

EVALUATING BANKING OMBUDSMAN SCHEME AS AN EFFECTIVE CUSTOMER GRIEVANCE REDRESSAL MECHANISM FOR THE CUSTOMERS OF BANKS OPERATED IN INDIA

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Abstract: Banks are maintaining a special cell for redressal of consumer grievances by adopting different means. Despite of all these efforts put in by banks (both public and private sector), a large number of customer complaints remain unaddressed. Reserve Bank of India, the apex bank of India came forward with Bank Ombudsman Scheme (BOS) in the year 1995 to address the grievances of bank customers in the country. This scheme was introduced as a provision of Section 35 of the Banking Regulation Act, 1949 by the central bank of India (RBI). The primary objective of this scheme is to ensure effective grievance redressal of customers of different banks on continuous basis. Office of the Bank Ombudsman was established by RBI to receive grievances from customers and taking all necessary steps possible to redress those at the earliest in a transparent manner. It can be seen as an effective mechanism for customer grievances redressal in the banking sector. The primary objective of the study is to evaluate Bank Ombudsman Scheme as the Customer Grievance Redressal mechanism for the customers of banks operated in India. The study was largely dependent on secondary sources of data collected from several sources i.e. Annual reports of RBI, BOS, different research journals, magazines and internet sources. Data so collected were compiled and presented in tabular form for an effective presentation. Trend and progress of this Scheme indicates significant volume of growth and improvement over the last few years. Still there are some areas which require further attention especially awareness and understanding of general people (Bank Customers) about the BO scheme and its provisions. As the apex bank and controlling authority, RBI has to take some arduous steps towards developing and strengthening the Customer Grievances Redressal Mechanism for bank customers in India.

Keywords: BOS, Customer, Grievance, Bank Ombudsman, OBO, CG, RBI.

Introduction

Financial Inclusion, government initiatives both at central and state level enhanced penetration level of banking services in India. This growing trend of banking services brings lots of changes for the banks including both private and public banks in imparting quality services to the customers. As a financial service provider, banks are to protect the interests of the account holders. It involves two important dimensions i.e. creation of customers and maintaining of customers. In this process, banks and other financial service providers are to effectively address the complaints received from customers belonging to different corners of the society. Banks are maintaining a special cell for redressal of consumer grievances by adopting different means. Despite of all these efforts put in by banks (both public and private sector), a large number of customer complaints remain unaddressed. Reserve Bank, the central bank of India came forward with Bank Ombudsman Scheme (BOS) in the year

1995 to address the grievances of bank customers in the country. This scheme was introduced as a provision of Section 35 of the Banking Regulation Act, 1949. The primary objective of this scheme is to ensure effective grievance redressal of customers of different banks on continuous basis. Office of the Bank Ombudsman was established by RBI to receive grievances from customers and taking all necessary steps possible to redress those at the earliest in a transparent manner. It can be seen as an effective mechanism for customer grievances redressal in the banking sector.

Research Objective

The fundamental objective of this study is to:

- ❖ Evaluate Bank Ombudsman Scheme as the Customer Grievance Redressal mechanism for the customers of banks operated in India.

Literature Review

There are numbers of researchers undertaken in the field of customer grievances redressal system of banking sectors in India. Literatures specifically related to the objectives of the paper were reviewed during completion of this research paper

Ghosh D. (2012) studied about the office of the Banking Ombudsman in India established as per the initiative of RBI for customer grievance redressal purpose. Researcher attempted to make a comparative analysis of the said scheme prevail in the year 2006 with that preexist during 2002 and 1995 by taking decided case law as the basis. The research was primarily based on data collected from secondary sources i.e. from data base or archives of RBI and from other internet sources. Researcher concluded with the remarks that Bank Ombudsman Scheme in India was able to perform much better still require some further improvements.

S. Sirisha & P. Malayadri (2017) studied made an attempt to evaluate the impact of banking ombudsman scheme on Indian Banking Industry. The primary focus of the paper was to analyze the effects of this above mentioned scheme on the operation of banking industry of some selected categories. In order to evaluate such effect, researchers used Ranking and CAGR methods. The scope of the study was limited for a period of seven years during 2017 to 2013. Secondary sources were used for the purpose of collecting data for this study. Increased volume of customer complaints against the services of banks was explored as the final conclusion under the preview of the BO Scheme. Researchers were No doubt, the scheme will gain more popularity in future and expects better services from Indian banking sector.

Dhar P & Baidya B (2017) attempted to analyze the performance of Banking Ombudsman Scheme in their research paper. The primary objective of the research was to evaluate the performance of BO Scheme and to study the perception of customers towards this scheme. Data collected from both primary and secondary sources were used to get better results from the study. Statistical tools and techniques were used for the purpose of data analysis. Researchers found BO Scheme as a godsend and important channel for customer grievances redressal.

Tomar D.S. (2019) studied customer awareness and their understanding of grievances redressal system followed in the Indian banking sector. The study was concentrated to assess the need of an effective mechanism for handling customer grievances in the Indian Banking Sector. Further the study was made an attempt to study the level of awareness of bank customers about the grievance handling mechanism of banks in India. It was an explorative research undertaken by collecting data from primary sources with a sample size of 500. Judgmental sampling technique was adopted for the data collection from selected respondents. Statistical tools like tabulation, ranking and chi-square test were used to draw inferences from the collected data. The researchers finally concluded that majority of the customers were unaware about the grievance redressal system of commercial banks and Reserve Bank of India. It restricted them in putting their complaints at the proper forum and kept with themselves as unaddressed issues.

Research Methodology

The study was largely dependent on secondary sources of data collected from several sources i.e. Annual reports of RBI, BOS, different research journals, magazines and internet sources. Data so collected were compiled and presented in tabular form for an effective presentation.

Bank Ombudsman Scheme (BOS) In India

Customer grievance redressal is one of the important aspects considered by service providing organizations especially institutions like banks and other financial institutions distributing financial services as their product line. Increased awareness, several reforms and most importantly developed banking services helps in enhancing the penetration level of banks in the society. Contribution of the central government of India in this context carries a lot of significance in the form of Jan Dhan Yojana. All these factors lead to increase in the number of customers of banks (both private and public sector) in the country. But this positive outcome became a challenge for the banking industries to resolve various issues connected with customers and to effectively redress their grievances. In order to help banks and their

customers, RBI introduced Banking Ombudsman Scheme as an effective mechanism for receiving complaints of customers and to take all necessary steps for quick redressal of their grievances. This scheme came in to existence with the official notification issued by RBI in the year 1995. It was governed under the provisions laid down in Section 35 of The Banking Regulation Act, 1949. In the last 25 years, (1995-2020), the above mentioned scheme has undergone through five revisions (in the year 2002, 2006, 2007, 2009 and 2017) to upgrade and update the scheme to ensure quality customer grievances redressal. At present, Scheduled Commercial Banks, Primary Urban Co-operative Banks, RRBs, SFBs & Payment Banks are included in this scheme. There are a total of 213 Numbers of Office of Bank Ombudsman engaged in controlling and administering the activities under the supervision of RBI. These offices are located in all the states and UTs of India. Reserve Bank of India has borne all the operation and administration related expenses incurred in effective implementation of this scheme.

Objectives of Bank Ombudsman Scheme

Following are the fundamental objectives of the bank ombudsman scheme:

- ❖ To impart quality and effective Customer Grievance Redressal (CGR) of banks
- ❖ To ensure quick and fair redressal of customer grievances in an economical manner under the active supervision of RBI.
- ❖ To help RBI in formulating customer care policy and grievance redressal mechanism by providing policy feedbacks and constructive suggestions from time to time.
- ❖ To create and develop awareness among people about Bank Ombudsman Schemes.

Customer Grievance Redressal Procedure

The process followed in the Bank Ombudsman Scheme for handling and redressing customer grievances involves two important phase i.e. Receipt of Complaints through Office of Bank Ombudsman (OBSs) and disposal of Customer Grievances. Nature of complaints received and more of receipt of these complaints are some of the crucial aspects to be taken care off to understand the CGR procedure.

Table - 1

Total Number of Complaints received by OBOs

| Particulars | 2014 | 2015 | 2016 | 2017 | 2018 |
|--|--------|----------|----------|----------|----------|
| No. of Office of the Banking Ombudsman | 15 | 15 | 20 | 21 | 22 |
| Total Complaints received | 85,131 | 1,02,894 | 1,30,987 | 1,63,590 | 1,95,901 |

Self compiled data extracted from several Annual Reports of BOS, issued by RBI

Data presented above presents a clear picture of the complaints received in the last 05 years by OBOs. Increased number of complaints forced RBI to open 07 more offices of bank ombudsman in the country since 2016-17. Average growth rate is calculated at 23.2% per annum in the last five years. It shows the growing awareness of people towards the existence and benefits of Bank Ombudsman Scheme.

Table - 2

Position of customer complaints handled by OBOs

| Particulars | 2014 | 2015 | 2016 | 2017 | 2018 |
|---|--------|----------|----------|----------|----------|
| Complaints brought forward from previous year | 3,307 | 3,778 | 5,524 | 11,215 | 6,182 |
| Complaints received | 85,131 | 1,02,894 | 1,30,987 | 1,63,590 | 1,95,901 |
| Total number of complaints handled | 88,438 | 1,06,672 | 1,36,511 | 1,74,805 | 2,02,083 |
| Complaints disposed | 84,660 | 1,01,148 | 1,25,296 | 1,68,623 | 1,90,014 |
| Complaints pending at the end of the year | 3,778 | 5,524 | 11,215 | 6,182 | 12,069 |

Self-compiled data extracted from several Annual Reports of BOS, issued by RBI

Table Number 02 presents the position of complaints received from customers and handled by Bank Ombudsman Offices across the country. On analysis of the data given in the above table, it is found that a significant proportion of complaints are effectively handled and disposed by OBSs with an average of 94.56 per year. A very low level of pending cases represents the effectiveness and efficiency of the entire CGR system followed under BO Scheme regulated by RBI.

Table – 3

Complaints received from different Population Group

| Population Group | No. of complaints received | | |
|------------------|----------------------------|---------------|---------------|
| | 2016-17 | 2017-18 | 2018-19 |
| Rural | 17,458 | 20,600 | 22,862 |
| Semi-Urban | 17,040 | 18,570 | 23,629 |
| Urban | 59,721 | 81,124 | 94,745 |
| Metropolitan | 36,768 | 43,296 | 54,665 |
| Total | 130987 | 163590 | 195901 |

Self compiled data extracted from several Annual Reports of BOS, issued by RBI

This above table presents the proportionate change recorded in the trend of complaints received from customers belonging to different population group namely Rural, Semi-Urban, Urban and Metro localities across the country. It is found that most of the complaints are received from customers belonging to urban areas in the last three years with 45.59%,

49.58% and 48.36% respectively. It is followed by Metro cities and semi-urban areas. But the complaints received from rural areas are the minimum. The reasons of such poor numbers of complaints from rural areas are lack of awareness and accessibility of people. Hence, it is suggested to take necessary steps to create awareness among people and to make the services accessible.

Table – 4
Nature of complaints handled

| Population Group | No. of complaints received | | |
|--|----------------------------|----------------|-----------------|
| | 2016-17 | 2017-18 | 2018-19 |
| Not maintaining or following Fair Practice | 31,769 | 36,146 | 37,557 |
| Issues connected to ATM or Debit Cards | 16,434 | 24,672 | 36,539 |
| Mobile / E-Banking related problems | - | 8,487 | 14,794 |
| Commitment issues of Bankers | 8,911 | 11,044 | 13,332 |
| Credit Cards problems | 8,297 | 12,647 | 13,274 |
| Issues related to Deposit Accounts | 7,190 | 6,719 | 10,844 |
| Bank charges without any information to customer | 7,273 | 8,209 | 8,391 |
| Loans and Advances related problems | 5,559 | 6,226 | 7,610 |
| Issues concerned with Payment of pensions | 8,506 | 7,833 | 7,066 |
| Total | 130,987 | 163,590 | 1,95,901 |

Source: Annual Reports of BOS 2018-19

Table – 4 shows the nature of complaints received from Non-observance of Fair Practice Code by banks are the highest with more than 19% in the year 2018-19, followed by issues related to ATMs/Debit Cards with 18.65%. There is a sharp increase recorded in the volume of complaints received for Mobile/Electronic Banking related matters from customers end with 74.31% from 2017-18 to 2018-19. It represents the cyber security issues connected with digital banking which required to be addressed by RBI.

Table - 5
Mode of receipt of complaint from customers

| Mode of Receipt | No. of complaints received | | |
|---|----------------------------|-----------------|-----------------|
| | 2016 | 2017 | 2018 |
| Email | 57,472 | 79,550 | 96,925 |
| Online | 22,366 | 24,512 | 44,496 |
| Post or Fax or Courier or Hand Delivery – Any medium of communication | 51,149 | 59,528 | 54,480 |
| Total | 1,30,987 | 1,63,590 | 1,95,901 |

Self compiled data extracted from several Annual Reports of BOS, issued by RBI

Complaints are generally received in the OBOs from customer in different modes like physical handover, Postal Service, Courier, Fax, e-mails and Web Portal or Online portal. Table – 5 shows the mode of receipt of complaints from different customers in the last few years. Majority of the complaints are received in online mode with an average of 60.95% in 2016-17, 63.61% in 2017-18 and 72.19% in the year 2018-19 which is much more than that of Physical mode consisting of Post/Fax/Courier/Hand Delivery. It represents the growing and intensive use of technology and internet of people in the country. Digital platform can be used in future for effective customer grievances redressal mechanism in India,

Table - 6

Mode of Disposal of Maintainable Complaints

| Disposal of Maintainable Complaints | 2016 | 2017 | 2018 |
|-------------------------------------|---------------|---------------|---------------|
| Settlement/Agreement | 26,535 | 54,987 | 64,470 |
| Disposal by Award | 31 | 133 | 98 |
| Maintainable Complaints Rejected | 35,792 | 28,259 | 26,905 |
| Maintainable Complaints Withdrawn | 181 | 153 | 791 |
| Total | 62,539 | 83,532 | 92,264 |

Self compiled data extracted from several Annual Reports of BOS, issued by RBI

From Table – 6, it is clear that most of the complaints received from the customers are disposed through settlement or agreement between banks and customers on mutual understanding. Bank Ombudsman plays the role of a mediator between these two parties to complete the final negotiation. In case, concerned parties fail to make a adequate settlement or agree on a common point, then the Bank Ombudsman is the final authority to take a decision on their behalf or gives an Award. In last few years, most of the complaints are disposed either by settlement or through mutual agreements i.e. 69.88% in the year 2018-19, 65.82% in 2017-18 and 42.43% in 2016-17.

Table - 7

Ground for rejection of maintainable complaints

| Ground for Rejection | Number of Complaints rejected | | |
|--|-------------------------------|---------|---------|
| | 2016-17 | 2017-18 | 2018-19 |
| Not on grounds of complaint or not in accordance with provisions | 31,162 | 25,114 | 26,447 |
| Beyond Pecuniary Jurisdiction of BO | 152 | 115 | 137 |
| Requiring elaborate documentary and oral evidence | 3,883 | 2,337 | 193 |
| Complaints without sufficient cause | 132 | 298 | 42 |
| Not pursued by the complainants | 440 | 272 | 71 |

| | | | |
|---|---------------|---------------|---------------|
| No loss/damage/inconvenience to the complainant | 23 | 123 | 15 |
| Total | 35,792 | 28,259 | 26,905 |

Self compiled data extracted from several Annual Reports of BOS, issued by RBI

Table – 7 presents the ground under which some of the complaints received from customers are rejected by the Bank Ombudsman in the last few years. As per the data presented above, it can be easily concluded that majority of the cases are rejected due to inappropriate complaint grounds (Clause 8) or not as per the provisions laid down under Clause 9 (3). It shows the lack of understanding of people about the OB schemes and its provisions. It is suggested to improve the awareness and knowledge of bank customers about the existing Bank Ombudsman Scheme and its provisions.

Conclusion

Bank Ombudsman Scheme works as an effective mechanism for customer grievances redressal by RBI. It is specifically designed to protect the interest of customers of different private sector and public sector banks. It helps banking industries to provide quality financial services to their customers by bridging the gap between the service providers and customers. Trend and progress of this Scheme indicates significant volume of growth and improvement over the last few years. Still there are some areas which require further attention especially awareness and understanding of general people (Bank Customers) about the BO scheme and its provisions. As the apex bank and controlling authority, RBI has to take some arduous steps towards developing and strengthening the Customer Grievances Redressal Mechanism for bank customers in India.

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