

Appointment of Internal Ombudsman by Non-Banking Financial Companies

Introduction

On 15 November 2021, RBI introduced 'Internal Ombudsman mechanism for select Non-Banking Financial Companies' (NBFC). Accordingly, RBI has directed the following NBFC to appoint an Internal Ombudsman (IO) at the apex of their internal grievance redress mechanism within 6 months of this notification.

1. Deposit-taking NBFCs (NBFCs-D) with 10 or more branches and
2. Non-Deposit taking NBFCs (NBFCs-ND) with asset size of INR 5,000 crore and above having public customer interface.

NBFC fulfilling the eligibility criteria / commencing business post the issuance of these guidelines will adopt the directive within 6 months from its eligibility date.

Any NBFC covered by this direction shall continue to have an IO for a period of 3 years after the company falls below the thresholds. If the term of the incumbent IO ends before this 3-year period, the NBFC, with the prior approval of RBI, may not appoint another IO.

Exclusions

The directive excludes the following types of NBFCs.

- a. Stand-alone Primary Dealer
- b. NBFC - Infrastructure Finance Company (NBFC-IFC)
- c. Core Investment Company (CIC)
- d. Infrastructure Debt Fund - NBFC (IDF-NBFC)
- e. NBFC - Account Aggregator (NBFC-AA)
- f. NBFC under Corporate Insolvency Resolution Process
- g. NBFC in liquidation
- h. NBFC having only captive customers

Appointment of IO

The IO shall meet the eligibility criteria / qualifications as mentioned in the directive. To maintain the independence, the person appointed as IO must not have worked/presently working in the NBFC/its group companies. An NBFC can appoint more than 1 IO depending upon the size of its network/complaints to be addressed. The tenure of the IO shall be for a fixed term of minimum 3 years and maximum 5 years to be indicated in the appointment letter. The IO shall not be eligible for reappointment or for extension of tenure in the same NBFC (or its group companies). The appointment of IO should be reported to the RBI within 5 working days.

Redressal of grievances through the IO

- IO shall deal and address only those customer complaints that have already been examined by the NBFC and are wholly or partly rejected by it.
- IO shall not directly address the customers' grievances, the same shall be forwarded to him/her by the NBFC.
- The NBFC shall formulate a Standard Operating Procedure approved by its Board wherein the complaints partly or wholly rejected by the internal grievance redress mechanism are escalated to the IO for a final decision within 3 weeks from the date of receipt of the complaint. The IO and the NBFC shall ensure that the final decision is communicated to the complainant within 30 days from the date of receipt of the complaint by the NBFC.

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- The decision of the IO shall be binding on the NBFC. In case where the NBFC disagrees to the IO's decision, such disagreement has to be with the prior approval of the MD/ED/CEO of the NBFC. The reply to the complainant shall explicitly state that the NBFC has disagreed and overruled the decision of the IO. The NBFC must reply to the complainant advising him/her to approach the RBI Ombudsman and should expressly provide the link to RBI's customer complaints portal (cms.rbi.org.in). All such disagreed cases shall be subsequently reviewed every quarter by the Board of the NBFC.
- In case the IO upholds the decision of the NBFC to reject/partly reject the complaint, the reply to the customer should explicitly state the fact that the complaint has been examined by the IO and, for the reasons stated in the reply, the decision of the NBFC has been upheld.
- The NBFC should use the analysis of complaints handled by the IO in their training programmes, conferences to make their staff aware of the causes, remedial actions and actions to prevent such future instances.

Reporting to RBI

The directive specifies reporting by NBFC to RBI in a specified time bound manner (i.e. on quarterly or annual basis) the number of total complaints received, complaints wholly/partly rejected, complaints escalated to IO, cases where NBFC rejects the IO's decision and closed cases.

Internal audit of NBFC

- a) The internal audit shall, inter-alia, cover aspects relating to:
 - i. the infrastructure (space, IT infrastructure, human resources, etc.) provided to the IO;
 - ii. adherence with various timelines indicated in the direction;
 - iii. support provided by the NBFC to the IO for redressal of the complaint. (refer para 9 (c) and (d))
- b) The scope of the internal audit shall exclude any assessment of the correctness of decisions taken by the IO.

Weblink <https://rbi.org.in/Scripts/NotificationUser.aspx?Id=12195&Mode=0>

Therefore

NBFCs have proven to be a parallel funding option to banks in respect of financial services to the crucial economic sectors. Several NBFCs have also successfully adopted digital modes to support their financial products and services to a wide spectrum of customers. The increased significance, strength and reach of NBFCs across the country has necessitated the need of better customer experience, including grievance redressal practices. Establishing a customer redressal mechanism (at par with the banks) will bring in more transparency of operations and consumer awareness in the BFSI segment.