

## THE BANKING OMBUDSMAN SCHEME, 2006: DEAD OR ALIVE?

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### ABSTRACT

*The purpose of this article is to critically analyze the performance of the Banking Ombudsman over the past 16 years of its implementation. In July 2006, an independent body within the Reserve Bank was formed to oversee the various banks' complaint mechanisms and to improve the speed and quality of customer service delivery, as well as to provide customers with a forum for redressing complaints. As a result, the Reserve Bank has institutionalized and managed the Bank Ombudsman system, providing bank customers with a fast and cost-effective forum for resolving their complaints. The article is really significant because the Banking Ombudsman is a scheme that still lacks behind a lot despite years after its implementation and many don't even know such a kind of system persists or many believe that it ceases to exist because of various reasons like its pathetic performance, lack of representation, awareness, and speedy redressal mechanisms, etc. Hence the problem of the paper was to study the performance of BO, the reasons behind its shortcomings and finding ways to solve it. The method adopted was a detailed analysis of several journals on BO, yearly performance reports by RBI, and other survey reports.*

### INTRODUCTION

Will 21st-century mark the death of the moribund Banking Ombudsman Scheme? Well, let's first examine the scheme to derive the answer. Customer service is a daunting task in the Indian banking industry, especially as efficient service is a top priority for attracting and retaining new customers. Providing efficient and hassle-free banking services is one of RBI's top priorities. In July 2006, an independent body within the Reserve Bank was formed to oversee the various banks' complaints mechanisms and to improve the speed and quality of customer service delivery, as well as to provide customers with a forum for redressing complaints. A full-fledged customer service department was established. As a result, the Reserve Bank has institutionalized and managed the Bank Ombudsman (BO) system, providing bank customers with a fast and cost-effective forum for resolving complaints about deficiencies in the banking

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group in general and in particular categories of deficiencies. The scheme came into force by the order of RBI under Section 35A of the Banking Regulation Act 1949.

### **BANKING OMBUDSMAN SCHEME, 2006**

The program applies to all commercial banks, local regional banks, and other major cooperative banks operating in India. Unlike the old system, the revised Bank Ombudsman System will be fully staffed and funded by the Reserve Bank, not the Bank.<sup>1</sup> Under the revised Bank Ombudsman Scheme, complainants can submit complaints in any format, including online. Bank customers may also file a complaint with the Reserve Bank against the Bank Ombudsman's arbitration award. The 2006 scheme provides a forum for bank customers seeking redress for the most common complaints against banks, including credit cards, service charges, delays in fulfilling bank promises by bank sales representatives, and delays in bank services. Section 9 of the Banking Ombudsman Scheme 2006 sets out the procedure for making complaints to the Banking Ombudsman and the conditions under which a complainant may not consult her Banking Ombudsman.

### **OUTCOME OF THE BANKING OMBUDSMAN SCHEME**

As of 2015, this agency handles almost all types of complaints regarding banking services. From 2009 to 2010, the team received 79,266 complaints. About 94% of those were handled, and only 5% to 6% of complaints were pending for more than a quarter of the time. There are currently 22 bank ombudsmen in India. A customer may lodge a complaint with anyone within the jurisdiction of the bank location. In other words, if your bank is located in Bangalore, you can file a complaint with Bangalore Region BO. If you or your bank are dissatisfied with the Bank Ombudsman's decision, he may escalate the case to the Court of Appeal, Deputy Governor of the RBI, within 30 days of the BO's decision.<sup>2</sup>

### **WHO ARE PROTECTED; CONSUMERS OR BANKS?**

Over the years, BOs have emerged as white elephants in ivory towers, interested in protecting banks at the expense of their customers, in part because the BO does not have the authority to

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<sup>1</sup> Yadav, Anoop Kumar. "Banking Ombudsman: A Pragmatic Step in the Banking Sector." *SSRN Electronic Journal*, 2012, 10.2139/ssrn.2184645. Accessed 27 Apr. 2019.

<sup>2</sup> Suvarna, Harinakshi, and Narayan Kayarkatte. "A Critical Review of Performance of Banking Ombudsman Scheme in India." *Asian Journal of Research in Banking and Finance*, vol. 11, no. 8, 2021, pp. 1–10, 10.5958/2249-7323.2021.00013.4. Accessed 24 Dec. 2021.

take action. However, in many complaint cases, we found a lack of interest and understanding of the issues raised by consumers at the BO office.<sup>3</sup> The BO prohibits customers from filing complaints or even resubmitting. But more on that later. According to the annual report issued by RBI for the 12 months ended 30 June 2020, BO made only 68 arbitral awards, 0.04% of a total of 173,958 valid cases. BO resolved almost 72.34% of complaints through mutual settlement or agreement. If the parties do not reach an acceptable agreement, the BO will decide or issue an arbitration award.<sup>4</sup> At this point, BO's record begins to wane. This year, 68 awards were awarded by the BO, 38 of which were implemented. Most of the awards given (24) and awarded (16) are from his BO in New Delhi-I. At Thiruvananthapuram, which followed, 10 awards were given, 6 of which were implemented. Surprisingly, he had eight BO offices without a single award. This includes two of his BO offices in Mumbai and one each in Patna, New Delhi III, Jammu, Jaipur, Hyderabad, and Ahmedabad. In most cases, traditional remedies such as consumer court are the only alternative left to the consumers.

#### **ANALYSIS OF THE BANK OMBUDSMAN'S PERFORMANCE OVER THE YEARS**

“With pressure from customers and increased regulation by the RBI, banks are resolving more and more disputes related to fraudulent transactions. Yes, there have been some improvements from banks,” says banker to financial adviser Prakash Prahraj. Many of the complaints that the Ombudsman classifies as "maintainable" are resolved through amicable agreements between the bank and the complaining consumer. Of the total number of reasonable complaints, 65.82% of complaints were resolved by mutual agreement in 2017-18, compared to 42.43% in 2016-17 and 35.93% in 2015-16. Over the same period, the proportion of 'maintainable' complaints where the ombudsman's final decision was unfavorable to the consumer also decreased. In 2017-18, 33.82% of “maintainable” complaints were dismissed, compared to 63.65% in 2015-16.<sup>5</sup> From 1 January 2006, a revised Bank Ombudsman System 2006 was introduced. This system included new areas such as B. Facilitated credit card complaints and submission of complaints in any format, including online and by email. Additionally, the bank ran a

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<sup>3</sup> Singh, Rajdeep. “PERFORMANCE REVIEW of BANKING OMBUDSMAN SCHEME: AN EFFECTIVE TOOL to EMPOWER BANK’S CUSTOMERS.” *International Journal of Research -GRANTHAALAYAH*, vol. 4, no. 6, 30 June 2016, pp. 92–99, 10.29121/granthaalayah.v4.i6.2016.2642. Accessed 29 Apr. 2021.

<sup>4</sup> Sharma, Reema, and Fulbag Singh. “Banking Ombudsman Scheme: A Redressal Mechanism for Banking Customer’s Grievances.” *Asian Journal of Research in Banking and Finance*, vol. 5, no. 6, 2015, p. 136, 10.5958/2249-7323.2015.00077.2. Accessed 18 June 2019.

<sup>5</sup> Rupani, Riya, and Shaukat Ali. “An Analytical Study on the Performance of the Banking Ombudsman Scheme in India.” *Journal of Management Research and Analysis*, vol. 9, no. 3, 15 Aug. 2022, pp. 130–136, 10.18231/j.jmra.2022.025. Accessed 30 Dec. 2022.

centralized advertising campaign when the new system was introduced. The Bank Ombudsman Office handled 94% of the total number of complaints received (up from 87% last year). In 2009-10, the Bank Ombudsman (BO) said he received 79,266 complaints.<sup>6</sup> This is a 15% increase from 69,117 complaints in 2008-09. However, the rate of increase has slowed significantly. from 44% in 2008-2009 to 15% in 2009-2010. The number of complaints increased mainly due to an awareness campaign by the Bank Ombudsman (BO) and various proactive actions by the Reserve Bank.<sup>7</sup>

### **RECENT SURGE IN THE COMPLAINT AND REJECTION RATE**

Reserve Bank of India has released Bank Ombudsman Annual Report 2017-2018 (1 July 2017 to 30 June 2018). The Ombudsman has rejected nearly half of the 164,000 complaints it has received, calling them "non-maintainable." Complaints that meet the basis for complaints in the 2006 Ombudsman Procedure will be considered "maintainable". Over the last few years, nearly half of the complaints have been dismissed as 'non-maintainable'. "Non-maintainable" complaints accounted for 52.3% of all complaints received in 2016-17 and 50% in 2015-16. According to the 2015-16 annual report for the Banking Ombudsman, one of the reasons for this high rejection is that people are sending complaints to banks and marking copies in the ombudsman's office.<sup>8</sup> "The general feeling among the informed public is that sending a complaint to the bank with a copy marked by the bank ombudsman will help expeditious resolution. These complaints go to the Ombudsman first, not the bank, so they are rejected. The Bank Ombudsman's Office receives complaints from banks about inadequate service. The number of complaints received by the Bank Ombudsman (BO) has increased steadily from 1999-2000 to 2009-2010, except for a slight decrease in 2002-03. Moreover, the number of complaints he received in 2005/06 more than tripled compared to 2004/05.<sup>9</sup> Since the bank ombudsman system was revised in 2006, the number of complaints has increased significantly.

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<sup>6</sup> Neil Borate, Shaikh Zoab Saleem, "Is banking Ombudsman consumer friendly?" Livemint, (last visited on 21<sup>st</sup> December 2022) <https://www.livemint.com/money/personal-finance/is-banking-ombudsman-consumer-friendly-1556641401646.html>

<sup>7</sup> Chhikara, Kuldip S.; Kodan, Anand S, "Banking Ombudsman Scheme In India: An Evaluation, *Journal of International Global Management*"; Feb2012, Vol. 2 Issue 2, p18

<sup>8</sup> Bhatia R.L (2004), "Banking Ombudsman: An Effective Mechanism for Redressal of Public Grievances against banks", 34 Chartered Secretary 970.2.

<sup>9</sup> Ghosh, Devdeep. "A Functional Understanding of the Banking Ombudsman in India." *SSRN Electronic Journal*, 2012, 10.2139/ssrn.2275573. Accessed 15 Aug. 2019.

## ROAD TO RESURRECTION

Consumer advocates emphasized that the lack of representation by the ombudsman from the consumer's point of view leads to mass rejection. Babu Sivaprakasam, a partner at the law firm Economic Laws Practice, said the work of the ombudsman also needs to be reviewed. "Bank ombudsmen have proven ineffective. Consumers could have gotten better results from consumer forums, even with longer deadlines. It's time to make sure it's a target," he said.<sup>10</sup> The RBI Banking Ombudsman is a fast, technology-friendly bailout mechanism. However, many of the complaints submitted are rejected or dismissed, often for technical reasons. Consumers should review the legal provisions of the Ombudsman System before contacting this agency or consulting an attorney. For the proper functioning and timely redressal of the complaints registered, the adoption of new effective mechanisms, and proper supervision of the appointed ombudsman are highly necessary.

## CONCLUSION

Although the rate of complaints and redressal had increased over time still the BO lacks in many ways to fully dispose of its duties. Banks are obliged to disseminate and publicize the ombudsman system, but the system and mechanism are not well known to the public, and banks are required to have an appropriate awareness of the system and mechanism. The massive rate of rejections and pending cases are just a sign of its inefficiency. Hence, the only way ahead for its efficient management are through the appointment of more BOs', massive awareness campaigns, and proper inspection of their redressal mechanisms.

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<sup>10</sup> Yogesh Sapkale, "Banking Ombudsman Scheme; Operation successful but the patient died, money life" (last visited on 21<sup>st</sup> December 2022) <https://www.moneylife.in/article/rbis-banking-ombudsman-operation-successful-but-the-patient-is-dead/63968.html>