

RC Unit Record Copy 76  
IIPA/RCU/R (contd.)

## An Institutional Study of District Consumer Forums in Selected States



सत्यमेव जयते

Sponsored by  
Department of Consumer Affairs, GoI

Study Undertaken as a part of the  
Consultancy Project under the scheme for Promoting  
Involvement of Research/Universities/Colleges etc.



Indian Institute of Public Administration,  
New Delhi

**An Institutional Study of District Consumer Forums  
in Selected States**

**Project Director  
Prof. Pranab Banerji**

**Research Team  
Shri Vikas Bhati  
Shri Saiket Banerji**



**Indian Institute of Public Administration,  
New Delhi**



सत्यमेव जयते

**Sponsored by  
Department of Consumer Affairs, GoI**

### Acknowledgements

This study could not have been undertaken without the generous support of the Department of Consumer Affairs, GOI and the cooperation from the Department's officers.

Thanks are due to my colleagues Prof. Suresh Misra and Dr. Sapna Chadah for their support and assistance whenever needed. Especially grateful to Prof. P.K. Chaubey for having patiently gone through my draft report and for his suggestions for improvement.

The staff of the Centre for Consumer Studies IIPA, especially Shri R.C. Mangla, Shri Pankaj Kumar Singh, Shri Ashutosh Dixit, Ms. Hema Rautela and Ms. Deepa Bisht provided valuable help at critical points.

An academic work requires research inputs that were competently provided by Shri Vikas Bhati and Shri Saiket Banerji. Their contributions in summarizing cases, searching for material and in the processing of data was invaluable. Secretarial assistance came from Ms. Seema Girdhar.

Finally, the help from IIPA administration, headed by the Director, IIPA is gratefully acknowledged.

**Project Director  
Pranab Banerji**

April 2014

## Contents

S.No.	Chapter	Page
1	Introduction	1
2	Consumer Complaints Redressal Mechanism	2-5
3	A Theoretical Perspective	6-12
4	Utilization of Redressal Mechanism: A Macro View	13-20
5	Recourse to District Forums: Economic Calculus of Complainants	21-36
6	Conclusions	37-39

# An Institutional Study of District Consumer Forums in Selected States

## Chapter-I: Introduction

The Consumer Protection Act 1986 paved the way for the establishment of an institutional mechanism for the redressal of consumers' grievances in India. It mandated a three-tier quasi-judicial structure comprising 'District Forums', 'State Commissions' and a 'National Consumer Disputes Redressal Commission'. Within a few years, a pan-Indian institutional mechanism was erected with one national commission, 35 state commissions and over 620 district forums.

This study attempts a preliminary analysis of the functioning and impact of this institutional mechanism with a greater focus on the primary institution of District Forums. The study employs the framework of "Law and Economics" to analyse the effectiveness and efficiency of the institutional mechanism established for redressal of consumers' complaints: For this purpose, we make use of both secondary and primary data. Six states were selected so as to get a broad regional representation. The states are Andhra Pradesh, Gujarat, Karnataka, Madhya Pradesh, Meghalaya and Uttar Pradesh.

The next chapter (chapter II) describes the structure and processes of the District Forums and State Commissions. Chapter III provides a brief summary of some theoretical issues relevant to the study. Chapter IV presents the macro picture, largely based on information received from the NCDRC and other sources. The detailed picture of the six states based on primary data is presented in chapter V. The last chapter is devoted to analysis & conclusions.

## Chapter II: Consumer Complaints Redressal Mechanism

The mechanism introduced to deal with consumers' complaints envisaged a three-tier quasi-judicial structure with the first level being the Consumer Disputes Redressal Forum, known as the 'District Forum'. At the state level, the Consumer Disputes Redressal Commission, known as the 'State Commission,' was established. The Consumer Protection Act 1986, also envisaged an apex National Consumer Disputes Redressal Commission at the national level.

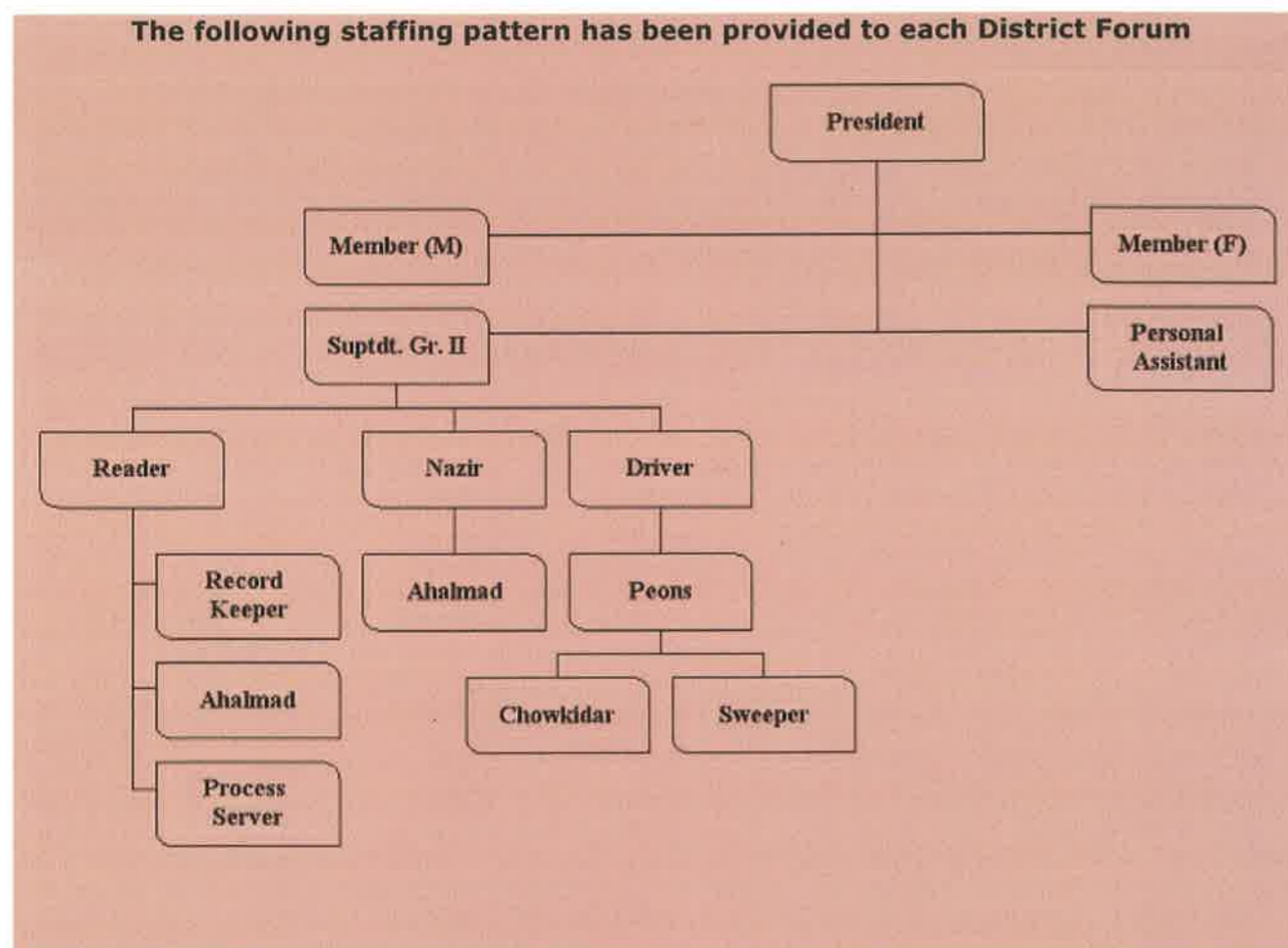
The District Forum, as per the 1986 Act, consists of a President and two members, one of whom shall be a woman. The President should be "a person who is, or has been, or is qualified to be a District Judge". The members shall be "persons of ability, integrity and standing, and have adequate knowledge or experience of, or have shown capacity in dealing with, problems relating to economics, law, commerce, accountancy, industry, public affairs administration". The selection of members and the President are to be made by a Selection Committee consisting of the State Commission President and two Secretaries (Law and Consumer Affairs) of the State Government. The three members are given a fixed tenure of 5 years.

The District Forum is assisted by an office, which according to recommendations of Committee, would consist of the following supporting officials and staff.

1	P.S.
2	Registrar (in the scale of Superintendent)
3	Court Master
4	Steno
5	UDC
6	LDC
7	Receipt & Dispatch clerk (LDC)
8	Record Keeper

9	Accounts knowing UDC (will look after Library work)
10	Peons (4)
11	Safaiwalis
12	Despatch Rider
13	Chowkidar

The total comes out to be 15-16 supporting staff. In reality, however, the actual member of staff may be less as shown by the Himachal Pradesh example, which is given below and taken from the HP State Commission website.



The District Forum can receive complaints relating to defects in goods and/or deficiencies in services, overcharging, and hazardous goods/services, or for unfair trade practices for cases falling within its territorial and financial jurisdiction. The financial jurisdiction for District Forums is limited to a claimed compensation of Rs. 20 lakh. The relief

available to the consumers are: (i) removal of defects from the goods, (ii) replacement of the goods, (iii) refund of price paid, (iv) award of compensation for the loss or injury suffered, (v) removal of defects or deficiencies in services and (vi) award of adequate cost to the parties.

The amount that the consumer has to pay as court fees for filing a complaint is a modest amount, as shown below:

Sl.No.	Total Value of goods or services and compensation claimed	Amount of fee payable
	<i>District Forum</i>	
1	Upto one lakh rupees—for complainants who are below poverty line	Nil
2	Upto one lakh rupees—for complainants other than BPL.	₹ 100
3	Above one lakh and upto five lakh rupees	₹ 200
4	Above five lakh and upto ten lakh rupees	₹ 400
5	Above ten lakh and upto twenty lakh rupees	₹ 500
	<i>State Commission</i>	
6	Above twenty lakh and upto fifty lakh rupees	₹ 2000
7	Above fifty lakh and upto one crore rupees	₹ 4000

The procedure for filing and processing a complaint by the District Forums, though relatively simple, still follows a process which is quasi-judicial. The complainant has to file a complaint in a prescribed form giving the following details:

- a. The name, description and address of the complainant and the opposite party;
- b. The facts relating to the complaint and where it had arisen;
- c. Document in support of the allegations; and
- d. The relief that is being sought

On receiving the complaint the district forum shall refer a copy of the complaint to the opposite party directing him to give his version of the case within a period normally not exceeding 30 days. In case of defective goods, where the complainant alleges a defect in the goods which cannot be determined without proper analysis or test of the goods, the District Forum shall obtain a sample of the goods from the complainant and refer



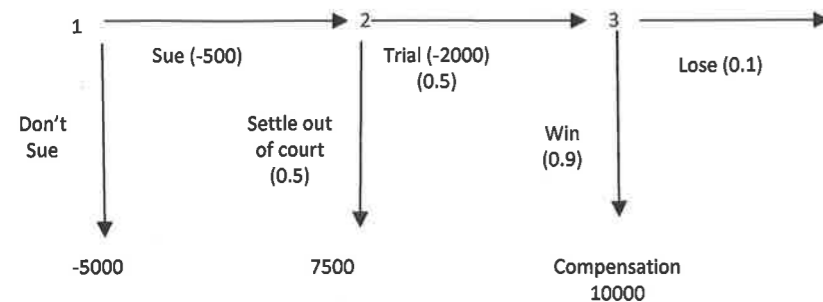
the sample to an appropriate laboratory for testing. This introduces a further element of delay in cases involving defective goods. On receiving a response from the opposite party, or in the case of non-receipt of such response within the stipulated period, the district forum can proceed with the legal procedures and reach a judgement. The District Forum has the same powers as are vested in a civil court under the Code of Civil Procedure, 1908. These include the powers of summoning, enforcing attendance, examining witnesses on oath, the discovery and production of any document or other material producible as evidence, reception of evidence on affidavit etc. The procedures, however, are required to be simpler than in district courts, with minimum adjournments. The cases are to be completed within a specified time period. The judgement of the district forum can be appealed against at the State Commission and thereafter of.

### Chapter III: A Theoretical Perspective

In recent years the sub-discipline of 'Law and Economics' has become an important area of scholarship with significant practical implications. The major part of the subject deals with the use of analytical approaches and tools of Economics to the study of *substantive* law, mainly dealing with property rights, torts and contracts. But similar methodologies are also applicable, and are being applied, to understand the *procedural* aspects of civil suits. In this chapter we outline this approach to the study of legal procedures and apply them to the case of consumers' complaints.

The approach is essentially based on the calculus of expected costs and benefits from contemplated legal actions by self-interested individuals. The decision that faces the plaintiff can be modelled as a sequential game with probabilities and pay-offs attached to various decision-related outcomes. Theoretical formulation/exposition of this approach can be found in standard texts of 'Law & Economics' (for example, by Robert Cooter and Thomas Ulen, Pearson 4<sup>th</sup> Edition, Chapter 10).

Here we present a modified and simplified version of the theoretical exposition to suit the problem at hand—namely, decisions of an aggrieved consumer to seek, or not to seek, legal redress in district forums. Let us assume a three stage decision faced by the plaintiff as depicted in the figure below:



In this hypothetical example, the plaintiff has to decide whether or not to file a suit. We assume, to begin with, that a loss has been incurred by the consumer worth ₹ 5,000 due to either a defective good or service. By deciding not to sue, this is the loss that has to be accepted. Filing a case in the District Forum costs ₹ 500. After filing and exchange of information there may be a 50-50 chance of reaching an agreement with the defendant for an amount that adequately compensates for the loss and the filing costs— say, ₹ 7,500. If there is no settlement, the case proceeds for trial in the district forum, which costs the plaintiff ₹ 2,000 in lawyer's fees, transport and other costs. The probability of winning is, let's assume, 0.9 and the likely compensation is ₹ 10,000.

#### Expected Value of Trial

The standard procedure for analysis is to begin at the end of the decision-tree and work backwards. The rational plaintiff will be facing an expected value of trial (EVT) given by

$$\begin{aligned} \text{EVT} &= 0.9 \times 10,000 + 0.1 \times 0 - 2,000 \\ &= 9,000 - 2,000 = 7,000. \end{aligned}$$

Since the EVT compensates for loss and costs (₹5500), trial will be preferred.

As can be seen, the expected benefit from trial depends on (i) the probability of a favourable decision, (ii) the amount of compensation, and (iii) the cost of trial. These are discussed below:

(i) The *probability of a favourable decision* depends partly on the strength of the case in legal terms and on the supporting evidence being furnished. But it also depends on the orientation of the consumer courts. It can be judged from the track record of the percentage of cases that have been settled in favour of consumers. In general, the courts have been favourable to the consumers. But a reduction in this rate (probability) reduces the expected value of trial to the consumer. Therefore, if the

consumer is not able to mobilize adequate supporting evidence he will think twice before opting for a trial.

(ii) The *amount of compensation* is a critical element in the decision to go in for a trial. If the compensation is only a refund or replacement, this may not be adequate to motivate the plaintiff to go for a trial if the cost of trial is large in relation to the loss. In such cases, incidences of small damages will not be brought to courts. (For instance, if the compensation is only return of money—i.e. ₹5000—the EVT becomes  $0.9 \times 5000 - 2000 = 2500$ ). However, if the courts say interest on the amount and the cost of trial of the plaintiff has to be borne by the defendant, in the event of losing the case, more cases will be filed in consumer courts. If the compensation includes a penalty element, in addition to refund/replacement, there is a greater incentive for opting for trial in preference to settlement or inaction.

(iii) Finally, the *cost of trial* is a disincentive to the consumer. This would include the cost of lawyer, the cost of filing supporting evidence, and so on. But more importantly are the transaction costs of trial. These include the costs of travel to be present for the case, which in turn depends on the number of adjournments and the length of the trial, and also the loss of income due to visits and other inconveniences. For the rural consumers, appearing for trial in district headquarters, these costs can be quite substantial and far in excess of the direct costs like lawyer's fees.

#### Expected Value of Settlement

But before going into the trial, the plaintiff and defendant have the option of going in for an 'out of court' settlement, which we assume (for simplicity) to be costless. The expected value of settlement is

$$\begin{aligned} \text{EVS} &= 0.5 \times 7,500 + 0.5 \times \text{EVT} \\ &= 0.5 \times 7,500 + 0.5 \times 7,000 \\ &= 7,250 \end{aligned}$$

In this example, an out of court settlement is preferable to a trial, as the payoff is lightly higher. But this need not be the case always, as we discuss below:

The expected value of settlement depends upon (i) the probability that the defendant will agree for a settlement (ii) the value of compensation that the defendant is willing to pay and (iii) the expected value from the trial.

- (i) The *probability that the defendant will agree to an out of court settlement* depends on the defendant's perception of the case. If the cost of trial is not high for the defendant, which may be the case if the defendant is urban based and the lawyers' fees are low, the defendant may be less inclined to settle with the plaintiff. The defendant will also consider his chances of winning and the compensation he may have to pay, in case of loss. But there may be other factors at play also. The lawyers may not like a settlement as it may involve a pecuniary loss to them if they are not too busy. Further, the institutional structure may not favour or promote such settlements. If the courts are burdened with complaints it is likely that they may promote or encourage settlements, but not otherwise. The higher the likelihood of the defendant agreeing to an out of court settlement, the lower will be the incentive for trial provided the settlement amount is greater than the EVT. However, if EVT is higher than the settlement amount the plaintiff will not go in for settlement and a lower probability of settlement will be more welcome to the plaintiff. In fact, in such cases, the probability of settlement lose its relevance.
- (ii) The *value of the compensation that the defendant is prepared to pay* in an out of court settlement has a straight forward effect on the decision to go in for trial. If this amount is higher than the EVT, settlement will be the chosen course

of action. The defendant, however, may offer an amount equal to or higher than the EVT to the plaintiff if the cost of trial to the defendant is high. In our example, EVT is 7000 to the plaintiff and the expected loss to the defendant (assuming the same probabilities) is 9000 ( $0.9 \times 10000$ ) plus the cost of trial. It is profitable for the defendant to settle for an amount equal to or slightly above 7000 and this will be acceptable to the plaintiff. It may be noted that if the EVT reduces, perhaps due to lower compensation awarded by courts, the amount of settlement will also reduce. But the plaintiff will not accept anything less than the loss suffered plus the cost of filing. Thus a higher compensation amount awarded by courts will encourage out of court settlements. Also offer of settlement by the defendant greater than the EVT will lead to settlement.

- (iii) As discussed above, higher the *EVT* more likely is the possibility of trial. But it is also likely to encourage out of court settlements and therefore the net result may be fewer trials. However, all this assumes that the cost of trial is the same to both the parties. But, if the cost of trial is higher for the plaintiff, say due to higher transaction costs, EVT will be lowered and the more likely will the plaintiff be ready to accept an out of court settlement.

#### Factors affecting Filing

The first stage of filing a case can also be analysed similarly. The decision not to sue will mean enduring a loss of 5,000. By filing a case, the expected benefit, on the assumption that trial occurs, is 7,000. This compensates for the loss and gives a net benefit of 2,000 minus the filing cost of 500. The decision to file a case, therefore, is influenced by (i) EVT and (ii) filing costs.

- (i) The higher the *EVT*, for reasons discussed earlier, greater is the likelihood of the case being filed. For out of court settlement, the amount to be paid by the defendant should at least equal to *EVT* as noted above. The higher the likelihood of a favourable judgement, the higher the compensation, and lower the trial costs, the higher will be the *EVT*.
- (ii) But higher is the *cost of filing* a case the less likely will be the recourse to consumer courts. These costs include not only the court fees and the documentation and related costs. More importantly, it includes the search costs of finding an appropriate lawyer, travelling to the court, gathering information about legal procedures and redressal laws (including compensation) and loss of income etc. for travelling to court. These are the transaction costs of filing which will be higher for the less educated, for the more remote area complainant, and for the consumer more dependent upon daily incomes. NGOs can help in reducing these costs, so can availability of alternative assistance like friends, relatives or low cost processes like e-filing.

To sum up, the factors that are likely to reduce the incidence of recourse to consumer courts are:

- (i) High cost of filing and trial, including the transaction costs.
- (ii) Lower probability of a favourable decision.
- (iii) Low compensation amount and
- (iv) Absence of mechanism for out of court settlement.

But the analysis so far has not included the appeal stage. The defendant may go in for an appeal if the expected value of appeal to him is greater than the cost of appeal. But the appeal raises the cost to the plaintiff. If the entire additional cost to the plaintiff is not compensated, the defendant may impose an additional cost to the plaintiff by filing an appeal, which must be taken into consideration by the plaintiff at the time

of deciding to go in for a trial. This, therefore, is the fifth factor that may reduce the filing of cases.

(v) High probability of appeal by defendant & cost of the same to the plaintiff.



## Chapter IV: Utilization of Redressal Mechanism: A Macro View

The macro picture regarding the extent of usage by consumers of the redressal institutions is reported in the Annual Report of Department of Consumer Affairs (henceforth AR) and is based on the data reported by the NCDRC. The Table 4.1 gives the cumulative number of cases filed in District Forums in recent years. The first column indicates the year of the Annual Report. The second column indicates the time of reporting as mentioned in the Annual Reports. However, this date is not uniformly applicable to all states, and many states, quite often, have different reporting dates. Only a rough idea, therefore, is available regarding the number of cases filed during a year if we take the difference of the cumulative numbers of two consecutive years. The time period, due to reporting deficiencies, may not be exactly one year.

**Table 4.1: Number of cases filed in District Forums (All India)**

Annual Report Year	Date of Data	Cases Filed in District Forums	Increase over previous annual report
(1)	(2)	(3)	(4)
2002-03	-	1607795	-
2003-04	Dec, 2003	1817861	210066
2004-05	June, 2004	1957577	139716
2005-06	19.1.06	2128712	171135
2006-07	31.10.06	2288814	160102
2007-08	31.12.07	2452682	163868
2008-09	27.02.09	2630580	177898
2009-10	22.01.10	2781021	150441
2010-11	30.12.10	2916749	135728
2011-12	31.01.12	3090931	174182
2012-13	31.12.12	3214824	123893
Latest*	06.11.13	3338315	123491

*\*From NCDRC web-site*

*Source: Annual Reports of Department of Consumer Affairs.*

The rough figures indicate that in recent years about 1,20,000 to 1,50,000 cases are filed annually in District Forums (DFs) across India. Given the fact that there are about 620 District Forums (in 2010, there

were 627 DFs, with 10 being non-functional), the average number of cases works out to be about 16 to 20 per forum per month. This shows a rather low level of utilisation of the redressal institution.

### Inter-State Variations

But this is only an aggregate picture. The extent of utilisation differs considerably between states. The Table 4.2 gives the number of operational District Forums in each state as on 2010. Column (3) and (5) provide the number of cases filed since inception in District Forums of the states along the report date. Columns (4) and (6) report the dates to which the data of the number of cases (columns 3 & 5) belong for each state along the date. Based on this information, the number of months between the two reporting dates, given in columns (4) and (6), has been calculated and reported in column (7) for each state. The next column (column 8) reports the number of fresh complaints filed in DFs during the period indicated in column (7). Column (8), therefore, is the difference between columns (5) and (3). The last column reports the number of cases filed per month in DFs of the states and has been calculated by dividing column (8) by column (7). The last column has been used subsequently to calculate the average number of cases per month per district forum in the states by dividing column (9) by column (2) and is shown in figure 4.1.

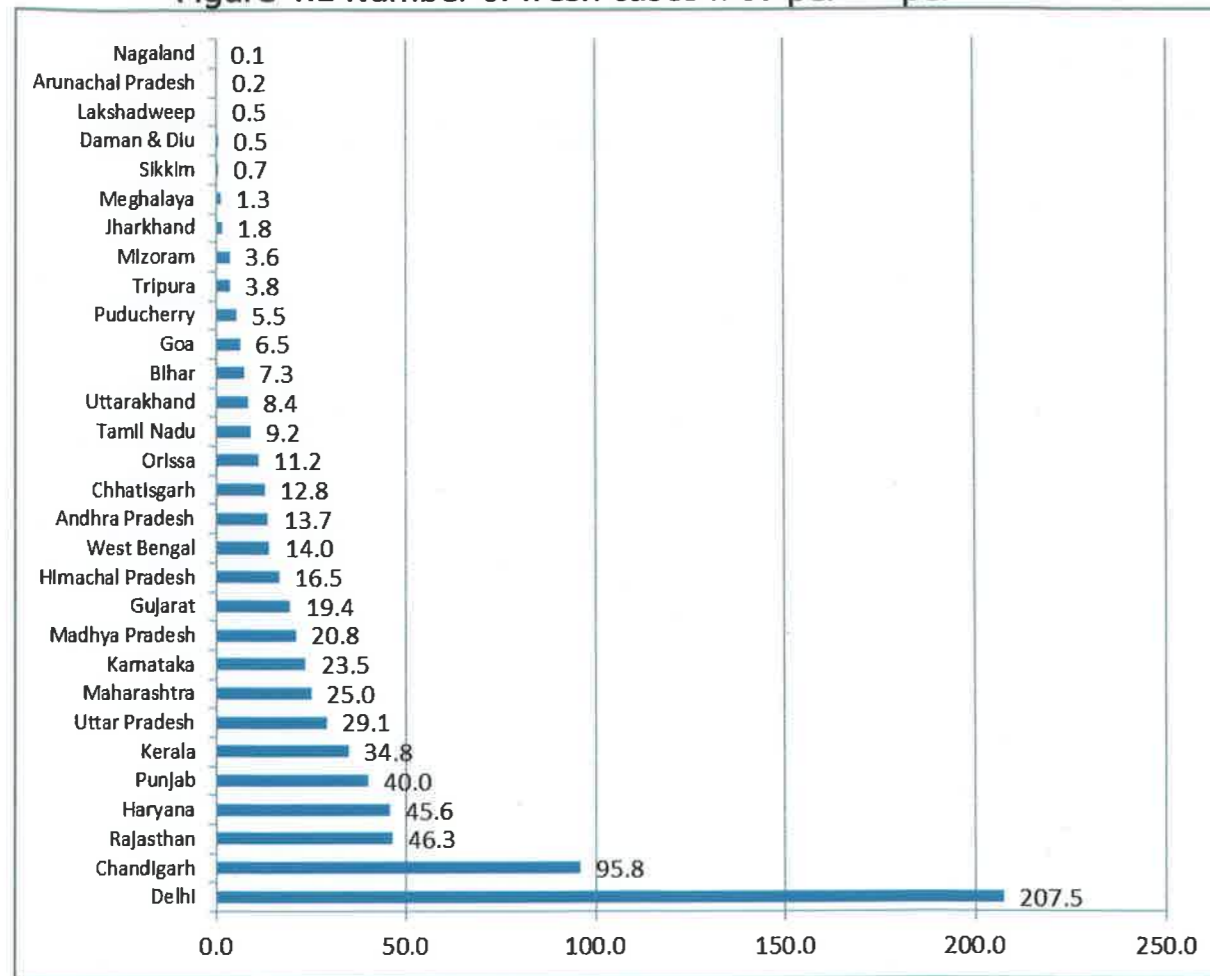
**Table 4.2: Number of cases filed in District Forums (States)**

States	Number of DFs	Cases filed in DFs since inception	As on	Cases filed in DFs since inception	As on	No. of months (col 6 - Col 4)	Fresh cases filed (col 5 - col 3) during the period	Number of new cases filed per month Col (8) ÷ Col (7)
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Andhra Pradesh	29	182042	31.10.2010	191957	30.11.2012	25	9915	396.6
Arunachal Pradesh	16	310	31.10.2010	404	31.10.2012	24	94	3.91
Assam	27	13704	31.08.2010	13704	31.08.2010	0	0	
Bihar	34	78400	30.09.2010	84369	30.09.2012	24	5969	248.7
Chhattisgarh	16	31514	30.09.2010	36831	30.11.2012	26	5317	204.5
Goa	2	6031	30.11.2010	6341	30.11.2012	24	310	12.91
Gujarat	30	158169	30.11.2010	171555	31.10.2012	23	13386	582
Haryana	19	198958	30.11.2010	219763	30.11.2012	24	20805	866.8
Himachal Pradesh	11	52390	30.11.2010	56745	30.11.2012	24	4355	181.4

Jammu & Kashmir	2	20792	31.12.2007	20792	31.12.2007	0	0	
Jharkhand	22	31986	30.09.2010	32572	31.12.2011	15	586	39.0
Karnataka	30	137296	30.11.2010	154184	30.11.2012	24	16888	703.6
Kerala	14	168204	30.11.2010	178920	30.09.2012	22	10716	487.0
Madhya Pradesh	48	155236	31.07.2010	182232	31.10.2012	27	26996	999.8
Maharashtra	40	228984	31.03.2010	255993	30.06.2012	27	27009	1000.3
Manipur	9	1037	30.09.2008	1037	30.09.2008	0	0	
Meghalaya	7	322	31.03.2007	768	31.03.2011	48	446	9.2
Mizoram	8	2065	31.12.2006	3466	31.12.2010	48	1401	29.1
Nagaland	8	246	30.06.2006	290	31.12.2011	66	44	0.6
Orissa	31	83530	30.09.2010	90805	30.06.2012	21	7275	346.4
Punjab	20	135519	30.11.2010	153896	31.10.2012	23	18377	799
Rajasthan	31	253945	30.11.2010	286929	31.10.2012	23	32984	1434.0
Sikkim	4	252	31.01.2010	283	31.12.2011	11	31	2.8
Tamil Nadu	30	95576	31.10.2010	102229	31.10.2012	24	6653	277.2
Tripura	4	2015	30.09.2008	2751	31.10.2012	49	736	15.0
Uttar Pradesh	74	508695	30.09.2010	558254	31.08.2012	23	49559	2154.7
Uttarakhand	12	32241	30.11.2010	34654	30.11.2012	24	2413	100.5
West Bengal	21	77630	30.09.2010	83807	30.06.2012	21	6177	294.1
A & N Islands	1	330	31.03.2006	330	31.03.2006	0	0	
Chandigarh	2	42033	30.11.2010	46629	30.11.2012	24	4596	191.5
Delhi	10	214314	30.09.2010	239215	30.09.2011	12	24901	2075.0
Puducherry	1	2766	30.11.2010	2882	31.08.2012	21	116	5.5
Daman & Diu	2	153	30.06.2010	162	31.03.2011	9	9	1
Lakshadweep	1	64	30.11.2010	75	30.11.2012	24	11	0.4

Source: Data taken from Annual Reports of 2010-11 (p 45) and 2012-13 (p.53).

Figure 4.1 Number of fresh cases filed per DF per month



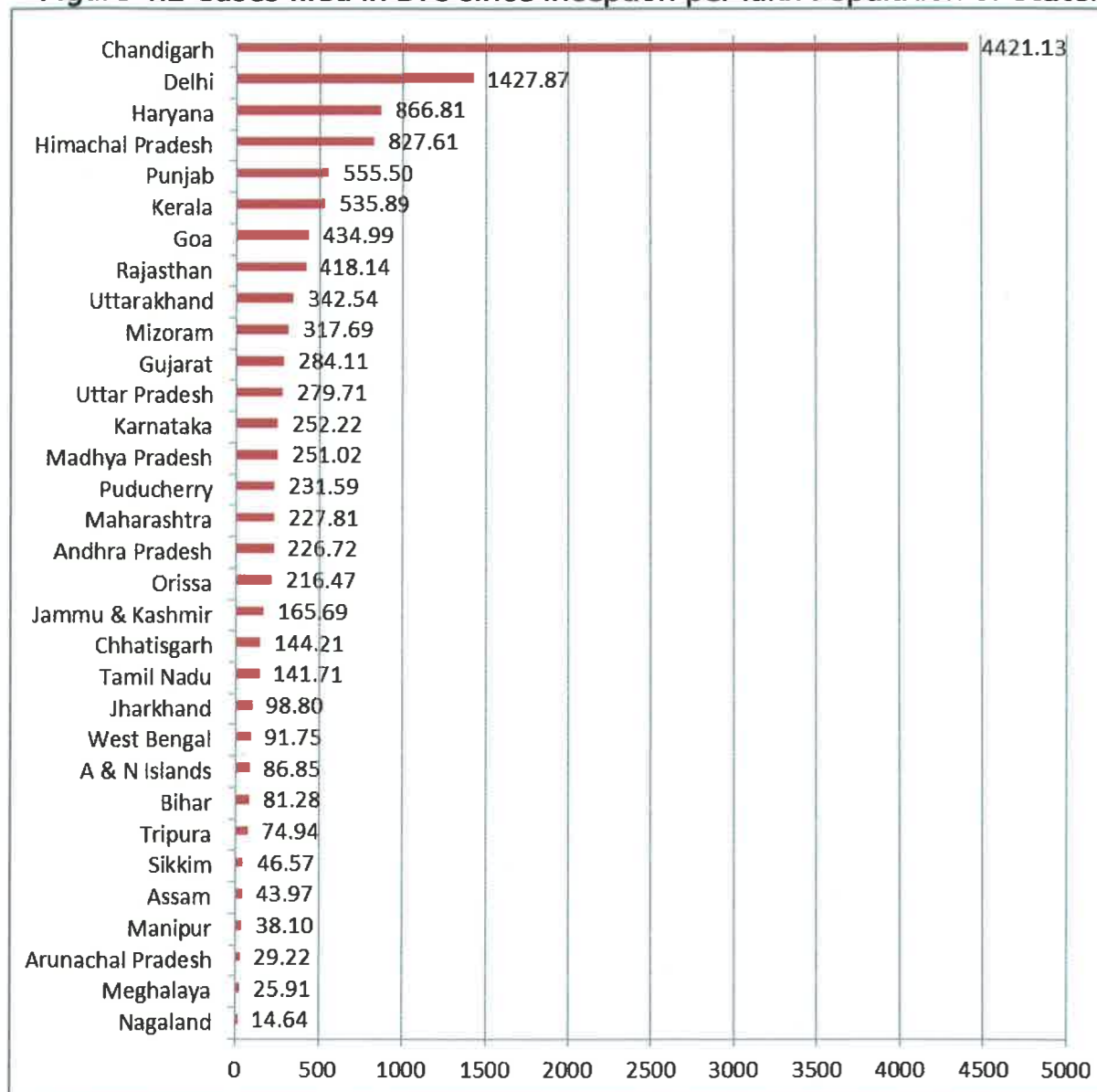
Source: Calculated from Table 4.2

Figure 4.1 and Table 4.2 indicate an extremely low level of utilisation of the primary institution (the District Forum) by consumers in many states. In Nagaland the DFs receive on an average, one case in 10 months. Four other states/UTs- Arunachal, Lakshadweep, Daman & Diu and Sikkim- also receive less than one complaint per month per DF. Nine states (Meghalaya, Jharkhand, Mizoram, Tripura, Puducherry, Goa, Bihar, Uttarkhand and Tamil Nadu) receive less ten cases per DF per month. Only Delhi and Chandigarh report more than 50 complaints per DF per month. Both are relatively affluent urban centres. Consumers in rest of the country seem little interested in going to DFs with their complaints.

Another indicator of utilisation can be the cumulative number of cases filed in District Forums of states per one lakh population. The population figures are based on Census 2011 and the cumulative number

of cases filed in district forums is from the AR 2012-13. The number of cases per lakh population has been calculated by dividing the number of cases filed in DFs since inception (the latest available) for each state by the population of the state and multiplying the result by one lakh. Figure 4.2 provides the additional indicator of utilisation by expressing the number of cases per lakh of the state population.

**Figure 4.2 Cases filed in DFs since inception per lakh Population of State.**

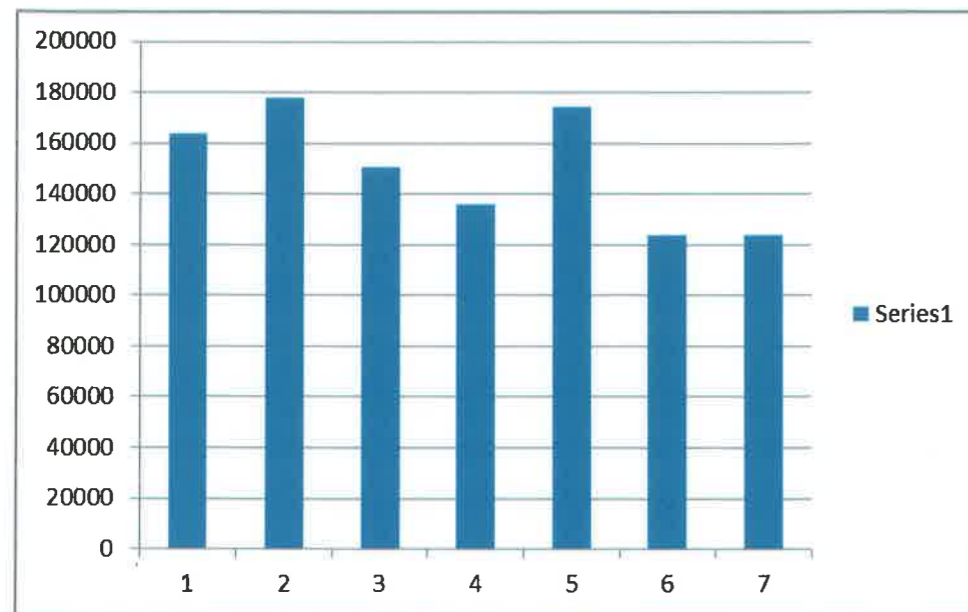


Source: Calculated on basis of Data in AR 2012-13 and Census 2011.

By all indicators, the extent of usage of the institutional machinery is found to be extremely low.

What is further disturbing is that there is no clear upward trend in the number of fresh cases being filed in District Forums. With the increase in population, per capita incomes and consumption the number of fresh cases should have an upward trend. But as the figure below indicates, this may not be happening. The data is for the period 2007-08 to November, 2013.

**Figure 4.3 Number of fresh cases filed in DFs (All India)**



Source: Table 4.1, column 4.

The low level of utilisation and the considerable inter- state variation in the incidence of recourse to DFs raises the question as to the factors that may explain the levels and variations in utilisation.

#### **Factors Affecting Utilization**

An attempt has been made to analyse the factors, at an aggregate level, that may account for the inter-state differences in utilization of District Forums for consumer complaints. For this, regressions have been run on cross-section inter-state data. The dependent variable is cases filed in district forums (CFD) of the state (cumulative figure from AR 2012-13). The explanatory variables chosen were:

1. Population (POPU) of the state (2011, census).
2. Per capita state income (PCI) (in current prices for 2010-11).

3. Literacy rate of state (LIT) ( Census, 2011), and
4. Percentage of urban to total state population (URB).

The first regression was run with the first three explanatory variables and the dependent variable was the cumulative number of cases filed in district forums of the state (CFD). The result is (presented below in bare essentials):

**Dependent Variable CFD**

Explanatory Variables	Coefficient	P Value
Intercept	-74463.83	0.6084
POPU	0.0024	0.0000
LIT	329.5467	0.8655
PCI	0.8869	0.0493
Adjusted R-square	0.6862	--
F-statistic	23.6051	0.0000
n=32		

The results show that nearly 70 percent of inter-state variation in CFD can be accounted for by the chosen explanatory variables. The level of literacy is not a statistically significant explanatory variable but the other two—population and per capita income—significantly affect CFD. For cross-section data, the results are quite good as indicated by the adjusted R-square.

However, there is the obvious relation between number of cases filed and the population of the state. The regression result therefore does not say something very significant. Therefore another regression was run with a new dependent variable: the number of cases filed per lakh of the state population (CFDPL). The new variable was obtained by dividing CFD by POPU and multiplying by one lakh. Since literacy rate had failed to be a significant variable, the new regression took PCI and URB as explanatory variables. The results are summarized below:

### Dependent Variable CFDPL

Explanatory Variables	Coefficient	P. value
Intercept	-4.8260	0.0463
PCI	-9.55 E-06	0.8571
URB	0.2656	0.0048
Adjusted R-square	0.4140	-
F-statistic	11.9483	0.000164
n=32		

As can be seen from the result the level of urbanization emerges as the statistically significant explanatory variable of the extent to which recourse is taken, per lakh of state population, to file complaints in district forums. The reason for PCI turning out to be statistically insignificant in the above regression, is the result of the well-known problem of multicollinearity. The two explanatory variables have a high correlation ( $r=0.8$ ). Therefore, any one variable can be taken as the explanatory variable. Of the two, URB gives a better result and PCI can therefore be dropped. The result is shown below:

### Dependent variable: CFDPL

Explanatory Variables	Co-efficient	P Value
Intercept	-4.9837	0.0252
URB	0.2529	0.0000
R-Squared	0.4511	-
F-Statistic	24.6583	0.0000

About 45 percent of inter-state variation in cases filed (since inception) per lakh of state population is explained by the level of urbanisation alone. This is a significant result.

The results are extremely satisfactory. Given the deficiencies of data, our results indicate that the recourse to district forums is fairly well explained by the (a) size of population, (b) level of urbanisation and, to a lesser extent, by (c) per capita incomes. In fact, the level of urbanisation seems to be the most significant explanatory variable for explaining inter-state variations in recourse to district forums.



## Chapter V: Recourse to District Forums: Economic Calculus of Complainants

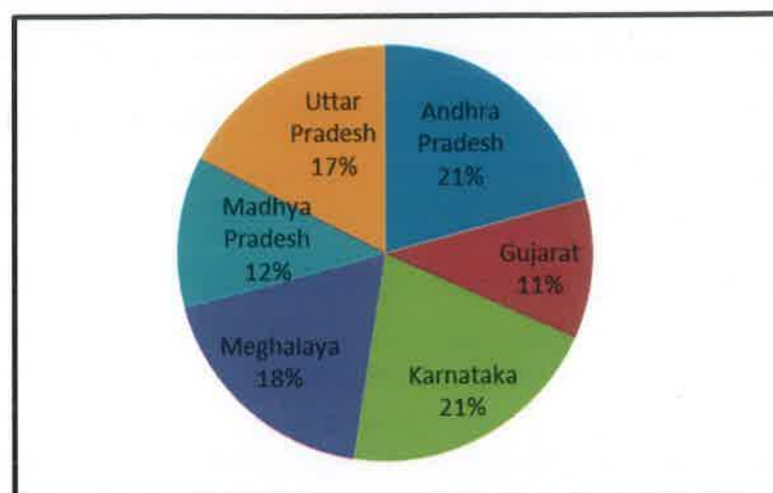
The previous chapter, based on macro data, highlighted the problem of low utilisation of DFs by consumers. This chapter, based on primary data collected from DFs, examines the likely reasons for the same and bases itself on the economic calculations delineated in Chapter III. The micro analysis is based on data collected from court judgements, data maintained by the DFs and State Commissions and interviews with complainants, lawyers, staff and members of DFs. It covers six states: Andhra Pradesh, Gujarat, Karnataka, Madhya Pradesh, Meghalaya and Uttar Pradesh.

The present chapter uses information from 124 cases collected from the six states to draw a picture of the working of the District Forums and the implications of this for the prospective consumer seeking redress for his/her grievance. The earlier part of this chapter uses data from the 124 cases to present the broad features of the working of DFs based on the random sample of cases. The latter part of the chapter, which deals with putting estimates to variables relevant for the economic calculus of the plaintiff, uses data from 118 cases as a few cases did not have all the financial information needed for our analysis.

### The Sample

The sample has 124 cases drawn from six states. The state-wise representation in the same is shown in Figure 5.1

**Figure 5.1: State wise distribution of Cases studied**



The above Pie Chart shows state wise distribution of cases studied. Maximum number of cases involves Andhra Pradesh (AP) & Karnataka, both consists of 21% (in the total Pie). Lowest number of cases were studied from Gujarat (11%) followed by Madhya Pradesh (MP) which was 12%.

The randomly derived sample also showed that most of the cases related to DFs level only. Only 17 percent of the cases were appeals to State Commissions. This is shown in Table 5.1..

**Table No.5.1: Number of cases at different levels of courts**

States	No of cases going to District Consumer forum (DCF) only	No. of cases also going to State Consumer Commission(SC)	Total number of Cases
Andhra Pradesh	20	5	25
Gujarat	12	1	13
Karnataka	20	5	25
Meghalaya	20	2	22
Madhya Pradesh	10	4	14
Uttar Pradesh	17	4	21
Total	103	21	124

Source: Calculated from primary data

## Broad Features

The present section analyses the nature of consumer complaints with relation to whether these pertain to goods or services, private or public companies/bodies and according to the nature of the products.

The Table 5.2 indicates the sector-wise (private & public) grievances made by the consumers.

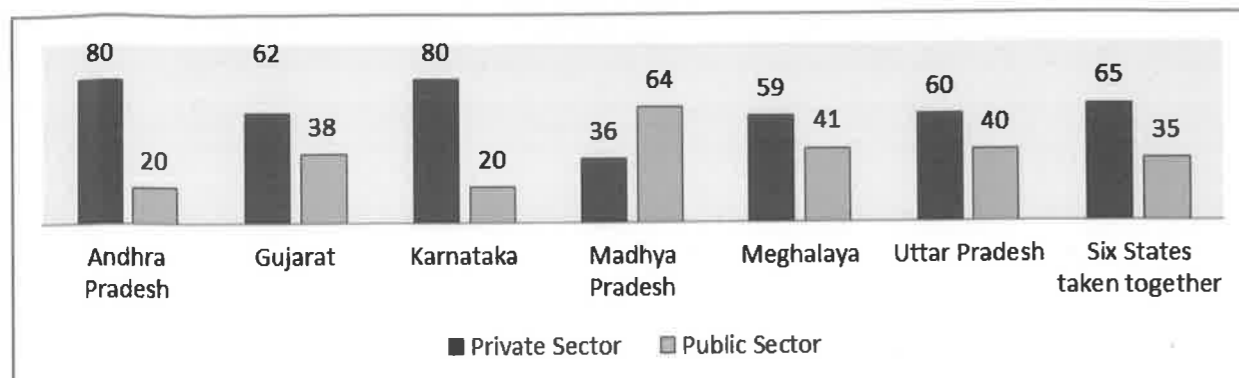
**Table: 5.2 Sector-wise Distribution of Cases**

State	Private Sector	Public Sector	Total
Andhra Pradesh	20	5	25
Gujarat	8	5	13
Karnataka	20	5	25
Madhya Pradesh	5	9	14
Meghalaya	13	9	22
Uttar Pradesh	15	10	25
Six States taken together	81	43	124

Source: Calculated from primary data

In the Table 5.2 and in the figure 5.2, the sector-wise distribution of the total number of cases are studied. It is found that the private sector received more grievances in all states than the public sector, with the exception of Madhya Pradesh (MP). The States of Andhra Pradesh and Karnataka received the maximum number of complaints (80%) against private sector organisations.

**Figure 5.2 Percentage of Complaint against Public and Private Sector in different States**



Source: Calculated from primary data

It is interesting to find out the number of complaints against goods and services and their distribution across the states. This is shown in Table 5.3. Figure 5.3 shows the same data in percentage terms.

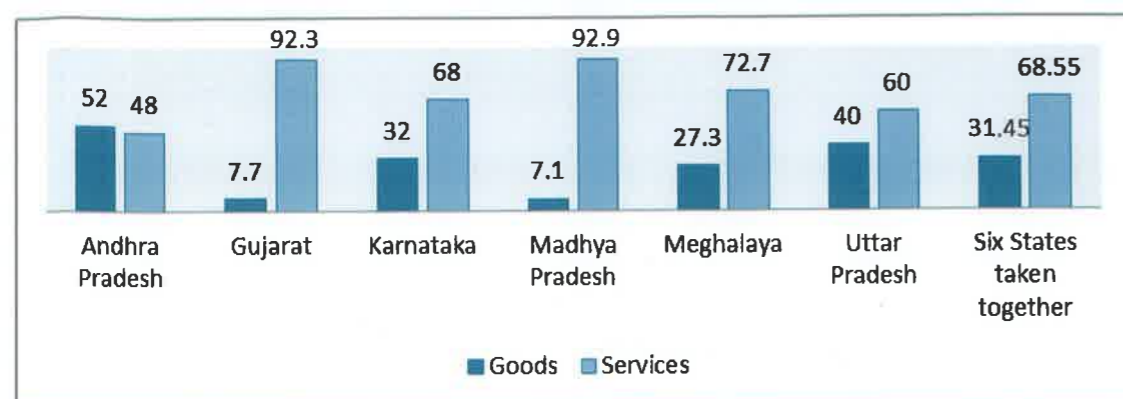
**Table: 5.3 Goods and Services: Industry wise Distribution of cases**

State	Goods	Services	Total
Andhra Pradesh	13	12	25
Gujarat	1	12	13
Karnataka	8	17	25
Madhya Pradesh	1	13	14
Meghalaya	6	16	22
Uttar Pradesh	10	15	25
Six States taken together	39	85	124

Source: Calculated from primary data

The states taken all together reveal that maximum number of complaints was against services, which amounts 69% of cases. Rest is against the goods sector (31%).

**Figure 5.3. Percentage of complaint against goods and services in different states**



Source: Calculated from primary data

Now coming to the state level, it is observed that Madhya Pradesh and Gujarat are states with maximum percentage of complaints against service sector and least against defective goods. Likewise, rest of the States follow the same pattern except for Andhra Pradesh. In Andhra Pradesh the highest percentage of complaints are against the goods sector (52%).

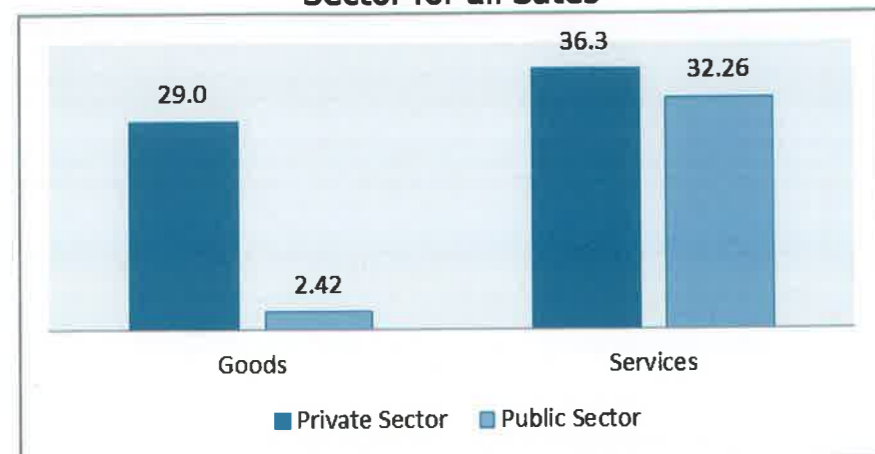
**Table 5.4 Sector-wise and Industry wise Distribution of Cases**

Sector	Goods	Services	Total
Private	36	45	91
Public	3	40	43
Total	39	85	124

Source: Calculated from primary data

The above Table 5.4 depicts the sector-wise and industry wise distribution of cases. It appears from the table, and figure 5.4 below, that most of the complaints are against the private sector both with respect to goods and services industries.

**Fig 5.4 Percentage of Complain for Goods and Services in Public and Private Sector for all Sates**



Source: Calculated from primary data

In public sector the overwhelming majority of the cases were against the public services, which are 32 % of total cases as against 2% in case of goods in the same sector.

The number and percentages of complaints against different types of products are indicated below with the help of following table 5.5:

**Table 5.5 Number of Complaint against types of product**

	Types of the product	Number of Complaints
1	Electronics and Mechanical Parts	23
2	Financial	37
3	Electricity/Power/Transport	10
4	Postal / Telecommunication	23
5	Others( Includes Health and Educational Institute)	31

Source: Calculated from primary data

The financial sector seems to predominate with respect to consumer grievances.

**Time for Settling Cases**

**Table 5.6: Disposal Time in DCF for all six states together (in months)**

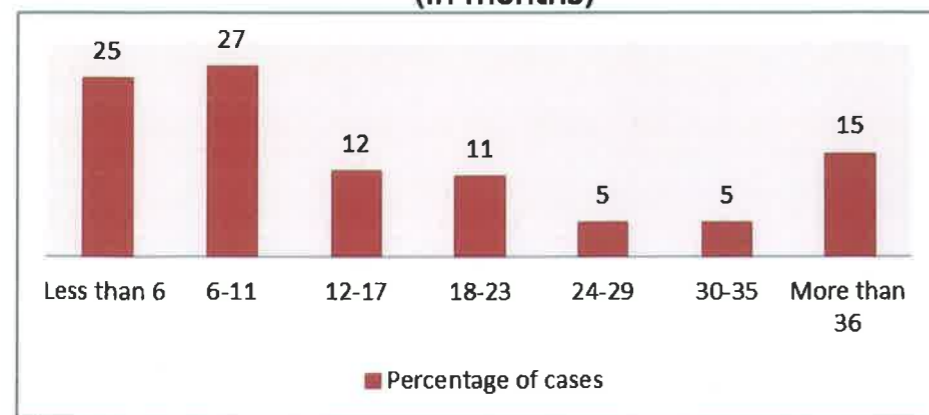
Time taken (in months)	Number of cases	Percentage of cases	Cumulative Percentage
Less than 6	31	25	25
6-11	34	27.4	52.4
12-17	15	12.1	64.5
18-23	14	11.3	75.8
24-29	6	4.8	80.6
30-35	6	4.8	85.5
More than 36	18	14.5	100.0

Source: Calculated from primary data

Time taken to dispose a case can be taken as a proxy indicator of the cost of litigation. An increase in the time in litigation process implies a negative externality with piling up of cases and this acts as a disincentive to come to the legal process. This may in effect work as a deterrent for successful functioning of Consumer Protection Act.

The above Table 5.6 and Figure 5.5 highlights usual time taken to dispose a case at DCF. The study finds the distribution is bimodal i.e. with two peak points. Almost one fourth (25%) of the cases are disposed in less than six months and 27% of cases within six months to one year.

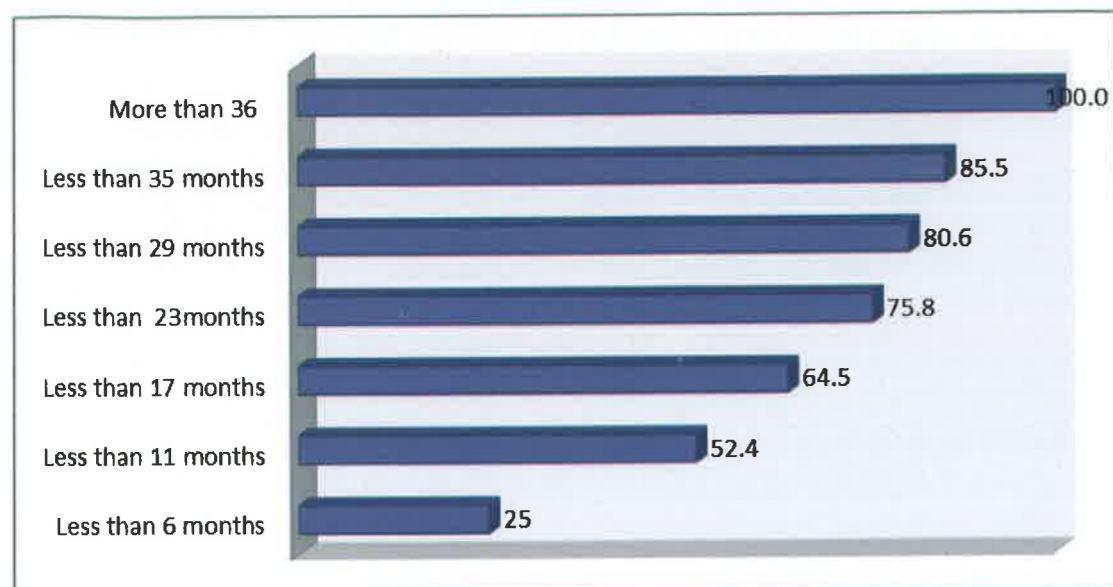
**Figure 5. 5 Percentage of cases disposed within a given interval of time (in months)**



Source: Calculated from primary data

Next the study captures the percentage of cases which were disposed off before a specific time by looking at the cumulative distribution of percentage of cases fig 5.6. It reveals that almost 58% of cases were disposed off in less than a year and 75% of cases took two years or less.

**Fig: 5.6 Cumulative percentage of time taken in DCF (in months)**



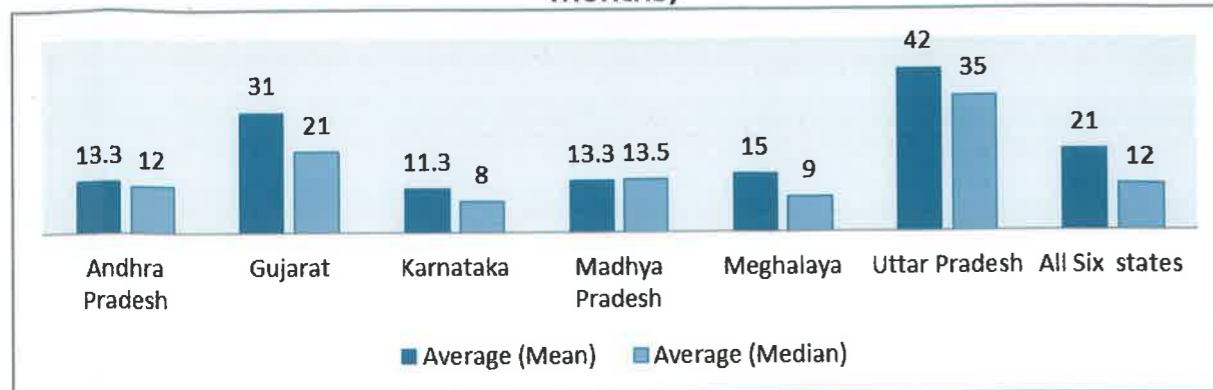
Source: Calculated from primary data

It is important to ask what is the average time taken in different states to resolve a case. This might work as a crude indicator of functioning of DCF's in different states. Although one should not forget that the nature of cases are not uniform and its level of complication is also different.

Figure 5.7 shows the average time by two measures, mean and median, as mean is sensitive to extreme values. In the present study one prolonged running case may increase the average time consumed. Karnataka is observed to have taken least time irrespective of the measures and the highest time taken is observed in Uttar Pradesh.



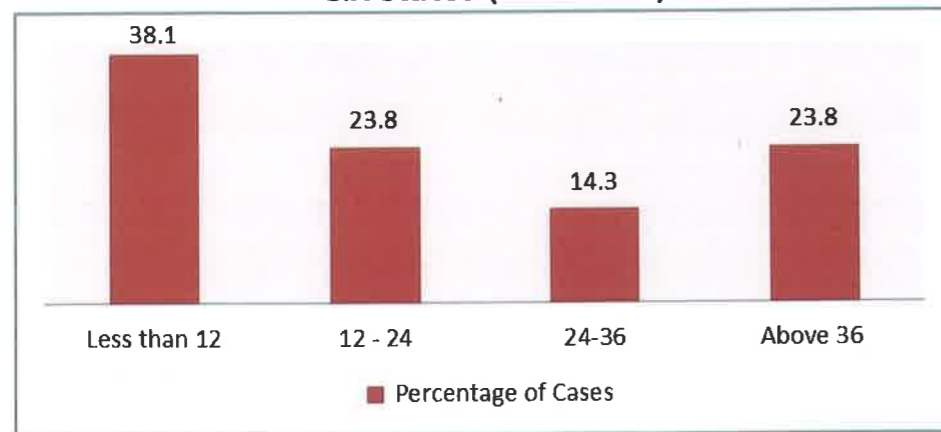
**Figure: 5.7. Average time taken to dispose a case in DCF indifferent states (in months)**



Source: Calculated from primary data

Coming to a higher level, that is in State Consumer Forum (SCF), it is found that 38% of cases are resolved within a year, 24% cases within one to two years and 24% cases are such, which has taken time of more than three years.

**Fig: 5.8. Time taken to dispose cases in State Consumer Forum SCF for all six states (in months)**



Source: Calculated from primary data

**Table: 5.7. Average time taken to dispose a case in SCF (in months)**

Srl no	State	Average time taken
1	Andhra Pradesh	17.0
2	Gujarat	34.0*
3	Karnataka	14.2
4	Madhya Pradesh	17.2

5	Meghalaya	75.0
6	Uttar Pradesh	26.7
7	States taken together	24.7

Source: Calculated from primary data: \*Gujrat had only one case in SCF

In SCF also Karnataka took least average time (14 months) while Uttar Pradesh highest time roughly 27 months.

#### Important Sample Results: Economic Calculus

The subsequent sections deal with the calculus facing the consumer who is about to take a decision on the whether or not to file a complaint in the DF. The sections are based on the sample results summarized in Tables 5.8 and 5.9.

**Table 5.8 Salient Features of Sample Cases & Judgements**

States	No. of Cases	No. of cases involving advocates	Cases in which complaint upheld	No. of cases in which Refund given	No. of cases in which Compensation given	No. of cases in which interest given	No. of cases in which cost given
1	2	3	4	5	6	7	8
Andhra Pradesh	27	23	19	15	16	14	19
% of No. of cases		85.19	70.37	55.56	59.26	51.85	70.37
Gujarat	13	10	6	6	5	1	6
% of No. of cases		76.92	46.15	46.15	38.46	7.69	46.15
Karnataka	24	19	20	8	21	10	19
% of No. of cases		79.17	83.33	33.33	87.50	41.67	79.17
Madhya Pradesh	14	12	4	3	1	2	4
% of No. of cases		85.71	28.57	21.43	7.14	14.29	28.57
Meghalaya	19	6	11	8	6	1	5
% of No. of cases		31.58	57.89	42.11	31.58	5.26	26.32
Uttar Pradesh	21	6	12	10	9	5	10
% of No. of cases		28.57	57.14	47.62	42.86	23.81	47.62
Total	118	76	72	50	58	33	63
% of Total	--	64.41	61.02	42.37	49.15	27.97	53.39

As the table above indicates, over 64 percent of the cases involved the hiring of an advocate to file the case and negotiate through the trial. In a few cases the advocates themselves were aggrieved consumers and could fight their own cases. But in the vast majority of cases, an advocate seems to have been needed.

The next column (4) of the table (5.8) depicts the number of cases that went in favour of the complainant. This can also be interpreted as the probability of success faced by the prospective complainant. It shows that in over 61 percent of the total cases, the judgement favoured the plaintiff.

Similarly, the next four columns can be interpreted as deriving empirical probabilities for obtaining compensation, costs etc. For instance, in slightly over 53 percent of the cases were the plaintiffs allowed some compensation for the cost of trial (col 8). Again, the probability of getting a compensation, in addition to refund/replacement, is a little over 0.49 (col.6).

The following table (5.9) seeks to provide monetary magnitudes, on an average, to the amounts of refund compensation and cost reimbursement. The combined average for all the six states (bottom row) is a weighted average using the figures of column 3 as the weights. They therefore indicate the average amounts of compensation for only those cases that have gone in favour of the consumer. As the figures show, the average amounts are ₹ 60,159 in case of refunds, ₹ 18,629 is compensation for mental agony etc. The average compensation for trial costs in ₹ 2119 and the average rate of interest allowed was 8.6 percent.

**Table 5.9 Financial Implications of Judgements**

States	Cases	cases complaint upheld	Average amount of Refund	Average amount of Compensation	Average amount of Interest	Average amount of Cost
			Rupees	Rupees	%	Rupees
<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>	<b>6</b>	<b>7</b>
Andhra Pradesh	27	19	61917	20587	9.25	1529
Gujarat	13	6	148877	11400	9	4333
Karnataka	24	20	55372	26235	7.92	1768

Madhya Pradesh	14	4	28640	3000	7.5	1333
Meghalaya	19	11	7303	12833	7	4000
Uttar Pradesh	21	12	59862	7001	9	1950
weighted average			60159	18626	8.6	2119

### Cost of the Legal Process

As our theoretical analysis in Chapter III had brought out, the costs of litigation can be a major consideration in the decision pertaining to filing of complaints in DFs. The time taken to settle a case increases this cost and, therefore, justice delayed is expensive. But other than the duration for settling cases, which was discussed above, there are other costs to be borne by the plaintiff. These include the court fees, which is nominal as it is only ₹100 for goods & services valued up to ₹ one lakh. But in addition, there is the lawyer's fees, which in its bare minimum is ₹ 3000, but often much higher. Further, the consumer has to bear the costs of transport, photocopying, stamps and envelopes, other incidentals and the loss of income and inconvenience of coming to the court, etc. At the minimum, the costs can be put at ₹ 5000 to the plaintiff. As our sample results show there is about 0.6 probability of the case going in favour of the consumer. We can work out the value of compensation that just makes it worthwhile for the consumer to go in for a trial, assuming this bare minimum cost. Since the expected gains from trial must cover the costs for the decision to be in favour of a trial, we get

$$0.6 C + 0.4 \times 0 \geq 5000$$

Or,  $C \geq 8330$ , where  $C$  = total compensation.

So at the bare minimum of costs, and the assumed probability of success based on the sample data, the plaintiff should not approach the courts for small cases involving compensation of ₹ 8330 or less. Note that if trial costs rise by ₹ 1000 only, the break-even amount rises sharply to ₹ 10,000. In most cases involving small compensation amounts of up to ₹ 10,000 recourse to the DF is a singularly uneconomical proposition for aggrieved consumers.

The analytical results will, of course, be altered depending upon the fact whether or not costs incurred by the plaintiff are paid by the defendant, in the event of a favourable judgement in favour of the former. Our sample shows that the average amount of costs that the DFs have asked the defendants to pay to the complainant has been ₹ 2119 for an average of all the six states. Meghalaya and Gujarat DFs have ordered higher costs to be paid (₹4000 and above) on average. These figures however indicate that even when the DFs pronounce judgements providing for compensation of costs to the consumers, the compensation amount falls short of the actual expenses incurred by the complainant. Further, in only 53 percent of the cases were costs given to the plaintiff. Thus, for the consumer, the decision to go for a trial would hinge on the costs he has to bear, which only in half the cases is likely to be ordered to be compensated, and would only partially cover the actual expenses.

#### Costs to the Govt.

In addition to costs borne by consumers, there is also a cost that is being borne by the state. Based on Table 4.2, in chapter IV, we can calculate this cost. The number of fresh cases per month per DFs for the entire country works out to 13,464 (total of column 9). For the entire year, this would work out to be 1,61,564 cases in the 616 DFs. The annual cost per DF, based on some scanty evidence, can be put at about ₹ 15 lakh. This is expenditure only on revenue account. For the 616 DFs (sum of column 2), the total cost works out to ₹ 9240 lakh per year for the whole country. Dividing the cost of operation of DFs by the number of fresh cases in a year, we get a figure of ₹ 5719 as the cost to exchequer per case filed in DFs. This is a subsidy or incurred consumers and defendants, as the court fees are a very small amount.

#### Compensation

The average amount of compensation, based on our sample, is ₹ 60,159 as refund and ₹ 18,626 as additional compensation for mental agony, physical hurt, etc. The total amount, as an average figure, is

therefore around ₹ 80,000. The figures indicate that, in general, such cases are being brought before the DF that involve considerable amount of compensation. Assuming that the refund amount only and just compensates for the monetary loss to the consumer, the penalty or additional compensation amount shall cover that part of the cost of litigation that is not compensated by the DF's judgements. The average compensation (in excess of refund) works out to around ₹ 18,000 for the country. If we also take into account that in only half the cases filed have the consumers been allowed this compensation, the expected value of compensation falls to ₹ 9,000 (0.5x18,000). It is therefore not very encouraging to the aggrieved consumer, in case his costs of litigation are high. It is fair to expect that consumers who have to commute considerable distances to reach the DF will not file complaints with the DF. They will be further dis-incentivised if there is a higher likelihood of appeal by the defendant and/or if they have to incur costs in the form of execution petitions etc., to get the DFs orders executed and actually obtain the compensation.

#### Execution of Judgements

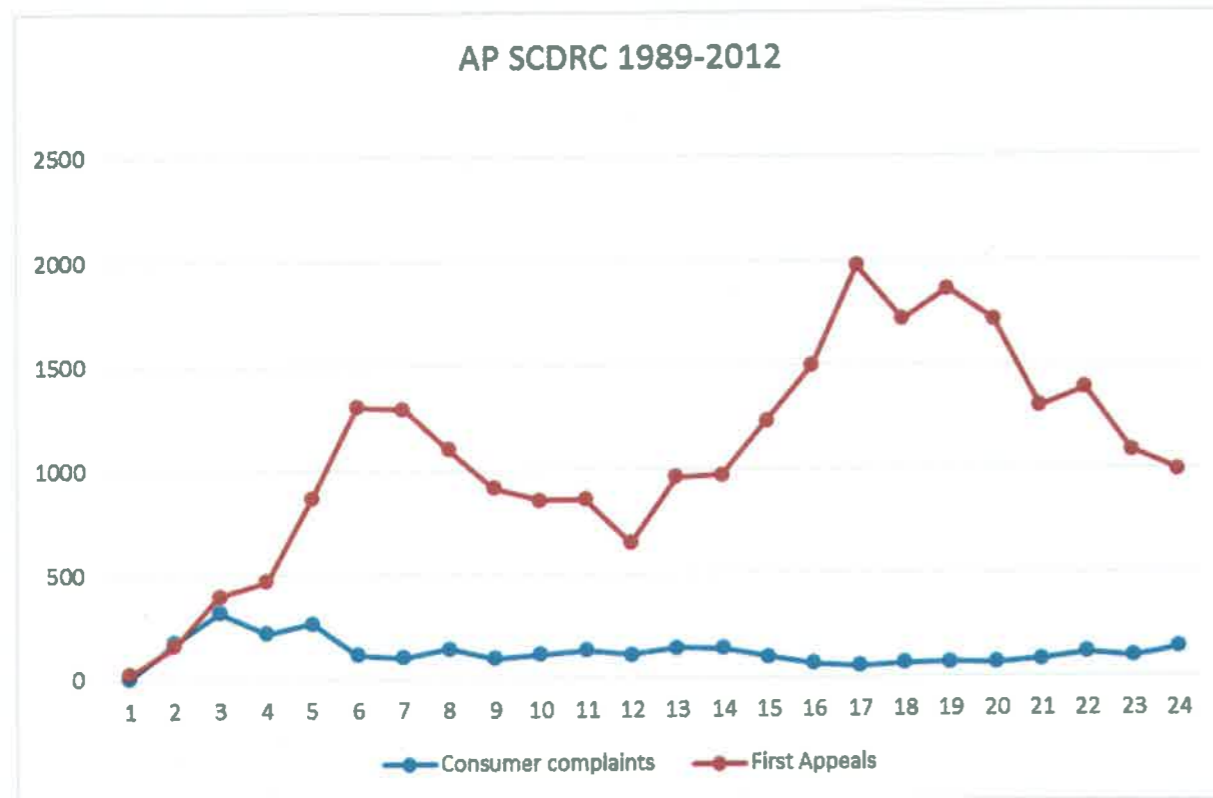
The incidence of Execution Petitions are not negligible. In Karnataka, for which data is available (on the State Commission's website), the total number of execution petitions filed since inception in the 30 DFs stood at 34,944 by the end of December, 2012. At about the same time, the total number of cases filed in DFs in Karnataka was 1,54,184. From this figure, if we subtract the number of execution petitions, we obtain 1,19,240 other cases. The number of execution petitions as a percentage of fresh cases then works out to a high of 29 percent. But even if we do not subtract the number of execution petitions from the total number of cases, the percentage of execution petition to total cases is around 23 percent. So, it would be safe to conclude, based on the Karnataka experience, that execution petitions are fairly common and the prospective complainant would consider the

chance of it occurring in any decision relating to filing a complaint and proceeding with the trial.

**Appeals**

The incidence of appeal is also not uncommon. As our sample results showed that 17 percent of the cases went for appeal to the State Commission. This is further substantiated by the data from the Andhra Pradesh State Consumer Disputes Redressal Commission (SCDRC) relating to original consumer complaints filed and appeals. This is shown in Figure 5.9 below.

**Figure 5.9 Fresh Cases and Appeals in State Commission of Andhra Pradesh from 1989-2012**



As can be seen from the graph, the appeals to SCDRC are ten times the number of new cases being filed in the State Commission. It is most interesting to compare the number of fresh cases in DFs in the state with the number of appeals at the SCDRC during a given period. In Table 4.2 we noted that the number of fresh cases filed in DFs of Andhra Pradesh in two years (31.10.201 to 30.11.2012) was 9915. The number of first

appeals during 2011 & 2012 were 2084 in SCDRC. It can therefore be surmised that roughly one-fifth of the cases of DFs may be going to the SCDRC for appeals. This closely confirms the figure based on our sample (of 17 percent.).



## Chapter VI: Conclusions

The previous chapter indicated the rough parameters facing the consumer when he is deciding to go in for a trial or not to a DF. This chapter draws conclusions based on these estimates.

The reasons why consumers do not take adequate recourse to DFs for the solution of their grievances are as follows:

1. High Cost of Trial: The results in chapter IV showed that there is a strong relation between the level of urbanization and the extent of recourse to DFs. This is the result of high transaction costs that consumers have to bear if they have to travel significant distances and the time spent on the travel. It is suggestive that the usage in North-Eastern states, where distances are long and time-consuming, few consumers go to the DFs for filing a complaint. Although the direct cost of filing, in the form of court fees, is low the consumers also have to bear considerable costs in terms of lawyers' fees, preparation of case papers etc. Therefore, there is little sense in approaching DFs when the claim amount is small. The finding that the average refund amount exceeds ₹ 60,000 only indicates that small claims may not be coming to the DFs for redressal. The design of the redressal institution is therefore urban centric and non-inclusive in the sense that the poorer consumers are forced to opt out of the system.
2. Inadequate re-imburement: The situation can improve if the courts allow full compensation for the trial costs to the plaintiff in case of a favourable judgement. But the trial costs re-imbursed are quite inadequate. Our estimate puts it at Rs. 2119. Moreover, in about 10 percent of the cases that have gone in favour of the consumer, the costs have not been re-imbursed to the complainant. It was not possible for us to estimate whether the refund amount actually compensates fully for the price of the commodity. In case there is a

shortfall on this account, the consumer will have to bear some loss which will be in addition to the loss arising out of the cost of trial. Our data showed that interest was allowed only in about half the cases in which complaint was upheld. The rate of interest allowed, on an average was 8.6 percent only. There is some reason to believe that the refund amount may not be adequate in more than half the favourably decided cases as the interest is meagre and does not compensate for inflation. There is no reason why a penal rate of interest should not be allowed. This will also deter the defendant from adopting strategies that prolong the trial period.

3. **Amount of Compensation:** It is well known in the literature that the magnitude of penalty is an important deterrent to anti-social behaviour. If the consumers consistently obtain a compensation that has a substantial penal element, there would be an incentive to file complaints. The goods or service provider will be more careful and would try to ensure that the products/services are safer and of good quality. The impression that this study gives is that the DFs are more interested in 'compensating' the consumer rather than use 'penalty' as a deterrence. The average amount of compensation, which has been paid in only half the cases, is only a third of the average amount of refund. If the transaction costs of the legal process is high, which is the reality in most cases, the consumer may not be willing to file a complaint if the compensation does not cover these costs. There is a strong case to use the 'compensation' amount to include elements of penalty and deterrence.
4. **Probability of a favourable outcome:** The lower the probability of a favourable outcome, the less the consumers would be willing to approach the DFs. In our sample, the probability of a complaint being upheld is less than two-thirds. This is not a very high rate given the fact that the DFs are exclusively meant for consumers. The legal procedures involved makes it difficult for the consumers to fight his case. No wonder that about two-thirds of the cases involve lawyers. But even if the decision goes in favour of the consumer at

the DF, there is one-fifth probability that the dependant will go in appeal to the State Commission. This figure may be rising. Appeals impose additional costs to the consumers and some may be deterred from filing a case, anticipating an appeal. In fact, fresh cases in state commissions are only a fraction of the number of appeals.

Further, there is no guarantee that the order of the DFs would be implemented and the consumer compensated. As the figures from Karnataka indicate, in about one-fourth to one-third of the cases, Executive Petition have been filed. This can be mitigated if courts insist on bank guarantees from the defendants once the complaint is filed, out of court settlement fails, and trial begins.

To conclude, the preliminary study indicates that the consumers' complaints redressal system does not inspire confidence in prospective complainants as the costs of litigation is high, the amount of compensation is inadequate and the probability of getting the compensation is low.

This study, probably the first to use the framework of Law and Economics in the context of consumers' complaints in India, has its limitations. It is an exploratory study and many of the parameters that are likely to influence decisions have not been adequately and rigorously quantified. This calls for more rigorous studies, with larger and more representative sampling frame and primary survey based data collection from complainants, lawyers and defendants. There is also a need to apply the case study method and track a selected number of cases from the filing stage to appeals to execution. Our study reveals that there are enormous possibilities of new research along the lines attempted in this preliminary exercise.