

BEYOND COURTS AND TRIBUNALS: EVALUATING THE BANKING OMBUDSMAN MECHANISM IN INDIA UNDER REGULATORY ADR

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Introduction

The Indian justice system is burdened with challenges such as excessive delays, procedural complexities and the increasing costs of litigation, especially in areas of civil and regulatory disputes. Various judicial and policy-based interventions introduced to remedy this remain fruitless as the Indian courts and tribunals still remain overburdened.¹ Various empirical studies, Law Commission reports, and judicial observations highlight that these problems dilute the remedial value and public confidence in the legal systems.² This has necessitated the development of alternative institutional frameworks that deliver timely dispute resolution.

In the face of such challenges, alternative modes of Dispute Resolution become a vital part of modern-day legal systems, which present the parties with the option of using flexible, informal, and non-confrontational methods for settling their disputes. The classical pillars of Alternative Dispute Resolution [“ADR”] are still essential, but during the last few years, the emergence of regulatory and sector-specific ADR mechanisms has been increasingly acknowledged. The Ombudsman mechanism has carved out a unique position within this expanded sphere of new-age ADR methods, where it assumes the role of a grievance-centric, institutional, and regulatory form of dispute resolution. This mechanism was initially meant to address the maladministration by public authorities, but it has not evolved into multiple sector-specific forms, including the

¹ Law Commission of India, *Arrears and Backlog: Creating Additional Judicial (W/o)manpower* (Report No 245, 2014).

² Jayanth K Krishnan and Marc Galanter, ‘Bread for the Poor: Access to Justice and the Rights of the Needy in India’ (2004) 55 *Hastings L. J.* 789.

Banking Ombudsman [“**BO**”], Insurance Ombudsman, and Pension Ombudsman, among other industry-specific frameworks.³

Out of these, the BO stands out for its role in the Indian banking industry with its size, intricacies, and systemic relevance. Customer disputes have quadrupled in size and case difficulty concurrently with the advent of digital banking, financial inclusion projects, and outreach to large numbers of consumers. The Reserve Bank of India-managed [“**RBI**”] BO scheme can be regarded as one of the most widely used and standardised in the Indian context Ombudsman mechanisms.⁴ This paper analyses the Ombudsman system in India as a non-judicial and tribunal regulatory ADR. It mainly takes the BO as a representative case study concerning the effectiveness, limitations, and future potential of the Ombudsman institution in the changing ADR scenario of India.

Thesis statement

The thesis proposed by this essay is that while the Ombudsman mechanism in India signifies an exponential shift towards the institutional and regulatory form of ADR, which goes beyond courts and tribunals, the effectiveness of the same remains uneven across sectors. By taking the BO as a representative case study, this essay argues that despite its accessibility and consumer-centric nature, the structural limitation of the jurisdictional scope, enforcement power, institutional independence, and lack of awareness prohibit it from being a completely effective form of formal adjudication in the evolving framework of ADR in India.

Methodology

This study adopts a policy-oriented and doctrinal method of research to assess the BO mechanism as a regulatory ADR in India. The basis of analysis lies in the study of statutory provision, the RBI’s regulatory framework, judicial decisions, academic literature and policy reports pertaining to consumer dispute resolution and financial regulation.

The essay evaluates the BO through four parameters, which are accessibility, procedural efficiency, institutional independence, and effectiveness of dispute resolution. It also draws limited comparative insights from international ombudsman models to identify potential reforms for the

³ Graham Greenleaf and others, ‘Challenges for Free Access to Law in a Multi-Jurisdictional Developing Country: Building the Legal Information Institute of India’ (2011) University of Edinburgh, School of Law Working Paper Series No. 2011/43 <<https://dx.doi.org/10.2139/ssrn.1975760>> accessed 1 April 2026.

⁴ Karan Gulati and Renuka Sane, ‘Grievance Redress by Courts in Consumer Finance Disputes’ (2021) NIPFP Working Paper No. 331 <<https://dx.doi.org/10.2139/ssrn.3797435>> accessed 1 April 2026.

Indian framework. The paper is primarily doctrinal in nature and does not rely on empirical research.

Analysis

Conceptual Foundations

The Ombudsman institution has its origins in an accountability system that was set up to deal with grievances regarding poor management through a forum that was independent and informal.⁵ In India, the concept has been modified to deal with a great number of small disputes in the heavily regulated sector, thus showing the government policy choice of shifting consumer complaints from the already overstressed courts to specialised mechanisms that assure quick and easy remedies without formal trials.⁶ The aforementioned characteristics classify it as ADR, specifically characterised by its non-adversarial nature, procedural informality, minimal judicial intervention, and an emphasis on equitable resolution rather than strict adherence to the law. Advocating for a regulatory ADR model, it is, however, distinct from private mechanisms, including arbitration, which operate within the statutory framework but remain aligned with the primary ADR objectives of efficiency, accessibility, and low cost, particularly for individual customers.

Legal and Institutional Framework of the Banking Ombudsman

The BO derives its authority from the regulatory powers of the RBI under the Reserve Bank of India Act, 1934 and the Banking Regulation Act, 1949.⁷ The Integrated Ombudsman Scheme, 2021, [“**2021 Scheme**”] has been a major step towards the normalisation of regulation by incorporating various sectoral ombudsman schemes into one cross-sectoral framework and enhancing the Ombudsman’s position as the main and most approachable financial dispute resolution method in India’s regulatory ADR infrastructure.⁸ The extent of the RBI Ombudsman’s approachability is evident in cases such as those of *Balla Rama Rao v Office of the Banking Ombudsman*,⁹ and *Sarwar Raza v Ombudsman Reserve Bank of India*.¹⁰ The BO procedure is characterised by informality, a non-adversarial nature, and low costs, which means that complainants do not have

⁵ Kaviyarasu K, ‘A Study on Origin and Development of Ombudsman in India’ (2024) 4(3) Indian J. Legal Rev. 524.

⁶ Carrie Menkel-Meadow, ‘The Many Ways of Mediation: The Transformation of Traditions, Ideologies, Paradigms, and Practices’ (1995) 11 Negotiation J. 217.

⁷ Banking Regulation Act 1949, s 35A.

⁸ Reserve Bank – Integrated Ombudsman Scheme 2021, RBI/2021-22/125 (12 November 2021) <https://rbidocs.rbi.org.in/rdocs/content/pdfs/RBIOS2021_amendments05082022.pdf> accessed 1 April 2025.

⁹ *Balla Rama Rao v Office of the Banking Ombudsman* 2003 117 Comp Cas 201 AP.

¹⁰ *Sarwar Raza v Ombudsman Reserve Bank of India* [2023] SCC OnLine Del 1111.

to spend money on lawyers and that issues can be resolved through conciliation, settlement, or recommendation.¹¹ The absence of strict procedural and evidentiary rules, combined with a principles-based approach that emphasises fairness and protects consumers, makes the BO a viable institutional alternative to litigating in court.¹²

Accessibility and Procedural Features of the Banking Ombudsman

The 2021 Scheme has made the BO much easier to access, thanks to the introduction of a centralised, technology-based grievance redressal system. According to the RBI's reports, the vast majority of complaints are now lodged through electronic modes, thus significantly reducing the barriers to access for courts, arbitration, and consumer forums due to procedures and location.¹³ Nevertheless, differences in the levels of consumer awareness and digital literacy still prevent some user groups from having full access to the system. The BO provides a relatively quicker and free-of-charge resolution of banking disputes as compared to civil litigation and consumer courts, with RBI Annual Reports showing the disposal of several lakh complaints annually.

The lack of court fees and legal representation fees solidifies its role as an inexpensive ADR method for minor claims, but at times, the rise in the number of complaints has put pressure on the institutions' capacity and has influenced the time of disposal. Meanwhile, the imbalance of power between banks and individual consumers continues to affect the outcome.¹⁴ Unlike courts and arbitral tribunals, the BO is not bound by the Code of Civil Procedure, 1908,¹⁵ or the Indian Evidence Act, 1872.¹⁶ Disputes are being resolved in a flexible and practical manner. On the one hand, this freedom of procedure makes it easier for people to access the system and for the process to be quick, but on the other hand, it is a source of inconsistency and unpredictability issues when there are more and more complicated complaints.

Assessing the Effectiveness of the Banking Ombudsman

The BO acted as a regulatory ADR mechanism, and its effectiveness was determined by the resolution of a large number of consumer complaints through a process that was both structured

¹¹ Reserve Bank of India, 'Integrated Ombudsman Scheme' (2021) ch IV.

¹² *Canara Bank v P. Selathal* (2020) 13 SCC 143.

¹³ Press Trust of India, 'Ombudsman Disposed of 95 pc Complaints Received in FY24' *The Economic Times* (2025) <<https://economictimes.indiatimes.com/industry/banking/finance/banking/ombudsman-disposed-of-95-pc-complaints-received-in-fy24/articleshow/117531532.cms?from=mdr>>.

¹⁴ Bibekananda Panda, 'Asymmetric Information and Market Failure in Bank-NBFC Co-Lending Model' (2023) Indian Institute of Banking & Finance.

¹⁵ Code of Civil Procedure, 1908.

¹⁶ The Indian Evidence Act, 1872.

and informal. The 2021 Scheme, which superseded the previous scheme, unified the various siloed sectoral mechanisms into a single integrated system with a common portal and a Centralised Receipt and Processing Centre, thereby making the entire process more efficient and less time-consuming. By this integration, the Ombudsman became a more powerful force in resolving banking disputes rather than being a secondary alternative to the courts. The role of a BO primarily includes handling of clerical errors in ordinary banking services, such as digital payment failures, credit reporting errors, and extremely long waits for grievance resolution. The Draft Reserve Bank - Ombudsman Scheme, 2025 [“**2025 Scheme**”]¹⁷ mandates expanding coverage to include Non-Banking Financial Companies, banks, credit information companies and payment system participants, which highlights the complex intricacies of the relationships between financial consumers. The reliance on summarising and mediation processes makes it very appropriate for conflicts that are frequent and of low value, which are not very suitable for resolution by courts or consumer forums.

The powers of the Ombudsman for remediation add to its effectiveness as well. The 2025 Scheme limits the amount of money that can be awarded as compensation for consequential loss and mental anguish to ₹30 lakh and ₹3 lakh, respectively, but still allows claims of any amount to be brought for examination. Its utility in high-stakes commercial disputes is nevertheless limited, and it still remains in line with its consumer-protection aim as well as the principles of ADR, which are based on fairness. The requirement of the complainant’s acceptance guarantees the validity of the process; the consent component is kept. The BO not only settles single disputes but also carries out a systemic regulatory role that increases consumer trust and accountability in the banking industry as a whole.¹⁸ The annual reports by the RBI and the integration of Ombudsman’s findings into the supervisory process have made the mechanism a remedial one as well as a preventive. The Ombudsman, in this case, is the regulatory intelligence who is pinpointing the recurring service failures and compliance gaps in the process of evolving India’s regulatory ADR framework.¹⁹

Structural Limitations of the Banking Ombudsman

The BO, although it is a regulatory ADR mechanism of great utility, is still mostly incapable of winding up complex or high-value disputes because of the capped compensation and summary

¹⁷ Reserve Bank of India, *Draft Reserve Bank – Ombudsman Scheme, 2025* (7 October 2025) <https://www.rbi.org.in/Scripts/bs_viewcontent.aspx?Id=4749> accessed 1 April 2026.

¹⁸ Iain Ramsay, ‘The Alternative Consumer Credit Market and Financial Sector: Regulatory Issues and Approaches’ (2001) 35 *Canadian Bus. L. J.* 325.

¹⁹ Julia Black, ‘Proceduralising Regulation: Part I’ (2000) 20 *Oxford J. Legal Stud.* 597.

procedures, thus referring such disputes to courts or arbitration for complete remedy. The complainant's option to accept the enforceability of the award, although consistent with the principles of ADR, reduces the finality of the process and possibly lowers the deterrent effect, hence allowing it to be viewed as a mediator rather than a conclusive venue. Increasing numbers of complaints have also revealed the limitations of the capacity, sometimes compromising the promised quick resolution that is the main argument for ADR's legitimacy.

Moreover, the placement of the Ombudsman within the RBI has raised questions about its perceived independence, especially in cases involving regulatory supervision. Little consumer awareness has been a persistent gap that has made it even more difficult for people to make effective use of services, thus highlighting the need for continuous institutional and regulatory reforms to consolidate the Ombudsman's position in India's regulatory framework for ADR.

The system needs a new statutory framework which should operate independently from regulations by following the United Kingdom Financial Ombudsman Service model.²⁰ The Ombudsman needs structural insulation from the Reserve Bank of India administrative system because this will protect institutional impartiality while reducing actual and perceived biases in regulatory enforcement matters. The framework needs to move beyond its current summary procedure because it requires a multi-tiered adjudicatory system, which will establish special benches to handle valuable and complex legal cases while implementing new financial limits that match current inflation and digital transaction patterns. The scheme needs two enhancements to solve its finality problem, which should include cost-shifting mechanisms and reasoned rejection penalties against banks that fail to win their appeal awards. AI-based Online Dispute Resolution tools will help the Ombudsman system in two ways because they enable automated triage to solve capacity issues and provide multilingual digital systems to educate people about their rights, which will establish the Ombudsman as a strong foundation of India's financial justice system.

Conclusion

The BO is a good example of ADR to handle consumer disputes that cannot be solved with formal adjudication, which has poor regulatory interference. The whole concept is designed in a way that it is very easy to use, has fewer formalities, and is very quick; thus, it can very well handle the cases of ordinary banking complaints while at the same time providing regulatory information on the issues that are causing the banks to fail in their service towards the customers. Therefore, the

²⁰ Niamh Moloney, *EU Securities and Financial Markets Regulation* (3rd edn, OUP 2014).

Ombudsman stands between the dispute resolution and the financial regulation. On the other hand, the limitations of the nature of remedy that can be provided, the matter of enforceability, the institution's capacity, and the perceived independence, all these factors together mature the Ombudsman's ability to act as a complete alternative to the courts. In spite of the same, these gradual institutional reforms to tackle these issues, enhanced transparency and constant consumer education would make the Ombudsman more reliable and a permanent component of India's changing regulatory dispute resolution system.

The BO system requires development beyond its current function of resolving disputes through proper adjudication. The Ombudsman office in India needs to establish its digital payment systems to handle the increasing digital payment volume, which comes with the adoption of fintech solutions. The institution will use big data analytics to analyse recurring complaint patterns, which will help create real-time behavioural advisories for banks to resolve potential disputes before they turn into official complaints. The Ombudsman system will gain the new role of building consumer trust, which will function as its main responsibility. The system will reach its full development when it can assist the RBI with its regulatory framework development, which needs to keep up with current technological developments. The Ombudsman office will become an active force in India's financial system by using its protective methods to safeguard consumer rights while working together with ongoing technological advancements.