

Consumer Protection in Banking Sector: With Special Reference to Ombudsman Scheme

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Abstract

Consumer protection act which takes care of consumer's rights. This act covers various sectors. One of these sectors is a banking sector. As per act in banking sector consumer is a person who avails or hires a service for consideration. So any person who owns an account in the bank or takes a service from bank becomes its customer and he can file a complaint for deficiency or regarding unfair practices by the banks. The bank is liable for deficiency in service for inordinate delays in providing banking services and the customer of the bank is entitled to claim compensation for the loss and the injury suffered by him due to the inordinate delay in the payment. This act provide for easy and fast redressal of the complaint of the customers. For fast redressal of the complaints RBI is running Ombudsman scheme under its governance which aims at protecting the consumer.

Keywords: Banking ombudsman, Consumer Redressal, Complaints

Introduction

Consumer protection is the need of the hour. Parliament of India had enacted various legislations in the interests of consumers for transparency, for fair competition and for preventing the businesses to indulge in unfair practices or fraud. In 1986, the Consumer Protection Act was passed. There have been many reforms in the banking sector like dilution of government stakes, deregulation etc that resulted in greater competition. Today banking has moved from class to mass and this has resulted in numerous problems. But more attention also needs to be given to consumer protection in regard with the banking sector. India has a law specifically focused on consumer protection but that is not explicitly for consumers of the financial sector.

Matrix for financial consumer protection is:

1. Banking Codes the standards Bureau, India, (BCSBI) or the fair practices code followed by respective banks.
2. The in- house complaint redressal mechanism set by banks
3. Ombudsman office
4. Courts of law

These are the few deficiencies in banking services as laid down by consumer commissions and courts of law:

Failure /Delay in repaying deposits

- Withholding of the amount due on a fixed deposit after its maturity,
- Delayed payment of term deposits on maturity. • Inordinate delay in payment of proceeds of premature encashment of deposits as well.

Payment and Collection of Cheques/Drafts

- Wrongful dishonor of cheques due to the negligence or mistake on the part of the bank.
- Dishonor of DDs due to the lapse or omission on the part of the officials of the bank like non-affixation of signatures, failure to mention code number etc. is amounting to deficiency in service.

Loans and Advances

- Refusal to grant loans even though the bank has the right to refuse or grant loan, causing undue delay in releasing the installments of the sanctioned loan might be held to amount to deficiency in service.
- Interest charging interest at a rate higher than the rate stipulated in the loan agreement would amount to deficiency in service.
- Security for loans Bank is liable for deficiency in service in cases was they fail to return the security documents even after repayment of the whole loan.
- Bank Guarantee The failure of a bank to honor bank guarantee is a deficiency in service.

Locker

A bank is liable for loss of articles kept in the locker with the bank. Security in bank's premises is implicitly a part of the service rendered by a bank to a customer.

Other Banking Services

- Closing of account without the instructions of the account holder would amount to deficiency in service.
- The refusal to provide cheque book facility to a customer on the ground of not maintaining the minimum balance in his account may not amount to deficiency in service.

Being the caretaker of the Indian banking sector, RBI has the due responsibility in establishing its strong and effective control over all the banks in India in order to provide the citizens of this land with a transparent banking system. To achieve this, the banks have to effectively coordinate with the RBI through initiatives, customer service departments, customer education departments, customer protection departments, banking ombudsman, etc.

How to file a complaint

Firstly an individual has to approach the GRO (Grievance Redressal Officer) of the respective bank to resolve the issue. If the bank failed to reply to his complaint within a month from the date of receipt of the complaint, the individual can approach the banking ombudsman for redressal of their grievance.

Research Methodology

It is an exploratory study. The study is based on the secondary data. The data were collected from the sources like various reports published by RBI (Reserve Bank of India).

Objectives:

- To know the concept of banking ombudsman scheme in banking sector.
- To identify the type of complaints resolved by banking ombudsman in banking sector.
- To analyze the various receipts of complaints regards of banking sector.

Ombudsman Banking Scheme:

The banking ombudsman scheme has been introduced to resolve the disputes between the customers and the bank with respect to the services provided by the bank. It was introduced in the year 1995, at present the Banking Ombudsman scheme 2006 (As amended up to 1st of July 2017) follow a strict protocol while disposing a complaint. The role of the Ombudsman has become challenging as there is an increase in the number of complaints, their complexity, as well as the ability to deal with the dynamic financial environment. Banking Ombudsman is basically a senior person appointed by RBI. Since then it is being used as a primary forum for dispute resolution. It is not bound by any precedent and in some cases is also not bound by procedural laws and hence the decisions are as per the specific cases. Also banking ombudsman offices create awareness camps, exhibitions, advertisements etc. But there also exists the fact that the scheme is limited to just 27 grounds (including internet banking) and hence it's needed to expand its scope.

On the other hand, recently on 24 June, 2019 RBI launched a software application called Complaint Management System ("CMS") in order to effectively support the Ombudsman framework 2006. Now, the citizens can access the CMS portal at RBI's website to lodge their complaints against any of the entities regulated by RBI. With the launch of CMS, the processing of complaints received in the offices of Banking Ombudsman ("BO") and Consumer Education and Protection Cells ("CEPCs") of RBI has been digitalized.

Integrated Ombudsman Scheme

The Reserve Bank-Integrated Ombudsman Scheme, 2021 ("Scheme") has been launched on November 12, 2021, by Hon'ble Prime Minister of India. The Scheme merged 3 existing schemes of Reserve Bank of India 'The Banking Ombudsman Scheme, 2006',

'Ombudsman Scheme for Non-Banking Financial Services, 2018' and
'Ombudsman Scheme of Digital Transactions, 2019'

A complaint under the Scheme can be made to ombudsman or deputy ombudsman (as appointed by RBI) alleging a deficiency in any financial service, which the entity regulated by RBI ("Entity") is required to provide, which may or may not result in financial loss or damage to the customer. The 'One Nation One Ombudsman' approach under the Scheme made RBI ombudsman mechanism jurisdiction neutral. The Scheme has established the 'Centralised Receipt and Processing Centre' for (a) receiving the Complaints and (b) initiating scrutiny of the same.

The Complaints can be filed personally or through an authorized representative (i) on the portal (<https://cms.rbi.org.in>) or (ii) through an e-mail to CRPC@rbi.org.in or (iii) in physical form (duly signed), including postal and hand-delivered complaints, to the 'Centralised Receipt and Processing Centre' at 4th Floor, Sector 17, Chandigarh – 160017 in the prescribed format.

Additionally, a contact centre with a toll-free number-14448 (9:30 am to 5:15 pm), is also being operationalised under the Scheme to provide clarifications regarding the alternate grievance redress mechanism of RBI and to guide complainants in filing of a Complaint.

Number of Complaints Received

The total no.of complaints received under the ombudsman scheme (BOS, OSNBFC and OSDT) during the past three years

Table-1

Total no. of complaints received under the Ombudsman Scheme during the past three years:

Scheme	2019-20		2020-21		2021-2022	
	Number	Share(%)	Number	Share(%)	Number	Share(%)
BOS	3,08,630	93.37	3,41,747	89.39	2,09,196	50.02
OSNBFC	19,432	5.88	36,951	9.67	20,439	4.89
ODT	2,481	0.75	3,594	0.94	2,281	0.54
RB-IOB					72,580	17.35
Sub Total	3,30,543	100.00	3,82,292	100.00	3,04,496	72.81
CRPC					1,13,688	27.19
Total	3,30,543	100.00	3,82,292	100.00	4,18,184	100.00
% change	64.97		15.7		9.39	

Source: Annual report of RBI(2021-22)

Type Wise Receipts of Complaints

The type wise receipts of complaints under the Ombudsman Scheme during the past three years:

Table-2

RECEIPT OF COMPLAINTS - TYPE-WISE

Complainant Type	2019-20	2020-21	2021-2022
Individual	2,73,432	3,05,093	243244
Individual Business	10,831	13,614	10400
Proprietorship/Partnership	5,583	7,505	6712
Limited company	6,917	8,381	7427
Trust	5,59	6,65	613
Association	4,46	3,72	427
Government Department	5,180	6,447	4993
PSU	1,297	1,475	1799
Senior Citizen	8,237	10,061	9244
Other	18,061	28,679	19637
Total	3,30,543	3,82,292	304496

Source: Annual report of RBI(2021-22)

Disposal of Complaints

Disposal of Complaints under the Ombudsman Scheme during the past three years:

**Table-3
Disposal of Complaints**

Number of Complaints	2019-20 (Jul-Jun)	2020-21 (Jul-Mar)	2021-22 (Apr-Mar)
Received during the year(All OS+RBIOS)	3,30,543	3,03,107	3,04,496
Brought forward from Previous Year	12,158	25,636	11,429
Complaints Received by email before the start of the year	-	6,302	1,589
Handled during the year	3,42,701	3,35,045	3,17,514
Disposed during the year	3,17,065	3,23,616	3,11,067
Rate of Disposal	92.52%	96.59%	97.97%
Carried forward to the next year	25,636	11,429	6,447

Source: Annual report of RBI (2021-22)

Process for lodging an online complaint

The following is the process for lodging an online complaint with the Banking Ombudsman.

- Visit ONLINE COMPLAINT Select BO office (Banking Ombudsman). You will be asked to fill Bank name, branch name, Complaint name, Mobile no.
- Fill up the form with necessary details and Click “SAVE”
- After successfully submission of your application, user can upload supporting documents by clicking on upload option. Supporting document means copy of complaint, bank reply, evidence etc.
- You will get acknowledgement of complaint once review is done by Ombudsman. Within 30 days from your complaint, Ombudsman will resolve the issue.

Role of Banks in Consumer Protection

Banks not only need to make sufficient disclosures on all aspects of their functioning and operations but also have to play a proactive role in educating customers on the products offered, the operational techniques, risks involved, safeguards and redressal options available. Banks need to maintain transparency in pricing, service charges, fees, and penalties. Every bank has to ensure the following in order to build a secure environment for the customers:

- Limiting the liability of customers in unauthorised electronic banking transactions.
- Enforcing ethical behaviour by financial service providers under the regulatory purview of the RBI.
- Emphasis on "Consumer Education" - Advertisement campaign on fictitious offers/fund transfers, coordination with the cyber-crime department, etc.
- Spreading awareness about Banking Ombudsman in rural and semi-urban areas.
- Improving the internal grievances redress mechanism of banks for effectiveness and timely response.
- Sensitising frontline staff of banks on the importance of customer service.
- Bringing about continuous systemic improvement by root cause analysis of complaints.
- Review of the BO Scheme in the light of emerging changes in the environment.
- Conducting thematic surveys and studies on specific areas.

- Monitoring implementation of the Charter of Customer Rights.

Charter of the Customer Rights

This is a recent step taken by RBI regarding consumer protection. It includes various principles listed as follows:

- **Right to Fair Treatment:** Right to treatment of courtesy is with both the service provider as well as with the financial customers. Also, no customer should be discriminated on grounds of age, gender, caste, religion or physical abilities.
- **Right to Honest, Transparent, and Fair Dealing:** Service provider must make all efforts possible to make sure that contracts framed by it are transparent in nature and are such that can be understood easily and is properly communicated to common man. Price of the Product, the various risks associated with it, and various conditions which govern over life cycle of product, customer responsibilities must be disclosed. Also customer must not be subject to undue influence, or business practices which are unfair or unjust
- **Right of Suitability:** Needs of the customers should be kept in mind while offering products (needs on the basis of financial circumstance of customer).
- **Right to Privacy:** Personal information of the customer must be confidential unless there is consent or if this information is required as per law. They have protection right over anything that infringes their privacy.
- **Right to Grievance Redressal:** The customer has a right to hold the financial services provider answerable for the products offered. The providers of Financial Service must let the customers know about their policy regarding rights and duties in case of such events.

Conclusion

The Indian banking industry stands at the cross roads today. The declining quality of service has also come in for sharp criticism by the customers, consumer activists, consumer voluntary organisations, media and press. This calls for a reorientation towards promoting services and bestowing improved customer service in each speck of banking industry. There is an urgent need for professionalism and customer-oriented banking in India. The present unhealthy situation can be cured only if the malady is properly diagnosed and cured. RBI's efforts in upholding the Consumer Protection in the Banking sector can be yielded only if the citizens are made aware of entire grievance redressal structures and their functions. People have to be educated about the procedures for lodging complaints especially the grounds of complaints under the various Ombudsmen Schemes. Therefore, creation of public awareness from grass root level about entire grievance redressal structures is inevitable. For which both RBI and the Central Government of India have to coordinate with each other to infuse certain policy measures into the Indian banking sector.

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