

Roll No.

OPEN BOOK EXAMINATION

Time allowed : 3 hours

Maximum marks : 100

Total number of questions : 6

Total number of printed pages : 8

NOTE : *Answer ALL Questions.*

1. Integrated Ombudsman Scheme :

Banks are service organizations. Customer satisfaction and loyalty is prime focus of any bank. Customer complaints are the part and parcel of day-to-day functioning of banks in India. To address this Reserve Bank of India (RBI) has taken various initiatives over the years for improving customer service and Grievance Redress Mechanism (GRM) in banks which are as follows :

- The Banking Ombudsman Scheme was introduced in 1995 to serve as an alternate GRM for customer complaints against banks;
- In 2019, RBI introduced the Complaint Management System ('CMS'), a fully automated process-flow based platform, available 24×7 for customers to lodge their complaints with the Banking Ombudsman ('BO');
- As a part of the disclosure initiative, banks were advised to disclose in their annual reports, summary information regarding the complaints handled by them and certain disclosures were also being made in the annual report of the Ombudsman Schemes published by the RBI;

: 2 :

- Banks were mandated to appoint an Internal Ombudsman ('IO') to function as an independent and objective authority at the apex of their GRM;

It is evident from the increasing number of complaints received in the Offices of Banking Ombudsman ('OBOs'), that greater attention by banks to this area is warranted. More focused attention to customer service and grievance redress was required to ensure satisfactory customer outcomes and greater customer confidence.

Hence, with a view to strengthen and improve the efficacy of the internal GRM of the banks and to provide better customer service RBI vide its press release dated 4th December, 2020 w.r.t. Statement on Developmental and Regulatory Policies decided :

- To put in place a comprehensive framework comprising inter alia of enhanced disclosures on customer complaints by the banks;
- A monetary disincentive in the form of recovery of cost of redress of complaints from banks when maintainable complaints are comparatively high; and
- Undertaking intensive review of GRM and supervisory action against banks that fail to improve their redress mechanism in a time bound manner.

The aforesaid framework was introduced by RBI on 27th January, 2021 vide its notification w.r.t strengthening of GRM in Banks. The same shall be effective from 27th January, 2021 and applicable to all scheduled commercial banks (excluding regional rural banks).

In order to ensure speedy resolution of Customer Grievances against Regulated Entities (REs), Reserve Bank of India brought about Reserve Bank-Integrated Ombudsman Scheme (RB-IOS)-2021 as single point resolution mechanism. Since it is steered by Reserve Bank of India, all Regulated Entities are conscious about compliance standards. With greater connect

: 3 :

of the formal banking system with masses under financial inclusion scheme and increased digitalization of financial system, it is necessary to institutionalize a progressively effective grievances redressal mechanism to infuse greater confidence among users and to protect them from procedural delays, digital hindrances and lack of knowledge of operating people. With the increase in customer base, robust systems have to be developed for development of efficient financial system.

Internal Ombudsman (IO) is already institutionalized in Regulated Entities, where majority of grievances are resolved at entity level. Normally, Regulated Entities do not allow escalation of complaints to Reserve Bank-Integrated Ombudsman Scheme (RB-IOS). Only those that are not satisfactorily closed by Regulated Entities get escalated to the Integrated Ombudsman by customers. This has improved the speed of disposal of complaints.

Any customer aggrieved by an act or omission of a Regulated Entities resulting in deficiency in service can file a complaint under the Integrated Ombudsman Scheme (IOS) personally or through an authorized representative as defined under Clause 3(1)(c) of Reserve Bank-Integrated Ombudsman Scheme, 2021 Such customer should have initially lodged the same complaint to Regulated Entities and if the complainant is not satisfied with its decision or if the complaint has remained un-responded by Regulated Entities for 30 days, then only it can be escalated to Reserve Bank-Integrated Ombudsman Scheme (RB-IOS).

Reserve Bank-Integrated Ombudsman Scheme (RB-IOS) will consider the complaints of customers of Regulated Entities without any limit on the amount but it should relate to deficiency in service. There is no cut off of amount to refer a complaint for redressal. Ombudsman can pass an Award for any direct perceived loss / consequential loss suffered by the complainant.

A compensation up to Rupees 20 lakhs, in addition to, up to Rupees One lakh for the

loss of the complainant's time, expenses incurred and for harassment/mental anguish suffered by the complainant can be awarded by the ombudsman depending upon the proven deficiency of service.

“Deficiency in Service” means a shortcoming or an inadequacy in any financial service or such other services related thereto, which the Regulated Entities (REs) are required to provide statutorily or otherwise, which may or may not result in financial loss or damage to the customer.

RBI brought Credit Information Companies (CICs) within the ambit of RB-IOS much to the relief of large number of small and big borrowers experiencing the difficulties to get corrections done in the rating information. Neither the banks are prompt in informing the correct status of servicing of loans nor CICs are meticulous in reflecting correct status of credit information. Large number of credit cards which have outlived and expired with small debit balances are often reflected in the records of borrowers impacting the credit rating. Many people have to go back and forth with CICs to correct the information to get correct rating.

It is the larger vision of RBI that CICs are brought within the range of RB-IOS. Not only that, RBI mandated that they too need to have an internal ombudsman framework like any other REs to settle most of the grievances before they are escalated to integrated ombudsman.

Looking to the improved efficiency and fine-tuned turnaround time of grievance redressal of REs, the scope of RB-IOS has been further broad based. It henceforth will handle all grievances related to CICs. With increased role of CICs in providing inputs for credit decisions, bringing them under the ambit of RBI is a far-reaching reform. It will provide much needed cost-free alternative redressal mechanism for grievances against CICs.

: 5 :

At the same time, CICs will also be made to establish their own Internal Ombudsman (IO) framework like other REs. The proposed move shall provide immense relief to millions who experience downgrades without understanding reasons thus increasing the cost of borrowings from REs.

Based on the above information, answer the following questions :

- (a) Why have the Three Ombudsman Schemes been integrated ? What are the major changes ?
(5 marks)
- (b) Which Regulated Entities are covered under the Reserve Bank-Integrated Ombudsman Scheme (RB-IOS), 2021 ?
(6 marks)
- (c) What is the position of those entities not covered under Reserve Bank-Integrated Ombudsman Scheme (RB-IOS), as regards grievances redressal ?
(3 marks)
- (d) What are the benefits of the Reserve Bank-Integrated Ombudsman Scheme (RB-IOS) 2021/Alternate Grievance Redress (AGR) Framework ?
(8 marks)
- (e) What happens after a complaint is received by the RBI Ombudsman ? What are the different ways, in which complaints are resolved by the Ombudsman Office ?
(5 marks)
- (f) How will the integration of Ombudsman Schemes help complainants ?
(5 marks)
- (g) Why has the receipt of complaints under Reserve Bank-Integrated Ombudsman Scheme (RB-IOS) been centralized ?
(5 marks)
- (h) Can one participate in the conciliation meeting in the Ombudsman's office from anywhere ?
(3 marks)

2. Factoring Services made an entry into the Indian Market back in 1987, with the recommendations of the 'Vaghul Committee'. Later, in 1988, the Kalyanasundaram Committee laid emphasis on setting up independent agencies to provide factoring services. Eventually, the Factoring Regulation Act, 2011 ('Principal Act') was enacted to provide for "Regulating" the assignment of receivables to factors, making provisions for registration for carrying out factoring business, and the rights and obligations of the parties to the factoring contract. On 14th January, 2022, the Reserve Bank of India ('RBI') Notified the Registration of Factors (Reserve Bank) Regulations, 2022 ('Registration Regulations') laying down the manner of granting Certificate of Registration ('CoR') to Companies which propose to do factoring business.

Based on the above information, answer the following questions :

- (a) (i) What are the entry point norms for NBFC-Factor ?
(ii) What would happen with the existing companies registered with RBI as NBFCs and conducting factoring business that constitute less than 75 percent of total assets/income ?
- (b) (i) Is it necessary for NBFC-Factors to register every factoring transaction with the Central Registry ?
(ii) Can NBFC-Factors undertake Import and Export Factoring ?

(6 marks each)

3. (a) "In exercise of the powers conferred by Sections 12, 12B, and 35A of the Banking Regulation Act, 1949, the Reserve Bank of India issued Guidelines on Acquisition and Holding of Shares or Voting Rights in Banking Companies". These directions are issued with the intent of ensuring that the ultimate ownership and control of Banking Companies are well diversified and the major shareholders of Banking Companies are 'Fit and Proper' on a continuing basis.

: 7 :

Explain the above statement and also RBI Guidelines to get an approval of voting rights in a Banking Company by any person.

(6 marks)

- (b) “In order to ensure a financially sound and stable Co-operative Sector, selected Urban Co-operative Banks (UCBs) are termed as Financially Sound and Well Managed (FSWM)”.

In this connection, explain the revised criteria, for determining the FSWM Status to Urban Co-operative Banks by Reserve Bank of India.

(6 marks)

4. (a) What is Clayton’s Rule and how will it apply to Bank for closure of customer’s account ?
- (b) Commercial Paper (CP) is an unsecured and discounted promissory note issued to finance the short-term credit needs of large institutional buyers. CPs are currently traded in OTC market settled through clearing corporations. Further, SEBI has issued a Circular on 22nd October, 2019 providing for the framework for listing of CPs for trading in Stock Exchanges in order to enhance the investor participation which will in turn help the issuers to cope up with their short-term fund requirements.
- In this connection, explain the various applicable laws governing Issue of Commercial Papers by NBFCs/Corporates in India.
- (c) There are some statutory restrictions on lending by banks under Banking Regulation Act 1949. What are those restrictions ?

(4 marks each)

5. (a) Is bouncing of cheques a criminal offence under NI Act ? What are the applicable provisions ?
- (b) What are the components that form Tier 1 and Tier 2 capital of banks ?
- (6 marks each)*
6. (a) Cash Credit/Overdraft (CC/OD) is to be classified as NPA if it is 'Out of Order'. Explain the guidelines issued by the Reserve Bank of India in respect of "Out of Order" Loan Accounts by the Commercial Banks.
- (4 marks)*
- (b) "दक्ष (DAKSH) means 'efficient' & 'competent', reflecting the underlying capabilities of the application. RBI Migrated Payments Fraud Reporting Module to DAKSH from Jan 1, 2023." Explain the importance of RBI's Central Payments Fraud Information Registry (CPFIR) System and its Migration of Reporting to DAKSH.
- (8 marks)*

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