market from the rigidities inherent in a regime where tariffs are prescribed by an outside agency. It has been argued that the insurers should be able to determine what risks they are prepared to underwrite and the rate at which they would underwrite the risk. It was also pointed out that the erstwhile system of having tariffs in some risks and free rates for others is leading to distortions in pricing as the insurers are underwriting risks not covered by tariff at throwaway prices in order to gain access to lucrative fire and engineering covers which are covered by tariff.

One of the significant policy shifts on the general insurance investment is that of detariffing which has strengthened the bargaining power of the consumer, but in the short run has affected the profitability of the insurance companies on account of detariffing. Companies were forced to customize products and improve customer experience in order to develop systems that will ensure accurate pricing of risks and adequate training of underwriters and sales force. On the whole, while the short term scenario for the general insurance sector appeared to be challenging, the long term prospects definitely present ample opportunities for growth.

Detariffing occurred in three phases in the Indian insurance industry. One of the significant milestones has been the withdrawal of premium pricing restrictions initiated from January 1, 2007. From January 1, 2007 – January 1, 2009, insurers were permitted to structure the premium rates, but were not allowed to vary the coverage, terms, conditions, policy wordings etc. This period allowed insurers to migrate towards risk based pricing. From January 1, 2009 IRDA allowed the insurers to file variation in deductibles, coverage amounts, etc. This phase has allowed flexibility in terms of breadth of coverage. Detariffing of rates has led to a virtual price war in certain lines of business such as Fire and Engineering thereby resulting in an adverse impact on profitability margins of the companies.

Impact of detariffing

Loss ratios have increased during 2008-09 as compared to 2007-08 and have further worsened in financial year 2009-10. Fire has seen downward premium correction of approx 60-70% and motor has witnessed a decrease

in rates of approx 30-40%. Health insurance shows a high level of underwriting losses mainly due to the group health portfolio, but has showed marginal improvement during 2008-09 and 2009-10. Growth in gross premiums decreased significantly from 21.5% during 2003-04 and 2007-08 to 9.9% in 2008-09. Sum assured continues to grow at a healthy rate – an increase of approximately 16% in 2008-09 and 23% in 2007-08. Detariffing resulted in increased focus on scientific risk based pricing and improving underwriting capabilities of the companies as well as Improvement in risk management and claim ratio control. Further, Detariffing has caused the elimination of cross subsidization between lines of business (e.g. health and fire). It also led to emphasis on customer service and relationship Management for better targeting and marketing of products.

Health insurance

In India, healthcare is delivered through both the public healthcare system and the private sector. The public healthcare system consists of healthcare facilities run by the central and state governments, which provide services free of cost or at subsidized rates to the general public in rural and urban areas. The government funds allocated to healthcare sector have always been low in relation to the population of the country. The private sector investment in the healthcare industry really took off in the 1990s after the liberalization of the Indian economy. The number of privately run large hospitals and non-profit and charitable hospitals began to increase. The non-profit hospitals catered to low-income families that could not afford to go to corporate hospitals even though they felt that government hospitals were not providing the best care.

The healthcare industry in India has come a long way from the days when those who could afford it, had to travel abroad to get highly specialized services such as cardiac surgery, while others had to do without it. In the recent past, there have been several innovations in the healthcare services industry in India, giving patients a new experience of healthcare. The innovations in products and services have made hospitals a one stop location for people's healthcare needs and these innovations have increased the scope for offering better services to the patients.

Even though insurance industry was opened up to private sector in 2000, the penetration of medical insurance still remained very low. It is estimated that only around 10 per cent of the Indian population are covered under some sort of healthcare whether it is private health insurance or government schemes.

The innovations whether in business models, in marketing and promotion or in the use of technology, have created unique experiences for patients. Although medical insurance was introduced in the country in the late eighties, it suffered from a lack of trust among the public; and the product itself was under cloud for several reasons associated with its abuse. Moral hazard was quoted to be the biggest factor for its undoing. Besides, the delays associated with settlement of bills; poor servicing of the policies etc. were quoted to be the reasons for the product not taking off the way it should have. The institution of Third Party Administrators (TPAs) was introduced in the liberalized regime in order to obviate several of these ills. The institution itself ran into rough weather during the initial days but has come to stabilize itself and the number of complaints with regard to poor servicing of the health insurance contracts has certainly reduced in recent time.

The potential in the health segment is tremendous considering the huge untapped market. An observation of the trends of hospitalization irrespective of the economic standards of the people would indicate that it is merely a lack of awareness in the general masses

about the benefits of health insurance. A great deal needs to be done in this area. Several steps have already been taken to improve the situation; and positive results have been achieved. But one should admit that there is still a great hiatus between what has been achieved and the actual potential.

The general insurance market is growing at a slow pace. However, motor and health insurance are the two sub segments of the general insurance segment which have shown the potential and are growing fast. Non life segment witnessed an increase in premium income by 4.66% in the first quarter of 2009 as compared to the same period a year back. This growth can be attributed to other factors such as GDP performance and growth in services in the Q1 – 2009 and the well established health segment.

In providing healthcare access to individuals across India, Health insurance is expected to play a crucial role. The industry has shown a steady increase with the changes in the regulatory systems and introduction of new Government Health insurance schemes. The largest proportion of the gross premium for all players has come from the Motor insurance. It is been one of the most successful segments of the non life insurance business. As compared to the life insurance sector, the growth of non life insurance sector has been lagging behind because of the limitations in the distribution network across the country, an untapped market which leads to low consumer preference. The present report covers overall insurance industry in India, including life and general insurance and their products such as marine, motor and health insurance. It provides the structure and process of the industry. Market density and penetration gives an idea of the chances of further development of the industry. Health insurance is offering opportunities in the insurance sector. Future outlook helps to form new strategies and provide better understanding of upcoming market growth.

CHAPTER – V

Bancassurance Regulations in India and Abroad

The business of banking around the world is changing due to the rapid integration of global financial markets, development of new technologies, globalization of banking operations and fast paced diversification in non-banking activities. Due to these developments, the boundaries that have kept various financial services separate from each other have started to disappear. The integration of different financial services has provided synergies in operations and development of new concepts and new products, and one of these is Bancassurance.

Bancassurance commenced in India in the year 2000 when the Government issued notification under Banking Regulation Act which allowed Indian Banks to do insurance distribution. It started picking up after Insurance Regulatory and Development Authority (IRDA) notified 'Corporate Agency' regulations, in October, 2002. As per the concept of Corporate Agency, banks can act as an agent of one life and one non-life insurer. Currently Bancassurance including referrals accounts for a share of almost 25-30% of the premium income amongst the private insurance companies in India.

In India banking and insurance sectors are regulated by two different entities. The banking sector is governed by Reserve Bank of India and the insurance sector is regulated by Insurance Regulatory and Development Authority (IRDA). Bancassurance being the combination of two sectors comes under the purview of both the regulators. Each of the regulators has come out with detailed guidelines for banks getting into the insurance sector. The following sections briefly detail the various regulations brought out by both RBI and IRDA for regulating the insurance business in India.

RBI Guidelines for the Banks to do Insurance Business

Following the issuance of Government of India Notification dated August 3, 2000, 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. RBI issued the following guidelines for banks wishing to do insurance business.

- 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 products on agency basis.
- 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 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 are as under:

i) The net worth of the bank should not be less than ₹ 500 cores;
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 consecutive years;
v) The track record of the performance of the subsidiaries, if any, of the concerned bank should be satisfactory.

A subsidiary of a 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.

However, insurance business will not be permitted to be undertaken departmentally by the banks. Further, banks need not obtain prior approval of the RBI for engaging in insurance agency business or referral arrangement without any risk participation, subject to certain condition.

RBI has recently mandated banks to disclose the commission on insurance products to customers, bringing about transparency in bankers' relation with the customer. Further, banks have to disclose their entire income through insurance distributor as a line item in their profit and loss statement, so that the banks are held accountable in their relation to the insurer.

Corporate Agency Regulations

Banks can act as corporate agents for only one life and one non life insurance company for a commission, as per the current regulatory framework set up by IRDA.

The Corporate Agency regulations under which Bancassurance is regulated have the following important features:

i) Banks can tie up with only one life and one non-life insurer. That is the banks act as tied agencies without any risk participation.
ii) Banks are remunerated according to section 40A of the Insurance Act and they are not eligible for any payout from insurer other than commission.
iii) Banks shall sell insurance products only through specified persons, who are trained as per the regulations.
iv) Banks shall observe code of conduct prescribed towards both customer and the principal who is the insurer
v) Banks have also to service the policyholders as per the code of conduct notified by IRDA.
vi) Banks do not retain any sort of risk. Therefore no capital requirement has been prescribed.

Broker Route

"Insurance broker" means a person who for remuneration arranges insurance contracts with insurance companies and/ or reinsurance companies on behalf of his clients. It is required that the broker-applicant is not engaged in any business other than its main objects (i.e. Insurance Broking). Brokers are subject to ceilings on remuneration as well as limits on the percentage of business procured from a single client. They are also required to take out a professional indemnity policy.

Banks cannot become brokers, as regulations require brokers to be exclusively engaged in insurance broking. RBI does not allow banks to promote separate insurance broking outfits. Even otherwise MNC banks or their parent corporations are not inclined to promote broking subsidiaries in view of FDI cap of 26%. This virtually closes all options for banks or their subsidiaries to become brokers. Today banks are allowed to sell mutual funds of several asset management companies and in

the new PFRDA scheme banks are recognized as points of presence in an open architecture platform.

Referral Arrangement

Banks which are not eligible for corporate agency license as per RBI guidelines can adopt a referral model wherein they merely part with their client database with insurers for a fee. IRDA had earlier issued guidelines on Referral arrangements (IRDA/Cir./004/2003, dated 14-02-2003) with Banks etc.

As per the above circular no insurer could enter into a referral arrangement with any bank, which has been licensed by the Authority to act as an agent or an insurance intermediary. The referral arrangement with a bank is for access to its customer database, provision of physical infrastructure and for display of publicity material of the insurer. A bank could not enter into a referral agreement with more than one insurer. The bank customer's participation was purely voluntary and there was not to be any linkage between banking services to customers and use of insurance products.

The banks (including SCBs and DCCBs) need not obtain prior approval of the RBI for engaging in insurance agency business or referral arrangement without any risk participation, subject to the following conditions:

i) The bank should comply with the IRDA regulations for acting as 'composite corporate agent' or 'referral arrangement' with insurance companies.

ii) 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.

iii) The bank desirous of entering into referral arrangement, besides complying with IRDA regulations, should also enter into an agreement with the insurance company concerned for allowing use of its premises and making use of the existing infrastructure of the bank. The agreement should be for a period not exceeding three years at the first instance and the bank should have the discretion to renegotiate the terms depending on its satisfaction with the service or replace it by another agreement after the initial period. Thereafter, the bank will be free to sign a longer term contract with the approval of its Board in the case of a private sector bank and with the approval of Government of India in respect of a public sector bank.

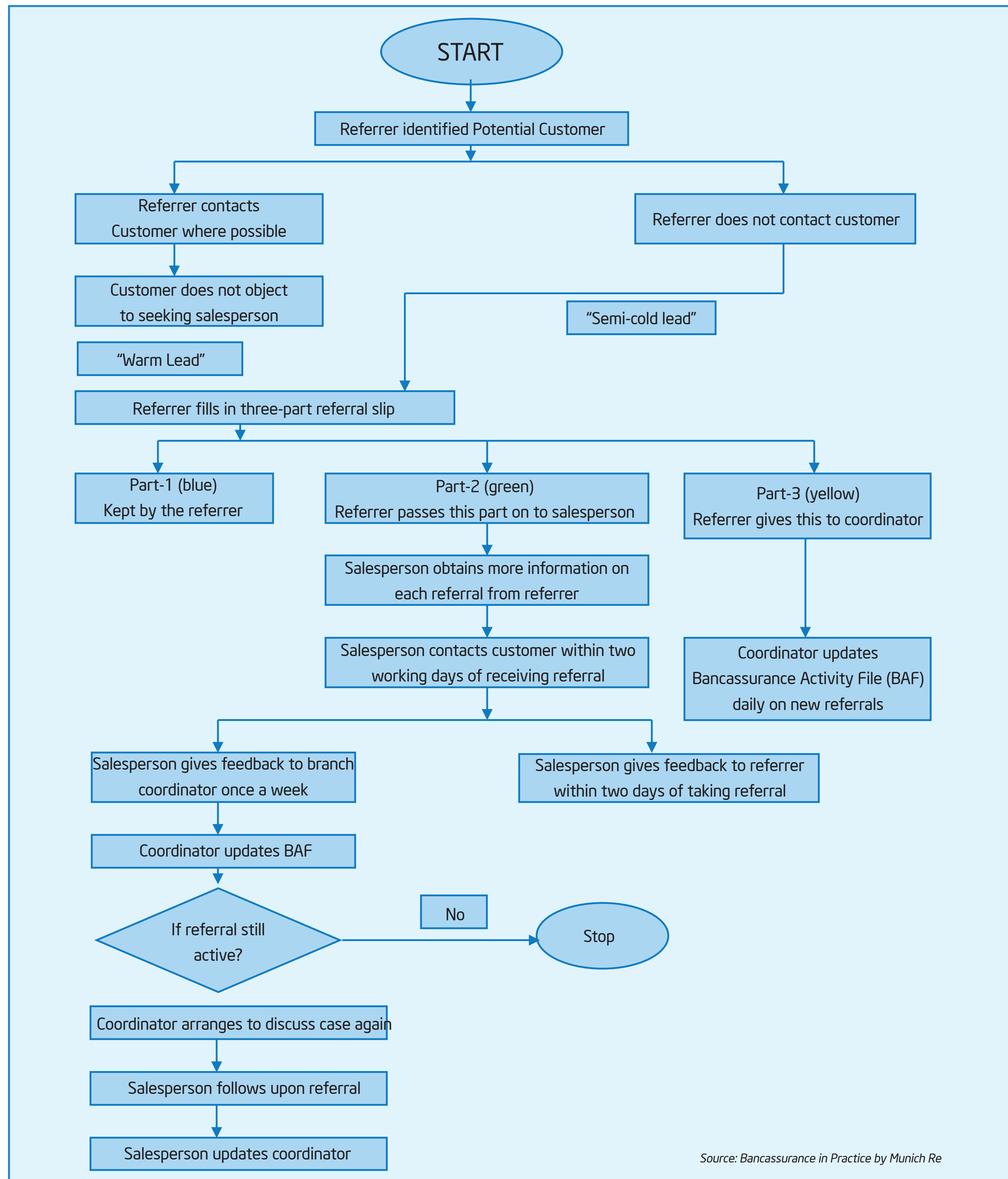
iv) As the participation by a bank's customer in insurance products is purely on a voluntary basis, it should be stated in all publicity material distributed by the bank in a prominent way. There should be no 'linkage' either direct or indirect between the provision of banking services offered by the bank to its customers and use of the insurance products.

v) The risks, if any, involved in insurance agency/ referral arrangement should not get transferred to the business of the bank.

Referral route is extended for insurers to acquire customer database of banks, which can provide a large number of prospective policyholders. The bank's role is linked to sale of the database above, while the insurer is expected to solicit customers from the database and complete the transaction through its own resource. However, the definitions introduced into the model because of circular issued in 2005, have obliterated the difference between corporate agency and referral and provided a regulatory arbitrage to the referrals by allowing them to circumvent cap on commissions and training requirements. Several banks charged hefty fee for entering into the referral agreement, over and above the fee which was linked to sale. Further, upfront fee was being collected for providing infrastructure for locating insurer's staff and advertisements in bank premises. It was also observed that in a few cases, referral banks were actually soliciting the customers for sale of insurance, through untrained staff. As the regulatory

framework was found to be inadequate, the referral system had degenerated into rogue Agency system, and was dismantled through regulations by IRDA in 2010. The import of these regulations is discussed later in this chapter.

MUNICH RE: PROTOTYPE OF REFERRAL ARRANGEMENT



Source: Bancassurance in Practice by Munich Re

Insurance through Joint ventures

Apart from the above, the fully integrated Bancassurance involves much more comprehensive relationship between insurer and bank, where banks will have a counter within and sell/market the insurance products as a core activity. This includes banks having wholly owned insurance subsidiaries with or without foreign participation. In the Indian case several banks like ICICI bank and HDFC bank in private sector and State Bank of India in the public sector, have already taken a lead in resorting to this type of Bancassurance model and have acquired sizeable share in the insurance market, within a short span of time

Status of Bancassurance in India

The tie-ups between the insurance companies and banks are doing reasonably well in India, through different types of Bancassurance models. Some of the important Bancassurance tie-ups in India under both life insurance and non-life insurance sectors are listed in the table placed at Annexure 3. The picture gives the number of banks tied-up with Life and Non-Life Insurers for the last three years period beginning 2008-09.

One of the drivers for the growth in insurance sector is the contribution of the private sector of the banking industry. The private life insurers have been instrumental in building strong relationships with established banks for Bancassurance. Cooperative banks and regional rural banks are seen as a cost-effective vehicle for insurers to tap into rural communities and fulfill their rural sector obligations.

While dealing with business data of Bancassurance, it is important to be skeptical about the accuracy of data as neither insurers nor the regulator have devised any means to segregate neatly business generated from different channels. The data available with the regulator is constrained by lack of granularity. The available data shows that the share of banks as corporate agents has reached 8% of the total new business premium by the financial year 2007-08. The referral business being mainly from banks, it can be safely added to the banker's credit, raising their contribution to approximately to 11%. This may look meager in the context of the strength and spread of Indian banking sector. The major contribution is from private insurers as they contributed 90% of new business premium of ₹ 6822 crore during 2007-08 and 88.65% of ₹ 7306 crore in 2008-09. This is to be viewed against a total share of 27% New Business premium of private insurers in a total New Business premium of ₹ 6711 crore in 2007-08 and 28.15% of ₹ 56885 crore in 2008-09. Even among the private players, insurers from banking group covered major share of the premium. SBI life topped with 21%, ICICI Prudential and HDFC Standard in second place with 16% each in 2008-09. This leads us to the obvious conclusion that size of the bank is the most important factor in determining the growth of the Bancassurance channel. The success of Met Life can also be explained by their close relation with Axis Bank during the year. Other private sector insurers without a big bank's support failed to notch up any significant business from this channel. The data insurer wise is presented in table (Statement No's 54, 55 & 56) from Annual Report of IRDA.

The following section gives a detailed analysis on the operation of Bancassurance model in the insurance industry in India based on the information for the past few years and it throws up quite a few issues in the working of this model under the present regulations governing the Bancassurance channel of distribution.

Analysis of Management Expenses incurred by the Insurance Companies on Bancassurance Business

The analysis of the break-up of expenses incurred under different heads like Commission, Infrastructure, Advertisement, Training shows that the experience of insurers with bank channel has been varied across the companies. The analysis is done on following parameters – commission, other expenditure, total expenditure etc.

The insurer wise availability of bancassurance partners is placed at **Annexure-3.** The analysis clearly points out that the insurers promoted by the banks have got a distinct advantage in terms of their reach to every corner of the country. Insurers like SBI Life, ICICI Pru, Canara HSBC, India First, IDBI Federal and Star Union Daichi out perform other insurers in terms of their reach and the infrastructure available. The branches of the banks which have promoted the insurer can develop as the sales points of the insurance companies. While the insurers not having the bank promoters are at a disadvantage in terms of availability of infrastructure as well as trained manpower, such skewness in the availability of infrastructure has resulted in smugness among the bancassurers in utilisation of the potential available.

The analysis of bank-wise availability of specified persons clearly shows that several banks are yet to develop the strategy of leveraging their manpower to generate fee income by sale of insurance products. While the number of branches in the entire country is 80,000 (approximately), the number of specified persons available is only 48,700. The SBI which has got a well developed strategy for bancassurance takes the cake in deploying the personnel by more than 23,700 which is approximately 50% of the entire manpower of specified persons in the country. It can be seen that other banks have not realized the importance of having trained salesmen in their staff to push insurance products to their customers. Because of the non-availability of the specified persons, it is possible that the insurers are not getting the value for their monies invested in the distribution channel partner.

Referral Agreements

The present referral system may also be one of the factors for huge expenditure ratio of insurers. Most of the insurance companies were circumventing the Referral Agreement circular No. 004/2003 issued by the Authority by interpreting the wordings to their advantage, thereby paying the higher referral fee to the Banks. The effort involved in Insurance intermediation by Agent/Corporate Agent/Broker is much more than what the Referral Agent would put in. But the remuneration paid to the Referral (55%) is more than that of an Insurance Intermediary (35%). This was an unintentional gap in Regulatory Frame work. The argument that the referral fee is only paid in the first year, whereas the commission is payable for renewal periods also doesn't fully justify such high payment.

However during the year 2010, the new regulations on "Sharing of Database for Distribution of Insurance Products" were notified which are annexed at **Annexure-4**. The main features of the regulation are as under:

1. The eligibility criteria for grant of approval to act as referral companies.
2. The procedure for registration of a referral company.
3. Restrictions on the business activities of the referral company.
4. Obligations of a referral company.
5. Obligations of the insurers.
6. Procedure for action in case of default by the insurer.
7. Procedure for action in case of default by the referral company.
8. Authority's powers to issue clarifications.

Because of these regulations, the referral route is now not available to any other banks except those banks which are not eligible for grant of Corporate Agency License under the relevant guidelines of Reserve Bank of India or the Authority.

Regional disparities in the distribution network

In order to understand the spread and reach of insurance agents both individual as well as specified persons of banks across the various states in India, state-wise analysis of the distribution of these agents is done based on the data shown in the following two tables viz. Table-V.1 and Table-V.2. Table-V.1 shows the state-wise number of agents for the life insurance agents and Table-V.2 shows the state-wise number of specified persons of banks. It can be seen that the average number of agents per thousand population is 512, and 17 states viz., Andhra Pradesh, Maharashtra, Tamil Nadu, Karnataka, Orissa, Punjab, Kerala, Uttaranchal, Himachal Pradesh, Haryana, Gujarat, Goa, Delhi, Assam and Chandigarh are above the national average. Rest of the states are below the national average where there is ample scope for the insurance companies to tap these markets. Further, an analysis of the composition of Agents across the states and union territories reveals that the concentration of urban agents is quite high in most of the states except in the states of Arunachal Pradesh, Bihar, Himachal Pradesh and Andaman & Nicobar Islands where the proportion of rural agents to total agents is more than 50%. This clearly shows the urban skew with respect to the provision of insurance services by the insurers.

Table-V.2 gives the State wise Specified Persons (SPS) per 1 Lakh of population and the figure for country as a whole is 5. The highest ratio is for Chandigarh, followed by Delhi and Kerala; all these states have one of the highest per capita incomes in the country. Bihar has the lowest ratio along with states like Manipur, Mizoram, Nagaland and Uttar Pradesh, which too have one of the lowest per capita incomes. Chandigarh having a population of around 12 lakh has 594 SPs when compared to 1330 SPs for a population of 9.3 crore in Bihar. This point to a co-relation between the number of SPs and per capita incomes, suggesting that most of the insurance companies do focus on urban centres for marketing their products. Further, an analysis of non-bank corporate agents shows that most of the insurers have more than 95% of their agents belonging to urban areas. Amongst the insurance companies only United India and LIC have somewhat better representation in the sense that 23.2% and 12.4% respectively of their total non-bank corporate agents belong to rural areas. Overall only about 5% of the agents belong to rural areas. Similarly, out of the total 310 corporate agents operating across all the insurance companies urban agents constitute 71% and the balance 29% belong to rural areas. This clearly points to the fact that insurance services are skewed in favour of urban population as the insurers perceive the potential to be higher in urban areas when compared to rural centers.

The states which have population below national average are Andaman & Nicobar Islands, Arunachal Pradesh, Assam, Bihar, Chhattisgarh, Goa, Daman & Diu, Jammu & Kashmir, Lakshadweep, Manipur, Meghalaya, Madhya Pradesh, Mizoram, Nagaland, and Uttar Pradesh. If we take the number of specified persons per lakh of population, the same States again turn up lagging behind the national average. With the analysis of data for average population per bank branch, one can conclude that the above states are again lagging.

The analysis of premium as a percentage of Gross State Domestic Product (GSDP) shows that the same States are having much less penetration and density in terms of insurance. This clearly points out the coincidence of lack of financial services in both banking as well as insurance

sectors. It is expected that the tied agency model which does not need greater investments in infrastructure would have worked out to the advantage of the States with difficult terrain and special problems. However, it is found that even the tied agency model in these States has not succeeded beyond the success achieved by the regular branch model in banking sector. This is corroborated by the fact that banks as corporate agents generated ₹ 489 crore of premium when compared ₹ 1099 crore of premium collected by agents in these states during 2007-08. Further, during 2008-09, out of the total new business generated in life insurance, agents accounted for nearly 80% whereas the banks as corporate agents contributed only 10%. The balance is sourced from broker, others and direct selling. However, it is to be noted that the share of banks in total new business has gone up from 8% in 2007-08 to 10% in 2008-09. This clearly suggest that within the growing financial sector of the country a strong distribution network through banks would certainly improve the spread of financial services and would also pave the way towards financial inclusion.

Recently the National Rural Employment Guarantee Scheme has initiated the use of smart cards and the services of 155,000 post offices across the country to pay the wages of those who are engaged in manual labor to tide them over the lean period. This has provided an impetus to the use of financial services by the poor. For instance, the Andhra Pradesh government is using smart cards to transfer NREGS benefits and social security pensions to 5 million beneficiaries. A similar number is being addressed in Rajasthan through efforts at financial inclusion that are in an experimental stage.

The RBI, in an attempt to enhance the reach of financial services, adopted the "Business Correspondent Model" in January 2006. This model seeks to use the services of non-governmental organizations, micro-finance institutions and other civil society organizations as intermediaries in providing financial and banking services. This has met with partial success. Data shows that out of 50 public sector and private sector banks, only 26 banks have so far reported appointing business correspondents, through which under one million no-frills accounts have been opened by March 2009.

Given the concentration of financial services in urban areas to the point of saturation, insurers need to focus on rural markets in order to maintain the growth in their revenues. With the rising income levels of the semi-urban and rural population in India and the rapid semi-urbanization observed in rural areas, there is scope for marketing many financial products in these markets for expanding their market share and customer base. However, the insurance companies will have to tackle obstacles for enhancing their penetration levels in the rural markets. The Eleventh Plan document cites the following obstacles for financial exclusion: lack of awareness, low income/assets, social exclusion, and illiteracy on the demand side factors. On the supply side it mentions distance from branches, branch timings, cumbersome documentation and procedures, unsuitable products, language, and staff attitudes as the causes for exclusion.

The low penetration ratio in many states indicates that a vast majority of low income population remain outside the reach of insurance, particularly in rural and semi-urban areas. This clearly suggests the presence of vast potential for tapping the insurance market particularly by widening the distribution channels. This is where the strategy of Bancassurance could possibly be used more effectively in marketing the insurance services in the rural areas. The concentration of agents of Insurance sector, be it corporate or individual, predominantly in urban areas clearly gives a picture of financial services

being skewed in favour of urban areas given the business potential to be tapped. Further, according to Eleventh Five Year Plan, lack of access to financial services such as credit, savings, and insurance at an affordable cost not only results in exclusion but also acts as a constraint to growth impetus in the rural and unorganised sectors. There is a rural-urban divide and a regional skew to the financial exclusion which needs to be addressed strategically.

The insurance sector remains highly untapped in the rural market of India. According to the World Bank – NCAER Rural Finance Access Survey 2003, over 82% of the rural households in India have no insurance cover. This clearly suggests that the rural areas have to be given high priority by the insurers for increasing the penetration of insurance services. That is why most of the players have realized the potential of the rural market and have taken proactive initiatives in recent years to tap the market. Some of the initiatives taken by the insurance companies include small-premium term insurance products to the rural sector to increase sale of insurance policies in these areas, group term insurance policies to the members of the SHGs who have collectively taken credit from MFIs, as these are cost-effective collateral against credit from the MFIs or other financial institutions. Private players have also tied up with public sector banks, co-operative banks and the Regional Rural Banks (RRBs) to penetrate into the rural market. The large rural customer base and wide branch network of these banks offer an effective distribution channel to the insurance companies, thereby promoting Bancassurance.

Given the above analysis, it is clear that India's rural market has huge potential that is still untapped by the insurance companies. Setting up their own networks entails such a huge cost, that no company would be interested in doing so. Bancassurance again comes as an answer. It helps the insurance companies to tap the market at a much lower cost. As for the customer the competitive nature of the Indian market ensures that the reduction in costs would result in benefits in terms of lower premium rates being passed on to him. The penetration level of life insurance in the Indian market is quite low at 4.6% of GDP with only 12% of the total population currently insured. With almost half of the population likely to have been in the 'wage earner' bracket by 2010, there is every reason to be optimistic that Bancassurance in India will play an important role in the growth of insurance industry.

Concluding Observations

Based on the analysis of the data provided by the Insurers, it is evident that both Life and Non-Life insurers are spending heavily in the form of commissions and other expenditure related to Bancassurance business. This is corroborated by the high average expenditure ratio of Non-Life Insurers and the trend of Life Insurers' increasing average expenses ratio as reflected in their statements.

The reasons for increasing expenditure ratio of Insurers may be due to the following:

- Insurers are competing among themselves to grab the Bancassurance channel of business thereby increasing the commission and other expenses to attract banking intermediaries.
- Present regulations prevent the banks to tie-up with more than one Insurer. Since Banks are limited (and already having tie-ups) and Insurers are adding each year, the newly entered Insurer finds it difficult to engage a bank as its Corporate Agent. This situation gives an unfair advantage to the banks to demand higher commission/expenses from the Insurer.
- Most of the upfront payments are being made through the "other expenses" head of Account.

Expenses on Advertisements, Training etc. are not properly justified as many Insurers in order to improve their business aggressively tend to make payments over and above the commission and thereby circumvent the present regulations in force.

Commission earned through Bancassurance forms an additional source of income for most banks as it augments their inflows apart from the usual savings deposits. Though the current regulations do not permit compulsory selling of insurance, today most of the banks are insisting on their customers to take an insurance policy as a collateral for the advances like home loan, personal loan, auto loan, children's' education loan etc. In most of these cases, the insurance products which are being marketed by the banks happen to be complementary products, such as auto loan, motor insurance, home loan and credit life cum householder's policy.

The above analysis brings out the dilemma regulators face while dealing with Bancassurance channel. Having a tie up with group commercial bank, though seen as positive for expenditure control, need not always result in cost reduction for insurer. Further, we know from subsequent analysis that banks' actual expenses in insurance sales are comparatively lower than other channels making channel-specific insurance products cheaper for Bancassurance channel. The design of bancassurance regime under which this translates into lower premium for the policyholder is the biggest challenge for the regulator.

CHAPTER – VI

Comparison of Broker / Agent / Corporate Agent Regulations in India

At present, only three entities apart from the sales force employed by the insurer can sell insurance: an individual agent, a corporate agent or a broker. Agents, whether individual or corporate, are by regulation tied to one insurance company and are recognized as representatives of the insurance company. Brokers, on the other hand, are representing the buyer and can offer products of different companies. Broking companies can do only insurance business and banks cannot become broking companies as RBI regulations do not allow banks to promote separate insurance broking outfits. Based on the regulations of IRDA for Corporate Agents, banks can act as an agent of one life and one non-life insurer.

The following sections briefly explain about the role of Agents, Corporate Agents and Brokers in doing insurance business in India.

Agent

An agent is a person who has entered into an 'agency contract' with an insurance company for the purpose of selling insurance for that company. An agent is not an employee of the insurance company, but rather an independent contractor. The agent, unlike a broker, has the authority to bind coverage (legally obligate the insurance company to provide coverage according to the terms and conditions as bound in the insurance contract). Due to this reason he is treated as being part of legal identity of the insurer. And hence cannot represent the policy holder.

Quality intermediation requires personnel working in the insurance industry to follow a certain code of conduct and have an understanding of business and possess skills to service different constituents in the market. In order to ensure this, the Insurance Regulatory and Development Authority has notified the IRDA(licensing of Insurance Agents) Regulations 2000, under which Regulation 6 requires that a person desiring to obtain or renew a license to act as an **insurance agent** or a **composite insurance agent** shall pass the pre-recruitment examination in life or general insurance business, or both as the case may be, conducted by the Insurance Institute of India, Mumbai or any other examination body recognized by the Authority.

Corporate Agent

The Corporate Agent model is introduced with a view to taking advantage of the presence of a large number of firms, corporations, Banks, NGOs and co-operative societies who are in contact with people in the normal discharge of their activities and utilize their presence and services for canvassing the sale of insurance products. In concept corporate agent and agent are identical as they have principal-agent relationship with the insurer. Both can have tie-up with only one life or non-life insurer.

Since insurance contracts are highly technical in nature, the Regulations issued by the Authority stipulated that the canvassing should be done only by "specified persons" engaged by the Corporate Agents and such specified

persons should have the qualifications prescribed by the Authority. In case of corporate executives also, the Authority prescribed certain qualifications in order for the Corporate Agent to obtain a license and operate insurance business.

Broker

Provisions of section 40 of the Insurance Act 1938; have been amended through Insurance Amendment Act, 2002 so as to permit payment of a portion of the premium received by insurance companies towards commission for doing intermediation. Based on this, IRDA granted several licenses to various organizations permitting them to carry on insurance broking business either as direct brokers so as reinsurance brokers or as composite brokers in the country. IRDA (Insurance Brokers) Regulations, 2002 envisages a Principal Officer for conducting the affairs of the broking company in a professional manner and as per the rules and regulations laid down / prescribed by the Authority. He is the interface between the Regulator and the Broking Company. And he is not allowed to look after any other assignment or position so long as he is the Principal Officer of a broking company, as per the regulations. In principle, broker represents the insured and has a duty to render suitable advice to him on purchase of insurance products. Hence it is his bounden duty to offer the best possible insurance product across the insurance companies and he is not 'tied' to any insurer.

The broker's fee or commission is built into the insurance premium. Large insurance brokerage firms have the ability to secure coverage for every type of risk. They tend to compartmentalize the coverage to provide expertise in each field of insurance. Smaller businesses may not require the level of compartmentalization and specialization that larger brokerage houses offer. To that end, a smaller brokerage firm or an individual broker may be adequate for their needs. They usually have the ability to offer a more personalized service that a small business might prefer.

Code of Conduct

The IRDA regulations for agents, brokers and corporate agents clearly prescribe a code of conduct for these intermediaries, who are supposed to carry the insurance business abiding by the prescribed code. The IRDA (Licensing of Insurance Agents) Regulations, 2000 gives the code of conduct to be followed by insurance agents, which inter-alia states that every agent shall identify himself and the insurance company of whom he is an insurance agent; i) disclose his license to the prospect on demand; ii) disseminate the requisite information in respect of insurance products offered for sale by his insurer and take into account the needs of the prospect while recommending a specific insurance plan; iii) disclose the scales of commission in respect of the insurance product offered for sale, if asked by the prospect; iv) indicate the premium to be charged by the insurer for the insurance product offered for sale; v) advise every individual policyholder to effect nomination or assignment or change of address or exercise of options, as the case may be, and offer necessary assistance in this behalf, wherever necessary; etc. (Details at **Annexure-5**).

The IRDA Regulations 2002 give the code of conduct for insurance brokers. Every insurance broker is bound by the code of conduct as specified in **(Annexure-6)**.

Every corporate agent or corporate insurance executive or specified person shall be guided by code of conduct specified in section 9 of IRDA (Licensing of Corporate Agents) Regulations, 2002.

A detailed comparison of broker, agent and corporate agent regulations in India is given in **Annexure-7**. The remarks column brings out the significance of the legal position of the regulations with respect agents, brokers and corporate agents.

CHAPTER – VII

Regulatory Concerns

Insurance sector opened up ten years ago with avowed objective of increasing the availability of insurance products to population largely untouched by any type of insurance cover. The context of liberalization has set the priorities of the sector squarely in favour of development of the sector above any other issue. As the market was dominated by monopolistic public sector undertakings, it became necessary for the regulator to provide incubatory comfort to the nascent private insurance sector. This was expressed in largely conservative investment regulations, advisory nature of regulator whenever the insurers embarked upon adventurous course and mild preventive measures against anti-competitive trends whenever detected.

The main strength of the sector has been its unique distribution system built up over a period of 3 to 4 decades by LIC assiduously by tapping the individual initiative of the agents. The agency system has intricate link to LIC organizational structure and culture. Because of the internalization of the distribution philosophy, LIC is able, even in face of the onslaught of private sector, to retain its edge in marketing. The strength of the agency emerges from the fact that it can be pursued as a lucrative subsidiary profession by individuals with other primary business as a value added service. This model tapped the enthusiasm of vastly underemployed Indian middle class for improved incomes and life styles. LIC succeeded in building loyalty among this class of agents by consistency of incentives and excellent integration of the agency into the organization. The strategy paid excellent dividends as the increasing prosperity of the Indian masses during last two decades found LIC products as easily accessible financial products available for the long term savings as well as risk cover with the loan facility through agency system. Thus, the agency mode of distribution became the envious possession of LIC.

Private players were in a hurry to build a profitable business model and were under pressure from shareholders to deliver. They did not have the long gestation period LIC had, to internalize the culture of distribution and build loyalty over decades. They were in search of quick fix solutions to build up market share through every possible channel for distribution. The private sector having absorbed many of the LIC employees, also attempted to cannibalize their agency system, launching agency war among the players.

This internecine war, if not curbed straightway would have pushed the industry into chaos. Hence, the regulator has been very liberal in regulating the agency system by imposing restrictions like NOC for parting of ways by the agent, code of conduct, etc. IRDA also was very restrictive in allowing corporates into distribution. Banks were also restricted to the traditional one to one relation and the referral model was also severely constrained.

The commercial banks were seen as a natural partners for the insurers in search of distribution channels. Banks with their loyal customer base were seen as vehicles to huge market share by the insurers. However, the banks being older players and with huge clout in the market place, naturally, extracted their pound of flesh for partnering. The regulator is concerned that, the iniquitous relation between the insurers and the banks will ultimately put the insurers at risk of under pricing the risk of doing business and overcharging the customer to pay the banker.

The concerns of the regulator expressed in many of the guidelines notified over a period of time are briefly described below.

- The insurers' main products during last few years have been savings products. ULIPs, in which insurance is implicit to savings and endowment products also have strong savings connotation. They can be viewed as competitors to the bankers' own savings products. The conflict can result in suppression of insurance products when the banks need the deposits, compromising the agent – principal relation.

- As discussed, insurers will be at a disadvantage when negotiating with the banker due to the pricing power enjoyed by the banker. This could be seen happening every time a deal is negotiated between the two. The insurer ends up paying a fat upfront fee running into tens of crore, at least 1/4th of the prospective business, training costs, infrastructure costs to the bank brochures, expenses towards the transactions, incentives, travel, entertainment for the bank staff are some of the heads under which the insurer is fleeced. The accounts at both ends are opaque and the payouts exceed the prescribed commission by a large measure.

- Due to the asymmetry of the relationship, insurer has hardly any say in the manner of marketing their products. The regulations prescribe that the insurance products have to be sold by only trained persons. Only persons familiar with features of the products and the risks they cover can do justice to the customers. Banks at present do not have trained persons in all the branches, which means that solicitation is happening through untrained persons. This opens the possibility of mis-selling by the bank staff, which in turn puts liability on the insurance company. The risk of mis-selling and the insurer being held liable is higher in products which also have savings features. As the banks are not directly under IRDA for regulatory purpose, this poses a challenge to insurance regulator in the prevention of mis-selling. Opening up the sector for multiple tie ups for banks with insurers carries the danger of aggregating the problem of mis-selling by banks.

- One important trend observed in Bancassurance is the passive partnership from bankers' side. While bank staff takes least interest in selling the product and interacting with the prospect, the persons deployed by the insurer, present in the bank branch do the active selling. This becomes a variant of referral model prevalent in other markets. Although this model seems to work seamlessly, this puts enormous strain on insurers' resources and rewards bank disproportionately for just providing a referral. The compensation structure prevailing for this sort of job at present is unjustified. In contrast, an individual agent identifies the prospect, interacts with him and completes the formalities to deserve the initial commission. Thus, the regulator needs to look at the model in order to make the insurer comply with regulations on overall management expenses cap.

- The data on Bancassurance reveals the preponderance of single premium products. This brings in the aspect of service to be provided by the bank as an agent to the policyholder. An agent is supposed to be accessible to the policyholder and be an active interface and facilitator on all policy / claim related matters. The exclusion of regular premium products, from this channel can well be an indication of deficit in servicing aspect of insurance. This can also mean bank channel is more focused on new premiums, which results in higher commission.

- Till recently, the tie ups between bank and insurer lasted a year or two. The short term of the tie-up resulted in major burden of servicing falling on the insurer. This also prevents the insurer from taking long term interest in training the bank staff in insurance related subjects. This also resulted in many policies going orphan when tie-up ends. The bank customer being loyal to the bank rather than to the insurer, has also resulted in switching of the insurer by the policyholder along with the bank. This pushed insurer's costs upwards as first year expenditures are typically much higher. This militates against the long term nature of insurer's business model and is the cause of concern for the regulator.

As explained in preceding paras, most of the regulatory concerns are centered on the asymmetry of relation between bank and insurer which can result either deficit in service to the policyholder or overcharging him. In this context, any recommendation in this regard needs to look at ways to make the relation more equitable and beneficial to the insurer, banker and the policyholder.

CHAPTER – VIII

Products and Pricing in Bancassurance

Cost Structure under Bancassurance:

Experience in the European countries has demonstrated that Bancassurance channel has distinct advantages in certain categories of insurance products which gets reflected in their pricing. The integration of banking products like loans and deposits with insurance offers a convenient tool to spread costs and provides a win-win situation to both the banker and the customer. However, there are certain insurance products which are natural value add-ons to the banking products. Hence, the distribution efficiency of banks for these products can be much higher.

Munich Re in their study of Bancassurance has listed these products as below:

i. Finance and repayment products: Protect the lender well as the family of the borrower against the death and disability of the borrower, especially when the property financed cannot be sold or repossessed under this category. Credit insurance, overdraft insurance and capital repayment products are very popular. In India these products are yet to become popular. The potential for expansion of Bancassurance and insurance sector as a whole is enormous especially in the category of products. It is essential that insurers understand that anti selection is best avoided by making these products popular, so that every borrower automatically buys into credit insurance. This will benefit banker and customer also thru higher sales and lower premium through manifold increase in numbers.

ii. Depositor's products: These are value add-ons provided by the banks either by implicitly changing premium as a component of the interest or by directly charging the customer. They are generally of three categories. While deposit insurance provides term assurance or accidental death benefit linked to the cash balance, objective achievement insurance works like endowment policy which provides sum assured, which can be higher than the cash balances of deposits. The pure investment products are also offered by insurers in some Countries to provide the tax benefit to the customer, which is available only to insurers. These products are not at all marketed in India as statistics show that bank deposits from retail sector has no relation to the sum assured.

iii. The third category consists of simple packaged products like household insurance. Motor Insurance etc., which are template and are of great use to all of bank customers. The insurance and banks together have miserably failed to exploit this sector which has a great potential. Further, even in Motor insurance, banks do not seem to have done their home work properly, as even auto loan borrowers also seldom purchase motor insurance and when they purchase, it is generally from the auto dealer who doubles up as the Agent.

iv. The last category consists of products like whole life, endowment, ULIPs, term insurance, health, pension etc. Among these ULIPs and their two single premiums ULIP seem to be highly popular among bank customers. The popularity can be easily explained by high decibel campaign carried out by the insurance on their ULIP offerings to the exclusion of all other products.

The analysis of acquisition cost ratios shows that there is a cost advantage for bancassurers compared to companies using traditional distribution channels. This is due to the use of the bank branch infrastructure, which is accounted for on a marginal basis. However, the cost differential is much higher in countries with highly integrated Bancassurance models, the most extreme case being Spain where non-bancassurers have an acquisition cost/premium ratio five times higher than bancassurers. Further, the analysis of administration costs in Europe shows a significant differential between integrated bancassurers and other companies. In non-integrated models, bancassurers have more or less similar level of costs as compared to traditional insurers and even slightly higher. This may reflect greater economies of scale and more mature businesses of the non-Bancassurance companies in these markets that are generally well established and larger.

In India, the insurers are yet to warm up to products designed exclusively for Bancassurance channel. Certain insurers, whose tie-up with banks for distribution is stronger either because of being part of the same group or the commitment of the top of management of both the partners, have come up with such products. Besides, some insurers have designed products which, though not exclusive to bank channel, predominantly cater to the bank's customers. It is expected that these products capture the expectations and experience of the insurers on the cost structure of the distribution.

In order to understand the insurer's perspective while designing products catering to bank customers an analysis was undertaken across the insurers who are providing products either exclusively to bank channel or which are predominantly aimed at bank customers. **Annexure-8** gives the detailed analysis of certain products which is on expected lines and strengthens the argument that banks have a different cost structure which is much lower than all other channels. Main limitation of the analysis is that LIC which is the dominant player does not have any such products and being the market leader having the pricing power might have influenced these products also. However, this argument is true for all other products also.

The analysis was done for both the unit linked products as well as traditional term assurance and with profit whole life policies. The results as summarized below are consistent with the hypothesis that the banks have in-built efficiencies in the insurance distribution:

The analysis of the Unit linked policies is done under two scenarios viz. before the stipulations of cap on charges and after the stipulations.

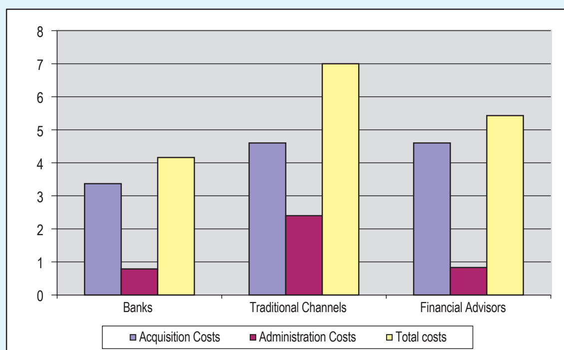
Exhibit

Comparative Advantage of Bancassurance

Bancassurance is often considered to be more cost effective than traditional agency and broker channels. The primary advantage offered by bank distribution of insurance products relative to other channels is the customer relationship. Events that trigger scales of banking products, such as mortgage applications, generate the so-called "warm" leads that allow banks to cross-sell insurance products, thus generating a lower cost per sales lead. Furthermore, the ability to leverage fixed costs, brand awareness within the geographical region, frequent interaction with clients and the extensive use of technology, suggest a significant competitive advantage over other distribution channels.

Relative to other channels, limited data is available on the cost and profitability of bank distribution. However, industry-level data for Italy and France does suggest that Bancassurance enjoys a cost advantage (see Chart-9 and Chart-10), at least relative to agency and broker channels. In Italy, the total expense ratio, as a percentage of 2006 gross premiums from banks, was clearly lower than that of agents and financial advisors.

Chart-9
Life Insurance Expense Ratios in Italy (%), 2006



In France, bank channels had a clear cost advantage in 2005 compared to companies which use intermediaries. In contrast, direct writing companies had a slightly lower expense ration (as a percentage of gross premiums) than banks, due to lower administration costs. Similarly, in household insurance in France, the bank channel enjoyed a lower expense ratio than other channels, apart from "mutuals without intermediaries"

Chart-10
Life Insurance Expense Ratios in France (%), 2005

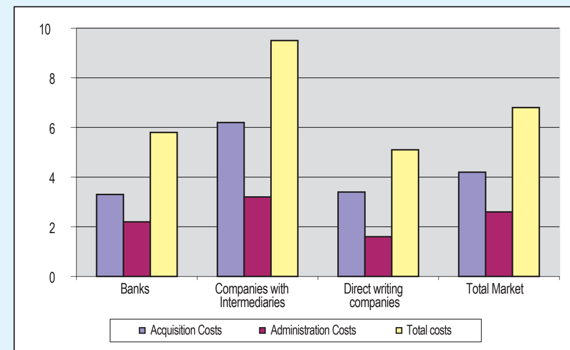
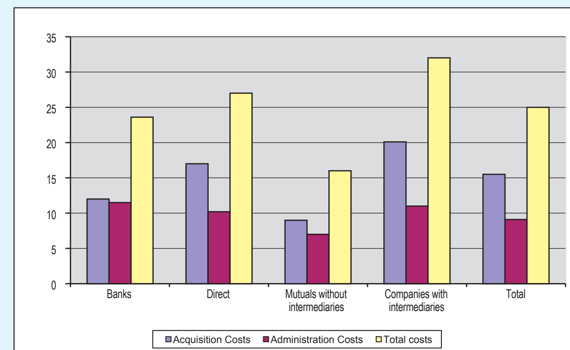


Chart-10a
Household Insurance Expense Ratios in France (%), 2005



Companies rarely disclose information on the profitability of the Bancassurance channel. However, AVIVA and HBOS stated their new business margins (on an embedded value basis) for Bancassurance and other channels. In both cases, Bancassurance margins (on an embedded value basis) for Bancassurance and other channels. In both cases, Bancassurance margins were significantly higher than other traditional channels.

Particulars	2006	2005
AVIVA: as % of PVNBP*		
Bancassurance	2.7%	2.9%
Other Channels	1.4%	1.6%
Total	**1.7%**	**1.8%**
HBOS: as % of APE**		
Bancassurance	33.2%	28.7%
Intermediary	9.6%	8.2%
Wealth management	35.5%	36.8%
Total	**26.6%**	**24.0%**

** EEV Basis. New business contribution after the effect of required capital, tax and minority interest as a percentage of the present value of new business premiums (PVNBP). Data relates to global business.*

*** Full EV basis. New business contribution before tax as a percentage of new business annual premium equivalent (APE). Data relates to UK business.*

Source: Swiss Re, Sigma No. 5/2007: Bancassurance: emerging trends, opportunities and challenges.

I. Unit linked policies after the stipulations on Cap on charges

1. Endowment policy

Distribution channel	Value of charges per ₹ 100 value of maturity benefit	Value of charges in terms of value of premiums	Value of total loadings per ₹ 100 value maturity benefit
Bancassurance	₹ 21.5	₹ 17.8	₹ 10.1
All the channels[1]	₹ 21.2	₹ 17.5	₹ 9.2

2. Whole Life policy

Distribution channel	Value of charges per ₹ 100 value of surrender benefit	Value of charges in terms of value of premiums	Value of total loadings per ₹ 100 value surrender benefit
Bancassurance	₹ 23.1	₹ 18.8	₹ 8
All the channels[1]	₹ 34.4	₹ 26.1	₹ 12

II. Unit linked policies before the stipulations on Cap on charges

3. Endowment policy

Distribution channel	Value of charges per ₹ 100 value of maturity benefit	Value of charges in terms of value of premiums	Value of total loadings per ₹ 100 value maturity benefit
Bancassurance	₹ 32.5	27.6%	₹ 15.8
All the channels[1]	₹ 34.7	30.7%	₹ 19.2

4. Whole Life policy

Distribution channel	Value of charges per ₹ 100 value of surrender benefit	Value of charges in terms of value of premiums	Value of total loadings per ₹ 100 value surrender benefit
Bancassurance	₹ 19.8	18.2%	₹ 13.4
All the channels[1]	₹ 22.0	19.8%	₹ 48.4

Non-linked policies

1. Term assurance policy

Distribution channel	Annualised premium per ₹ 1000 of sum assured	Annualised risk cover loading per ₹ 1000 of sum assured	Annualised commission loading per ₹ 1000 of sum assured
Bancassurance	₹ 2.29	₹ 1.13	₹ 0.16
All the channels[1]	₹ 3.05	₹ 1.33	₹ 0.21

2. With-profit whole life policy with survival benefits (considered for limited premium term of 10 years):

Distribution channel	Annualised premium per ₹ 1000 of sum assured	Annualised expense loading per ₹ 1000 of sum assured	Annualised commission loading per ₹ 1000 of sum assured
Bancassurance	₹ 137.3	₹ 8.3	₹ 12.01
All the channels[1]	₹ 157.6	₹ 24.6	₹ 12.61

The above figures indicate that the cost of the policy to the policyholder as well as to the insurer is lower under the Bancassurance Channel than under 'All the channels' [7].

Comparison of the figures pertaining to Unit linked policies under the two scenarios indicates that the charges/ expenses are reduced significantly and got aligned with the Bancassurance channel. This also indicates a scope for further efficiency of the Bancassurance channel and reduction in commission structure for bank distributed products.

The lower cost to the policyholder increases the volumes of the business which in turn reduce the per-policy expense loadings due to the overhead expenses being distributed over larger volumes. The lower cost combined with financial sophistication of the bank customers brings in higher persistency. This may further result in cheaper policies. As such, economies of scale resulting from the Bancassurance channel leads to wider penetration of the insurance business in a useful way to both the insurer as well as the policyholder.

The implications of the above analysis are manifold. Firstly, spread of products designed exclusively for bank channel will benefit customers tremendously. Secondly, insurers can differentiate between channels while building in the commission into the premium. Thirdly, the

[7] The phrase 'All the channels' includes the Bancassurance channel also. However, in this case the Bancassurance channel is expected to contribute less than 20% of the overall expected business volumes.

goal of financial inclusion in banking and insurance sectors can be done at a lower cost through banks. Fourth and importantly regulator needs to insist on separate filing of the Bancassurance products. Fifthly, the insurers need to watch the experience through bank channel closely, so as to ensure that banks' customers, typically above the average income levels, are not cross-subsidized by other policyholders by lower pricing of the product.

The above analysis is subject to the following two qualifications:

1. The products offered by companies having large share of bancassurance business may have a different cost structure, accounting philosophy and compensation structures from the companies having any other mix of bancassurance and agency business. Hence comparison presented above needs to be qualified on this ground.

2. The profile of the customers in bancassurance may differ substantially from the profile of customers of other channels of the same company and other companies. Hence the pricing may get affected due to the difference in policyholder profiles.

CHAPTER – IX

Recommendations

The views of the Members of the Bancassurance Committee and the stakeholders in the insurance industry are in **Annexure-9**. One of the members expressed the view that bankers may convert into broking entity for the purpose of tying up with multiple insurers. However, majority of the members felt that current broking model does not envisage a bank as a broker. Further there are several inter regulatory issues in that model, which may be difficult to resolve. The Committee also studied the initiatives taken by China Banking Regulatory Commission & China Insurance Regulatory Commissions to curb misselling and strengthen grievance redressal mechanism. The committee has also examined various developments in Bancassurance sector and has drawn lessons relevant in Indian context. Based on the analysis of these views the committee makes the following recommendations:

1) The Committee has noted that, at present, there is considerable ambiguity on the organization and practices of the Bancassurance channel and, therefore, the new regulations for Bancassurance should be comprehensive and cover all aspects of the working of this channel. The Committee has examined the Bancassurance practices as prevailing in several major jurisdictions across the world and has noted that, broadly, this channel is based either on Tied Agency Model or on a Product Model. Internationally, most of the countries have adopted the Tied Agency Model and the Committee recommends that the Bancassurance channel may be allowed to operate on principles of tied agency in vogue in India. "Tied Agency" model may be preserved, as legal status of the bank will be that of an agent to the insurer.

2) Banks shall be allowed to have tie-up with any two sets of insurers.
   - Two in life insurance sector
   - Two in non-life insurance sector excluding health
   - Two in health insurance sector
   - ECGC and AIC.

3) Constitution:
   A 'Bank' defined as per Banking Regulation Act 1949, and any subsidiary of a bank constituted as a special purpose vehicle for insurance distribution exclusively with RBI's approval and NBFCs, including HFCs, accepting deposits and branches of foreign banks operating in India may be permitted to conduct insurance business in India under the 'Bancassurance'. Each banking group shall be permitted to tie-up with the same set of insurers, irrespective of the number of corporate agent licenses the group has.

4) i) Compensation to Banks: The banks shall not be eligible for any compensation other than the commission payable for distribution of insurance products. Such Commissions shall be the lesser of the legally permitted and

the F&U cleared commission. No bank shall be permitted to receive any other payment directly or through affiliates or other revenues for any activity or facility, including rent, advertising, training, staff incentive, prizes in competitions etc. The current stipulation in Corporate Agency Regulations, barring such payments shall be applicable to the banks also. The CEO and CFO of the bank shall certify the sum total of all payments or reimbursements received by bank and its affiliates from the insurers and their affiliates on annual basis.

ii) Discount in valuation of Equity share given by insurers to bank distribution partners, as compensation for tie-up shall be valued at arms length by two reputed Chartered Accountant firms and treated as advance commission paid towards the business procured by the bank. Similarly all other types of payments in cash or kind shall be valued as per accounting standards, at arms length and treated as advance commissionand amortised in a period not extending beyond three years.

iii) The Bancassurance regulations shall provide for recovery of any compensation received in excess of the permitted commission, from banks and their affiliates in addition to the existing provisions to penalize any corporate agent as per Section 102 of the Insurance Act, 1938.

5) Accounts and certification:

i) The bancassurers shall have to maintain an appropriate form of auditable accounts. A Compliance Certificate from CEO and CFO shall be prescribed. The format of such a Certificate which reflects remuneration, payments received by all bank affiliates etc., is placed at Annexure 21 (for non-life insurers), Annexure 22 (for life insurers) and Annexure 23 (for both life and non-life insurers).

ii) They shall furnish the periodical returns to the Authority in the formats as prescribed by the Authority.

iii) Provisioning for operational risk for the insurance distribution may be left to RBI's consideration. Hence any liability arising out of operational risk shall be dealt with according to the relevant stipulations by RBI.

iv) Insurance vertical of the bank/SPV shall be headed by an officer who reports directly to Board of Directors of the Bank. It is already a practice and hence shall be prescribed as it improves accountability.

v) Corporate governance norms regarding disclosure shall have to be complied by the banks treating Bancassurance as integral part of bank's business operations.

6) Training:

i) Regulations shall mandate that the bank staff be fully trained in handling insurance products so that the sale process is transparent and the policyholder gets full disclosure of the features of the product. There is a need to strengthen the certification criteria for bank sales personnel for the purpose of selling health insurance, ULIPS, pension and other complex products. One-time rigorous training may be given to the sales personnel of the bank, with added stress on complex products. The current stipulation of certification at the time of

renewal shall also be strengthened. Chartered Institute of Insurance, U.K., which is already assisting LIC and IRDA may design syllabus and course content for this purpose. Only those bank branches having such trained specified persons may be allowed to sell products of multiple insurers.

ii) Presently, many bank branches which sell insurance products do not have Specified Persons (SP) as per the regulatory requirement. The SPs have more than one branch in their jurisdiction and are available on a part-time basis at each of the branches. This lowers the regulatory comfort of the sales process. It may be not possible to have a SP for every branch immediately. The bancassurers shall market insurance products only in those branches where specified person is posted.

7) Code of Conduct:

The regulators have been expressing concerns about the need for increasing the transparency in the sale process and reduction in mis-selling of financial products time and again. Both the regulators have taken several measures to curb the wrong practices prevalent in the market. RBI has brought out an elaborate circular on disclosures to be made on all fee based products to the customers. It has also brought insurance products under the purview of this circular. IRDA in turn has also prescribed the benefit illustration to be a part of the policy document which shall be done as per the prescribed format. Both the regulators have set up ombudsman system to tackle the complaints on mis-selling as well as settlement of any disputes between customers and the companies. The committee deliberated on the code of conduct requirement for the insurer and the banker in Bancassurance channel and made the following recommendations:

i) Mis-selling of Insurance Products: For mis-selling of the insurance products, insurer as well as banker as an agent, both shall be held accountable. Banker is equally responsible to the policyholder to inform all the features of the product and risks associated with it. The bank staff also has to discharge policy servicing obligations as per the existing code of conduct. Any malfeasance, misfeasance or nonfeasance by the bank staff shall be strictly dealt with by RBI. Specified Person of the Bank is also to be made accountable as per existing provisions of Insurance Act and code of conduct for Specified Persons. Banking Ombudsmen may be mandated by RBI to accept complaints from policyholder, whenever the bank or its staff is found in default. However, the Insurer is always answerable to the policyholder, as long as 64VB of Insurance Act is satisfied.

ii) Claim settlement: The agreement between the banker and the insurer may be very specific whereby the banker is expected to assist the policyholder in making the claim and processing the claim as per the procedures prescribed by the insurance company. The Bancassurance partner shall be made to accept the claim applications, do the initial processing and feed it into the IT system of the insurer within 2 or 3 working days. The time lag shall be reckoned from the date of receipt of claim application by the bank. Where there is no conflict, the appointment of loss assessor may be delegated to the banker by the insurer.

iii) Policy Servicing: In terms of providing necessary services like obtaining the duplicate policy documents, change of address, revival or renewal of policies, change of nominee,

timely remittances of premium etc., the banker shall accept the applications and process them initially and transmit to both insurer and policyholder. The insurers and bancassurers shall enter into a detailed Service Level Agreement (SLA) regarding the policy servicing activities to be undertaken by the insurer. When the bancassurer is in default of such SLA, the Bancassurer will be subject to Insurance Law and the contractual terms with insurer.

iv) Compliance with Know Your Customer (KYC) and enhanced due diligence: Banks are required to carry out appropriate KYC verification of their customers at the time of opening of their bank account and during the continuation of their relationship. Given the responsibilities of both the insurer and the banker, it is recommended that the insurer may be allowed to rely on the due diligence and KYC carried out by the bank for its existing relationships. This is as per the Recommendation 9 of Financial Action Task Force's (FATF) Recommendations and is permitted in UK, Australia and Singapore. The insurer, however, shall put in place systems for secondary monitoring of the KYC and due diligence over and above the banker's system through software and sample checks.

v) The sale of insurance products by bank staff shall compulsorily be preceded by Needs Analysis in the proforma annexed. (Annexure-10.)

vi) The features of the insurance products, when sold as part of package of banking and insurance products, must be clearly and transparently explained to the prospect by the bank staff. Such sales shall also be preceded by Needs Analysis as per the above prescribed proforma.

vii) RBI may also be requested to make banks accountable to banking ombudsmen for mis-selling and other policy servicing complaints against bancassurers.

viii) A joint grievance mechanism with senior staff of bank and insurer has to be set up to review complaints at pre-ombudsmen stage, at the end of every quarter.

8) Inspection and Supervisory terms:

i) RBI is the regulator of all scheduled commercial banks / regional rural banks / co-operative banks and banking NBFCs in India. Hence, any business done by the banks either fee based or fund based shall be supervised by RBI. RBI may prescribe necessary reports for this purpose. In case of SPVs set up exclusively for insurance distribution, IRDA will remain the regulator and SPV shall follow all the regulatory prescriptions of IRDA. The Bancassurance regulation may contain separate clause which empowers IRDA and RBI to inspect any of the Bancassurance partners.

ii) IRDA shall strengthen the inspection and off site monitoring of distribution partners as they account for the largest component of expenses. All the distributors generating a premium of ₹ 100 crore and above shall be annually inspected by IRDA for compliance with Regulations.

9) Agreement between the banker and the insurer:

i) At present the tenure of tie-up between the banker and the insurer are ranging between

one to three years. This makes relationship between the two unstable and the exclusive distribution partnership in India loses its advantages because of the instability. It is necessary that there is a stable relationship in all such exclusive partnerships. The training of bank staff is an important task of the insurer and the substantial sales force of the bank can be trained only in a phased manner because of the business contingencies. Hence, the substantial initial period of the tenure will elapse before the banker is equipped with the necessary skills and sell insurance products in proper fashion. Further, as the term of agreement nears the end, the banker will be looking forward to new tie-up which will provide them higher income. This will put the relationship in cold storage even before the agreement has come to an end. In order to ensure that the instability does not affect the relationship between the banker and the insurer, the tenure of the agreement between the banker and the insurer shall at least be not less than five years.

However, the responsibility of servicing of the policies issued already through the bank/ subsidiary/SPV, even if the tie-up ends shall remain with the Bancassurance partner for which he shall receive the renewal commission on per renewed policy basis.

ii) Regulations may specify a proforma for Memorandum of Agreement between bank and insurer with minimum requirements.

10) Referral System:

The referral system which is in practice in Bancassurance channels is a hybrid between corporate agency and the classical referral model. Here, the insurer establishes infrastructure along with personnel in the bank premises and approaches the prospect during the visit to the bank branch. This system incentivizes the bank to allow its premises to be used for solicitation by the insurers and puts double strain on the insurer. The insurer has not only to pay the higher amount of first year premium as referral fee to the banker but also to deploy staff and infrastructure in the bank premises. It is observed that the referral model is costlier than the corporate agency model. Obviously, inequitable relationship between the banker and the insurer has resulted in this sort of innocuous arrangement which ultimately reflects in higher premium on the policyholder. Hence, it is recommended that the referral system for the Bancassurance channel be abolished.

11) IT and other Infrastructure:

Technology platform built by banks is of immense use for them in Bancassurance business. The processing of insurance proposals and claims can see quantum jump in quality if the strengths of this platform can be utilized by the bancassurers. Use of IT will immediately reduce manpower requirement at both the ends. It will make the financial needs analysis by the banker more structured and transparent. Efforts shall be made by the insurers and banks to leverage the technology to improve efficiency of distribution.

12) The permission to tie up with multiple insurers as per these recommendations shall be contingent upon banks fulfilling all the conditions specified in these recommendations.

Table-IV.1

TOTAL LIFE INSURANCE PREMIUM

(₹ in crore)

Insurer	2009-10	2008-09	2007-08	2006-07	2005-06	2004-05	2003-04	2002-03	2001-02
LIC	**186077.31**	**157288.04**	**149789.99**	**127822.84**	**90792.22**	**75127.29**	**63533.43**	**54628.49**	**49821.91**
	(18.30)	(5.01)	(17.19)	(40.79)	(20.85)	(18.25)	(16.30)	(9.65)	(42.79)
AEGON Religare	165.64	31.21	-	-	-	-	-	-	-
Aviva	2378.01	1992.87	1891.88	1147.23	600.27	253.42	81.50	13.47	
Bajaj Allianz	11419.71	10624.52	9725.31	5345.24	3133.58	1001.68	220.80	69.17	7.14
Bharti Axa	669.73	360.41	118.41	7.78	-	-	-	-	-
Birla Sunlife	5505.66	4577.59	3272.19	1776.71	1259.68	915.47	537.54	143.92	28.26
Canara HSBC	842.45	296.41	-	-	-	-	-	-	-
DLF Pramerica	38.44	3.37	-	-	-	-	-	-	-
Future Generali	541.51	152.6	2.49	-	-	-	-	-	-
HDFC Standard	7005.1	5564.69	4858.56	2855.87	1569.91	686.63	297.76	148.83	33.46
ICICI Prudential	16531.87	15356.22	13561.06	7912.99	4261.05	2363.82	989.28	417.62	116.38
IDBI Fortis	571.12	318.97	11.90	-	-	-	-	-	-
ING Vysya	1642.65	1442.28	1158.87	707.20	425.38	338.86	88.51	21.16	4.19
India First	201.60	-	-	-	-	-	-	-	-
Kotak Mahindra	2868.05	2343.19	1691.14	971.51	621.85	466.16	150.72	40.32	7.58
Met Life	2536.01	1996.64	1159.54	492.71	205.99	81.53	28.73	7.91	0.48
Max New York	4860.54	3857.26	2714.60	1500.28	788.13	413.43	215.25	96.59	38.95
Reliance Life	6604.9	4932.54	3225.44	1004.66	224.21	106.55	31.06	6.47	0.28
Sahara	250.59	206.47	143.49	51.00	27.66	1.74	-	-	-
SBI Life	10104.03	7212.1	5622.14	2928.49	1075.32	601.18	225.67	72.39	14.69
Shriram	611.27	436.17	358.05	184.17	10.33	-	-	-	-
Star Union	530.37	50.19	-	-	-	-	-	-	-
Tata AIG	3493.78	2747.5	2046.35	1367.18	880.19	497.04	253.53	81.21	21.14
Private Total	**79373.06**	**64503.20**	**51561.42**	**28253.01**	**15083.54**	**7727.51**	**3120.33**	**1119.06**	**272.55**
	(23.06)	(25.10)	(82.50)	(87.31)	(95.19)	(147.65)	(178.83)	(310.59)	(4124.31)
Industry Total	**265450.37**	**221791.24**	**201351.40**	**156075.85**	**105875.76**	**82854.80**	**66653.75**	**55747.55**	**50094.46**
	(19.69)	(10.15)	(29.01)	(47.41)	(27.78)	(24.31)	(19.56)	(11.28)	(43.54)

Note: Figure in bracket indicates the growth over the previous year in percent.

"-" indicates the company has not started its operation.

Table-IV.2

FIRST YEAR (INCLUDING SINGLE PREMIUM) LIFE INSURANCE PREMIUM									
									(₹ crore)
Insurer	**2009-10**	**2008-09**	**2007-08**	**2006-07**	**2005-06**	**2004-05**	**2003-04**	**2002-03**	**2001-02**
LIC	**71521.90**	**53179.08**	**59996.57**	**56223.56**	**28515.87**	**20653.06**	**17347.62**	**15976.76**	**19588.77**
	(34.49)	(-11.36)	(6.71)	(97.17)	(38.07)	(19.05)	(8.58)	(-18.44)	(101.93)
Aegon Religare	150.36	31.21	-	-	-	-	-	-	-
Aviva	798.37	724.56	1053.98	721.35	407.12	192.29	76.96	13.47	-
Bajaj Allianz	4451.10	4491.43	6674.48	4302.74	2716.77	857.45	179.55	63.39	7.14
Bharti Axa	437.43	292.93	113.24	7.78	-	-	-	-	-
Birla Sunlife	2960.01	2823.91	1965.01	882.72	678.12	621.31	449.86	129.57	28.11
Canara HSBC	622.62	296.41	-	-	-	-	-	-	-
DLF Pramerica	37.38	3.37	-	-	-	-	-	-	-
Future Generali	486.08	149.97	2.49	-	-	-	-	-	-
HDFC Standard	3257.51	2651.11	2685.37	1648.85	1042.65	486.15	209.33	129.31	32.78
ICICI Prudential	6334.03	6483.92	8034.75	5162.13	2602.50	1584.34	750.84	364.11	113.33
IDBI Fortis	400.56	316.78	11.90	-	-	-	-	-	-
ING Vysya	642.43	688.95	704.44	467.66	283.98	282.42	72.10	17.66	4.19
India First	201.59	-	-	-	-	-	-	-	-
Kotak Mahindra	1333.98	1343.03	1106.62	614.94	396.06	373.99	125.51	35.21	7.58
Met Life	1061.85	1144.7	825.35	340.44	148.53	57.52	23.41	7.70	0.48
Max NewYork	1849.08	1842.91	1597.83	912.11	471.36	233.63	137.28	67.31	38.80
Reliance Life	3920.78	3513.98	2751.05	932.11	193.56	91.33	27.21	6.32	0.28
Sahara	124.83	134.01	122.12	43.00	26.34	1.74	-	-	-
SBI Life	7040.74	5386.64	4792.82	2563.84	827.82	484.85	207.05	71.88	14.69
Shriram	419.50	314.47	309.99	181.17	10.33	-	-	-	-
Star Union	519.87	50.19	-	-	-	-	-	-	-
Tata AIG	1322.01	1142.67	964.51	644.82	464.53	297.55	181.59	59.77	21.14
Private Total	**38372.12**	**33827.15**	**33715.95**	**19425.65**	**10269.67**	**5564.57**	**2440.71**	**965.69**	**268.51**
	(12.36)	(0.33)	(73.56)	(88.84)	(84.55)	(127.99)	(152.74)	(259.65)	(4061.70)
Industry Total	**109894.02**	**87006.23**	**93712.52**	**75649.21**	**38785.54**	**26217.64**	**19788.32**	**16942.45**	**19857.28**
	(25.84)	(-7.16)	(23.88)	(95.04)	(47.94)	(32.49)	(16.80)	(-14.68)	(104.56)

Note: Figure in bracket indicates the growth over the previous year in percent.

"-" indicates the company has not started its operation.

Table-IV.3

NEW POLICIES ISSUED : LIFE INSURERS								
Insurer	**2009-10**	**2008-09**	**2007-08**	**2006-07**	**2005-06**	**2004-05**	**2003-04**	**2002-03**
LIC	38862662	35912667	37612599	38229292	31590707	23978123	26968069	24545580
	(8.21)	(-4.52)	(-1.61)	(21.01)	(31.75)	(-11.09)	(9.87)	(96.75)
Private Sector	14361773	15010710	13261558	7922274	3871410	2233075	1658847	825094
	(-4.32)	(13.19)	(67.40)	(104.64)	(73.37)	(34.62)	(101.05)	(3.25)
Total	**53224435**	**50923377**	**50874157**	**46151566**	**35462117**	**26211198**	**28626916**	**25370674**
	(4.52)	**(0.10)**	**(10.23)**	**(30.14)**	**(35.29)**	**(- 8.44)**	**(12.83)**	

Note: Figure in bracket indicates the growth over the previous year in percent.

Table-IV.4

EQUITY SHARE CAPITAL OF LIFE INSURANCE COMPANIES (As on 31st March)									
									(₹ in crore)
Insurer	**2010**	**2009**	**2008**	**2007**	**2006**	**2005**	**2004**	**2003**	**2002**
Aegon Religare	570	300.00	-	-	-	-	-	-	-
Aviva	1888.8	1491.8	1004.50	758.20	458.70	319.80	242.80	154.80	-
Bajaj Allianz	150.70	150.7	150.71	150.37	150.23	150.07	150.07	150.03	150.00
Bharti Axa	1131.35	668.43	366.11	150.00	1.10	-	-	-	-
Birla Sunlife	1969.50	1879.50	1274.50	671.50	460.00	350.00	290.00	180.00	150.00
Canara HSBC OBC	500.00	400.00	-	-	-	-	-	-	-
DLF Pramerica	221.30	137.05	-	-	-	-	-	-	-
Future Generali	702.00	468.50	185.00	-	-	-	-	-	-
HDFC Standard	1968.00	1796.00	1271.00	801.26	620.00	320.00	255.50	218.00	168.00
ICICI Prudential	1428.14	1427.26	1401.11	1312.30	1185.00	925.00	675.00	425.00	190.00
IDBI Fortis	450.00	450.00	200.00	-	-	-	-	-	-
India First	200.00								
ING Vysya	1019.15	1019.15	790.00	690.00	490.00	325.00	245.00	170.00	110.00
Kotak Mahindra	510.29	510.29	480.27	330.35	244.58	211.76	151.26	131.30	101.00
Max New York	1838.82	1782.43	1032.43	732.43	557.43	466.08	346.08	255.00	250.00
Met Life	1774.79	1580.00	761.08	530.00	235.00	235.00	160.00	110.00	110.00
Reliance Life	1164.65	1160.43	1147.70	664.00	331.00	217.10	160.00	125.00	125.00
Sahara	232.00	232.00	232.00	157.00	157.00	157.00	157.00	-	-
SBI Life	1000.00	1000.00	1000.00	500.00	425.00	350.00	175.00	125.00	125.00
Shriram	125.00	125.00	125.00	125.00	125.00	-	-	-	-
Star Union	250.00	150.00	-	-	-	-	-	-	-
Tata AIG	1920.50	1519.50	870.00	547.00	447.00	321.00	231.00	185.00	185.00
Private Total	**21014.99**	**18248.04**	**12291.42**	**8119.41**	**5887.05**	**4347.81**	**3238.71**	**2229.13**	**1664.00**
LIC	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00
Industry Total	**21019.99**	**18253.04**	**12296.42**	**8124.41**	**5892.05**	**4352.81**	**3243.71**	**2234.13**	**1669.00**

Note: "-" indicates the company has not started its operation.

Table-IV.5

Premium underwritten by Life Insurers

(₹ in crore)

Insurer	2008-09	% growth	2009-10	% growth
1. Regular Premium				
LIC	19140.61	-27.01	26184.48	36.80
Private	30663.04	6.97	34529.75	12.61
Total	**49803.65**	**-9.26**	**60714.23**	**21.91**
2. Single Premium				
LIC	34038.47	0.78	45337.42	33.19
Private	3488.97	-30.91	3842.37	10.13
Total	**37527.44**	**-3.34**	**49179.79**	**31.05**
3. First Year Premium (1+2)				
LIC	53179.08	-11.36	71521.90	34.49
Private	34152.01	1.29	38372.12	12.36
Total	**87331.09**	**-6.81**	**109894.02**	**25.84**
4. Renewal Premium				
LIC	104108.96	15.94	114555.41	10.03
Private	30345.43	70.05	41000.94	35.11
Total	**134454.39**	**24.91**	**155556.35**	**159.69**
5. Total Premium (3+4)				
LIC	157288.04	5.01	186077.31	18.30
Private	64497.44	25.09	79373.06	23.06
Total	**221785.48**	**10.15**	**265450.37**	**19.69**

Table-IV.6

Number of Life Insurance Offices (As on 31st March)

Particulars	2009	2008	2007	2006	2005	2004	2003	2002	2001
Private Sector	8768	6391	3072	1645	804	416	254	116	13
LIC	3250	2522	2301	2220	2197	2196	2191	2190	2186
Total	**12018**	**8913**	**5373**	**3865**	**3001**	**2612**	**2445**	**2306**	**2199**

Table-IV.7

GROSS DIRECT PREMIUM OF NON-LIFE INSURANCE (WITHIN & OUTSIDE INDIA)

(₹ in crore)

Insurer	2009-10	2008-09	2007-08	2006-07	2005-06	2004-05	2003-04	2002-03	2001-02
National	4645.99	4295.85	4021.97	3827.12	3536.34	3810.65	3399.97	2869.87	2439.41
New India	7099.14	6455.79	6151.97	5936.78	5675.54	5103.16	4921.47	4812.79	4198.06
Oriental	4854.67	4077.90	3900.22	4020.78	3609.77	3090.55	2899.74	2868.15	2498.64
United	5239.05	4277.77	3739.56	3498.77	3154.78	2944.46	3063.47	2969.63	2781.48
Public Total	**21838.85**	**19107.31**	**17813.71**	**17283.45**	**15976.44**	**14948.82**	**14284.65**	**13520.44**	**11917.59**
	(14.30)	(7.26)	(3.07)	(8.18)	(6.87)	(4.65)	(5.65)	(13.45)	(13.59)
Bajaj Allianz	2482.33	2619.29	2379.92	1786.34	1272.29	851.62	476.53	296.48	141.96
Bharti AXA	310.82	28.50	-	-	-	-	-	-	-
Cholamandalam	784.85	685.44	522.34	311.73	220.18	169.25	97.05	14.79	-
Future Generali	376.61	186.49	9.81	-	-	-	-	-	-
HDFC Ergo	915.40	339.21	220.60	194.00	200.94	175.63	112.95	9.49	-
ICICI Lombard	3295.06	3402.04	3307.12	2989.07	1582.86	873.86	486.73	211.66	28.13
IFFCO-TOKIO	1457.84	1374.06	1128.15	1144.47	892.72	496.64	322.24	213.33	70.51
Raheja QBE	1.32	-	-	-	-	-	-	-	-
Reliance	1979.65	1914.88	1946.42	912.23	162.33	161.68	161.06	185.68	77.46
Royal Sundaram	913.11	803.36	694.41	598.20	458.64	330.70	257.76	184.44	71.13
Shriram	416.93	113.76	-	-	-	-	-	-	-
Tata AIG	853.80	823.92	782.64	710.55	572.70	448.24	343.52	233.93	78.46
Universal Sompo	189.28	30.14	0.48	-	-	-	-	-	-
Private Total	**13977.00**	**12321.09**	**10991.89**	**8646.57**	**5362.66**	**3507.62**	**2257.83**	**1349.80**	**467.65**
	(13.44)	(12.09)	(27.12)	(61.24)	(52.89)	(55.35)	(67.27)	(188.64)	(6453.98)
Total	**35815.85**	**31428.40**	**28805.60**	**25930.02**	**21339.10**	**18456.45**	**16542.49**	**14870.25**	**12385.24**
	(13.96)	(9.11)	(11.09)	(21.51)	(15.62)	(11.57)	(11.25)	(20.06)	(17.97)
Specialized Insurers									
AIC	1520.70	833.44	835.11	564.67	555.83	549.72	369.21	-	-
ECGC	813.00	744.68	668.37	617.66	577.33	515.55	445.48	374.78	338.52
Stand-alone Health Insurers									
Star Health	961.65	509.86	168.19	22.51	-	-	-	-	-
Apollo DKV	114.66	48.14	2.97	-	-	-	-	-	-
Max Bupa	0.13								

Figure in the bracket represent the growth over the previous year in percent.

"-" indicates the company has not started its operation;

Table-IV.8

POLICIES ISSUED : NON- LIFE INSURERS								
Insurer	**2009-10**	**2008-09**	**2007-08**	**2006-07**	**2005-06**	**2004-05**	**2003-04**	**2002-03**
Public Sector	43403969	45137181	38547040	33972092	42193079	44634047	38427204	41885005
	(-3.84)	(17.09)	(13.47)	(-19.48)	(-5.47)	(16.15)	(-8.26)	(96.15)
Private Sector	24083838	21922906	18703219	12692053	8947516	5144755	3298827	1676907
	(9.86)	(17.21)	(47.36)	(41.85)	(73.92)	(55.96)	(96.72)	(3.85)
TOTAL	**674878.07**	**67060087**	**57250259**	**46664145**	**51140595**	**49778802**	**41726031**	**43561912**
	(0.64)	**(17.13)**	**(22.69)**	**(-8.75)**	**(2.74)**	**(19.30)**	**(-4.21)**	

Note: Figure in bracket indicates the growth over the previous year.

Table-IV.9

EQUITY SHARE CAPITAL OF NON-LIFE INSURANCE COMPANIES - (As on 31st March)

(₹ crore)

Insurer	2010	2009	2008	2007	2006	2005	2004	2003	2002
Non-Life									
Bajaj Allianz	110.23	110.23	110.23	110.13	110.05	110.00	110.00	110.00	110.00
Bharti AXA	105.00	162.58	-	-	-	-	-	-	-
Cholamandalam	266.96	141.96	141.96	141.96	141.96	141.96	141.96	105.00	49.50
Future Generali	280.00	190.25	150.00	-	-	-	-	-	-
HDFC Ergo	415.00	200.00	150.00	125.00	125.00	120.00	120.00	101.00	-
ICICI Lombard	403.63	403.14	377.36	335.71	245.00	220.00	220.00	110.00	110.00
IFFCO-TOKIO	247	247.00	220.00	220.00	220.00	100.00	100.00	100.00	100.00
Raheja qbe	207.00	200.00	-	-	-	-	-	-	-
Reliance	115.22	113.08	107.15	103.07	102.00	102.00	102.00	102.00	102.00
Royal Sundaram	210.00	210.00	170.00	140.00	140.00	130.00	130.00	130.00	130.00
SBI General Insurance	150.00	-	-	-	-	-	-	-	-
Shriram	105.00	105.00	-	-	-	-	-	-	-
Tata AIG	300.00	300.00	225.00	225.00	195.00	125.00	125.00	125.00	125.00
Universal Sompo	150.00	150.00	150.00	-	-	-	-	-	-
Private Total	**3160.04**	**2533.24**	**1801.70**	**1400.87**	**1279.01**	**1048.96**	**1048.96**	**883.00**	**726.50**
National	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
New India	200.00	200.00	200.00	200.00	200.00	150.00	100.00	100.00	100.00
The Oriental	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
United India	150.00	150.00	150.00	150.00	100.00	100.00	100.00	100.00	100.00
Public Total	**550.00**	**550.00**	**550.00**	**550.00**	**500.00**	**450.00**	**400.00**	**400.00**	**400.00**
Total	**3710.04**	**3083.24**	**2351.70**	**1950.87**	**1779.01**	**1498.96**	**1448.96**	**1283.00**	**1126.50**
Specialised insurers									
AIC	200.00	200.00	200.00	200.00	200.00	200.00	200.00	-	-
ECGC	900.00	900.00	900.00	800.00	700.00	600.00	500.00	440.00	390.00
Stand-alone Health insurance companies									
Apollo DKV	129.30	107.37	100.55	-	-	-	-	-	-
Star Health & Allied	164.33	109.30	108.60	105.00	105.00	-	-	-	-
Max Bupa	151.00								
Re-insurer									
GIC	**430.00**	**430.00**	**430.00**	**430.00**	**430.00**	**215.00**	**215.00**	**215.00**	**215.00**

-' indicates the company did not start operations.

Table-IV.10

PREMIUM (WITHIN INDIA) UNDERWRITTEN BY NON-LIFE INSURERS - SEGMENT-WISE			
			(₹ in crore)
Segment	**2007-08**	**2008-09**	**2009-10 (Prov.)**
Fire	3459	3383	3869
	(12.43)	(11.14)	(11.18)
Marine	1799	1957	2168
	(6.47)	(6.45)	(6.26)
Motor	12685	13336	15047
	(45.59	(43.94)	(43.46)
Health	4894	6088	7311
	(17.59)	(20.06)	(21.12)
Others	4986	5588	6225
	(17.92)	(18.41)	(17.98)
Total Premium	**27823**	**30352**	**34620**
	(100)	**(100)**	(100)

Note: Figure in brackets indicates market share (in %)

Table-V.1

State wise Number of Agents						
State	Agents (U)	Agents (R)	Total	Total (in 000)	Popula-tion (in 000)	Agents =/ Population (*1,00,000)
Andaman & Nicobar Islands	536	1768	**2304**	**2.304**	438	526.027
Andhra Pradesh	317412	274375	**591787**	**591.787**	81836	723.138
Arunachal Pradesh	1821	2030	**3851**	**3.851**	1188	324.158
Assam	91674	82392	**174066**	**174.066**	29183	596.464
Bihar	102335	141783	**244118**	**244.118**	92699	263.345
Chattisgarh	43579	22082	**65661**	**65.661**	23048	284.888
Chandigarh	20930	1755	**22685**	**22.685**	1182	1919.205
Daman & Diu	460	121	**581**	**0.581**	231	251.515
Delhi	198899	8842	**207741**	**207.741**	16641	1248.368
Dadra & Nagar Haveli	423	211	**634**	**0.634**	286	221.678
Goa	11736	3857	**15593**	**15.593**	1556	1002.121
Gujarat	271564	69370	**340934**	**340.934**	56088	607.856
Haryana	115715	50409	**166124**	**166.124**	23888	695.429
Himachal Pradesh	17728	28253	**45981**	**45.981**	6550	702.000
Jammu & Kashmir	25417	16087	**41504**	**41.504**	11152	372.166
Jharkhand	70310	58073	**128383**	**128.383**	29895	429.446
Karnataka	199058	105150	**304208**	**304.208**	57128	532.502
Kerala	166358	122695	**289053**	**289.053**	33626	859.612
Lakshadweep	14	8	**22**	**0.022**	74	29.730
Meghalaya	6304	2438	**8742**	**8.742**	2510	348.287
Maharashtra	470909	142541	**613450**	**613.45**	106919	573.752
Manipur	6405	2441	**8846**	**8.846**	2346	377.067
Madhya Pradesh	184323	56692	**241015**	**241.015**	67967	354.606
Mizoram	2029	754	**2783**	**2.783**	962	289.293
Nagaland	3144	2339	**5483**	**5.483**	2154	254.550
Orissa	130516	95113	**225629**	**225.629**	39407	572.561
Punjab	159270	57627	**216897**	**216.897**	26503	818.387
Pondicherry	6902	2462	**9364**	**9.364**	1162	805.852
Rajasthan	173296	101284	**274580**	**274.58**	63789	430.450
Sikkim	3180	1959	**5139**	**5.139**	586	876.962
Tamil Nadu	277358	155424	**432782**	**432.782**	65795	657.773
Tripura	10591	6936	**17527**	**17.527**	3463	506.122
Uttar Pradesh	382262	251343	**633605**	**633.605**	187928	337.153
Uttaranchal	35033	20291	**55324**	**55.324**	9414	587.678
West Bengal	229955	184832	**414787**	**414.787**	86430	479.911
GRAND TOTAL	**3737446**	**2073737**	**5811183**	**5811.183**	**1134024**	**512.439**

Source: Data is from IRDA database on agents. Needs further validation and updation from the individual companie

Table-V.2

State wise Specified Persons								
State	**Bank (Urban)**	**Bank (Rural)**	**Non Bank (U)**	**Non Bank (R)**	**Total**	**Total (in 000)**	**Popula-tion (in 000)**	**SPs / Popula-tion (*1,00,000)**
Andaman & Nicobar Islands	6	11	5	0	**22**	**0.022**	438	5.023
Andhra Pradesh	3481	21	1048	17	**4567**	**4.567**	81836	5.581
Arunachal Pradesh	26	1	2	0	**29**	**0.029**	1188	2.441
Assam	455	2	237	4	**698**	**0.698**	29183	2.392
Bihar	1053	4	268	5	**1330**	**1.33**	92699	1.435
Chattisgarh	375	3	146	0	**524**	**0.524**	23048	2.274
Chandigarh	425	0	169	0	**594**	**0.594**	1182	50.254
Daman & Diu	7	0	1	0	**8**	**0.008**	231	3.463
Delhi	2376	0	1184	0	**3560**	**3.56**	16641	21.393
Dadra & Nagar Haveli	7	0	1	0	**8**	**0.008**	286	2.797
Goa	202	0	47	0	**249**	**0.249**	1556	16.003
Gujarat	2953	0	944	2	**3899**	**3.899**	56088	6.952
Haryana	1092	0	390	60	**1542**	**1.542**	23888	6.455
Himachal Pradesh	269	0	52	14	**335**	**0.335**	6550	5.115
Jammu & Kashmir	243	0	15	5	**263**	**0.263**	11152	2.358
Jharkhand	485	1	320	22	**828**	**0.828**	29895	2.770
Karnataka	2895	3	915	2	**3815**	**3.815**	57128	6.678
Kerala	2401	25	940	39	**3405**	**3.405**	33626	10.126
Lakshadweep	0	0	0	0	**0**	**0**	74	0.000
Meghalaya	48	0	3	0	**51**	**0.051**	2510	2.032
Maharashtra	6446	0	2095	18	**8559**	**8.559**	106919	8.005
Manipur	26	0	10	0	**36**	**0.036**	2346	1.535
Madhya Pradesh	1736	10	672	1	**2419**	**2.419**	67967	3.559
Mizoram	15	0	1	0	**16**	**0.016**	962	1.663
Nagaland	38	0	3	0	**41**	**0.041**	2154	1.903
Orissa	1006	5	340	10	**1361**	**1.361**	39407	3.454
Punjab	1617	0	459	43	**2119**	**2.119**	26503	7.995
Pondicherry	82	1	22	0	**105**	**0.105**	1162	9.036
Rajasthan	2031	0	845	6	**2882**	**2.882**	63789	4.518
Sikkim	18	0	0	0	**18**	**0.018**	586	3.072
Tamil Nadu	3146	18	1851	26	**5041**	**5.041**	65795	7.662
Tripura	38	3	38	0	**79**	**0.079**	3463	2.281
Uttar Pradesh	2292	45	1380	16	**3733**	**3.733**	187928	1.986
Uttaranchal	226	4	89	0	**319**	**0.319**	9414	3.389
West Bengal	2343	2	1794	27	**4166**	**4.166**	86430	4.820
GRAND TOTAL	**39859**	**159**	**16286**	**317**	**56621**	**56.621**	**1134024**	**4.993**

ANNEXURE-1

A Brief Introduction to China's Insurance Market

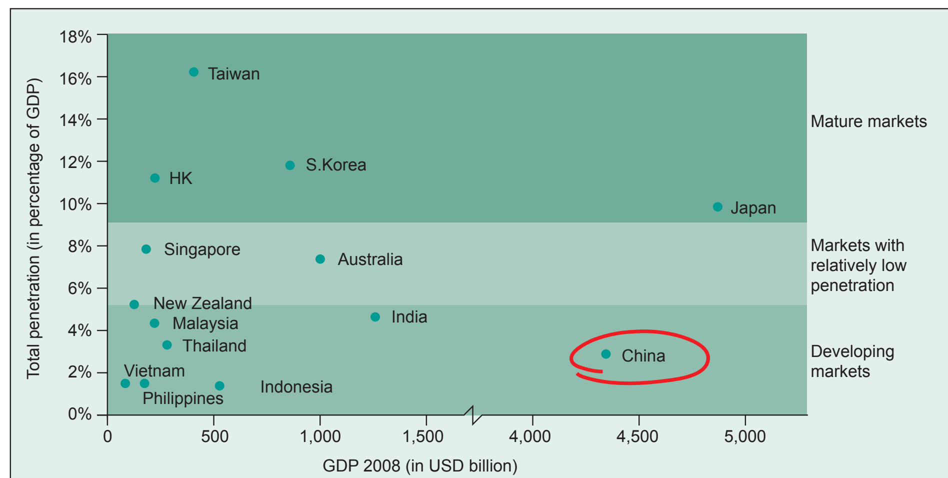
Overview

China's insurance industry is still young—and it is booming. The country's $108.7 billion in life insurance premiums in 2008 represented nearly a twelve-fold increase over the 1998 level.1 In 2010, life insurance premiums in China could well exceed $150 billion, leaving Germany, currently ranked fifth worldwide in terms of life premiums, far behind. China's non-life sector is also poised for strong growth. Non-life premiums, for the first time, exceeded $30 billion in 2008.

In percentage terms, China's insurance industry has expanded rapidly over the past decade, with life premiums growing at about 28 percent annually and non-life premiums increasing at roughly 20 percent annually. Compared with other global markets, however, penetration as a percentage of GDP remains relatively low. For instance, in Asia, the insurance markets in Malaysia, Thailand, Hong Kong and Taiwan all have higher penetration rates. (See Figure 1.) This underscores the growth potential that the highly populous Chinese market holds.

This potential is supported by extremely attractive fundamentals. On the demand side, overall wealth in China is increasing. Household-savings rates, at around 35 percent of income, are impressively high. Retail deposits, around $3.3 trillion at the end of 2008, represent roughly seven times the total assets of Chinese insurers and 20 times those insurers' bank deposits. In addition, the Chinese population is ageing and investment options in the country are still limited.

Figure 1: China's Insurance Market Still Offers Tremendous Growth Potential



Meanwhile, supply is expanding fast, causing rapid proliferation of new sales channels and a ratcheting up of marketing efforts. At the same time, regulators have started to consider financial integration more seriously; for example, banks have recently been allowed to buy stakes in insurance companies.

Bancassurance in China—A Story of Explosive Growth

The practice of selling insurance through banks—known as Bancassurance—has grown at a particularly brisk pace in China in recent years. In 2002, Bancassurance premiums amounted to just $730 million. But after a 2003 insurance regulation stipulated that banks were no longer limited to representing just one insurance firm, premiums started to explode, reaching $11 billion in 2004. In 2008, Chinese bancassurers sold $52 billion in life premiums, about 48 percent of total life premiums in the country. Today, banks and insurers are starting to develop far-reaching strategic moves in this sector.

In a country as vast and diverse as China, it is hardly surprising that Bancassurance has taken hold so quickly. Banks, with tens of thousands of branches, provide convenient sales platforms that reach into very corner of every province. Through these branches, insurers can leverage the brand reputations of banks to gain footholds in new markets. Also, by cooperating with banks, insurers gain access to a vast customer base with strong potential interest in insurance products—especially those designed to replace bank deposits. In addition, setting up Bancassurance as a distribution channel is initially relatively inexpensive for insurers, especially when compared to the costs of building up and maintaining their own agencies. The current system also allows banks to broaden their overall product offering, strengthen customer loyalty, and add more fees to their otherwise interest-rate-dominated revenue mix. Indeed, Bancassurance generated around $1.5 billion in commission income for Chinese banks in 2008.

When it comes to the current Bancassurance landscape in China, the insurer side has fairly high market concentration. The top two life players in this arena—China Life and New China Life—held about 50 percent of the market in 2008. These giants, along with five other institutions, accounted for nearly 90 percent of the market in 2008. (See Figure 2)

This is not to imply that the Bancassurance model is not prevalent among smaller industry players as well.

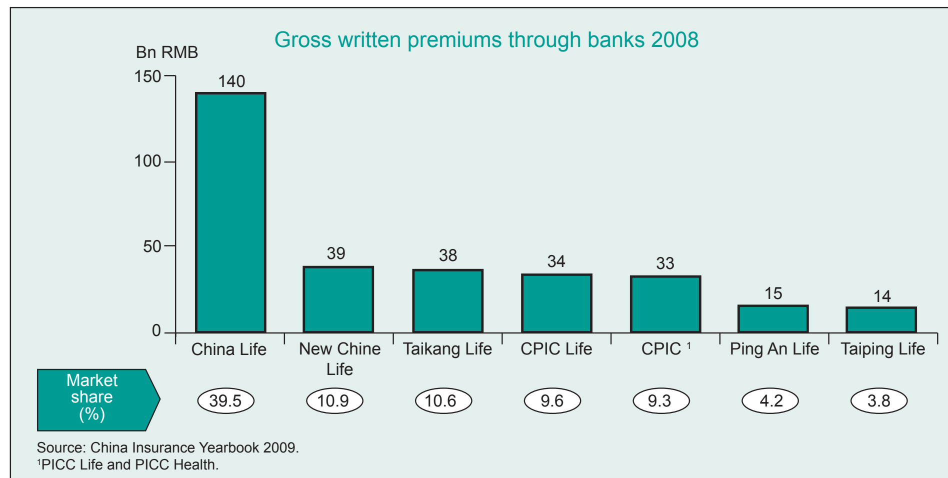
In fact, most small and medium-sized insurance companies rely heavily on bank channels and on savings-type products. Consequently, in the first half of 2009, Bancassurance sales still accounted for nearly 40 percent of total premiums in China despite a general trend toward fewer savings-type products (resulting from the global downturn of investment markets).

In fact, virtually every Chinese bank has been selling insurance products on commission for at least several years, some starting as early as 2000. The regulatory change in 2003 that enabled banks to represent multiple insurers allowed the "many-to-many" model to arise, and the result has been a jumble of products and brands being offered in bank outlets. For instance, the products of the top two insurers are sold by nine of the top ten Chinese banks. On the flip side, the two largest lenders both sell the products of 12 of the top 15 insurers in China, including those of all of the top six providers.

To further complicate the picture, the mix of insurance brands offered at any one bank tends to differ from province to province. Negotiations over which brands to carry often occur at the branch level, leading to potentially inefficient—and in some cases dicey—business practices when securing distribution deals. Ultimately, although the many-to-many arrangement has paved the way for momentous growth in the past few years, it has also brought the Chinese

Bancassurance market to its current impasse. Simply put, the necessary investments by true Bancassurance partnerships into better products and service that will lead to profitable, sustainable growth in the future are not yet being made.

Figure 2: China's Life Bancassurance Market is Highly Concentrated



The Next Wave of Growth

The "Many-to-Many" Model: An Imbalance of Power

Simple analysis of operating profits suggests that Bancassurance does not create significant value for insurers in China today, largely because of the mostly simple, low-margin products sold through banks. Also, insurers lack bargaining power vis-à-vis banks—which, in turn, benefit disproportionately from the system.

Indeed, with insurers competing against each other on distribution commissions, banks are able to enjoy a relatively large slice of the pie. Not surprisingly, while Bancassurance premiums represent an ever-larger-share of total premiums, operating-profit margins for insurers may actually be falling. Insurers have had few choices, however, given the system. Moreover, those that have not established a wide market presence through relationships with different banks may have missed out on the current land-grab phase of market development, which is already winding down.

These imbalanced conditions between insurers and banks may have spurred the rapid expansion of the Chinese Bancassurance distribution model, but they have also hindered the development of more sophisticated Bancassurance models. If this inequality is not at least partly balanced, insurers, customers, and finally banks as well will increasingly suffer from a vicious cycle of sluggish product development and weak innovation. Other distribution channels might ride higher on the next growth wave if bancassurers continue to miss crucial opportunities to meet their clients' true, and evolving insurance needs.

Source: White paper on "Bancassurance in China: Reaching the Next Level", The Boston Consulting Group, Swiss Re, December 2009.

ANNEXURE-2

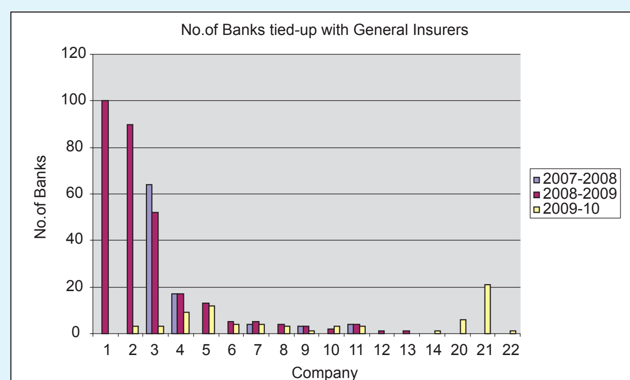
S.No.	Recommendations of the Govardhan Committee
1.	The definition of "Person" under the IRDA (Licensing of Corporate Agents) Regulations, 2002 should also mean and include any other institution/organization/ entity other than a natural person or a Section 25 Company. No specific approval need be obtained from IRDA by the Insurer in order to appoint an institution/organization/entity which falls within the ambit of the modified definition of "Person", as a corporate agent;
2	The requirement that only a public limited company with a minimum share capital of ₹ 15 lakhs, exclusively undertake insurance intermediation, needs to be done away with. Exclusive insurance intermediation can be carried out by any type of organization/ firm/entity/NGO, which can be a standalone entity, or a subsidiary or an affiliate, by having a capital of ₹ 1 (one) lakh. Such capital needs to be in the form of equity/capital and necessary safeguards to protect such equity/capital can be prescribed
3	Licensing to be decentralized (Already done for individual agents- to be extended to corporate agents) instead of remaining exclusively with the corporate office of the insurer. Appropriate controls should be in place to facilitate this; At present licensing is done in the name of the Chairman, IRDA. However decentralization has been done to the insurers subject to the list of authorized persons being approved by the IRDA. It is recommended that decentralization be done to the CEO for approving the list of 28 authorized persons who are responsible officers of the insurance company (Managers, Branch Managers). Such lists would be available for inspection by the IRDA.
4	The requirement that every corporate agent should have at least a Specified Person/CIE, who is either FFII or AFII qualified should be relaxed and instead, alternative qualifications like ACA, FCA, MBA, MMS, CA, MPhil, PHD, CAIIB, CFA, Post Graduation etc. be considered; Insurance Professionals with 5 years of experience should also be eligible to act as a Specified Person with passing of prerecruitment exam being mandatory
5	Specified Persons of a bank, and a company promoted by a bank, who are corporate agents, should not have to go for mandatory insurance agent training. Since such persons are well trained, qualified/educated and are well versed with matters of personal finance they should be allowed to directly take the exam and post qualification be allowed to sell insurance. Specified persons of NBFCs to be also exempt from pre-recruitment training
6	In the case of financial service companies including banks, group companies with separate management and different business lines can have an alliance with an insurer, provided such companies have a different distribution channel for their target customer base than the bank. Banks are currently not permitted by RBI to set-up a broking company. Adequate safeguards need to be provided in the form of a minimum capital of ₹ 1 crore to ensure that such group companies have not been floated for the purpose of a backdoor entry into broking. This guideline is to be permitted for financial service companies and not for other corporates or groups (non financial institutions). With regard to permitting several corporate agencies within a group, it was recommended that entities within a group which have an independent line of business and a networth/capital of ₹ 10 crore be also allowed to take up corporate agency.
7	The current guideline which provides that members of a family and shareholders holding more than 10 percent share capital of a corporate agent shall be treated as being part of the same group needs to be revisited. It is recommended that the shareholding threshold should be aligned to with the relevant provisions of the Companies Act, 1956, applicable to the definition of a group, including the subsidiary companies.
8	The committee recommends that the requirement of not allowing same directors between different corporate agencies should be done away with, as it restricts sharing of knowledge and experience, between companies.

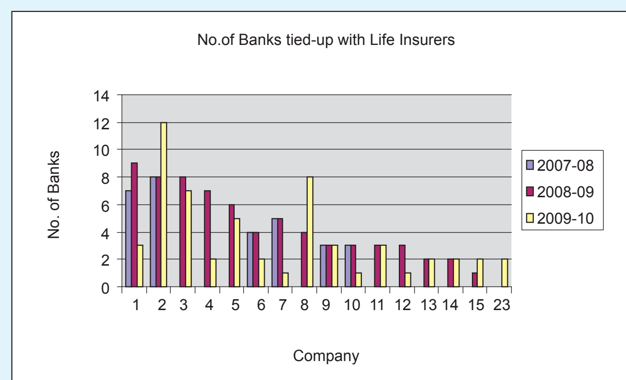
9	Regarding multiple tie-ups of a corporate agent with an Insurer, it was decided that it was not appropriate at this point of time. A model akin to Independent Financial Advisors (IFA) may be considered in future. It was recommended that onus of pre-recruitment training should be left to the insurance companies keeping in view the general guideline of 50 hours training – either through their in-house training centres or through outsourced training institutions subject to mandatory examination
10	Specific for General Insurance Agents/Intermediaries:
11	Corporate agency guidelines may be synchronized in line with agency guidelines. Further it is proposed that there be a common set of guidelines that take care of individual and corporate agents (as is the case with other insurance intermediaries i.e. brokers and surveyors). The agency guidelines have been detailed under the Agency model on page 12 of the report. The same are being reproduced below: a) Retail insurance agents/Corporate Agents/Insurance Agents selling only retail general insurance products. b) Insurance agents/Corporate agents selling all general insurance products. For both categories of agents the entity would be required to make an agency contract with a general insurance company and to be registered with the authority. Further it will be necessary for the specified person (involved in insurance sale activity) to take an educational training course provided by the insurance company to qualify as an agent.
12	The current regulation specifies whole time employee of a corporate agent to have an FFII or AFII qualification. It is recommended to waive this qualification since persons with this qualification are not readily available and there is a long gestation period to attain such a qualification.
13	Agency education would be the responsibility of the individual Insurance companies. It is proposed that curriculum for a standard training program is defined by the authority. This program should stress on matters related to legal compliance, laws and regulations, taxation and general code of conduct
14	The specified person for both categories of agents would be required to undertake the mandatory training. However to qualify as an insurance agent, the General Insurance Council will certify the specified person by means of an examination. This examination will be conducted by an independent institute accredited by the authority. In addition to the mandatory training, each company would be required to develop its own agency education program imparting knowledge of products, procedure for soliciting business, nature of contracts and claims handling. The insurance company will need to maintain records of such training conducted. The Authority may conduct audits so as to check on the quality and to verify the methods
15	The exclusivity clause in the regulation currently restricts the agent from working with more than one insurance company. In order to provide a comprehensive product range to the consumer with comparison across products, it is proposed that the Retail insurance agents be allowed to contract with multiple insurance companies.
16	Further, it shall be the responsibility of the insurer to handle complaints against their agents and maintain records on the same. The Authority may conduct audits so as to check on the procedure for complaint handling and verify the records
17	It is suggested that since insurance penetration for GI products is low, entities should be encouraged to distribute general insurance products. Keeping this view in mind, there should be no restriction on any entity in the promoter group of the insurance company to register as an intermediary. This entity is expected to comply with all regulations laid down by the authority. It is proposed that there be a common set of guidelines for both life and general insurance companies in this regard.
18	Retail insurance agents are a new concept to sell personal lines. The committee feels that this would increase penetration of general insurance retail products. The relaxation in qualifications is in line with recommendations in life area.
19	Agency training is recommended to be left to the insurance companies as indicated earlier and further discussed under Agents training subject to mandatory examination. Exclusivity clause for retail agents may be waived to enhance penetration of insurance.

ANNEXURE-3

Bank-tie ups with various life and non-life insurance companies

S. No	Non-Life Insurers	2007-08	2008-09	2009-10	Life Insurers	2007-08	2008-09	2009-10
1	ITGI		100	0	HDFC Stand.	7	9	3
2	ICICI		90	3	LIC of India	8	8	12
3	Rel	64	52	3	SBI Life		8	7
4	Bajaj	17	17	9	Max NewYork		7	2
5	United		13	12	Birla Sun Life		6	5
6	New India		5	4	Bajaj Allianz	4	4	2
7	Oriental	4	5	4	Tata AIG	5	5	1
8	Royal Sun		4	3	Aviva Life		4	8
9	Chola	3	3	1	Met Life	3	3	3
10	Univ.Som		2	3	ICICI Pru	3	3	1
11	Tata AIG	4	4	3	Canara HSBC		3	3
12	Bharti Axa		1	0	Kotak Life		3	1
13	AIC		1	0	IDBI Federal		2	2
14	HDFC	0	0	1	Star Union		2	2
15	Raheja	0	0	0	ING Vysya		1	2
16	Star	0	0	0	Future Generali	0	0	0
17	Apollo	0	0	0	Bharti Axa Life	0	0	0
18	Shriram	0	0	0	Aegon Religare	0	0	0
19	Future Generali	0	0	0	DLF Pramerica	0	0	0
20	National Ins	NA	NA	6	Shriram Life	0	0	0
21	ECGC	NA	NA	21	Reliance Life	0	0	0
22	SBI			1	Sahara Life	0	0	0
23					India First Life			2





ANNEXURE-4

Insurance Regulatory and Development Authority (Sharing of Database for Distribution of Insurance Products) Regulations, 2010

Notification F. No. IRDA/Reg/1/51/2010, dated 1-7-2010, issued by IRDA - In exercise of the powers conferred by clause (zd) of sub-section (2) of section 114A of the Insurance Act, 1938 (4 of 1938), read with sub-section (1) of section 14 of the Insurance Regulatory and Development Authority Act, 1999 (41 of 1999), the Authority in consultation with the Insurance Advisory Committee, hereby makes the following regulations, namely:

CHAPTER I

PRELIMINARY

Short title and commencement

1. 1) These regulations may be called the Insurance Regulatory and Development Authority (Sharing of Database for Distribution of Insurance Products) Regulations, 2010.

   2) They shall come into force on the date of their publication in the Official Gazette.

Definitions

2. In these regulations, unless the context requires otherwise;

   a) "Act" means the Insurance Act, 1938 (4 of 1938);

   b) "Agreement" for the purpose of these regulations means an agreement entered into between a referral company and an insurer registered under section 3 of the Act;

   c) "Authority" means the Insurance Regulatory and Development Authority established under sub-section (1) of section 3 of the Insurance Regulatory and Development Authority Act, 1999 (41 of 1999);

   d) "Corporate Agent" means a person as defined in the IRDA (Licensing of Corporate Agents) Regulations, 2002;

   e) "Insurance Agent" means an insurance agent as defined in sub-section (10) of section 2 of the Act;

   f) "Insurance Broker" means a person as defined in clause (i) of regulation 2 of IRDA (Licensing of Insurance Brokers) Regulations, 2002;

   g) "IRDA Portal" means the portal maintained by the Authority for the purpose of registering the referral company;

   h) "Micro Insurance Agent" shall have the meaning as assigned to it in clause (f) of regulation 2 of the IRDA (Micro Insurance) Regulations, 2005;

   i) "Referral Arrangement" means the arrangement between a referral company and an insurer in terms of an agreement entered into for the purpose of sharing of the database of the customers of the referral company but does not include the soliciting or sale, directly or through an agent, corporate agent or an insurance intermediary including a micro insurance agent of an insurance product;

   j) "Referral Company" means a company formed and registered under the Companies Act, 1956 (1 of 1956) and approved by the Authority under sub-regulation (3) of regulation 6 except as otherwise permitted in these regulations;

   k) "Register" for the purpose of these regulations refers to the process of registration as outlined in regulation 8;

l) All words and expressions used and not defined in these regulations but defined in the Insurance Act, 1938 (4 of 1938), the Insurance Regulatory and Development Authority Act, 1999 (41 of 1999) or in any of the Regulations made thereunder shall have the meanings respectively assigned to them in those Acts or Regulations.

CHAPTER II

APPROVAL OF A REFFERRAL COMPANY

Application of a referral company

3. The application seeking grant of approval of the referral company shall be made by an insurer to the Authority, accompanied by a fee of rupees ten thousand paid by way of a bank draft in favour of "Insurance Regulatory and Development Authority" payable at Hyderabad and containing such information as specified in Form A in Schedule I.

Application to conform to the requirements

4. An application which is not complete in all respects shall be liable to be rejected:
   Provided that, before rejecting any such application, the insurer shall be given an opportunity to complete such formalities within a period of thirty days from the date of receipt of communication from the Authority.

Furnishing information

5. The Authority may require the insurer to furnish such further information or clarification as may be required by it.

Eligibility criteria for approval of the referral company

6. 1) For the grant of approval of the referral company, the insurer shall ensure the fulfilment of the conditions including but not limited to the following;

   a) The referral company is a company formed and registered under the Companies Act, 1956 (1 of 1956) unless otherwise provided under sub-regulation (b) of regulation 6 of these regula-tions;

   b) The referral company is not in any of the businesses of extending loans and advances, accepting deposits, trading in securities on its own account or on the accounts of the custom-ers;
   Provided that any bank including a Regional Rural Bank or a co-operative bank that is not eligible for grant of corporate agency license under the relevant eligibility criteria stipulated by the Reserve Bank of India may be approved as a referral company, subject to such conditions as may be imposed by the Authority and the Reserve Bank of India;
   Provided further that any other department or organization of the Government may also be approved as a referral company subject to such conditions as may be imposed by the Authority;

   c) The referral company is engaged in a business that has no linkage, direct or indirect, with the transaction or distribution of the business of insurance;

   d) The referral company does not carry out the sale or promotion of insurance products in its premises or elsewhere at all times;

   e) The referral company has a minimum net worth of rupees fifty lakhs and a minimum turnover of rupees one crore during the previous three consecutive years;

f) The referral company has a database of its customers acquired through its business;

Provided that a company whose main business is acquisition and sale of client data shall not be eligible to be a referral company;

g) The referral company does not have an existing referral arrangement with an insurer carrying out the same class of insurance business;

h) The referral company is not bound by any confidentiality agreement in the matter of sharing the personal and financial databases of its customers.

2) While considering the application, the Authority may, if it so desires, verify the information furnished by the insurer including the supporting documents and the available database and also inspect the premises and infrastructure of the referral company and for this purpose, appoint an officer of the Authority.

3) The Authority may, after considering the application with reference to the matters specified in sub-regulations (1) and (2) of regulation 6, grant approval to the referral company which shall be valid for a period of three years from the date of grant of such approval.

Procedure where approval is not granted

7. 1) The Authority may reject the application made by an insurer to the Authority seeking grant of approval of the referral company if it does not satisfy the eligibility criteria laid down in regulation 6 of these regulations, or if the grant of such approval is not found to be in public interest.

2) The decision of the Authority along with the reasons to be recorded in writing shall be communicated to the insurer within a period of fourteen days from the date of the decision.

CHAPTER III

REGISTRATION OF A REFERRAL COMPANY

Procedure for registration of a referral company

8. 1) The insurer shall register the referral company that has been approved by the Authority under regulation 6 in the IRDA Portal.

2) The insurer shall enter into an agreement with the referral company approved by the Authority which shall necessarily include details relating to though not limited to the following:

a) Agreed price of the database to be shared.

b) Terms of payment including time-frame and mode.

c) The right of the insurer to inspect/audit the referral company.

d) Onus of complying with the regulatory and other legal requirements on both the parties to the agreement.

e) Identifying the different data elements to be shared (viz., name of customer, contact details).

3) The agreement shall be valid for a period of three years from the date of grant of approval by the Authority and within fifteen days from the date of entering into such an agreement, the insurer shall file the agreement in electronic form through the IRDA Portal.

4) Notwithstanding the terms of the referral agreement entered into with the referral company, the Authority may direct the insurer to forthwith terminate the registration of the referral company if the same is not found to be in public interest.

Restrictions on the business activities of the referral company

9. The referral company that has been approved by the Authority and registered with the insurer shall not:
   a) carry out the sale of insurance products in its premises or elsewhere, at all times;
   b) undertake any insurance related activity except activities in the nature of sharing of the database of its customers for the sale or distribution of the insurance products;
   c) create a database of its customer groups by specifically soliciting or scouting prospective policyholders, for the sale or distribution of the insurance products;
   d) provide details of its customers without their prior consent or provide details of any person/firm/company with whom they have not had any recorded business transaction;
   e) receive any payment from the insurer for providing the database of its customers, over and above the remuneration as outlined in sub-regulation (7) of regulation 11;
   f) receive any payment for providing the database of its customers from a person involved in insurance related activity other than an insurer;
   g) be licensed/registered as an insurance agent, corporate agent, micro insurance agent or a broker under the relevant Regulations framed by the Authority;
   h) enter into a referral arrangement with more than one life and/or one general insurance company and/or one standalone health insurance company;
   i) earn more than 10 per cent of its total income from the referral business with an insurer or any other organization not involved in any insurance related activity, at any time during the tenure of the referral arrangement;
   j) acquire at any time, databases with the express purpose of selling it to insurers or any other organization not involved in any insurance related activity.

CHAPTER IV

DUTIES AND OBLIGATIONS

Obligations of a Referral Company

10. 1) A referral company shall ensure that it maintains the specified net worth and turnover at all times during the tenure of the referral arrangement.
    2) A referral company shall maintain the records and the reports of its activities under the referral arrangement, in the manner specified in the agreement entered into between the insurer and the referral company.
    3) A referral company shall along with its employees (whatever their designation may be) comply with all the provisions of the Act, the Insurance Regulatory and Development Authority Act, 1999 (41 of 1999), the rules and regulations framed thereunder and such other directions issued by the Authority from time to time.

Obligations of the Insurer

11. 1) An insurer shall ensure that the referral company with which it has entered into a referral arrangement is compliant with all the provisions of these regulations, the Act, the Insurance Regulatory and Development Authority Act, 1999 (41 of 1999), the rules and regulations framed thereunder and such other directions issued by the Authority from time to time.

2) An insurer shall maintain a record of every referral agreement entered into by it, the total business generated by it under the referral agreement and the total amount payable by it including all the payments made to the referral company, along with the calculation basis of such payments.

3) An insurer shall maintain separate records for each batch of referral data obtained from each referral company, the details of the policies sold out of the references thus obtained and the information regarding the payments made by it under the head 'referral', in Form B as specified in Schedule I.

4) An insurer shall submit to the Authority, the records referred to in sub-regulations (2) and (3) of regulation 11 and the reports of its activities as relevant for the purpose of these regulations, whenever called upon to do so.

5) An insurer shall bring to the notice of the Authority, any change in the information or particulars previously furnished that has a bearing on the approval granted by the Authority or the modification, if any, in the information that has been uploaded in the IRDA Portal at the time of registration not later than fifteen days from the date of occurrence of such change.

6) An insurer shall upload the duly approved modification to the information or particulars previously furnished to the Authority not later than fifteen days from the date of grant of such approval.

7) An insurer shall pay, such fees or remuneration, by whatever name called, to the referral company for such database that is converted into sales, which shall not exceed twenty five per cent of the commission payable or actually paid, whichever is lower, on the first year premium of the first policy sold on the basis of the lead obtained from the referral company. The fees or remuneration to be paid shall form part of and be within the overall limits on the commission and expenses as provided for in sections 40B and 40C of the Act and the relevant rules and regulations made thereunder. However no fees or remuneration, by whatever name called, shall be paid by the insurer to a referral company in respect of the policies that are sold without relying upon the data shared by it:

   Provided that in the case of life insurance policies procured, where the premium is payable in other-than-yearly mode, the referral fee shall be paid only to the extent of the first year premium instalment/s and that have been received by the insurer:

   Provided further that in case of long-term policies under general insurance, the referral fee shall be paid only to the extent of the premium instalment/s in the first year of the policy and that have been received by the insurer.

8) An insurer shall not pay any fees or remuneration, by whatever name called, for such database converted into sales more than once during the tenure of the referral arrangement.

9) An insurer shall not pay any fees or remuneration, by whatever name called, on any type of renewal premium/ policy payable from the second year and the subsequent years or for the sale of a new policy to the existing customer of the insurer.

10) An insurer shall not, in respect of any database or lead, by whatever name called, make any payment in advance to any referral company.

11) An insurer shall not pay the referral company fees or remuneration, by whatever name called, towards the costs incidental to the referral activities including maintenance of the database, infrastructure, training, entertainment, development, communication, advertisements, sales, promotion etc.

12) An insurer shall not pay any remuneration towards acquisition of any database after the termination of the referral agreement.

13) An insurer shall ensure that all the transactions in terms of the referral arrangement are in accordance with the provisions of the Act, the Insurance Regulatory and Development Act, 1999 (41 of 1999), the rules and regulations framed thereunder and such other directions as issued by the Authority from time to time.

14) Every insurer shall forthwith terminate all the referral arrangements entered into prior to the coming into effect of these regulations that are not in conformity with the provisions of these regulations. Such arrangements shall however be allowed to continue subject to them being suitably modified or amended in terms of these regulations, within a period of six months from the date of notification of these regulations, and after obtaining the prior approval of the Authority.

15) The insurer shall nominate one of its senior officials who reports to the board of directors of the insurer, as a compliance officer, who shall be responsible for the verification and due diligence pertaining to the proposed and existing referral companies and shall also be authorised to sign the referral agreements. The compliance officer shall also be responsible for reporting all matters pertaining to the referral agreements to the Authority.

16) The insurer shall be responsible for the acts of omission or commission of its employees or the persons whose services have been availed or procured by it towards the referral arrangement.

CHAPTER V

PROCEDURE FOR ACTION IN CASE OF DEFAULT

Liability for action in case of default by the insurance company

12. An insurer that:

    a) fails to exercise due diligence in relation to the referral arrangement entered into with the referral company;

    b) fails to furnish any information or furnishes wrong information to the Authority relating to the referral arrangement as required under these regulations;

    c) fails to comply with any of the obligations specified under these regulations;

    d) violates the conditions of its registration; or

    e) fails to comply with any of the provisions of the Act, the Insurance Regulatory and Development Act, 1999 (41 of 1999), the rules and regulations framed thereunder and such other directions issued by the Authority from time to time shall be liable for any of the actions as provided for under the provisions of the Act, the Insurance Regulatory and Development Act, 1999 (41 of 1999), and the relevant Regulations made thereunder:

    Provided that no such action shall be initiated by the Authority and order passed thereafter without giving an opportunity of hearing to the insurer.

Action against the referral company

13. The Authority may cancel the approval granted to a referral company or take any other action as deemed appropriate under the provisions of the Act in case the referral company fails to exercise due diligence or comply with any of the obligations under these regulations or act in accordance with the restrictions imposed upon it or acts contrary to the provisions of the Act, the Insurance Regulatory and Development Act, 1999 (41 of 1999), the rules and regulations framed thereunder and such other directions as issued by the Authority from time to time:

    Provided that no such action shall be initiated by the Authority and order passed thereafter without giving an opportunity of hearing to the referral company:

    Provided further that an insurer shall not be permitted to enter into a referral arrangement with such a referral company for a period of three years from the date of the Authority passing such an order.

Power of the Authority to issue clarifications

14. In order to remove any difficulties in respect of the application or inter-pretation of any of the provisions of these regulations, the Authority may issue appropriate clarifications or guidelines.

SCHEDULE I

Regulation 3

FORM A

Application for Approval of the Referral Company

Details of the Insurer

1. Name:
2. Registration Number:
3. Date of Registration:
4. Class of Business Pursued:
5. Particulars of remittance of fee:

Details of the proposed referral company

1. Name:
2. Complete address:
3. Details of registration including number, date etc:
4. Nature of its business:
5. Date of commencement of business:
6. Net worth as at the end of the financial year during the last three financial years:
7. Turnover in each of the last three consecutive financial years:
8. List of other group/associate companies, if any:
9. Nature of the business of the other group/associate companies:
10. Whether the company has any linkage, direct or indirect, with transaction or distribution of the business of insurance along with details, if any:
11. Whether the company carries out the sale or promotion of insurance products in its premises sale or promotion of insurance products in its premises along with details, if any:
12. Whether the company has a referral arrangement with another insurer in the same class of insurance business along with details, if any:
13. Whether the company has a database of its customers acquired in the course of its core business along with details, if any:
14. The number of clients in the database of the company as on the date of application:
15. Geographical area covered under the database:
16. Whether the company is bound by any confidentiality/privacy/non-disclosure agreements with its customers/ clients whose data is proposed to be shared with the insurer along with details, if any:
17. In case the proposed referral company is a bank, whether the bank is not eligible to be a corporate agent under the eligibility criteria stipulated by the Reserve Bank of India.

18. Any other relevant information required to be disclosed.

    I, the undersigned solemnly declare that the facts/details furnished in this application form on behalf of the insurer, are true to the best of my knowledge and that necessary due diligence has been carried out in respect of the details submitted in this form.

Place: Signature of the Compliance

Date: Officer of the Insurer with seal

Supporting Documents to be enclosed to the application

1. Demand Draft.
2. Memorandum of Association and Articles of Association.
3. Audited accounts of the company for the last three financial years.
4. Certificate issued by the Registrar of Companies.
5. Particulars of Registration with Relevant Authority (in case of banks which are not companies).

SCHEDULE I

Regulation 11

FORM B

1. Name of the referral company :
2. Batch No. (Insurers shall allot a batch number to each set of data obtained from a Referral Company) :
3. Date on which data under the batch number is obtained :
4. No. of items of data obtained under the batch number :
5. No. of policies sold out of the data obtained from the Referral Company :
6. Details of policies sold out of the references obtained under the batch number

Sl. No.	Name of the policy holder	Policy number	Date of the policy	Sl. No. in the list of items of data obtained	First premium of the first policy sold on the basis of reference of the referral company	Commis-sion paid in respect of 6	Referral fee paid	Column (8) as a % of (7)
1	2	3	4	5	6	7	8	9

Note: Details of items of data obtained by insurer under each batch shall be maintained as an annexure, with serial numbers.

ANNEXURE-5

Insurance Regulatory and Development Authority (Licensing of Insurance Agent) Regulations, 2000

Every person holding a license shall adhere to the Code of Conduct specified below:

AGENT's Code of Conduct

i) Every insurance agent shall:

a. identify himself and the insurance company of whom he is an insurance agent;
b. disclose his license to the prospect on demand;
c. disseminate the requisite information in respect of insurance products offered for sale by his insurer and take into account the needs of the prospect while recommending a specific insurance plan;
d. disclose the scales of commission in respect of the insurance product offered for sale, if asked by the prospect;
e. indicate the premium to be charged by the insurer for the insurance product offered for sale;
f. explain to the prospect the nature of information required in the proposal form by the insurer, and also the importance of disclosure of material information in the purchase of an insurance contract;
g. bring to the notice of the insurer any adverse habits or income inconsistency of the prospect, in the form of a report (called "Insurance Agent's Confidential Report") along with every proposal submitted to the insurer, and any material fact that may adversely affect the underwriting decision of the insurer as regards acceptance of the proposal, by making all reasonable enquiries about the prospect;
h. inform promptly the prospect about the acceptance or rejection of the proposal by the insurer;
i. obtain the requisite documents at the time of filing the proposal form with the insurer; and other documents subsequently asked for by the insurer for completion of the proposal;
j. render necessary assistance to the policyholders or claimants or beneficiaries in complying with the requirements for settlement of claims by the insurer;
k. advise every individual policyholder to effect nomination or assignment or change of address or exercise of options, as the case may be, and offer necessary assistance in this behalf, wherever necessary;

ii) No insurance agent shall:

a. solicit or procure insurance business without holding a valid license;
b. induce the prospect to omit any material information in the proposal form;
c. induce the prospect to submit wrong information in the proposal form or documents submitted to the insurer for acceptance of the proposal;
d. behave in a discourteous manner with the prospect;
e. interfere with any proposal introduced by any other insurance agent;

f. offer different rates, advantages, terms and conditions other than those offered by his insurer;

g. demand or receive a share of proceeds from the beneficiary under an insurance contract;

h. force a policyholder to terminate the existing policy and to effect a new proposal from him within three years from the date of such termination;

i. have, in case of a corporate agent, a portfolio of insurance business under which the premium is in excess of fifty percent of total premium procured, in any year, from one person (who is not an individual) or one organization or one group of organization;

j. apply for fresh license to act as an insurance agent, if his license was earlier cancelled by the designated person, and a period of five years has not elapsed from the date of such cancellation;

k. become or remain from the date of such cancellation.

iii) Every insurance agent shall, with a view to conserve the insurance business already procured through him, make every attempt to ensure remittance of the premiums by the policyholders within the stipulated time, by giving notice to the policyholder orally and in writing.

ANNEXURE-6

Insurance Regulatory and Development Authority
(Licensing of Insurance Broker) Regulations, 2002

BROKER's Code of Conduct

1. Every insurance broker shall follow recognized standards of professional conduct and discharge his functions in the interest of the policyholders.

2. Conduct in matters relating to clients relationship

Every insurance broker shall:

a. Conduct its dealings with clients with utmost good faith and integrity at all times;

b. Act with care and diligence;

c. Ensure that the client understands his relationship with the broker and on whose behalf the broker is acting;

d. Treat all information supplied by the prospective clients as completely confidential to themselves and to the insurer(s) to which the business is being offered;

e. Take appropriate steps to maintain the security of confidential documents in their possession;

f. Hold specific authority of client to develop terms;

g. Understand the type of client it is dealing with and the extent of the client's awareness of risk and insurance;

h. Obtain written mandate from client to represent the client to the insurer and communicate the grant of a cover to the client after effecting insurance;

i. Obtain written mandate from client to represent the client to the insurer / reinsurer; and confirm cover to the insurer after effecting reinsurance, and submit relevant reinsurance acceptance and placement slips;

j. Avoid conflict of interest.

3. Conduct in matters relating to sales practices

Every insurance broker shall:

a. Confirm that it is a member of the Insurance Brokers Association of India or such a body of brokers as approved by the Authority which has a memorandum of understanding with the Authority.

b. Confirm that he does not employ agents or canvassers to bring in business;

c. Identify itself and explain as soon as possible the degree of choice in the products that are on offer;

d. Ensure that the client understands the type of service it can offer;

e. Ensure that the policy proposed is suitable to the needs of the prospective client;

f. Give advice only on those matters in which it is knowledgeable and seek or recommend other specialist for advice when necessary;

g. Not make inaccurate or unfair criticisms of any insurer or any member of the Insurance Brokers Association of India or member of such body of brokers as approved by the Authority;

h. Explain why a policy or policies are proposed and provide comparisons in terms of price, cover or service where there is a choice of products.

i. State the period of cover for which the quotation remains valid if the proposed cover is not effected immediately;

j. Explain when and how the premium is payable and how such premium is to be collected, where another party is financing all or part of the premium, full details shall be given to the client including any obligations that the client may owe to that party; and

k. Explain the procedures to follow in the event of a loss.

4. Conduct in relation to furnishing of information

Every insurance broker shall:

a. Ensure that the consequences of non-disclosure and inaccuracies are pointed out to the prospective client;

b. Avoid influencing the prospective client and make it clear that all the answers or statements given are the latter's own responsibility. Ask the client to carefully check details of information given in the documents and request the client to make true, fair an complete disclosure where it believes that the client has not done so and in case further disclosure is not forthcoming it should consider declining to act further;

c. Explain to the client the importance of disclosing all subsequent changes that might affect the insurance throughout the duration of the policy; and

d. Disclose on behalf of its client all material facts within its knowledge and give a fair presentation of the risk.

5. Conduct in relation to explanation of insurance contract

Every insurance broker shall:

a. Provide the list of insurer(s) participating under the insurance contract and advise any subsequent charges thereafter;

b. Explain all the essential provisions of the cover afforded by the policy recommended by him so that, as far as possible, the prospective client understands what is being purchased;

c. Quote terms exactly as provided by insurer;

d. Draw attention to any warranty imposed under policy, major or unusual restrictions, exclusions under the policy and explain how the contract may be cancelled;

e. Provide the client with prompt written confirmation that insurance has been effected. If the final policy wording is not included with this confirmation, the same shall be forwarded as soon as possible.

f. Notify changes to the terms and conditions of any insurance contract and give reasonable notice before any changes take effect;

g. Advise its clients of any insurance proposed on their behalf which will be effected with an insurer outside India, where permitted, and, if appropriate, of the possible risks involved; and

6. Conduct in relation to renewal of policies

Every insurance broker shall:

a. Ensure that its client is aware of the expiry date of the insurance even if it chooses not to offer further cover to the client;

b. Ensure that renewal notices contain a warning about the duty of disclosure including the necessity to advise changes affecting the policy, which have occurred since the policy inception or the last renewal date;

c. Ensure that renewal notices contain a requirement for keeping a record (including copies of letters) of all information supplied to the insurer for the purpose of renewal of the contract;

d. Ensure that the client receives the insurer's renewal invitation well in time before the expiry date.

7. Conduct in relation to claim by client

Every insurance broker shall:

a. Explain to its clients their obligation to notify claims promptly and to disclose all material facts and advise subsequent developments as soon as possible

b. Request the client to make true, fair and complete disclosure where it believes that the client has not done so. If further disclosure is not forthcoming it shall consider declining to act further for the client;

c. Give prompt advice to the client of any requirements concerning the claim;

d. Forward any information received from the client regarding a claim or an incident that may give rise to a claim without delay, and in any event within three working days;

e. Advise the client without delay of the insurer's decision or otherwise of a claim; and give all reasonable assistance to the client in pursuing his claim: Provided that the insurance broker shall not take up recovery assignment on a policy contract which has not been serviced through him or should not work as a claims consultant for a policy which has not been serviced through him.

8. Conduct in relation to receipt of complaints

Every insurance broker shall:

a. Ensure that letters of instruction, policies and renewal documents contain details of complaints handling procedures;

b. Accept complaints either by phone or in writing;

c. Acknowledge a complaint within fourteen days from the receipt of correspondence, advise the member of staff who will be dealing with the complaint and the time-table for dealing with it;

d. Ensure that response letters are sent and inform the complainant of what he may do if he is unhappy with the response;

e. Ensure that complaints are dealt with at a suitably senior level;

f. Have in place a system for recording and monitoring complaints.

9. Conduct in relation to documentation

Every insurance broker shall:

a. Ensure that any documents issued comply with all statutory or regulatory requirements from time to time in force;

b. Send policy documentation without avoidable delay;

c. Make available, with policy documentation, advice that the documentation shall be read carefully and retained by the client;

d. Not withhold documentation from its clients without their consent, unless adequate and justifiable reasons are disclosed in writing and without delay to the client. Where documentation is withheld, the client must still receive for details of the insurance contract;

e. Acknowledge receipt of all monies received in connection with an insurance policy

f. Ensure that the reply is sent promptly or use its best endeavors to obtain a prompt reply to all correspondence;

g. Ensure that all written terms and conditions are fair in substance and set out, clearly and in plain language, client's rights and responsibilities; and

h. Subject to the payment of any monies owed to it, make available to any new insurance broker instructed by the client all documentation to which the client is entitled and which is necessary for the new insurance broker to act on behalf of the client.

10. Conduct in matters relating to advertising

Every insurance broker shall confirm to the relevant provision of the Insurance Regulatory and Development Authority (Insurance Advertisements and Disclosure) Regulations, 2000, and –

a. Ensure that statements made are not misleading or extravagant;

b. Where appropriate, distinguish between contractual benefits which the insurance policy is bound to provide and non-contractual benefits which may be provided;

c. Ensure that advertisement shall not be restricted to the policies of one insurer, except where the reasons for such restriction are fully explained with the prior approval of that insurer;

d. Ensure that advertisements contain nothing which is in breach of the law nor omit anything which the law requires;

e. Ensure that advertisement does not encourage or condone defiance or breach of the law;

f. Ensure that advertisements contain nothing which is likely, in the light of generally prevailing standards of decency and propriety, to cause grave or widespread offence or to cause disharmony;

g. Ensure that advertisements are not so framed as to abuse the trust of clients or exploit their lack of experience or knowledge;

h. Ensure that all descriptions, claims and comparisons, which relate to matters of objectively ascertainable fact, shall be capable of substantiation.

11. Conduct in matters relating to receipt of remuneration

Every insurance broker shall:

a. Disclose whether in addition to the remuneration prescribed under these regulations, he proposes to charge the client, and if so in what manner;

b. Advise the client in writing of the insurance premium and any fees or charges separately and the purpose of any related services;

c. If requested by a client, disclose the amount of remuneration or other remuneration it received as a result of effecting insurance for that client. This will include any payment received as a result of securing on behalf of the client any service additional to the arrangement of the contract of insurance; and

d. Advise its clients, prior to effecting the insurance, of their intention to make any deductions from the amount of claim collected for a client, where this is a recognized practice for the type of insurance concerned.

12. Conduct in relation to matters relating to training

Every insurance broker shall:

a. Ensure that its staff are aware of and adhere to the standards expected of them by this code

b. Ensure that staff are competent, suitable and have been given adequate training;

c. Ensure that there is a system in place to monitor the quality of advice given by its staff;

d. Ensure that members of staff are aware of legal requirements including the law of agency affecting their activities; and only handle classes of business in which they are competent.

e. Draw the attention of the client to section 41 of the Act, which prohibits rebating and sharing of commission.

13. Every insurance broker shall display in every office where it is carrying on business and to which the public have access a notice to the effect that a copy of the code of conduct is available upon request and that if a member of the public wishes to make a compliant or requires the assistance of the Authority in resolving a dispute, he may write to the Authority.

14. An insurance broker as defined in these regulations shall not act as an insurance agent of any insurer under section 42 of the Act.

15. Every insurance broker shall abide by the provision of the Insurance Act, 1938 (4 of 1938), Insurance Regulatory and Development Authority Act, 1999 (41 of 1999), rules and regulations made there under which may be applicable and relevant to the activities carried on by them as insurance brokers.

ANNEXURE-7

Statement showing the Comparison of Broker, Agent, Corporate & Referral Agent Regulations in India

S.No	Insurance Brokers	Corporate Agents	Agents	Referral Agent	Remarks
1.	**Category of Insurance Brokers** **Regulation 1** **i) Direct Broker:** Licenses by the Authority to act as such, for a remuneration carries out the functions as specified under regulation 3 either in the field of life insurance or general insurance or both on behalf of his clients; **ii) Reinsurance Broker:** an insurance broker who, for remuneration, arranges reinsurance for direct insurers with insurance and reinsurance companies **iii) Composite Broker:** an insurance broker who for the time-being licensed by the Authority to act as such, for a remuneration, arranges insurance for his clients with insurance companies and/or reinsurance for his client/s;	**Regulation 1** "Corporate Agent" means a Corporate Agent who holds a licence to act as an insurance agent either for one life insurer or a general insurer "Composite Corporate Agent" means a Corporate Agent who holds a licence to act as an insurance agent for a life insurer and a general insurer	"Insurance Agent" means a Agent who holds a licence to act as an insurance agent either for one life insurer or a general insurer "Composite Insurance Agent" means a Insurance Agent who holds a licence to act as an insurance agent for a life insurer and a general insurer	'Referral Agent' means any company mostly Banks who have a huge customer data base that can be useful to the Insurer for a business lead to market his products. In this model banks merely part with their client data base for a fee. The actual transaction with the prospective client in referral model is done by the staff of the insurance company either at the premise of the bank or elsewhere. Referral model is a simple arrangement between a bank and an Insurer, wherein the bank, is remunerated with a 'referral fee' for every business lead that is passed on to the insurer.	The primary difference between Broker and agent is that the "Insurance broker" for remuneration arranges insurance contracts with insurance companies and/ or reinsurance companies on behalf of his clients whereas the agent/corporate agent acts on behalf of the insurance company to whom attached. The referral arrangement may be entered into with a bank for access to its database, provision of physical infrastructure and for display of publicity material of the insurer.

2.	**Regulation 2** **Status of Applicant** The insurance Broker license can be granted to proprietor/proprietary concern, a partnership firm, a company formed under the Companies Act, 1956, a co-operative society registered under the Co-operative Societies Act, 1912 or under any law for the registration of co-operative societies; or any other person recognized by the Authority to act as an insurance broker	a firm; or a company formed under the Companies Act, 1956 (1 of 1956); or a banking company as defined in clause (4A) of section 2 of the Act; or a corresponding new bank as defined under clause (d(a)) of sub-section (1) of section 5 of the Banking Companies Act, 1949 (10 of 1949); or a regional rural bank established under section 3 of the Regional Rural Banks Act, 1976 (21 of 1976); or a co-operative society including a co-operative bank, registered under the Co-operative Societies Act, 1912 or under any law for the registration of co-operative societies; or a panchayat or a local authority; or a Non-Governmental organisation or a micro lending finance organisation covered under the Co-operative Societies Act, 1912 or a Non Banking Financial Company registered with the Reserve Bank of India; or any other institution / organisation which on an application to the Authority is specifically approved by the Authority	The applicant is an individual with minimum qualification of a pass in 12th standard. If applicant resides in a place with a population of five thousand or more a pass in 10th standard is required.	Though not expressly mentioned any where, the 'Referral Agent' usually should be a Bank recognised by RBI. The Bank already licensed to act as an agent or an insurance intermediary shall not enter into a Referral Agreement. (IRDA/ Cir./004/2003, dated 14-02-2003.)	
3.	As per **regulation 11**, the Authority on being satisfied that the applicant fulfills all the conditions specified for the grant of license, grants a license	The designated person in insurance company will issue and renew licenses.	The designated person in insurance company will issue and renew licenses.	Usually the Insurance company will enter into a Referral arrangement with a Bank	
4.	Principal Officer who possess the minimum qualification and Insurance Broker Examination is the chief executive officer of the Broking Company to exclusively carry out the functions of an insurance broker.	Corporate Insurance Executive or the chief executive represents corporate agent and should undergo practical training and is responsible for soliciting and procuring business.	Individual Agent who received practical training and passed examination solicits and procures business.	No Specified Person is required as only customer data is shared. The actual marketing/sale of policy will be taken up by the respective Insurer with their trained professionals.	

5.	The Functions of Insurance Broker are specifically given in the Regulations which include apart from placing business, risk management, consultancy, assisting in claims, marinating underwriting and claims records.	The corporate agent Identifies himself with insurance company of whom he is representative and follows the code of conduct given in Regulations.	The individual agent Identifies himself with insurance company of whom he is representative and follows the code of conduct.	Though there are no specific functions assigned to the Referral Agent, there shall be no linkage between banking services by the bank to its customers and use of insurance products.	The Brokers functions are wider in scope than the corporate /individual agents. It includes maintaining records, risk management and consultancy etc.,
6.	The applicant for Insurance Broker application shall not suffer from any of the disqualifications specified under sub section (5) of section 42D of the Insurance Act.	The Corporate agents and individual agents shall not suffer from disqualifications under section 42 of the Insurance Act.		No Insurer shall enter into a referral arrangement with any bank, which has been licensed by the Authority to act as an agent or an insurance intermediary (IRDA/ Cir./004/2003, dated 14-02-2003.)	
7.	**Training and Examination:** The Principal Officer and persons soliciting and procuring business shall received at least one hundred hours of theoretical and practical training from an institution recognized by the Authority and pass an examination, at the end of the period of training conducted by the National Insurance Academy, Pune	The practical training and passing of pre recruitment examination is to be completed by the applicant for corporate agent. The practical training hours and examination requirements are given under Regulation 5.	Similar provisions are applicable for individual agents and these requirements are as mentioned in Regulation 5.	Since actual insurance sale is not being done by the Referral Agent, no training is required.	
8.	**Capital Requirement:** The applicant seeking to become an insurance broker shall have a minimum amount of capital- Direct broker- fifty lakhs Reinsurance broker- two hundred lakhs and Composite broker- two hundred and fifty lakhs.	No capital requirement is specified for the corporate and individual agents.		No capital requirement is specified for the referral agent.	

9.	**Validity of License** A license once issued shall be valid for a period of three years from the date of its issue, unless the same is suspended or cancelled pursuant to the regulations.	Every license granted by the Authority to a corporate agent or any renewal thereof, in terms of the regulations, shall remain in force for three years	The agent license also is granted / renewed for a period of three years.	Every referral agreement shall be for a fixed period. The period of agreement depends on the Referral arrangement agreed among the Insurer and the Bank.	
10.	**Renewal of license** As per Regulation 13, the application for a renewal shall be dealt with in the same manner as per fresh application. The renewal application shall be accompanied with renewal fee of ₹ 1000/- In the event of a license being lost or destroyed or mutilated, an insurance broker shall submit to the Authority an application along with a fee of rupees one thousand requesting for the issue of a duplicate license and with a declaration giving full details regarding the loss or destruction or mutilation.	As per Regulation 3, the renewal license is granted on making application in prescribed form and fee of ₹ 250/-subject to completion of prescribed practical training. The Authority may on payment of a fee of rupees fifty issues a duplicate licence to replace a licence, which is lost, destroyed, or mutilated.		Renewal of license doesn’t arise. Only if both insurer and bank are willing to extend the agreement, the arrangement may be extended by way of new agreement.	

11.	**Cancellation or suspension of license with notice and without Notice** Regulation 34 and 35 gives the Authority, the power to suspend/ cancel the license under the conditions listed in Reg. 34 and 35.	**Cancellation of licence/ certificate.---** Under Regulation 11, the designated person may cancel a licence or a certificate of a corporate agent or a specified person, if such a corporate agent or the corporate insurance executive or the specified person suffers, at any time during the currency of the licence, from any of the disqualifications mentioned in sub-section (4) of section 42D of the Act and recover from him the licence or certificate granted to him.	**Regulation 9** The designated person may cancel a licence or a certificate of an insurance agent if the insurance agent suffers, at any time during the currency of the licence, from any of the disqualifications mentioned in sub-section (4) of section 42 of the Act, and recover from him the licence and the ID card issued earlier.	Both the parties shall comply with the directions of the Authority for acting under the referral arrangement, and that the Authority for valid reasons and after hearing the parties, shall have the discretion to apply its own criteria to reject or order for discontinuance of such arrangement.	
12.	**Payment of Annual Fee (Regulation 18)** Every licensed insurance broker shall pay the annual fees prescribed under Schedule II.	No such fee is payable by the corporate agent/ insurance agent		No such fee is payable by the referral agent	
13.	**Remuneration: (Regulation 19)** No insurance broker shall be paid or contract to be paid by way of remuneration (including royalty or license fees or administration charges or such other compensation), an amount exceeding prescribed under Regulation 19.	**(Regulation 8)** Every Corporate Agent shall be paid a commission as per provisions of Section 40 A of the Act.		As per provision VI of IRDA/ Cir./004/2003, dated 14-02-2003 specifies the quantum of Referral Fee payable. Also no commission or other remuneration shall be paid along with referral fee.	The circular 011/ IRDA/ Brok-Comm/ Aug-08 dated August 25, 2008 gives Limits on payment of commission or brokerage on general insurance business with effect from 1st October 2008.

14.	**Ceiling on business from single client (Regulation 20)** The business of the insurance broker shall be carried in such a manner that, not more than 50 percent of the premium (quantum, receipts, etc. as the case may be) in the first year of business, 40 percent of the premium in the second year of business, and 30 percent of the premium from the third year of business onwards shall emanate from any one client.	As per code of conduct under Reg. 9, no corporate agent shall have a portfolio of insurance business from one person or one organization or one group of organizations under which the premium is in excess of fifty percent of total premium procured in any year.	There is no such provision for individual agent.	There is no such provision for referral agent. But it is stipulated that the participation by the bank's customers shall be purely on a voluntary basis and this should appear prominently in all publicity materials distributed by the bank and the insurer.	
15.	**Code of conduct (Regulation 21)** Every insurance broker shall abide by the Code of Conduct as specified in Schedule III	Every Licensed Corporate Agent shall abide by the code of conduct specified in Regulation 9.	Every person holding license shall adhere to the code of conduct specified in Regulation 8.	No specific code of conduct. But both the parities shall comply with the directions of the Authority (Provision IX), No bank is permitted to enter into any similar arrangement with more than one life or more than one non life insurance company (Provision V). No referral fee will be paid for any promotional campaign (Provision VII).	
16.	**Deposit requirements (Regulation 22)** Every insurance broker shall before the commencement of his business, deposit and keep deposited with any scheduled bank a sum equivalent to 20% of the initial capital in fixed deposit, which shall not be released to him unless the prior permission of the Authority is obtained.	No such deposit is required to be maintained by corporate agent/ insurance agent		No such deposit is required to be maintained by referral agent	

17.	**'Insurance Bank Account'** **(Regulation 23)** The Reinsurance Brokers/ Composite Brokers shall ensure that 'insurance money' is held in an 'Insurance Bank Account' for reinsurance transactions only.	No such 'Insurance Bank Account' is permitted for corporate agent/ insurance agent	No such 'Insurance Bank Account' is required in this case.	
18.	**Professional indemnity insurance** **(Regulation 24)** Every insurance broker shall take out and maintain and continue to maintain a professional indemnity insurance cover throughout the validity of the period of the license granted to him by the Authority.	The corporate agent/ insurance agent need not take the professional indemnity insurance cover	The referral agent need not take the professional indemnity insurance cover.	
19.	**Maintenance of books of account, records, etc** **(Regulation 25 & 26)** Every insurance broker shall prepare for every accounting year annual accounts and submit to the Authority. They shall also furnish to the Authority a half-yearly un- audited financial statement containing details of performance, financial position, etc., along with a declaration confirming the fulfillment of requirements of capital in accordance with the provisions of regulation 10 and deposit requirements in accordance with the provisions of regulation 22	The corporate agents who are corporate entities may follow the rules of Company Act and prepare their accounts.	As per provision VI of IRDA/ Cir./004/ 2003, dated 14-02-2003, referral fee paid by the insurer to the bank shall be treated as acquisition costs and shall be decided between the parties under a written agreement. The total payout under referral fee, by whatever name called, shall include the element of management expenses as well and shall be on the basis of business generated under such an arrangement.	
20.	Every insurance broker shall confirm that it is a member of the Insurance Brokers Association of India.	No such mandatory provision to corporate agent/ insurance agents.	No such mandatory provision to referral agent.	

ANNEXURE-8

Comparison of Sample Linked policies sold exclusively under Bancassurance and all other Channels.

Objective

To assess whether the Bancassurance channel, if encouraged in an orderly manner, leads to any reduction in the relative cost of insurance policies from the policyholders' perspective as well as the insurers'.

Proxies for measures of the relative costs

The actual price paid by the policyholder to obtain a unit of maturity benefit gives an indication of the cost of the policy from the policyholder's perspective. However, the benefit on death is ignored in this process as the death benefit at various stages of policy tenure would give varying benefits vis-à-vis the premium costs. As the mortality charge is comparatively a small proportion the overall charge collected under the ULIP policies, this would not seriously affect the results.

For whole life policies, surrender benefit after a term where there would not be any surrender charge is taken in lieu of the maturity benefit above. As there is no surrender charge the benefit is quite analogous to the maturity benefit to make an equivalent analysis.

Another indicator of the relative cost of the policy to the policyholder is the ratio of the total charge paid to the total premium. This suffers from the limitation that the charging structure may vary with the level of premium. Hence this ratio can be considered when the charging structure is independent of the level of premium paid.

The total expense loadings to give a unit maturity benefit to the policyholder gives an indication of the relative cost of the product to the insurer.

The process

The distribution channel types are classified into 'Bancassurance' and 'All the channels (including Bancassurance)' where the second type of channel was considered such that the proportion of the business expected through Bancassurance is less than 20% of total expected business volumes. A sample policy was considered under each line of business under each of the distribution channel types. To reduce the effect of the sampling errors, the input parameters for the premium and the sum assured were taken to reflect the averages assumed in the respective product filings under the 'File & Use' procedure.

The maturity values/surrender values under the policies were projected with the unit fund growth rate of 10% with Fund Management charge of 1.35% p.a. These parameters were taken the same for all the channels to eliminate the effects of relative investment efficiencies on the maturity benefit. The investment aspects are supposed to be independent of the distribution channel through which the policy is solicited.

To assess the mortality charge, the benefit payable on death is assumed to be the higher of the sum assured and the unit fund value at the time of death.

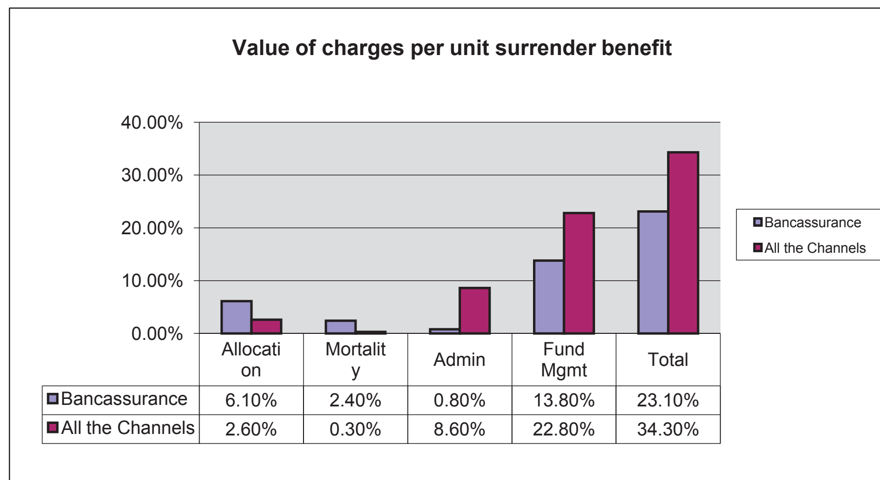
The charges, expense loadings, regular premium payments and the maturity value/surrender value under the policies are discounted at a rate of interest of 10% p.a. to determine the present values at the inception of the policies.

The following ratios were determined and considered for comparison between the two channel types.

1. Present value of the charges to the present value of the maturity/surrender benefit
2. Present value of charges to the present value of the premiums
3. Present value of the expense loadings to the present value of the maturity/surrender benefits.

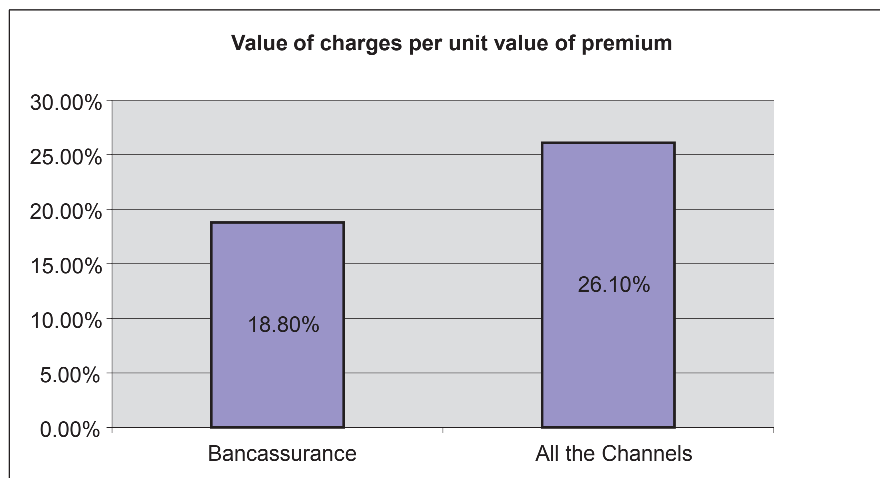
On such comparison, the following observations were made.

Unit Linked Whole life policy

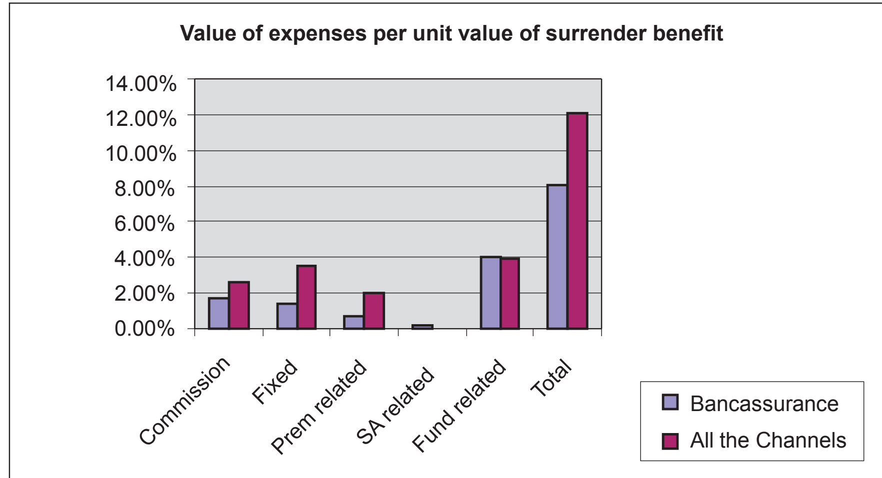


	Allocation	Mortality	Admin	Fund Mgmt	Total
Bancassurance	6.10%	2.40%	0.80%	13.80%	23.10%
All the Channels	2.60%	0.30%	8.60%	22.80%	34.30%

The administration charge under the Bancassurance channel is considerably lower than that under 'All the channels'. This has resulted in lower value of overall charge under the Bancassurance channel compared to the policies sold under all the channels.

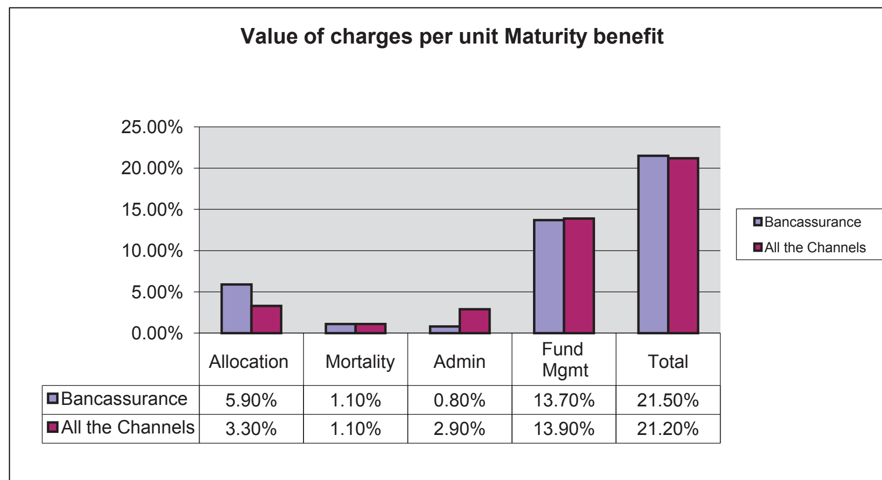


When the charges are expressed as proportion of the premiums paid by the policyholder again the Bancassurance channel shows lower charging level compared to the other channels.

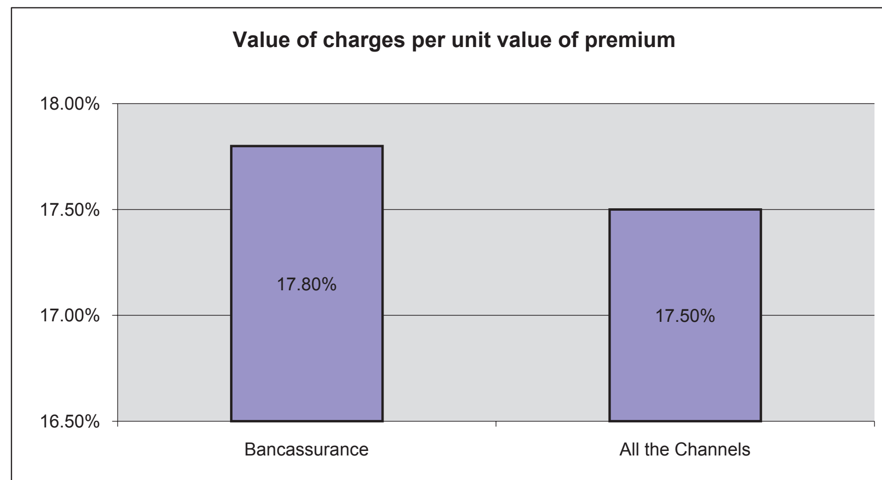


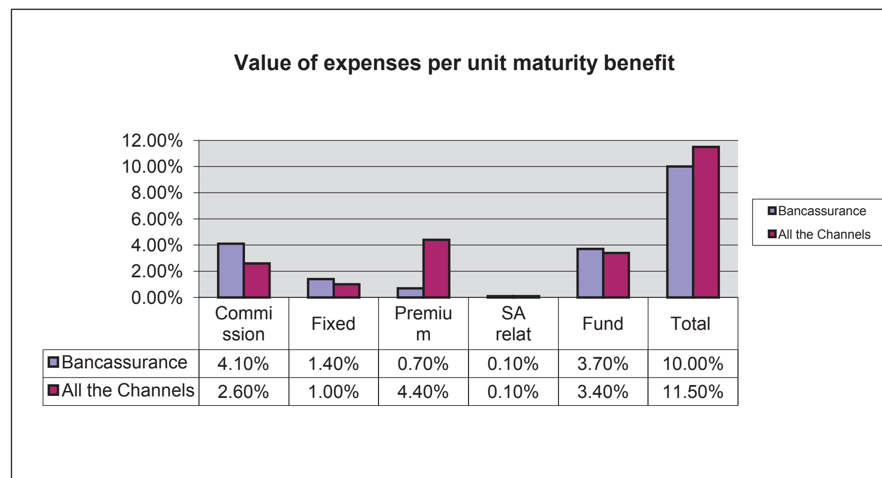
The total expense loadings required to give unit maturity benefit to the policyholder are substantially lower under the bancassurance channel compared to 'all the channels'. The major contributors to the effect are the commission and premium related expenses which may be considered to reflect the ease in the acquisition of business under the Bancassurance channel.

Unit linked Endowment policy



	Allocation	Mortality	Admin	Fund Mgmt	Total
Bancassurance	5.90%	1.10%	0.80%	13.70%	21.50%
All the Channels	3.30%	1.10%	2.90%	13.90%	21.20%





	Commission	Fixed	Premium	SA relat	Fund	Total
Bancassurance	4.10%	1.40%	0.70%	0.10%	3.70%	10.00%
All the Channels	2.60%	1.00%	4.40%	0.10%	3.40%	11.50%

The effect of ease in administration and the low initial expense levels of Bancassurance channel do not appear to make significant difference in the value of benefits to the policyholder or value of expenses incurred by the insurer to provide unit maturity benefits in case of Unit Linked Endowment policies contrary to the case of Unit linked Whole life policies. One possible reason for this would be the recent stipulations regarding cap on charges by the Authority. Due to these stipulations, the insurers selling the products under other channels had to reduce the charges/expenses to meet the cap on charges requirement. This might have resulted in alignment of these products with the Bancassurance products. (This can be substantiated by the results shown below with the products before the said stipulations on the charges.) This also indicates a scope for further efficiency of the Bancassurance channels.

However, the sample policy analysis indicates that for longer term policies the Bancassurance channel is significantly more beneficial to both policyholders and the insurers than the other channels.

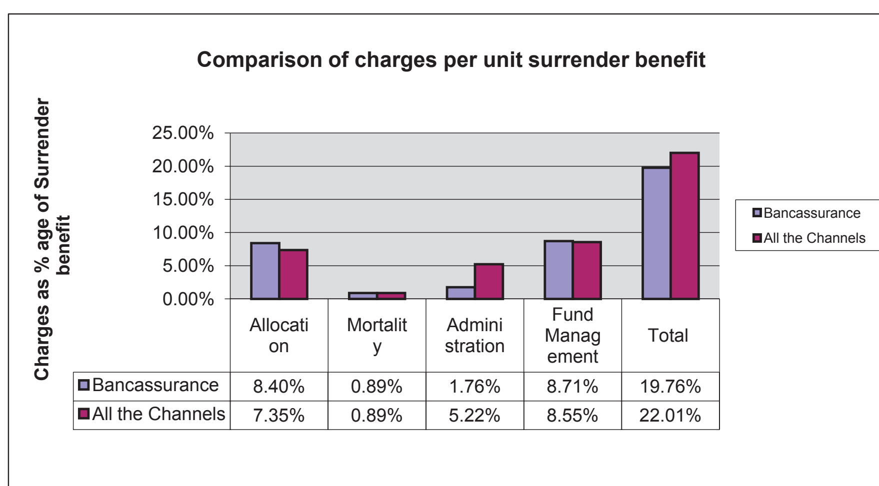
Conclusion

On the whole it appears that the acquisition and administrative ease and the scope to reach wider range of target markets make the Bancassurance channel cheaper than other channels. The lower overall charging structure indicates

the lower level of cost of the policy to the policyholder while the lower expense levels indicate the lower level of cost of the policy to the insurer. Even though all the types of charges are not lower under the Bancassurance it is the overall charging level that is to be considered in deciding the relative costs of the products. Similar is the case with expense loadings.

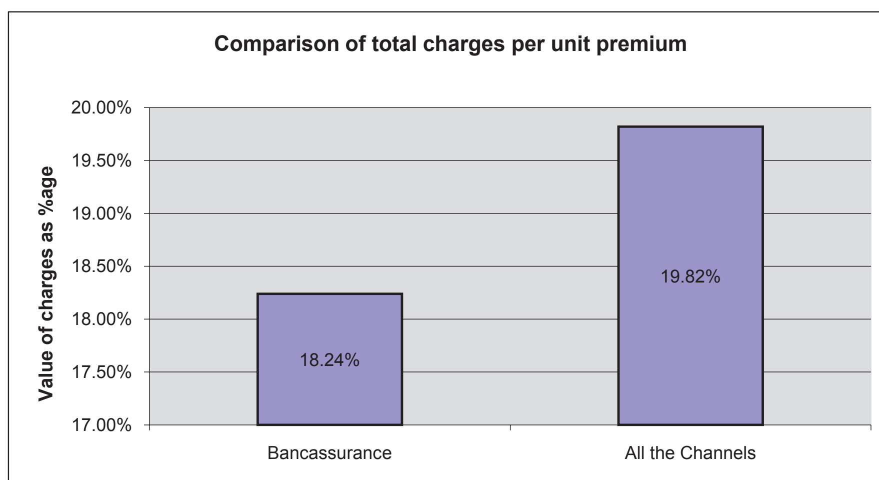
Analysis of sample products before the stipulations of cap on charges

Unit Linked Whole life policy

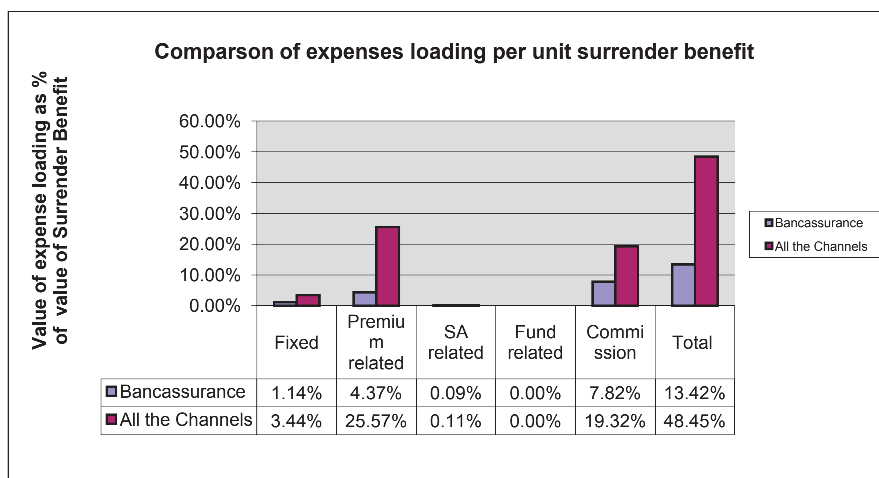


	Allocation	Mortality	Administration	Fund Management	Total
Bancassurance	8.40%	0.89%	1.76%	8.71%	19.76%
All the Channels	7.35%	0.89%	5.22%	8.55%	22.01%

The administration charge under the Bancassurance channel is considerably lower than that under 'All the channels'. This had resulted in lower value of overall charge under the Bancassurance channel compared to the policies sold under all the channels.



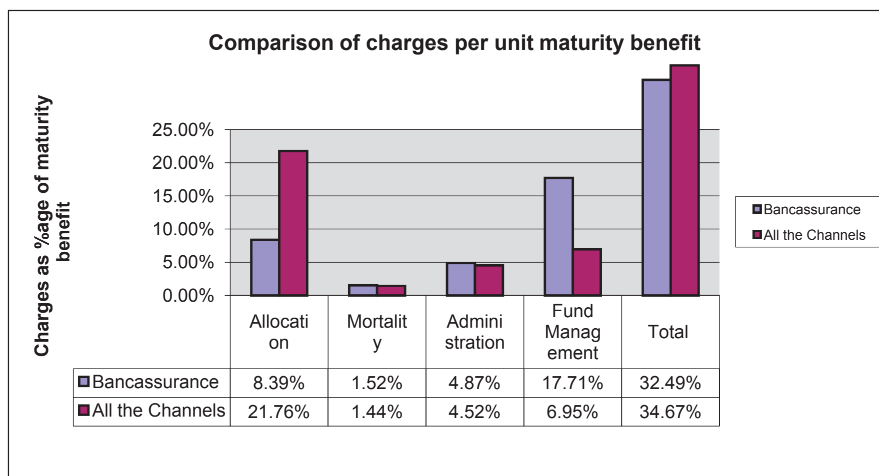
When the charges are expressed as proportion of the premiums paid by the policyholder against the Bancassurance channel shows lower charging level compared to the other channels.



	Fixed	Premium related	SA related	Fund related	Commission	Total
Bancassurance	1.14%	4.37%	0.09%	0.00%	7.82%	13.42%
All the Channels	3.44%	25.57%	0.11%	0.00%	19.32%	48.45%

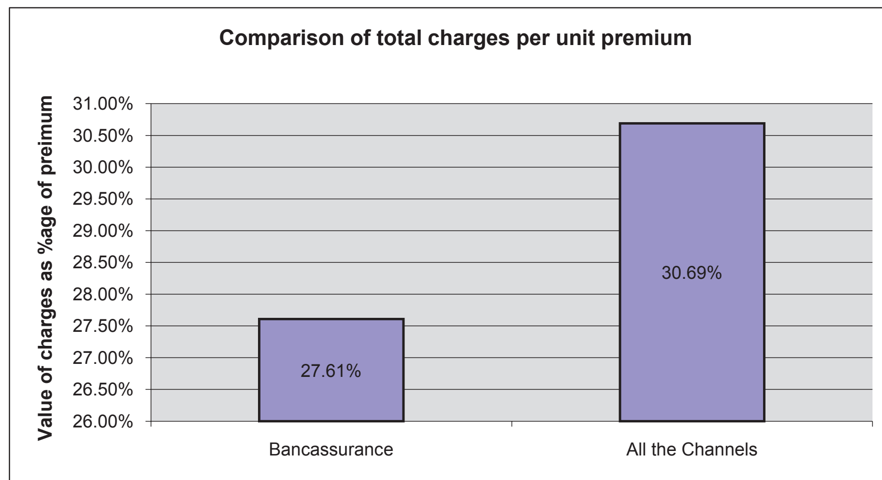
The total expense loadings required to give unit maturity benefit to the policyholder are substantially lower under the bancassurance channel compared to 'all the channels'. The major contributors to the effect were the commission and premium related expenses which may be considered to reflect the ease in the acquisition of business under the Bancassurance channel.

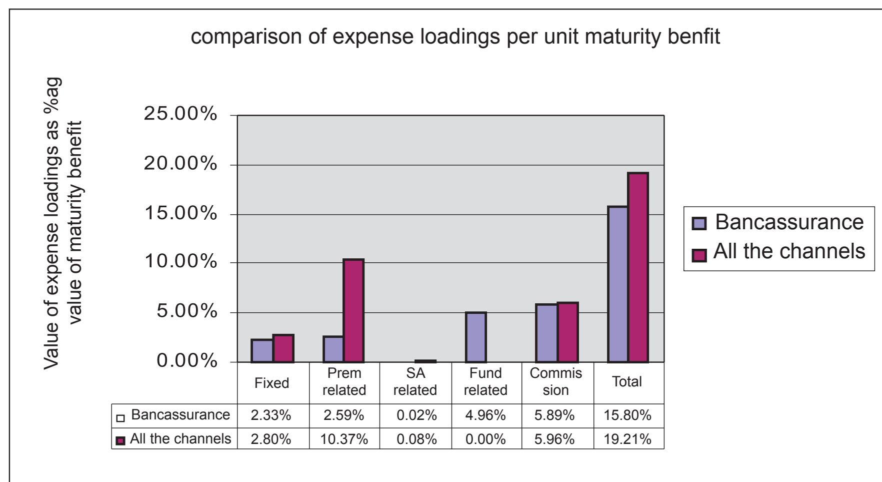
Unit linked Endowment policy



	Allocation	Mortality	Administration	Fund Management	Total
Bancassurance	8.39%	1.52%	4.87%	17.71%	32.49%
All the Channels	21.76%	1.44%	4.52%	6.95%	34.67%

The allocation charge and the overall charge per unit maturity benefit were lower under the Bancassurance channel than under the 'All the channels' The lower allocation charge reflects the lower level of initial expenses (which mainly constitute the acquisition expenses) under the Bancassurance channel.





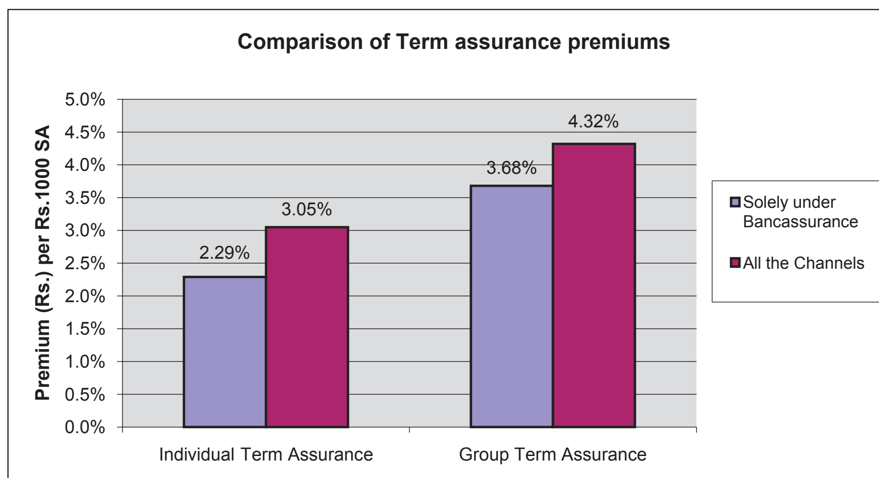
	Fixed	Prem related	SA related	Fund related	Commis sion	Total
Bancassurance	2.33%	2.59%	0.02%	4.96%	5.89%	15.80%
All the channels	2.80%	10.37%	0.08%	0.00%	5.96%	19.21%

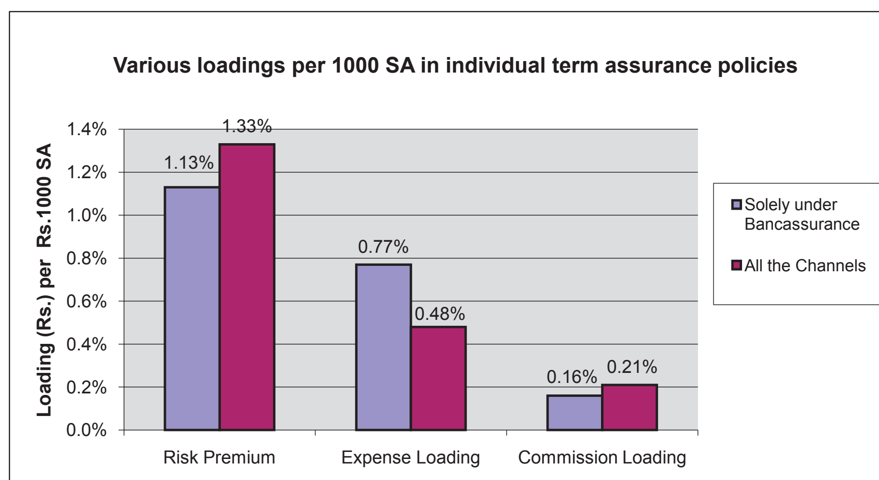
The overall expense loadings to give unit maturity benefit were lower under the Bancassurance channel than under 'All the channels'.

Comparison of Sample Non-linked policies sold exclusively under Bancassurance and all other channels.

On comparison of a sample of products (non-linked insurance products) sold exclusively through the Bancassurance channel with those sold under all the distribution channels the following may be observed.

Term assurance





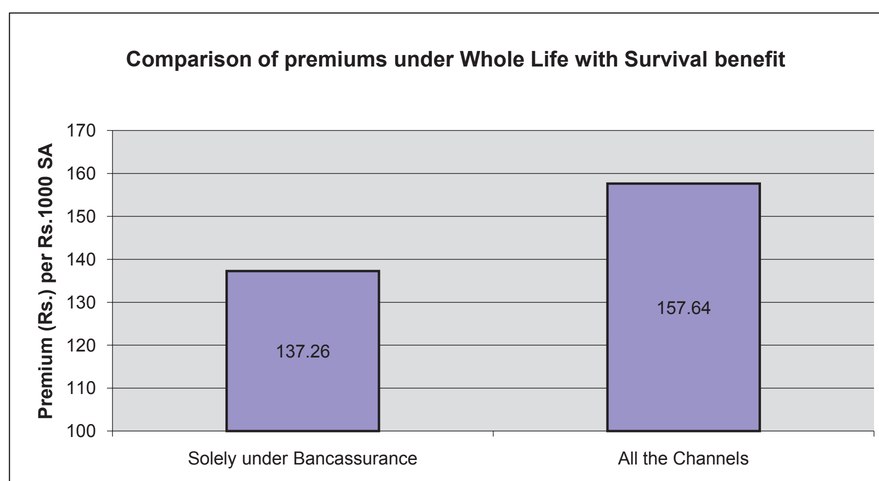
Note: The above loadings are approximate annualized loadings without allowance for the rate of interest and mortality. The sample policy considered is for a policyholder of age40 with term 10 years and sum assured of ₹ 1000000.

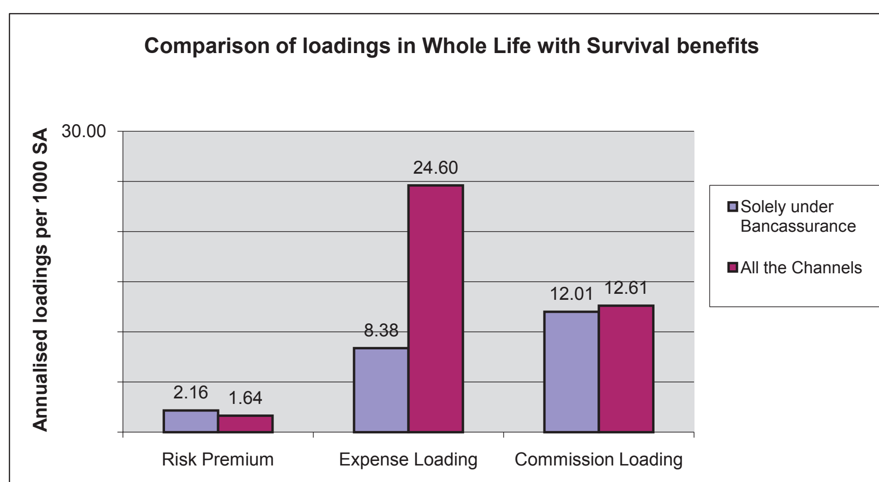
Premium rates, risk premium and commission loadings under the Bancassurance channel are lower than those under the other channels'.

In term assurance plans, major contributor to the premiums would be the mortality loadings. Even though the mortality and expense loadings are dependent on many factors like volume of the business expected, level of cross subsidy across various ages of the policyholders and sizes of the sums assured, it may be observed that the mortality loadings under

the Bancassurance are comparatively lower than that for other channels which may be treated as an indicator of better target group of lives under the Bancassurance channel

With profits Whole life plan with survival benefits





Note: The above loadings are approximate annualized loadings without allowance for the rate of interest. The sample policy considered is for a policyholder of age 40 with premium paying term of 10 years and sum assured of ₹ 100000.

Premium rates under the Bancassurance channel are again lower than that under the other channels. However, under participating policies, it may be kept in mind that it is total maturity proceeds (per unit premium) that matter more than the premium rate itself.

Also, commission and expense loadings are considerably lower under the Bancassurance channel. The lower expense and commission loadings may indicate the acquisition and administrative ease under the Bancassurance channels.

In any savings policy, risk premium contributes very small proportion to the total premium. Hence the comparison of the risk premium may not be as important as with a term assurance policy.

ANNEXURE-9

Views of Members and Stakeholders

The committee's first meeting was held on 22nd May, 2009 at the Authority's office.
The subsequent committee meetings were held at the following venues and dates:

- On 15th June, 2009 at Mumbai
- On 30th June, 2009 at New Delhi
- On 04th August, 2009 at Hyderabad
- On 19th April, 2011 at Hyderabad.

In the course of the Bancassurance Committee meetings, many suggestions were received from the Committee Members, Insurance Companies, Participants and other stakeholders.

The suggestions/views expressed are Members of the Bancassurance Committee are follows:

a1) Views of Mr. Deepak Satwalekar, Retd. CEO of HDFC Standard Life Ins. Co

"The comments made by the bankers as well as the representative of the IBA have convinced me of what I have always suspected – the banks have not understood insurance products. This is amply clear when they equate an insurance product to a Mutual Fund product. They have not understood the basic difference between the two, namely the term of the contract of the underlying investment under each of these investment options. And I say this consciously – life insurance is not just about 'protection' as the mutual fund industry would have you believe. It is about building up and providing for 'financial security', and this can be done by building up a savings corpus on a systematic basis over a long period of time and simultaneously enjoying the benefits of protection should there be an unfortunate early death of the policyholder. Using life insurance products for savings is not unique to India alone. It is widely prevalent in UK and Europe, and not so common in the USA.

An option to sell the products of multiple insurers does exist today for the banks, as it is so for any 'agent' of a life insurance company. All they need to do, if they wish to sell products of multiple life insurance companies, is take a 'broker' license instead of an 'agent' license. However, as stated by the IBA representative, the banks are unwilling to assume any responsibility, or risk, of the result of their mis-selling. The RBI is also wary of the banks taking on the role of a 'broker' as it would mean that they assume the role of a 'principal' in the sale process with the consequential responsibility and potential risk. Possibly the banks are better aware of the deficiency in the sales process practised by them and hence their reluctance to assume any risk arising therefrom. It is rather unfair that the banks expect the insurance companies to assume the risk arising out of their deficient sales process. If the bankers believe that they are well trained professionals, they should have no hesitation in taking on the liabilities arising from their sales.

Quoting the experience of France in selling insurance products is another example of a lack of understanding of the business model here and in France. The insurance products sold in France are by and large deposit products with an insurance cover, and the bankers are capable of selling these deposit products. These are not insurance products. There are significant tax advantages offered on such products and hence the success of Bancassurance in France.

As has been mentioned by one of the bankers, they expect a high level of training and sales support from the insurance company, but are unwilling to reduce their earnings to that extent. So, the cost is to be borne by the insurance companies for the benefit of the banks.

In India, selling through the banks is not a low cost proposition. Given their 'on paper' distribution reach, one understands that banks have been able to extract higher than permitted levels of compensation from growth driven insurance companies. Most banks have not been able to leverage their 'huge' branch network to deliver on the promise of their distribution network.

Given all of the above, I see no compelling reason to waive any of the requirements of the current regulations for agents. The banks have not shown the organizational maturity to handle this new responsibility appropriately.

If, however, the general consensus seems to be that banks be permitted to offer products of more than one life insurance company, then I would propose that we use this opportunity to move decisively towards a regime of 'independent advice' with its concomitant implications and frame appropriate regulations for the same. This would also mean that the IRDA is willing to change its regulations to comply with the thinking of the RBI.

The biggest implication will be, how banks get remunerated. This change would result in insurance companies being prohibited from paying any commission (or any remuneration, however called) to the banks for the sale of their products. Going forward, banks in their role as investment advisers should enter into an agreement with their clients and determine explicitly the services to be provided by them and the fees that they will charge for these services. While, I do not suggest that the Regulators play any role in determining the level of charges, the banks should evolve new standards of how they determine these charges and implement them in a transparent manner.

The banks would have to carefully assess the financial needs of their customers and match them against the range of products available, to determine the optimal solution for their customer.

This would entail:

i) raising the minimum qualification levels for the banks' sales personnel,
ii) a strictly enforced 'code of conduct' (to be developed and adopted simultaneously), and
iii) a programme for continuing education to keep up with the increasing complexities of newer products that are likely to be introduced.

This approach will have at least two benefits. One, the customer will benefit from the improved assessment of his financial planning requirements, and two, it will help improve the long term viability of insurance companies, at least by preventing them from incurring excessive acquisition costs in their desire to show rapid top line growth.

I am agreeable to this change, but am unwilling to accept modification of the agency regulations to permit banks to sell products of multiple life insurance companies."

a2) Comments received from Shri Deepak Satwalekar vide email dated 4th April, 2011

I am not in favour of separating the products into designer and template and then permitting banks to opt for multiple partners for template products. The banks must decide whether they want to be corporate agents or brokers. They cannot opt for a mix of the two. The argument that often banks 'compel' customers to take a credit life/term policy when buying a banking product was valid in the old days when competition was limited and access to customers for banking products was restricted. Today this is not the case. The competitive environment will ensure that if a bank is forcing a product or service on a customer, he/she will walk away to the next competing offerer. The choice today is in the hands of the borrower and he/she is unafraid to exercise it.

I am not in favour of banning the 'referral channel'. Let there be greater emphasis on compliance of expense ratio by the insurer and greater monitoring by the regulator. Not having adequate capacity to monitor the large number of insurers is no excuse. If so many insurance companies have been registered, then it is essential that the regulator increase its supervisory capacity and capability appropriately to discharge its duty.

a3) Comments received from Shri Deepak Satwalekar vide email dated 19th April, 2011

1. The banks with their ready made superior distribution network have held the insurance companies to ransom. They have played one insurer against the other in order to 'extract' the highest compensation they can get. One hears stories of compensation, either in commissions or as reimbursements in one form or the other, being paid which are higher than that permitted by IRDA. Hence, permitting banks to appoint two insurers, albeit, in different geographies, would be like legalizing their extortion. In any case, given the increased mobility of the Indian consumer, he is likely to suffer from a lack of after sales service from the bank if he moves from one territory to another, where the bank represents another insurer.

2. Today, if the banks wish to represent more than one insurer they have the option of taking a 'broking' license. However, I understand that the RBI is not in favour of this, as it would expose the banks' balance sheets to the risk of liabilities arising from mis-selling, or otherwise. The banks could have set up a subsidiary for taking the 'broking' license, but I understand that for commercial considerations they do not wish to. So, here is a case where the regulator is keen to protect its flock from the liabilities arising from mis-selling, and is quite happy to let he banks take on the role of a corporate agent where there is no liability since the insurer is the principal.

3. The time has come when the IRDA must protect the insurance companies, not just from the risk of mis-selling by the banks, but also the financial interests of the insurance companies. I would therefore suggest that:

a) If there is prima facie evidence of mis-selling, then a mechanism must be established for holding the bank responsible, and liable. Unless there are penal provisions, I do not think the banks are likely to change their business model

b) So far, it has been the responsibility of the insurer to stay within the limits prescribed by law for compensation of agents. I would suggest that we expand this, so that at the end of the financial year, the CEO, CFO and the Statutory Auditors of the bank certify that the bank, or its affiliates, have not received any compensation, in any form, from the insurer, and or its parent, affiliate, subsidiary in excess of that stipulated by law/regulations.

4. I can appreciate that the newer insurance companies feel discriminated against as there are no big banks left to tie up with. If they have a good proposition, innovative products, clearly differentiated superior customer service, they can approach the banks every three years, since the terms of appointment as corporate agent are for three years.

5. I see no compulsion why the RBI should be allowed to be protective of its flock and make the IRDA bend its regulations.

b) Views of Mr. Sandeep Bakshi, CEO, ICICI Lombard

"The banks and deposit taking NBFC's which have Regulatory oversight could be considered as a common group for these delibrations. One would refer to this group as banks.

Most of the countries in the region viz Singapore, HongKong, South Korea, China, Thailand, Taiwan etc do not have the restriction of one company each in life and non life.

The banks could additionally tie up with one amongst the stand alone health companies, ECGC and Agriculture Insurance Company.

The calibrated opening up with a one to limited basis could be considered for life and nonlife tie ups and the initial number could be restricted to 3. This could be appropriate in customer interest in terms of the advantages accruing out of choice to the customer and competitive benchmarking in terms of products, distribution, service quality and innovation.

The banks would be required to give an undertaking to IRDA in respect of compliance with the guidelines related to commissions, reimbursements and payouts. In addition the banks would be expected to invest in training and would take responsibility for customer service issues.

The general concern on misselling through the bank channel needs to be addressed"

c) Views of Mr. R Krishnamurthy, Retd. MD, SBI Life.

"The presentations made by insurers and distributors to the Bancassurance Committee had revealed four key features of the current bank distribution scene in India:

- The sales process and practices vary considerably from bank to bank: from indifference and lack of ownership on the part of most banks, especially state-owned banks, to arranging need-based analysis and maintaining trail of documentation on the part of a few, especially foreign banks.
- Bank distributors seem to equate insurance to selling unit-linked products. There is little awareness or earnestness among banks on tailoring insurance products to cover various customer segments through term cover or traditional products.
- Banks entertain limited thoughts on the servicing aspects of insured customers. They are centred on selling to more customers and accruing more income, with little thoughts on how to improve the experience of banks customers who have bought insurance products.
- Banks lack knowledge about the risks they run on the distribution front, including mis-selling risks for life and health insurance products, and the moral hazard risks in general insurance selling.

While the situation may appear disheartening, there are signs of improvement in the recent past. More bank staffs are receiving basic insurance training, there is growing awareness about policy persistency and more and more bank branches located in remote regions and small cooperative and rural banks are being drawn to insurance selling, thus helping to reach insurance benefit to a wider base. These and other aspects had come out during the presentations.

Regulatory issues

A key factor that has stood out in a lopsided growth of bank distribution in India is certain lack of regulatory clarity regarding distribution - and the absence of strict enforcement of the regulations at the bank level.

The first regulatory issue is categorizing banks as 'corporate agents' as part of agency regulations, a unique term not known in any other country. The second is regulatory recognition of two forms of bank distribution: a passive 'referral' arrangement, and a supposedly hands-on corporate agency arrangement (which is in fact practiced mostly as referral arrangement). The third is weak regulation concerning qualification and training of sales personnel, and treating the bank sales staff as equivalent to individual agents for this purpose. The fourth is the general absence of oversight of bank sales, whether by RBI or IRDA, and lack of accountability of bank managements for customer complaints. Lastly, there is lack of a mechanism of grievance redress on the part of insured bank customers as a class which has bought insurance based on a license issued in the name of the bank.

It is important to address all the above issues in order that the Bancassurance distribution framework grows on robust lines in India.

Ground realities

At the same time, it is important to recognize that the process of making banks to become more responsible in insurance distribution should go hand in hand with efforts to utilize their extensive network to expand

insurance penetration. Since banks account for 70% of the financial sector in India, it is important to use them as tools to spread the insurance habit to fulfill the development objective. Banks have played such a role effectively in respect of rural credit delivery and 'aam admi' orientation in the 70s which had substantially benefited the real economy.

Secondly, from a regulatory perspective, it is also important to recognize the aspirations of licensed insurance companies (and those who would set up shop in future) to develop distribution footprint through credible bank partnerships. It is relevant that RBI's approach of selectively allowing banks to take equity stake in insurance ventures has created a class of owner-distributor banks. Given the perception that bank-owned insurance companies are in a position to register better sales and profitability, it may be a regulatory dharma to create a level playing field over a period through a set of distribution regulations which are carefully nuanced, so that there is an opportunity for all players to grow based on sound practices.

Thirdly, it may not be realistic to expect banks to become highly focused on insurance distribution in a short time and seek to develop this as an independent line under a broker license to represent multi insurers. RBI's concerns on banks' involvement as brokers in any form of activity are known, given the weak governance structure in banks, their inadequate skills in risk management, the public sector character of the banking system posing ultimate ownership risks to the sovereign etc. It is useful to recall the experience in the 90s when a few banks had to be bailed out following the misadventures in their captive mutual funds.

Fourthly, it may not also be realistic to expect banks to grow to a level of competence and sophistication in the short term to undertake advisory role and offer multi insurer products to customers and seek advisory fee from them. Apart from the well known mindset issue of customers in regard to fee payment, the sheer size and complexity of such an exercise in Indian banks may be daunting, and in the process this could dampen the expansion of insurance penetration. It may also be useful to recall that a few banks that had launched 'portfolio advisory service' in the 90s had to beat a retreat following customer complaints and issues raised by RBI.

There are also no instances in other countries where regulator mandates banks not to collect commission from product providers and to earn fee solely from insured customers.

Practical steps

Against the background, and considering the wide expectations in the market on the recommendations of the Bancassurance Committee and on the issue of overhaul of bank distribution, it may be necessary to consider a few practical steps, and at the same time develop a clear roadmap for orderly growth of distribution through banks.

The following steps are suggested in this regard.

First, the insurance regulations should end the Referral form of distribution by banks. The regulations should recognize only one form of distribution where banks own the entire process and they are accountable for

selling as well as post-sale service to customers. It may be useful to use the term 'bank agents' in future instead of corporate agents so as to underscore the distinct identity and responsibility on the part of banks.

Second, there should be a two-tier qualification process for bank sales staff: the current certification process to suffice for selling term products and traditional products, but a higher level of certification should be imposed for selling any form of saving products where the investment risk is assumed by customer. The details of this higher level certification should be worked out by an IRDA working group.

In both types of qualifications, there should be a continuous learning requirement on the part of every bank sales staff, making it mandatory for the staff to earn minimum stipulated professional credits by demonstrating commitment and regular updating of knowledge and developments about the insurance industry.

Third, regulations should mandate every bank staff to undertake a need-based analysis of insurance requirement of customers before selling any form of saving product. The sales document signed by the customer should be preserved by the bank and be available for inspection by the regulatory agencies.

Fourth, RBI should require internal bank inspection staff in every bank to comment on the adherence to distribution regulations at the branches, and the manner in which the distribution is practiced. For the benefit of internal bank inspectors, IRDA could facilitate the development of a toolkit. The inspection staff should also be required to verify the nature and details of customer complaints relating to insurance selling and their disposal at branches. The above aspects should also be covered in the periodical inspection conducted by the RBI inspectors at the all-bank level.

It is useful to recognize that over the years the inspection system in banks has been considerably streamlined by RBI, leading to attention being paid at the top bank management on the inspection ratings of branches. The level of seriousness can therefore be enhanced by bringing the insurance distribution under the lens of internal bank inspection as well as by RBI inspection as above.

Fifth, any aggrieved bank insured customer should be allowed to approach the Banking Ombudsman for redress since the Banking Ombudsman system covers all services extended to bank customers. It is to be noted that attention is paid at top levels in banks regarding Ombudsman cases, and banks are also required to file reports to RBI in the matter and disclose the details in their published reports. Therefore, the involvement of Banking Ombudsman to hear the grievances of insured bank customers would bring in better accountability in banks on matters concerning insurance distribution.

IRDA may arrange to equip the Banking Ombudsman for the purpose wherever considered necessary.
Sixth, where banks seek to set up separate distribution companies to sell insurance products at their branches by recruiting candidates and training them solely for distribution activity, this should be encouraged by both

RBI and IRDA. Experience in other countries has shown that such specialist bank-owned distribution companies help to bring in focus and a proper mindset regarding regulatory compliance aspects.

At the same time, in all such bank-sponsored distribution companies, the bank concerned should be required to hold not less than 51% equity stake so as to ensure commitment and accountability.

Seventh, wherever bank distributors seek to enter into arrangements with insurers to share underwriting profits and other incentives to reflect the better quality of sales that they generate, or the higher involvement that they display, the regulations should impose no bar on such initiatives. Such arrangements are common in other countries, and have led to earnest long term distribution partnerships between banks and insurers.

Roadmap for multi insurer tie ups

Against the backdrop of better processes and accountability steps on the lines above, there should be a roadmap drawn up for banks to tie up with more than insurance company. For this purpose, a staged approach is suggested on the lines below:

- Banks may be allowed to enter into distribution arrangements for group insurance products with one or more life and general insurance companies. While the present regulations do not forbid the same, it may be useful to explicitly allow the same so as to send a message that this would provide an opportunity to cover different segments of population. Experience shows group insurance, such as saving-oriented group products for farmers linked to kisan credit cards, and schemes covering clusters of small and medium enterprise customers, can be beneficial to the priority segments of population. The regulator may create better awareness of this opportunity among banks, thereby contributing to improvement in the overall insurance coverage.
- Banks with more than 1000 branches may be allowed to tie up with one more life and non-life insurance company with effect from April 2011 for distribution of insurance products. This could be done by allowing the additional insurer to distribute insurance products at branches situated in specific regions in the country (thereby carving out the total branch network among two insurance companies), or it can be practiced at all branches, at the option of the bank.

  It is considered that by selecting such large banks (in the first stage) to have the benefit of additional distribution tie up, the regulator would be sending a message that these banks are expected to become models on compliance aspects.

  The choice made available to banks to allocate branches in certain regions for the additional insurer might help bank managements to consider selecting the additional partner based on the specific strengths of the latter, such as the brand image of the insurer in specific regions if any, support forthcoming on the training and customer support aspects in the regions concerned etc.

  At the regulatory level, such a limited opening made available to large banks would help to closely monitor the implementation, and take corrective steps where required.

The availability of this facility from a proposed future date would enable bank managements to take necessary structural steps, such as getting their sales personnel qualified at a higher level for selling investment products, oversight by the inspection staff etc. as proposed.

At the same time, there should be no compulsion for any bank to tie up with more than one insurance company. This is only an enabling facility which bank managements might wish to consider as a prudent business move.

- The scope for banks with less than 1000 branches to tie up with an additional insurer may be examined after April 2011 based on the experience gained.

It is important that a reform on the above lines requires better coordination between RBI and IRDA. In addition to the existing mechanism of a High Level Committee presided over by the Governor, RBI for ensuring better regulatory coordination among the central bank, SEBI, IRDA and PFRDA, a specific mechanism in the form of a Distribution Coordination Committee may be considered consisting of RBI and IRDA representatives to jointly review the compliance aspects at periodical intervals and resolve any emerging issues in the liberalized framework."

d) Views of Mr. N M Govardhan, Ex Chairman, LIC

1. Bancassurance has already developed as an important channel of distribution with the wide reach of more than 66000 branches. However there are Banks of different sizes and reach and this has to be recognized in developing Bancassurance.

2. There are different models of Bancassurance namely 1.Ownership 2.Pointof sales 3.Products 4.Client Database 5.Product supplier. 6 Policy administrations, which are discussed in the Report on Distribution Channels. The models require different approaches by IRDA. For example where there is ownership and equity participation it is not expedient to open it for another Insurance company.

3. Banks could be Corporate Agents, Brokers or Referrals/Introducers. At present Reserve Bank of India does not allow Banks to act as Brokers. This could be overcome if the Banks have a Broking Subsidiary. Referrals/ Introducers are in vogue. However IRDA should ensure that agreements and the payments are within the guidelines specified. Excessive upfront payments in any form is to be curbed as ultimately the cost will indirectly fall on the customers as the companies try to recoup the amount spent. It is necessary that every Referral/ Introducer agreement is vetted by IRDA and payouts/payments audited and strictly certified by CEO, CFO as within the IRDA guidelines. IRDA should also regulate this area tightly.

4. Generaly in the presentations it is found that established players prefer a single tie up and are against multi-tie ups.The new entrants would like an open architecture. In the special cases of the Agriculture Insurance and Export Credit Guarantee Corporation, their Line of Business is not in Competition with Life or Non Life Business and they can be allowed to tie up with any bank in addition to any existing arrangement with Life or Non Life Company. In the interest of Development and further penetration of Insurance it is perhaps necessary to open

up and allow more than one tie up, with adequate regulatory safeguards, of Life or Non Life companies with a Bank, as prevalent in South East Asian and in the Western countries. At present one Life and one Non Life company is permitted. It is necessary that size and reach of Bank, the model adopted should all be considered by IRDA in approving agreements and MOU's between Banks and Insurance Companies. It is perhaps better to proceed in stages in opening up to multi tie-ups, and at present allow one more Life or Non Life Company to a Bank, subject to banking secrecy regulations and Chinese walls being maintained between different companies to avoid cross-selling. This should form part of the MOU and Agreements and any breach would attract penalties.

5. It is necessary that the Bank staff should be well trained and conversant with all products on sale. The Insurance companies should ensure that the Bank staff are properly equipped to effect Insurance and there is no mis-selling or cross selling. Accountability should be there by the Bank for any complaints. The Bank staff should be suitably incentivized within the regulations prescribed by the IRDA and as specified in the agreements and MOU's"

Views expressed by the Stakeholders

An analysis of the recommendations/suggestions/views expressed by the stakeholders is given below in a tabulated form:

S.No	Name of the Person and/or Organisation	Recommendations/Suggestions /Views to multiple tie-ups of banks as Corporate Agents	For or Against
1.	Mr. G Srinivasan, CMD, United India	Banking sector in not mature enough. Lack of specialization in selling insurance, no desire to put in resources or manpower and training by banks are some of the reasons.	Against
2.	ASSOCHAM	There should be threshold limit of premium, beyond which only a bank can have multiple tie-ups. There should not be more than 3 tie-ups.	For
3.	Mr. M Ramadoss, CMD, Oriental Insurance Co. Ltd.	Except additional commission income to banks these multiple tie-ups doesn't have any benefit to customers except confusion and jeopardizing their interest at the time of claim. Banks should only be permitted to act as Referrals. If they want to sell insurance polices of multiple Insurers they must comply with broker regulations.	Against
4.	HDFC Standard Life Insurance Co.	The framework needs to be drawn up with the interests of the end customer in mind.	Partially For
5.	Mr. Antony Jacob, CEO, Appolo DKV Health Insurance	At present it would be premature. Concern would be around customer confusion. However opening up should be in a phased manner.	Partially For
6.	Mr. Brad Smith, CIO, American Council of Life Insurers	Bancassurance can be a powerful tool for quickly bringing the benefits of life insurance to people especially in India where banks have branches in rural or semi-urban areas.	For
7.	Dr. Prathap C Reddy, Chairman, Appolo DKV Health Insurance Co.	Special approval for Standalone Health Insurers to use the services of Banks and other NBFCs as CA even they have tie-ups with Life and Non-Life Insurers.	Partially For
8.	of Mr. Michael J. Ross, CMO, CIGNA International	IRDA would allow Corporate Agents to represent Standalone Health Insurers as a separate license category. Most of the Asia-Pacific countries follow multiple tie-ups model of CA.	For
9.	Mr. Rajesh Kandwal, MD, LIC of India	The multiple tie-ups of life insurance products may neither lead to improvement in insurance penetration nor would it provide any additional value to the customer. It may lead to increased distribution costs. Greater possibility of mis-selling leading to customers exercising cooling off options and higher lapsations. Banks have poor insurance service capabilities and may increase orphaned policies.	Strictly Against
10	Mr. P C James, GM, AIC of India	AIC be given relaxation to allow agents/intermediaries to work in addition to one or more non-life insurer.	Not given

11.	Presentation by LIC of India	The multiple tie-ups of life insurance products may neither lead to improvement in insurance penetration nor would it provide any additional value to the customer. It may lead to increased distribution costs. Greater possibility of mis-selling leading to customers exercising cooling off options and higher lapsations. Banks have poor insurance service capabilities and may increase orphaned policies.	Strictly Against
12.	SBI Life Insurance Co. Ltd.	Countries where Bancassurance is successful have adopted a single tie up model ex: Ireland, Italy, Belgium and France. Insurance Industry still in its Infancy and not mature enough for open architecture system	Against
13.	Insurance Brokers Association of India	The interests of the consumers would be seriously prejudiced if multiple tie ups allowed. Insurance selling is not the core function of the banks, banks have no expertise, risk management advice is not available, banks have no spare time to understand the needs of the insured, banks may force their borrowers to sell products.	Strictly Against
14.	Presentation by AXA	India is the only country in Asia which applies one bank to one insurer Bancassurance model. This model does not promote competition and has limited Industry growth in product development, costs efficiency, service quality and inhibiting insurance penetration. One to limited (two or so) model is the most desirable Bancassurance model.	For
15.	Presentation by AIC of India	AIC be given relaxation to allow agents/intermediaries to work in addition to one or more non-life insurer.	Not given
16.	Cholamandalam MS General Insurance	No one insurance company can fulfill complete requirements of a bank. Maximum 3 insurers which gives the third dimension to Alternate. Volume linked maximum permissible remuneration structure on commission and expenses. Separate regulations needed for Bancassurance and banks should be under IRDA scrutiny. Compulsory training to all designated bank staff at least once in 2 years. Arms length claims assessment in case of loss. Product brochure/Proposal Forms to be made mandatory.	Conditional For
17.	CIGNA International	IRDA would allow Corporate Agents to represent Standalone Health Insurers as a separate license category. Most of the Asia-Pacific countries follow multiple tie-ups model of CA.	For
18.	Life Insurance Agent's Federation of India	Banks should perform their core job of mobilizing savings of depositors and should not be given additional work of insurance. Banks cannot give service to PH as agents. Banks are indulging in mis-selling. Rural banks are exploiting farmers by forcing them to take insurance for getting loans.	Against

As per regulations in India, an Agent / Corporate agent can tie-up with a single Life and/or single Non-Life Insurer and Broker being on the client side should only have option of approaching multiple Insurers. Even the Insurance amendment bill 2008 set to be enacted underlines this intention. Govardhan Committee mandated to assess the functioning of these channels, factoring in constraints faced by general insurance agents, including low-ticket size, fixed commission rates and restrictions on selling products of more than one insurer has voted against multiple tie-ups of a corporate agent with an insurer.

ANNEXURE-10

ILLUSTRATION OF LIFE INSURANCE NEEDS ANALYSIS FORM

Name of Insurer:

Agency / Broker Name:

Licence No. & Validity Details:

DETAILS OF PROSPECT

1. Basic Information	
Name	
Address	
Telephone (Landline/Mobile)	
E-mail id	
Date of birth	
Marital status	
State of health	Excellent/Very good/Good/Moderate/Poor
Smoker	Yes/No

2. Family details					
Number of dependants					
Details of dependants	1	2	3	4	5
Name					
Male/Female					
Relationship					
Age					
Date of Birth					
State of health (Excellent/Very good/Good/ Moderate/Poor)					
Occupation					
Whether financially dependent					
Any scope for expansion of family	Yes/No				

3. Employment details	
Occupation	
Length of service	
Annual income	
Whether covered under pension scheme	
Normal retirement age	

4. Name of Member					
Life					
Health					
Savings and Investment					
Pension					
Other (to specify)					

5. Financial details	
Value of savings and assets	
Details of liabilities	
Expected inheritance	

6. Pension details	
Employer's Scheme/Insurance	
Personal contribution/Premium	
Retirement age	
Anticipated value	

7. Income/Expenditure – Current and projected										
YEAR	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**
Income										
Expenditure										

8. Affordable contribution – Current and projected										
YEAR	1	2	3	4	5	6	7	8	9	10
Yearly										
Monthly										

NEEDS OF PROSPECT

9. Identified Life needs	Projections per annum									
ITEM/YEAR	1	2	3	4	5	6	7	8	9	10
Food, shelter, clothing and other living expenses such as transportation, expenses, utilities etc										
Education										
Vacations and other travel expenses										
Other commitments such as insurance premium, various contributions etc										
Exigencies										
TOTAL										

10. Identified insurance needs	
Life Insurance (Death/Maturity)	
Desirable Sum Assured	
Health Insurance	
Desirable limit of coverage per annum	
Savings and Investment Planning	
Desirable returns per annum	
Pension planning	
Desirable pension per annum	

Recommendation

11. Recommendation	
Life stage	Childhood/Young unmarried/Young married/ Young married with children/married with older children/post-family or pre-retirement/ retirement
Protection needs	Life & Health/Savings and Investment/Pension
Appetite for risk	Low/Medium/High
Policy recommended, including name of insurer	
Details of commitment for the current and future years	
Whether all risk elements and details of charges to be incurred and all other obligations have been explained	
Why you think this policy is most suited for the prospect	

Note: Mention 'in ₹' etc wherever applicable

Agent/Broker's Certification:

I /We hereby certify that I/we believe that the product/s recommended me/us above is suitable for the prospect, based on the information submitted by him/her, as recorded above.

Dated: ___________________

(Signature of Agent/Broker)

Prospect's Acknowledgement:

The above recommendation is based on the information provided by me. I have been explained about the features of the product and believe it would be suitable for me based on my insurance needs and financial objectives.

Dated: ___________________

(Signature of Agent/Broker)

ANNEXURE-11

Financial Position of Banks in India (Year 2008-09)

State bank of India and its associates							
							(₹ in crore)
Name of bank	Year of incorporation	No. of Offices	Networth (Capital, Reserves & Surplus)	Deposits	Advances	Interest income	Net NPA ratio
State Bank of Bikaner & Jaipur	1966	857	2046	39224	29851	3810	0.85
State Bank of Hyderabad	1941	1022	3208	62449	43679	5709	0.38
State Bank of India	1955*.	11447	57948	742073	542503	63788	1.76
State Bank of Indore	1960	469	1564	28332	21612	2713	0.89
State Bank of Mysore	1913	664	2271	32916	25616	3247	0.50
State Bank of Patiala	1917	848	3134	60006	43634	5804	0.60
State Bank of Travancore	1945	730	2250	42042	32711	4123	0.58

* From 27th January 1921 to 30th June 1955 it was Imperial Bank of India, which came about by merger of Bank of Bengal (2nd June 1806), Bank of Bombay (15th April 1840) and Bank of Madras (1st July, 1843).

ANNEXURE-12

Nationalized Banks

Name of bank	Year of incorpo-ration	No. of Offices	Networth (Capital, Reserves & Surplus)	Deposits	Advances	Interest income	Net NPA ratio
Allahabad Bank	1865	2217	5852	84972	58802	7365	0.72
Andhra Bank	1923	1425	3647	59390	44139	5375	0.18
Bank of Baroda	1908	2916	12836	192397	143986	15092	0.31
Bank of India	1906	2934	13495	189708	142909	16347	0.44
Bank of Maharashtra	1935	1407	2517	52255	34291	4292	0.79
Canara Bank	1906	2740	12208	186893	138219	17119	1.09
Central Bank of India	1911	3527	6412	132272	85483	10455	1.24
Corporation Bank	1906	1028	4897	73984	48512	6067	0.29
Dena Bank	1938	1093	2170	43051	28878	3447	1.09
Indian Bank	1907	1611	7136	72582	51465	6830	0.18
Indian Overseas Bank	1937	1927	7151	100116	74885	9641	1.33
Oriental Bank of Commerce	1943	1422	7403	98369	68500	8856	0.65
Punjab & Sind Bank	1908	858	2140	34676	24615	3247	0.32
Punjab National Bank	1895	4323	14654	209760	154703	19326	0.17
Syndicate Bank	1925	2246	5010	115885	81532	9580	0.77
UCO Bank	1943	2058	3957	100222	68804	8121	1.18
Union Bank of India	1919	2569	8740	138703	96534	11889	0.34
United Bank of India	1950	1445	3078	54536	35394	4312	1.48
Vijaya Bank	1931	1101	3149	54535	35468	5238	0.82

ANNEXURE-13

Other Scheduled Commercial Banks

Name of bank	Year of incorporation	No. of Offices	Networth (Capital, Reserves & Surplus)	Deposits	Advances	Interest income	Net NPA ratio
Bank of Rajasthan	1943	458	1046	15187	7781	1384	0.73
Catholic Syrian Bank	1920	360	388	6333	3684	557	2.39
City Union Bank	1904	209	661	8207	5645	804	1.08
Development Credit Bank	1995**	81	598	4647	3274	645	3.88
Dhanalakshmi Bank	1927	181	424	4969	3196	408	0.88
Federal Bank	1931	611	4326	32198	22392	3315	0.30
ING Vysya Bank	1930	444	1703	24890	16751	2240	1.23
Jammu & Kashmir Bank	1938	491	2623	33004	20930	2988	1.38
Karnataka Bank	1924	452	1567	20333	11810	1917	0.98
Karur Vysya Bank	1926	296	1350	15101	10410	1446	0.25
Lakshmi Vilas Bank	1926	247	454	7361	5246	658	1.24
Nainital Bank	1922	92	175	2137	1131	209	13.10
Ratnakar Bank	1943	84	341	1307	801	138	0.68
SBI Comm. & Intl. Bank	1993	2	126	588	311	54	0.00
South Indian Bank	1929	519	1304	18092	11852	1687	1.13
HDFC Bank	1994	1400	14652	142812	98883	16332	0.63
ICICI Bank	1994	1408	49883	218348	218311	31093	2.09
IDBI Bank Ltd.	1994	510	9424	112401	103428	11632	0.92
IndusInd Bank	1995	182	1664	22110	15771	2309	1.14
Kotak Mahindra Bank	1985	220	3906	15645	16625	3065	2.39
Yes Bank	2003	118	1624	16169	12403	2003	0.33

** Converted to a private sector commercial bank on 31st May, 1995. Started as a Credit Society set up by the followers of His Highness the Aga Khan in the 1930s and later converted into Co-operative Bank.

ANNEXURE-14

Foreign Banks

Name of bank	No. of Offices	Networth (Capital, Reserves & Surplus)	Depo-sits	Advances	Interest income	Net NPA ratio
ABM Amro Bank	30	2386	15960	16660	3120	2.20
Abu Dhabi Commercial Bank	2	123	509	137	48	
American Express Banking Corporations	1	481	330	698	77	4.34
Antwerp Diamond Bank	1	219	81	700	46	3.35
Bank of America	5	2748	4167	3356	607	
Bank of Bahrain & Kuwait	2	100	472	287	49	0.09
Bank of Ceylon	1	80	86	45	14	
Bank of Nova Scotia	5	861	2976	4805	545	
Bank of Tokyo Mitsubishi UFJ	3	1208	2076	2991	315	
Barclays Bank	5	5001	12486	10551	2037	4.59
BNP Paribas	9	1656	3353	3710	636	0.86
Calyon Bank	6	910	818	1763	347	
Chinatrust Commercial Bank	1	116	61	148	19	
Citibank	41	11518	51677	39920	6840	2.63
DBS Bank	10	1401	6023	2723	809	0.55
Deutsche Bank	13	4760	14147	8798	1881	0.88
Hongkong & Shanghai Banking Corpn.	47	11214	49970	27589	6327	1.42
JP Morgan Chase Bank	1	2512	3587	703	516	1.27
Krung Thai Bank	1	45	103	9	10	
Mashreq Bank	2	87	21	10	5	
Mizuho Corporate Bank	2	744	1148	1119	129	
Oman International Bank	2	168	187	2	15	
Societe Generale	2	381	825	366	153	
Sonali Bank	2	6	42	11	1	2.55
Standard Chartered Bank	90	10277	41802	37516	5649	1.37
State Bank of Mauritius	3	164	372	303	45	0.00
UFJ Bank	3	1208	2076	2991	315	

(Source: A profile on banks 2008-09, RBI)

ANNEXURE-15

Operating Cost to Total Assets of Commercial Banks in India

(in Per cent)

Year	Domestic Banks						All Domestic Banks	Foreign Banks	All Commercial Banks
	Public Sector Banks			Private Banks					
	State Bank Group	Nationa-lised Banks	All Public Sector Banks	Old Private Banks	New Private Banks	All Private Banks			
1999-00	2.46	2.56	2.52	2.18	1.42	1.85	2.43	3.11	2.48
2000-01	2.66	2.76	2.72	1.98	1.75	1.87	2.60	3.05	2.64
2001-02 #	2.11	2.40	2.29	2.08	1.12	1.45	2.13	3.00	2.19
2002-03	2.11	2.33	2.25	2.04	1.95	1.99	2.20	2.78	2.24
2003-04	2.21	2.21	2.21	1.99	2.04	2.02	2.17	2.75	2.21
2004-05	2.14	2.06	2.09	2.02	2.03	2.03	2.08	2.88	2.13
2005-06	2.28	1.93	2.05	2.11	2.11	2.11	2.06	2.94	2.13
2006-07	1.98	1.67	1.77	1.88	2.11	2.06	1.84	2.78	1.91
#	The sharp decline in the operating cost to total assets ratio of public sector banks in 2001-02 was on account of launch of voluntary retirement schemes by State Bank of India and nationalised banks during 2000-01.								

Source: Computed from Statistical Tables relating to Banks in India (RBI).

ANNEXURE-16

Business per Employee of Commercial Banks in India

(in Rupees lakhs)

Year	Domestic Banks						All Domestic Banks	Foreign Banks	All Commercial Banks
	Public Sector Banks			Private Banks					
	State Bank Group	Nationa-lised Banks	All Public Sector Banks	Old Private Banks	New Private Banks	All Private Banks			
1999-00	122.11	126.18	124.71	169.53	976.01	255.23	133.93	627.00	140.92
2000-01	158.83	160.18	159.69	196.62	758.99	296.39	170.58	720.19	179.43
2001-02	181.54	197.59	191.57	218.10	651.21	333.86	204.10	773.40	213.97
2002-03	205.09	221.05	215.09	266.19	834.88	445.68	236.45	909.68	247.02
2003-04	232.90	255.74	247.22	316.86	898.08	527.85	275.17	952.50	286.90
2004-05	284.04	318.92	305.96	362.03	870.97	578.65	335.98	966.11	348.27
2005-06	337.79	383.07	366.61	419.53	904.30	670.67	405.91	955.41	419.77
2006-07	435.52	490.21	470.99	486.02	818.02	694.07	506.77	995.09	521.94
2007-08	565.06	618.28	600.10	569.32	831.96	751.42	262.14	1037.10	643.24
2008-09	650.22	783.16	734.35	638.43	787.15	743.42	736.19	1282.74	753.44
2009-10	735.52	947.40	870.29	700.02	840.71	798.37	856.00	1445.87	873.32
#	Figures have been adjusted for bank merger.								

Source: Computed from Statistical Tables relating to Banks in India (RBI).

ANNEXURE-17

CRAR of Commercial Banks in India

(in per cent)

Years	State Bank Group	Nationalised Banks	Old Private Sector Banks	New Private Sector Banks	Foreign Banks	All Commercial Banks
1999-00	12.29	10.35	12.99	13.04	16.16	13.12
2000-01	12.94	10.32	14.21	11.94	16.17	13.07
2001-02	13.19	10.77	12.00	10.30	14.37	11.51
2002-03	14.01	12.14	13.19	8.80	18.53	12.28
2003-04	13.57	13.23	14.38	11.30	19.82	13.89
2004-05	12.06	13.10	12.16	12.46	17.42	14.07
2005-06	11.90	12.19	5.54	12.36	15.75	12.61
2006-07	12.30	12.37	12.08	11.99	12.39	12.28
2007-08	13.21	12.13	14.08	14.39	13.09	13.01
2008-09	13.96	13.24	14.76	15.33	14.32	13.98
2009-10	13.46	13.25	15.21	17.96	17.25	14.58

Source: Computed from Statistical Tables relating to Banks in India (RBI).

ANNEXURE-18

Total Expenditure

Life Insurers	2007-08 (% to FYP)			2008-09 (% to FYP)			Apr-Jun09 (% to FYP)			Apr-Sep10 (% to FYP)		
	Com paid	Other Exp	Total Exp.	Com paid	Other Exp	Total Exp.	Com paid	Other Exp	Total Exp.	Com paid	Other Exp	Total Exp.
LIC of India	7.98	0.16	8.14	8.08	0.21	8.3	10.54	0.21	10.75	6.35	0.27	6.62
Aegon Religare										17.07	0	17.07
India First										7.22	0.63	7.85
Reliance										0	24.77	24.77
Shriram Life										2.19	0	2.19
Bharti AXA										0.14	6.25	6.39
IDBI Fortis				4.54	3.44	7.97	8.13	3.52	11.65	11.42	1.86	13.28
SBI Life				8.71	3.70	12.41	12.99	3.57	16.56	0.90	15.12	15.12
Star Union				14.42	0.16	14.58	12.39	2.52	14.91	8.37	1.28	9.65
Kotak Life				12.37	4.27	16.64	29.19	13.69	42.88	11.29	4.05	15.34
Bajaj Allianz	11.02	4.16	15.18	14.03	4.87	18.90	26.85	16.82	43.67	3.78	25.68	29.46
ICICI Pru	9.84	11.38	21.22	11.62	8.71	20.33	16.03	11.06	27.10	10.72	12.99	23.71
ING Vysya				16.71	11.37	28.08	13.05	11.60	24.64	15.63	10.24	25.87
Birla Sun Life				20.26	9.20	29.46	28.54	18.59	47.13	25.75	11.85	37.60
Met Life	28.54	5.31	33.84	26.11	6.66	32.77	31.71	5.77	37.48	30.36	0.59	30.95
Canara HSBC				35.64	2.62	38.27	34.49	2.12	36.60	32.67	0	32.67
Aviva Life				23.64	18.15	41.79	27.75	18.78	46.53	26.64	11.54	38.18
Tata AIG	31.18	3.59	34.77	39.25	6.05	45.30	31.56	6.43	37.99	29.01	10.99	40.00
HDFC Stand.	19.84	5.65	25.49	21.80	32.14	53.95	27.18	26.46	53.64	26.07	0	26.07
Max NewYork				**51.75**	**15.64**	**67.39**	**40.97**	**-2.03**	**38.94**	**28.72**	**1.25**	**29.97**
Total Average	**14.74**	**6.86**	**21.61**	**15.30**	**10.14**	**25.44**	**19.76**	**9.24**	**29.00**	**16.57**	**4.91**	**21.48**

ANNEXURE-19

Bank Infusion - Life Insurers

(₹ crore)

S.No.	Name of the Company	Particulars	Name of the Promoter	Equty held by bank			YEAR WISE INFUSION			Total
				2007-08	2008-09	2009-10	2007-08	2008-09	2009-10	
1	ICICI-Prudential Life Insurance Co. Ltd.	Indian Promoters	ICICI Bank	1034.96	1055.16	1055.31	65.63	20.20	0.15	6741.76
		Foreign Promoters		363.63	370.73	370.79	49.40	49.40	49.40	2862.72
		Total Equity		1401.11	1427.26	1428.14	88.81	26.15	0.88	9118.81
		First Year Premium		8034.75	6811.83	6334.03	2872.62	-1222.92	-477.80	31763.84
		Total Premium		13561.06	15356.22	16531.88	5648.07	1795.16		61516.26
		Profit After Tax				257.97				
		Cumulative Profit/loss carried forward to balance sheet				-3518.49				
2	Kotak Mahindra Old Mutual Life Insurance Co. Ltd.	Indian Promoters	Kotak Mahindra Bank Limited	244.94	260.25	260.25	76.46	15.31	0	1759.43
			Kotak Mahindra Prime Limited	54.00	54.00	54.00	0	0	0	5672.25
			Kotak Mahindra Capital Ltd.	56.46	63.37	63.37	34.483	6.90	0	6541.85
		Foreign Promoters		124.87	132.68	132.68	38.98	7.81		720.75
		Total Equity		480.27	510.29	510.29	149.92	30.02		2857.87
		Share Premium		52.04	52.04	52.04				
		First Year Premium		1691.14	2343.19	2868.05	719.62	652.06		9160.53
		Total Premium		1106.62	1343.03	1333.99	491.68	236.41		5336.92
		Profit After Tax			14.34	69.22				
		Cumulative Profit/loss carried forward to balance sheet				-249.84				
3	SBI Life Insurance Co. Ltd.	Indian Promoters	State Bank of India	740.00	740.00	740.00	370.00	0	0	5143.00
		Foreign Promoters		260.00	260.00	260.00	130.00	0		1222.00
		Total Equity		1000.00	1000.00	1000.00	500.00	0		4700.00
		First Year Premium		4792.82	5386.64	7040.74	2228.97	593.89		21390.33
		Total Premium		5622.14	7212.10	10104.03	2693.65	1589.97		27853.00
		Profit After Tax		34.38		276.46	30.55			
		Cumulative Profit/loss carried forward to balance sheet				254.87				

4	Metlife India Insurance Co. Ltd.	Indian Promoters	J&K Bank Ltd.	190.27	22.03	22.03	57.77	-168.24	0	579.33
			others Indian promoters	372.93	1147.17	1291.31	113.23	774.24	0	3487.62
		Foreign Promoters		197.88	410.80	461.44	60.08	212.92		1428.92
		Total Equity		761.08	1580.00	1774.79	231.08	818.92		5495.87
		First Year Premium		825.35	1144.71	1061.85	484.92	319.35		3609.98
		Total Premium		1159.54	1996.65	2536.01	666.83	837.11		6509.55
		Cumulative Profit/loss carried forward to balance sheet				-1768.45				
5	IDBI Federal Life Insurance Co.Ltd.	Indian Promoters	IDBI Bank	96.00	216.00	216.00	96.00	120.00	216.00	1056.00
			Federal Bank	52.00	117.00	117.00	52.00	65.00	117.00	520.00
		Foreign Promoters		52.00	117.00	117.00	52.00	65.00	117.00	520.00
		Total Equity		200.00	450.00	450.00	200.00	250.00	450.00	2200.00
		First Premium		11.91	316.78	400.56	11.91	304.87	400.56	1458.48
		Total Premium		11.91	318.98	571.12	11.91	307.07	571.12	1804.00
		Cumulative Profit/loss carried forward to balance sheet				-240.71				
6	Canara HSBC OBC Life Insurance Co.Ltd.	Indian Promoters	Canara Bank	0	204.00	255.00	0	204.00	51.00	714.00
			Oriental Bank of Commerce	0	92.00	115.00	0	92.00	23.00	322.00
		Foreign Promoters		0	104.00	130.00	0	104.00		234.00
		Total Equity			400.00	500.00	0	400.00		900.00
		First Year Premium		0	296.41	622.62	0	296.41		919.03
		Total Premium		0	296.41	842.45	0	296.41		1138.86
		Cumulative Profit/loss carried forward to balance sheet				-477.03				
7	Star Union Dai-ichi Life Insurance Co. Ltd.	Indian Promoters	Bank of India	0	76.50	127.50	0	76.50	51.00	331.50
			Union Bank of India	0	34.50	57.50	0	34.50	23.00	149.50
		Foreign Promoters			39.00	65.00	0	39.00		104.00
		Total Equity			150.00	250.00	0	150.00		400.00
		First Year Premium		0	50.19	519.87	0	50.19		570.07
		Total Premium		0	50.19	530.37	0	50.19		580.57
		Cumulative Profit/loss carried forward to balance sheet				-41.06				
8	IndiaFirst Life Insurance Company Ltd.	Indian Promoters	Bank of Baroda	0	0	88.00	0	0	88.00	176.00
			Andhra Bank	0	0	60.00	0	0	60.00	120.00
		Foreign Promoters				52.00	0	0		52.00
		Total Equity				200.00	0	0		200.00
		First Year Premium		0	0	201.59	0	0		201.59
		Total Premium		0	0	201.59	0	0	0	201.59
		Cumulative Profit/loss carried forward to balance sheet				-52.04				

 # on 11th April, 2002 ICICI Limited, the holding company has got an approval from the Hight Court for its proposed merger with ICICI Bank Ltd. effective 30th March, 2002

ANNEXURE-20

Banks Infusion (Non-Life Insurers)

S.No.	Name of the Company	Particulars	Name of the Promoter	Equty held by bank			YEAR WISE INFUSION			Total Equity
				2007-08	2008-09	2009-10	2007-08	2008-09	2009-10	
1	ICICI Lombard General Insurance Co.	Indian Promoters	ICICI Bank Limited#	278.61	297.55	297.55	30.71	18.94	0	1791.32
		Foreign Promoters		97.89	104.39	104.55	10.79	6.50		629.23
		Total Equity		377.36	403.14	403.63	41.65	25.78		2424.84
		Gross Direct Premium		3307.12	3402.04	3295.06	318.05	94.92		16176.53
		Profit After Tax		102.87	23.62	143.93	34.51	-79.25		389.09
		Cumulative Profit/loss carried forward to balance sheet				174.50				174.50
2	Universal Sompo General Insurance Co. Ltd.	Indian Promoters	Allahabad Bank	45.00	45.00	45.00	45.00	0	0	135.00
			Indian Overseas Bank	28.50	28.50	28.50	28.50	0	0	85.50
			Karnataka Bank Ltd.	22.50	22.50	22.50	22.50	0	0	67.50
			Dabur Investment Corporation	15.00	15.00	15.00	15.00	0	0	45.00
		Foreign Promoters		39.00	39.00	39.00	39.00	0		117.00
		Total Equity		150.00	150.00	150.00	150.00	0		450.00
		Gross Direct Premium		0.48	30.14	189.28	0.48	29.67		219.89
		Cumulative Profit/loss carried forward to balance sheet				-66.76				-66.76
3	SBI General Insu. Co. Ltd.	Indian Promoters	SBI Bank	0	0	111.00	0	0	111.00	111.00
		Foreign Promoters				39.00	0	0		39.00
		Total Equity				150.00	0	0		150.00
		Gross Direct Premium					0	0		0

ANNEXURE-21

Statement showing the business generated and income received from the Insurer (Non-Life) for the period ended ....

Name of the Insurer:____

S.No.	Class of business	Income		Detail of the remuneration received		
		Premium (₹ in lakhs)	any other income received from the bank (except investment income and premium)**	as Commission on Premium	any other (Please Specify)	Total Payouts*
	Fire					
	Marine Hull					
	Marine Cargo					
	Miscellaneous*					
*includes the payment made to the group						
**group will have the meaning as assigned to it under Investment Regulations						
We hereby certify that						
	a) no other payments except as stated above has been received by the corporate agents or its affiliates or by any entity in the group.					
	b) Investment in the insurance company or its group company has been made at arm length price.					

Chief Executive officer **Chief Financial Officer** **Compliance Officer**

ANNEXURE-22

Statement showing the business generated and the income received from Insurer (Life) for the period ended ....

Name of the Insurer:

S.No.	Class of business	Break up to the business income					any other income / payment received from the corporate agent or any entity within its group (except investment income and premium) **	Total Income	Detail of the remuneration received						TOTAL PAYOUTS
		Type of Premium (₹ in lakhs)							as Commission on Premium of					any other (Please Specify)*	
		First Year	Single Premium	Renewal					First Year	Single Premium	Renewal				
				2nd year	3rd Year	Others					2nd year	3rd Year	Others		
1	Assurance														
2	Annuity														

*includes the payment made to the group

**group will have the meaning as assigned to it under Investment Regulations

We hereby certify that

a) no other payments except as stated above has been received by the corporate agents or its affiliates or by any entity in the group.

b) Investment in the insurance company or its group company has been made at arm length price.

Chief Executive officer **Chief Financial Officer** **Compliance Officer**

ANNEXURE-23

Details of nature of arrangement during the period ended on..............................

S. No.	Nature of arrangement				Period of Arrangement
	As Corporate Agent	As Referrals	As Broker	Other (Please specify)*	
1					
2					
3					
4					
5					

We hereby certify that the above details are true and confirm that no other entity falling with the meaning of "group" has any other relationship with any insurer.

Chief Executive officer **Chief Financial Officer** **Compliance Officer**