

## **Usha Thorat: Treating bank customers fairly - regulatory initiatives**

Inaugural address by Ms Usha Thorat, Deputy Governor of the Reserve Bank of India, at the Financial Planning Congress 2006 on *“Establishing consumer Centric Financial Services Delivery Infrastructure”*, organised by the Financial Planning Standards Board India, New Delhi, 29 May 2006.

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It gives me great pleasure to participate in this Congress organised by the Financial Planning Standards Board India. Today, there is much more awareness of the need to protect consumers' rights and ensure fair practices in financial services. Countries are designating specific regulators or self regulatory watch dogs for overseeing whether there is mis-selling and whether fair and transparent practices are being observed by financial intermediaries. While specific grievances relating to deficiency in financial services can be a matter for consumer courts or the concerned ombudsman, from a systemic point of view, it is recognised that services have to be benchmarked against codes and standards developed by all stakeholders and as a matter of public policy. In this context, an organisation such as the FPSB India whose mission is the development and promotion of standards for financial planning professionals to benefit among others, the general public is indeed timely and relevant. The FPSB needs to be congratulated for holding this Congress, which I am sure, will throw up a number of issues keeping in view the central theme viz. the interests of the consumer. I am glad to note that the FPSB India is also focusing on financial literacy and solutions for the rural population.

The focus on the common man is extremely important in our country as he is usually the neglected one. At the annual meeting of IBA last Friday, the Hon'ble Finance Minister has talked about financial inclusion and targeting the bottom of the pyramid. With greater penetration of formal financial services into the economy and society, there is a need for ensuring evolution and adherence to codes and standards in delivering financial services to the financially excluded.

The banking system in India today has perhaps the largest outreach for delivery of financial services. Apart from the traditional financial products viz. deposits, loans and money transfer, bank branches are also serving as an important conduit for delivery of mutual funds, other capital market and insurance products. The number of savings accounts with scheduled commercial banks in India stood at little over 300 million in March 2005. If one were to take into account cooperative banks, the number would be even higher. Taking into account the number of households in the country this number certainly represents a significant coverage.

Hence, evolving standards for bank service to depositors and the common person has to be a very important part of financial planning standards. Recognising an institutional gap in measuring the performance of the banks against codes and standards based on established best practices, Reserve Bank of India has taken the initiative in setting up the Banking Codes and Standards Board of India (BCSBI). It is an autonomous and independent body, adopting the stance of a self-regulatory organisation in the larger interest of improving the quality of customer services by the Indian banking system. Banks register themselves with the Board as its members and provide services as per the agreed standards and codes. The Board in turn, monitors and assesses the compliance with codes and standards which the banks have agreed to. The registration of banks with the BCSBI, as members, enables the Reserve Bank of India to derive greater supervisory comfort, so also the customers of the member banks. This would also enable the BCSBI to accommodate the bank-specific differences in the customer service related benchmarks set by the banks for themselves. I think there would be considerable synergy in the FPSB exchanging views and interacting with the BCSBI.

The BCSBI represents the latest in a series of initiatives taken by RBI for addressing the issues relating to fair practices for bank customers especially the common person. I wish to take this opportunity today to give you an outline of Reserve Bank's efforts in this field and its vision for the future, in which the Financial Planning Standards Board, can play a complementary role.

In the late seventies, RBI had advised banks to adopt the recommendations of the Talwar Working Group constituted by Government in 1975 to study the quality of customer service in banks. This was more or less the first regulatory initiative in imposing certain discipline on the banks to render quality service. This was followed by several and guidelines covering different areas of bank's interfaces with customers.

## **Committee on Procedures and Performance Audit on Public Services (CPPAPS)**

In November 2003, while presenting the mid-term review of the annual monetary and credit policy for the year 2003-04, Governor Reddy brought into sharp focus the inadequacy in banking services available to common person and the need to benchmark the current level of service, review the progress periodically, enhance the timeliness and quality, rationalize the processes taking into account technological developments, and suggest appropriate incentives to facilitate change on an ongoing basis. Accordingly, he set up the Standing Committee on Procedures and Performance Audit on Public Services under the able and sagely Chairmanship of Shri S.S.Tarapore. The approach of the CPPAPS was unique in that it started its evaluation from the customer-end and was totally customer-centric. Shri Tarapore and other members of the Committee undertook incognito visits to bank branches including RBI's offices for a first hand experience of difficulties faced by the public at large. The Committee was both clinical and critical in its observations and made a number of recommendations covering an individual customer's dealing with the bank in the areas of foreign exchange, currency and government transactions including pension, besides the main relationship as an account holder. I am taking this opportunity for highlighting the regulations issued to banks on aspects covering bank accounts following the Committee's recommendations.

- *Banks are required to inform customers upfront about the requirement of minimum balances and the charges if such balances are not maintained. They are also required to inform customers one month in advance any changes in such minimum balances and charges.*
- *Banks are also required to provide a choice of a 'no frills account' where the minimum balance is nil or very small but having restrictions on number of withdrawals etc. to facilitate common man's access to bank accounts.*
- *It has been clarified to banks that NRO accounts can be held jointly with residents.*
- *In case of collection of cheques, banks are required to formulate and disclose their policy for affording immediate credit, time frame for collection and interest payment for delayed collection, taking care to ensure that the interests of the small depositors are fully protected. The policy should clearly lay down the liability of the banks by way of interest payments due to delays for non-compliance with the standards set by the banks themselves. Compensation by way of interest payment, where necessary, should be made without any claim from the customer.*
- *Banks are required to provide both the drop box facility and the facility for acknowledgement of the cheques at the regular collection counters and no branch should refuse to give an acknowledgement if the customer tenders the cheques at the counters.*
- *Depositors cannot be forced to sign a declaration that dispatch of cheques book by courier is at the depositor's risk as it constitutes an unfair practice. Banks should also ensure that cheque books are delivered over the counters on request to the depositors or his authorised representative.*
- *Banks have been advised to ensure that brief, intelligible particulars are invariably entered in passbooks / statements of account and they adhere to the prescribed monthly periodicity while sending statement of accounts.*
- *It has been clarified to banks that payment to the survivor /nominee of a deceased depositor where there is a valid nomination or where the account has been opened with a survivorship clause is a valid discharge of liability provided inter alia it has been made clear to the survivor(s) / nominee that he would be receiving the payment from the bank as a trustee of the legal heirs of the deceased depositor, i.e., such payment to him shall not affect the right or claim which any person may have against the survivor(s) / nominee to whom the payment is made. In such cases insistence on production of legal representation is unwarranted and would, invite serious supervisory disapproval. In such case, therefore, while making payment to the survivor(s) / nominee of the deceased depositor, the banks have to desist from insisting on production of succession certificate, letter of administration or probate, etc., or obtain any bond of indemnity or surety from the survivor(s)/nominee, irrespective of the amount standing to the credit of the deceased account holder.*
- *In case where the deceased depositor had not made any nomination or for the accounts other than those styled as "either or survivor" (such as single or jointly operated accounts), banks have been told to adopt a simplified procedure for repayment to legal heir(s) of the*

*depositor keeping in view the imperative need to avoid inconvenience and undue hardship to the common person. In this context, banks may, keeping in view their risk management systems, fix a minimum threshold limit, for the balance in the account of the deceased depositors, up to which claims in respect of the deceased depositors could be settled without insisting on production of any documentation other than a letter of indemnity.*

- *In the case of term deposits, banks are advised to incorporate a clause in the account opening form itself to the effect that in the event of the death of the depositor, premature termination of term deposits would be allowed. The conditions subject to which such premature withdrawal would be permitted may also be specified in the account opening form. Such premature withdrawal would not attract any penal charge.*
- *In order to avoid hardship to the survivor(s) / nominee of a deposit account, banks are advised to obtain appropriate agreement / authorization from the survivor(s) / nominee with regard to the treatment of pipeline flows in the name of the deceased account holder.*
- *Banks are advised to settle the claims in respect of deceased depositors and release payments to survivor(s) / nominee(s) within a period not exceeding 15 days from the date of receipt of the claim subject to the production of proof of death of the depositor and suitable identification of the claim(s), to the bank's satisfaction.*
- *Information should not be gathered in the name of KYC with the intention of using it for cross-selling of services. The banks should obtain the information required for opening an account independent of any other information that they may seek for cross-selling purposes with the consent of the customer. The forms containing this information must not be a part of the account opening form.*
- *The KYC procedure for opening accounts for those persons who intend to keep balances not exceeding rupees fifty thousand (Rs. 50,000/-) in all their accounts taken together and the total credit in all the accounts taken together is not expected to exceed rupees one lakh (Rs. 1,00,000/-) in a year has been simplified to enable those belonging to low income groups without documents of identity and proof of residence to open banks accounts. In such cases banks can take introduction from an account holder on whom full KYC procedure has been completed and has had satisfactory transactions with the bank for at least six months. Photograph of the customer who proposes to open the account and his address need to be certified by the introducer.*

Considering the significant growth in credit cards in the recent years and the experiences of banks and customers with this product, the Reserve Bank issued detailed guidelines on credit card operations of banks in November 2005. These guidelines, aimed at protecting customer's interest, include clear disclosures of terms and conditions, including rate of interest on annualised basis, prohibit issue of unsolicited cards, ensure customer confidentiality, and also cover matters such as 'do not call' registry, fair practices in recovery and collection.

### **Revised Banking Ombudsman Scheme 2006**

Keeping in view the large number of complaints continuously being received against banks, the Banking Ombudsman Scheme has been revamped this year to enlarge its extent and scope of the authority and functions to specifically cover redressal of grievances against deficiency in banking services, including a variety of banking products/services, such as, loans and advances, credit cards, non-payment/ inordinate delay in the payment or collection of cheques, drafts, bills, non-issue of drafts to customers, non-adherence to prescribed working hours by branches etc. Banking Ombudsman (BO) functions as an arbitrator in respect of any dispute with mutual consent of both the parties provided that the value of the claim in such dispute does not exceed Rupees ten lakh. Under the new scheme, the complainants will be able to file their complaints in any form, including online. The complainant can appeal against the awards given by the Banking Ombudsmen.

A quick review of the complaints received at the various offices of the Ombudsman since the revised scheme came into force reveals that the number of complaints received by the BO's offices has more than doubled to 13,483 during the quarter ended March 31, 2006. This increase could be attributed to the complainants tending to approach the Ombudsman's office or RBI directly instead of first approaching the concerned bank's internal machinery for redressal. There is an urgent need for banks to strengthen their own internal grievance redressal machinery and set up nodal officials at various

centres. Banks should give wide publicity to the names/contact addresses etc. of such nodal officers so that members of public can forward their grievances to these officials. If no response is received within a month's time or if the customer is dissatisfied with the response he can approach the concerned Banking Ombudsman. Currently BO offices are functioning at 15 centres.

### **Fair Practices Code of Indian Banks' Association**

Indian Banks' Association (IBA) has also played a complementary role in efforts for improving customer service in banks. IBA had come out with model Fair Practices Code covering lenders liability, depositors' interest that cover what a customer can expect from his bank. It also indicates the responsibilities of banks while giving different kinds of banking services. IBA has further come out with a Model Deposit Policy. The Fair Practices Code has been recently reviewed and made more comprehensive in consultation with the BCSBI and is expected to set higher benchmarks for customer services in banks. The banks will be entering into covenants with the BCSBI for adhering to the FPC.

### **Ensuring reasonableness of bank charges**

As the Reserve Bank was receiving several representations from public about unreasonable service charges being levied by banks, it was felt that the existing institutional mechanism in this regard is not adequate. Accordingly, and in order to ensure fair practices in banking services, the RBI has recently issued instructions to banks making it obligatory for them to display and continue to keep updated, in their offices/branches as also in their website, the details of various services charges in a format prescribed by it. The Reserve Bank has also decided to place details relating to service charges of individual banks for the most common services in its website. Furthermore, Reserve Bank has since constituted a working group headed by the Banking Ombudsman, Mumbai and including nominee of IBA and representatives of customers to formulate a scheme for ensuring reasonableness of bank charges and to incorporate this in the Fair Practices Code, the compliance of which will be monitored by the Banking Codes and Standards Board of India (BCSBI).

### **Customer service – institutional machinery**

In the area of customer service, the institutional machinery in banks should comprise -

- At the Board level, every bank has been asked to constitute a Customer Services committee of the Board including as invitees experts and representatives of customers to enable the bank to formulate policies and assess the compliance thereof internally.
- Every bank has been asked to convert the Ad Hoc committee of executives on customer service headed by the CMD/ED into a Standing Committee that periodically reviews the policies and procedures and working of the bank's own grievance redressal machinery. These committees have been found to be very useful as the CEO of the bank and his top management team is singularly focused on matters relating to customer services at the meetings of these committees and decisions for improving services tend to get taken instantly, cutting across different departments.
- Each bank is expected to have a nodal department/ official for customer service in the HO and each controlling office, whom customers with grievances can approach in the first instance and with whom the Banking Ombudsman and RBI can liaise. More interaction between the RBI/BO and the nodal officers will enable banks to take necessary correctives at the local level.

### **Financial inclusion**

In the context of the focus on financial inclusion and distress amongst farmers, there is a need for the formal financial system to look at increasing financial literacy and financial counselling. As part of the Community Reinvestment Act in US, banks are expected to contribute towards educating persons from socially and financially disadvantaged groups on matters relating to their financial needs. Indian banks and financial market players should actively look at promoting such programs as part of their corporate social responsibility. I had recently visited a cooperative society having linkages to women

SHGs in urban slums, where the borrower was counselled in a full day program, on the implications of the loan, how the interest is calculated and so on, so that she is totally aware of its features. I wish the banks would have similar program for their clientele including farmers. There is clearly a lot to be done in this area.

### **Advisory services**

Finally, given the vision and mission of the Financial Planning Standards Board India, I would urge the Board to develop standards for financial advisory services covering marketing, advisory and counselling. While doing so the Board may specifically look at possible areas of conflict of interest between selling and advising. In this context, I would draw reference to a recent report on 'Conflict of interest in financial services' of a group set up by RBI, available on our website. The FPSB India could evolve codes of ethics and other measures to minimize unacceptable conflicts or improper acts.

I thank the Financial Planning Standards Board India for this opportunity and wish it success in its endeavour.