

## **Sanjay Malhotra: Transforming grievance redress – the AI advantage**

Inaugural address by Mr Sanjay Malhotra, Governor of the Reserve Bank of India, at the Annual Conference of the RBI Ombudsmen, Mumbai, 17 March 2025.

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I am delighted to participate in this year's Annual Conference of the RBI Ombudsmen. The Reserve Bank has been organising this conference on or around the World Consumer Rights Day, that is, 15th March. World Consumer Rights Day is celebrated every year with the aim of raising global awareness about consumer rights and needs. We organise this conference to reflect on our achievements with regard to consumer services and to deliberate on how to improve services and reduce grievances. We need to improve consumer services, not only because it is our duty to do so, but because it is in our selfish interest to do so. In this age of competition, we would not survive long if we do not provide quality service to our consumers.

We have made tremendous strides in improving consumer services over the years. We have enabled internet banking and mobile banking. Most of the banking services, be it opening a deposit account, or taking a small loan have been digitised, adding to the convenience and speed. We are making record number of digital transactions through UPI and other means of digital payments. Many among the younger generation may have never visited a bank branch. We have even enabled opening of accounts using video KYC.

While we have enhanced customer experience over the years, the high number of customer grievances continues to be a matter of serious concern. I am told that last year (2023-24), the 95 Scheduled Commercial Banks alone received over 10 million complaints from their customers. If we take into account the complaints received at other RBI-regulated entities (REs), the number would be even higher. One may argue that this amounts to only four complaints per thousand accounts per year as there are about 2.5 billion bank accounts. But, for us, even one complaint is a cause of concern. We have 10 million complaints and with the rapidly growing customer base and expanding suite of products, this may grow, if we do not get our act together.

### **Customer satisfaction – a cornerstone for banking and other financial services**

Excellent customer service, in fact excellent customer experience is a *sine qua non* in any service industry. Our effort should be to enhance the total customer experience. The experience should be such that there is no cause for a grievance that requires a redress. Let me state a fundamental truth: every complaint is a test of trust. When a consumer files a grievance – whether for a disputed transaction, a lapse in service, inappropriate pricing or charges or an unfair practice – it is a signal that our system has fallen short. Left unresolved, such issues can erode consumer confidence and tarnish the entire ecosystem.

I am reminded of a real story about customer service. Some of you, especially the management graduates, may have heard it but it is so appropriate for today's theme

that it is worth being retold. In the winter of 1975, in a town in Alaska, a man walked into a store and complained to the salesman present that the snow tyres that he bought some time ago were not holding. The salesman was a little puzzled. He said that he could not replace them but will check what he could do and went to the back of the store. Those of you, who have visited departmental stores in the USA, would know that refunds are processed at the back of the store. The salesman came back after some time and handed over some cash as refund and the customer left satisfied. Can anyone guess why this was unique, as no questions asked policy for refunds is fairly common in the USA? It is because the company in question is Nordstrom which does not even sell tyres. It sells apparel and shoes. But, for Nordstrom, customer comes first. Trusting him and winning his trust is more important than anything else.

Some say that this is not a true story. How is this possible? How could a company offer refund for a product which it never sold? Nordstrom, however, insists that this incident did take place. Nordstrom had acquired three stores from another company that sold miscellaneous articles including tyres. The customer did not realise that the store had changed and walked in with his complaint. The key message is that Nordstrom saw itself being in the business of customer service, and not just selling goods. We too need to realise that we are in the business of providing unalloyed customer service and not just selling banking and other financial services.

## **Top management to accord priority to customer service**

I am sure you will all agree that we are indeed in the business of customer service. However, I suspect that we are not spending enough time on customer service and grievance redressal as a result of which not only are there a large number of complaints being received by banks and NBFCs but in the absence of satisfactory resolution, a large number of them are getting escalated to RBI Ombudsmen.

Let me give you some perspective. The number of complaints received under RBI's Integrated Ombudsman Scheme increased at a compounded average growth rate of almost 50 per cent per year over last two years to 9.34 lakh in 2023-24. The number of complaints processed at the Office of RBI Ombudsman increased by 25 per cent from about 2,35,000 in 2022-23 to almost 2,94,000 in 2023-24. Not only are large number of complaints getting escalated, a large proportion of them – nearly 57 per cent of the maintainable complaints last year – required mediation or formal intervention by the RBI Ombudsmen. You would all agree that this is a highly unsatisfactory situation and needs our urgent attention.

I would, therefore, strongly urge all the MD&CEOs, Zonal and Regional Managers and the Branch Managers to spend some time every week, if not every day on grievance redressal. This is a must. All great CEOs find time to do it. We too must keep some time in our diary for improving customer service and grievance redressal.

## **Improving customer service systems**

Customer complaints aren't a nuisance – they are in fact opportunities to improve, innovate, and build trust. Handling them well can define your success. Each unresolved grievance is a missed opportunity for regulated entities to reaffirm customer trust and loyalty. It is also a warning signal as repeat complaints are often signs of systemic

flaws. Today, complaints often surface on social media even before reaching official channels, highlighting the need for proactive measures.

The effort thus should be to not only resolve the complaints but also to ensure that the same type of complaint does not arise again. Many of the complaints like digital transaction disputes, unauthorized charges, or miscommunication frequently recur. These are clearcut symptoms of underlying issues in the overall customer service framework of the regulated entities. A thorough root cause analysis should be performed for each complaint so as to enable remedial action and avoid repetition of same type of complaint.

In fact, I would go a step further. Best service is not one in which there is no occasion for grievance redressal but one in which there is no occasion for the customer service department to step in. Systems should work seamlessly and conveniently so that customers do not have to call the branch or the customer service centre or talk to anyone in the Bank or NBFC. Systems have to be so user-friendly that customers can rely on self-service rather than being dependent on anyone else.

### **Improving internal grievance redressal systems**

While improving systems to reduce grievances is important, setting up a robust grievance redressal system is equally important for all regulated entities. I would urge you all to review the same. While the regulations do not make any prescription for the organisational structure for grievance redressal, my experience suggests that there should be at least two levels for grievance redressal in large REs, with unresolved grievances getting escalated from the lower to the higher level. The highest level should be at a fairly high rank. This to ensure that requests do not get rejected without having been examined by a senior functionary who is empowered to take decisions in consumer interest. This will help reduce grievances getting escalated to the Ombudsman. It must also be ensured that there are sufficient number of grievance redress officers at all levels including in the Internal Ombudsman office.

I would also like to draw your attention to the misclassification of complaints as requests, queries, and disputes by the regulated entities. This results in the complainants' grievances remaining unaddressed. Moreover, this is also a gross regulatory violation.

### **Major areas of service improvement**

Let me now briefly allude to some of the major areas where we need to improve. These relate to KYC, digital frauds, mis-selling, and aggressive recovery practices.

As for KYC, we need to ensure that once a customer has submitted documents to a financial institution, we do not insist on obtaining the same documents again. Once the customer has updated his details, for example, his residential address, with one regulated entity of any financial sector regulator, it gets updated in CKYCR and other REs are notified of the updation. PML Rules made by the Department of Revenue in the Ministry of Finance and RBI's Master Directions on KYC mandate regulated entities to check the CKYCR system before seeking KYC documents for opening an account. However, most banks and NBFCs have not enabled the same in their branches

/business outlets, causing avoidable inconvenience to customers. This may be facilitated early. This will be in the interest of all.

Another important issue connected to customer protection is rising digital frauds. It is a matter of great concern that innocent customers continue to fall prey to scamsters. While this could be attributed to rise in digital transactions and innovative methods adopted by fraudsters, lack of customer awareness is also a major reason for the same. To mitigate this menace, REs not only need to put in place robust internal controls but also enhance digital financial literacy.

The issues of mis-selling and aggressive recovery practices have been highlighted earlier too. In this context too, I would request you to keep consumer interest supreme.

## **Embracing technology – the AI way**

Let me now come to the theme of this year's conference: AI's potential to revolutionize grievance redressal. We are entering an exciting era where technology, particularly artificial intelligence (AI), can drive remarkable improvements in speed, accuracy, and fairness of complaint resolution.

AI can help categorize incoming complaints by urgency, complexity, or subject area, ensuring minimal delay in reaching the right people or the right team. AI can also help in optimising complaint routing. Further, it can assist in decision-making and reducing processing time.

Secondly, AI can be used to pinpoint systemic gaps by analysing both structured and unstructured data such as emails, chat logs, and call transcripts. This will aid in identifying training needs and guiding necessary process reforms. Using data from millions of consumer branch visits, call centre logs, mobile apps, and social media, a unified, AI-driven view of all these interactions can help identify common pain points more efficiently. Leveraging data analytics, sentiment analysis, and predictive models, AI can be used to analyse large volumes of data to detect spikes in issues – such as ATM failures or erroneous charges – and alert REs pre-emptively.

Lastly, in a linguistically diverse country like India, AI-driven chatbots and voice recognition tools can eliminate language barriers by operating in local languages. Moreover, the implementation of conversational AI in chatbots, voicebots, and advanced IVR systems can handle routine queries round the clock, thereby freeing people to focus on cases that require empathy and complex problem-solving.

In short, integrating AI at every stage – from complaint lodging to closure – can result in a seamless, efficient, and data-driven grievance redressal system. Such a framework not only reduces processing times and addresses repetitive complaints but also fosters equitable outcomes by mitigating human biases. It is time that the banking industry explores and pioneers the integration of technology – including AI – to strengthen the grievance resolution mechanisms and make it best in class across the globe.

## **Challenges and guardrails in AI driven grievance redressal system**

While AI presents unparalleled opportunities, we need to be cognizant of the challenges and risks that its adoption poses. There are concerns on data privacy, algorithmic bias and complexity in AI-driven models. As we embrace AI in grievance redressal or any other process, we must also remain mindful of ethical considerations. Human oversight, bias mitigation and data privacy must be integrated into the AI Systems to ensure transparent and consistent outcomes.

## **Investing in human resources**

While technology in all its forms is a powerful enabler, I would like to emphasise that it is no substitute for integrity, empathy, and human judgment. In a world increasingly driven by data, algorithms, and automation, it is all too easy to lose sight of the human element. Every transaction represents not just a number in a ledger, but the hard-earned savings of a family, the dreams of a small entrepreneur, or the lifelong savings of a senior citizen. It is, therefore, critical that REs continue to invest in human resources dedicated for customer service and grievance redressal. It is essential to invest in training of staff, especially in behavioural aspects of customer service. Moreover, the staff needs to be empowered to take decisions based on their judgement to redress consumer grievances, enhance customer satisfaction and win consumer trust.

## **RBI as a facilitator**

In the end, I would like to assure you that, while we exhort you to provide services efficiently to customers, we in the Reserve Bank shall also provide various services, approvals, clarifications, etc. to the regulated entities in a timely manner. We already have a citizen's charter. We are in the process of reviewing the charter. We will make the charter comprehensive to include all services that we offer either to the REs or directly to citizens. Moreover, we are reviewing the timelines for each service. It will be our endeavour to provide all approvals, etc. within the timelines. We are also making mandatory the use of PRAVAAH, which is RBI's secure and centralised web-based portal for any individual or entity to seek authorisation, license or regulatory approval on any reference made to the Reserve Bank in a timely manner. This will help us in expediting the disposal of applications received by the Reserve Bank.

## **Conclusion**

We stand at a pivotal juncture as India looks to realise its dream of a more resilient and inclusive *Viksit Bharat*. With the financial sector touching the lives of almost the entire population, we have a critical role. To succeed in this role, we must continue to enhance customer service and customer protection.

Thank you !