

20th March 2023

Mr B.P. Kanungo
Chairman,
Committee for Review of Customer Service Standards in RBI Regulated Entities
Mumbai.

Dear Mr Kanungo,

Thank you for inviting me to this interaction. I have had the opportunity to send you some representations that Moneylife Foundation had made to the Reserve Bank of India (RBI) in the recent past. I am now taking the liberty to put together key points as well as a few recent concerns based on feedback from customers. We hope to see some action on these issues in the deliberations and recommendations of this committee.

I am limiting myself to some broad points that we would like to make in the context of the committee's terms of reference on grievance redress, global best practices on customer issues, and the need to leverage technology. I have included links to articles, representations and comprehensive reports, as applicable. These can be downloaded from the links provided here.

- A) **Tech Traceability:** The use of technology makes all communication traceable. Unfortunately, it is a one-way street and Banks and Financial Services companies only seem to use it to sell products to customers. Since communication is traceable, all organisations must be asked to produce proof that they followed due procedure before initiating coercive action such as freezing bank accounts of customers, which often causes enormous financial and reputational damage. This is particularly true of Know Your Customer (KYC) updation. I have elaborated on the issue later.
- B) **Faceless Customer Service:** When it comes to Credit Cards, Loans, Insurance and Mutual Funds, the job of hard-selling these products is usually assigned to Relationship Managers (RM) at the branch level. However, when there is a problem, the customer is invariably at the mercy of a customer care email ID and the process is faceless, centralised and often heartless. RMs are usually not capable of resolving issues and only respond with platitudes and, sometimes false assurances. This causes enormous hardship, especially to senior citizens and those who are not very financially literate or computer-savvy. RMs cannot be mere sales agents. They should be made responsible for escalating and sorting grievances at the branch level – at least for senior citizens.
- C) **Branch Visits for Closing Accounts:** While accounts can be opened, loans availed and financial products purchased online, the process of closing them requires a needless visit to the branch with physical proof of identity documents. Closing a Demat Account, pre-paying a home or car loan, ensuring that floating rate changes are made applicable require branch visits. Joint fixed deposits can be opened online but closing them require a visit to the branch, say customers. Sometimes it requires multiple visits, because physically verified documents are rejected during central scrutiny. All this is needless friction and out of sync with India's claims to digital prowess, especially at a time when we have a won global accolades for payment systems such as UPI. According to customer feedback, private banks which regularly win awards for technology are notorious for demanding branch visits. Often, these visits are a way to hard-sell other products and services. This is needless harassment and we request the

committee ensure appropriate directions are issued to ensure that online systems are extended to closure of accounts as well.

- D) **Absence of Punishment Encourages Bad Service:** Sloppy handling of KYC requirements, verification of documents, failure to upload KYC on the core banking system and freezing of bank accounts continue to happen in large numbers because there is absolutely no punitive action against banks. They are neither asked to provide proof of having sent notices nor asked to pay compensation. Similarly there are no penalties for wrongly denying customer complaints and giving them a run-around. Unless deterrent penalties are imposed, grievance redress will be an endless process without a tangible reduction in complaints.
- E) **Standard Operating Procedures (SOPs):** Banks have completely different and divergent rules – not only between one organisation and another, but even different branches of the same organisation. This is due to the extreme and strange reluctance of RBI or Indian Banks Association (IBA) to issue SOPs for various practices. In the absence of SOPs, individual officers and managers make up their own rules depending on their targets and risk aversion. This is especially true with regard to transmission of benefits to nominees and heirs on the death of an account holder. I have more on this later.
- F) **Unclaimed Benefits:** The process of recovering unclaimed bank deposits is both opaque and harrowing. This money is pooled under the Depositor Education and Awareness Fund (DEAF), with little effort to trace true owners, other than issuing routine circulars asking banks to trace owners. In practice, banks rarely bother to do so. This problem extends across the financial sector. I have filed a public interest litigation (PIL) in the Supreme Court of India in this regard. I have also submitted a detailed plea to the RBI to introduce best practices followed around the world. I understand that RBI is working on a central repository to make information more searchable, according to its submission to the court. However no information has been made available in the public domain or even put out for discussion. As mentioned earlier, developed countries have found ways of dealing with unclaimed financial assets in a fair and equitable manner as outlined in my column here: <https://www.moneylife.in/article/use-global-practices-to-reunite-unclaimed-financial-assets-with-their-rightful-owners/68347.html>. I request the committee to also peruse our detailed note on this issue sent all regulators: <https://www.mlfoundation.in/memorandum/note-on-central-authority-for-unclaimed-funds-sent-to-regulators/176.html>)
- G) **Public Liability and General Liability Insurance:** While handling the case of a senior citizen who met with an accident at a SBI branch, we discovered a startling fact. Although all banks purchase a comprehensive general liability insurance cover, there is no process in place to ensure that customers who meet with accidents, or, are injured at the bank premises are paid costs or compensation. In the case mentioned above, it was the RBI Governor's intervention which led to the senior citizen being paid the cost of hospitalisation and treatment after he fell off a rickety ladder at the branch. If Indian banks and finance companies want to consider themselves on par with global ones, it is embarrassing not to have workable liability insurance. Moneylife Foundation has prepared a comprehensive report on liability insurance with inputs from all industry stakeholders. The report was publicly released on 6th March and we have submitted it to the insurance regulator and the finance ministry with a request to make it actionable.

We request this committee to consider our suggestions in the report and ask the RBI/IBA to put in place SOPs for ensuring that liability insurance is used to compensate customers when applicable. Parallely, it requires education and awareness, not only among bankers, but also at the RBI and especially its banking ombudsmen. In the case mentioned above (Details here: <https://www.moneylife.in/article/perils-of-visiting-a-bank-when-accidents-on-branch-premises-leave-customers-with-huge-costs-and-no-compensation/66812.html>) the banking ombudsman had wrongly rejected the complaint and ruled that it could not be appealed. Only the intervention of the Governor, helped the customer. Our report on Liability Insurance can be accessed here: (<https://www.mlfdoundation.in/memorandum/public-liability-insurance-in-india/182.html>). I would be happy to make a pdf available to this committee if required.

- H) **Indiscriminate Freezing of accounts:** The harassment of customers by freezing savings and business accounts without proper warning and notice, merely for a delay in updating KYC continues unabated. This causes enormous harassment and often leads to business losses and embarrassment. On paper the RBI requires at least three notices to customers before initiating coercive action. Yet, in innumerable cases, including the freezing of Moneylife Foundation's own account, we find that banks ignore this requirement. They are sloppy about sending out notices and there is zero accountability or punishment for those who cause damage to customers.

A clear digital foot print of notices having been sent to customers ought to be available with each bank. In our case, we found that a centralised process under core banking generates notices, which are then expected to be sent out by the branch. While notices were generated at the centralised level, the branch did not bother to send them. Banks are never asked to produce proofs of having sent email/SMS notices to update KYC before initiating seriously coercive action such as freezing access to a person's hard earned money and savings entrusted to a bank.

It is only when banks are punished for failing to ensure due care that such callous action will stop. We are disappointed at the lack of stringent action in this regard, despite repeated representations. Stricter accountability with costs and compensation is imperative and long overdue.

- I) **Lost or Misplaced Documents:** Moneylife Foundation has come across many cases where banks and finance companies cause permanent damage to the value of properties by losing all or part of the document chain kept in their custody against loans. These include business loans as well as home loans. Leading bankers and lawyers are clear that if the chain of property documents is not complete the loss of value is permanent. In fact other banks do not accept such defective documentation while granting loans. Yet, banks responsible for causing such losses simply do not compensate customers, even when they admit that it is their fault. In many cases, banks simply do not admit any fault. We know of one customer who was asked to go to the bank's warehouse where documents were stored and hunt for the papers himself. He was fortunate to find them. In another case that I have been following up with ICICI Bank for six months, the bank is unable to complete the police procedure required to obtain a certified true copy and complete the chain of documents. Meanwhile this customer is unable to sell his property. (Details here: (<https://www.moneylife.in/article/lost-property-documents-permanently-damage-asset-values-regulatory-solution-required-for-fair-deal-to-borrowers/68613.html>)). We request the committee to ensure that RBI or the NHB issues rules, guidelines and SOPs for handling and rectifying lost and misplaced documents in a time-

bound manner including compensation for the victim. It is patently unfair to expect victims to fight expensive legal battles on this account.

- J) **Grievance Redress by Digital Companies:** We are happy that Governor Shaktikanta Das himself has raised the issue payment companies not using RBI's Online Dispute Resolution System. I would like to submit that there is an additional, effective and faster redress process that needs to be publicised and used. This is through CyberSafe, a pilot application of the Ministry of Home Affairs deployed by the police. NCPI and others payment companies are gradually joining the platform and supporting it, but it needs to be widely publicised after working together to eliminate some issues with the process.

Details about CyberSafe and how it works are here:

<https://www.moneylife.in/article/cybersafe-a-quietly-successful-government-fin-tech-partnership-to-tackle-cyber-fraud/67867.html> The important aspect of CyberSafe is that once a crime is tracked to a particular phone number, that number cannot be re-used to cheat people. Here is another article by Mr Nandkumar Sarvade, IPS and former CEO of Reserve Bank Information Technology Pvt Ltd., which details how design changes are required to enhance security and reduce fraud in digital transactions: <https://www.moneylife.in/article/tackling-upi-frauds-security-by-design-is-the-answer/66298.html>

- K) **Nomination and Transmission Issues:** The absence of SOPs is acutely felt in the area of nomination and transmission, where each bank, finance company and even individual branches make up their own rule. RBI's circular says that banks need to take necessary precautions while transferring account proceeds of deceased customers to their nominees, but cannot make superfluous and unwarranted demands such as seeking bonds, indemnities and sureties from nominees; this continues to be ignored. The RBI has repeatedly asked banks to treat customers in a humane manner. These are vague requests. In the absence of SOPs or clear accountability and steep fines, nominees continue to face untold harassment (<https://www.moneylife.in/article/how-to-make-nomination-and-succession-frictionless/65428.html>).
- L) **Bank Lockers:** The RBI has recently asked banks to sign stamp paper agreements with customer for opening bank lockers. In the absence of SOPs, each bank is making its own demands and there is no standardisation on the value of stamp paper either. (Read: <https://www.moneylife.in/article/bank-lockers-customers-harassed-due-to-lack-of-standard-value-of-stamp-paper-for-agreement/69463.html>). Clear guidelines need to be issued and it should be mandatory to provide customers with a copy of the agreement. In a digital world, it should be very simple to make a scanned copy available and also keep it on the customers records for easy access.

I hope the issues raised by me in this note will get due consideration by the committee under your chairmanship. I am happy to make pdf copies of any documents referred to in this note to your office and to committee members.

Thanking you,



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