Indian Economy · GS - III

Examine the role of insurance distribution in diversifying banks' income in India. How could changes in insurance commission and distribution norms affect banking profitability and consumer interests?

EXAM YEAR	PAPER	SUBJECT
DAILY PRACTICE 28/10/2026	GS - III	Indian Economy

MARKS	WORD LIMIT
10	~150 words

Answer Hint

Non-interest income; bancassurance; IRDAI regulation; commission structures; profitability; consumer protection; transparency; financial inclusion

Model Answer

Introduction

Indian banks increasingly diversify beyond traditional lending through fee-based services, including insurance distribution. This arrangement, commonly known as bancassurance, connects banking customers with insurance products.

Role in Banking Income

1. Revenue Diversification

Insurance commissions generate non-interest income, reducing banks' dependence on interest margins and lending activity. Such income can support profitability without requiring equivalent expansion in credit exposure.

2. Impact of Regulatory Changes

Changes in commission structures or distribution norms may reduce earnings from insurance partnerships. As reported, Bandhan Bank anticipates a ₹200 crore impact from IRDAI's proposed reforms. The actual effect will depend on the final rules and their implementation.

3. Consumer Protection

Revised norms may discourage mis-selling, improve transparency and ensure that insurance products suit customers' needs. However, poorly designed changes could also reduce distribution incentives, particularly in underserved areas.

Way Forward

Banks should diversify fee-based services, strengthen compliance and disclose insurance costs clearly. IRDAI should consult stakeholders, assess market impacts and balance consumer protection with sustainable distribution.

Conclusion

Insurance distribution can strengthen banking resilience, but its benefits depend on transparent practices and sound regulation. Reforms should protect policyholders while preserving efficient access to suitable insurance products.

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