The Sale That Was Never About the Product

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Why RBI's New Directions on Responsible Business Conduct Could Change Financial Services More Than Any New Technology

A retired school teacher walks into a bank branch to renew a fixed deposit. She leaves with a life insurance policy she barely understands.

A small business owner applies for a working capital loan and is encouraged to buy a bundled insurance product.

A pensioner receives repeated calls from a relationship manager promoting an investment product that promises attractive returns but carries risks that were never fully explained.

None of these situations are unusual.

In fact, they have become so common that many consumers no longer question them.

For years, the sale of third-party financial products has occupied a grey zone between advice and distribution, customer service and revenue generation, relationship management and sales pressure.

That is what makes the Reserve Bank of India's recent Directions on Responsible Business Conduct and Third-Party Product Selling so significant.

At first glance, the framework appears to be another compliance requirement. A new set of rules. Another governance document. Another addition to the growing stack of regulatory expectations.

Look more closely, however, and something more fundamental becomes visible.

The RBI is attempting to redraw the relationship between financial institutions and customers.

And that may have consequences extending far beyond product sales.

The Rise of the Financial Supermarket

The modern financial institution is no longer merely a lender.

Banks and NBFCs today distribute insurance, mutual funds, investment products, payment solutions, pension products and a growing range of third-party offerings.

The logic is easy to understand.

- Customers trust financial institutions.
- Institutions possess extensive customer relationships.
- Selling additional products improves profitability without significantly increasing balance sheet risk.

Over time, financial institutions evolved into financial supermarkets.

The model created value.

- Customers enjoyed convenience.
- Institutions generated fee income.
- Product manufacturers gained access to distribution networks.

Everyone appeared to benefit.

At least on paper.

Yet beneath this success lay a recurring concern.

Was every sale genuinely in the customer's interest?

Or was it sometimes in the institution's interest?

The distinction matters.

Because trust is built on one and destroyed by the other.

Why Regulators Became Concerned

Financial regulators around the world have learned a difficult lesson.

Most financial crises do not begin with fraud.

Many begin with incentives.

When employees are rewarded primarily for sales volume, behaviour often changes.

Products may be recommended because they are profitable rather than suitable.

Risk disclosures become shorter.

Conversations become selective.

Customers assume advice is impartial when it may not be.

The global financial industry has witnessed countless examples.

- Mis-sold insurance.
- Unsuitable investments.
- Hidden fees.
- Conflicted incentives.
- Poor disclosures.

India has largely avoided some of the large-scale scandals seen elsewhere, but regulators have observed enough warning signs to recognise the underlying risks.

As digital channels expanded and cross-selling intensified, the possibility of consumer harm increased.

The RBI's new framework appears to reflect a simple principle.

Financial institutions must not treat customer trust as a distribution asset to be monetised without responsibility.

Beyond Compliance

One of the most interesting aspects of the new directions is that they extend beyond traditional compliance.

Historically, regulators focused on products.

The new framework focuses on conduct.

That distinction is important.

- Products can be compliant while behaviour remains problematic.
- Documentation can be complete while customer understanding remains absent.
- Disclosures can be technically correct while still being practically ineffective.

The RBI appears to be signalling that outcomes matter.

Not merely processes.

This represents a subtle but meaningful shift.

Institutions will increasingly be judged not only by what they sell but by how they sell.

The End of "Sales at Any Cost"

For decades, many financial institutions measured success through volume.

- More accounts.
- More products.
- More cross-selling.
- More fee income.

The new framework challenges that mindset.

Institutions may now need to demonstrate that products are appropriate for customer needs, risk profiles and financial circumstances.

This may sound obvious.

Yet it has profound implications.

- Relationship managers may require different training.
- Sales conversations may need better documentation.
- Compensation structures may come under greater scrutiny.
- Internal audits may need to examine conduct risks rather than merely procedural compliance.
- Boards may find themselves discussing customer outcomes with the same seriousness they discuss credit quality or operational risk.

In many ways, the framework introduces a new category of risk.

Conduct risk.

And conduct risk is often more difficult to measure than financial risk.

What This Means for Technology and AI

The timing is interesting.

Financial services are entering an era increasingly shaped by artificial intelligence.

Algorithms now influence product recommendations.

Digital journeys determine customer choices.

Automated nudges affect behaviour.

Cross-selling is becoming more sophisticated and personalised.

Yet technology does not eliminate conduct concerns.

It may amplify them.

An unsuitable recommendation delivered by a human affects one customer.

An unsuitable recommendation embedded in an algorithm can affect millions.

This raises important governance questions.

- How are products prioritised?
- What assumptions are built into recommendation engines?
- How are conflicts of interest identified?
- Who is accountable when technology influences customer decisions?

The RBI's framework arrives at a moment when these questions are becoming increasingly important.

The Legal and Governance Dimension

The legal implications may prove substantial.

Institutions will likely need stronger governance frameworks around third-party distribution.

Board oversight may become more active.

Policies will require greater clarity.

Customer grievance mechanisms will assume greater importance.

Documentation standards will rise.

Regulators increasingly expect evidence rather than assurances.

Institutions may therefore need to demonstrate not only that policies exist but that they work.

This is where governance becomes critical.

Good governance is often misunderstood as bureaucracy.

In reality, it is simply organised accountability.

The most effective institutions will treat responsible conduct not as a regulatory obligation but as a strategic capability.

The Opportunity Hidden Inside the Regulation

Most organisations initially view new regulations as constraints.

Some eventually discover that they are competitive advantages.

Customers rarely remember the product that generated the highest commission.

They remember whether they were treated fairly.

Trust compounds slowly.

But once established, it becomes remarkably durable.

Institutions that embrace responsible conduct may discover unexpected benefits.

- Customer retention improves.
- Complaints decline.
- Reputational risk reduces.
- Long-term relationships strengthen.
- Employee behaviour becomes more consistent.
- Governance becomes more resilient.

In an industry built on confidence, these outcomes matter enormously.

The real opportunity may not be regulatory compliance.

It may be institutional differentiation.

What Boards Should Be Discussing

Many boards will initially ask familiar questions.

- Are we compliant?
- Have policies been updated?
- Have training programmes been completed?

Those questions are necessary.

They are not sufficient.

The more important questions may be different.

- Do our incentive structures encourage responsible behaviour?
- Can we identify conduct risks early?
- Do customers genuinely understand what they are buying?
- Are our digital journeys fair and transparent?
- Would we be comfortable if every customer interaction became public?

Those questions move the conversation from compliance to culture.

And culture is where conduct ultimately resides.

A Different Vision of Finance

For decades, financial regulation focused primarily on stability.

- Capital adequacy.
- Liquidity.
- Asset quality.
- Operational resilience.

These remain essential.

But the financial system depends on something even more fundamental.

Public trust.

Without trust, products lose credibility.

Institutions lose legitimacy.

Markets lose confidence.

The RBI's Directions on Responsible Business Conduct and Third-Party Product Selling can therefore be viewed as more than a regulatory intervention.

They represent an attempt to strengthen the ethical foundations of financial intermediation itself.

That may sound ambitious.

Perhaps it is.

Yet the most durable financial systems are not built solely on capital and regulation.

They are built on confidence.

The significance of these directions lies not in the products they govern.

It lies in the behaviour they seek to shape.

Because in the end, the most valuable asset on a financial institution's balance sheet is not its capital.

It is the trust that customers place in it every day.

And unlike capital, trust cannot be raised after it has been spent.

About the Author:

Dr. Aneish Kumar is a seasoned banking and financial services professional with over 35 years of experience across banking, financial markets, compliance, risk management, and financial sector regulation. Throughout his distinguished career, he has held leadership positions in prominent financial institutions and has contributed extensively to strengthening governance, regulatory compliance, anti-money laundering frameworks, and risk management practices.

Currently associated with India International Clearing Corporation Ltd. (GIFT City), Dr. Kumar is widely recognized for his expertise in financial regulation, banking operations, compliance, and emerging risks in the financial sector. He is also an active thought leader, regularly sharing insights on banking, technology, governance, artificial intelligence, leadership, and organisational effectiveness.

Dr. Kumar brings a unique blend of strategic vision, regulatory expertise, and practical industry experience, making him a respected voice in the evolving landscape of financial services.