V Leeladhar: Customer centricity and the Reserve Bank

Opening keynote address by Mr V Leeladhar, Deputy Governor of the Reserve Bank of India, at the seminar on "Balancing Cost, Profitability and Customer Experience" organised by The Asian Banker, Mumbai, 24 October 2007.

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Mr. Daniel, Professor King, Mr. Kapfer, Mr. Burt, ladies and gentlemen,

I am delighted to be here this morning at the first session of the seminar on the theme of *"Balancing Cost, Profitability and Customer Experience"* organised by the Asian Banker under its annual event *"The Excellence in Retail Financial services, South Asia"*. I am glad to be able to share my thoughts on this very topical subject of the cost-benefit analysis of the customer experience in the banking industry. I am thankful to the organisers for providing me this opportunity to address this august audience on a subject which has been so close to the Reserve Bank's operations over the past several decades.

As most of you might be aware, the Reserve Bank of India (RBI) has a fairly diverse functional mandate and one of the very important aspects of its operations in the banking sector has been the protection of the interests of the bank depositors. The fact that the RBI's mandate for depositors' protection is enshrined in a statute dating as far back as 1949, is itself a tribute to the vision of the public policy makers who thought it appropriate to enact a highly customer-centric legislation and to entrust this onerous responsibility to the central bank of the country, which is a unique institution in every country of the world. What is interesting to note here is that this responsibility was assigned to the RBI in an era probably long long before the concepts like customer service, customer experience, customer satisfaction, customer delight and "customer centricity" found an entry into the lexicon of the banking or business world and became rather fashionable.

The role of Reserve Bank

The Reserve Bank, as the regulator of the banking sector, has been actively engaged, from the very beginning, in the review, examination and evaluation of customer service in the banks. It has been reviewing the progress periodically and has been continually nudging the Indian banking industry to become more customer friendly and customer centric in its conduct and business practices. It has also put in place appropriate incentive framework, through a set of disclosure norms for the banks, to induce improvement in customer service, on an ongoing basis. At a wider level, however, there is a feeling that the customer does not get satisfactory service even after demanding it and there has been a disenfranchisement of the depositor. In this background, I would like to briefly touch upon the enduring role played by the RBI in enabling customer empowerment and the re-enfranchisement of the customer – who, as the adage goes, is the king!

The Reserve Bank's enduring and abiding concern for the quality of services extended to the bank customers has been reflected in its ongoing regulatory initiatives taken, over the decades, from time to time. The issue of services rendered by the banks to the common person dates back to 1970s when the R.K. Talwar Committee was appointed in 1975, followed by the Goiporia Committee constituted in 1990. Subsequently, pursuant to the report of the Committee on Financial System (the first Narasimham Committee -1991), wide-ranging financial sector reforms were also initiated, which were expected to spur competition in the banking sector through deregulation and entry of new private sector banks, which, in turn, was expected to lead to provision of high-quality customer service to meet the long-standing aspirations of the bank customers. However, there has been an increasing realisation, both in India and several other countries, that the forces of competition alone do not ensure the fair treatment of the customer or adequate quality of customer service, at a justifiable price, determined in a transparent manner. This has, therefore necessitated interventions from the regulators to institutionalise a mechanism for securing better customer service for the public at large.

Institutional infrastructure for ensuring customer service

Let me briefly recount here some of the initiative of the RBI to put in place the requisite institutional mechanisms aimed at improving the customer service in the banking sector.

Banking Ombudsman Scheme

The Reserve Bank had introduced the Banking Ombudsman Scheme for the first time way back in 1995 to provide an expeditious and inexpensive forum to bank customers for resolution of their complaints relating to banking services. The Scheme was revised in 2002 mainly to cover Regional Rural Banks and to permit a review of the Banking Ombudsman's Awards against the banks by the Reserve Bank. The RBI recently announced the revised Banking Ombudsman Scheme, 2006, effective from January 1, 2006, which has much wider scope and includes several new areas of customer complaints. The Scheme is applicable to all commercial banks, regional rural banks and scheduled primary cooperative banks functioning in India and provides a forum to the bank customers to seek redressal of their most common complaints against the banks. Under the revised Scheme, the complainants can file their complaints in any form, including online, and can also appeal to the Reserve Bank against the Awards and other decisions of the Banking Ombudsmen. The Banking Ombudsmen currently have their offices in 15 Centres spread across the country and are fully staffed and funded by the Reserve Bank, in order to make the revised Scheme more effective.

Customer service set up in the banks

The RBI had appointed the Committee on Procedures and Performance Audit of Public Services (CPPAPS – Tarapore Committee) in December 2003 to suggest measures for bringing about improvement in the quality of customer service rendered by banks. Based on the recommendations of the CPPAPS, banks were advised, among other things, to put in place an institutional machinery comprising of (a) 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; (b) Standing Committee of Executives on Customer Service, in place of the earlier *ad hoc* committees, to periodically review the policies and procedures, and working of the bank’s own grievance redressal machinery; and (c) a nodal department/ official for customer service at the Head Office and each Controlling Office, whom customers with grievances could approach in the first instance, and with whom the Banking Ombudsman (BO) and RBI could liaise.

Customer Service Department in the RBI

As I mentioned, the Reserve Bank has been taking measures for protection of customers’ rights, enhancing the quality of customer service and strengthening grievance redressal mechanism in the banks and within the RBI. These activities were, till recently, undertaken by different departments of the RBI. In order, however, to appropriately signal the importance that the Reserve Bank attaches to the customer service rendered, both by the Reserve Bank and by the banking sector as a whole, a new department called Customer Service Department, was created in the RBI, on July 1, 2006 by regrouping various customer-service-related activities handled by different departments of the RBI, under a single department. The functions of the department encompass a variety of activities relating to customer service and grievance redressal in the RBI and the banking sector, including the aspects relating to the Banking Ombudsman Scheme and the Banking Codes and Standards

Board of India, Such an oragnisational dispensation has enabled a more focused policy attention to the customer service dimension of the banking sector.

Banking Codes and Standards Board of India (BCSBI)

Recognising an institutional gap in measuring the performance of the banks against codes and standards based on established best practices, the RBI took the initiative for 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. The dispensation of the BCSBI provides for voluntary registration of banks with the Board as its members and committing to provide customer 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 Board released in July 2006 a Code of Bank's Commitment to Customers to provide a framework for a minimum standard of banking services. The Code is not only a commitment of the banks to their customers but, in a sense, is also a Charter of Rights of the Common Man vis-à-vis his bank. By setting the minimum standards of reliability, transparency and accountability in the provision of customer service, the Code outlines how each bank expects to deal with the customers' day-to-day requirements, and accordingly, what each customer could reasonably expect from his bank. As on date, out of 74 scheduled commercial banks registered with the BCSBI indicating their intention to become members, 70 banks, accounting for 98 per cent of the total domestic assets of the Indian banking system, have already enrolled as its members.

Fair Practices Codes for Lenders

The RBI, apart from safeguarding the interest of the bank depositors, has also been concerned to ensure that the borrowing community too gets a fair deal from the bankers. The Reserve Bank had accordingly formulated a Fair Practices Code for Lenders, which was communicated to the banks in 2003 to protect the rightful interest of the borrowers and guard against undue harassment by the lenders. The Code was revised in March 2007 to include the requirement that the banks should provide to the borrowers comprehensive details regarding the loans as also the reasons for rejection of the loan applications of the prospective borrowers, regardless of the amount or type of the loan involved. Similarly, the Indian Banks' Association (IBA) has formulated a Fair Practices Code for Credit Card Operations, Model Code of Conduct for the Direct Sales Agents, and Model Code for Collection of Dues and Repossession of Security.

Transparency and reasonableness of bank charges

The RBI had been receiving representations from the public about unreasonable and non-transparent service charges being levied by banks from the customers, which indicated the inadequacy of the existing institutional mechanism in this regard. In order to ensure fair practices in banking services, RBI has made it obligatory for the banks to display and update on an ongoing basis, in their offices/branches as also on the home page of their websites, the details of various service charges and fees, in a format approved by the Reserve Bank, to provide for better comparability. A hyperlink to the websites of the banks has also been provided on the RBI's website (www.rbi.org.in) to enable the bank customers to have a single-point access to the websites of various banks, particularly for information on the service charges and fees levied by the banks for their various services.

As regards the levy of unreasonably high charges from the customers, RBI had constituted a Working Group to Formulate a Scheme for Ensuring Reasonableness of Bank Charges and to incorporate the same in the Fair Practices Code, the compliance with which would be monitored by the BCSBI. The Group submitted its report in August 2006 and recommended broad principles for determining reasonableness of the bank charges for the identified basic banking services. The recommendations of the Group were accepted and conveyed to the banks for implementation in February 2007.

Customer service and financial inclusion

Let me mention here that the customer, broadly defined, does not mean only the existing clientele of the banks but also includes the *potential* user of the banking services who could enter the domain of banking, some time in future. In this context, therefore, the role of the banks does not end with only serving their existing customers. They also need to endeavour to ensure that the large part of the under-privileged Indian population that does not have access to a bank account and other banking services, is also brought within the fold of the formal banking sector so that at least the basic banking services are made available equitably to all sections of the society. This would not only promote financial inclusion of the hitherto excluded class of people but also makes eminent business sense. Given the rapid pace of credit growth in the Indian banking system in the recent past, the banks need to expand their resource base and by encouraging new clients to join the banking system, initially as depositors, they would be able to achieve a win-win solution. The current public policy framework also favours such a business strategy.

It was in this context that in the Annual Policy Statement for the year 2005-06, the RBI had stated that there were legitimate concerns in regard to the banking practices that tended to exclude rather than attract vast sections of population, in particular pensioners, self-employed and those employed in the unorganised sector. The Policy had noted that while commercial considerations were no doubt important, the banks had been bestowed with several privileges, and consequently, they should be obliged to provide banking services to all segments of the population, on equitable basis. Against this background, the Policy had stated that the RBI would implement policies to encourage the banks which provide extensive services while disincentivising those which were not responsive to the banking needs of the community, including the underprivileged. Furthermore, the nature, scope and cost of services rendered by the banks were also to be monitored to assess whether there was any denial, implicit or explicit, of the basic banking services to the common person. The banks were, therefore, urged in the Policy Statement to review their existing practices to align them with the objective of financial inclusion.

It was recognised that in many banks, the requirement of minimum balance and charges levied, although accompanied by a number of free facilities, deterred a sizeable section of population from opening / maintaining bank accounts. The RBI, therefore, advised the banks in November 2005 to make available a basic banking “no-frills” account either with “nil” or very low minimum balances as well as charges that would make such accounts accessible to vast sections of population. This was aimed at achieving the objective of greater financial inclusion. The nature and number of transactions in such accounts could be restricted, but made known to the customer in advance in a transparent manner. The banks were also advised to give wide publicity to the facility of such a “no-frills” account, including on their web sites, indicating the facilities and charges in a transparent manner.

I would, therefore, like to take this opportunity to emphasise this societal dimension of the banking sector and the resultant obligation of the banking system to actively promote financial inclusion and to mainstream the masses into the formal financial sector.

Banks customers and financial education

In the context of increasing focus on financial inclusion, and the past episodes of financial distress observed in certain segments of the farming community, a need has been felt to provide a mechanism for improving the financial literacy and level of financial education among the consumers of banking services. Such education has become an imperative in the current era of financial deregulation, which has led to availability of a variety of complex financial products in the markets.

Financial education can be broadly defined as one's capacity to become familiar and understand the features of financial market products, specially the risk-reward equation, and the ability to make informed choices. Thus, financial education would primarily be of relevance to the individuals to enable them to take right financial decisions in their personal life and to avoid any distress in their financial affairs. With the rapid growth in the retail banking segment in India and the resultant large influx of a growing number of retail borrowers into the banking system, the imperative of adequate financial education can hardly be over-emphasised, specially if the markets are to expand and operate efficiently. Proper financial education to the bank customers would ensure that they are equipped with the basic financial skills and discipline to manage their budget, by appropriately balancing their expenses, borrowings and savings. The financially educated bank customers would not only be able to afford a better quality of life but could also lead to an improvement in the integrity and quality of the markets.

A very useful dimension of financial education is financial or credit counselling. With the changing growth dynamics of the economy, it is not difficult to envisage situations where certain segments of the population become vulnerable due to excessive borrower optimism or are impacted by a downturn in their economic conditions. Their vulnerability could also arise from unforeseen shocks or personal emergencies that make their debt-servicing difficult. In such a situation, credit counselling, by providing sound advice to arrest the deterioration of incomes and to restructure their debt, could offer a meaningful solution for the borrowers and could enable them to gradually overcome their debt burden and improve their money management skills. Some urgency has been lent to this issue in India by the rapid growth in consumer loans, housing loans and the more recent emphasis on financial inclusion.

The banks have a role to play in the area of providing financial education to their customers and would also have a beneficial interest in providing such education, as timely counselling of the borrowers could have positive implications for the asset quality of the banks. I am aware that some of the Indian banks have already taken the initiative by establishing credit counselling centres for the borrowers. Though these centres are still in their early days of operation, I understand that these have been doing good work. I would like to urge the bankers present here to make more vigorous efforts to make the concept of credit counselling in the Indian context a great success.

At what price customer centricity?

Coming to the precise theme of this session, viz., the price or cost of customer centricity, I would like to briefly touch upon a few special aspects of operations of a banking institution.

There could be a view that the too much of customer orientation or customer centricity in provision of banking services could impose a heavy cost on the banks, which are after all commercial organisations engaged in the pursuit of profit. It can also be argued that the customer-centric regulatory guidelines stipulated by the RBI or other regulators do entail the burden of compliance cost for the banks, albeit it might be in the ultimate interest of the customer. In this context, I would like to remind the audience here that banks are "special" all over the world and would continue to be so for a variety of systemic reasons. Also, banking is one of the most closely regulated industries in most of the countries. It needs being borne in mind that the banking licence granted by a banking regulator, such as the RBI, is the regulatory authorisation given to a bank for accepting uncollateralised deposits, at a relatively low cost, for virtually unlimited amounts, from the members of public, who may not be financially very savvy. Moreover, the banks are also allowed to deploy a very high degree of leverage through mobilisation of deposits, on a relatively small capital base, but subject to meeting certain prudential requirements, such as capital adequacy ratio. The banks are able to do this primarily on account of the confidence of the customers in the bank concerned and in the banking system, as a whole. Since offering good quality customer service is one of the ways of winning the customers' confidence in the operations and efficiency of the bank, it is only logical that the banks should strive to provide the best possible standards of customer service to their clientele, so as to ensure their continued patronage. In this backdrop, it is only reasonable to expect that the bank customers, who entrust their hard-earned money to the banks in good faith and are the primary source of low-cost funding as well those who provide revenue to a bank, deserve to be treated fairly and efficiently in provision of various banking services. This is precisely what the regulatory interventions of the RBI seek to achieve for the customer community of the banking industry, particularly in the face of less-than-adequate sensitivity of the banks in this regard.

As regards the cost aspect of the providing good customer service, I would like to view the cost element as a long-term investment for nurturing and developing a healthy and robust bank-customer relationship. The challenge for the bank management, therefore, is to devise innovative and cost-effective means of delivering banking services efficiently, evolve remunerative business models, while fully leveraging modern technology so that there is an optimal trade off between their bottom line and the extent of customer centricity they choose to deploy in their business operations.

Conclusion

To conclude, I would like to reiterate that the RBI, as the banking regulator, has taken wide-ranging pro-active measures aimed at securing better customer service for the bank customers and has sought to improve financial inclusion and financial literacy of the under-privileged in our society. It is my hope that the banking community in India would rise to the occasion and measure equal to the challenging task of delivering banking services efficiently to the masses, at a reasonable cost.

Thank you.