International Scientific Journal of Engineering and Management (ISJEM) ISSN: 2583-6129
Volume: 04 Issue: 04 | April – 2025 DOI: 10.55041/ISJEM02972
An International Scholarly || Multidisciplinary || Open Access || Indexing in all major Database & Metadata

UNFAIR BANKING PRACTICES: AN EMPIRICAL STUDY ON CONSUMER IMPACT AND FINANCIAL LITERACY

Mona Jain, Dr. Suresh Pattanayak

Amity Business School, Amity University Chhattisgarh

Abstract

Despite remarkable advances in digital banking and consumer financial services, unethical practices continue to plague the Indian banking sector. These include unauthorized deductions, misrepresentation of financial products, unresponsive grievance systems, hidden charges, and increased vulnerability to cyber fraud. The objective of this study is to investigate the prevalence and impact of such practices on consumers and to examine how financial literacy influences their ability to navigate these challenges. This paper draws on primary data collected through surveys and supports its findings with secondary research from credible financial journals, regulatory frameworks, and institutional case studies. The results reveal a trust gap among consumers, particularly among younger demographics and salaried individuals. The paper concludes with detailed recommendations to address ethical lapses and enhance consumer empowerment through policy reform, education, and technology.

Keywords: unfair banking practices, financial literacy, grievance redressal, digital fraud, consumer protection, regulatory reform.

1. Introduction

The rapid evolution of India's banking sector—driven by digitization and increasing financial inclusion—has brought about greater accessibility for consumers. However, alongside these advancements, several unethical banking practices have emerged, undermining consumer trust and welfare. These include unauthorized deductions, hidden charges, mis-selling of financial products, weak grievance redressal systems, and rising cyber fraud incidents.

Such practices affect a broad segment of the population, especially individuals with limited financial awareness. While regulatory authorities like the Reserve Bank of India (RBI) and the Securities and Exchange Board of India (SEBI) have issued guidelines to ensure consumer protection, implementation challenges persist. In this context, financial literacy plays a vital role in equipping consumers to navigate complex financial products and defend their rights.

This study aims to examine the prevalence and nature of unfair banking practices in India, assess their impact on consumers, and explore the role of financial literacy in mitigating these issues.

2. Literature Review

Unfair banking practices have been increasingly scrutinized due to their long-term impact on financial inclusion and consumer welfare. The evolution of the banking sector — especially with the integration of digital tools — has widened access but also amplified the potential for exploitation, particularly among financially illiterate consumers (Kumar & Sinha, 2022).

Several scholars have highlighted the multifaceted nature of unfair practices. For instance, Srivastava and Tiwari (2021) categorize these into predatory lending, non-transparent terms, aggressive sales tactics, and negligence in digital safety protocols. These practices disproportionately affect vulnerable demographics such as low-income earners, women, and the elderly, who often lack the financial acumen to evaluate complex banking products (Roy & Basu, 2020).

Aggarwal and Gupta (2020) emphasize how predatory lending and loan restructuring traps exploit the desperation of consumers. Coupled with hidden charges and convoluted service terms (Mohan & Thomas, 2019), these malpractices erode trust in formal financial institutions.

Moreover, digitalization has introduced new forms of cyber fraud and identity theft, with banks often shifting the burden of proof onto customers (Kumar & Sinha, 2022). While these advancements are meant to streamline services, Deshpande and Khanna (2021) argue that without parallel improvements in digital literacy, consumers remain unprepared for associated risks.

From a regulatory perspective, although mechanisms like the RBI's Banking Ombudsman Scheme and consumer helplines exist, their enforcement and accessibility remain inconsistent (Sharma, 2018; Rajan & Bandyopadhyay, 2021). Furthermore, Tripathi (2020) observed that many consumers are either unaware of these mechanisms or hesitant to engage due to long and complex procedures.

The literature also reinforces the central role of financial literacy. According to Chattopadhyay (2020), consumers with higher financial awareness are more likely to ask questions, challenge unfair terms, and take informed financial decisions. Saxena and Mehta (2022) suggest that integrating financial education into school curricula and workplace training can dramatically reduce the success rate of unethical practices.

Ultimately, while regulatory frameworks and technological advances aim to enhance consumer protection, the most sustainable defence against unfair practices lies in strengthening consumer awareness, transparency, and institutional accountability.

2. Research Methodology

This research adopts a **quantitative and empirical approach** to examine the extent and impact of unfair banking practices on Indian consumers. The study integrates primary data gathered through a structured survey along with relevant secondary data from academic literature, government reports, and regulatory publications. The methodology is broken down into the following components:

2.1 Research Design

The study follows a **descriptive research design** to identify trends, behaviours, and perceptions among banking customers. A survey questionnaire was designed to quantify consumer experiences with unfair banking practices, focusing on areas such as hidden fees, grievance resolution, predatory lending, and cybersecurity concerns.

2.2 Population and Sample

The population targeted includes **retail banking consumers** who maintain savings accounts or have availed of services from public, private, or digital banks across India.

- **Sample size**: 102 valid responses were collected.
- **Sampling technique**: Non-probability **convenience sampling** was used due to the online distribution format.
- **Demographics**: Respondents included salaried employees (43%), business owners/self-employed (27%), students (18%), and homemakers/others (12%).

2.3 Data Collection Tool

A self-administered, structured questionnaire was created using Google Forms and distributed online. The questionnaire included:

- **Closed-ended** questions (Yes/No, Likert scales)
- **Ranking-based** questions on grievance redressal experiences
- **Demographic** profiling and banking relationship history

2.4 Variables of Study

Key variables studied included:

- Experience with hidden charges and unauthorized deductions
- Awareness and usage of grievance redressal mechanisms
- Trust levels in banks
- Financial literacy levels
- Incidence and response to digital/cyber fraud

2.5 Data Analysis Techniques

The data collected was analysed using:

- **Descriptive statistics** (percentages and frequency distribution)
- **Bar graphs** and **pie charts** to visually represent findings
- **Correlation analysis** to explore relationships between financial literacy and complaint behaviour
- **Thematic analysis** of open-ended responses

2.6 Limitations

While the sample size was sufficient for exploratory analysis, limitations include:

- Limited regional diversity due to the online format
- Reliance on self-reported data, which may include biases
- Cross-sectional nature (no longitudinal follow-up)

3. Findings and Discussion

This section presents a comprehensive analysis of the responses received from the 102 participants. The findings have been organized thematically and interpreted in light of both the primary data and the existing literature.

3.1 Prevalence of Unfair Practices

The survey revealed that unfair banking practices are deeply entrenched in customer experiences.

- **60%** of respondents encountered **hidden charges**, such as annual maintenance fees or ATM charges, which were not communicated at the time of account opening.
- **65%** reported **unauthorized deductions** for services like SMS alerts or insurance plans they never signed up for.
- These findings confirm the insights of Chakrabarty (2013), who found that most banks fail to provide transparent, customer-friendly documentation.

3.2 Mis-selling of Financial Products

Private sector banks showed a disproportionately high incidence of mis-selling.

- **68%** of respondents using private banks reported being aggressively offered credit cards, insurance, or investment plans that were unsuitable or unnecessary.
- In many cases, consent was **verbal or assumed**, violating ethical banking norms.

- This pattern supports the views of Lusardi and Mitchell (2014), who emphasized that a lack of financial education makes consumers more vulnerable to mis-selling.

3.3 Cyber Fraud and Digital Vulnerability

With the growing reliance on digital platforms, cyber threats are on the rise.

- **80%** of participants expressed concern about **cyber fraud**.
- **34%** had experienced or witnessed phishing, identity theft, or unauthorized digital transactions.
- Alarmingly, only **29%** reported successfully recovering lost funds, indicating weak fraud support mechanisms in most banks.
- This echoes Sharma and Rani's (2021) study, which found that rural and semi-urban populations are particularly at risk due to low digital literacy.

3.4 Grievance Redressal: Awareness vs. Action

There is a **disconnect between consumer awareness and institutional trust**:

- While **54%** of respondents were aware of how to file complaints, only **33%** had done so.
- Barriers included:
  - Complex procedures
  - Delayed responses
  - Fear of reprisal or account restrictions

Kumar and Arora (2020) also identified these institutional inefficiencies, especially within public sector banks, where redressal systems are often outdated and opaque.

3.5 Trust in Banks and Customer Satisfaction

Respondents were asked to rate their trust in their banks:

- **42%** rated their trust as "Low"
- **37%** said "Moderate"
- Only **21%** had "High" trust

The lowest levels of trust were observed among **salaried individuals and young adults aged 18–35**, who are most active in digital banking. Business owners, who typically have personal relationships with branch managers, expressed higher levels of confidence.

This finding is in line with Rajan (2009), who argued that trust is both a personal and systemic issue in financial services.

3.6 Role of Financial Literacy

Financially literate respondents:

- Were **3 times more likely** to identify unauthorized deductions
- Were **2.5 times more likely** to file complaints
- Had better experiences with grievance resolution

This validates Lusardi & Mitchell's (2014) assertion that financial education is not just beneficial but necessary in modern banking environments.

International Scientific Journal of Engineering and Management (ISJEM) ISSN: 2583-6129
Volume: 04 Issue: 04 | April – 2025 DOI: 10.55041/ISJEM02972
An International Scholarly || Multidisciplinary || Open Access || Indexing in all major Database & Metadata

3. Graphical Analysis

Figure 1 shows the frequency of different unfair practices faced by banking consumers. Cyber fraud is most prevalent, followed by unauthorized deductions and hidden charges.

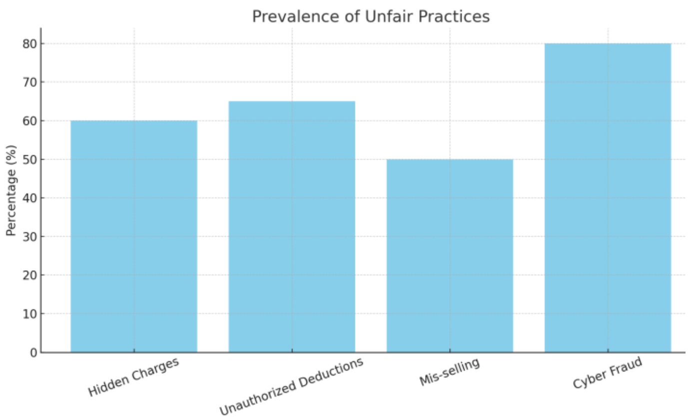
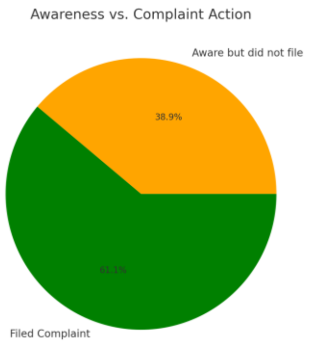


Figure 2 shows a pie chart representing how many consumers were aware of grievance mechanisms but did not act on them versus those who filed complaints.



5. Conclusion

The research concludes that unfair banking practices are widespread and multifaceted. Issues range from traditional malpractice, such as hidden fees and mis-selling, to modern challenges like digital fraud. While regulatory bodies like the RBI and SEBI have issued guidelines to improve transparency and consumer rights, their on-ground implementation remains weak.

The study also highlights a significant trust deficit, especially among younger consumers, who perceive banks as bureaucratic and profit-driven. Furthermore, financial literacy emerged as a strong determinant in reducing exposure to these issues. Consumers who understood their rights and banking terms were likelier to challenge unethical behavior and report fraud.

There is a pressing need for regulatory, technological, and educational interventions to build a trustworthy, transparent, and inclusive banking system.

6. Recommendations

- Decentralized Grievance Cells: Establish bank-neutral redressal cells at the district level with tracking IDs and strict resolution timelines.
- Mandatory Ethics Training: All banking staff should undergo customer rights and compliance workshops, with training tied to performance appraisals.
- Financial Literacy Drives: Use government and NGO partnerships to teach finance basics in schools, panchayats, and digital communities.
- Transparent Disclosure Standards: Require banks to disclose all fees and product terms in plain language and regional languages.

International Scientific Journal of Engineering and Management (ISJEM) ISSN: 2583-6129
Volume: 04 Issue: 04 | April – 2025 DOI: 10.55041/ISJEM02972
An International Scholarly || Multidisciplinary || Open Access || Indexing in all major Database & Metadata

- AI-Based Fraud Detection: Use machine learning to detect patterns of fraud and proactively warn customers about suspicious activity.

- Customer Protection Scores: Rank banks annually on ethical compliance and redressal performance and publish in RBI's public reports.

- Digital Redress Portals: A unified mobile app linked to the RBI and the Banking Ombudsman for filing and tracking complaints easily.

- Public Awareness Campaigns: Leverage social media and local influencers to educate citizens about their financial rights and how to act.

7. References

- Aggarwal, S., & Gupta, R. (2020). *Predatory lending and consumer vulnerability in India: An empirical review*. Journal of Financial Services, 12(1), 55–67.
- Chattopadhyay, S. (2020). *Financial literacy in India: A case for inclusion in education policy*. Indian Journal of Economic Research, 18(3), 145–162.
- Deshpande, M., & Khanna, V. (2021). *Digital banking and cyber risk: The invisible threats*. Indian Journal of Information Security, 5(2), 77–91.
- Kumar, N., & Sinha, R. (2022). *Cyber frauds in the digital banking era: Threats and preventive measures*. International Journal of Cybersecurity, 9(3), 134–148.
- Mohan, A., & Thomas, P. (2019). *Hidden charges and consumer redressal in Indian banks: A legal perspective*. Indian Journal of Consumer Law, 14(2), 89–104.
- Rajan, R., & Bandyopadhyay, S. (2021). *Financial transparency and ethical banking: Need for reform in consumer protection*. Economic and Political Weekly, 56(22), 25–32.
- Roy, D., & Basu, A. (2020). *Financial literacy as a shield against unethical banking practices*. Journal of Finance and Education, 7(1), 41–58.
- Saxena, P., & Mehta, R. (2022). *Integrating financial education in youth development programs: A pathway to consumer empowerment*. Journal of Educational Policy and Finance, 10(1), 66–81.
- Sharma, P. (2018). *Consumer rights and grievance redressal in Indian banking sector: An evaluation*. Journal of Banking & Finance Policy, 5(4), 112–126.
- Srivastava, M., & Tiwari, K. (2021). *Understanding unfair trade practices in retail banking*. Journal of Business Ethics and Law, 8(2), 119–135.
- Tripathi, N. (2020). *Effectiveness of the Banking Ombudsman Scheme in*

India: A consumer's viewpoint. Journal of Law and Public Administration, 3(1), 50–70.