

S Mundra: Customer service in banks – caveat venditor¹

Keynote address by Mr S S Mundra, Deputy Governor of the Reserve Bank of India, at the Conference of the Principal Code Compliance Officers, organized by the Banking Codes and Standards Board of India (BCSBI), Mumbai, 23 May 2016.

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Introduction

1. Shri C. Krishnan, Member, Governing Council, Banking Codes and Standards Board of India (BCSBI); Shri Anand Aras, CEO, BCSBI; colleagues from the banking community, representatives from the media; ladies and gentlemen! At the outset, I would like to thank BCSBI for inviting me to inaugurate this annual conference of the Principal Code Compliance Officers (PCCOs) in the banks. Over the years, BCSBI has been instrumental in driving improvement in level of service extended by the banks to their customers. All of you are pretty familiar with role of BCSBI so I am not going to elaborate on that. You must also be aware about the two sets of Codes that BCSBI has developed for its member banks, namely:

- Code of Bank's Commitment to Customers and
- Code of Bank's Commitment to Micro and Small Enterprises

These Codes are reviewed periodically with a view to incorporate all the relevant regulatory guidelines, contemporary developments in the banking sector and evolving customer expectations. The BCSBI, in a way, helps the banks by providing an independent review and feedback on their adherence to the standards. RBI attaches great importance to the work and assessments of the BCSBI, which places an onerous responsibility on the BCSBI in this relatively unexplored territory.

2. I am sure that today's deliberations will be a good opportunity for the participants:

- to deliberate upon the issues in implementation of the Codes
- to appreciate the importance of imbibing the Codes as a basic norm in day to day dealing with customers and
- to understand the linkage of the codes with the overarching principles of Charter of Customer Rights which is being implemented in your respective banks

3. A major challenge for all of us in the banking industry is to develop the right attitude for rendering service to customers. A broader question is whether we can define the standards of behaviour? Perhaps, it may be easier to identify the elements of unacceptable behaviour and try to redress grievances and improve the situation. The attitude and behavioural standards especially of the front-line executives of banks are very important aspects. We in RBI keep harping on a need for informed and courteous frontline executives/staff and even serve as torch bearers by conducting exclusive training programmes for the frontline executives of the banks. But the fact remains that customer service and enhancing customer experience is primary responsibility of the banks and hence, the onus of empowering the frontline staff and ensuring the presence of a bevy of well informed and courteous frontline executives lies squarely with the banks.

¹ Note: Caveat Venditor: A Latin term meaning "let the seller beware", in contrast to the more widely known saying caveat emptor (let the buyer beware). The principle of caveat venditor cautions that the seller is responsible for any problem that the buyer might encounter with a service or product

Recent steps by RBI

4. Having dwelt upon generic issues, let me now focus on some specifics that I wish to raise this morning. Very often, we found that the fair practices code adopted by banks / financial institutions is observed more in breach than in practice. In view of the growing complexities of the financial transactions and financial markets, RBI, therefore, felt a need to clearly define the role and responsibility of financial services providers, especially in relation to consumer protection and the framing of the Charter of Customer Rights was a logical step in that direction.

5. Formulation of the Charter was done after extensive consultations with all stakeholders, studying global best practices and drawing upon the domestic experience. As you know, the Charter comprises five critical rights: a) Right to Fair Treatment, b) Right to Transparency, Fair and Honest Dealing, c) Right to Suitability, d) Right to Privacy and e) Right to Grievance Redress and Compensation.

6. As a follow up, a model Customer Rights Policy formulated jointly by the BCSBI and IBA was provided to all the member banks and the banks were advised to formulate their own board approved Customer Rights Policy based on the Charter and the model policy by July 31, 2015. RBI would be undertaking a close monitoring of the implementation of the policy and if needed, would issue necessary regulatory instructions. It is heartening that all the banks have drawn up a Customer Rights Policy.

7. Let me now come to the disheartening part. Even a decade after having come into existence, the status of implementation of BCSBI Codes at the ground level remains far from satisfactory. I understand that BCSBI's assessment of the compliance by banks with the Codes and Standards, has brought out several instances of flagrant violations of the code. This is evident not only from the numerous complaints received by our Banking Ombudsman Offices across the country but also in our interactions with customers in Outreach programmes and Town Hall meetings. This aspect merits serious attention by PCCOs. I am told that in the rating exercise undertaken by BCSBI on adherence to the Codes by the banks in 2014-15, only 14% of the member banks were rated with high rating, 49% got Above Average and 21% banks received Average rating. These clearly evidence the fact that a number of banks need to enhance the present level of code implementation and appropriately fulfill their commitments to their customers laid out in the codes.

8. As you know, the Banking Ombudsman Scheme is envisaged as an inexpensive, expeditious customer grievance redress mechanism in the banking sector. The BO scheme works through a process of conciliation, mediation and adjudication. The nodal officers at the banks have a very important role in making the process seamless by ensuring expeditious response from the banks' side after proper examination and due attempt at resolution. It is incumbent on the nodal officers to furnish a quick revert on the complaint to the Banking Ombudsman. The nodal officer must also undertake a root cause analysis to ensure that similar complaints do not arise again. In the context of BO scheme, I would like to inform that RBI is planning to augment the number of its BO offices in the near future and also to come out with certain amendments to the Scheme.

9. You would also be aware that in our quest for an early resolution of customer complaints, in May 2015 RBI mandated all the public sector banks and select private sector and foreign banks to appoint Internal Ombudsman (Chief Customer Service Officers). The Internal Ombudsman are entrusted with the responsibility of examining those grievances which were either rejected by the bank's internal grievance redressal system or where only a partial relief was granted. I am happy to note that all banks have since appointed Internal Ombudsman. We intend to meet them shortly and if needed, fine tune the instructions. A note of caution that I would like to sound here is about the role of the Internal Ombudsman, the Principal Nodal Officer and that of the PCCOs. Banks must ensure that these officials have clearly demarcated roles and responsibilities and a clear chain of command so as to avoid overlaps or vacuums.

10. Upon analysis of the grievances received under the BO Scheme, we observe that a vast majority (about 33%) pertain to non-observance of the Fair Practices Code and non-adherence with commitments made under the BCSBI code, followed by complaints relating to credit/ debit cards, deposits accounts and pensions. The large number of complaints on account of non-adherence to Codes/standards is difficult to accept as the banks have voluntarily accepted these Codes formulated by the BCSBI.

Let me now raise a few major concerns in the area of customer service and also narrate some real life instances.

Cyber frauds and grievance redressal

11. As the online transactions have increased so have the rise in complaints related to electronic banking transactions. Complaints related to unauthorized fund transfers, fraudulent withdrawals from ATMs using duplicate cards, phishing E-mails aimed at extracting personal information etc. have witnessed manifold increase in recent times. It is imperative to have a robust mechanism to prevent incidents of fraud in areas of mobile/net banking and electronic fund transfer so as to retain customers' confidence in these delivery channels. Raising customer awareness on safe usage of such channels should also be an important item on the agenda of the banks. Let me mention here that RBI is already examining whether to issue regulatory directions with regard to limiting the liability of customers on fraudulent transactions arising out of cards and electronic banking transactions.

12. Incidentally our teams have recently undertaken a survey of almost 4000 ATMs across the country with sample size fairly representing geographies and bank categories. Survey results are not comforting in any way. Almost 1/3rd of the ATMs were found to be not working at that point. Violation of regulatory instructions on display material, facilities for differently abled etc. were also observed. We will be taking necessary supervisory action in this regard.

Mis-selling

13. Next comes a very critical issue that I want to raise today. There has been increasingly large number of cases of mis-selling of third party products, particularly insurance products to the customers by the banks by bundling them with loans.

a. In a recent incident, a senior citizen, a retired General Manager of a private sector company who had invested his retirement benefits in Fixed Deposits with one Private Sector bank was convinced by the bank's representative to invest Rs. 2 lakh in an investment scheme assuring his funds would earn a minimum 11% interest and there would be no deduction of income tax upon withdrawal after three years. Another representative from the same bank visited the depositor after a period of one year from the initial investment and convinced him to prematurely close three FDs aggregating Rs. 7 lakh and invest the proceeds in the same scheme. After completion of three years the customer found that he had earned only about 3.5% returns. The representative is no longer in the service of the bank and the customer is in a hapless position. This is a clear case of selling of a product which was not suitable to the needs of the customer. A retired person needs a secure and steady return on investments and any financial product, where returns are not assured, is not suitable for such customer.

b. Another unnerving episode of mis-selling of insurance products by the DSAs got reported in the media recently. The agent promised loans from an NBFC at a very cheap rate provided the customer bought a particular insurance policy. Detailed inquiry later revealed that the named NBFC no more existed under that name, he was not an employee of any NBFC & this was just a ploy to mislead the customer in buying a policy. Such proposals were then tendered to the bank from DSA and were accepted by them without any verification. Needless to say it amounts to a fraudulent transaction. Bank would surely face an aggrieved customer later on. Such cases of mis-selling are rampant and as sellers of third party products using their own staff/ DSAs, the banks are equally vulnerable. Often, higher sales targets coupled

with front ended high commissions are the main motives for such mis-sales. There is no real oversight on unethical selling of third party products.

c. Let me give another recent example of failure of a bank to render proper customer service. A customer was sanctioned a home loan and he had agreed to take a life insurance as a cover for the loan and signed relevant documents. However, the loan sanctioned and disbursed was for a lower quantum than original applied. On the unfortunate death of the borrower, the bank contested the claim stating that at the time of availing lower quantum of loan the borrower had not submitted an insurance proposal form and hence, the bank had not taken insurance. Our analysis revealed that the loan installments paid by the customer included the insurance premium as well but the bank had failed to complete the process of insurance. The appellate authority adjudicated that the bank was at fault and it didn't have appropriate procedure to secure insurance after the sanction of the loan and hence, an award was given in favour of the customer.

14. Several field level studies have been undertaken by various consumer organizations in this area. RBI has also undertaken study on mis-selling of Third Party Products (TPPs) in semi-urban and rural areas which has revealed startling facts. The Right to Suitability enshrined in our Charter of Customer Rights has been totally ignored or rather knowingly violated for the reasons best known to the banks. RBI is seized of this issue and may be constrained to take strict actions including imposition of heavy penalties, if the banking industry continues to follow such unethical and unacceptable practices of mis-selling of third party products. It would be appropriate for the banks to put in place a system of periodic inspection of the sale of third party products by involving their internal inspection teams and plug the loopholes, wherever identified. The PCCOs need to play a central role in administering this.

Money muling

15. Another area that the banks need to guard against is misuse of accounts for money muling. In a recent episode, it was observed that an idle account was used for receiving and transferring large fund without the knowledge of the account holder. The fact came to light only when the income tax authorities served a notice on the account holder. This episode highlights the failure of bank's systems and processes for monitoring of accounts. The newly opened accounts under the PMJDY could be very vulnerable to such sharp practices and hence, banks need to clearly guard against them. Kite flyers and the Ponzi scheme operators also sometimes use mule accounts to swindle public money. I sincerely urge the PCCOs gathered here to seriously introspect on this aspect as this is not one-bank's headache or a bank-specific issue. It is an industry-wide issue with wider ramifications. Banks should have a robust system to monitor the transactions being undertaken in those accounts for taking proactive action, which entails a better customer protection. Though the banks have some alert and exception transaction reporting mechanism at present, it is mostly primitive and generally ineffective. Failure to guard against misuse of customers' accounts might result in banks incurring supervisory sanctions and enforcement actions.

High service charges and negative balance in savings accounts

16. Another area of concern that we have is around levying of excessive charges for various services. While RBI does not wish to micromanage the banks' affairs, the imposition of usurious and uncalled for charges certainly invokes our attention. Despite our guidelines on non-imposition of charges for non-maintenance of minimum balance in a savings bank account, we have been receiving certain complaints of such practices. It is in this context that we had to reiterate our instructions on stopping imposition of such charges leading to a negative balance in savings accounts. I insist that all banks must stop these practices forthwith if not already done so.

17. Before I conclude let me list out few good practices that I would like the industry to adopt for enhanced customer service:

a. Non-insistence on local address for account opening - I believe the banks continue to insist on providing a proof of local address also to the migrants for opening a bank account. As long as the individual is able to provide a proof of address (whether local or a permanent place elsewhere) and a proof of identity for KYC purposes, I don't think there should be any reservation in opening an account. A self-declaration of the address, then should be sufficient for the purpose of the correspondence etc. RBI, in consultation with IBA is already working on a standardized form for account opening across banks. We also intend to highlight the list of documents that may be offered as a proof of identity and address (KYC) by the customers, in the same form so as to prevent harassment by the uninformed officials.

b. There is growing need for the banks to invest in a technology enabled, centralized grievance redressal system. This would not only empower the executive management to identify the geographical locations from where maximum complaints emanate but would also enable them to undertake a systemic root cause analysis and remove the pain points, be it the product, service or the individual.

Conclusion

18. As the competition intensifies with the licensing of more new banks, only those entities which provide better customer service and experience would survive. Various research studies have shown that customers are willing to pay for quality service and would transact with the institutions which provide better services. Some of you might have heard me speak at another forum about customers choosing to move to another bank in case if he/she was dissatisfied with the services received at the present. I had then said that with the implementation of a unified KYC, this phenomena, what I termed as account number portability, would come into the realms of possibility. With the introduction of unified payments interface, a customer can be identified with his unique "virtual address" mapped to his mobile phone linked to the bank account number. With this information available centrally at the NPCI, the portability of the account would merely need a change in linkage to an account in another bank at the backend. Banks must, therefore, build structure and processes that aim at providing quality and efficient services or else face the prospects of a customer silently walking away without causing any inconvenience to her and loss of business to the bank.

19. I hope that the deliberations later in the day would cover issues that I have raised in my address. I once again thank BCSBI for inviting me today and thank you all for a patient hearing.