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DNBS (PD) C.C. No. 35 / 10.24 / 2003-04
February 10, 2004

To

All Non-Banking Financial Companies (NBFCs) and
Residuary Non-Banking Companies

Dear Sir,

Entry of NBFCs into Insurance Business

Please refer to our Circular DNBS (PD)CC No.13/02.01/99-2000 dated June 30, 2000 containing guidelines for entry of NBFCs into insurance business which, inter alia, permitted NBFCs registered with the Reserve Bank to set up insurance joint ventures for undertaking insurance business with risk participation and also to undertake insurance business as agents of insurance companies on fee basis, without any risk participation. However, before entering into insurance business, NBFCs are required to obtain prior approval of the Insurance Regulatory and Development Authority (IRDA) and Reserve Bank of India.

2. It has now been decided that NBFCs registered with Reserve Bank of India may take up insurance agency business on fee basis and without risk participation, without the approval of Reserve Bank of India subject to the following conditions:

(i) The NBFCs should obtain requisite permission from IRDA and comply with the IRDA regulations for acting as 'composite corporate agent' with insurance companies.

(ii) The NBFCs 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 the NBFC. The customers should be allowed to exercise their own choice.

(iii) As the participation by a NBFC's customer in insurance products is purely on a voluntary basis, it should be stated in all publicity material distributed by the NBFC in a prominent way. There should be no 'linkage' either direct or indirect between the provision of financial services offered by the NBFC 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 NBFC.

(iv) The risks, if any, involved in insurance agency should not get transferred to the business of the NBFC.

3. However, NBFCs satisfying the eligibility criteria laid down in the guidelines dated June 9, 2000 contained in our circular No.DNBS(PD)CC.No.13/02.01/99-2000 dated June 30, 2000 referred to above and intending to set up insurance joint ventures with equity contribution on risk participation basis or making investments in the insurance companies, would continue to obtain the prior approval of the Reserve Bank.

4. Please acknowledge receipt.

Yours faithfully,

Sd/-
(O. P. Aggarwal)
Chief General Manager-in-Charge