

RBI's misselling proposals may reshape how retail game is played hereupon

BS [business-standard.com/opinion/columns/rbi-s-misselling-proposals-may-reshape-how-retail-game-is-played-hereupon-126032200717_1.html](https://www.business-standard.com/opinion/columns/rbi-s-misselling-proposals-may-reshape-how-retail-game-is-played-hereupon-126032200717_1.html)

Raghu Mohan

March 22, 2026



Illustration: Binay Sinha

It is without doubt a far-reaching customer-centric move: Mint Road is taking a hard look at the manner in which regulated entities (REs) go about hawking their products and services. Its draft amendment directions for “Advertising, Marketing and Sales of Financial Products and Services” has defined misselling for the first time, and a code of conduct for the marketing and sales force is in the works. The runaway growth in retail credit and incentives offered by lenders to employees to meet targets may well be under the scanner going ahead.

But is this over-reach by Mint Road? “I can tell you that as far as SBI is concerned, we had addressed the issue (of misselling) back in 2019. The incentive structure was such that it never aided misselling,” says State Bank of India’s former chairman, Dinesh K Khara. “My point is that the draft when made operational should not be such that it becomes extreme and affects bancassurance. Setting up a distribution channel takes both capital and time.”

The lending fraternity should have seen the Reserve Bank of India (RBI) moving in; the signs were there. In December last year, it announced a special two-month campaign (from January 1 to February 29 this year) to clear customer grievances pending with the RBI’s Ombudsman for more than a month. If at all there is a surprise, it is that the RBI waited far too long to step in. In 2017, former deputy governor S S Mundra drew attention to the large number of misselling complaints. The underlying reasons: Challenging targets set for

employees, incentive-linked quotas, lack of training, and quick rotation of frontline staff. Plus, the lack of coordination between back and front offices weakened customer protection and made it inconvenient for the complainants to approach the authorities for redress.

As for over-reach by RBI now, "I've seen misselling cases come down meaningfully over time — thanks to the layers of checks and controls now in place, with stringent norms on product suitability to enhanced KYC and grievance redressal mechanisms," feels Shyam Srinivasan, former managing director (MD) and chief executive officer (CEO), Federal Bank. "That said, a salesperson will try to be a salesperson. Incentives drive behaviour and in high-pressure environments, the temptation to stretch boundaries lingers. So, the vigil has to be tight and rewards have to be tied to quality".



“RBI’S DRAFT WHEN MADE OPERATIONAL SHOULD NOT BE SUCH THAT IT AFFECTS BANCASSURANCE”

DINESH K KHARA
Former chairman, SBI



“A SALESPERSON WILL TRY TO BE A SALESPERSON. VIGIL HAS TO BE TIGHT; REWARDS TIED TO QUALITY”

SHYAM SRINIVASAN
Former MD & CEO, Federal Bank

Lenders' burden

The RBI's "Annual Report of Ombudsman Scheme FY25" gives you a sense of the complaints — by type of RE, product and geography — but the word "misselling" does not figure in it (even as the Insurance Regulatory and Development Authority of India in its annual report details the extent of the problem). This is a drawback on the data front in the Ombudsman framework — after all, many of the RBI's REs are financial conglomerates.

You also have faultiness in the way the system has been conceived. Unlike asset management and insurance — where the entire value chain is regulated — the lending ecosystem remains largely lender-centric in its oversight. "This creates gaps. For instance, in mortgage lending, property valuation plays a critical role in determining loan eligibility. While urban valuations are relatively transparent, rural markets often rely on subjective assessments," points out Gaurav Gupta, founder-MD & CEO, Tyger Capital. His solution: A centralised repository of property valuations, similar to credit bureaus. As for intermediaries who source loans and operate with limited regulatory oversight (with most of the responsibility placed on lenders), he is for "bringing them under a supervisory framework to help standardise practices and reduce misaligned incentives."

A target-driven culture also creates pressure to prioritise disbursement over suitability, particularly in fast-growing unsecured credit segments. "With digital lending making credit extremely frictionless, loans can be pushed quickly without fully assessing repayment capacity," notes Ritesh Srivastava, founder and CEO of FREED, the country's only retail debt relief platform. The way out is to "align incentives to portfolio quality rather than pure origination, enforcing affordability-based underwriting and building stronger guardrails in digital lending."

At another level, there is a sense that the RBI's draft does not go far enough. "It addresses the visible symptoms, but one can argue that these are relatively superficial in the face of the structural conflict that remains," feels Ameya Khandge, partner, banking and finance, Trilegal. His point is it should be left to the banks to articulate and monitor what is suitable for them. The RBI should have provided some sort of guideline or architecture within the bounds of which suitability should be defined and implemented by REs.

Policies should require assessing the suitability of the products sold to customers. Employee performance metrics must incorporate suitability outcomes alongside sales volumes. "Without this, the regulatory burden falls on creating more paper trails of consent while the underlying incentive structure that manufactures misselling is left undisturbed," says Khandge. Consequences too are relatively light-touch. Combined with stricter policies,

consequences need to escalate meaningfully. Upstream, board-level accountability could be considered. Obligations have been cast on institutions, but impose no individual accountability on those who preside over systemic failure.

Balancing act

It is tough to draw neat lines in the misselling debate. “Ex-ante regulations only work when backed by ex-post accountability. If misselling is found, there must be meaningful sanctions — and compensation to the customer. At the same time, we cannot be so paternalistic that we strip customers of the right to make their own choices,” feels Renuka Sane, MD, TrustBridge. “It is a tough balancing act: How to protect without being intrusive; how to hold sellers accountable without tipping into a world where every transaction is second-guessed.”

It brings us to RBI penalties. The “Report on Trend and Progress of Banking in India FY25” has it that penalties on REs amounted to ₹54.78 crore in 353 instances (down from the ₹86.11 crore and 281 in FY24). RBI penalties are small compared to the hundreds of millions of dollars charged globally. The highest penalty by RBI till date is ₹58.9 crore in March 2018 on ICICI Bank for failing to adhere to directives regarding the sale of securities from its held-to-maturity portfolio.

The RBI’s draft also puts the spotlight on the B P Kanungo Committee report on “Review of Customer Service Standards in RBI REs (2023)”. Headed by the former RBI deputy governor, it made a case for an enforceable Charter of Customer Rights, an independent internal ombudsman funding mechanism, mandatory audit of cross-selling practices, and a Customer Service and Protection Index. It held that “cross-selling of third-party products by the sales team of the RE should be subject to verification by the audit function to ensure that there was no misselling and all instructions/guidelines with respect to sale of such products were adhered to.” Perhaps, these should be revisited in conjunction with the RBI’s draft directions.

What’s misselling

It is the sale of a financial product or service, whether its own or third party, by a bank in the following ways

- Sale of a product or service neither suitable nor appropriate based on a customer’s profile even if with their explicit consent
- Sale without providing correct, complete information or by giving misleading information
- Sale without customer’s explicit consent
- Compulsory bundling of another product or service with a sale

- Sale of a product or service involving any other element defined by a regulator as misselling

Source: Draft RBI (Commercial Banks - Responsible Business Conduct) Amendment Directions, 2026