

Banks offer choice in insurance products

We take a look at what exactly is this new system of open architecture platform for life insurance sales and how should you approach it

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DBS Bank India has announced an open architecture platform for life insurance sales. The bank will offer life insurance products from three different insurance companies. It was already partnering with Aviva Life Insurance Co. Ltd, and has now tied up with Tata AIA Life Insurance Co. Ltd and Birla Sun Life Insurance Co. Ltd. Traditionally, banks in India have offered products of just one insurance company, while they offer mutual funds from across the industry. After regulatory change were implemented in 2016, DBS Bank is now offering life insurance covers from three companies.

Anuraag Sunder, director-insurance, PwC India, said that large public and private sector banks are looking to do so too. "But the effect of this will be seen only 12-18 months after the deal is done. It is not going to be an easy process," he said.

We take a look at what exactly is this new system and how should you approach it.

Open architecture

Usually banks tie-up with one insurance company and sell its products through their branch network. This is called bancassurance. According to regulations notified in 2015, the Insurance Regulatory and Development Authority of India (Irdai) has allowed corporate insurance agents, like banks, to sell policies from multiple insurers. This is called open architecture. What insurance agents follow is a tied-agency model, where an agent or a corporate agent sells policies of only one insurer from the same line of business. In its 2015 regulations on corporate agents, Irdai had allowed corporate agents to sell policies of up to three insurance companies in the same line of business. This means a bank can either continue to sell policies of one insurer or up to three insurers. As composite corporate agents, banks under open architecture can sell policies of up to three life insurers, three non-life insurers and three health insurers too.

What this arrangement means for you

Open architecture—though limited to three insurers—means more choice for you. For banks, it means more products to understand, explain and sell.

Vishal Dhawan, certified financial planner and founder of Plan Ahead Wealth Advisors, said that investors should take note that even though three is better than one when it comes to having a choice, there still are a lot of alternatives available beyond this. "So it is a partially open architecture compared to the prevalent system," he said.

While the open architecture will provide more products to choose from to customers of a bank, make sure that you are buying a product that suits your requirements. "But many times an inappropriate product was being bought because the investor did not spend enough time in reading and understanding the fine print," Dhawan said. You should know that Irdai does provide for a free-look period. "So either be sure about what you are buying, or even if you are forced to buy a product, make use of the free-look period to understand the product and its limitations," he said.