

# RBI's proposed norm on sale of financial products may dent banks' 'other' income

**ON THE SAFE SIDE.** Experts say banks will be a bit more cautious about selling the right products to customers

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Banks may turn more circumspect in selling third-party products if the draft instructions on advertising, marketing and sale of financial products and services issued by the RBI become a reality.

Fear of mis-selling will entail not just refunding amounts taken from the customer, shelling out compensation could keep the enthusiasm of banks to push third-party products, such as insurance, mutual funds and pension, under check. This could dent their 'other' income.

"With each passing year, the target for selling third-party products at branches keeps going up. If the business target is not met, officials either don't get productivity-linked incentive, or are transferred to far-off places or both. So, in order to meet the quarterly/yearly targets, the officials sell customers products, which may not be appropriate for them



**AT THE RECEIVING END.** The proposal could have an impact on bigger banks, which have a large CASA base and have built the ability to cross-sell third party products aggressively REUTERS

out of desperation," said a senior public sector bank official.

So, if the RBI asks banks to implement its instructions on advertising, marketing and sales of financial products and services *in toto*, the pressure at the branch-level could ease. Other (fee) income will also come down.

## **RULE FOR CAUTION**

Karthik Srinivasan, Senior Vice-President & Group Head (Financial Sector Ratings), ICRA, observed that

the RBI and other financial sector regulators, in general, are pro-consumer.

"Every day, there is some news report or the other on financial products being being mis-sold. So, if the guidelines on advertising, marketing and sales of financial products and services are implemented as it is, and it is established that a product has been mis-sold, then a bank will have to repay all the funds collected and also compensate the customer. So, that should, sort

of, make the banks a bit more cautious about selling the right products to customers. So, hopefully, instances of mis-selling should come down... That will have some impact on the distribution fees," said Karthik.

## **FEE INCOME**

Banks earn a decent fee income from the sale of third-party products.

For example, customer value enhancement income (earned through sale of third-party products) accounted for about 18 per cent of State Bank of India's fee income of ₹8,404 crore in Q3.

A senior banker underscored that the RBI's proposal could have an impact on larger banks, which have a large CASA (current account, savings account) base, and have built the ability to cross-sell third-party products aggressively.

The banker noted that the RBI released bancassurance guidelines last year, whereby banks can become corporate agents/brokers and sell multiple insurance products. After the guidelines were is-

sued, banks have been cross-selling both general and life insurance policies, gaining even 30 per cent commission on sales.

## **MF SCHEMES**

Similarly, banks are advertising and cross-selling many mutual fund schemes and three-in-one accounts (which bundle savings account, trading account and demat account) as one product.

Co-branded credit cards are also advertised aggressively, though the commission is relatively lower.

"Overall, the RBI plans to introduce these guidelines for consumer protection and to rationalise the business activities across banks that are going all out to generate higher returns from third-party services sales commission," said the banker.

The RBI on Wednesday issued comprehensive draft instructions on advertising, marketing and sales of financial products and services for banks to prevent mis-selling and compulsory bundling of financial products, among others.