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RESEARCH ARTICLE

LAW RELATING TO DIGITAL BANKING AND CUSTOMER PROTECTION IN INDIA

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India

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ABSTRACT

Banking laws in India have significant role to protect the customer and improvement of banking business. The Country economy depending on the financial services of the Bank. Banking services provides various services such as taking deposits, provides loans, transactions, providing different financial goods, credit cards, saving, current accounts to people, and insurance. Information Technology Act, 2000 has been introduced to regulate digital banking including other areas of regulations. This law provides access to speedy, costless transactions in Banking sector. However, there is no data protection and safety and security for the customers, in case of online frauds. In fact, there is no separate law to regulate online and digital banking for protection of the customers. There is no separate law for investigation of cybercrime cases. This paper examines legal position to protect customer in digital banking with a question of, is there digital security for the customers in Banking transactions?. This paper relies on available existing literature on law relating to digital banking and customer security in India. To complete this paper content analysis and case laws referred. This paper also gives summary of conclusion with recommending make comprehensive digital baking law in India to protect the customers.

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INTRODUCTION

[1]Micah Solomon[2] quoted as "when a customer has a complaint, use the 'Italian Momma method': Shower your customers with attention and genuine concern". The Banking Regulation Act, 1949, and recently passed the Banking Laws (Amendment) Act, 2025[3] has new comprehensive mechanism for regulation of Banking business in India including digital tractions and customer safety and security. E-banking is the most pioneering trend among the customers in the present era of thrust for more expeditious and secured financial services. The transfer from the traditional banking to e-banking has been an elevating amendment in banking dealings.[4] However, there are number of un-covered issues remined not addressed. The digital security for protection of customer security is not addressed, which is great threat for the customers doing online transactions in India.

In India, banking services have been indeed remarkably changed its transactions, evolving from a paper based to digital, leading to digital landscape driven by key technological and policy milestones. It has been transformed from traditional banking to e-banking, initial computerization to biometric identity system, Aadhaar and PAN card link brought millions of unbanked people into the formal financial system through Pradhan Mantri Jan Dhan Yojana etc. Permitting customers to withdraw or use digital banking through the credit and debit cards without confirmation through the KYC/OTP up to rupees of two thousand is a liberal service, free access to customers, which leading banking frauds in India. In *Pragya Prasun and Ors*. Vs. *Union of India (UOI) and Ors*.[5] Held that the KYC formalities are need to verify a customer's identity, prevent fraud and money laundering, and comply with legal Regulations. As per the General Banking Principles and Guidelines laid down by the RBI, the account should not have been opened with the similar name of the company of which the complainant was the Managing Director.[6] The Banking Laws (Amendment) Act, 2025 is a milestone towards strengthening of banking governance standards in the banking business sector by ensuring uniformity.

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[2] Micah Solomon (2024) Can Your Customer Service Do This?: Create an Anticipatory Customer Experience that Builds Loyalty Forever, McGraw Hill

[3] Act No.16 of 2025, dt.20.12.2025

[4] Bhawna Bhelly & Dr Sunil, Growth of E-Banking in India, IJTSRD, Vol.3, Issue-5, (August, 2019), P.13

[5] 2025 INSC 599 : (2025) 7 SCC 191

[6] *the Chairman & Managing Director, City Union Bank Ltd. and Ors*. vs. *R. Chandramohan* : (2023) 7 SCC 775

This uniformity of Banks with Reserve Banking of India along with improved audit quality in public sector banks. The Act enhances depositor and investor protection by promoting customer convenience through improved nomination facilities. Dr. Deepali Pant Joshi said as "the crusader's work in the area of Customer Protection is never done, the bar of necessity must be raised higher". Saraswat said that "appropriate systems and procedures to ensure safety and security of electronic banking transactions carried out by customers". *State Bank of India* vs. *Pallabh Bhowmick and Ors*.[7] The respondent bank account was unauthorised and fraudulent in nature, no negligence on the part of respondent. It is the responsibility of the bank so far as such unauthorized and fraudulent transactions are concerned. The Bank should remain vigilant. The Bank has the best of the technology available today to detect and prevent such unauthorized and fraudulent transaction, the bank is vicariously liable for the fraudulent acts of the acts of fraudsters. State Bank of India and Ors. vs. Biresh Chandra Gangopadhyay and Ors. [8]Court held that bank has no liability. In *the Chairman & Managing Director, City Union Bank Ltd. and Ors*. vs. *R. Chandramohan*.[9] The Supreme Court of India held that the criminal case is different with consumer case.

History of Banking Laws in India: The Reserve Banking of India is the Central Bank of India, established during British rule in India by the Reserve Bank of India Act, 1934.[10] Established the legal foundation for the Banking operations in India. It was constituted to primarily to regulate the issues of banking notes, maintain in order to secure monetary stability and operate the credit and currency system of the country. In order to strengthen the countries financial infrastructure, the Reserve Bank also play a pivotal role in establishment of organizations such as the Unit Trust of India,[11] the Industrial Development Bank of India,[12] the National Bank for Agriculture and Rural Development[13] etc.

The Banking Regulation Act, 1949 followed soon after independence, consolidating control over banking activities under a uniform legal framework. It is one of the most significant legislative structures in India, regulating the banking sector to ensure stability, security and growth of banking business. The State Bank of India Act, 1955[14] is the formal establishment, transforming the undertaking of the imperial Bank of India Act, 1920[15] with a mandate to expand banking facilities on a large scale, more particularly in the rural and semi-urban areas, and for diverse other public purposes. But this bank initially given its services to encouraged industrial and land lords. In order to bear serve the needs of development of the economy in conformity with the national policy objectives, 14 important Indian scheduled commercial banks with deposits over Rs.50 crores were nationalised in 1969. Further, a fresh Ordinance was issued which was later replaced by the banking companies (Acquisition and Transfer of Undertakings) Act, 1970. To promote the welfare of the people, the Banking companies (Acquisition and Transfer of Undertakings) Act, 1980 was passed to provide for the acquisition and transfer of the undertakings of certain baking companies. In addition to these, several important amendments made to the Reserve Bank of India Act, 1934 such as the Banking Regulation (Amendment) Act, 1994, the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1994, the Banking Regulation (Amendment) Act, 2007, the Banking Laws (Amendment) Act, 2012 relating to governance, capital flexibility, statutory liquidity Ratio or Cash Reserve Ratio based on liquidity management were introduced, reforming India's banking framework. With the Banking regulation (Amendment) Act, 2025 amends five acts viz. the Reserve Bank of India Act, 1934, the Banking Regulation Act, 1949, the State Bank of India Act, 1955, the Banking Companies (Acquisition and Transfer of Undertaking) Act, 1970 and the Banking Companies (Acquisition and Transfer of Undertaking) Act, 1980. The move aims to enhance banking governance, improve audit transparency, strengthen depositor protection, and bring cooperative banks under a more robust regulatory framework.

A major step in fortifying the legal regulatory, and governance structure of the Indian banking sector has been taken with the implementation of these laws. The Amendment Law 2025 shall have a transformative impact on depositors and service providers. However, there is no clarity to protect deposits of customers, there is no guarantee for more than Rs.1,00,000/- from the Government. There is a serious threat from hackers and external intruders. For which there is no comprehensive investigative team for online financial frauds and also there is no adequate legal framework for investigation and arrest of the accused. There are several issues for freezing of accounts in financial frauds, the police officials freezing innocent customers and thereby illegally grabbing money from the innocent customers. The recent amendment is nothing but strengthen from anti-establishment libertarians.[16] The cash transactions to cashless transactions and card to cardless tractions, finally digital transactions creating more problems and a room to frauds.

Customer Safety and Security: Customer is main pillar for the banking business, Banking customer security in India is mainly regulated by the Reserve Bank of India (RBI). It focuses on protecting customers from fraud, ensuring safe transactions, and defining liability when something goes wrong. It's important to be clear: there are ways customers try to cheat banks, but most of these are illegal and heavily monitored**.** Banks in India, under the Reserve Bank of India, have strong systems to detect and punish such offenders. Digital banking has made transactions in India fast and convenient, but it has also created new ways for frauds targeting depositors (customers who keep money in banks)**.** Understanding these risks is essential to protect your money. Committing offences by phishing, OTP, Net Banking passwords, operating fake bank accounts, sometimes bank officials committing frauds and helping to fraudsters. There is great threat to the depositors from the fraudsters, committing offences in digital networking and digital transactions.

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[7] Supreme Court of India in Petition for special leave to Appeal (C) No.30677/2024, dt.30.09.2024

[8] High Court of Telangana in Writ Petition No. 31150 of 2024, dt.11.04.2025

[9] (2023) 7 SCC 775 : AIR 2023 SC 1762

[10] Act No. II of 1934

[11] The Unit Trust of India Act, 1963 (Act No.52 of 1963, dt.30.12.1963)

[12] The Industrial Development Bank of India Act, 1964 (Act No.18 of 1964, dt.16.05.1964)

[13] the National Bank for Agriculture and Rural Development Act, 1981 (Act. No.61 of 1981, dt.30.12.1981)

[14] Act No.23 of 1955, dt.01.07.1955

[15] Act. No.XVII of 1924, dt.24.09.1924

[16] Dennis, J. Baker & Paul, H. Robinson (2021) Artificial Intelligence and the Law, ed., Routledge, London, P.35

Bank Liability for its Negligent acts: Bank is the financial institution have strong control over its financial operations, also having strong equipment's and infrastructure for security and safety of the bank and its operations. The Reserve Bank of India guidelines clear about bank should maintain strong security measures for protection of the customers, make available proper infrastructure, failing which the bank is vicariously liable for consequences. State Bank of India and Ors. vs. Biresh Chandra Gangopadhyay and Ors.,[17] wherein, certain fraudulent transactions have taken place in the school account and the Honourable Supreme Court has directed the Bank to pay an amount of Rs.25,00,000/-. And in the High Court of Gauhati in State Bank of India vs. Pallabh Bhowmick.[18] wherein, some online transactions have taken place from Pallabh Bhowmick's account and the learned Single Judge of Gauhati High Court has directed the State Bank of India to deposit an amount of Rs.94,204.80 ps. in his account, holding that when no negligence can be attributed on a customer for fraudulent transaction which took place without his knowledge, the Bank alone is liable for such online transaction, and when the same was challenged before a Division Bench, the Division Bench of the Gauhati High Court has dismissed the Writ Appeal confirming the order passed by the learned Single Judge. State Bank of India filed special leave petition, in which the Supreme Court held that "all transactions relating to the account of the respondent No.1 herein maintained with the petitioner - Bank were found to bWe unauthorized and fraudulent. It is the responsibility of the bank so far as such unauthorized and fraudulent transactions are concerned. The Bank should remain vigilant. The Bank has the best of the technology available today to detect and prevent such unauthorized and fraudulent transaction. Further, clauses 8 and 9 respectively of the RBI's Circular dated 6-7-2017 make the position further clear. We also take notice of the fact that within 24 hours of the fraudulent transaction, the customer, i.e., the respondent No.1 herein brought it to the notice of the Bank. We expect the customers, i.e., the account holders also to remain extremely vigilant and see to it that the OTPs. generated are not shared with any third party.[19] In a given situation and, in the facts, and circumstances of some case, it is the customer also who could be held responsible for being negligent in some way or the other. In view of the aforesaid, we see no good reason to disturb the impugned order passed by the High Court. The Special Leave Petition is, accordingly, dismissed.[20] *DAV Public School*, vs. *The Senior Manager, Indian Bank, Midnapur Branch and Ors*.[21] The Supreme Court held that, the Bank is vicariously liable for loss of the shool, and the Respondent Bank should be directed to compensate the School to the tune of Rs.25,00,000/- transferred when the misappropriation was first detected.

Judicial View: Crypto-token Regulation Bill, 2018 initially recommended by the Inter-Ministerial Committee contained a proposal, to prohibit persons dealing with activities related to crypto tokens from falsely posing these products as not being securities or investment schemes or offering investment schemes due to gaps in the existing regulatory framework. In *Internet and Mobile Association of India* vs. *Reserve Bank of India*[22] in this case the Supreme Court of India held that the digital currency is need to be regulated properly. In *Noel Harper and Ors*. vs. *Union of India (UOI) and Ors*[23] the Supreme Court of India held that, there is lack of infrastructure at the designated bank and that the bank branch is manned only by 40 odd personnel. In digital banking operations, it is not the head count dispensing physical services that would matter, but the effectiveness of the software is important.

In *State Bank of India* vs. *Amit Iron Private Limited and Ors*.[24] The Supreme Court held that, under Section 21 of the Banking Regulation Act, 1949, if the RBI finds it necessary or expedient in the public interest or in the interests of depositors or banking policy to do so, may determine the policy in relation to advances to be followed by banking companies generally or by any banking company in particular. The Section further provides that on determination of such policy, all banking companies shall be bound to follow this regulation. *Pragya Prasun and Ors*. vs. *Union of India (UOI) and Ors*.[25] The Supreme Court held that, the Respondents to formulate appropriate Rules and guidelines for conducting Digital KYC/eKYC/Video KYC process through alternative methods, with view to ensuring that process was more inclusive and accessible to all persons with disabilities. *Union of India (UOI)* vs. *Association of Unified Telecom Service Providers of India and Ors*.[26] The Supreme Court of India held that, the digital banking adversely impacts the digital connectivity in the country. E-commerce, e-banking, e-health, etc., all part of e-governance shall be affected.

CONCLUSION

The Banking laws (Amendment) Act, 2025 represent a significant stride towards modernizing India's financial architecture. By aligning governance norms, customer safeguards, and audit practices with current economic realities, the Act not only strengthens public confidence but also supports India's vision of a secure, inclusive and technological banking system. These reforms reinforce stability, transparency and efficiency essential pillars for sustaining growth in an increasingly digital economy. Permitting customers to withdraw or use digital banking without confirmation by the KYC/OTP up to rupees of two thousand is peril, which is leading banking frauds in India. But the judicial trends on customer safeguards declared as needs more measures to protect them, the customers experience is significantly various from legislation to judiciary. There is need of more specific rules for protection of customers and make liability of banks in India.

[17] (2019) 20 SCC 31: 2020 (1) ALD 240
[18] Supreme Court of India in Petition for special leave to Appeal (C) No.30677/2024, dt.30.09.2024
[19] Supreme Court of India in Petition for special leave to Appeal (C) No.30677/2024, dt.30.09.2024
[20] Supreme Court of India in Petition for special leave to Appeal (C) No.30677/2024, dt.30.09.2024
[21] (2019) 20 SCC 31: 2020 (1) ALD 240: 2020 (1) CCC 120
[22] (2020) 10 SCC 274
[23] (2023) 3 SCC 544
[24] Supreme Court of India, Civil Appeal No. 4245 of 2026, decided on 07.04.2026
[25] (2025) 7 SCC 191
[26] (2020) 9 SCC 748

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