

BANCASSURANCE

A section of the powerful Banking Lobby has been pushing for a change in the Regulations to permit a bank to have multiple tie-ups with insurers and IRDA, the Regulatory Authority, sought the view of one expert Committee, which *inter alia* did not favour the change. It has thereafter appointed another Committee in May 2009 to re-examine the issue and submit its Report within 2 months.

This change is sought on the grounds that penetration of insurance in India, which lags behind that in most countries in the world, will rise if banks are permitted to have multiple tie-ups. This is far removed from the truth of the matter as the penetration in life insurance, under the present system of bancassurance, has increased threefold in the last 8 years but the credit for that goes to the large and well trained individual agency force, professional brokers and the innovative customer friendly products. Non-life even after the introduction of bancassurance has lagged behind with stagnation in penetration over the last 10 years at 0.6% of GDP. Factors responsible for the stagnation have been fallout of the detariffing and now economic global financial meltdown.

Currently approximately 100 banks through possibly one lakh branches are selling products of all 42 life and non-life insurers in every nook and corner of the nation. Where is the rationale to suggest that each bank with multiple tie-ups with insurers would do any better just because each bank outlet would be offering different shades of essentially the same product?

Multiple tie-ups are certainly not the key to increasing penetration level. It will on the other hand lead to anti-consumer interest modus operandi and the IRDA would have done well to reject the approach. Having constituted a Committee to reexamine this issue, the least it can be expected to do in all fairness is to include consumer representation on the Committee directly and through brokers who are invested with the responsibility to take care of consumer interests.

A radical change has been sought by the banks and the principle issue for consideration would be whether such a change would be of benefit to the general mass of policyholders this being the primary responsibility of the IRDA as emphasized by the Preamble to the IRDA Act which states that it is -

“An Act to provide for the establishment of an Authority to protect the interest of holders of insurance policies”.

However, there would be little doubt that the interests of consumers would be seriously prejudiced if the change were to be brought about for the following reasons:

- It is not the core function of Bankers and therefore would not receive adequate attention in its operations.
- Banks have no expertise to evaluate insurance products vis-a-vis consumers' requirement.
- Risk Management advice which is so vital for clients will not be available from Banks.
- Banks have no management richness and spare time to understand needs of insured.
- They will not be able to guide the customer on his obligations and rights flowing from the proposal form and the policy.
- Banks have no expertise to render advice to customers in the event of a claim.
- Banks as lenders wield power over their borrowers and are consequently in a position to sell products not entirely suited to their borrowers' needs.
- Insurance companies who provide manpower backup to handle insurance matters will withdraw support once multiple tie-ups are allowed.
- There will be a conflict of interest in the event of a claim especially when Banks are recipient of the claim amount due to their financial commitment -- will they support insurance company who appointed them or client from whom recovery is due.

- Consequently inherent in this situation, considerable mis-selling is almost certain because Banks will put their own interest above those of these borrowers and policyholders.

Insurance Broker is appointed by the client and therefore he represents the Insured. He is better placed to understand and service the Insured's needs. In the present de-tariffed Market, Insurance Broker is in a better position to measure the embedded risk and offer the consumer appropriate advice.

The IRDA would, therefore, be well advised to reconsider this matter in discharging its primary obligation, which is the utmost protection to the interests of the policyholders.



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