



Integrated Ombudsman Scheme in India: Ombudsman for Banking, NBFCs and Digital Transaction

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Abstracts:

The term Ombudsman was taken from Swedish, which means "representative," and ultimately derives from the Old Norse words umbboth ("commission") and mathr ("man").

In India, RBI has established ombudsman separately to address the Customer complaints related to Banking, Non-Banking and Digital transaction (Mobile Wallet).

The study serves the purpose to look all these separate ombudsmen into one collaborative way, because some complaints found to be interlinked and thus complainants suffer. The study is descriptive in nature and data is exclusively collected from secondary sources.

The paper reveal importance to have integrated approach rather than diverted approach towards having effective common redressal mechanism to serve with the pace as complaints taking place.

The paper suggests RBI to have Integrated Ombudsman Scheme, where complaints of banking, non-banking and digital to be addressed at centralized place.

Key Words: Integrated Ombudsman, Banking, Ombudsman, Non-banking, digital, complaints, Digital transaction

Introduction:

In the present Memorandum ombudsman is defined as "Out-of-court settlement" is a method which, regardless of the detailed procedure, leads to the settlement of disputes between consumers and providers in the area of financial services through the active intervention of a dispute settlement body that proposes or imposes a solution.

The ombudsman scheme was first introduced in Sweden and then it is accepted in other countries like Finland, Denmark, New Zealand, USA and others. The purpose of appointing Ombudsman is to investigate complaints against government officials, agencies, Universities, financial institutions and business organisations.

The functions of the ombudsman which were successful in the other countries inspired the established of Lokpal and Lokayuktas in India also. Lokpal is the Indian Ombudsman and Lokayuktas is the State Ombudsman.

In 1962, M.C. Setalvad suggested the idea of establishing an Ombudsman at the All-India Lawyers' Conference. The Administrative Reforms Committee made a proposal to the Government in 1968. In 1971, the bill was again introduced, however to end up in failure.

In India various committees were set up to resolve complaints of customers and bring efficiency in finance sector.

In September 1990, RBI has set up committee on consumer services, under the chairmanship of Shri. M. N. Goiporia Chairman of State Bank of India has recommended to solve problems of customer's complaints.

Committee on Computerisation in Banks (1988) under the Chairmanship of Dr. C. Rangarajan, Deputy Governor, Reserve Bank of India.

Saraf Committee (1994) has set up on technology issued many recommendations.

A committee was set up under the chairmanship of M Narasimha which had recommended the steps to be taken to revitalise the banking system.

1. Banking Ombudsman Scheme: -

As a result, Banking Ombudsman Scheme was introduced in the year 1995 to redress the complaints against banks and it was revised in the year 2002 and 2006 respectively which has given extended power to redress the complaints against all types of banks. The working of banking ombudsman is operational with the RBI offices located in 22 centres across the country.

2. Ombudsman Scheme for Digital Transaction: -

The ombudsman scheme was launched in digital transactions as there was a surge in complaints in digital payments following demonetisation of Rs 500 and Rs 1,000 notes in November 2016. According to RBI's annual report for FY17-18, there has been an increase in the number of complaints related to digital payments and PPIs issued by banks and non-banks.

According to the RBI report, a total of 3.5 billion transactions took place with PPIs valued at Rs 1,416 billion. The share of digital transactions in retail. The Reserve Bank of India (RBI) has introduced an Ombudsman Scheme for Digital Transactions, 2019. The Scheme will provide a cost-free and expeditious complaint redressal mechanism relating to deficiency in customer services in digital transactions conducted through non-bank entities regulated by RBI. The Scheme is being introduced under Section 18 Payment and Settlement Systems Act, 2007, with effect from January 31, 2019.

3. Ombudsman Scheme for Non-Banking Financial Companies (NBFCs): -

The Reserve Bank of India has introduced an Ombudsman Scheme for customers of Non-Banking Financial Companies (NBFCs). The Ombudsman Scheme for Non-Banking Financial Companies, 2018 (the Scheme), is an expeditious and cost free apex level mechanism for resolution of complaints of customers of NBFCs, relating to certain services rendered by NBFCs. The Scheme is being introduced under Section 45 L of the Reserve Bank of India Act, 1934, with effect from February 23, 2018.

Literature review with International perspectives:

Mala Sharma (2020) suggested in her study that since long time, questions have been asked if the American system can be improved by assimilation of ideas and concepts from the British system and vice versa.

In light of proposed legislations seeking to curtail mandatory arbitration, the time is opportune to experiment with new ideas. The synergies the FOS reaps given its unique nodal position relative to other actors and the integrated multi-tier dispute resolution it adopts to resolve consumer disputes highlight the potential of hybrid ombudsman schemes.

Most consumers, businesses have been fairly satisfied with the FOS scheme in the United Kingdom. It is likely that even in the American setting an FOS like scheme will receive a similar welcome and achieve similar results. There seems to be no extraordinary hurdle in introducing the concept. In the interest of fairness, adversarial legalism of mandatory arbitration should therefore make way for an inquisitorial approach of ombudsman.

Samuel, (2010) concluded in his paper that the Financial Ombudsman Scheme is essentially a dispute resolution system between consumers and businesses in the financial market. It has been set up as an independent public body by the Parliament to deal with complaints and resolve them in a fair and impartial way. Despite being set up as a public body, the origin of FOS dates back to 1981 when four insurers formed the Insurance Ombudsman Bureau (IOB) to handle consumer grievances against themselves.

Further he analysed that one of the key advantages of such a system is its multi-tier internal procedure that reduces the burden on courts. These internal stages help filter out avoidable disputes. The decisions of the

Ombudsmen are binding on the complainants only if they accept it, leaving them with the option of litigation. But in practice, few complainants do so.

Schwarz, (2009) analysed in the study that an FOS-like system holds promises of efficient and effective resolution of consumer disputes, but there are significant roadblocks that need to be addressed. Firstly, political differences, that may render an FOS-like scheme infeasible in the US. The legislations introduced to curtail mandatory arbitration are viewed by some as an attempt to save the US litigation industry. Given that an FOS-like system impacts the number of litigations that reach the courts, the idea of promoting another alternative dispute resolution mechanism (instead of mandatory arbitration) is irreconcilable with these political motives and this may prove to be a significant impediment in implementation of an FOS-like scheme.

Objectives of the study:

1. To know the concept of Banking Ombudsman Scheme, Ombudsman for Digital transaction, ombudsman for Non-Banking Financial Companies.
2. To suggest measures to have collaborative concept of Ombudsman to bring customer convenience.

Table 1.1 Office-wise distribution of complaints received by ORBIOs during July 1, 2020 to March 31, 2021

Ombudsman Office	BOS	OSDT (Ombudsman Scheme for Digital Transactions)	OSNBFC (Ombudsman Scheme for NBFCs)	Total complaints 2020-21 (Jul- Mar)	Annualized 2020-21 (12 months)
East Zone					
Bhubaneswar	5,678	114		5,792	7,723
Guwahati	2,678	43		2,721	3,628
Kolkata	11,817	176	2,047	14,040	18,720
Patna	12,560	162		12,722	16,963
Ranchi	3,797	30		3,827	5,103
Total	36,530	525	2,047	39,102	52,136
% share to All India	13.37%	17.82%	7.59%	12.90%	
North Zone					
Chandigarh	28,019	93		28,112	37,483
Dehradun	6,324	33		6,357	8,476
Jaipur	17,636	207		17,843	23,791
Jammu	1,368	21		1,389	1,852
Kanpur	21,169	173		21,342	28,456
New Delhi-I	18,767	245		19,012	25,349
New Delhi-II	16,057	104	10,712	26,873	35,831
New Delhi-III	8,416	62		8,478	11,304
Total	1,17,756	938	10,712	1,29,406	1,72,541
% share to All India	43.10%	31.84%	39.74%	39.74%	42.69%
South Zone					
Bengaluru	13,535	242		13,777	18,369
Chennai	16,098	124	5,845	22,067	29,423
Hyderabad	17,088	225		17,313	23,084
Thiruvananthapuram	5,678	12		5,690	7,587
Total	52,399	603	5,845	58,847	78,463
% share to All India	19.18%	20.47%	21.68%	19.41%	
West Zone					
Ahmedabad	17,223	112		335	23,113
Bhopal	12,377	259		12,636	16,848
Mumbai-I	18,629	173		18,802	25,069
Mumbai-II	15,215	292	8,353	23,860	31,813
Raipur	3,075	44		3,119	4,159
Total	66,519	8,353		75,752	1,01,003
% share to All India	24.35%		28.97%	30.99%	24.99%
All India Total	2,73,204	2,946	26,957	3,03,107	4,04,143

Source: Annual report on banking ombudsman scheme 2020-21

In the above table shows 22 offices of Ombudsman of Banking and Digital transactions and 4 offices for ombudsman of NBFIs dealing with number of complaints. This reflects decentralization of redressal offices. It is difficult for the RBI to regulate all offices together. The ratio of complaints are unevenly scattered.

Integrated Ombudsman Scheme in India:

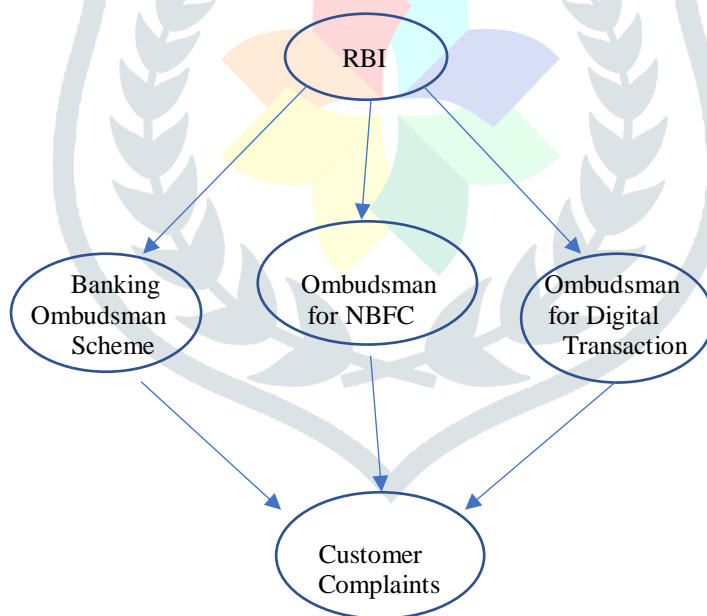
‘One Nation One Ombudsman’ approach declared by the RBI in the year 2021, by making the jurisdiction of Ombudsman scheme neutral for redressal of consumer complaints. The Integrated scheme will no longer be necessary for a complainant to identify under which scheme he/she should file complaint with the Ombudsman.

The complaints would no longer be rejected simply on account of “not covered under the grounds listed in the scheme”. The Scheme has done away with the jurisdiction of each ombudsman office. A Centralized Receipt and Processing Centre has been set up at RBI, Chandigarh for receipt and initial processing of physical and email complaints in any language.

The responsibility of representing the Regulated Entity and furnishing information in respect of complaints filed by customers against the Regulated Entity would be that of the Principal Nodal Officer in the rank of a General Manager in a Public Sector Bank or equivalent. The Regulated Entity will not have the right to appeal in cases where an Award is issued by the ombudsman against it for not furnishing satisfactory and timely information/documents.

Model - I:

RBI is the apex body who have established Banking Ombudsman Scheme to look after bank related complaints thereafter RBI has established Ombudsman for Non-Banking Financial Company to look after customer complaints against Non-Banking financial institutions and RBI has set up one more ombudsman for digital transaction to handle complaints pertaining to Online payments.

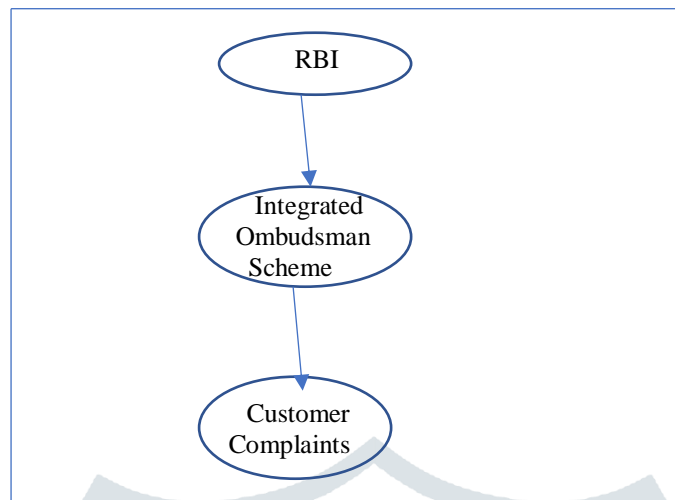


(Source: developed by Researcher)

This system is decentralized and inconvenient for customer to lodge different complaints to different ombudsman office. It does not serve the purpose of effective redressal and end up having complicated procedure, though some complaints are interrelated and demands to lodge same complaint in different ombudsman offices. Thus, it makes redressal model clumsier and chaos.

Model - II:

In this model, reflects the vertical straight line of centralised complaints lodging and redressal, making it more convenient and simpler to customers irrespective of different nature of financial complaints and increasing the scope of ombudsman towards redressal mechanism.



(Source: developed by researcher)

Conclusion:

Looking at the pace of technological development leading to increase in quantum of complaints of the customers. Thus, making role of ombudsman more crucial in future. Having proposed Integrated Ombudsman Scheme will attain all types' financial complaints under one roof by discharging convenience.

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