Banks' ₹25k-crore insurance boost faces RBI reality check

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The regulator's proposed rules to curb mis-selling of third-party products by banks will likely dent their earnings from insurance policy sales, a ₹22,000-25,000 crore-a-year business for lenders.

On 11 February, the Reserve Bank of India (RBI) released draft guidelines targeting mis-selling, bundled sales, and even "dark patterns" in banking apps, redrawing the boundaries of how banks sell such products. The new rules take effect in July.

"The responsibility on banks has increased a lot," said Anil Gupta, senior vice-president and co-group head of financial sector ratings at Icra. The onus, he said, is on them to ensure the right products are sold to their customers, which will increase operational and compliance costs.

Icra estimates that the banking industry earns ₹22,000-25,000 crore annually from bancassurance, the partnership model that allows insurers to sell their products to a bank's customers.

Such sales account for 50% of premiums on average for the insurance sector, and up to 80% for certain insurers. Savings-oriented products such as endowment plans and unit-linked insurance plans (Ulips), credit protection policies, and retail health products are the most-sold insurance products through the banking channel.

Ulips, health covers are among most-sold bancassurance products.

In 2024-25, India's largest lender by assets, State Bank of India (SBI), earned ₹2,766.83 crore in commissions from the sale of insurance products, while the largest private-sector lender, HDFC Bank Ltd, earned ₹6,308 crore. Their incomes from this stream were ₹2,670.5 crore and ₹3,974 crore in 2023-24, respectively. The two banks promote both life and general insurance subsidiaries or joint ventures.

"There could be some temporary hit in the business until banks and third-party service providers streamline their processes and ensure compliance with the circular," Gupta said.

Bankers, meanwhile, are waiting for final guidelines.

"As of now, these are just draft guidelines. Secondly, assuming that banks mis-sell is also incorrect. Banks are also concerned and are ensuring that no mis-selling happens. I think it's a long shot to say most banks will take a hit," a senior private sector bank official said, on the condition of anonymity.

The proposed norms restrict bundling and introduce stricter suitability and refund obligations. Experts say this will shift

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bank distribution from a sales-driven model to a need- and advice-led approach.

"Third-party distribution forms a meaningful share of private bank fee income, with insurance being a major component," said Shruti Ladwa, partner and insurance sector leader, EY India.

Ladwa expects a moderate impact on fee income, alongside some increase in fee costs, for the first 12-24 months. However, she said, this will stabilize as banks adapt by recalibrating internal processes, strengthening suitability assessments and retraining teams.

According to Icra's Gupta, bank employees need to be trained on the products offered, a task that may need to be handled by third-party product providers. "This will lead to an increase in costs for such providers." The greatest impact is expected in loan-linked or bundled insurance, as well as in higher-ticket savings and investment products that historically relied on branch-driven sales and incentives, experts said.

The RBI proposal comes amid calls for tighter oversight.

Even insurers will need to rethink their bancassurance models for greater transparency, stronger customer engagement, and need-based selling, Ladwa said, adding that they will also need to expand their product suite and reach underpenetrated customer segments with simpler products.

"There are likely to be more investments to accelerate the growth of agency and digital channels," she said.

The RBI's proposal comes amid increasing calls for regulatory measures to curb the mis-selling of insurance products following a rise in customer complaints, including concerns around the bundling of insurance products with other bank services.

However, insurance companies expect minimal impact as banks have already been taking measures to curb mis-selling and rationalize third-party sales.

Analysts at Kotak Institutional Equities also do not foresee any major setback for insurance companies under its coverage. Varun Gupta, chief distribution officer-bancassurance at IndiaFirst Life Insurance, also said, "We do not see any disruption in the insurance business of banks."

Less than 1% of policies sold through banks result in complaints, and persistency ratios have improved consistently over the past four to five years, he said.

"At this stage, there is no reason to take a conservative view on bancassurance or to remodel our overall bancassurance strategy."

Subhana Shaikh in Mumbai contributed to the story