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# Banking Ombudsmen Scheme—A Review

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## **Abstract :**

The word 'Ombudsmen' in general means a 'grievance man', a public official who is appointed to investigate complaints against the administration. Any person whose grievance against a bank is not resolved to his satisfaction by that bank within a period of two months can approach the Banking Ombudsman if his complaint pertains to any of the matters specified in the Scheme. The main objective of Banking Ombudsman scheme is to receive unresolved complaints about the provision of banking services and to facilitate the satisfaction, settlement or withdrawal of such complaints. This paper examines the particulars of Ombudsmen schemes introduced by RBI in 1995 and which was revised during the year 2002 and their performance since their inception.

## **Introduction:**

Quality of customer service in banking industry is far from satisfactory which has become a matter of serious concern for the customers, bank managements and the government alike. In recent times the number of complaints from the dissatisfied customers is increasing for every bank. Banks are finding it difficult to redress the grievances of the customer up to their satisfaction. It is at this juncture the need for Banking Ombudsman strongly felt. The business environment in which Indian banks have to operate has become highly competitive. In such a competitive scenario, only those banks, which offer superior customer service to their customers, will survive. A customer will continue to patronize only those banks that can provide excellent service. In order to ensure superior customer service, banks will have to put in place procedures and processes that ensure excellent service to their customers. In this context, the Ombudsman is one such scheme to dress the grievances of the customers.

## **The Concept:**

The origin of term "Ombudsman" traced in Scandinavia. The Scandinavians used this concept as an independent external authority to redress the

grievances of the people against mal-administration. The concept is so popular today, in several fields across the various Nations of the Globe. It has gained importance even in the Banking Industry also in countries like Sweden, Australia, Newzeland, and U.K, as an expeditious and cost effective customer grievance mechanism.

In the initial days of Economic reform period, the then Finance Minister Manmohan Singh strongly felt the need for the creation of Ombudsman type of mechanism at different levels to redress grievances of public, particularly small customers in rural areas. The Nayak Committee, which was constituted in 1991 to examine the adequacy of institutional credit to small-scale industries and related aspects, recommended the views of Finance Minister to Reserve Bank of India in its report.

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## Objectives of the Paper :

The basic objective of this paper is to examine the performance of Banking Ombudsmen schemes introduced by RBI in attending the customer's grievances. The following sub-objectives are also set to understand the issue further.

- To study the specific objectives and scope of the Ombudsman schemes 1995 and 2002 respectively,
- To evaluate the performance of the Banking Ombudsmen and
- To suggest the measures to improve the functioning of Banking ombudsmen

## Methodology :

This study is based on secondary data collected from the RBI reports issued from time to time from 1998-99 to 2003-04 on Banking Ombudsmen schemes and further various web-sites are also used to study the issue further.

## Banking Ombudsman Scheme 1995:

The Banking Ombudsman Scheme, 1995 was notified by RBI on June 14, 1995 in terms of the powers conferred on the Bank by Section 35A of the Banking Regulation Act, 1949 to provide for a system of redressal of grievances against banks. The scheme has started functioning from June 1995 with the appointment of Ombudsman on full time basis in three centers namely Mumbai, New Delhi and Bhopal. The Scheme sought to establish a system of expeditious and inexpensive customer complaints.

**Objective & Scope:** The scheme envisages expeditious and satisfactory disposal of customer complaints in a time bound manner. The Banking Ombudsman on receipt of any complaint endeavors to promote a settlement of the complaint by agreement between the complainant and the bank named in the complaint through conciliation or mediation.

As per the Banking Ombudsman Scheme 1995, the Ombudsmen have been authorized to look into complaints concerning

- Deficiency of banking services such as: a) Non-

payment/inordinate delay in payment or collection of cheques, drafts/bills etc., b) non-acceptance, without sufficient cause, of small denomination notes tendered for any purpose, and for charging commission in respect thereof c) Non-issue of drafts to customers and others (d) non-adherence to prescribed working hours by branches (e) failure to honour guarantee/letter of credit commitments by banks (f) Claims in respect of unauthorized or fraudulent withdrawals from deposit accounts etc., (g) complaints pertaining to operations in any savings, current or any other account maintained with a bank such as delays, non-credit of proceeds to parties accounts, non-payment of deposit or non-observance of the Reserve Bank directives, if any, applicable to rate of interest on deposits (h) Complaints from exporters in India such as delays in receipt of export proceeds, bills, collection of bills etc., provided the said complaints pertain to the banks operations in India. (i) Complaints from non-resident Indians having accounts in India in relation to their remittances from abroad, deposits and other bank related matters.

- Complaints concerning loans and advances only in so far as they related to (a) non-observance of RBI directives on interest rates: (b) Delays in sanction/non-observance of prescribed time schedule for disposal of loan applications and (c) Non-observance of any other directions or instructions of Reserve Bank as may be specified for this purpose from time to time
- Such other matters as may be specified by the Reserve Bank from time to time.

## Banking Ombudsman Scheme 1995: A Review

Setting up of the institution of Ombudsman in Banking sector is the right step, in the right direction, at right time. But the way the RBI has created and administered the Scheme 1995 attracted the attention of the critics. The scheme has got its own deficiencies:

Firstly, the Banking Ombudsman scheme 1995 covered commercial banks and scheduled primary cooperative banks only. The customers of Regional Rural banks registered NBFCs and local banks were ignored and thereby denied the benefits for large chunk of rural population. Secondly, there were so many untouched areas of services in the scheme 1995 which require equal attention as well. For example,

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complaints relating to the deposit lockers, pension payments, misbehavior of the staff of a bank, complaints relating to application made by customers to public issues of companies shares/debentures etc. Thirdly, with regard to loans and advances also, the coverage of the scheme was not sufficient. Complaints pertaining to service charges, other charges, commission, DICGC guarantee fee charged, delays in disbursement of sanctioned loans, etc were not covered. Fourthly, the scheme also ignored the disputes between banks. Fifthly, as per this scheme, Ombudsman handles those complaints whose grievances against a bank are not redressed up to his satisfaction. Sixth, Banks ombudsman on the receipt of a complaint first promotes a settlement through conciliation or mediation. If no settlement is reached, Ombudsman gives his recommendation. If the recommendation is not acceptable to either of the parties, the Ombudsman passes an award. Ombudsman doesn't have any power to execute his award. Its non-compliance by the party will be reported to RBI. So, the Ombudsman was not adequately empowered to handle the complaints.

#### **Banking Ombudsman Scheme 2002:**

By considering all the deficiencies in 1995 scheme and with a view to strengthen the Banking Ombudsman scheme, the RBI in 1998 constituted an informal group to review the Banking Ombudsman Scheme 1995. Based on the recommendations of this group, the RBI made several modifications to the scheme in 2002.

**Objectives & Scope:** The objectives of the scheme 2002 is i) to resolve and settle complaints relating to banking services and ii) to resolve disputes between a bank and its constituents as well as between one bank and another bank through the process of conciliation, mediation and arbitration.

The scheme 2002 is significantly different from scheme 1995 in several aspects including its scope. The new Scheme brought the RRB's under its purview in addition to the commercial banks and scheduled primary cooperative banks. It has extended the scope of authority and function of Ombudsman for redressal of grievances against deficiency in banking services, concerning loan and advances and envisages constitution of review authority and settlement arbitration. The scheme has been revised

to enable Banking Ombudsman to function as an arbitrator on references to him of disputes either between banks and their customers or between two banks.

As per the Banking Ombudsman Scheme 2002, the banking Ombudsman shall have the following powers and duties:

- a. To receive complaints relating to provision of banking services;
- b. To consider such complaints by agreement through reconciliation and mediation between the bank and the aggrieved parties or by passing an award in accordance with the scheme;
- c. To resolve by way of arbitration such disputes between banks or a bank and its constituents as may be agreed upon by the contesting parties in accordance with the provisions of the scheme the arbitration and conciliation act 1996;
- d. Power of superintendence and control over his office and he is responsible for the conduct of business and
- e. Power to incur expenditure on the behalf of his office

The revised Banking Ombudsman Scheme came into effect on 14<sup>th</sup> June 2002. At present, the scheme is operating from 15 Centers (Banking Ombudsman Offices) all over the country. The scheme operates under the close supervision and direction of RBI.

#### **Performance Appraisal of the Banking Ombudsmen:**

i) The performance of the Banking Ombudsmen has been analyzed on the aspects such as the quantum of complaints handled by them, the timeliness in handling the issues, and appropriateness of the decisions of Banking Ombudsmen.

More than 5000 complaints are received by the Banking Ombudsmen every year. The number of complaints received by the BO offices has been steadily increasing since 1999-00. The total number of complaints of all types, increased from 6062 in 1998-99 to 8,246 in 2003-04 with a rate of 26 percent. The

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average number of complaints per office of all types also increased from 404 in 1998-99 to 550 in 2003-04 representing 26.5 percent. (Appendix Table-1)

ii) Nature of complaints dealt by Banking Ombudsmen during 1998-99 to 2003-04 is presented in Table-2. Maximum number of complaints dealt by Banking Ombudsman during the period 1998-99 to 2003-04 were pertained to deficiency in services of loans and advances followed by services relating to deposit accounts under all the years under the study. (Appendix Table – 2).

iii) Bank-group wise analysis reveals that majority of the complaints pertain to the Nationalized banks followed by SBI group and private sector banks. (Appendix Table-3). This analysis reveals that Banking Ombudsman received more complaints from the customers of public sector than that of private sector or the foreign banks. The Regional Rural Banks (RRBs), which were brought under the purview of the banking Ombudsman from the year 2002, increased the complaints from 33 in 2002-03 to 232 during the year 2003-04. It indicates the penetration of the scheme into rural hinterland.

iv) The Banking Ombudsmen Offices could dispose off 70 per cent of the maintainable complaints on an annual basis (Appendix Table-4). Despite increase in the number of complaints, the percentage of maintainable complaints disposed off increased steadily except during 2002-03 when it dipped marginally.

v) On the analysis of the complaints pending with Banking Ombudsman at the end of March, 2004 reveals that around 50 per cent of the pending complaints remained pending for a period two months, 37 per cent for 3 months and 11.00 per cent between 2 to 3 months respectively (Appendix Table-5). As shown in Appendix Table-5A, Banking Ombudsmen could dispose of 98% of the complaints by settlement between the complainant and the concerned banks indicating that the Banking Ombudsmen office takes appropriate decisions taking into consideration all the relevant and extant legal and banking instructions.

vi) Centre-wise analysis of complaints received by the offices of the Banking Ombudsman for the year ended March 31, 2002 indicates that the

maximum number of complaints were received at Jaipur(1021), which is followed by other offices like New Delhi(624), Thiruvananthapuram(545); Kolkata(506); Chandigarh(466), and Hyderabad(406). Banking Ombudsman received majority of complaints from metropolitan and urban centers only. Centre-wise analysis of the awards issued by the offices of Banking Ombudsman during the year 1998-99 to 2003-04 revealed that 430 awards were issued of which Kolkata office issues highest (73) number of awards followed by Kanpur (66) (Appendix Table-6)

vii) Analysis of the expenditure incurred by the offices of Banking Ombudsman for the period of 1998-99 to 2003-04 reveals that the scheme has incurred an amount of Rs.6 crores on an average per annum. The cost per complaint is ranging from Rs.7,413 (2003-04) to Rs. 10,020 (2000-01) as shown in Appendix Table-7.

### **Banking Ombudsman Scheme 2002: A review**

Even after making several modifications to the Banking Ombudsman 1995, customer felt that the scheme is not strong enough to attend and redress their complaints up to their satisfaction. A close scrutiny of the scope, functions and –powers reveals that the Ombudsman is not adequately empowered to handle any type of complaints against the bank.

The complaints received by the office of the Banking Ombudsman can be classified into two broad categories: (1) those relating to deficiency in banking services and (2) loans and advances. The complaints of first category are of routine type, which can be easily redressed by the hierarchial heads at different decision-making levels within the bank itself, and there is no need to approach the Ombudsman. While majority of complaints came from the credit area, the powers given to the Ombudsman is inadequate. Ombudsman cannot entertain a complaint in respect of ad-hoc request or renewal or enhancement request of credit limits. He cannot also question the commercial judgment of a banker in the sanction of loan, rejection thereof or conduct or consideration of a rehabilitation proposal or calling up or advances, etc.

To make the Ombudsman effective, he must have power to entertain credit complaints, which arise

after the sanction of the limits and during the post-operation period. The Ombudsman should have jurisdiction over all the functions of banks including credit decisions and should have power to question the wisdom of banks in taking decisions, which affect the customers badly.

The institution of the banking Ombudsman came in existence with the issue of the notification by Reserve Bank of India under the powers conferred by Sec.35A of Banking Regulation Act 1949. About the exact status of Banking Ombudsman, there is a lot of ambiguity. Whether it is an independent institution or it forms a part of the Reserve Bank of India or it is a subsidiary of RBI or is it a part of IBA, Banking Ombudsman scheme is also silent on this aspect.

Right now, the scheme of Banking Ombudsman is operating under the close supervision and direction of RBI. To make this institution effective, it should be de-linked from the RBI and should give independent status if necessary by passing a separate Act in the Parliament. So that it can function in free and independent manner. And even it can entertain the customer complaints against RBI. Till now, there is no such provision with Banking Ombudsman to prosecute RBI. However, Consumer Protection Act covers complaint of deficiency of banking services by the RBI.

The mechanism provided by RBI to Banking Ombudsman to redress the complaints is passive in nature or more of an advisory in nature. Even the awards passed by the Banking Ombudsman cannot be enforced except with the help of RBI, which may

use its power conferred to it under Banking Regulation Act, 1949. It would have better and more appropriate, if the Banking Ombudsman scheme would have been enacted by a statute, conferring all statutory powers on the Banking Ombudsman like a civil court, so that the scheme would have been more useful and effective for the needy persons.

**Conclusion :**

The Banking Ombudsman system fills a vacuum where effective remedies not otherwise be available. It provides a much more flexible, cost effective, efficient and constructive jurisdiction than the courts could ever offer what most people seem to want is for an independent third party to look at their grievances in an open-minded way, and decide it cheaply and speedily.

**References :**

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4. Ramachandra Rao,B (1996), The need to widen the Scope of Power of Banking Ombudsman, *The Banker*, Nov-Dec. pp.37-39.
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**Appendix Table – 1 Number of complaints received by the Banking Ombudsman During the year 1998-99 to 2003-04**

Period	ITEMS		
	Number of offices of Banking Ombudsmen	Number of complaints received during year	Average Number of Complaints per office
1998-99	15	6062	404
1999-00	15	4994	333
2000-01	15	5803	387
2001-02	15	5907	394
2002-03	15	5399	360
2003-04	15	8246	550

Source: (1) RBI: Review of the Banking Ombudsman Scheme 1995 Report (1998-99 to 2001-02) (2) RBI Banking Ombudsman Scheme Annual Report.2004)

**Appendix Table –2. Analysis of complaints Dealt-with by Banking Ombudsman**

Sl.No.	Particulars	Y E A R S					
		1998-99	1999-00	2000-01	2001-02	2002-03	2003-04
1.	Deposit Accounts	1830 (24.52)	1687 (24.81)	1617 (23.17)	1662 (23.67)	1789 (27.50)	2500 (26.36)
2.	Loans and Advances	1904 (25.51)	1844 (27.12)	1930 (27.66)	1982 (28.26)	1651 (25.38)	1226 (12.93)
3.	Delay in collection of Cheques/Bills	1198 (16.05)	943 (13.87)	999 (14.32)	1062 (15.12)	908 (13.96)	1001 (10.56)
4.	Others	2532 (33.92)	2326 (34.20)	2432 (34.85)	2316 (32.95)	2158 (33.16)	4756 (50.15)
	<b>Total</b>	<b>7464*</b> <b>(1402)</b> <b>(100.00)</b>	<b>6800*</b> <b>(1806)</b> <b>(100.00)</b>	<b>6978*</b> <b>(1175)</b> <b>(100.00)</b>	<b>7022*</b> <b>(1115)</b> <b>(100.00)</b>	<b>6506*</b> <b>(1107)</b> <b>(100.00)</b>	<b>9483*</b> <b>(1237)</b> <b>(100.00)</b>

Source : (1) RBI : Review of the Banking Ombudsman Scheme 1995 Report (1998-99 to 2001-02)  
 (2) RBI : Banking Ombudsman Scheme Annual Report, 2004.

Note : (1)\* No. of Complaints includes previous years pending complaints as indicated in brackets

**Appendix Table –3. Bank-wise complaints Dealt-With by Banking Ombudsman**

Sl.No.	Particulars	Y E A R S					
		1998-99	1999-00	2000-01	2001-02	2002-03	2003-04
1.	National Banks	4056 (54.43)	3857 (56.72)	3657 (52.41)	3609 (51.40)	3145 (48.34)	4049 (42.70)
2.	SBI-Group	2337 (31.31)	1960 (28.82)	2175 (31.17)	2112 (30.10)	1914 (29.42)	2779 (29.31)
3.	Private Sector Banks	390 (5.23)	417 (6.13)	531 (7.61)	629 (8.96)	718 (11.04)	1325 (13.97)
4.	Foreign Banks	219 (2.93)	198 (2.91)	147 (2.11)	254 (3.62)	313 (4.81)	406 (4.28)
5.	Scheduled Primary Co-operative Banks	82 (1.10)	131 (1.93)	122 (1.75)	55 (0.78)	112 (1.72)	166 (1.75)
6.	Others	373 (5.00)	237 (3.49)	345 (4.95)	363 (5.14)	304* (4.67)	758** (7.99)
	<b>Total</b>	<b>7464</b> <b>(100.00)</b>	<b>6800</b> <b>(100.00)</b>	<b>6978</b> <b>(100.00)</b>	<b>7022</b> <b>(100.00)</b>	<b>6506</b> <b>(100.00)</b>	<b>9483</b> <b>(100.00)</b>

Source : (1) RBI : Review of the Banking Ombudsman Scheme 1995 Report (1998-99 to 2001-02)  
 (2) RBI : Banking Ombudsman Scheme Annual Report, 2004.

Note : (1) \* Includes 33 complaints against RRBs  
 (2) \*\* Includes 232 complaints against RRBs  
 (3) Figures in brackets represents percentage total.

**Appendix Table –4. Disposal of complaints by the Banking Ombudsman  
During 1998-99 to 2003-04**

Sl.No.	Particulars	Y E A R S					
		1998-99	1999-00	2000-01	2001-02	2002-03	2003-04
1.	Complaints received	7464	6800	6978	7022	6506*	9483
2.		3317	2614	2732	2404	2132	4011
3.	(2) as a % of (1)	(44.44)	(38.44)	(39.15)	(34.24)	(32.77)	(42.30)
4.	Complaints Maintainable	4147	4186	4246	4618	4347	5472
	(4) as a % of (1)	(55.56)	(61.56)	(60.85)	(65.76)	(67.23)	(57.70)
5.	Disposed of	2807	2484	3131	3511	3137	3998
6.	% of maintainable complaints disposed of (5) as a % of (4)	(67.69)	(59.34)	(73.74)	(76.03)	(71.72)	(73.06)
7.	Pending	1340	1702	1115	1107	1237	1474**
8.	Of the pending complaints those pending for more than 2 months(No.)	775	998	589	624	650	709
9.	(8) as a % of (7)	(57.84)	(58.64)	(52.83)	(56.37)	(52.55)	(48.10)
	<b>Total</b>	<b>7464 (100.00)</b>	<b>6800 (100.00)</b>	<b>6978 (100.00)</b>	<b>7022 (100.00)</b>	<b>6506 (100.00)</b>	<b>9483 (100.00)</b>

Source : (1) RBI : Review of the Banking Ombudsman Scheme 1995 Report (1998-99 to 2001-02)

(2) RBI : Banking Ombudsman Scheme Annual Report, 2004.

Note : (1) \* Includes previous years pending complaints

(2) \*\* For the year 2003-04, the details of pending have been furnished in table 4

**Appendix Table 5 : Complaints pending with Banking Ombudsmen  
At the end of March 2004**

Period of Delay	Number	% to Total
Up to 1 month	530	36
1 - 2 months	235	16
2 - 3 months	164	11
More than 3 months	545	37
<b>Total</b>	<b>1474</b>	<b>100</b>

Source : RBI : Banking Ombudsman Scheme Annual Report, 2004.

**Appendix Table –6. Award issued by the Banking Ombudsmen  
During 1998-99 to 2003-04**

Sl.No.	Particulars	Y E A R S					
		1998-99	1999-00	2000-01	2001-02	2002-03	2003-04
1.	Ahmadabad	-	1 (1.35)	4 (7.70)	3 (6.82)	8 (17.02)	2 (1.65)
2.	Bangalore	7 (7.61)	6 (8.11)	3 (5.77)	7 (15.91)	-	8 (6.61)
3.	Bhubaneswar	-	2 (2.70)	1 (1.92)	3 (6.82)	3 (6.38)	3 (2.48)
4.	Bhopal	2 (2.17)	3 (4.05)	-	-	-	6 (4.96)
5.	Kolkata	2 (2.17)	14 (18.92)	16 (30.77)	15 (34.10)	13 (27.66)	13 (10.74)
6.	Chennai	8 (8.70)	10 (123.51)	9 (17.31)	-	1 (2.13)	-
7.	Chandigarh	-	-	1 (1.92)	2 (4.55)	-	6 (4.96)
8.	Guwahati	-	2 (2.70)	2 (3.85)	-	14 (29.79)	17 (14.05)
9.	Hyderabad	14 (15.22)	9 (12.16)	2 (3.85)	-	-	6 (4.05)
10.	Jaipur	4 (4.35)	1 (1.35)	3 (5.77)	4 (9.10)	-	5 (4.13)
11.	Kanpur	28 (30.44)	20 (27.03)	8 (15.38)	5 (11.36)	-	5 (4.13)
12.	Patna	23 (25.00)	-	-	-	2 (4.36)	13 (10.74)
13.	Mumbai	2 (2.17)	1 (1.35)	1 (1.92)	2 (4.55)	6 (12.76)	15 (12.40)
14.	New Delhi	2 (2.17)	3 (4.05)	2 (3.85)	3 (6.82)	-	20 (1.65)
15.	Thiruvanantha Puram	-	2 (2.72)	-	-	-	2 (1.65)

Source : (1) RBI : Review of the Banking Ombudsman Scheme 1995 Report (1998-99 to 2001-02)  
(2) RBI : Banking Ombudsman Scheme Annual Report, 2004.

**Appendix Table –7. Expenditure incurred by the offices of Banking Ombudsman  
for the period of 1998-99 to 2003-04**

Year	Total Cost (Rs. In Crores)	Number of Complaints	Cost per Complaint (Rs.)
1998-99	5.31	6062	8759
1999-00	6.15	6800	9050
2000-01	6.99	6978	10020
2001-02	5.91	7022	8425
2002-03	6.36	6506	9783
2003-04	7.03	9483	7413

Source : (1) RBI : Review of the Banking Ombudsman Scheme 1995 Report  
(2) RBI : Banking Ombudsman Scheme Annual Report, 2004.