

K C Chakrabarty: BCSBI, customer service and consumer protection – issues and challenges

Inaugural address by Dr K C Chakrabarty, Deputy Governor of the Reserve Bank of India, at The Annual Conference of Principal Code Compliance Officers, Mumbai, 24 February 2012.

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Shri A.C.Mahajan, Chairman BCSBI, Shri M.M. Chitale, Shri H.N.Sinor, Shri C. Krishnan, members of the Governing Council of BCSBI, Shri N Raja CEO, BCSBI, delegates to the Conference, Ladies and Gentlemen, it gives me great pleasure to be in your midst today and share with you some of my thoughts concerning quality of customer care and service in our banking industry.

The BCSBI has been in existence for six years now and has done a commendable job in this short span of time. Two codes have already been put out and have been / will be reviewed from time to time. The question that has always cropped up in my mind is about the standards of customer service. If we were to go by the spirit of the Codes issued by the BCSBI, adherence to the Codes is the minimum acceptable benchmark for quality of customer care. If that is so how far are we from achieving excellence in this area? As we expect our children to do better in every exam and are absolutely ruthless or unhappy if the child has secured the minimum marks required to be declared successful, in the same analogy mere adherence to the Code does not mean we are doing everything right to make the grade. The question therefore is what is it that we need to do going beyond the Code, especially this being a voluntary effort which many banks have willingly decided to undertake. The BCSBI codes do have a requirement for banks to act “fairly and reasonably” towards customers, but in a majority of the cases it appears to amount to little more than sticking to the contracts and agreements customers effectively sign up to when opening accounts or taking a loan. There are certain areas where a tougher more explicit code would be worth considering. I will be touching on some of these areas as we go ahead.

The first and foremost issue that springs to my mind is that of attitude. The key to a prompt, effective and courteous customer service emanates from having the right attitude. There are many institutions that declare the famous quote by Mahatma Gandhi that customer is king and the very reason for the existence of the enterprise. But is it reflected in employee behaviour at the ground level. Does the Board/ Top Management have the right attitude towards customers. Do the banks have a policy of assigning a unique identity to all customers? If not, can we accurately say how many customers a bank has? Most of the time, the figures given are that of the number of accounts. But by doing so, essentially we are not differentiating between a ledger page and a customer. So, in my opinion, a radical transformation of attitude right from Top Management to ground level employees is the first step towards improving customer service. The challenge for all of us in the banking industry is to develop the right kind of attitude to render service. Can we define the standards of behaviour? Perhaps it may be easier to identify the elements of unacceptable behaviour and try to redress and improve the situation. The behaviour standards especially of the front-line managers are implicit in the acceptance of the codes by the banks.

Communication is at the root of effective customer care in a service industry especially like banking, where the documents, terms and conditions, practices & precedents are all heavily loaded against the customer. How do you communicate with the customers when a complaint is lodged? Do you inform him how soon it will be resolved and give him a complaint number? How effective and timely is your customer grievance redressal system? Do you have a system of analysing the average time taken to resolve complaints and monitor the consumer complaints? In an arrangement that is based on terms of agreement that are

unequal, enforceability of contracts poses a major challenge. Introduction of Most Important Terms and Conditions (MITC) for all major products and services offered by banks is expected to help the consumers analyze the suitability of a product from their perspective. Many bank customers walk into a branch with a rough sketch of what they want. We must understand the customer's needs and sell him what he / she needs. The MITCs must be distinguishable from marketing or promotional material. Web based information is becoming an extensive source of communication with bank customers. How many banks can give a commitment that they will promptly update their web sites to reflect any and every change in pricing of their products / services, MITCs governing important products / services, change in working hours, change in key personnel etc.?

Compensation policies – The banks have framed and placed in public domain their compensation policies for customers for any lapses or loss that may be caused by a mistake on the bank's part. The question that arises is, in how many cases have the banks paid such compensation on realizing their mistake and without the customer begging for it? An example in point can be the case of cheques vanishing from the drop boxes in which they have been deposited by the customers. Can the banks come forward and commit that it is their responsibility to ensure safety of instruments in the drop boxes? When a customer complains about such things he / she is made to run from pillar to post to gather evidence to establish the fact that the cheque was indeed dropped by him / her in the box meant for the purpose. Should the banks not compensate him/her on the principle of reciprocity?

In many fields and in different countries regulators determine the price. But, the financial sector regulator in India does not do so. Therefore whatever charges are levied it is expected that they are reasonable. And that the pricing must be fair, transparent and non-discriminatory. Globally, regulators are expected to usher in much stricter regulations in the area of fair treatment to customers.

Coverage of special category customers – As we move towards introducing global best practices in banking, an important element in the area of customer care is the special focus which students, senior citizens, physically challenged persons, vulnerable sections of the population must get from the financial services industry. These initiatives too need to be codified and their implementation monitored by the code compliance officers.

Lending responsibility – At a time when all banks are in a hurry to be one up on the other, at least in the matter of advertising speedier sanction of loans, responsible lending is worth considering. I agree that people should take responsibility for their borrowing and anything that could limit people's economic freedom should be considered with caution. But the code currently side-steps the issue by leaving the test for responsible lending as whatever the banks "believe" the borrower can pay back.

To err is human, to confess is divine – I would be happy to see the banks revisiting the cases of customers who had been wronged but there was no restitution in their favour because they did not complain either to the bank or to the Banking Ombudsman. Why is it that the regulator should be forced to look at class action? The BCSBI may like to examine the possibility of incorporating such a provision in the Bank's Code of Commitment to Customers.

Disclosures – Bank staff do not tell customers when they are trying to sell a credit card or an insurance policy or a mutual fund that they may be incentivized through some compensation schemes. At the very least setting out the terms of incentive schemes in a customer brochure may be acceptable. There are instances where the pricing and operational freedom conferred on banks is by means of general guidelines that may become a subject matter of interpretation. How many banks are willing to go an extra mile and interpret the guidelines in favour of customers? The discriminatory practices that banks adopt while sanctioning loans on a floating interest rate basis to new borrowers is possibly the best example in this regard. A factor which impedes easy comparison of rates among banks is differences in processing charges/ documentation fee/ renewal fee / compounding periods, etc. One of the measures

which is globally adopted is to announce an Annualised Effective Rate taking into account all types of charges over and above the interest rate. The same can be done with deposit rate. This will be great enabler for easy comparison.

Family law proceedings / succession issues – No matter what the terms and conditions of a joint account or nomination facility are, bankers still get fixated on the legal provisions that were never a part of the account opening process, while settling claims of deceased depositors or transferring the amounts to the nominees. The practices in this regards not only differ from one bank to another but within the same bank there are diametrically opposite view points at two different branches on such matters. Nobody is keen on following the model policy evolved by the IBA for the purpose. Can the BCSBI's codes be made more effective to address these issues faced by the common persons? There are problems faced by couples busy in divorce proceedings, when it comes to transfer of title deeds of immoveable properties where a home loan may have been jointly taken in the name of the husband and wife. These are the new realities of a fast changing world and we must address these as a part of our commitment to the bank customers.

There are a couple of areas which deserves our attention from a customer protection point of view. The first is that of electronic banking/card banking. Electronic funds transfers, internet based banking transactions, card banking are on the rise and are throwing up issues / challenges one might not have anticipated. The banking agreement is so worded as to afford no right to the customer and is extremely lopsided. Banks are not responsible for any unauthorized transactions even if by their employees. In fact, given an institutions resources, the onus should be on banks to prove that the individual customer has compromised his userid/password. Making networks safe and sound is the responsibility of banks, there must be in place a code of conduct for addressing issues in the non-face - to - face transactions domain. This code could help evaluate the preparedness of individual banks that are willing to offer such services. This code could cover networking arrangements, audit trails, complaint investigation and resolution procedure, liability in case of system or equipment malfunction, liability for unauthorized transactions etc. The second is when the customer is in distress- rehabilitation of sick units, or when small borrowers/ farmers are in distress. While banks do advertise that they have good framework for rehabilitation of sick units, but a look at the percent of sick units being nursed back tells a different story. There is a need to improve the number of units that are successfully nursed back. Lastly, I would like to mention the issue of selling third party products such as insurance, capital markets etc. which is becoming increasingly relevant from a customer protection point of view. Whether the customers especially those small and poor understand what is being sold to them.

Electronic funds transfers, internet based banking transactions are on the rise and are throwing up issues / challenges one might not have anticipated. Making networks safe and sound is the responsibility of banks, there must be in place a code of conduct for addressing issues in the non-face - to - face transactions domain. This code could help evaluate the preparedness of individual banks that are willing to offer such services. This code could cover networking arrangements, audit trails, complaint investigation and resolution procedure, liability in case of system or equipment malfunction, liability for unauthorized transactions etc.

Review of the Codes – The BCSBI has reviewed one of the two codes issued by it and the other one is in the process of being updated. Do we have a mechanism of an independent review of the codes with feedback from all the stakeholders who are interested in the subject? Australia, for example, mandatorily undertakes a review of its Code of Banking Practices every three years. Can we have some such arrangement in place?

The two sets of codes having been issued by the BCSBI and taken up for implementation by banks, there is a case for examining the need for lengthy documents that banks still insist on getting executed especially in relation to loan products. Can we really and seriously make an

effort to rationalize and simplify the documents and documentation process and publish it as our commitment to the customers?

There are new avenues of taking banking to the people. One important challenge in this area is the success of the BC led banking / financial inclusion model. The code of bank's commitments to customers' needs to articulate the actions to be taken by the bank while selecting a BC and the training that he / she will be provided to undertake or execute financial transactions on behalf of the bank. "Financial Inclusion" is high on the agenda of the Government and the Reserve Bank of India. Can we evolve a code for development and implementation of financial inclusion plans and place them in the public domain as a part of our corporate social responsibility?

Credit information bureaus are of very recent origin in India. Many individuals are not aware of the existence of such institutions and are shocked to find their names appearing in the defaulters list making it difficult for them to access the banking system for their credit needs. The banks need to take up customer education in this regard as a part of their code of commitments. The reporting methodology, implications of reporting, rectification mechanism, and remedy for wrong reporting must be properly communicated to all the customers.

Financial literacy and education are becoming increasingly important. The inputs in this regard could be made available in different formats including large print, Braille, DVD, audio etc.

The RBI had set up a Committee, under the Chairmanship of former SEBI Chairman Shri M Damodaran, to look into the entire gamut of customer service related issues in the banking industry including a review of the Banking Ombudsman Scheme. The total number of recommendations made by the Committee in its report was 232. Of these total recommendations, 22 are to be examined by the RBI / Government. The remaining 210 recommendations have to be examined for acceptance and implementation by the banking industry. The IBA has already issued operational guidelines in respect of 88 recommendations. In respect of 38 other recommendations the IBA initially had said no comments. "No comments" according to me is an acceptance of these recommendations and it should not be difficult for the IBA to issue clear guidelines in regard to these recommendations. There remain a few other recommendations on which the banks and the IBA had earlier expressed strong reservations. At a meeting held with the leading bankers on December 16, 2011, I have urged my banker friends to revisit the important issues in the light of international best practices, the need for protecting our consumers against fraud, the availability of insurance products to protect individuals from such frauds and finally a clearly spelt out compensation policy that is communicated to the customers upfront. The major areas of concern are internet banking related misuse / abuse, ATM related service deficiencies, loss of credit / debit cards and extent of card holders' liability in such an event, penalty for not adhering to the AQB discipline etc. An important recommendation made by the Damodaran Committee was about banks appointing an Internal Ombudsman. This idea needs to be followed up and implemented proactively in the interest of consumer protection and impartial / transparent dealings.

The common problems faced by customers very frequently pertain to ATM issues, pensions, levy of service charges without prior intimation, credit card related issues, loans and advances etc. It puzzles me that the total number of credit card users is less than 10% of the total bank customers' base but still this area accounted for 24% of the total number of complaints handled by the B O Offices during 2010 – 11. Similarly, a proper enforcement of the BCSBI Codes should necessarily result in the banks intimating their customers about changes in interest rates and service charges at least 30 days in advance. Here again the number of complaints highlight the gaps in implementation of the Codes at the branch level. Pensioners are senior or very senior citizens and in a majority of the cases this is their only source of livelihood. We need to be empathetic and humane while dealing with pensioners.

The best way to minimize the incidence of these complaints is to educate the customers and bank staff alike:-.

Global initiatives in consumer protection

The global financial crisis brought to the fore gaps in consumer protection measures in the financial services industry worldwide. Many countries that were affected by the crisis have standards and codes in place to set the minimum benchmarks for customer care. The failure of voluntary / industry led initiatives to protect the financial sector consumers and the backlash created by a public resentment against bankers and banking has forced many governments to come up with statutory measures aimed at financial consumer care and protection. When service standards are defined as a part of the statute any breach or violation of law attracts penalty. Are we moving in that direction? This may not happen in the near future but even in the Indian context the day may not be far when we may have a proper legislation specifically to look at issues affecting the financial sector consumers. Once this initiative becomes a statute, the voluntary option would cease to exist.

The fair practices code adopted by banks / financial institutions is mostly unilateral in nature. Hence, the enforceability of fair practices is more in breach than in practice. With growing complexities of the financial transactions and financial markets, there is need to clearly define the role and responsibility of financial services providers, especially in relation to consumer protection. To promote consumer awareness of the obligations of banks / financial institutions and to foster consumer understanding of financial services and related issues, it is felt that, the Financial Consumer Protection Law should be enacted to cover:

- Grievance Redressal Schemes,
- Compensation Schemes,
- Financial Ombudsman Schemes,
- Consumer education and awareness initiatives,
- Consultation with consumer bodies before evolving policies,
- Responsible lending and marketing practices,
- Card products,
- Consumer privacy and data protection,
- Defining mis-selling and cross selling.

This suggestion is in the backdrop of global developments. Countries like the USA and UK have enacted legislations specifically providing for financial consumers' protection. Once every action of a bank vis-à-vis its customers is codified as a statute, the lapses if any would also be punishable as an offence. This may mostly come as a monetary penalty on the employee at fault. Hence, I urge all of you to sensitize your staff on effective implementation of BCSBI codes. The mental block many bank employees have is in owning up their mistakes leading to clash of egos and escalation of complaints right up to the level of President of India. All of us must be cost and time conscious when it comes to grievances redressal. Based on data published in the annual report on the Banking Ombudsman Scheme for the year 2010 – 11 the RBI is incurring a cost of Rs. 3619 /- for every complaint handled by it through the Banking Ombudsman Scheme. If you add to this the cost involved at the banks' end, the total cost for the banking system of handling a single grievance may roughly work out as high as Rs. 15000/-. Can we not do a cost - benefit analysis in terms of compensating the customer for any loss / lapses, than merely spending our time and resources on defending actions that were patently wrong?

The Bureau of Indian Standards has evolved ISO 10002:2004 standard for reviewing the effectiveness and efficiency of the complaints handling process. Adherence to this particular standard focuses on conferring the following benefits viz.,

- Management system
- Customer satisfaction,
- Management focus,
- Brand improvement,
- Credibility,
- Customer confidence
- Improved Efficiency
- Better relationship
- Continual improvement
- Transparent system
- Auditable system
- Synchronisation

The standards has eight clauses, the first three are scope, normative reference and terms and definitions. The other five are:

- Guiding principles
- Complaints Handling framework
- Planning and design
- Operations of the complaints handling process
- Maintenance and improvement

It is gathered from the Bureau of Indian Standards that only two banks in the country (private sector banks) have so far adopted this standard. I urge the governing council of BCSBI to examine if adoption of an ISO standard for grievance redressal could be considered for inclusion in the Code of Bank's Commitment to customers. The banks may on their own explore the possibility of adopting the ISO standards.

The Office of Fair Trading, United Kingdom has carried out several case studies to evaluate consumer credit intervention strategies. The case studies highlight the fact that vulnerable groups are particularly exposed to the risks of being misled by advertising. Such action is treated as "non-compliance" with statutory provisions. We also need to look at some such robust provisions in our codes / statutes.

The global financial crisis of 2008 had demonstrated that credit markets are fragile and not only because of the risk of political meddling; borrowers also have tended to exhibit systematic vulnerabilities which compromise their financial decision – making capability. For many governments round the globe, the question is no longer "to protect or not to protect the financial sector consumer?" it is "when and how".

The global practices / regulatory measures for borrowers protection fall into three conventional categories; disclosures, product based and provider based regulation. The current global trend is towards making disclosure regulation more stringent and robust. In particular, these regulations focus on prescribing the manner in which the interest rate and other charges must be calculated and disclosed. It may be the Annual Percentage Rate (APR) as is favoured in the USA, which may also be easy to understand, or it may be the

Total Cost of Credit (TCC), the concept that is widely used in South Africa. The product based regulation focuses on common elements such as right to cancel, prohibited behaviour and right of grievances redressal. We need to pick up the good aspects of these emerging global trends to strengthen our own codes and commitments to the customers.

Consumers' lack of financial literacy – Financial literacy includes knowledge of financial concepts and sound practices such as budgeting, but also the contractual rights and recourse procedures open to consumers. Internationally, financial education, awareness and financial literacy are being accorded the highest priority in the scheme of financial consumer protection. Where are we placed in this regard? The efforts like setting up of FLCCs are only a small measure considering the gigantic task we have at hand. Whether or not mentioned in the BCSBI's codes, can we bankers not make a commitment to put financial education and awareness on a mission mode and promise to deliver on our commitments?

Conclusion

As we go forward, a major challenge is how to strike a balance between the twin objectives of increasing financial access/ banking penetration vis-a-vis improving the quality of customer service and customer protection. While in the long run it will converge, in the short run, the dilemma and the tradeoff underlying the debate between financial access and financial consumer protection may be very real to the Governments and policy makers. After all, developed countries have both high levels of access to formal financial sector, and relatively elaborate financial consumer protection measures after four decades of evolution. The financial consumer protection regimes in countries like India are still evolving. BCSBI needs to persuade banks to achieve convergence in an effective manner by adopting a voluntary and self-regulatory approach. It will be a great service to the society if BCSBI, banks and all of us collectively are able to achieve this.

Thank you, Ladies and Gentlemen.