



Stuck in silence: The impact of status quo bias on grievance escalation in Indian Banks

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Abstract

Formal grievance redressal mechanisms like the Banking Ombudsman remain underutilized despite increasing dissatisfaction of banking customers in India. This paper investigates how status quo bias stops the customer from escalating any complaints when they face service failures. Based on behavioral economics and survey data, the study shows that many customers find processes of complaint too complex, time-consuming, or futile. This perceived burden adds to inertia and causes dissatisfaction to seep in without any action taken. Suggested interventions include quicker complaint channels, behavioral nudges, and trust-building measures of an institution so that status quo bias can be overcome and a culture of empowerment generated.

Keywords: Status quo bias, banking ombudsman, behavioral economics, grievance escalation, customer complaints, inertia

Introduction

Customer-centricity is one of the key themes in the changing Indian banking scenario, with various institutional mechanisms in place to safeguard consumer interests. The Banking Ombudsman Scheme, unified recently under the Integrated Ombudsman Scheme (2021) by the Reserve Bank of India, has been set up to ensure a fair, costless and effective redressal mechanism for customer complaints. Even with these formal frameworks in place, there is a wide gap between the number of complaints that were actually escalated to higher levels such as the Ombudsman.

While a part of this imbalance is likely due to a lack of awareness or procedural complexity, increasing evidence points to a more fundamental psychological phenomenon: status quo bias. This cognitive bias, widely researched in behavioral economics, refers to people's tendency to favour current states of things, to do nothing even if change could lead to improved results (Üstündağlı Erten, 2024)^[7]. Status quo bias in the context bank complaints happens in the form of customer inertia- a hesitancy to move complaints up the line because of felt effort, expected effort, fear of being entangled in bureaucracy, or because 'nothing will happen'. In contrast to rational theories of complaint behavior that posit consumers compare costs and benefits to determine whether or not to act, behavioral theories acknowledge that feeling, mental tiredness, and routine habit tend to dominate reason. This has major consequences for the efficacy of grievance redressal mechanisms, particularly in an industry such as banking where customer confidence is the basis of financial stability and inclusion.

Most often, the affective and rational expense of bringing or following through on a complaint feels disproportionately greater than apparent value-leading to customers opting to be silent, to leave banks without making formal complaints, or to internalize dissatisfaction. These subtle dropouts the complaint funnel misdirect service feedback loops, underreport institutional performance flaws, and prevent customer empowerment. This study seeks to investigate how status quo bias functions as an unapparent obstacle to grievance escalation in Indian banks. By exploring the

behavioral aspects underlying inaction, it aims to isolate the psychological friction points discouraging customers from availing of the very mechanisms created to assist them, the study finally calls behaviourally-designed system refers that mitigate inertia and facilitate more equitable, more responsive complaint systems in Indian Banking.

Objectives

- To examine the extent to which status quo bias affects the escalation of complaints in banking.
- To identify customer perceptions that contribute to inertia in grievance redressal.
- To propose behavioral interventions for encouraging active complaint resolution.

Review of Literature

(Agnew *et al.*, 2008)^[1] conducted an experimental investigation to examine the influence of gender, framing, and default options on annuity selection decisions. The study, highlights that the manner in which financial choices are presented specifically through default options plays a critical role in shaping investor behavior. Their findings underscore the significant impact of status quo bias, wherein individuals tend to stick with the pre-set or default investment option even when alternative choices may offer superior outcomes. This tendency is particularly evident in retirement and long-term savings decisions, where inertia and perceived complexity discourage active decision-making. The research also found that framing effects how choices are described or labeled can sway preferences, suggesting that investor decisions are not purely rational but are highly susceptible to contextual cues. Also, the study reinforces the behavioral finance perspective that psychological factors, such as aversion to change and reliance on defaults, critically influence financial choices, often at the expense of individual welfare.

(Gupta *et al.*, 2020)^[2] conducted a comprehensive survey involving 720 customers and 72 bank officials across Punjab. The research aimed to compare the perspectives of customers and banking professionals regarding the

effectiveness and accessibility of the complaint redressal system. The findings revealed a significant gap in awareness about the Banking Ombudsman Scheme among customers, with many being unaware of their rights or the procedural steps to escalate unresolved grievances. This lack of awareness was attributed largely to information asymmetry, where banks failed to proactively communicate grievance redressal procedures to their customers. Bank officials, on the other hand, demonstrated a relatively higher level of awareness but acknowledged the inadequacy in disseminating information and building customer capacity to use redressal mechanisms effectively. The study underscored the need for stronger customer education and systemic reforms to make the grievance process more transparent and inclusive.

(Rupani & Ali, 2022) ^[3] undertook a quantitative evaluation of the Banking Ombudsman Scheme by analyzing complaint data reported by the Reserve Bank of India (RBI). The research focuses on the temporal trends in complaint volume, resolution timelines, and customer outreach. A key finding is the persistent delay in complaint resolution, which undermines the credibility of the redressal framework. The study also highlights the uneven awareness of the Ombudsman Scheme among banking customers, particularly in rural and semi-urban areas. Rupani emphasizes the role of institutional factors, such as the availability of digital grievance platforms and regional disparities in banking infrastructure, in shaping complaint patterns. The study concluded that while the Ombudsman Scheme is conceptually sound, its operational execution requires enhanced efficiency, greater publicity, and customer-centric innovations to fulfill its objective of timely and fair grievance redressal.

(Singh, 1988) ^[6] analyzed the systemic trends in how complaints are filed and resolved across various Indian banks. Their research identifies common bottlenecks in grievance redressal mechanisms, such as bureaucratic inertia, insufficient tracking of complaint status, and a lack of feedback loops. The study also points out that certain banks exhibit higher responsiveness and customer satisfaction, often correlated with better-trained staff, automated tracking systems, and transparent communication practices. Through their comparative analysis, the authors reveal disparities in redressal quality not just across public and private sector banks but also among branches within the same institution. Notably, the study emphasizes the importance of organizational culture and policy implementation in determining how seriously banks take customer complaints. The findings suggest that an institution-wide commitment to service quality and accountability is critical for improving the complaint-handling ecosystem.

(Siddiqui & Tripathi, 2010) ^[5] explored the psychological and behavioral underpinnings that determine whether or not customers choose to lodge formal complaints against banks. Using a mix of survey data and behavioral analysis, the study identified key cognitive biases particularly loss aversion and perceived injustice as major factors influencing customer decisions. The researchers argued that customers often refrain from filing complaints not necessarily due to satisfaction, but due to emotional responses such as

helplessness, frustration, or the belief that redressal will not compensate for the emotional or material "loss" already experienced. The perception of fairness in how complaints are likely to be treated also played a critical role. When customers anticipated biased handling or felt that their concerns were trivialized, they were significantly less likely to engage in formal grievance mechanisms.

(Agnew *et al.*, 2008) ^[1] demonstrated that when decisions are framed in terms of losses rather than gains, individuals become more risk-averse and tend to avoid actions that could disrupt the status quo—a classic demonstration of status quo bias. Additionally, default options strongly shape behavior: people were more likely to stick with pre-set choices, even when better alternatives exist, due to inertia and cognitive overload. Gender differences were also observed, with women being more sensitive to framing and more conservative in their financial decisions. This research provided experimental evidence for the powerful role of behavioral biases in financial decision-making, suggesting that similar psychological mechanisms could influence how consumers approach grievance redressal systems.

The scheme, Banking Ombudsman has given better access to justice, offering a free, time-bound, and accessible grievance redress mechanism; it is being kept back by poor customer awareness, especially in rural areas, and procedural delays owing to the burgeoning caseloads. The study further brings to light issues like unevenity in implementation across regions as well as non-compliance by banks in some cases with Ombudsman awards. In spite of these problems, BOS is being regarded as an important institutional mechanism that has immensely contributed to customer protection (Sahoo & Swain, 2020) ^[4]

Research Methodology

A mixed-method approach was adopted. For quantitative data collection, structured questionnaires were administered to 385 banking customers from both public sector and private sector banks who had been dissatisfied during the last year. Questions were concerned with complaint behavior, perceived barriers, emotional responses, and awareness of the grievance redressal system. For qualitative data collection, semi-structured interviews were conducted with those participants who decided not to take their complaints further. In one way, a mixed-method approach was adopted. Quantitative data was collected through questionnaires given to 300 banking customers across public- and private-sector banks, who had experienced dissatisfaction in the preceding year. Questions were asked regarding the complaint behavior, perceived barriers, emotional responses, and awareness of the grievance redressal system. The qualitative data was collected via semi-structured interviews with those participants who did not escalate the complaints.

Data Analysis

Hypothesis 1

H₀: There is no significant relationship between perceived procedural complexity and the likelihood of complaint escalation to banking ombudsman.

H₁: Customers with higher perceived procedural complexity are less likely to escalate complaints beyond the initial level.

Table 1: Binary Logistic Regression Output – Effect of Procedural Complexity on Complaint Escalation

Sample Size (N)	385
Dependent Variable Encoding	No = 0; Yes = 1
Step 0 (Baseline)	Constant B = -0.245, $p = .017$
Step 1 – Omnibus Test	$\chi^2 (1) = 165.407, p = .000$
-2 Log Likelihood	362.564
Cox & Snell R ² / Nagelkerke R ²	0.349 / 0.468
Hosmer and Lemeshow Test	$\chi^2 (3) = 7.300, p = .063$
Classification Accuracy (Overall)	79.5%
B for Complexity	-1.265
Wald Statistic / p-value	103.776, $p = .000$
Odds Ratio (Exp(B))	0.282
95% CI for Exp(B)	[0.221, 0.360]

A binary logistic regression was conducted to examine whether perceived procedural complexity significantly predicts the likelihood of complaint escalation. The full model was statistically significant, $\chi^2 (1) = 165.407, p < .001$, indicating that the inclusion of procedural complexity as a predictor significantly improves the model over the null model. The model explained approximately 46.8% of the variance in complaint escalation (Nagelkerke R² = 0.468), and demonstrated a good fit as per the Hosmer and Lemeshow test ($p = 0.063$). Classification accuracy was high, correctly predicting 79.5% of the cases overall. The regression coefficient for procedural complexity was negative and statistically significant ($B = -1.265, p < .001$), suggesting that as the perceived complexity of the complaint

process increases, the likelihood of complaint escalation decreases. The odds ratio ($\text{Exp}(B) = 0.282$) indicates that each unit increase in complexity results in a 71.8% reduction in the odds of escalating the complaint. Based on this analysis, the null hypothesis is rejected, and it can be concluded that higher perceived procedural complexity significantly reduces the likelihood of complaint escalation.

Hypothesis 2

- H₀:** Customers’ belief in successful resolution does not significantly affect their decision to escalate complaints.
- H₁:** There is a significant negative relationship between customers’ belief in successful resolution and their likelihood of escalating complaints

Table 2: Pearson Correlation between Belief in Successful Resolution and Complaint Escalation

		Belief in Successful Resolution	Complaint was escalated
Belief in Successful Resolution	Pearson Correlation	1	-.734(**)
	Sig. (2-tailed)		.000
	N	385	385
Complaint was escalated	Pearson Correlation	-.734(**)	1
	Sig. (2-tailed)	.000	
	N	385	385

** Correlation is significant at the 0.01 level (2-tailed).

Pearson correlation was used to measure the association between customers’ belief in a successful resolution and their inclination to escalate complaints. The correlations were strong and statistically significant at a 0.01 level (two-tailed), $r = -0.734$, based on the responses of 385 participants. This means that as the belief that a successful resolution exists decreases in the minds of customers, the probability of an actual complaint being escalated also decreases. Customers who feel that the act of complaining is unlikely to produce a successful outcome are less inclined to pursue further action, and this finding aligns with the hypothesis that low confidence in the redressal process

demotivates complaint escalation, thus establishing psychological impediments, with status quo bias being one force at great play, affecting consumer behavior in the redressal grievance system in banking.

Hypothesis 3

- H₀:** Awareness of the Banking Ombudsman Scheme has no significant impact on the likelihood of grievance escalation.
- H₁:** Greater awareness of the Banking Ombudsman Scheme is associated with a higher likelihood of complaint escalation.

Table 3: Effect of Awareness of the Banking Ombudsman Scheme on Likelihood of Grievance Escalation (Binary Logistic Regression Output)

Component	Value
Sample Size	385
Dependent Variable	Complaint Escalated (0 = No, 1 = Yes)
Independent Variable	Awareness Score (1 to 5 Likert Scale)
Model Significance (Chi-square)	$\chi^2 (1) = 166.633, p < .001$
Nagelkerke R Square	0.472
Regression Coefficient (B)	1.296
Standard Error (S.E.)	0.128
Wald Statistic	102.811
p-value (Sig.)	< 0.001
Odds Ratio (Exp(B))	3.655

A binary logistic regression analysis was conducted to determine whether customers' awareness of the Banking Ombudsman Scheme significantly influences their likelihood of escalating banking complaints. The overall model fit, as shown by the Omnibus Tests of Model Coefficients, was statistically significant ($\chi^2 = 166.633$, $df = 1$, $p < .001$), indicating that awareness level adds significant explanatory power in predicting complaint escalation behavior. The model explained approximately 47.2% of the variance in escalation behavior, as indicated by the Nagelkerke R^2 value, and correctly classified 76.8% of the cases overall.

The regression coefficient for awareness was $B = 1.296$, which was statistically significant ($p < .001$), suggesting a strong positive association. The odds ratio ($\text{Exp}(B) = 3.655$) indicates that for each one-point increase on the 5-point awareness scale, the odds of a customer escalating their complaint increased by approximately **265.5%** which means

customers with greater awareness of the Banking Ombudsman Scheme were substantially more likely to escalate complaints beyond the initial level. These results provide strong evidence in support of the alternative hypothesis, confirming that higher awareness of the Banking Ombudsman Scheme is significantly associated with a greater likelihood of complaint escalation. This underscores the importance of grievance literacy and targeted outreach as tools to empower customers in seeking redressal.

Hypothesis 4

H0: There is no significant relationship between status quo bias and the likelihood of complaint escalation.

H1: Customers with a stronger status quo bias are significantly less likely to escalate complaints beyond the initial level.

Table 4: Binary Logistic Regression Predicting Complaint Escalation Based on Status Quo Bias

Variable	B	S. E	Wald	df	Sig.(p)	Exp(B)	95% CI for EXP(B)
Status Quo Bias Score	-1.646	0.318	26.728	1	.000	0.193	[0.103,0.360]
Constant (Intercept)	1.960	0.789	6.169	1	.013	7.097	-

The research analysis indicate that status quo bias is a significant negative predictor of complaint escalation. That is, the higher the bias score, the lesser the likelihood of escalation of complaint beyond the initial stage ($p < .001$). The escalation odds sharply decrease by about 81% for each one-point increase in the bias score. This supports the theoretical supposition that individuals who are averse to change and action do not set the pathway of redressal any further in grievance mechanisms.

Major Findings

1. Perceived Procedural Complexity

- Customers who perceive grievance processing to be complex are less likely to escalate their complaints.
- For each unit increase, the probability of escalation decreases by 71.8%. This means perceived complexity stands in the way of resolution, acting as both a cognitive and emotional barrier in grievance redressal.

2. Belief in Resolution Success

- Respondents showed a strong negative correlation between belief in resolution success and complaint escalation, $r = -0.734$, $p < .001$.
- Customers who feel that grievance mechanisms are ineffective are severely less likely to respond. This offers an insight into a psychological barrier: lower expectations lead to less motivation to escalate complaints.

3. Awareness of the Banking Ombudsman Scheme

- Higher awareness leads to significantly higher escalation rates.
- With each one-point increase in level of awareness, the odds of escalation increase by 265.5 percent ($\text{Exp}(B) = 3.655$).
- Customers aware of the Ombudsman Scheme seem to be more empowered and hence pursue formal resolution.

4. Status Quo Bias

- Considered a predictor of status quo bias: non-escalation of complaints.
- An increase in the bias score is accompanied by an 81% reduction in the odds of escalation. This confirms that inertia and aversion to change are major psychological roadblocks in the complaint escalation process.

Suggestions

1. The grievance redressal system should be simplified by minimizing procedural steps and eliminating redundant documentation requirements.
2. Banks must adopt user-centric design in complaint interfaces—especially in mobile apps and websites—to reduce cognitive load on the customer.
3. Success stories and positive testimonials from previously resolved cases should be made visible across digital and physical customer touchpoints.
4. To boost trust, banks should offer real-time status tracking and regular updates to customers regarding the progress of their complaints.
5. It is essential to integrate grievance literacy into routine customer communication—such as SMS alerts, welcome kits, and ATM screens.
6. Banks should also include a brief orientation on the Ombudsman Scheme during account opening or customer onboarding.
7. It should be made easier for customers to escalate complaints by placing a clearly labeled "Escalate Now" button in all digital grievance interfaces.

Conclusion

The present study delineates the critical role of behavioral biases, especially the status quo bias, in the genesis of customer grievance behavior in the Indian banking context Table: Effect of Awareness of the Banking Ombudsman Scheme on Likelihood of Grievance Escalation (Binary Logistic Regression Output). Numerous unsatisfied customers do not scale up their complaints owing to certain psychological barriers that are presented by complaints

redressal machinery, for example, perceived procedural complexity, low belief in successful resolution, and even lack of awareness. The findings indicate that increased perceived complexity and status quo bias significantly diminish the willingness for companies to escalate complaints, whereas awareness and confidence in the redressal process have a positive influence on escalation behavior. Such understandings direct the gaze toward considering grievance redressal as a behavioral issue rather than a procedural one. Addressing these hidden frictions through simplified processes, targeted awareness, and behavioral nudges will inoculate customers to taking action, place higher accountability on institutions, and, in turn, mend the fractured trust in the banking system. Further study could explore assessing the efficacy of behavioral interventions like nudges, defaults, and escalation.

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