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# Overview on Banking Ombudsman Scheme

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SATHIYA S.<sup>1</sup> AND DR. C. CHOCKALINGAM<sup>2</sup>

## ABSTRACT

*The Banking Ombudsman is an independent authority established by the Reserve Bank of India. It provides a cost-effective and impartial mechanism for customer grievances. This mechanism addresses grievances related to various banking service, such as account discrepancies, loan processing delays and issue with online transactions. It is accessible to all customers of commercial banks, regional rural banks and scheduled primary cooperative banks. The process is designed to be user-friendly, allowing customers to file a complaint without the need for legal representation. The ombudsman has the authority to investigate complaints, adducing evidence placed before him, mediate disputes and issue binding awards to compensate customers for their financial loss. Both customers and banks have the right to file an appeal to an appellate authority. Banking ombudsman serves as a pivotal institution for resolving customers complaints against the service rendered by the bank.*

**Keywords:** *Deficiency of service, Ombudsman, Grievances, Redressal mechanism.*

## I. INTRODUCTION

The Banking Ombudsman is a crucial component of India's financial regulatory framework. In the year 1995, the Reserve Bank of India (RBI) has established the Banking Ombudsman Scheme (BOS). It has aims to provide a simple, accessible and cost-effective mechanism for customers to seek redressal for grievances relating to service render by the banks. The above said Scheme covers a deficiency in banking services, included issues relating to loans, deposits, credit cards and e-banking. This above said Scheme has also offered a structured and transparent process, to promote an accountability and fairness in the banking industry. The Banking Ombudsman (Ombudsman) is an independent and impartial authority to address and resolve customer problems against banks. Being dissatisfaction the banking service, the customers can file a complaint for their grievances within the specified time-limit. The Ombudsman can investigate these issues and pass an award by fixing compensation for the loss and inconveniences.

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<sup>1</sup> Author is a Research Scholar at TNDALU, Chennai, India.

<sup>2</sup> Author is a Professor and Dean at Crescent School of Law, India

## II. EVOLUTION OF BANKING OMBUDSMAN IN INDIA

The evolution of Ombudsman in India reflects the country's economic development. It is need for a structured and effective mechanism to resolve the disputes between the customers and banks. The RBI has introduced the Ombudsman in 1995 under the provisions of sec. 35A of the Banking Regulation Act, 1949. Its aim to provide an expeditious and inexpensive forum for bank customers to settled their grievances. Originally, the Ombudsman was handling the very small number of complaints. After that, the Scheme was revised in the following years 2002, 2006, 2009, 2017 & 2021.

In 2006, the grounds for filing complaints have been expanded and it has increased more aspects of banking services. In 2006, the BOS allowed the customer to file a complaint in online mode and the limit of compensation has also increased. In 2009, BOS has also entertained the complaints relating to the credit cards grievances. In 2017, the RBI has enhanced the role of the Ombudsman by consolidating the various customer grievance redressal platform. In 2021, the RBI has launched the "Integrated Ombudsman Scheme"<sup>3</sup> which introduced a "One Nation, One Ombudsman"<sup>4</sup> system. The main purpose was to unify and simplify the Schemes for banking and non-banking financial services including the e-banking. It was removed the territorial limitations of the previous system and introduced a centralised processing centre. The RBI has periodically revised the rules and guidelines to redress the grievances. The BOS has represented to promote the customer rights in the financial sector.

### (A) Banking Ombudsman

The Ombudsman is an independent and quasi-judicial authority to redress the customer grievances against banks and their services. The role of Ombudsman is to provide an accessible, fair and cost-effective mechanism for resolving disputes between bank and its customers. Clause 4 of the BOS, 2006 has define the Ombudsman, which means any person appointed by the RBI under this Scheme.

The RBI can appoint any of its staff in the rank of Chief General Manager or General Manager as Ombudsman. He has to carry out the functions assigned by or under the Scheme for a period not exceeding 3 years at a time. The RBI may fix the place where the office of the Ombudsman should be located. The Ombudsman must sit in places within the area of jurisdiction in respect

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<sup>3</sup>Banking Ombudsman in Indian, No. 64/ RN/Ref/December /2021, Also available at [https://loksabhadocs.nic.in/Refinput/New\\_Reference\\_Notes/English/08122021\\_120807\\_102120474.pdf](https://loksabhadocs.nic.in/Refinput/New_Reference_Notes/English/08122021_120807_102120474.pdf) last seen on 14.08.2024.

<sup>4</sup> Ibid<sup>1</sup>

of complaint referred before it.

### **(B) Powers and jurisdiction**

The Ombudsman has the following powers and jurisdiction in order to dispose the complaint.

- It may fix the regional area coverable under the Ombudsman in India.
- It may receive and consider the complaints relating to the deficiencies in service provided by banks.
- It should facilitate the amicable settlement between the parties by passing an Award.
- It has exercise general powers of supervisory and control over the Office.
- It should prepare an annual budget report consulting with RBI under the Reserve Bank of India Expenditure Rules, 2005.
- It should send a report to the Governor and RBI on 30<sup>th</sup> June every year, stating that the action taken over the preceding financial year. It should furnish any other details as demanded by the RBI. The RBI may publish the report and details for the public interest.

### **(C) Grounds of complaints**

Any aggrieved person may file a complaint with the Ombudsman for the reasons of deficiencies in service rendered by the bank, including the e-banking<sup>5</sup>. The followings are the some of the important grounds for filing a complaint.

- Non-payment or inordinate delay in the payment or collection of cheques, drafts, bill.
- Non-adherence to prescribed working hours, fair practices code.
- When the banks failed to provide or delay in proving a banking facility.
- Without assigning the valid reasons, the bank may refuse to open a deposit account or delay in closing the accounts.
- Without furnishing prior notice to the customer, the bank may levy charges, closing the deposit accounts.
- The banks failed to observe the RBI directions on interest dates.
- The bank may delay in sanction or disposal of loan application<sup>6</sup>.

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<sup>5</sup> RBI; Banking Ombudsman Scheme, 2006, available at <https://rbidocs.rbi.org.in/rdocs/Content/PDFs/67933.pdf> last seen on 14.08.2024.

<sup>6</sup> Banking Ombudsman Scheme, Press Release: 2005-2006/783, 2526.12.2005, available at

**(D) Procedure for filing complaint**

The procedure for lodging a complaint against a bank has been discussed under Cl. 8 of the BOS, 2006<sup>7</sup>. Any aggrieved person can file a complaint against the bank. Such complaint can be made either by the customer or his authorized representative except lawyer. The complaint should be made to the Ombudsman who has jurisdiction over the place where the bank involved in the complaint. In case of credit cards issues, the complaint should be made to the Ombudsman who has jurisdiction over the customer's billing address.

The followings requirements are should be mentioned in the complaint:

- It should be in written form
- It must be signed by the complainant or their authorised representatives.
- To state the complainant's name and address clearly.
- To state the name of address of the bank against which the complaint is lodged.
- To state the clear and specific cause of action arisen in the complaint.
- To specify the nature and extent of any loss suffered by the complainant.
- To clearly indicate the remedy or relief which is sought for.

The complainant must submit the copies of any documents along with the complaint. A declaration must also be included. The complaints may also be submitted through electronically with the Ombudsman. A printout of the e-complaint may be considered as evidence<sup>8</sup>. The Ombudsman also entertain the complaints which is received from the Central Govt. or RBI.

The complainant should have made a written complaint to the bank before approaching the Ombudsman. Such complaint must be rejected by the bank or not have responded within one month after receiving the complaint by the bank or being dissatisfaction with the bank's response.

The complaint must be filed within one year from the date of the reply given by the bank. If no reply from the bank, it should be filed within one year and one month from the date the complaint was made to the bank. The complaint must not be the same issues which has already been settled by the Ombudsman or any other legal forum. The complaint should not be frivolous or vexatious in nature. It should be filed within the period of limitation as per the Indian

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[https://rbi.org.in/Scripts/BS\\_PressReleaseDisplay.aspx?prid=14063](https://rbi.org.in/Scripts/BS_PressReleaseDisplay.aspx?prid=14063) last seen on 14.08.2024.

<sup>7</sup> Clause 8 of the Banking Ombudsman Scheme, 2006

<sup>8</sup> RBI; Banking Ombudsman Scheme, as amended upto 2017, available at [https://rbidocs.rbi.org.in/rdocs/Content/PDFs/BOS2006\\_2302017.pdf](https://rbidocs.rbi.org.in/rdocs/Content/PDFs/BOS2006_2302017.pdf) last access on 14.08.2024.

Limitation Act, 1963.

**(E) Power to call for information**

Under the provision of BOS, the Ombudsman has the authority to request information or certified copies of the documents from a bank relating to the complaint. If the banks fail to comply with the requirement without a valid reason, the Ombudsman has the discretion to consider such information or documents against the bank.

The Ombudsman has the obligation to maintain the secrecy in handling information or documents which is obtained during the pendency of complaint. The Ombudsman should not disclose such information or documents to any person without the permission of the person who provided them. However, the Ombudsman is allowed to disclose such information or documents to other parties involved in the complaint if it is reasonably necessary to comply with legal requirements or it is required to uphold the principles of natural justice and fair play during the proceedings.

**(F) Settlement of complaint by agreement**

The Ombudsman is required to send a copy of the complaint to the branch or office of the bank named in the complaint. The Nodal Officer<sup>9</sup> is a designated person within the bank for coordinating with the Ombudsman. The Ombudsman should try to facilitate a resolution of the complaint through conciliation, mediation, for the purpose of arriving an agreement between the parties.

The Ombudsman shall follow the procedure which is just and proper. He may not be bound by the any rules of evidence. The proceedings are designated to be straightforward and conducted without the formalities of a regular Court case. The process is intended to be quick and efficient. The Ombudsman focuses to resolve the complaint by avoiding lengthy procedures.

**(G) Award by the ombudsman**

When a complaint is received, a settlement between the parties should be arrive within the period of one month<sup>10</sup>. If necessary, the Ombudsman may allow the further period of one-month to the parties for the settlement. However, the complaint is not resolved within the time frame, the Ombudsman will proceed to either pass an Award or reject the complaint. The Ombudsman must ensure that both parties have a reasonable opportunity to present their case.

The Ombudsman should consider all the evidence submitted by both the parties. The

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<sup>9</sup> Clause 15(3) of the Banking Ombudsman Scheme, 2006.

<sup>10</sup> Clause 12 of the Banking Ombudsman Scheme, 2006.

Ombudsman should follow the procedure established by the Banking Laws, Customary practices, directions, instructions and guidelines issued by the RBI. The findings of the Ombudsman should be fair, lawful and consistent with regulatory standards. The Ombudsman should state the brief explanation for the reasons of the award. It ensures transparency and helps both parties to understand the basis for the decision.

The award must require the directions to the bank for the specific performance of its obligations. The award may also specify an amount that the bank must pay to the complainant as compensation. The Ombudsman can only award compensation that corresponds to the actual loss suffered by the complainant due to the bank's act or omission.

The Ombudsman has the jurisdiction to fix the compensation amount up-to the limit of Ten Lakh or below only<sup>11</sup>. Even, if the actual loss is higher, the Ombudsman can direct the bank to pay Ten Lakh rupees. Therefore, the awarded amount should be lesser of the actual loss or ten lakh rupees.

In cases involving credit card, the Ombudsman has the jurisdiction to pass an award of compensation up to rupees one lakh for non-monetary damages such as loss of time, expenses incurred by the complainant and harassment and mental agony suffered by him. The copy of the award must be sent to both parties.

The complainant must approach the bank with a letter of accepting the award in full and final settlement of their claim within a period of 30 days from receiving the award. If he fails to do so, the award will lapse and become infructuous. The letter of acceptance means that the complainant agrees to the award as complete and final resolution. After that, he cannot seek further claims related to the earlier one. If the complainant decides to file an appeal, he has not complied the award passed by the Ombudsman<sup>12</sup>.

Once the bank receives the letter of acceptance of the award, it has only one-month to comply with the terms of the award. However, if the bank has filed an appeal under Cl. 14(1) of BOS, 2006, it is not required to comply with the award within a period of one-months.

### **(H) Rejection of complaint**

At any stage of the proceedings, the Ombudsman may reject the complaint on the following grounds:

- If the complaint does not fall under the specific grounds mentioned in the complaint set-

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<sup>11</sup> RBI; Banking Ombudsman Scheme, as amended upto 2017, available at [https://rbidocs.rbi.org.in/rdocs/Content/PDFs/BOS2006\\_2302017.pdf](https://rbidocs.rbi.org.in/rdocs/Content/PDFs/BOS2006_2302017.pdf) last access on 14.08.2024.

<sup>12</sup> Clause 14(1) of Banking Ombudsman Scheme, 2006

out in Cl. 8 & 9(3) of BOS, 2006; or

- If the amount involved in the complaint may be beyond the financial limits set under Cl. 12 (5) & (6) of BOS, 2006; or
- Where the Ombudsman has no jurisdiction to adjudicate it or it needs to adjudicate in the informal proceedings; or
- If the complaint has insufficient cause or merit; or
- Without reasonable cause, if the complainant has prolonged the resolution process; or
- If the Ombudsman observed that the complainant has not suffered any loss, damage or inconvenience

### **(I) Appeal Proceedings**

Any aggrieved person can file an appeal against an award passed under Cl. 12 or rejection the complaint for the reasons mentioned in Cl. 13 (d) to (f) of BOS, 2006. The appeal should be filed within a period of 30 days from receiving the communication of the award or the rejection of the complaint<sup>13</sup>. If the appeal is filed by the bank, the limitation period of 30 days begins when the banks receive the complainant's letter of acceptance of the award.

However, the Appellate Authority can allow further period of 30 days for filling an appeal, if it is satisfied that there was a valid reason for the delay. A bank can only file an appeal with prior approval from the higher officials. Before passing an order, the Appellate Authority must give a reasonable opportunity to the parties. The Appellate Authority has the discretion to issue any order as follows<sup>14</sup>:

- It may reject the appeal by confirming the original award or
- It may allow the appeal by setting aside the original award or
- It can send back to the Ombudsman for fresh disposal or
- It can alter the award and issued direction to implement such modified decision

The order of the Appellate Authority has the same effect as the original award or order of rejecting the complaint. It should be binding on the parties.

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<sup>13</sup>. Clause 13 of the Banking Ombudsman Scheme, 2006

<sup>14</sup>. RBI; Banking Ombudsman Scheme, 2006, available at <https://rbidocs.rbi.org.in/rdocs/Content/PDFs/67933.pdf> last seen on 14.08.2024

### **III. DUTIES OF THE BANKS TO DISPLAY SALIENT FEATURES OF THE SCHEME FOR COMMON KNOWLEDGE OF PUBLIC**

This clause deals about the duties and responsibilities of the banks to display salient features of the BOS, 2006 for common knowledge of public as follows<sup>15</sup>:

- It ensures transparency, accessibility and effective communication with the Ombudsman.
- It must ensure that the information about the purpose of BOS, 2006 and the contact details of the Ombudsman are prominently displayed in all their offices and branches.
- The display should be in visible to the person who visiting the bank's office or branch. It should provide the clear and adequate information about how to make a complaint to the Ombudsman.
- It must ensure that a copy of the Scheme is available with a designated officer at each branch or office. The same should be accessible to the customer.
- A notice indicating the availability of the BOS with designating officer must be displayed alongside the information about the Scheme.
- A copy of the Scheme must also available in the bank's websites, ensuring that it is easily accessible to the public.
- Banks must appoint a Nodal Officer at each of their Regional/Zonal Offices. This Officers will be responsible for representing the bank and providing necessary information to the Ombudsman regarding Complaints filed against the bank.

### **IV. SUGGESTIONS**

- The jurisdiction of the ombudsman could be expended to cover emerging financial services, such as digital banking.
- The process of submission through online platform should be simplify and mobile applications can make it more accessible and user-friendly especially the customers from remote areas.
- There should be more extensive awareness programme and to educate the customers about the existence and functions of the BOS.

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<sup>15</sup> RBI; Banking Ombudsman Scheme, 2006, Available at <https://rbidocs.rbi.org.in/rdocs/Content/PDFs/67933.pdf> last access on 14.08.2024

- To provide continuous training for Ombudsman Staff on the latest development in banking regulations and customer service trends.

## **V. CONCLUSIONS**

The Banking Ombudsman Scheme plays a crucial role in providing an efficient redressal mechanism for bank customers. The Ombudsman serves as a vital pillar of customer protection in financial system. The Complaint should be genuine and avoid duplicate issues. The Ombudsman has safeguards consumer rights, contributes to maintaining public trust and maintain the customer confidence in the banking industry. An award passed by the Ombudsman should be arrived by encourage the parties entering into the settlement through mediation or conciliation. It ensures that the banking industry operates with a higher degree of responsibilities, fostering a healthier relationship between financial institutions and their clients. However, the effectiveness of the scheme depends on the awareness and participation of the both customers and banks.

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