The Mis-selling Menace

How Banks and Insurers are Making Profits at Customers' Expense

EXECUTIVE SUMMARY[1]

20.7% vs 10.4%

Over the last decade, the mutual fund industry inflows have grown at a CAGR of 20.7% vs life insurance premiums of 10.4%, consisting of both new business and renewal premiums.

25.2%

Banks made as much as 25.2% of their Total Income[2] from commission, exchange and brokerage income.

2x share in total premiums underwritten

Banks contributed 33.1% of the new individual business life insurance premium underwritten in 2023-24, a significant rise from 15.6% in 2013-14.

₹21,773 Crs.

In FY24, the top 15 banks by market capitalisation made ₹21,773 crores in commissions made from the sale/ marketing of insurance, MFs and other financial products.

2x to 11.3x

more commissions in insurance

As compared to mutual fund agents, insurance agents may make as much as 2 times to 11.3 times more commissions in the first year due to heavy upfront commissions.

43.3%

of benefits paid by life insurers are towards surrendered, withdrawn, discontinued or lapsed (SWDL) policies

Of the total benefits paid by the top 10 life insurers, 43.3% goes towards SWDL policies. In many cases, even as customers do not get their principal returned on surrendering policies, this number becomes all the more alarming.

49% of life insurance policies get discontinued in 5 years:

The top 10 life insurers have an average 61st month persistency ratio of 51%. This means that on 49% of the life insurance policies, customers stop paying premiums in the 61st month.

100%

commissions on life insurance business of banks

Of the insurance commissions that banks make from selling life insurance policies, up to 100% of that comes from selling their own related-party life insurance company's policies.

99.1%

commissions on mutual fund distribution business of banks

Of the mutual fund distribution commissions that banks make, up to 99.1% of that comes from selling their own related-party AMC's mutual fund schemes.

INTRODUCTION

Financial products sold by agents are typically sold in India without charging an out-of-pocket fee to the customers. However, the agents make money through commissions on the sale of financial products.

This leaves the agents with a significant conflict of interest because they may sell customers such products that make them more commissions.

The banking regulator and the governments over the years have done a commendable job in establishing the trust of the public by saving banks even when they have failed. People haven't lost money even as scheduled commercial banks failed in the last so many decades.

Because of this, people perceive banks as trustworthy. On top of this, banks have an edge in terms of intelligence w.r.t. how much money do their customers have, where do they invest, etc.

The bank relationship managers (Bank RMs) call customers to sell life insurance products, disguising it as an excellent investment option. The instances of mis-selling by Bank RMs are very common to hear.

Apart from cold calling customers having high bank balances, there are various instances where customers are pitched and sold life insurance policies, such as at the time of:

- Applying for savings schemes, especially where senior citizens are the applicants
- Trying to seek various services to access their bank balances, etc.
- Disbursing loans
- Opening of locker facilities

The mis-selling of insurance products refers to the sale of insurance policies to consumers by misleading them or providing them with inaccurate information. This not only harms the financial interests of the consumers but also erodes trust in the insurance sector, which is essential for long-term growth and stability.

Mis-selling can occur in many forms, such as offering a policy that is unsuitable for the consumer's needs, providing incorrect details about the terms of the policy, or pressuring the consumer to buy unnecessary add-ons.

This report explores the issue of mis-selling in India's insurance sector, its regulatory framework and the steps being taken to curb the problem.

The lack of independent advisors and lack of financial literacy have also led to a proliferation of financial products that do not make any sense.

We dug deeper into the data shared by regulators and various banking and insurance companies to understand why banks and insurance companies do hardly anything significant to stop this.

Inspiration for this report has been drawn from the Bose Committee report by the Ministry of Finance, Government of India, dating back to August 2015. We have discussed the various changes that have been brought in ever since by both the insurance and securities market regulators and the impact of such changes. Further, key regulatory disclosures and rules, including the IRDAI Annual Reports, Regulations and SEBI regulations, are analysed to offer a comprehensive perspective.

OBJECTIVE

52%

of the individual new business premium underwritten by private life insurance companies was sold through banks in FY24[3].

This is due to the access to customers' trust and intelligence that banks have.

Banks are motivated to sell life insurance policies because of the high upfront commissions.

57.6%

of Bank RMs agree that they're told to sell (or mis-sell) financial products by their superiors to their customers even if they are not suitable for them.

This report will delve deeper into the key statistics around the nexus between banks and the financial products manufacturing companies and the need for reforms in consumer interest.

PART 1 - THE MARKET

Indian financial markets have seen significant transformations over the decades, shifting from a heavily nationalised framework in the 1950s to a more open and competitive structure from the 1990s onwards.

In the early years, investment options for individuals were quite limited, with most people relying on bank deposits, postal savings schemes and employee pension plans that were mainly available to government employees or those working in the organised sector in companies that had more than twenty employees in specified industries.

At this time, the Life Insurance Corporation of India (LIC) and Unit Trust of India (UTI) played a crucial role in directing household savings into long-term investments. Insurance products that combined savings with protection were the primary financial instruments for most people for disciplined savings.

Initially, there was a limited role of regulation, as government-run entities were the manufacturers of financial products. However, eventually both the insurance and mutual funds were open for private players as the demand as well as supply of investable companies increased after the stock markets saw more listings (through Initial Public Offers or IPOs) in the post-liberalisation era.

The Insurance Regulatory and Development Authority (IRDA) was incorporated as a statutory body in April 2000.

Ever since, the regulations have been formed and evolved to cater to protecting the larger investor interest.

26%

Initial limit of ownwership allowed for foreign investors in insurance companies[4]

74%

Increase in percentage achieved over time

100%

Limit proposed by the Union Budget, 2025[5]

In this section, we shall look at how:

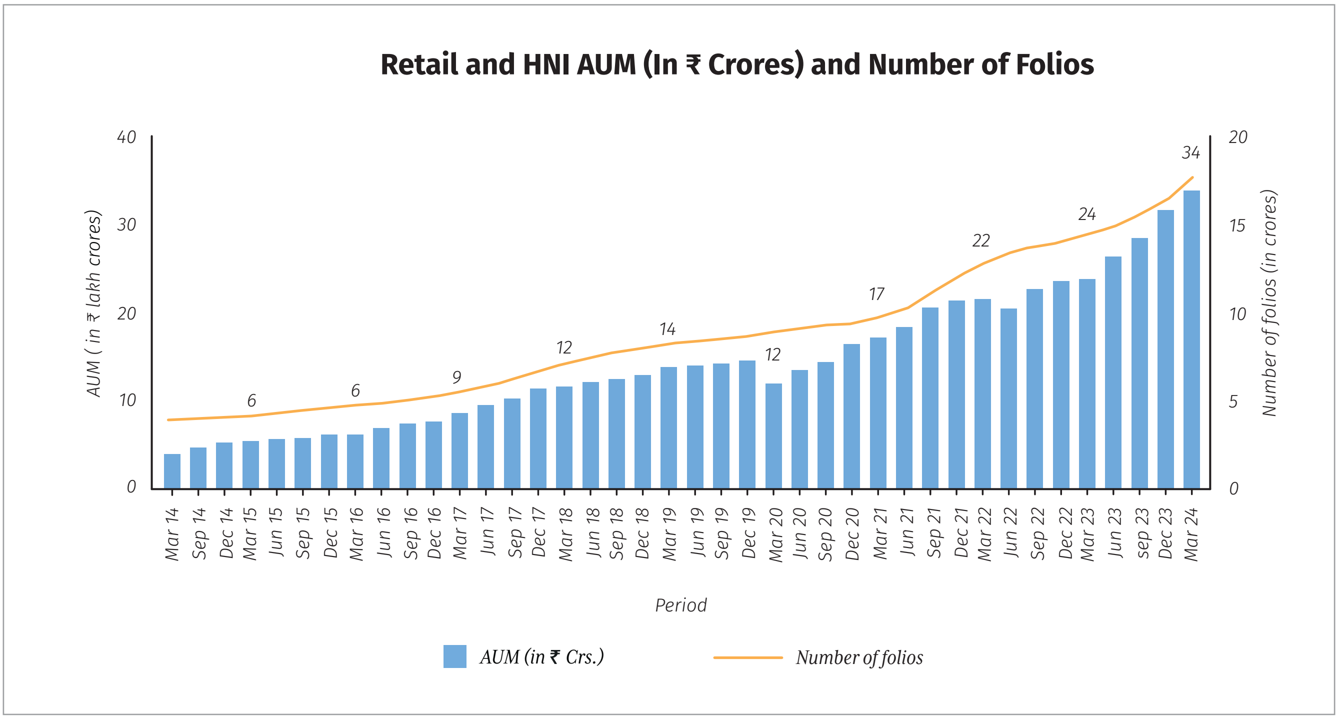
a. The mutual fund industry has grown over the years vis-à-vis the life insurance industry on the parameter of their AUMs and

b. Key regulatory changes brought in that led to the growth of one over the others.

A. FINANCIAL PRODUCTS

a.Mutual Funds: The mutual fund industry in India has witnessed an annualised growth of 23.8% p.a. among retail investors (including the retail and high-net-worth individuals) over the past decade. Their AUM surged from ₹4.0 lakh crores as of March 31, 2014[6], to ₹33.9 lakh crores as of March 31, 2024, marking an eightfold increase[7].

The retail share in total industry AUM is 63.4%, while that of institutional investors, including corporates, banks, financial institutions and foreign institutional investors (FIIs), is 36.6%.



Source: 1 Finance Magazine

From 2014 to 2024, the total number of retail and HNI folios surged from 3.9 crores to 17.7 crores.

b. Life Insurance: As of March 31, 2024, the AUM in the life insurance market has experienced growth, surging from ₹19.6 lakh crores in March 2014[8] to ₹61.6 lakh crores on March 31, 2024[9]. It represents a more than threefold increase over the past decade and a CAGR of 12.1%.

c. Mutual fund vs Life Insurance: Inflows Growth Over the Last Decade

INFLOW AS OF YEAR ENDING	MUTUAL FUNDS	LIFE INSURANCE	
		NEW BUSINESS	RENEWAL BUSINESS
March 31, 2014	0.5	1.2	1.9
March 31, 2024	3.5	3.8	4.5
CAGR	20.7%	12.1%	8.8%

Figures in ₹ lakh crores
Source: AMFI Disclosures and IRDAI Annual Reports, 1 Finance Magazine

Within insurance policies, plans may be of three types which offer a life cover alongside investment options:

i. Participating: Policyholders are eligible to receive bonuses declared by the insurance company.

These bonuses come from the surplus profits generated by the insurer, typically from investment returns and underwriting gains.

Bonuses are calculated on base sum assured and those can be paid out on different intervals which may be interim bonus, final additional bonus, etc. which may vary as per the policy terms and conditions.

ii. Non-participating: Policyholders do not receive any bonuses or share in the company's profits.

Benefits such as the sum assured and maturity amount are defined at the time of purchase.

iii. Unit Linked Insurance Plans (ULIPs): These are market linked products where the premium is invested in equity, debt or balanced funds, with returns depending on market performance.

There are no guaranteed bonuses or fixed maturity benefits. The payout is based on the fund value.

The premium payment for these policies can either be a single payment (paid once upfront) or recurring (paid over the tenure of the policy, broken into monthly, quarterly, half-yearly or yearly intervals).

Elaborating on the above bifurcation, the IRDAI explains that policies may be of the following types:

i. Participating Policies (non-linked):
a. Life,
b. General Annuity and Pension,
c. Health and
d. Variable.

ii. Non-participating policies (non-linked):
a.Life,
b. General Annuity and Pension,
c. Health and
d. Variable.

iii. Linked policies:
a. Life,
b. General Annuity and Pension,
c. Health and
d. Variable.

In the insurance sector, AUM is generally classified under three categories:

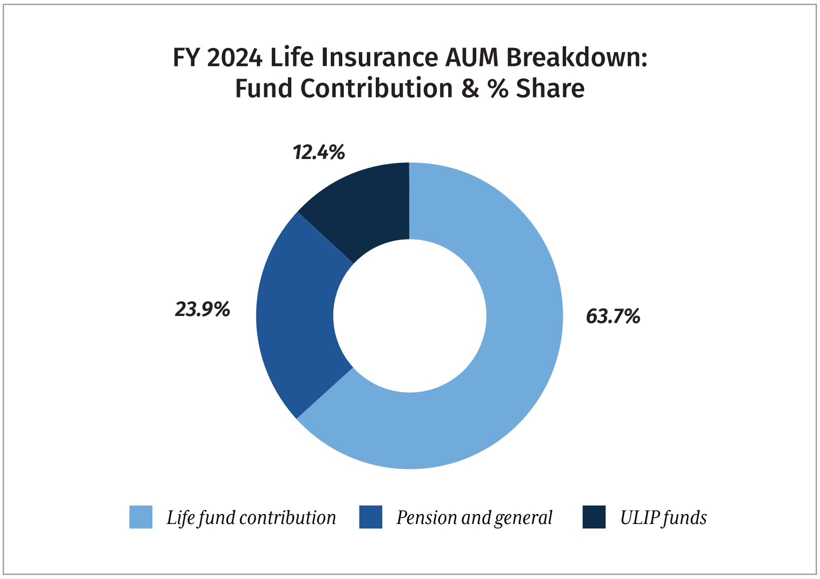
i. Life fund,
ii. ULIP fund and
iii. Pension & general annuity & group fund.

The sum assured represents the minimum amount payable to the nominee/ dependent in the event of the life assured's death or to the policyholder at maturity.

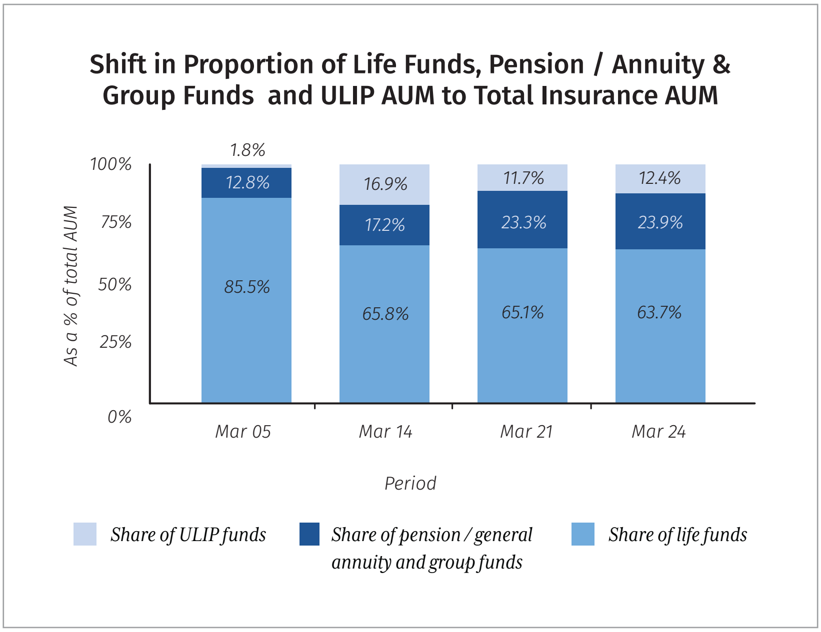
As of March 2024, the total AUM with life insurance companies, including their pension funds, stood at ₹61.6 lakh crores, divided as follows[10]:

LIFE INSURANCE AUM BY CATEGORY		
CATEGORY	AUM (In ₹ lakhs crores.)	AS A % OF TOTAL AUM
Life Fund Contribution	39.2	63.7%
Pension and General Annuity and Group Fund	14.7	23.9%
ULIP Funds	7.6	12.4%
Grand Total	**61.6**	**100%**

Source: IRDAI, Data as of March 31, 2024, 1 Finance Magazine



Source: IRDAI, 1 Finance Magazine



Source: IRDAI Annual Reports[11], 1 Finance Magazine

Apart from the nature of the underlying asset, the key reason behind the growth of the mutual fund industry in terms of AUM growth in the last decade vis-à-vis the life insurance AUM growth may be traced to the proactive reforms implemented by the SEBI to make the mutual funds more cost-effective and transparent for investors.

Changes such as the removal of upfront commissions[12], the introduction of direct plans[13] and the establishment of stronger benchmarking norms[14] have all contributed to making the industry more efficient, transparent and investor-friendly.

The introduction of direct plans allowed investors to bypass distributors, reducing costs further. Investors purchasing a life insurance product directly through an insurance company's website, do not get this benefit passed on to them to date.

Most importantly, the removal of heavy upfront incentives and the adoption of a full trail commission model for distributors.

While the insurance regulator has also taken some commendable steps in the consumer interest, including encouraging insurers to conduct Pre-Issuance Verification Call (PIVC) to the extent possible and certainly in important cases[15], launching Bima Bharosa portal for customers to register their complaints[16], introduction of customer protection norms through the IRDAI (Protection of Policyholders' Interests) Regulations, 2017 and later consolidated through the IRDAI (Protection of Policyholders' Interests, Operations and Allied Matters of Insurers) Regulations, 2024 etc. However, the impact seen on the ground seems minimal, if not non-existent.

B. DISTRIBUTION OF FINANCIAL PRODUCTS

Financial products are majorly sold by a vast network of middlemen. These middlemen can be either agents, who may be individuals or companies like banks and NBFCs or brokers. Agents are paid directly by the product manufacturer, which often means their loyalty leans towards the manufacturer rather than the customer.

Historically, individual agents have been the primary channel for distributing both mutual funds and insurance. However, in recent years, corporate agents, particularly private sector banks, have taken on a growing role in this space. This trend is especially noticeable among private insurance companies, which are increasingly relying on the corporate agent model. As a result, banks contributed 33.1% of the new individual business life insurance premium underwritten in 2023-24[17], a significant rise from 15.6% in 2013-14[18].

The number of policies issued by insurance companies through direct selling has increased from 1.7% of total policies issued in 2013-14[19] to 3.1% in 2023-24[20] and the premium from direct selling has increased from 3.1% of total premium in 2013-14[21] to 9.9% in 2023-24[22].

The number of insurance agents has increased from approximately 22 lakhs[23] insurance agents and 689 corporate agents as of March 2014[24] to approximately 29 lakhs insurance agents[25] and 635 corporate agents as of March 2024[26].

Contribution of the total insurance premium from banks

2013-2014	2023-2024
15.6%	33.1%

The number of policies issued by insurance companies through direct selling

2013-2014	2023-2024
1.7%	3.1%

Premium from direct selling

2013-2014	2023-2024
3.1%	9.9%

Number of insurance agents

March 2014	March 2024
~22 Lakhs Insurance agents	~29 Lakhs Insurance agents
689 Corporate agents	635 Corporate agents

PART 2 - MIS-SELLING

A. UNDERSTANDING MIS-SELLING PRACTICES IN FINANCIAL PRODUCTS

Mis-selling in financial services refers to the practice where an investor is misled or provided with incomplete or inaccurate information about a product or service. In essence, it occurs when a salesperson or intermediary either misrepresents key aspects of a financial product or fails to disclose crucial details that could impact the investor's decision.

One common example is when a salesperson promotes a particular product without informing the customer about the alternative options that may be more suitable for their financial goals.

This is especially relevant where Bank RMs have access to intelligence around a customer's bank balance and investing habits and are told by their superiors to prioritise selling life insurance products because it makes them the high upfront commissions rather than offering a diverse range of investment choices which may be more suitable with respect to their customer's objective.

B. TYPES OF MIS-SELLING PRACTICES

Mis-selling of financial products may happen through several ways, including:

a. Lack of Transparency: When sales representatives do not provide complete information about product features, potential risks or hidden costs and commissions.

This could include selling regular premium-paying products as a single premium product.

b. Exaggeration of Returns: Promising unrealistic or guaranteed returns on market-linked products, such as claiming that a ULIP will double an investor's money, when in reality, it is not possible to evaluate market returns. SEBI explicitly prohibits mutual funds from making any such claims.

c. Bundling and making it conditional for availing bank services: Policies are sold to gullible customers, asking them that it is compulsory for them to purchase an insurance policy if they want their loan/locker application processed or other benefits.

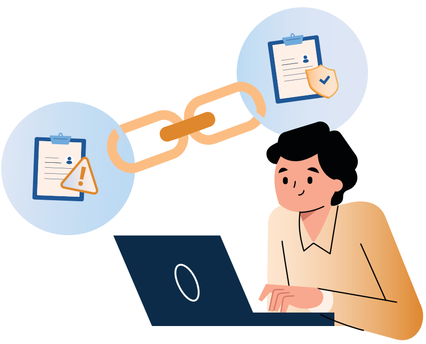
d. Inappropriate Product Recommendations: Selling complex investment products to individuals without assessing their financial situation, such as advising elderly investors to buy high-risk market-linked insurance when they neither need life coverage nor should bear market volatility.

e. Rebates and Inducements: Luring customers by offering cashbacks or incentives from commissions, leading them to make decisions that may not align with their financial interests.

The root cause of all financial products' mis-selling is lack of awareness at customers' end.

The IRDAI, in its Annual Report for FY21[27], has shared a comprehensive list of instances acknowledging the reasons around the receipt of mis-selling complaints.

C. THE LINK BETWEEN MIS-SELLING AND SUITABILITY



At its core, mis-selling is closely tied to product suitability, whether a financial product aligns with the investor's risk tolerance, financial needs and investment objectives. The Bank for International Settlements (BIS) defines mis-selling as a situation where an intermediary sells a product that does not match the client's financial position or investment goals, irrespective of whether a formal recommendation was made.

While disclosure of information is an essential regulatory requirement, merely sharing product details is not sufficient. Financial institutions and intermediaries have a responsibility to ensure that the products they recommend are appropriate for the investor's circumstances.

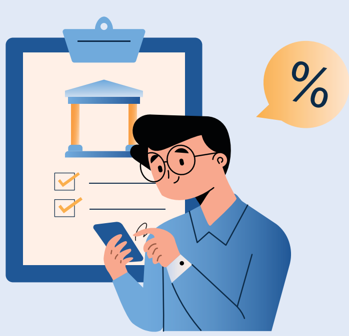
D. UNDERSTANDING WHY BANKS ARE MOTIVATED TO SELL FINANCIAL PRODUCTS TO CUSTOMERS

a. Commission Income to Total Income Ratio

The core business of banks is to raise money through various sources, including depositors and lend that money to those who need capital (borrowers) at a higher rate than their cost of capital. The difference between the two is their net interest income.

However, banks engage in the sale of various products and services that make them income beyond the net interest income by virtue of the customers they build over the years.

Banks make commission, exchange and brokerage income (collectively referred to as 'Commission Income' for the purpose of this report) that includes the following:



i. Commission on bills for collection.

ii. Commission/exchange on remittances and transfers, e.g. demand drafts, NEFT, RTGS, etc.

iii. Commission on letters of credit and guarantees, letters of comfort.

iv. Loan processing, arranger and syndication fees.

v. Mobile banking fees.

vi. Credit/Debit card fee income, including annual fee income, merchant acquiring income, interchange fees, etc.

vii. Rent from letting out of lockers.

viii. Commission on government business.

ix. Commission on other permitted agency business, including consultancy and other services.

x. Brokerage on securities.

xi. Fee on insurance referral.

xii. Commission on referral of mutual fund clients.

Service/transaction banking charges, including charges levied for transactions at other branches.

Commission Income to Total Income Ratio: This ratio is used to assess how much a bank makes from the aforementioned sources of commission as a percentage of their total net revenue sources, which include:

i. NII,

ii. Revenue from commission, exchange and brokerage and

iii. Other income.

Let us see how much of banks' total income comes from commissions and how it has increased over the last two decades:

Commission Income To Total Income Ratio of Banks

S. NO.	BANK NAME	COMMISSION INCOME TO TOTAL INCOME RATIO	
		FY24	FY04
1	AXIS BANK	**25.2%**	**16.5%**
2	IDFC FIRST Bank *	**23.6%**	**5.4%**
3	YES BANK **	**23.3%**	**21.5%***
4	IndusInd Bank	**22.1%**	**3.2%**
5	kotak	**19.4%**	**3.5%**
6	HDFC BANK	**17.9%**	**17.6%**
7	ICICI Bank	**17.4%**	**21.7%**
8	SBI	**13.3%**	**16.6%**
9	सेन्ट्रल बैंक ऑफ़ इंडिया Central Bank of India	**10.4%**	**9.7%**
10	pnb	**7.9%**	**10.0%**

*Source: 1 Finance Magazine, Respective Standalone Annual Reports of FY24 and FY04 for the Top 10 Banks by Market Capitalisation as of March 15, 2025. *Data from the last available financials – FY16 **Data from the last available financials – FY05.*

It can be seen that the top five banks with the highest Commission Income to Total Income Ratio have seen a major spurt in their ratios in the last two decades.

Within this, a significant chunk of revenue for most banks comes from commissions made from the sale and marketing of life insurance products and mutual funds.

b. Commissions made from sale/marketing of insurance, MFs and other financial products(FY24):

This explains why banks are motivated to sell financial products to their customers. They are able to do this because:

i. Customers already trust their banks and their representatives, as they invest a significant portion of their money with them already and

ii. Bank RMs know when a significant chunk of money is lying in a customer's bank account so they know when to call their customers to deploy money.

Is there anything wrong per se with this practice? Not really.

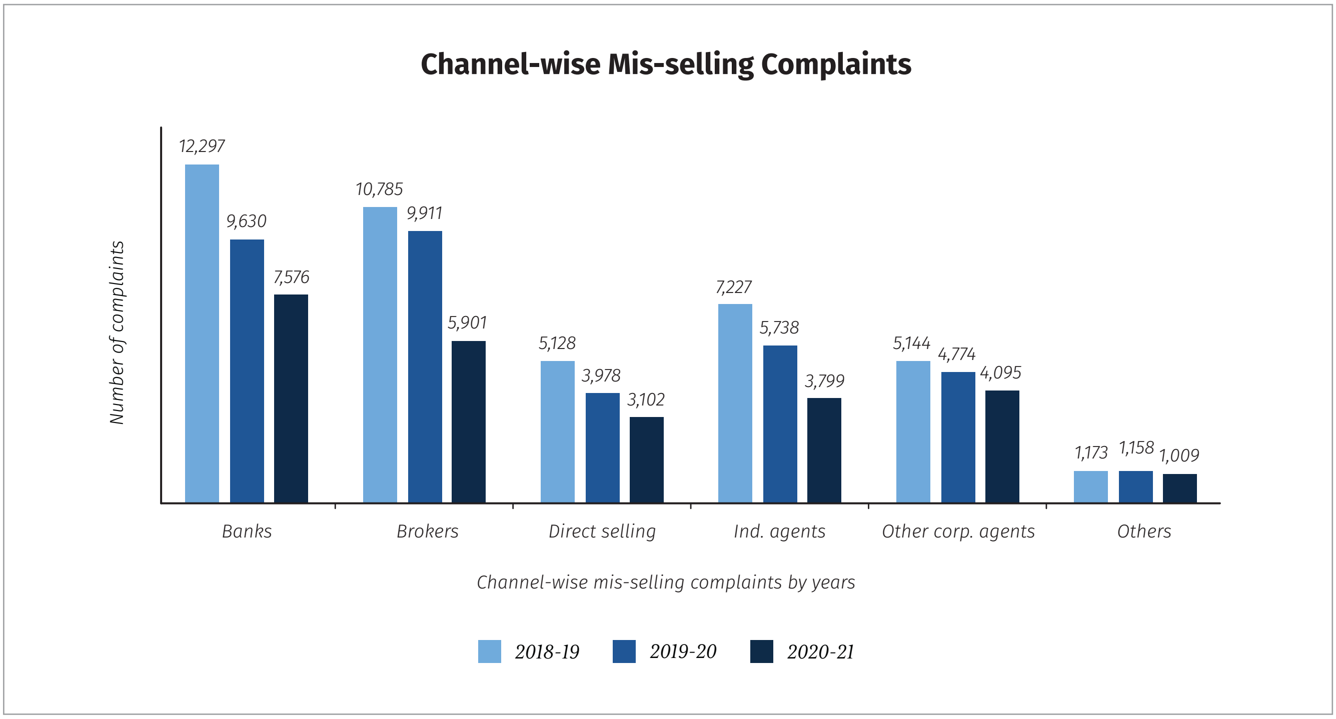
The problem arises when products are pushed to customers without keeping their interest in mind.

Whenever customers go to a bank for servicing their existing needs, multiple customers have reported that they're told to buy an insurance product. In this process, the needs of a customer are sidelined.

Channel-wise distribution of mis-selling complaints received has been the maximum against banks. The last reported numbers were in FY21; however, the IRDAI has stopped giving this disclosure in its annual report thereafter.

BANK NAME	AMOUNT IN ₹ CRORES
AXIS BANK	3,319.9
IndusInd Bank	1,298.5
IDFC FIRST Bank	774.8
kotak	1,633.4
HDFC BANK	6,466.8
ICICI Bank	984.0
SBI	3,892.8
pnb	666.2
बैंक ऑफ़ बड़ौदा Bank of Baroda	523.2
केनरा बैंक Canara Bank	464.9
Union Bank of India	383.4
Bank of India	200.1
इंडियन बैंक Indian Bank	163.2
सेन्ट्रल बैंक ऑफ़ इंडिया Central Bank of India	129.2
YES BANK	872.5

Source: 1 Finance Magazine, Respective Standalone Annual Reports of FY24 for the Top 15 Banks by Market Capitalisation as of March 15, 2025.



Source: IRDAI Annual Report FY21

Traditional plans with similar features to government small savings scheme products almost never make more money than the latter. An endowment plan making an abysmally lower 4%-6% IRR (or yield-to-maturity) is sold to customers instead of high-quality instruments. On the conservative side, a product like PPF offers, albeit variable, 7.1%, etc.

Instead of a senior citizens savings scheme, many senior citizens are sold insurance policies even when they may not need life insurance, as they do not have dependents.

The idea is that the suitability and interest of the customer are sidelined due to the hefty commissions a bank makes.

We shot a documentary on the same issue where we spoke with a few Bank RMs. Based on our discussion with various Bank RMs, banks make a revenue of up to 65% of the premium received on the first-year premium of a traditional plan policy. While individual agents may make up to 25-30%, banks come with significant volumes and command such negotiating power with life insurers.

As per the IRDAI (Expenses of Management of Insurers transacting life insurance business) Regulations, 2023, the total expenses of management, including commissions allowable to be charged from the first-year premium to customers, are up to 80%[28]. In the subsequent years (renewal premiums), go up to as high as 17.5%[29].

“Expenses of Management[30]” includes:

i. all expenses in the nature of operating expenses of life insurance business,

ii. commission to insurance agents, intermediaries or insurance intermediaries and

iii. commission and expenses on reinsurance inward which are charged to the revenue account.

Provided that, it shall not include the charge against profits such as income tax and other taxes like Goods and Services Tax (GST) borne by the insurer and other charges which are levied against the profits.

While, as per SEBI (Mutual Fund) Regulations, 1996, the mutual fund AMCs are supposed to cut their expenses charged to customers (total expense ratio or TER) in the form of expense ratios as the fund’s AUM increases[31].

The incentive for agents to sell a life insurance investment product is high because of the upfront commissions made.

No upfront commissions can be made in a mutual fund product pursuant to the regulations amended by the SEBI in 2018[32].

To understand how motivated the agents / Bank RMs are to sell a life insurance product over a mutual fund product, let us understand it in terms of the first-year commission that an agent makes as a percentage of total commissions made over various investment horizons.

MAXIMUM TER AS A PERCENTAGE OF DAILY NET ASSETS		
FUND-LEVEL AUM	**TER FOR EQUITY FUNDS**	**TER FOR DEBT FUNDS**
On the first ₹500 Crs.	2.25%	2.00%
On the next ₹250 Crs.	2%	1.75%
On the next ₹1,250 Crs.	1.75%	1.50%
On the next ₹3,000 Crs.	1.6%	1.35%
On the next ₹5,000 Crs.	1.5%	1.25%
On the next ₹40,000 Crs.	Total Expense Ratio reduction of 0.05% for every increase of ₹5,000 Crs. of daily net assets or part thereof.	Total Expense Ratio reduction of 0.05% for every increase of ₹5,000 Crs. of daily net assets or part thereof.
Above ₹50,000 Crs.	1.05%	0.80%

Source: SEBI, 1 Finance Magazine

In addition, mutual funds have been allowed to charge up to 30 bps more, if the new inflows from retail investors from beyond top 30 cities (B30) cities are at least (a) 30% of gross new inflows in the scheme or (b) 15% of the average assets under management (year to date) of the scheme, whichever is higher. This is essentially to encourage inflows into mutual funds from tier - 2 and tier - 3 cities.

c. Comparison of Distributor Earnings Across Life Insurance and Mutual Fund Products

i. Regular Premium Paying Product

Comparison of First-Year Commission as a Percentage of Total Earnings Across Investment Products

FIRST YEAR COMMISSIONS AS A PERCENTAGE OF TOTAL COMMISSION MADE			
TENURE (IN YEARS)	**HYBRID MUTUAL FUND**	**ULIP**	**TRADITIONAL PLAN**
30	1.3%	12.1%	14.7%
25	2.2%	14.3%	17.2%
20	3.6%	17.4%	20.8%
15	6.4%	22.2%	26.3%
10	12.1%	30.8%	35.7%
5	28.5%	50.0%	55.6%

Source: 1 Finance Magazine

Assumptions :

▪ Mutual Fund Commission:

- No upfront commission is considered.

- Year 1 trial commission is assumed at 1% of AUM.

- Year 2 onwards, the trail commission is assumed to be moderate to 0.50% of AUM.

-The annualised return before fees on investment for the consumer is assumed to be 10%.

-Hybrid funds are taken for comparison, as both ULIPs and traditional plans have debt and equity exposure.

▪ ULIP Commission*:

-Year 1 commission is assumed at 8% of the premium, based on the industry average of 7-9%. While we understand that practically more is paid, we have assumed the figures on the conservative side, drawing reference from the Bose Committee Report.

-Year 2 onwards, the average commission is assumed to be 2%.

▪ Traditional Insurance Plan Commission*:

-Year 1 commission is assumed at 25% of the premium, though regulatory caps allow beyond that and practically far more is paid.

-Year 2 onwards, the commission considered is 5%.

**Based on our discussion with various insurance agents and Bank RMs.*

It is important to note that an agent makes at least two to three times more commissions by selling an insurance product over a mutual fund. In the long run, this ratio crosses even ten times.

Based on our discussion with Bank RMs for our documentary, they're required to meet targets. This revenue varies from each bank but is typically considered as 1% for bringing equity mutual fund inflows and 65% for the first-year premium of regular premium-paying traditional plans.

This naturally inclines banks and Bank RMs to sell products that make heavy commissions upfront, even by making promises that are not true. We have seen multiple cases where customers were sold regular premium-paying traditional plans as single premium payment products.

This may harm the customers, as this renders them unable to pay future premiums and in a traditional multi-year policy with guaranteed benefits, if you do not pay the second premium, you do not get anything back. Even if you pay the second-year premium, you still get only 30% of premiums back.

Eventually, customers can't honour such policies and the persistency ratios of insurers, among other reasons, drop.

As per our survey, 57.56% of Bank RMs agreed that they are told by their superiors to sell financial products even if they are not suitable for the customers.

E. PERSISTENCY RATIOS

a. Persistency Ratios of Top 10 Life Insurers By Revenue – FY24

S. NO.	LIFE INSURANCE COMPANIES	ON NUMBER OF POLICIES BASIS	
		13TH MONTH	61ST MONTH
1	LIC भारतीय जीवन बीमा निगम LIFE INSURANCE CORPORATION OF INDIA	67.0	48.6
2	AXIS MAX LIFE INSURANCE	85.7	54.7
3	HDFC Life	87.1	53.5
4	ICICI PRUDENTIAL LIFE INSURANCE	77.7	50.8
5	kotak life	81.3	56.7
6	Birla Sun Life Insurance	76.5	51.0
7	TATA AIA LIFE	84.5	52.0
8	SBI Life Apne liye. Apno ke liye.	81.1	51.4
9	BAJAJ Allianz	79.6	44.7
10	pnb MetLife Milkar life aage badhaein	78.0	47.0

Source: 1 Finance Magazine, Respective Annual Reports of the Life Insurance Companies

The persistency ratios for most of the top life insurers indicate that half of the policies do not sustain even until the 61st month of their issuance. The lower the ratio, the poorer it is. This means that either customers were too enthusiastic about their savings plan and couldn't continue later on due to lower savings or they knew that they'd been sold a subpar product.

Life insurance companies having a lower percentage of customers sustaining policies even in the 13th month, i.e., after just one year of issuance, indicate that a larger number of policies mis-sold, among other reasons.

An extremely alarming number is the percentage of money that life insurers pay on account of surrender, withdrawal or discontinuance or lapse of policies.

b. Surrender, Withdrawal or Discontinuance or Lapse (SWDL) Benefits Paid to Total Benefits Paid By Life Insurance Companies

SWDL to Total Benefits Paid Ratio of the Top 10 Life Insurers

INSURER COMPANY	SWDL AS % OF TOTAL BENEFITS PAID	SWDL IN ₹ CRORES	TOTAL BENEFITS PAID
LIC	34.6%	1,33,803.3	3,86,485.2
AXIS MAX LIFE INSURANCE	62.6%	8,611.0	13,748.9
HDFC Life	58.1%	21,952.7	37,777.0
ICICI PRUDENTIAL LIFE INSURANCE	72.9%	29,975.2	41,130.0
kotak life	38.3%	2,890.1	7,547.0
Birla Sun Life Insurance	72.5%	5,887.5	8,121.5
TATA AIA LIFE	53.1%	3,993.3	7,515.7
SBI Life	62.4%	26,978.2	43,249.0
BAJAJ Allianz	60.5%	7,411.6	12,259.0
pnb MetLife	46.3%	2,252.2	4,863.5

Source: 1 Finance Magazine, Respective Annual Reports of the Life Insurance Companies for FY24

The industry average for surrenders and withdrawals as a percentage of total benefits paid for FY24 was 39.7%[33].

PART 3 - CONFLICT OF INTEREST

Banks typically sell life insurance policies and mutual funds of their group companies' life insurance companies and AMCs, respectively. There is an inherent conflict of interest in selling their group company's products, which again may not be the best products for their customers.

The larger interest being catered to here is the performance of the group as a whole rather than the deeper purpose of manufacturing financial products to serve customers' financial goals.

During FY24, the life insurance commission money made by Kotak Mahindra Bank was derived 100% from selling Kotak Life Insurance's products. 7 out of 10 banks made more than 50% of revenue from the sale of life insurance products by selling their related-party life insurance companies' products.

Commissions Earned by Banks and NBFCs from Related Party Life Insurance Companies in FY24 (in ₹ crores)

S. NO.	BANK/NBFC NAME	TOTAL COMMISSION MADE FROM LIFE INSURANCE BUSINESS	LIFE INSURANCE COMPANIES	COMMISSION PAID TO RELATED PARTIES	% SHARE
1	IDBI BANK	98.0	LIC भारतीय जीवन बीमा निगम LIFE INSURANCE CORPORATION OF INDIA	75.2	76.7%
2	AXIS BANK	1,979.3	AXIS MAX LIFE INSURANCE	1,334.0	67.4%
3	HDFC BANK	3,059.3	HDFC Life	1,657.4	54.2%
4	HDFC securities	119.8		79.1	66.0%
5	ICICI Bank	316.1	ICICI PRUDENTIAL LIFE INSURANCE	315.7	99.9%
6	ICICI HomeFinance	8.2		8.0	98.4%
7	kotak Kotak Mahindra Bank	691.8	kotak life	691.8	100%
8	TATA CAPITAL	75.7	TATA AIA LIFE	34.8	45.9%
9	SBI	2,232.2	SBI Life Apne liye. Apno ke liye.	1,885.9	84.5%
10	BAJAJ FINANCE	355.5	BAJAJ Allianz	101.2	28.5%
11	BAJAJ HOUSING FINANCE	13.8		3.3	23.7%
12	pnb	338.2	pnb MetLife Milkar life aage badhaein	320.3	94.7%

Source: 1 Finance Magazine, Respective Companies' Annual Report FY24

During FY24, 99.1% of the commission money made from the sale of mutual funds by Canara Bank was derived from selling Canara Robeco AMC's mutual fund schemes. 6 out of 10 banks made more than 50% of revenue from the sale of mutual funds by selling their related-party AMCs' mutual fund schemes.

Proportion of Related Party AMC Commission Received by Banks for FY24 (in ₹ crores)

S. NO.	BANK/NBFC NAME	GROSS COMMISSION EARNED FROM SALE OF MFs	NAME OF AMC	GROSS AMOUNT PAID	% SHARE
1	HDFC BANK	790.3	HDFC MUTUAL FUND	202.1	25.6%
2	ICICI Bank	399.9	ICICI PRUDENTIAL ASSET MANAGEMENT	268.9	67.3%
3	AXIS BANK	596.6	AXIS ASSET MANAGEMENT	240.3	40.3%
4	SBI	1,039.3	SBI MUTUAL FUND A PARTNER FOR LIFE	1,000.9	96.3%
5	Union Bank of India	20.7	Union Asset Management	20.2	97.6%
6	केनरा बैंक Canara Bank	50.0	CANARA ROBECO	49.5	99.1%
7	बैंक ऑफ़ बड़ौदा Bank of Baroda	123.6	Baroda BNP PARIBAS MUTUAL FUND	98.6	79.8%
8	kotak Kotak Mahindra Bank	324.5	kotak Mahindra Mutual Fund	101.8	31.4%
9	Bank of India	5.4	Bank of India Mutual Fund	4.3	80.0%
10	HSBC	168.6	HSBC Mutual Fund	40.7	24.1%

Source: 1 Finance Magazine, Respective Companies Annual Reports for FY24, SEBI Disclosures

Companies selected for the related party study were restricted by our ability to extract relevant data.

PART 4 - WHAT DO THE EXPERTS HAVE TO SAY

Mahavir Chopra

Founder, CEO, Beshak.org

"If banks are allowed to cross-sell financial products, they must be held accountable like professional financial planners, not like supermarkets pushing one-time-use items off the shelf.

This report clearly exposes how some banks, driven by commission-linked incentives, are committing what can only be described as borderline financial fraud. Time and again vulnerable individuals, trusting their banks, are being sold long-term, complex products with no regard to suitability or understanding.

The result is financial devastation for families, while banks continue to post record commission incomes. This is a gross betrayal of public trust and there must be strict consequences for every layer involved in a proven mis-sale, from the relationship manager to the senior management in the bank."

Sumit Ramani

Co-founder & Actuary, ProtectMeWell.com

"Mis-selling in life insurance is generally attributed to endowment products (which include participating, non-participating and unit-linked policies) because they offer relatively lower returns when compared to other financial products, I think the real challenge is not the products themselves but selling them to individuals who have different financial goals.

While increasing awareness of end-customers would be a long-term solution, rationalising commissions as opposed to them being front-loaded, implementing clawbacks of commissions in case of early surrenders (a proxy for misselling) and making need-based selling mandatory would go a long way in solving the misselling menace."

Monika Halan

Author and Financial Educator

"Evidence- and data-based reports like this one must move the needle in terms of consumer protection both at the RBI and IRDAI. It is shocking that banks have become dens of mis-selling and cheating when selling insurance products. It is time that the PMO takes note of this malaise that is eroding confidence in banks in India."

Neil Borate

Editor - Personal Finance, LiveMint

"As per Regulation 17 of the SEBI (Investment Advisers) Regulations, 2013, the Investment Advisers are required to ensure that they have a documented process for selecting investments based on the client's investment objectives and financial situation.

While IRDAI regulations may require the insurance agents (including banks and their RMs) to adhere to these principles also, we seldom see any strong action being taken against such intermediaries. That is why, to date, young adults are being sold endowment plans with heavy premiums and old people are being sold ULIPs.

SEBI conducts periodical audits of corporate RIAs and strictly monitors complaints against its registered entities. Even those recommending SEBI-regulated products are investigated and acted against if they're found guilty.

Such measures are required from the insurance regulator's side as well to ensure that unsuitable products are not sold to customers. Surrender norms and the impact on investment of not paying future premiums must be more strongly documented.

Manju Dhake
Senior Vice President- Insurance Advisory Practice, 1 Finance

"To truly curb the menace of mis-selling, we must shift from a product-push mindset (often prioritising sales targets over client interest) to a client-centric advisory approach. This requires regulatory will, stronger enforcement and a complete overhaul of incentive structures.

Distributors and intermediaries must be held to fiduciary standards — recommending only what aligns with a customer's needs and risk profile. Additionally, making financial suitability assessments and need-based selling mandatory, as envisioned in the Bose Committee report, can be a turning point.

The way forward lies in robust disclosures, tighter audit trails and empowering consumers through transparent advice — not commissions. Only then can we begin to restore confidence in the financial system."

CONCLUSION

The mis-selling of insurance products in India remains a significant challenge for the industry. However, strides have been made in terms of regulatory reforms, consumer awareness and improving transparency. The combined efforts of regulators like the IRDAI and SEBI, along with the increasing adoption of digital technologies, are laying the foundation for a more ethical and consumer-friendly insurance market.

For the insurance sector to thrive in India, it is crucial that mis-selling be eradicated and especially through banks, by introducing stronger regulations, consumer education and improved industry practices. With these changes, the Indian insurance sector can regain consumer trust and contribute to the country's economic growth.

CITATIONS

1. Refer to detailed summary for methodology, sources, etc.
2. Total Income refers to NII, Revenue from commission, exchange and brokerage and other income. Refer to page 14 for details.
3. IRDAI Annual Report 2023-24, Page 81.
4. IRADAI *https://irdai.gov.in/evolution-of-insurance*
5. Ministry of Commerce & Industry *https://pib.gov.in/PressReleasePage.aspx-?PRID=2101785#:~:text=FDI%20sectoral%20cap%20in%20the,from%2074%25%20to%20100%25.*
6. AMFI *https://www.amfiindia.com/research-information/aum-data/age-wise-folio-data*
7. AMFI *https://www.amfiindia.com/research-information/aum-data/age-wise-folio-data*
8. Table I.46, Page 39, Annual Report FY 2013-2014, IRDAI,
9. Table I.21, Page 37, Annual Report FY 2023-2024, IRDAI
10. Table I.21, Page 37, Annual Report FY 2023-2024, IRDAI
11. Table 22, Page 39, "INVESTMENTS OF LIFE INSURERS: FUND WISE", Annual Report FY 2004-2005, IRDAI

    Table I.48, Page 40, "INVESTMENTS OF LIFE INSURERS: FUND WISE", Annual Report FY 2013-2014, IRDAI

    Table I.51, Page 77, "INVESTMENTS OF LIFE INSURERS: FUND WISE", Annual Report FY 2020-2021, IRDAI

    Section I.6.4.2 , Page 37, "INVESTMENTS OF

LIFE INSURERS", Annual Report FY 2023-2024, IRDAI

12. Page 1, SEBI Circular SEBI/HO/IMD/DF2/CIR/P/2018/137, Dated – October 22, 2018, "Total Expense Ratio (TER) and Performance Disclosure for Mutual Funds"

13. Page 3, SEBI Circular CIR/IMD/DF/21/2012, Dated - September 13, 2012, Steps to re-energise Mutual Fund Industry"

14. Page 1, SEBI Circular SEBI/HO/IMD/IMD-II DF3/P/CIR/2021/652,Dated – October 27,2021, Guiding Principles for bringing uniformity in Benchmarks of Mutual Fund Schemes.

15. IRDAI Circular dated May 12, 2020, bearing reference number, IRDAI/LIFE/CIR/MISC/116/05/2020: *https://irdai.gov.in/document-detail?documentId=394397*

16. Bima Bharosa Portal *https://bimabharosa.irdai.gov.in/*

17. Table II.9, Page 81, Annual Report FY 2023-2024, IRDAI

18. Table II.3, Page 63, Annual Report FY 2013-2014, IRDAI

19. Table 4, Page 28, "HANDBOOK ON INDIAN INSURANCE STATISTICS 2013-14"

20. Table 99, ""HANDBOOK ON INDIAN INSURANCE STATISTICS 2023-24"

21. Table 4, Page 28, "HANDBOOK ON INDIAN INSURANCE STATISTICS 2013-14"

22. Table II.9, Page 81, Annual Report FY 2023-2024, IRDAI

23. Table A, "Summary of Indian Life Insurance Sector", Page 9, "HANDBOOK ON INDIAN INSURANCE STATISTICS 2019-20"

Table A, "Summary of Indian Life Insurance Sector", Page 9, "HANDBOOK ON INDIAN INSURANCE STATISTICS 2019-20"

24. Table A, "Summary of Indian Life Insurance Sector", "HANDBOOK ON INDIAN INSURANCE STATISTICS 2023-24"

25. Table II.3, "Corporate agents active with Insurance Business", Page 73, Annual Report FY 2023-2024, IRDAI

26. Page 41, IRDAI Annual Report FY21

27. Schedule III, Insurance Regulatory and Development Authority of India (Expenses of Management, including Commission, of Insurers) Regulations, 2023

28. Schedule III, Page 15, IRDAI, Insurance Regulatory and Development Authority of India (Expenses of Management, including Commission, of Insurers) Regulations, 2023

29. Regulation 2(e) of the Insurance Regulatory and Development Authority of India (Expenses of Management, including Commission of Insurers) Regulations, 2023

30. Page 1, SEBI Circular, Dated - October 22, 2018, Circular number - SEBI/HO/IMD/DF2/CIR/P/2018/137, "Total Expense Ratio (TER) and Performance Disclosure for Mutual Funds"

31. Page 1, SEBI Circular SEBI/HO/IMD/DF2/CIR/P/2018/137, Dated - October 22, 2018, "Total Expense Ratio (TER) and Performance Disclosure for Mutual Funds"

32. IRDAI Annual Report for Financial Year 2024.