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Banking ombudsman in India as dispute redressal mechanism and its effectiveness

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Abstract

The Indian financial system has undergone a profound structural metamorphosis, transitioning from a localized, elite service model—often termed the ‘Class Bank’ model—to one characterized by mass market penetration, aptly named the ‘Mass Bank’ era. This exponential increase in customer volume, coupled with the rapid digital adoption of services such as the Unified Payments Interface (UPI) and growth in Non-Banking Financial Companies (NBFCs), has created a complex ecosystem where customer disputes are both frequent and multifaceted. Resolving these disputes through traditional judicial channels presents significant challenges, primarily related to procedural cost, time, and the volume of pending litigation.

The Banking Ombudsman Scheme (BOS), first established by the Reserve Bank of India (RBI) in 1995, was conceived to provide a statutory framework for Alternative Dispute Resolution (ADR). The mechanism operates under the powers conferred by Section 35A of the Banking Regulation Act, 1949. Functioning as a quasi-legal, independent body, the Ombudsman mechanism focuses on achieving expeditious, cost-free, and inexpensive redressal of grievances, thereby strategically reducing the burden placed upon the formal court system.

Keywords: Banking ombudsman scheme, RBI, ADR, grievance redressal, financial inclusion

Introduction

The introduction of the Reserve Bank-Integrated Ombudsman Scheme (RB-IOS) in 2021 represents the culmination of decades of regulatory refinement. This integrated framework was mandated not merely by administrative convenience but by a deep understanding of the regulatory complexity arising from financial sector convergence. Modern financial transactions often involve multiple regulated entities—such as a banking company, a payment service provider (System Participant), and potentially an NBFC—making it difficult for a consumer to isolate the point of failure. Had the RBI not integrated the distinct Ombudsman schemes (for Banking, NBFCs, and Digital Transactions), fragmentation of accountability would have persisted, potentially allowing regulated entities to evade consistent regulatory oversight for deficiencies spanning across these sectors. The primary objective of this paper is to analyze the legal, procedural, and empirical effectiveness of the RB-IOS 2021 framework, comparing its operational capabilities and inherent limitations against formal judicial remedies.

Regulatory Architecture: The Historical Trajectory and Consolidation

The Indian financial ombudsman system has evolved through iterative refinement since its inception, responding directly to market needs and regulatory gaps ^[1].

The Precursors: BOS 1995 and 2006

The Banking Ombudsman Scheme, operative since June 1995, aimed to deliver quick and inexpensive solutions for grievances stemming from deficient banking services. Initially, however, the scheme suffered from limited geographical coverage and scope, and, critically, restricted public awareness among the general populace.

The Revised Banking Ombudsman Scheme of 2006 marked a significant inflection point. It substantially enlarged the scope, bringing crucial emerging complaint areas under its purview, including disputes related to credit card services, deficiencies caused by banks’ sales agents, instances of levying service charges without prior notice, and non-adherence to

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the fair practices codes mandated for individual banks. A structural reform of paramount importance was the decision to make the scheme fully staffed and funded by the Reserve Bank of India itself, rather than by the commercial banks. This funding mechanism immediately enhanced the institutional independence and strengthened public confidence in the impartiality and non-bias of the Ombudsman mechanism. Although the 2006 revision expanded the network to 15 centers, operational jurisdiction remained tied to specific geographical boundaries.

Consolidation and Modernization: The Reserve Bank-Integrated Ombudsman Scheme (RB-IOS), 2021

Launched on November 12, 2021, the RB-IOS formally superseded and integrated the three existing RBI Ombudsman schemes: the Banking Ombudsman Scheme (2006), the Ombudsman Scheme for Non-Banking Financial Companies (2018), and the Ombudsman Scheme for Digital Transactions (2019). This integration overcame limitations arising from previously disparate grounds of complaint and restricted jurisdictions, simplifying the landscape for the consumer.

The core principle driving the RB-IOS 2021 is the 'One Nation One Ombudsman' (ONOO) approach. This reform abolished geographical jurisdiction constraints, making the entire mechanism jurisdiction neutral. Complaints can now be lodged from anywhere in the country, irrespective of the address of the complainant or the branch of the Regulated Entity (RE) involved. A Centralized Receipt and Processing Centre (CRPC) was established to handle the intake of all physical and email complaints^[2].

This centralization of the intake process has a direct causal relationship with operational efficiency. By establishing the CRPC, the RBI has standardized the filtering and initial scrutiny of complaints. This structural approach efficiently separates non-maintainable complaints (Clause 10) at the centralized level, ensuring that the specialized Ombudsman offices can dedicate their resources primarily to the detailed investigation, conciliation, and final adjudication of complex, maintainable disputes. This streamlined process dramatically improves overall disposal metrics by preventing the localized offices from being overburdened with procedural rejections^[3].

Defining the Regulated Entity (RE) and Coverage

The RB-IOS 2021 applies to services provided by a broad range of entities regulated by the RBI under the Reserve Bank of India Act, 1934, the Banking Regulation Act, 1949, and the Payment and Settlement Systems Act, 2007.

The term 'Regulated Entity' (RE) under the scheme encompasses:

- 1. Banks:** Including commercial banks, Regional Rural Banks, State Bank of India, corresponding new banks, and certain co-operative banks. Exclusions apply to banks undergoing winding up or resolution.
- 2. Non-Banking Financial Companies (NBFCs):** Those registered with the RBI, typically with assets of ₹100 crore and above, excluding specialized types like Core Investment Companies (CICs) and Infrastructure Debt Fund-NBFCs.
- 3. System Participants and Providers:** Entities participating in authorized payment systems. This coverage is crucial as it captures the entire digital ecosystem, including entities facilitating UPI, NEFT,

RTGS, IMPS, and Prepaid Payment Instruments (PPIs).

A notable expansion under the RB-IOS 2021 was the inclusion of Credit Information Companies (CICs). This inclusion acknowledges that disputes related to inaccurate credit scoring or data reporting are service deficiencies with profound financial and long-term consequences for the customer, demanding a specialized, rapid redressal route within the consumer protection framework.

Legal Grounds of Complaint and Deficiency in Service

The scheme accepts complaints related to any act or omission by an RE resulting in a 'deficiency in service'. Deficiency in service is legally defined as any shortcoming or inadequacy in a financial service that the RE is required to provide, statutorily or otherwise, irrespective of whether it results in immediate financial loss or damage.

Specific actionable grounds include: non-adherence to RBI directives on interest rates, failure to disburse sanctioned loans in time, errors in digital transactions (e.g., account debited but cash not dispensed at ATM), or fraudulent use of stolen/cloned cards.

Jurisdictional Limitations and Exclusions

The Ombudsman mechanism operates with distinct limitations designed to maintain its focus as an ADR body rather than a general court of law.

Firstly, the complaint must adhere to a mandatory internal escalation protocol: the customer must first make a written representation to the RE. A complaint is only maintainable if the RE has either rejected the complaint, or if a period of 30 days has elapsed without a satisfactory response. Furthermore, the complaint must be filed within one year of receiving the RE's reply.

Secondly, Clause 10 of the RB-IOS 2021 explicitly deems certain matters non-maintainable. These include disputes already pending before any court, tribunal, or arbitrator, or matters previously adjudicated by the Ombudsman. Complaints seeking suggestions, guidance, or relating to the general management of the RE are also excluded.

The exclusion of disputes between a vendor and an RE relating to outsourcing contracts is a deliberate regulatory measure with far-reaching policy implications. By excluding these B2B conflicts, the RBI effectively transfers the full regulatory risk associated with outsourced services onto the RE. This policy ensures that the RE remains solely accountable to the customer for the quality of service, irrespective of the operational failures of its third-party vendors. This prevents REs from externalizing customer friction to the Ombudsman mechanism, compelling them instead to maintain robust internal compliance and due diligence across their entire supply chain^[4].

Procedural Mechanism: Access, Investigation, and Adjudication

The RB-IOS is defined by its streamlined procedure, which prioritizes non-adversarial resolution while retaining statutory authority to issue binding awards.

Enhancing Accessibility: The Centralized Filing System

Accessibility is ensured primarily through the Complaint Management System (CMS) portal, available 24/7. The portal provides a simplified, centralized filing process, automatic acknowledgement upon registration, and a critical

facility for real-time tracking of the complaint status, significantly enhancing transparency for the complainant. Physical or email complaints can also be lodged at the centralized address.

Resolution Methodology: Conciliation and Mediation

Upon registration and initial scrutiny, the Ombudsman begins investigating the complaint, with a core focus on conciliation and mediation. The Ombudsman serves as an impartial facilitator, striving to reach a voluntary written agreement signed by both the customer and the RE. This conciliatory approach is a key differentiator from the judicial process, emphasizing friendly resolution over a definitive, adversarial outcome. Academic research confirms the efficiency of this approach, with high closure rates achieved via mutual settlement.

The Adjudicatory Stage: Issuance of the Award

If conciliation efforts fail to produce a written settlement within a period of one month, the Ombudsman retains the authority to pass an Award, provided a reasonable opportunity has been given to both parties to present their case ^[5].

The Ombudsman’s powers regarding compensation are legally bounded. The maximum award for financial loss or damage suffered by the complainant is limited to ₹20 Lakhs. Additionally, the Ombudsman may award up to ₹1 Lakh to the complainant specifically for compensation related to mental agony and harassment. This acknowledgment of non-monetary distress moves the scheme beyond mere financial recovery toward a more holistic view of consumer protection.

Critically, the complainant has the absolute right to accept the Award in full and final settlement within 30 days, or to reject it. The rejection of the Award does not preclude the complainant from pursuing other legal recourse or remedies available under law. This optionality signifies a fundamental dilemma within the Ombudsman system: it must remain non-adversarial (focused on fast settlement), yet possess enough adjudicatory authority (the Award) to compel unwilling REs. This structure ensures that the consumer’s right to pursue formal justice is protected, even if the non-adversarial mechanism proves inadequate for their specific claim.

Table 1 details the pecuniary limits of the redressal powers under RB-IOS 2021.

Table 1: Pecuniary Limits and Redressal Powers under RB-IOS, 2021

Type of Relief	Pecuniary Limit	Legal/Regulatory Reference	Significance for Consumer Choice
Compensation for financial loss/damage	Up to ₹20 Lakhs	RB-IOS, 2021 Scheme Provisions	Focuses the scheme on medium/low-value disputes, acting as a filter for high-value claims.
Compensation for mental agony/harassment	Up to ₹1 Lakh	RB-IOS, 2021 Scheme Provisions	Acknowledges the intangible cost of poor service.
Compliance Enforcement	Awarding mechanism/Appellate Authority	Clause 29 of RB-IOS, 2021	Provides internal enforcement mechanism to compel RE adherence.

Compliance and Appeals

If the Regulated Entity fails to comply with the decision of the RBI Ombudsman within a reasonable timeframe, the Ombudsman is empowered to pass a further Award, particularly if obvious deficiencies in service are identified. For complainants aggrieved by an Award or the rejection of their complaint, an appeal mechanism exists. They may prefer an appeal before the Appellate Authority—the Executive Director-in charge of the Consumer Education and Protection Department of RBI—within 30 days of the decision.

Empirical Assessment: Measuring the Effectiveness of RB-IOS (2021-2024)

Empirical data, particularly from the Annual Reports of the Ombudsman Scheme (e.g., 2023-24), provides quantitative evidence of the scheme’s effectiveness in achieving its core mandate of speed and accessibility.

Data Analysis and Complaint Trends

A sustained increase in the total number of complaints received by the Ombudsman mechanism is observed. This trend, paradoxically, is interpreted by analysts as a success in terms of outreach and consumer awareness. The analysis of geographical complaint distribution indicates that while metropolitan complaints might stabilize, the number of complaints is increasing notably in urban, semi-urban, and rural areas. This geographical shift confirms the efficacy of proactive measures undertaken by the RBI, such as conducting town-hall meetings (46 meetings) and awareness

programmes (203 programmes) targeted at specific groups like senior citizens and students. These campaigns validate the regulatory investment in consumer education, directly resulting in greater access to the redressal facility for underserved demographics.

Disposal Metrics and Efficiency

Efficiency metrics suggest the scheme is fulfilling its mandate for speedy resolution. Studies focusing on the performance of the scheme confirm that disposal rates through mutual settlement are extremely high, often exceeding ninety-nine percent in previous operational cycles, and the average duration for pending cases has demonstrably declined.

Furthermore, the system employs sophisticated mechanisms for continuous quality improvement. The CMS portal includes a facility for voluntary feedback submission by the complainant regarding the quality of redress provided. This feedback is systematically analyzed by the RBI, establishing a critical continuous loop of performance analysis. This process allows the RBI to integrate the direct consumer experience into policy adjustments, effectively using consumer perception to refine the grievance redress framework.

The increasing volume of complaints, particularly in thematic categories such as digital fraud or specific credit reporting issues, provides the RBI with valuable, real-time ground-level regulatory intelligence. By identifying common points of systemic failure through the aggregation of individual disputes, the Ombudsman mechanism

transcends its function as a mere dispute solver. Instead, it acts as a proactive risk-monitoring tool, enabling the RBI to issue targeted warnings or regulatory directives to REs to reduce the underlying incidence of disputes in the future, aligning with the core objective of ombudsman systems globally.

Internal Strengthening: The Role of the Internal Ombudsman (IO) Mechanism

To ensure consistency in grievance resolution *before* matters escalate to the external RB-IOS, the RBI issued the Master Direction-Reserve Bank of India (Internal Ombudsman for Regulated Entities) Directions, 2023. This policy harmonizes and strengthens the mandatory internal grievance handling process for Regulated Entities. This Internal Ombudsman (IO) system functions as a compulsory quality control filter, ensuring that REs conduct robust, mandatory self-correction and internal grievance review. By forcing higher quality internal decisions, the IO mechanism is designed to significantly reduce the external Ombudsman's caseload, restricting external intervention to only those complex issues where the RE's mandatory internal mechanism has definitively failed ^[6].

Comparative Legal Analysis: The Ombudsman Versus Judicial Remedies

The existence of parallel redressal systems—the non-adversarial Ombudsman Scheme and the adjudicatory Consumer Redressal Authorities under the Consumer Protection Act (CPA)—creates a choice for the aggrieved customer.

Forum Distinction and Jurisdictional Overlap

Both the Ombudsman mechanism and the Consumer Redressal Authorities address cases concerning deficiency in banking services. However, significant differences exist in their nature and procedure. The Ombudsman provides an additional and optional legal remedy emphasizing mediation, expediency, and low cost. Conversely, Consumer Courts are judicial forums providing broader adjudicatory powers under the CPA, allowing for extensive claims for compensation and deficiency in service. Individuals utilizing banking services are legally defined as consumers under the CPA.

Academic analysis suggests that some aggrieved bank customers may prefer Consumer Courts over the Ombudsman Scheme. This preference often stems from the Ombudsman's structural limitations, particularly the maximum compensation cap of ₹20 Lakhs for financial loss. Customers with complex, high-value disputes may opt for Consumer Courts, which offer the potential for higher compensatory quantum and greater legal leverage.

Judicial Preclusion and Forum Shopping

A critical aspect of the jurisdictional relationship is the doctrine of preclusion established by the Supreme Court of India. Judicial precedent, such as the ruling in *Durga Hotel Complex vs. Reserve Bank of India*, dictates that once a complaint is escalated to an adversarial forum—such as a civil court or tribunal—the Ombudsman mechanism loses jurisdiction over that specific matter. This principle prevents "forum shopping" and necessitates that the consumer make a high-stakes decision regarding their preferred route for justice at the initial stages of the grievance.

While the RB-IOS provides superior *access* to justice—being free, fast, and centralized—this preference for courts in certain situations highlights a limitation concerning the *finality* and *quantum* of justice delivered through the non-adversarial route. The trade-off is structural: the Ombudsman mechanism is intentionally constrained by pecuniary limits and procedural simplifications to maintain its function as a high-volume, low-friction mechanism suitable for quick settlements, deliberately avoiding the need for elaborate documentary and oral evidence required for complex, high-stakes litigation.

The Conciliatory Advantage

Despite these structural limits, the Ombudsman mechanism retains a significant advantage: expediency. Avoiding the delays inherent in court-fed litigation, the RB-IOS resolves disputes quickly. Furthermore, the conciliatory approach often results in a mutually agreeable settlement. By contrast, formal adjudication results in a definitive win/loss outcome, which may not always address the underlying systemic friction between the customer and the institution. The ability of the consumer to reject the Ombudsman's Award and still seek judicial recourse ensures that the RB-IOS serves as a powerful, non-mandatory mediation step that complements, rather than supplants, the formal judicial system.

Challenges, Policy Interventions, and Future Recommendations

While the RB-IOS 2021 represents a substantial advancement in India's financial consumer protection framework, ongoing challenges necessitate continuous regulatory focus ^[7].

Critical Gaps and Remaining Challenges

The need for continuous, targeted awareness campaigns remains a significant operational requirement. Despite the success in penetrating semi-urban and rural areas, sustaining high levels of awareness, particularly among vulnerable populations such as senior citizens, requires relentless regulatory outreach.

Furthermore, the rise of sophisticated financial crime, digital scams, and potentially multi-jurisdictional issues presents complexity that strains the Ombudsman's procedural scope. Since the proceedings are not suited for the consideration of elaborate documentary and oral evidence, the mechanism faces procedural limitations when handling advanced fraud cases where extensive investigative resources might be necessary.

Policy Interventions and Strengthening Mechanisms

The RBI has strategically deployed policy interventions to bolster the scheme's effectiveness. The recent harmonization of the Internal Ombudsman (IO) mechanism in 2023 is one of the most powerful interventions. By making a high-quality internal review mandatory for Regulated Entities, the RBI is institutionalizing mandatory self-correction, ensuring that systemic flaws are addressed at the institutional level before they become external disputes.

Finally, the regulatory use of the CMS portal's feedback loop provides a mechanism for agile policy adjustment. By analyzing the consumer feedback on redressal outcomes, the RBI directly integrates the consumer voice into structural refinement, allowing the framework to rapidly adapt to changing market dynamics and consumer expectations.

Conclusion

The Reserve Bank-Integrated Ombudsman Scheme (RB-IOS) 2021 marks a critical milestone in India's approach to financial consumer protection. By integrating three disparate schemes into a single, jurisdiction-neutral framework guided by the 'One Nation One Ombudsman' principle, the RBI has successfully optimized the dispute resolution process, achieving significant gains in accessibility, efficiency, and coherence.

The scheme's effectiveness is substantiated empirically by high mutual settlement rates and reduced time taken for disposal, fulfilling its core mandate of providing speedy and inexpensive redressal. Analytically, the scheme's impact extends beyond individual grievance resolution; by acting as a central repository of customer friction data, the RB-IOS generates crucial regulatory intelligence, enabling the RBI to shift from reactive resolution to proactive systemic risk mitigation.

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