

A Study On Consumer Rights And Consumer Protection In Commercial Banks In Thoothukudi District

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Abstract

Banks plays a critical role in the economic development of the country; the financial health of banking industry highly depends upon the fiduciary relationship between banks and customers. Customer protection in banking plays a vital role in stabilising this relationship by embedding confidence among customers. The Reserve Bank of India being India's Central bank and Regulatory Body has taken plenty of initiatives to protect and safeguard consumer's interest, curtailing the exploitation and misleading customers by banks. To empower the customers of Indian Financial Sector, RBI has taken many initiatives and incorporated various departments to establish a transparent banking system. All banks are directed to formulate and redesign their consumer policies highlighting these rights. This paper is focuses on studying the various initiatives by RBI for Consumer Protection and Rights, analysing its awareness among consumers and the extent to which consumers rights is protected in public and private sector banks with reference to Thoothukudi District.

Key words: Consumer Rights, Consumer Protection, RBI, Banks.

INTRODUCTION:

Consumers are the 'Kings' of a business, but the reality is contradictory due to extensive consumer exploitation. The Consumer Protection Act (CPA), established in 1986 amended in 2019, is a legal frame work to safeguard the interest and rights of the consumer. The need and importance of consumer protection in complex and delicate services like banking is accelerating and calls for tailored consumer rights to protect the fiduciary relationship of the consumer. The Banking Regulation Act, 1949 and Reserve Bank of India Act, 1934 are the primary legislations of banking sector, with provisions for consumer protection. The RBI, being the governing body of Indian banks, holds the responsibility of protecting the consumers with transparent banking system while maintaining the financial health of banking sector. To prevent customers being affected by banks operational deficiencies, RBI has taken various steps to build confidence among the public by ensuring safety and stability of Indian financial system and establishing a healthy consumer protected environment.

Objectives:

- i) To study the initiatives taken by the RBI in relation to Consumer Protection in banking sector.
- ii) To access the level of awareness of consumer protection forums and consumer rights among customers of commercial banks.
- iii) To analyse the extent to which Charter of Consumer Rights are practiced in commercial bank and its association with the type of bank.

RESEARCH METHODOLOGY:

In this study both Primary and Secondary Data have been used. Primary data is collected with the help of a structured questionnaire, 100 respondents who are customers of commercial bank in Thoothukudi district were selected through random sampling method. Secondary data has been collected through books, Journals, Websites, etc; for theoretical study. Data Analysis has been done with through Ranking analysis and Independent t-test.

Initiatives by RBI for Consumer Protection in Banking Sector:

The RBI has established an Alternate Grievance Redress (AGR) framework to safe guard customers rights in banking and other Regulated Entities (RE). The frame work consists of RBI Ombudsmen (RBIOs), Consumer Education and Protection Cells (CEPCs) and Consumer Education and Protection Department (CEPD).

Consumer Education and Protection Department (CEPD)

In 2006, RBI set up “Customer Service Department”, at all its regional offices, to act as the grievance redressal department of complaints from the public on all financial sectors under its control. This department is now renamed as “Consumer Education and Protection Department” (CEPD) to provide information and to act as an intermediary in solving imbalances between the suppliers and consumers of financial service. CEPD is responsible for framing policy guidelines for customer protection and oversees the functioning of Banking Ombudsman and The Consumer Education and Protection Cell (CEPC). CEPC is responsible of handling complaints related to financial entities that are not covered under the Integrated Ombudsman Scheme. Currently there are CEP cells in major Indian cities whose address and contact details are available on RBI websites.

Banking Ombudsman

Banking Ombudsman scheme, 2006 was introduced by the RBI as an “Alternative Dispute Resolution Mechanism” between banks and consumers to resolve disputes, if any, at no cost. An Ombudsman is a senior Official appointed by RBI to redress consumer complaints of all scheduled banks and is assisted by a Deputy Ombudsman. A complaint can be filed with an Ombudsman only after it has been filed with the bank and the bank has not replied within a period of one month or when the reply is unsatisfactory; currently there are over 22 Banking Ombudsmen located across India. With the increasing number of complaints, the RBI in 2015 institutionalised “Internal Ombudsman” in all scheduled public sector banks, private sector banks and foreign banks with more than 10 outlets. Internal Ombudsman simplify the consumer protection process, by solving grievances at bank level and ensuring undivided attention to complaints, before approaching Banking Ombudsman. Apart from Banking Ombudsman scheme (2006) RBI has also launched the Ombudsman Scheme for Non-Banking Financial Companies (NBFCs) in 2018 and the Ombudsman Scheme for Digital Transactions (OSDT) in 2019; all of which have been unified under “Integrated Ombudsman Scheme (2021)” for all Regulated Entities covering commercial banks, Non-Banking Financial Companies (NBFCs), Payment System Participants, most Primary (Urban) Cooperative Banks, and Credit Information Companies. Complaints can be filed with the Ombudsman through the Complaint Management System (CMS) portal of RBI.

Complaint Management System (CMS)

In June 2019, RBI launched a software application, Complaint Management System (CMS), to expediate their grievance redressal process. It is an online platform for the public to access and to file their complaints online against any entity regulated by the RBI. CMS also consist of self-help videos, that help customers navigate the process of filing complaints and demonstrate safe-banking practices. Complaints registered through CMS are automatically allocated to respective RBI Ombudsman for redressal. CMS provides consumers acknowledgement of complaints filed and enables to easily access and keep track of the status of their complaints. This portal also acts as a platform to help RBI officials follow the progress of the redressal and the information, if required, can be used by RBI for analysing complaint patterns, performing root cause analysis and for regulatory and supervisory purpose. CMS has facilitated the digitalized processing of complaints by Banking Ombudsman and Consumer Education and Protection Cell.

Charter of Customer Rights

In 2014, RBI released the “Charter of Customer Rights” to strengthen the consumer protection framework. The five fundamental rights of customers in banks are Right to Fair Treatment, Right to Transparency, Fair and Honest Dealing, Right to Suitability, Right to Privacy and Right to Grievance Redress and Compensation. In February 2015, Indian Bank’s Association (IBA) and the Banking Codes and Standards Board of India (BCSBI) were directed by the RBI to formulate a “Model Customer Rights Policy” and direct banks to devise own board approved policy for customer protection and rights based on the model policy. The policy applies across all products and services offered or its agent, clearly defining the rights of customer and responsibilities of the bank.

i) Right to Fair Treatment:

Any kind of unfair discrimination on the basis of age, gender, caste, religion, economic status, etc, while offering and delivering financial products or services is considered as violation of consumer rights in banking service. This right provides consumers the fundamental right to be treated with courtesy and protects consumers from any kind of unfair discrimination. However, banks may offer certain products at differential interest rates or added benefits based on their policies for different target groups, provided the differentiation is based on standard commercially acceptable rationale that benefits the weaker segment. These concessions do not account to any form of unfair discrimination but on the contrary

progresses towards inclusion and equality. Banks should also ensure that bank staff are well trained enough to attend their customers courteously and adequately. The banks are responsible in ensuring that all products and services offered are in compliance with laws, regulations and the principle of fair treatment. The right to fair treatment is not limited only to consumers but to banks as well, customers are expected to be courteous and honest with banks. This right ensures the development of a fair and equal relationship between banks and customers by promoting fair banking practices.

ii) Right to Transparency, Fair and Honest Dealing:

The information about the service offered, like price, risks associated, terms and conditions, should be transparent, well-communicated and clear-cut to the consumer. All documents, especially contracts and agreements should be clear and made available in regional languages to be easily understood by common people. The responsibility of the consumer and the bank should be clearly defined and differentiated; any aspect of the product which could act as a disadvantage to the consumer should be disclosed beforehand. Banks need to ensure customer's vulnerability is not be misused fair unfair practices, forceful contracts and misleading representation. This right also protects customers from threats from the bank in the form of physical harm, undue influence and harassments. To assure customers the right to transparency, fair and honest dealing, banks follow a list of directives that include: ensuring complete transparency; adhering to ethical principles; providing sufficient information for customers to make informed choice; clearly defining the terms & conditions, liabilities & obligations in plain and simple language; communicating the possible risk and disadvantages associated with the product; displaying information regarding tariffs, interest rates, fees, charges and penalties on public display; providing information to customers regarding any changes prior to implementation, communicating the acceptable time period for acceptance or non-acceptance of applications and provide adequate reasons for denial of application; policies regarding deposits, cheques, grievance redressal and security repossession need to be displayed in bank's public domain; any changes in bank's operation like change in working works, relocation or closure of branches should be informed to customers in advance through all possible communication channels; ensuring staff members are trained and equipped with all relevant information to assist customers; ensuring the marketing and promotional materials are clear and not misleading and not terminating customer relationship with the bank without any reason nor prior notice.

iii) Right to Suitability:

Another persistent problem in service sector is that, the products are forced on consumers by sales officials to meet targets, which results in mis-selling. Consumer's innocence should not be exploited and banks should not force products and services which are not necessary and beyond consumers ability. The product offered by the bank should cater to the needs and financial circumstances of the customer. Banks need to have a board approved policy to assess customer's financial standing and understanding and provide suitable offering. Unless authorised by the board, banks are restricted from selling or endorse any third-party products to customers. Every product or service offered by the bank should adhere to the rules and regulations. The customer should also be informed regarding their responsibility to provide relevant information sought by bank to help determine the suitability of the product.

iv) Right to Privacy:

Banks hold a lot of personal and financial information of their consumers which, if leaked, could result in huge monetary loss. It is the duty of banks to safeguard such information and maintain confidentiality, unless specified under law or if mandatory for business process; in such instance banks should inform and communicate the disclosure to customers. Banks are expected to treat customers data, including former customers, as private and confidential and not disclose any information to any individual or institution. Customer information can be share only in the following circumstances: the customer has authorised the bank to share particular information; if required by law; in public interest; to safeguard the interest of the bank or for mandatory regulatory purpose such as to credit information companies. The right also restricts banks to share customer information for any kind of marketing purpose without customer consent. Banks should refrain from all kinds of communications, electronic or otherwise which intrude customer privacy and adhere to Telecom Commercial Communications Customer Preference Regulations, 2010 while communicating.

v) Right to Grievance Redress and Compensation:

The bank is held responsible for any valid grievance arising from the sale of product or service, and is liable to provide redressal to the grieved consumer. The bank is also accountable for any kind of third-party products sold to consumers through the bank. The policies regarding compensation, breach rights

and duties, delays, etc, whether of not caused by the bank should be communicated to consumer. Banks are expected to acknowledge complaints within three working days and resolve issues within a reasonable period not exceeding 30 days. The bank is responsible to correct its mistakes, cancel any incorrect charges and compensate any monetary loss customers incur due to lapses caused by the bank. Banks should ensure that the grievance policy, procedure and mechanism are accessible and easily understood by customers. The contact details of the Grievance Redressal Authority or Nodal Officer should be displayed. Customers should be made acquainted by the bank with information regarding how to file a complaint, whom to file the complaint with, the expected time to receive a reply, approximate time taken to resolve the complaint and the next step in the event of dissatisfied redressal. The option of escalating the unresolved complaint to respective RBI Ombudsman should be made aware to customers.

Data Analysis and Interpretations

The demographics of the sample's respondents are enumerated in Table 1.

Table 1: Demographic of Respondents

Profile	Variables	Frequency	Total
Gender	Male	62	100
	Female	38	
Age	18-29	44	100
	30-44	24	
	45-60	27	
	Above 60	5	
Occupation	Student	10	100
	Business	21	
	Employee	41	
	Others	28	
Type of Bank	Public Sector Bank	52	100
	Private Sector Bank	48	

Source: Primary Data

Awareness of Consumer Protection among Consumers

Table 2 shows the level of awareness among bank customers on the various consumer protection initiatives by RBI.

Table 2: Awareness of Consumer Protection among Consumers

Consumer Protection Initiatives	N	Aware	Not Aware	Sum	Mean	Standard Deviation	Ranking
Complaint Management System/ Online redressal	100	63	37	163.0	1.630	0.4852	I
Banking Ombudsman	100	52	48	152.0	1.520	0.5021	II
Internal Ombudsman	100	33	67	133.0	1.330	0.4726	III
Charter of Consumer Rights	100	24	76	124.0	1.240	0.4292	IV

Source: Primary Data

From the above table it can found that most consumers, 63% are aware of the Consumer Management System an online portal for complaint redressal. The least awareness among banking consumers is about

the Charter of Consumer rights, only 24% is aware of these rights. Banking Ombudsman and Internal Ombudsman are ranked second and third respectively.

Difference in Charter of Consumer Rights between Public and Private Sector Banks

Consumer rights in banks, their mean score and standard deviation is listed in Table 3. The test of independence with the type of bank is represented in Table 4.

Table 3: Group Statistics: Charter of Consumer Rights * Public and Private Sector Banks

Charter of Consumer Rights	Type of Bank	Strongly Agree (5)	Agree (4)	Neutral (3)	Disagree (2)	Strongly Disagree (1)	N	Mean Score	S.D
Right to Fair Treatment	Public	2	16	19	10	5	52	3.00	1.029
	Private	7	14	13	9	5	48	3.19	1.214
	Total	9	30	32	19	10	100	3.09	1.120
Right to Transparency	Public	4	19	22	7	0	52	3.38	0.820
	Private	3	12	25	7	1	48	3.19	0.842
	Total	7	31	47	14	1	100	3.29	0.832
Right to Suitability	Public	4	25	14	5	4	52	3.38	1.032
	Private	5	19	12	11	1	48	3.33	1.018
	Total	9	44	26	16	5	100	3.36	1.020
Right to Privacy	Public	18	24	8	2	0	52	4.12	0.808
	Private	8	23	11	4	2	48	3.65	1.000
	Total	26	47	19	6	2	100	3.89	0.931
Right to Grievance redressal	Public	5	23	14	8	2	52	3.40	0.995
	Private	4	22	13	9	0	48	3.44	0.897
	Total	9	45	27	17	2	100	3.42	0.945

Source: Primary Data

Table 3 calculates the mean score and standard deviation of the consumers perspective of Charter of Consumer Rights practiced in Commercial Banks in Thoothukudi District. It is found that the Right to Privacy has the highest mean score of 3.89, in which public sector banks have highest mean score of 4.12, thus consumers feel that the confidentiality of data in banks, especially public sector banks, is highly protected and practiced among other rights. Right to Fair treatment has the lowest mean score and highest deviation of 3.09 and 1.120 respectively. Consumers regard Right to Fair Treatment is the least followed consumer protection action followed by banks, especially in public sector banks with the lowest mean score of 3.00. Right to Transparency has the second lowest mean score of 3.29, within which private sector banks are considered to be the least transparent with customers, with a mean score of 3.19. Right to suitability and right to grievance redressal have mean scores of 3.36 and 3.42 respectively.

Table 4: Independent Samples T-test: Consumer Rights* Public and Private Sector banks

Independent Samples Test										
Consumer Rights		Levene's Test for Equality of Variances		t-test for Equality of Means						
		F	Sig.	t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	95% Confidence Interval of the Difference	
									Lower	Upper
Fair Treatment	a*	3.008	0.086	-0.835	98	0.406	-0.188	0.225	-0.633	0.258
	b*			-0.830	92.500	0.409	-0.188	0.226	-0.636	0.261
Transparency	a*	0.454	0.502	1.186	98	0.239	0.197	0.166	-0.133	0.527
	b*			1.184	96.892	0.239	0.197	0.166	-0.133	0.527

Suitability	a*	0.100	0.752	0.250	98	0.803	0.051	0.205	-0.356	0.458
	b*			0.250	97.563	0.803	0.051	0.205	-0.356	0.458
Privacy	a*	2.530	0.115	2.592	98	0.011	0.470	0.181	0.110	0.829
	b*			2.570	90.464	0.012	0.470	0.183	0.107	0.833
Grievance Redress	a*	0.358	0.551	-0.177	98	0.860	-0.034	0.190	-0.411	0.343
	b*			-0.178	97.948	0.859	-0.034	0.189	-0.409	0.342

a*- Equal Variances Assumed; b*-Equal Variances Not Assumed

Source: Primary Data

Table 4 states the results of an Independent samples t-test conducted to compare consumer rights in public and private sector bank, with the hypothesis being; H_0 : There is no significant mean difference in Charter of consumer rights between Public and Private sector banks. The result of Levene's Test for Equality of Variances for all consumer rights is above 0.05 thus equal variance is assumed. Testing the equality of means it is found that the Rights to Fair Treatment (0.406), Transparency (0.239), suitability (0.803) and Grievance Redressal (0.860) all have the significance p value greater than 0.05 ($p > 0.05$); hence in these cases H_0 is accepted. Thus, there is no significant difference between the type of bank and these rights. However, in case of right to privacy the significance p value is 0.011 which is $p < 0.05$; hence H_0 is rejected. It can be inferred that there is a significant difference in Right to privacy between both sectors, private sector banks protect customers' right to privacy lesser compared to public sector banks.

Suggestions:

- The CEPD should be more active and spread awareness among consumers regarding Ombudsman scheme and Consumer Rights in Bank.
- Advertising Campaigns should be conducted on Charter of Consumer Rights to reach to larger audience.
- Banks should play a pro active role in implementing Charter of Consumer Rights.
- Front-line Staffs in Banks should be directed and monitored to treat all customers fairly and with courtesy.

CONCLUSIONS:

RBI has taken plenty of efforts and initiatives to protect consumer rights in banking and other financial sectors, which are commendable, but its shortcoming is that it has failed to create awareness among the customers. The maximum yield of these consumer protection forums and rights can be achieved only if consumers are made awareness of their rights and the entire grievance redressal structure consisting of the Ombudsmen and feasibility of online platforms. The RBI should coordinate with the government and to generate public awareness. From the analysis it is found that banks, both public and private, protect consumer rights to a certain extent, however there should be more emphasis on factors like fair treatment and transparency. The power of consumers reflects the development of a country, empowering consumers in fundamental services like banking would increase the informed population, thereby raising the standards of overall trade.

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