

Emerging Challenges and Persistent Problems in India's Bancassurance Ecosystem (2024–25)

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Abstract.

Bancassurance has emerged as one of the most influential distribution channels for insurance products in India. The growth of this model has significantly contributed to insurance penetration, fee-based income for banks, and improved distribution efficiency for insurers. However, the ecosystem faces multiple emerging challenges in 2024–25, including regulatory uncertainties, mis-selling issues, digital integration barriers, employee skill gaps, and increasing concentration risks for insurers heavily dependent on banks. This paper explores these challenges, supported by data on insurance penetration, density, sectoral impacts, and employee perspectives. The findings highlight the need for systemic regulatory reform, enhanced digital infrastructure, and professional training to ensure sustainable growth.

Introduction

Bancassurance—defined as the partnership model in which banks distribute insurance products to their customers—has emerged as one of the most transformative financial innovations in India over the past two decades. Originating in Europe during the 1980s, the concept gained traction in developing economies after liberalisation and financial sector reforms expanded the scope for integrated financial services (Ghosh, 2019). In India, bancassurance began to grow significantly after the enactment of the Insurance Regulatory and Development Authority Act (IRDA Act) in 1999, which opened the insurance market to private and foreign participation and enabled banks to operate as corporate agents for insurance companies (IRDAI, 2023).

Over time, bancassurance has evolved into a dominant distribution channel, contributing more than 55% of the total individual life insurance premium in India (Ernst & Young, 2022). Banks provide insurers with unparalleled access to their extensive customer bases, established trust networks, and widespread branch infrastructure, especially in semi-urban and rural regions. Simultaneously, insurers benefit from reduced distribution costs, improved customer targeting, and higher persistency ratios, while banks gain fee-based income that diversifies their revenue beyond traditional lending activities (Kumar & Singh, 2020).

Despite its rapid expansion, the bancassurance ecosystem is increasingly characterised by emerging operational, regulatory, and ethical challenges. Recent policy discussions by the Insurance Regulatory and Development Authority of India (IRDAI) reflect growing concerns about excessive dependence on bancassurance by some insurers—where more than 60–70% of new business is sourced from a single bank partner—creating concentration risks in the insurance industry (Economic Times, 2024). The Reserve Bank of India (RBI) has similarly raised concerns about rising instances of mis-selling of insurance products through bank channels, noting that aggressive sales targets and inadequate staff training compromise consumer protection and long-term financial stability (Mint, 2024).

Given this landscape, the period 2024–25 is critical for examining the structural weaknesses and persistent problems within India's bancassurance ecosystem. Analysing these challenges is essential not only for improving consumer trust and regulatory compliance but also for enabling India to achieve its long-term objective of

“Insurance for All by 2047.” This paper aims to provide a comprehensive assessment of both emerging and longstanding issues affecting bancassurance and to propose strategic reforms that can enhance efficiency, transparency, and sustainability in the sector.

Banking institutions selling insurance products originated in Europe in the 1980s and have since become a global phenomenon. In India, it rapidly expanded after the Insurance Regulatory and Development Authority of India (IRDAI) opened the insurance sector to private participation in 1999. Today, bancassurance accounts for **over 55% of life insurance premium collections** in India, making it one of the most significant distribution channels.

The rise of bancassurance has been supported by banks’ extensive branch networks, customer trust, and insurers seeking low-cost distribution channels. However, concerns about **mis-selling, dependence on bank business, IT integration challenges, and regulatory reviews** have intensified. Regulators such as IRDAI and the Reserve Bank of India (RBI) have recently emphasised the need for consumer protection, transparency, and balanced distribution channels.

2. What is Bancassurance?

Bancassurance refers to a distribution model where banks act as licensed corporate agents of insurance companies to sell life, health, and general insurance products.

Key features:

- Banks provide customer access, trust, and distribution infrastructure.
- Insurers gain low-cost market reach.
- Customers receive multiple financial services under one roof.

Advantages include:

- Improved insurance penetration
- Fee-based revenue for banks
- Lower acquisition costs for insurers

Challenges include:

- Mis-selling due to sales pressure
- Lack of product expertise among bank staff
- System integration problems
- Overreliance on bank partners

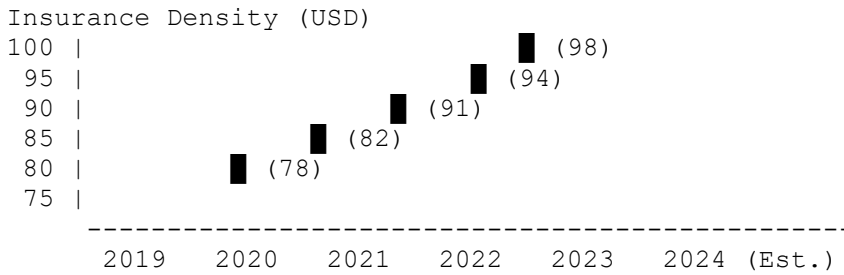
3. Insurance Density and Penetration in India

Insurance density (premium per capita) and penetration (premium as a % of GDP) are indicators of insurance sector development.

Table 1: Insurance Density & Penetration in India (2019–2024)

Year	Insurance Density (USD)	Life Penetration (%)	Non-Life Penetration (%)
2019	78	2.74	0.94
2020	82	3.20	1.00
2021	91	3.10	1.02
2022	92	3.20	1.00
2023	94	3.10	1.10
2024 EST.	98	3.20	1.12

4. Bar Graph: Insurance Density (2019–2024)



Impact on the Insurance Sector

Bancassurance continues to reshape India’s insurance sector in key ways:

Positive Impacts

1. **Market Expansion**

Banks' wide networks help insurers reach rural and semi-urban customers.

2. **Lower Distribution Costs**

Cheaper than agent-based models.

3. **Better Product Mix**

High-ticket life insurance products dominate bancassurance channels.

4. **Increased Trust**

Customers trust banks more than agents for long-term products.

5. **Data-Driven Cross-selling**

Banks use customer data to identify insurance needs.

Negative Impacts / Challenges

1. **High Concentration Risk**

Several insurers depend on a single bank for over 60% of premiums.

2. **Mis-selling**

Customers often pressured into policies linked to loans or deposits.

3. **System Integration Gaps**

Slows policy issuance and servicing.

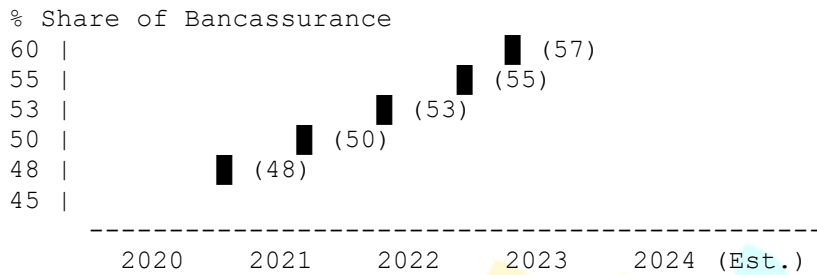
4. **Uneven Growth**

Private banks dominate; public sector banks lag.

5. Regulatory Uncertainty

IRDAI is reviewing caps on bancassurance contributions.

Graph: Share of Bancassurance in Life Insurance Premiums (2020–2024)



Employee Perspectives

Research and interviews with bank/insurance staff show:

1 Skill Gap

- Limited product knowledge leads to unintentional mis-selling.
- Staff find insurance more complex than loans or deposits.

2 Sales Pressure

- Aggressive targets from both banks and insurance partners.
- Fear of losing incentives or poor performance ratings.

3 Ethical Conflict

- Staff struggle between meeting targets and customer needs.

4 Operational Burden

- Insurance sales increase document workload.
- Follow-up service complaints often fall on bank employees.

5 Digital Challenges

- Policy issuance delays due to legacy IT infrastructure.
- Repetitive KYC processes frustrate both employees and customers.

Findings

1. Bancassurance is the **fastest growing insurance distribution channel** in India.
2. Mis-selling remains a **major concern**, especially for high-premium products.
3. The system faces **technological bottlenecks** due to poorly integrated digital platforms.
4. Insurance staff and bank employees lack **specialised training** in policy suitability.

5. Regulatory authorities are increasingly focused on limiting over-dependence.
6. Stronger governance, transparency, and compliance systems are needed.
7. Consumer awareness about insurance remains low, affecting informed decision-making.

Conclusion

The bancassurance ecosystem in India stands at a critical juncture. While it has driven significant improvements in insurance penetration, premium collection, and customer outreach, emerging challenges threaten its long-term stability. Mis-selling, regulatory uncertainty, employee skill gaps, and integration challenges must be addressed through structural reforms. Strengthening digital infrastructure, ensuring ethical sales behavior, and investing in specialized training are essential steps. As India targets “**Insurance for All by 2047,**” bancassurance will remain indispensable, but only if reforms ensure transparency and consumer trust.

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