

CUSTOMER
Raison D'être of Business

Anand Sinha



FORUM
OF FREE ENTERPRISE

Introduction

At the Ninth M. R. Memorial Award Function held recently, Mr. Anand Sinha, Deputy Governor, Reserve Bank of India, delivered an important speech which should be welcomed by the stakeholders in the banking sector, particularly the depositors.

The thrust of his speech is on consumer protection and empowerment in the contextual framework of financial sector and specifically of banking. Obviously, there are divergent expectations of different set of customers of banking industry – be they depositors or borrowers. And all these need to be addressed and carefully responded, according to Mr. Sinha. He identifies three key pillars for efficient customer service – first, promoting competition; second, enforcing regulations; and third, empowering customers through financial literacy.

He elaborates the importance of regulation in ensuring prompt and effective customer service and articulates various issues relating to Know Your Customer (KYC) norms. In the process, he also outlines series of continuing efforts to simplify KYC norms. Given the concerns of many individuals, who are wishing to open deposit account with the bank, this aspect would be of great value and help in promoting increasing banking/financial inclusion. He

"Free Enterprise was born with man and shall survive as long as man survives".

- **A. D. Shroff**
Founder-President
Forum of Free Enterprise

further reflects on two major institutional measure shaving significant bearing on customer service in banks, namely, about Banking Ombudsman Scheme and Banking Codes and Standards Board of India.

Mr. Sinha also dwells on several facets of changing banking landscape having significant bearing on customer service. Among other things, these include (a) the impact of technological developments on banking services; (b) expansion of the reach of banking services; (c) usage of services of intermediaries like business facilitators and business correspondents; and so on. He assures that banks have been advised to introduce the Basic Saving Bank Deposit Account with Zero Balance. Finally, he exhorts "the service providers to get their act together" and respond to expectations of customers and address their concerns.

We are confident that this little booklet will be of immense value to all the major stakeholders of Indian banking in general, and to bank depositors, existing and potential, in particular.

Sunil S. Bhandare
Editor

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by

Anand Sinha*

I deem it a great privilege to be associated with today's event, commemorating Shri M R Pai's yeomen service for the customer and presenting the M R Pai award to Shri Shirish Deshpande, a noted consumer activist. Though I have not personally interacted with Shri Pai, I am well aware of his accomplishments and his selfless crusade against unfair treatment to customers. In fact, I am amazed looking at the impact/change a single person could bring about. It is extremely inspiring to learn about Shri Pai. Surely, his life is a testament of the power of the common man.

* *The author is Deputy Governor, Reserve Bank of India. The text is based on the address delivered at the Ninth M. R. Pai Memorial Award Function, sponsored by Punjab & Maharashtra Co-operative Bank Ltd. and arranged by the All-India Bank Depositors' Association (AIBDA) jointly with Forum of Free Enterprise and M. R. Pai Foundation on October 31, 2013 in Mumbai.*

Shri Shirish Deshpande, the recipient of M.R. Pai Memorial Award is another luminary in the field of consumer protection who, inspired by the work of Shri Pai, carried forward the tradition of protecting consumer rights. Ranging from the mandatory installation of electronic meters in autorikshaws and taxis to the compulsory use of CNG for taxis/ autos in Mumbai to bringing medical professionals under Consumer Protection Act to amending the Packaged Commodity Rules for standardization, his work touches so many of our lives. I salute both these great men, Shri Pai and Shri Deshpande and all the other crusaders who have been fighting our battles without even expecting anything in return.

As part of today's function, it would be befitting the memory of Shri Pai to speak about the issue that always remained close to his heart - consumer protection and empowerment. While Shri Pai's work of protecting customer interests straddled both financial and non-financial worlds, I would focus my comments on financial sector and specifically to banking.

Customer – The Raison D'être

It would be an understatement to say that customer is central to business. In fact, customer is the very reason for existence, *raison d'être* of any business. To elucidate the importance of customer for any business, there cannot be a better statement than

the one given by father of our nation, Mahatma Gandhi. No paper or speech is complete without quoting it. Here I quote Mahatma to lay foundation for the points I am going to make in the subsequent portion of my address today:

"Customer is the most important visitor on our premises. He is not dependent on us. We are dependent on him. He is not an interruption in our work. He is the purpose of it. He is not an outsider in our business. He is part of it. We are not doing him a favour by serving him. He is doing us a favour by giving us an opportunity to do so"

Customer service- various perspectives

Customers have varying kinds of relationships with banks. The perspectives on customer service, therefore, differ for different segments of customers. While courtesy and efficiency in service are the common elements of expectation among any customer segment, there are certain segment specific expectations too. Depositors would look for safety of their funds, while the borrowers seek timely disbursement of loans with complete information about the loan covenants. Others who avail of fee based services such as remittances etc., demand prompt service. An effective customer service framework would consider all such expectations of customers and endeavours to efficiently address them.

Framework for efficient customer service- Three pillars

I would think that the framework for ensuring efficient customer service rests on three mutually reinforcing pillars – (i) promoting competition, (ii) enforcing a regulation which protects customer interests and (iii) empowering customers through financial literacy. I will talk about these three pillars juxtaposing Reserve Bank's policy measures in each of these areas.

I. Promoting Competition

Intuitively, competition ensures better customer service by enforcing market discipline on service providers. Greater choice affords greater bargaining power to consumers. This is expected to discipline the service providers to pay greater heed to the voice of the customer.

Compared to the earlier times, the competition has significantly gone up post liberalisation of Indian economy. I have read in the biography of Shri Pai that it took almost eleven years for a telephone connection to make an appearance in his residence. Some of the old timers like me in this audience would recollect the waiting lists we had to endure for procuring gas and telephone connections. Things have changed, certainly, for good since then. We now have greater options to choose from and greater freedom to walk out of an unsatisfactory service arrangement, which is both

empowering for the customer and a disciplining factor for the service provider.

Even in banking, the competition has significantly increased. New players have been permitted in the private sector twice in 1993 and 2001 when a total number of 12 licenses were granted. Additionally, a number of foreign banks have also opened their branches in India, widening the banking choices for customers and enhancing the competition in the banking sector. As of now, there are 87 banks (26 in public sector, 20 in private sector and 41 of foreign banks) with branches spread across the country. Also, there are 82 RRBs and 1618 UCBs providing banking facilities to customers.

Reserve Bank's Discussion paper on '*Banking Structure in India- The Way Forward*' which was recently put in public domain for comments, has also suggested changes in the banking structure with the objective of, inter alia, enhancing competition in the Indian banking space which would lead to better customer service. The suggested changes relate to continuous authorisation, differentiated licensing, conversion of UCBs into commercial banks, etc. which would have a significant impact on the banking structure in India.

While competition may facilitate better customer service, it alone will not ensure it. Mere increase in the number of banks without concomitantly strengthening the regulatory framework may

sometimes lead to suboptimal outcomes. Proliferation of non-serious players coupled with lax regulation may lead to a collective race to the bottom endangering the systemic stability. Regulation, therefore, plays a significant role in ensuring efficient customer service and I intend to highlight a few issues in this regard.

II. Regulations to ensure customer service

At the outset it may appear that the relation between regulations and customer service is not direct. Sometimes it may appear even inverse. Service providers prefer a liberal regulation which gives them more flexibility to provide customized and more efficient customer service. A case in point is the KYC norms. It is not uncommon to hear criticism against KYC regulations which seek compliance with rigorous documentary requirements to open a banking relationship.

Regulations need to be seen in perspective to appreciate their role. Let me explain by taking the example of KYC regulation itself. On the face of it, they may look very customer unfriendly. Customers often complain that they are required to undergo a very rigorous process to open and transact with the bank. Even after many developments have taken place and many relaxations have been permitted in the recent times, to which I would turn to a little later, we still hear some criticism on these regulations.

KYC guidelines could be loosely equated to the frisking we all undergo in airports and malls. People may feel it as an unnecessary and avoidable botheration and even a hindrance when they are being frisked, but that is necessary in their own interest, in keeping the place clear of unwanted elements. Similarly, KYC norms, while they may appear as needlessly intrusive and cumbersome, are necessary to prevent money laundering and combat financing of terrorism addressing which is in the overall interest of the system.

Coming back to the role of regulation in ensuring customer service and protecting customers, I would say, regulation has an important role to play especially in financial, and more so in banking, sector. Financial products, given their peculiar nature, require a more detailed and intensive regulation to ensure customer protection. In contrast, non-financial goods and services are easier to comprehend and the conduct of the selling entity does not matter so much once the transaction is concluded. However, in the case of financial goods, their value is difficult to comprehend at the point of contract as such value evolves with time depending on the conduct and well being of the selling institution.

Regulations facilitate better customer service by ensuring that the affairs of the banks are conducted in a prudent manner and that their business conduct

is proper and fair to the customers. Regulations stipulate minimum standards for services and products and provide confidence to the customers. As economies mature, the regulations also evolve and are fine tuned keeping in mind the growing and changing requirements of the customers.

Reserve Bank has always been conscious of the customer service issues and has been taking a lot of measures based on the recommendations of various expert committees set up in this regard. Some of the major Committees are Talwar Committee on customer service in banks (1975); Goiporia Committee (1990); Narasimham Committee (I & II) which recommended pricing and operational freedom to be conferred on banks with positive implications for customer service; Tarapore Committee on Performance Audit of Public Services (2004); Working Group to formulate a scheme to ensure reasonableness of banking charges (2006 and Committee on Customer Service in Banks (Damodaran Committee 2010).

Before going into some of the specific measures taken to enhance customer service, let me briefly touch upon two major institutional measures taken which have a significant bearing on customer service in banks.

Banking Ombudsman Scheme

Banking Ombudsman Scheme (BOS) was introduced by Reserve Bank in 1995 to provide

an expeditious and inexpensive forum to bank customers for resolution of their complaints relating to deficiency in banking services provided by commercial banks, Regional Rural Banks and scheduled primary co-operative banks. There are 15 Offices of Banking Ombudsman spread across the country. As on date, there are 27 grounds on which customers can approach the BO. RBI operates the BOS, free of cost, so as to make it common people oriented. The Scheme is applicable to all banking transactions taken place within the country, including internet transactions. The complainants can file their complaints in any form, including online submission through the RBI Website. Both the complainants and banks can appeal to the Appellate Authority against the orders issued by Banking Ombudsman under the Scheme.

With a view to revise and update the Scheme based on the recommendation of the Committee on Customer Service in Banks (Damodaran Committee) and the Rajya Sabha Committee on Subordinate Legislation, an internal Working group was constituted by the RBI in July 2012 which submitted its report in January 2013. Some of the important recommendations of the Working Group pertain to extending the BOS to non-scheduled urban cooperative banks/district and state co-operative banks, modifying the definition of 'bank' in the BOS, pecuniary jurisdiction of BO,

opening of new Offices of Banking Ombudsman (OBOs), introduction of fresh grounds of complaint, appointment of additional Ombudsman in offices with heavy volume of complaints and public awareness about the BOS. The recommendations of the Working Group are being examined by the Reserve Bank for implementation.

Banking Codes and Standards Board of India (BCSBI)

Banking Codes and Standards Board of India (BCSBI) was set up by RBI in 2006 based on the recommendation of the Committee on Procedures and Performance Audit on Public Services. It is an autonomous and independent body set up to ensure that a comprehensive code of conduct for fair treatment of customer was evolved and adhered to. While the Banking Ombudsman Scheme takes care of individual complaints, BCSBI focuses on the systemic issues.

Membership to BCSBI is voluntary and banks register themselves with BCSBI as members and provide services as per the agreed Standards and Codes. BCSBI monitors the compliance of banks with the BCSBI Code, christened as 'Code of Bank's Commitments to Customers' which was released for the first time on July 1, 2006 (The Code was revised in August 2009). The Code signifies the first formal collaborative effort by RBI, BCSBI, IBA and the banks to provide a framework

for a minimum standard of banking services, which individual customers can legitimately expect from the banks. BCSBI also imparts training on the Code to bankers.

Let me now highlight some of the regulations which have a bearing on customer service, in terms of expanding the scope of banking reach, simplification of requirements, using technology to enhance customer service etc.

Know Your Customer (KYC) framework - simplifications

In order to alleviate the difficulties faced by the common citizens in opening bank accounts, the Reserve Bank had taken measures in the past such as

- (a) permitting opening of bank accounts for family members of a person based on his address documents; (b) permitting opening of 'Small Account' based on self-certification; (c) widening the indicative list of documents in the list for individuals as well as proprietary concern; (d) introducing intra-bank deposit account portability etc.,

As part of the continuing efforts to fine tune the regulations, the KYC norms were further simplified. Some of the relaxations are:

- i. Accepting a single document as a valid proof of both identity and address for

opening of new accounts, if the address on the document submitted for identity proof is same as that declared in the account opening form.

- ii. Dispensing with the requirement of 'introduction' when opening accounts, if prescribed documents for Customer Due Diligence are provided.
- iii. Permitting Aadhaar Card as a proof of both identity and address if the address provided by the account holder is same as that shown in the account opening form.
- iv. Permitting NREGA Card as an 'officially valid document' for opening bank accounts without the limitation applicable to 'small accounts'.

With a view to reducing the risk of identity fraud, document forgery and to facilitating paperless KYC verification, the e-KYC service launched by UIDAI has been accepted as a valid process for KYC verification under Prevention of Money Laundering (Maintenance of Records) Rules, 2005. Further, the proposed Central KYC Registry covering the entire gamut of financial services in the country is expected to address the inefficiencies arising out of multiple KYCs across the financial institutions and, many times, within the same financial institution leading to avoidable compliance costs.

Technology and customer service

Technology has significantly changed the way banking is conducted. Introduction of ATMs along with other technological developments such as internet banking, mobile banking etc., has made banking truly 365 X 24 X 7 – anytime, anywhere banking. These developments have afforded a lot of convenience and enhanced overall customer service. Permission to use ATMs of other banks; facility of cash withdrawal at Point of Sale, setting up of White Label ATMs with a view to provide impetus to financial inclusion and the facility of near real-time funds transfer system are some of the recent measures taken to enhance the level of customer service.

However, with increased use of technology, there is an increased incidence of risks such as deficiency of services due to breakdown of technology and, more importantly, the misuse of technology by nefarious elements to perpetrate online frauds. From the perspective of the customer service and protection, there is a need for a robust mechanism to enhance safety of transactions to protect customers and also to redress their grievances due to failure in services.

In this regard, many measures have been taken by the Reserve Bank to enhance the safety and security of electronic transactions. Banks and other stakeholders have been advised to put in place security measures in a time bound

manner to strengthen the security aspects of the eco-system. Some of these measures relate to introduction of SMS alerts; use of additional factors of authentication in case of Card Not Present (CNP) transactions; implementation of digital signatures for customer-based large value payments in RTGS; securing Point of Sale (PoS) terminals to prevent data compromise as well as putting in place techniques for fraud prevention; placing restrictions on addition of beneficiaries in internet banking accounts and number of online transfers; issuance of international card only on demand by customers and limiting the usage threshold on magstripe cards for international transactions; issuance of EMV (Europay, Master Card & Visa) cards to people who use cards internationally etc.

Expanding the reach of banking services

Reaching hinterlands for providing basic financial services to the excluded segments is a customer service initiative in itself. While the conventional customer service initiatives target the existing customers, the financial inclusion initiatives focus on the prospective customers. In an economy where significant portion of the population does not have access to formal banking services, these initiatives are an absolute necessity not just from financial but also from social perspective.

Financial inclusion initiatives have received a major thrust both by the Government and the

Reserve Bank in the recent times. A multipronged approach was undertaken through a combination of strategies ranging from relaxation of regulatory guidelines, provision of new products and supportive measures to achieve sustainable and scalable financial inclusion. Let me focus on some of these initiatives.

Branching expansion- relaxations

With a view to expanding the banking presence and to further financial inclusion initiatives, the branch authorization policy has been gradually freed up. Earlier, banks were permitted to freely open branches in Tier 2 to tier 6 centres, subject to certain conditions. Now, branch authorisation has been completely freed and banks have been given general permission open branches across tier 1 to tier 6 centres without prior authorization, subject to certain conditions. Banks are required to open at least 25 percent of the total number of branches opened during the financial year, in unbanked rural (tier 5 and 6 centres). In order to facilitate faster expansion of branches in unbanked rural centres, banks have been advised to consider frontloading (prioritizing) the opening of branches in these centres over a three year cycle co-terminus with their Financial Inclusion Plans (FIPs).

Bank led model- BCs & BFs

Keeping in view the existing vast banking network in the country, RBI has adopted a bank- led model

for financial inclusion which seeks to leverage on technology. The FI initiatives are ICT enabled, wherein doorstep banking services will be provided using hand held devices such as POS machines, mobile phones, etc., which would ride on delivery models developed by banks to best suit their requirements. Reserve Bank permitted banks to utilise the services of intermediaries in providing banking services through the use of business facilitators (BFs) and business correspondents (BCs). The BC model allows banks to do 'cash in - cash out' transactions at a location much closer to the rural population, thus addressing the last mile problem.

Basic Saving bank account for everyone

Banks have been advised to introduce the Basic Saving Bank Deposit Account (BSBDA) with Zero Balance, no charges for not maintaining minimum balance, the facility of ATM/Debit Card/ Smart Card and basic facilities without any charges. With this it has become a right for every eligible Indian citizen to open basic savings account with bank. Further, in order to ensure easy and immediate availability of credit for small customers, banks have been advised to provide in built overdrafts in such basic savings accounts so as to meet the emergency credit needs so that they are not forced to approach money lenders in distress situation. The entrepreneurial credit has also been simplified in the form of credit limit in the form of KCC (Kisan

Credit Card) for farm sector household and GCC (General Credit Card) for non farm sector households.

RBI has adopted a phase wise approach to financial inclusion. In the first phase, banks were advised to draw up a roadmap for providing banking services in every village having a population of over 2,000 in March 2010. Banks have already reported having covered more than 74000 such unbanked villages. In the second phase, the focus has shifted towards covering the remaining unbanked villages of the country with population less than 2000 in a time bound manner by preparing a roadmap and notionally allotting these villages to banks. The idea behind allocating villages to banks was to ensure availability of at least one banking outlet in each village. SLBCs (State Level Bankers - Committee) have reported having identified close to around 4, 90,000 unbanked villages with less than 2000 population across the country.

With the concerted efforts made by all the stakeholders as part of the financial inclusion drive, significant progress has been achieved in many parameters. During the three year period (April 10 – March 13), nearly 2, 68,000 banking outlets were set up, about 7400 rural branches were opened and nearly 109 million Basic Savings Bank Deposit Accounts were opened. As a mark of penetration of technology, the share of ICT based

accounts have increased substantially with the percentage of ICT (Information and Communication Technology) accounts to BSBDAs increasing from 25% to 45% during the period. About 490 million transactions have been carried out in ICT based accounts through BCs during the three year period.

Financial Sector Legislative Reforms Commission (FSLRC) and Customer protection:

The FSLRC which has been constituted to review the legal and institutional structures of the financial sector India, in its report has, inter alia, made many recommendations in the area of customer protection. In the Second Quarter Review on Monetary Policy 2013-14, Reserve Bank proposed to implement some of the recommendations such as (i) consolidation of all instructions relating to consumer services/ consumer protection for placing them on Bank's website and examination of gaps, if any, (ii) Examination by the Reserve Bank of its own public facing services and institution of time-bound response guidelines where feasible and not already in place and (iii) setting up of a Committee to examine whether a system of formal certification is warranted for certain job descriptions within the Reserve Bank and in the financial entities and market segments regulated by it.

III. Empowering Customer- Financial Literacy

Having touched upon two pillars of customer service framework i.e. competition and regulation, let me now move on to the third and most important pillar- financial literacy. While the other two pillars help from outside, the third pillar of building financial literacy helps the customers from within by empowering them with knowledge. It is like teaching the hungry how to fish instead of feeding them fish. A wary and alert customer is the biggest disciplining factor on service providers, It is in this area that Shri Pai had done commendable work by educating the customers and making them realize their rights.

The RBI has initiated many activities and campaigns to spread financial education and awareness of consumer rights and the grievance redressal mechanism, both at the banks and the 15 Banking Ombudsman Offices. Some of the major initiatives are: Outreach Programme, Open House, Town Hall events, advertisement in the print and electronic media, publishing of comic books and conducting quizzes etc. The RBI is now partnering with state Governments and NGOs to pool resources and create awareness of products and channels of delivery. Banks and BCSBI have also been mandated to conduct education and awareness campaigns by conducting Financial Literacy Camps (FLCs) at least once a month to educate the masses. RBI has also engaged with the academic curriculum

setting bodies (NCERT, CBSE, Centre and State Govt.) The Financial Sector Development Council (FSDC) sub-committee is tasked with formulating a National Financial Literacy Strategy document to create awareness and educate customers on access to financial services, products and features, translate knowledge into behaviour and making the customer understand his rights and responsibilities.

For building awareness regarding use of electronic banking products and security aspects, the Reserve Bank has launched eBAAT (Electronic Banking Awareness And Training) programme. The format envisages demonstrating the products to people, particularly providing an opportunity to people to touch and feel the e-banking payment products and to increase confidence among the targeted groups. The e-banking payment products include uses of Net banking, Mobile payments, Debit, Credit and Prepaid cards, ATMs, PoS, NEFT, RTGS, ECS and Domestic Money Transfer. The target groups are pensioners, office goers, migrants, housewives, businessmen, students, populations covered under financial inclusion and bank employees.

Conclusion

To reiterate the opening comment I made, customer is the very reason for existence of service providers and the level of customer satisfaction is the crucial factor differentiating successful ones from the rest. It is incumbent upon the service providers to get their

act together in heeding to the customer opinion, working with them in addressing their concerns, meeting their expectations and sensitizing them about emerging issues. While competition facilitates enhancement in customer service by providing customers with more options to choose from, thus disciplining the behaviour of firms, it alone is not sufficient. Regulation is necessary to ensure that the firms conduct their operations in a prudent and fair manner and to provide confidence to customers. Educating and empowering customers is the most important element that ensures that customers choose the right providers and right products and take care of their interest. It is in this regard that the yeomen service rendered by Shri Pai assumes great significance. I hope that the message given by Shri Pai is kept alive and carried forward in building more aware customers. I am sure crusaders like Shri Deshpande will surely take this movement to greater heights.

The views expressed in this booklet are not necessarily those of the Forum of Free Enterprise.

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"People must come to accept private enterprise not as a necessary evil, but as an affirmative good".

- Eugene Black
*Former President,
World Bank*

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In recent years the Forum has also been focusing on the youth with a view to developing good and well-informed citizenship. A number of youth activities including essay and elocution contests and leadership training camps are organised every year towards this goal.

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