

22 September 2014

Dr Raghuram Rajan
Governor,
Reserve Bank of India
Fort, Mumbai

Sub: Comments sought by RBI on the 'Draft Charter of Customer Rights'.

Ref: RBI Press Release : 2014-2015/394 dated 22nd August,2014.

Dear Dr Rajan,

We invite your kind reference to the press release dated 22nd August, 2014 issued by Reserve Bank of India (RBI) on the subject of "Draft Charter of Customer Rights" inviting comments from the public for the consideration of RBI. This memorandum is, therefore, submitted to you in response to the above press release with a view to apprise you of our views

About Moneylife Foundation:

As you may be aware Moneylife Foundation is a not-for-profit organization dedicated to the cause of spreading financial literacy in our country. As a part of our objective, we engage in advocacy and take up issues with regulators to smoothen the impact of their policies on the public at large and savers and investors in particular. This memorandum is, therefore, submitted on behalf of our organisation, which has a membership of over 30,100 spread across the length and the breadth of our country.

Draft Charter of Customer Rights proposed by RBI:

In our view, the draft Charter of Customer Rights does not serve the purpose of meeting aspirations of large body bank customers, who are at the receiving end of never ending problems faced in their day to day dealings with banks in our country. Through the medium of this charter, the RBI has proposed to give freedom to banks to decide on issues concerning standards of customer service, compensation etc. suggesting only the broad contours of the charter, which according to us are only a set of pious motherhood statements that appear good only in paper. We feel that the entire charter is meaningless unless it is backed by codified basic standards to be complied with, and a tracking system coupled with stringent penalties for non-compliance.

The draft charter does not ameliorate the harassment faced by the public who deserve a much better deal, more so when a large majority of our people are financially not literate and nearly 25% of our population are totally illiterate. You will appreciate that under the Pradhanmantri Jan-Dhan Yojana, so aggressively propagated now by the public sector banks, the people entering portals of banks to open

their bank accounts are those having a low literacy rate with very limited knowledge of banking rules and regulations. It is preposterous, therefore, to expect such people to understand the meaning and reasoning behind this charter and benefit from such noble objectives enshrined in the charter as proposed by RBI. Under these circumstances, giving total freedom to each bank to devise its own standards of service and provide for compensation for its own failures is asking for a total chaos in the banking system in our country.

However good are the intentions of RBI, what is most important from the consumers' point of view is that the consumer protection should not be mere passive statements, but it should be an active code for mandatory compliance coupled with preventive and punitive measures to ensure that the guidelines are implemented both in letter and spirit. The Code of Banks' Commitment to Customers (the Code) introduced by the Banking Codes and Standards Board of India (the Board) a few years back has been a total failure because it was only long on promise but very much short on performance as it had no teeth to bite in case of non-compliance. Even the commitments contained in this code were vague and there was no mechanism by which the promises made in the code could be enforced either by the customers or by the Board. It has virtually disappeared from the banking scene, causing considerable loss of face to RBI. The Charter now proposed should not be a repetition of past mistakes, but should serve as ground rules for uplifting the quality of customer service in banks to the level of ensuring complete customer satisfaction with no cause for complaints to the extent possible.

How to make Charter of Customer Rights meaningful?

Banking institutions are the life lines of the nation and an integral part of the life of our people. Therefore, there is a need to have robust, transparent, unambiguous and easy to understand consumer protection guidelines, which can only help in giving a boost to financial inclusion. In order to ensure that the consumers are treated fairly, equitably and in a non-discriminate manner, the following cardinal principles should form the corner stone of the Charter of Customer Rights.

1. The draft Charter states the rights and responsibilities of customers in vague and abstract terms. It requires much more clarity both in its contents and in its implementation. The Charter, therefore, should list out standards of service in crystal clear terms and appropriate time norms for their compliance applicable for all banks in their day to day dealing with all customers. These rules should spell out what services are available to customers as a matter of right and free of all charges, and what services are available for a fee. And this fee should be capped at a reasonable level to ensure that there is no exploitation of customers who are weak, helpless and ignorant of banking terms and conditions. This will help to streamline the service levels at all banks and eliminate most of the complaints that are caused by the indifference of banks to meet the needs of bank customers.
2. In order to make the Charter workable and effective, it should prescribe appropriate penalties for mal-implementation or non-implementation of the basic guidelines laid down in the charter. Besides it should provide for reasonable compensation to customers who suffer because of the laxity or negligence on the part of the banks, who blatantly violate the spirit of the charter, thereby giving a sense of justice and fair-play to the aggrieved customers.

3. As is well known, a number of state governments in our country have enacted laws, which are called as “Right to Service Acts” to ensure that delivery of service by government servants is provided in a time-bound manner. These enactments provide for compensation to public if they fail to get their requirements completed within the time-frame stipulated in the acts. There is a need for a similar system to be introduced in all commercial banks as these institutions have largest impact on the everyday life of people of our country.
4. The Charter should also provide for a certain time frame for resolving issues and prescribe conditions under which individual complaints gets converted into class-action suits providing for rectification without needing every individual to file a complaint. It is unreasonable and unfair to expect every single customer to file separate complaint for the same issue. This would not only help those who do not understand the nuances of making a complaint but also considerably reduce the burden of redressing individual complaints, which will elevate the entire process of complaints redressal mechanism to a new level of customer convenience and fair-play.
5. Dr Deepali Pant Joshi, Executive Director of RBI while speaking on the occasion of MR Pai Memorial Award function last week spoke about the need for an “ingrained suitability clause in products” that would put the onus of the suitability of the product on the banker, instead of the customer. This would naturally mean that it was high time that the financial services and banking institutions move from the maxim of Caveat Emptor (Buyer Beware) to Caveat Venditor (Seller Beware) she added. While it is an excellent idea to put this doctrine in to practice, the most important part of implementing these principles is to set stringent norms to be followed by the seller institutions and make the seller accountable through inbuilt penalties for mis-selling, and compensating the customer not only for the financial loss, but also for the agony and anguish caused. We feel that this requires to be properly codified in the Charter without any ambiguity to make it effective and purposeful.

Why is it necessary to introduce penalties & compensation for non-compliance?

There are a number of instances where customers do not get satisfactory service from banks and majority of them silently suffer on account of indifference of banks even to provide simple basic services like disbursing the pension on the stipulated dates, paying interest on fixed deposits on due dates, etc. Delay in putting through these simple transactions for whatever reasons, causes considerable inconvenience and agony to those depending only on such income streams for their livelihood.

It is, therefore, necessary for the RBI to identify all types of services rendered by banks and stipulate time norms for delivery, which should be mandatorily honoured by banks without exception. If any bank does not comply with these time norms for whatever reasons, they should be made to pay a minimum compensation to the customers at a rate, which will serve as a deterrent for repetition of such instances in future. To ensure that this system of compensating the customers is followed both in letter and spirit, the bank should automatically credit the compensation payable to the customers’ account without even asking for it.

The RBI has so thoughtfully introduced recently a system of compensating banks' customers whose accounts get debited but fail to get cash from the ATMs, at the rate of Rs100 per day's delay after ten days of making a complaint and this system is in vogue for over a year now. While this is restricted at present to only to one type of banking transaction, it is now necessary to extend these guidelines to all types of banking transactions with a view to make banking services a right of every individual.

Protect the rights to approach banking ombudsman in case of dissatisfaction:

However, it should be ensured by the RBI that this system of giving compensation to the customer at the rates stipulated by the central bank should not take away the rights of the banks' customers to approach the banking Ombudsman for a higher compensation, if he or she feels that the compensation offered by the bank is not commensurate with the agony and suffering undergone by the customer due to the deficiency in service provided by the bank. For instance, if a cheque is dishonoured by a bank for no valid reason, the customer not only loses his face, but it affects his reputation in society, which cannot be evaluated in terms of money. As per the banking practice, the smaller the amount of the cheque, bigger the compensation payable, as it hurts one's reputation most, if a cheque for a relatively small amount is wrongly returned by the bank for the reason of insufficient funds, when the account had adequate funds to meet the cheque. Therefore, the customer should have a right to approach the Ombudsman, if he/she is not satisfied with the compensation prescribed by RBI and paid by the bank.

In actual practice by introducing this new system of empowering depositors and formulating compensation norms, it may bring down the complaints lodged with the banking ombudsman considerably, and help in improving the banker customer relationships to a large extent.

Emulate international practice of compensating bank customers:

Here are a few example of how UK banks volunteered to compensate the customers, who had faced problems with their accounts.

BBC reported that On 6 March 2013, customers of Royal Bank group covering Royal Bank of Scotland (RBS), NatWest Bank and Ulster Bank were unable to access their accounts and could not even use their cards to withdraw money from ATMs for a couple of hours. The banking group, which is majority owned by the UK government, blamed a "hardware fault" for causing its systems to crash, but promptly apologized and promised to compensate customers who experienced problems because of the disruption, which lasted for a couple of hours. The RBS banking group had to honour claims from millions of customers who were unable to withdraw cash, pay for goods and services or carry out telephone or online banking for no fault of theirs. Here is an example of how one customer got compensated by the bank even for a little embarrassment faced by him at a restaurant.

As per the BBC report, a customer of the bank had to get someone else to pay for his dinner that evening, as his card was not accepted due to a technical glitch in the bank. The bank instantly offered 70 pounds (equivalent of about Rs7,000) for the embarrassment caused and it was paid into his account straight away.

In June 2012, about 16 million customers of RBS, NatWest and Ulster Bank had difficulties with cash withdrawals, phone and online banking and debit cards, which the bank had blamed on a software glitch. It was reported by BBC that the disruption was one reason why Stephen Hester, CEO of RBS declined to accept part of the annual bonus. In fact, the bank paid out over 125 million sterling pounds to customers as compensation last year, and branch opening hours were extended to help customers who experienced difficulties. Such is the sensitivity to customers' inconvenience in UK, which is worth emulating by banks in our country.

RBI should take a cue from this and act objectively:

It is very common for banks in India to put the blame on computers for any disruption in their operations and rarely pay any heed to customer complaints when computers fail to deliver. If computers fail, it is not an act of God, but squarely a human failure, and it is the computer maintenance people who should be held accountable. But so far as the customers are concerned, it is the bank that should be held responsible for compensating the customers who have suffered for no fault of theirs. As seen in the UK example, banks take full responsibility for computer glitches as well and had shelled out substantial compensation to customers even when the disruption was caused by hardware and software problems. While banks in UK have volunteered to compensate the customers due to public pressure and threat of loss of business, we cannot expect banks in India to follow suit, as they are thick-skinned to the point of being indifferent to public opinion and insensitive to customer inconvenience.

It is, therefore, necessary for the RBI, to step in and introduce a system of penalties and compensation for deficiency in all banking services which should be benchmarked against international best practices and followed by every bank in the country. Penalizing banks and compensating the customers for the deficiency in service delivery standards should be the bedrock of the proposed Customer Charter to give a new orientation to customer service practices and create an environment of trust and confidence between the banks and the banking public.

These are only illustrative and not exhaustive suggestions for the RBI to ponder over and bring out a comprehensive charter, which can make banks more efficient, more competitive and more customer oriented in the larger interest of the banking industry. It is only by making the minimum level of quality of service mandatory, coupled with penal provisions for non-compliance, that public can hope to get trouble free, stress free and tension free banking, which they rightly deserve.

Widen the consultation process to evolve an epoch making Charter:

The present draft of Charter of Customer Rights appears to be an in-house exercise of RBI without any extensive consultation with the stake holders. Unless and until the charter is widened to elicit the views of vital stakeholders like depositors, borrowers and all other customers of banks, it would not be comprehensive enough to cover the entire gamut of banking services which is essential to make an impact in the real world of contradictions, imperfections and uncertainties.

The RBI should, therefore, immediately constitute a committee of experts with majority representation from the users of banks' services and other stake holders to ensure that a fair, just and equitable Charter of Customer Rights is evolved in the best interest of consumers. What we need is an epoch making document that can change the face of Indian banking for the greater good of bank's customers in particular and our economy in general.

Thank you for your time and attention and look forward to a line in acknowledgment.

With our best regards,

Yours sincerely,

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PS: A real life story that appeared in 'Proactive Indian' relating to a Senior Citizen's interactions with his bank demanding his rights with a bank officer is reproduced here below for your kind information.

Proactive Indian

Reflections on everyday life in India and elsewhere

If more customers demand good service ...

Posted on August 30, 2014

At about 10.00 am one day, I submitted a requisition for a Demand Draft at a branch of a leading private sector bank. The person at the counter told me that the DD couldn't be issued because the printer was not working. She assured me that the DD would be delivered to me at my residence by 3.00 pm that day. I replied, "OK. But, please also pay me Rs. 300.00 Late Payment Fee and interest for one day @ 40% per annum. That's what your bank charges me if I pay my credit card dues after the due date." She looked totally puzzled, then spoke on the intercom to somebody and requested me to meet the Manager in his room. I politely stated that I wanted my DD immediately and I had no desire to meet the Manager.

Within a few seconds, the Manager came to meet me. I told him:

- a. According to his bank's norms, Demand Drafts should be issued within 10 minutes. There is no disclaimer about printer breakdown, etc..
- b. His bank charges all customers Rs. 300.00 Late Payment Fee and interest @ 40% per annum if credit card dues are paid after the due date, irrespective of the reason for delay. In all fairness, the same system should apply when his bank issues a DD after 10 minutes.

When the Manager replied that there is no provision for Late Payment Fee and interest for delays in issuing DDs, I told him I would make my demand by a letter to him with a copy to the Banking Ombudsman. He requested me to wait for a few minutes and went to his room.

About 10 minutes later, he came out, gave me a handwritten DD and explained that he could do this only after taking permission from his senior. I thanked him and told him that, if he had done this in the very first instance, he would have saved himself the embarrassment of being spoken to by me in the presence of his other customers!

I had observed that other customers, including a few elderly persons, were being asked to come back to the bank at 4.00 pm to collect their DDs. All of them agreed without a murmur of protest. I wondered:

1. Were these persons not aware of their rights as customers?
2. While all others were being asked to come back to the bank to collect their DDs, I was told that the DD would be delivered to me at my residence. Why this discrimination? Had the person at the counter been instructed to handle potential 'tough customers' with care?

There are time norms for various services available at bank branches in India. For example, one bank's norms are:

Cash payment: Within 8 minutes

Issuance of Demand Draft: Within 10 minutes

Collection of local cheques: Within 2 working days

Collection of outstation cheques: Within 14 working days.

I'm not sure if all banks have the same norms, and if these norms are expected to be adhered to very strictly. As far as I'm concerned, these norms are indicative, and slight deviations are acceptable because of unforeseen situations like power cut, slow system, etc.

If the service in any organisation is below the stated norms or below my reasonable expectations, I demand better service and, in most cases, I get better service.

Unfortunately, most persons in India are extremely undemanding customers. They patiently put up with poor service. Some are not even aware of their rights as customers.

If more customers demand good service, poor service will become the exception rather than the rule.