Indian Economy · GS - III

Examine the need for regulatory and judicial intervention to strengthen banks' accountability in digital financial frauds. How can India balance customer protection with the growth of digital banking?

EXAM YEAR	PAPER	SUBJECT
DAILY PRACTICE 30/10/2026	GS - III	Indian Economy

MARKS	WORD LIMIT
10	~150 words

Answer Hint

Digital financial inclusion; RBI regulatory framework; banking due diligence; unauthorised transactions; consumer protection; cybersecurity; judicial oversight; compensation mechanism; financial literacy

Model Answer

Introduction

The rapid expansion of digital banking has increased financial inclusion but also exposed customers to sophisticated cyber frauds, including digital arrest scams. Recent Supreme Court proceedings have highlighted the need for stronger institutional accountability.

Need for Intervention

- **Bank accountability:** Financial institutions must monitor unusual transactions and maintain effective fraud-detection systems.

- **Compensation:** The Court has emphasised that victims should receive compensation where fraud results from a bank's failure to exercise due diligence.
- **Preventive safeguards:** Temporary suspension of suspicious transactions, automated reporting and verification can prevent irreversible financial losses.
- **Regulatory oversight:** RBI's proposed KYC Amendment Directions, 2026, are expected to strengthen safeguards and institutional responsibilities.

Challenges

Rapid digital transactions, mule accounts, identity theft and limited customer awareness complicate fraud prevention and recovery.

Way Forward

India should strengthen real-time monitoring, inter-bank information sharing, cybercrime investigation, grievance redressal and financial literacy. Compensation rules should clearly define institutional liability and customer responsibilities.

Conclusion

A secure digital banking ecosystem requires both technological safeguards and enforceable accountability. Protecting customers will strengthen public confidence in India's digital economy.

BECOME IAS
AI POWERED UPSC PREP