

SBP issues minimum standards for sale of third party products by banks/ DFIs

The State Bank of Pakistan (SBP) has issued minimum standards for the sale of third party products by banks/ development finance institutions (DFIs) to safeguard the interest of the depositors/general public and prevent banks from incurring operational and reputational risks.

'Banks offering third party products must establish a centralized control function entrusted with the responsibility to verify the information given in a sales proposal/application forwarded by the sales staff. It is up to the banks how to structure the requisite control function, however the underlying principle is that the person verifying the information should not have any incentive linked with the sales volume,' SBP said in its CPD Circular No. 2 of 29 June, 2012 issued to the Presidents/Chief Executives of all scheduled banks/DFIs.

In addition to the existing set of documents, banks shall introduce a basic fact sheet elaborating at least the following facts:

- i. Two liner definition of the product.
- ii. Disclaimer of the bank stating that it is only working in the capacity of a distributor.
- iii. Return mechanism in terms of investment and premium schedule in terms of bancassurance.
- iv. Free look period in case of bancassurance.
- v. Premature encashment procedure and its repercussions.
- vi. Redressal Mechanism in case of any grievance.
- vii. Checklist of all the other documents signed or attached.

The basic fact sheet should be a distinct looking document including an undertaking by the customer that he/she understands all the stated terms and conditions of the product. This document, along with all the other documents, shall be printed in both Urdu & English with a font size not smaller than 10.

Banks must institute a call back confirmation mechanism equipped with the Integrated Voice Response system whereby every customer is contacted, briefed about the salient features of the product and his/her confirmation is obtained before approving a sales proposal, the Circular said.

To ensure that the bank has proper evidence of the fact that the investor was duly briefed about the product and related terms/conditions, the record of every call made should be retained for at least three years or until maturity of the product whichever is earlier.

There should be a well designed script for each product which should be followed for every verification call.

In Bancassurance the incentive structure, if any, must be focused on the persistency of the policy. For instance commission earned by sales staff may be paid with a time lag of one year.

Banks should ensure that the personnel involved in the sales have adequate understanding of the product and are familiar with bank's policy in this regard. For the purpose, banks must impart training to their existing staff to improve their understanding and knowledge of the product.

The complaint management department/service quality must conduct quarterly reviews to analyze complaint trends and give feedback to the relevant businessline.

The aforementioned list of controls is by no means exhaustive; Banks and DFIs are expected to establish additional control measures commensurate with the complexity and size of their operations.

It may be pointed out that over the past few years, banks in Pakistan have ventured into the sale of Bancassurance and other third party products. This initiative has been viewed as a positive development, however, the complaints of mis-selling from the general public indicate that the focus of the banks has largely remained on pitching sales and due attention was not given to the control and monitoring mechanism in relation to the distribution of third party products.
