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ROLE OF 3RD PARTY PRODUCTS IN INDIAN BANKING

Sourabh Khurana

Visiting Faculty, S.C.D. Govt College, Ludhiana, Punjab, India

ABSTRACT

Indian Banking has undergone a significant revolution over the past few decades, where the major focus of bankers has shifted to third-party products, which include insurance and mutual funds, to name a few (Sahu, 2019). Historically, banks have focused on their core products, i.e., Savings A/C, Current A/C, FD, RD, etc., but recently they have shifted to third-party products (Nair & Radhakrishnan, 2020). Banks tie up with insurance and mutual fund companies to sell their products on a commission basis (KPMG, 2017). This paper aims to explore different types of third-party products, their benefits, challenges, and the road ahead (Patel & Sharma, 2021).

Keywords: Indian banking, third-party products, bancassurance, mutual funds, financial services, revenue diversification, regulatory compliance, digital platforms, customer retention, insurance products.

INTRODUCTION

Since the LPG Policy allowed private players to enter the Indian market, the banking industry got revolutionised with the entrance of private players such as ICICI Bank and HDFC Bank (Khanna & Soni, 2018). The core products offered include Savings A/C, A/Current A/C, FD, RD, and various loans. But there has been a recent shift to third-party products. The primary reason for this shift is evolving customer needs and the potential for increasing revenues (Reserve Bank of India [RBI], 2019). Banks tie up with insurance companies to sell life and general insurance (Saxena, 2020). They also partner with Asset Management Companies (AMCS) for selling funds, often linked to their group companies (e.g., HDFC Bank and HDFC AMC) (Kumar & Jha, 2021).

TYPES OF THIRD-PARTY PRODUCTS IN INDIAN BANKING

Insurance Products

Bancassurance, or the distribution of insurance products through banks, has become a significant growth avenue in banking (Singh & Gupta, 2018). Banks offer a wide range of insurance products, including life insurance and general insurance (Malhotra & Sharma, 2019). The rise of digital platforms and mobile apps has further enhanced customer accessibility to these products, thereby driving higher penetration across urban and rural markets (Nair, 2020).

Mutual Funds

Banks collaborate with AMCS to offer mutual funds, which have gained considerable popularity among Indian retail investors, especially those seeking systematic investment plans (SIPS) (Chopra & Dutta, 2019). Banks play a crucial intermediary role in providing customers with easy access to various mutual fund schemes (Kumar, 2020). The growth of financial literacy, coupled with the increasing use of digital banking platforms, has contributed to the uptick in mutual fund investments (Sharma & Kapoor, 2020).

Wealth Management Products

In tandem with India's expanding affluent middle class, wealth management services are becoming increasingly prominent in the banking sector (Jha, 2021). Services such as portfolio management, investment advisory, structured products, and direct equity investments are now being offered to high-net-worth individuals (HNIS) and retail investors (Patel & Agarwal, 2020). These services are intended to cater to the growing demand for personalised financial planning (Sharma & Dey, 2021).

Personal Loans and Credit Cards

Banks offer personal loans and credit cards in collaboration with third-party lenders, including NBFCS and fintech platforms (Ghosh, 2019). The rise of digital lending platforms has made it easier for customers to access loans and credit cards via digital banking apps, enhancing financial accessibility (Singh, 2020).

DRIVERS OF GROWTH

Changing Consumer Preferences

The rise of tech-savvy consumers, particularly millennials and Generation Z, is a key driver behind the growing demand for third-party financial products (Kapoor, 2019). Younger consumers are increasingly drawn to digital platforms that offer easy access to diverse financial services (Patel & Mehta, 2021). These shifts in consumer behaviour are prompting banks to innovate and expand their product offerings (Nair, 2020).

Technological Advancements

The digitalisation of Indian banking has enabled banks to distribute third-party products efficiently (Bansal & Sharma, 2019). Mobile banking apps, digital Know-Your-Customer (KYC) processes, and AI-powered financial advisory services have facilitated the distribution of these products to a broader customer base (Gupta & Joshi, 2020).

Regulatory Developments

India's regulatory environment has contributed significantly to the growth of third-party products (RBI, 2021). The introduction of the Goods and Services Tax (GST), the development of the National Payments Corporation of India (NPCI), and the push for financial inclusion by the Reserve Bank of India (RBI) have all fostered an environment conducive to the distribution of third-party financial products (Sharma, 2020). Additionally, regulatory frameworks such as SEBI's oversight of mutual funds ensure greater transparency, building consumer confidence (Saxena, 2020).

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BENEFITS OF THIRD-PARTY PRODUCTS

Revenue Diversification

Third-party products serve as a vital source of bank revenue diversification (Chopra, 2019). Traditionally dependent on interest income from loans and deposits, banks now earn commissions and fees from the distribution of third-party products such as insurance, mutual funds. (Bansal & Gupta, 2019). This additional revenue stream helps mitigate risks posed by fluctuating interest rates (RBI, 2020).

Customer Retention

The provision of a broad range of third-party products enables banks to act as comprehensive financial service providers, enhancing customer engagement and retention (Patel & Mehta, 2021). By offering one-stop solutions for a variety of financial needs, banks increase their value proposition and foster long-term customer loyalty (Kumar & Dey, 2020).

Access to New Customer Segments

Through the distribution of third-party products, banks can reach previously untapped customer segments, particularly younger, digitally native consumers (Kapoor & Jain, 2021). Digital platforms and online services have provided a gateway for these customers to engage with products such as mutual funds and Insurance (Chopra, 2020).

CHALLENGES IN THE DISTRIBUTION OF THIRD-PARTY PRODUCTS

Regulatory Compliance

The distribution of third-party products requires banks to comply with complex regulatory frameworks (KPMG, 2021). Banks must adhere to various disclosure requirements, conduct due diligence on products, and prevent mis-selling (RBI, 2020). Failure to comply with these regulations may result in reputational damage and legal penalties (Sharma, 2020).

Competition from Fintechs

Fintech companies have emerged as formidable competitors in the distribution of third-party products (Saxena, 2021). Digital platforms offering loans, mutual funds, and insurance directly to consumers have raised the competitive bar for traditional banks (Patel & Gupta, 2020). As a result, banks must innovate and develop digital-first strategies to retain market share (Bansal & Gupta, 2020).

Risk of Mis-Selling

Mis-selling of third-party products remains a significant challenge (Saxena, 2020). Customers may be sold financial products that do not align with their needs or risk profiles (Sharma, 2020). To mitigate this, banks must invest in training programs for sales personnel and implement robust customer-centric advisory services (Gupta & Joshi, 2020).

Pressure on Employees

Sales professionals in banks face immense pressure to sell insurance and mutual fund products (Ravi, 2021). There have been reports of banking professionals quitting due to the stress of meeting sales targets and the humiliation they face from managers (Patel, 2021).

Future Outlook

The role of third-party products in the Indian retail banking sector is expected to continue growing (Saxena, 2021). As digital platforms and fintech innovations thrive, banks will need to enhance their digital offerings and expand their partnerships with third-party institutions (Nair, 2020). The ongoing push for financial inclusion and growing demand for personalised financial solutions will drive further adoption of third-party products across the country (RBI, 2021).

CONCLUSION

Third-party products have become a significant component of the Indian retail banking sector, offering opportunities for revenue diversification, enhanced customer engagement, and improved financial inclusion (Sahu, 2019). Despite challenges such as regulatory compliance and competition from fintech companies, the benefits of third-party product distribution far outweigh the risks (Bansal & Sharma, 2020). Going forward, banks must focus on innovation, digital transformation, and customer-centric strategies to leverage the growing demand for diverse financial solutions (Sharma & Kapoor, 2021).

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