



INSURANCE BROKERS ASSOCIATION OF INDIA

Shri OPR COPY

3rd June 2009

~~The Chairman
Insurance Regulatory and Development Authority
Parisrama Bhuvanam
Basheer Bagh
HYDERABAD~~

Dear Sir,

Sub : Order on Bancassurance Channel

We refer to the IRDA's Order ref IRDA/Agents/ORD/02/Apr 2009 dated May 4th, 2009 relating to the appointment of a Committee for Bancassurance and its stated terms of reference.

On going through this Order, we find that IRDA appears to have an open mind on permitting Banks who are currently licensed to act as Corporate Agents of one non-life and one life insurer to be empowered to market the insurance products of any or all insurers which according to current regulations only licensed brokers can do.

At the outset, we would mention that since brokers' interest would be severely affected, we ought to have been given a representation on the Committee and this has not been done for the reasons best known to IRDA.

Having carefully considered the matter from all angles, we feel that, if the banks are allowed to act on behalf of all insurers, then the biggest sufferer will be the ultimate customer for number of reasons which are detailed as follows :

1. Does the IRDA believe that branches of banks can discharge the functions mentioned in Regulation 3(a) to (k) as listed in Brokers Regulations and rigorously observe the Code of Conduct.

We believe Bancassurance are at best product pushers which results into mis-selling thereby resulting into loss of credibility of banks and consumer is the sufferer.

2. For any bank, selling insurance is not its core activity. There is no way that any bank will consider developing in-house ability to differentiate products of 22 life and 20 non life insurers; OR engage in securing quotes from even a limited number of insurers; OR provide requisite underwriting information which would enable an insurer to evaluate the risk profile so as to offer best terms; OR handle the entire process of formulating and negotiating the settlement of claims.
3. Will banks be subject to the same stringent conditions, under which brokers are required to operate? Will banks be required to secure professional indemnity cover and will insurers provide covers to banks operating through a huge number of employees who hardly have any expertise or experience of insurance theory & practice?
4. At present, insurers are providing some assistance by way of manpower to banks but that is because, as its corporate agent, the bank is restricted to marketing only its principal's product. If and when a bank starts to market the products of all insurers no single insurer is likely to offer trained manpower assistance. Consequently, high level of mis-selling will prevail to the detriment of the insured.
5. What will almost certainly happen is that regardless of the insured's needs, banks will sell products which generate best earnings for the bank e.g. if a bank stands to earn 5% brokerage on a mediclaim cover which has no sub limits and 15% where there are sub limits one can be sure which product the bank will sell.
6. Purportedly, it is contended that if banks are permitted to market products of all insurers, the penetration level of insurance will rise. There is little merit in this contention as all major banks have been operating as corporate agents and between the banks and the insurers, they have a presence in every nook and corner of the nation. The mere fact that each

bank can offer a wider choice of products should really make little difference since between all banks acting currently as corporate agents, all products of all insurers are available to the insured. If penetration is the pure reason then the Indian Post Offices with a network of over 160000 offices (almost double the size of all the banks branches put together) all over the country would be ideally suitable. The development of micro insurance agent network for which a separate set of regulations have been provided for by the Authority would certainly see an end of the road.

7. There is little doubt about the adverse impact on brokers and agents. When banks can offer products of all insurers they will be even more successful at arm twisting their borrowers through inducements or coercion into using their services notwithstanding the fact that the services they are capable of offering will fall short of what brokers are capable of and do provide.
8. If banks are allowed to market products of all insurers, the primary victim will be the insured, the secondary victim will be brokers and agents and the only undeserving gainer will be the banks, 90% of brokers after having invested so much in trained man power and infrastructure would have to close their operations within 2 to 3 years. In short the Road to Disaster is what will happen if banks with their all pervasive clout are given the go ahead.

It is moreover surprising to read that various life and general insurers are seeking this relaxation. It can only be those who have not succeeded in having Bancassurance tie ups with major PSU & private banks and not those who have. Surely insurers who have tie ups with Banks such as SBI, PNB, Bank of India, Union Bank, Bank of Baroda; HSBC etc cannot be in favor of a relaxation which can only hurt their interest which will allow their current partners to sell products of their competitors.

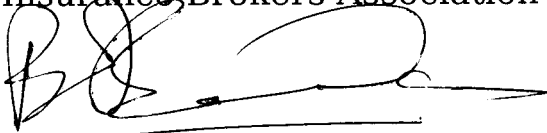
9. Considering that the preamble to the IRDA Act states that the Act is to provide for the establishment of an Authority to protect the interest of holders of insurance policies, Bancassurance in the avatar of a Broker can only spell disaster for the insured, particularly the vast multitude of non corporate insureds.

10. It is unfortunate that Insurance Brokers have been named as another distribution channel in the preamble of the Order, when the responsibilities that have been cast on a broker under the Brokers Regulations compared to any other regulations, including those for the insurers, are not simple but stringent and many times more than any other regulations.

We are sure you will kindly look into the submissions made by us and involve IBAI, which is the only body recognized by IRDA, in the process of consultations before any decision is taken. We now look forward to hearing from you at your earliest.

Thanking you,

Yours faithfully,
Insurance Brokers Association of India.

A handwritten signature in black ink, appearing to be 'B. Boda', written over a horizontal line.

Bharat J. Boda
President



बीमा विनियामक और विकास प्राधिकरण
**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

