New Insurance Rules May Not Help Private Players

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In its effort to make the process of selling insurance as fair as possible, the Insurance Regulatory and development Authority of India, or IRDAI, has tweaked the distribution norms for banks to offer a wider array of choices to customers. According to the new rules for licensing of corporates agents announced in September, banks can now tie-up with up to three life, non-life and standalone insurers each, instead of just one insurance company earlier.

The rules are intended not only to provide people with more options when it comes to buying insurance but also to create a level playing field for new insurance players. After the insurance industry was opened up to private participation in 2000, most large players rushed to form exclusive partnerships with big banks to benefit from their wide distribution network, leaving the newer players with the smaller banks.

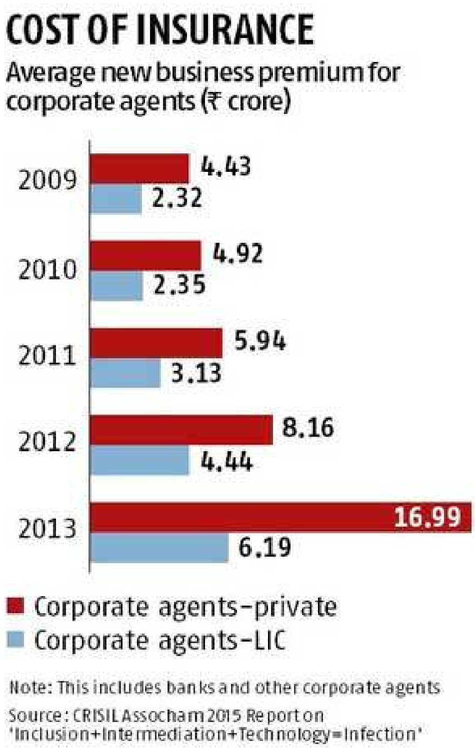
In addition, several insurance companies, including ICICI Prudential Life Insurance, SBI Life and IDBI Federal Life, were promoted by banks, which gave them a natural edge over others. What followed as a result was intense competition among insurance companies to under-cut one another by going one better than the competition on commissions to lure banks.

"It was nothing short of poaching. We used to be constantly on the lookout for competitors who would keep placing higher offers of commission and perks to our bank partners. More than sales, sometimes cutting their activity would turn out to be a bigger job for our distribution staff," says a former private life insurance executive with a large bank who does not want to be named. In turn, this pushed up the premium for buyers as insurers passed on their distribution costs to customers.

From the perspective of the banks as well as the customers, the new rules, therefore, should come as a winning proposition, says SBI Life Insurance MD & CEO Arijit Basu. For banks, more products would mean more earnings in terms of commission; for customers, there is the obvious advantage of choice.

Little impact for banks

However, many feel the changes may not yield great results on the ground. One reason for this, they say, is IRDAI's decision to hold the banks liable for any misselling of products. As things stand today, advisers often sell insurance based on commission-driven incentives without taking into account the actual need of the customer. Also, they are not trained enough to reliably guide the customer on what insurance products she should invest in, leading to a rise in complaints about misselling.



Banks are also wary of the move as they will now have to keep a record of their sales process for IRDAI to see in case of customer dissatisfaction. Many feel this will not only increase the work load for banks but also their compliance cost. There are other concerns as well. Sangeet Shukla, former adviser to the Indian Banks' Association and former SBI deputy managing director, says the risk arising out of the liability from misselling will need to be measured as per Basel norms, and this will increase the risk capital requirement for banks."Banks will have to provide more capital to cover the risks along with rise in distribution costs. Finally, the spurt in expenses may be passed on to the customers," he explains.

Little choice for customers

IRDAI's goal of empowering customers will also be hard to achieve. The chief executive of a large bank-promoted life insurer says banks may not like to complicate matters for themselves by selling products from more than one insurer as this would require them to hire more advisers.

"Given the many problems, it appears unlikely that major banks would opt for multiple tie-ups. Only smaller banks with existing arrangement with state-owned Life Insurance

Corporation, or LIC, may opt for multiple arrangements to widen their product offering. The new banks - payment banks and small banks - may opt for multiple tie-ups," adds Shukla.

In the past, any effort to extend banks' role to that of an insurance broker has not worked well. In January, the Reserve Bank of India and IRDAI said banks could function as insurance brokers provided they took responsibility for missold products, but the decision was met with resistance from the shareholders of most banks. The shareholder agreement allows banks to sell products only of their subsidiaries.

Given these issues, many feel IRDAI's new norms should have been made mandatory in the interest of customers. Reliance Life Insurance CEO Anup Rau says that a compulsory opening up of the banking channel would have offered more options to the customers when buying a policy.

The scope for the bancassurance market, or insurance products sold through banks, is indeed huge. The market grew from Rs 9,500 crore in FY14 to about Rs 11,000 crore in FY15, and there is enough room to expand further, given the mere 4 per cent penetration of insurance in the country.

But for now, state-owned insurers will be among the only beneficiaries of IRDAI's measures. Given the trust that LIC engenders among common people, banks will rush to tie up with it.

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