

## S S Mundra: Customer service in banks - time to raise the bar!

Keynote address by Mr S S Mundra, Deputy Governor of the Reserve Bank of India, at the Annual Conference of Principal Code Compliance Officers, organized by the Banking Codes and Standards Board of India, Mumbai, 30 May 2017.

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Shri A. C. Mahajan, Chairman, Banking Codes and Standards Board of India (BCSBI); Shri Anand Aras, CEO, BCSBI; colleagues from the banking industry; representatives from the media; ladies and gentlemen! At the outset, I would like to thank BCSBI for inviting me for this annual conference of the Principal Code Compliance Officers (PCCOs) in the banks.

2. During the past 12 years of its existence, BCSBI has played a pivotal role in enhancing awareness about customer service in banks. The Code of Bank's Commitment to Customers and the Code of Bank's Commitment to Micro and Small Enterprises developed by BCSBI set out common minimum standards for customer service in banks.

3. Monitoring of compliance to the Codes by member banks is one of the mandates of BCSBI which is fulfilled through visits to a representative sample of branches by authorized representatives of BCSBI. BCSBI, thus, helps the banks by providing an independent review and feedback on their adherence in practice, to the self-prescribed standards. From 2013, BCSBI has been rating banks on Code Compliance based on the inputs from branch visits and customers feedback. This rating indicates level of implementation of important provisions of these Codes at the first customer touch point in the bank. A release now of these ratings in public domain is intended to increase transparency, generate public awareness and also instill a sense of competition among the member banks for achieving a higher level of customer service. A perusal of the ratings, however, does not exhibit any significant improvement in consumer service rating of banks. Only 12 of the 46 banks rated by BCSBI received 'high' rating in terms of performance while 24 were above average and 10 remained as 'average' performers. In fact, the position has marginally worsened since 2015 survey.

4. Despite outlining of minimum standards for customer service through codification of banks' commitments to customers, we observe that the number of complaints received by the offices of Banking Ombudsmen continues to rise. For the first time since its inception in 1995, the number of complaints to BOs exceeded one lakh last year. The one lakh mark has already been crossed in the current year (July 2016 to May 2017). Our analysis has shown that percentage of complaints on non-Adherence of BCSBI Code – Clause 8(1)(s) and 8(2)(d) of BOS over a six year period from 2010–11 to 2015–16 has increased from 24 % to 34%. A survey conducted by BCSBI suggests that the increase could be on account of disconnect in application and understanding of Codes among frontline staff of the member banks. Perhaps, engagement of the Top Management with implementation of codes in their respective banks has also declined. I urge PCCOs to take effective steps for creating greater awareness and understanding amongst the frontline bank staff by ensuring buy-in from the Top Management.

5. In my address today, I intend to focus on few important measures which BCSBI, the PCCOs and the banks can initiate to further the cause of customer service in the sector.

**a. Updation of codes:** I am aware that BCSBI has been periodically updating the Codes of Banks' Commitments by factoring in the relevant regulatory guidelines, developments in the banking sector and evolving customer expectations. I am glad to learn that the Code of Banks' Commitment to Customers is currently under review. As you are all aware, in 2014 RBI had released the "Charter of Customer Rights" declaring five basic rights of bank customers as broad, overarching principles for protection of bank customers. All banks have since reportedly adopted/incorporated the Model "Customer Rights Policy" based on the Charter formulated jointly

by IBA and BCSBI. I am sure that the committee reviewing the Code of Banks' Commitments to their Customers would be guided by the spirit of the principles listed out in the "Charter of Customer Rights". On its part, Reserve Bank will be monitoring aberrations/ non-adherence to the Charter during supervisory process. Specifically, I would urge the committee to factor in following recent developments in the sector and weave them into the Codes appropriately while reviewing the same:

**(i) New branch authorization policy: use of banking correspondents**

Business Correspondent (BC) Model has been a major facilitator for financial inclusion especially in unbanked/under-banked areas. Recent RBI circular on 'Rationalization of Branch Authorization Policy' recognizes BCs as an important pillar for delivery of banking services in under-banked areas of the country. Some of the BCs in the past have abused the trust placed in them by the banking system and defrauded their customers. As BCs generally serve a less 'financially literate' population, it is important that their activities are brought under closer scrutiny by the banks. The banks have to take ownership of BCs that they employ and also put in place appropriate grievance redressal mechanism for cases involving them.

**(ii) MSMEs:** RBI has recently set out guidelines on 'Framework for Revival and Rehabilitation of Micro, Small and Medium Enterprises' for early resolution of stress in the accounts of MSMEs, following an ordinance by Government of India. Under this framework, the revival and rehabilitation of MSME units having loan limits up to Rs.25 crore is envisaged. Further, with a view to provide timely financial support to MSMEs facing financial difficulties during their Life Cycle, RBI had advised the banks to review their existing lending policies and incorporating therein, among others, provisions for sanctioning of Standby Credit Facility in case of term loans, Additional Working Capital Limits, Mid Term Review of Regular Working Capital Limits, and Timelines for Credit Decisions.

**b. Synergizing the roles of PCCOs and Internal Banking Ombudsmen (IBOs) in the banks:** As I understand the customer grievance redressal architecture in the banking sector suffers from certain structural inconsistencies. I am compelled to make this statement as I see scope for greater role clarity and synergy in how the PCCOs & the IBOs in the banks operate. I believe the PCCOs which act as BCSBI's nodal Point of contact with the member banks and serve as extended arms of BCSBI for monitoring implementation of Codes in the banks at all levels must play a more preventive role. For that to happen, the **PCCO needs to be suitably senior in hierarchy with reporting lines to the CEO/ Customer Service Committee of the Board.** I understand, however, that currently this is not uniformly so.

Similarly, the office of the Internal Banking Ombudsman which has been in place in the banks for almost last two years does not seem to have become an effective forum. Our objective in institutionalizing the office of IBO was to ensure resolution of a majority of the complaints at the level of bank itself. Office of IBO was envisaged as the ultimate authority to which all unresolved/partially resolved complaints were to be escalated before giving final verdict to the complainant. Only in cases where the customer remained unsatisfied with the resolution should she need to approach the BO. A continuous rise in the number of complaints to the BO is perhaps a pointer to the fact that **the institution of IBO has not been very effective or has not been empowered enough by the Management.**

It would be appropriate for the banks to invest in an efficient technology platform which doesn't merely aggregates and tracks the complaints but also undertakes a root cause analysis of various complaints received, thereby enabling proactive preventive action. The PCCOs and IBO could collaborate in identifying areas where the frontline staff needed clearer operational instructions and provide them training/handholding. This is extremely important in a scenario where pace of staff attrition/staff rotation have risen significantly. The banks could also contemplate investing in a technology-aided FAQ platform which the frontline staff could consult

for addressing customers' queries rather than misinforming them.

I wonder whether time has come to prescribe **some mandatory qualifications for the PCCOs also** in line with that for the CFOs/CTOs. That said, RBI would be conducting an assessment of the efficacy of the IBOs during the supervisory visits and would expect the bank management to bring more synergy into the working of the PCCOs and the IBOs for a speedier and efficient grievance redressal.

### **c. Electronic banking – security issues**

Technology is being increasingly used in delivery of banking services in recent years. However, it has also brought in associated risks of security as is evident in few high profile cyber-incidents in the recent past. There have been several incidents of theft of personal information, fraudulent use of ATMs, net banking frauds, ATM/ Debit card incidents or cases of unauthorized access to bank servers. Hence, there is an immediate need for plugging all the gaps and vulnerabilities in tech-enabled service delivery.

With greater thrust on digital banking especially in the wake of withdrawal of legal tender status of specified bank notes and consequent increase in complaints relating to unauthorised/fraudulent transactions, a need for having a comprehensive policy to limit the liability of customers cannot be over-emphasized. RBI had come out with a draft circular on "Customer Protection – Limiting Liability of Customers in Unauthorised Electronic Banking Transactions" earlier and based on feedback received from the concerned stakeholders, final guidelines are expected to be issued shortly. In view of the impending guidelines it would be prudent on part of the banks to internally tighten their IT security systems and operating procedures so that grievances are minimized.

### **d. Customer service in the emerging regulatory/supervisory environment**

i) As you are aware, several new small finance banks and payment Banks have started their operations in the recent past. A significant chunk of the customer base of these banks would comprise of first- time bank customers belonging to rural and semi-urban population. It is imperative that these people are made adequately aware about the need for exercising due prudence while transacting else they can fall easy prey to fraudsters.

RBI has already advised the Small Finance Banks and Payment Banks to put in place a high powered Customer Grievances Cell to handle customer complaints as part of their licensing conditions. These banks are also to be covered under RBI's Banking Ombudsman Scheme as per the licensing conditions. On their part, BCSBI would need to enroll these new entities as member banks so as to ensure compliance to its codes and standards.

ii) The banks also need to be prepared for following impending regulatory changes as well as enhance their focus on some of the supervisory concerns relating to customer complaints that have been observed by RBI. On the face of it, these might look quite obvious but these are extremely important from the view point of customers.

- ♦ The narration in the passbooks/ bank statements at present is quite cryptic and generally inscrutable. This is despite extant RBI guidelines that mandate recoding of intelligible particulars in the statements. Of late, we have received numerous complaints not only from customers but also from the investigative agencies who find it extremely difficult to understand the transactions during the course of their investigations. RBI is in the process of reiterating its guidelines to banks to provide essential minimum relevant details in respect of various transactions in the passbook/statement.
- ♦ The safety of cheques put in the cheque drop boxes as also the quality of cheque leaves enabling printing of fake cheque leaves is a matter of concern for RBI.

- ♦ Customer service to senior citizens is an area of major concern for the RBI. Difficulties faced by pensioners in receiving updated pension, issuance of life certificates, verification of signature, need for periodic KYC etc. Several grievances have also been received from nominees of deceased customers while seeking settlement of death claims.
- ♦ Documents to serve as an address proof for KYC compliance continues to remain a major irritant even while the customers are permitted to submit a simple declaration about the current address which may be different from the address proof which was originally submitted to banks. Similarly, the customers are also allowed to open a small account in the banks even without “proof of identity and address” by submitting a recent photograph and signature.
- ♦ While banks have been **granted autonomy in fixing minimum average balance** or for charging for premium services, it **should not be used as an excuse to deny service or to drive away common man.**

6. Some of these and many similar issues facing customers would have emerged from the root cause analysis which I alluded to a little earlier paving the way for banks to take corrective action. I would like to use this forum to inform that RBI would be extensively focused on mis-selling of third party products, instances of violation of KYC guidelines, imposition of usurious service charges during the current year’s supervisory cycle. Further as you are aware, RBI has specifically established a department for examining the instances of regulatory violations with a view to taking enforcement actions on the errant banks.

### Way forward

7. In view of new developments in the area of banking, BCSBI would have to proactively identify the areas in which the Codes need to be revised and made contemporaneous. Before concluding my talk, by way of setting out customer service agenda for the banks and a few specifically for the PCCOs for the ensuing year, I would like to reiterate following points:

- ♦ Work towards operationalizing a query portal which will be useful for the inexperienced frontline staff especially in view of higher attrition/rotation. This would enable them to impart correct information rather than avoiding or giving wrong information.
- ♦ Updation of Code of Bank’s Commitment to Micro and Small Enterprises should include commitment on revival and rehabilitation framework and lifecycle financing of MSMEs.
- ♦ Though the BOs don’t intervene in credit decisions, several complaints about delayed decision-making in granting of loans to MSMEs, education and housing loans are received. There is a need to include a suitable clause in the code for setting deadline for decision-making on such loans.
- ♦ The payment system area has become quite integrated with customers of non-bank players utilizing the banking channels to fund their e- wallets etc. In situations where conflict arises, it would be expected of banks, being the senior and long –established players to take initiative for quick resolution so that the customer is not put to harassment
- ♦ Lessen the frustration faced by the customers while dealing with call centers or automated response systems. In this context, while the efforts by some of the banks to use artificial intelligence-driven chatbot for enhancing customer service are welcome, it needs to be ensured that the customers do not end up receiving robotic responses!

8. I would like to end this section by once again reiterating the idea of ‘**account number portability**’ which I first advocated a couple of years ago. Back then the concept might have appeared somewhat abstract but with technological advancements in the field of payment

system such as UPI etc. coupled with massive enrolments under Aadhaar and their linkage to individual bank accounts, it has come within the realms of possibility. As such, the prospect of an aggrieved customer silently moving her account to another bank in the near future has become very real.

## **Conclusion**

9. I would like to conclude by acknowledging BCSBI's role in the area of customer protection and in formulation of policies for elimination of customer grievance. I have briefly spoken on the role of the Codes of BCSBI and the need to keep them dynamic. In the current scenario, the Codes have to respond to three significant developments in the banking sector – (a) the growing challenges and realities of industry mainly arising from adoption of technology; (b) addition of new customers in the formal banking structure arising from the financial inclusion efforts and (c) emergence of new entities like payment banks and small finance banks. Under the circumstances, it is imperative to design an architecture where BCSBI, BOs, IBOs and PCCOs complement the efforts of each other without any friction/overlap. I am sure the forum will deliberate upon some of these issues in greater detail in course of the Conference.

I once again thank BCSBI for inviting me and wish the Conference all success!