Online Dispute Resolution in Digital Financial Services in India

Submitted by: Dvara Research
Online dispute resolution in digital financial services in India

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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

**Reasons for non-maintainable complaints**

- Not represented properly: 35.30%
- Outside territorial jurisdiction: 4.50%
- First resort complaint: 5.30%
- Not on grounds of complaint: 21.10%
- Earlier dealt by BO: 5.30%
- Sub-judice: 3.30%
- Time-barred: 1.50%
- Vexatious: 1.50%
- Others: 0.50%

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.
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.
## 2.1. Opportunities for ODR

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