
UNDERSTANDING ELECTRONIC FUND TRANSFERS (EFT) IN BANKING LAW

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ABSTRACT

This article explores Electronic Fund Transfers (EFTs) in India, focusing on legal frameworks like RBI guidelines, the IT Act, 2000, and the Consumer Protection Act, 2019. It reviews court responses to EFT fraud, responsibilities of banks, and the importance of grievance redressal and regulatory oversight. The study highlights the need for robust legal safeguards to ensure secure and reliable digital payments amid evolving technology.

Keywords: Electronic Fund transfer, Digital payments, Banking Law, RBI guidelines, NEFT, RTGC, IMPS, UPI.

INTRODUCTION

Electronic Fund Transfer (EFT) allows banks to move funds between accounts electronically at a customer's request. Introduced by the RBI in 1990, EFT is the third major evolution in payment methods after cash and bills of exchange.¹ With the rise of internet banking, EFT has enabled faster, safer, and more accessible transactions. As technology advances, EFT is expected to continue evolving, offering more efficient ways to manage financial transactions.

CONCEPT AND MECHANISM OF ELECTRONIC FUND TRANSFER

EFT is an electronic way to move money between bank accounts without the use of cash or paper-based transactions. As defined under Section 2(1)(C) of the Payment and Settlement Systems Act, 2007, EFT includes transactions via ATMs, POS, online banking, mobile apps, and more.² It allows quick, secure, and paper-free payments for goods and services. Once a

¹ M L Tannan, *Banking Law and Practice in India*, 234, (27th ed. 2017)

² *The Payment and Settlement Systems Act, 2007*, No. 51 of 2007, § 2(1)(c), (India)

transaction is done, it cannot be changed.

Elements of EFT:

Purpose of Payment – Clearly defined reason for the transfer.

Unconditional Instructions – Instructions must be definite and without conditions.

Directed to a Bank – Only recognized banks/financial institutions can process EFTs.

Electronic Transfer – Movement of funds happens digitally from sender to recipients.

EFTs may occur within the same branch, between branches, or across different banks and are commonly referred to as direct deposits.

An EFT is initiated by a sender, after which their bank instructs the recipient's bank to credit the funds. The process typically takes a few days and is used for salaries, bills, and vendor payments.

HISTORICAL EVOLUTION OF ELECTRONIC FUND TRANSFER

Electronic Fund Transfer (EFT) has progressed from manual, paper-based transactions to advanced, real-time digital systems, reflecting technological growth and evolving user needs. Initially reliant on cash and cheques, the 1960s saw the advent of computers and ATMs, enabling basic electronic banking. By the 1970s, formal EFT systems emerged with networks like SWIFT and widespread use of cards. The 1980s introduced early online banking, followed by the 1990s internet boom, which supported home banking and e-commerce payments. RTGS revolutionized high-value transfers with real-time settlements. From the 2000s, EFT grew with the help of mobile banking, digital wallets, and SMS, making it easier for people to send and receive money. Today, innovations like UPI, blockchain, and AI are reshaping EFT into a faster, smarter, and more secure system.³

³ Reserve Bank of India, Real Time Gross Settlement (RTGS) System – Frequently Asked Questions, <https://www.rbi.org.in/Scripts/FAQView.aspx?Id=65> (last visited Apr. 23, 2025); National Payments Corp. of India, Unified Payments Interface – Product Overview, <https://www.npci.org.in/what-we-do/upi/product-overview> (last visited Apr. 23, 2025)

TYPES OF ELECTRONIC FUND TRANSFER

Electronic Fund Transfer (EFT) refers to the digital transfer of money between bank accounts without using cash or paper instruments. It is broadly used for payments like salaries, utility bills, and online purchases. Common EFT methods include

NEFT, a 24x7 RBI-regulated system for safe fund transfers;

IMPS, enabling instant transfers via mobile or internet banking;

RTGS, used for real-time high-value transactions;

ATMs, which support withdrawals, deposits, and fund transfers;

Debit and Credit Card transactions, allowing direct or credit-based payments;

and UPI, a real-time, mobile-based system using Virtual Payment Addresses for seamless 24/7 transfers.

LEGAL FRAMEWORKS GOVERNING ELECTRONIC FUND TRANSFER

India's EFT system operates under a broad legal and regulatory framework, although no exclusive law exists for EFT. The Reserve Bank of India Act, 1934 empowers the RBI to regulate payment systems like NEFT and RTGS.⁴ The Payment and Settlement Systems Act, 2007 provides a statutory basis, defining EFT and enabling the RBI to govern fund transfers, impose penalties, and ensure settlement finality.⁵ The Information Technology Act, 2000 legitimizes digital records, signatures, and cyber security provisions relevant to EFT.⁶ RBI issues detailed operational guidelines for EFT mechanisms including UPI, IMPS, and ECS.⁷ The Integrated Ombudsman Scheme, 2021 and the Consumer Protection Act, 2019 safeguard consumer rights and simplify grievance redressal.⁸ The Prevention of Money Laundering Act, 2002 enforces KYC norms and monitors suspicious transactions. Lastly, the Banking

⁴ *Reserve Bank of India Act*, No. 2 of 1934, § 17, § 22, § 58, India Code (1934).

⁵ *Supra* note 2, § 2(1)(c), 10(c), 25

⁶ *Information Technology Act*, No. 21 of 2000, §§ 4, 5, 43, 66, 72, India Code (2000)

⁷ *RBI Guidelines on NEFT, RTGS, IMPS, and UPI*

⁸ *Reserve Bank - Integrated Ombudsman Scheme*, 2021, <https://www.rbi.org.in/commonman/English/scripts/PressReleases.aspx?Id=3340> (last visited Apr. 23, 2025); *Consumer Protection Act*, No. 35 of 2019, India Code (2019)

Regulation Act, 1949 provides RBI with the authority to enforce EFT-related compliance by issuing circulars and operational advisories.⁹

RIGHTS AND OBLIGATIONS OF STAKEHOLDERS

The smooth functioning of Electronic Fund Transfer (EFT) systems in India relies on the collective roles and responsibilities of key stakeholders—customers, banks, the Reserve Bank of India (RBI), and payment system providers (PSPs).

Customers have the right to safe and timely transactions, redressal mechanisms, and compensation for errors or delays. Also they must provide accurate details, maintain sufficient balances, report unauthorized activity, and follow bank protocols.

Banks and financial institutions have the right to charge fees and set risk-based transaction limits, while being obligated to protect customer data, process transactions promptly, and ensure effective grievance redressal.

The RBI is empowered to regulate, authorize, and supervise payment systems, ensuring their safety, efficiency, and accessibility.

PSPs like NPCI and UPI operators must operate under RBI licenses, follow its guidelines, ensure interoperability, maintain data security, report system failures or breaches, and keep proper audit trails.

All stakeholders are legally and operationally bound to uphold transparency, accountability, and security in the EFT ecosystem.

CONSUMER PROTECTION IN EFT TRANSACTION

Consumer protection in EFT in India is supported by a robust legal and regulatory framework aimed at ensuring fairness, reliability, and accountability. The Reserve Bank of India (RBI) sets timelines for transaction processing, mandates prompt reversals of failed transactions, and ensures compensation for delays. The Integrated Ombudsman Scheme, 2021 streamlines grievance redressal for EFT-related issues like service failures or unauthorized transactions.¹⁰

⁹ *Banking Regulation Act*, No. 10 of 1949, §§ 6, 35A, India Code (1949)

¹⁰ *Integrated Ombudsman Scheme*, 2021, *supra* note 8

The Information Technology Act, 2000 provides legal validity to digital records, penalizes cybercrimes, and mandates data security.¹¹ Additionally, the Consumer Protection Act, 2019 empowers EFT users to seek remedies for fraud, service deficiencies, and unfair charges through digital complaint mechanisms.¹²

ADVANTAGES OF ELECTRONIC FUND TRANSFER

Electronic Fund Transfer (EFT) offers numerous advantages, making it a preferred mode of transaction for individuals and businesses alike. It enables fast, reliable, and cost-effective transfers with minimal manual effort. EFT reduces dependency on paper instruments, cutting down costs related to check printing and postage, while also being environmentally friendly. By eliminating risks of mail loss or check tampering, it enhances transaction security. The digital nature of EFT reduces human mistake, reduces the risk of fraud, and ensures data accuracy. Additionally, it boosts operational efficiency, supports timely settlements, and fosters trust between transacting parties.

LEGAL ISSUES AND CHALLENGES REGARDING EFT

While EFT have modernized banking in India, they present several legal challenges that require careful regulatory oversight. Such issues include fraud and unauthorized transactions often caused by phishing and cyber attacks which leading to unclear liability among banks, customers, and third parties. Delays and transaction failures due to technical glitches can violate RBI's timelines, causing customer dissatisfaction. Data privacy and cybersecurity concerns persist due to the absence of a comprehensive data protection law. Jurisdictional complexities arise in cross-border or multi-party transactions, complicating legal recourse. In addition, low consumer awareness of rights under RBI rules or grievance redressal schemes limits protection. Also, the compliance burden on banks and intermediaries is high, with non-compliance risking penalties, reputational damage, and erosion of trust.

TECHNOLOGICAL ADVANCEMENTS IN ELECTRONIC FUND TRANSFERS

Electronic Fund Transfer (EFT) systems in India have seen remarkable technological advancements, enhancing speed, security, and accessibility. The Unified Payments Interface

¹¹ *IT Act, 2000, supra note 6*

¹² *Consumer Protection Act, 2019, supra note 8, § 2(6), 17*

(UPI), launched by NPCI, allows 24x7 mobile-based transfers with features like QR payments and voice commands, boosting digital adoption.¹³ RTGS and NEFT have been upgraded with extended hours and automation, improving liquidity and reducing settlement risks. Emerging technologies like blockchain offer transparent, tamper-proof transaction records, though not yet integrated into mainstream EFT. Cryptocurrencies enable instant global transfers but remain unregulated and non-legal tender in India due to volatility concerns. Meanwhile, the RBI's Central Bank Digital Currency (CBDC) aims to deliver a secure, regulated digital alternative, combining the benefits of crypto with central oversight.¹⁴

CASE LAWS AND JUDICIAL INTERPRETATION OF EFT REGULATIONS

The judiciary in India has actively shaped EFT regulations, particularly in protecting consumer rights and reinforcing bank obligations. In *Punjab National Bank v. Leader Valves Ltd.*, the Supreme Court ruled that remitters are responsible for accurate EFT details.¹⁵ *Punjab National Bank v. Astha Agarwal* and *HDFC Bank v. Kumari Reshma* affirmed banks' liability for delayed reversals and compensation for service lapses.¹⁶ In *ICICI Bank Ltd. v. Sudhir Kumar Aggarwal*, the court held the bank liable for unauthorized debits due to weak OTP verification, stressing the need for robust security.¹⁷ Lastly, *Bank of Baroda v. Vijay Shankar Mishra* upheld consumer protection in UPI fraud, holding the bank accountable for poor grievance redressal despite timely complaint.¹⁸ These cases underline the judiciary's role in ensuring EFT compliance and consumer safeguards.

CONCLUSION

Electronic Fund Transfers (EFT) have transformed India's banking sector by enabling faster and more efficient digital transactions. Backed by laws like the RBI Act, the PSS Act, and the IT Act, along with RBI guidelines and consumer protection mechanisms, EFT systems are legally and operationally robust.

¹³ *UPI*, *supra* note 3

¹⁴ *Reserve Bank of India, Concept Note on Central Bank Digital Currency in India* (Oct. 2022), <https://www.rbi.org.in/Scripts/PublicationReportDetails.aspx?UrlPage=&ID=1218>

¹⁵ *Punjab Nat'l Bank v. Leader Valves Ltd.*, 2022 SCC OnLine SC 300 (India)

¹⁶ *Punjab Nat'l Bank v. Astha Agarwal*, 2022 SCC OnLine NCDRC 73 (India); *HDFC Bank Ltd. v. Kumari Reshma*, 2019 SCC OnLine NCDRC 229 (India)

¹⁷ *M/S ICICI Bank Ltd. v. Sudhir Kumar Aggarwal*, (2016) 1 CPJ 97 (NC) (India)

¹⁸ *Bank of Baroda v. Vijay Shankar Mishra*, 2021 SCC OnLine NCDRC 420 (India)

While technology has brought convenience, it also poses challenges related to security, fraud, and data privacy. Courts have played a key role in interpreting rights and ensuring that banks and financial institutions are held accountable.

For EFTs to remain secure and reliable, continuous legal updates, regulatory enforcement, and public awareness are essential. A balanced approach will ensure both innovation and consumer protection in the evolving digital economy.