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Exclusive bank JVs with insurers may split

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MUMBAI: Some joint venture insurance companies stare at the prospect of splitting, with the contours of profitability set to change if the regulator presses ahead with its diktat on bancassurance. Insurers such as MetLife and Dai-Ichi, which paid through the nose for partnerships with banks for their distribution, stand to lose if they alone do not benefit from the infrastructure.

Several banks had signed up joint venture partnerships on the basis that they will have an exclusive distribution arrangement. However, the regulator has proposed a cap on the amount that can be distributed through one insurance company. "It's obvious that nobody likes to see a change in set rules after you start the game, and promoters of such joint ventures will be no different," said Girish Kulkarni, managing director and CEO of Star Union Dai-Ichi Life Insurance. "In addition to commercial challenges, it destabilises softer aspects of partnership ecosystem, too. What will happen between them depends a lot on the balance sheet strength and operating scale achieved by JV together due to established comfort but it won't be the same for sure."

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According to the draft proposal, banks should do about 90 per cent of the premium with any one insurer in the first year and the limit should gradually come down to 75 per cent and 60 per cent during the second and third years, respectively while the limit will be not more than 50 per cent from the fourth year onwards.

"Many of these partnerships will find it difficult to accept caps which go down to 50 per cent," said Amitabh Chaudhry, managing director and CEO of HDFC Life. "There might be some players who are pure bancassurance companies where the foreign partner has entered on the premise of the bank's infrastructure being available and may have paid premiums to the Indian partner."

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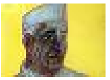


Many companies such as HSBC Canara OBC Life Insurance operate mainly through bancassurance channel. If suddenly this infrastructure becomes unavailable, the partners will need to have a relook at their business model, and then re-evaluate their entire future plans for the business. There are nine bank-promoted life insurance companies and four in the general insurance sector.

The Insurance Regulatory and Development Authority is working on mandating banks to adopt an open architecture under which they will have to sell products of multiple insurance companies.

The share of banks in the total individual new business went down to 15.62 per cent in 2013-14 from 16.18 per cent in 2012-13, according to Irda's latest annual report.

Irda has extended the deadline for giving feedback on the draft guidelines by a fortnight to April 24. This will help insurance companies without a bank partner such as Reliance Life and Bajaj Allianz find distribution partners with a wide network.

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