

**A Report**

**Right to Choice of Consumers of Financial Services**

**Consultation on RBI's Draft  
Charter of Customers Rights**

**September 18, 2014, Jaipur**



## Background

The Charter of customer rights framed by Reserve Bank of India (RBI) is based on global best practices and has been prepared in discussion and interaction with various stakeholders. The Charter spells out the rights of the customer and also the responsibilities of the financial service provider (FSP). The following are the customer rights as per the draft code:

- **Right to Fair Treatment:** No discrimination on the basis of gender, age, religion, caste and physical ability.
- **Right to Transparency, Fair and Honest Dealing:** Contracts or agreements between financial service provider and customer should be transparent and easy to understand.
- **Right to Suitability:** Products offered should be appropriate to the needs of the customer.
- **Right to Privacy:** Customers' personal information to be kept confidential. No unwarranted communication, electronic or otherwise, to be sent.
- **Right to Grievance Redress and Compensation:** Financial services provider accountable for products offered (including third party products). Provider to facilitate easy grievance redressal.

Besides, mis-selling of financial products by banks has been a serious issue in Indian financial system and that has led to fundamental flaws in the customer protection architecture and has created large welfare losses for the customers. As per RBI, the Charter is mainly to discourage lenders from mis-selling of products.

## The Issue

Providers of the financial services have a bouquet of offerings, which suits the company, the distributor or the customer. Little is known about the actual mechanisms and the extent of mis-selling. Competition in financial markets can rapidly drive up the complexity of financial products and services and consumers have limited capability and incentive to gather information and process it. The knowledge of consumers in emerging banking is inferior. Hence, the issues of consumer protection in finance in India are more important when compared with advanced economies.

Who is to blame if a financial product does not work because of certain features in its design? Is it the fault of the bank staff for selling something that did not suits the need of the consumer? Or should the consumer share the blame for buying a product without understanding it or reading the fine print of the same. Given the complexity of financial products and the vast choice before the costumer, it is not easy for a customer to know which product best suits his needs. What the bank representative feeds also has to be decoded?

Though there are some efforts to curb mis-selling in financial sector, mainly Banking and Insurance but the practice of selling financial products to consumers having higher sales incentives is prevalent at large scale in India. Mis-selling broadly means unfair or fraudulent practices in soliciting or selling policies not sought by a customer. Or, where

customers feel the policy sold is different from what they actually wanted or were promised.

For attaining high profitability, the banks encourage employees to aggressively sell financial products, particularly to novice the customers, irrespective of their requirements. Several floor of mechanism are adopted by the financial institutions to force increase in sales of financial products, among them are the target oriented sales incentives/commission and outsourced sales team. In last few years, banks have been very aggressive and there has been massive mis-selling of insurance, mutual fund, loans, debit/credit cards and many other products.

### **Overall Banking Scenario in Rajasthan**

Thrust on financial inclusion and increased awareness of individual rights have resulted in more and more rural customers of banks reporting complaints against banks.

A report for 2013-14 released by banking Ombudsman for Rajasthan revealed that the complaints from rural customers have shot up by 27 percent compared to the previous year whereas complaints in urban areas declined by 8 percent. Out of the total 4,101 complaints, 603 cases were reported in 2013-14 from rural regions against 475 in 2012-13 whereas the complaints reported in 2013-14 in urban areas stood at 1,534 against 1,682 in the previous year, registering a dip in the customer complaints. As many as 66 cases were disposed of by way of awards meaning that the customers were paid by the banks for their irregularity in services.

While maximum number of complaints being 809 were registered in Jaipur, whereas 208 in Alwar, Jodhpur with 223, Ajmer with 208 and Bharatpur with 160 follows in line. Sikar registered a minimum with only 92 complaints in the year.

*The year wise complaints received by Ombudsman are as following:*

<b>Year</b>	<b>Complaints</b>
2011-12	4209
2012-13	4099
2013-14	4104

### Complaints against top ten banks

Bank	Branches	Complaints
State Bank of Bikaner and Jaipur	932	1021
State Bank of India	347	795
Punjab National Bank	194	359
Bank of Baroda	514	309
ICICI Bank	374	305
HDFC Bank	115	172
Axis Bank	96	132
UCO Bank	200	121
Central Bank of India	166	78
Oriental Bank of Commerce	173	63

### Nature of complaints

Complaint's Nature	Previous Year	Current Year
Personal	3859	3924
Personal Trade	113	89
Partnership Firm	16	2
Limited Company	10	13
Trust	11	4
Association	9	1
Government Department	20	15
Public Sector Unit	1	4

## Objective of the Consultation

On the occasion of RBI releasing the 'Draft Charter of Customer Rights', CUTS organised a consultation on September 18, 2014 in Jaipur.

The purpose of the consultation was to discuss and to gather the feedback of various stakeholders on the Charter and to consolidate the recommendations for submission to RBI and also to discuss the issue of mis-selling of products, which has been a serious issue in the overall financial system and CUTS has been emphasizing on the same as a part of its project.



## Proceedings

After welcoming all the participants by Deepak Saxena, Sr. Programme Coordinator in CUTS, George Cheriyan, Director, CUTS, in his introductory remarks, spoke about



CUTS and its interventions to protect interests of consumers specifically in the financial sector. He said that the draft Charter issued by RBI on customer rights is a welcome step and there has been a shift in the approach from 'buyers beware' to 'sellers beware'. The Charter is a part of RBI's plans to radically overhaul customer

protection norms aiming at protecting banking consumers and to discourage lenders from mis-selling. However a clear road map for the implementation of the Charter has been missing, leaving it to the interpretation to each bank.

V G Sekar, General Manager, Department of Banking Supervision, RBI, Regional Office, Rajasthan in his key address note said that banking system is nothing but trust and complaints of mis-selling of financial products results in erosion of the trust in banking system. Sekar further said that there is lot of complaints and



concerns coming to RBI, which indicate that mis-selling does exist and RBI will intervene as it also has a regulatory role to protect the interests of consumers.



A B Das, Secretary and DGM, Office of Banking Ombudsman office (Jaipur), RBI in his special address said that his office has received a number of complaints on mis-selling of products and has urged the commercial banks to repose trust in the banks as they survive and thrive only due to the trust of customers.

Project Coordinator CUTS, Amarjeet Singh, made a presentation on the key points of the draft Charter and provided an insight of the Project on 'Right to Choice of Consumers of Financial Services' with special focus on the issue of Mis-selling and Financial Incentives in Indian Banks'. Singh said that the project would be implemented by evidence based advocacy and efforts would be to build a momentum for practice and policy change, so that the consumers can make right choice in their financial planning based on right advice rather than the unfair financial advice based on the commission.



Singh also pointed out that CUTS, under the project, will conduct a survey in five cities of India i.e. Delhi, Kolkata, Mumbai, Chennai and Jaipur to collect 100 experiences of financial consumers from each city. 100 bank officials from said cities will also be included in the survey. The information collected will be documented and shared with wider audience through a dissemination meeting at Delhi.

The overall objective of the project is to promote appropriate eco-system for consumers to make a right choice in their financial planning and to discourage miss selling, which is incentive based by the front desk bank staff/financial agents.

## Suggestions/Recommendations

Overall, the Charter is a welcome step in direction of consumer protection by RBI. The Charter covers most of the issues faced by bank customers but it should not be limited to loud declaration only.



## **Recommendations on the Draft Charter for consideration**

- A clear road map for the implementation of the Charter has been missing, leaving it on to the interpretation of each bank.
- The accountability of the bank Board/officials who are making the decisions other than the the front desk staff should be well defined ,
- RBI should review the policy allowing banks to sell third party financial products.
- Along with the customer's rights, duties/responsibilities of the customers should also be defined.
- There should be a better visibility and clarity in terms and conditions of financial products while selling those products.
- Financial products should be made simpler to understand and may require colour coding as per risk involved on the lines of Securities and Exchange Board of India (SEBI).
- Incentives to bank sale staff should be linked to quality of services and not merely on quantity of sale.
- There should be proper sensitisation and capacity building of banks marketing front line staff on effective customer handling.
- Banks should carry out customer education and awareness programmes as part of their Corporate Social Responsibility (CSR).
- The Charter should have timeframe and process of its periodic updating to address new challenges.
- The Charter talks of customer rights only whereas it should also mention as to how RBI will ensure that the rights are realised by every common customer also.

## **Summing Up and Vote of Thanks**

The consultation was attended by around 35 delegates, including senior officers of banks, organisations working on financial consumer protection issues, consumer activists and media, who gave valuable suggestion on the issue.

George Cheriyan gave vote of thanks to all the participants for their valued cooperation and suggestions worth taking up and also wishes that the discussions requires a feasible agenda along with monitoring its implementation and the disincentives on non-compliance or probably the incentives for its proper implementation.

## Agenda

Timings	Particulars	
02:30–03:00 pm	Registration & Tea/Coffee	
03:00 – 03:02	Welcome Address	Deepak Saxena, Sr. Programme Coordinator, CUTS
03:02 – 03:10	Opening Remarks	George Cheriyan, Director, CUTS
03:15 – 03:30	Presentation : Project Brief	Amarjeet Singh, Project Coordinator, CUTS
03:30 – 03:40	Opening Address	V G Sekar, General Manager, Department of Banking Supervision, RBI
03:40 – 04:00	Address	A B Das, Secretary and DGM, Office of Banking Ombudsman, RBI
04:00 – 05:00	<p style="text-align: center;"><b>Open Discussion on RBI Draft Charter</b></p> <ul style="list-style-type: none"> <li>• Right to Fair Treatment</li> <li>• Right to Transparency, Fair and Honest Dealing</li> <li>• Right to Suitability</li> <li>• Right to Privacy</li> <li>• Right to Grievance Redress and Compensation</li> </ul>	
05:00 – 05:02	Summing up and Vote of thanks	
5.02-5.30 pm	Tea	



## Participants

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## Press Coverage



**CAPITAL CONCERN** | At a consultation session, bankers tell regulatory body that incentives should be linked to quality of sales & not quantity to discourage mis-selling

### Financial products should be made simpler: Bankers to RBI

**dna correspondent** @jaipur

There should be better visibility and clarity in terms and conditions of financial products so as to prevent mis-selling, said bankers of Jaipur, giving suggestions to the RBI on recently released draft of Chapter of Customer Rights.

The senior officers of banks gave their suggestions during a consultation session organised by CUTS held in the city recently. The bankers were of the view that the financial products should be made simpler

enabling people to access and understand them.

They were of the view that when incentives were linked to the quantity of sales made by the front office staff, chances of mis-selling are high. This can be prevented by linking incentives with the quality of sales, they said.

The bankers felt that along with customers' rights, duties/responsibilities of customers should also be defined. The RBI's charter contains five rights - Right to Fair Treatment; Right to Transpar-

#### Promote quality

Bankers said that when incentives were linked to the quantity of sales made by the front office staff, chances of mis-selling are high. This can be prevented by linking incentives with the quality of sales

ency, Fair and Honest Dealing; Right to Suitability; Right to Privacy and Right to Grievance Redress and Compensation. The regulatory body will receive comments and suggestions from the public till Sep-

tember 22. Addressing the gathering, VG Sekar, general manager, department of banking supervision, RBI, said that banking is nothing but trust. Complaints of mis-selling of financial products are resulting in erosion of trust in the banking system.

There are many complaints and concerns coming to RBI which indicate that mis-selling exists and RBI would intervene as it has the regulatory role of protecting the interests of the consumer, he said. AB Das, secretary and DGM, office

of banking ombudsman (Jaipur), RBI, said they received a number of complaints of mis-selling of products and asked banks to rebuild trust as they survive and thrive only due to the trust of customers. CUTS director George Cheriyan said the charter is a part of RBI's plans to radically overhaul customer protection norms aimed at protecting banking consumers and discouraging lenders from mis-selling. But, a roadmap for implementation of the charter is missing.



Representatives of banks and financial experts at the session. —dna