

# Role of Banking Ombudsman in Banking - An Overview

## Abstract

The institution of Banking Ombudsman was introduced in 1995 in India, through the Banking Ombudsman Scheme 1995. The object of the scheme was to provide expeditious and inexpensive forum to bank customers for resolution of their complaints relating to deficiency in banking services. The Scheme was implemented through direction issued by the Reserve Bank in terms of Section 35A of the Banking Regulation Act, 1949. The said provision of the Act seeks to protect the banking in public interest and in the interest of banking policy. India, which is in the middle of economic slump and having the consumer satisfaction as its priority, has introduced this mechanism to lessen the burden of judicial system and do away with the complaints. The customers who are not satisfied and are facing problems with their bank's services can file complaint with Banking Ombudsman for redressal of their complaint. So, the present paper tries to have an overview of Banking Ombudsman in India. The research methodology involves case studies and study of the reports.

**Keywords:** Banking, Banking Ombudsman, Redressal Mechanism, Banking Disputes and Complaints.

## Introduction

Banking is an integral part of modern day life. In the present scenario of competitive banking, excellence in customer service is the most important tool for sustained business growth. Customer service has been the challenging job in the banking industry, specifically, after the financial sector reforms and implementation of new age technology. Providing prompt and efficient service is on the top agenda of commercial banks to attract and retain the new customers. Making banks more customer-friendly has also the top priority of the Reserve Bank of India.

It is the result of RBI's initiatives that today all commercial banks have their own grievance redressal cells to handle the grievances of their customers. However, sometimes, customers' complaints are not handled properly by banks, which may result in dissatisfaction to the customers. At this point of time customer is in confusion about where to file a complaint against the deficiency in services rendered by the banks. Courts may not be the right choice for all types of complaints. Here, Reserve Bank of India has provided an alternative mechanism to handle the customers' grievances by setting up of Bank Ombudsman in India in 1995. The prime objective behind the setting up of Bank Ombudsman was to provide an expeditious and inexpensive forum to bank customers for resolution of their complaints relating to deficiency in banking services.

In the banking sector, there are different types of customers' grievances which may vary on one ground to another. Numbers of complaints are filed every day with the banks because of which banking sector is constantly under criticism by press, public and estimate committees. Various committees, commissions and working groups were formed to look into the issue of customer service since 1972 such as Banking Commission headed by Sri R.G. Seraiya, Sri. R.K.Talwar Committee, Goiporia Committee etc.

In 1995 RBI accepted the recommendation made by Narasimham committee and as a part of banking policy, Dr. C. Rangarajan, Governor, announced the 'The Banking Ombudsman Scheme' on June 14, 1995 under the Section 35A of Banking Regulation Act 1949. The main purpose of this scheme was to provide an expeditious and inexpensive forum to bank customers for resolution of their complaints relating to deficiency in banking services provided by scheduled commercial banks, regional rural banks and scheduled primary co-operative banks. With the change in time and adoption of new technology at large by banks, RBI modified this

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scheme in the year of 2002, 2006, 2007 and 2009 to included consumer complaints on new areas some of them relates to levying service charges without prior notice to the customers, non- adherence to the Fair Practices Code adopted by individual banks, etc. At present Bank ombudsman scheme 2006 is in force with amendments in the year of 2007 and 2009.

#### Review of Literature

Review of literature presents the summary of the various aspects and issues already carried out both at national and international level. It shall lead to draw some important conclusions and serve as a guide for the present study. It also helps in eliminating the repetition of work that has already been done. Though a very few studies have been conducted regarding the grievanceredressal mechanism in banking, an effort have been made for better understanding of the objectives of the research.

Singh (2011) studied the mechanism and operations in India and evaluated the performance regarding the handling of complaints on the basis of various parameters namely complaints received by ombudsman offices, region wise receipt of complaints, mode wise receipt of complaints, nature of complaints handled, pending cases, cost of running the scheme etc. from 2005-06 to 2009-10. Using descriptive analysis, it was concluded that there was a tremendous increase in the number of complaints received during the given period. It was found that more than 99% of complaints received were disposed by mutual settlement which results in decline of pending cases. It was also suggested in the study that more categories of complaints should be included in the preview of ombudsman given the new technological advancements and popularizing scheme in rural and semi-urban areas.

Prakash and Badiger (2014) studied the impact of banking ombudsman scheme in Bangalore

and to analyze the reasons for the dissatisfaction of customers and the banking ombudsman action to redress the grievances of customers and to study about the means for creating awareness. Questionnaire method was used for the study. The parameters used for analysis are basis of high charges without proper notice, any loss suffered due to negligence etc. They found that delay in services provided by the bank is the major reason for dissatisfaction of customers and only 45% of population which belongs to urban area were aware about the banking ombudsman scheme whereas rural population are still not aware about the banking ombudsman. They suggested that awareness should be created about the banking ombudsman so that unnecessary risk should be avoided it would be beneficial for the customer if each bank's head office has a separate ombudsman to handle complaints.

#### Objectives of the Study

The study is based on following objectives: -

1. To give an overview of the grievance redressal mechanism of ombudsman for bank customers.
2. To study bank wise complaints in banking ombudsman.

#### Research Methodology

The study is based on secondary data. The secondary data were collected from articles, previous studies, committee reports, Indian Banks Association Bulletin (IBA) bulletins, RBI India website and from 'The Banking Ombudsman Scheme--Annual report', which is published by Reserve Bank of India every year.

#### Bank Group-Wise Classification

Bank-group wise classification of complaints received by OBOs during the last three years is indicated in Table 1 and Chart 1.

**Table 1 - Bank Group-Wise Classification**

| Bank Group                                    | No of Complaints Received During |                 |                | % change<br>(Year-on-year)  |
|---|----------------------------------|-----------------|----------------|-----------------------------|
|   | 2014-15                          | 2015-16         | (year on year) |                             |
| Nationalized Banks                            | 28,891<br>(34%)                  | 35,447<br>(35%) | 22.69%         | 45,364<br>(35%)<br>27.98%   |
| SBI & Associates                              | 26,529<br>(31%)                  | 29,585<br>(29%) | 11.52%         | 35,950<br>(27%)<br>21.51%   |
| Private Sector Banks                          | 19,773<br>(23%)                  | 26,931<br>(26%) | 36.20%         | 35,080<br>(26.5%)<br>30.26% |
| Foreign Banks                                 | 3,406<br>(4%)                    | 3413<br>(3%)    | 0.21%          | 3284<br>(2.5%)<br>-3.78%    |
| RRBs/ Scheduled Primary<br>Urban Co-op. Banks | 1966<br>(2%)                     | 2293<br>(2%)    | 16.63%         | 2481<br>(2%)<br>8.20%       |
| Others  | 4,566<br>(6%)                    | 5225<br>(5%)    | 14.43%         | 8828<br>(7%)<br>68.96%      |
| Total   | 85,131                           | 102,894         |                | 130,987<br>27.30%           |

(Source:RBI Annual Reports of Banking Ombudsman Scheme)

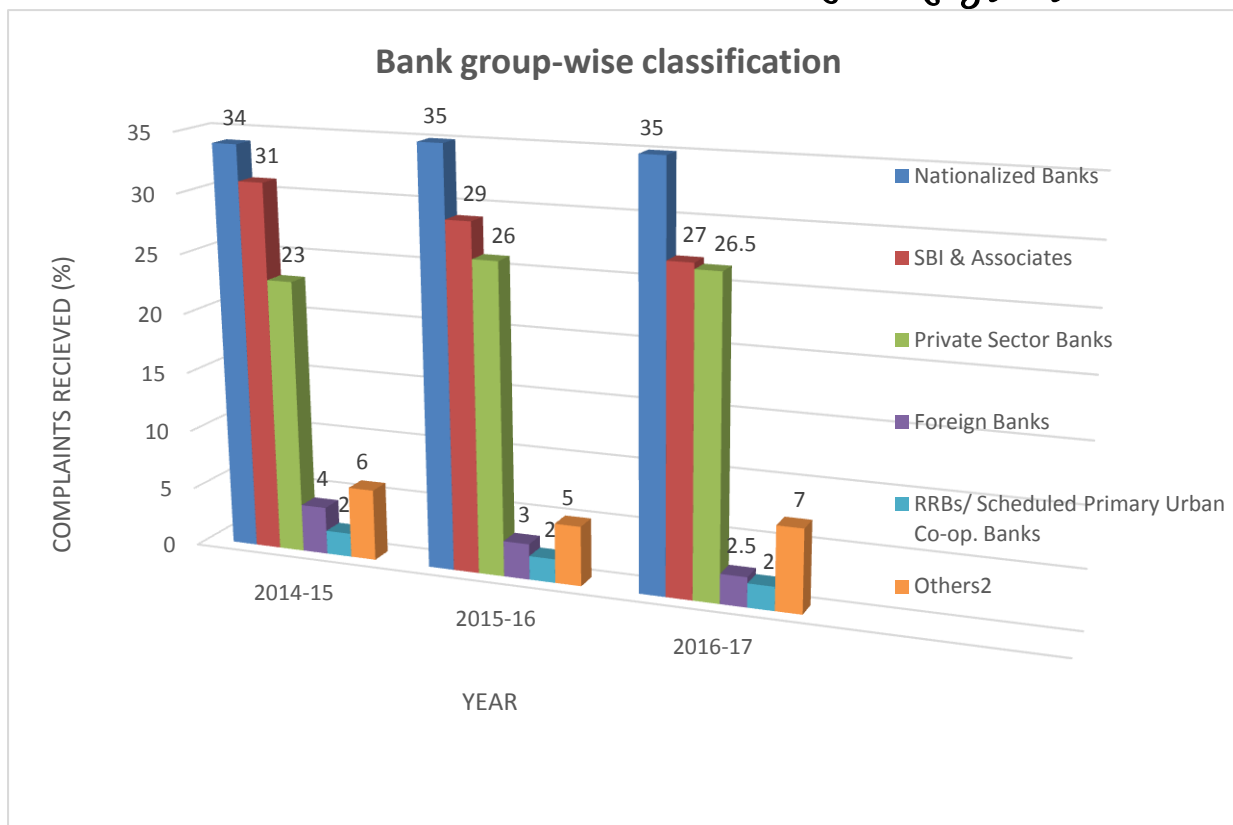


Table 1 shows bank group wise classification of complaints. It shows an average increase of 23% increase in total number of complaints with banking ombudsman. Nationalise banks other than SBI and Associates accounts for nearly 35 % of total complaints where as SBI and Its Associates account for 27% of total complaints, it shows slightly decrease in share of its complaints by nearly 2% every year but the total no. of complaints in real terms has increased. Complaints of Private Sector Banks showed the rising trend during the last three years. Private Sector Banks accounted for nearly 78% rise in total no. complaints i.e from 19773 in year 2015 to 35080 in the year 2017. Whereas Foreign Banks accounted for 2.5% of

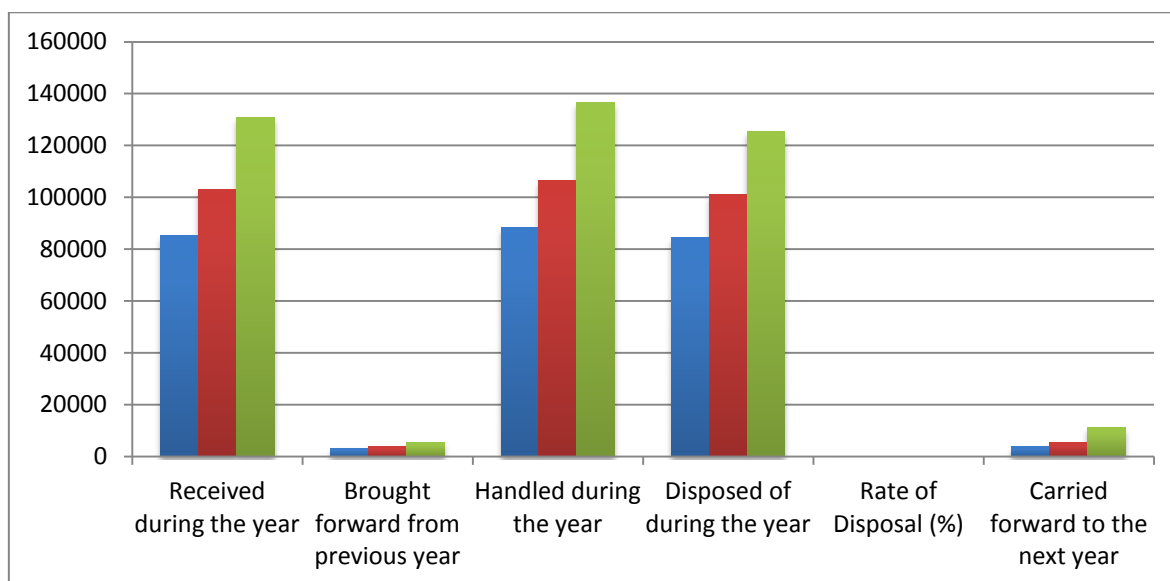
the total complaints received in the year 2017 which is less than the total no. of complaints in the year 2015 and 2016. Regional Rural Banks and Scheduled Urban Co-operative Banks accounted for 2% of the complaints. 7% of the complaints were against other non-bank entities not covered under the Scheme.

**Disposal of Complaints**

Table:2 During the year OBOs handled 1,36,511 complaints, including 5,524 complaints pertaining to last year. As on June 30, 2017, OBOs managed to dispose 92% of the complaints handled during the year. Table 5 and chart 5 below indicate a comparative position of disposal of complaints by OBOs.

| Number of complaints               | Year    |         |         |
|------------------------------------|---------|---------|---------|
|                                    | 2014-15 | 2015-16 | 2016-17 |
| Received during the year           | 85131   | 102894  | 130987  |
| Brought forward from previous year | 3307    | 3778    | 5524    |
| Handled during the year            | 88438   | 106672  | 136511  |
| Disposed of during the year        | 84660   | 101148  | 125319  |
| Rate of Disposal (%)               | 96%     | 95%     | 92%     |
| Carried forward to the next year   | 3778    | 5524    | 11192   |

(Source: RBI Annual Report of Banking Ombudsman Scheme)



Compared to previous years, complaints increased by an average of 24%. Although the rate of disposal declined from 95% to 92% during the year. The actual number of complaints handled increased by 48% over a period of three years whereas rate of disposal has decreased from 96% to 92%.

**Conclusion**

There has been a substantial increase in the number of complaints received by the office of Banking Ombudsman, there is an average 24% increase in complaints, which shows the increased faith of customers in Banking Ombudsman. Almost about 50% complaints are related to ATM and Debit card. It shows that there is an immediate need to plan awareness campaigns for this area. Bank group wise classification of complaints shows that there has been increase in number of complaints filed in case of all nationalized banks. However, primary co-operative banks and regional rural banks constitute very nominal share in total number of complaints, which shows that this scheme has yet to take momentum in these banks. As far as disposal of complaints is concerned on an average ninety-five percent complaints are disposed by mutual settlement of the parties concerned, which well explains the role and motive of the bank ombudsman. RBI's approval to file the complaints through online mode seems to be successful as more than one fourth of the total complaints are filed through this mode. Further the scope of banking is increasing as a result customer base of banks is also increasing, so are the consumer grievances. To ensure that banks offer better service and resolve customer complaints quickly, the RBI had asked certain banks to appoint internal ombudsman and also implement 'Charter of Customer Rights', which gives guidelines to customer – bank relationship. According to charter consumer rights banks cannot discriminate a customer based on gender, religion, caste and physical ability. Banks

should only offer financial products that are suitable to a customer. Banks should also communicate their compensation policy if there are mistakes, lapses in conduct, or nonperformance. To protect customer's privacy, banks are not allowed to share customer's details to anyone without consent. RBI has also asked only top Private banks including ICICI Bank, HDFC bank, Standard Chartered Bank and Citi bank to appoint internal ombudsman.

The ombudsman can be given certain powers to recommend to the RBI to take coercive action against the bank, which is found to be violating any banking law or regulation. To conclude, the customer will definitely file a complaint with ombudsman regarding his grievance, if he is aware about Bank Ombudsman.

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