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Financial Inclusion

Introduction

The Banking Regulation Act, 1949, or the BR Act, vested sweeping powers with the Reserve Bank to regulate banking companies, essentially to protect the 'interests of depositors'. Customer service, however, was a neglected field in banking, especially after the nationalisation of banks, as the number of bank branches and clients increased manifold.

The Reserve Bank recognised the problem early, but service quality continued to be a matter of concern.[1] It was common in the 1970s for a customer to wait for twenty to thirty minutes to withdraw cash from the account or to make repeated visits to the branch to have the passbook updated. It took two days to get a cheque book, six hours to get a demand draft and at least one week to get a local cheque and four to six weeks to get an outstation cheque cleared. The Bank constituted a committee in 1990 to look into the causes of the persistence of poor customer service in banks.[2] The recommendations of the committee included an extension of business hours for non-cash transactions, uninterrupted service at the counters, introduction of 'may I help you' desks, and a customer complaint book, among other measures.

The onset of the financial sector reforms in the 1990s gave greater operational freedom to banks. This, together with the introduction of technology, led to general improvement in services. New channels of delivery of service meant that the time taken for delivery of service was reduced. Increased competition, with the entry of new private banks in 1994–95, reinforced the tendency. But the entry of new players did not serve consumer interest significantly better than before. In the rural areas, often a single bank served a large number of people so that the benefits of competition remained limited. Further, the legal processes for establishing customer rights and entitlements were unaffordable in time and money.

As competition depressed interest income, there was pressure on banks to increase their non-interest income, and new charges were levied on the customer, such as the penalty for not maintaining a minimum balance in deposit accounts, using the service at a non-home branch, and premature loan repayment. The entry of 'new generation' banks (fully computerised from the start) and the adoption of new technology by all banks led to new problems. The non-human interface, unsolicited marketing of products, including mis-selling and cross-selling, and ever-increasing length of fine prints created some problems.

The Reserve Bank had thus far issued only circulars, essentially on an ad hoc basis, to banks on customer service. But in 2004–05, it took comprehensive measures to empower the customers and improve the quality of service rendered by banks, as brought out in this chapter. The Bank also launched a drive to bring about greater financial inclusion and financial literacy, a relatively unchartered territory.

This chapter will discuss the measures taken by the Reserve Bank during the period covered in the book to improve customer service and consumer protection. It will emphasise the efforts to empower the consumer and to extend institutional and basic financial services to the unbanked population, and measures to promote financial education of the common man and schoolchildren. These large themes – consumer protection, financial inclusion and financial literacy – appear in the Reserve Bank history volumes for the first time.

Customer Service and Consumer Protection

The general approach of the Bank earlier had been to sensitise banks on customer service and encourage the involvement of the boards of banks, especially in matters relating to banks' grievance redressal machinery. At the same time, there was more emphasis on transparency, the reasonableness of pricing, adherence to self-imposed codes, and dispute resolution. The intention was to encourage self-regulation as far as possible.

While reducing the scope of direct micro-management of banks' affairs in the 1990s, the Reserve Bank began to pay more attention to customer service. It advised the banks to observe the 15th of every month as 'customer day'. Bank branches were required to conduct a customer survey on a half-yearly basis in a specified format covering twenty-five main subjects. The survey findings were to be put up to the board of directors and a copy of the board note sent to the Reserve Bank.

In early 1999, banks were advised to extend certain relaxations and facilities to the old, the sick and the incapacitated customers in operating their bank accounts. In 2000, and again in 2002, banks were advised to simplify the formalities for payment of balances in the accounts of deceased customers to the survivors and claimants. In 2002, banks had come out with 'zero per cent interest finance scheme' for the purchase of consumer durables by adjusting the discount offered by the manufacturers of such durables. Since such schemes lacked transparency, and the pricing of the loan product got distorted, the Reserve Bank instructed the banks to refrain from offering such products.

In 2002 again, the Reserve Bank advised banks to ensure immediate credit of outstation and local clearing cheques and also introduced ceilings for collection charges levied for such services. When faced with complaints from customers on seemingly arbitrary penal charges levied for not maintaining a minimum balance in savings accounts, the Reserve Bank asked banks in December 2002 that they should inform customers regarding the requirement of minimum balance at the time of opening of an account, and subsequent changes should also be intimated well in advance.

Regarding reversal of erroneous debits on account of fraudulent transactions, the Reserve Bank advised banks that in cases where they were at fault (such as breach of security) they should compensate customers without demur, and even where neither the bank nor the customer was at fault, banks should compensate the customers up to a limit, as part of their customer relations policy.

When entries in computerised bank statements and passbooks were ambiguous, and transaction details were inadequate, banks were advised, in April 2004, and again in December 2006, to provide full information by remodelling their software to include details of each transaction. The Reserve Bank advised banks in September 2006 to write the address and telephone number of the branch in passbooks and statement of accounts issued to account holders for ready reference. In April 2007, it asked banks to streamline the safe deposit locker facility and not insist on the placement of fixed deposits with them as a condition for extending the locker facility.

Voluntary Codes

In March 2002, a voluntary Best Practices Code (BPC) was introduced for adoption by commercial banks. Later, on a scrutiny of the BPC documents of certain banks, the Reserve Bank noted that there was no uniformity in their content and coverage. In March 2004, therefore, further guidelines were issued.

In 2002, the government constituted a working group to study Lenders' Liability Laws of the United States and to recommend similar legislative proposals in India. An interdepartmental group examined the recommendations for preparing draft guidelines for framing a code meant for lending institutions. The draft guidelines were placed on the Bank's website in December 2002 for feedback from the public. After a meeting with banks and financial institutions (FIs) in January 2003, the guidelines on Fair Practices Code (FPC) for lenders were issued in May 2003 for banks and FIs. They were given freedom to enhance the scope of the FPC without sacrificing the spirit underlying the guidelines.

Committee on Procedures and Performance Audit on Public Services

The setting up of the Committee on Procedures and Performance Audit on Public Services (CPPAPS), under the chairmanship of former Reserve Bank Deputy Governor S. S. Tarapore, was a major step towards customer protection and service. The Governor in the Mid-Term Review of Monetary and Credit Policy for 2003–04 announced the formation of the committee. The committee submitted four reports relating to individuals covering foreign exchange transactions, government transactions, banking operations relating to deposit accounts and other facilities, and currency management. The CPPAPS in its reports brought out the inadequacies in service persisting in the areas examined by the Goiporia Committee.[3]

Based on the recommendations of the committee on banking operations, the Reserve Bank implemented five measures. These were: introduction of the facility for acknowledgment of cheques at branch counters, in addition to cheque drop box option; cheque books to be delivered over the counters on request; a statement of account to be issued at monthly intervals; existing account holders to be informed at least one month in advance of any change in the minimum balance to be maintained in savings accounts, and charges for non-maintenance thereof; and non-resident Indians being allowed to open non-resident ordinary (NRO) accounts in banks, jointly with residents.

The commercial banks were asked (December 2003) to form ad hoc committees to undertake procedures and performance audit on public services rendered by them. The committees, to be chaired by the chief executive officer (CEO) or executive director of the bank, would look into simplification of procedures and practices with a view to safeguarding the interests of clients from unfair practices.

The various instructions issued to banks on the subject of customer service were codified and put in one place in the form of a master circular in 2003 and was reissued by the Reserve Bank every year subsequently. These appeared on the Reserve Bank's website so that the customers could easily find out their rights and entitlements.

In August 2004, the banks were asked to constitute a customer service committee of the board to oversee all aspects of customer service. In August 2005, banks were further advised to convert the existing ad-hoc committees into standing committees on customer service and, as a result, banks were required to have both the board committee and the standing committee addressing customer service issues in a complementary manner.

Several banks approached the Bank since 2002 to permit them to extend the facility of 'doorstep banking' by undertaking delivery and receipt of cash to their customers at their doorstep. The Reserve Bank, adopting a technical interpretation of Section 23 of the BR Act, which stipulated that no bank might open a place of business without prior permission from the Reserve Bank, took a stand that doorstep banking could not be allowed without a licence. Therefore, the Reserve Bank did not consider requests to commence doorstep banking. A working group studied the issue among others and recommended a more liberal stance in April 2003.[4] The group felt that the spirit of the legal provision was permissive rather than restrictive. The Reserve Bank, therefore, advised banks (April 2005) to formulate a scheme for providing services at the premises of a customer and submit it to the Reserve Bank for approval. The applications received from banks were kept pending as there were no stipulated criteria to assess the different schemes proposed by banks. After many rounds of deliberations, a circular was finally issued with general guidelines in February 2007 for banks to undertake doorstep banking without prior approval from the Reserve Bank.

Complaints Redressal Mechanism

In the 1990s, at the instance of the Reserve Bank, the Indian Banks' Association (IBA) arranged to publish the list of officers of public sector banks responsible for dealing with public grievances in leading newspapers and display it on the notice boards of every branch.

On 13 June 2000, the Finance Minister in his meeting with the chief executives of public sector banks said that the Reserve Bank should, in consultation with the IBA, set up 'local advisory panels' to examine customer's complaints. However, the Reserve Bank and the IBA, after examining the matter, advised the government that setting up of such panels might be kept in abeyance. When the matter was placed before the Minister of State, he considered it 'a pity that both RBI and IBA do not find any necessity to change the existing method of customer grievance redress'. No further steps seem to have been taken until early 2005 when the Reserve Bank asked the IBA to suggest to member banks that a suitable system of grievance record and redress needed to be put in place. This was done in April 2005. Two years later, in February 2007, banks were asked to improve the effectiveness of the grievance redressal mechanism by placing a statement of complaints before their boards and customer service committees along with an analysis of the complaints. Banks were expected to involve customers, including senior citizens, in the committees. On 28 April 2007, the Standing Committee of Parliament on Finance noted that between July 2005 and June 2006, the Reserve Bank received 5,772 complaints against public sector banks, 1,492 against private banks and 879 against foreign banks. The complaints mostly related to credit cards and charges levied by banks. The committee urged the Reserve Bank to play a more effective role in dealing with complaints.

The Reserve Bank had actually issued detailed guidelines to banks on credit card operations in November 2005 and did not initiate any specific action in response to the standing committee's observations. Unlike other regulatory authorities, such as the Financial Services Authority of the United Kingdom (UK), the Reserve Bank did not impose penalties on banks for misleading promotion of products and for customer grievances. To further strengthen the complaint redressal machinery in the sector, the Banking Ombudsman Scheme introduced in 1995 was further fine-tuned, which is discussed at length later in this chapter.

Pricing of Products and Services

In June 1999, banks were given freedom to fix service charges for various types of services to customers. (The IBA had set benchmark service charges on behalf of member banks from 1994 to 1999.) Banks were also asked to ensure that the charges were in line with the average cost of providing these services. The rationale was that the competition would force them to price their services competitively. In November 2004, citing the same rationale, the Reserve Bank withdrew three of its previous instructions to banks relating to (*a*) immediate credit of local and outstation cheques, (*b*) time frame for collection of local and outstation cheques and (*c*) interest payment for delayed collection, 'leaving it to the individual banks to formulate policies and ensure that the interest of the small depositors are fully protected'. How the depositors would be protected was left to the banks' discretion.

These expectations were belied. Several representations and complaints were received over unfair practices and unreasonable charges. The Reserve Bank, in response, appointed a working group in 2006 to formulate a 'scheme for ensuring reasonableness of bank charges'.[5] The group identified and listed twenty-seven services related to deposit accounts, loan products, remittance facilities and cheque collection as 'basic banking services'. The group recommended lower rates for individuals compared to non-individuals and, among individuals, larger concessions for senior citizens, rural customers and pensioners. The Reserve Bank communicated several action points to the banks based on the recommendations of the group.[6]

In the Annual Policy Statement for 2006–07, the Governor announced that 'it has been made obligatory for banks to display and update in their branches as also on their websites, the details of various service charges. RBI would also place such details on its website'. However, an internal working group was not in favour of the move because 'display of stale/wrong information resulting from non-receipt of updated information from banks would lead to reputational risk for RBI'. It was, therefore, decided to provide only a web link to banks' sites.

In November 2006, the Principal Secretary to the Government of Gujarat brought to the notice of the Reserve Bank that for a loan of ₹100, a credit card holder paid ₹44.40 as interest and other charges. The issuer of the card, a private sector bank, explained that the high transaction cost, high risk and absence of security justified an interest rate of 48 per cent per annum. Though banks enjoyed immunity from the provisions of the Usurious Loans Act, 1918, Section 21 of the BR Act empowered the Reserve Bank to issue directions to banks on interest rates, and here there was a case for the Bank to use the powers. In May 2007, in response to similar complaints, banks were advised that 'though interest rates have been deregulated, rates of interest beyond a certain level may be seen to be usurious.... An appropriate ceiling may be fixed on the interest including processing and other charges that could be levied on such loans which may be suitably publicised'. The Reserve Bank also issued instructions regarding credit cards.[7]

Monitoring and Enforcement

From March 1996, the inspecting officers of the Reserve Bank conducted customer audit of branches of commercial banks during the annual financial inspection and submitted a special report. The Board for Financial Supervision (BFS) directed in 1999 that the assessment of customer service should be de-linked from the CAMELS (capital adequacy, asset quality, management, earnings, liquidity and systems) system of evaluation and left to be carried out by the IBA at periodic intervals. While customer service was taken out of the purview of on-site prudential supervision, the IBA did not appear to have taken up the evaluation of banks.

According to the recommendations of the CPPAPS, the customer service issue again came under the purview of the Reserve Bank's inspection of banks from August 2004. The inspection teams were to visit a few branches, rate them for the quality of customer service, and submit reports, which would not, however, form part of the main inspection report. These reports were to be put up to the standing committees on customer service of the respective banks for action and follow-up by the regional offices of the Reserve Bank. The rating on customer service for a bank as a whole was to be incorporated in the confidential part of the inspection report and communicated to the bank's top management.

The regional offices of the Reserve Bank were advised in 2004 to depute their officers, including senior officers, to commercial banks incognito, as decoy customers for 'mystery shopping', to make an on-the-spot assessment of the level and quality of customer service provided by branches. The Reserve Bank discussed the findings with the senior officials of the banks in the quarterly supervisory meetings taken by the Regional Directors concerned. In September 2007 a revised checklist to be used during incognito visits was sent to regional offices.

Customer Service Department

In the meeting of the Committee of the Central Board (CCB) on 6 June 2006, Deputy Governor Usha Thorat told the committee that

> on a review, it was found that there were multiple points where customer service issues were being handled in the Bank. In order to bring about better monitoring and also to provide better focus to customer service, the entire range of customer-related activities in the Bank was being brought under a single roof by hiving off these units from different departments.

Accordingly, the Customer Service Department (CSD) came into being on 1 July 2006. Until then, the work relating to customer service was handled in three different departments. The new department was entrusted with the work of (*a*) administration of the Banking Ombudsman Scheme (BOS), (*b*) customer complaints and complaint redress and (*c*) functioning as the nodal department for Banking Codes and Standards Board of India (BCSBI). More on BOS and BCSBI later in the chapter.

The CSD coordinated with the regulatory and supervisory departments and other organisations, such as the IBA and banks, regularly. In 2007, the CSD called for information from all Banking Ombudsmen relating to common types of complaint handled by them, categorised these into 11 groups, listed 150 specific deficiencies, and forwarded those to banks in July 2007 for taking corrective action and 'to circulate among staff to sensitize them'. The CSD further examined certain questionable practices followed by banks and intervened. Two cases will illustrate. One new private bank had an agreement to be signed by customers which stated that 'the bank shall not be liable for any loss or delay arising when communications are sent by courier or messenger or mail. All despatches [by any mode at bank's discretion] will be at my risk and consequences and I shall not hold the bank liable'. In another case, the terms and conditions for the provision of net banking facility were loaded in favour of the bank.

In April 2007, the Reserve Bank's Kolkata office suggested opening separate Customer Services Cell in the regional offices, which could 'function as a nodal agency, corresponding to CSD in Central Office'. When the Shimla sub-office opened in July 2007, the Department of Administration had decided to set up the CSD in the proposed sub-office 'to leverage technology for improving banking services and facilities to customers of Himachal Pradesh'.

However, the top management of the Bank did not favour opening CSDs in regional offices.

Instructions were given to banks to display information in their branch offices, such as service charges, interest rates, services offered, product information, time norms for various banking transactions and grievance redressal mechanism. However, many banks did not adhere fully to the instructions, nor was the information displayed in a standard format. Keeping in view the need to ensure transparency and yet avoid overload of the display, an internal working group was constituted by the Reserve Bank to optimise the display. Based on their recommendations, the Reserve Bank issued instructions to banks in August 2008.

Complaints Resolution: Banking Ombudsman Scheme (BOS)

The word 'ombudsman' is of Swedish origin and translates to 'representative'. The role of an ombudsman is to protect people against violation of rights, abuse of powers, error, negligence, unfair decisions, and to make the government and its servants more accountable to members of the public. In 2004, the Ombudsman's office was in existence in more than 120 countries.

The BOS was notified by the Reserve Bank on 14 June 1995 to provide a similar system of redressal of grievances against banks. All scheduled commercial banks (except regional rural banks, or RRBs) and scheduled primary cooperative banks (commonly known as urban cooperative banks, or UCBs) were covered under the scheme. It started with the appointment of three Banking Ombudsmen (BO) in June 1995, and by September 1997, fifteen BO offices were in place in the major state capitals.

The BO was expected to be 'a person of high standing in the legal, banking, financial services, and public administration or management sectors'. The BOs were required to submit an annual report to the Governor. The BO mainly relied on settling complaints through reconciliation. An award was issued only as a last resort. The BO had complete functional autonomy, and there were no provisions for interference by the Reserve Bank in the adjudicatory process. The secretariat of the BO's office was, in addition to the Reserve Bank staff, manned by convener banks of the State Level Bankers' Committee concerned. The cost of running the BO's office, including the secretarial staff, was recovered from banks in such proportion as determined by the Reserve Bank.

How well did the scheme function? A few BOs said that the level of efficiency of the deputed staff was found to be low, with some of them facing disciplinary action or suffering from serious health problems. Limited publicity was another issue. In the third annual conference of BOs in August 1997, the Governor said that the number of complaints received was low and that the scheme should be strengthened.

The Reserve Bank repeatedly requested the IBA to give publicity to the BOS. The IBA feared that the content of the advertisement would give 'negative publicity' to the banks. In subsequent exchanges between them, there was similar reluctance. But the government desired that the BOS should get wide publicity. Accordingly, from 2002, banks were required to display salient features of the scheme with names and addresses of the BO at all branches.

In the early years, banks often challenged the decision of the BOs in law courts. The Executive Director had to advise the chief executives of banks in February 1998 that

> it is expected that the award of BO is accepted and implemented by banks. In very exceptional cases where the implementation of the award is likely to create bad precedents for the bank and the banking system, banks should refer the matter to RBI before contesting in any manner the award given by BOs.

In March 1999, of the 266 awards issued until then, only 180 had been implemented by banks. A private company from Kochi wrote to Governor Jalan in December 1999, 'Unfortunately Lokpal [ombudsman in Hindi] hardly gets an opportunity to study or take any remedial measures for any deficiency of service in banking. Ultimately the matter is pushed to the courts and ombudsman can wash his hands saying that the matter is subjudice. Thus ombudsman becomes a helpless figurehead....'

The Governor, in his address at the 4th conference of the BOs on 11 November 1999, said that 'the expenditure incurred in administering the Scheme was on the high side' and, moreover, that the scheme had not met the objectives for which it was instituted. The customers either did not know of it or were not happy. 'There was a general impression among the bankers that some of the awards given by BOs were not based on sound principles and practices of banking.' One of the reasons for this was the appointment of individuals who had retired from civil service without any background in banking. The financial daily *Business Line* reported in a story on 2 January 2002, 'BO Role under Review', that

> in the north-east, the position is held by one employed in the private sector while in Bihar it is a university professor. In some States, retired officers are playing the role of BO while in others, retired income tax officials. In the majority of States, the post was held by retired IAS officers.

Furthermore, the job was not necessarily a full-time one. On March 2003, the Reserve Bank informed all BOs that they could continue to take up part-time honorary work, subject to certain conditions.

Disagreement with the Government

An internal group was set up in 1999 to review the BOS and make it more effective.[8] In June 1999, the government wanted a copy of the recommendations of the group along with the status of the action taken. The Reserve Bank did not send a copy but stated that the decisions would be conveyed 'in due course'. In July 1999, the Minister of State for Finance wanted to know the output of the BOs and the expenditure incurred, which was duly furnished.

Based on the recommendations of the internal group, amendments to the scheme were approved by the Governor in April 2000. The group had considered bringing all cooperative banks under the BOs' ambit but did not favour it because of the prospect of 'political interference in the affairs of cooperative banks'. The group suggested that BOs would have arbitration powers in disputes among banks up to ₹1 million. The government added that 'it would be necessary for RBI to ensure that persons with the right background are appointed as BOs'.

While the amendments were pending, in September 2000, the government wanted the Bank to examine 'whether there was a need and necessity for statutory ombudsman'. The Bank took the view that though the BOS might lack statutory powers, it had not hampered the functioning of BOs and the government was advised that the scheme was under review. The government in two letters addressed to the Deputy Governor in February and March 2001 advised the Reserve Bank that the government should be consulted before finalising the revision of the BOS. In April 2001, the Minister of State for Finance again wanted the Bank to supply data on performance and expenditure related to the offices of the BOs. The Bank forwarded the relevant data without any comments.

The government's position was becoming clearer. On receipt of the amendment proposals from the Bank, Deputy Governor Vepa Kamesam was called to New Delhi for a meeting with the Minister of State for Finance on 21 August 2001. During the meeting, the minister remarked that 'reportedly it is a costly scheme with little work for disposal and enquired as to why only retired officials are being appointed'. Based on the suggestions of government officials during the presentation, the modified draft scheme was again submitted to the government for clearance. On 11 September 2001, the Ministry of Finance informed the Bank that, pending a revised scheme, 'RBI may be directed to refrain from effecting any more fresh appointments'. Governor Jalan was unhappy and noted in a letter on 14 September that 'if Government wants to have a say in running/administering the scheme, it may be best for them to take full responsibility for running it. We should not accept a situation where the government interferes and issues directions, but the responsibility is that of RBI'. The Deputy Governor advised the Additional Secretary (Financial Sector) on 11 September 2001,

> I am somewhat surprised at the contents of your letter.... The power to appoint ombudsmen vests with RBI and it follows well established due procedures for such appointments. I would request you to let me know whether the government wishes to take over the appointments and administration of the Scheme. If so, we shall not proceed in the matter of filling the upcoming vacancies and initiate steps to fully transfer the administration of the Scheme to Government.

There followed another letter from the Deputy Governor in a similar vein on 1 October 2001.

In October 2001, there were more letters on the subject, and both the Reserve Bank and the government reiterated their position. The *Economic Times* on 5 November 2001 published a piece that called the situation a 'Government RBI standoff'. The Deputy Governor again wrote to the government in January 2002 stating that 'we ... propose to terminate the Scheme in the exercise of the powers vested in the Bank under the Act. Alternatively, Government may like to take over the entire scheme as suggested earlier'. The Ministry replied that a decision would follow, but despite reminders from the Deputy Governor in February and March 2002, there was no lifting of the embargo on new appointments. By then, six posts of BOs were vacant, and New Delhi was without a BO for over seven months. The Bank pointed out to the government in April 2002 that the operation of the scheme was severely affected and suggested discontinuation to avoid public criticism.

The government finally gave its consent in May 2002 with a few recommendations, which could be implemented by way of administrative instructions without amendment to the scheme. The revised BOS came into effect on 14 June 2002. The important changes included the provision of a 'review authority' to review the awards issued by BOs. It allowed a bank to file an appeal to the Deputy Governor and seek a review of a BO's award. The BO was also authorised to function as an arbitrator on disputes between banks and their customers, and between banks. The RRBs also came under the BOs' purview.

Regarding arbitration between banks, the government wrote to all banks in July 2002 to approach BOs for disputes among banks. Later Deputy Governor Kamesam issued a letter to bank chiefs advising them to use the arbitration process more fully. Only a few cases until then had been referred for arbitration, presumably because both the disputing parties (banks) would rarely agree on the same arbitrator.

Review of Scope of the Scheme

The Reserve Bank examined the issue of extending the scope of the BOS to the sixteen scheduled state cooperative banks in April 2003. But the fear of political interference was present. Deputy Governor Kamesam remarked that 'we may end up trying to chew more than what we can digest'. The conference of BOs discussed the issue in November 2004 (there was no conference of BOs between 1999 and 2004), but the consensus was not to extend the scope of the BOS to cooperatives.

The Deputy Governors' committee reviewed the matter in October 2006 and had accorded 'in-principle' approval for bringing in non-scheduled UCBs under the BOS. But given the threefold increase in the number of complaints received in 2006, shortage of staff because of the exodus of lead bank staff, and the staggering number of urban banks (over 1,800), their inclusion under the BOS was deferred.

The Reserve Bank was aware of the resentment of the participating banks for the recovery of the cost of administering the BOS from them. Deputy Governor Kamesam had justified the recovery of cost from banks as it 'should be seen as a penal fee for the banks for their lack in customer service'. In January 2004, the Committee of the Central Board observed that the average cost per complaint was high and, therefore, the Governor suggested a review of the working costs and benefits of the scheme with a view to exploring the possibility of each bank having its ombudsman. Deputy Governor K. J. Udeshi, however, commented that

> left to banks, I am not sure how each bank's ombudsman is going to decide against the bank's customer. The man who pays the piper calls the tune. Banks would most certainly agree to have their own ombudsmen for their own reasons and not for the customer. We may instead review the scheme in order to make it more cost efficient.

The scheme was reviewed in 2004–05. Certain proposals were first discussed in the Committee of Executive Directors in September 2004 and then deliberated in the BOs' conference in November. On 30 June 2005, the Reserve Bank placed the draft of the revised scheme on its website for comments and suggestions. The feedback received was carefully examined. The proposals were discussed in the Committee of Deputy Governors in August 2005, and sent to the government in September 2005. The scheme was implemented in 2006.[9]

The operation of the scheme vindicated the credibility of the Reserve Bank and its track record in protecting customers' interest after the revision. The decision to post their own serving Chief General Managers and General Managers as BOs turned out to be a prudent one, as the number of complaints increased sharply in the following years. The average cost of disposal per complaint also declined (Table 13.1). However, in smaller centres, the cost was relatively higher.

Some notable omissions in the operation of the scheme in 2006 were the exclusion of complaints related to internet banking, which was expanding, violation of Reserve Bank guidelines on the engagement of recovery agents, and powers to BOs for awarding compensation for mental anguish and harassment because of deficiencies in service in cases other than credit card complaints.

In April 2005, the BO, Ahmedabad, wrote to the Reserve Bank seeking legal protection and immunity as the Fast Track Criminal Court in Jamnagar, Gujarat, issued a summons. The criminal case arose out of a petition filed by an auto-rickshaw driver who belonged to a scheduled caste and whose loan was denied by a public sector bank as his earlier loan was not paid. The BO had rejected his complaint as non-maintainable, and the complainant filed a case in the criminal court for discrimination against his caste and implicated the BO for rejecting his complaints. The Reserve Bank's Legal Department held that the BO could be construed as an 'officer' of the bank, and therefore, covered by Section 54 of the BR Act. The provision said that 'no suit or other legal proceeding shall lie against the Central Government, the Reserve Bank or any officer for anything which is in good faith done or intended to be done

Table 13.1 Number of Complaints Handled by Banking Ombudsmen and the Expenditure Incurred

Year	*Total Number of Complaints Dealt With*	*Total Cost (₹ million)*	*Average Cost Incurred per Complaint (₹)*	*Awards Issued*
1995–96	1,904	20.4	10,714	7
1996–97	3,358	32.3	9,619	51
1997–98	7,268	49.3	6,783	116
1998–99	7,464	53.1	7,114	92
1999–2000	6,800	61.5	9,050	74
2000–01	6,978	69.9	10,020	52
2001–02	7,022	59.1	8,425	44
2002–03	6,506	63.6	9,776	47
2003–04	9,483	70.3	7,413	121
2004–05	12,034	76.0	6,315	165
2005–06	33,363	101.6	3,045	146
2006–07	44,766	98.1	2,191	84
2007–08	54,992	125.0	2,273	70

Source: Compiled from various annual reports of the Banking Ombudsman Scheme, Reserve Bank of India.

in pursuance of this Act'. The move to have only the Reserve Bank officers appointed as BOs was clearly in the right direction.

After 2005, creating awareness about the BO had become a regular exercise for the BO offices. Advertisements and briefings were issued through local newspapers, television and radio. They also convened seminars, held meetings with 'nodal officers' of banks and delivered lectures to bank officials. The BO at Hyderabad ran a weekly feature in a vernacular newspaper to answer questions from the readers relating to deficiencies in banking service. The Governor remarked favourably on the practice and wanted other BOs to emulate it.

A system of quarterly letters from BOs addressed to the Deputy Governor was introduced from March 2006. The letter contained information on the nature of complaints dealt with, systemic issues observed and awareness campaigns. It served as an important tool at the central office for obtaining feedback from BOs, which was forwarded to regulatory departments for action. Banks were advised in February 2007 to disclose the details of customer complaints and awards passed by the BOs in the annual reports and their websites.

The Rural Planning and Credit Department (RPCD) in the Reserve Bank had the responsibility of administering the BOS from 1995 to 2006. The CSD administered it thereafter. The Department of Banking Supervision (DBS), which was inspecting branches, was sending a report to the RPCD and later to the CSD containing a list of branches that had not displayed the notice about the BO in their premises. The CSD, being a non-regulatory department, was unable to take stringent action against the defaulting banks.

In January 2008, the Governor said that assessment of the performance of the BOs by an external rating agency would be a good idea, but this was not taken up during the period covered in this volume.

Analysis of Complaints

The customers from big cities had generally taken advantage of the scheme. In 2007–08, 68 per cent of the complaints originated in metropolitan and urban areas. Apparently, knowledge about the scheme was limited outside the cities. Individual complainants constituted 88 per cent in 2007–08, and the remaining complaints were received from firms and organisations. Thirty-one per cent of the total complaints were received online and by e-mail in BO offices in 2007–08. Comparable data are not available for years prior to 2007–08.

The public sector, the private sector and foreign banks accounted for 55 per cent, 29 per cent and 13 per cent, respectively, of the complaints received during 2007–08. In the same year, these banks handled 73 per cent, 12 per cent and 2 per cent, respectively, of the total banking business in the country. In other words, public sector banks caused fewer complaints from their customers compared to the other two. In 2007–08, complaints pertaining to credit cards formed 21.2 per cent of the total number of complaints. 'Failure to meet commitments' (13.3 per cent), loans and advances (12.6 per cent), deposit accounts (11.7 per cent) and remittances (10.9 per cent) were the other major complaint generating segments.

Banking Codes and Standards Board of India

The CPPAPS concluded in 2004 that there was an institutional gap for measuring the performance of banks against a benchmark that would reflect the best practices (code and standards). Therefore, the committee recommended the setting up of the Banking Codes and Standards Board of India (BCSBI).

The BCSBI was set up by the Reserve Bank on the lines of UK's Banking Code Standards Board, in collaboration with banks. It was registered as a society on 18 February 2006 in Mumbai. Later it was also registered as a charitable trust under the Bombay Public Trust Act, 1950. It was an autonomous and independent body, adopting the stance of a self-regulatory organisation. The Reserve Bank wanted it to be an initiative of the banking industry and not as a regulatory initiative. Governor Reddy queried in the CCB in June 2005 whether the Bank could be made a permanent invitee in the governing council. But the CCB was against it as it wanted an arm's length relationship in order to secure the autonomy of BCSBI.

Initially, there were twelve members, comprising six public sector banks, three private sector banks, two foreign banks and the CEO of the BCSBI. Fresh membership was open to all banks who could register themselves as members with the board, under a formal covenant that indicated the mutually agreed benchmarked norms and standards that would be observed by them. The membership fee or annual subscription was fixed in proportion to their gross domestic assets.

The aims of the BCSBI were to prepare and publish voluntary codes and standards for banks for providing fair treatment to customers, function as an independent watchdog to ensure that the codes were followed, undertake research of codes and standards, and enter into covenants with banks on the observance of codes and train their employees.

The Reserve Bank had agreed to finance the entire expenses of the BCSBI for the first five years of functioning. The core staff could initially be deputed from the Bank, including its CEO. The management of the board was entrusted to the Governing Council under the chairpersonship of former Deputy Governor K. J. Udeshi.

BCSBI Gets Going

The BCSBI evolved a comprehensive code of banks' commitment to customers. This was released by the Reserve Bank Governor on 1 July 2006. The code provided protection to individual customers by setting minimum standards of banking practices for banks to follow. In the words of the chairperson, 'the Code is in effect a Charter of Rights' of the individual customer.[10] The full text of the code was published by the Bank in leading newspapers in English, Hindi and thirteen regional languages. All bank branches were required to have a copy of the code and ensure that notices were displayed about its availability. Banks' compliance to the code was monitored by the BCSBI through the Annual Statement of Compliance submitted by member banks. The code was to be reviewed within three years. Banks that were not signatories to the code would run a reputational risk in not submitting to the code. A separate 'Guidance Note to the Code' was finalised in consultation with the Reserve Bank and the IBA. It was approved by the Governing Council in October 2006 and circulated among all member banks and BOs. It was advisory in nature and represented a general interpretation of the provisions of the code. It was illustrative and could be amended or modified by banks. The guidance note was not put in the public domain.

In 2006, the IBA prepared four model policy documents on (*a*) collection of cheques and instruments, (*b*) grievance redress, (*c*) compensation policy and (*d*) collection of dues and repossession of security. These were vetted by the IBA's managing committee. The BCSBI wrote to banks in February 2007 that 'certain provisions in those policy documents were not reflective of your Code of Bank's Commitment to Customers', and that the documents needed to 'truly reflect' the spirit of the code.

The operation of the code faced a challenge in February 2007, when Sucheta Dalal, columnist and consumer activist, pointed out that banks did not make available to borrowers a copy of the loan agreement for their record. According to the code, the document needed to be made available only if requested by the borrower. The Reserve Bank wanted the BCSBI to amend the code so as to make the practice mandatory for banks. However, having taken a decision by consensus not to review the code for three years, the BCSBI did not consider any amendment.

A working group constituted by the Reserve Bank to formulate a 'scheme for ensuring reasonableness of the bank charges' in its report (September 2006) recommended inclusion of basic banking services identified by the group and the principles of reasonableness in fixing service charges in the code. When the Bank forwarded the recommendations to the BCSBI, the CEO replied (17 October 2006) that the recommendations would be considered at the time for review of the code. The Bank insisted (January 2007) that 'the issues are too important'. The Governing Council of the BCSBI, however, was not in favour of amending the code as suggested.

The Governing Council did express concerns over the fact that the code was not internalised even in the Reserve Bank. For example, the master circular on credit card operations of banks issued by the Reserve Bank (in July 2007) had several references to the IBA's FPC issued in March 2005 but not the BCSBI's code, which had replaced the former. The chairperson of the board expressed 'utmost anguish' in a letter to the Reserve Bank pointing out the lapse.

The initial response of commercial banks to the code was not satisfactory. But by September 2006, sixty-eight scheduled banks had registered with the BCSBI, and only three public sector banks had not applied. The matter was followed up with the banks that had not registered with the BCSBI. By November 2006, the BCSBI advised the Reserve Bank that only four private sector banks and eleven foreign banks had not registered with them, and, further, two public sector, two private sector and five foreign banks, though 'registered' with the board, had not applied for 'membership' of the BCSBI.

The IBA wrote on 16 April 2007 to the BCSBI that banks were ready to fund the latter fully. The IBA had also proposed that pending this arrangement, a practising banker nominated by the IBA be inducted to the Governing Council. The Reserve Bank responded that it was too early to consider transferring the responsibility to banks. Inducting a practising banker to the Governing Council was also not acceptable as it was decided to stick to the CPPAPS' recommendation that a review needed to be undertaken only after five years. In 2007, the BCSBI surveyed banks' branches to ascertain the extent of implementation of the code.[11] The findings of the survey were not very encouraging and revealed several deficiencies.

The chairperson suggested to the Bank in August 2007 setting up an informal mechanism for a coordinated approach towards financial inclusion and customer service. The CSD could convene structured meetings quarterly to discuss common issues such as financial inclusion and customer service by banks, she added. The Reserve Bank accepted the suggestion, and the first meeting was convened on 5 November 2007. This forum would serve as 'an institutional arrangement for a coordinated approach to customer service and exchange of views on systemic issues'.

Despite discussions on ratings of banks, the board did not develop a formal rating system for banks. Instead, 'the BCSBI's approach is to adopt a collaborative and consultative approach towards rectification of systems rather than through penal action'.[12]

Financial Inclusion

'Improving access to financial services,' the BCSBI chairperson stressed, 'is [a central bank's] responsibility.'[13] The reports of the 59th Round of the National Sample Survey Organisation showed that in 2005, 51.4 per cent of farmer households had no access to credit from any source, institutional or non-institutional. Besides, the share of institutional credit to total credit in rural areas had declined during the previous decade. The initiatives taken by the Bank to address this issue had two dimensions, fiat and guidelines issued to banks, and to work at the ground level through regional offices and lead banks.

Regulatory Guidelines on Financial Inclusion

While announcing the Annual Policy for 2005–06, Governor Reddy emphasised the need to make financial inclusion a priority.[14] In August 2005, the Bank had decided to simplify the know-your-customer (KYC) procedure for opening accounts by persons of small means who intended to keep balances not exceeding ₹50,000 in all their accounts taken together, and the total credit in all the accounts taken together was not expected to exceed ₹100,000 in a year.

As the first major step to facilitate financial inclusion, banks were advised in November 2005 to offer a 'no frills' account either with 'nil' or very low minimum balances as well as charges. The nature and number of transactions in such accounts could be restricted but made known to the customer in advance. All banks were urged to give wide publicity to the facility of 'no-frills' account. On 27 December 2005, the Bank announced measures to widen the scope of RRBs, which were advised to open 'no frills' accounts without elaborate documentary requirements, permitted to set up automated teller machines (ATMs), issue credit and debit cards, and handle pension and other government businesses. Measures were also announced to strengthen their financial base. The issue of general credit cards (GCCs) by banks to their customers in rural and semi-urban areas was also announced. The GCC would operate like the Kisan Credit Card (referred to in Chapter 12), and there would be no linkage to purpose or end-use of funds or security.

The Reserve Bank came out with a new branch authorisation policy in line with its financial inclusion strategy which encouraged banks to open branches in under-banked areas. It approved opening new branches for any bank only on the condition that at least half of such new branches were opened in under-banked areas as notified by the Reserve Bank.

The Finance Minister stated in the Budget speech for 2005–06 that he was requesting the Reserve Bank to examine the issue of allowing banks to adopt the 'agency model', that is, using the services of civil society organisations, rural kiosks and village knowledge centres to provide credit support to rural and farm sectors. Soon after, the Reserve Bank constituted an internal group to examine issues relating to rural credit and microfinance.[15] It recommended the adoption of the agency model after studying a few pioneering models outside India. In 1997, Brazil created a network of 'correspondentes bancarios' or 'banking correspondents' that offered basic banking services. An additional 4 million Brazilians had begun using banks for the first time through 27,000 banking correspondents. This model used kiosks or ATMs set up by the correspondents to accept payments, open accounts without cheque book facility, take small deposits, provide microcredits, and sell saving bonds and insurance. In South Africa, Teba Bank was granted a licence to operate as a microfinance bank in 2000. The bank engaged agents who were given hand-held mobile point-of-sale devices. This wireless device had a built-in GSM modem, card reader and a micro-printer. The customer could use their debit card at the terminal to deposit and withdraw cash, make a balance enquiry, and transfer funds. Under this arrangement, physical cash could be deposited with or disbursed by agents, and their accounts at the bank were instantaneously debited or credited.

Banking correspondents (BCs) essentially provide services such as disbursal of small value credit, recovery of principal, collection of interest and sale of other financial products. In respect of all such transactions, the correspondents would be authorised to accept or deliver cash either at the doorstep of the customer or at any other convenient location, subject to the cap fixed by the parent bank. A customer wishing to deposit cash might visit the BC and deposit the cash along with a deposit slip. The BC would access an internet-based system through a wireless device to process the deposit transaction. The system would validate the balance in the BC's account and debit the same with an amount equivalent to the transaction amount and credit the customer's account. The system would generate a transaction receipt with details of the transaction, such as the transaction ID, account number debited, account number credited, amount and the date. The BC would give the customer a receipt generated and the counterfoil of the deposit slip after putting his or her stamp and acknowledgment on it. A similar procedure is followed for cash withdrawal, too.

After consulting the government and obtaining feedback from the IBA, guidelines were issued by the Reserve Bank to banks in January 2006 to use the services of non-government organisations (NGOs) and self-help groups (SHGs), microfinance institutions, non-deposit-taking non-banking financial companies (NBFC-NDs) and other civil society organisations such as business facilitators (BFs) and BCs. However, banks were not allowed to engage 'individuals' as agents. Although the Reserve Bank did not ordinarily encourage payment of commission to an intermediary, it made an exception in this case. But neither banks nor the intermediaries were permitted to charge any fee to the customers.

An unexpected reaction to the circular came from banks' trade unions, who condemned it as veiled outsourcing of bank jobs and gave a strike notice for 28 February 2006. The Reserve Bank had to convene a meeting with the union leaders in March 2006, and the Bank's Executive Director clarified to them that the idea was not to substitute what banks were doing at present but to reach out to more people. He also referred to the Budget speech where the Finance Minister had announced the use of agency model by banks. Following the meeting with unions, Deputy Governor V. Leeladhar observed that the resistance seemed to be to the appointment of NBFCs as intermediaries and a circular was issued to banks not to engage NBFCs as BFs or BCs.

Ground-Level Initiatives

Governor Reddy, while visiting the union territory of Puducherry on 21 November 2005, had an informal meeting with K. C. Chakrabarty, Chairman and Managing Director (CMD) of Indian Bank, which was the State-Level Bankers' Committee convener for the union territory. The Governor mooted the idea of undertaking a pilot project on 100 per cent financial inclusion in Puducherry because it had a good network of branches, high level of literacy, good coordination between bankers and government officials, good infrastructural facilities and a compact area (293 square kilometres). Chakrabarty welcomed the proposal, and the two met the Chief Minister and senior government officials. The Chief Minister supported the proposal. The Governor addressed the bank officials of Puducherry later in the day and explained the project, stating that the goal should be to ensure a bank account for every willing household.

The National Pilot Project on Financial Inclusion was launched in a Puducherry village on 30 December 2005. Indian Bank and the Chennai regional office of the Reserve Bank monitored the implementation of the project. The bankers surveyed the area allotted to each branch and collected data on the eligible population. After that, a door-to-door campaign was conducted by bank officials for the opening of savings bank accounts in respect of every household that did not have a bank account. All banks cooperated in the exercise except for certain new private sector banks despite the Reserve Bank instructions. Consequently, major public sector banks had to do more than their allotted share of work with a view to meeting the deadline.

While giving feedback to the central office, the Chennai regional office reported that 'educating the target group or creating awareness in their minds as to the need for a bank account is a critical task'. The central office did not initially respond positively to the proposal as there was no precedent for giving publicity or issuing advertisements for such purposes. But it was an idea whose time had come and the Reserve Bank took several initiatives in that direction, as we will see later in the chapter. As the pilot project was on course in Puducherry, the Reserve Bank advised all State-Level Bankers' Committee convener banks to identify one district in each state to implement 100 per cent financial inclusion on the lines of the initiative taken in Puducherry and also to allocate villages to the banks in the state. On 23 December 2006, the CMD of Indian Bank wrote to the Governor that 'all the banks in Puducherry have accomplished the task' of completing the exercise of financial inclusion.

Meanwhile, in December 2005, the Governor visited Assam, Meghalaya, Nagaland and Tripura. During the visit, the view was expressed that there was a need for 'a separate category of Financial Sector development plans for special category states'. Subsequently, the Bank set up a Committee on Financial Sector Plan for the North-Eastern Region.[16] It urged banks to increase their outreach and to use information technology (IT) for greater financial inclusion. The committee further suggested opening bank branches in under-served areas and conducting awareness campaigns for increased financial inclusion. The committee constituted state-level task forces for each of the seven states in the region and for Sikkim to find out how banking services could expand.

The enthusiasm became infectious as the Bank's regional offices and certain public sector banks pushed for implementation of 100 per cent financial inclusion in the identified districts with missionary zeal. The CMD of one bank wrote to the Governor that his bank was considering 'financial inclusion less as an obligation but more a viable business opportunity'. Later in May 2007, the Reserve Bank advised its regional offices to give attention to districts with concentration of scheduled castes, scheduled tribes and minority populations. In 2007, the Governor visited Lucknow and Patna and held discussions with banks on the expansion of banking facilities and the opening of branches in unbanked areas. Following a meeting with the Government of Uttarakhand, as well as banks and FIs, a working group was formed to draw an action plan for improvement of banking services in the state. Deputy Governor Thorat visited Jaipur in response to the state government's proposal to implement 100 per cent financial inclusion in Rajasthan. In Andhra Pradesh, she reviewed the government's financial inclusion project, as it wanted a banking outpost in every village under the BC model. She also met officials in Odisha to discuss 100 per cent financial inclusion.[17]

The drive towards bringing the unbanked to the banking fold was far from a total success, however.

Assessment

A study conducted by the New Delhi regional office in October 2006 revealed that the scheme of the no-frills account had not fully percolated to the grassroots level. Banks had taken two to four months from the date of the Reserve Bank circular to advise their branches, district-level cooperative banks were disinterested, and the schemes framed by the new private banks had restrictive clauses in their policies. The study also concluded that wide publicity through electronic media to create awareness and financial counselling to people belonging to economically and financially downtrodden was necessary.

NABARD Consultancy Services, a wholly owned subsidiary promoted by the National Bank for Agriculture and Rural Development (NABARD), came to similar conclusions on the implementation of the project in seven districts of Karnataka in January 2008. Most of the no-frills accounts had remained inoperative, few came with GCCs, some pockets of households remained excluded, moneylenders were still doing business and bank officials displayed a lack of involvement and not taking these up as a business opportunity. One of the suggestions was that financial education should be an integral part of financial inclusion.

Evaluation studies by external agencies also revealed that most of the new accounts had remained inoperative.

Committee on Financial Inclusion

In June 2006, the Ministry of Finance announced the setting up of the Committee on Financial Inclusion.[18] The committee defined financial inclusion 'as the process of increasing outreach to vulnerable and excluded groups through timely and adequate delivery of appropriately designed financial products and services at an affordable cost'. The committee suggested that excluded households should be mapped at the district level and aggregated to arrive at state-level exclusion levels. After that, targets would be allocated to all the agencies for credit delivery.[19]

The committee further suggested that banks could appoint individuals as BFs or BCs. Though the Reserve Bank was of the view that the move raised issues of conflict of interest, it was open to reviewing its stance.

Meanwhile, one of the public sector banks went ahead and appointed thirty-one individuals as BCs and informed the Reserve Bank of this on 31 December 2007. Deputy Governor Thorat observed that the bank should be permitted to do this; 'it is a question of risk management and the bank has to manage the risk'. The Finance Minister in his Budget speech on 29 February 2008 accepted the recommendation of the committee.

Banks demanded that they should be allowed to recover a service fee from customers to pass on the additional cost of engaging a BF or BC. The Reserve Bank was reluctant to agree, as the additional cost or burden on the small customer could defeat the very purpose of financial inclusion. But in April 2007, Deputy Governor Thorat noted that 'the BC model is not taking off because of the fact that after paying commission to the agent, the net return does not make it worth the while for the bank'. In due course, the Reserve Bank allowed banks to recover reasonable service charges for providing door-step banking facility from the beneficiaries.

IT Solutions for Financial Inclusion

Various committees constituted by the Reserve Bank noted that in under-banked states, such as Uttarakhand, Bihar, Chhattisgarh and the northeastern region, developments in banking technology and expansion of the telecommunication network provided the possibility to open banking outposts in remote locations without having to open brick and mortar branches. Further, NGOs and microfinance institutions that functioned as BCs were already inclined to use innovative products and processes to reduce the cost of operations. Partnering with such entities provided banks with an opportunity to look at technology-based and low-cost delivery mechanisms.

The North Eastern Financial Sector Plan suggested that the Institute for Development and Research in Banking Technology (IDRBT), established by the Reserve Bank in March 1996 as an autonomous centre at Hyderabad for development and research in banking technology, should draw up a plan for the region. Having received the assignment from the Reserve Bank, the IDRBT convened meetings in August 2006 with bank officials for finalising a possible model. The Reserve Bank also constituted an Advisory Group on IT-Enabled Financial Inclusion in September 2006 with senior officials from different departments of the Reserve Bank, the IDRBT, major commercial banks and experts from the Indian Institute of Technology, Mumbai. The group's mandate was to suggest common and comparable standards for IT-based solutions for financial inclusion. The group favoured the multi-application and interoperable smart card model, with BCs using a mobile authentication device connecting live to the customers' bank accounts through wireless networks and a secure payment gateway. Accordingly, the IDRBT prepared a plan for the pilot project to be implemented in the northeast.

Simultaneously, banks and technology providers began to adopt different strategies to launch IT-enabled financial inclusion in various parts of the country. State Bank of India (SBI) started in Aizawl in Mizoram and then in Medak district in Andhra Pradesh, Union Bank in Pithoragarh district of Uttarakhand, and Indian Bank in Dharavi in Mumbai. ICICI Bank was operating in Odisha and Assam through Kas Foundation, and HDFC Bank was operating its branch 'hub and spoke' model in Gujarat and Maharashtra using cooperative banks as BCs. All these initiatives enabled customers to undertake transactions in their bank accounts, including cash deposits and withdrawals, without having to visit the branch.

The Government of Andhra Pradesh launched a pilot project in April 2007 using the model developed by the IDRBT for social security payments, including pensions to widows, handicapped, old and eligible weavers and wages under the National Rural Employment Guarantee Scheme (NREGS), with SBI and five other banks. Initially, the coverage was limited to certain villages in two districts and later extended to around 9,000 villages in six districts. The transactions were to be done by way of biometric smart cards using biometric identification of customers through handheld point-of-sale device using personal identification numbers (PINs). The state government met the major portion of the cost of the smart cards and other related capital expenditure. The officials of the Andhra Pradesh government favoured an electronic benefit transfer (EBT) framework outside the banking system, but the Reserve Bank indicated its comfort with the banking system for handling the government payment mechanism. The Maharashtra government wanted in May 2007 to replicate the Andhra Pradesh project for distribution of wages to labourers under NREGS through the smart card and mobile technology in any of the *taluk*s of the state and requested the Reserve Bank to make a presentation to its officials (done in June 2007).

The lead banks were advised to take up with the respective state governments routing of small and routine payments through BCs using smart card technology. Deputy Governor Thorat wrote to all state Chief Secretaries in October 2007 requesting them to consider direct credit of all social security payments, including pension and wages under the NREGS, to the bank accounts of the beneficiaries. There followed another letter in January 2008 to all state governments. A few states enthusiastically responded and channelled some of the government payments through banks, after the period covered in this volume.

Technology Funds

Following on the recommendations of the Committee on Financial Inclusion, the Finance Minister announced in his Budget speech in February 2007 the establishment of a Financial Inclusion Fund for meeting the cost of developmental and promotional interventions, and a Financial Inclusion Technology Fund to meet the cost of technology adoption. Both funds were to be constituted with NABARD with an overall corpus of ₹5 billion each, to be shared by the government, the Reserve Bank and NABARD in the ratio of 40:40:20. For 2007–08, there was to be an initial contribution of ₹0.25 billion each to the two funds.

In May 2007, SBI sought allocation of a suitable amount from these funds. Deputy Governor Thorat wrote to the Ministry of Finance in June requesting 'early response' on guidelines for the use of funds. The government did not respond until November 2007. Meanwhile, NABARD had prepared an action plan listing out the activities to be financed out of the two funds, though the government had wanted the Reserve Bank and NABARD together to frame the operational guidelines. Ten days later, the Bank prepared draft operational guidelines and sent it to the Ministry of Finance. The Bank suggested that while the Financial Inclusion Fund could be set up in NABARD, the Financial Inclusion Technology Fund might be set up in the IDRBT. The Ministry of Finance then convened a meeting in December 2007 to finalise the guidelines for the funds. The government approved the constitution of the funds in March 2008. Both the funds would house with NABARD, and the three stakeholders contribute ₹0.25 billion to each fund for 2007–08 in the ratio of 40:40:20. The government and NABARD duly released their share to the funds upfront by the end of March 2008. As regards the Reserve Bank's share, the proposal to contribute to the funds was put up to the CCB in May 2008. The CCB had indicated that only banks should be made eligible beneficiaries of the funds while NABARD and the government wanted NGOs and SHGs to be eligible as well. The Bank, therefore, expressed its inability to release its share of ₹0.10 billion each to the funds and demanded to be part of the subcommittee formed to vet the proposals received from banks for assistance from the two funds. Faced with an impasse, NABARD took up the matter with the government in December 2008. The Reserve Bank, as a matter of principle, was not in favour of directly funding NGOs and SHGs, as verifying their credentials was next to impossible.

The Bank recognised that the mobile phone was an important means to achieve financial inclusion. The number of mobile phone subscribers in the country was 261 million in March 2008. But a substantial percentage of mobile users did not have a bank account.[20]

The Consultative Group to Assist the Poor (CGAP), a global partnership of thirty-four leading organisations, in its 'Country Diagnostics' commented (January 2008) that the

> restrictions applicable to the bank agent model have impeded its use. Also, the potential for payment and mobile banking services to be provided by mobile banking operators and other non-banks has not yet been realised due largely to restrictions on non-banks accepting funds from the public and the prohibition on e-money issuance of non-banks.

Financial Literacy Initiatives

The Organisation for Economic Co-operation and Development (OECD) defines financial education as 'the process by which financial consumers/ investors improve their understanding of financial products, concepts and risks and through information, instruction and/or objective advice develop the skills and confidence to become more aware of financial risks and opportunities to make informed choices'.[21] Within the Reserve Bank, there was the sense that financial education was not only an integral component of consumer protection, but also a way to protect the common person from market failure.[22] The Bank saw financial education as a component of financial inclusion, as the lack of awareness about banks and their products was one of the biggest barriers to financial inclusion. The challenges are enormous in India, given the size of the country, its twenty-two major languages and a high level of general illiteracy.

The individual departments of the Bank had made efforts to promote financial education all along. The Department of Non-Banking Supervision, for example, had undertaken a nation-wide campaign to educate NBFC depositors on what to look for in a company before placing deposits with them. It had released advertisements in twenty-four newspapers and in thirteen languages in 2000–01. Films were produced and telecast on four television channels. The Foreign Exchange Department had carried out a campaign to educate the users on the Foreign Exchange Management Act, 1999. The Department of Currency Management had taken up periodic campaigns to inform the public on the security features of genuine currency notes. A virtual monetary museum appeared on the Reserve Bank's website in December 1998, and later a monetary museum was set up in Mumbai close to the Bank's central office and opened to the public from 1 January 2005. It covered subjects like money, Indian coinage, Indian paper money, Reserve Bank functions, and so on, in Hindi and English, with panels and an interactive screen.

The Reserve Bank management envisaged a critical role for its 'Regional Offices to promote financial education in their respective jurisdictions'. The Chennai regional office, encouraged by the Bank's recent focus on financial inclusion and the launching of a pilot project in Puducherry, put up a pavilion at the India Tourism and Trade Fair in Chennai for the first time in January 2006. Though government departments such as Railways, Post and Telegraph, and Tourism were known to be putting up stalls in all major fairs and exhibitions, the Reserve Bank had not done this before. The pavilion provided information and reading material to the general public on the functions of the Reserve Bank, BOS, awareness about NBFCs, and security features of genuine currency notes. The other regional offices took similar initiatives.

In the meeting of the Committee of Central Board of Directors on 8 February 2006, Governor Reddy wanted a primer for the layman, starting with Monetary Policy Statement and expressed his desire to reach out to 'the common man'. He also desired that the Press Relations Division (PRD) undertake a time-bound programme on financial education. An action plan was accordingly prepared by the PRD (later renamed as Department of Communications) in April 2006. The plan included preparation of 'frequently asked questions' and 'Know Your ...' series, and dissemination through leaflets, brochures, and films and videos in English and Hindi not only in mass media but also in schools, colleges and libraries.

To carry out this action plan, a Working Group on Reaching out to the Common Man was formed.[23] The group, later enlarged with the induction of more senior officials including two heads of regional offices, was to frame basic guidelines for preparing materials for reaching out to the common person. The group was to act as the authority for screening the ideas and materials for financial education and would be responsible for designing, printing and publishing the material. The project was renamed Project Financial Literacy by the Governor in March 2007 with two modules, one on the Reserve Bank and the other on general banking. While the Bank module was to be developed by the PRD, the banking module was entrusted with the RPCD. Five regional offices of the Bank were asked to prepare basic material related to banking for groups, such as rural population, school children, urban poor, senior citizens, women and defence personnel, within two months. The New Delhi regional office prepared three comic books in 2007 on 'banking', with Raju as the central character. They are called *Raju and the Money Tree*, *Raju and the Sky-ladder* and *Raju and the Magical Goat*. These dealt with subjects of saving in a bank and deposit products and loan products of banks, and were translated into thirteen Indian languages, as well as converted into braille. The regional offices distributed these. The PRD prepared two comic books on the Reserve Bank – *Money Kumar and Monetary Policy* and *Money Kumar and Caring for Currency*.

The Bank launched a multilingual section on its website in thirteen Indian languages on all matters concerning 'banking and the common person' on 18 June 2007. A 'Financial Education' site link on the Reserve Bank's website was activated on 14 November 2007.

To commemorate the 150th anniversary of India's First War of Independence, Azadi Express, a train exhibition, was launched by the government's Publicity Division in August 2007, which travelled throughout India for about a year. The Bank participated in it through its Hyderabad Office by putting up displays. The PRD conducted seminars and workshops exclusively for media persons in metro cities during 2006 and 2007 on contemporary subjects related to the Reserve Bank's policies. The Bank also organised essay competitions for school children on the subject of banking and finance and encouraged the inclusion of a financial literacy module in the school curricula.

The other initiatives included encouraging and arranging for visits of college and school children to Reserve Bank offices and conducting of quiz programmes in schools. The Bank announced the Young Scholars Award Scheme in December 2007, with the objective of generating interest and awareness about the Indian banking sector and the Reserve Bank. One hundred and fifty Young Scholars during their summer vacation worked for two to three months on projects in the Bank offices. The Young Scholars were chosen through a country-wide competitive examination from students aged between eighteen and twenty-three, pursuing their undergraduate studies. Two officers attached to the New Delhi office, Shailaja and Manoj Kumar Singh, ran a weekly column entitled 'Real Simple' in the financial daily *Mint* from April 2007 until March 2010 in which complex financial subjects were explained in simple language.

The regional offices initially exhibited great enthusiasm in promoting financial education in innovative ways. However, the enthusiasm appeared to wane after the Deputy Governors' Committee decided that the central office must 'clear all ideas, scripts, and products' and vet every financial literacy material prepared at regional offices before their distribution.

In May 2007, the regional offices were advised to arrange with banks to set up a 'financial literacy-cum-credit counselling centre' (FLCC) on a pilot basis in any one district in the state under their jurisdiction. With experience gained, FLCCs were to be opened in other districts of the state in due course. Separate advices went to the lead banks. By the middle of 2008, banks had set up or were in the process of setting up 109 counselling centres. As indicated by the Governor in the mid-term review of the annual policy for 2007–08, a concept paper on financial literacy and counselling centres was uploaded on the Reserve Bank's website for obtaining feedback from the public. Based on the feedback, the Reserve Bank prepared and circulated a model scheme for FLCC to the banks, which indicated that 'most of the centres were not performing the intended role'. Banks indicated that they favoured freedom and flexibility in setting up FLCCs instead of being constrained to accept standardised models.

Credit Counselling

Borrowing beyond one's capacity to repay is always a risk in a country with high levels of poverty. The syndrome became a national crisis in the case of indebted farmers. A working group to suggest measures for assisting distressed farmers had recommended (2006) credit counselling for them.[24] Another Working Group to Examine the Procedures and Processes of Agricultural Loans recommended (2007) that banks should actively consider opening counselling centres.[25] Bank of India was the first commercial bank to launch 'Abhay', a credit counselling centre, in Mumbai through a trust in September 2006, and later in Wardha and Chennai. Its mission was to counsel people and to help debt resolution and rehabilitation of borrowers in distress. By February 2007, about 500 persons had been counselled. ICICI Bank set up a trust named DISHA and established seven financial counselling centres between April and October 2007 in big cities.

Conclusion

Did these initiatives by the Reserve Bank make a difference to consumer protection, financial inclusion and financial literacy? There is no question that these did succeed in making bank managements take the customer more seriously than before. As the Reserve Bank started publishing bank-wise complaints received by the BOs, it put pressure on banks to strengthen their own internal grievance redressal machinery to avoid complaints getting escalated. Financial inclusion measures did see millions of new accounts opened. By comparison, the initiatives on financial education and credit counselling only scratched the surface, though they were timely. These were at best sporadic though well-intended activities. Three departments of the Bank, namely the CSD, RPCD and PRD (later renamed Department of Communications), were involved in the activities concerning financial inclusion and financial education, apart from the regulatory departments. There was an overlapping of boundaries, depending on the drive and commitment of the Head of Department concerned.

The customer and common-man orientation made a difference to perceptions about the Reserve Bank. Until the 1990s, the Bank tended to be seen as an elite institution not known for its openness but feared for its regulatory reach. As the Bank let go of its iron grip on its regulated entities and turned its attention to individuals and households, the public perception of the Bank changed. Two Governors, Jalan, and Reddy, repeatedly stressed in their messages to the staff that the Bank was accountable to the taxpayers.

As the contact between the Reserve Bank and members of the public increased, its communication policy liberalised. The Heads of Departments and Offices could communicate with media persons. Students were encouraged to visit the Bank's offices and, in turn, the Bank officers visited schools and colleges. Though the Bank engaged in developmental functions such as rural credit since its inception, this new role of direct service to people through the initiatives narrated in this chapter brought about a positive transformational change to the organisation.

Notes

1. A committee under the chairmanship of R. K. Talwar, then Chairman of State Bank of India (SBI), was set up in 1975 to give recommendations on customer service. The Reserve Bank's follow-up with banks for implementing the committee's recommendations was not very effective.
2. Chairman: M. N. Goiporia, Chairman, SBI, Committee on Customer Service in Banks.
3. See note 2.
4. Chairman: H. N. Sinor, Chief Executive, and Secretary, Indian Banks' Association (IBA), comprising members drawn from select banks and the Reserve Bank.
5. Chairman: N. Sadasivan, which submitted its report in September 2006.
6. Communicated to banks in February 2007, these points were: (*a*) banks to identify additional 'basic banking services' on the basis of broad parameters indicated by the group, (*b*) banks to make available basic banking services at reasonable charges and the basic services to be delivered outside the scope of the bundled products, (*c*) the principles for ensuring reasonableness in fixing and communicating the service charges as indicated by the group to be adopted/followed and (*d*) banks to take steps to ensure that customers were made aware of the service charges upfront and changes in the service charges were implemented only with prior notice to the customers.

7. The Reserve Bank advised the banks and NBFCs in November 2005 that

> while issuing [credit] cards, the terms and conditions for issue and usage of a credit card should be mentioned in clear and simple language (preferably in English, Hindi and the local language) comprehensible to a card user. The Most Important Terms and Conditions (MITCs) termed as the standard set of conditions … should be highlighted and advertised/sent separately to the prospective customer/customers at all the stages i.e. during marketing, at the time of application, at the acceptance stage (welcome kit) and in important subsequent communications…. Card issuers should quote annualized percentage rates (APR) on card products…. The late payment charges, including the method of calculation of such charges and the number of days, should be prominently indicated…. Even where the minimum amount indicated to keep the card valid has been paid, it should be indicated in bold letters that the interest would be charged on the amount due after the due date of payment.

8. Under the chairmanship of C. Harikumar, Executive Director, with the IBA as a member.
9. The major changes in the revised scheme were: (*a*) inclusion of new grounds of complaints, such as credit card issues, non-adherence to fair practices code, and levying of excessive charges without prior notice; (*b*) the prescribed application format was no longer mandatory, and complaints were allowed to be lodged online and by email; (*c*) only serving senior officers of the Reserve Bank were to be appointed as BOs (one of the reasons for this was to expose them to the grievances of customers at the ground level and to develop sensitivity to their problems); (*d*) the entire cost of running the scheme would now be borne by the Reserve Bank as the secretarial and other staff for the BO offices would be drawn solely from the Bank; (*e*) banks were required to appoint nodal officers in their zonal offices for liaising with BOs; (*f*) the complainants were also permitted to appeal against the award of BOs; (*g*) consumer organisations were allowed to represent the complainants before the BOs; and (*h*) the interbank arbitration work was removed. Further, while dealing with complaints from credit card holders, the BO had been given powers to consider aspects such as harassment and mental agony suffered by complainants when deciding the amount of compensation to be paid by the card issuer.
10. K. J. Udeshi, Speech at the IV International Forum on Financial Consumer Protection and Education at Budapest, Hungary, 15–16 October 2007.
11. The survey was conducted in Mumbai, New Delhi, Kolkata, Chennai and Hyderabad. It covered 702 branches of 57 member banks.
12. K. J. Udeshi, Speech at the IV International Forum on Financial Consumer Protection and Education at Budapest, Hungary, 15–16 October 2007.

13. Ibid.
14. 'There are legitimate concerns in regard to the banking practices that tend to *exclude* rather than attract vast sections of population, in particular pensioners, self-employed and those employed in unorganised sector.... RBI will implement policies to encourage banks which provide extensive services while disincentivising those which are not responsive to the banking needs of the community, including the underprivileged' (emphasis added).
15. Chairman: H. R. Khan, 2005.
16. Chairperson: Usha Thorat.
17. By March 2008, 340 districts (out of a total of 610) were identified for implementation of 100 per cent financial inclusion, and the task was completed in 154 districts. All districts of Haryana, Himachal Pradesh, Karnataka, Kerala, Uttarakhand, Goa and the union territory of Puducherry reportedly achieved 100 per cent financial inclusion. The total number of no-frills accounts opened by all banks from 2005 onwards stood at 23 million as at the end of March 2008.
18. To be chaired by C. Rangarajan, the then chairman of the Economic Advisory Council to the Prime Minister. The members were officials from different ministries with the chairman of NABARD as member-secretary. Notably, no representative was nominated from the Reserve Bank as a member. However, the committee chairman decided to have one of the Deputy Governors from the Bank as a permanent 'invitee'.
19. The committee suggested a lower entry norm of ₹2.5 million paid-up capital for non-deposit-taking NBFCs engaged exclusively in microfinance activities instead of the ₹20 million fixed by the Reserve Bank for all NBFCs. However, the BFS did not favour the dilution of entry norms. The committee wanted the Bank to revisit the concept of local area banks (LABs) and keep the option open to license new LABs. The Reserve Bank did not accept this. The chairman of the BFS stated in the meeting on 7 February 2007 that 'the four LABs [which were functioning at that time] as an institutional arrangement on experimental basis had not succeeded the test'.
20. Detailed guidelines on mobile banking were issued in October 2008 with a clause that all transactions had to originate from one bank account and terminate in another bank account.
21. The definition of financial education developed by the OECD in 2005 and endorsed by Group of Twenty (G20) leaders in 2012 is used in a majority of countries
22. Y. V. Reddy, Inaugural address at the International Conference on Financial Education organised by OECD and co-hosted by Pension Fund Regulatory and Development Authority, New Delhi, 21 September 2006.

23. With senior officials from the PRD, Department of Economic Analysis and Policy, RPCD, and the Bank's training establishments. The working group was reconstituted in July 2006 and renamed Steering Group, to be chaired by an Executive Director.
24. Chairman: S. S. Johl, agriculture economist.
25. Chairman: C. P. Swarnkar, CMD, Syndicate Bank.