

Inequality in Banks

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ABSTRACT

This research paper delves into the challenges people, regardless of their age, face when dealing with money, especially in the context of banks where financial security should be paramount. Money plays a critical role in today's economy as a medium of exchange, unit of account, and store of value, impacting financial planning and security. However, the shift towards online banking has resulted in various errors, financial losses, and data breaches due to user inexperience. The paper suggests that allowing traditional banking as a secondary option could prevent these issues. Traditional banking, with its physical branches and face-to-face interactions, offers benefits such as in-person services, enhanced financial security, and reliable access to loans, making it a preferable choice for many. The research paper aims to shed light on the persistent issues surrounding net banking, or alternatively, the idea of internet banking in general. This may manifest as the person making irrevocable errors or as dishonest behaviour on the part of other parties. Reversal mechanisms, which need to be in place from the beginning, are missing, particularly when it comes to financial matters. When all of the foregoing is fully understood, most consumers would naturally choose a traditional banking option. To save time and money on operating expenses, the banks do not offer this option. The price for this is higher customer service. The larger picture is realising the benefits of traditional banking and banks providing more accessible options to the public rather than restricting them to net banking alone, which leads to issues. Due to the possibility of further issues down the road, these issues are typically experienced by members of the lower middle class who lack access to online banking services and are not technologically aware.

KEYWORDS: Traditional banking, Net banking, RBI annual report, modern economy, financial security, Loans

INTRODUCTION

The research paper at hand extensively talks about the problems people face, who may be old or young when dealing with money which is the most important of value especially at banks where there should not exist any problems. In today's world, money is crucial for a number of compelling reasons.

First of all, money is the engine that drives our economy. It acts as a means of exchange, making the interchange of goods and services easier. Without money, barter would be the dominant system, making transactions time-consuming and ineffective.

Second, money serves as a unit of account and a measure of value. It keeps track of our financial activities and enables us to compare the prices of various goods and services. For economic planning and decision-making, the capacity to measure value is crucial. Money also serves as a store of value. People can use it to save money and build up their wealth over time. This money can be utilised to fund retirement, unexpected expenses, and future investments, providing for financial security.

Now with highlighting the importance of money in today's society, we can dive into how large amounts of hard earned money is being lost at a place where money is supposed to be kept safe and hassle free. In other words, banks are such places.

Some banks have absolutely made it mandatory to go a complete online route or in other words, only a net banking platform is encouraged. This led to numerous people losing their money at the cost of simple human errors. With the mode of online banking which is obviously not well-versed with the common people, errors being made are bound to happen and it eventually did. People often transferred the wrong amount of money, or even if they transferred, it all went to the inappropriate person, personal information was unnecessarily being leaked which led to more banking frauds and it also comes to a point where some people are fed up with the whole banking system that they don't use it anymore. All these mistakes can easily be prevented if the banks allow the traditional mode of banking to the common people as a secondary option. There have been countless cases where flaws like this have occurred which resulted in the matters furthered onto courts to settle the disputes. In most of these cases, the banks have won the disputes as it was the individual who let out certain information leak or it was at the cost of the individual's negligence that the mistake had happened. So much so, mistakes like this are governed under the Information Technology Act Of 2000. When dealing with money, the presence of reversal systems in place especially with net banking are crucial in the first place but are unfortunately absent.

What is the **Traditional form of banking**?

Although banking began around 2000 BC, the classic brick and mortar banks have been around since the 1900s, when a better method of safeguarding money and preserving wealth became necessary. The majority of banks use this type of banking. Physical venues where customers can receive financial services and face-to-face interactions with staff members define traditional banking. Having a registered office and a stringent government license to conduct business in the state or nation. The large commercial banks, micro-finance institutions, credit unions, etc. all provide this sort of banking.

The following are reasons why people tend to prefer traditional form of banking instead of net banking –

Visits in Person: For those who are wary of online transactions, traditional banks are the go-to source. In-person visits are available with traditional banking throughout their set business hours. You can go there to do a variety of financial transactions, such as opening an account, making cash deposits and withdrawals, using an ATM, sending money overseas, and more. Additionally, you have access to a safe deposit box where you can save your most priceless belongings. Customers will have a better overall experience and the chance for face-to-face engagement and conversation, which lowers the risk of fraud and identity theft.

Financial Security: Regardless of whatever losses the bank may incur, you can always be guaranteed that your money is insured and safe when you use traditional banking. Additionally, there is little to no concern about hackers, imposters, and other security risks when it comes to your money or account information. Providing you take the appropriate safety measures.

Access to Loans: Traditional banks have a long history of lending money and adhere to stringent guidelines regarding interest rates and payback terms to make sure you get a fair deal and are not exploited.

Unlike the recent events involving loan sharks who pose as online lending companies to take advantage of individuals by offering them high-interest loans with absurd payment terms¹.

Now let us equate this to **Weber's Theory of Inequality and Stratification**. This theory states that struggle and conflict are the biggest factors of inequality. Even in the absence of class-based exploitation, conflict and power struggles will persist in other important domains. The idea of inequality and stratification can be viewed as obsolete but nevertheless holds true in today's late capitalism society².

When we apply this theory, we clearly see there is inequality present. This is because only certain sections of the society get access to features of that organisation. Legal technology in the banking sector has been made mandatory and the option to take up more of a traditional form of banking has been made redundant. Online banking leads to a variety of scams and mistakes. It also leads to identity theft. Also only the privileged and the educated part of the society have access to the net banking option.

The traditional form of banking has many benefits especially with regards to the lower middle class and the section of people not wanting an online form of banking. When banks make it mandatory, there leaves no room for choice. This is exactly what Weber talks about. People end up travelling a lot more just to reach a local branch of a bank to open a bank account. This might be as big of a problem from the outside but the more you dig into the problem, the more flaws you find.

Weber's theory of inequality and stratification completely brought a new perspective into play. It contributed to the research on areas such as exploitation, struggle and conflict and it is because of these key areas, the problems related to legal technology can clearly be pointed out and also sought out in the long run.

OBJECTIVE

The objective of the Research paper is to bring to light the ongoing problems of net banking or in other words, the concept of online banking as a whole. This can be in the form of fraudulent behaviour by other parties or the party themselves committing irreversible mistakes. There is an absence of reversal systems which should exist in the first place especially dealing with money.

When the above is thoroughly understood, people would generally assume to opt for a traditional form of banking. However this option is not made available by the banks in order to save operational costs and time. This comes at the cost of the customer service.

The bigger picture is to recognise the pros of traditional banking and banks making options like these more accessible to the general public and not limiting them to net banking only as this causes problems. These problems are commonly faced by the lower middle class part of the society that do not have access to online banking features as well as that part of society who are not well versed with technology as this could lead to more problems later on.

There have been various counts of banks lacking a form of traditional banking system that led to numerous people having to travel more distances in order to find a local branch that offers these services and most of the times people don't participate in banking related activities as they do not have any option left.

¹ Joel D. Wisner and William J. Corney, Comparing practices for capturing bank customer feedback internet vs traditional banking, *Benchmarking: An International Journal*, Emerald, 2001

² Reinhard Bendix, *Inequality and Social Structure: A Comparison of Marx and Weber*, *American Sociological Review*, Vol. 39, No. 2, pp. 149-161 (13 pages), 1974

METHODOLOGY

This research mainly involves a doctrinal mode of research. This is mainly compiled with qualitative as well as quantitative mode of data subjected with content analysis. Now to understand the above methodologies, let us begin with the doctrinal mode of research. In legal and academic research, especially in the area of law, the doctrinal mode of study is a methodology that is frequently utilised. The study of legal concepts, rules, and principles as they are articulated in statutes, rules, case law, and legal commentary is its main focus. In order to comprehend and elucidate the legal framework and guiding principles that regulate a certain area of law, this technique of research entails a methodical investigation and interpretation of already-existing legal documents and sources.

Key characteristics of the doctrinal mode of research include Legal Sources, Analysis of Legal Texts, Legal Doctrine, Legal Precedent, Normative Analysis and Limited Empirical Data

We can extensively see the use of doctrinal research with the upcoming use of provisions mentioned under the Information Technology Act of 2000.

- **Section 43 and section 66** penalises activities such as data theft and hacking into a computer
- **Section 66 C** prescribes punishment for identity theft
- **Section 43 (h)** penalises an individual who charges the services availed by a person to the account of another person by tampering or manipulating a computer system.
- **Section 65** prescribes punishment for tampering with computer source documents knowingly or intentionally conceals, destroys or alters or causes another to conceal, destroy or alter any computer source code shall be punishable with imprisonment of at-least three years or with a fine.
- **Section 75** grants universal jurisdiction for offences committed by a person not authorised to do so, who attacks the computer system under operations in banks in India by hacking either by operating within India or outside India because the internet has no boundaries.
- **Section 67 C** requires an intermediary to preserve and retain information. Any intermediary that contravenes this requirement shall be punished with imprisonment for a term that may extend to 3 years.

There are also various **case laws and precedents** that have been used which we can look into the discussion and analysis part of the paper.

Some of them are as follows -

- COL DEVESH CHATURVEDI V PUNJAB NATIONAL BANK
- ABHINAV SHRIVASTAVA V ICICI BANK
- NISHA M V STATE BANK OF INDIA
- VIKAS BHASKER V CANARA BANK

Qualitative Research on the other hand focuses on a variety of methodologies and takes an interpretive, naturalistic approach to its subject. This implies that qualitative researchers investigate phenomena in their natural environments while attempting to explain phenomena in terms of the meanings that individuals assign to them. A variety of empirical materials, including case studies, personal experiences, introspective, life stories, interviews, observational, historical, interactive, and visual texts, that describe common and troubling events and meanings in people's lives are studied in qualitative research.

Information about banks and them having an only net banking option with the absence of traditional banking systems is purely based on this type of research. Historical instances where people have faced problems like this and the solutions to this also come under this type of research.

Quantitative Research deals with The process of gathering and interpreting numerical data is known as quantitative research. It can be used to identify trends and averages, formulate hypotheses, examine causality, and extrapolate findings to larger populations. The antithesis of qualitative research, which entails gathering and evaluating non-numerical data (such as text, video, or audio), is quantitative research. In the natural and social sciences, quantitative research is frequently used.

RESULT

The result of the study directly involves how banks do not support the traditional mode of banking. This results in net banking to be used which causes a variety of problems from scams and frauds or even large human errors to be made when dealing with one of the most predominant monetary currency that is money which is equally important to everyone.

The survey included 483 respondents. The influence of age, gender, income, marital status, education, career, comfort level with computers, and prior online purchasing experience on the likelihood of people utilising internet banking was assessed using logistic regression. According to the findings, those aged 56 to 65 were less likely to use internet banking than those aged 18 to 25.

Male respondents were more likely than female respondents to adopt internet banking. People who are married are less likely to use internet banking than people who are single. With rising income levels, internet banking adoption became more likely. Compared to respondents with only a primary or secondary education, respondents with master's or PhD degrees were more likely to use internet banking. Internet banking adoption was more likely to occur among respondents with a history of online shopping and high computer comfort. Compared to banking professionals, sole proprietors, employees of the public and private sectors, and students were less likely to use internet banking³.

According to the **RBI annual report 2022–23**, banks experienced the highest number of frauds in the digital payment category during the fiscal year that concluded in 2023–24. There were 13,530 fraud cases overall in the banking industry in FY2023. A little under 49% of these, or 6,659 cases, involved online or digital payments. Bank loan portfolios saw the largest number of fraud charges during the past two years. The sum involved in all scams reported during FY2023 decreased by 49% compared to FY2022.

In the preceding year, banks recorded frauds mostly in the advances area, totalling Rs 28,792 crore. Fraud in the area of digital payments cost a total of Rs 276 crore in FY23. In spite of the fact that private sector banks reported the most fraud incidents over the past three years, public sector banks remained to contribute the most to the total amount of fraud throughout the years 2022–2033. The research stated that while minor value card/internet frauds made up the majority of the frauds recorded by private sector banks, loan portfolio fraud predominated in public sector banks.

A large amount of time passes between the date a fraud occurs and the time it is discovered, according to a review of the vintage of frauds recorded in 2021–22 and 2022–23. In terms of value, the amount involved

³ Berna_Serener, Statistical Analysis of Internet Banking Usage with Logistic Regression, Elsevier vol 102, 2016

in frauds that happened in prior fiscal years made up 93.7% of the frauds reported in 2021–22. In a similar vein, by value, 94.5% of frauds reported in 2022–23 occurred in prior fiscal years⁴.

The RBI advised lenders to exercise proper due diligence and confirm the involvement (with credible proof/evidence) before including or adding names of the non-whole time director in the FMR/CRILC (Central Repository of Information on Large Credits) while reporting fraud or an uncooperative borrower in order to increase the data reliability in Fraud Monitoring Returns (FMR) submitted by banks⁵.

Now let us dive into respective case laws and analyse them with the above context

● **COL DEVESH CHATURVEDI V PUNJAB NATIONAL BANK⁶**

Facts

The plaintiff retired from the Indian army from the post of Lt. Col. His pension was credited to his respective account number with Punjab national bank. while checking his pension account, he found out there is a credit balance of only ₹80 instead of ₹500000. The complainant informed the bank through an email and also made a personal visit to the bank. He later found out that this amount was further transferred to two other entities that led to the filing of an FIR. The bank filed a written statement before the district commission under section 66 of the information technology act of 2000. It is said that the account holder has failed in adhering secrecy for his passwords and hence the banks are not liable.

Reasoning

After thoughtful consideration, Devesh Chaturvedi the plaintiff gave no confirmation that all his transactions go through an online platform or an online mode and that the bank themselves allotted the plaintiff an online form of banking.

Decision

For the forgoing reasons, the bank is not responsible for transactions made in internet banking. As the password was shared and the security guidelines were breached, the appeal was dismissed as it was devoid of any merit and does not suffer from any illegality.

● **ABHINAV SHRIVASTAVA V ICICI BANK⁷**

Facts

The complainant is an account holder in the ICICI bank. He issued a cheque for ₹10000 which was not honoured by the bank and the enquiry thereafter revealed that through Internet banking a sum of ₹91,850 had been withdrawn by some other account holder

Reasoning

As per bank when an account is opened as a package, Internet banking facility is also provided. It was on record that someone called on the telephone and got their passwords and internet banking ID. Under these circumstances, the complainant is responsible for leaking out important and secretive information.

Judgment

Since there was explicitly no deficiency or unfair trade practices that can be officially attributed to the

⁴ Subramanian Revathi, Bank Fraud, Proquest, pp 3-8, 2014

⁵ Subramanian Revathi, Bank Fraud, Proquest, pp 21-34 chapter 1, 2014

⁶ COL DEVESH CHATURVEDI V PUNJAB NATIONAL BANK, State Consumer Disputes Redressal Commission, Uttarakhand Dehradun, 2013

⁷ ABHINAV SHRIVASTAVA V ICICI BANK, M.P state consumer disputes redressal commission, Bhopal, 2011

bank, the case has been rightly dismissed by the district forum.

- **NISHA M V STATE BANK OF INDIA**⁸

Facts

The petitioner states that she is a partner of M/S Mongam Indane Services. She is the distributor of LPG. When depositing large amounts of money, the respondent has a criminal background. The petitioner found that the respondent had committed gross irregularities and misappropriated funds. The bank stopped the internet Banking facilities of the current account of the partnership firm. An amount of rupees 20 lakhs was supposed to be credited but this would not take place.

Reasoning

The learned counsel relied on the judgement Ganesh Chandra Mukherji V Gopal Chandra Hazra (AIR 1976 cal 459) to contend as per section 33 of the Partnership Act

Section 33 of the act - A partner may not be expelled from a firm by any majority of the partners, save in the exercise in good faith of powers conferred by contract between the partners.

Judgment

In these circumstances, this court finds that the writ petition filed by the petitioners is misconceived and no relief can be granted to the petitioners in exercise of the jurisdiction of this court under Article 226 of the Constitution of India. The writ petition is therefore dismissed.

- **VIKAS BHASKER V CANARA BANK**⁹

Facts

The appellant filed an application dated 17/08/21 under the Rights to Information Act of 2005 before the CPIO or the Central Public Information Officer seeking aforesaid information. The CPIO vide letter dated 16/09/21 replied to the appellant. Aggrieved by this, the appellant filed the first appeal dated 18/09/21. This was dismissed. Later, a second appeal was filed.

Reasoning

The appellant remained absent and on behalf of the respondent attended hearing through a video conference. The respondent while defending their case inter alia submitted that they had provided information.

Judgment

The commission after advertising to the facts and circumstances of the cases, hearing The respondent observed that a due reply was given by the respondent. Moreover the appellant neither filed by any written objection nor presented himself before the Commission to controvert the averments made by the respondent and further agitate the matter. Accordingly, the appeal is dismissed.

ANALYSIS

The relevant study paper emphasises the substantial obstacles people encounter when handling money, particularly in the banking industry where people should place a high priority on financial security. The modern economy depends on money to function because it makes transactions easier, allows people to store and secure their wealth, and measures worth. However, the shift to internet banking has resulted in

⁸ NISHA M V STATE BANK OF INDIA, High Court Of Kerala At Ernakulam, 2021

⁹ VIKAS BHASKER V CANARA BANK, Central information commission, 2021

a number of problems, mainly from user inexperience, such as frauds, scams, and significant financial blunders. The study suggests that one way to lessen these issues could be to permit traditional banking as a backup option. Many people prefer traditional banking because it provides a number of benefits like in-person services, improved financial security, and dependable access to loans. Traditional banking is defined by physical branches and face-to-face interactions.

The following survey, with 483 participants, sheds light on the various aspects that influence people's inclination to use internet banking, such as age, gender, income, marital status, education, career, computer literacy, and prior online buying experience. The findings show some interesting patterns that highlight the significance of age: older individuals are less likely than younger ones to use online banking. Men are more likely than women to use internet banking, indicating more gender differences. The adoption of online banking is impacted differently by marital status, income, and education. Interestingly, individuals who are more computer literate and have higher educational backgrounds are more likely to use internet banking, underscoring the importance of digital literacy in this situation.

The study also explores the concerning problem of fraud in the banking sector. The category of digital payments saw the most fraud incidents in the fiscal year 2023, according to the RBI annual report for 2022–2023. This emphasises how susceptible internet financial transactions are to fraud. It is noteworthy that public sector banks made a substantial contribution to the overall amount of fraud, even though private sector banks reported the greatest number of fraud instances. According to the survey, public sector banks were more vulnerable to loan portfolio frauds, whilst private sector banks were more likely to experience minor value card and online frauds.

The research also reveals a troubling delay between the occurrence and discovery of frauds, indicating that many of these fraudulent acts remain undiscovered for a long time. There may be serious repercussions from this delay in identification, including significant monetary losses and harm to the reputation of the banking sector. The RBI's advice to perform appropriate due diligence and get reliable proof before reporting fraud or uncooperative borrowers is a crucial step in enhancing the accuracy of the data in the Fraud Monitoring Returns (FMR) that banks file. The study concludes with a thorough examination of the difficulties facing the contemporary banking industry, highlighting the necessity of striking a balance between traditional and online banking options, digital literacy, and improved fraud prevention methods.

Also in the above mentioned case laws, the judgement or in other words the decision of the courts have been rightfully dismissed indicating it was the fault of the consumers and not of the banks. The lack of accountability and transparency by the banks speaks enormous volumes about the banks themselves.

CONCLUSION

In summary, this research paper underscores the substantial challenges individuals face when managing their finances, particularly within the banking sector where ensuring financial security is paramount. Money holds a pivotal role in the modern economy, facilitating transactions, preserving wealth, and measuring value. However, the shift towards online banking has introduced a series of issues arising from user inexperience, including fraud, scams, and significant financial errors. The study proposes the inclusion of traditional banking as a secondary option to address these problems, highlighting the advantages it offers, such as in-person services, enhanced financial security, and reliable access to loans. The survey findings shed light on the various factors that influence people's adoption of internet banking, including age, gender, income, marital status, education, career, computer literacy, and prior online

shopping experience. This emphasises the significant roles played by age, gender, and digital literacy in determining the likelihood of using online banking. Furthermore, the study delves into the concerning issue of fraud within the banking industry, particularly concerning digital payments. Public sector banks, despite reporting fewer instances of fraud, have made a substantial contribution to the overall amount of fraud, indicating a wide range of fraud types experienced by different banks.

The research also highlights the worrisome delay between the occurrence and detection of frauds, suggesting the need for improved fraud prevention measures and more prompt responses to such incidents by financial institutions. In addition, the study underscores the necessity for greater accountability and transparency by banks in the cases discussed, emphasising the call for more responsible practices within the banking industry. In conclusion, this research offers a comprehensive analysis of the challenges faced by modern banking, emphasising the importance of striking a balance between traditional and online banking options, promoting digital literacy, and reinforcing fraud prevention mechanisms.