

RBI's Proposed Framework for Compensation in Digital Fraud Cases

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- In February 2026, the Reserve Bank of India announced a draft framework to compensate customers up to Rs. 25,000 for losses arising from small-value digital frauds, even in certain cases of user error.

Background: Growth of Digital Payments and Fraud Risks in India

- India has witnessed an unprecedented expansion in digital payments over the past decade, driven by initiatives such as UPI, Aadhaar-based authentication, and financial inclusion programmes.
- While this shift has enhanced convenience and transparency, it has also led to a rise in digital fraud cases, including phishing, OTP-based scams, unauthorised electronic transactions, and social engineering attacks.
- According to regulatory assessments, fraudsters increasingly exploit gaps in user awareness, delayed reporting, and weak authentication mechanisms.
- Senior citizens and first-time digital users are particularly vulnerable.
- This evolving risk landscape has necessitated stronger regulatory safeguards to protect customers while maintaining trust in digital payment systems.

Existing RBI Framework on Customer Liability

- The RBI first issued detailed instructions in 2017 to limit customer liability in unauthorised electronic banking transactions. These guidelines classified liability based on factors such as:
 - Delay in reporting unauthorised transactions
 - Negligence on the part of banks or customers
 - Nature of the fraud (system failure vs. customer compromise)
- Under this regime, customers could enjoy zero or limited liability if they reported fraud promptly. However, the framework did not mandate direct compensation for small-value losses, especially in cases involving partial customer fault, such as OTP sharing under deception.
- With rapid technological changes and growing fraud sophistication, RBI reviewed the adequacy of these rules, leading to the proposed revisions.

Key Features of the Proposed RBI Compensation Framework

- The newly proposed framework seeks to introduce a structured compensation mechanism for victims of small-value digital fraud. Its major features include:
 - **Compensation Cap:** Customers may be compensated for losses up to Rs. 25,000 per fraudulent transaction.
 - **Scope:** The framework applies primarily to small-value digital frauds, where recovery through existing mechanisms is difficult.
 - **User Error Consideration:** Compensation may be available even in cases where customers shared OTPs or credentials under coercion or deception, subject to conditions.
 - **Public Consultation:** Draft instructions will be placed in the public domain to invite stakeholder feedback before finalisation.
- This approach marks a shift from a purely liability-based framework to a consumer-protection-oriented compensation model.

Additional Safety Measures for Digital Payments

- Alongside compensation, the RBI has proposed several preventive measures to reduce fraud incidence:
 - **Lagged Credits:** Introducing time delays before crediting funds in high-risk transactions.
 - **Enhanced Authentication:** Additional verification layers for vulnerable groups, such as senior citizens.
 - **Targeted Risk Profiling:** Differentiated safeguards based on user behaviour and transaction patterns.
- These measures aim to balance user convenience with systemic security, especially in high-volume digital ecosystems.

Related Consumer Protection Reforms by RBI

- The compensation proposal is part of a broader regulatory push to strengthen consumer rights in financial services. The RBI has announced draft guidelines in three key areas:

- **Mis-selling of Financial Products:** Ensuring the suitability of third-party products sold by banks.
- **Loan Recovery Practices:** Harmonising rules governing recovery agents and borrower treatment.
- **Customer Liability Norms:** Updating rules on unauthorised electronic transactions to reflect current risks.
- Together, these reforms indicate a shift towards outcome-based consumer protection rather than procedural compliance.

Significance for India's Digital Economy

- The proposed compensation framework is significant for several reasons:
 - **Trust Building:** Reassures users that financial losses from fraud will not always be borne individually.
 - **Financial Inclusion:** Encourages continued digital adoption among vulnerable populations.
 - **Regulatory Accountability:** Places greater responsibility on banks and payment service providers to strengthen security systems.
 - **Global Alignment:** Reflects international best practices in consumer protection for digital finance.
- For India, which aims to become a global leader in digital public infrastructure, safeguarding user confidence is critical.

Challenges and Implementation Concerns

- Despite its benefits, the framework raises certain challenges:
 - **Moral Hazard:** Risk of reduced user caution if compensation is perceived as guaranteed.
 - **Operational Burden:** Banks must establish clear, fast, and fair grievance redressal mechanisms.
 - **Fraud Classification:** Differentiating genuine victims from negligent behaviour will require robust assessment protocols.
- Effective implementation will depend on clear guidelines, technological support, and coordination between banks, regulators, and law enforcement agencies.

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