Chapter 5

Latest development
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RBI expands Scope of Banking Ombudsman Scheme; Includes Fair Banking Practices

The Reserve Bank of India today announced the revised Banking Ombudsman Scheme with enlarged scope to include customer complaints on certain new areas, such as, credit RBI expands Scope of Banking Ombudsman Scheme; Includes Fair Banking Practice surd complaints, deficiencies in providing the promised services even by banks' sales agents, levying service charges without prior notice to the customer 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.

The new scheme provides a forum to bank customers to seek redressal of their most common complaints against banks, including those relating to credit cards, service charges, promises given by the sales agents of banks, but not kept by banks, as also, 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.

The Reserve Bank had first introduced the Banking Ombudsman Scheme in 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 2002 mainly to cover Regional Rural Banks and to permit review of the Banking Ombudsmens’ awards against banks by the Reserve Bank. The Banking Ombudsmen currently have their offices in 15 centers.

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.

**RBI launches online system to track applications**

Mumbai: The Reserve Bank on Thursday launched an online system to track applications to help the public.

“Applications made to the various departments of the Reserve Bank of India (RBI) can now be tracked online through the application tracking system (ATS). The Reserve Bank launched the ATS on its Website for convenience of the public,” RBI said in a release.

The tracking system, however, RBI said, cannot be used for tracking complaints made under the Banking Ombudsman Scheme or any other complaints.

“Through this facility, the applicant can then submit an online application, attach related documents, view it and track its movement,” it added.

For tracking the applications made, the applicants will have to register on the RBI Website and the system will generate a first time login and password and send it to the applicant through email.
RBI set up Working Group to review Banking Ombudsman Scheme

The Reserve Bank of India in the month of January 2013 had set up a working group to evaluate and make improvements in the grievance redressal mechanism for bank customers.

The working group constituted in the Reserve Bank of India is going to review, update, and revise the Banking Ombudsman Scheme, 2006.

As per the RBI annual report of the Banking Ombudsman Scheme 2011-12, In Financial Year 2011-12, the banking ombudsman’s office of the RBI received around 72889 complaints. It disposed off 94 per cent of the customer complaints, about one-fourth of the total customer complaints were about banks’ failure to meet commitments and non-observance of fair practices code.

Also, it was seen that the Banking Ombudsman received 14492 card-related complaints in the reporting year. Unsolicited cards and charging of annual fee in spite of being offered ‘free’ card formed the basis of some of the complaints against the banks.

Presently, we have 15 Banking Ombudsmen with unambiguous jurisdiction covering the 29 States and seven Union Territories in India.

The Reserve Bank introduced the Banking Ombudsman Scheme in 1995 to provide an expeditious and inexpensive forum to bank customers for resolution of their complaints relating to banking services. The Scheme covered banking services rendered by scheduled commercial banks and scheduled primary cooperative banks. The objective of the Banking Ombudsman Scheme is to be a visible and reliable system of dispute resolution mechanism for bank customers. The Ombudsmen generally resort to conciliation or mediation for settlement of complaints. The Banking Ombudsman Scheme was revised in 2002 to cover Regional Rural Banks and
to permit a review of the Banking Ombudsman’s Awards against the banks by the Reserve Bank. The Scheme was further revised in 2006 giving it a much wider scope by including several new areas of customer complaints. The Banking Ombudsmen currently have their offices in 15 Centers spread across the country and are fully funded by the Reserve Bank. The Banking Ombudsmen are serving Officers of Reserve Bank in the rank of Chief General Managers and General Managers. Two major challenges in effective implementation of Banking Ombudsman Scheme are creating widespread awareness about the Scheme and providing easy access to grievance redressal under the Scheme. Banking Ombudsmen have been touring across the country to popularize the Scheme. There is a steady increase in the number of complaints under the scheme indicating the growing awareness among the people. It is observed that more and more complaints are being received reflecting the increased awareness and empowerment of customers. The use of internet by complainants is steadily picking up with the Banking Ombudsmen receiving as much as 30% of all complaints in electronic mode (e-mail/online).

The Annual Report 2007-08 covers the activities of the 15 Banking Ombudsman Offices, with specific reference to the number and nature of complaints received, the banks complained against and the manner of disposal of complaints. The Report also highlights certain exemplary decisions given by Banking ombudsman. During the year 2007-08, the Banking Ombudsmen received 47887 complaints as against 38638 received in the previous year (an increase of 24%) and disposed of 89% of the total complaints (84% in the previous year), with only 11% carried forward to the next year. Of the 11% of complaints carried forward to the next year, only 6 % were more than 2 months old. The Banking Ombudsmen have been generally effective in redressal of complaints. One of the challenges that bank customers continue to face is ensuring fair treatment from banks. The cases handled by the Banking Ombudsmen reveal that bankers need to deal with customers in a more transparent manner, particularly in making them aware of the terms and conditions of sanction and the specific connotation associated with them right at the beginning. Reasonableness in pricing of products by banks and their dealing with default situations are other areas which require added focus, as
complaints on these fronts continue to come to the Banking Ombudsman. The Office of the Banking Ombudsman has evolved over the years in ensuring better customer service in the banking industry. The Office would continue to play lead role in customer empowerment and in creating a customer-centric environment in banks.

The study clearly pointed out that the awareness of Banking Ombudsman Scheme provided by RBI is much low and the need is to create awareness of the scheme. Most specific observation the study rendered it shall be appropriate if the individual Urban co-operative banks have their own Ombudsman for speedy settlement of the customers' grievances. The study could achieve its objective and validate the Hypothesis.

Banks being the institutions of financial importance in every part of the world, the resolution of the complaints relating to their conduct is also an essential attribute of consumer satisfaction. Therefore the ombudsman or the officer for dealing with consumer complaints regarding the banks has been appointed by an authority in various nations. In India the banking ombudsman scheme was introduced in the year 1995, with a view to do away with the banking customer complaints. It was amended in subsequent years of 2002 and 2006.

**Banking Ombudsman Scheme may be widened**

The Reserve Bank of India (RBI) has constituted an internal working group to review, update and revise the Banking Ombudsman Scheme, which was last reviewed comprehensively in 2006. While the scheme in its current form covers all aspects of banking, from the point-of-view of customer service, there are some areas, which experts hope would be addressed as part of the review.

In 2011-12, the Banking Ombudsman Scheme was able to dispose off 94 per cent of the 77,507 complaints it received. This has been the disposal rate for three years in a row, RBI said in its annual report on the Banking Ombudsman Scheme, 2011-12. Most complaints were related to the failure to meet commitments, or not observing banking code or fair practices code (25 per
RBI's review of the scheme would look at the nature of complaints received and see if any of these need to be reduced or enhanced. For instance, the impending review might seek to introduce a time frame for the scheme to resolve complaints. At present, if a customer has a complaint, he files it with the bank. If the bank does not resolve it in 30 days, then the complaint would go to the Ombudsman, who might take another 30-40 days, as it could ask the bank and/or the customer for clarifications.

There are cases when it has taken two to three months for a complaint to be resolved, says V N Kulkarni, former bank official and Debt counselor with Bank of India's Abhay Credit Counseling Centre. “If there is no response from the bank, the Ombudsman should take ex parte decision. Since representations have been made to the RBI, it is possible that this might be addressed in the revised scheme,” he says.

Another likely revision, which has also been proposed by the Damodaran Committee on customer service, is to ask banks to strengthen their internal Ombudsman schemes so that the RBI's Banking Ombudsman can function as the Appellate Authority, says an official of the Indian Banks' Association. Currently, the Deputy Governor of RBI is the Appellate Authority.

In the recent past, the role of the scheme has been widened to include internet banking, ATM operations and other electronic services. It is being considered if there is a need to include complaints regarding harassment or rude behavior by counter staff at bank branches in the ambit of the Ombudsman scheme. Similarly, increasing the geographic coverage of the scheme from the current 17 offices is also being considered, says a senior banking official.

In cases where monetary compensation is claimed by customers, the amount prescribed is the actual loss plus some nominal amount. But, in cases where the customer claims compensation for, say, mental harassment, it is being considered how much monetary compensation the Ombudsman can prescribe, the official adds.
Customers who are not satisfied with their bank's service can approach the Banking Ombudsman with their grievances. While, until now, the scope was restricted to products and services, going ahead it might be possible to pull up bank staff for poor conduct. While this may seem intangible, it would make bank staff more receptive to customers' requirements.

Similarly, if it is possible to resolve a complaint without approaching the Ombudsman, the bank should do it proactively and not wait for customers to lodge a complaint. Hence, a time frame would also help customers.

**Future of ombudsman in India**

Ombudsman means “the grievance man” or a “commissioner of the Administration”. A Precise definition of Ombudsman cannot be given. But *Garner* rightly says that he is “*an Officer of Parliament, having as his primary function the duty of acting as an agent for Parliament, for the purpose of safeguarding citizens against abuse and misuse of Administrative power by the executive.*”

An ombudsman is a person who acts as a trusted intermediary between an organization and some internal or external constituency while representing not only but mostly the broad scope of constituent interests. Usually appointed by the organization, but sometimes elected by the constituency, the ombudsman may, for example, investigate constituent complaints relating to the organization and attempt to resolve them, usually through recommendations (binding or not) or mediation. Ombudsmen sometimes identify organizational roadblocks running counter to constituent interests. In some jurisdictions an ombudsman charged with the handling of concerns about national government is more formally referred to as the “Parliamentary Commissioner” (e.g., the United Kingdom Parliamentary Commissioner for Administration, and the Western Australian state Ombudsman). In many countries where the ombudsman’s remit extends beyond dealing with alleged maladministration to promoting and protecting human rights, the ombudsman is recognized as the national human rights institution.
Ombudsman is “Public safety Valve” against mal-administration. A good system of administration, in the ultimate analysis has to be responsible and responsive to the people. An Ombudsman has become a standard part of the machinery of any democratic government in the modern world. Owing to intensive increase in governmental activities, the occasion of individual grievances multiplied. Referring to this situation, the Justice Report said: “There appears to be a continuous flow of relatively minor complaints not sufficient in themselves to attract public interest but nevertheless of great importance to the individuals concerned, which gives rise to the feeling of frustration and resentment because of inadequacy of the existing means of seeking redress.”

In the flush of power, the administration very often exhibits a tendency to disregard individual rights and interest in the name of public good. It is not eccentric to conclude that if there is more administration, there will be more mal-administration.” In these circumstances, the quest for an effective control mechanism over the administration has led the people to the institution of ombudsman.

In general, an ombudsman is a state official appointed to provide a check on government activity in the interests of the citizen, and to oversee the investigation of complaints of improper government activity against the citizen. If the ombudsman finds a complaint to be substantiated, the problem may get rectified, or an ombudsman report is published making recommendations for change. Further redress depends on the laws of the country concerned, but this normally involves financial compensation. Ombudsmen in most countries do not have the power to initiate legal proceedings or prosecution on the grounds of a complaint. This role is sometimes referred to as a “tribunitian” role, and has been traditionally fulfilled by elected representatives – the term refers to the ancient Roman “tribunes of the plebians” (tribuni plebis), whose role was to intercede in the political process on behalf of common citizens. In some countries an Inspector General may have duties similar to or overlapping with an ombudsman appointed by the legislature.

The major advantage of an ombudsman is that he or she examines complaints from outside the offending state institution, thus avoiding the conflicts of
interest inherent in self-policing. However, the ombudsman system relies heavily on the selection of an appropriate individual for the office, and on the cooperation of at least some effective official from within the apparatus of the state.

The institution of ombudsman originated in Scandinavia. Sweden was the first country to adopt this institution as early as 1809. Since then it has been adopted in a number of countries, such as Finland, 1919; Denmark, 1954; Norway, 1960; New Zealand, 1962; Mauritius, 1966; Guyana, 1966; United Kingdom, 1967; Australia, 1976.

**BANKS TO DISPLAY SALIENT FEATURES OF THE SCHEME FOR COMMON KNOWLEDGE OF PUBLIC.**

(i) The banks covered by the Scheme shall ensure that the purpose of the Scheme and the name and address of the Banking Ombudsman to whom the complaints are to be made by the aggrieved party are displayed prominently in all the offices and branches of the bank in such manner that a person visiting the office or branch has adequate information of the Scheme.

(ii) The banks covered by the Scheme shall ensure that a copy of the Scheme is available with the designated officer of the bank for perusal in the office premises of the bank if anyone desires to do so and notice about the availability of the Scheme with such designated officer shall be displayed along with the notice under sub-clause (1) of this clause.