Financial product mis-selling: It's time to close all gaps

DEEPTI GEORGE & AVIGYAN MITRA

are, respectively, founder, Yutadhi, a financial services think-and-action tank; and founder, Zenoa, a health insurance advisory firm.

The Reserve Bank of India (RBI) recently issued draft amendments to its Responsible Business Conduct Regulations. These cover the advertising, marketing and sales of financial products and services by banks, non-bank financial companies and other all-India financial institutions either by their own staff or by direct sales or marketing agents.

The most consequential element in RBI's proposals is that for the first time they define 'mis-selling' to include any sale of a product or service that is neither suitable nor appropriate for a customer profile even with customer consent. Providing incomplete, inaccurate or misleading information, compulsorily bundling products or engaging in dark patterns will also constitute mis-selling.

The fact that consumer consent alone will not be enough to defend a sale dismantles one of the industry's most cynically deployed defences against consumer complaints. RBI's prohibition on compulsory bundling is equally significant. Tying insurance policies to loan disbursals, unit-linked insurance policies to locker access or mutual funds to savings accounts has been one of the most systematic forms of financial mis-selling in India. Provisions against dark patterns—or interfaces designed to trick or manipulate online users into action—were overdue. False urgency, drip pricing, subscription traps, pre-ticked boxes and trick wording are named explicitly.

For a country where mis-selling via bancassurance has been structurally embedded in retail distribution for decades, these provisions represent a meaningful regulatory shift. However, having studied the draft carefully, we believe it contains gaps that, if not addressed before final notification, will let the very practices it seeks to eliminate continue largely undisturbed.

One, the draft requires regulated entities to determine the suitability and appropriateness of a product for a customer based on an analysis of age, income, financial literacy, risk tolerance and other factors, but it does not specify how this suitability is to be documented, what minimum questions must be asked, what format the documentation must take or how it will be verified by regulators or ombudsmen in a dispute. We need standardized, product-specific suitability questionnaires that must be completed before sale, retained for at least seven years and produced on demand in any ombudsman or consumer forum proceeding. It should be short enough to be practical and specific enough to be meaningful. Alternatively, we need clear product-specific principles that must be upheld in the sale process and supervision that has razor-sharp clarity on whether these are being upheld or not.

RBI's recent proposals make a good start but far more must be done to curb rampant malpractices

Two, the draft does not specify who is to establish mis-selling, through what process, within what timeline, with what burden of proof and subject to what independent oversight within a bank. A regulation that defines mis-selling but leaves its adjudication interpretively open to the sale-maker may result in ineffective and costly 'process' theatrics. An institution's incentive will be to keep its 'mis-selling' threshold low and make its redressal process sufficiently burdensome to exasperate complainants into giving up. We have seen this pattern in banking grievance processes. What's needed is an explicit, time-bound internal escalation process, say 21 days from complaint to outcome, with automatic escalation to the RBI Ombudsman if the internal process is not resolved within that window.

Three, post-sale feedback systems are too weak. The 30-day window set by RBI is poorly calibrated for many financial products. The surrender or cooling-off period for many insurance policies is already 15 to 30 days from policy document receipt. By the time post-sale feedback is sought and processed, the window for a cost-free exit mandated by the Insurance Regulatory and Development Authority of India (IRDAI) may have closed. The feedback mechanism needs to be operationalized within 7 to 10 days of sale; critically, customers identified as possible victims of mis-selling need to be informed of their exit options within the same communication.

However, the biggest challenge may lie in inter-regulatory jurisdictional gaps. The proposals apply to RBI-regulated entities, not insurance agents, individual brokers, insurance marketing firms, web aggregators and direct sales teams of insurers. As agents and the like account for the bulk of life insurance policy sales, a vast majority of mis-selling complaints in this field may be happening in channels that RBI's draft can't touch. According to the IRDAI, 'unfair business practices' accounted for 22% of complaints filed against life insurers in 2024-25. Consider an agent who advises a customer not to disclose a pre-existing condition, a broker who recommends a policy based on the highest commission slab rather than the customer's needs, or a web aggregator that manipulates its rankings to favour certain products. None of these actors falls within the RBI draft's scope.

What we have are rules that address one distribution channel while leaving others largely as they are—in effect, we have regulated one lane of a six-lane highway.

Fixes are needed. The IRDAI must issue a parallel framework. Together, RBI and IRDAI must create a coordination mechanism to ensure that the same standards apply across all distribution channels of the same product. The Financial Stability and Development Council, led by the finance minister, offers an institutional mechanism for such coordination. It must be used.