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RBI Proposes Ban on Third-Party Sales Incentives to Curb Mis-Selling

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The **Reserve Bank of India (RBI)** has proposed draft guidelines **to ban incentives paid by third parties to bank staff for selling third-party financial products** such as insurance, mutual funds, and pension products. This move is aimed at curbing the mis-selling of financial products, enhancing consumer protection, and improving ethical sales practices in the banking sector.

The draft is part of the **'Advertising, Marketing and Sales of Financial Products and Services by Regulated Entities' amendment directions**, and the public can submit feedback by March 4, 2026. The proposed rules are expected to come into effect on July 1, 2026

Key Proposals in RBI's Draft Guidelines

Ban on Third-Party Incentives: No bank employee engaged in marketing or sales of third-party products should receive direct or indirect incentives from the third party (such as insurance or mutual fund companies). This is to prevent commission-driven selling practices.

No Forced Bundling of Products: Banks will be prohibited from bundling third-party products with their own products or making the sale of a bank product contingent on buying a third-party product. Customers must be free to choose providers.

Definition of Mis-Selling: Mis-selling includes selling products that are unsuitable or inappropriate for a customer's profile (age, income, risk appetite), providing misleading or incomplete information, or selling without explicit consent.

Prohibition of "Dark Patterns": Banks must ensure their digital user interfaces do not use deceptive designs that trick or manipulate customers into purchases, such as fake urgency, pre-ticked boxes, or confusing cancellation flows.

Compensation & Refunds: If mis-selling is proven, banks must refund the entire amount paid by the customer and compensate for any losses incurred.

Customer Consent & Suitability Checks: Products may be sold only with explicit consent, and banks must assess suitability based on customer attributes like risk profile and financial literacy.

Customer Feedback Mechanism: Banks must implement mechanisms to seek customer feedback within 30 days of any sale, and use this data to review product offerings and policies.

Rules for Sales Agents (DSAs/DMAs): Conduct norms for direct selling agents and direct marketing agents include visible identification and restrictions on contact hours (normally 9 am–6 pm).

What is Mis-Selling?

Mis-selling refers

It has been a **long-standing consumer protection concern** in banking, with customers sometimes being pushed into buying insurance or investment products they do not understand.

Why RBI Is Focusing on This Now

The proposal comes amid increasing concerns about banks and third-party product distributors using aggressive sales tactics to meet targets.

It aligns with RBI's broader focus on consumer protection, fair practices, and responsible business conduct in the financial sector announced in recent monetary policy reviews.

Timeline & Process

RBI has invited public comments on the draft guidelines until **March 4, 2026.**

If finalized, the norms will be effective from July 1, 2026, giving banks time to revise policies and systems.

Implications for Banks & Customers

Banks and financial institutions will have to overhaul sales practices, internal incentives, and digital interfaces to comply.

Customers stand to benefit from enhanced transparency, protection from unsuitable products, and formal mechanisms for refunds and compensation.