

NHB (ND)/DRS/Policy Circular No.67/2014-15
January 14, 2015



राष्ट्रीय
आवास बैंक
NATIONAL
HOUSING BANK

The MD/CEOs of Housing Finance Companies

Dear Sir/Madam,

Guidelines for Entry of Housing Finance Companies into Insurance Business

Please refer to our Circular No. NHB (ND)/HFC (DRS-REG)/INS/2072/2000 dated July 25, 2000 regarding the Guidelines for entry of housing finance companies (HFCs) into insurance business. The Guidelines, inter alia, permitted HFCs registered with the National Housing Bank to set up a joint venture company for undertaking insurance business with risk participation and also to undertake insurance business as agent of insurance companies on fee basis without any risk participation, subject to prior approval of the National Housing Bank and compliance with rules and regulations laid down by Insurance Regulatory and Development Authority (IRDA)/Central Government.

2. In this connection, we wish to inform that the said Guidelines have since been reviewed in the light of subsequent developments. A copy of the revised Guidelines for entry of Housing Finance Companies into Insurance Business is enclosed. The same has also been uploaded on our website.

Please acknowledge receipt.

Yours faithfully,

(Arnab Roy)
Executive Director

Annexure: Guidelines for Entry of Housing Finance Companies into Insurance Business

भारतीय रिज़र्व बैंक के संपूर्ण स्वामित्व में
कोर 5-ए, चतुर्थ तल, इंडिया हैबिटेट सेंटर, लोधी रोड, नई दिल्ली-110003
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“बैंक हिन्दी में पत्राचार का स्वागत करता है”

रा.आ.बैंक(नदि)/डीआरएस/नीति परिपत्र सं0 67/2014-15
14 जनवरी, 2015



आ.वि. कंपनियों के प्रबंध निदेशक/प्रमुख कार्यपालक अधिकारी

महोदय/महोदया,

बीमा व्यवसाय में आवास वित्त कंपनियों के प्रवेश हेतु दिशा-निर्देश

कृपया हमारे परिपत्र सं. रा.आ.बैंक(नदि)/आ.वि.कं (डीआरएस-आरईजी)/आईएनएस/2072/2000 दिनांकित 25 जुलाई, 2000 का संदर्भ लें, जो आवास वित्त कंपनियों के द्वारा बीमा व्यवसाय में प्रवेश हेतु दिशा-निर्देश के बारे में था। इसके साथ-साथ दिशा-निर्देशों ने रा.आ.बैंक के साथ पंजीकृत उद्यम कंपनी स्थापित करने के साथ ही साथ, बिना किसी जोखिम भागीदारी के आधार पर शुल्क के साथ बीमा एजेंट की जिम्मेदारी उठाने की अनुमति दी गई थी, बशर्ते कि इसके बारे में राष्ट्रीय आवास बैंक से पूर्व अनुमति प्राप्त की जाए और केन्द्र सरकार के बीमा विनियामक एवं विकास प्राधिकरण (आईआरडीए) के द्वारा निर्धारित नियम एवं विनियमों का अनुपालन किया जाए।

2. इस संदर्भ में, हम आपको सूचित करना चाहते हैं कि समवर्ती विकास के आलोक में उक्त दिशा-निर्देशों की समीक्षा की गई है। बीमा व्यवसाय में प्रवेश करने वाली आवास वित्त कंपनियों के लिए समीक्षित दिशा-निर्देशों की एक प्रति संलग्न है। उक्त को हमारी वेबसाइट में भी अपलोड कर दिया गया है।

कृपया पावती दें।

भवदीय

(अर्णव रॉय)

कार्यपालक निदेशक

अनुलग्नक- बीमा व्यवसाय में आवास वित्त कंपनियों के प्रवेश हेतु दिशा-निर्देश

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Guidelines for Entry of Housing Finance Companies into Insurance Business

The Bank has reviewed the guidelines for entry of Housing Finance Companies into insurance business issued on July 25, 2000, and revised the same. The revised guidelines will be operational with immediate effect.

1. Taking up Insurance Agency Business:

HFCs registered with the NHB and having net owned fund (NOF) of not less than Rs.10 crore may take up insurance agency business on fee basis and without any risk participation, without the approval of the NHB, subject to the following conditions:

- i. The HFC should obtain requisite permission from Insurance Regulatory and Development Authority (IRDA) and comply with the IRDA regulations for acting as 'composite corporate agent' with insurance companies;
- ii. The HFC should not adopt any restrictive practice of forcing its customers to go in only for a particular insurance company in respect of assets financed by it. The customers should be allowed to exercise their own choice;
- iii. As the participation by a HFC's customer in insurance products is purely on a voluntary basis, it should be stated in all publicity material distributed by it in a prominent way. There should be no 'linkage' either direct or indirect between the provision of financial services offered by the HFC to its customers and use of the insurance products;
- iv. The premium should be paid by the insured directly to the insurance company without routing through the HFC; and
- v. The risks, if any, involved in insurance agency should not get transferred to the business of the HFC.

2. Setting up insurance Joint Venture (JV) with equity contribution on risk participation basis

2.1 HFCs registered with NHB which satisfy the eligibility criteria given below will be permitted to set up an Insurance JV Company for undertaking insurance business with risk participation, subject to safeguards and risk mitigation strategy in place. The maximum equity contribution such an HFC can hold in the JV Company will normally be 50 per cent of the paid-up capital of the insurance company. On a selective basis, the NHB may permit a higher equity contribution by a promoter HFC initially, pending divestment of equity within the prescribed period [please see Note (1) below]. The eligibility criteria for joint venture participant will be as under -

- i. The NOF of the HFC should not be less than Rs. 500 crore;
- ii. The CRAR of the HFC should be not less than 12%;

- iii. The level of net non-performing assets should be not more than 3% of the total outstanding assets, including loans and advances taken together;
- iv. The HFC should have net profit for the last three continuous years;
- v. The track record of the performance of the subsidiaries, if any, of the concerned HFC should be satisfactory;
- vi. Regulatory compliances and servicing public deposits, if held.

2.2 In case where a foreign partner contributes 26 per cent of the equity with the approval of IRDA/ Foreign Investment Promotion Board, more than one HFC may be allowed to participate in the equity of the Insurance JV Company. As such participants will also assume insurance risk, only those HFCs which satisfy the criteria given in paragraph 2.1 above, would be eligible.

2.3 In case more than one company (irrespective of doing financial activity or not) in the same group of the HFC wishes to take a stake in the insurance company, the contribution by all companies in the same group shall be counted for the limit of 50 per cent prescribed for the HFC in an Insurance JV Company.

2.4 In cases where IRDA issues calls for capital infusion into the Insurance JV Company, the NHB may, on a case to case basis, consider need based relaxation of the 50% group limit specified above. The relaxation, if permitted, will be subject to compliance by the HFC with all regulatory conditions specified under the guidelines and such other conditions as may be necessary in the specific case.

3. Making investments in the insurance company

HFCs registered with NHB, which are not eligible as joint venture participants, as above or otherwise can make investments up to 10 per cent of the owned fund of the HFC or Rs.50 crore, whichever is lower, in the insurance company. Such participation shall be treated as an investment and should be without any contingent liability for the HFC. The eligibility criteria for the HFC will be as under -

- i. The NOF of the HFC should not be less than Rs. 100 crore;
- ii. The CRAR of the HFC should be not less than 12%;
- iii. The level of net non-performing assets should be not more than 3% of the total outstanding assets taken together;
- iv. The HFC should have net profit for the last three continuous years;
- v. The track record of the performance of the subsidiaries, if any, of the concerned HFC should be satisfactory;
- vi. Regulatory compliance and servicing public deposits, if held.

4. No HFC would be allowed to conduct such business departmentally. A subsidiary or a company in the same group of a HFC or of another HFC engaged in the business of housing finance or banking will not normally be allowed to join the insurance company on risk participation basis.

5. All HFCs registered with NHB entering into insurance business as joint venture participant or investor or on risk participation basis will be required to obtain prior approval of the NHB. Application along with supporting documents is to be submitted by the HFC to the Head Office of the National Housing Bank. The NHB will give permission to HFC on case to case basis keeping in view all relevant factors. It should be ensured that risks involved in insurance business do not get transferred to the HFC and that the HFC business does not get contaminated by any risks which may arise from insurance business.

Notes :

1. *Holding of equity by a promoter HFC in an insurance company or participation in any form in insurance business will be subject to compliance with any rules and regulations laid down by the IRDA/Central Government. This will include compliance with Section 6AA of the Insurance Act as amended by the IRDA Act, 1999, for divestment of equity in excess of 26 per cent of the paid up capital within a prescribed period of time;*
2. *Eligibility criteria would be reckoned with reference to the latest available audited balance sheet for the previous year;*
3. *Provisions of the National Housing Bank Act, 1987 would be applicable for such investments while computing the net owned fund of the HFC; and*
4. *The term Companies in the same group shall mean an arrangement involving two or more entities related to each other through any of the following relationships :*
 - *Subsidiary – Parent (defined in terms of AS 21);*
 - *Joint Venture (defined in terms of AS 27);*
 - *Associate (defined in terms of AS 23);*
 - *Promoter - Promotee (as provided in the Securities and Exchange Board of India (Substantial Acquisition of Shares and Takeovers) Regulations, 2011) for listed companies;*
 - *A Related Party (defined in terms of AS 18);*
 - *Common Brand Name; and*
 - *An Investment in equity shares of 20% and above.*
