inotes
Newsletter from India's Leading
Insurance Broking House
May 2014

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The risk managers

Message from the Editor

Dear Readers,

I am pleased to come to you once again with this issue of inotes.

You would recollect that, in the editorial of last issue of inotes, I had taken reference to the advice of the Finance Ministry to the Public Sector Banks that they should get into Insurance Broking inter-alia expressing that we need to wait and see how many of the banks will opt for an insurance broking licence.

In this issue of inotes, we bring out in a very vivid manner, the developments on the subject in the aftermath of the advice, the challenges that may be staring at the Bankers, the downside and the brighter side of the move to go for an Insurance Broking Licence.

Our editorial team had interviewed Mr. Rakesh Kumar, General Manager, New India Assurance, Dr. P. Nandagopal, Managing Director and Chief Executive Officer, India First Life Insurance Company and Mr. R.K. Gupta, Executive Director, Bank of Maharashtra, to collect their views on the matter of "Banks as Insurance Brokers". I am very much obliged to them for their contribution.

Just as we are about to go to the print, there is news in the air that the issue of "Banks as Insurance Brokers" is being referred to Financial Stability and Development Council (FSDC). FSDC, as we are all aware, has representation from all the sectoral regulators.

In the "Readers Speak" column, Mr. P.C.James, Chair Professor (Non-Life), National Insurance Academy, Pune and Mr. P. Rajeshwar Rao, Chief Executive Officer, Institute of Insurance and Risk Management, Hyderabad have expressed their opinion on "Bridging the Talent Gap in the Insurance Industry". I place on record my profound thanks to them.

With best wishes.

V G Dhanasekaran
Editor - *i-notes*

Insurance Broking sword hangs over Banks

Little did the banking and insurance fraternity realize that the Finance Minister P. Chidambaran's Budget speech in Feb 2013 would create a ruckus in the financial services distribution world with no consensus being reached on the issue even after a year of so called discussions. The FM in his Budget speech (2013-14) had said, "Banks will be permitted to act as insurance brokers so that the entire network of banks' branches will be utilized to increase penetration of insurance".

For a long time, the insurance industry has been demanding an open architecture in the bancassurance channel that will allow banks to become corporate agents of multiple insurance companies, as against the current model where banks can represent only one insurer. However, instead of conceding to an open architecture framework, the FM preferred banks to become insurance brokers.

To facilitate this, the Insurance Regulatory and Development Authority (IRDA) came out with guidelines for banks to become brokers in August 2013. RBI, which was initially not keen on banks taking on this additional responsibility finally yielded and released draft guidelines in November 2013. The draft norms of RBI laid down conditions to be satisfied for those banks interested to venture into insurance broking.

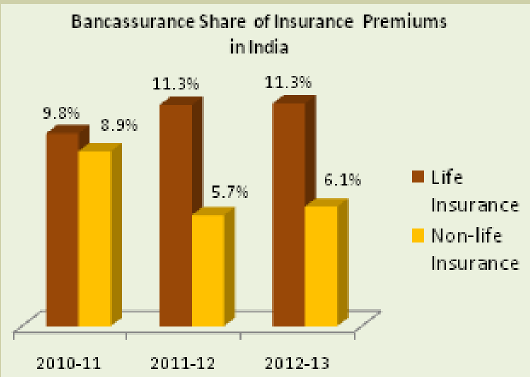
All was going well until a sudden notification on 20th December from the Ministry of Finance asked all public sector banks to mandatorily become insurance brokers by 15th January 2014. What started as a suggestion suddenly turned into a diktat. It was a bolt from the blue as Banks were suddenly expected to wind up their corporate agency and turn into insurance brokers overnight.

The private banks heaved a huge sigh of relief when they were left out of this mandate. But their happiness was short lived when the IRDA Chairman made it clear that there is no distinction between public and private sector banks to become insurance brokers. This thrust of compulsion from the Finance Ministry and the Sectoral Regulators has raised many eyebrows and created a deep sense of discomfort in both the insurance and banking sectors.

Banks have made known their displeasure to the Finance Ministry following which; an expert committee has been set up as per the directions of the RBI to look into the concerns of banks about getting into broking business and their Report is still awaited.

Present norms

Bancassurance, which refers to banks selling insurance products, currently, follows a corporate agency structure where the bank works as an intermediary of one insurer to sell its products. As a corporate agent, a bank could sell insurance products of one life, one general and one standalone health insurance company each. The corporate agent is considered a representative of the insurer and enjoys immunity as the onus of any mis-selling / mistake on their part rests with the Insurance Company itself.



Source: IRDA Annual Report

Bancassurance in FY 2013 accounted for 6.1% of premiums placed on the non-life side and 11.3% of new premiums on the life side. As on date, most major public and private sector banks such as State Bank of India, Punjab National Bank, Union Bank of India, Bank of Baroda, Canara Bank, Bank of

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India, Andhra Bank, ICICI Bank, HDFC Bank, IDBI Bank etc. have promoted insurance companies. Such banks have vehemently opposed the idea of becoming brokers for multiple players since they already have an exclusive tie-up with the insurance company promoted by their bank.

In the new Avatar

As an insurance broker, the bank will now have to represent the interest of the policyholder and has a legal responsibility towards him and hence the accountability will be higher. Banks will now be expected to develop a risk advisory platform and move away from the existing transactional platform. This also means banks will have to familiarize themselves with the client's business, render advice on appropriate insurance terms, maintain detailed knowledge on available insurance markets, assist in negotiation of claims and maintain proper records of all documentation. Brokers also have a far higher degree of regulatory supervision than a corporate agent. So, the far-reaching impact in the Bank's new role as a broker will be on the "Accountability" front.

CORPORATE AGENT VS. BROKER	
Corporate Agent	**Broker**
Represents the Insurance Company	Represents the Customer
Can sell products of one life, one non-life and one health insurance company across the country	Can sell products of all insurance companies
Works on rates offered by the insurance company	May be able to secure better rates as all companies' products are offered

Licensing Criteria / Eligibility Criteria

As per RBI

The draft guidelines released by RBI in November 2013 specify the following eligibility conditions for banks intending to carry out insurance broking business:

- The net worth of the bank should not be less than Rs. 500 crores and the capital to risk asset ratio (CRAR) should be no less than 10%;
- The level of non-performing assets should be no more than 3%;
- The bank should have made profits in the past three consecutive years and the track record or the performance of its subsidiaries and joint ventures should be satisfactory.

The draft norms also stipulate that

- Banks should have a standardized system of assessing the needs of the customer across all branches offering insurance broking services, besides having a robust internal grievance redressal mechanism in place to resolve issues related to services offered.
- All employees dealing with insurance broking business should possess the requisite qualification prescribed by IRDA as insurance broking is a knowledge intensive activity involving specialized skills. The persons involved in insurance broking services should not be entrusted with any other approval/transactional process at bank branches.
- The staff engaged in insurance broking services will not be paid any incentive, in cash or kind that is linked to the income received from the broking business. The staff is also not permitted to receive any incentive directly from the insurer.
- The banks will also need to disclose to customers the details of remuneration received from various insurance companies for the broking business. This will also be disclosed in the "notes to accounts" in their balance sheets.

As per IRDA

The IRDA (Licensing of Banks as Insurance Brokers) Regulations published in the Gazette in July 2013 permitted 'scheduled banks' to apply to the IRDA for a licence to act as an insurance broker, provided that the applicant had obtained the prior approval of the Reserve Bank of India (RBI). The regulations clarified that for a Bank to act as an insurance broker

- There is no requirement of capital
- Validity of license is for 3 years
- Not more than 50% of the insurance premium shall emanate from 1 client and not more than 25% should be placed with the insurance company within the promoter group separately for life & non-life.
- Professional Indemnity Insurance policy to be taken for a minimum of 50 lakhs

The downside of the new regulation

Mandating one distribution model goes against the basic principles of a free market. And that too at a time when banks already have exclusive agreements with foreign partners with whom they have floated the insurance company. The sanctity of contract will be lost and there will be a conflict of interest for bank-led insurers.

Other challenges from the Bank's perspective include:

- Any employee responsible for soliciting/procuring insurance business on behalf of an insurance broker should have received at least 100 hours of theoretical and practical training from an institution recognized by the Authority. So, Banks need to have exclusive trained resources for insurance selling which will add to their cost structure.
- As per RBI draft guidelines; no incentive should be paid to bank staff selling insurance either by the bank or by the insurance company. So, there is little skin in the game for branch managers to motivate broking staff to sell insurance. Removal of incentives will steeply hit penetration.
- Under the broking business, banks would earn lesser commission (30% of first year premium and 5% on renewal for selling a life insurance policy) as compared to corporate agency model (40% commission of first year premium and 7.5% on renewal for selling a life insurance policy). However, on the non-life side brokers commission is higher (max 12.5% for property & engg, 10% for motor OD & 17.5% for all other insurance) compared to agents (max 10% for property & engg, 10% for motor OD & 15% for all other insurance). Since banks are more active on the life side, broking will turn out to be a high risk – low return model for them.
- There is a cap on business from one client (50 per cent) and on business from the promoter group (insurance company) at 25 per cent. While this does seem prudent from IRDA's point of view to ensure that banks do not push their own venture's products; from the foreign partner's view -this will be a big dampener.
- There are also issues of technology investments and integration with the insurance company systems and processes requiring significantly more management time, commitment and resources.
- Reputational Risk: Since the final accountability to ensure that the customer's interest is kept in mind while selling the policy rests with the bank; the burden of compliance will be high. Also any violations would be treated seriously and would invite deterrent action. It also puts in jeopardy the bank's existing relation with its customer. This will bring banks to ask the basic question of "Whether broking is worth the risk"?

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Interview – *Insurers*

In this issue, we speak to **Mr. Rakesh Kumar, General Manager, New India Assurance and Dr. P. Nandagopal, Managing Director and Chief Executive Officer, India First Life Insurance Company** on their views on 'Banks as Insurance Brokers'.

What are your views on 'Banks as insurance brokers'?

Rakesh Kumar (RK): The penetration of General Insurance in India has not reached the desired level in spite of the Insurance Industry opening up. There is a desire among the people to buy insurance but they fail to take a policy due to the absence of an intermediary who can guide them about the insurance products for their requirements. In India, the Bank branches are spread in every nook and corner and are easily accessible. According to me, if the Banks acts as insurance brokers, then people will have an alternative source of procuring an insurance policy of their choice which is not possible today in a Corporate Agency model as it limits the choice to the Tied-up insurance company only. This will certainly increase the penetration level of life and non-life insurance in India thereby providing insurance protection at the door step. Allowing Banks to be insurance broker not only means more options for customers but also better product offerings.

P Nandagopal (PN): Bancassurance is definitely one of the most dominant distribution channels. According to the IRDA's annual report for FY 2013, almost 43% of new business premium in the private sector came from bancassurance.

In the new role as brokers, while banks can sell products of multiple insurers, they will also have to take on additional responsibility and be accountable for the policies they sell. This is a good move. This is exactly what banks do for mutual funds. So, for insurance, too, it's only a matter of time.

However banks as brokers, is a new model of distribution and shouldn't be rushed into it. It should happen in phases to get banks to adjust to the new role.

As insurance brokers, banks become directly responsible for the sale of insurance policies because they have a fiduciary responsibility towards the policyholders unlike their earlier role as corporate agents. How do you look at this transition?

RK: The most important advantage in banks becoming brokers is that they become responsible and accountable for their sales. An Insurance Broker represents the interests of the policyholder and has a fiduciary responsibility towards the customer. As Brokers, banks will have to keep the interest of the customer paramount and sell policies that suit the customer which is not the scenario today. By becoming Brokers, Banks will represent the interest of the customers and not the interest of the Insurer. This transition will ultimately benefit the customer as they will get the best product of the market.

PN: The industry still faces a huge problem of having insurance brokers who are not always able to provide customers the right solution for various reasons which could be lack of opportunity, skills or financial incentives to do an honest sale based on clear insights. Many large insurance broking houses in the retail life space consequently, rather worked as multi – tie up corporate agents and pushed the product of those insurers that offered the best deal at a particular point of time. No one, not even the web aggregators looked seriously at the customers' interests. Price comparing web portals either got carried away by the side revenue of sponsored ads or naively focused on premium rates without realizing that premium is not the price and price is not the benchmark on which a family's financial security depends.

This is where banks have a wonderful opportunity to step into the vacant space of true advisory and become insurance brokers in spirit and deed.

Would banks as brokers help in providing a fair, easier and cost efficient access of insurance products for the customers at large?

RK: Once the Broker model is accepted for Banks, the customers will definitely get an easy access of various products available because the Banks branches are spread in every nook and corner of the Country.

However, investment of time and effort is required from the Bank's side to make the model efficient as the previous experience of Banks working as Corporate Agents have not delivered great results. Working as Brokers adds up other responsibilities to them which as a Corporate Agent they did not have. Banks will have to develop a dedicated workforce to understand the insurance products, compare it with other similar product in the market before recommending it to the customers. This is possible only if the Banks have a dedicated and trained manpower for this.

PN: Simplicity, fair price, efficient service and delightfully different pitch would pump vigor into this ageing business of Life Insurance. Critical to this strategy is to change the sequence of priorities - from distributor to customer. This is where banks have a natural advantage. It would be great if your personal banker manages your entire individual financial life cycle, assesses your insurance needs and offers the right solution.

The stringent compliance rules, lack of product specific incentives and multi-product training needs may affect bank staff's focus and productivity in insurance sales. What are your views on this?

RK: Broker has a wider responsibility than a Corporate Agent and so in case the Bank opts for a Broker role they will have to earmark people exclusively for this. Dual role at Branches which is being practiced while working as a Corporate Agent will not be viable now. Besides this, a Broker needs to keep track of market developments on new risks and the availability of cover for them. In my opinion, if Banks are entering Broker model, it has to develop a new Vertical for it and cannot take it up as a supplementary activity in their day to day work.

PN: Yes, stringent compliance, lack of product specific incentives and multi-product training needs may impact the bank staff's focus and productivity in insurance sales. However this is a short term view.

Banks can provide Insurance with other personal financial services and give a single reference point for customers' financial security. Systems integration, simplified product pitch, bundling insurance into an integrated financial solution, service through multiple touch points of Internet, Mobile and ATM banking, only banks can do.

In the long run when banks pay performance based incentives and performance is equated to customer delight, banks would be sure winners. In fact, in the long run, banks can really play an integral part in shaping of insurance products. They can weigh in on the industry as brokers and demand simple products that are easy to understand and explain. There is a big opportunity here.

Foreign partners of private life insurers entered into MOU's / agreements with banks on the basis of the regulatory scenario existing when banks were acting only as corporate agents. Now, with a proposed change in regulation, what would be the financial and legal consequences of an early exit?

PN: I don't think there will be any major consequences. Instead it is good to open up competition. While there could be short-term chaos, but in the long term, this is forward looking as it will drive down cost and improve the quality of products. In addition, most foreign partners still believe in the 'India story' and are here for the long run.

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Will this new model lead to an increase in the bancassurance share of insurance distribution?

RK: At present a large amount of business although funded by banks is not being booked under the bancassurance vertical. This new arrangement would definitely go a long way to increase the business booked under the bancassurance channel and add to the non-core income of the banks.

Again, Banks would be in a good position to ensure that there is adequate cover for loans advanced thus resulting in a rise in business both on the part of the Insurance Co. and the bank.

Banks have branches in the remotest area of the Country, this would improve the business penetration. All exports are undertaken with an LC from the Bank. All such credit facilities would need to have a proper Insurance thus adding to the top line in the banks income. Besides hypothecation of various properties, vehicles etc. would also generate insurance potential.

PN: There is no proven data that from a mere revenue point of view, a genuinely neutral broker would earn more than a tied agent for the same volume of business. Neither there is data to validate, volume of sales would increase if banks go multi tier as brokers. As for IndiaFirst, Bancassurance is definitely our largest distribution channel and we will continue to have a specific strategy and focus to take it ahead.

Will the move of mandating banks to act as insurance brokers provide the much needed respite to the problem of 'Insurance penetration'? Are there any other viable options for increasing the insurance penetration in the country?

RK: To some extent the use of Banks as Insurance brokers would help in business penetration since they have a wide network of Branches pan India. Increasing the number of Agents and micro offices for servicing the public could be the only alternative for increasing the Insurance penetration.

PN: There are moments in every industry which define the destiny of the business. These moments are challenges as well as opportunities; especially for a business which touches the customer life as sensitively as life insurance. Hence it's not just about looking at a particular distribution model in isolation but being able to take a macro view of what's actually needed.

In the Life Insurance industry, if we move away from the narrow viewpoint of what business we are in and redefine our vision in terms of wider perspective, it occurs to us that we have a glorious opportunity of focusing on customers' life time value instead of the restrictive domain of what is perceived as life insurance business.

The four fundamental issues of human existence (health, security, savings and wealth) if managed through a customer lifetime value proposition - suddenly presents a whole range of business opportunities for us to leverage.

Everyone believes no one buys insurance on their own. It needs to be hard sold. It's true but do we know the reasons why? More complicated, expensive and intangible products than insurance, are sometimes bought and not necessarily always sold. Besides, today mobility and internet are changing the way customers buy. Then what is the issue?

If we closely examine our product proposition, the picture may become clearer -

- Life insurance is a volume game. It cannot succeed if customers are few. Insurance by design works better within the law of large numbers. If we need volumes, the pull has to be so strong that a large number of people ask for it. Presently, car insurance and health insurance may enjoy a better pull factor than endowment, ULIP or pension plans.
- It's possible to improve the pull appeal of these plans to some extent if we (a) make the product simple to understand (b) make it available at a fair price and (c) back it up with efficient service (d) provide honest advice and (e) make it easily accessible through use of technology.

In addition, special incentives by the government to long-term investors and a look at removal or bringing down of service tax on insurance products will also go a long way in encouraging people to invest in insurance. After all, all insurances are investments and all investments are insurances against financial contingencies. It's therefore, pertinent to think new.

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Readers Speak

Bridging the Talent Gap in the Insurance Industry

In the last issue of inotes, we had invited our Readers opinion on the above topic.

Response from Mr. P C James, Chair Professor (Non-Life), National Insurance Academy, Pune

Talent gap in India may be because of the perception of the industry – the industry image, the pricing and brand power of the players, and more important the trust and competence factor to meet consumer demands, are not really exemplary. Many bright youngsters trained in India are found to have taken challenging positions abroad. Recent happening both in life and non-life sectors have belied the expectations and companies have closed offices and their margins have shrunk; and competition is fierce but perhaps on wrong parameters. Insurance destiny lies in the all-important area of risk mastery and consumer assurance. Conviction has to seep in that these are insurer core competences. Insurance is a complex subject and an intangible; and concepts such as suitability of product sold, contract certainty, product relevance in the context of today's balance sheet and livelihood risks, the discontinuance of bad faith claims etc. all cry for definitive action from the industry. Insurance is a long term good and its hasty and speedy climb may be its doom. The demand is great but the real risks needs are not being perceived to be covered, covered indemnities are perceived to be not paid, real risk rates are not charged and proper advice and service have yet to become the hallmark of the industry.

Setting high challenges and standards of knowledge, skills, ethics and governance may make a difference in perceptions and the slow climb in customer perceptions will be followed by employment talent surge and the best and brightest will look at insurance as a proper career, because the risk economy is growing and the place of insurance and protection products will only widen and deepen across all sectors of the economy.

Response from Mr. P. Rajeshwar Rao, CEO, Institute of Insurance & Risk Management (IIRM), Hyderabad

The insurance industry in India is on a growth trajectory. The developments require among others, competent human resources to

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Report Card - FY 2013-14

Gross premium underwritten by non life industry for and up to the month of March 2014* (Rs. In crores)

INSURER	MARCH 2014	MARCH 2013	GROWTH OVER THE SAME PERIOD OF PREVIOUS YEAR (%)	APRIL - MARCH 2014	APRIL - MARCH 2013	GROWTH OVER THE SAME PERIOD OF PREVIOUS YEAR (%)
New India	1223	1081	13.1	11523	10038	14.8
National	1156	1026	12.6	10244	9166	11.8
United India	955	955	0.0	9706	9266	4.7
Oriental	670	700	(4.3)	7131	6544	9.0
ICICI-Lombard	558	479	16.5	6856	6134	11.8
Bajaj Allianz	487	473	2.9	4516	4001	12.9
AIC	258	227	13.9	3384	3235	4.6
IFFCO-Tokio	339	241	40.9	2931	2570	14.0
HDFC ERGO	336	251	33.7	2907	2453	18.5
Reliance	165	157	5.3	2389	2010	18.8
Tata-AIG	223	232	(3.8)	2363	2135	10.7
Cholamandalam	249	162	53.8	1854	1621	14.4
Shriram	151	171	(12.1)	1511	1541	(2.0)
Royal Sundaram	120	154	(21.8)	1437	1561	(7.9)
Bharti AXA	121	120	1.0	1407	1218	15.5
ECGC	161	132	21.3	1304	1157	12.7
Future Generali	112	102	10.1	1264	1105	14.4
SBI General	147	118	24.7	1188	771	54.1
Star Health	153	120	27.4	1097	860	27.6
Apollo Munich	94	72	29.8	692	620	11.7
Universal Sompo	72	71	1.5	540	534	1.1
Magma HDI	48	28	68.4	425	95	346.6
Max BUPA	42	32	32.1	309	207	49.0
L&T General	32	36	(12.5)	253	182	38.9
Religare	12	6	99.2	152	39	292.6
Liberty	22	1	1563.3	130	2	5820.6
Raheja QBE	2	2	(8.0)	23	21	9.5
Cigna TTK	0.29			0.34		
PRIVATE TOTAL	**3483**	**3027**	**15.0**	**34246**	**29683**	**15.4**
PUBLIC TOTAL	**4422**	**4122**	**7.3**	**43292**	**39406**	**9.9**
GRAND TOTAL	**7905**	**7149**	**10.6**	**77538**	**69089**	**12.2**

* Source : IRDA

Observations: Performance for FY 2014

- The non-life industry has registered a growth rate of 12.2% for FY 2014. Total premium collected by general insurers during this period is Rs. 77538 crores vis-à-vis Rs. 69089 crores in FY 2013.
- The accretion achieved by the PSU's during FY 2014 is Rs. 3887 crore while the private players have achieved Rs. 4563 crore towards the overall market accretion of Rs. 8450 crore.
- The PSU's have registered a growth rate of 9.9% during FY 2014 vis-à-vis 15.4% last year, while the private players have registered a growth rate of 15.4% during this period compared to last year's 23.8%.
- The major contributors have been: New India with an accretion of Rs. 1485 crore, National with an accretion of Rs. 1079 crore, ICICI Lombard with an accretion of Rs. 722 crore and Oriental with an accretion of Rs. 588 crore. National Insurance has pipped United India to reach the 2nd slot in terms of premium collection.
- In terms of growth rate during FY 14, SBI General registered a growth of 54.1%, followed by L&T General with 38.9%, Star Health 27.6%, Reliance General 18.8%, HDFC ERGO 18.5% & Bharti Axa at 15.5%.
- The market share of PSU's has decreased collectively from 57% to 55.8% during FY 2014 while the private players have increased their market share collectively from 43% to 44.2% during the same period.

Readers Speak ..... Contd. # 4

nurture and handle the growth. It appears the industry is finding hard to get bright students from premier educational institutions into the profession. This is a wake-up call for the industry which is on the verge of cataclysmic changes!

There is a growing realization among students that insurance is a sunrise industry. At the same time they seem to be skeptical of career prospects in the industry and it is not their first choice. They need to be convinced that insurance industry offers exciting and challenging career progression opportunities apart from just selling insurance policies. In the absence of such an assurance in place, the reluctance on the part of younger generation to enter into the insurance profession is likely to exist. The industry leaders need to take bold initiatives in motivating and convincing youngsters to join the insurance industry. Standalone ads in newspapers, TV ads seminars from industry majors seem to be the need of the hour.

The insurance industry is like a 'Vasudhaiva Kutumbakam' comprising insurance companies, broking houses, surveyors which are in need of trained and experienced professionals. These entities are expected to generate trained professionals. The industry should consider providing, institutional formal and informal training to their working professionals in the industry. Insurance employers appear to be shy to expose their personnel to regular periodic institutional training. The industry would reap major benefits by encouraging their employees to pursue professional qualifications from Insurance Institute of India, Mumbai /Chartered Insurance Institute, London. The need for such an intervention in a dynamic and competitive environment merits special mention.

The insurance industry in India is likely to witness phenomenal growth in the coming years. The industry players should read writings on the wall and position themselves aggressively to manage competitive environment. The human resources which are the undeclared assets in their balance sheets hold the key for success.

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Next Issue:

Insurance Broker Performance

Insurance Broking is more than a decade old in India now. What does the Report Card say? How do you rate Insurance brokers with respect to the service they provide? What are the most common deficiencies? How should customers evaluate their brokers' performance? What should brokers do to identify where they are falling short in meeting client expectations? How do you think brokers need to transform? Please share your thoughts and suggestions on this topic.

Please send your responses in 200 - 300 words to knowledge@indiainsure.com

All in all from the banks' perspective, it's a risky proposition where the costs clearly outweigh the benefits in the near future.

'Push' rather than 'Pull': One needs to understand that in the bancassurance model, most of the insurance sales were happening on a 'push' basis rather than on 'pull'. If the customer takes a housing loan from the bank, then the bank compulsorily arranges a term life policy from its insurance partner. Many a times, even the householder's policy is arranged. Similar is the situation in case of a vehicle loan. If the factory premises and stocks are hypothecated to the bank, then the bank arranges for a fire / burglary policy to protect its financial interest. The provision of locker facilities is also linked to the purchase of insurance products. If the customer opts for a debit card/credit card of the bank, then he is mandatorily enrolled in the Group Health/ Personal Accident policy by the bank. So, whenever a loan is disbursed, an insurance sale is also made by the bank. It's more like the loan disbursal executive also having an insurance target.

Suspected churning by banks: Banks acting as brokers in mutual funds distribution are accused of frequent churning of customers' mutual fund schemes to maximize their commissions. The recent case of Suchitra Krishnamoorthy accusing HSBC bank of doing this is a case in point. This may happen for insurance broking also.

Retail brokers will be affected: Given the hold of the banks on its existing customers, the insurance brokers were already suffering considerable loss of Corporate/SME/retail business. Now with multiple banks let loose to compete for the same pie, one needs to wait and watch the effect of this on brokers.

Fundamental questions still remain

- Firstly, if a bank branch cannot sell enough policies of its promoter insurance company, how is it going to sell more policies of rivals? With all the thrust from its promoter Insurance Company; if a bank is able to sell X policies, how will it be able to sell X+ policies now? What are the 'pull' factors in place for that to happen?
- A broker is valued for his "expert advice". Will banks as brokers be able to identify potential risks and offer advice to clients? Will the certified bank employees have the experience to negotiate with underwriters and secure best terms for clients taking into account price, coverage scope and service standards? This is of grave concern since any gap in coverage due to a wrong recommendation can cost dearly (in terms of regulatory action, strained customer relation, lawsuit, compensation etc.).

On the brighter side

Apparently the drive to convert banks to insurance brokers is intended to achieve 3 objectives:

1. **Help increase penetration of insurance**

   Non-bank insurers are optimistic about the opportunity to reach the hither-to untouched areas by utilizing the vast network of multiple banks. They have been facing difficulty for quite some time in finding banking distribution partners as most of them were already tied up with other insurers. Around 35% of the bank branches in India are located in rural areas and this augurs well for the insurers who can make use of this existing infrastructure to increase spread, awareness and penetration of insurance.

2. **Reduce mis-selling by increasing responsibilities of banks**

   "At a time when efforts are on to augment the household financial savings, it is important to enhance the credibility of the financial system by addressing the risks posed by *mis-selling of financial products*".

   These words are from the Reserve Bank of India (RBI) 7th Financial Stability Report (FSR) released in 2013.

   A lot of mis-selling is known to happen through bank branches where its customers are coerced into buying insurance policies. Banks tend to focus on their commissions rather than customer needs. Loans are bundled with insurance products and compulsorily rammed on to the customer. The recent case of IRDA directing a top life insurance company to refund the excess premium collected (to the tune of 275 crs) by its corporate agent (JV partner) in the absence of informed choice of policy holders reveals the magnitude of mis-selling happening.

   The regulators feel that with banks now having a legal responsibility under broking guidelines to represent the customer; chances of mis-selling will come down. Supporters of this move hold the view that it's high time banks take on the responsibility for the sales they make rather than thrusting it back to the insurer. And they believe that making banks adopt the broker model is the push in the right direction for that to happen.

3. **Give the customer a greater choice of products at the point of sale**

   The customer buys an insurance policy more easily from the bank rather than an insurer because of the familiarity and trust he has with the bank. But presently, each bank is offering the product of only one insurer and the customer is deprived of choice in terms of product offerings. With banks as brokers, customer will have the advantage of best price options along with the most suitable cover from a wide repertoire. This will gradually forge out a financial supermarket for the customers.

Can the holy grail of insurance penetration be achieved only by such a measure?

Prima facie, it is evident that the key reason for low penetration of insurance in India has not been lack of distribution network but low affordability, low financial literacy coupled with limited product range. To penetrate rural areas, low-priced products are required. But since the commission of distribution intermediaries is directly linked to the premium amount, they are not incentivized to sell these low-priced products. The same logic will apply for banks also. We can assume that it is basically the lack of interest to promote products that suit customer requirement which is responsible for this dismal level of insurance penetration.

Can consider this Distribution Model: Instead of getting banks to follow an existing distribution model, the IRDA can look at creating a new model of distribution where the bank sells products of one life, non-life & health insurer but his responsibility & accountability levels should be akin to the broker. The bank should represent the customer's interest at all times and has to ensure that the customer gets the right product at the right price within the bank's gamut of options.

Conclusion – Too much, too soon

The broking business is a different ball game altogether that requires a different skill set and making it mandatory will put enormous stress on the banking system. Clearly the new mandate brings with it a large measure of the unknown and it may turn out to be a new storm in India's insurance cup. The Sectoral Regulators should take note of the disturbing clouds on the horizon and one hopes that there will be much more brain-storming done in the coming days before such a mandate is implemented.

Interview – *Banker*

Mr. R. K. Gupta, Executive Director, Bank of Maharashtra sharing his view on 'Banks as Insurance Brokers'.

The corporate agency model vis-à-vis Insurance broking model, how do you look at this transition in insurance?

The transition from Corporate Agency Model to Insurance Broking Model is difficult for the Banks at this point of time. It may help the penetration of insurance to the larger strata of society and reduce the incidences of mis-selling , however Banks are not prepared for adapting the new Model due to various practical reasons and cost involved in establishing a separate vertical.

Recently, the RBI's working group on bancassurance has suggested that no model should be unilaterally imposed on banks and that the choice of becoming a multiple corporate agent or a broker should be left to the respective banks and their boards. In this way the transition to new model may take time as the Regulatory guidelines in this regard are not clear.

Moreover, there is wide scope for Insurance penetration in India through existing model as well. Because less than 1% of existing customer base is buying insurance from Banks under Bancassurance.

Bank's staff would have to be trained to sell the products of multiple insurers, operational complexity would increase. The onus of mis-selling too would be on the bank. How do you plan to tackle this?

If Bank enters into insurance broking, a separate vertical will be created and adequate training will be given to the staff members involved in selling the insurance products. It will be ensured that there are no incidences of mis-selling.

Bank's are under the surveillance of RBI, with insurance broking, they would come under the scanner of IRDA too. How do you look at this situation of being monitored by two regulators? How do you plan to handle the pressure of compliance of norms laid down by them?

In the present model of Corporate Agency also, we are following the guidelines issued by IRDA for Corporate Agent. As such there will not be an issue in being monitored by two regulators. In case, Bank enters into Insurance broking Model, since separate vertical will be handling the business, the guidelines issued by the Regulators will be scrupulously followed and there will not be any additional pressure of compliance.

The RBI draft has outlined a remuneration structure so that banks don't have much incentive to hard sell products. How will this affect the growth of the business?

In the present Model of Corporate Agency, our staffs are not given any incentive. As per prevailing RBI guidelines, there is no incentive paid either by the Bank or by the Insurer to the staff members involved in selling insurance products.

Will the move of mandating banks to act as insurance brokers provide the much needed respite to the problem of 'Insurance penetration'? Are there any other viable options for increasing the insurance penetration in the country?

As mentioned, in the existing model also, there is wide scope to canvass the customers and increase the insurance penetration among the masses. Mandating Banks to act as insurance brokers is not a viable business proposition for most of the Banks, more specifically Public Sector Banks, that is why in the draft report of RBI , it is agreed not to impose new model unilaterally on the Banks.

By and large, the Corporate Agency model in the Bank is accepted by the staff at all level and due importance is given to the insurance business as a result of which there is upward trend in non-interest income earning of the Bank through Bancassurance. Even though there is a lot to be done to exploit existing potential and business relation to cross sell insurance products in India.

"Views expressed herein are purely personal and do not reflect the views of the Company"

News TitBits

'Unfair' discounts for group health cover under Irda lens

Source: Digital FC

Taking exception to the practice of subsidising premiums for group health insurance policies, the Insurance Regulatory and Development Authority (Irda) said it wanted to ensure that no 'unfair' discounts are offered to groups against individual policyholders. "Insurance is about pooling the expenses of individuals collectively. Some insurers are providing heavy discounts on premiums for group policies offered to corporate customers. We want to ensure that the discounts are given in an 'equitable manner' and that no distortions are happening in the premiums paid for individual policies and group policies. We have asked General Insurance Council for data on premiums and claims of different insurance providers to study the matter," said TS Vijayan, chairman, Irda.

IRDA asks SBI Life to refund Rs 275 crore

Source: Economic Times

In a move that will benefit 7.5 lakh borrowers of State Bank of India, the insurance regulator has asked SBI Life to refund Rs 275 crore of premium collected from policyholders, which makes it the biggest refund order in insurance history. The life insurer, which was earlier fined for mis-selling its Dhanraksha Plus LPPT through SBI and associate banks, has now been asked to refund excess commission that it has paid out of premium collected under this policy. The beneficiaries of this order will be those who purchased Dhanraksha Plus LPPT between 2008-09 and 2010-11.

General Insurance Corporation cuts terror cover cost, doubles limit to Rs 1,500 crore

Source: Economic Times

GIC (GIC Re) has decided to bring down the cost of terror cover and has increased limits under the national terror insurance pool which it manages. Also, in a shift from its earlier stance, the terror pool would pay commission to insurance brokers to discourage them from placing business in the international market. GIC will now offer cover up to Rs 1,500 crore, which is double the limit it was offering five years back. The rates have been lowered because there were not many major claims after the November 2008 terror attacks in Mumbai.

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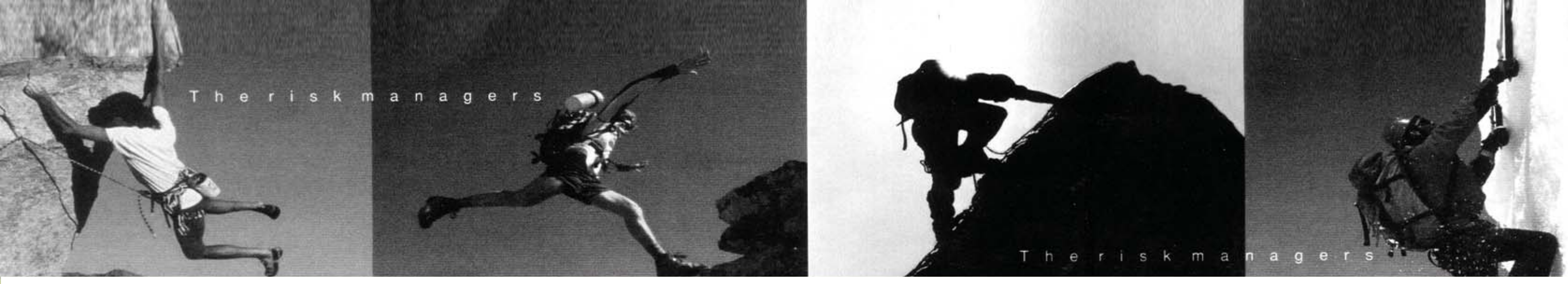

Claims Case Study: *The scope of an Insurance Broker's liability*

BACKGROUND

With a view to obtaining business interruption cover, Penguin Group Limited (Penguin), the parent company of a group of subsidiaries, which together with the parent company formed the business, appointed Harmony Insurance Services Limited (HISL) as their insurance brokers. On 13 November 2010, the two parties met and filled out a proposal form for Business Interruption insurance. The proposal form included a question on gross profit, together with notes on how this should be calculated. HISL failed to advise Penguin that the method of calculating insured gross profit differed from the normal business and accounting method of assessing gross profit.

Adopting the method more commonly used by accountants, Penguin calculated the gross profit to be $3,47,000; the figure it entered in the proposal form. However, had it been calculated with reference to the notes in the proposal form, Penguin's gross profit would have been approximately $12,00,000.

THE ISSUES

Following a fire at its premises Penguin sought a recovery under the policy. It soon became clear, however, that as a result of HISL' negligence, Penguin was significantly underinsured for losses arising out of business interruption and the matter reached the Court. In addition to claiming the difference between the amounts it actually received for business interruption losses and what it would have received but for HISL' negligence, Penguin asserted that the underinsurance resulted in a loss of profit, which it claimed as well.

The breach of duty of care on HISL's part was clearly evident and the Court awarded Penguin $3,99,425 for the shortfall caused by HISL's negligence, namely, the difference between the figure that would have been paid if the proper figure for insured gross profit had been given in the proposal form, and the figure that was in fact paid out, properly averaged in proportion to the amount of cover actually effected.

The second issue was regarding damages for loss of profits, with Penguin alleging that the underinsured cover and resulting smaller sum paid on settlement of the business interruption claim was insufficient to maintain the business as a profitable going concern, which was the object of having such cover in the first place. Therefore, the business failed to make the profits that it would have made had the business not been interrupted by the fire.

HISL maintained that such a recovery was not permissible as it would constitute damages arising out of the delayed payment of the monies recoverable under the policy. HISL further argued that Penguin should not be entitled to anything more than it would have been entitled to from the insurer, had the negligence not occurred.

In reaching its decision, the Court posed three questions:

1. Did HISL owe Penguin a duty in relation to the additional loss of profit?;
2. Was a loss of profit reasonably foreseeable in a case of insufficient business interruption cover? and
3. Was the loss of profit attributable to the breach of duty of HISL?

In answer to these questions the judge concluded:

1. The duty of the broker in this case where business interruption cover was required was to effect such cover that would enable the business of Penguin to recover to its pre-accident level of profitability;
2. In the circumstances of this type of cover, it was reasonably foreseeable that failure to effect sufficient cover was liable to adversely affect the profitability of the business so insured;
3. As a result of the broker's negligence insufficient business interruption insurance money was paid and Penguin could not recover as it should have so recovered in the event that proper cover had been effected.

THE OUTCOME

The Honorable Judge considered how the company would have performed had it received full payment under its business interruption policy following a fire. The Judge was satisfied that, had there been no underinsurance, a full payment would have been made at around the time that the payment was in fact received, and could see no good reason to restrict the claim against HISL to the amount which would have been available under the policy, had the risk been placed correctly. Having reached this conclusion, the Judge awarded Penguin an additional $4,13,897 for loss of profits.

OBSERVATIONS

The Court imposed dual liability on the broker

- Firstly for its breach of the duty of care and
- Secondly for the consequences of its negligence.

Brokers must remember that while it is not their duty to calculate the correct figure for business interruption insurance for an insured, they are however required to advise on the correct method of calculating that figure. Nevertheless, this case is a grim reminder for brokers of the importance of getting the basics right.

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