CGAP CONSUMER PROTECTION POLICY DIAGNOSTIC REPORT
India 2010

1. Introduction

1.1 Consumer protection policy diagnostic process

CGAP (http://www.cgap.org) is an independent policy and research center dedicated to advancing financial access for the world's poor. It is supported by more than 30 development agencies and private foundations that share a common mission to alleviate poverty. Housed at the World Bank, CGAP provides market intelligence, promotes standards, develops innovative solutions, and offers advisory services to governments, microfinance providers, donors, and investors.

CGAP's standard-setting role is expanding to include facilitating responsible behavior among financial institutions serving low-income customers as part of its focus on equity and efficiency. This may include setting standards covering transparency, client treatment, and recourse developed in partnership with governments, investors, and other relevant actors. It also aims to disseminate templates or frameworks others may use to carry out research, data collection, or analysis.

To help inform this work, CGAP contracted with an in-country microfinance expert to assess the Indian consumer protection policy environment for low-income and/or inexperienced customers. This report is based on the findings of interviews conducted as well as desk research.[1]

1.2 Financial consumer protection in India

The Report of the Committee on Financial Inclusion (2007)[2] reveals that, despite a large banking system and cooperative credit network, many poor households in India lack access to financial services. Approximately 25 percent of adults have credit accounts in the formal financial sector, and 82 percent of adults have savings accounts.[3] While the government and Reserve Bank of India (RBI) have taken steps to establish a widely distributed presence of bank branches, India's large population has made it difficult to ensure financial services are accessible to all those who need them.

The Indian effort to build a more inclusive financial system focuses on poor people who live in remote rural areas and who might have limited and infrequent needs for financial services, at least in the beginning stages. Typically, those excluded from financial services are not fully literate, live in rural areas or urban slums, have stressed livelihoods, and seek the support of the state to stabilize their livelihoods and finances. Many banks do not seek out poor people as customers because poor people typically do not figure into banks' business strategies to expand and improve their operational and financial performance.

Over the last three years, the Reserve Bank of India (RBI) and the Government of India have adopted financial inclusion as a policy objective and have taken actions to move toward the goal of universal access to financial services. They have accepted branchless banking as a feasible proposition for acquiring clients and delivering services. On a global level, branchless banking has adopted both bank-based and nonbank-based models; however, only bank-based models are permitted to operate in India.

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[1] This diagnostic was completed by independent consultant N. Srinivasan on behalf of CGAP.

[2] The Committee on Financial Inclusion was appointed by the Government of India to study and recommend strategies of accelerating financial inclusion to provide access to financial services for people who are underserved. The committee was headed by Dr. C. Rangarajan, former governor of the Reserve Bank of India.

[3] Statistics are from a keynote address, ―Financial Inclusion and Information Technology," by Deputy Governor Smt. Usha Thorat at Vision 2020—Indian Financial Services Sector, September 2008.

Regulators perceive high risks from nonbanks offering banking services, given low literacy levels and past experience with nonbank financial services provision. However, this perception may not be entirely justified. The experience of other countries, such as Brazil in using diverse banking correspondents and Kenya in using mobile operators for payment services, shows that when the necessary regulatory space is opened up, acceptable nonbank service delivery models can spring up.

Since 2005 practices have been put into place that make branchless banking possible beyond the automated teller machine (ATM) network. Today, Indian banks seem to encourage clients to stay away[4] from bank branches even as their clients continue to receive improved financial services. Services through ATMs, internet and mobile phones have made it possible to improve service quality, reduce the time spent by customers putting through transactions, and reduce traffic in branches. Branchless banking channels include (*i*) ATMs, (*ii*) electronic banking based on the Internet, (*iii*) banking correspondents and banking facilitators, and (*iv*) mobile banking. Prepaid instruments also are likely to be used in the near future, further extending the frontiers of branchless banking. In the context of banking the poor and achieving financial inclusion, the banking correspondent and facilitator models as well as the mobile telephony-based model are highly relevant. ATMs and Internet banking address the needs of the urban population, which has high incomes and little time to spend going to the bank, better than they address the needs of the rural poor. However, ATMs and Internet banking can also be used to improve access to financial services to the rural poor.

This paper focuses on branchless banking models that can serve poor and marginalized people rather than on high-end branchless banking technologies aimed at affluent customers. In effect, agent-based models—where banking correspondents and banking facilitators deliver banking services fully or partially—are the most effective in serving poor clients. A wide variety of technologies and processes used in agent-based models is being tested across India. Some of these technologies and processes are examined in the context of customer protection and comfort.

The drive to include poor clients naturally leads banks to cost-effective technologies that make transaction costs affordable to customers and banks. Outsourcing noncore tasks is an effective way to reduce costs, but having nonbank staff handle banking transactions increases risks. When banks or regulators take steps to contain these risks, customer service tends to diminish and access to expanded services tends to become restricted by limiting the types of services nonbank staff are authorized to handle. There is a tradeoff between customer service and customer protection. Customer service tends to diminish in branchless models where there is minimal direct interaction between bank staff and the customer. Reduced customer service is reflected in a longer time needed to acquire clients because of stringent know your customer (KYC) requirements, restricted range of services, limits on transaction size, and additional safeguards for establishing customer identity that require customers to provide information such as personal identification numbers (PINs), passwords, fingerprint, etc. These are acceptable conditions to many people who want to gain access to quality financial services that previously had not been available to them, but not all segments of clients may accept such restrictions and might choose to directly avail the services from a bank branch.

2. Trends in Branchless Banking

2.1 Branchless banking models directly operated by banks

ATMs have caught the fancy of both banks and clients. Most new private sector banks in India have more ATMs than branches. Ease of dealing with customers efficiently and the ability to account for transactions in real time has made ATMs an indispensible part of banking.

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[4] Clients are given access to ATMs, netbanking, mobile-based services, etc., to keep them away from branches. Service with a human interface in banks is expensive, so banks make it easy for the customer to do branchless banking.

Table 2.1 ATMs substitute for branches

Bank group	Number of ATMs on site	Number of ATMs off site	Total number of ATMs	ATMs as % of branches
Public sector banks	12902	8886	21788	52
Old private sector banks	1436	664	2100	47
New private sector banks	3879	5988	9867	279
Foreign banks	269	765	1034	377
All banks	18486	16303	34789	57
Data as of 31 March 2008, RBI, Report on Trends and Progress of Banking in India, 2008.				

Customer protection issues involving ATMs stem from both technology and fraud. While customer awareness could reduce, if not prevent, fraud, satisfactory solutions to deal with ATM failure still need to be created. Remote monitoring of ATMs, repeated cautionary messages to ATM users, and security-related screen prompts while using ATMs, etc., tend to reduce ATM-related problems for customers. Indian Bank has introduced biometric ATMs to overcome the traditional problems associated with ATMs. This is being tested in rural areas.

Box 2.1. Biometric Teller Machines (BTMs)—Indian Bank

- 11 biometric ATMs installed, so far (100 ATMs to be installed in rural/self-help group (SHG)-centric branches)
- Technology solution developed by the bank in association with Financial Software and Systems Pvt. Ltd.

Benefits
- Joint authentication enabled for SHG members
- 24/7 services
- No need to remember PINs
- No chance to misuse PINs
- Useful for illiterate clients

A few banks in India, especially those in the private sector, offer high-quality Internet banking services. However netbanking is not as commonly used as ATMs because clients are not as familiar with this channel and do not know how to use the technology. Furthermore, netbanking option is prone to fraud. Phishing for personal information over the Web is common and difficult to uncover. Customer awareness education on how to use netbanking safely and precautions to take while sending sensitive information over the Internet would help reduce fraud.

HDFC bank uses a hub-and-spoke model, where staff moves from headquarters to rural areas with handheld devices. Staff traverses a maximum of 35 km from the main branch, which is normally located in a semi-urban area, so that the surrounding rural area can be served. Clients enrolled after meeting KYC requirements are given smartcards. In most cases, client verification is done through biometric registration. Using the smartcard, clients make transactions through the banking correspondent's handheld device. Pay-in and pay-out of money happens when the banking correspondent prints out a receipt and gives it to the client on the spot. Because mobile bank staff substitutes for the branch, agent risks are avoided. From the customer's perspective, other risks, such as system failure or system abuse leading to fraud, still exist because staff works without supervision in the field. To mitigate risks, staff needs to be monitored, transactions need to be reviewed, a complaints registration mechanism (that enters the bank's records with an acknowledgement to the customer at the time of registration of complaint) needs to be in place, and customers need to be educated on safeguarding against fraud.

2.2. Branchless models operated by banks through correspondents

Based on the recommendations of an internal working group, RBI introduced the banking correspondent and facilitator models in 2006. Banking correspondents are financial service agents who can process cash transactions on behalf of the bank. Facilitators provide client identification, acquisition, verification, collection and provision of information, etc. While a correspondent can provide all the services that a facilitator does, a facilitator can provide only nonfinancial services. Neither correspondents nor facilitators may verify KYC compliance or take credit decisions. Given their restriction on providing financial services, facilitators are typically used for client introduction, especially in areas where the bank has spare capacity to handle additional customers, but not the reach to mobilize them. There are also institutions that have good reach among a local population, but are unwilling to act as a banking service provider on account of risks of handling cash and accounting. In such cases, banks engage these institutions as facilitators and use them for customer acquisition and maintaining continued customer contact.

Table 2.2 Banking correspondents and banking facilitators—a comparison

	Banking correspondents	Banking facilitators
Who can do the job?	Society/trust nongovernment organizations (NGOs); cooperative societies, including Mutually Aided Cooperative Societies (MACS); not-for-profit companies; post office	Those eligible as correspondents, plus community-based organizations, IT-enabled rural outlets of corporate, insurance agents, Panchayati Raj Institutions (PRIs – local self governments), village knowledge centers, Krishi Vigyan Kendras, agribusiness centers, and Cottage and Village Industrial units (Khadi and Village Industries Commission/Khadi and Village Industries Board)
What do they do?	Identify clients and activities, process applications, form groups, disburse small-value loans, recover loans, collect small deposits, sell insurance products, handle small remittances	The first three activities of correspondents, plus verify primary client information, create financial literacy and debt counseling, and follow-up loan recovery
What are their roles?	**Represent the bank as its financial service agent** May put through transactions as agents of bank and bind the bank in financial transactions (can accept deposits, loan repayments, make repayment of deposits, and pay loans to customers)	**Represent the bank as agent for nonfinancial limited services** Cannot put through transactions and cannot bind the bank in financial transactions because they are not authorized to deal with funds in any form.

Progress in adopting banking correspondent/facilitator models was brisk over the last year, and there have been developments in the banking correspondent model, including banks hiring banking correspondents in several states. While in some cases, these correspondents are large organizations (NGOs and nonprofit companies), in others, retired bank officials, small NGOs, microfinance institutions (MFIs), and the like, have also been engaged by banks. State Bank of India has several correspondents contracted in different states. It has also engaged India Post as its banking correspondent in several states. Almost all public sector banks and most private sector banks have engaged banking correspondents. Banking correspondents are used primarily in urban and semi-urban areas. They operate in rural areas in only a few cases. But banks plan to expand to rural areas once hiring procedures for banking correspondents and accompanying technology solutions stabilize.

Box 2.2. State Bank of India and branchless banking

State Bank of India (SBI) has engaged six national banking correspondents and 40,000 regional banking correspondents and facilitators. It has 10,000 customer service points. It is testing point of sale terminal-based smartcards, Internet-based computer kiosks, and mobile phone solutions through its banking correspondents. About 0.25 million no-frills accounts have been opened. SBI has engaged, apart from the Post Office, nonprofit entities promoted by large technology solutions providers (such as FINO, A Little World) as its correspondents. (See Annex V for more information.)

The regulator's guidelines on using banking correspondents have influenced growth and processes being used. SBI, as per RBI's instructions, has to carry in its books all transactions that have been put through on its behalf by its banking correspondent at the end of each day or next working day.[5] Furthermore, the banking correspondent should not operate farther than 15 km from the bank branch in nonmetropolitan areas and no farther than 5 km from branches in metropolitan areas. RBI requires banks to be able to periodically supervise the work of the correspondents, with the frequency of such monitoring determined by the individual banks. Such ongoing monitoring, according to RBI, would be possible only when correspondents operate within a reasonable distance from the branch. The distance criterion is seen as a customer protection measure because it is expected to control agent risks, through better and closer monitoring of the correspondents' work. The distance restriction has the unintended consequence of limiting the potential inclusion a correspondent could achieve through better mobility and high-end technologies. Given that banks remain responsible for the acts of omission and commission of their agents, monitoring arrangements are best left to the discretion of banks. Banks would be able to offer compliance with the distance restriction as a sufficient excuse for failure of banking correspondents to provide satisfactory service.

Limits on ticket size per transaction (Rs 10,000) through banking correspondents also have been introduced. These transaction limits would evolve and increase or decrease in light of experience and strength of demand from clients. If banks use correspondents to carry out customer services and manually put through transactions, end-of-day accounting would be time consuming and error prone. Thus technology has become a critical element of this business model. Technology-assisted banking correspondents not only facilitate efficient back office accounting and seamless porting of data to banks' servers at the end of the day, they also ensure customers get protected, error-free service on par with what they might get from a fully computerized bank branch.

Banking correspondent/facilitator networks employ eligible individuals, NGOs, nonprofit companies, and others. Banking correspondents enroll clients for banks and enable small transactions to be put through. In

[5] RBI's circular dated 25 January 2006

most cases, correspondents are supported with technology products and solutions that enable the bank to comply with RBI regulation on keeping transaction accounts current at the close of business each day. Financial inclusion, especially in remote and poor areas, is increasingly powered by technology. See Box 2.3 to learn about a recent pilot initiative of the Government of Rajasthan, which called for enrolling 5 million women as clients of the banking system in a sparsely populated state.

Box 2.3. Bhamashah Financial Empowerment Scheme—Government of Rajasthan

Objective
Financial inclusion of underserved female clients and creation of a state-wide biometric smartcard-based IT infrastructure and platform for service delivery to the rural poor.

Steps taken
- Appoint two infrastructure service providers (ISP)
- Train those involved in the mobilization

Outcomes targeted
- Enroll 5 million households and issue smartcards.
- Establish central data center and connectivity.
- Establish 15,000 banking POS and 2,000 POS at hospitals.
- Enroll 5 million clients in 20 days at 15,000 camps across the state.
- Open no-frills bank account for disbursement of entitlements.

Infrastructure Leasing and Financial Services, a development finance and consulting organization, and BASIX, an NGO engaged in rural development and development finance advice, partnered with the government of Rajasthan in this time-bound program for opening 4.4 million accounts in 29 districts. Bartronics, a software technology applications provider , is responsible for the remaining 0.6 million accounts in the other districts.

Two million clients have met KYC requirements, but only 8,000 smartcards have been issued. No service centers or kiosks have been set up so far. In the recent elections, there was a change of government, and the new government in place has kept the project on hold pending a review of what has been planned and done so far by a ministerial committee.

The state is playing a key role in bringing poor people to the banking fold and also promoting technology use. The government agenda is not only financial inclusion but also finding hassle-free, cost-effective methods of making benefits payments. A successful large-scale pilot on electronic benefit payments involving multiple banks, branches, and technology solutions providers has been carried out in Andhra Pradesh. (See Box 2.4.)

Box 2.4. Technology, inclusion, and benefits transfer - the AP model[6][7]

The Government of Andhra Pradesh launched a pilot program aimed at streamlining payment of wages by crediting bank accounts opened specifically for that purpose. This National Rural Employment Guarantee Scheme (NREGS) operates on the financial inclusion platform created by banks through their business correspondents.

Banks have been allotted specific Mandals for bringing the unbanked population into the banking system. Since banks do not have branches in remote areas, they are using banking correspondents. The correspondents hold enrollment camps at the village level and collect information, including biometric identification, from potential account holders. Banks open the accounts in their books after verifying KYC requirements. Account holders are issued a smartcard that contains their basic account data, biometric data, and photograph.

Correspondents use handheld devices to connect to the bank's database and to perform cash-in and cash-out transactions on behalf of the bank. A day or two before the payment date, the government gives a check to the bank along with the details of the beneficiaries. The bank credits the accounts of the beneficiaries and the correspondent, who can access the account balance through a mobile access device, and disburses cash at the village level.

The model has some challenges. The biggest challenge is lack of viable business volumes because there are so many existing banks and many correspondents in a given area. Designated banks find the business volumes very thin in the NREGS accounts and so believe that having correspondents who deal only with such accounts might be a viable arrangement for the NREGS recipients (for the other customers, there is competition in the area from other banks and their correspondents). The Government of Andhra Pradesh feels the process is slow and, even after one year of implementation of the pilot, the up-scaling of the model is still not complete.

2.3 Technologies in branchless banking

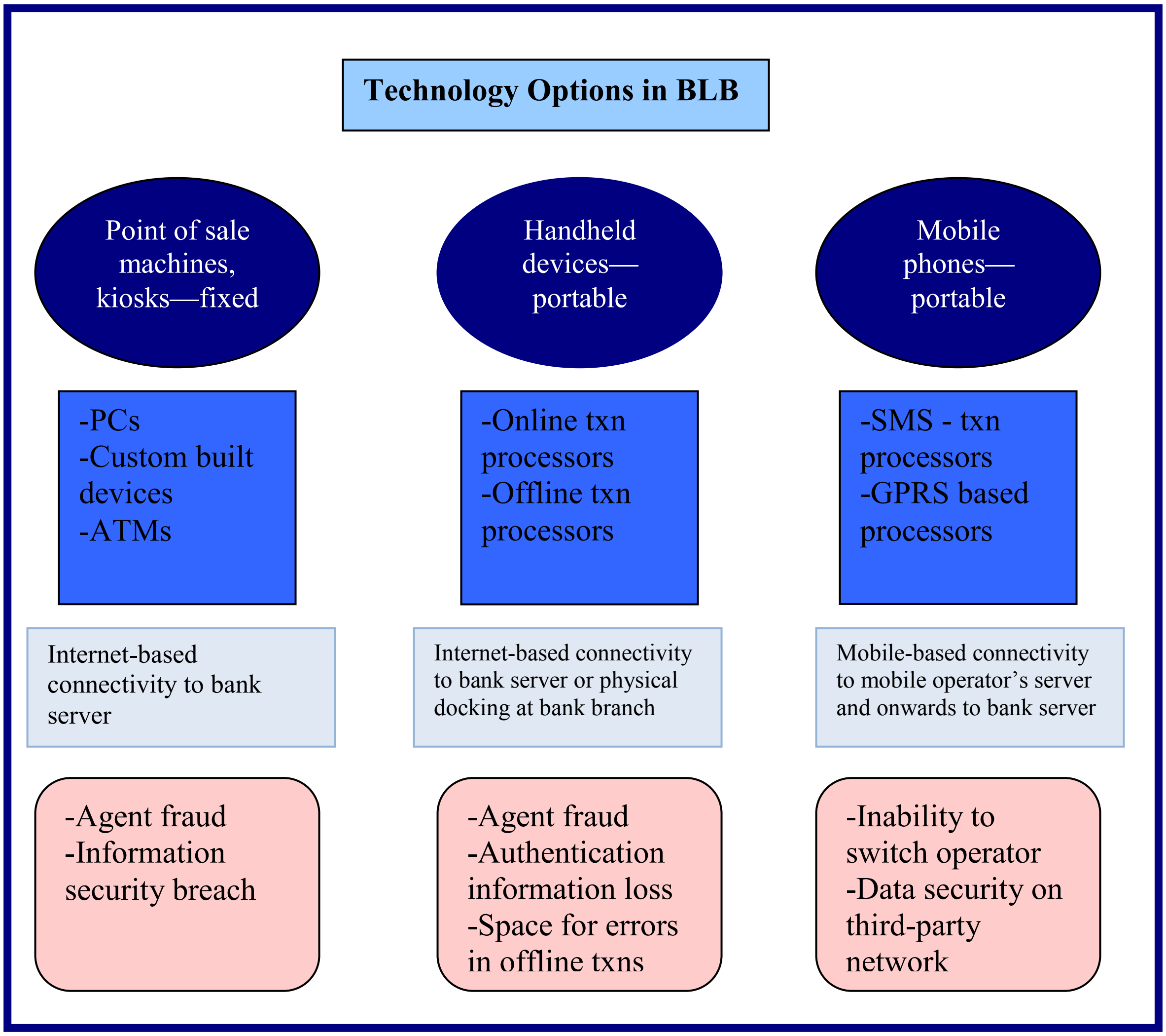
Banks prefer to use technologies that involve either mobile telephony-based solutions or a handheld electronic device that connects to the bank's server through the Internet, mobile services, or physical docking. In the kiosk models customers go to banking correspondents (just as in the case of going to a bank branch). In models where portable devices are used, the banking correspondent would go to the customer (or to an area near the customer), but the frequency of these visits would depend on the number of customers in that area and the volume of business to be conducted.

Where portable devices are used, clients feel better placed to understand the banking requirements and feel secure about their transactions. At the same time, the kiosk model makes services available with certainty as it is located in a given place, and enables the customers to transact in emergency situations. . Kiosks could also bundle other nonfinancial services and improve customer service on a broader range of products that might include non-banking services such as providing information on market prices, placing of orders for inputs into businesses, and making utility payments. Agent risks in both models are the same, but the kiosk model is easier to supervise and monitor than the banking correspondent model as mobility of correspondents renders their monitoring difficult.

[6] The program has run into problems with change of government. Further work on opening of accounts for enrolled women, opening service centers for servicing the accounts, etc. have been put on hold pending the conclusion of a review by a committee of ministers.

[7] Excerpted from the report of the Committee on Suggesting a Framework for Electronic Benefit Transfer, headed by R. B. Barman, executive director, RBI

Box 2.5 Branchless banking technologies



Client authentication and verification in all the technology-based models are carried out through technology (such as smartcards, biometric matching) or appropriate physical recognition (such as photo matching, signature verification). The range of technology solutions used with banking correspondents has been broadening. Some of the hardware devices being used across the country include

- **handheld devices with transaction processing capabilities and internal memory; handheld devices with single/multiple card reading capabilities and internal memory-based transaction processing ability;**
- **mobile phones with fingerprint identification capability and attached printers;**
- **POS machines with a variety of attachments, such as card readers, biometric information readers and printers; and**
- **Mobile phones with SMS-based transaction processing capabilities. Most of these can work both offline and online.**

While some POS machines are desktop computing devices stationed in kiosks, others are portable devices carried by banking correspondents.

Banks have developed technology applications in accordance with their requirements and their plans for using the banking correspondent model for acquiring and servicing clients (see Box 2.6). Of all available technologies, SMS-based mobile phone solutions give clients a sense of security because in many cases clients actually own the phones and have them in their possession. Apart from the phone number and SIM card containing essential identification, customers have additional identification and authentication features (see box on EKO services model) that may make them feel in control of their account. Given time and supportive mobile banking guidelines, the mobile-phone-based model has the potential to scale-up fast. With more than 40 million mobile phones used in rural areas, many rural customers already know how to use the technology, and lack of familiarity is less likely to be a barrier for uptake by new customers.

Recognizing its potential to achieve financial inclusion faster, RBI has issued guidelines for enabling mobile telephony-based financial services (see Annex III). The guidelines stipulate minimum criteria for those who want to provide mobile phone-based services and a ceiling on transaction amounts. Remittances to third parties are restricted in the initial stage. While different technologies were being tested earlier, mobile-phone-based banking products are now being piloted in quite a few locations in the country including in Delhi, Bihar, Karnataka and Rajasthan. Some devices provide verbal confirmation of the transaction in the local language so that illiterate clients understand the transaction made on their behalf. Mobile phones have been used to transact on checking accounts—to deposit and withdraw money from accounts. Both voice- and SMS-enabled solutions are available.

Box 2.6 Corporation Bank banking correspondent model

Corporation Bank's branchless banking model incorporates use of a smartcard and mobile phone that works on radio frequency identification (RFID) technology. The mobile phones work with the smartcards to identify the customer: biometric information captured on the smartcard is compared with the customer's physical fingerprint. Transactions are processed and authenticated by printing a receipt using a printer attached to the mobile phone.

This is a low-cost, scalable model. Corporation Bank's pilots are operating in Goa, Karnataka, Tamil Nadu, and Andhra Pradesh. Corporation Bank enhanced the model by surveying the villages it wanted to cover and, during that process, opening new accounts and issuing smartcards so that KYC norms could be easily met without requiring customers to make extraordinary efforts to produce documents that may be difficult to procure.

The banking industry has high hopes that mobile banking will be able to bring financial services to poor people who live in rural areas. Since mobile phones do not depend on a continuous power grid, can be carried on one's person, and have hardware that is easily replaced, continuity of service can be maintained without extraordinary costs. Mobile service operators are working out ways to integrate financial services into their mobile platforms. Currently, however, regulators are not inclined to allow mobile service operators to enter banking in any form, directly or indirectly.

Two different technologies in mobile banking services—one based on GPRS and the other on SMS—are being tested in pilots. Either technology could be used by bank staff or banking correspondents (see boxes 2.7 and 2.8). While voice-based service is offered through banking correspondents who carry the mobile phone and printer from location to location, the SMS-based service is used at service points that customers visit to make transactions.

Box 2.7 Atom Sewa—GPRS-based mobile technology

Atom Technologies offers Atom Sewa, a mobile-phone-based service with voice-enabled service capability that works on GPRS. The program works like this:

- Banking correspondents carry the mobile phone, with a handheld printer attached, to customers. (The printer reads magnetic cards and scans fingerprints.)
- Customers are issued a magnetic card (like a debit card), which is swiped on the printer.
- Customer details flash on the phone's screen.
- The agent selects the appropriate options in the mobile application (called Sewa) based on the customer's request for a transaction.
- Transaction details are displayed on the phone's screen, and the details are spoken in local language over the phone's speaker.
- If the customer is satisfied with the transaction details as spoken over the phone (or displayed on the screen) she/he places her/his thumb on the fingerprint scanner.
- Once the thumb impression is scanned and matched by the scanner, the application encrypts the data and sends the same to the server.

The kit is highly portable. It is local language-enabled both in print and voice, and it has two levels of authentication for both the customer and the banking correspondent/bank.

Some of the problems customers may encounter arise from failure of the device, failure of software, loss of mobile connectivity, and lack of adherence to the processes by the banking correspondent. The technology issues can be sorted out by building redundancies in terms of hardware and ensuring work can be done off line when connectivity fails. The back office issues of sending secure data over open networks, safety of data held in servers, and disaster recovery systems are handled by the service provider.

EKO financial services (a banking correspondent) in Delhi ran a pilot where 2,000 accounts were opened using authorized retail points of a cell phone company as customer service points (CSPs). CSPs are used to collect account opening forms and support bank staff responsible for ensuring compliance with KYC norms. Once accounts are opened, CSPs also enable transactions of deposits and withdrawals of amounts as low as Rs. 10 (about 20 cents). The first pilot ended without scaling up because of the lack of regulatory support for mobile banking at that time. A second pilot is underway with State Bank of India as the principal.

Box 2.8. SMS-based banking—EKO financial services

EKO's system has a simple design. The customer's mobile phone number serves as the bank account number. Transactions are processed through SMS. EKO has arrangements with many retailers (grocery shops, convenience stores, mobile recharge voucher sellers, etc.) to act as CSPs.

To open an account, customers give a completed bank application form and proof of identity to staff at the CSP. Bank staff visits the CSP to meet applicants and carry out standard KYC verification procedures.

Once KYC verification is complete staff at the CSP give new customers a booklet that contains a welcome letter, product leaflet, manual, and small signature booklet of 100 signatures. The signatures contain a 10-digit number that has four blank spaces, in which digits are to be filled in by the customer at the time of a transaction. The customer gives CSP staff one of the signature tokens each time a transaction is made. Customers can go to any CSP to make a deposit or withdrawal. At the end of the month the customer can generate a statement of accounts for the month by dialling a specific number. A paper statement of account can also be given if needed. It is convenient for the customers and cost effective for EKO. Posters promoting the service are displayed at the CSP.

The service is used in a variety of ways by clients. For example, one small business with about 20 staff credits staff salaries into mobile banking accounts, thereby eliminating its cash-handling problems. Some small vendors deposit cash into the account at various CSPs during the day instead of carrying cash on their person. CSP staff manages the cash, while transfer of funds to and from the bank is conducted through a settlement system developed by EKO that uses the CSPs' accounts with the cell phone operator and the bank.

According to EKO, each physical banking transaction costs a bank more than Rs100 per customer; each ATM transaction more than Rs15. ―This mobile banking model costs very little to the bank; except for the commission paid to EKO as correspondent," says a company official. EKO mobilized more than 2,000 clients for Centurion Bank of Punjab. With that pilot coming to an end, EKO has now tied up with State Bank of India for a larger pilot involving more than one location. The new pilot with State Bank would also test remittance facilities between account holders in different locations. This pilot was rolled out in February 2009 with 17 CSPs already opened.

EKO identified some problems customers faced in the earlier pilot. Problems arose when CSPs did not have adequate cash to honor payment requests and when the mobile network failed. Also, customers who wanted to change their mobile operator stood to lose their bank identification number and hence felt forced to continue with their existing mobile operator. EKO plans to resolve these problems in its second pilot.

Restrictions on for-profit companies becoming correspondents have prevented several finance and microfinance companies from offering banking correspondent services to banks. These restrictions seem to be aimed at preventing large commercial entities from entering banking in a surreptitious manner—i.e., without following stringent due process for entering the banking business. Technology providers found a facile entry to set up their nonprofit companies[8] and offer services to banks. FINO and A Little World (ALW—through Zero Mass Foundation) are two such companies that provide technology solutions and act as banking correspondents for several banks in different locations. While Fino works with banks, MFIs, and financial institutions for both banking solutions and financial inclusion-related software/hardware, ALW provides technology support on card- and mobile-based platforms to other correspondents and works with seven large public and private sector banks.

The number of technology service providers involved in branchless banking has increased exponentially. However, only a few have implemented their solutions on a significant scale because banks tend to initiate pilots first before scaling up. The same banks sometimes work with different service providers in different locations because of the decentralized nature of hiring banking correspondents and the lack of a pan-Indian footprint of most service providers. The regulator has emphasized technology standards that would enable seamless movement of information across different technology platforms. *Interoperability has been the key regulatory criterion in the choice of technology by banks and service providers for financial services.*

From a consumer's point of view, a basic understanding of the mobile technology used by banks would help consumers decide which banks they want to do business with. Some questions customers might ask include the following:

1. Who would own the mobile device?
2. How will the transactions be recorded (will the customer's mobile keep a record)?
3. If the mobile phone with the banking correspondents staff is to be used for transactions, how will transactions be authenticated and recorded? What prevents business correspondents from making unauthorized transactions?
4. Is the transaction processing software SMS based or GPRS based? What are the security levels?
5. If the mobile device is in the custody of the customer, would he or she be able to change the handset? Would the customer be able to change to a different service provider (which would mean changing the phone number)?
6. How frequently would the customer be able to access these services if they are dependent on visits from banking correspondents?

[8] Not-for-profit companies are limited liability companies set up for pursuing development objectives. They do not aim to make profits, and their surpluses cannot be distributed. Some of these companies do not have equity, but are limited by guarantee. Such companies are called Section 25 companies.

Table 2.3. Pros and cons of different mobile technology options in financial services

Connectivity	Pros	Cons
1	2	3
Short Message Service (SMS)	1. Easier to build applications 2. Already a popular medium to communicate 3. Billing activities can be automated by tight integration with operator's systems	1. Still unreliable – delivery of message is not guaranteed 2. Requires user to remember codes/ keywords 3. Data size per message is restricted to 160 characters 4. Multiple SMS based transactions can cause user resistance
General Packet Radio Service (GPRS)/Code Division Multiple Access (CDMA)	1. Provides ability to build advanced features 2. User interacts with a well designed user interface (UI) and does not require training 3. Can integrate seamlessly with e-commerce scenarios 4. Development skillset for GPRS are widely available	1. GPRS / CDMA still not popular 2. GPRS in particular requires separate hardware and is not present wherever GSM connectivity is available 3. Both in turn do not have a pan India presence 4. CDMA requires specialised skillset which is not widely available
Handset Technologies		
Subscriber Identity Module (SIM) Toolkit	1. Ensure availability of application as and when customer buys a new SIM card 2. Operator is closely associated with the mobile banking project and hence the task of delivery of service is easy	1. Requires operator's assistance in replacing existing SIM cards 2. Operator lock-in for banks 3. Technology may not be inter-operable in multiple operator scenarios
Mobile Application Development	1. Operator independent 2. Development skillset is widely present for GPRS 3. Ability to design and deliver better features and user interface	1. Development skillset is rare for CDMA 2. Data security is a concern
Emerging Technology		
Near Field Communication (NFC)	1. Ease of use 2. Experience similar to credit card usage	1. Still in nascent stages, various pilots being conducted across the world 2. Mobile phones still costly
Mobile Phone as a device	1. Round the clock availability with customer 2. Always on and always connected 3. More handsets, than bank accounts 4. Telecom operators already have sophisticated billing systems and can deliver banking services independent of banks.	1. Not built for mobile transactions 2. Compared to Point of Sale (PoS)/Automated Teller Machine (ATM) devices which are built and certified for banking activities 3. Primarily Personal Identification Number (PIN) based authentication, concerns on ability to remember pin numbers (Efforts are on to integrate biometric scanners with phones)

Source: Agarwal, Gaurav. 2007. "Financial Inclusion through Mobile Phone Banking: Issues and Challenges." *CAB Calling*, July-September, 2007.

From a customer's perspective, it is important for technology to be robust enough to provide uninterrupted service and ensure information security. In terms of handset technologies, those that are operator independent would serve customers' interests better because they give customers the option to move from one service provider to another. Customer protection is better achieved where the transaction device (mobile phone) is owned by the customer and additional authentication procedures are established that facilitate the customers alone to transact on their accounts. Customers are required to carry their PIN and authentication information securely and keep the handsets, which would also contain essential access information, safe. Mobile banking customers, regardless of the connectivity technology and handset, need relevant information on precautions to be taken when using the services. Service providers have a critical role in providing customers this information in a simple and understandable manner.

2.4 Prepaid Payment Instruments

In another effort to advance branchless banking, RBI has issued guidelines regarding prepaid instruments.[9] The policy guidelines permit banks and nonbank entities to issue prepaid instruments. The eligibility norms, capital adequacy requirements, investment of float funds outstanding under issued instruments, measures for fraud prevention, and customer protection are part of the guidelines. The guidelines provide that banks and nonbanks can issue and reload instruments through authorized outlets or agents. Although small-value instruments (up to $100) can be issued covering a wide variety of purposes without detailed

[9] The guidelines were issued on 27 April 2009 under the Payment and Settlement Systems Act 2007.

verification of the customer, larger value instruments of up to Rs 10,000 ($200) may be issued only for paying utilities bills. (As per the guidelines, utility bills/essential services shall include only electricity bills, water bills, telephone/mobile phone bills, insurance premiums, cooking gas payments, ISP for Internet/broadband connections, cable/DTH subscriptions, and citizen services by government or government bodies.)

Only banks are permitted to issue open system prepaid instruments. Other eligible entities would be authorized to issue semi-closed system payment instruments, and they should seek permission from RBI to do so. Closed-system payment instruments are not considered significant from a payments systems point of view because these do not allow payments and settlement for third-party transactions and do not permit cash withdrawal or redemption. The instruments would be allowed to be used for money transfers with some restrictions. Mobile-based prepaid instruments, such as mobile wallets, can be issued only by banks that have been authorized for mobile banking.

Banks/NBFCs meeting the regulatory capital adequacy standards will be permitted to issue prepaid payment instruments without any additional capital requirements. For other nonbanking entities a minimum capital of Rs 10 million and positive net owned funds have been stipulated

KYC/AML/CFT requirements would be applicable based on instrument features and vulnerability to misuse. The entities issuing prepaid instruments would hold with them the money collected against the issuance. Policy guidelines state that –non-bank persons issuing payment instruments are required to maintain their outstanding balance in an escrow account with any scheduled commercial bank subject to the following conditions:
i) The amount so maintained shall be used only for making payments to the participating merchant establishments.
ii) NO interest is payable by the bank on such balances.
iii) A quarterly certificate from the auditors shall be submitted certifying, the entity has been maintaining adequate balances in the account to cover the outstanding volume of payment instruments issued.
iv) The entity shall also submit an annual certificate, as above, coinciding with the accounting year of the entity to the Reserve Bank of India.
v) Adequate records indicating the daily position of the value of instruments outstanding *vis-à-vis* balances maintained with the banks in the escrow accounts shall be made available for scrutiny to the Reserve Bank or the bank where the account is maintained on demand."

As for customer protection, the following has been stipulated in the policy guidelines:
–All Pre-paid payment instruments issuers shall disclose all important terms and conditions in clear and simple language (preferably in English, Hindi and the local language) comprehensible to the instrument holder while issuing the instruments. These disclosures shall include:

- All charges and fees associated with the use of the instrument.
- The expiry period and the terms and conditions pertaining to expiration of the instrument.
- The customer service telephone number and website URL. An effective mechanism for redress of customer complaints shall be put in place by the entity issuing pre-paid payment instruments.

In case of pre-paid payment instruments issued by banks, customers shall have recourse to Banking Ombudsman Scheme for grievance redress."

RBI has also advised issuers of these instruments to set up systems to prevent fraud that impacts both customers and issuers. The suggested measures include adequate information and data security infrastructure and systems for preventing and detecting fraud and a centralized database by the issuer to prevent multiple purchases of payment instruments at different locations in order to circumvent limits, if any, prescribed for such payment instruments.

3. Customer protection in Indian banking

3.1 Background

The customer protection framework in India consists of the following:

- Information dissemination to customers mandated by the Banking Codes and Standards Bureau of India (BCSBI),
- Fair Practices Code adopted by banks
- Grievance redress mechanism set up by banks
- Office of the Ombudsman, created by RBI in almost every state of the country, that could enquire into complaints not properly resolved by the concerned bank
- Courts set up under the Consumer Protection Act at district, state, and national levels

Key institutional players engaged in customer protection are as follows:
1. Banks with their internal customer service mechanism
2. Indian Banks Association as an industry-level network organization
3. RBI as the regulator
4. BCSBI as a body constituted by member banks for evolving standards
5. Banking Ombudsman as the arbiter of customers' disputes with banks
6. Consumer Courts as the statutory judicial bodies for providing legal remedy

The roles and functions of the different institutions overlap at times. Ease of access to these bodies depends on location and category of customer, such as rural, urban, high net worth, low income, Internet savvy, legally aware, etc. Customers' level of literacy and awareness plays a critical role in determining ease of access to the appropriate authority for redressed of a grievance. Most of the customer protection mechanisms and institutions are urban, making them accessible to urban customers. Rural customers tend to approach these authorities only after considerable deliberation, especially regarding cost and time involved.

Consumer Courts are located in district headquarters; these are nearest to rural customers. Although customers can argue their cases personally without hiring lawyers, the hearing and decision processes are time consuming because of the number of cases of different types filed before these courts. Some cases drag on for a few years. Unlike in the case of Ombudsman rulings, banks tend to appeal Consumer Court decisions in favor of customers. Consumer Court procedures in general are geared to receive documented complaints either in person, or through mail, or electronically. Even literate customers might find it difficult to lodge complaints with the necessary documentation. Very few authorities offer the facility of recording/receiving oral complaints that could be made in person. Granted that such arrangements would be expensive, but it is an investment in customer protection that banks should make. On the whole, the technologically challenged and the illiterate/semi–literate find it difficult to access the authorities.

Box 3.1. **Banking Codes and Standards Board of India**

BCSBI is a collaborative venture between the banking industry and RBI for promoting good practices in banking. A large part of the banking system has joined BCSBI, which has 70 banks as members. BCSBI is engaged in developing standards, improving transparency, and encouraging cordial relations between clients and banks. A Code of Bank's Commitment to Customers, developed by BCSBI, was adopted by member banks. Last year another Code of Bank's Commitment to Medium and Small Enterprises was brought out. BCSBI has periodic meetings with banks that have designated senior officials as compliance officers. BCSBI also runs a Web-based helpline for customer complaints. The helpline has received 336 complaints, which were dealt with through RBI. BCSBI provides a proactive and voluntary industry level response to consumer protection issues and is set to be an important institution.

The Ombudsman and Consumer Courts deal with issues relating to specific complaints and cases filed by customers. As per RBI's reckoning that, as branchless banking expands, it could lead to increased risk of fraud, money laundering, and financing of terrorism. Customer complaints would mostly arise from fraud, agent risk, and technology failure. RBI is very clear that customer protection is the primary job of the financial institutions that have acquired the customers. RBI has stipulated to regulated and authorized institutions that there should be well laid grievance redressed procedures backed by an efficient redressed mechanism. According to RBI, this should be the first point of reference for any customer to lodge a complaint or register a grievance.

3.2 Internal machinery to handle customer complaints/grievances in banks

RBI issued guidelines in May 2008 on a Grievance Redressal Mechanism in banks. The internal machinery and procedure for handling complaints are stipulated by the BCSBI code and the regulator. Indian Banks Association in turn has put out a model document explaining the requirements. Banks are required to set up a Customer Service Committee of the Board that would be responsible for formulating a comprehensive deposit policy, the product approval process, and the annual survey of depositor satisfaction and the triennial audit of such services. The committee would also examine any other issues that bear on the quality of customer service rendered.

Banks also are required to set up a standing committee on customer service chaired by the managing director/executive director of the bank and have two to three eminent nonexecutives drawn from the public. The committee would do the following

- Evaluate feedback on quality of customer service received from various quarters and implementation of commitments in BCSBI.
- Ensure that all regulatory instructions regarding customer service are followed by the bank.
- Consider unresolved complaints/grievances (including those against correspondents) referred to it by functional heads and offer advice.
- Submit a quarterly report to the board.

Banks appoint a nodal officer and other designated officials to handle complaints and grievances; they also are responsible for implementing customer service and handling complaints for the entire bank. Banks have also appointed customer relation officers at zonal/regional offices to handle complaint grievances in respect of branches under their control.

It is mandatory for the banks to provide the following information to the public:

- Appropriate arrangement for receiving complaints and suggestions.
- Display the name, address, and contact number of nodal officers; contact details of the banking ombudsman of the area; and code of the bank's commitments to customers/fair practice.

The branch manager is responsible for resolving customer service complaints and grievances at the branch level. The manager ensures closure of all complaints received at the branches. The manager ensures that complaints are resolved to the customers' satisfaction. If the branch manager feels that it is not possible at the branch manager level to solve the problem, the manager can refer the case to the regional or zonal office for guidance. Similarly, if the regional or zonal office finds that it is not able to solve the problem, the case may be referred to the nodal officer.

A specific schedule has been established by each bank for handling complaints and disposing of them at all levels, including branches, zonal, and head offices. Branch managers should try to resolve complaints within specified timeframes, decided by the bank. Communication to the customer of the bank's stand on any issue is a vital requirement and mandated by regulatory guidelines. Complaints that require time to look into the issues involved should invariably be acknowledged promptly. Branches and zonal offices must send an action taken report on complaints received to the head office at the end of every month. Banks decide on the number of officers to be designated in different parts of the country for handling grievances.

Indian Bank's (a public sector bank) grievance redressed policy is provided in the annex for reference. The policy and procedure established is common for all types of complaints against banks. These do not contain a specific measure of safeguard against customers' problems in branchless banking. Some banks like Corporation Bank have designated dedicated officers to handle grievances related to their technology-enabled banking correspondent model.

Box 3.2. **Corporation Bank's dedicated grievance machinery for banking through banking correspondents**

Corporation Bank has initiated a pilot in five branches. A grievance redressed process has been set up to receive complaints about banking correspondents who operate in these five branches. A separate grievance redressed officer (GRO) is designated in each of the three zones in which these five branches are located. GROs are to ensure that grievances of clients and members of public are satisfactorily responded to and the cases disposed of within 60 days of receipt. If the complaints are not satisfactorily resolved or they are delayed beyond 60 days, complainants can approach the banking Ombudsman.

Other banks have provided for specific redressed procedures for complaints arising from correspondent-based banking. State Bank for example has made the controlling office of branches in a given geographical area (called the circle office) responsible for supervising banking correspondents. The circle offices have been advised that all grievances received should be redressed within two weeks and that if a large number of complaints are received against a specific banking correspondent/facilitator, the matter should be investigated and if warranted the banking correspondent/facilitator terminated. Indian Bank has designated a general manager at the head office to deal with grievances arising from banking correspondent business, with circle heads being responsible for redressing complaints about banking correspondents within the circle.

RBI has issued instructions to protect bank customers. These instructions touch on several key areas, including the following:

- Restrictions on providing unsolicited commercial information to customers
- Adoption of a Fair Practices Code for lenders
- Recommendations for a branch-level Customer Service Committee
- National Do Not Call registry for bank customers
- Guidelines for using recovery agents
- Clarifications of KYC to help simplify procedures
- Restriction on ATM charges
- Grievance redressed mechanism in banks
- Provision of banking facilities for the visually challenged
- Guidelines on managing risks and code of conduct in outsourcing of financial services

A separate Customer Service Department that coordinates with both the banking Ombudsman and BCSBI has been set up in RBI. RBI has periodic meetings with the GROs of banks to review the progress of complaint handling and efforts taken to minimize complaints, examine the systemic aspects of recurrent complaints, and improve the customer protection and satisfaction levels in the industry.

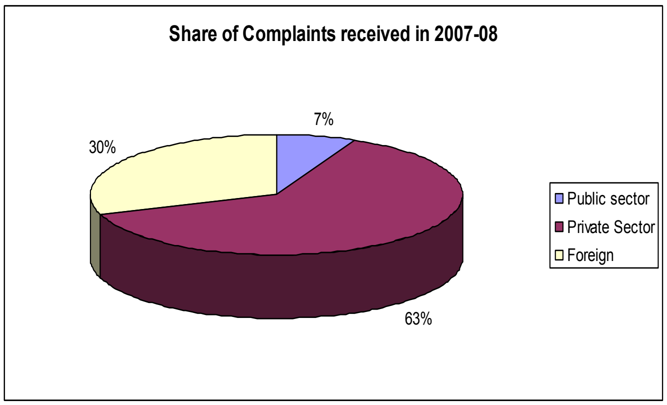
3.3 Receipt of complaints by banks

Banks receive complaints from customers under their grievance redressed procedures. See Table 3.1 for the number of complaints received during the last two years by different categories of banks.

Table 3.1 Classification of complaints

Category of bank	No. complaints received 2006–07	No. complaints received 2007–08	No. of accounts 2007–08 (million)	Complaints per million accounts 2006–07	Complaints per million accounts 2007–08
Public sector	67,703	82,444	4,473	15	18
Private Sector	830,003	740,712	708	1,172	1,046
Foreign	342,599	357,516	153	2,239	2,336
Total	1,240,305	1,180,672	5,334	232	221

The table does not include complaints resolved on the day they were received. The share of complaints of foreign banks and private sector banks is disproportionate to their share of number of accounts.



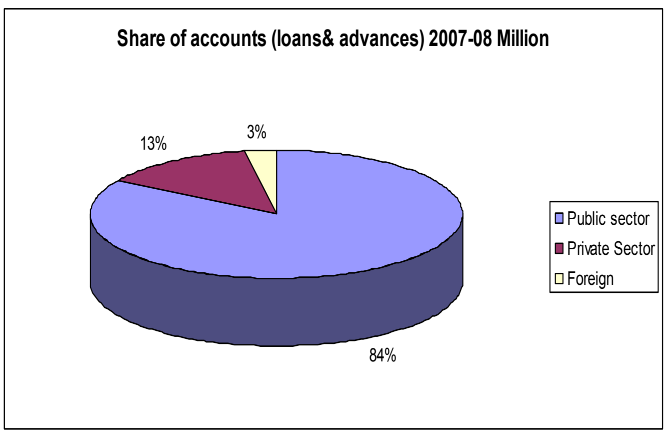


Chart 3.1 Share of complaints of types of banks

Chart 3.2 Share of accounts of types of banks

For want of comparative data of any kind, it is difficult to comment on the level of complaints as to whether they are at a high level as to cause concern. Comparison of number of complaints per million deposit accounts reveals that private and foreign banks have a higher level of complaints. The striking difference in complaint levels is difficult to explain, without a deeper study. The methods of recording could in some cases dissuade customers from lodging a complaint. Reporting of recorded complaints from branches to controlling offices especially in manual recording systems could downplay the numbers and manual systems are known to suffer from an inherent reporting bias. Technology based systems leave less room for errors of omission and commission in reporting.

Among private sector banks, the newer banks attracted more complaints.[10] New private sector banks and foreign banks have been heavy users of cutting-edge banking technology and are leading branchless banking initiatives. These banks are also flat organizations with fewer staff per unit of business. It is concerning that technology-intensive banks generate a much higher level of complaints when compared with low-technology banks. There is a need to study customer protection issues in such banks to understand potential factors of this—such as low staffing levels, technology failure, high customer expectations, more diligent technology-based recording of complaints—and to resolve these problems. The modus operandi of foreign and private sector banks involve outsourcing sales, marketing, recovery, customer query handling, and grievance handling. The handling entities are contractual agencies that might not have the capability to understand customer requirements and offer appropriate banking solutions. Very often commitments made by staff of the outsourced agency are found to be difficult to fulfill.

According to the banking Ombudsman report, ―[a] general feature of these complaints across the board is the problem in accessing the Credit Card issuers and the poor response from the call centers.… Misrepresentation and misleading information provided by Direct Selling Agents (DSAs)/Direct Marketing Agents (DMAs) as also non-fulfillment of such oral promises made by these agents or bank officials at the time of marketing of products leads to a number of complaints" [11]

Agent risk gives rise to significant levels of customer complaints. The technology platform and accompanying business processes banks use have led banks to outsource services. Banks need to apply appropriate due diligence when outsourcing services, provide appropriate training for their staff,[12] intensify monitoring, and give more attention to handling complaints.

Banks need to find out what is at the root of complaints. It is important for banks to collate and analyze information about complaints, such as the product or service involved (savings, investment, loans, cards), client demographics (gender, literacy, depositor/borrower), location (rural or urban), channel of service (branch or agent or outsource partner), etc. Such analyses could be used as a tool to identify repetitive complaints and to correct problematic situations.

RBI has set up banking Ombudsmen in almost all the major states[13] at an appellate level for handling complaints and grievances that have not been resolved by the banks involved or not dealt with to the full satisfaction of the client. The banking Ombudsman receives complaints from customers, issues notices to banks involved, and gives each party a chance to present its case and negotiate before arriving at the settlement. The Ombudsman adopts a consensual approach to resolving the complaint, but wherever necessary, it also provides a clear award. Ombudsman awards are binding on banks unless they choose to file an appeal. Appeals against awards and decisions are filed with the Ombudsman. Once the appeals are disposed of, the decision or award is binding on the banks.

An analysis of the complaints received and settled by the banking Ombudsman offices reveals that the number of complaints increased in 2007–08 over 2006–07.

Table 3.2 Geographical distribution of complaints

Geography from which complaint was received	No. of complaints
Rural	8418
Semi-urban	6641
Urban	10978
Metropolitan	21850
Total	47887

[10] New private sector banks are those established as part of financial sector reforms in the mid-1990s.
[11] Annual Report on Ombudsman Scheme, 2007–08.
[12] The Indian Institute of Banking and Finance has introduced a certificate course for banking correspondents and banking facilitator staff. The banking system and some banking correspondents are partnering in this initiative.
[13] There are 15 Ombudsman in the country. The Ombudsmen are senior staff of RBI.

The number of complaints filed with the Ombudsman is relatively small compared with the vast banking sector and the millions of customers using banking services. There seems to be little awareness of the Ombudsman scheme and how to access an Ombudsman office. The urban-centric nature of the offices and the level of literacy required to file grievances also impede easy access. Data on complaints with the Ombudsman show a relatively large number of complaints from urban and metropolitan areas.

Table 3.3 Classification of consumer complaints by bank types

Bank group	No. of deposit and loan accounts (in millions)	No. of complaints received by Banking Ombudsmen	No. of deposit and loan accounts (in millions)	No. of complaints received by Banking Ombudsmen
	As on March 2006	During 2006-07	As on March 2007	During 2007-08
Nationalized Banks	2925 (52)	10543 (30)	3126 (51)	12033 (26)
SBI Group	1279 (22)	11117 (32)	1347 (22)	13532 (29)
Private Sector Banks	640 (11)	9036 (25)	708 (12)	14077 (30)
Foreign Banks	130 (2)	3803 (11)	153 (2)	6126 (13)
RRBs	732 (13)	536 (2)	800 (13)	826 (2)
TOTAL	**5706 (100)**	**35035 (100)**	**6134 (100)**	**46594 (100)**

A category-based analysis of complaints received by the Ombudsman shows that private sector and foreign banks receive a disproportionately large number of grievances. On the other end of the spectrum, regional rural banks receive about one complaint per million. RBI's customer satisfaction survey confirms the general fact that rural customers are more satisfied with the services from branches than are urban customers. ―Analysis of the survey showed that courtesy and friendliness extended by bank staffs in rural centres were rated better compared to semi-urban, urban and metro centres."[14] Furthermore, the relationship between clients and branch staff are likely to be stronger than in the case of large urban branches, leading to more amicable resolution of grievances without formal complaints.

[14] Report on the Trend and Progress of Banking, 2008, RBI

Table 3.4 Types of consumer complaints

Category	Number of complaints
Deposits	5612
Remittances	5213
Credit cards	10129
Loans	6054
Charges and fees	3740
Failure to meet commitments, promises	6388
Agents (sales and recovery)	3128
Others	7623
Total	47887

Problems with credit cards generated the largest number of complaints to the Ombudsman. This may be because it is difficult to lodge a complaint on credit card transactions in person. Customers file grievances to their credit card issuer through a call center. The grievance handling in respect to credit cards by call centers (which are the outsourced agents of the bank) has left a lot to be desired. The gap between the grievance handling agency and the bank very often results in delays and complaints being ―closed" without resolution. This leads complainants to the ombudsman at a very early stage.

Deficiencies in banking and financial services as defined in the Consumer Protection Act may be taken up with the Consumer Court at the district level. And lower court decisions may be appealed to the higher level Consumer Protection Courts at state and national levels. While Consumer Courts at the district level disposed of 2.4 million cases during 2007, state and national consumer courts dealt with 0.42 million cases. The number of banking-related cases dealt with by consumer courts is not available. The share of banking-related complaints lodged with the Ministry of Consumer Protection is about 17 percent.[15] These complaints are forwarded to the banking Ombudsman.

[15] The Ministry of Consumer Protection received more than 16,000 complaints on its Web site of which 17 percent related to banking (Annual Report of the Ministry of food, Public distribution and consumer protection 2007–08).

4. Customer protection issues in branchless banking

Issues relating to customer protection in the case of mobile banking were discussed with service providers in the field, banks, and the regulator.[16] The issues fall in two broad categories—customer protection and customer service. Customer protection aspects deal with issues that could cause loss to the customer, compromise the security of financial and personal information, or delay or deny the contracted service. Customer service aspects deal with satisfaction of the customer with quality of service and timeliness and appropriateness of response and easy transaction interface with the bank.

Table 4.1 Customer protection and service

Customer protection	Customer service
• Agent fraud and misbehavior • Miss-selling and customer confusion regarding services • Pricing transparency • Loss/theft of authentication information, such as PIN • Customer errors—avoidance and reversal • Switching barriers in mobile banking (including if the customer is dissatisfied with the mobile telephony service) • Inadequate/ineffective grievance procedures • Data privacy and security	• Failure of the technology or the system/network; connectivity problems • Inadequacy of cash with agents • Exhaustion of transaction limits of agents • Poor service quality by agents • Delays • Excessive documentation

Some customer protection measures tend to reduce customer service. For example, it could take a long time to comply with KYC norms and obtain verification by banks. Multiple authentications of a customer's credentials under branchless models would require customers to carry all relevant information for transacting on their accounts. The trade-off between service and protection is increasingly settled in favor of protection measures so as to minimize fraud and wrongful loss to customers. While customer protection measures are nonnegotiable, service measures are part of business strategies of banks that work actively to retain and increase their market share. While regulation would consider customer protection a core issue while supervising banks, it may not focus intensively on customer service quality issues, which are treated more as irritants as long as these do not cause loss to the customers and do not carry a risk potential.

Customer protection issues in branchless banking may be classified into two broad categories: technology related and agent related. There are instances of technology and connectivity failure that adversely affect clients. Given that mobile banking is possible, and in certain technological solutions only through mobile phones held by customers, customers will have a hard time depositing or withdrawing money if the handset or SIM card fails or if telephony services are disrupted.

If customers become dissatisfied with basic telephony service and want to migrate to another service provider, all identification and transaction procedures with the bank would have to change. This could be time consuming and sometimes not technologically feasible in a given local context. RBI has advised mobile banking service providers to handle customer grievance redressed and set up a customer help desk in anticipation of problems one might expect in the initial period.

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[16] See Annex I for RBI's note on customer protection issues in mobile banking.

Security of data stored and transmitted over networks is another concern. Because servers and networks of third-party service providers often are used in branchless banking models, server and network security needs to be scaled up to ensure banking information remains protected.

Using banking correspondents exposes customers and banks to a variety of agent risks, which include banking correspondents conducting their own account transactions that are not authorized by the bank, rendering poor service that alienates customers, cutting corners and ignoring prudential requirements, lacking capacity to deliver services provided for in the contract, not providing timely information to the bank, and becoming so big and critical that the bank is unable to monitor and control their activities. In 2007, RBI issued guidelines on risks arising from outsourcing of services. In the agent model, some types of risk and possible mitigation strategies have been tabulated.

Table 4.2. Risks in agent banking and mitigation

Type of risk	Mitigation at bank level	Mitigation at customer level
Strategic risk: Agents conduct activities on own account that might conflict with strategic goals of the bank.	Provision of information to customers through different media and literacy programs to the needy customers. Dissemination of the roles of agents and what they are authorized to do on behalf of banks. Regular, periodic monitoring of agents activities by bank.	Bank fully apprises customers of roles and tasks of banking correspondents. Customers should know what to expect from banking correspondents. Systems should be in place so customers can check with the bank on whether agents' actions are authorized. When customers approach the bank, banks should make full disclosure.
Reputation risk: Agents render poor quality of service; agents do not meet service standards, harming the bank's reputation and alienating customers.	Introduce system for seeking customer feedback. Train banking correspondents to ensure their skills are current. Set up service standards for banking correspondents. Contracts with banking correspondents should ensure that agents provide quality service to customers.	Bank gives customers a statement of service quality when they open an account. Banks should put in place system of recording complaints and redress regarding quality issues. Signs detailing how complaints and grievances are handled should be prominently displayed in branches.
Compliance risk: Prudential guidance and regulations are ignored by agents, resulting in service disruption or loss of customer confidentiality. Systems are inadequate and do not ensure banking correspondent compliance.	Establish key prudential requirements to be fulfilled by the bank staff to customer satisfaction. Banks to ensure compliance systems and controls are in place to sustain uninterrupted service. Establish a system of penalties for willful noncompliance. Remove and black list those who breach customer confidentiality.	Bank implements a policy of indemnifying customers for any breach of regulations that adversely affect customer interest.
Contractual risk: There is limited capacity to deliver what was agreed to under the contract, and the bank is unable to enforce the same.	Ensure due diligence of agents is thorough and comprehensive. Enforce through adequate financial securities or performance guarantees.	Not a significant concern.
Access risk: It is difficult to generate data from agents in a timely manner for reporting to regulator.	Introduce appropriate level of technology; train banking correspondents; provide for standby systems and build redundancies to	Not a significant concern.

	handle system failures.	
Concentration risk: Banks lack control over the growing business and influence of agents in the local area of operation. Agents cross-sell and mis-selling products to maximize incentives. Large operations through a single entity (especially an individual banking agent) make the agent indispensable.	Set up monitoring and supervision systems and establish rapport with customers. Set prudential limits for business through agents consistent with exposure and service quality (like credit exposure limits). Create agent incentives that do not promote cross-selling and miss-selling.	Bank periodically informs customers that services offered by agents are on behalf of the bank and that, even without specific agents, the bank will maintain service volumes and quality.

Two common categories of customer protection issues are agent fraud and pricing opacity. Correspondents who do not identify themselves with the bank may be driven by considerations other than the bank's business objectives. Even though banks assume ultimate responsibility for performance deficiencies of banking correspondents, the onus is on the customer to complain and prove deficiency. If the banking correspondent chooses to defraud the customer or even negligently cause loss to the customer, the remedies are time consuming and involve lengthy procedures. Typically fraud occurs in the following ways:

- Loans are sanctioned and disbursed (and expropriated by the agent) in the name of customers without their knowledge.
- Cash deposits made by the customer are not accounted for in his/her books, especially in offline transactions.
- Funds are transferred from one account to another using authentication information provided by the customer for an earlier transaction.
- Giving unauthorized parties critical information relating to the accounts—means of authentication or means of truncation of authentication protocols.
- Cross-selling or miss-selling products to customers for achieving targets and incentives.

When compounded with technology failure (which can also be caused by agents), fraud can escape detection for a while. Banking correspondents should be continuously and randomly monitored at work and accounts need to be periodically balanced. Furthermore, customers need direct access to the bank branch and to a sound complaints procedure.

Pricing opacity is not necessarily unique to branchless banking. In agent-led models, customers may find it difficult to obtain pricing information—the elements of price, comparison with other products and institutions, and justification for the price. In some products, such as credit cards, loans, and even remittances, it has been difficult to understand the basis of pricing and the real effective rates charged. Many loan contracts are written as to provide scope for multiple interpretations. Once the account is charged, agents are unable to provide necessary explanations to the customers. It is doubly difficult for the customer to approach the bank for clarity.

Box 4.1. Pricing transparency

Charging unsustainable interest rates—pricing transparency

Two complainants had complaints against the exorbitant interest rates charged by a bank, without transparency, on unsecured small personal loans. The first complainant stated that the bank had charged 48 percent p.a. for a personal loan against the initial intimation of interest at 18 percent p.a. and that the bank had not disbursed the loan amount in full. The second complainant had availed a personal loan of Rs.35,000. The bank had not specified the interest rate, despite repeated enquiries and had informed only that it would be slightly high. Later, it was observed that the bank had been charging interest at 52 percent p.a., and along with the various other charges levied, it worked out to about 60 percent p.a., on the disbursed amount. The bank provided a copy of the terms and conditions of the loan that left room for doubt relating to transparency in charging of rates. The bank explained that it had charged a processing fee as per its norms and disbursed the loan amount after deducting the processing charges. The bank insisted that it charged interest at 48 percent p.a. and 52 percent p.a., respectively, as per the terms and conditions of the bank, duly accepted by the complainants. The bank took refuge under RBI guidelines, according to which banks could charge an interest rate based on the risk profile associated with each segment. The Banking Ombudsman observed that the effective cost of the loan was 60 percent per annum taking into consideration the impact of charging the processing fees upfront and the actual amount disbursed. On intervention by the Banking Ombudsman, the bank contacted the complainants and agreed to reduce the interest rate to 18 percent p.a. diminishing, upon which the first complainant withdrew the complaint.

The case excerpted from the Banking Ombudsman's report 2006–07 (see Box 4.1), clearly brings out protection issues in pricing. This has prompted RBI to issue guidelines[17] on pricing and dissemination of information to customers in a transparent manner on the basis of pricing and the effective interest rates charged. Banks are required to display on their Web sites and branch premises the schedule of charges for various services. The suggested format for display is provided in annexes VI and VII.

Banks entering branchless banking are acutely conscious of the different risks involved and have taken several measures to ensure that risks are contained for the customer as well as the bank.

Box 4.2 Risk mitigation in banks

Risk Mitigation in Corporation Bank

1. Two-factor authentication (presence of card and fingerprint)
2. Business correspondent per day cash transaction limit
3. Total transactions by the business correspondent for a day
4. Customer receipt for transactions using an Impact Printer
5. Web access to monitor card balances and banking correspondent balances
6. Mandatory online transactions when there is a balance mismatch
7. Banner with details posted at banking correspondent location
8. Poster containing instructions provided at banking correspondent locations
9. Cash box provided to the banking correspondent for safekeeping of cash
10. Imprested cash provided to the banking correspondent for handling payments
11. Customer per day limit for withdrawals and receipts
12. Banking correspondent insured for the cash at its location
13. Terminal at branches for customers' direct access

[17] RBI circulars to banks RBI/ 2005-06/386 RPCD.BOS./81 /13.33.01/2005-06

The measures taken by Corporation Bank (see Box 4.2) relate to customer service as well as customer protection. Measures 1 to 8 address customer protection, and measures 9 to 13 address customer service.

Punjab National Bank (a public sector bank) has the following risk mitigation arrangements in place:

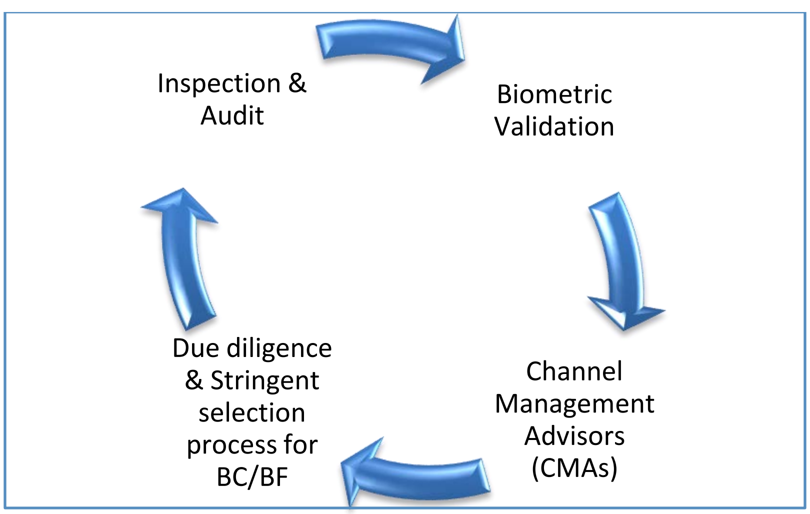
- Uniquely identified banking correspondent, POS machine, and geography. The banking correspondent and POS machine cannot operate in unassigned geographies.
- Security key for security of banking application, authentication process, etc.
- Daily balancing of beginning of day and end of day of each POS with the technology solution provider server and between technology solution provider server and bank server.
- Encrypted data file transmission between the technology solution provider server and bank's intermediate server.
- Transaction duplication and other validation at the bank's intermediate server.
- File format for data exchange between bank and technology solution provider.
- Reconciliation of balance outstanding with customers once a quarter (independent of banking correspondent).

A critical strategy to ensure client comfort and prevent future complaints is making customers aware of potential problems and giving them sufficient knowledge to overcome those problems. Customer awareness campaigns on using the different modes of branchless banking are very important. The banking correspondent model is new and unfamiliar to many rural clients, making customer education in rural settings particularly important. Even when using banking correspondents in selected areas of operation, it is imperative that banks mount awareness campaigns that inform customers about the nature of banking correspondents, the kinds of services they can provide, the relationship between banks and correspondents, the transactions permitted, the benefits of transacting through banking correspondents, the procedure for correcting problems and recording grievances, and the rights of the customer.

Client acquisition and initial interaction process should be mapped, and banking correspondents should be required to follow the process map to avoid deficiencies in service. Banks should set up systems to monitor and redress grievances handled by the bank. The arrangements made by some banks to establish direct customer contact and provide a channel for customers to approach the bank directly help to further consumer protection.

RBI plays a critical role in helping banks launch awareness campaigns and convene industry-level events to take stock of how knowledge is disseminated among customers. RBI also could undertake media campaigns through television in the local language, using appropriate popular vernacular channels.

Chart 4.2 Risk Management in SBI



Financial literacy campaigns supported by RBI[18] make customers aware of possible branchless banking modalities and how to make the best use of them and avoid service problems. If the financial literacy campaign is able to address branchless banking issues then it will go a long way in achieving hassle-free financial inclusion for many poor and small clients (see annex for an awareness campaign leaflet issued by a Central Bank).

Simultaneously with opening new accounts in any location, financial literacy programs should be run for first-time clients to apprise them of their rights and responsibilities in protecting themselves from wrongful loss, fraud, etc. Although such literacy campaigns might serve as an introduction to banking, they may not be enough to generate the kind of awareness required to make customers fully competent to assure secure transactions. Clients should continue to get messages and information that reiterate precautionary measures and safe practices.

Banks are expected to adopt a fair practices code that governs customer relationships. In terms of the fair practices code that is based on the standard code developed by BCSBI, banks have to inform customers of the procedure for registering of complaints and the resolution thereof. BCSBI has incorporated the following in the fair practices code for dissemination by banks to their customers.

[18] RBI has recently announced a scheme of financial literacy and debt counseling for adoption by banks.

Box 4.3 Fair practices code

1. Objectives of the Code

a. Promote good and fair banking practices by setting minimum standards in dealing with you;
b. Increase transparency so that you can have a better understanding of what you can reasonably expect of the services;
c. Encourage market forces, through competition, to achieve higher operating standards;
d. Promote a fair and cordial relationship between you and your bank;
e. Foster confidence in the banking system.

2. Key Commitments

2.1 To Act Fairly And Reasonably In All Our Dealings With You By:
2.2 To Help You to Understand How Our Financial Products and Services Work
2.3 To Help You Use Your Account or Service
2.4 To Deal Quickly and Sympathetically With Things That Go Wrong
2.5 To Treat All Your Personal Information as Private and Confidential
2.6 To Publicise the Code
2.7 To adopt and practice a Non - Discrimination Policy

3. Information

You can get information on interest rates, common fees and charges through any one of the following:
a. Looking at the notices in our branches
b. Phoning our branches or help lines
c. Looking on our Web site
d. Asking our designated staff/help desk
e. Referring to the service guide/Tariff Schedule

4. Advertising, Marketing and Sales

a. We will make sure that all advertising and promotional material is clear, and not misleading.

5. Privacy and Confidentiality

We will treat all your personal information as private and confidential [even when you are no longer a customer], and shall be guided by the following principles and policies.

6. Collection of Dues

Whenever we give loans, we will explain to you the repayment process by way of amount, tenure and periodicity of repayment. However if you do not adhere to repayment schedule, a defined process in accordance with the laws of the land will be followed for recovery of dues.

7. Complaints, Grievances and Feedback

7.1 Internal Procedures
7.2 Banking Ombudsman Service

8. Products and Services

9. Protecting Your Accounts

9.1 Secure and Reliable Banking and Payment Systems
9.2 Keeping Us Up To Date
9.3 Checking Your Account
9.4 Taking care of your cheques, passbook, cards, PINs and other security information
9.5 Internet Banking
9.6 Cancelling Payments
9.7 Liability for Losses

10. Monitoring

The Banking Codes and Standards Board of India whose directors include members of the Governing Council monitor the Code.

Discussions with microfinance practitioners indicate that, regardless of technology developments that make virtual banking possible, physical arrangements are necessary for handling complaints and grievances. This is particularly the case in rural areas where poor customers largely are unfamiliar with technology and illiterate. Banks are primarily responsible for customer protection and redress of grievances, and RBI does not look into micro-issues of customer protection in its supervisory process. In its supervision function, RBI examines customer protection systems and procedures but does not take up individual complaints, using instead other means such as an industry ombudsman for resolving individual complaints. The oversight of systems, processes, and policy making relating to branchless banking do not require any changes either in supervision guidelines or approach. The following are specific aspects of banks' customer protection framework that might require a special study during the initial years of branchless banking:

- Do banks have suitable mechanisms to take care of customer protection issues that are likely to arise?
- Are systems and mechanisms effective and able to produce intended results?
- Is direct customer contact established during monitoring in case of banking correspondent operations?
- Are risk mitigation arrangements in place to reduce customer distress?
- Are there incidences of agent fraud and negligent handling of service?
- Are there specific customer protection problems that might not necessarily result in grievances?

5. Conclusion and suggestions

Branchless banking has the potential to expand access to financial services to the rural poor. However, the branchless banking model also brings customer protection challenges to the forefront. While customer protection is an important part of the overall financial inclusion framework, an exaggerated perception of risk should not hamper pace and quality of expansion of financial services to poor clients. A heightened perception of risk may lead to avoidance of interesting models in use elsewhere, higher costs of extra protection measures that might not be warranted, and micro regulation that shifts responsibility away from banks to the regulator.

The first step in protecting customers' interests is to identify potential problems that may arise related to technology and to using agents that transact on behalf of banks. Recognizing these problems is the first step for banks to set up appropriate supervision and monitoring systems that examine the transactions and processes both technologically and physically through regular and periodic randomized customer contacts. While the regulator could carry out sample studies and mystery shopping from time to time, banks should institute such monitoring practices independent of government requirements. Greater emphasis on client-side research to understand the issues facing the customer is necessary, especially where banking correspondents interact with clients.

Due diligence should be exercised when selecting correspondents, call centers, and recovery agents. The emphasis should not be on mere compliance with a regulator's requirements, but on satisfying the bank's need for secure and satisfactory operations. Selection of banking correspondents should focus on whether the correspondents would be able to represent the bank adequately, upholding the image and reputation of the bank among its clients. The selection criteria for banking correspondents should be more closely aligned to their roles (and should include attitudinal aspects) because they work without supervision and monitoring. Training banking correspondent staff is critical, as banking correspondent staffs represent the bank, and so should be trained as well as bank staff are on their assigned roles and tasks.

Branchless banking procedures can be challenging for people who are illiterate or who are not familiar with technology. Making customers aware of how best to use banking services safely is critical. While this is the responsibility of the bank, RBI and the Government of India could create the appropriate climate through a well-planned media campaign.

Complaint procedures also need to be simple and responsive. Systems for lodging complaints orally over phone and/or in person should be made easier for customers. These systems should not require customers to file complaints in writing—online or offline.

Investments in disaster recovery systems are required not only for banks but also for the service providers that route data traffic on their servers and make the same available to banks. The same set of considerations applies in the case of mobile-based transactions that are routed through the mobile operator's network.

Customer awareness campaigns are necessary in each location where branchless banking has taken root. The banking correspondents' roles and responsibilities should be explained to customers and potential customers by the principal banks. Practical demonstration of how to use their cards, their mobile phones, and their authentications when transacting should all be part of customer awareness training. Where inclusion of a large number of clients is targeted through banking correspondents, financial literacy campaigns are particularly important. The information passed on to customers at awareness events should increase their comfort level and make them knowledgeable of their rights and responsibilities.

As for agent risks, banks are using due diligence for selection, technology-based controls, daily balancing of transactions, and multiple authentication protocols. Educating staff about banking correspondents and making them realize the importance of due process without cutting corners is critical. Banks need to go the extra mile in training banking correspondents at their cost in a comprehensive manner so that clients get the best quality service.

Complaint registration procedures should be established to help customers log complaints with banking correspondents, and customers should receive a numbered receipt to correspond with their complaint. This would go a long way to ease the problems of customers who otherwise may have to spend time and money to reach a branch or higher level office of the bank for lodging complaints.

Cost of grievance handling at higher levels is very high. The Ombudsman Report estimates the cost of dealing with a complaint at Rs 2,600 (approximately US$55). Banks and other entities that give rise to large numbers of complaints should be asked to bear the costs of appellate levels of complaint redress. This would have a salutary effect on such institutions.

The costs of ensuring customer protection through different systems and procedures as well as customer awareness and education measures can be significant. Given that financial inclusion targets small customers who might not provide large business volumes to banks, banks may not want to take up clients with such high additional costs. However, looking at new clients as future business prospects and strategizing their engagement with such clients through deepening relationships over time, banks can achieve not only cost recovery but net revenue.

Because financial inclusion is a state policy goal in India, part of the funds required to enable customers to transact with banks could be borne by the government. While banks invest in their systems, banking correspondents, and staff, the client side of costs in building awareness, training, media campaigns, iteration of key messages, and studies for understanding customer-level issues could be paid through the Financial Inclusion Promotion Fund, which is already set up.

5.1 Suggestions for Action

Several actions are necessary to accelerate the pace of financial inclusion through branchless banking while at the same time ensuring customer protection. Many of these actions fall in the policy and regulatory space.

1. The present regulatory basis of branchless banking that banks are primarily responsible for the acts of their banking agents is well held. This has to be reinforced by avoiding micro-regulation that tends to direct banks in business decisions. Micro-regulation would shift responsibility from banks to regulators and offer an avenue for explaining away problems by attributing them to regulations. For example the guidance on distance restriction[19] between branches and location of

[19] RBI has recently relaxed the distance restriction in rural areas to 30 km from the previous 15 km between the bank branch and location of the banking correspondent. (RBI circular **/2008-2009/455** DBOD.No.BL.BC.129 /22.01.009/2008-2009 dated 24 April 2009)

correspondents, cash limits on transactions, form of institutions or businesses that could be chosen as banking correspondents, agent remuneration, final rate of interest to the client especially on loans, etc. should be left to banks that contract banking correspondents. The regulator should focus on expectations relating to quality of service and customer protection, which should be made known clearly to banks, and banks should be asked to ensure that they meet those expectations. Micro-regulation tends to dilute the large responsibility for customer protection that is cast on banks. Regulation of branchless banking should be based on norms, focusing on outputs rather than on specific guidance and inputs.

2. Building customer awareness and informing the public on use of branchless banking modes is critical. The government and RBI should plan a coordinated campaign in partnership with the industry and launch the same as a public good. The objectives of inclusion can be met only when customers are aware and able to make informed choices. Making potential customers aware before they become actual customers is a critical measure and the information for the potential customers should be in the public domain.
3. The costs of ensuring customer protection can be high in relation to the low volumes of business in the initial stage of inclusion that targets poor and excluded clients. These costs could be shared among the government, regulator, and banking system so that banks will find it cost effective to serve new customers. Furthermore, banks should realize that new customers are also future business prospects and that they require deepened financial services—some of the initial costs in customer acquisition and protection should be seen as essential investments and not as avoidable expenses.
4. Introducing specific sanctions against banks and banking correspondents that repeatedly compromise customer interests would make them pay attention to customer protection issues. A policy on specific sanctions against both banking correspondents and principal banks that fail to maintain adequate customer protection levels should be put in place.
5. A review of complaint and grievance procedures to ensure they are easily accessible for customers in rural remote areas and friendly to the technologically challenged and the illiterate is required. Mechanisms for receiving and recording oral complaints have to be designed to take care of those who cannot file written complaints.
6. When grievance redress and complaint handling are outsourced, quality standards should be improved and enforced. Banks should be asked to take up periodic reviews and report their findings to their customer service committees of the board and RBI.
7. Sound norms for selecting banking correspondents should be created and made known to banks and potential banking correspondents. Standard contract terms and incentives structures also should be designed normatively for adoption by banks. While the options for improving and innovating on the contract terms would be available, the basic norms should stand inviolate.
8. On the issue of channeling benefits transfer through banks, there should be greater coordination between governments and banks so that potential leakages and fraud through abuse of technology systems are minimized.
9. Customers do not directly deal with the bank, but through the banking correspondent staff. This distance between the customer and the bank is likely to delay redress of grievances. Hence in the initial stages of branchless banking expansion, it would be worthwhile to introduce dedicated monitoring and compliance officers who would also expeditiously handle complaints.

The future of branchless banking looks bright in the light of the government's policy objective of achieving financial inclusion using the banking system. The massive effort needed to achieve inclusion in a country like India necessitates building the financial architecture with nonbank and correspondent entities' roles clearly articulated. The brick-and-mortar network cannot grow to the extent required to meet all new clients' needs. With expansion of a client base that is poor and illiterate, customer protection issues become extremely important. New technologies and outsourcing would reduce delivery costs. But customer protection costs would be incurred as investments that would sustain not only new customers but the systems and practices of banks.

Regulatory perceptions of risk involved in agent banking models need to be moderate and set in the international experience of actual risk. Regulatory effort should be normative, targeting customer protection outcomes and macro policy rather than micro, procedural issues of little local relevance. Greater effort is needed to push the responsibility for customer protection from the regulator to banks.

The initiative taken for voluntary adoption of fair practices and codes of conduct, robust systems of control and monitoring of agents behavior in the field, and sound grievance recording and handling systems through the industry associations and BCSBI are commendable. There should be an ongoing dialogue within the industry to ensure that systems are fully functional and banks go well beyond mere compliance in applying customer protection measures. Customer awareness should be delivered as a public good by the government and RBI, with industry involvement. International experiences should be analyzed and factored periodically into the evolving business and regulatory policies on inclusion.

Annex I

Customer protection issues in mobile banking – Reserve Bank of India[20]

Customer Protection Issues

1. Any security procedure adopted by banks for authenticating users needs to be recognized by law as a substitute for signature. In India, the Information Technology Act, 2000, provides for a particular technology as a means of authenticating electronic record. Any other method used by banks for authentication is a source of legal risk. Customers must be made aware of the said legal risk prior to sign up.

2. Banks are required to maintain secrecy and confidentiality of customers' accounts. In the mobile banking scenario, the risk of banks not meeting the above obligation is high. Banks may be exposed to enhanced risk of liability to customers on account of breach of secrecy, denial of service etc., on account of hacking/ other technological failures. The banks should, therefore, institute adequate risk control measures to manage such risks.

3. As in an Internet banking scenario, in the mobile banking scenario too, there is very limited or no stop-payment privileges for mobile banking transactions since it becomes impossible for the banks to stop payment in spite of receipt of stop payment instruction as the transactions are completely instantaneous and are incapable of being reversed. Hence, banks offering mobile banking should notify the customers the timeframe and the circumstances in which any stop-payment instructions could be accepted.

4. The Consumer Protection Act, 1986 defines the rights of consumers in India and is applicable to banking services as well. Currently, the rights and liabilities of customers availing of mobile banking services are being determined by bilateral agreements between the banks and customers. Taking into account the risks arising out of unauthorized transfer through hacking, denial of service on account of technological failure etc. banks providing mobile banking would need to assess the liabilities arising out of such events and take appropriate counter measures like insuring themselves against such risks, as in the case with internet banking.

5. Bilateral contracts drawn up between the payee and payee's bank, the participating banks and service provider should clearly define the rights and obligations of each party.

6. Banks are required to make mandatory disclosures of risks, responsibilities and liabilities of the customers on their websites and/or through printed material.

7. The existing mechanism for handling customer complaints / grievances may be used for mobile banking transactions as well. However, in view of the fact that the technology is relatively new, banks should set up a help desk and disclose the details of the help desk and escalation procedure for lodging the complaints, on their websites. Such details should also be made available to the customer at the time of sign up.

8. In cases where the customer files a complaint with the bank disputing a transaction, it would be the responsibility of the service providing bank, to expeditiously redress the complaint. Banks may put in place procedures for addressing such customer grievances. The grievance handling procedure including the compensation policy should be disclosed.

9. Customers complaints / grievances arising out of mobile banking facility would be covered under the Banking Ombudsman Scheme 2006 (as amended up to May 2007).

10. The jurisdiction of legal settlement would be within India.

[20] Reproduced from RBI's guidelines on Mobile Banking 2008

Annex II

Customer Satisfaction Survey by RBI[21]

In view of the importance given by the Reserve Bank on customer services of banks and the recent initiatives in this respect, the Local Board (Southern Region) desired that a survey should be conducted to evaluate the satisfaction level of customer on various services rendered by the banks. Accordingly, Department of Statistics and Information Management (DSIM), Chennai Regional Office conducted a Customer Satisfaction Survey at four major districts of Tamilnadu, *viz*., Chennai, Coimbatore, Madurai and Tiruchirapalli, covering 2,800 customers from 149 bank branches selected using systematic sampling method (Table 1). Care was taken to adequately cover different types of customers across different population groups. A detailed questionnaire used for the survey covered various aspects such as: (a) demographic details of the respondents; (b) common factors influencing satisfaction level such as branch infrastructure, working hours, number of employees, *etc*.; and (c) specific banking services influencing satisfaction level such as: (i) basic services like deposit and withdrawal; (ii) loan facilities; (iii) payment and other similar services, *etc*. Branch-wise analysis showed that only 68.5 per cent bank branches were under Core Banking Solution (CBS) and the remaining were either under total branch automation or partial computerisation.

Analysis of the survey showed that courtesy and friendliness extended by bank staffs in rural centres were rated better compared to semi-urban, urban and metro centres. It was observed that bank staff knowledge on various banking services and willingness to help customers was comparatively low in semi-urban centres. Most of the respondents (87.5 per cent) were satisfied with the way bank's staff treat them and agreed that there was no discrimination based on caste, gender, status, *etc*. Complaint handling and redress mechanism were rated better for private sector banks compared to other bank groups. Around 40 per cent respondents were dissatisfied with services charges levied by banks. This factor showed the least average satisfaction score. Respondents were, in general, satisfied with bank's responses to their telephonic queries and confidentiality and privacy of their bank accounts maintained by the banks.

Survey showed that infrastructure facility had the third lowest average rating among the common factors and around 40 per cent of the rural respondents were dissatisfied with infrastructure facilities. Furthermore, nationalised banks were rated low on infrastructure facilities. In general, respondents were satisfied with the overall operating of savings bank accounts, while most of the respondents from public sector banks were satisfied with the minimum balance requirement, around 25 per cent of respondents from private sector banks and foreign banks were dissatisfied. The analysis indicated that compared to public sector and foreign banks, private sector banks provide quick and fast services to savings bank account holders. With regard to cheque collection, most of the banks have introduced the drop box facility for depositing cheques to avoid any time delay to their customers. Analysis showed that more than 75 per cent of urban and metropolitan respondents were satisfied with the drop box facility. However, satisfaction was comparatively low in rural and semi-urban centres. Few respondents were dissatisfied with commission/charges and processing time taken for issuing a demand draft. More than 75 per cent of the respondents were satisfied with the credit card facility, but for interest rates. Around 44 per cent of the respondents, mostly from private sector and foreign banks, were dissatisfied with interest rate applicable to credit cards. The Survey showed that more than 85 per cent of the respondents were satisfied with ATM facility, of which 35 per cent were highly satisfied. There were, however, many suggestions from rural customers regarding the extension of ATM facility to them.

Regarding the loan facilities offered by the banks, respondents of SBI and associates and private sector banks showed higher satisfaction level compared to nationalised and foreign banks. It was observed that the proportion of respondents highly satisfied with loan facilities from SBI and associates and private sector banks were 31 per cent and 43.9 per cent, respectively. In general, respondents had no complaints against the procedural formalities followed in sanctioning and disbursement of loans. Furthermore, 75.5 per cent of the respondents were satisfied with settlement and recovery procedures followed by the banks.

In general, the satisfaction level of rural customers was high, which may be due to their lower expectations and awareness. Despite the fact that advancements in IT and communication have enabled banks to offer better customer services, such advancements have not reached all segments of customers, as there are still some bank branches yet to be fully computerised.

[21] Excerpted from Report on Trend and Progress of Banking 2008, Reserve Bank of India

Annex III

Operative guidelines on mobile banking in India[22]

Mobile phones as a delivery channel for extending banking services have assumed increased significance in recent years. The rapid growth in users and wider coverage of mobile phone networks have made this channel an important platform for extending banking services to customers. Many countries have identified the mobile phone as the ideal mode for providing banking facility to their remote territories. With the rapid growth in the number of mobile phone subscribers in India (about 261 million at end-March 2008 and growing at about 8 million a month), banks have been exploring the feasibility of using mobile phones as an alternative channel of delivery of banking services. In view of the relatively new technology and the need to ensure a level playing field, the Reserve Bank, on October 8, 2008, issued a set of operating guidelines for mobile banking transactions in the country after wide discussions with stakeholders. The major features of the guidelines are outlined below:

a) Only banks which are licensed and supervised in India, have a physical presence in the country and have implemented CBS would be permitted to offer mobile banking services. The services shall be restricted only to customers of banks and holders of debit/credit cards issued as per the extant guidelines.

b) Only Rupee-based domestic services would be provided. Cross-border transfers through mobile banking would be strictly prohibited.

c) The extant guidelines issued by the Reserve Bank on KYC, AML and CFT would be applicable to mobile based banking services also.

d) Document-based registration done with mandatory physical presence of the customers would be required for commencement of mobile banking service for any customer unless exempted by the Reserve Bank.

e) Banks could choose any technology to provide mobile banking facility to the public. However, to ensure security, it would be mandatory for the system to provide for two factor authentication.

f) To ensure inter-operability between banks and between their mobile banking service providers, banks should adopt message formats like ISO 8583, with suitable modification to address specific needs.

g) Banks would need to put in place appropriate risk mitigation measures such as transaction limit (per transaction, daily, weekly, monthly), transaction velocity limit, fraud checks and AML checks, among others, depending on the bank's own risk perception, unless otherwise mandated by the Reserve Bank.

The operating guidelines mandated that initially banks could offer the facility to their customers subject to a daily cap of Rs.5,000 per customer for funds transfer and Rs.10,000 per customer for transactions involving purchase of goods/services.

[22] Report on Trend and Progress of Banking 2008, Reserve Bank of India

Annex IV
Electronic Banking – Customer Awareness Programme[23]

To ensure security in their e-banking transactions and personal information, customers should be oriented of their roles and responsibilities which, at a minimum, include the following:

1. Wireless Products and Services

a) Secure Password or PIN

• Do not di sclose Password or PIN to anyone.
• Do not store Password or PIN on the mobile devise.
• Regularly change password or PIN and avoid using easy-to-guess passwords such as birthdays.

b) Keep personal information private.

• Do not disclose personal information such as address, mother's maiden name, telephone number, bank account number or e-mail address — unless the one collecting the information is reliable and trustworthy.

c) Keep records of wireless transactions.

• Regularly check transaction history details and statements to make sure that there are no unauthorized transactions.
• Review and reconcile periodical bank statements for any errors or unauthorized transactions promptly and thoroughly.
• Check e-mail for contacts by merchants with whom one is doing business. Merchants may send important information about transaction histories.
• Immediately notify the bank if there are unauthorized entries or transactions in the account.

d) Be vigilant while initiating or authorizing/ responding to transactions.

• Before doing any transactions or sending personal information, make sure that correct wireless banking number and message format is being used. Beware of bogus or ―look alike" SMS messages which are designed to deceive consumers.
• Be particularly cautious while responding to a voice call that claims to be from a bank. Never give any personal information to such a caller.

f) Take special care of your mobile device.

• Do not leave your mobile device unattended. It may be used wrongfully by someone having access to your personal information and/or PIN.

f) Learn by heart and keep handy your account blocking procedures.

In case your mobile phone is snatched / stolen please immediately proceed with account blocking/theft reporting procedures. For this, you need to familiarize yourself with the procedures to be followed, learn by heart the number provided by your bank for the purpose and either remember or keep handy the information (such as your mobile account number, CNIC number, secret question etc.) you may be required to complete account blocking procedures.

2. Other Electronic Products

a) Automated Teller Machine (ATM) and debit cards

• Use ATMs that are familiar or that are in well-lit locations where one **feels** comfortable. If the machine is poorly lit or is in a hidden area, use another ATM.
• Have card ready before approaching the ATM. Avoid having to go through the wallet

[23] Issued by the Central Bank of a SAARC country.

or purse to find the card.
• Do not use ATMs that appear to have been tampered with or otherwise altered. Report such condition to the bank.
• Memorize ATM personal identification number (PIN) and never disclose it with anyone. Do not keep those numbers or passwords in the wallet or purse. Never write them on the cards themselves. And avoid using easily available personal information like a birthday, nickname, mother's maiden name or consecutive numbers.
• Be mindful of ―shoulder surfers" when using ATMs. Stand close to the ATM and shield the keypad with hand when keying in the PIN and transaction amount.
• If the ATM is not working correctly, cancel the transaction and use a different ATM. If possible, report the problem to the bank.
• Carefully secure card and cash in the wallet, handbag, or pocket before leaving the ATM.
• Do not leave the receipt behind. Compare ATM receipts to monthly statement. It is the best way to guard against fraud and it makes record-keeping easier.
• Do not let other people use your card. If card is lost or stolen, report the incident immediately to the bank.

b) Credit cards

• Never disclose credit card information to anyone. The fraudulent use of credit cards is not limited to the loss or theft of actual credit cards. A capable criminal only needs to know the credit card number to fraudulently make numerous charges against the account.
• Endorse or sign all credit cards as soon as they are received from the bank.
• Like ATM card PINs, secure credit card PINs. Do not keep those numbers or passwords in the wallet or purse and never write them on the cards themselves.
• Photocopy both the front and back of all credit cards and keep the copies in a safe and secure location. This will facilitate in the immediate cancellation of the card if lost or stolen.
• Carry only the minimum number of credit cards actually needed and never leave them unattended.
Never allow credit card to use as reference (credit card number) or as an identification card.
• Never give your credit card account number over the telephone unless dealing with a reputable company or institution.
• When using credit cards, keep a constant eye on the card and the one handling it. Be aware of the ―swipe and theft" scam using card skimmers. A skimmer is a machine that records the information from the magnetic stripe on a credit card to be downloaded onto a personal computer later. The card can be swiped on a skimmer by a dishonest person and that data can then be used to make duplicate copies of the credit card.
• Do not leave documents like bills, bank and credit card statements in an unsecured place since these documents have direct access to credit card and/or deposit account information. Consider shredding sensitive documents rather than simply throwing them away. (Some people will go through the garbage to find this information).
• Notify the bank in advance of a change in address.
• Open billing statements promptly and reconcile card amounts each month.
• Do not let other people use your card. If card is lost or stolen, report the incident immediately to the bank.
• Do not disclose your Mobile Banking Pin (MPIN) to anyone.

• Regularly change the MPIN.
• Do not let other people use your mobile phone enrolled in a mobile banking service. If the phone is lost or stolen, report the incident immediately to the bank.
• Be vigilant. Refrain from doing mobile banking transactions in a place where you observe the presence of ―shoulder surfers".
• Keep a copy of the transaction reference number provided by the Bank whenever you perform a mobile banking transaction as evidence that the specific transaction was actually executed.

Since customers may find it difficult to take in lengthy and complex advice, banks should devise effective methods and channels for communicating with them on security precautions. Banks may make use of multiple channels (e.g. banks websites, alert messages on customer's mobile phone, messages printed on customer statements, promotional leaflets, circumstances when bank's frontline staff communicate with their customers) to enforce these precautionary measures.

Annex V

Different models and instruments in use under branchless banking

Vijaya Bank

- A small pilot project of IT-enabled financial inclusion program viz., Vijaya Vikas SmartCard, through business correspondent model with smartcard/Hand-Held Machine (HHM).
- The pilot covers seven villages.
- The technology solution is by M/s Integra Micro Systems (P) Ltd., Bangalore
- The business correspondent is M/s i 25 Rural Mobile Commerce Services
- The biometric smartcards of 4 KB can accommodate four modules. The card has photo and address of the card holder.
- Voice guidance in addition to printing of receipt. One HHM is installed at the branch also to enable the cardholders to transact at the branch premises.
- Per day/per card limit of withdrawal/deposit of cash is Rs.2000/-
- Cash holding with the field banking correspondent is fixed at Rs.5000/-
- Cash withdrawal/deposit, balance enquiry, statement of account of last 10 transactions possible.
- The duties of field banking correspondent specified and banking correspondent staff trained
- Each field banking correspondent is provided with a cash box and also a cash scroll which they have to maintain daily to enable the branch officials to verify. The banking correspondent's copy of the transaction receipt, daily transaction summary sheet and copy of daily cash scroll are handed over by the banking correspondent to the branch on weekly basis and are maintained at the branch level chronologically for future verification.

Union Bank of India

- 1.5 lakh Hawkers of Mumbai, Delhi, Karaikudi, Chandigarh.
- Rural Outreach at Chahania and Wardha.
- Payment to Milk farmers of Junagarh, Nanded & Chittoor.
- Micro Loans—Saubhagya and Bhagya schemes
- More than 1 million enrollments under financial inclusion by January 2009.
- Over Rs.40 million of Savings balance.

Processes

- Customer validation through foolproof biometrics.
- Offline transaction capability.
- Electronic transaction Infrastructure.
- Smartcards with Multiple application capability—14 applications.
- Fast payment and reporting.
- Low cost and simple to use.

State Bank of India

Three technologies in use—smartcard, PC kiosk, Mobile

Smartcard model

- Three vendors used (A Little World, Atom Technologies, Fino)
- Data entry in laptop/POS. Photo and capture in camera, fingerprint scanner.
- Account creation—POS backend and then core banking. Relaxed KYC.
- Zero balance no-frills accounts
- Banking correspondent fingerprint validation
- Operation by CSP, customer fingerprint validation for debits
- Savings, RD, remittance available offline and online operations
- Business hour and cash holding limit system controlled
-

PC-Kiosk model

- Pilot in Ahmedabad and Chennai Circle.

- Plan to tap the Kiosks under CSC scheme across the country.
- Finger Print device to be provided by the bank
- Data entry/photo in PC/webcam. Finger print capture in FP scanner attached to PC.
- Account creation—link branch—Core banking. Zero balance No-Frill accounts.
- Operations after account opening in Core banking
- Banking correspondent finger validation. Operation by CSP.
- Customer finger validation for debits and balance query.
- Savings available; Remittance, term deposits and overdraft to be provided later. Only real-time online operations.
- Business hour and cash holding limit system controlled

Mobile banking model

- Routed Offline to Technology Vendor
- 3 security checks: Mobile number, Booklet and Security PIN
- Low-cost entry for all

Branchless Banking coverage by SBI

- 61 districts and 17 states covered
- Presence in North East, hilly & other backward regions—21 districts and 9 states
- Card base—18 lakh (target of 40 lakh by Mar 31st 09)
- No. of unbanked villages to be covered: 0.1 million
- Customer base to increase by 40 million
- No. of rural branches to go up to 10,000
- No. of ATMs in rural areas to go up to 6,000
- Focussed shift towards smartcards, mobile banking, Internet banking and kiosk banking platforms.
- Micro insurance and micro mutual funds to provide a complete basket of services.

Indian Bank

Three models in use—Biometric card online, Biometric Smartcard offline and kiosk models

Biometric Smartcard Offline

- Pilot Project with FINO, 2800 plus cards have been issued in three locations
- SmartCard operates in offline mode
- Cards act as customer identity tokens and e-passbook/Biometric (Finger print authentication) and POT (Point of Transaction)
- Integration with CBS
- Uploaded through PSTN Line (Telephone line)
- Bank's mobile banking operator (MBO) transactions at the doorsteps of customers covering a cluster of villages with a weekly visit schedule.
- Findings: Offline issues such as third party server, incompatibility with ATM, lack of voice Guidance and lack of joint authentication for SHGs led to online smartcard banking in AP for implementation of social welfare schemes.

Kiosk model

- To cover the vast sections of unbanked customers by leveraging technology.
- A new banking delivery channel viz. Banking Service Center (BSC) set up. People need not visit the branches from their far off villages but visit the BSC for simple banking transactions,
  Internet banking module developed by the bank is adopted in association with Tata Consultancy Services.

- Pilot project with RBI approval.
- 20 BSCs—functioning since March 2008 in eight states across India.
- Financial Services rendered: Cash receipts/payments, balance enquiry, transfer transactions
- BSC operator bank's staff—not by banking correspondent
- Account are mapped
- Transaction limit is Rs.10,000 per day per customer.

Biometric cards online model

- In association with Government of Andhra Pradesh
- Electronic benefit transfer such as old age pension, wages under National Rural Employment Generation Programme (NREGP)
- Customer Service Points (CSP) with banking correspondents
- Through biometric enabled smartcards and handheld devices
- Online card—RFID Card—voice guidance enabled.
- Service provider: M/s Integra Bangalore (selected through RFP)
- Project area six districts in Andhra Pradesh
- About 0.2 million customers expected to benefit.

Annexure VI
Service Charges—Minimum information to be put on the bank's Web site

Name of the bank

Savings Bank A/c—No frills A/c

Minimum Balance

Charges for non maintenance thereof

Saving Bank Accounts with Cheque facility

Minimum Balance

Charges for non maintenance thereof

Saving Bank Accounts without Cheque facility

Minimum Balance

Charges for non-maintenance thereof

Other savings bank account facilities

Issue of Duplicate Statement

Issue of loose cheque leaves

Issue of duplicate pass book

Mode of calculation of minimum balance

Remittance Facilities through own bank

DD–Issue

DD–Cancellation

DD–Duplicate

DD–Revalidation

PO–Issue

PO–cancellation

PO–Duplicate

PO–Revalidation

TT–Issue

TT–Cancellation

TT–Duplicate

TT–Revalidation

EFT Charges—inward

EFT Charges—outward

RTGS—Outward

RTGS—Inward

Collection of Cheques

Remittance Facilities through other bank

DD–Issue

DD–Cancellation

DD–Duplicate

DD–Revalidation

PO–Issue

PO–cancellation

PO–Duplicate

PO–Revalidation

TT–Issue

TT–Cancellation

TT–Duplicate

TT–Revalidation

EFT Charges—inward

EFT Charges—outward

RTGS—Outward

RTGS—Inward

Collection of Checks

Foreign Exchange Transactions

Remittance Outward

Remittance Inward

TCs–Selling

TCs–Encashing

TCs–Foreign Currency

Check Collection

Local

Outstation through own bank

Outstation through another bank

Bouncing of checks—Local

Bouncing of checks–outstation– through own bank

Bouncing of checks–outstation–through another bank

Retail Loan

Loan Processing Charges

Prepayment Charges

No due Certificate

Solvency Certificate

Charges for late payment of EMI

Charges for changing from fixed to floating rates of interest

Charges for changing from float to fixed rates of interest

Cards

ATM

Membership fee

Annual Fee

Renewal Charges

Late Payment Charges

Interest Charges

Replacement charges

Transaction Charge for Partner banks

Transaction Charge for Non-partner banks

Credit Card

Membership fee

Annual Fee

Renewal Charges

Late Payment Charges

Interest Charges

Replacement charges

Cash withdrawal

Debit Card

Membership fee

Annual Fee

Renewal Charges

Late Payment Charges

Replacement charges

Cash withdrawal

MISCELLANEOUS

Balance enquiry

Balance Certificate

Interest Certificate

Account closure

Use of Fax/Telephone/Modem

Photo attestation

Signature attestation

Stop Payment Charges

Inoperative account

ANNEX— VII
Service Charges—Minimum information to be displayed in the premises of bank branches.

A. Services rendered free of charge:

B. Others

Minimum balances to be maintained in the SB account
Charges leviable for nonmaintenance of minimum balance in SB account
Charges for collection of outstation checks
Charges for issue of demand draft
Charges for issue of check books, if any
Charges for account statement
Charges for account closure, if any
Charges for deposit/withdrawal at ATM locations, if any