

NHB (ND)/DRS/Policy Circular No.71/2014-15
April 22, 2015

The MD/CEOs of Housing Finance Companies

Madam/Dear Sirs,

Guidelines for Entry of Housing Finance Companies into Insurance Business

Please refer to our Circular No. NHB (ND)/DRS/Policy Circular No.67/2014-15 dated January 14, 2015 regarding the Guidelines for entry of housing finance companies (HFCs) into insurance business.

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.

Please acknowledge receipt.

Yours faithfully,



(Arnab Roy)
Executive Director

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

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 January 14, 2015, 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 ₹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 ₹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 ₹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 ₹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. There should be an 'arms length' relationship between the HFCs and the insurance outfit.

6. Board Approved Policy

A comprehensive Board approved policy regarding undertaking insurance distribution, whether under the agency or the broking model should be formulated and services should be offered to customers in accordance with this policy. The policy will also encompass issues of customer appropriateness and suitability as well as grievance redressal. It may be noted that as IRDA Guidelines do not permit group entities to take up both corporate agency and broking in the same group even through separate entities, HFCs or their group entities may undertake either insurance broking or corporate agency business.

7. Compliance with IRDA Guidelines

- a) The IRDA (Licensing of Corporate Agents) Regulations, 2002/ IRDA (Licensing of The IRDA (Licensing of Corporate Agents) Regulations, 2002/ IRDA (Licensing of by IRDA, as amended from time to time, as applicable, should be complied with by HFCs undertaking these activities.
- b) The deposit to be maintained by an insurance broker as per the IRDA (Licensing of Banks as Insurance Brokers) Regulations, 2013, as amended from time to time, should be maintained with a scheduled commercial bank.

8. Ensuring Customer Appropriateness and Suitability

While undertaking insurance distribution business, either under the corporate agency or broking model under the relevant IRDA Regulations, HFCs must keep the following in view:

- a) All employees dealing with insurance agency/ broking business should possess the requisite qualification prescribed by IRDA.
- b) There should be a system of assessment of the suitability of products for customers. Pure risk term products with no investment or growth components that are simple and easy for the customer to understand will be deemed universally suitable products. More complex products with investment components will require the HFC to necessarily undertake a customer need assessment prior to sale. It should be ensured that there is a standardized system of assessing the needs of the customer and that initiation/transactional and approval processes are segregated.
- c) HFCs should treat their customers fairly, honestly and transparently, with regard to suitability and appropriateness of the insurance product sold.

9. Prohibition on Payment of Commission/Incentive directly to HFC Staff

There should be no violation of the guidelines issued by IRDA in payment of commissions/ brokerage/incentives. This may be factored in while formulating a suitable performance assessment and incentive structure for staff. Further, it must be ensured that no incentive (cash or non-cash) should be paid to the staff engaged in insurance broking/corporate agency services by the insurance company.



10. Transparency and Disclosures

- a) The HFCs should not follow any restrictive practices of forcing a customer to either opt for products of a specific insurance company or link sale of such products to any banking product. It should be prominently stated in all publicity material distributed by the HFC that the purchase by a HFC's customer of any insurance products is purely voluntary, and is not linked to availment of any other facility from the HFC.
- b) Further, the details of fees/ brokerage received in respect of insurance broking/agency business undertaken by them should be disclosed in the 'Notes to Accounts' to their Balance Sheet.

11. Further, the details of fees/ brokerage received in respect of insurance broking/agency business undertaken by them should be disclosed in the 'Notes to Accounts' to their Balance Sheet.

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.

