

Consumer Protection in Indian Banking with Special Reference to Branchless Banking*

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Abstract

This article provides an insight into the growth and development of branchless banking in India and consumer protection issues and redress mechanism in the banking industry with special reference to branchless banking. Consumer protection issues in Indian banking sector have been increasingly brought under the scanner of the legal forums by the consumers. Besides, internal mechanism for redress of consumer complaints, Banking Ombudsman scheme is in place since 1995. Beyond the banking system, an aggrieved customer can seek legal remedy under Consumer Protection Act 1986. There is no specific redress mechanism for customers of branchless banking. Since branchless banking concept is advanced technology savvy, consumer issues in branchless banking are mainly associated with technology and allied frauds emanating from it. However, RBI, the regulator, has been continuously examining these issues and bringing guidelines and measures to strengthen the existing redress mechanism of consumer complaints, be it general banking or branchless banking. However, this study shows that there are many issues and problems faced by the system and accordingly some suggestions have been made for policy and implementation related interventions.

Key words: *Branchless banking, Banking Ombudsman, Consumer protection. Redress mechanism*

1.0 BACKGROUND AND OBJECTIVES OF THE STUDY

The Indian banking sector is the most dominant segment of the financial network in the economy. To make it more competitive and self-sustaining it was exposed to global standards with the initiation of liberalization process in 1991. Since then, the sector continues to

build on its strengths under the watchful eye of the government and the regulator, the Reserve Bank of India (RBI). The regulatory framework has made the sector more vibrant and stronger (FICCI, 2010). Sisodia's study (2009) suggests that Indian banks can be compared favourably with banks of other emerging economies in the world on parameters

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like growth, asset quality and profitability. This fact can be established from the corroborative evidence that building on their strength, Indian banks have consolidated their position on the Brand Finance @ Global Banking 500 ranking for 2011, with 13 of the 18 listed banks improving their brand performance against last year. The top 5 Indian banks listed in 500 ranking were State Bank of India (34), ICICI BANK (69), HDFC Bank (151), Punjab National Bank (195), and Axis Bank (202). The annual survey also finds that Indian banks contributed 1.7 per cent to the total global brand value at \$14,741 million and grew by 19 per cent in 2011 (www.brandirectory.com).

The growth of the Indian banking industry has been impressive during the last decade. "The total asset size has increased five times between 2000 and 2010, from US\$ 250 billion to more than \$ 1.3 trillion, registering a CGAR growth of 18 per cent compared to average GDP growth 7.2 per cent during the period. Consequently, the ratio of commercial banking assets to GDP increased to nearly 100 per cent. The growth has been profitable with improvement in efficiency and productivity" (Nair, 2010). The industry has witnessed a dramatic change after the implementation of financial inclusion policies and programmes in 2006. The objective has been to deliver the financial services to all the unbanked areas/ villages having population of over 2000 by 2012. By 2015 all the villages are expected to be covered by banking services. This is to be achieved with the help of branchless banking system leveraged by information and communication technology (RBI, 2010).

Branchless banking is a comparatively cheaper alternative distribution channel strategy used for delivering financial services by banks and financial institutions without depending on traditional bank branches. Use of information and communication technology (ICT) like internet, automated teller machines (ATMs), point of sale (POS) devices, electronic funds transfer point of sale (EFTPOS) devices and mobile phones have made it possible to reach even the unbanked rural villages. This banking model is cost effective both to the banker and to the customer. Branchless banking services through these modes have improved the service quality, reduced transaction time and traffic in branches (CGAP study, 2010).

Technology now has ingrained itself in every aspect of bank's functioning. Report on Trends and Progress of Banking in India (RBI, 2010) reveals that out of 69,160 number of branches of all scheduled commercial banks (SCBs) comprising 27 public sector banks, 22 private sector banks, and 34 foreign banks, 97.8 per cent were fully computerized and the rest 2.2 were partly computerized by March 2010. Out of these total numbers of branches about 90 per cent were under core banking solutions. With this revolutionary networking delivery channel, the Indian banking industry has 60,153 ATMs throughout the country which cater to the need of about 8000 million account holders (RBI, 2010). Since April 2009, customers irrespective of their specific bankers have availed the ATM network of all the banks without any fee on cash withdrawals. While the ATMs and

internet banking serves more the urban populations than the rural poor, the new business model known as “banking correspondent and facilitator model’ has been in place since 2006. This model is an outsourcing process of transactions by banks to selected third party agents to reach the unbanked rural villages. Branchless banking modes have, now with biometric devices/ solutions, the potential to reach the unbanked villages/ unreached people.

The problem associated with branchless banking stems from both technology and fraud. ATM related complaints addressed to Banking Ombudsman are on the rise. The increase in complaint is directly proportional to the increase in ATMs (www.scribddd.com). Since rural populations seem to have low in financial literacy, more risks are involved in transactions through third-party agency leading to fraud and allied complications.

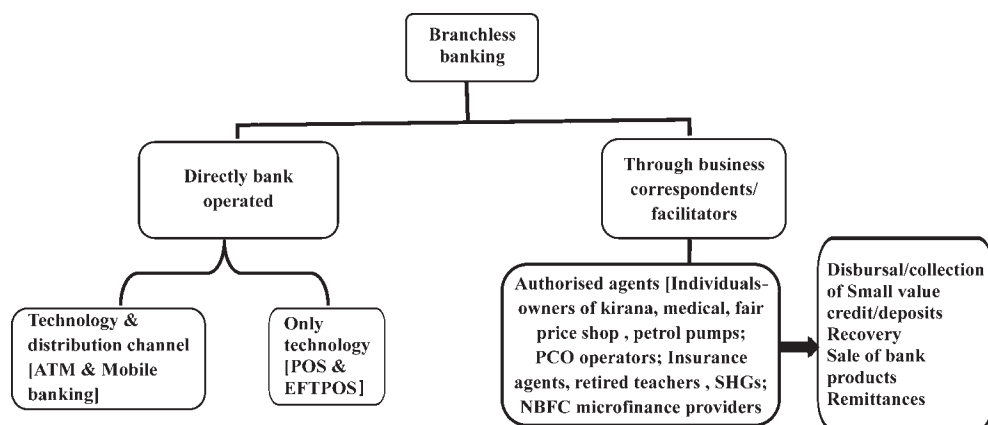
Against this backdrop, this article provides an overview of the current development in branchless banking in India, and discusses the consumer protection measures initiated by the RBI

in banking sector in general and branchless banking in particular. The article is based on literature survey and secondary data published mainly by RBI, Indian Banking Association, banks, Federation of Indian Chamber of Commerce and Industry (FICCI), and Consultative Group to Assist the Poorest (CGAP). The data collected were tabulated, analyzed and presented through tables and graphs and inferences have been drawn.

2.0 TRENDS IN BRANCHLESS BANKING

The choice of the RBI as well as the government to opt for branchless banking system is significant for pursuing the policy objectives of inclusive growth and thereby to make it possible universal access to financial services. Though both bank-based and nonbank-based models of branchless banking have been adopted in many countries, India has adopted only bank-based models to achieve such objectives. The model has two options i.e (i) models directly operated by banks, (ii) models operated by banks through correspondents/ facilitators (Exhibit-1). The models are discussed below:

Exhibit 1: Models of Branchless Banking



2.1 Directly operated branchless banking models by banks

ATM is user friendly and it has caught the fancy of both banks and clients. Operating for 24 hours and seven days a week it has become a part of the contemporary way of life. Now ATMs have become indispensable part of banking system because of ease of efficient handling of customers' services. Besides, it has become possible to account for transactions in real time. During the last decade (2001-10) ATMs penetration has happened in a big way. It can be seen from Table 1 that public sector banks have less number of ATMs than private sector banks and foreign banks. In 2007, the percentage of ATMs to branches in case of foreign banks was significantly high with 353 per cent followed by private sector banks with 138 per cent and public sector banks with as low as 32.9 per cent. This trend continued till 2010. But growth wise, ATMs in public sector banks have registered an average annual compound growth rate of 35.56 per cent against

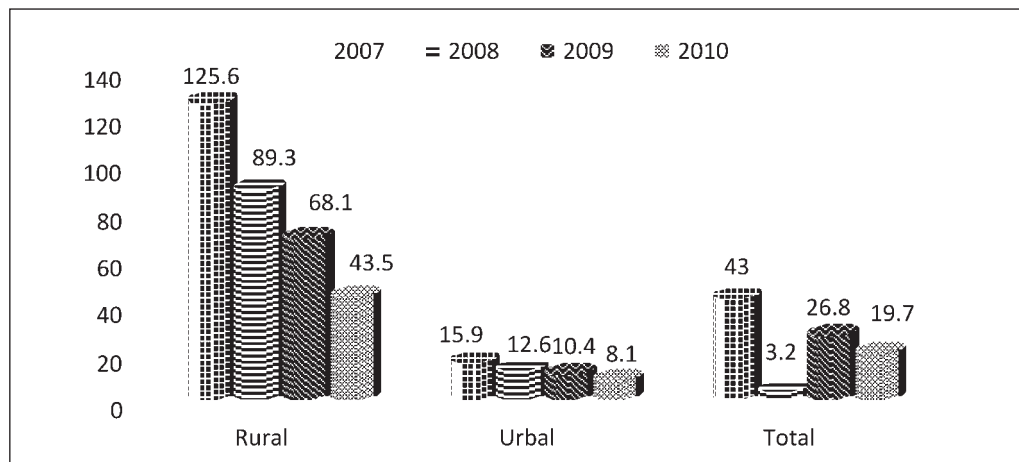
15.82 per cent in growth of branches during 2007-10 while the growth rate of ATMs in private sector banks was 12.66 per cent against branch expansion of 15.52 per cent per annum. But in case of foreign banks the growth rate of ATMs is marginally negative while growth of branch expansion was only 4.1 per cent. These individual performances of various banks contributed to an average annual compound growth rate of 30.46 per cent in ATMs penetration against branch expansion of 6.63 per cent during the period under reference. Further, regarding penetration of ATMs, Exhibit 2 shows that the people covered per ATM has come down from 43,000 per ATM in 2007 to 19,700 in 2010 signifying an increase of penetration of ATMs at 22.91 per cent compounded annually. During this period the rural penetration has significantly improved from 125,600 per ATM to 43,500, registering an annual increase of about 30 per cent. This growth suggests that the importance attached by all types of banks to branchless banking through ATMs.

Table-1: Penetration of Bank Branches and ATMs (in numbers)

Scheduled Commercial Banks						ATMs				
	2007	2008	2009	2010	CAGR %	2007	2008	2009	2010	CAGR %
Public sector [27]	49,666	52,880	55,438	58,825	5.96	16,329 (32.9)	21,788 (41.2)	27,277 (49.2)	40,680 (69.2)	35.56
Private sector [22]	7,103	7,975	8,877	10,027	12.18	9,799 (138.0)	11,967 (150.1)	15,320 (172.6)	18,447 (184.0)	23.48
Foreign [34]	273	274	293	308	4.10	960 (351.2)	1,034 (377.4)	1,054 (359.7)	1,026 (333.1)	2.24
Total	57,042	61,129	64,608	69,160	6.63	27,088 (47.5)	34,789 (56.9)	43,651 (67.6)	60,153 (87.0)	30.46

N.B: Figure within [] indicates total no of banks in respective category, Figure within () indicates percentage of ATMs to bank branches

Source: RBI, Reports on Trends and Progress of Banking in India, 2007, 2008, 2009, and 2010 – adapted and modified.

Exhibit 2 : Penetration of ATMs ('000 Population)

2.2 Branchless models operated by banks through correspondents

Banking activities in India were conducted only by licensed banks until 2006 and no outsourcing was permitted. Outsourcing system has been introduced by adoption of banking correspondent (BC) and facilitator (BF) models by RBI in 2006. While BCs are agents of financial services who are expected to process cash transactions on behalf of the bank, BFs are support providers to banks for customer identification, verification, collection and acquisition of information, etc. BCs engaged under Section 25 companies (NBFC MFIs) are to operate within 30 kms/ 5 kms distance from bank branch in case of rural, semi-urban, urban areas and metro areas respectively. The main difference between BCs and BFs is that BCs provide all the services but BFs provide only non-financial services. None of them can verify know your customer (KYC) compliance or take credit decisions. A brief comparison between these two is presented below in Table 2.

All the public sector banks have tested the BC model as directed by the RBI. SBI being the leading public sector bank has piloted the most. As on date SBI has engaged nine national level BCs and 27 state level BCs and BFs to reach more than 27,00,000 clients. Most of these banks with SBI in forefront have used the BC option to open large number of “No Frill account” under Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA) Scheme in response to policy directives of the Government of India (Access, 2009). Recently it has tie up arrangement with Indian Post which has net working of 1,50,000 branches throughout the country to take banking to 12,492 villages by 2012 with the help of Postmen acting as BCs (Aggarwal Vaibhav, 2011). Among the private sector banks, ICICI Bank and HDFC have taken the lead in making use of the scheme. ICICI with 48 BCs in 13 states has reached 5, 00,000 plus villages where as HDFC with 203 BCs in 13 states reached 6,50,000 villages.

Table-2 : Banking Facilitators vrs. Banking correspondents

Parameters	Banking facilitators	Banking correspondents
Identification	NGOs, Farmers' clubs, cooperatives, community based organizations, Post Offices, Insurance agents, well functioning Panchayats, Village Knowledge Centers, Agri Clinics/Business Centres, Krishi Vigyan Kendras, and KVIC/KVIBs	Individual owners of kirana/medical/ fair price shops/petrol pumps/ public call office operators (PCOs); Retired teachers; Agents of small savings schemes of Government of India/ insurance companies; Authorized functionaries of well run self-help groups (SHGs) linked to banks, NBFC MFIs (limited)
Nature of job	Identification of borrowers and Fitment of activities, Collection and preliminary processing and verification of loan applications, creating awareness about savings and other banking products, advice on money management and debt counseling, submission of applications to banks, promotion and nurturing of SHGs/ Joint Liability Groups, Post-sanction monitoring, follow-up for recovery	All the activities of BFs plus collection and disbursal of small value deposit/credit, recovery of principal/ collection of interest, sale of micro-insurance/ mutual fund products/ pension products and other third party products, receipt and delivery of small value remittances/ other payment instruments
Roles	Represent the bank as its agent for non-financial limited services. Hence, can not bind the bank in financial transactions because they are not authorized to deal with funds in any form.	Represent the bank as its financial service agent and bind the banks in financial transactions as agents

Source: RBI Circular No. **RBI/2005-06/288** , revised circular 2010 (www.rbi.org.in)

3.0 CUSTOMER PROTECTION IN INDIAN BANKING INDUSTRY

The main player in financial consumer protection in the banking industry is the RBI. Besides, the other main institution which ensure consumer protection in the banking industry are Indian Banks Association, functioning since 1946 as an industry-level network organization and Banking Codes and Standards Board of India (BCSBI), an independent body constituted by member banks in 2003 to evolve standards and to act as banking industry watch dog to ensure that consumers of banking services get what

they are promised to get. Outside these purview, consumer courts as the statutory quasi-judicial bodies have been instituted by the government at district, state and national level under Consumer Protection Act 1986 to redress the complaints of aggrieved customers on account of deficiency in banking service.

3.1 Customer service initiated by RBI after liberalization

RBI being the main regulator of the Indian financial sector and particularly the banking industry, it has taken several measures for delivery of customer

driven financial services. The important measures are as follows:

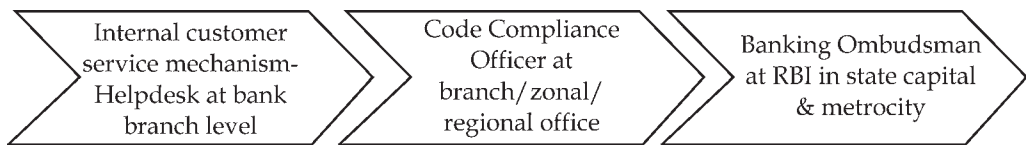
- Emphasis was laid on efficiency and courtesy in customer service as per Goiporia Committee recommendation in 1990(after the financial sector reformation/ deregulation process was started).
- Introduction of technology driven banking services like, Debit Cards, Credit Cards, ATMs by new private sector banks
- Launching of cost effective alternative dispute resolution mechanism in the form of Banking Ombudsman scheme in 1995
- Providing risk management guidelines for fair treatment of customers by banks to avoid discrimination in interest rate
- Direction to banks to provide information like bank specific prime lending rate in website
- Proper care taken for the poor and vulnerable group in the society about provision for spread below prime rate lending (PLR) system
- Direction to banks to host their Fair Practices Code (Lender's liability) in the public domain
- Fixing pricing for Payments system initiatives like RTGS/ NEFT and speed clearing
- Formation of Banking Codes and Standard Board of India for customer-centric services in 2003 and its first code of conduct was launched in 2006 and updated in 2009

- Available of banking information for common man in 15 regional languages in RBI websites
- Guidelines to banks for payment of timely pension
- Introduction of "Business Correspondent" model for financial inclusion to reach the unreached

3.2 Grievance Redress Mechanism

BCSBI code suggests that all the member banks are required to put in place a help desk/ helpline at the branch, have a code of Compliance Officer at each controlling office above the branch, display at each branch name and contact number of code compliance officer and display name and address of the banking Ombudsman. A customer is expected to approach the help desk of the bank/ branch and in case the grievance is not resolved, he is to approach the Code Compliance Officer. In case the customer is not satisfied or the complaint is not resolved, he may approach the banking Ombudsman. Ombudsman in turn can enquire into complaints not (properly) resolved by the concerned bank. Beyond grievance redress mechanism within the banking system, an aggrieved customer can approach consumer courts at district, state or national level under Consumer Protection Act 1986. The grievance redress mechanism is presented through Exhibit 3.

Exhibit 3: Grievance redress mechanism in banking industry



3.2.1 Banking Ombudsman Scheme

Banking ombudsman scheme introduced by RBI under its umbrella in 1995 is to provide inexpensive and expeditious platform to bank customers for resolution of their complaints relating to deficiency in banking services. The scheme was first amended in 2002 to include rural banks and again amended in 2006, 2007 and 2009 to widen the scope to cover customer complaints in new areas like credit card complaints, levying service charge without prior notice, non-adherence to the fair practice codes adopted by individual banks, and internet banking etc. As on date the Ombudsmen function from 15 Offices located at RBI branch in state capitals and metro city. Ombudsman acts as the arbiter of customers' disputes with banks. An aggrieved customer not satisfied with the resolution of his complaint by the bank can approach the Ombudsman within one month if his grievance relates to 27 identified matters specified in the scheme by the RBI. Annexure 1 exhibits the grounds of complaint to Ombudsman.

Complaints are essentially required to be resolved within a month from date of receipt. Banking Ombudsman is guided by available evidences submitted by contending parties, BCSBI Code, banking law and practice under Banking Regulation Act 1948 and the RBI directions/ guidelines issued from time

to time. The limit of compensation awarded by Ombudsman arising out of omission or commission of the bank is Rs. 1 million.

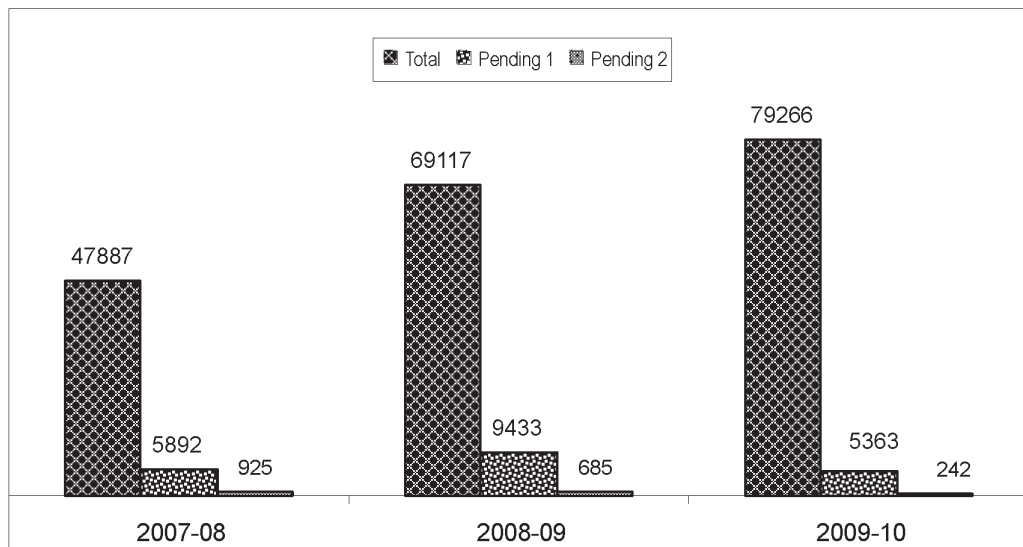
The Ombudsman office receives complaints relating to deficiency in banking services. Over these years since Banking Ombudsman Scheme launched, there has been substantial increase in number of complaints. As seen from Table 3, during the last three years ending 2009-10, numbers of complaints received by the Ombudsmen were 47,887, 69117 and 79,266 respectively registering a growth rate of 24, 44 and 15 per cent respectively over the previous year. Foreign banks have more number of complaints per branch where as public sector banks have very less number of complaints (less than one) per branch. There has been quick disposal of the complaints. Most of the complaints (between 85-94 per cent) were resolved within three months of receipt during the period 2007-10. The pending rate between 6-13 percent is comparatively much less during these years and the rate is coming down. The number of appeals ranged from 186 to 308 (less than 0.04 %) during these periods from which it may be inferred that the customers are very satisfied with the redress mechanism of the Banking Ombudsman scheme. Exhibit-4 shows the total number of complaints received during these years, total complaints pending and pending for more than three months.

Table-3 : Classification of consumer complaints

Category of bank	No. complaints received/[No of branches]/(No of complaints per branch)		
	2007-08	2008-09	2009-10
Public sector	25,694,[52,880],(0.4 ⁹)	33,141, [55438],(0.60)	41,924[58825],(0.71)
Private Sector	13,950,[7,975],(1.75)	21,982,[8,877],(2.48)	22,553,[10027],(2.25)
Foreign	6,128,[277],(22.12)	11,700,[293],(39.97)	11,450,[308],(37.79)
UCB/RRB/ Others*	2119	2,294	3,339
Total	47,887,[61,132],(0.75)	69,117,[64,608],[1.07]	79,266,[69,160],(1.10)
Rate of Complaint increase	24	44	15
Total complaints handled/ pending**	49,100,[10.7]	65,576,[12.6]	83,336,[6.1]
No of appeals received	186	269	308

N.B: * Complaints per branch not calculated due to insufficiency of data; ** Figure in per cent

Source: Annual Report 2009-10 on Banking Ombudsman Scheme 2006, RBI

Exhibit 4 : Total complaints received, total complaints pending (pending 1) and pending for more than 3 months (pending 2)

The complaints received by the Ombudsman have been broadly classified by RBI as related to: (i) deposit account operation, (ii) remittances (iii) credit / debit / ATM cards (iv) loans and advances (v) charges without prior notice to the consumers (vi) pension (vii) failure to meet commitments/ promises, (viii) direct selling agents (ix) notes and

coins (x) others (xi) out of subjects. It can be seen from Table 4 that credit, debit and ATMs cards related complaints for the years from 2007-08 to 2009-10 varied between 20 to 25 per cent with marginal decrease in 2009-10. The cards related higher complaints particularly credit cards related was viewed by RBI as that of non-transparency and miss-

selling by the card issuing authorities. Complaints under the category “others” included refusal to accept or delay in accepting tax payments as required by RBI/ Government, non-adherence to prescribed working schedule, refusal to accept/delay in issuing or failure to service or delay in servicing or redemption of Government securities,

refusal to close or delay in closing of accounts, etc. Complaints relating to failure to meet commitments/ promise made by the banks are the third major item of complaints in the range group of 13-17 per cent mainly covered the non-adherence of fair practice codes and failure to provide desired banking facilities etc.

Table 4 : Nature of complaints received by Ombudsman

Nature of Complaints	2007-08	2008-09	2009-10
Deposit accounts	5,612	6,706 [9.7]	3,681 [4.7]
Remittance	5,213	5,335[[7.7]	5,708 [7.2]
Credit/Debit/ ATM cards	10,129 [21.2]	17,648[25.5]	18,810 [23.7]
Loans/ Advances	6,054	8,174[11.8]	6,612 [8.3]
Charges without prior notice	3,740	4,794[6.9]	4,764 [6.0]
Pension	1,582	2,916[4.2]	4,831 [6.1]
Failure to meet commitments/ promises	6,388 [13.3]	11,824 [17.2]	11,579 [14.6]
Direct selling agents	3,128	3,018 [4.4]	1,609 [2.0]
Notes & coins	141	113 [0.2]	158 [0.2]
Others	5,900	8,589 [12.4]	18,840 [23.8]
Out of subjects	-	-	2,684 3.4]
Total	47,887 [100]	69,117[100]	79,266 [100]

N.B: Figure in { } indicates percentage; Source: Calculated from data provided in Annual Report 2009-10 on Banking Ombudsman Scheme 2006, RBI

RBI as regulator reviews the issues and complaints on customer service related matters from time to time. The latest Ombudsman Report (RBI, 2010) is a vital document that has brought all the issues related to customer services and consumer protection. The important aspects of the report are review of various types of complaints received by Ombudsmen, its functioning, review of shortcomings in previous guidelines and corrective measures being advised to make the customer service hassle free.

Among the issues that were discussed by the RBI in its various meetings and forums were improvements in complaint tracking software used by Ombudsmen, outreach campaign activities for creating awareness, BCSBI codes revision, ATM/ internet banking fraud checking, improvement in timely payment of pension, updating customers' records and providing timely and accurate information etc. The report vividly analyzed 56 cases in the above areas dealt by Ombudsmen during 2009-

10. This gives feedback on nature customer complaints and compensation awarded by Ombudsmen. To safe guard the interests of the customers and to reduce the number of complaints RBI has provided guidelines in respect of delayed reimbursement of failed ATM transactions, cash withdrawal at point of sale, payment of interest on frozen accounts, maintenance of records, marketing/ distribution of mutual funds, financial inclusion by use of BCs, mobile banking transaction, display of vital information relating to customer service, credit/debit card transactions and prevention of money laundering etc during year 2009-10.

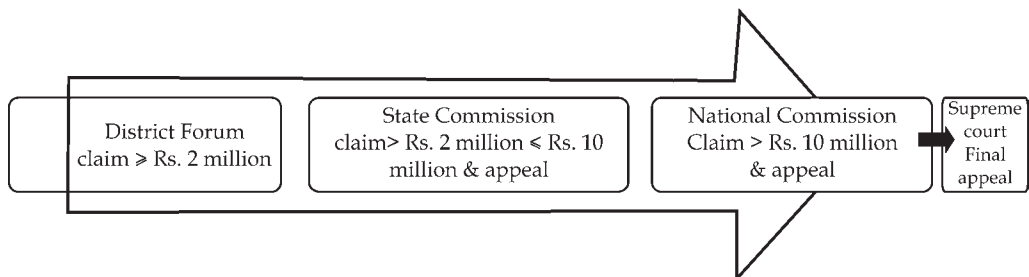
In spite of all these developments, there are new issues coming out with the advancement of technology and its use by service providers. One such important complaint which has already been discussed at some RBI forums is

that of customers who have been subject to tax deducted at source (TDS) but because of technological problem in online tax return system introduced during 2008-09 by the Income Tax department, these TDS by banks are not being not reflected in NSBL data base; as a result of which, customers are put to difficulty in getting tax refunds.

3.2.2 Consumer Courts

Consumer courts under Consumer Protection Act 1986, adjudicate consumer disputes and complaints relating to defects and deficiency in banking products and services. Since consumer courts are quasi judicial bodies, aggrieved consumers can file complaints to get damage/ compensation. Exhibit 5 shows that an aggrieved consumer can go to different consumer courts depending upon his amount of claim and/ appeal.

Exhibit 5: Alternate Mechanism-Three Tier Consumer



The specific data regarding consumer complaints on account of deficiency in banking services are not available. But the RBI's analysis/review of consumer cases on banking filed before the Consumer Courts and the Supreme Court reveals that the complaints are mainly related to failure/delay in repaying deposits, wrongful dishonor of cheques due to negligence or mistake,

refusal to grant loans in eligible cases, higher rate of interest, non-return of documents even after full repayment of loans, lien on personal account without agreement, consent by the customer, failure to honour bank guarantee, loss of article in locker, lack of security in banks, non-release of securities after expiry of period of limitation and other banking services all leading to deficiency

in service by concerned bank (www.rbi.org.in/scripts/Cn_AgainstBank.aspx). Since interim orders are also possible from consumer courts, aggrieved consumers file cases for injunction in case of debt recovery and property attachment and other such action by banks considered to be inappropriate and illegal.

3.2.3 Consumer protection issues in branchless banking

Branchless banking in India is at the developmental stage. Since branchless banking is primarily technology related, the problems and issues related to it are stemmed from technology and the agents who provide the services through this technology. ATM is more popular than internet banking and mobile banking. Technology related problems with ATMs have been taken care of by the banks as per RBI guidelines to settle the issue within 7 days. To avoid security related problems with ATMs, banks have introduced biometric solutions in ATMs. Indian Bank has already tested it in rural areas.

Though internet-banking services are not commonly used, it is more familiar with urban and metro consumers. The private sector and foreign banks offer high-quality Internet banking services. This kind of banking option is more prone to cyber fraud like phishing. Consumer awareness on use of safe banking on net by the banks and the use of 3D secure pin system has reduced the chances of fraud.

Mobile banking issues relating to consumer protection that are likely to cause loss/financial injury to the consumer are mainly leakage/ theft of

personal and financial information, and delay or deny of contract service by the banks. The other issues related to consumer services provided by banks are satisfaction of the customer in regard to quality, timeliness and appropriateness of response of interface with the banks.

The BC models have been in operation for the last five years or so. These models mostly used by the public and private sector banks operate primarily in urban, semi-urban areas and in few cases in rural areas. The outreach and enhancement of customer service has not been visible and the expected results have not yet been achieved. Full range of banking services has not been transferred to BCs at places where they have been engaged. The BCs concept has been largely limited to payment of Government benefits to the poor beneficiaries (Damodaran Committee, RBI, 2011). Expansion to rural areas as a policy initiative to achieve greater financial inclusion within the time frame except in case of MGNREGS will be visible once the hiring of banking correspondents and adoption of accompanying technology stabilize. Since this model is still in experimental stage, associated problems are only assumed and specific issues/ problems have not been brought out by the banks or their regulator and government. Damodaran Committee 2011 emphasizes that banks have to develop mechanism and undertake programmes for educating the customers through BCs that they are also covered by Banking Ombudsman scheme. The Committee also suggests that customer relationship management (CRM) system should be

implemented by banks to capture, track and redress the customers' grievances in general and the complaints associated with use of advanced technology in the banking field particularly in branchless banking. The capacity building of BCs should be rigorously pursued so that they perform the role of bankers when the demand arises.

The customer issues whether it is general banking or branchless banking are redressed under hosts of Acts like Indian Contract Act 1872, Negotiable Instruments Act 1881, Indian Limitations Act 1963, Indian Stamp Act 1899, Banking Regulation Act 1949, RBI Act 1935, Consumer Protection Act 1986 and Information Technology Act 2000 etc. The Damodaran Committee has recommended for a comprehensive Act which will take care of the total banking system that serves that is now advanced technology savvy. It should be ease to follow with flawless interpretation so as to build stronger banker-customer relationship.

4.0 IMPLICATIONS AND CONCLUSION

The growth of Indian banking per se and some of the models of branchless banking like ATM mode are impressive. As the technological innovation has taken its roots in all aspects of banking, problems associated with it inter alia have also been on the rise. Consumer protection issue in the banking sector in the country is mainly governed by RBI regulations, guidelines and directives. The internal mechanism to redress the consumer issues and complaints are in place with all banks. A consumer, dissatisfied and aggrieved with the internal mechanism, finally approaches

the Banking Ombudsman. The major complaints redressed by Ombudsmen are related to credit/debit/ATM cards and failure to meet other commitments and promises. However, the very high rate of grievance disposal within three months suggests that the system appears to be working well. RBI, the regulator, also reviews the issues and brings timely guidelines and directives. Besides the internal mechanism within the banking, a customer can redress his grievance on account of deficiency in service in consumer courts under the relevant provisions of the Consumer Protection Act 1986.

Branchless banking through ATMs, internet banking and mobile banking, all electronic delivery channels has penetrated its roots in India. Banking correspondent which is the agent based physical delivery channel in branchless banking introduced in 2006 is yet to take proper shape to deliver the desired result. By being a manned channel using technological devices, the consumer protection issues are observed similar to those seen in branches. As such, there has not been any specific mechanism to address the customer issues in branchless banking; but the existing process in the banking system has taken care of these issues. The guidelines and directives issued by the RBI from time to time have been shaping the mechanism of consumer complaints issues. The recent emphasis on online complaint registration and tracking of the same enables the complainant to know the status of the complaint. Since the government is rigorously pursuing the policy strategy of financial inclusion to reach the unbanked and unreached

areas and provide banking and other financial services to the poor, BC model of branchless banking, if pursued vigorously, will have the potential of being not only be visible but also be effective. This will eventually help in redress of customer problems and efficient management of customer relationship.

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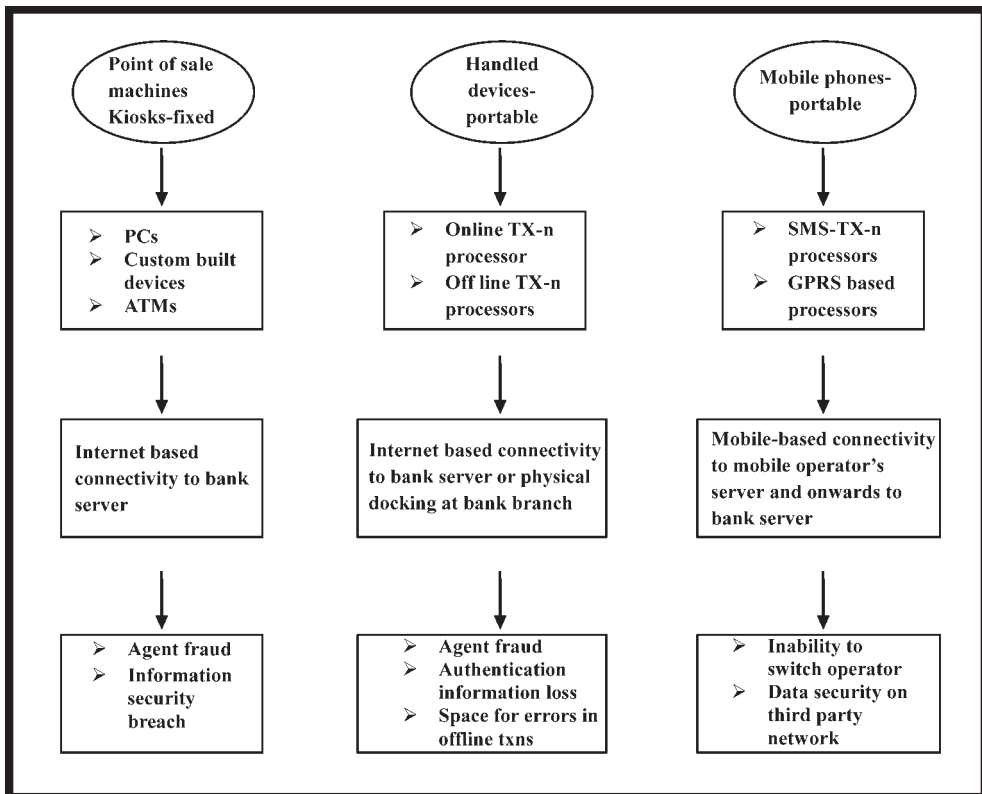
Annexure I: Grounds of Complaint

Any person, whose grievance against a bank is not resolved to his/her satisfaction by that bank within a period of one month after submitting the complaint, can approach the Banking Ombudsman if his complaint pertains to any of the following grounds alleging deficiency in banking including internet banking as specified in Clause 8 of BOS :-

- *Non-payment or inordinate delay in the payment or collection of cheques, drafts, bills etc.*
 - *Non-acceptance, without sufficient cause, of small denomination notes tendered for any purpose, and for charging of commission in respect thereof;*
 - *Non-acceptance, without sufficient cause, of coins tendered and for charging of commission in respect thereof;*
 - *Non-payment or delay in payment of inward remittances ;*
 - *Failure to issue or delay in issue of drafts, pay orders or banks' cheques; Ø Non-adherence to prescribed working hours;*
 - *Failure to provide or delay in providing a banking facility (other than loans and advances) promised in writing by a bank or its direct selling agents;*
 - *Delays, non-credit of proceeds to parties' accounts, non-payment of deposit or non-observance of the RBI directives, if any, applicable to rate of interest on deposits in any savings, current or other account maintained with a bank ;*
 - *Complaints from Non-Resident Indians having accounts in India in relation to their remittances from abroad, deposits and other bank-related matters;*
 - *Refusal to open deposit accounts without any valid reason for refusal; Ø Levying of charges without adequate prior notice to the customer;*
 - *Non-adherence by the bank or its subsidiaries to the instructions of RBI on ATM/Debit card operations or credit card operations;*
 - *Non-disbursement or delay in disbursement of pension*
 - *Refusal to accept or delay in accepting payment towards taxes, as required by RBI/Government;*
 - *Refusal to issue or delay in issuing, or failure to service or delay in servicing or redemption of Government securities;*
 - *Forced closure of deposit accounts without due notice or without sufficient reason;*
 - *Refusal to close or delay in closing the accounts;*
 - *Non-adherence to the fair practices code as adopted by the bank and*
 - *Non-adherence to the provisions of the Code of Bank's Commitment to Customers issued by BCSBI and as adopted by the bank*
 - *Non-observance of RBI guidelines on engagement of recovery agents by banks; and*
 - *Any other matter relating to the violation of the directives issued by the RBI in relation to banking or other services.*
 - *The BO may also deal with any complaint on any one of the following grounds alleging deficiency in banking service in respect of loans and advances:*
1. *Non- observance of RBI Directives on interest rates;*

2. *Delays in sanction, disbursement or non-observance of prescribed time schedule for disposal of loan applications;*
 3. *Non- acceptance of application for loans without furnishing valid reasons to the applicant; and*
 4. *Non- observance of any other direction or instruction of the RBI, as may be specified by the RBI for this purpose, from time to time.*
- [Source: Annual Report 2010, The Banking Ombudsman Scheme 2006, RBI, Mumbai]

Annexure 2: Branchless banking technologies (Options)



Some of the hardware devices used in IT enabled technology for branchless banking across the country:

- Handheld devices with transaction processing capabilities and internal memory; either with single or multiple card reading capabilities and internal memory-based transaction processing ability;
- Mobile phones with fingerprint identification capability, attached printers and SMS-based transaction processing capabilities. It can work both offline and online; and
- POS machines with attachments like card readers, biometric information readers and printers; POS machines are either desktop computing devices stationed in kiosks or portable devices carried by BCs

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