

# New RBI norms may trim banks' fee income

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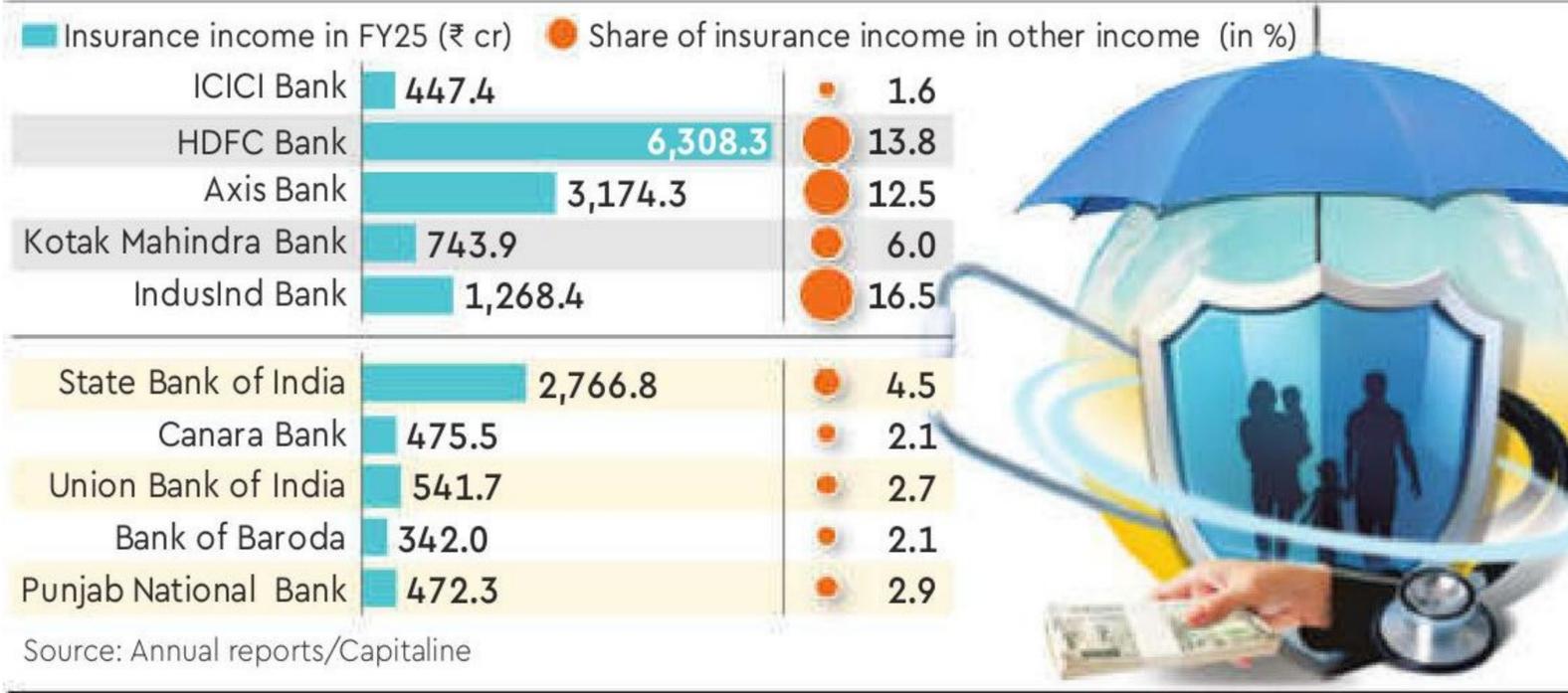
**THE RESERVE BANK** of India's (RBI) new guidelines on mis-selling of financial products and broker funding are expected to hit banks' fee income, said bankers and analysts.

Bancassurance is a widely used model where banks partner with insurance firms to distribute insurance products, earning significant fee income in the process.

For instance, HDFC Bank, India's largest private sector lender, generated ₹6,308 crore in fee income from insurance sales in FY25, accounting for 13.8% of its other income. The share of selling third-party products, including mutual funds, constitutes 24.7% of the total fee income in FY25 compared to 22% in FY24.

At the same time, Axis Bank earned ₹3,174 crore from selling insurance policies in FY25, representing 12.5% of its other income. State Bank of India generated ₹2,766.83 crore from its insurance business, accounting

## BANCASSURANCE EARNINGS



for 4.5% of other income.

“We can certainly expect the proportion of mis-selling to decline due to the RBI's stringent new norms on third-party insurance distribution. However, given the low penetration of insurance and the continued growth of the insurance sector, the impact on fee income will be limited to the near term,” said A M Karthik, senior vice-president & co-group head-financial sector ratings at ICRA. The rating

agency estimates income of around ₹25,000 crore from the bancassurance channel in a year.

On February 11, the central bank issued draft guidelines for advertising, marketing and sales of financial products or services by banks to curb mis-selling. The new guidelines intend to draw a line to bundled sales and dark patterns- designing user experience interactions on any platform to mislead or trick users. Moreover, banks must ensure

suitability and appropriateness of products offered to customers, implement feedback mechanisms, and provide compensation for mis-selling incidents. These regulations will come into effect from July. “If you are bundling products, you must now seek explicit understanding from the borrower.

The new guidelines hold banks more accountable for offering such products,” said a banker at a public sector bank.

Under the new norms, banks cannot bundle the sale of any third-party product or service with any of its own offerings. The lenders usually bundle insurance products with savings and investment products, which will make them earn commission on third-party products. “Banks earn fee income by bundling products. However, new regulations will reduce bundling, negatively affecting their income,” the banker said. He added that these regulations, which are in draft now, will majorly impact large private banks.

In a move to curb excessive leverage in the capital market, the RBI also tightened norms on broker funding. The new framework bars bank funding for the acquisition of securities on a broker's own account, except for limited market-making activities, and mandates that most exposures be backed by 100% collateral, including a significant cash component.

The central bank issued final guidelines regarding the same on February 13, which will be applicable from April.

“The tightened norms on exposure to stock brokers will impact the income of banks, which they earn from float maintained by brokers and institutional investors,” added Karthik. Brokers must place margins with banks for client trades — though clients can use exchange margins partly backed by guarantees, avoiding 100% FDs. This fee income from bank guarantees may drop if volumes fall. He added that banks typically charge 50–100 basis points annually for a bank guarantee.

Under the new norms, guarantees must be backed by at least 50% collateral, with a minimum of 25% in cash. This will lead to less reliance by brokers on bank guarantees.

“Banks' capital market exposure is limited to 20% of their net worth. That said, actual volumes often fall below this cap, and the overall exposure is not substantial. To some extent, there will be an impact, but not significant,” said Saurabh Bhalerao, associate director and head of BFSI research at CareEdge Ratings.