



NAVIGATING BANKING DISPUTES IN INDIA: CHALLENGES, LEGAL FRAMEWORKS, AND PATHWAYS TO REFORM

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ABSTRACT

India's banking sector, a key driver of economic growth, faces substantial challenges due to recurring disputes that affect trust, efficiency, and stability. This paper examines four major types of banking disputes: dishonour of cheque, loan defaults, unauthorized electronic transactions, and service deficiencies. Dishonour of cheque, regulated by the Negotiable Instruments Act, 1881, continues to overburden courts due to reasons like insufficient funds or technical errors, resulting in delays in justice delivery. Loan defaults, governed under the SARFAESI Act 2002, and the Insolvency and Bankruptcy Code, 2016, in particular, severely impact the financial health of banks, especially in the retail and Micro Small and Medium Enterprises sectors, owing to rising economic stress and weak recovery mechanisms. Unauthorized electronic transactions, such as Unified Payment Interface-related frauds and phishing, exploit the growth of digital banking and expose critical gaps in cybersecurity despite safeguards under the Information Technology Act, 2000. Service deficiencies, including delayed loan disbursements and ineffective grievance redressal, fall under violations of the Consumer Protection Act, 2019, leading to customer dissatisfaction and mistrust. These issues are aggravated due to outdated operational systems, lack of financial awareness, and gaps in regulatory implementation, which collectively strain courts and redressal bodies like the Banking Ombudsman. The paper analyses the existing legal framework, judicial interpretations, and operational hurdles, identifying concerns such as judicial delays, inconsistent enforcement, and fragmented complaint resolution mechanisms. It proposes reforms including faster technology-based dispute resolution, stronger cybersecurity infrastructure, and improved transparency in loan recovery processes. Enhancing financial literacy, streamlining regulations in line with global standards, and modernizing banking infrastructure are essential to reducing conflicts, improving reliability, and fostering customer confidence. By addressing these challenges holistically, India can build a resilient and inclusive banking system that promotes sustainable economic growth and strengthens trust among all stakeholders.

Keywords: *Banks, Reserve Bank of India, SARFAESI, IBC 2016, Banking Ombudsman*

I. Introduction

Banking is the foundation of India's financial system, facilitating public savings into productive investments and enabling efficient economic transactions critical for growth. As defined by

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section 5(b) of the Banking Regulation Act, 1949, banking involves “accepting, for the purpose of lending or investment, of deposits of money from the public, repayable on demand or otherwise, and withdrawable by cheque, draft, order or otherwise”.¹ Enacted in post-independence India, this statute regulates banking companies to ensure financial stability, safeguard depositors, and prevent irregularities like fraud or liquidity mismatches. The Reserve Bank of India (RBI), established under the RBI Act, 1934, plays a central role in overseeing monetary policy, issuing currency, and supervising banks to maintain financial stability.² Banking operations encompass deposit collection, credit disbursement, payment services, and investment management, all guided by regulatory frameworks to uphold public trust and economic stability.

The economic significance of banking in India is critical, as it drives capital formation, fuels industrial and agricultural growth, and promotes financial inclusion. Banks facilitate over 80 percent of formal credit, supporting key sectors like manufacturing, services, and infrastructure that are integral to India’s Gross Domestic Product (GDP).³ In Financial Year 2024 (FY24), scheduled commercial banks (SCBs) recorded substantial growth, with deposits rising by 14 percent and advances by 19 percent, reflecting strong credit demand amid economic recovery.⁴ Initiatives like the Pradhan Mantri Jan Dhan Yojana have extended banking access to over 500 million individuals, boosting savings and consumption, which are essential for economic momentum.⁵

The sector’s profitability, with a return on assets of 1.3 percent in FY24, underscores its stability and contribution to India’s 6.5–8 percent annual GDP growth, establishing India as a global economic leader.⁶ Without an efficient banking system, India’s ambition to achieve a \$5 trillion economy would face substantial challenges, as banking underpins trade, investment,

¹ The Banking Regulation Act, 1949 (Act 10 of 1949), s. 5(b).

² The Reserve Bank of India Act, 1934 (Act 2 of 1934), s. 3 [*hereinafter* “RBI Act”].

³ World Bank, “India Economic Update” (2024), *available at*: <https://www.worldbank.org/en/country/india/publication/india-economic-update> (last visited on Aug. 21, 2025).

⁴ Reserve Bank of India, “Trend and Progress of Banking in India 2023–24” (2024), *available at*: <https://rbidocs.rbi.org.in/rdocs/Publications/PDFs/0RTP261220247FFF1F49DFC04C508F300904A90C7439.PDF> (last visited on Aug. 21, 2025).

⁵ Ministry of Finance, “Pradhan Mantri Jan Dhan Yojana: Progress Report” (2024), *available at*: <https://pmjdy.gov.in/files/Progress-Report.pdf> (last visited on Aug. 21, 2025).

⁶ Reserve Bank of India, “Financial Stability Report” (June 2024), *available at*: https://rbidocs.rbi.org.in/rdocs/PublicationReport/Pdfs/0FSRJUN2024_270620242B95CB128D1847A3ACA B5B5A4BEBF0DF.PDF (last visited on Aug. 21, 2025).

and fiscal policy execution. Its role in mobilizing resources and enabling credit access makes it indispensable for sustaining economic aspirations and fostering inclusive development.

The evolution of Indian banking reflects the nation's socio-economic transformations, transitioning from colonial-era institutions to a digitally integrated ecosystem. In the pre-independence period, banks like the Bank of Bengal (established in 1806) primarily served British trade interests.⁷ Post-independence, the nationalization of fourteen major banks in 1969, followed by six more in 1980, prioritized credit to priority sectors like agriculture and small industries, promoting inclusive growth.⁸

The 1991 economic liberalization, necessitated by a balance-of-payments crisis, introduced reforms such as interest rate deregulation and the entry of private and foreign banks, fostering competition and efficiency.⁹ The digital banking era, marked by the increase of internet and mobile platforms post-2000, redefined accessibility. The launch of the Unified Payments Interface (UPI) in 2016 modernised transactions, enabling real-time, smartphone-based transfers.¹⁰ By 2024, UPI accounted for 80 percent of India's digital payments, establishing India's dominance in fintech innovation.¹¹ This shift from traditional to technology-driven banking has enhanced convenience but also introduced new vulnerabilities, necessitating robust legal and regulatory frameworks.

Table 1: Historical Timeline of Indian Banking Evolution

Year	Event	Significance of Banking and Disputes
1770	Establishment of the Bank of Hindustan	Marks the beginning of modern banking in India.
1921	Merger of Presidential Banks to form Imperial Bank of India	Consolidation of British-era banking institutions.

⁷ Amiya Kumar Bagchi, *The Evolution of the State Bank of India: The Roots, 1806–1876* (1987).

⁸ Rakesh Mohan, *India's Financial Sector: An Era of Reforms* (2005), available at: <http://rakeshmohan.com/docs/RBIBulletinOct2004-2.pdf> (last visited on Aug. 21, 2025).

⁹ M. Narasimham, "Report of the Committee on the Financial System" (1991), available at: <https://indianculture.gov.in/reports-proceedings/report-committee-financial-system> (last visited on Aug. 21, 2025).

¹⁰ National Payments Corporation of India, "UPI Product Overview" (2016), available at: <https://www.npci.org.in/what-we-do/upi/product-overview> (last visited on Aug. 21, 2025).

¹¹ Internet and Mobile Association of India, *Indian Payments Handbook 2023–2028* (2023), available at: <https://www.pwc.in/assets/pdfs/consulting/financial-services/fintech/publications/the-indian-payments-handbook-2023-2028.pdf> (last visited on Aug. 21, 2025).

1949	Nationalization of RBI & Enactment of Banking Regulation Act	Created the central regulatory framework and empowered the government to control banking.
1969	Nationalization of fourteen major private banks	Aimed to promote financial inclusion and shift credit to priority sectors.
1980	Nationalization of six more private banks	Further consolidated state control over the banking sector.
1991	Liberalization reforms (Narasimha Committee)	Opened the sector to private and foreign players, fostering competition and efficiency.
1993	Establishment of Debt Recovery Tribunals (DRT) (established under the Recovery of Debts and Bankruptcy Act, 1993 (RDB Act))	Created specialized tribunals for swift recovery of large bank debts.
2002	Enactment of Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002 (SARFAESI)	Empowered banks to seize and sell secured assets without court intervention.
2016	Launch of UPI	Ushered in a new era of digital payments and financial inclusion.
2021	Launch of RBI Integrated Ombudsman Scheme	Centralized and streamlined the grievance redressal process for all regulated entities.

The rapid expansion of banking services has led to a substantial increase in disputes, reflecting the complexities of a modern financial landscape. Dishonour of cheque cases under section 138 of the Negotiable Instruments Act, 1881 (NI Act) have intensified, with millions pending in courts by 2024.¹²

Loan defaults, while reducing to a 2.7 percent gross non-performing assets (GNPA) rate, saw a 28 percent increase in unsecured loan non-performing assets (NPAs), reaching substantial proportions.¹³ Unauthorized electronic transactions, particularly UPI-related frauds, have

¹² National Judicial Data Grid, “Pending Cases under Negotiable Instruments Act” (2024), *available at*: <https://njdg.ecourts.gov.in/njdgnew/> (last visited on Aug. 21, 2025).

¹³ Reserve Bank of India, “Sectoral Deployment of Bank Credit” (2024), *available at*: https://rbi.org.in/Scripts/Data_Sectoral_Deployment.aspx (last visited on Aug. 21, 2025).

sharply increased, with substantial financial losses reported in recent years.¹⁴ Cybercrimes, including phishing and One Time Password (OTP) scams, have also witnessed sharp growth, driven by increased digital adoption.¹⁵

Judicial precedents like *B.S. Krishna v. State of Karnataka* (2020)¹⁶ clarify liability in dishonour of cheque cases, emphasizing the presumption of guilt unless rebutted, while the case of *Axis Bank Ltd. v. Vidarbha Industries Power Ltd.* (2022)¹⁷ underscores the equilibrium between creditor and debtor rights in insolvency disputes under the Insolvency and Bankruptcy Code, 2016 (IBC). These disputes highlight systemic gaps in consumer protection and dispute resolution, highlighting the need for comprehensive reforms.

With this backdrop, this paper aims to examine the nature, causes, and classification of frequent banking disputes, including in particular dishonour of cheques, loan defaults, unauthorized electronic transactions, and deficiencies in banking services. It seeks to evaluate the legal frameworks governing these issues, such as the NI Act for cheque-related disputes, the SARFAESI, for loan recoveries, and regulatory guidelines for digital transactions.

The paper explores common arguments, such as lack of proper notice in dishonour of cheque cases or bona fide errors, alongside judicial trends that prioritize expedited and equitable resolutions. By tracing the progression of these disputes from their operational origins to their legal and economic implications, the paper proposes practical reforms, including enhanced online dispute resolution (ODR) mechanisms, improved cybersecurity measures, and policy interventions to simplify processes. Ultimately, it aims to balance consumer protection with the banking sector's critical role in driving India's economic growth, ensuring a resilient and sustainable financial ecosystem.

II. Institutional Mechanisms and Operational Architecture of the Banking Sector

¹⁴ Reserve Bank of India, "Annual Report 2023–24" (2024), available at: https://rbidocs.rbi.org.in/rdocs/AnnualReport/PDFs/0ANNUALREPORT202324_FULLLDF549205FA214F62A2441C5320D64A29.PDF (last visited on Aug. 21, 2025).

¹⁵ National Crime Records Bureau, "Crime in India 2023" (2024).

¹⁶ *B.S. Krishna v. State of Karnataka* (2020) 9 SCC 657.

¹⁷ *Axis Bank Ltd. v. Vidarbha Industries Power Ltd.* (2022) 8 SCC 352.

Banking operations are the foundation of India's financial system, enabling savings, lending, and transactions for individuals and businesses. These operations span various segments and are governed by laws ensuring transparency and security. Recent trends, particularly in digital banking, have redefined these operations but also intensified disputes, posing challenges to the system's stability. This section examines the types of banking operations, their legal frameworks, and emerging trends with a focus on growing disputes regarding, dishonour of cheques, loan defaults, unauthorized transactions, and service deficiencies laying the foundation for their detailed analysis in the next section.

Types of Banking Operations

Banking Operations refer to the core activities, processes, and services carried out by banks to manage money, facilitate financial transactions, and provide financial products to customers. These operations involve accepting deposits, lending funds, managing accounts, processing payments, ensuring compliance, and resolving disputes, all under regulatory frameworks set by the RBI and relevant laws. In simple terms, banking operations are the day-to-day functions that enable smooth financial intermediation between depositors, borrowers, and other stakeholders. Some of the important operations are explained further.

Retail Banking serves individuals with savings accounts, personal loans, mortgages, and credit cards, fulfilling routine financial requirements like saving salaries or paying bills. Banks like State Bank of India (SBI) maintain widespread branches for accessibility.¹⁸ In 2024, retail loans grew by 18 percent, driven by housing and consumer credit, making this segment critical for financial inclusion.¹⁹

Corporate Banking supports businesses with large-scale loans, trade credit, and cash management. It funds infrastructural projects like roads and factories, which are essential for India's growth.²⁰ Handling high-value transactions, this segment requires careful risk management due to the substantial funds involved.

¹⁸ *Supra* note 4.

¹⁹ *Ibid.*

²⁰ *Ibid.*

Investment Banking deals with capital markets, helping companies raise funds through initial public offerings (IPOs) and mergers and acquisitions (M&As). Banks like ICICI offer advisory services and wealth management.²¹ India's IPO market saw a 25 percent increase in 2024, showing strong growth.²²

Digital Banking and Fintech use technology to provide internet banking, mobile apps, and the UPI. Fintech platforms like Paytm offer digital wallets and lending, reaching financially excluded regions.²³ UPI processes over thirteen billion transactions monthly, dominating global digital payment systems.²⁴

Laws Governing Banking Operations

A strong legal framework ensures banking operations are secure and transparent. The Banking Regulation Act allows the RBI to license banks, set capital rules, and oversee lending and deposits, protecting customers.²⁵ The RBI Act, 1934 empowers the RBI to manage monetary policy and supervise banks, maintaining economic stability.²⁶

The NI Act regulates cheques and promissory notes, addressing disputes like dishonour of cheques.²⁷ The SARFAESI, Act enables banks to recover bad loans by enforcing security, easing debt recovery.²⁸ The Foreign Exchange Management Act 1999 (FEMA) governs cross-border transactions, supporting corporate banking.²⁹ The Information Technology Act, 2000 (ITA). tackles online frauds, mandating cybersecurity for digital banking.³⁰ These laws create a robust framework to manage risks and ensure trust.

Recent Trends and Associated Disputes

²¹ Securities and Exchange Board of India, "Capital Market Review 2024" (2024), available at: https://www.primedatabase.com/article/2024/Article-Dr.Milind_Dalvi.pdf (last visited on Aug. 21, 2025).

²² *Ibid.*

²³ Internet and Mobile Association of India, "Indian Fintech Landscape 2023" (2023), available at: <https://www.iamai.in/research/indian-fintech-landscape-2023> (last visited on Aug. 21, 2025).

²⁴ National Payments Corporation of India, "UPI Transaction Statistics" (2025), available at: <https://www.npci.org.in/what-we-do/upi/product-statistics> (last visited on Aug. 21, 2025).

²⁵ The Banking Regulation Act, 1949 (Act 10 of 1949), ss. 11, 22, 35, 35A.

²⁶ *Supra* note 3, ss. 7, 17, 21.

²⁷ The Negotiable Instruments Act, 1881 (Act 26 of 1881), ss. 4, 6.

²⁸ The Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002 (Act 54 of 2002), s. 13.

²⁹ The Foreign Exchange Management Act, 1999 (Act 42 of 1999), ss. 3, 10.

³⁰ The Information Technology Act, 2000 (Act 21 of 2000), ss. 43A, 66.

Digital banking has restructured operations, with UPI processing over thirteen billion transactions monthly in 2025, accounting for 80 percent of India's digital payments.³¹ However, this growth has resulted in a significant increase in disputes, particularly dishonour of cheques, loan defaults, unauthorized transactions, and service deficiencies, which are rising rapidly and pressuring the banking system. Neo-banking platforms like Jupiter offer digital-only services, but their limited regulation heightens vulnerability to fraud.³² Digital lending, including platforms like the Unified Lending Interface, disbursed Rs. 27,000 crores in 2024, yet unsecured loan defaults increased by 28 percent, triggering repayment disputes.³³ The Central Bank Digital Currency (CBDC), piloted in 2022, aims to streamline payments but poses cybersecurity challenges.³⁴

Dishonour of cheques remains a significant concern, with over 4 million cases pending in 2024 under the NI Act, overburdening judicial forums and delaying resolutions.³⁵ These disputes often increase from insufficient funds or errors, impacting trust in transactions. Loan defaults, though reduced to a 2.7 percent GNPA rate in 2024, are rising in unsecured segments like credit cards, with personal loan defaults increasing by 28 percent due to inadequate credit assessment mechanisms.³⁶ The RBI's 2023 risk weight hike on unsecured loans aims to curb this, but defaults continue to grow, especially in digital lending.³⁷

Unauthorized transactions, such as UPI frauds and phishing, surged by 85 percent in 2024, with losses reaching Rs. 21,367 crores in the first half of Financial Year 2025, caused by fraudulent schemes like digital arrests originating abroad.³⁸ Service deficiencies, including hidden charges and poor grievance redressal, have increased sharply, with 1.2 million banking complaints reported in 2024, often due to non-transparent loan contracts or coercive debt recovery methods.³⁹

³¹ *Supra* note 14.

³² *Ibid.*

³³ *Ibid.*

³⁴ Reserve Bank of India, "Concept Note on Central Bank Digital Currency" (2022), *available at*: <https://rbidocs.rbi.org.in/rdocs/PublicationReport/Pdfs/CONCEPTNOTEACB531172E0B4DFC9A6E506C2C24FFB6.PDF> (last visited on Aug. 21, 2025).

³⁵ *Supra* note 12.

³⁶ *Supra* note 4.

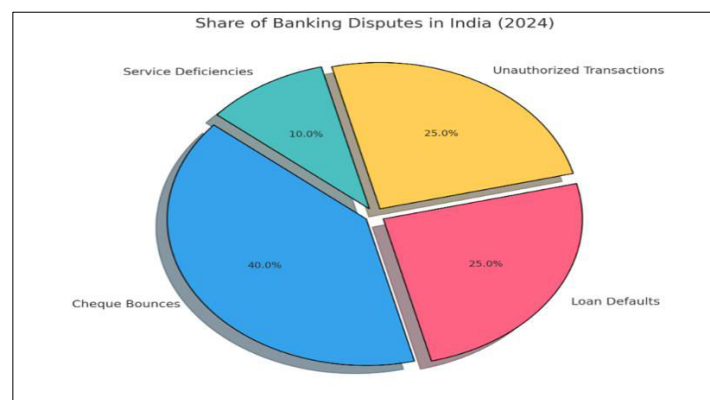
³⁷ *Ibid.*

³⁸ BioCatch, "2025 India Digital Fraud Trends" (2025), *available at*: <https://www.biocatch.com/report-digital-banking-fraud-trends-india-2025> (last visited on Aug. 21, 2025).

³⁹ *Supra* note 4.

These disputes are worsening due to rapid digital adoption and inadequate safeguards. For instance, UPI's convenience has made it a prime vulnerability for cyberattacks, with 292,800 cybercrime cases reported in 2024, including OTP scams and Aadhaar-enabled payment frauds.⁴⁰ Neo-banks and fintech, lacking comprehensive regulatory supervision, contribute to fraud vulnerabilities, while digital lending's growth has surpassed effective risk evaluation, leading to defaults. The Supreme Court's ruling in *Axis Bank Ltd. v. Vidarbha Industries Power Ltd.* (2022) emphasizes balancing creditor-debtor rights in loan disputes, highlighting the need for expedited dispute settlement systems.⁴¹ These challenges, rooted in operational advancements, demand immediate policy interventions, which will be explored in the next section.

GRAPH – 1 – Share of Banking Disputes in India (2024)



GRAPH 1 reveals that dishonour of cheque issues constitute the largest share of banking disputes in India in 2024 at 40 percent, reflecting their substantial impact. Loan defaults and unauthorized transactions each account for 25 percent, while service deficiencies make up the remaining 10 percent. This distribution underscores the dominance of cheque-related issues and the growing challenge of digital frauds, as supported by RBI and NCRB data.⁴²

III. Spectrum of Disputes in the Banking Ecosystem

Dishonour of Cheque Issues and Legal Framework

⁴⁰ *Supra* note 15.

⁴¹ *Axis Bank Ltd. v. Vidarbha Industries Power Ltd.* (2022) 8 SCC 352.

⁴² *Supra* note 38.

The expansion of banking operations, particularly in retail and digital segments, has heightened disputes that challenge India's financial system. Building on the operational trends discussed earlier, this section evaluates dishonour of cheque disputes, a persistent issue undermining trust in negotiable instruments. Despite digital payment growth, cheques remain critical for business and personal transactions, making their dishonor a substantial concern. This subsection analyzes the nature, legal framework, procedures, defenses, and judicial interpretations of dishonour of cheque disputes, assessing their impact on stakeholders and the judiciary. Statistical Trends highlight the scale of the problem, setting the stage for reforms to enhance resolution efficiency and restore trust in banking.

Overview and Analysis

Dishonour of cheque disputes increase when a bank dishonors a cheque due to insufficient funds, signature mismatches, or account closures, causing financial loss to the payee. These disputes disrupt transactions and erode trust, particularly for small businesses and individuals reliant on cheques. Section 138 of the NI, Act, criminalizes dishonor due to insufficient funds, imposing up to two years' imprisonment or a fine double the cheque amount.⁴³ The 2018 amendments introduced interim compensation (up to 20 percent of the cheque amount) to protect payees, balancing deterrence with fairness.⁴⁴ The procedure involves the payee receiving a dishonor memo, issuing a demand notice within 30 days, and filing a complaint in a Magistrate Court within one month if the drawer fails to pay within 15 days.⁴⁵ Courts presume guilt under section 139, requiring drawers to rebut liability.⁴⁶

Defenses hinge on disproving debt or intent. In *Indus Airways Pvt. Ltd. v. Magnum Aviation* (2014), the Supreme Court held that cheques issued as advances, and not as debts, avoid liability.⁴⁷ Other defenses include security cheques, unintentional signature mismatches, or time-barred debts.⁴⁸ In *C.C. Alavi Haji v. Palapetty Muhammed* (2007), the court ruled that a

⁴³ *Supra* note 28, s. 138.

⁴⁴ The Negotiable Instruments (Amendment) Act, 2018 (Act 20 of 2018); The Negotiable Instruments Act, 1881 (Act 26 of 1881), s. 143A.

⁴⁵ *Supra* note 28, s. 138, proviso (b) & (c); s. 142(1)(b).

⁴⁶ *Supra* note 28, s. 139.

⁴⁷ *Indus Airways Pvt. Ltd. v. Magnum Aviation Pvt. Ltd.* (2014) 12 SCC 539.

⁴⁸ The Limitation Act, 1963 (Act 36 of 1963), s. 3.

correctly sent notice is deemed served, easing prosecution.⁴⁹ *M/s Meters and Instruments Pvt. Ltd. v. Kanchan Mehta* (2018) promoted compounding to reduce pendency, allowing settlements.⁵⁰ The landmark case of *Dashrath Rupsingh Rathod v. State of Maharashtra* (2014) mandated filing cases at the payee's bank jurisdiction, curbing forum shopping but complicating access.⁵¹ Another vital case of *Dayawati v. Yogesh Kumar Gosain* (2017) endorsed mediation, advancing alternative dispute resolution (ADR) to alleviate court burdens.⁵² These rulings streamline processes but struggle against judicial delays.

The persistence of dishonour of cheque issues reflects operational and economic issues. Small businesses often issue cheques without sufficient funds, while bank errors like delayed processing exacerbate disputes. Economic pressures, such as Micro, Small and Medium Enterprises (MSME) cash flow constraints, drive defaults. The judiciary's push for ADR, as in *Dayawati* case, and RBI's cheque truncation system (CTS) aim to mitigate issues, but low adoption limits impact.⁵³ *In Re: Expeditious Trial of Cases under Section 138* (2021) Supreme Court directed special courts, yet resource constraints hinder progress.⁵⁴ These challenges highlight the need for digital verification and faster judicial processes to reduce disputes and restore cheque reliability.

Statistical Trends

Dishonour of cheque disputes dominate banking litigation, with over 43 lakh cases pending in 2025, up from 33.44 lakh in 2022, per NCRB data.⁵⁵ Rajasthan accounts for 6.4 lakh cases, reflecting regional cheque reliance.⁵⁶

Despite resolving 15 lakh cases in 2024, the banking sector still faces a significant backlog, resulting in a pendency ratio of 2:1.⁵⁷ This backlog delays justice, pressuring courts and eroding

⁴⁹ *C.C. Alavi Haji v. Palapetty Muhammed* (2007) 6 SCC 555.

⁵⁰ *M/s Meters and Instruments Pvt. Ltd. v. Kanchan Mehta* (2018) 1 SCC 560.

⁵¹ *Dashrath Rupsingh Rathod v. State of Maharashtra* (2014) 9 SCC 129.

⁵² *Dayawati v. Yogesh Kumar Gosain* (2017) SCC OnLine Del 11092.

⁵³ Reserve Bank of India, "Cheque Truncation System Guidelines" (2010), available at: <https://www.rbi.org.in/commonman/Upload/English/Notification/PDFs/CACA220610.pdf> (last visited on Aug. 21, 2025).

⁵⁴ *In Re: Expeditious Trial of Cases under Section 138 of N.I. Act, 1881*, (2021) 4 SCC 784.

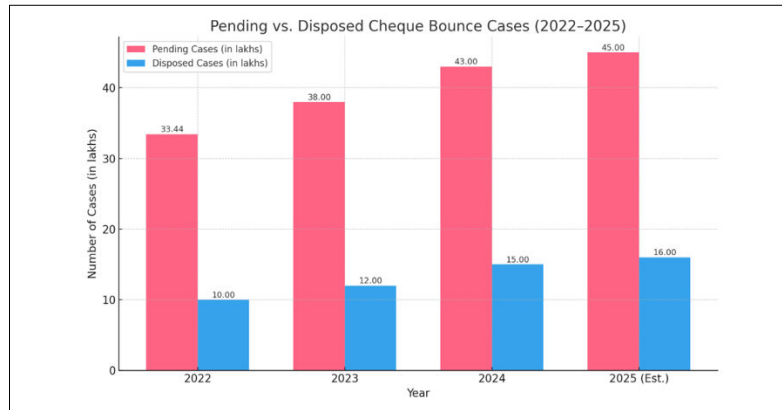
⁵⁵ *Supra* note 15.

⁵⁶ *Ibid.*

⁵⁷ *Supra* note 12.

trust. RBI notes cheques drive substantial complaints, particularly among MSMEs.⁵⁸ The bar graph below compares pending and disposed cases, highlighting the judicial burden.

GRAPH 2 – Pending vs. Disposed Cases (2022- 2025)



GRAPH 2 illustrates a rising trend in dishonor of cheque cases, with pending cases increasing from 33.44 lakhs in 2022 to an estimated 45.00 lakhs in 2025. Disposed cases remain lower, rising from 10.00 lakhs in 2022 to an estimated 16.00 lakhs in 2025, with a notable 15.00 lakhs in 2024. This creates a growing pendency ratio, underscoring the judicial system's increasing burden, as per NCRB data.

Loan Defaults and Recovery Issues

Following the analysis of dishonour of cheque disputes, this sub-section evaluates loan defaults and recovery disputes, a critical issue impacting bank liquidity and borrower finances. Non-payment of loans, resulting in NPAs, triggers legal battles over recovery and classification, pressuring banks and borrowers alike. This sub-section analyzes the nature, legal framework, remedies, defenses, and judicial interpretations of these disputes, assessing their impact on the banking ecosystem. Statistical Trends highlight their scale, building on the operational vulnerabilities discussed earlier and setting the stage for reforms to enhance recovery mechanisms and restore trust in lending.

Overview and Analysis

⁵⁸ *Supra* note 14.

Loan default disputes increase when borrowers fail to repay equated monthly installments (EMIs) or loan dues, leading to NPAs that erode bank profitability. These disputes, common in retail, corporate, and MSME loans, stem from economic downturns, job losses, or lax credit appraisals, particularly in digital lending. The SARFAESI Act, empowers banks to recover dues above ₹1 lakh by issuing a 60-day demand notice and seizing secured assets without court intervention, streamlining recovery.⁵⁹ For disputes exceeding ₹20 lakh, the RDB Act 1993⁶⁰, 1993, establishes DRTs to adjudicate recovery suits, while the IBC, 2016, governs corporate insolvencies, for disputes exceeding ₹1 Crore, allowing creditors to initiate resolution processes.⁶¹ These laws balance swift recovery with borrower protections, though procedural lapses fuel disputes.

Banks employ multiple remedies to recover dues. Under SARFAESI, a demand notice triggers repayment or asset seizure, followed by auctions if unpaid. DRTs handle unsecured loan suits, and IBC enables insolvency proceedings against corporate borrowers, appointing resolution professionals to maximize recovery.⁶² The RBI guidelines require banks to follow fair practices, including offering loan restructuring options to borrowers before initiating enforcement actions.⁶³ Borrowers, however, can challenge recovery actions by alleging incorrect NPA classification, defective notices, or miscalculated interest rates.

In *Mardia Chemicals Ltd. v. Union of India* (2004), the Supreme Court of India upheld the SARFAESI Act but declared Section 17(2) of the Act unconstitutional, striking down the requirement for a borrower to deposit 75 percent of the outstanding dues to appeal a bank's action. The Court found this requirement to be an impossible condition, making the remedy before the DRT nugatory, but otherwise found the Act constitutionally valid as it provided a reasonably fair process for loan recovery.⁶⁴ In another case, *Laxmi Pat Surana v. Union Bank of India* (2021) the Supreme Court held that creditors can initiate insolvency proceedings

⁵⁹ The Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002 (Act 54 of 2002), ss. 13(2), 13(4).

⁶⁰ The Recovery of Debts and Bankruptcy Act, 1993 (Act 51 of 1993), ss. 3, 19 read with s. 1(4).

⁶¹ The Insolvency and Bankruptcy Code, 2016 (Act 31 of 2016), ss. 4, 7.

⁶² Reserve Bank of India, "Master Circular on Income Recognition, Asset Classification and Provisioning" (2024), available at: <https://rbidocs.rbi.org.in/rdocs/notification/PDFs/13MC01042025792E33CF094B46F2B838E6409777438D.PDF> (last visited on Aug. 21, 2025).

⁶³ Reserve Bank of India, "Framework for Resolution of Stressed Assets" (June 7, 2019), available at: <https://rbidocs.rbi.org.in/rdocs/notification/PDFs/PRUDENTIALB20DA810F3E148B099C113C2457FBF8C.PDF> (last visited on Aug. 21, 2025).

⁶⁴ *Mardia Chemicals Ltd. v. Union of India* (2004) 4 SCC 311.

against personal guarantors, thereby extending liability to guarantors and strengthening the enforcement rights of banks.⁶⁵ These rulings clarify legal boundaries but highlight procedural complexities that prolong disputes.

Judicial interpretations further shape recovery disputes. The Supreme Court upheld SARFAESI's non-judicial recovery powers, affirming banks' authority to act swiftly.⁶⁶ However, Supreme court also emphasises fair insolvency processes under IBC, protecting borrower rights.⁶⁷ Borrowers often cite RBI's restructuring guidelines or claim arbitrary NPA classification, as seen in *Swiss Ribbons Pvt. Ltd. v. Union of India* (2019), where the court upheld IBC's constitutionality but stressed equitable treatment.⁶⁸ Despite legal clarity, disputes persist due to economic pressures and digital lending's rapid growth, which often bypasses robust credit checks. The surge in unsecured loan defaults, particularly in retail and fintech, underscores the need for stricter appraisal systems and transparent recovery processes to mitigate conflicts.

The persistence of loan defaults reflects operational and systemic challenges. Digital lending platforms, while expanding access, have fueled defaults due to inadequate borrower vetting, as seen in the 28 percent increase in unsecured loan NPAs.⁶⁹ Economic ups and downs, especially after COVID-19, have made it harder for MSMEs to repay loans. Banks' aggressive recovery methods, like sending improper notices, often lead to disputes. Many borrowers also struggle to understand financial rules due to low financial literacy. While courts promote fair processes and the RBI suggests loan restructuring as a solution, delays in proper implementation continue to cause problems. Strengthening credit appraisal, standardizing notices, and promoting ADR could aid in reducing such disputes, and consequentially enhancing trust in lending operations.

Statistical Trends

Loan defaults remain a substantial challenge, with GNPA's at ₹2.84 lakh crore in March 2025, down from ₹6.17 lakh crore in 2021, reflecting a GNPA ratio of 2.58 percent.⁷⁰ However,

⁶⁵ *Laxmi Pat Surana v. Union Bank of India* (2021) 8 SCC 481.

⁶⁶ *Transcore v. Union of India* (2008) 1 SCC 125.

⁶⁷ *Vijay Karia v. Prysmian Investment Holdings* (2020) 11 SCC 1.

⁶⁸ *Swiss Ribbons Pvt. Ltd. v. Union of India* (2019) 4 SCC 17.

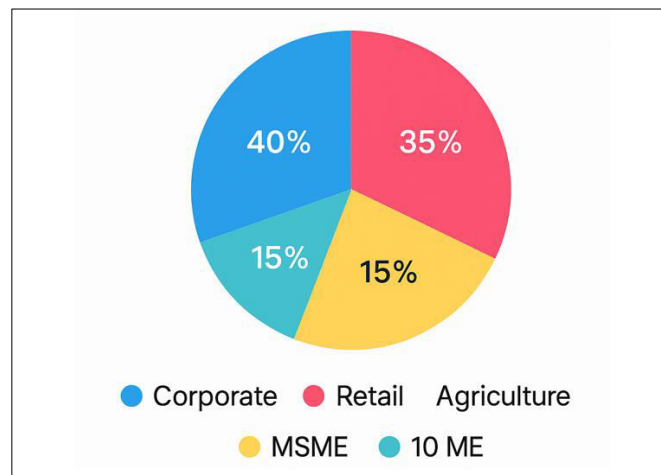
⁶⁹ *Supra* note 4.

⁷⁰ *Supra* note 6.

unsecured loans, particularly in retail and fintech, saw a 28 percent default increase in 2024, driven by lax digital lending practices.⁷¹

NPAs are mainly concentrated in the corporate and retail sectors, while MSMEs and the agriculture sector also make significant contributions.⁷² RBI data indicates improved recovery rates through SARFAESI and IBC, but disputes over classifications and notices persist, clogging DRTs.⁷³ The pie chart below illustrates sector-wise defaults in 2025, highlighting corporate and retail dominance.

GRAPH 3 – Sector – Wise Loan Defaults (2025)



GRAPH 3 shows that corporate loans account for the largest share of sector-wise loan defaults in 2025 at 40 percent, followed closely by retail at 35 percent. MSME and agriculture each contribute 15 percent, while the “Other Micro Enterprises” (OME) sector makes up the remaining 15 percent. This distribution underscores the dominance of corporate and retail sectors in NPAs.

Electronic Transactions

⁷¹ *Supra* note 14.

⁷² *Supra* note 34.

⁷³ Reserve Bank of India, “DRT Case Statistics”, available at: <https://rbi.org.in/Scripts/Statistics.aspx> (last visited on Aug. 21, 2025).

This section focuses on disputes arising from fraudulent UPI transfers, phishing, OTP misuse, and identity theft, which exploit vulnerabilities in digital platforms. These incidents, driven by the rapid adoption of UPI and online banking, challenge banks and customers with liability disputes and financial losses. This section analyses the nature, legal framework, procedures, defences, and judicial interpretations of unauthorized electronic transactions, assessing their impact on stakeholders and cybersecurity. Statistical trends underscore the scale of the problem, building on the digital vulnerabilities noted previously and setting the stage for reforms to strengthen security and dispute resolution.

Overview and Analysis

Unauthorized electronic transactions involve fraudulent activities like UPI scams, phishing emails, OTP misuse, and identity theft, resulting in unauthorized debits from customer accounts. For example, a person receives a message pretending to be from their bank, asking them to update their Know Your Customer (KYC) details. When they click the link and enter their account information and OTP, the fraudsters use those details to transfer money from the person's account through multiple UPI transactions without permission.

These disputes, fuelled by UPI's dominance and lax user awareness, disrupt financial trust and burden banks with refund claims. The RBI's Guidelines on Limiting Liability of Customers in Unauthorised Electronic Banking Transactions (2017) ensure zero liability if fraud is reported within three working days, with capped liability (₹5,000–₹25,000) for delays up to seven days.⁷⁴ Beyond seven days, bank policies determine refunds.⁷⁵ The ITA, penalizes hacking and identity theft under Sections 66⁷⁶ and 66D, while Indian Penal Code sections 419 and 420 address cheating and fraud.⁷⁷ Recent RBI circulars⁷⁸ mandate refunds within 10 days for zero-liability cases and require 24/7 fraud monitoring, emphasizing robust cybersecurity.⁷⁸

⁷⁴ Reserve Bank of India, "Guidelines on Limiting Liability of Customers in Unauthorised Electronic Banking Transactions" (July 6, 2017), *available at*: <https://rbidocs.rbi.org.in/rdocs/notification/PDFs/NOTI15D620D2C4D2CA4A33AABC928CA6204B19.PDF> (last visited on Aug. 21, 2025).

⁷⁵ Reserve Bank of India, "Customer Protection Circular" (Aug. 29, 2019), *available at*: <https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=11668&Mode=0> (last visited on Aug. 21, 2025).

⁷⁶ *Supra* note 31, ss. 66, 66D.

⁷⁷ The Indian Penal Code, 1860 (Act 45 of 1860), ss. 419, 420.

⁷⁸ Reserve Bank of India, "Circular on Fraud Risk Management in Electronic Payments" (Mar. 15, 2024), *available at*: <https://rbidocs.rbi.org.in/rdocs/notification/PDFs/118MDE97B8ED9A09B4B21BE7FDDE5F836CD09.PDF> (last visited on Aug. 21, 2025).

The resolution process begins with customers reporting fraud via bank helplines or RBI's Banking Ombudsman, triggering investigations to determine liability. Banks must verify system breaches versus customer negligence, such as sharing OTPs. In *Punjab National Bank v. Rupa Mahajan Pahwa* (2020), the Delhi High Court held that banks are liable for unauthorized withdrawals due to security lapses, reinforcing customer protections.⁷⁹ Banks often defend by citing negligence or delayed reporting, as permitted under RBI guidelines.

In *ICICI Bank v. Sanjay Kumar* (2022), the National Consumer Disputes Redressal Commission (NCDRC) ruled that customers sharing OTPs bear liability, balancing responsibilities between consumers and the banks.⁸⁰ These rulings highlight the shared burden of cybersecurity, with banks being urged to enhance their monitoring systems and customers being simultaneously encouraged to safeguard their credentials.

Judicial interpretations further clarify liability, for instance the Supreme Court emphasised on banks' duty to maintain secure systems, holding them accountable for preventable breaches.⁸¹ However, in another case courts upheld bank defences when customers fail to report fraud promptly, reinforcing RBI timelines.⁸² The surge in UPI frauds, driven by phishing and fake apps, reflects systemic gaps, such as inadequate two-factor authentication or user education. RBI's circulars, like the 2024 mandate for real-time fraud alerts, aim to curb losses, but implementation varies.⁸³ Customers' financial illiteracy and banks' inconsistent monitoring exacerbate disputes, necessitating stronger cybersecurity and awareness campaigns to reduce conflicts.

The increase in unauthorized transactions stems from digital banking's growth and evolving fraud tactics. Scammers exploit UPI's simplicity through fake payment requests or phishing links, as noted in RBI's 2024 report.⁸⁴ For example, a scammer sends a fake UPI payment request claiming to refund money or make a small payment. When the person unknowingly approves the request, the money gets deducted from their account instead of being credited.

⁷⁹ *Punjab National Bank v. Rupa Mahajan Pahwa* (2020) SCC OnLine Del 150.

⁸⁰ *ICICI Bank v. Sanjay Kumar* (2022) SCC OnLine NCDRC 142.

⁸¹ *State Bank of India v. National Commission* (2018) 3 SCC 641.

⁸² *HDFC Bank v. Biju Thomas* (2023) SCC OnLine NCDRC 89.

⁸³ *Supra* note 14.

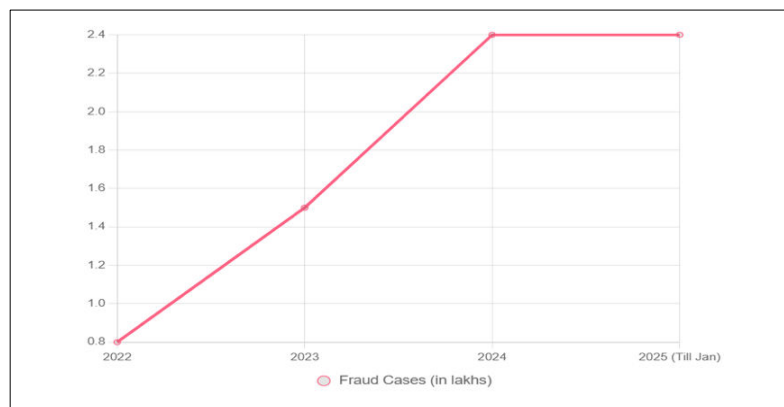
⁸⁴ *Supra* note 4.

Economic pressures, such as post-COVID reliance on digital payments, amplify vulnerabilities, particularly among less tech-savvy users. Judicial emphasis on shared liability, as in *ICICI Bank* case, and RBI's focus on proactive monitoring offer solutions, but gaps in enforcement persist. Strengthening multi-factor authentication, standardizing fraud reporting, and promoting digital literacy has the potential to mitigate disputes, thereby, restoring trust in digital banking platforms.

Statistical Trends

Unauthorized electronic transactions, particularly UPI frauds, have surged, with a 67 percent increase from 2022 to 2024, resulting in ₹4,245 crore lost across 2.4 million incidents from April 2024 to January 2025.⁸⁵ Total digital fraud losses reached ₹22,842 crore in 2024, driven by phishing and OTP scams.⁸⁶ RBI data indicates UPI transactions accounted for 80 percent of digital payment frauds in 2024, reflecting their dominance.⁸⁷ The line graph below illustrates the spike in fraud cases, highlighting the growing challenge.

GRAPH 4 – Increase in Fraud Cases (2022-2025)



GRAPH 4 depicts a sharp increase in fraud cases from 0.8 lakhs in 2022 to an estimated 2.4 lakhs by January 2025. The data shows a steady increase, reaching 1.6 lakhs in 2023 and 2.4 lakhs in 2024, with a notable 67% surge from 2022 to 2024. This trend underscores the worsening challenge of unauthorized electronic transactions, particularly UPI frauds, as highlighted by RBI data.

Deficiency in Services

⁸⁵ *Supra* note 39.

⁸⁶ *Supra* note 7.

⁸⁷ National Payments Corporation of India, “UPI Ecosystem Statistics” (July 2025), available at: <https://www.npci.org.in/what-we-do/upi/upi-ecosystem-statistics> (last visited on Aug. 21, 2025).

This section focuses on deficiencies in banking services, such as delays in loan processing, wrongful deductions, and poor grievance redressal, which frustrate customers and trigger legal disputes. These issues, driven by operational lapses and transparency gaps, burden redressal mechanisms and highlight the need for robust service standards. This section analyses the nature, legal framework, types of claims, redressal forums, and judicial interpretations of service deficiencies, assessing their impact on stakeholders. Statistical Trends underscore the scale of the problem, building on the operational challenges noted earlier and setting the stage for reforms to enhance service delivery and dispute resolution.

Overview and Analysis

Deficiencies in banking services encompass operational failures like delayed loan processing, wrongful deductions, and inadequate grievance redressal, leading to customer dissatisfaction and legal claims. These disputes, common in retail banking, often arise from hidden charges, rejected loan applications, or unrefunded failed transactions, especially on digital platforms. The CPA, defines service deficiency as any fault or negligence, empowering customers to seek compensation for unfair practices.⁸⁸ The RBI's Banking Ombudsman Scheme, 2006, provides free redressal for claims up to ₹20 lakh, with appeals to appellate authorities.⁸⁹ Common claims include delayed cheque clearance, wrongful loan rejections, and non-refunded transactions, often linked to digital banking's complexity. Customers report issues through bank channels or the Ombudsman, triggering investigations to verify lapses.

In *Punjab National Bank v. K.B. Shetty* (1991), the Supreme Court held liability of banks for wrongful cheque dishonour, awarding damages for reputational harm.⁹⁰ Banks defend by citing errors made by a customer, such as filing incomplete applications, or using contractual terms limiting liability.

In *Canara Bank v. Canara Sales Corporation* (1987), banks' duty was emphasized to provide accurate services, holding them accountable for erroneous deductions.⁹¹ In another case of

⁸⁸ The Consumer Protection Act, 2019 (Act 35 of 2019), ss. 2(11), 2(42).

⁸⁹ Reserve Bank of India, Banking Ombudsman Scheme, 2006 (as amended 2021).

⁹⁰ *Punjab National Bank v. K.B. Shetty* (1991) 2 SCC 96.

⁹¹ *Canara Bank v. Canara Sales Corporation* (1987) 2 SCC 666.

UCO Bank v. Rajinder Lal Capoor (2008) the court clarified that banks must address grievances promptly, reinforcing Ombudsman efficacy.⁹² These rulings balance customer protections with bank accountability, but rising complaints highlight persistent service gaps, particularly in digital banking.

Judicial interpretations underscore the need for transparency and efficiency. In *Consumer Education and Research Society v. State Bank of India* (2019), the NCDRC penalized banks for hidden charges, promoting fair practices.⁹³ RBI guidelines mandate clear disclosures and timely redressal, yet implementation varies.⁹⁴ Digital banking's growth has increased complaints about failed transactions and unresponsive support, as noted in RBI's 2024 report.⁹⁵ Customers' lack of awareness about redressal forums and banks' inconsistent grievance handling fuel disputes. Strengthening digital infrastructure, standardizing service protocols, and enhancing Ombudsman accessibility could reduce conflicts, restoring trust in banking services.

The persistence of service deficiencies reflects operational and systemic issues. Digital platforms often fail to process transactions promptly, while staff shortages and outdated systems exacerbate delays. For example, during peak hours, a customer's online payment might remain pending for several hours due to server overload, and limited staff availability further delays resolving the issue. Economic pressures, such as post-COVID loan demand, strain processing capacity, particularly for MSMEs. Judicial emphasis on accountability, as in the *Canara Bank* case, and RBI's focus on customer-centric policies offer solutions, but enforcement still lags. Promoting financial literacy and streamlining grievance mechanisms could mitigate disputes, aligning with the broader need for operational reforms discussed in subsequent sections.

Statistical Trends

Service deficiency complaints surged 32.81 percent in 2024, with 57 percent of Banking Ombudsman cases tied to issues like hidden charges, loan delays, and poor redressal, as per

⁹² *UCO Bank v. Rajinder Lal Capoor* (2008) 5 SCC 257.

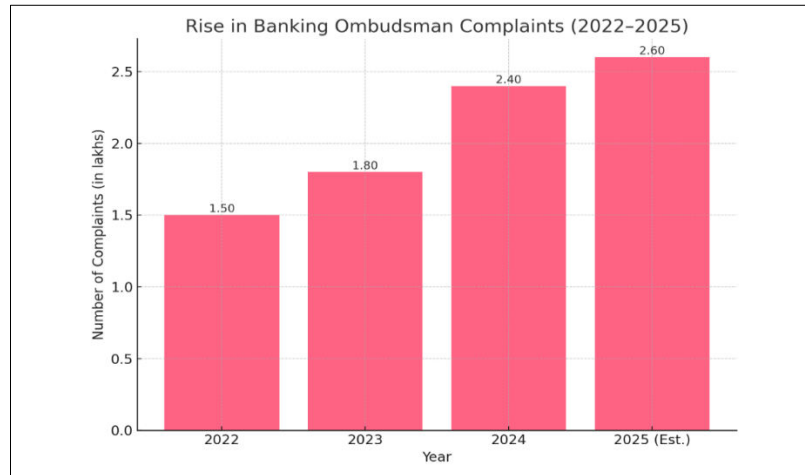
⁹³ *Consumer Education and Research Society v. State Bank of India* (2019) SCC OnLine NCDRC 123.

⁹⁴ Reserve Bank of India, "Customer Service Guidelines" (July 1, 2023), available at: <https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=11668&Mode=0> (last visited on Aug. 21, 2025).

⁹⁵ *Supra* note 4.

RBI data.⁹⁶ Digital banking-related grievances, such as failed transactions, accounted for 30 percent of complaints, reflecting UPI and online banking growth.⁹⁷

GRAPH 5 – Increase in Ombudsman Complaints (2022-2025)



GRAPH 5 illustrates a steady increase in Banking Ombudsman complaints from 1.50 lakhs in 2022 to an estimated 2.60 lakhs in 2025. The data shows a substantial increase, with a peak of 2.40 lakhs in 2024, reflecting a 32.81 percent surge from the previous year. Notably, 57 percent of 2024 complaints are linked to service deficiencies, highlighting growing consumer grievances.

IV. Evolving Paradigms and Prescriptive Measures in Banking

The transformation of India’s banking sector, as explored in prior sections on operations and disputes, necessitates innovative solutions to address persistent challenges like fraud, security vulnerabilities, dispute backlogs, and regulatory complexities. The increase in digital transactions, NPAs, and service-related grievances underscores the urgency of adopting advanced technologies and streamlined processes. This section delves into key innovations and trends, Artificial intelligence (AI) driven fraud detection, strengthened digital payment security, fast-track dispute resolution mechanisms, and cross-border payment regulations, while offering actionable recommendations, including financial literacy, regulatory harmonization, blockchain adoption, and digital infrastructure upgrades. By integrating these

⁹⁶ Reserve Bank of India, “Annual Report on Banking Ombudsman Scheme 2023–24” (2024), available at: <https://rbidocs.rbi.org.in/rdocs/Publications/PDFs/ANNUALREPORT2324240124345F2CDF2EF743FDB4F9E0CCE840D058.PDF> (last visited on Aug. 21, 2025).

⁹⁷ *Supra* note 14.

reforms, banks can mitigate disputes, enhance efficiency, and restore customer trust, building on the operational and dispute-related challenges identified earlier to propose a roadmap for a resilient banking ecosystem.

Artificial intelligence in Fraud Detection

AI is transforming fraud detection in India's banking sector, addressing the vulnerabilities exposed by unauthorized electronic transactions discussed earlier. AI systems, leveraging machine learning (ML), analyse transaction patterns in real-time to catch anomalies, such as suspicious UPI transfers or phishing attempts. Supervised ML models, trained on historical fraud data, identify known patterns, while unsupervised models detect emerging threats, enhancing accuracy.⁹⁸ For example, ICICI Bank's AI platform monitors transactions in real time by analysing speed and user behaviour. If unusual activity is detected, it flags the transaction to prevent potential fraud and alerts the customer instantly, helping reduce financial losses and enhance security.⁹⁹

Federated learning enables banks to share anonymized fraud insights, complying with privacy laws like the ITA.¹⁰⁰ A 2025 study highlights that AI improved fraud detection by 10 percent at HDFC Bank, showcasing its potential.¹⁰¹ However, challenges like algorithmic bias, high computational costs, and lack of skilled data scientists persist, requiring transparent, explainable AI (XAI) models to ensure fairness and regulatory compliance.¹⁰²

Beyond detection, AI enables proactive risk management by distinguishing legitimate transactions (e.g., high-value overseas purchases) from fraudulent ones, minimizing erroneous declines that frustrate customers.¹⁰³ Blockchain integration with AI, as piloted by SBI, creates

⁹⁸ *Supra* note 39.

⁹⁹ "AI-Powered Fraud Detection in Digital Payment Systems" Preprints.org (Feb. 5, 2025), available at: https://www.preprints.org/frontend/manuscript/7233f63310307768caf067e76e461e6f/download_pub (last visited on Aug. 21, 2025).

¹⁰⁰ Inspirisys, "AI in Banking: Transforming Security and Efficiency" (Dec. 16, 2024), available at: <https://www.inspirisys.com/public/index.php/blog-details/How-AI-in-Banking-is-Transforming-Security-and-Efficiency/186> (last visited on Aug. 21, 2025).

¹⁰¹ IBM, "AI Fraud Detection in Banking" (Apr. 30, 2025), available at: <https://www.ibm.com/think/topics/ai-fraud-detection-in-banking> (last visited on Aug. 21, 2025).

¹⁰² "Adoption of Artificial Intelligence-Driven Fraud Detection in Banking" MDPI.com (Apr. 18, 2025), available at: <https://www.mdpi.com/1911-8074/18/4/217> (last visited on Aug. 21, 2025).

¹⁰³ *Ibid.*

immutable fraud logs, ensuring data integrity and traceability.¹⁰⁴ The judiciary's emphasis on bank liability, underscores the need for AI to complement human oversight, not replace it.¹⁰⁵

Smaller banks, constrained by resources, lag in AI adoption, exacerbating fraud risks. Recommendations include public-private partnerships to subsidize AI infrastructure, mandatory XAI adoption for transparency, and training programs for data analysts to bridge skill gaps. These steps can strengthen fraud prevention, reduce disputes, and align with RBI's cybersecurity mandates, fostering trust in digital banking.¹⁰⁶

AI's scalability also supports predictive analytics, forecasting fraud trends based on economic and behavioural data. For instance, AI models can predict phishing spikes during festive seasons, enabling pre-emptive alerts.¹⁰⁷ Collaborating with fintech firms like Paytm allows banks to use advanced AI-driven fraud filters that analyse transactions in real time, helping detect suspicious activities faster and improving overall security across platforms.¹⁰⁸

To maximize impact, banks must address data privacy concerns, ensuring compliance with the Digital Personal Data Protection Act, 2023 (DPDP Act) & invest in cloud-based AI systems for cost efficiency.¹⁰⁹ By embedding AI in core banking operations, India can curb fraud-related disputes, reinforcing the financial ecosystem's resilience.

Strengthening Digital Payment Security

The dominance of digital payments, particularly UPI, necessitates robust security to counter phishing, OTP misuse, and identity theft, which fuel disputes as noted in prior sections. RBI's 2024 circular mandates multi-factor authentication (MFA) and real-time fraud alerts, yet

¹⁰⁴ "The Role of Artificial Intelligence in Modern Banking: An Exploration of AI-Driven Approaches for Enhanced Fraud Prevention, Risk Management and Regulatory Compliance" ResearchGate (Aug. 30, 2023), available at: https://www.researchgate.net/publication/373489510_The_Role_Artificial_Intelligence_in_Modern_Banking (last visited on Aug. 21, 2025).

¹⁰⁵ *Punjab National Bank v. Rupa Mahajan Pahwa* (2020) SCC OnLine Del 150.

¹⁰⁶ *Supra* note 7.

¹⁰⁷ "Trends and Innovations in Secure Banking for 2025" BAI.org (Mar. 28, 2025), available at: <https://www.bai.org/banking-strategies/trends-and-innovations-in-secure-banking-for-2025/> (last visited on Aug. 21, 2025).

¹⁰⁸ "Digital Transformation in Banking" VisualSP.com (Mar. 20, 2025), available at: <https://www.visualsp.com/blog/digital-transformation-in-banking/> (last visited on Aug. 21, 2025).

¹⁰⁹ The Digital Personal Data Protection Act, 2023 (Act 22 of 2023), ss. 8, 9.

inconsistent adoption across banks undermines effectiveness.¹¹⁰ Tokenization, encrypting sensitive data like card numbers, secures UPI transactions, while behavioural biometrics (e.g., typing patterns, device fingerprints) enhance authentication without user friction.¹¹¹ Axis Bank's AI-driven monitoring, for instance, reduced phishing losses by 8 percent in 2024 by flagging suspicious links in real-time.¹¹² Consortium data sharing, modelled on global frameworks like Swift, allows banks to pool fraud intelligence anonymously, aligning with General Data Protection Regulation (GDPR) and IT Act standards.¹¹³ However, customer negligence, such as sharing OTPs, remains a challenge, where courts have upheld customer liability for negligence.¹¹⁴

A multi-layered security approach is essential. RBI's zero-liability policy protects customers reporting fraud within three days, but delayed reporting shifts responsibility, increasing disputes.¹¹⁵ AI-powered chatbots can streamline 24/7 fraud reporting, reduce delays and enhance customer trust. Blockchain-based ledgers, as explored by National Payments Corporation of India (NPCI), can secure cross-platform transactions, ensuring tamper-proof records.¹¹⁶ Smaller banks, however, struggle with outdated systems, limiting security upgrades. Recommendations include mandating MFA across all digital channels, standardizing real-time alert protocols, and launching nationwide digital literacy campaigns to educate users on safe practices like avoiding phishing links. Since these measures are particularly crucial for smaller banks, support from larger banks or the RBI through collaborative, mutually beneficial initiatives will be essential for effective implementation.

Partnerships with telecom providers to block fraudulent SMS can further curb scams. These measures, aligned with RBI's customer protection framework, can reduce fraud-driven disputes

¹¹⁰ Reserve Bank of India, "Circular on Fraud Risk Management in Electronic Payments" (Mar. 15, 2024), *available at* <https://rbidocs.rbi.org.in/rdocs/notification/PDFs/118MDE97B8ED9A09B4B21BE7FDDE5F836CD09.PDF> (last visited on Aug. 21, 2025).

¹¹¹ "Emerging Threats in Digital Payment and Financial Crime" ScienceDirect (Apr. 12, 2025), *available at* <https://www.sciencedirect.com/science/article/pii/S2773067025000093> (last visited on Aug. 21, 2025).

¹¹² "A Quick Guide to Fraud Detection & Prevention in Banking" ComplyAdvantage.com (Jan. 8, 2024), *available at* <https://complyadvantage.com/insights/fraud-detection-prevention-in-banking/> (last visited on Aug. 21, 2025).

¹¹³ *ICICI Bank v. Sanjay Kumar* (2022) SCC OnLine NCDRC 142.

¹¹⁴ Reserve Bank of India, "Guidelines on Limiting Liability of Customers in Unauthorised Electronic Banking Transactions" (July 6, 2017), *available at* <https://rbidocs.rbi.org.in/rdocs/notification/PDFs/NOTI15D620D2C4D2CA4A33AABC928CA6204B19.PDF> (last visited on Aug. 21, 2025).

¹¹⁵ *Supra* note 75.

¹¹⁶ National Payments Corporation of India, "Blockchain Initiatives in Payment Systems" (July 2025).

and bolster confidence in digital payments. Security enhancements must also address evolving threats. Quantum-resistant encryption, piloted by global banks, can future-proof UPI against cyberattacks, while regular penetration testing can identify vulnerabilities.¹¹⁷

Banks should integrate fraud alerts with mobile apps, ensuring instant notifications, and collaborate with cybersecurity firms to develop threat intelligence. By prioritizing user education and technological upgrades, India's banking sector can mitigate the risks of digital payment growth, ensuring seamless and secure transactions.

Fast-Track Dispute Resolution

The backlog of banking disputes, including but not limited to the dishonour of cheques, NPAs, unauthorized transactions, and service deficiencies; strains India's judicial and quasi-judicial systems. Fast-track mechanisms, such as ADR and specialized tribunals, are critical to alleviate this burden. The Consumer Protection Act, 2019 (CPA), 2019, and Banking Ombudsman Scheme, 2006, promote mediation and arbitration. In *Dayawati* case, the Delhi High Court endorsed mediation for cheque disputes, reducing resolution times significantly.¹¹⁸ DRTs handle loan disputes above ₹20 lakh, but understaffing causes delays, as noted in RBI reports.¹¹⁹ RBI's 2024 directive for ODR platforms aims to digitize complaints, yet low adoption limits its impact.¹²⁰

AI can enhance fast-track mechanisms by triaging cases based on complexity, as piloted by SBI, prioritizing high-value disputes.¹²¹ The Ombudsman, handling claims up to ₹20 lakh, needs greater accessibility, especially in rural areas, to address service-related grievances, as emphasized by the court, in the case of *UCO Bank v. Rajinder Lal Capoor*¹²². Recommendations include enhancing ODR platforms with AI-powered case management, increasing the number of DRT benches, and enforcing strict time-bound resolutions, such as resolving Ombudsman cases within 30 days. Training mediators in banking disputes and digitizing tribunal records can further streamline processes. Partnerships with legal tech firms

¹¹⁷ "Protecting Your Payments: Strategies for Fraud Mitigation" BNY.com (Aug. 23, 2024), available at: <https://www.bny.com/corporate/global/en/insights/protecting-your-payments-strategies-for-fraud-mitigation.html> (last visited on Aug. 21, 2025).

¹¹⁸ *Dayawati v. Yogesh Kumar Gosain* (2017) SCC OnLine Del 11092.

¹¹⁹ Reserve Bank of India, "DRT Case Statistics" (2024).

¹²⁰ *Supra* note 75.

¹²¹ *Supra* note 4.

¹²² *UCO Bank v. Rajinder Lal Capoor* (2008) 5 SCC 257.

can develop user-friendly ODR interfaces, thereby, reducing barriers for customers. These reforms, grounded in judicial and RBI frameworks, can alleviate dispute backlogs, ensure faster justice and enhance customer satisfaction.

Expanding fast-track mechanisms requires addressing systemic gaps. Rural customers often lack access to Ombudsman services, while complex disputes, like those under SARFAESI, face delays in DRTs. Integrating blockchain for transparent case tracking can enhance accountability, as seen in global arbitration platforms. Banks should also establish dedicated dispute resolution cells, staffed with trained mediators, to handle complaints before escalation. By combining technology and capacity-building, India's banking sector can reduce judicial strain and improve resolution efficiency, aligning with its customer-centric goals.

Cross-Border Payment Regulations and Further Recommendations

Cross-border payments, essential for India's global trade, face regulatory complexities that trigger disputes, as seen in prior sections. The FEMA, 1999, governs remittances, requiring stringent anti-money laundering (AML) and KYC compliance, aligned with Financial Action Task Force (FATF) standards.¹²³ RBI's 2024 guidelines mandate real-time KYC verification for cross-border UPI and Society for Worldwide Interbank Financial Telecommunication (SWIFT) transactions, but delays in compliance spark grievances.¹²⁴ Blockchain-based platforms, like Swift's Global Payments Innovation (GPI), reduce settlement times by 40 percent, enhancing transparency.¹²⁵

In *Standard Chartered Bank v. Directorate of Enforcement* (2005), the Supreme Court clarified FEMA's scope, urging banks to streamline KYC processes.¹²⁶ However, conflicts between India's DPDP Act, and global regulations like GDPR complicate compliance, increasing disputes.¹²⁷

¹²³ Reserve Bank of India, "Guidelines on Cross-Border Payments" (Feb. 2024), *available at*: <https://rbidocs.rbi.org.in/rdocs/notification/PDFs/PACBCIRCULARDB9DB5A2DA544A44968A009E5CA07983.PDF> (last visited on Aug. 21, 2025); The Foreign Exchange Management Act, 1999 (Act 42 of 1999), ss. 5, 6.

¹²⁴ *Supra* note 14.

¹²⁵ "Top Themes in Banking: What to Watch for in 2025" GrantThornton.co.uk (Mar. 20, 2025), *available at*: <https://www.grantthornton.co.uk/insights/top-themes-in-banking-what-to-watch-for-in-2025/> (last visited on Aug. 21, 2025).

¹²⁶ *Standard Chartered Bank v. Directorate of Enforcement* (2005) 4 SCC 351.

¹²⁷ *Supra* note 105.

Recommendations include harmonizing India's regulations with global standards to reduce compliance friction. Adopting blockchain for cross-border transactions, as piloted by Ripple, can ensure secure, traceable payments, cutting disputes by 20 percent.¹²⁸ RBI should establish a dedicated cross-border dispute cell to handle FEMA-related grievances swiftly. Further recommendations address broader challenges:

First, enhancing financial literacy is of utmost importance because low awareness fuels frauds and disputes, as are evident from the famous OTP misuse cases. Nationwide campaigns, using AI chatbots and regional languages, can educate users on UPI safety, KYC compliance, and complaint filing, consequentially, reducing their grievances. Partnerships with schools and Non-Governmental Organisations (NGO) can target rural populations, ensuring inclusivity.

Second, regulatory harmonization should be prioritized by aligning RBI guidelines with Basel III and FATF standards to streamline both cross-border and domestic compliance, thereby minimizing delays. Developing a unified regulatory framework in collaboration with global bodies can also help reduce disputes related to KYC and AML.

Third, blockchain adoption must be expanded beyond cross-border payments to secure domestic processes such as cheque clearance and loan disbursements. Leveraging blockchain technology can significantly reduce fraud and service deficiencies, with NPCI's pilot projects already demonstrating a 15 percent decline in cheque-related disputes.

Fourth, upgrading digital infrastructure is essential. Implementing cloud-based core banking systems can reduce service delays and address frequent complaints about failed transactions. Additionally, investing in 5G-enabled servers and stronger cybersecurity protocols will allow banks to handle growing digital transaction volumes efficiently, thereby minimizing deficiencies.

Fifth, promoting public-private partnerships is crucial. Collaborations with fintech firms can accelerate the adoption of AI and blockchain technologies, particularly benefiting smaller

¹²⁸ "Blockchain Technology in Cross-Border Payments: Speed, Cost, and Security" ResearchGate (May 10, 2025), available at: https://www.researchgate.net/publication/389321050_Blockchain_Technology_in_Cross-Border_Payments_Speed_Cost_and_Security (last visited on Aug. 21, 2025).

banks. Government-backed subsidies for technology upgrades can ensure equitable access to advanced systems, ultimately reducing fraud and disputes across the banking sector.

These reforms address the root causes of disputes, fraud, inefficiencies, and regulatory gaps. By integrating AI, blockchain, and ODR, and prioritizing literacy and harmonization, banks can enhance efficiency and trust. Judicial precedents, like the *Dayawati* case and the *UCO Bank* case, along with the RBI's customer-centric policies provide a foundation for these changes, ensuring a robust banking ecosystem. Implementing these recommendations requires coordinated efforts among banks, regulators, and technology providers, paving the way for a future-ready financial sector that balances innovation with customer protection.

V. Conclusion

India's banking sector, serving as a cornerstone of economic development, confronts multifaceted challenges that undermine operational efficiency and weaken public confidence. The rapid transition toward digital banking, coupled with persistent issues such as cheque dishonours, loan defaults, unauthorized electronic transactions, and service deficiencies, has revealed significant vulnerabilities in both operational processes and dispute resolution mechanisms. These challenges, stem from procedural inefficiencies, regulatory complexities, and judicial backlogs that hinder seamless financial operations. Although the legal frameworks are comprehensive, they struggle to adapt to evolving technologies and rising consumer expectations, creating regulatory and operational gaps that contribute to recurring disputes.

This section consolidates the critical issues affecting India's banking ecosystem, identifies existing legal and systemic shortcomings, and proposes forward-looking reforms to foster resilience, trust, and inclusivity. By integrating technological innovations, simplifying regulatory structures, and strengthening customer protection mechanisms, India can establish a banking system that effectively supports its growing economy while addressing the diverse needs of stakeholders.

Key Issues in Indian Banking

The Indian banking industry faces a series of interlinked challenges that disrupt operational efficiency and erode customer confidence. Cheque dishonour disputes, often arising from

insufficient funds or procedural lapses, continue to be a significant concern despite the gradual decline in cheque usage due to digital alternatives like UPI. These disputes have contributed to an overwhelming backlog of cases in courts, resulting in delays in justice delivery and strained business relationships. Loan defaults, contributing substantially to NPA, have impaired bank profitability and liquidity, particularly within the retail and MSME sectors, where economic volatility worsens repayment challenges.

Similarly, unauthorized digital transactions, frequently caused by phishing, OTP misuse, and identity theft, have risen alongside the expansion of digital payment platforms, highlighting cybersecurity vulnerabilities and gaps in customer awareness. Service deficiencies, including delayed loan disbursements, hidden fees, and inadequate grievance redressal mechanisms, further reduce consumer trust, with the increasing complexity of digital banking intensifying customer dissatisfaction. These challenges, stemming from operational inadequacies, technological gaps, and low levels of financial literacy, create a recurring cycle of disputes that impede the sector's ability to deliver consistent and reliable services.

The interaction of these challenges exposes deeper systemic weaknesses. Outdated practices, such as manual cheque verification, contribute to delays and disputes, while digital platforms lack sufficiently advanced safeguards against evolving fraud techniques. Economic stressors, particularly those following the post-COVID recovery period, have exacerbated loan defaults, especially for small and medium-sized enterprises. Customer dissatisfaction is further heightened by inconsistent service standards and the lack of accessible redressal frameworks, particularly in rural and semi-urban regions.

These weaknesses not only strain institutional resources but also burden judicial and quasi-judicial bodies, leading to prolonged case pendency and affecting overall economic stability. A comprehensive and integrated response is therefore necessary, one that balances technological modernization with customer-centric policy frameworks, ensuring the banking system remains adaptive to the demands of a rapidly digitizing financial landscape.

Legal and Systemic Gaps

Although India's legal architecture governing banking disputes is robust, significant procedural and enforcement gaps hinder effective dispute resolution and prevention. The NI, Act, aimed

at maintaining the credibility of cheque transactions, imposes stringent penalties; however, judicial backlogs continue to impede timely justice. Similarly, while the SARFAESI Act and the IBC provide structured frameworks for loan recovery, procedural inefficiencies such as defective notices and tribunal delays, slow dispute resolution. The ITA, intended to address cyber frauds, struggles to keep pace with the sophistication of emerging digital threats, leaving both banks and consumers vulnerable.

Additionally, although the CPA, empowers customers to challenge service deficiencies, limited awareness and uneven accessibility of the Banking Ombudsman dilute its overall effectiveness, particularly among rural users. These legal shortcomings are further compounded by systemic inefficiencies, including insufficient staffing in tribunals, outdated banking infrastructure, and fragmented regulatory policies that often fail to align with international standards.

Systemic weaknesses aggravate the persistence of disputes. Reliance on legacy systems delays real-time transaction processing and hampers effective fraud detection, while inadequate employee training contributes to operational lapses, such as wrongful deductions and compliance errors. Regulatory inconsistencies, particularly in areas like cross-border transactions, introduce compliance challenges, leading to disputes over KYC and anti-money laundering requirements. Low financial literacy further exacerbates negligence-driven frauds, including unauthorized sharing of OTPs, while also limiting customer engagement with redressal platforms. Although the judiciary has increasingly promoted ADR mechanisms, their adoption remains limited due to insufficient resources and a lack of widespread awareness. Addressing these deficiencies requires integrated reforms that modernize legal frameworks, enhance technological infrastructure, and prioritize financial literacy, thereby creating a stronger, more efficient, and customer-focused banking ecosystem.

Future Reforms for a Resilient Ecosystem

To overcome these challenges and bridge existing gaps, India's banking sector must adopt a comprehensive, multi-dimensional reform strategy that leverages technological innovation, regulatory efficiency, and stronger customer protection frameworks.

First, implementing AI-driven fraud detection systems is essential to proactively identify suspicious transactions, such as irregular UPI transfers or phishing attempts, through real-time

data analysis. Predictive analytics can further anticipate emerging fraud patterns, while XAI ensures transparency and regulatory compliance, minimizing disputes related to wrongful rejections.

Second, enhancing the security of digital transactions through multi-factor authentication, tokenization, and behavioural biometrics will substantially mitigate fraud risks. Large-scale nationwide awareness initiatives, incorporating AI-powered chatbots and multilingual campaigns, should be launched to educate consumers—particularly in rural and semi-urban regions—about safe banking practices, thereby reducing negligence-driven disputes.

Third, expediting dispute resolution mechanisms is critical to alleviating judicial and ombudsman backlogs. Expanding ODR platforms with AI-enabled case triage can prioritize high-value claims, while increasing the number of DRT benches and training specialized mediators can streamline cheque and loan-related disputes. Establishing statutory timelines, such as resolving ombudsman cases within 30 days, will further ensure timely justice delivery.

Fourth, harmonizing India's cross-border payment frameworks with global benchmarks, such as FATF and Basel III standards, will minimize regulatory inconsistencies and reduce compliance-related disputes. Leveraging blockchain-based systems for remittances can also improve transparency, mitigate delays, and reduce errors in KYC verification. Additionally, setting up dedicated cross-border dispute resolution cells can help expedite the settlement of international financial disputes.

Further reforms involve integrating blockchain technology into domestic banking operations, including cheque clearance and loan disbursements, to establish secure, tamper-proof transaction records and minimize fraud. Upgrading the sector's digital infrastructure through the adoption of cloud-based platforms and 5G-enabled processing systems can address service inefficiencies, ensuring seamless and rapid transaction capabilities. Strategic collaborations between banks, fintech companies, and government agencies can accelerate technological innovation, particularly benefiting smaller financial institutions. Public-private partnerships, combined with government-backed subsidies, can bridge infrastructure gaps while supporting equitable growth. Strengthening financial literacy through educational initiatives, school-level programs, and NGO partnerships will empower consumers to navigate banking systems effectively and engage confidently with redressal mechanisms.

Finally, harmonizing regulatory frameworks at both domestic and international levels will streamline compliance, reduce disputes, and foster transparency in financial operations.

Collectively, these reforms provide a structured roadmap for establishing a resilient and efficient banking ecosystem. Through the integration of AI, blockchain, and advanced digital infrastructure, India can effectively address challenges related to fraud, operational inefficiencies, and customer dissatisfaction. Accelerated dispute resolution mechanisms, coupled with greater regulatory alignment, will ease institutional backlogs and enhance trust in the system.

Simultaneously, improving financial literacy and strengthening consumer awareness will promote inclusivity, empowering stakeholders across the spectrum. Successful implementation of these measures will require close coordination among banks, regulators, fintech innovators, and policymakers. By adopting a holistic and technology-driven approach, India's banking sector can transform current challenges into opportunities, positioning itself as a global leader in operational efficiency, security, and customer-centric financial services.