

Comments to Draft Reserve Bank of India (Commercial Banks - Responsible Business Conduct) Amendment Directions, 2026, dated 11 February 2026

On 11 February 2026, the Reserve Bank of India released the “[Draft Reserve Bank of India \(Commercial Banks - Responsible Business Conduct\) Amendment Directions, 2026](#)” (hereafter “Draft Amendments”).

The Draft Amendments provide detailed guidance to all regulated entities on the aspects of advertising, marketing and selling financial services and products (own and third-party products) to customers. They provide guidance on what construes as mis-selling, encourages firms to admonish incentive structures and sales practices that encourage mis-selling and lead to adversarial customer outcomes.

In this response, we present our comments to the Draft Amendments, set out across four sections.

- 1) [Section I](#) provides specific input into the scope of principles set out in Section F.4.1, (Suitability and Appropriateness), of the Draft Amendments. Building on our decade-long research on suitability and universal conduct obligations, we suggest that suitability assessment be made a point-of-sale exercise along with a baseline of principles should be prescribed to maintain a uniform customer protection regime across Regulated Entities (REs). Further, we suggest that in specific cases consent may be allowed to override suitability assessment. Finally, we highlight the need for greater clarity regarding how remedial actions in the event a customer finds the product unsuitable.
- 2) [Section II](#) addresses the conduct of RE employees and that of DSAs/DMA as outlined in Section F.4.3 (Conduct of Bank’s Employees and DSAs/DMA). This section proposes measures to mitigate any inadvertent artificial distinction between direct sales by the RE staff and agent-sourced sales, which could lead to differential standards for suitability assessment, grievance redressal, and post-sale feedback between the two channels.
- 3) [Section III](#) responds to the issue of mal-incentives as highlighted in Cl. 85U of the Draft Amendments. This section provides recommendations for perverse incentive structures that need to be discouraged, customer-oriented incentive structures that can encourage suitable sales and practical guidance on how financial service providers can reorient their existing incentive structures.
- 4) [Section IV](#) responds to the issue of dark patterns in Cl. 85X of the Draft Amendments. It highlights the need for explicitly prohibit the use of dark patterns by DSAs and DMA , acting on behalf of banks. Additionally, it recommends external audits and increased scope for customer feedback for more effective regulation of dark patterns. .

Section I: Input to Section F.4.1 and F.6

We welcome the strong focus on suitability and appropriateness. However, we believe that the regulations can be strengthened across four levels. First, by restricting product suitability at the point of sale, instead of it being a continuous process. Second, by specifying the broad contours of suitability to ensure that there is a system-wide definition of the term, thus helping align institution-level processes associated with it. This will ensure that the customer protection regime maintains baseline uniformity. Third, room should be made for customers’ consent to override suitability assessments of the RE, and with due processes, customers should be allowed to opt for an unsuitable product. Finally, we believe it would be important to clarify the impact of the time-dependent redressal mechanism and remove distinctions between DSA/DMA and RE’s own employees. We elaborate on these points below.

- A. **Restricting the determination of product suitability to the point of sale.** The financial circumstances of a person may change over the course of a product subscription, especially when such a product is offered for a longer term. For example, 20–30-year premium paying terms are common across insurance products, whether these products are term plans, endowment plans or Unit Linked Insurance Plans (ULIPs). Therefore, we believe that it would be prudent to explicitly restrict the exercise of suitability assessment to the point-of-sale. This would require the RE to

assess, at the time of sale, whether the product is suitable over its intended lifetime. This would ensure that REs are not penalised in a situation where the product was found to be suitable at the time-of-sale and later becomes unsuitable due to an unforeseeable change in the customer's financial condition.

B. **Providing regulatory guidance on suitability assessments, at a principle-level.** The absence of a clear, standardized framework for assessing suitability may create interpretive ambiguity leading to diverging standards of suitability being adopted by different REs. Following are some broad proposals that can be included in the directions to provide a baseline framework for operationalising suitability. We present each proposal as a principle and subsequently suggest mechanisms to operationalise them.

- **Affordability:** A product offering is unsuitable if, based on a point-of-sale assessment of the customer's financial situation, it is determined that the customer is likely to face substantial hardship in servicing that specific product through its full tenure. The RE must reasonably confirm, via due diligence at the point-of-sale, that the customer can meet all payment obligations from the product when they fall due, using only their own income and savings without needing to sell/liquidate any security, assets, or other resources.
- **Fit for Purpose:** Suitability is also an obligation requiring REs to invest proportionate efforts in considering the customer's nature, the complexity of product/service, and the risk of harm from mis-selling to ensure latter's interests are adequately protected.
- **Audit Trail:** The REs must maintain a documented process and rationale demonstrating how the recommended product is suitable (or unsuitable) for the customer's profile and financial circumstances. This is akin to the Securities and Exchange Board of India's (SEBI's) regulations applicable to Investment Advisors¹.
- **Training of Staff:** When the suitability assessment is not algorithmically carried out, the person responsible for such assessment and the sales representative of the provider must adequately understand the nature, structure, and risks of the product being recommended to the customer before determining suitability. This recommendation draws from the SEBI's regulations applicable to Investment Advisors².

To operationalise the principles discussed above, following processes should be established.

- Collect, record and corroborate all material and relevant customer information through structured interactions, questionnaires or tools. These may include (a) age, (b) annual income, (c) income frequency and certainty (d) financial resources used for funding the purchase of the product, (e) Intended use/outcome/objective of the product, (e) time horizon for such use/outcome/objective, (f) Existing assets including investment and life insurance holdings, (g) Liquidity needs, (h) Liquid net worth, (i) Tax status, (j) Risk tolerance, (k) any other information considered to be reasonable to assess customer profile as needed by the RE. This list builds upon the Insurance Regulatory and Development Authority of India (IRDAI) regulations on benefit Illustration and Market Conduct (2019)³. Finally, the sought data should

¹ See Para 17(b) and (c) of Securities and Exchange Board of India (Investment Advisers) Regulations (2013), available at: <https://www.sebi.gov.in/legal/regulations/feb-2025/securities-and-exchange-board-of-india-investment-advisers-regulations-2013-last-amended-on-february-10-2025-92319.html>.

² See Para 19 (1) and (2) of Securities and Exchange Board of India (Investment Advisers) Regulations, (2013).

³ Refer 'Suitability information' in Para 7.1 of Insurance Regulatory and Development Authority of India Circular on (a) Benefit illustration and (b) other market conduct aspects (2019), available at: <https://irdai.gov.in/document-detail?documentId=392421>.

be purposive. For example, if tax status is not required to decide suitability of insurance product, it shouldn't be collected.

- Recommend only products assessed as suitable to the customer's disclosed needs, affordability, and risk profile. Express bar on recommendation or solicitation of any product found inconsistent with the customer's information, affordability, or risk profile. Where sufficient information is unavailable to establish suitability, refrain from any recommendation or sale until adequate details are obtained.
- Maintain documentation and audit trails evidencing information collected confirm that only suitable products were recommended for regulatory review and grievance redressal.
- Finally, REs should conduct due diligence and oversight of third-party distributors or agents to ensure suitability obligations are properly fulfilled. Ultimately, REs should be held liable for mis-selling by their DSAs/DMAAs in cases of systemic failures. This is akin to the Bank of International Settlements' guidance on Customer Suitability in the retail sale of financial products and services⁴.

C. Let customer consent override suitability determination, after following due process. It is possible that despite being assessed unsuitable, a customer may insist on purchasing a product. Under the draft regulations, REs are unlikely to sell such a product owing to the injunction in the draft sub-regulation 4(20A)(i) which reads “*Sale of a product/ service, which is neither suitable nor appropriate in view of the customer's profile even if with his / her explicit consent*”. At best, this may prevent customers from accessing such products, and at worst, suitability assessment may be manipulated to sell a higher-cost product. Therefore, we propose that a custom document with an adequate degree of comprehensibility (to the customer) must be provided outlining the reasons behind the suitability assessment and potential harms that may realise if the customer subscribes to the product. Despite this, if the customer consents to such a product, it may be sold. However, to ensure that these practices do not become a norm and defeat the substantive position of the regulations, it would be prudent to mandate a quarterly report of all such cases along with their suitability audit trail (where a customer is sold an unsuitable product on their insistence) be presented to an appropriate committee of the board and be submitted half-yearly for off-site supervision.

D. Extend the grievance redress timelines to cover the full tenure of the product. Finally, we believe there are some gaps in sub-regulation F.6, which, discusses “*Feedback and Compensation to Customers*” in case of mis-selling. For example, if a person was sold a health-insurance product and they realise that it is unsuitable after one year, i.e., beyond the envisaged timeline under section 85Z, to whom should the complaint be directed? Would the provider (e.g., bank) be held liable in such circumstances? We believe to remedy this, REs must provide a clear document outlining the grievance resolution mechanisms for the full duration of the product, along with an escalation mechanism. Further, adding provisions for penalties in the event of such discovery after 30 days is also warranted.

Section II: Inputs to Section F.4.3

The Directions in section F.4.3. pertaining to the “*Conduct of bank's employees and DSAs/ DMAAs*” represent a significant step towards regulatory harmonization by aligning post-sale grievance redressal across sales channels to enhance customer protection and ensure consistent, responsible business practices. However, the Draft Amendments also risks creating an artificial distinction in the responsibilities of REs in case of direct sales and agent-sourced sales. We believe this may give rise to uncertainty in ensuring uniform

⁴ See Para 94 to 96 of Bank for International Settlements, ‘Customer suitability in the retail sale of financial products and services’ (2008), available at <https://www.bis.org/publ/joint20.htm>.

standards for suitability assessment, grievance redressal, and post-sale feedback across different distribution channels. To address the said issue, we propose the following:

- A. The Draft Amendments should explicitly clarify that the RE bears ultimate responsibility for product sale, prevention of mis-selling, post-sale feedback, grievance handling, refunds and compensation, irrespective of whether the sale is executed directly by the RE or through its DSAs/DMAs. This draws upon SEBI's regulatory approach, which explicitly provides that the provider is responsible for acts of commission or omission by its employees and persons engaged by it. This approach is also in sync with the SEBI's regulations on mutual funds distributors⁵.
- B. The Draft Amendments should require REs to establish an explicit conduct evaluation and oversight framework for their own employees, comparable to that prescribed for DSAs/DMAs, including due diligence, monitoring, audits, and clearly defined penal action provisions incorporated within the RE's Code of Conduct and internal policies. Similarly, the RE's employees should also be explicitly prohibited from making false or unauthorized commitments, rather than relying solely on broader conduct norms or internal policies. The objective here is to bring parity in regulatory accountability, but not a necessary duplication of mechanisms.
- C. Funding a purchase without explicit consent is prohibited by the directions at the RE level but it does not explicitly address scenarios where DSAs subsidize or finance part of the purchase to drive the RE's sales volume. Hence, the directions should also prohibit DSAs/DMAs from directly or indirectly funding or subsidizing product purchases and require the respective REs to monitor and enforce compliance with this restriction.
- D. The Draft Amendments should explicitly state that complaint handling, post-sale feedback obligations, and refund/compensation liability rest with the provider even when the product is sold through DSAs/DMAs, as this responsibility is not currently articulated with sufficient clarity for agent-sourced sales. To this end, the directions may draw upon IRDAI's regulatory framework which requires agents to redress client grievances within prescribed timelines while simultaneously holding insurers responsible for acts and omissions of their agents, thereby clearly anchoring ultimate grievance and conduct liability with the RE^{6,7}.

Section III: Input to Cl. 85. U, on mal-incentives leading to mis-sale

We welcome the appreciation of perverse incentives as a driver of mis-selling. Evidence over the years suggests that financial service providers favour pitching products/services that attract greater commissions/incentives, even when the product/service may not be suited to the customers' needs. Mis-selling can only be curbed when providers have no monetary incentive to undertake it and it makes for bad business. To that extent, the emphasis in the Draft Amendments to ensure FSPs' policies, "*neither create incentives for mis-selling nor encourage employees/DSAs to 'push' the sale of products/services*", is significant and urgent. Our comments in this section are organised as, A: Further bolstering Cl. 85U, B: Incentive structures that reorient REs' activities in favour of the customer, and, C: Implementation Guidance for regulated entities.

- A. **We submit Cl. 85U may be further bolstered by considering:**

⁵ Refer Para 25 (3) of Securities and Exchange Board of India (Mutual Funds) Regulations (1996), available at: <https://www.sebi.gov.in/legal/regulations/jan-2022/securities-and-exchange-board-of-india-mutual-funds-regulations-1996-last-amended-on-january-25-2022-55732.html>.

⁶ See Para 14(iv) of IRDAI (Registration of Corporate Agents) Regulations (2015), available at: <https://irdai.gov.in/document-detail?documentId=379633>.

⁷ Para 8 (5) of IRDAI (Appointment of Insurance Agents) Regulations (2016), available at: <https://irdai.gov.in/document-detail?documentId=605121>.

- i. **Incentives as a system-level issue and not confined to frontline staff.** The current articulation appears to focus exclusively on the ability of the customer-facing, frontline staff, especially in the case of third-party services to indulge in aggressive or unsuitable sales in the pursuit of incentives and rewards. Traditionally, in the Bancassurance model, for example, insurers offer a heavy front-load commission, typically to the bank, which in turn passes it along the bank's value chain of employees⁸. In this context, governing only the incentives of the frontline staff may not be adequate. We humbly submit that the issue of incentives needs to be addressed at the system level.
- ii. **Leveraging incentives to encourage suitable sales.** While it is important to dismantle a perverse incentive structure to curb mis-selling, it is equally important to use incentives to promote and drive suitable sales.

Expanding the scope of CI 85.U to include not only frontline staff and encouraging regulated entities to use incentives to push suitable sales may lead to a fuller reorientation of the incentive structure that guide the staff of regulated entities.

- B. **Guidance for regulated entities to reorient their incentive structure.** These recommendations draw from the experience of three countries in particular, (i) the UK—the FCA's Guidance FG 18/2⁹ & the Consumer Duty¹⁰, (ii) Australia—the APRA's Prudential Practice Guide 511 on Remuneration¹¹, (iii) the Dodd-Frank Wall Street Reform and Customer Protection Act¹² of the USA.

- i. **Perverse incentive structures that aggravate mis-selling, should be discouraged.** Firms may reward employees in different ways. They may award them direct monetary benefits such as commission and incentives, recognition and improved prospects of growth and promotion, or other rewards such as gifts, holidays. Incentives can also take more complex forms such as lending against leveraged instruments or equity stakes. Adverse customer outcomes are caused when these rewards are tied solely to sales volumes, business expansion or portfolio growth without regard for customer experience and outcomes.

Some incentive structures that are globally accepted to cause adversarial customer outcomes include volume, profitability or sales-based incentives, a significant proportion of the compensation package being variable or bonus-linked, incentives linked to recollection, targets or thresholds. These incentive formats have the effect of overshadowing customer needs and motivating employees to pursue the sales target in isolation from customers' needs.

- ii. **Customer-centric incentive structures that can promote suitable sales, should be encouraged.** Incentives can also be used to encourage customer-centric behaviour among employees. Some desirable formats include:

- *Tying incentives to quality metrics.* Incentives should account for both sales and quality metrics to achieve better customer outcomes. Some quality metrics include adherence to board-

⁸ "No Policy, No Loan": Inside the ₹25-Crore Incentive Scandal That Rocked India's Banking System, The 420, 3 March 2026, available at: <https://the420.in/bank-insurance-bundling-mis-selling-delhi-high-court-case-ethical-breach-reform/>.

⁹ FG 18/2, Staff Incentives, remuneration and performance management in consumer credit, Financial Conduct Authority, UK, March 2018, available at <https://www.fca.org.uk/publication/finalised-guidance/fg18-02.pdf>.

¹⁰ FG 22/5, Final non-Handbook Guidance for firms on the consumer duty, Financial Conduct Authority, July 2022, available at <https://www.fca.org.uk/publication/finalised-guidance/fg22-5.pdf>.

¹¹ APRA's Prudential Practice Guide 511 on Remuneration, Australian Prudential Regulation Authority, October 2021, available at <https://www.apra.gov.au/sites/default/files/2021-12/Prudential%20Practice%20Guide%20CPG%20511%20Remuneration%20-%2018%20October%202021.pdf>.

¹² Dodd-Frank Wall Street Reform and Customer Protection Act, United States of America, 2010, available at https://www.cftc.gov/sites/default/files/idc/groups/public/@swaps/documents/file/hr4173_enrolledbill.pdf.

approved suitability determination processes, customer's understanding of the product/service, customer satisfaction as gauged through customer surveys, customer retention, reports of internal audits, etc.

- *Capping mechanisms and decelerating rewards.* Capping the maximum permissible bonus, or the threshold of the product beyond which no extra commissions accrue and decelerating incentives where the value of incentives reduces with every marginal sale. These measures may not yield customer-centred outcomes per se but become powerful when coupled with mandatory suitability assessments.

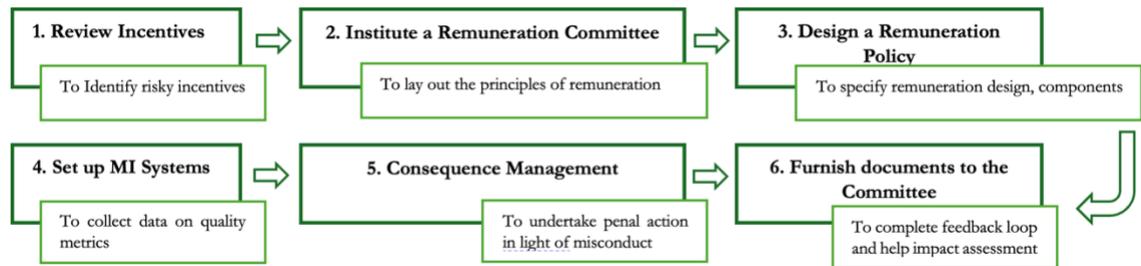
iii. **Penal consequences for undermining customer interests.** Lapses in quality or neglect of customers' needs should translate into material consequences to deter such behaviour. Some penal mechanisms include:

- *Clawback mechanisms* where bonuses may be reversed if the sale of the financial service is proven to be unsuitable or in violation of any of the codes of conduct (at the time of sale).
- *Reduction in or disqualification from bonus* if the employees' sales practices exhibit disregard for customers' interests or codes of conduct.
- *Disqualification from promotion and future growth* if the employees' sales practices exhibit disregard for customers' interests or codes of conduct.

III. Implementation Guidance for Regulated Entities

This section summarises how Boards of regulated entities can reorient these incentives in alignment with customers' interests. This section draws from Australian Prudential Regulatory Authority's Prudential Practical Guide 511.

1. **Review of existing incentives.** Research from other jurisdictions suggests that incentives are not so easily traced. Participation of multiple entities, bundling of different products make it hard to decipher the incentives tied to different products. It is imperative to trace the network of incentives and identify the ones that can cause mis-selling.
2. **Institute a remuneration committee** to determine the parameters for determining employee remuneration, permissible formats of commercial arrangements with third parties, among others. Committee members should include risk management experts and potentially a customer champion as also previously emphasised in the Consumer Duty obligations of the UK.
3. **Design a remuneration policy** that lays out the parameters for determining compensation, including quality metrics, clarifying the weights attached to the parameters, the proportion of remuneration that can be variable and incentive-based, consequences for a violation of codes of conduct or aggressive sales, among others.
4. **Set up MI systems** to collect data on quality metrics. For instance, establish internal monitoring mechanisms to audit interactions between customers and employees, institute mechanisms to receive feedback from customers, customers' comprehensibility of the product, etc.
5. **Review performance and undertake consequence management when warranted,** for instance, penalising for aggressive sales or misconduct, etc.
6. **Report back to the remuneration committee by means of feedback** and for the committee to review the effect of their policies.



Section IV: Input to Cl. 85X

We welcome the explicit prohibition of dark patterns in the Draft Amendments. This is a significant and timely regulatory intervention in the banking sector, particularly in the light of their growing¹³ incidence. The inclusion of an *illustrative list of dark patterns relevant to banks* with examples as Annexure is particularly useful as it helps reduce ambiguity and normatively establish objective benchmarks for determination.

The Draft Amendments also require banks to ensure that their user interface is subject to user testing and periodic internal audit for the identification of dark patterns. We recommend strengthening the enforceability of dark pattern provisions through a) explicit DSA/DMA accountability and b) enhanced preventive measures, to better realise their intent.

A. Explicit extension of prohibition requirements to DSAs and DMAs engaged the banks.

Clause. 85X reads as:

*“A **bank** shall ensure that its user interfaces do not deploy any dark pattern. User interfaces deployed by the **bank** shall be subject to user testing and periodic internal audit for identification of any unfair features, including dark patterns. An illustrative list of dark patterns, which may be relevant to **banks**, is given in Annex IIA....”*

The above provision on prohibition on deployment of dark patterns applies to the banks. However, there is no explicit requirement for banks to prohibit DSAs or DMAs engaged by them to refrain from deploying dark patterns in their digital distribution channels.

Given that customer acquisition and onboarding increasingly occur through such intermediaries, the absence of an explicit prohibition may create differential regulatory requirements between the banks and their DSAs/ DMAs. We recommend that the Draft Amendments explicitly extend, i) the prohibition on dark patterns and ii) requirement of internal audit of their interfaces, to the DSA and DMAs engaged by the banks, in order to close this potential regulatory gap.

B. Bolstering the preventive measures against dark patterns through stronger internal audit and greater scope for customer feedback

The requirement of periodic internal audit in Clause 85X, while necessary, may not by itself be sufficient to detect or deter dark patterns. Experience in other regulated sectors, including pharmaceuticals, suggests that self-audits without element of external oversight, may have limited effectiveness. For instance, in addition to the Guidelines for Prevention and Regulation of Dark Patterns, 2023, the Central Consumer

¹³ Local Circles, ‘As RBI mandates banks to be dark pattern free by July, consumers report 8 different dark patterns on online banking platforms’ (February 24, 2026), available at: <https://m-www.localcircles.com/a/press/page/online-banking-dark-patterns?utm>.

Protection Authority (CCPA) advised e-commerce platforms last year to conduct self-audits to identify dark patterns.¹⁴ Pursuant to this, certain pharmaceutical e-commerce platforms reported compliance through self-audits. However, this compliance has subsequently been contradicted by media reports suggesting some of these platforms continued to deploy dark patterns, raising concerns about the reliance solely on self-audits.

In this context, we submit that the Draft Amendments consider incorporating an element of external oversight in internal audits. This may be accompanied by a mandate to understand customer sentiment through regular customer feedback surveys.

The potential pathways to operationalise this may include:

- i. Mandatory reporting of internal audit findings on dark patterns to the regulator as part of off-site conduct supervision. Alternatively, a periodic certification by an independent third-party auditor could also be considered. The SRO and the industry organisations for banks may be considered for this purpose.
- ii. Customer feedback surveys at regular cadence by banks (and their DSA/ DMAs) to assess the experience of their customers in their digital journey.

We expect this to serve a two-fold purpose. First, stronger enforcement by banks themselves would reduce the burden on individual customers to substantiate claims regarding dark patterns. Such practices are often subtle, difficult to establish and at the same time have significant implications for consumer trust.¹⁵ Second, it would help ensure that audits for dark patterns are conducted effectively through appropriate external oversight. Given that individual customers have less visibility of such deceptive practices, the involvement of third-party auditors, including the SRO and industry organisations for the banks, where applicable, would ensure oversight by entities independent yet better placed by virtue of their proximity and deeper understanding of their members' digital operations.

About Dvara Research

Dvara Research is an independent, non-partisan, not-for-profit policy research institution based in India. Its mission is to ensure that every low-income household and every small enterprise has complete access to suitable financial services and social security through a range of channels that enable them to use these services securely and confidently.

Since 2008, Dvara Research has deeply analysed, and carefully written about, financial inclusion and social protection in India from policy, regulatory, and practitioner perspectives that are anchored to its mission. Its work has gained the admiration and respect of policymakers and regulators, and since its inception, Dvara Research has been a research-partner of choice for such key policy-making bodies as the Reserve Bank of India, Securities and Exchange Board of India, Pension Fund Regulatory and Development Authority etc.

Website: <https://dvararesearch.com>

¹⁴ CCPA, Advisory in terms of Consumer Protection Act, 2019 on Self-audit by E-commerce platforms for detecting dark patterns on their platforms to create a fair, ethical, and consumer centric digital ecosystem (5th June 2025), available at: <https://doqa.gov.in/ccpa/files/Advisory-7.pdf>.

¹⁵ OECD, 'Dark commercial patterns', OECD Digital Economy Papers No. 336 (October 2022), available at: https://www.oecd.org/content/dam/oecd/en/publications/reports/2022/10/dark-commercial-patterns_9f6169cd/44f5e846-en.pdf.