Asia-Pacific Economic Cooperation

2021/CTI/DIA1/006
Session: 2

Online Dispute Resolution in Digital Financial Services in India

Submitted by: Dvara Research

NEW ZEALAND APEC 2021 ASIA-PACIFIC ECONOMIC COOPERATION 2021

Public-Private Dialogue on Promoting Consumer Protection in the Dispute Resolution and Redress Mechanisms in E-Commerce
27-29 April 2021

Online dispute resolution in digital financial services in India

*Presenter: Srikara Prasad**

The Future of Finance Initiative, Dvara Research.

**Vital contributions from Beni Chugh, Malavika Raghavan & Chinmayanand Chivukula*

Public-Private Dialogue on Promoting Consumer Protection in the Dispute Resolution and Redress Mechanisms in e-Commerce
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Redress in the Financial Sector: Status quo

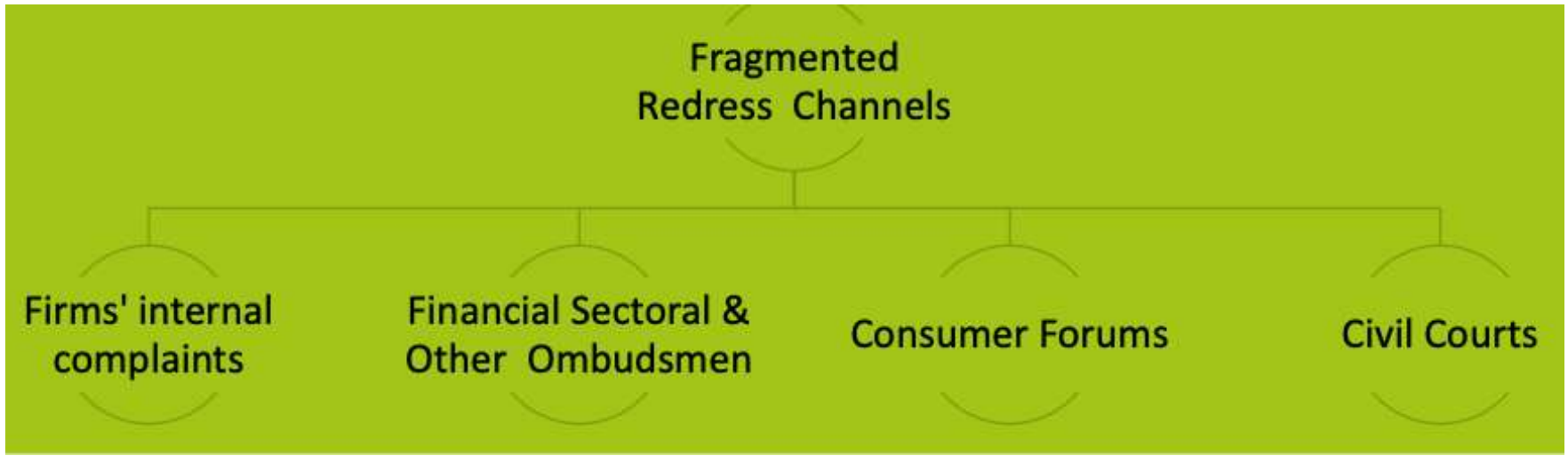
1. Context – Redress in India

Redress in India is –

- Distributed across traditional dispute resolution and ADR systems.
- Geographically diverse; 29 States and 7 Union Territories.
- Fragmented, multiple and hierarchical.
- Onerous.
- Inadequate in capacity.

1.1. State of redress in finance: Status-quo

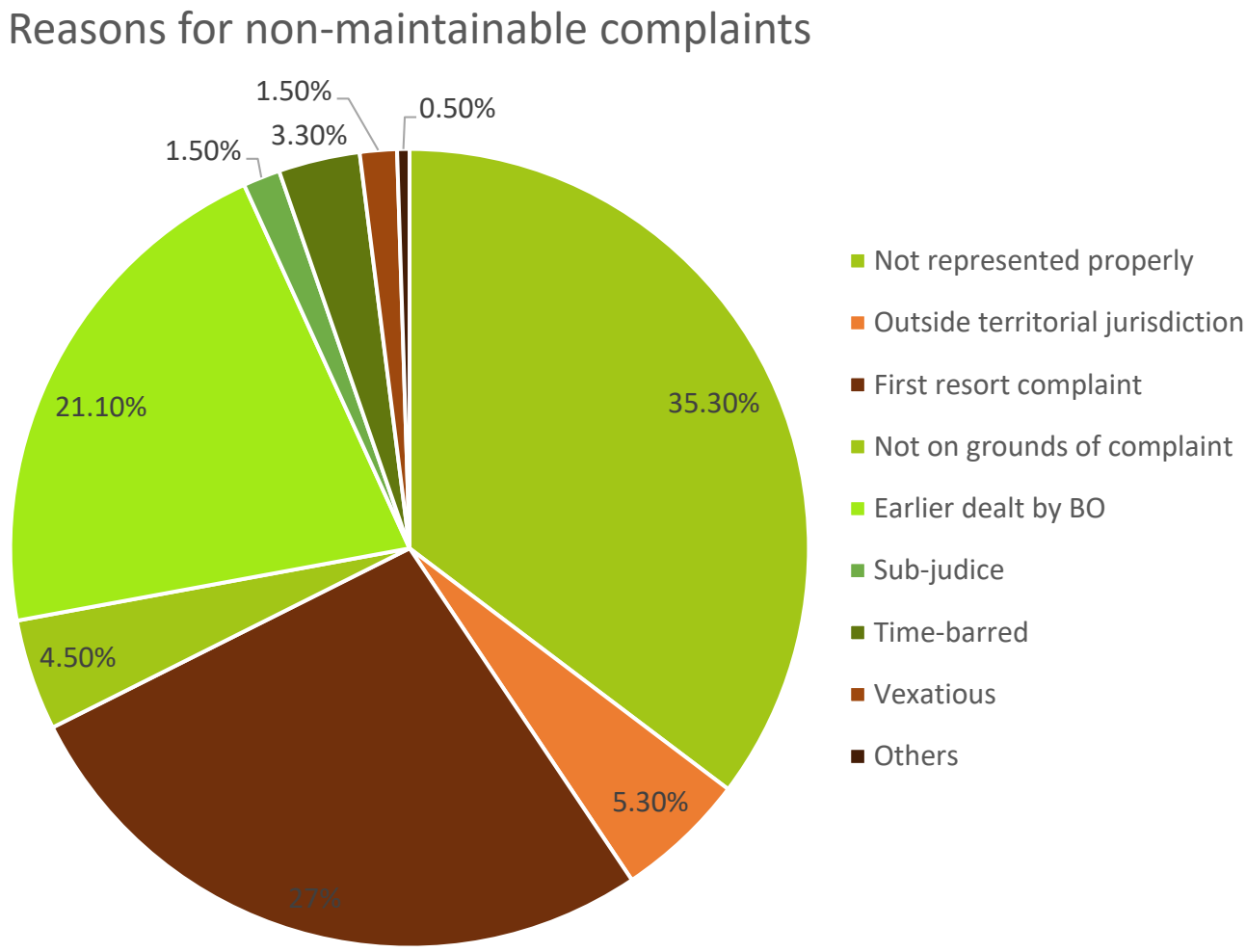
- **Fragmented:** Multiple sectoral redress forums such as SEBI's Investor Protection Forum, IRDAI's Grievance Redressal Cell etc.
  Sectoral redress forum are divided per regulated entity such as RBI's Banking Ombudsman, RBI's NBFC Ombudsman, RBI Ombudsman for Digital Transactions.



- **Onerous:** Consumers are expected to submit written documents in prescribed forms with the Ombudsman.

- **Inadequate:** The existing redress system appears capacity constrained. For instance, despite the wide reach of NBFCs only 4 Ombudsman oversee their disputes.

1.2. State of redress in banking services: Issues



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Source: Annual Report on the Banking Ombudsman Scheme, 2019-20.

1.3. State of redress in finance: Issues

- **High pendency of disputes:** Grievance redressal forums have high rates of pendency. For instance, close to 22% cases are pending before the Insurance Ombudsman for more than 1 year.
- **High Turn-Around-Time (TAT):** The time taken for grievances to be resolved are high between 4 months to a year, and sometimes even more.
- **Inaccessibility of redressal forums:** Redressal forums remain less accessible to consumers in rural regions. Most forums are located in urban areas.
- **High rejection rates:** Consumers face high rejection rates of complaints. For example, the Banking Ombudsman rejected 53% of the total complaints on grounds of non-maintainability. The insurance ombudsman rejected 74% of the complaints.
- **Low grievance redressal capacity:** Some grievance redressal forums lack adequate grievance redressal capacity due to low awareness, high vacancies *et cetera*.
- **Opaque financial system and redress process:** Consumers could find tracking the source of their grievances difficult. Further, they might also find identifying the right redress forums difficult.

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Potential for ODR in the Financial Sector

2. Potential for ODR in the financial sector

ODR in financial sector can:

- **Improve Accessibility**: Reduced monetary, geographic and cognitive barriers to accessing grievance redressal.
- **Simplify grievance redressal**: Simplifying grievance redress procedures for consumers.
- **Reduce TAT**: Reduced time taken for registering grievances and redressing grievances.
- **Increase Trust**: Increasing trust in using formal financial services on account of having efficient grievance redressal procedures.
- **Increase Transparency:** Increased transparency in the grievance redressal process.

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2.1. Opportunities for ODR

Objective of using ODR	Function performed by ODR	Relevant tools and practices
Consulting & hand-holding	Assists consumers with: • procedure, • documentation, • evidence gathering & • decision-making.	• *Portable*'s "Settle". • *E-commerce Mediation Committee*, "automatic consulting". • Modria.
Communication	• Automatically informs consumers of PSP's payment failures. • Automates status updates of complaints to the consumer. • Allows consumers to communicate with providers.	• *UK European Consumer Centre* • *The Furniture Ombudsman*.
Escalation	• Remotely facilitates pre-mediation settlement. • Facilitates mediation, negotiation, conciliation. • Facilitates arbitration.	• New Zealand Banking Ombudsman • Ontario Ombudsman, Canada. • ICICI Bank.
Streamlining	• ODR platform capable of triggering unsettled disputes with appellate bodies.	• Resolver.

Developments in ODR in India

3. Some developments in ODR in India

- **Digital payments:** The Indian central bank, the Reserve Bank of India, has issued guidelines for developing ODR systems in the digital payments sector.
- **Consumer protection:** The Department of Consumer Affairs have adopted digital grievance redressal mechanisms for consumer disputes.
- **MSME payment dues:** The Ministry for MSMEs has developed a SAMADHAAN Portal for settling payments dues to MSMEs from government agencies.
- **Judiciary:** The e-Committee of the Supreme Court of India is developing its e-Courts project for digital hearing of cases.
- The NITI Aayog released a broad policy plan for designing ODR systems in India.

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Challenges for ODR in the Financial Sector

4. Challenges for ODR in the financial sector

Digital divide

Trust in the ODR system

Cultural challenges

Capacity to build & operate ODR systems

Governance challenges

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4. Takeaways for designing and implementing ODR

- Ensure **accessibility** and **affordability** for consumers.
- Design ODR systems to **match the reality** of the ICT infrastructure.
- Ensure **inclusiveness** in design.
- Keep **consumers' needs central** to the design and deployment of ODR.
- Ensure consumer **safety** and **protection**.
- Incorporate measures to **create trust** and **credibility**.
- Adopt a **sustainable approach** to building, operating and maintaining ODR systems.
- Devise appropriate **rules and regulations.**

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Challenges on dispute resolution and redress mechanisms for consumers in cross-border digital trade
APEC, 27 April 2021