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Banks & Insurers may have to rethink tie-ups after IRDA cracks down on mis-selling

MUMBAI: Bancassurance, the sale of insurance products through banks, which is the most preferred route for growth of the sector, may be at risk.

After the Insurance Regulatory & Development Authority of India (Irda) indicated that banks would have to take responsibility for policies sold through them, lenders may prefer not to become mere distributors of insurance products. Onerous rules and the threat of penalties could also make banks wary of such deals.

"The whole point of Irda is to bring better surveillance and discipline. For banks, this will require sufficient trust and seriousness in relationships with their insurance partners — if the responsibility of customer complaints is going to be on banks," said Girish Kulkarni, MD and CEO of Star Union Daiichi Life Insurance.

"This may discourage banks from entering into plain distribution partnerships with insurance companies. Banks may prefer to be equity partners so that they have a better control over the eco-system." However, banks may seek high valuations for equity partnerships, driving insurers away.

Insurance companies tie up with banks to sell products because it is a low-cost distribution channel and gives them access to a large customer base. The most recent partnership was between Punjab National Bank and MetLife.

IndusInd Bank BSE -0.44 % has a corporate agency tie-up with

Aviva , which is coming up for renewal.

Many banks including Indian Overseas Bank, Syndicate Bank, Central Bank, Allahabad Bank and UCO Bank are without any equity partnerships.

Irda chairman TS Vijayan recently said banks would be made accountable for insurance products sold through them by misleading customers. At present, insurance companies are responsible for any mis-selling of products through the banking channel.

"Blatant mis-selling will go away," said RM Vishakha, MD and CEO of IndiaFirst Life Insurance. "The regulator is making the responsibility more explicit, which was always implied."

During a sting operation by a news portal a couple of years ago, employees of both public and private sector banks were caught mis-selling insurance products, partly due to stiff targets set by banks. The share of banks in total individual new insurance business went down to 15.62 per cent in 2013-14 from 16.18 per cent in 2012-13, according to Irda's latest annual report.