

Banking Ombudsman Scheme and Bank Customer Complaints in India

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Abstract

The Reserve Bank of India introduced the Banking Ombudsman Scheme in the year 1995 as the apex level grievance redressal mechanism akin to the Alternate Dispute Resolution Mechanism primarily focusing the small and vulnerable class of bank customers for whom other avenues for redressal of grievance are cost prohibitive. The Scheme has been revised four times since inception to keep it update with the changes in banking field. Presently, the Banking Ombudsman Scheme 2006, as amended up to February 3, 2009, is in operation. Presently the Scheme is administered by RBI through 15 offices of Banking Ombudsmen with specific State-wise jurisdiction covering all 29 States and 7 Union Territories. The cost of running the Scheme is fully borne by the RBI.

This paper is an attempt to study the banking ombudsman scheme handling the different types of complaints of bank customers and number of bank complaints received and its disposal rate.

Key words: Banking ombudsman scheme, Bank customers complaints

Introduction:

The Banking Ombudsman Scheme is the revolutionary step by RBI to give justice to bank customers. The Banking Ombudsman Scheme is a flagship program of the Reserve Bank India. The Reserve Bank had first introduced the Banking Ombudsman Scheme in the year 1995 to provide expeditious and inexpensive forum to bank customers for resolution of their complaints relating to deficiency in banking services. The Scheme was revised in the year 2002 mainly to cover Regional Rural Banks and to permit review of the Banking Ombudsmen's awards against banks by the Reserve Bank.

The Reserve Bank is also in an advanced stage of setting up an independent Banking Codes and Standards Board of India to ensure that comprehensive code of conduct for fair treatment to customers are formulated by banks and adhered to. The Reserve Bank of India had announced setting up of the Board in its Annual Policy for 2005-2006 announced by the Governor, Dr Y V Reddy in April 2005.

The Reserve Bank of India announced the revised Banking Ombudsman Scheme with enlarged scope to include customer complaints on certain new areas, such as, credit card complaints, deficiencies in providing the promised services even by banks' sales agents, levying service charges without prior notice to the customer, delays in delivery of bank services. The bank customers would now be able to complain about non-payment or any inordinate delay in payments or collection of cheques towards bills or remittances by banks, as also non-acceptance of small denomination notes and coins or charging of commission for acceptance of small denomination notes and coins by banks and non-adherence to the fair practices code as adopted by individual banks. Applicable to all commercial banks, regional rural banks and scheduled primary cooperative banks having business in India, the revised scheme will come into effect from January 1, 2006.

In order to increase its effectiveness, the revised Banking Ombudsman Scheme will be fully staffed and funded by the Reserve Bank instead of the banks. Under the revised Banking Ombudsman Scheme, the complainants will be able to file their complaints in any form, including online. The bank customers would also be able to appeal to the Reserve Bank against the awards given by the Banking Ombudsmen.

In this context, several measures have been introduced during 2016-17, to enhance consumer protection. The scope of the Scheme has been expanded by adding new grounds of complaints viz. mis-selling of financial products through banks and deficiency in banking services provided through mobiles have been included as grounds for lodging complaints. Further, the pecuniary limit of the BO for passing an award now stands doubled at Rs. two million while the grounds for filing an appeal against the decision of the BO have been expanded to enhance the opportunity available to the aggrieved customer.

Objectives of the study:

1. To understand the Banking Ombudsman Scheme in India since its inception.
2. To study the different types complaints of bank customers received by Banking Ombudsman scheme from 2011-12 to 2016-17.
3. To study the disposable rate of bank complaints from 2014-15 to 2016-17.

Hypothesis:

H1: There is increase in several type complaints of bank customers.

H0: There is not increase in any type of complaints of bank customers.

H1: There is decrease in percentage of rate of disposal.

H0: There is no decrease in percentage of rate of disposal.

Data Collection:

This research paper is based on empirical study. The research paper includes secondary data i.e. website of Reserve Bank of India and Annual Report of Banking Ombudsman Scheme 2013-14, 2014-15, 2015-16 and 2016-17. Other sources of secondary data is collected from books, journals, research papers and web site.

Literature Review:

Malyadri and Sirisha (2012) applaud that the number of complaints filed in the Banking Ombudsman are much less compared to the volume of business in the banking industry. However, they also express concern that the complaints are mostly urbanised and this phenomenon could be due to a difficulty in accessing the Ombudsman offices majorly located in urban areas, lack of awareness among rural people that they the option of redressal. A lack of awareness combined with a fear of absence of redressal could be one reason why the formal banking habits are low in rural areas, beside other reasons such as lack bank penetration, illiteracy, etc.

In a study based on a large sample of Malaysian bank customers, using multiple regression analysis it was found that along with trust, commitment and communication, conflict handling was also a significant factor that influences the customer loyalty with the bank (Ndubisi, 2007). Ndubisi and Chan (2005) witnessed a similar relationship between conflict handling and customer handling in an earlier study also.

Bank Customer Complaints:

Bank customers can approach the RBI Banking Ombudsman to register a complaint under the following categories:

- Non-payment or inordinate delay in the payment or collection of cheques, drafts, bills etc.
- Non-acceptance, without sufficient cause, of small denomination notes tendered for any purpose, and for charging of commission in respect thereof.
- Non-acceptance, without sufficient cause, of coins tendered and for charging of commission in respect thereof.
- Non-payment or delay in payment of inward remittances.
- Failure to issue or delay in issue of drafts, pay orders or bankers' cheques.
- Non-adherence to prescribed working hours.
- Failure to provide or delay in providing a banking facility (other than loans and advances) promised in writing by a bank or its direct selling agents.

- Delays, non-credit of proceeds to parties' accounts, non-payment of deposits or non-observance of the Reserve Bank directives, if any, applicable to rate of interest on deposits in any savings, current or other accounts maintained with a bank.
- Complaints from Non-Resident Indians having accounts in India in relation to their remittances from abroad, deposits and other bank-related matters.
- Refusal to open deposit accounts without any valid reason for refusal.
- Levying of charges without adequate prior notice to the customer.
- Non-adherence by the bank or its subsidiaries to the instructions of Reserve Bank on ATM/Debit Card operations or Credit Card operations.
- Non-disbursement or delay in disbursement of pension (to the extent the grievance can be attributed to the action on the part of the bank concerned, but not with regard to its employees).
- Refusal to accept or delay in accepting payment towards taxes, as required by Reserve Bank/Government.
- Refusal to issue or delay in issuing, or failure to service or delay in servicing or redemption of Government securities.
- Forced closure of deposit accounts without due notice or without sufficient reason.
- Refusal to close or delay in closing the accounts.
- Non-adherence to the fair practices code as adopted by the bank or non-adherence to the provisions of the Code of Banks Commitments to Customers issued by Banking Codes and Standards Board of India and as adopted by the bank.
- Non-observance of Reserve Bank guidelines on the engagement of recovery agents by banks.
- Any other matter relating to the violation of the directives issued by the Reserve Bank in relation to banking or other services.
- A customer can also lodge a complaint on the following grounds of deficiency in service with respect to loans and advances.
- Non-observance of Reserve Bank Directives on interest rates.
- Delays in sanction, disbursement or non-observance of prescribed time schedule for disposal of loan applications.
- Non-acceptance of application for loans without furnishing valid reasons to the applicant.
- Non-adherence to the provisions of the fair practices code for lenders as adopted by the bank or Code of Bank's Commitment to Customers, as the case may be.
- Non-observance of any other direction or instruction of the Reserve Bank as may be specified by the Reserve Bank for this purpose from time to time.
- The Banking Ombudsman may also deal with such other matter as may be specified by the Reserve Bank from time to time.

Table 1 - Number of complaints received by the OBOs

Number of complaints	Year					
	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17
Received during the year	72889	70541	76573	85131	102894	130987
Brought forward from previous year	4618	4642	5479	3307	3778	5524
Handled during the year	77507	75183	82052	88438	106672	136511
Disposed of during the year	72865	69704	78745	84660	101148	125319
Rate of Disposal (%)	94%	93%	96%	96%	95%	92%
Carried forward to the next year	4642	5479	3307	3778	5524	11192

Table 2– Category-wise distribution of complaints:

Particulars	No. of complaints received		
	2014-15	2015-16	2016-17
Failure to meet commitments /Non observance of Fair Practice Code/BCSBI Codes	24850 (29.2%)	34928 (33.9%)	44379 (33.9%)
Others	14482 (17%)	16988 (16.5%)	23169 (17.7%)
ATM/ Debit Cards	10651 (12.5%)	13081(12.7%)	16434 (12.5%)
Pension Payments	5777 (6.8%)	6342 (6.2%)	8506(6.5%)
Credit Cards	7472(8.7%)	8740(8.5%)	8297 (6.4%)
Levy of Charges without prior notice	5510 (6.5%)	5705(5.5%)	7273 (5.6%)
Deposit accounts	4661 (5.5%)	5046 (4.9%)	7190 (5.5%)
Out of purview of BO Scheme	3774 (4.4%)	3751 (3.7%)	6230 (4.8%)
Loans and advances	4846 (5.7%)	5399(5.3%)	5559 (4.2%)
Remittances	2700(3.2%)	2494(2.4%)	3287(2.5%)
DSAs and recovery agents	347 (0.4%)	357 (0.3%)	330 (0.25%)
Notes and coins	61(0.1%)	63(0.1%)	333(0.25%)

Total	85,131	102,894	130,987
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(Figures in bracket indicate %age to total complaints of respective years)

In the above first table the complaints received by OBOs was 72889 in the year 2011-12 and in the year 2016-17 it was increases to 130987, It means bank customer complaints increased by 27 per cent in 2016-17 as compared to a rise of 21 per cent in the previous year. This rising trend, while reflecting the increasing awareness about the BOS, also underlines the need for banks to strengthen their internal grievance redressal mechanism. The rate of disposal of customer complaints decreased to 92% in the year 2016-17. The unsolved pending complaints has carry forward to successor year that shows there is a need of improvement in redressal mechanism.

In the above second table complaints are classified into different categories and most of category of complaints reflecting increasing trends. Revision of Banking Ombudsman Scheme widens the scope of handling varied complaints. Most of the complaints in above table showing increasing trend.

Conclusion:

Indian government is seriously pursuing financial inclusion of a huge proportion of unbanked population in the country. As the banking activities increase, and people who have never banked before come to participate in formal banking, they need banking awareness as well as protection. Thus, India needs to be prepared with a redressal mechanism that is well equipped and designed to handle fair and satisfactory investigation to the complainants.

Offices of Banking Ombudsmen organized awareness campaigns/outreach activities, Town Hall events, advertisement campaigns to spread awareness about the Scheme. Therefore bank customers prefer to lodge complaints to the office of banking ombudsman instead of courts. One more reason for people preferring ombudsman over court is its cost effectiveness. Although scope of banking Ombudsman has been revised four times till date and number of bank customers are also increasing every year but offices of Banking ombudsman remains same which create more work pressure and delay in redressal of complaints effectively. Therefore, now time to increase number offices of Banking Ombudsman.

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