# Cross-selling: A Blueprint for PSBs

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In the world of banking, cross-selling refers to banks selling or rendering non-bank products or services which may not be the same as banking products or services but, at the same time not entirely unrelated. Cross-selling provides an opportunity to banks as well as non-banks to mutually upscale their operations and increase their profits, and simultaneously offer a one-stop solution for customers' diverse financial requirements. Thus, banks/non-banks stand to reap economies of scale and scope, and consumers benefit by way of minimizing the cost of search, maximizing convenience and gaining from professional advices. Thus, cross-selling is designed to be a win-win for both financial services providers and customers, and therefore, many researchers have conceptualized banks as financial superstores.

In the western world, the origin of cross-selling in financial services is a post-80's phenomenon that began with the Prudential Insurance Company, the then insurance major, acquiring Bache Group Inc., a mid-sized stock broking firm with the objective of providing cross-selling opportunities for its life insurance agents and Bache's stockbrokers. Some of the subsequent big mergers such as Sears Roebuck (credit cards) with Dean Witter (stocks, bonds and money market funds), and American Express Company (credit cards) with Shearson Loeb Rhoades (stocks and bonds) also aimed at capitalizing on cross-selling.

As for banks, the mergers of Wells Fargo & Co., with Wachovia Securities, and Bank of America with Merrill Lynch Wealth Management strived for boosting their declining profits by strategizing cross-selling. Today, several MNC banks are financial superstores that rely on cross-selling not only to increase their customer base and revenues, but also, to diversify their risks. However, in exchange, such financial conglomerates create regulatory risks and sometimes become so big that if they fail, they have to be rescued even at the cost of taxpayers' money (commonly referred to as 'too-big-to-fail' in finance literature). The 2008-09 financial crisis amply exemplifies this.

### The Indian Story

Cross-selling is relatively new to the Indian banking. Historically, the Public Sector Banks (PSBs) were rather 'compelled' to enter into cross-selling in the 2000's; the compulsion was to protect their profit frontiers from the onslaught by (a) sharp reduction in Net Interest Income (NIM), triggered by the interest rates deregulation leading to lending rates declining faster than deposit rates, (b) downward stickiness in 'Burden', mainly sourcing from 'autonomous' increases in wages and salaries of their employees and (c) application of the prudential norms. The situation exacerbated in the 2010s following economic slowdown and the associated clamor for lending rate reductions, and largescale loan defaults.

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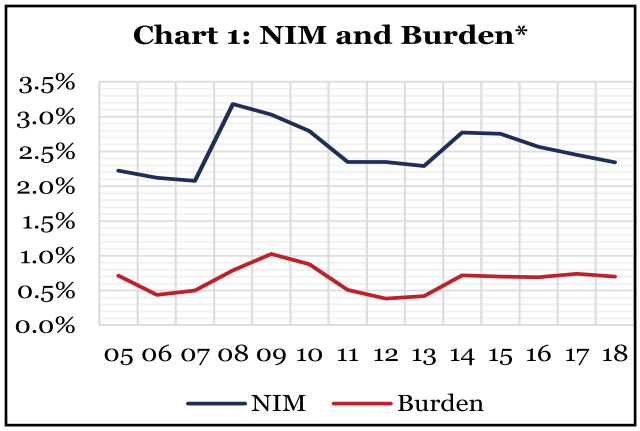
Chart 1 illustrates the behavior of NIM and Burden for the period 2005-18 for PSBs.




** Ratio to Total Assets. Based on RBI data.*

Thus, the 'compulsion' to enhance profits through new activities, especially fee-based ones, which, unlike lending, didn't attract the prudential norms, by utilizing the existing manpower and brick-and-mortar set-up, pushed banks to consider cross-selling.

This was aided by regulatory enablers jointly instituted by the Securities and Exchange Board of India and Reserve Bank of India (RBI) (for marketing Mutual Funds – MF - and capital market related services), and the Insurance Regulatory and Development Authority of India (IRDAI) and RBI (for marketing insurance products). Besides, the Banking Regulation Act, 1949 was congenially amended.

**Cross-selling by Banks - Status**

Basically, banks sold insurance - life and general (including health) - and MF products. Sale of insurance products by banks (commonly referred to as bancassurance) also included those under government-sponsored programmes for weaker sections. Besides, a few undertook such capital market related services as Depository Services and Broking facility to their demat account holders, Cash Management Services and Cards business.

Although considerable time has elapsed, PSBs' performance in regard to cross-selling remains lackluster. Before providing quantitative evidence for this, it must be stated that there is no reliable aggregative database for cross-selling. The data, as disclosed in bank Annual Reports, are scanty, unclear, poorly classified and internally inconsistent, which may be reflective of banks' lightheartedness towards cross-selling. There are conceptual issues too, as many banks report MF activities under bancassurance. Annexure 1 presents an indicative format for banks to report data related to cross-selling activities in their Annual Reports.

**Income from Cross-selling**

Income from cross-selling has been computed for 2017-18 encompassing a cross-section of 41 Scheduled Commercial Banks (SCBs) – 21 PSBs comprising State Bank of India (SBI) and 20 Nationalized Banks (NBs), and 19 Private Banks (PBs) comprising nine New (NPBs) and 11 Old (OPBs). Results have been derived after making minor but prudent adjustments to the published data in the bank Annual Reports. Results are analyzed by the bank groups.

***Aggregate Income***

Table 1 presents the total income from cross-selling.

**Table 1: Total Cross-selling Income**

(₹ billion)

| Bank | Total Cross-selling Income |
|---|---|
| SBI (1) | 16.3 |
| NBs (20) | 10.3 |
| **PSBs (21)** | **26.6** |
| NPBs (9) | 55.7 |
| OPBs (11) | 1.9 |
| **PBs (20)** | **57.6** |
| **All Banks (41)** | **84.2** |

During 2017-18, PSBs generated an income of ₹26.6 billion from cross-selling, which was whopping 53.7% below that accrued to PBs at ₹57.6 billion (52.2% below NPBs). Thus, out of the ₹84.2 billion of income that accrued to SCBs, PSBs contributed just 31.6% as against PBs at 68.4%. It is noteworthy here that within the PSBs segment, SBI contributed 61.2%, and within the PBs segment, the nine NPBs contributed 96.7%.

***Activity-wise Income***

Table 2 presents the income analysis decomposed into various cross-selling activities undertaken by banks. It must be noted that, since segment-wise incomes were not available for one OPB and one NPB, those were excluded from computation in Tables 2 and 3. Therefore, to that extent, the 'PBs' and 'All Banks' figures differ from those in Table 1.

**Table 2: Business Segment-wise Cross-selling Income**

(Amount in ₹ billion)

| Bank | Insurance | Mutual Funds | Capital Market related | Others | Total |
|---|---|---|---|---|---|
| SBI (1) | 9.3 | 5.6 | 0.1 | 1.4 | 16.3 |
| | (56.8%) | (34.4%) | (0.3%) | (8.5%) | (100.0%) |
| NBs (20) | 9.3 | 0.8 | 0.01 | 0.2 | 10.3 |
| | (90.2%) | (8.1%) | (0.1%) | (1.5%) | (100.0%) |
| **PSBs (21)** | **18.6** | **6.4** | **0.1** | **1.5** | **26.6** |
| | **(69.8%)** | **(24.2%)** | **0.2%)** | **(5.8%)** | **(100.0%)** |
| NPBs (8) | 34.0 | 20.0 | - | 0.9 | 54.9 |
| | (62.0%) | (36.4%) | (0.0%) | (1.7%) | (100.0%) |
| OPBs (10) | 1.7 | 0.04 | 0.03 | 0.001 | 1.8 |
| | (95.9%) | (2.2%) | (1.8%) | (0.1%) | (100.0%) |
| **PBs (18)** | **35.8** | **20.0** | **0.03** | **0.9** | **56.7** |
| | **(63.1%)** | **(35.3%)** | **(0.1%)** | **(1.6%)** | **(100.0%)** |
| **All Banks (39)** | **54.4** | **26.5** | **0.1** | **2.5** | **83.4** |
| | **(65.2%)** | **(31.7%)** | **(0.1%)** | **(3.0%)** | **(100.0%)** |

*Figures in brackets give percentage to total.*

For PSBs, insurance business yielded 69.8% of their cross-selling income - NBs at a high of 90.2% and SBI at 56.8%. Contrastingly, PBs received 63.1% of their cross-selling income from insurance - NPBs (62.0%) and OPBs (95.9%). NPBs were more active in MF business, with 36.4% of their cross-selling income emanating therefrom. SBI was close on heels at 34.4% as against NBs at 8.1%.

### *Income from Insurance – Life vs. General*

Table 3 presents data on the composition of income from insurance.

**Table 3: Cross-selling Income from Insurance - Composition**

(Amount in ₹ billion)

| Bank | Life | General | Total |
|---|---|---|---|
| SBI (1) | 7.1 | 2.1 | 9.3 |
| | (77.1%) | (22.9%) | (100.0%) |
| NBs (20) | 6.2 | 3.1 | 9.3 |
| | (66.2%) | (33.8%) | (100.0%) |
| **PSBs (21)** | **13.3** | **5.3** | **18.6** |
| | **(71.6%)** | **(28.4%)** | **(100.0%)** |
| NPBs (8) | 29.1 | 4.9 | 34.0 |
| | (85.6%) | (14.4%) | (100.0%) |
| OPBs (10) | 1.3 | 0.5 | 1.7 |
| | (73.2%) | (26.8%) | (100.0%) |
| **PBs (18)** | **30.4** | **5.4** | **35.8** |
| | **(85.0%)** | **(15.0%)** | **(100.0%)** |
| **All Banks (39)** | **43.7** | **10.6** | **54.4** |
| | **(80.4%)** | **(19.6%)** | **(100.0%)** |

*Figures in brackets give percentage to total.*

Life insurance business dominated across bank groups; total income in respect of PBs being more than double that in respect of PSBs. As for general insurance, although PSBs and PBs earned almost the same income, the share in respect of the former was a little below twice of the latter.

### *Inequality in Cross-selling Income*

Table 4 reveals the extent to which cross-selling income was unequally distributed across banks in the bank groups.

**Table 4: Cross-selling Income - Distribution among Banks**

| Bank Group | Share of the Top | Share of the Rest (Range) | Group CV* |
|---|---|---|---|
| NBs | **Five** banks (BoB, BoI, Canara, PNB and Union): 65.5% | 15 banks: 0.2% - 6.5% | 255.9% |
| NPBs | **Three** banks (Axis, HDFC and ICICI): 84.8% | Six banks: 0.2% - 8.1% | 220.6% |
| OPBs | **Four** banks (Federal, J & K, KBL and RBL): 70.5% | Seven banks: 0.5% - 8.6% | 104.1% |

** Coefficient of Variation.*

Among NBs, the distribution of cross-selling income was highly skewed with only five banks cornering nearly 66%; among NPBs, three banks cornered as much as 85%, and in the case of OPBs, four banks commanded over seven-tenth. The CV values indicated the highest skewness among PSBs, followed in succession by NPBs and OPBs.

In general, PSBs and NPBs with Joint Ventures (JVs)/ subsidiaries for cross-selling businesses performed better than the others.

### Contribution to Other Income

Let us examine the extent to which cross-selling income supplemented the 'fee-based income' of banks, as it was one of the objectives postulated in favour of diversification by banks into non-bank businesses. For this purpose, 'fee-based income' has been taken as the "commission, exchange, brokerage income" as in Schedule 14 of the bank balance sheets. Chart 2 presents the ratio of cross-selling income to fee-based income.

The 41 banks derived a little over a tenth of their fee-based income from cross-selling. In respect of

PBs, the contribution of cross-selling income to fee-based income at 13.7% was more than double that of PSBs. Within PSBs, the contribution in respect of SBI exceeded that of NBs by 130 bps. Within PBs, the contribution in respect of NPBs was more than twice that of OPBs.

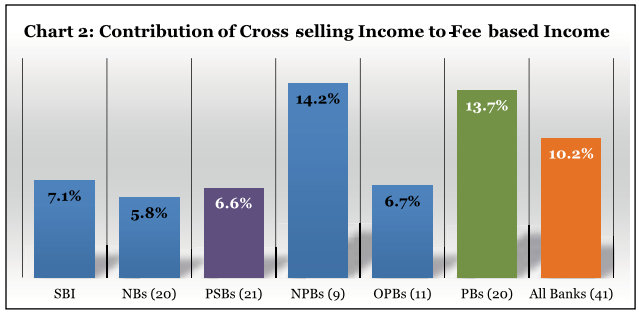



Table 5 presents the frequency distribution of the contribution bank group-wise.

**Table 5: Cross-selling Income/Fee Income - Frequency Distribution of Banks**

| Range | SBI | NBs | NPBs | OPBs | Total |
|---|---|---|---|---|---|
| < 5% | | 10 | 3 | 2 | 15 |
| =>5% but < 10% | 1 | 7 | 0 | 3 | 11 |
| =>10% but < 15% | | 2 | 3 | 1 | 6 |
| =>15% but < 20% | | 0 | 3 | 1 | 4 |
| =>20% | | 1 | | 4 | 5 |
| ***Total*** | ***1*** | ***20*** | ***9*** | ***11*** | ***41*** |
| *CV* | | *77.38%* | *64.99%* | *89.75%* | *101.71%* |

Half of the NBs contributed below five percent. It was slightly better in respect of OPBs with nearly half of them contributing less than 10% and almost a third =>20%. The NPBs can be said to have put forth the best show with two-third contributing =>10% to <20%.

In sum, cross-selling activities are at an embryonic stage in the Indian banking sector, especially in the case of PSBs. PSBs would need considerable time to achieve meaningful width and depth. Fortifying these activities, in a sustainable manner, would necessitate (a) PSBs' willingness to harness the opportunities and (b) an adequately supportive regulatory regime which should also ensure a level-playing field among various player groups. Some of the policy proposals are discussed below, which may also be applicable to bank groups other than PSBs.

## Action Plan

### *Spurring PSBs' Engagement*

Even allowing for differences in regulatory treatment between PSBs and PBs, the above-mentioned performance 'dichotomy' is clearly reflective of the PSBs' lackadaisical attitude towards cross-selling. However, given the financial conditions of PSBs today, increasing the cross-selling income needs to be considered as a 'necessary virtue'. Working towards this, PSBs need to reinvigorate their policy stance and operational endeavors.

First, at the corporate level, PSBs need to accord 'explicit' recognition to cross-selling as a 'major' revenue generator and create a 'dedicated' vertical for this purpose.

Second, non-bank products are genetically 'push' products, and the markets are fiercely competitive with several established and specialized players, including non-banks. Moreover, the regulatory playing field is skewed against PSBs in some respects. Therefore, PSBs need to generate the required marketing thrust by establishing a dedicated army of staff with relevant qualifications and special skillsets, to be bolstered by bank-specific training, instead of routine staff postings. Remuneration must be a judicious mix of salary and performance-linked incentives not only to ensure optimum results and innovations, but also, to eschew poaching or job hopping.

Third, India, unequivocally, provides a fertile ground for non-bank businesses; for example, insurance penetration is woefully low (2017: 3.69)[1], and peoples' blooming interest in MF investments is as recent as the post-Demonetization period. Further, the country is home to novel techno-financial prerequisites. Therefore, PSBs need to do their own SWOT (Strength, Weakness, Opportunity, Threat) analyses and decide on entering the cross-selling turf.

Fourth, there is innate, howsoever denied, resistance among the PSB staff as to why should they sell nonbank products in preference to banking products, in which they are adept and which gives them their living? Thus, mindset changes are necessary through appropriate incentives and motivational training so as to iron out incompatibilities between bank and non-bank cultures. For example, Bank of America lost Merrill Lynch brokers because the former 'insisted' that the latter sold bank products to their investment clients.

Finally, it is observed that PSBs who have their own JVs/subsidiaries for non-bank products, generally the stronger ones, garner more income from cross-selling; but such a step is well-nigh impossible in the near future, as several PSBs are deplorably capital-deficient with many under Prompt Corrective Action regime.

### *Making Regulations Simple*

Regulatory signals have been conflicting, recently. The January 2018 Enhanced Access and Service Excellence (EASE) reforms agenda by the Department of Financial Services had proposed PSBs to be developed as "Suite of financial services for one-stop access to customers". Subsequently, in September, the Department advised them not to pay commission to their employees selling non-bank products but book it as income for the bank.

Mis-selling in non-bank businesses is common and a global phenomenon, and attributing it to higher commission *alone* would be strategically wrong. One of the most significant, empirically observed factors is pressure from CXOs on the sales force to achieve targets (e.g., Wells Fargo 'misconduct' of 2016 in pursuance of their "Good to Gr8" strategy). Moreover, in the Indian context, routinely posting unskilled personnel as sales agents and their lack of comprehensive product knowledge, especially while simultaneously handling both banking and cross-selling; no customer discipline on agents; financial innumeracy about non-bank products which are more complex than banking products; and poor grievance redressal systems[2] instigate mis-selling. Therefore, efforts must be made to ameliorate these, instead of annulling incentives.

### Concluding Remarks

Ultimately, PSBs need to decide whether to diversify into non-bank businesses or not. Increased digitization, along with the avalanche of techno-financial innovations that is advancing, will, slowly but surely, open new vistas for cross-selling. However, sans specialized and dedicated manpower, and appropriate incentive structure and quantum, PSBs should stick to "Pure Banking, Nothing Else" (once SBI's tagline). Simultaneously, the authorities need to be considerate while asking each PSB to become an Amazon superstore, until a durably supportive policy regime is instituted.

### References


1. Bank Annual Reports
2. Investopedia
3. IRDAI, Annual Report, 2017-18
4. RBI, Statistical Tables Relating to Banks in India, 2018


1 IRDAI, Annual Report, 2017-18, pp.5.

2 Despite the RBI notification dated June 23, 2017, which widened the scope of its Banking Ombudsman Scheme 2006 to include deficiencies arising out of selling insurance, mutual fund, and other third-party products by banks.

## Annexure: Suggested Indicative Format for Banks to Report Cross-selling Details in their Annual Reports For the Financial Year:

**Bancassurance Activities**

1. Number of companies on behalf of which business was solicited:
   a. Life
   b. General (including health)
2. Number of policies sold:
   a. Life
   b. General (including health)
3. Number of government-sponsored policies sold and included under serial Number2
   a. Life
   b. General (including health)
4. Premium income earned:
   a. Life
   b. General (including health)
5. Commission earned:
   a. Life
   b. General (including health)
6. Commission distributed among the staff, agents, etc.:
7. Commission recognized as income under P&L Account:

**Mutual Fund Activities**

1. Number of AMCs on behalf of which business was solicited:
2. Commission earned:
3. Commission distributed among the staff, agents, etc.:
4. Commission recognized as income under P&L Account:

**Other Non-Bank Activities**

(List the activity, total commission earned, commission distributed and commission recognized as income in P&L Account.)