



IN THE HIGH COURT OF KARNATAKA AT BENGALURU

DATED THIS THE 1ST DAY OF JUNE, 2026

BEFORE

THE HON'BLE MR. JUSTICE SURAJ GOVINDARAJ

WRIT PETITION NO. 16104 OF 2025 (GM-RES)

C/W

WRIT PETITION NO. 4674 OF 2025 (GM-RES)

IN W.P.NO.16104/2025

BETWEEN

SRI BASAVESHWARA PATTANA SAHAKARA BANK NIYAMITHA
(A SOCIETY REGISTERED UNDER KCS ACT, 1959)
H.K. RASTE, NEAR BUS STAND,
SHIRALKOPPA,-577428
SHIVAMOGGA DISTRICT
REPRESENTED BY:SECRETARY.

...PETITIONER

(BY SRI. MAHESH R. UPPIN., ADVOCATE)

AND



1. CANARA BANK
SHIRALKOPPA BRANCH,
SHIRALKOPPA-577428,
SHIVAMOGGA DISTRICT.
BY ITS MANAGER.
2. THE GENERAL MANAGER,
TELCOM DISTRICT,
BSNL BHAVAN, SAGAR ROAD,
SHIVAMOGGA -577205
3. THE CPIO/DGM (ADMN),
O/O. PGM BANGALORE TELCOM
DISTRICT,



NC: 2026:KHC:25587
WP No. 16104 of 2025
C/W WP No. 4674 of 2025

TELEPHONE BHAVAN,
RAJ BHAVAN ROAD,
BENGALURU-560001

... RESPONDENTS

(BY SRI. M.MOHAN RAO., ADVOCATE FOR R1;
SRI. GANGADHARAIH. A.N., ADVOCATE FOR R2)

THIS WRIT PETITION IS FILED UNDER ARTICLES 226 & 227 OF THE CONSTITUTION OF INDIA PRAYING TO QUASH THE ORDER DT: 09.08.2024 PASSED BY THE PERMANENT LOK ADALT AT MANGALURU, DAKSHINA KANNADA IN CASE BEARING NO:PLD.64/2021 MARKED AS ANNEXURE-F BY ISSUING A WRIT IN THE NATURE OF CERTIORARI AND ETC.

IN W.P.NO.4674/2025
BETWEEN

1. THE GENERAL MANAGER
TELECOM DISTRICT
BSNL BHAVAN, SAGAR ROAD
SHIVAMOGGA - 277205
2. THE CPIO/DGM (ADMN.,)
O/O. PGM BANGALORE TELECOM DISTRICT
TELEPHONE BHAVAN, RAJ BHAVAN ROAD
BENGALURU - 560001

...PETITIONERS

(BY SRI. GANGADHARAIH A.N., ADVOCATE)

AND

1. CANARA BANK
SHIRALKOPPA BRANCH,
SHIRALKOPPA-577428,
DISTRICT SHIVAMOGGA
REP BY ITS MANAGER.
2. THE BASAVESHWARA PATTANA
SAHAKARA BANK NIYAMITHA,
H.K. RASTE, NEAR BUS STAND,
SHIRALKOPPA-577428
DIST:SHIVAMOGGA
REP BY ITS SECRETARY



NC: 2026:KHC:25587
WP No. 16104 of 2025
C/W WP No. 4674 of 2025

3. THE STATE OF KARNATAKA
REP BY THE POLICE INSPECTOR,
CYBER CRIME POLICE STATION,
BANGALORE

.... RESPONDENTS

(BY SRI. M.MOHAN RAO., ADVOCATE FOR R1;
SRI. MAHESH R. UPPIN., ADVOCATE FOR R2;
SRI. MAHANTESH SHETTER, AGA FOR R3)

THIS WRIT PETITION IS FILED UNDER ARTICLES 226 & 227 OF THE CONSTITUTION OF INDIA PRAYING TO SET ASIDE THE LOK ADALATH AWARD/ORDER PASSED IN PLD NO.64/2021 DATED 09.08.2024 PASSED BY THE PERMANENT LOK ADALATH, DAKSHINA KANNADA AS PER ANNEXURE-A AND CONSEQUENTLY DISMISS THE PETITION FILED BY THE 2ND RESPONDENT. FURTHER PASS SUCH OTHER ORDER/S OR RELIEF/S AS DEEM FIT TO GRANT IN THE FACTS AND CIRCUMSTANCES OF THE CASE, IN THE INTEREST OF JUSTICE AND EQUITY.

THESE WRIT PETITIONS COMING ON FOR ORDERS AND HAVING BEEN RESERVED FOR ORDERS ON 25.02.2026, THIS DAY, THE COURT PRONOUNCED THE FOLLOWING:

CORAM: HON'BLE MR. JUSTICE SURAJ GOVINDARAJ

CAV ORDER

1. The Petitioners in W.P.No.4674/2025 are before this

Court seeking for the following reliefs:

"Set aside the Lok Adalath Award/Order passed in PLD No.64/2021 dated 09.08.2024 passed by the Permanent Lok Adalath, Dakshina Kannada as per Annexure-A and consequently dismiss the petition filed by the 2nd respondent. Further pass such other order/s or relief/s as deem fit to grant in the facts and circumstances of the case, in the interest of justice and equity."



2. The Petitioner in W.P.No.16104/2025 is before this Court seeking for the following reliefs:
- a. *Quash the Order dated:09.08.2025 passed by the Permanent Lok Adalat at Mangaluru, Dakshina Kannada in case bearing No. PLD.64/2021 marked as Annexure-F by issuing a writ in the nature of Certiorari.*
 - b. *Issue a writ in the nature of Mandamus directing the Permanent Lok Adalat at Mangaluru, Dakshina Kannada to hold fresh enquiry and pass fresh order in case No.PLD No.64/2021; and*
 - c. *Pass such other orders as deems fit to grant under the circumstances of the case in the interest of justice.*

Facts in WP No.4674/2025

3. The petitioners are the General Manager and Central Public Information Officer/Deputy General Manager of BSNL. Respondent No.2 – Basaveshwara Pattana Sahakara Bank Niyamitha (hereinafter referred to as “the Co-operative Bank”) initiated proceedings before the Permanent Lok Adalat under Section 22A(b) read with Section 22C of the Legal Services Authorities Act, 1987, seeking recovery of a sum of Rs.50,50,762/- together with interest at 15% per annum from 17.02.2019 till realisation and further compensation of Rs.20,00,000/- towards alleged



financial loss, loss of credibility and reputation, and other consequential damages.

4. The Co-operative Bank was established in the year 1913. It maintained a current account with Respondent No.1 – Canara Bank (hereinafter referred to as "Canara Bank"), in which it also maintained the requisite Cash Reserve Ratio (CRR). The Co-operative Bank had availed internet banking facilities from Canara Bank by registering a BSNL mobile number. Whenever online transactions were undertaken through the said current account, One-Time Passwords (OTP) required for authentication of such transactions were received on the said registered BSNL mobile number.
5. On 07.02.2019, the Co-operative Bank noticed seven unauthorised transactions involving transfer/withdrawal of funds from its current account through RTGS/NEFT between 06.02.2019 and 07.02.2019, aggregating to Rs.87,70,000/-. Out of the said amount, a sum of Rs.30,00,000/- was subsequently reverse-credited to the account of the Co-operative Bank. Immediately upon discovering the unauthorised transactions, the Co-operative Bank informed Canara Bank and lodged a complaint before



the Cyber Crime Police Station, Bengaluru, on 08.02.2019.

6. Upon enquiry, it was allegedly discovered that certain unknown persons had obtained a duplicate SIM card pertaining to the registered mobile number of the Co-operative Bank from the BSNL office at Bengaluru and had thereby gained access to the OTP mechanism associated with the Co-operative Bank's internet banking operations. Using such access, the said persons are stated to have effected unauthorised online transfers from the account maintained with Canara Bank.
7. The Co-operative Bank alleged that the aforesaid incident occurred solely due to negligence and lapses on the part of officials of BSNL in issuing a duplicate SIM card without any request, authorisation or consent from the Co-operative Bank. During the course of investigation, the Cyber Crime Police recovered a sum of Rs.7,12,238/-, which was subsequently released to the Co-operative Bank pursuant to orders of the competent Court. However, the remaining amount could not be recovered.
8. Thereafter, on 28.01.2021, the Co-operative Bank issued a legal notice to BSNL and Canara Bank.



Pursuant thereto, proceedings were initiated before the Permanent Lok Adalat in PLD No.64/2021.

9. Upon service of notice, BSNL entered appearance and filed its statement of objections. Though Canara Bank entered appearance, it did not file any objections.
10. In its objections, BSNL contended that the alleged fraud was attributable to internal lapses within the Co-operative Bank and that there existed a nexus between the persons who perpetrated the fraud and the officials of the Co-operative Bank and/or Canara Bank. It was further contended that the Co-operative Bank and Canara Bank had failed to maintain confidentiality with respect to the internet banking login credentials and passwords. On such basis, BSNL denied any negligence or liability in respect of the transactions carried out from the Co-operative Bank's account. BSNL further contended that criminal proceedings had already been initiated and an investigation was underway, and therefore, the proceedings initiated against BSNL were premature and liable to be dismissed.
11. The matter was thereafter referred for conciliation on several occasions. Since no settlement could be



arrived at between the parties, the Permanent Lok Adalat proceeded to adjudicate the dispute on merits. Evidence was adduced by the parties and, upon consideration thereof, the Permanent Lok Adalat partly allowed the claim petition and directed BSNL to pay compensation of Rs.5,00,000/- together with interest at 6% per annum from 01.03.2021 until realisation, payable within three months from the date of the order. The claim against Canara Bank came to be dismissed.

12. Aggrieved by the said order, BSNL has filed the present writ petition in W.P. No.4674/2025.

Facts in WP No.16104/2025:

13. The above writ petition has been filed by the Co-operative Bank. Respondent No.1 therein is Canara Bank and Respondent No.2 is BSNL. The challenge in the present writ petition is also directed against the very same order dated 09.08.2024 passed by the Permanent Lok Adalat. The factual matrix giving rise to the proceedings remains substantially identical and therefore need not be repeated in detail.
14. The Co-operative Bank contends that during the course of investigation, the Cyber Crime Police were



able to recover only a sum of Rs.7,12,238/- by defreezing the account of the accused persons and releasing the said amount in favour of the Co-operative Bank. Further, a sum of Rs.30,00,000/- had been reverse-credited to the account of the Co-operative Bank. Thus, according to the Co-operative Bank, after giving credit to the aforesaid amounts, a sum of Rs.50,50,762/- remained unrecovered and continued to represent the actual loss suffered by it.

15. It is further contended by the Co-operative Bank that the award of compensation of only Rs.5,00,000/- by the Permanent Lok Adalat, despite the unauthorised withdrawal of Rs.87,70,000/- from its account, is wholly arbitrary and unsustainable in law.
16. The Co-operative Bank further contends that the unauthorised transactions could not have taken place but for the issuance of a duplicate SIM card by BSNL without any request, consent or knowledge of the Co-operative Bank. It is contended that such issuance of the duplicate SIM directly facilitated access to the One-Time Passwords (OTP) associated with the internet banking facility, thereby enabling the fraudulent transfer of funds.



17. Sri.A.N.Gangadharaiah, learned counsel for BSNL, would submit that:

17.1. The order passed by the Permanent Lok Adalat directing BSNL to pay compensation of Rs.5,00,000/- is perverse and unsustainable in law.

17.2. According to him, the Permanent Lok Adalat lacked jurisdiction to adjudicate the dispute referred to it under Section 22C of the Legal Services Authorities Act, 1987. The Permanent Lok Adalat could only conduct conciliation proceedings and assist the parties in arriving at an amicable settlement in an independent and impartial manner and could not assume adjudicatory powers in respect of the dispute. He therefore submits that the Permanent Lok Adalat exceeded its jurisdiction in entertaining and deciding the matter, particularly when the dispute related to allegations of fraud and non-compoundable offences in respect of which criminal proceedings had already been initiated before the Cyber Crime Police.

17.3. He refers to Section 22-A(b), of the Legal Services Authorities Act, 1987 reads as under:-



22A. (b) "**public utility service**" means any—

(i) transport service for the carriage of passengers or goods by air, road or water; or

(ii) postal, telegraph or telephone service; or

(iii) supply of power, light or water to the public by any establishment; or

(iv) system of public conservancy or sanitation; or

(v) service in hospital or dispensary; or

(vi) insurance service,

and includes any service which the Central Government or the State Government, as the case may be, in the public interest, by notification, declare to be a public utility service for the purposes of this Chapter.

17.4. By referring to Section 22-A(b) he submits that the jurisdiction of the Permanent Lok Adalat extends only to disputes concerning a public utility service as defined under the Act. According to him, though BSNL may otherwise fall within the ambit of a public utility service being a provider of telephone services, the dispute in the present case is not one relating to the provision of telecommunication services as such, but concerns allegations of cheating, fraud and criminal misconduct by certain individuals. He submits that the dispute



substantially arises out of alleged unauthorised and fraudulent acts committed by third parties and not from any deficiency in the telecommunication service rendered by BSNL.

17.5. Learned counsel submits that the substance of the dispute and not merely the identity of the service provider is required to be examined while determining jurisdiction under Section 22A(b). According to him, merely because BSNL is a provider of a public utility service, every dispute in which BSNL is arrayed as a party would not automatically become amenable to the jurisdiction of the Permanent Lok Adalat.

17.6. Learned counsel further submits that where the allegations relate to fraud, impersonation, criminal conspiracy and offences requiring detailed adjudication upon evidence, such disputes travel beyond the limited scope contemplated under Chapter VI-A of the Legal Services Authorities Act. He submits that the adjudicatory mechanism before the Permanent Lok Adalat was intended for resolution of disputes concerning deficiencies or obligations



arising out of public utility services and was not intended to adjudicate upon allegations involving criminality and disputed questions requiring a detailed trial.

- 17.7. On that basis, he submits that the Permanent Lok Adalat lacked jurisdiction to entertain the proceedings and consequently the award passed is liable to be set aside.
- 17.8. He refers to Section 22-C of the Legal Services Authorities Act, 1987 reads as under:-

22C. Cognisance of cases by Permanent Lok Adalat.—(1) Any party to a dispute may, before the dispute is brought before any court, make an application to the Permanent Lok Adalat for the settlement of dispute:

Provided that the Permanent Lok Adalat shall not have jurisdiction in respect of any matter relating to an offence not compoundable under any law:

Provided further that the Permanent Lok Adalat shall also not have jurisdiction in the matter where the value of the property in dispute exceeds ten lakh rupees:

Provided also that the Central Government, may by notification, increase the limit often lakh rupees specified in the second proviso in consultation with the Central Authority.

(2) After an application is made under sub-section(1) to the Permanent Lok Adalat, no party to that application shall invoke jurisdiction of any court in the same dispute.

(3) Where an application is made to a Permanent Lok Adalat under sub-section(1), it—



(a) shall direct each party to the application to file before it a written statement, stating therein the facts and nature of dispute under the application, points or issues in such dispute and grounds relied in support of, or in opposition to, such points or issues, as the case may be, and such party may supplement such statement with any document and other evidence which such party deems appropriate in proof of such facts and grounds and shall send a copy of such statement together with a copy of such document and other evidence, if any, to each of the parties to the application;

(b) may require any party to the application to file additional statement before it at any stage of the conciliation proceedings;

(c) shall communicate any document or statement received by it from any party to the application to the other party, to enable such other party to present reply thereto.

(4) When statement, additional statement and reply, if any, have been filed under sub-section(3), to the satisfaction of the Permanent Lok Adalat, it shall conduct conciliation proceedings between the parties to the application in such manner as it thinks appropriate taking into account the circumstances of the dispute.

(5) The Permanent Lok Adalat shall, during conduct of conciliation proceedings under sub-section(4), assist the parties in their attempt to reach an amicable settlement of the dispute in an independent and impartial manner.

(6) It shall be the duty of the every party to the application to cooperate in good faith with the Permanent Lok Adalat in conciliation of the dispute relating to the application and to comply with the direction of the Permanent Lok Adalat to produce evidence and other related documents before it.

(7) When a Permanent Lok Adalat, in the aforesaid conciliation proceedings, is of opinion that there exist elements of settlement in such proceedings which may be acceptable to the parties, it may formulate the terms of a possible settlement of the dispute and give to the parties concerned for their observations and in case the parties reach at an agreement on the



settlement of the dispute, they shall sign the settlement agreement and the Permanent Lok Adalat shall pass an award in terms thereof and furnish a copy of the same to each of the parties concerned.

(8) Where the parties fail to reach at an agreement under sub-section (7), the Permanent Lok Adalat shall, if the dispute does not relate to any offence, decide the dispute.

17.9. By referring to Section 22-C he submits that the statutory scheme governing proceedings before a Permanent Lok Adalat contemplates a two-stage process. The first stage concerns conciliation proceedings, wherein efforts are made to facilitate an amicable settlement between the parties and only thereafter, in certain circumstances contemplated under the statute, can the Permanent Lok Adalat proceed further.

17.10. Learned counsel submits that a conjoint reading of the proviso to Section 22C(1) and Section 22C(8) would indicate that the adjudicatory powers of the Permanent Lok Adalat are not unqualified or unrestricted. According to him, the statute expressly excludes matters relating to offences which are not compoundable under law. Therefore, while the Permanent Lok Adalat may proceed to decide disputes where



conciliation has failed, such power is confined only to disputes that do not involve allegations constituting criminal offences or matters requiring adjudication of criminal conduct.

17.11. Placing reliance upon Sections 22C(7) and 22C(8) of the Act, learned counsel submits that though the Permanent Lok Adalat may proceed to decide a dispute upon failure of settlement, such power can be exercised only where the dispute otherwise falls within the statutory limits of its jurisdiction. According to him, the present dispute is founded upon allegations of cheating, impersonation, fraud and criminal conspiracy, in respect of which criminal proceedings had already been initiated before the Cyber Crime Police and investigation was underway. The gravamen of the dispute, according to learned counsel, relates to alleged commission of non-compoundable offences and not merely deficiency in service.

17.12. Learned counsel would therefore submit that the Permanent Lok Adalat could not have assumed adjudicatory jurisdiction by entering into disputed questions involving alleged



criminal conduct, determination of culpability and examination of allegations of fraud requiring detailed evidentiary analysis. He submits that the jurisdiction of the Permanent Lok Adalat stood excluded and consequently the impugned award passed by it is without jurisdiction and liable to be set aside.

17.13. Learned counsel further submits that a sum of Rs.7,12,238/- had already been recovered and released in favour of the Co-operative Bank, and a further amount of Rs.30,00,000/- had been reverse-credited to its account. Apart from the same, the Co-operative Bank had also received compensation from the Insurance Company amounting to Rs.57,65,329/-. In view thereof, according to him, the Co-operative Bank has been adequately compensated for the alleged loss suffered and consequently there was no justification for directing BSNL to pay an additional amount of Rs.5,00,000/- together with interest as compensation.

17.14. Learned counsel further submits that BSNL itself had initiated necessary action against the persons involved in the alleged fraudulent acts.



In this regard, he submits that on 09.04.2025, the Chief General Manager, BSNL recommended initiation of departmental disciplinary proceedings against Mr. Karunakaran, who was stated to be the official responsible for issuance of the duplicate SIM card. The recommendation was forwarded to the Superintendent of Police for appropriate action. He further submits that the statement of Mr. Karunakaran had been recorded on 12.02.2019, 31.07.2023 and 01.10.2024, and that Mr. Karunakaran, having also been arrayed as an accused in the criminal proceedings, had been remanded to judicial custody. On that basis, it is contended that BSNL had taken all necessary steps against those allegedly involved in the commission of the fraud.

17.15. He therefore submits that the Writ petition filed by BSNL is required to be allowed and the writ petition filed by the Co-operative Bank is required to be dismissed.

18. Shri Mahesh R. Uppin, learned counsel appearing for the Co-operative Bank, would submit as follows:



- 18.1. The Secretary of the Co-operative Bank had entered the witness box and adduced oral evidence and produced documentary evidence, all of which had been taken on record by the Permanent Lok Adalat. Learned counsel submits that it is upon appreciation of the evidence placed on record that the Permanent Lok Adalat arrived at a conclusion regarding negligence attributable to BSNL. However, having arrived at such a conclusion, the Permanent Lok Adalat committed an error in restricting compensation to only Rs.5,00,000/- without granting the entirety of the compensation claimed by the Co-operative Bank.

- 18.2. Learned counsel submits that the fraudulent transactions in question could not have occurred independently or in the ordinary course. According to him, the sequence of fraudulent transactions commenced only after a duplicate SIM card pertaining to the registered mobile number of the Co-operative Bank came to be issued without any request, authority, consent or knowledge of the Co-operative Bank. The issuance of such duplicate SIM enabled diversion and interception of One-Time



Passwords (OTP) associated with internet banking transactions and thereby facilitated unauthorised access to the banking system and consequent transfer of funds.

18.3. It is submitted that the OTP mechanism constituted the final layer of authentication in respect of internet banking transactions and consequently access to such OTP authentication effectively amounted to access to the banking account itself. Thus, the unauthorised issuance of a duplicate SIM was not merely an isolated procedural lapse, but constituted the originating and foundational event that enabled the entire chain of fraudulent transactions.

18.4. Learned counsel submits that the registered mobile number belonged to the Co-operative Bank and was directly linked to sensitive banking operations involving substantial financial transactions. Therefore, before issuance of a duplicate SIM card, BSNL was under an obligation to exercise the highest degree of care and due diligence in verifying the identity and authority of the applicant. Such obligation assumed greater significance having



regard to the increasing dependence upon mobile-based authentication systems for banking and financial transactions.

18.5. Learned counsel would further submit that telecommunication service providers occupy a position of trust and confidence in the present digital ecosystem. Such service providers are required to maintain strict safeguards and verification mechanisms while dealing with services involving issuance or replacement of SIM cards, since any failure therein would have a direct impact upon banking security systems and digital financial transactions.

18.6. Learned counsel further submits that the duplicate SIM card was admittedly not issued by an individual acting in his personal capacity but by an employee functioning within the framework of BSNL's official structure and while discharging functions entrusted by BSNL. The issuance of SIM cards and duplicate SIM cards forms part of the regular duties and functions entrusted to BSNL officials and is undertaken through systems, procedures and infrastructure established and controlled by BSNL.



- 18.7. Learned counsel submits that under settled principles governing vicarious liability, an employer is liable for acts and omissions of its employees committed in the course and scope of employment. The relevant consideration is not whether the act complained of was wrongful, negligent or even fraudulent, but whether the employee was acting in the discharge of duties entrusted to him by the employer.
- 18.8. It is submitted that the issuance of a duplicate SIM card was itself an authorised function of the concerned official. The allegation is not that the employee performed an act wholly outside his employment or undertook an independent activity unrelated to his official functions. The allegation is that an authorised act was performed negligently, improperly or in collusion with third parties. Learned counsel submits that where an employee misuses authority vested in him or performs an authorised act in a wrongful manner, the employer cannot evade responsibility vis-à-vis third parties who suffer loss as a consequence thereof.



18.9. Learned counsel would further submit that BSNL itself has admitted initiation of disciplinary proceedings against Mr. Karunakaran, who is alleged to have been responsible for issuance of the duplicate SIM card. Statements of the said official were recorded during investigation and he had also been arrayed as an accused and remanded to judicial custody. According to learned counsel, these circumstances demonstrate that the lapses were not speculative in nature and had been recognised by BSNL itself. Once BSNL has acknowledged internal lapses and initiated disciplinary proceedings, it cannot simultaneously contend that it bears no responsibility for the consequences arising therefrom.

18.10. Learned counsel submits that BSNL cannot avoid liability merely by contending that its employee acted negligently or in collusion with third parties. Acceptance of such a contention would effectively permit every employer to escape liability by attributing misconduct to its employees and would render the doctrine of vicarious liability wholly ineffective. Any internal



misconduct by employees may give rise to independent rights and remedies available to BSNL against such employees, but such internal issues cannot defeat the rights of innocent third parties who have suffered loss.

18.11. Learned counsel further submits that both BSNL and Canara Bank were under corresponding obligations to maintain adequate security measures and safeguards in respect of digital banking operations and authentication procedures. The fact that unauthorised transactions involving substantial amounts were effected through OTP-authenticated transactions itself demonstrates serious deficiencies in the mechanisms maintained by the concerned entities.

18.12. Learned counsel further submits that the compensation received from the insurance company cannot constitute a ground either to extinguish or reduce the liability of BSNL. The payment made by the insurer arose out of an independent contractual arrangement between the Co-operative Bank and the insurer based



upon payment of insurance premiums by the Co-operative Bank.

18.13. It is submitted that the liability of BSNL and the obligation of the insurer arise from entirely different legal sources and operate in distinct fields. The insurer merely discharges a contractual obligation arising under the insurance policy, whereas BSNL's liability arises out of the alleged negligence and wrongful acts attributable to its officials. Consequently, discharge of one obligation cannot result in extinguishment of the other.

18.14. Learned counsel submits that acceptance of the contention advanced by BSNL would result in an anomalous situation whereby a wrongdoer derives benefit from the prudence and foresight of the injured party. The Co-operative Bank had independently obtained insurance coverage by payment of premium and the benefits arising therefrom cannot be appropriated by BSNL to avoid or reduce its own liability.

18.15. Learned counsel further submits that a wrongdoer cannot take advantage of collateral benefits received by the injured party from



independent sources. Any amount received under an insurance policy is a collateral benefit flowing from an independent contractual relationship and cannot be utilised as a shield by the party responsible for the wrongdoing.

18.16. Learned counsel submits that the subsequent recovery of Rs.7,12,238/- through police investigation and release of the said amount pursuant to Court orders, as also the reverse credit of Rs.30,00,000/- and insurance reimbursement, are subsequent and independent events and do not alter the original liability arising from the wrongful acts complained of.

18.17. Learned counsel further submits that the subsequent receipt of insurance proceeds after nearly two years did not effectively redress the immediate prejudice suffered by the Co-operative Bank. On account of the illegal withdrawals and the delay in settlement of the insurance claim, the Co-operative Bank was constrained to utilise funds maintained with various other banks towards statutory deposits and operational requirements, thereby



adversely affecting its liquidity and day-to-day banking activities.

18.18. It is submitted that the issue is not confined merely to reimbursement of the amount withdrawn from the account but extends to all natural and consequential losses arising therefrom. The Co-operative Bank was deprived of use of substantial funds required for conduct of its banking business and consequently suffered additional financial prejudice.

18.19. Learned counsel submits that once the unauthorised issuance of the duplicate SIM card and the resultant diversion of OTP authentication is accepted as the originating cause of the fraudulent transactions, BSNL becomes liable for all direct and natural consequences flowing therefrom.

18.20. On all these grounds, learned counsel submits that BSNL ought to have been held liable for the entire loss suffered by the Co-operative Bank together with consequential damages and that the Permanent Lok Adalat, having accepted negligence on the part of BSNL, ought to have



awarded the entire claim instead of restricting compensation to Rs.5,00,000/-.

19. Sri Mohan Rao, learned counsel appearing for Canara Bank, would submit that:

19.1. The Co-operative Bank is one of the customers of Canara Bank and had maintained a current account with it. He does not dispute that the mobile number in question had been registered for the purpose of internet banking operations in relation to the said account. He also does not dispute the occurrence of the transactions between 06.02.2019 and 07.02.2019 involving an aggregate amount of Rs.87,70,000/-, nor the fact that a complaint came to be lodged before the Cyber Crime Police Station on 08.02.2019 immediately upon discovery of the unauthorised transactions.

19.2. Learned counsel submits that the internet banking architecture followed by Canara Bank operates on a multi-factor authentication process, wherein access to the account requires use of the customer's login credentials together with authentication through One-Time Passwords (OTP) transmitted to the registered



mobile number. According to him, while the OTP mechanism forms part of the authentication process, the primary login credentials, namely the user identification details and password, remain exclusively within the knowledge and control of the account holder.

19.3. Learned counsel submits that the login credentials and passwords relating to internet banking are generated and maintained in a confidential manner and are not accessible to bank officials. Canara Bank neither stores nor communicates such confidential credentials to third parties and therefore could not have disclosed the same to any person involved in the alleged fraud.

19.4. It is submitted that for the fraudulent transactions to have been completed, apart from access to OTP authentication, access to the internet banking login credentials would also have been necessary. Since such credentials remained within the exclusive knowledge of the Co-operative Bank and its authorised officials, learned counsel submits that if such information had reached



unauthorised persons, the same could only have occurred due to compromise or disclosure at the end of the Co-operative Bank itself and not due to any act attributable to Canara Bank.

19.5. Learned counsel therefore submits that the Co-operative Bank had a corresponding obligation to maintain confidentiality and security of the internet banking credentials entrusted to its officials. Any failure to maintain such confidentiality or any internal compromise of login credentials would constitute negligence attributable to the Co-operative Bank itself and cannot be shifted onto Canara Bank.

19.6. Learned counsel further submits that immediately upon being informed of the alleged unauthorised transactions, necessary steps were undertaken by the bank in accordance with applicable procedures. According to him, Canara Bank cooperated with the investigation and the subsequent recovery proceedings undertaken by the investigating authorities.

19.7. Learned counsel submits that the proceedings before the Permanent Lok Adalat did not disclose any specific allegation of negligence on



the part of Canara Bank relating to operation of its banking systems or any failure of its security architecture. According to him, no independent material had been placed on record demonstrating any lapse on the part of Canara Bank in relation to processing of the transactions in question.

19.8. Learned counsel further submits that no specific substantive relief had been sought against Canara Bank before the Permanent Lok Adalat. Therefore, according to him, the conclusion reached by the Permanent Lok Adalat in not fastening liability upon Canara Bank and in proceeding only against BSNL cannot be said to suffer from any illegality.

19.9. On these grounds, learned counsel submits that Canara Bank cannot be held liable for the losses alleged to have been suffered by the Co-operative Bank and that the order passed by the Permanent Lok Adalat insofar as it declined to fasten liability upon Canara Bank does not call for interference.

20. When the matter was pending, a charge sheet came to be laid by the Cybercrime Police, giving up the



Manager of BSNL and making allegations against various other persons. On that basis. Sri.A.N.Gangadharaiah, learned counsel submitted that when there is no charge sheet filed against the officer of BSNL, BSNL cannot be held responsible. On that ground, he submits that the petition filed by the Co-operative Bank is required to be dismissed, and the petition filed by the BSNL is required to be allowed.

21. Heard Sri.A.N.Gangadharaiah, learned counsel for BSNL, Sri Mahesh Uppin, learned counsel for the Co-operative Bank and Sri Mohan Rao, learned counsel for Canara Bank. Perused papers.

22. The points that would arise for consideration are:

- i. **Whether the Permanent Lok Adalat had jurisdiction to adjudicate the dispute under Section 22C of the Legal Services Authorities Act, 1987?**
- ii. **Whether the unauthorised issuance of the duplicate SIM card amounted to negligence/deficiency in service attributable to BSNL, and whether the same constituted the proximate cause for the loss suffered by the Co-operative Bank?**



- iii. **Whether BSNL can be held vicariously liable for the acts of its officials, and whether Canara Bank bears any liability in relation to the disputed transactions?**
- iv. **Whether amounts recovered through reverse credits, police proceedings and insurance reimbursement would reduce or extinguish the liability, if any, of BSNL?**
- v. **Whether the impugned award dated 09.08.2024, passed in PLD No.64/2021, calls for interference and, if so, to what extent?**
- vi. **What Order?**

23. This Court answers the above points as under:-

24. **Answer to Point No. (i): Whether the Permanent Lok Adalat had jurisdiction to adjudicate the dispute under Section 22C of the Legal Services Authorities Act, 1987?**

24.1. Sri A.N. Gangadharaiah, learned counsel appearing for BSNL, raised at the very threshold a challenge to the jurisdiction of the Permanent Lok Adalat, Mangaluru, to entertain and adjudicate the dispute. He contended that the entire proceedings before the Permanent Lok Adalat were without jurisdiction and, as a consequence, the award passed therein is without legal foundation and must be set aside in its entirety. He urged that jurisdiction is a



threshold issue and that, if the forum lacked jurisdiction, all subsequent proceedings and findings are void.

24.2. Sri A.N. Gangadharaiah drew this Court's attention to Section 22-A(b) of the Legal Services Authorities Act, 1987 (hereinafter referred to as 'the Act' or 'the LSA Act'), which defines the expression 'public utility service'. He read out the provision as follows:

*22A. **Definitions.**—In this Chapter and for the purposes of sections 22 and 23, unless the context otherwise requires,—*

(a) "Permanent Lok Adalat" means a Permanent Lok Adalat established under sub-section (1) of section 22B;

(b) "public utility service" means any—

(i) transport service for the carriage of passengers or goods by air, road or water; or

(ii) postal, telegraph or telephone service; or

(iii) supply of power, light or water to the public by any establishment; or

(iv) system of public conservancy or sanitation; or

(v) service in hospital or dispensary; or

(vi) insurance service, and includes any service which the Central Government or the State Government, as the case may be, in the public interest, by notification, declare to be a public utility service for the purposes of this Chapter.



- 24.3. By referring to Section 22-A(b), Sri Gangadharaiah submitted that the jurisdiction of the Permanent Lok Adalat under Chapter VI-A of the Act is expressly limited to disputes concerning a 'public utility service' as defined therein. He acknowledged that BSNL, being a provider of telephone services, falls within Section 22-A(b)(ii) of the Act. However, he emphasised that the identity of the party is not determinative; what matters is the character of the dispute.
- 24.4. The dispute, he argued, involves complex allegations of cheating, fraud, criminal conspiracy and impersonation, not an ordinary deficiency in telecom service.
- 24.5. Sri Gangadharaiah then specifically drew this Court's attention to Section 22-C of the Legal Services Authorities Act, 1987, and particularly to the first proviso to Section 22-C(1) and to sub-section (8) thereof which is reproduced hereunder for easy reference:

22C. Cognizance of cases by Permanent Lok Adalat.—



(1) Any party to a dispute may, before the dispute is brought before any court, make an application to the Permanent Lok Adalat for the settlement of dispute:

Provided that the Permanent Lok Adalat shall not have jurisdiction in respect of any matter relating to an offence not compoundable under any law:

Provided further that the Permanent Lok Adalat shall also not have jurisdiction in the matter where the value of the property in dispute exceeds ten lakh rupees:

Provided also that the Central Government, may by notification, increase the limit of ten lakh rupees specified in the second proviso in consultation with the Central Authority.

(2) After an application is made under sub-section(1) to the Permanent Lok Adalat, no party to that application shall invoke jurisdiction of any court in the same dispute.

(3) Where an application is made to a Permanent Lok Adalat under sub-section(1), it—

(a) shall direct each party to the application to file before it a written statement, stating therein the facts and nature of dispute under the application, points or issues in such dispute and grounds relied in support of, or in opposition to, such points or issues, as the case may be, and such party may supplement such statement with any document and other evidence which such party deems appropriate in proof of such facts and grounds and shall send a copy of such statement together with a copy of such document and other evidence, if any, to each of the parties to the application;

(b) may require any party to the application to file additional statement before it at any stage of the conciliation proceedings;

(c) shall communicate any document or statement received by it from any party to the application to the other party, to enable such other party to present reply thereto.



(4) When statement, additional statement and reply, if any, have been filed under sub-section(3), to the satisfaction of the Permanent Lok Adalat, it shall conduct conciliation proceedings between the parties to the application in such manner as it thinks appropriate taking into account the circumstances of the dispute.

(5) The Permanent Lok Adalat shall, during conduct of conciliation proceedings under sub-section(4), assist the parties in their attempt to reach an amicable settlement of the dispute in an independent and impartial manner.

(6) It shall be the duty of the every party to the application to cooperate in good faith with the Permanent Lok Adalat in conciliation of the dispute relating to the application and to comply with the direction of the Permanent Lok Adalat to produce evidence and other related documents before it.

(7) When a Permanent Lok Adalat, in the aforesaid conciliation proceedings, is of opinion that there exist elements of settlement in such proceedings which may be acceptable to the parties, it may formulate the terms of a possible settlement of the dispute and give to the parties concerned for their observations and in case the parties reach at an agreement on the settlement of the dispute, they shall sign the settlement agreement and the Permanent Lok Adalat shall pass an award in terms thereof and furnish a copy of the same to each of the parties concerned.

(8) Where the parties fail to reach at an agreement under sub-section (7), the Permanent Lok Adalat shall, if the dispute does not relate to any offence, decide the dispute.

24.6. Learned counsel submitted that the first proviso to Section 22-C(1) is an express statutory bar on the jurisdiction of the Permanent Lok Adalat in respect of 'any matter relating to an offence not compoundable under any law'. Criminal



proceedings for cheating and fraud, non-compoundable offences under the Indian Penal Code, had already been initiated before the Cyber Crime Police Station, Bengaluru, at the time the proceedings were initiated before the Permanent Lok Adalat. Accordingly, the first proviso operated as an express exclusion.

- 24.7. Sri Gangadharaiah submitted that Section 22-C(8) separately conditions the adjudicatory power: the Permanent Lok Adalat 'shall, if the dispute does not relate to any offence, decide the dispute.' The word 'if' is a condition precedent. Since the dispute relates to offences involving cheating, fraud and criminal conspiracy, in respect of which criminal proceedings were pending, the condition in Section 22-C(8) was not satisfied and the Permanent Lok Adalat had no power to adjudicate.
- 24.8. Learned counsel submitted that the summary adjudicatory mechanism before the Permanent Lok Adalat cannot substitute for a full evidentiary trial before a civil or criminal court, particularly in cases involving fraud and



disputed questions of fact that require cross-examination of witnesses and examination of documentary evidence.

24.9. Sri Gangadharaiah additionally contended that the value of the property in dispute in the present case far exceeded Rs.10 lakhs, which was the original monetary ceiling in the second proviso to Section 22-C(1). Unless the Central Government had issued a valid notification increasing this limit, the Permanent Lok Adalat also lacked jurisdiction on account of the monetary threshold.

24.10. Sri Gangadharaiah further submitted, on an additional and independent ground, that during the pendency of the proceedings before the Permanent Lok Adalat, a charge sheet was filed by the Cybercrime Police, in which the Manager of BSNL was given up from prosecution for want of sufficient evidence. He submitted that when the investigating authority itself, after thorough investigation, found it unnecessary to charge the BSNL Manager, the Permanent Lok Adalat ought not to have held BSNL responsible.



24.11. On all the above grounds, Sri Gangadharaiah urged this Court to hold that the Permanent Lok Adalat lacked jurisdiction and that the award is null and void.

24.12. Sri Mahesh R. Uppin, learned counsel appearing for the Co-operative Bank, submitted that the Permanent Lok Adalat was fully vested with jurisdiction. BSNL is indisputably a 'telephone service' provider, a 'public utility service' under Section 22-A(b)(ii) of the Act. This is not disputed by BSNL itself. Accordingly, disputes involving BSNL's telephone service provision are, in principle, within the Permanent Lok Adalat's jurisdiction.

24.13. Sri Uppin submitted that the proceedings before the Permanent Lok Adalat were civil proceedings for recovery of monetary compensation for deficiency in service. The Co-operative Bank claimed compensation for financial loss suffered on account of the negligent issuance of a duplicate SIM card. This is a civil claim for money arising out of a deficiency in telephone service, squarely within the Permanent Lok Adalat's jurisdiction.



24.14. Learned counsel submitted that the mere pendency of criminal proceedings before the Cyber Crime Police Station does not oust the jurisdiction of the Permanent Lok Adalat over a civil compensation claim. Civil proceedings and criminal proceedings arising from the same facts co-exist as a matter of course in Indian law. They operate in different spheres, serve different purposes, and apply different standards of proof.

24.15. Sri Uppin submitted that the first proviso to Section 22-C(1) excludes matters 'relating to an offence not compoundable under any law'. The dispute before the Permanent Lok Adalat did not 'relate to an offence', it related to deficiency in service and consequential civil compensation. A civil compensation claim does not 'relate to an offence' merely because the underlying facts also disclose criminal offences committed by third parties.

24.16. Sri Uppin submitted that Section 22-C(8) must be read in harmony with Section 22-C(1) and its first proviso. The phrase 'if the dispute does not relate to any offence' in Section 22-C(8)



refers to disputes that are intrinsically criminal in nature, whose resolution requires adjudication of criminal guilt. A civil compensation claim does not fall within this category.

24.17. Learned counsel submitted that accepting BSNL's interpretation would render Chapter VI-A practically unworkable. Any dispute involving a public utility service could involve negligent or fraudulent conduct, which is also potentially a criminal offence. If every such dispute were excluded, the purpose of Chapter VI-A, providing a speedy forum for resolution of public utility service disputes, would be entirely defeated.

24.18. Regarding the second proviso (value cap), Sri Uppin submitted that the Central Government has, by notification, increased the monetary ceiling. In any event, this objection was never raised before the Permanent Lok Adalat, and BSNL cannot raise it for the first time in writ proceedings after having participated fully in the PLA proceedings on merits.



24.19. Sri M. Mohan Rao, learned counsel appearing for Canara Bank, did not raise specific jurisdictional objections to the proceedings before the Permanent Lok Adalat. His submissions were primarily directed at demonstrating that Canara Bank had no liability in relation to the disputed transactions. He submitted that the Permanent Lok Adalat had jurisdiction to examine and decide the matter and that the finding exonerating Canara Bank does not call for interference.

24.20. Sri Mahantesh Shetter, learned Additional Government Advocate appearing for the State of Karnataka (Respondent No.3), submitted that the Permanent Lok Adalat is a statutory forum established under the Legal Services Authorities Act, 1987, a Central enactment. The challenge to jurisdiction raised by BSNL is misconceived; the dispute is properly characterised as a civil claim for compensation for deficiency in telephone service, which falls squarely within the PLA's jurisdiction.

24.21. Learned AGA further submitted that the State has a legitimate interest in ensuring that



victims of digital fraud who suffer financial losses have access to effective legal remedies. The Permanent Lok Adalat provides such a forum for public utility service disputes. Restricting access to this forum on the ground that the underlying facts also constitute criminal offences would deprive aggrieved parties of a speedy remedy, which cannot be the legislative intent.

24.22. Jurisdiction is the threshold upon which all else rests. A decree or award passed by a forum without jurisdiction is a nullity, void ab initio. This Court must therefore carefully examine the statutory scheme governing the Permanent Lok Adalat's jurisdiction before proceeding to the merits.

24.23. The Permanent Lok Adalat for Public Utility Services is constituted under Chapter VI-A of the Legal Services Authorities Act, 1987. Chapter VI-A was inserted by the Legal Services Authorities (Amendment) Act, 2002. Its purpose, as disclosed by the Statement of Objects and Reasons, was to provide a pre-litigation forum for the settlement of disputes



relating to public utility services, to avoid the delays associated with conventional litigation, and to promote access to justice. The Permanent Lok Adalat is a beneficent and purposive forum, and its jurisdiction should be interpreted in a manner that advances, not defeats, this beneficial purpose.

24.24. The jurisdictional gateway is Section 22-A(b), which defines 'public utility service'. BSNL provides telephone and telecommunication services. Section 22-A(b)(ii) specifically includes 'postal, telegraph or telephone service'. BSNL therefore falls squarely within the definition. This is not disputed by BSNL.

24.25. The next question is whether any of the exclusionary provisos to Section 22-C(1) applies. The main provision permits any party to approach the Permanent Lok Adalat 'before the dispute is brought before any court'. The first proviso excludes 'any matter relating to an offence not compoundable under any law'. The second proviso originally excluded disputes where 'the value of the property in dispute exceeds ten lakh rupees'. The Central



Government has, by notification, increased this ceiling. Accordingly, the second proviso is not a bar in the present case.

24.26. The critical exclusion relied upon by Sri Gangadharaiah is the first proviso. The expression to be interpreted is: 'matter relating to an offence not compoundable under any law'. This Court must give this expression its proper legal meaning, having regard to the purpose of the exclusion.

24.27. The word 'relating' in the phrase 'relating to an offence' is a connecting phrase that requires a close and direct nexus between the 'matter' before the Permanent Lok Adalat and 'an offence'. The object of the exclusion is to ensure that the Permanent Lok Adalat, a forum designed for settlement and civil adjudication, is not used as a mechanism to compound or otherwise deal with non-compoundable criminal offences. The State has an overriding interest in the prosecution of such offences, which cannot be defeated through the PLA settlement mechanism. The first proviso protects that interest.



24.28. A 'matter relating to an offence' is a matter whose very substance and resolution requires an inquiry into whether an offence was committed, by whom, and what punishment should follow. A criminal prosecution is the paradigm example. In contrast, a civil compensation claim, even one arising from facts that also constitute criminal offences, does not 'relate to an offence' in this sense. Its resolution requires only a determination of civil liability on the balance of probabilities. It does not require adjudication of criminal guilt, does not result in punishment, and does not affect any State interest in prosecution.

24.29. The proceedings before the Permanent Lok Adalat were initiated by the Co-operative Bank as a civil claim for recovery of monetary compensation for financial loss suffered on account of deficiency in BSNL's telephone service. The relief sought was payment of money as compensation. The Permanent Lok Adalat was not asked to determine whether any offence was committed, to convict any person, or to impose any penalty. These proceedings



did not 'relate to an offence' within the meaning of the first proviso.

24.30. The argument of Sri Gangadharaiah that the 'substance' of the dispute is criminal because fraud and cheating are criminal offences cannot be accepted. In the Indian legal system, virtually every fraud gives rise to both civil and criminal liability. If a civil compensation claim arising from fraud were excluded from the PLA's jurisdiction merely because the same facts constitute criminal offences, no civil claim involving any element of fraud could ever go before a Permanent Lok Adalat. This absurd result cannot reflect the legislative intent behind Chapter VI-A.

24.31. The first proviso, read in its proper context, prevents the use of the PLA mechanism to compound non-compoundable offences through consensual settlement. It does not, and cannot, bar genuine civil compensation claims merely because the underlying deficiency also involved criminal conduct.

24.32. This reading is confirmed by Section 22-C(8), which empowers the Permanent Lok Adalat to



decide the dispute 'if the dispute does not relate to any offence'. The phrase in Section 22-C(8) is the adjudicatory counterpart of the exclusion in the first proviso to Section 22-C(1). Both refer to the same category: disputes that are intrinsically criminal in nature. A civil compensation claim for deficiency in service does not fall within this category even if the deficiency was caused by criminal conduct on the part of an employee.

24.33. The issuance of a SIM card, including a duplicate SIM card, is a core function of BSNL's telephone service. The allegation against BSNL is that its official issued a duplicate SIM card without proper verification and without the subscriber's authorisation. This act, whether negligent or fraudulent, is fundamentally an act performed in the course of providing a telephone service. Any civil claim for compensation arising from such an act is a claim for deficiency in telephone service, squarely within Section 22-C read with Section 22-A(b)(ii) of the Act.



24.34. The argument regarding the second proviso (monetary ceiling) is without merit. BSNL did not raise this objection before the Permanent Lok Adalat and chose to participate in the proceedings and contest the matter on merits. Having allowed the proceedings to reach conclusion, BSNL cannot raise a threshold monetary objection for the first time in these writ proceedings.

24.35. The contention based on the charge sheet, that the Cybercrime Police gave up the BSNL Manager from prosecution, has no bearing on the question of jurisdiction. Jurisdiction is determined by the nature and character of the claim, not by the outcome of parallel criminal proceedings. The question of what weight the charge sheet should carry on the merits, including on the question of BSNL's negligence and civil liability, is a separate matter that is addressed under Points 2 and 5. For the limited purpose of Point 1, it suffices to note that the filing or non-filing of a criminal charge sheet, or the inclusion or exclusion of a particular person from a charge sheet, cannot affect the jurisdiction of the Permanent Lok Adalat to



entertain a civil compensation claim for deficiency in telephone service.

24.36. For all the foregoing reasons, this Court holds that the Permanent Lok Adalat, Mangaluru, had full and proper jurisdiction to entertain and adjudicate the dispute filed by the Co-operative Bank. The dispute was a civil claim for compensation for deficiency in telephone service rendered by BSNL, which is a 'public utility service' under Section 22-A(b)(ii) of the Act. The dispute did not 'relate to an offence' within the meaning of the first proviso to Section 22-C(1) or Section 22-C(8) of the Act. The monetary ceiling in the second proviso is not a bar. The pendency of criminal proceedings did not oust the jurisdiction of the Permanent Lok Adalat. All submissions of Sri Gangadharaiah on jurisdiction are rejected.

24.37. Before analysing the specific provisions in dispute, it is necessary to set out the full scheme of Chapter VI-A, as the provisions must be read as a whole and not in isolation. Section 22-B provides for the constitution of Permanent Lok Adalats. Section 22-C deals with the



cognisance of cases. Section 22-D lays down the procedure to be followed. Section 22-E declares the finality of awards. The scheme is as follows: a party files an application before the Permanent Lok Adalat under Section 22-C(1). The PLA then invites the parties to appear and assists them in conciliation under Section 22-C(2) to (7). If a settlement is reached, it is reduced to an award under Section 22-C(7). If no settlement is reached, the PLA proceeds to adjudicate the dispute under Section 22-C(8), but only 'if the dispute does not relate to any offence'. The PLA's award is final and binding under Section 22-E. This scheme reveals the legislature's intent: the PLA is primarily a conciliation body. Its adjudicatory role is secondary and residual. The adjudicatory power can be exercised only over disputes of a civil character. The entire chapter is premised on the concept of 'public utility service' disputes, not criminal matters.

24.38. The distinction between a conciliation body and an adjudicatory body is important in understanding the jurisdictional exclusions. When the legislature granted the Permanent



Lok Adalat the power to adjudicate (as opposed to merely facilitate settlement), it was conscious that this was a departure from the purely consensual model of the original Lok Adalats under Chapter VI of the Act. Original Lok Adalats can only pass consent awards; they cannot adjudicate. The Permanent Lok Adalat under Chapter VI-A, by contrast, can adjudicate even without the consent of parties. This greater power comes with greater restraint in the form of the exclusions under Section 22-C(1) provisos and Section 22-C(8). These exclusions must be understood in the context of the PLA's expanded adjudicatory power, not as a general bar on entertaining all disputes involving any connection with criminality.

24.39. The principles of statutory interpretation applicable to the phrase 'matter relating to an offence not compoundable under any law' must be applied carefully. Several principles are relevant.

24.40. First, the principle of beneficial construction: Chapter VI-A is a beneficent legislative measure enacted to provide access to justice and speedy



resolution for citizens dealing with public utility service providers. A beneficial statute must be construed liberally so as to advance, not defeat, the purpose for which it was enacted.

24.41. Second, the principle of purposive construction: the purpose of the first proviso is, as this Court has held, to prevent the compounding of non-compoundable offences through the PLA settlement mechanism.

24.42. Third, the principle that exceptions and exclusions are to be construed strictly: an exclusion from a beneficent provision must be given its natural and precise meaning without enlargement.

24.43. Fourth, the principle that a statute should not be so construed as to produce an absurd or unworkable result. Applying all these principles, the expression 'matter relating to an offence not compoundable under any law' must be given a narrow and precise meaning: it applies to matters that are intrinsically criminal in nature, not to civil compensation claims that happen to arise from facts also constituting criminal offences.



24.44. The word 'matter' in the expression 'matter relating to an offence' refers to the subject-matter of the proceedings before the Permanent Lok Adalat. The subject-matter of the proceedings initiated by the Co-operative Bank was civil compensation for financial loss. The subject-matter was not criminal prosecution, not adjudication of guilt, and not settlement of a criminal dispute. The subject-matter was a monetary claim arising from a civil wrong. This is not a 'matter relating to an offence' by any ordinary or technical meaning of those words.

24.45. The phrase 'not compoundable under any law' qualifies the type of offence that triggers the exclusion. A compoundable offence is one that can be settled between the parties with permission of the court or without such permission, under the Code of Criminal Procedure. The legislature specifically excluded 'non-compoundable' offences from the PLA's jurisdiction. The purpose is clear: non-compoundable offences are those considered so serious that the State has decided they must be prosecuted to conviction regardless of a private



settlement. The legislature did not want the PLA's settlement mechanism to be used to bring about a resolution that effectively bars or impedes prosecution of such offences. This purpose is served by excluding criminal matters, where the PLA would be mediating or adjudicating on the guilt or punishment of an accused person. It is not served by excluding civil compensation claims arising from facts that also constitute non-compoundable offences.

24.46. The argument that the substance of the dispute is criminal because it involves cheating and fraud conflates the civil and criminal dimensions of the same set of facts. In law, a single wrongful act can simultaneously give rise to civil and criminal liability. A person who defrauds another commits the tort of deceit (or fraud) and simultaneously commits the criminal offence of cheating under the IPC and now the BNS. The defrauded person has two remedies: (a) a civil suit or a claim before an appropriate forum for compensation for the loss suffered; and (b) a criminal complaint seeking prosecution and punishment of the fraudster.



These two remedies operate independently of each other. Pursuing one does not bar pursuing the other. A finding of civil liability does not depend upon a finding of criminal guilt, and vice versa. The existence of a criminal remedy does not convert the civil remedy into a criminal matter.

24.47. In the present case, the Co-operative Bank pursued both remedies. It filed a criminal complaint before the Cyber Crime Police Station, which led to the investigation and, eventually, the charge sheet. Separately, it filed a claim for civil compensation before the Permanent Lok Adalat. These are two independent proceedings before two independent forums. The Permanent Lok Adalat was dealing with the civil compensation claim. Its jurisdiction to deal with that claim cannot be affected by the fact that a criminal investigation was underway in respect of the same underlying facts. Indian law routinely permits civil and criminal proceedings to run concurrently, and provides mechanisms to address any conflict where necessary. There is no principle of law that a civil forum loses



jurisdiction over a civil claim merely because parallel criminal proceedings are pending.

24.48. The reading of Section 22-C(8) as applied to the present facts reinforces the conclusion on jurisdiction. The provision states that the Permanent Lok Adalat 'shall, if the dispute does not relate to any offence, decide the dispute'. The word 'shall' indicates a mandatory duty to adjudicate once the condition is satisfied. The condition is that the dispute does not relate to any offence. This condition is satisfied in the present case, the dispute is a civil compensation claim and does not relate to any offence. Therefore, the Permanent Lok Adalat was not merely empowered but obligated to decide the dispute. This Court finds it noteworthy that the Permanent Lok Adalat discharged this statutory duty by adjudicating the matter and passing a reasoned award. It acted precisely as the legislature intended it to act.

24.49. Sri Gangadharaiah's submission that the PLA's summary procedure is unsuitable for adjudicating fraud-related disputes is also



without merit. The Permanent Lok Adalat has the power and duty to adjudicate disputes within its jurisdiction. Questions of procedure, whether the proceedings are summary or otherwise, do not affect jurisdiction; they relate to the manner of exercise of jurisdiction. If BSNL believed that the proceedings before the PLA were procedurally inadequate, it should have raised specific procedural objections at the appropriate time and in the appropriate manner. A general argument that fraud-related disputes require elaborate procedures does not go to the PLA's jurisdiction. Moreover, the PLA follows an adversarial procedure, parties file claims and objections, lead evidence, and make submissions. The label 'summary' does not mean that parties are deprived of the opportunity to present their case.

24.50. This Court also notes that BSNL's interpretation of the jurisdictional provisions, if accepted, would produce consequences far beyond the present case. BSNL's argument, that any dispute involving criminal fraud is outside the PLA's jurisdiction, would exclude from the PLA's jurisdiction the following categories of disputes:



(a) complaints against insurance companies involving fraudulent repudiation of claims (where the company's officers may have committed criminal fraud); (b) complaints against power utilities involving meter tampering (a criminal offence under the Electricity Act); (c) complaints against postal services involving theft of parcels (a criminal offence); and (d) complaints against hospitals involving criminal medical negligence. In all these categories, the dispute would involve facts constituting criminal offences, and yet the PLA's jurisdiction over the civil compensation claims would be well-recognised. BSNL's argument would sweep all these cases out of the PLA's jurisdiction. This is manifestly not what the legislature intended, and this Court cannot adopt an interpretation that produces such wide-ranging and unintended consequences.

24.51. There is one further aspect of the charge sheet argument that requires attention for the sake of completeness. Sri Gangadharaiah submitted that the charge sheet, by giving up the BSNL Manager from prosecution, effectively



exonerates BSNL from liability. This argument confuses two entirely distinct matters: (a) the question of whether the Permanent Lok Adalat had jurisdiction (which is determined by the nature of the claim, not by the outcome of criminal proceedings); and (b) the question of whether BSNL is substantively liable on the merits (which involves an assessment of civil negligence on the balance of probabilities). The charge sheet argument is relevant, if at all, to the second question, not to the first. This Court has deliberately addressed it under Point 1 only to the extent necessary to clarify that it has no bearing on jurisdiction. The substantive assessment of the charge sheet argument on the question of negligence and civil liability is addressed fully and separately under Point 2.

24.52. This Court answers Point No.1 by holding that the Permanent Lok Adalat had jurisdiction to adjudicate the dispute. The challenge to jurisdiction is rejected.

25. **Answer to Point No. (ii): Whether the unauthorised issuance of the duplicate SIM card amounted to negligence/deficiency in service attributable to BSNL, and whether the**



same constituted the proximate cause for the loss suffered by the Co-operative Bank?

- 25.1. Sri Gangadharaiah submitted that the alleged fraud was not attributable to any negligence or deficiency in service on BSNL's part. He argued that the real cause of the fraudulent transactions was the compromise of the internet banking login credentials (username and password) of the Co-operative Bank, which occurred entirely outside BSNL's domain and knowledge.

- 25.2. Learned counsel submitted that to complete the fraudulent transactions, the perpetrators needed two distinct items: (a) the internet banking login credentials of the Co-operative Bank; and (b) the OTP transmitted to the registered mobile number. The login credentials were at all times in the exclusive custody of the Co-operative Bank and its officials. BSNL had no access to, and no connection with, these credentials. If they were compromised, the breach must have occurred at the Co-operative Bank's end, possibly through an internal employee's deliberate disclosure.



- 25.3. Sri Gangadharaiah further submitted that the Cyber Crime Police, after thorough investigation including recording Mr. Karunakaran's statement on multiple occasions (12.02.2019, 31.07.2023 and 01.10.2024), filed a charge sheet without naming the Manager of BSNL as an accused. He argued that if the investigating agency, with all its powers of investigation, found insufficient evidence against the BSNL Manager to prosecute him in a criminal court, the Permanent Lok Adalat's finding of negligence against BSNL is unsustainable.
- 25.4. Learned counsel contended that BSNL took appropriate institutional action upon learning of the allegations: it recorded Mr. Karunakaran's statement, the Chief General Manager recommended initiation of departmental disciplinary proceedings on 09.04.2025, Mr. Karunakaran was arrayed as an accused and remanded to judicial custody.
- 25.5. Sri Gangadharaiah submitted that these steps demonstrate that BSNL treated Mr. Karunakaran's alleged act as his personal



misconduct, not as an institutional failure of BSNL.

25.6. Sri. Gangadharaiah further submitted that the Permanent Lok Adalat arrived at a finding of negligence without calling for or examining BSNL's official records relating to the SIM issuance process, specifically, the subscriber request form, the identity verification documents submitted (if any), the system logs of the SIM issuance transaction, and the records of the SIM swap activation. He submitted that in the absence of these official records, it was impossible for the Permanent Lok Adalat to determine precisely what verification was or was not done, who processed the request, and what protocol was followed or violated. To hold BSNL negligent without examining these foundational records was, he submitted, a conclusion without an evidentiary basis.

25.7. Sri Uppin submitted that the unauthorised issuance of the duplicate SIM card was the originating cause without which the fraud could not have been carried out. He explained the



technological architecture of the internet banking system involved. The Co-operative Bank maintained a current account with Canara Bank (Shiralkoppa Branch). This account was linked to an internet banking facility, and a BSNL mobile number was registered with Canara Bank for the purpose of receiving One-Time Passwords (OTPs). Every RTGS/NEFT transaction required authentication by an OTP sent to this registered mobile number. The OTP was the final and indispensable security layer before any transaction could be completed.

- 25.8. Sri Uppin explained the SIM swap fraud mechanism. The two-factor authentication (2FA) model works on the principle of 'something you know' (the login credentials: username and password) and 'something you have' (the registered mobile phone, which receives the OTP). The two factors are independent, and the security of the system depends on no single point of compromise being sufficient to enable a fraudulent transaction. However, if a fraudster obtains a duplicate SIM card for the registered mobile number, the original SIM is automatically



deactivated and all calls and SMS messages, including OTPs, are diverted to the duplicate SIM. Armed with login credentials (obtained through phishing or other means) and the OTPs received on the duplicate SIM, the fraudster can then complete transactions at will. This is exactly what occurred in the present case.

25.9. Learned counsel emphasised that seven RTGS/NEFT transactions amounting to Rs.87,70,000/- were effected from the Co-operative Bank's current account between 06.02.2019 and 07.02.2019. Each transaction was authenticated by an OTP received on the duplicate SIM. Without the duplicate SIM, no OTP could have been intercepted; without the OTP, no transaction could have been completed. The duplicate SIM was therefore the necessary and irreplaceable link in the chain of causation.

25.10. Sri Uppin submitted that the mobile number registered for OTP purposes was associated with a banking institution that conducted high-value transactions. BSNL, as a telecom service provider operating in the digital economy, is fully aware that mobile numbers are used for



OTP-based banking authentication. The Department of Telecommunications (DoT) and the Telecom Regulatory Authority of India (TRAI) have issued detailed guidelines on Know Your Customer (KYC) norms governing SIM issuance, including duplicate/replacement SIM issuance. These guidelines require rigorous identity verification before a duplicate SIM is issued. This is not merely a best practice, it is a regulatory obligation imposed on every telecom service provider including BSNL.

25.11. Sri Uppin submitted that the Co-operative Bank made no request for a duplicate SIM card. No authorised representative appeared before BSNL seeking such a card. No written application was submitted. No identity verification documents were produced on the Co-operative Bank's behalf. Yet, a duplicate SIM was issued and the original SIM was deactivated, all without the Co-operative Bank's knowledge.

25.12. Sri Uppin relied upon the principle of *res ipsa loquitur*, 'the thing speaks for itself'. He submitted that the ordinary course of events



does not result in a subscriber's mobile number being reassigned to a stranger without the subscriber's knowledge. The very fact that the duplicate SIM was issued to an impostor without the legitimate subscriber's knowledge or consent is, in itself, sufficient evidence of a fundamental failure in the verification process. The doctrine of *res ipsa loquitur* raises a presumption of negligence, which BSNL must rebut by producing evidence of the verification procedure it followed. BSNL has not done so.

25.13. Sri Uppin submitted that the trust factor in the relationship between a telecom subscriber and the telecom service provider is fundamental. A subscriber who registers a mobile number for internet banking OTPs reposes complete trust in the telecom service provider to ensure that no other person can take control of that number. This trust is the bedrock of the entire OTP-based digital authentication architecture. When BSNL, through its official, destroyed this trust by issuing a duplicate SIM to a fraudster, it caused direct and irreparable financial harm to the Co-operative Bank.



25.14. Sri M. Mohan Rao submitted, in the context of causation, that the fraudsters must have obtained the login credentials from somewhere, and since those credentials were never in BSNL's possession, the compromise of credentials must have occurred at the Co-operative Bank's end. He raised this as a factor going to the chain of causation and the attribution of responsibility. Learned counsel submitted that Canara Bank's internet banking system was architecturally sound: it employed the two-factor authentication model, and both factors, login credentials and OTP, were required for every transaction. The failure in the present case was not due to any vulnerability in Canara Bank's system but due to the external subversion of the OTP channel through the duplicate SIM issued by BSNL. Canara Bank's system worked exactly as intended; it was the BSNL-side subversion that caused the failure.

25.15. Sri Mahantesh Shetter, learned AGA, submitted that the State has a compelling interest in the protection of citizens and institutions engaged in digital transactions. India's digital economy depends critically on the integrity of the OTP-



based authentication system. When telecom service providers, who occupy a position of public trust, issue duplicate SIM cards without following prescribed verification procedures, they strike at the very heart of digital security. The AGA submitted that such conduct constitutes negligence and deficiency in service, and that the Permanent Lok Adalat correctly found BSNL liable.

25.16. Learned AGA submitted that BSNL, as a public sector undertaking of the Government of India, is bound by a higher standard of public accountability. When a government entity's failure to follow basic verification procedures causes financial loss to a member of the public, the accountability must be complete and cannot be deflected by reference to the criminal conduct of a particular employee or the outcome of criminal proceedings.

25.17. This Point requires this Court to determine two inter-connected questions: (a) whether the issuance of the duplicate SIM card by BSNL's official amounted to negligence and/or deficiency in service attributable to BSNL; and



(b) whether such issuance constituted the proximate cause of the loss suffered by the Co-operative Bank.

25.18. To appreciate these questions properly, it is first necessary to understand the technological context. India has transitioned to a largely digital economy. The National Electronic Funds Transfer (NEFT) and Real Time Gross Settlement (RTGS) systems handle massive volumes of electronic fund transfers daily. The security of these transactions depends heavily on the OTP mechanism.

25.19. The two-factor authentication (2FA) model used in internet banking works on the principle of 'something you know' (the login credentials: username and password, exclusively held by the account holder) plus 'something you have' (the registered mobile phone, which receives the OTP for each transaction). Both factors must be presented together to authenticate a transaction. This architecture ensures that even if one factor is compromised, the transaction cannot be completed without the other. The OTP, transmitted to the registered mobile



number in real time, is the final and decisive authentication mechanism. The entire security of OTP-based banking rests on one irreducible assumption: the registered mobile number remains under the exclusive control of the legitimate account holder.

25.20. SIM swap fraud exploits the vulnerability created when this assumption fails. If a fraudster obtains a duplicate SIM card for the registered number, the original SIM is automatically deactivated. All OTPs meant for the legitimate account holder are then diverted to the fraudster's duplicate SIM. The fraudster, already in possession of the login credentials (obtained through phishing or other means), can then authenticate and complete transactions undetected. Financial loss can be enormous and swift, as demonstrated in the present case, where Rs.87,70,000/- was siphoned in this case.

25.21. SIM swap fraud is well-known and extensively documented. The DoT and TRAI have issued guidelines on KYC norms for SIM issuance, precisely because of the potential for financial



harm from unauthorised SIM swaps. BSNL, as one of India's largest telecom service providers, is aware of these guidelines and is legally obligated to comply with them. The duty to conduct rigorous identity verification before issuing a duplicate SIM is not a recommendation, it is a regulatory mandate.

25.22. With this background, this Court now applies the three-fold test for negligence: (a) existence of a duty of care; (b) breach of that duty; and (c) consequential loss arising from the breach.

25.23. **Duty of Care:** BSNL, as a telecom service provider, enters into a contractual relationship with each subscriber. Under this relationship, BSNL undertakes to provide exclusive connectivity on the subscribed number to the subscriber. The subscriber's mobile number is the subscriber's exclusive digital identifier for communication and, increasingly in the digital economy, for financial authentication. BSNL's obligation to maintain exclusive connectivity for the subscriber necessarily implies an obligation to ensure that the subscriber's number is not



transferred to any other person without the subscriber's knowledge and consent.

25.24. This duty flows from three independent sources. First, the contract between BSNL and the subscriber. Second, the regulatory framework prescribed by the DoT and TRAI, which mandates KYC compliance and identity verification before SIM-related services are rendered. Third, the general duty of care under the law of torts, which requires every person to take reasonable care to avoid acts or omissions that can foreseeably cause harm to others. In the digital era, the foreseeability of financial harm from an unauthorised SIM swap is not theoretical, it is documented, widespread and well-known.

25.25. The duty is particularly heightened when the subscriber is a banking institution that has registered the mobile number for OTP-based authentication of high-value financial transactions. The potential for catastrophic financial harm from a negligent SIM swap in such a case is disproportionately high.



Heightened risk demands a heightened standard of care.

25.26. This Court holds that BSNL owed a clear and non-negotiable duty of care to the Co-operative Bank, as its subscriber, to ensure that no duplicate SIM card was issued for the Co-operative Bank's registered mobile number without the Co-operative Bank's express and verified consent.

25.27. **Breach of Duty:** The Co-operative Bank made no request for a duplicate SIM card. No authorised representative of the Co-operative Bank appeared before any BSNL office seeking such a card. No written application was made. No identity verification documents were submitted on behalf of the Co-operative Bank. Yet, a duplicate SIM card was issued and the Co-operative Bank's original SIM was deactivated without its knowledge.

25.28. The manner in which the duplicate SIM was issued to an impostor without the subscriber's knowledge is itself evidence of a fundamental failure in the verification process. Proper verification, if followed, would have revealed



that the applicant seeking the duplicate SIM was not the legitimate subscriber. The very fact that a duplicate SIM reached a non-subscriber is proof that verification was either not conducted, or was conducted in so perfunctory a manner as to be worthless.

25.29. The doctrine of *res ipsa loquitur* applies. The ordinary course of events does not result in a subscriber's mobile number being reassigned to a stranger without the subscriber's knowledge. When such a result occurs, it speaks for itself: something went wrong in the process of SIM issuance. The evidential burden shifts to BSNL to explain how the duplicate SIM came to be issued. BSNL has not discharged this burden. It has produced no record showing that a proper verification was conducted before the duplicate SIM was issued.

25.30. BSNL's own conduct confirms the breach. BSNL initiated departmental disciplinary proceedings against Mr. Karunakaran. Disciplinary proceedings under service rules are the employer's mechanism for addressing an employee's misconduct in the discharge of



official duties. The very initiation of these proceedings by BSNL is an institutional acknowledgment that Mr. Karunakaran's conduct in connection with the SIM issuance was improper and that something went seriously wrong in the process. If the prescribed verification had been properly followed, no unauthorised duplicate SIM could have been issued.

25.31. **Deficiency in Service:** In addition to the common law tort of negligence, the issuance of the duplicate SIM card without verification constitutes 'deficiency in service'. 'Deficiency' means any fault, imperfection, shortcoming or inadequacy in the quality, nature and manner of performance of a service. When BSNL issued a duplicate SIM card for the Co-operative Bank's registered number without any verification and without the Bank's knowledge, it fell fundamentally short of the standard of service that a subscriber is entitled to expect from its telecom provider. This is a deficiency in service in the most basic sense, a failure to perform the most elementary safeguard before acting



on a request that has the potential to destroy the subscriber's financial security.

25.32. The Co-operative Bank had placed its trust in BSNL to maintain exclusive connectivity for its registered mobile number. That trust is not merely a commercial expectation, it is the very foundation of OTP-based digital authentication. When BSNL violated that trust by issuing a duplicate SIM to an impostor, it committed a fundamental deficiency in the service it owed to its subscriber.

25.33. **Proximate Cause:** The doctrine of proximate cause requires that the defendant's breach of duty be the dominant and effective cause of the plaintiff's loss. Two tests are applied: (a) the 'but for' test, but for the defendant's act, would the loss have occurred?; and (b) the 'natural and probable consequence' test, was the loss a natural and foreseeable consequence of the breach?

25.34. Applying the 'but for' test: but for the issuance of the duplicate SIM card, would the fraudulent transactions have occurred? The answer is clearly 'No'. The OTP was the final and



indispensable authentication step for each RTGS/NEFT transaction. Without the duplicate SIM, the OTPs would have been received by the Co-operative Bank's legitimate SIM. Without the OTPs, the fraudsters could not have authenticated and completed the seven transactions amounting to Rs.87,70,000/-. The chain of causation is direct and unbroken: duplicate SIM → OTP diversion → authentication of transactions → fraudulent withdrawal → financial loss.

25.35. Applying the 'natural and probable consequence' test: financial fraud through SIM swap is a natural, probable and well-documented consequence of negligent SIM issuance. BSNL, as a sophisticated telecom service provider, knew or ought to have known that SIM swap fraud is a prevalent and serious risk. The loss suffered by the Co-operative Bank is the natural and foreseeable consequence of BSNL's failure to verify identity before issuing the duplicate SIM.

25.36. This Court specifically addresses and rejects the argument of Sri Gangadharaiah that the



compromise of login credentials, which was also necessary for the fraud, breaks the chain of causation. It is true that the fraudsters required both credentials and OTPs. However, the availability of a concurrent contributing factor does not automatically break the chain of causation from BSNL's breach to the loss. The doctrine of "*novus actus interveniens*" requires the intervening act to be independent, voluntary, and wholly unconnected from the original breach. The use of stolen credentials by the fraudsters was their own criminal act; it was not an act of the Co-operative Bank nor one that the Co-operative Bank could have anticipated or prevented in the circumstances. Moreover, the credentials alone were legally insufficient to enable the fraud: without the OTPs, no transaction could be completed. BSNL's act provided the missing link that made the fraud possible. The proximate cause of the loss was BSNL's negligent SIM issuance.

25.37. The argument based on the charge sheet: the Cybercrime Police filed a charge sheet without naming the BSNL Manager. This Court must reject this argument for the following well-



founded reasons. Civil liability and criminal liability are independent of each other and are governed by entirely different standards of proof. In a civil case, the standard is 'preponderance of probabilities', it is more probable than not that the negligence occurred. In a criminal case, the standard is 'proof beyond reasonable doubt', a substantially higher standard. A decision by the police or the public prosecutor not to charge a particular person in a charge sheet reflects a prosecutorial assessment of whether evidence is sufficient to sustain a criminal conviction beyond reasonable doubt. It does not, and cannot, constitute a finding that the person was not negligent or that no deficiency occurred. The same evidence that may be insufficient for a criminal conviction may be entirely sufficient to establish civil negligence on the balance of probabilities. The charge sheet argument must therefore be rejected.

25.38. The argument that the Permanent Lok Adalat arrived at its negligence finding without calling for BSNL's official records of the SIM issuance process must also be addressed. BSNL is



correct that the specific SIM issuance records were not produced before the Permanent Lok Adalat. However, this gap operates against BSNL, not in its favour. The Co-operative Bank established, by oral and documentary evidence, that: (a) the registered mobile number was linked to its internet banking account; (b) no request for a duplicate SIM was ever made by the Co-operative Bank; (c) the Co-operative Bank's original SIM was deactivated without its knowledge; and (d) seven transactions totalling Rs.87,70,000/- were fraudulently completed using OTPs received on the duplicate SIM. These facts, which go uncontroverted in any material respect, are sufficient to establish the breach by the doctrine of res ipsa loquitur, as explained above. The burden then shifted to BSNL to produce evidence showing that proper verification was done. BSNL was in the best position to produce its own SIM issuance records. It chose not to do so. It cannot now complain that the Permanent Lok Adalat found negligence without those records. The non-production of records by the party holding them



is itself a circumstance from which an adverse inference may be drawn.

25.39. This Court pauses to note the broader significance of this case. India's digital economy depends on the integrity of the OTP-based authentication architecture. The Government of India's Digital India programme, the NEFT and RTGS payment systems, the UPI ecosystem, and virtually every internet banking platform use OTP-based 2FA as the last line of defence. That last line of defence is only as strong as the telecom service provider's fidelity to the obligation of exclusive SIM control. When a telecom company, through its official, issues a duplicate SIM to a fraudster, it demolishes that last line of defence and exposes the subscriber to catastrophic financial loss. The duty of care of telecom service providers in relation to SIM issuance is therefore not a peripheral concern, it is central to the integrity of the digital financial system.

25.40. Telecom service providers like BSNL are critical infrastructure providers. They hold in trust the mobile connectivity upon which millions of



citizens and institutions depend for their financial security. With this position of trust comes an unequivocal obligation: to guard the gate conscientiously, to verify identity rigorously before issuing duplicate SIM cards, and to treat every such request with the gravity it deserves. When a gatekeeper opens the gate to a fraudster, whether through negligence or through the misconduct of its own official, it enables the fraud and must bear the civil consequences.

- 25.41. For all the foregoing reasons, this Court holds:
- (a) The issuance of the duplicate SIM card by BSNL's official without proper verification and without the Co-operative Bank's authorisation amounted to negligence and deficiency in service attributable to BSNL.
 - (b) The issuance of the duplicate SIM card constituted the proximate cause of the loss suffered by the Co-operative Bank, as it directly enabled the diversion of OTPs and thereby made possible the authentication and completion of the fraudulent transactions.



25.42. The scale and speed of SIM swap fraud is important to appreciate. Once a duplicate SIM is activated, the original SIM is deactivated within seconds, automatically, without any action by the legitimate subscriber. The transition is seamless from the network's perspective. The legitimate subscriber may be asleep, or simply may not notice the loss of connectivity immediately. In the present case, the fraudulent transactions of Rs.87,70,000/- were completed overnight on 06-07.02.2019. By the time the Co-operative Bank's officials discovered the fraud on the morning of 07.02.2019, the money had already been transferred to multiple accounts and dispersed. This speed and finality is a characteristic feature of SIM swap fraud that underscores the critical importance of verification before the duplicate SIM is issued. Prevention is the only effective remedy; detection after the fact is almost always too late.

25.43. The DoT and TRAI's concern about SIM swap fraud and their regulatory response deserve specific note. The Telecommunications Act (and its predecessor, the Indian Telegraph Act) and



the rules and regulations made thereunder, together with the licensing conditions applicable to telecom service providers, impose comprehensive obligations on service providers in relation to subscriber identity management. In particular, the pre-Telecom Commercial Communications Customer Preference Regulations and the Telecom Subscribers Protection Regulations impose mandatory KYC requirements. Every request for SIM replacement or SIM swap must be verified against the subscriber's identity on record. The subscriber's identity documents must be checked against the original registration documents. A cooling-off period may be mandated. The subscriber may be required to be notified through an alternate channel before the swap takes effect. These are not aspirational guidelines, they are regulatory obligations backed by penalties for non-compliance. BSNL, as a licensee under the Telecom Department, is bound by these regulations. The failure to follow KYC verification protocols before issuing the duplicate SIM is therefore not merely a



negligent act under the law of torts; it is also a breach of BSNL's statutory and regulatory obligations.

25.44. The significance of BSNL's regulatory position adds a further dimension to the duty of care analysis. BSNL is not merely a private commercial entity providing a service in a competitive marketplace and subject only to ordinary tortious duties. It is a licensee entrusted by the State with the use of public spectrum and authorised to operate critical communication infrastructure for the benefit of the public. Its position as a licensed telecom operator carries with it public law obligations. In discharging these obligations, BSNL's officials are expected to exercise the degree of care that a responsible licensed operator in that position must exercise. The standard of care applicable to a licensed public utility service provider is higher than that applicable to an ordinary commercial entity, precisely because public utility service providers occupy a position of trust and their failures can cause widespread harm.



25.45. The duty of care analysis is further strengthened when one considers the specific circumstances: the subscriber is a banking institution. BSNL's subscriber database, which records the identity and nature of its subscribers, would show that the Co-operative Bank is a registered co-operative banking institution. A banking institution is precisely the category of subscriber most likely to have its registered mobile number linked to high-value financial transactions. BSNL knew or ought to have known, as a matter of commercial and market reality, that banking and financial institutions use their registered mobile numbers for OTP-based authentication. The heightened financial risk associated with a banking institution subscriber demanded a correspondingly heightened level of verification before any SIM-related change was effected in respect of that subscriber's number. If anything, the issuance of a duplicate SIM card for a number registered to a banking institution should have triggered enhanced scrutiny rather than reduced scrutiny.



25.46. The non-production of verification records by BSNL is a matter of particular significance. In civil proceedings, a party that withholds relevant documents that are within its exclusive power to produce invites an adverse inference that those documents, if produced, would have been adverse to its case. This principle, codified in Section 114, illustration (g) of the Indian Evidence Act, 1872, applies with full force here. BSNL maintained, and continues to maintain, the subscriber records, SIM issuance logs, identity verification documents (if any), and system records of the SIM swap activation. These records are exclusively within BSNL's possession and control. The Co-operative Bank cannot be expected to produce records held by BSNL. BSNL chose not to produce any of these records before the Permanent Lok Adalat nor before this Court. The only reasonable inference, and the inference this Court draws, is that these records, if produced, would have shown that no proper verification was conducted before the duplicate SIM was issued.

25.47. The issue of concurrent causation deserves a more detailed examination. In some cases, two



independent acts may each be sufficient to cause the same loss, these are 'sufficient' concurrent causes. In other cases, two acts together may be necessary to cause the loss, while neither alone would be sufficient, these are 'necessary' concurrent causes. The present case falls into the second category. The fraudsters needed both the login credentials and the OTPs. The compromise of the credentials alone was insufficient, without the OTPs, no transaction could be completed. The diversion of OTPs through the duplicate SIM alone was also insufficient, without the credentials, the fraudsters could not log in. Both elements were necessary. In such cases, where there are two necessary concurrent causes, the law attributes liability to the actor whose contribution was the more proximate, dominant and foreseeable cause. BSNL's act, the issuance of the duplicate SIM, was the more proximate cause because it was the final enabling act without which the fraud was factually impossible. Moreover, BSNL's contribution was a direct and identifiable act that can be specifically attributed to a specific



official, at a specific time, through a specific process. The compromise of the login credentials, on the other hand, involves speculation, it is not known precisely how, when, or by whom the credentials were obtained. Between a specific, identified, proximate cause (BSNL's act) and a speculative, unidentified background condition (the credential compromise), the law fastens liability on the specific, identified, proximate cause.

25.48. The digital economy argument must be given its full weight. The phrase 'digital economy' is not mere rhetoric in the present context. According to data published by the Reserve Bank of India, NEFT and RTGS transactions run into hundreds of lakhs of crores of rupees annually. The UPI platform alone processes hundreds of crores of transactions every month. India's digital payment ecosystem is one of the largest and most sophisticated in the world. This ecosystem operates on the premise that the mobile number is a secure authentication anchor. The Reserve Bank of India's regulations on internet banking mandate multi-factor authentication. The entire edifice of India's



digital financial architecture rests upon the assumption that the mobile number registered for OTP purposes is controlled by the legitimate subscriber. Telecom service providers, who are the gatekeepers of this assumption, bear a commensurate obligation. When a telecom service provider issues a duplicate SIM carelessly, it does not merely cause harm to one subscriber, it introduces a systemic vulnerability into the digital financial architecture. Every entity that has linked a mobile number to a bank account, an investment account, a payment wallet, or any OTP-dependent financial service is at risk if the telecom service provider's verification standards are inadequate. The responsibility of telecom service providers like BSNL in the digital economy is therefore not merely private and contractual, it is systemic and public.

25.49. This Court notes with concern the pattern of SIM swap fraud in India. Reports from the Reserve Bank of India, the Ministry of Home Affairs, and State police cybercrime units consistently rank SIM swap fraud among the most prevalent and damaging forms of digital



financial fraud. Tens of thousands of SIM swap fraud cases are reported annually across India, causing financial losses running into hundreds of crores of rupees. In virtually all such cases, the fraud is enabled by the issuance of a duplicate SIM without proper verification at the telecom service provider's end. The telecom industry is aware of this pattern. Regulatory advisories have been issued. And yet, as the present case demonstrates, the problem persists. Courts must send a clear message through their judgments that telecom service providers who enable SIM swap fraud through their negligence will be held fully accountable in civil law for the losses they cause.

25.50. This court answers point No.2 by holding that the unauthorised issuance of the duplicate SIM card amounted to negligence and deficiency in service attributable to BSNL, and constituted the proximate cause of the loss suffered by the Co-operative Bank.

26. **Answer to Point No. (iii): Whether BSNL can be held vicariously liable for the acts of its officials, and whether Canara Bank bears any liability in relation to the disputed transactions?**



- 26.1. Sri Gangadharaiah submitted that even if this Court were to find that the issuance of the duplicate SIM card amounted to negligence (which BSNL contests), BSNL cannot be held vicariously liable because Mr. Karunakaran was not acting within the course and scope of his employment. According to learned counsel, vicarious liability requires that the employee's wrongful act be committed 'in the course of employment', meaning within the authority actually conferred by the employer.
- 26.2. Learned counsel submitted that the issuance of a duplicate SIM card without following prescribed verification procedures, and allegedly in collusion with criminals, was an act of personal criminal misconduct by Mr. Karunakaran. This was committed for Mr. Karunakaran's personal benefit, wholly outside the scope of his authorised employment duties and in direct contravention of BSNL's own policies and procedures. Such deliberate dishonesty and criminal collusion, he submitted, cannot ground an employer's vicarious liability.



- 26.3. Sri Gangadharaiah submitted that the test for vicarious liability is whether the employer authorised the act, not merely whether the employer authorised the category of work within which the act fell. Since BSNL's procedures require verification before a duplicate SIM is issued, the issuance of a SIM without verification was not an authorised act. Mr. Karunakaran, by bypassing the verification requirement, acted in a manner completely contrary to his employer's directions and was on an 'act of his own'.
- 26.4. Learned counsel submitted that the steps taken by BSNL after discovery of the fraud demonstrate that BSNL itself treated Mr. Karunakaran's alleged act as personal criminal misconduct unconnected with official duty. He argued: if BSNL truly regarded the act as having been committed 'in the course of employment', BSNL would have admitted institutional liability. Instead, BSNL recorded Mr. Karunakaran's statement as a witness and later as a person of interest, recommended disciplinary proceedings, and supported his criminal prosecution. These steps, according to



learned counsel, show that BSNL consistently treated the alleged act as Mr. Karunakaran's personal delinquency for which he alone, and not BSNL, should be held responsible.

26.5. Sri Uppin submitted that the doctrine of vicarious liability applies fully to BSNL. The foundational principle is that an employer is responsible for the wrongful acts of its employees committed 'in the course of employment'. The modern approach to this doctrine asks not whether the specific wrongful act was authorised, but whether it was so closely connected with acts the employee was authorised to perform that it is fair and just to hold the employer responsible.

26.6. Learned counsel drew a fundamental distinction between the 'nature' of the act and the 'manner' of its performance. The 'nature' of the act, issuance of a SIM card, including a duplicate SIM card, is squarely within the scope of the functions entrusted to officials at BSNL's subscriber management offices. Mr. Karunakaran's authorised daily work included precisely this category of activity. The 'manner'



of performance, without verification, in alleged collusion with fraudsters, was wrongful. But the wrongful manner does not change the nature of the act, and does not take it outside the course of employment.

26.7. Sri Uppin submitted that if the test were 'did the employer authorise this specific act?', no employer could ever be vicariously liable for an employee's wrongdoing. By definition, employers do not authorise theft, fraud, or negligence. The proper test is whether the wrongful act was committed in the exercise of functions the employer entrusted to the employee. Applied here: BSNL entrusted Mr. Karunakaran with SIM issuance. He performed SIM issuance in a wrongful manner. The employer is vicariously liable.

26.8. Learned counsel submitted that the 'close connection' test is clearly satisfied. Mr. Karunakaran used BSNL's subscriber management system, BSNL's official records, BSNL's office infrastructure, and BSNL's authority to issue SIM cards. He performed the act within BSNL's office, during office hours,



wielding the authority of his employer. The Co-operative Bank had no way of knowing that the official performing this function was acting improperly. From the Bank's perspective, the duplicate SIM was issued by BSNL itself.

26.9. Sri Uppin submitted that the 'act of his own' doctrine requires a complete departure from employment functions, as when an employee abandons his work entirely and does something wholly personal and unrelated to his job. Mr. Karunakaran did not abandon his official functions; he performed the very function he was employed to perform (SIM issuance) but improperly. This is not a 'independent act'; it is an improper performance of an authorised function, for which the employer is vicariously liable.

26.10. Learned counsel submitted, in direct response to BSNL's argument, that the initiation of departmental disciplinary proceedings against Mr. Karunakaran is conclusive evidence of the opposite of what BSNL contends. Departmental disciplinary proceedings are available only against an employee for misconduct committed



in the discharge of official duties, not for purely private criminal acts. If Mr. Karunakaran's act were wholly personal and unconnected with his official employment, BSNL would have had no jurisdiction to proceed departmentally against him. The fact that BSNL did invoke the departmental machinery confirms that the act was connected with official duty. BSNL cannot simultaneously invoke disciplinary jurisdiction over Mr. Karunakaran (which requires the act to be connected with employment) and disclaim vicarious liability (which requires the act to be disconnected from employment). These two positions are mutually contradictory.

26.11. Sri Uppin further submitted that any right of indemnity that BSNL may have against Mr. Karunakaran personally is a separate matter. Such internal rights do not affect the right of an innocent third party, the Co-operative Bank, to recover from BSNL as the employer.

26.12. Sri Mohan Rao submitted that Canara Bank bears no liability whatsoever in relation to the disputed transactions, for the following reasons.



26.13. As explained under Point 2, Canara Bank's internet banking system was built on the two-factor authentication (2FA) model: login credentials plus OTP. This model is mandated by the Reserve Bank of India and is the gold standard in Indian banking security. Both authentication layers were operative at all times. The fraud succeeded not because of any architectural weakness in Canara Bank's system, but because the OTP channel, which operates through the telecom network, was externally subverted by the duplicate SIM issued by BSNL. The system worked exactly as designed; the failure was entirely on the BSNL side.

26.14. Canara Bank had no knowledge of, and no role in, the issuance of the duplicate SIM card. The SIM management process is entirely within BSNL's domain. Canara Bank cannot be expected to monitor BSNL's subscriber management operations. The fraudulent transactions were presented to Canara Bank's system as apparently authenticated: both login credentials and OTPs were provided. The bank



had no basis to suspect fraud at the time of processing.

26.15. The login credentials of the Co-operative Bank's internet banking account were not in Canara Bank's possession. Canara Bank does not store customers' login credentials in a decryptable form. If the credentials were compromised, that compromise occurred outside Canara Bank's sphere of control. Canara Bank is not responsible for a security lapse in the Co-operative Bank's own custody of its credentials.

26.16. Upon being informed of the fraud on 08.02.2019, Canara Bank acted promptly, cooperated with the investigation, and facilitated the reverse credit of Rs.30,00,000/-. No specific act or omission of Canara Bank amounting to negligence or deficiency was established before the Permanent Lok Adalat. The finding exonerating Canara Bank is correct and should be upheld.

26.17. Sri Mahantesh Shetter, learned AGA, submitted that BSNL's vicarious liability is well-founded in law. The State's interest lies in ensuring that public sector undertakings are held to the same



standards of accountability as private entities, if not higher. A public sector entity cannot invoke the personal misconduct of its employee to escape civil liability when the wrongful act was committed using the entity's official infrastructure, authority and resources. The AGA submitted that there is no basis in law for BSNL's contention that the act was outside the course of employment.

26.18. The learned AGA also submitted that the exoneration of Canara Bank is proper in the circumstances. The State has no interest in fastening liability upon a bank that acted in accordance with prescribed security norms and cooperated with the investigation. The fault, as identified in the evidence, lies entirely with BSNL's SIM management process.

26.19. **Part A, Vicarious Liability of BSNL:** The doctrine of vicarious liability rests on three policy pillars. First, the employer creates the risk by employing the employee and authorising him to perform functions that can affect third parties. Second, the employer has the power and obligation to supervise and control the



employee's performance. Third, as between an innocent third party who suffers harm and the employer who selected, trained and deployed the employee, it is just that the loss falls on the employer. The employer can protect against such losses through proper hiring, training, supervision and insurance. The innocent third party has no such recourse.

26.20. The principal question is whether the employee was acting 'in the course of employment'. The modern approach, reflected in the 'close connection' test, asks whether the wrongful act was so closely connected with acts the employee was authorised to do that it would be fair and just to hold the employer liable. This test does not require the employer to have specifically authorised the wrongful conduct. It recognises that employers can never be said to have 'authorised' wrongdoing in the ordinary sense.

26.21. Applying this test: Mr. Karunakaran was an official of BSNL posted at its office. His official duties included subscriber account management, which encompassed the issuance



of new SIM cards, activation and deactivation of SIM cards, and issuance of replacement and duplicate SIM cards. SIM issuance is the core daily function of officials at BSNL's subscriber management centres. The category of act that Mr. Karunakaran performed, issuance of a SIM card, was squarely within his authorised duties.

26.22. The 'independent act' doctrine requires a complete and genuine departure from employment functions. When an employee performs his authorised work in a wrongful manner it cannot be said that it is an "independent act". Mr. Karunakaran did not leave his employment to commit this act. He committed this act using his employment authority, within his employment premises, in the course of his employment functions. The wrongfulness of his manner of performance does not constitute a 'independent act'. It is a culpable performance of an authorised function.

26.23. The argument that BSNL did not 'authorise' the specific act (issuance without verification) is rejected. The employer's vicarious liability is not confined to acts which the employer



explicitly authorised. The employer is liable for wrongful acts committed by the employee in the exercise of functions the employer entrusted to him. When the employee performs those functions improperly, the employer is liable to the third party, even if the employer did not authorise and would not have approved the improper performance.

26.24. BSNL argued that its post-discovery steps, recording Mr. Karunakaran's statement, recommending disciplinary proceedings, supporting his prosecution, show that BSNL treated the act as Mr. Karunakaran's personal misconduct, not BSNL's institutional act. This argument is self-defeating. Departmental disciplinary proceedings under service rules are available to an employer only for misconduct committed by an employee in the discharge of his official duties. They are not available for purely private criminal acts that have no connection with official employment. If Mr. Karunakaran's act were genuinely a private criminal act wholly disconnected from his official functions, BSNL would have no disciplinary jurisdiction over him at all, the only



recourse would be to file a criminal complaint as a private citizen. The fact that BSNL chose to invoke the departmental disciplinary mechanism confirms that the act had a sufficient connection with official employment to attract that mechanism.

26.25. BSNL cannot maintain two contradictory positions simultaneously: that the act was within official employment (so as to justify disciplinary proceedings) and that it was outside official employment (so as to escape vicarious liability). The initiation of disciplinary proceedings is, therefore, an institutional admission that Mr. Karunakaran's wrongful act was connected with his official duties.

26.26. BSNL is a public sector undertaking of the Government of India. It owes an elevated duty of accountability to the citizens it serves. When a PSU's official misuses his official authority, whether negligently or corruptly, to cause financial loss to a member of the public, the PSU must answer for it. Any right of indemnity that BSNL has against Mr. Karunakaran personally is a separate matter between them.



This does not ofcourse mean that a private player or private service provider is exempt, it is only that a public sector undertaking has an heightened responsibility and accountability.

26.27. This Court holds that BSNL is vicariously liable for the wrongful act of Mr. Karunakaran and/or any other officials in issuing the duplicate SIM card without proper verification and without the subscriber's authorisation. The act was performed in the course of Mr. Karunakaran's employment, using BSNL's authority, infrastructure and official processes.

26.28. **Part B, Liability of Canara Bank:** This Court now examines whether Canara Bank bears any liability. After careful examination, this Court holds that Canara Bank does not bear any liability, for the following reasons.

26.29. As established under Point 2, Canara Bank's internet banking system employed a sound two-factor authentication architecture, as mandated by the Reserve Bank of India. Both authentication layers, login credentials and OTP, were operational. The fraud succeeded not because Canara Bank's architecture failed, but



because the OTP channel was subverted externally by the duplicate SIM issued through BSNL's process. The fraud exploited a vulnerability in the telecom infrastructure, not in Canara Bank's banking system.

26.30. Canara Bank had no knowledge of, and no role in, the issuance of the duplicate SIM card. The SIM management process lies entirely within BSNL's domain. Canara Bank cannot be expected to monitor the subscriber management operations of telecom service providers. There was no early warning signal available to Canara Bank: the transactions were presented with what appeared to be complete authentication.

26.31. The login credentials were not in Canara Bank's possession. If they were compromised, that compromise occurred outside Canara Bank's sphere of control. Canara Bank is not responsible for a lapse in the Co-operative Bank's own custody of its credentials.

26.32. Upon being informed of the fraud, Canara Bank cooperated promptly and facilitated the reverse credit of Rs.30,00,000/-. No specific act or



omission of Canara Bank amounting to negligence or deficiency in service has been established. The Hon'ble Permanent Lok Adalat's finding exonerating Canara Bank is correct in law and fact and is affirmed.

26.33. This Court answers Point N.3 by holding that (a) BSNL is vicariously liable for the wrongful act of Mr. Karunakaran and/or any other officials of BSNL in issuing the duplicate SIM card, which was performed in the course of his employment using BSNL's authority, infrastructure and official processes. (b) Canara Bank does not bear any liability in relation to the disputed transactions. Both findings of the Permanent Lok Adalat on these sub-issues are affirmed.

27. **Answer to Point No. (iv): Whether amounts recovered through reverse credits, police proceedings and insurance reimbursement would reduce or extinguish the liability, if any, of BSNL?**

27.1. Sri Gangadharaiah submitted that the Co-operative Bank had, by the time of the PLA proceedings, received substantial amounts from three separate sources: (a) Rs.7,12,238/- recovered through police proceedings by



defreezing accounts of accused persons and released by court order; (b) Rs.30,00,000/- as a reverse credit to the Co-operative Bank's account; and (c) Rs.57,65,329/- received from the Co-operative Bank's insurer as insurance compensation. The aggregate of these three amounts is Rs.94,77,567/-, which substantially exceeds the gross fraudulent withdrawal of Rs.87,70,000/-.

27.2. Learned counsel submitted that the fundamental principle of compensation in civil proceedings is restitutio in integrum, to restore the claimant to the position it was in before the wrong, neither more nor less. Compensation aims to make good the actual loss. He submitted that the aggregate receipts of Rs.94,77,567/- not only fully compensate but actually over-compensate the Co-operative Bank for its gross loss of Rs.87,70,000/-. To additionally direct BSNL to pay Rs.5,00,000/- would therefore constitute a windfall for the Co-operative Bank, resulting in over-compensation of Rs.12,07,567/- above the gross loss. This is impermissible under the law of compensation.



- 27.3. Sri Gangadharaiah therefore submitted that BSNL's liability, if any, is fully extinguished by the total receipts of Rs.94,77,567/-, and the award of Rs.5,00,000/- against BSNL must be set aside.
- 27.4. Sri Uppin presented a two-part argument: treating the reverse credit and police recovery differently in law from the insurance proceeds. He submitted that the three categories of receipts have fundamentally different legal characters and cannot be aggregated and set off against BSNL's liability without distinguishing between them.
- 27.5. Regarding the reverse credit of Rs.30,00,000/- and the police recovery of Rs.7,12,238/-, Sri Uppin conceded that these amounts represent partial recovery of the very funds fraudulently transferred from the Co-operative Bank's account. They are the Bank's own money returned to it. He submitted that these amounts must be credited towards the gross loss in computing the net compensable loss. After crediting both amounts (Rs.37,12,238/-), the net unrecovered loss is Rs.50,57,762/-. The



Co-operative Bank has claimed this net loss as Rs.50,50,762/-, which represents the amount actually claimed as compensation.

27.6. Regarding the insurance proceeds of Rs.57,65,329/-, Sri Uppin submitted a fundamentally different legal argument. He invoked the collateral source rule, which provides that a tortfeasor cannot reduce his liability by pointing to benefits received by the injured party from a source independent of and collateral to the tortfeasor.

27.7. The insurance proceeds arose from an independent contractual arrangement between the Co-operative Bank and its insurer. The Co-operative Bank paid insurance premiums over the years and earned the right to indemnification under the policy. These proceeds are the realisation of the Bank's own investment in financial protection. BSNL had no role in procuring the insurance, paying the premiums, or maintaining the coverage. To allow BSNL to reduce its liability by the amount of the insurance proceeds would be to allow



BSNL to benefit from the Co-operative Bank's own prudence, at no cost to BSNL.

27.8. Sri Uppin submitted that accepting BSNL's argument would produce a perverse outcome: the more diligent an institution is in obtaining insurance coverage, the less it can recover from those who negligently cause it loss. Prudently insured institutions would effectively subsidise negligent tortfeasors. This is manifestly unjust and would directly penalise good risk management.

27.9. Learned counsel also submitted that the doctrine of subrogation reinforces the collateral source rule. When the insurer paid the claim, it acquired by subrogation the Co-operative Bank's rights against the tortfeasor. If BSNL were allowed to extinguish its liability on account of the insurance payment, the insurer's subrogated right against BSNL would also be effectively destroyed. The insurer would have paid the claim but would have no remedy against the wrongdoer. This doubly unjust outcome would, over time, drive up insurance premiums for all policyholders.



27.10. Sri Uppin further submitted that the Co-operative Bank suffered significant consequential losses beyond the mere financial quantum of the fraudulent withdrawals. As a co-operative banking institution regulated under the Karnataka Cooperative Societies Act, 1959, the Co-operative Bank is required to maintain statutory reserve deposits and statutory liquidity norms. The sudden and unexpected depletion of Rs.87,70,000/- from its current account on 06-07.02.2019 created an acute liquidity crisis. During the period between the fraud (February 2019) and the receipt of the insurance proceeds (approximately two years later), the Co-operative Bank had to make emergency arrangements from its own limited resources, including its depositors' funds, to meet its statutory obligations. This imposed additional financial costs. Furthermore, the Co-operative Bank is an institution established in 1913 that has served the community of Shiralkoppa for over a century. News of a fraud of over Rs.87 lakhs severely damaged its reputation among its members and depositors, causing loss of



public confidence. Sri Uppin submitted that these consequential losses, including the cost of managing the liquidity crisis, the loss of interest during the period of deprivation, and the reputational damage, must be independently compensated.

27.11. Sri M. Mohan Rao did not make specific submissions on how the recoveries affect BSNL's liability. His primary position was that Canara Bank bears no liability and the PLA's finding on that issue should be upheld.

27.12. Sri Mahantesh Shetter, learned AGA, submitted that the collateral source rule is a sound and equitable principle. The insurance proceeds were earned by the Co-operative Bank through its own premium payments and prudence. They should not reduce BSNL's liability. The learned AGA submitted that only the direct recoveries (reverse credit and police recovery) should reduce the gross loss computation, and the insurance proceeds should be treated as a collateral benefit. The AGA supported the grant of interest from the date of the loss and the award of consequential damages to address the



interim hardship suffered by the Co-operative Bank.

27.13. This Point requires this Court to determine the legal effect of three categories of post-fraud receipts on BSNL's liability. The three categories have different legal characters and must be treated differently. This Court examines each in turn.

27.14. **Category 1, The Reverse Credit of Rs.30,00,000/-:** The sum of Rs.30,00,000/- was reverse-credited to the Co-operative Bank's current account. This amount represents a partial return of the very funds fraudulently transferred from the Co-operative Bank's account. It is not a payment by an independent third party, it is the restoration of a portion of the Bank's own money. Crediting this amount in computing the net compensable loss is consistent with the principle of restitutio in integrum and prevents over-compensation. After this reverse credit, the residual loss is Rs.57,70,000/-.

27.15. **Category 2, The Police Recovery of Rs.7,12,238/-:** The sum of Rs.7,12,238/- was



recovered by the Cyber Crime Police by defreezing accounts of the accused persons and released to the Co-operative Bank by court order. This recovery also represents a partial return of fraudulently transferred funds. Like the reverse credit, it is a direct recovery of the Co-operative Bank's own money. It must be credited against the gross loss. After both the reverse credit and the police recovery (aggregate Rs.37,12,238/-), the residual unrecovered loss is Rs.50,57,762/-. This Court accepts the Co-operative Bank's claimed net loss figure of Rs.50,50,762/-, which is the specific amount the Co-operative Bank itself calculated and claimed as compensation in these proceedings. The minor difference of Rs.7,000/- likely reflects incidental transaction or rounding adjustments in the Bank's own internal accounts, and this Court treats that difference as de minimis and accepts the Co-operative Bank's own stated figure.

27.16. **Category 3, The Insurance Proceeds of Rs.57,65,329/-:** The insurance proceeds present a distinct legal question of the greatest importance. BSNL's argument, in effect, is that



the aggregate of all three categories (Rs.94,77,567/-) exceeds the gross fraudulent loss (Rs.87,70,000/-) and that therefore the Co-operative Bank has been over-compensated and BSNL's liability is extinguished. This argument must be rejected for the following reasons.

27.17. BSNL's arithmetic of aggregation is flawed in its legal premise. The over-compensation argument would be valid only if all three receipts were of the same legal character, namely, payments towards compensating the same loss. But they are not. The reverse credit and police recovery are returns of the Co-operative Bank's own money, partial undoing of the fraud. They properly reduce the net loss. The insurance proceeds, however, are not a payment towards the same loss from the same pool. They are an independent contractual payment arising from a separate insurance relationship. Adding them to the reverse credit and police recovery to arrive at a total of Rs.94,77,567/- and comparing that total with the gross loss of Rs.87,70,000/- to conclude over-compensation confuses legally distinct



categories of receipts. It is like saying that because a robbery victim received compensation from his insurer, the robber need not pay or can not be prosecuted and even worse the stolen goods cannot be recovered from the robber or from a person to whom such goods have been sold. The law does not permit such an equation.

27.18. The collateral source rule provides the correct legal framework. Insurance proceeds are a benefit conferred on the injured party by a source, the insurer, that is independent of and collateral to the tortfeasor. The rule holds that such collateral benefits shall not reduce the tortfeasor's liability. The rationale is simple: the wrongdoer should not benefit from the foresight and expenditure of the victim in obtaining insurance protection. The Co-operative Bank paid insurance premiums over the years and earned the right to indemnification under the policy. BSNL paid nothing towards those premiums. BSNL has no contractual relationship with the insurer. It would be deeply unjust to allow BSNL to escape liability because the Co-operative Bank had prudently insured itself.



27.19. The doctrine of subrogation further reinforces this conclusion. When the insurer paid the claim, it stepped into the Co-operative Bank's shoes and acquired the right to sue BSNL (the tortfeasor) to recover what it paid. This subrogated right would be meaningless if BSNL's liability were extinguished by the insurance payment. The proper mechanism is: BSNL pays the compensation to the Co-operative Bank; the insurer's subrogated claim against BSNL can then be separately adjudicated. BSNL must not escape liability at the insurer's expense.

27.20. Regarding the consequential losses submitted by Sri Uppin, the liquidity crisis, the cost of meeting statutory reserve obligations during the interim period, and the reputational damage, this Court holds that these are real and foreseeable consequences of BSNL's negligence. They are not speculative losses. The period between the fraud (February 2019) and the receipt of the insurance proceeds (approximately two years later, in 2021) represents a substantial period during which the Co-operative Bank operated under financial



stress caused entirely by BSNL's breach. These consequential losses are properly compensable and are taken into account in the determination of the total compensation payable under Point 5.

27.21. This Court therefore holds: (a) The reverse credit of Rs.30,00,000/- and the police recovery of Rs.7,12,238/- are direct recoveries of fraudulently transferred funds. They reduce the gross loss of Rs.87,70,000/-. (b) After giving credit for these direct recoveries, the net compensable loss is Rs.50,50,762/-, being the specific figure claimed by the Co-operative Bank in these proceedings; the minor arithmetic difference of Rs.7,000/- from the computed figure of Rs.50,57,762/- is de minimis and is resolved in favour of the Co-operative Bank's own stated claim. (c) The insurance proceeds of Rs.57,65,329/- are a collateral benefit earned by the Co-operative Bank from an independent contractual source and do not reduce BSNL's liability. The collateral source rule applies. (d) BSNL's argument of over-compensation is rejected; the aggregation of legally distinct categories of receipts does



not constitute over-compensation in law. (e) BSNL's liability is to be computed on the net loss of Rs.50,50,762/-, plus interest and consequential damages as determined under Point 5.

27.22. BSNL's reliance on the principle of restitutio in integrum to support its over-compensation argument is, ironically, self-defeating. The principle of restitutio in integrum requires that the compensation put the claimant in the position it would have been in had the wrong not occurred. If BSNL's argument were accepted and its liability extinguished by the insurance proceeds, the Co-operative Bank would receive nothing from BSNL. The insurance proceeds would have been consumed by the loss. BSNL would have escaped liability entirely. The insurer, having paid the claim, would lose its subrogated right against BSNL. The net result: BSNL, the wrongdoer, pays nothing; the insurer, an innocent contractual party, bears the entire loss; and the Co-operative Bank, the victim, recovers only through its own insurance, not from the party that caused the harm. This is the very



antithesis of restitutio in integrum and of justice.

27.23. This court answers point No.4 by holding that the reverse credit and police recovery reduce the gross loss to a net compensable loss of Rs.50,50,762/-. The insurance proceeds do not reduce BSNL's liability, the collateral source rule applies. BSNL's argument of over-compensation is rejected. The net loss for the purpose of BSNL's liability is Rs.50,50,762/-.

28. **Answer to Point No. (v): Whether the impugned award dated 09.08.2024, passed in PLD No.64/2021, calls for interference and, if so, to what extent?**

28.1. Sri Gangadharaiah submitted that the impugned award dated 09.08.2024 is liable to be set aside in its entirety on all the grounds urged before this Court. He summarised his grounds as follows.

28.2. First: the Permanent Lok Adalat lacked jurisdiction to entertain the dispute, for the reasons set out under Point No.1. An award passed without jurisdiction is a nullity.



- 28.3. Second: the finding of negligence against BSNL is erroneous in law and on facts. BSNL was not negligent; the fraud was caused by the compromise of login credentials outside BSNL's domain. The Permanent Lok Adalat reached its finding without examining BSNL's official SIM issuance records.
- 28.4. Third: BSNL cannot be held vicariously liable for Mr. Karunakaran's act, which was committed outside the scope of employment and in collusion with criminals.
- 28.5. Fourth: the Co-operative Bank has received amounts aggregating to more than the gross loss from various sources and has been over-compensated. No further direction against BSNL is warranted.
- 28.6. Fifth: the charge sheet filed by the Cybercrime Police gave up the BSNL Manager from prosecution, negating any finding of BSNL's culpability. The Permanent Lok Adalat failed to give weight to this crucial development.
- 28.7. On all these grounds, Sri Gangadharaiah submitted that W.P.No.4674/2025 be allowed



and the impugned award set aside in its entirety.

28.8. Sri Uppin submitted that the impugned award is liable to be interfered with only to the extent of the quantum of compensation. He submitted that the award correctly found BSNL negligent and correctly held BSNL liable, those findings are sound in law and fact and do not call for interference.

28.9. However, having correctly found negligence and liability, the Permanent Lok Adalat awarded only Rs.5,00,000/- as compensation without explaining why such a token amount was awarded in the face of an established net loss of Rs.50,50,762/-. The restriction of compensation to approximately 9.9% of the established loss, without any reasoning, is arbitrary, capricious, and an error apparent on the face of the record.

28.10. Sri Uppin submitted that this Court, in exercise of its writ jurisdiction under Articles 226 and 227 of the Constitution of India, should modify the impugned award and enhance the compensation to: (a) Rs.50,50,762/- as the



principal net loss; (b) interest at an appropriate rate from the date of the fraud (07.02.2019), since the PLA's starting date of 01.03.2021 is irrational; and (c) a reasonable sum towards consequential damages for reputational harm, liquidity crisis, and operational disruption caused during the nearly two-year gap between the fraud and the insurance recovery.

28.11. Sri M. Mohan Rao submitted that the impugned award is correct insofar as it exonerates Canara Bank. The Permanent Lok Adalat, after examining the evidence and submissions, rightly concluded that Canara Bank bears no liability. This finding is well-founded and does not call for any interference by this Court.

28.12. Sri Mahantesh Shetter, learned AGA, submitted that the award of a mere Rs.5,00,000/- against BSNL, in the face of an established net loss of Rs.50,50,762/-, does not serve the cause of justice and does not reflect the actual loss suffered. The State has an interest in ensuring that statutory fora like the Permanent Lok Adalat pass awards commensurate with established losses, so as to inspire public



confidence and deter negligent conduct by service providers.

28.13. Learned AGA submitted that this Court should exercise its writ jurisdiction to correct the manifest inadequacy in the quantum of compensation, while upholding the core finding of BSNL's liability and the exoneration of Canara Bank. The State has no objection to the dismissal of BSNL's writ petition.

28.14. This Court is exercising jurisdiction under Articles 226 and 227 of the Constitution of India. The scope of writ jurisdiction when applied to orders and awards of statutory tribunals is well-settled. This Court functions as a supervisory court, not a court of appeal. It does not re-appreciate evidence or substitute its own view on questions of fact that fall within the domain of the tribunal. It interferes only where there is: (a) an error of jurisdiction; (b) an error apparent on the face of the record; (c) a violation of natural justice; or (d) a finding so perverse that no reasonable tribunal could have arrived at it on the available evidence.



28.15. The scope of writ jurisdiction in relation to a Permanent Lok Adalat's award has a specific statutory dimension. Section 22-E of the Legal Services Authorities Act, 1987 provides as follows:

'22E. Award of Permanent Lok Adalat to be final.—

(1) Every award made by the Permanent Lok Adalat under this Chapter shall be final and binding on the parties thereto and their heirs, legal representatives or assigns.

(2) Every award made by the Permanent Lok Adalat under this Chapter shall be deemed to be a decree of a civil court.

(3) Every award made by the Permanent Lok Adalat shall be final and shall not be called in question in any original suit, application or execution proceedings.'

28.16. Section 22-E declares PLA awards 'final and binding' and states they 'shall not be called in question in any original suit, application or execution proceedings'. This provision forecloses challenge by way of an original suit or an application before a civil court or execution proceedings. However, Section 22-E does not, and cannot, oust the supervisory jurisdiction of the High Court under Articles 226 and 227 of the Constitution of India. The Constitutional jurisdiction of the High Court over courts and tribunals is part of the basic structure of the Constitution and cannot be



taken away by an ordinary statute. Section 22-E bars challenges in original civil proceedings; it does not bar the constitutional remedy by way of a writ petition. The impugned award is therefore subject to this Court's supervisory jurisdiction on the grounds recognised in constitutional law.

28.17. Part A, BSNL's Challenge

(W.P.No.4674/2025): This Court has, in the course of addressing Points 1 through 4, examined and resolved every ground urged by Sri Gangadharaiah on behalf of BSNL. The conclusions reached are summarised below.

28.18. On jurisdiction (Point 1): The Permanent Lok Adalat had full and proper jurisdiction. BSNL's jurisdictional challenge fails on all sub-grounds, the dispute was civil in character, did not 'relate to an offence' within the meaning of the first proviso to Section 22-C(1), and the monetary ceiling is not a bar.

28.19. On negligence and proximate cause (Point 2): The issuance of the duplicate SIM card without verification amounted to negligence and deficiency in service, and was the proximate



cause of the loss. The finding is based on evidence and is not perverse. The argument that BSNL's records were not examined before the Permanent Lok Adalat does not assist BSNL, since the burden to produce those records lay with BSNL itself.

28.20. On vicarious liability (Point 3): BSNL is vicariously liable. Mr. Karunakaran's act was performed in the course of employment using BSNL's authority and infrastructure. The 'independent Act' defence fails. The steps taken by BSNL post-discovery (disciplinary proceedings) support, rather than negate, the connection between the act and his employment.

28.21. On recoveries (Point 4): The insurance proceeds do not reduce BSNL's liability. The aggregate of all three receipts does not constitute legal over-compensation because the insurance proceeds are a collateral source. The net compensable loss is Rs.50,50,762/-.

28.22. On the charge sheet argument: As held under Point 2, civil liability is governed by the standard of preponderance of probabilities. The



omission of Mr. Karunakaran from the charge sheet reflects a prosecutorial assessment under the criminal standard (beyond reasonable doubt) and does not determine BSNL's civil liability.

28.23. BSNL has not demonstrated any jurisdictional error, error apparent on the face of the record, violation of natural justice, or perverse finding by the Permanent Lok Adalat. The impugned award, insofar as it holds BSNL liable and directs it to compensate the Co-operative Bank, does not call for interference. W.P.No.4674/2025 filed by BSNL is liable to be dismissed.

28.24. Part B, Co-operative Bank's Challenge (W.P.No.16104/2025):

28.25. The Co-operative Bank's challenge concerns the quantum of compensation. The Permanent Lok Adalat awarded Rs.5,00,000/- with interest at 6% per annum from 01.03.2021.

28.26. This Court has carefully read the impugned award. The Permanent Lok Adalat found BSNL negligent and held BSNL liable. These findings



are sound. However, when it came to quantum, the award directed payment of Rs.5,00,000/- without providing any explanation for this drastic restriction. The award does not state that the loss was proved only to the extent of Rs.5,00,000/-. It does not make any finding of contributory negligence in quantified terms. It does not identify any principle under which only 9.9% of the established net loss could be awarded. It does not explain why the interest period begins on 01.03.2021 rather than on the date of the loss (07.02.2019). In short, the Permanent Lok Adalat found full liability but awarded a fraction of the established loss without any reasoning for the discrepancy.

28.27. An award that is internally inconsistent in this manner, finding full liability but awarding a fraction of the established loss without explanation, is an error apparent on the face of the record. Reasoned decision-making is not merely a judicial virtue; in the context of a statutory adjudication, it is a legal requirement. An adjudicatory body that finds a party liable for a loss must award compensation proportionate to that loss, or, if it departs from



proportionality, must give a reason for doing so. The Permanent Lok Adalat gave none. This is a fatal error in the award that this Court must correct.

28.28. This Court is therefore satisfied that W.P.No.16104/2025 calls for limited but important interference: the finding of liability against BSNL is affirmed, but the quantum of compensation must be revised to reflect the actual net loss established on the evidence.

28.29. Quantum of Compensation:

28.30. Principal Compensation: The net unrecovered loss of the Co-operative Bank, after crediting the reverse credit (Rs.30,00,000/-) and the police recovery (Rs.7,12,238/-), stands at Rs.50,50,762/-, being the specific net loss claimed by the Co-operative Bank, which this Court accepts for the reasons set out under Point 4. BSNL is directed to pay Rs.50,50,762/- as principal compensation.

28.31. Interest on Principal: The Co-operative Bank suffered the loss when the seven fraudulent transactions were completed on 06.02.2019



and 07.02.2019. From that date, the Bank was deprived of its funds. The Permanent Lok Adalat awarded interest from 01.03.2021, approximately two years after the date of loss, with no explanation. This anomalous starting date is an additional error in the award. Interest should ordinarily run from the date on which the cause of action accrued. This Court directs that interest shall be paid on Rs.50,50,762/- at the rate of 9% (nine per cent) per annum from 07.02.2019 (the date of the last fraudulent transaction) until the date of actual payment. The earlier direction in the impugned award for interest at 6% from 01.03.2021 is subsumed and superseded by this direction.

28.32. Consequential Damages: As noted under Point 4, the Co-operative Bank claimed Rs.20,00,000/- before the Permanent Lok Adalat towards consequential damages. The Permanent Lok Adalat awarded nothing under this head. This Court holds that the Co-operative Bank did suffer real and foreseeable consequential loss: (a) an acute liquidity crisis from February 2019 onwards, during which the



Bank had to make emergency arrangements from its own resources to meet its statutory reserve obligations under the Karnataka Cooperative Societies Act, 1959; (b) the reputational damage suffered by an institution established in 1913 and serving the Shiralkoppa community for over a century, on account of a fraud involving over Rs.87 lakhs becoming public knowledge; and (c) the operational disruption and management costs incurred during the nearly two-year gap between the fraud and the receipt of insurance proceeds. These are natural and foreseeable consequences of BSNL's negligence. This Court awards Rs.5,00,000/- (Rupees Five Lakhs) as compensation for these consequential damages.

28.33. Part C, Position of Canara Bank:

28.34. The Permanent Lok Adalat's finding that Canara Bank is not liable for the loss suffered by the Co-operative Bank is correct in law and fact, for the detailed reasons set out under Point 3. The Co-operative Bank shall have no claim against Canara Bank arising from the disputed



transactions. No relief is granted against Canara Bank.

28.35. Criminal Proceedings, Independence from Civil Findings: All findings in this judgment are findings on civil liability, based on the civil standard of proof (preponderance of probabilities). None of the findings in this judgment constitute findings of criminal guilt against any person. The criminal proceedings pending before the competent criminal court against the accused persons, including Mr. Karunakaran, shall continue entirely unaffected by any observation or finding in this judgment. The criminal court shall evaluate the criminal charges independently, applying the criminal standard of proof (beyond reasonable doubt), and shall not be influenced by any finding in this civil judgment. As held under Points 2 and 5, the fact that Mr. Karunakaran was not chargesheeted in the criminal proceedings has no bearing on BSNL's civil liability, the two standards of proof operate differently.

28.36. The Co-operative Bank's right to pursue any other civil remedy available in law, including



any claim against Mr. Karunakaran personally, is preserved. The compensation awarded in these proceedings shall be accounted for in any such future proceedings so as to avoid double recovery.

28.37. The scope of judicial review under Article 226 of the Constitution of India is broad and multifaceted. Article 226 empowers the High Court to issue directions, orders or writs to any person or authority, including the Government, for the enforcement of any of the rights conferred by Part III and 'for any other purpose'. This 'other purpose' jurisdiction is not limited to fundamental rights enforcement; it extends to all cases where a party has a legal right and a legal wrong has been committed. A party who has suffered by reason of an erroneous, arbitrary or unlawful exercise of statutory power may seek relief under Article 226. The jurisdiction under Article 227, separately, is a supervisory jurisdiction over all courts and tribunals within the territorial limits of the High Court. These two Constitutional provisions together give this Court



comprehensive supervisory authority over the Permanent Lok Adalat.

28.38. The grounds for interference with a statutory tribunal's order under Articles 226 and 227 are well-established. They include: (a) want of jurisdiction, where the tribunal acted without or in excess of jurisdiction; (b) error of law apparent on the face of the record, where the tribunal has committed a manifest error of law that does not require elaborate argument to establish; (c) violation of principles of natural justice, where the tribunal denied a fair hearing or was biased; (d) abuse of jurisdiction, where the tribunal exercised its jurisdiction for an improper purpose; and (e) perversity, where the conclusion reached is so unreasonable that no reasonable tribunal could have arrived at it on the available material. The Co-operative Bank's challenge falls under ground (b): the restriction of compensation to Rs.5,00,000/- without any reasoning, in the face of an established net loss of Rs.50,50,762/-, is an error of law apparent on the face of the record.



28.39. The analysis of Section 22-E requires this Court to address a deeper constitutional question: can the legislature deprive the High Court of its supervisory jurisdiction under Articles 226 and 227? The answer is clearly 'No'. The jurisdiction of the High Court under Articles 226 and 227 is a constitutional jurisdiction, it flows directly from the Constitution itself, not from any statute. The legislature can curtail, modify or channel the jurisdiction of courts established by statute. It cannot take away or abridge the constitutional jurisdiction of High Courts. Section 22-E, which says PLA awards 'shall not be called in question in any original suit, application or execution proceedings', is a statutory provision. It can bar challenges in civil courts and can restrict the manner and forum of challenge in ordinary civil proceedings. It cannot, however, bar the extraordinary constitutional jurisdiction of the High Court under Articles 226 and 227. The impugned award remains subject to this Court's supervisory jurisdiction on constitutional grounds.



28.40. This reading of Section 22-E is consistent with the Supreme Court's position on the relationship between statutory finality clauses and constitutional jurisdiction. It is a well-settled constitutional principle that finality clauses in statutes, however broadly worded, cannot oust the jurisdiction of the High Court under Articles 226 and 227. These articles represent a constitutional guarantee of judicial oversight over all statutory bodies and tribunals. Any statute that purports to take away this jurisdiction would be invalid as offending the basic structure of the Constitution. Section 22-E must therefore be read as barring challenges in ordinary civil proceedings while leaving intact the High Court's constitutional supervisory jurisdiction. On this reading, Section 22-E and Articles 226/227 operate harmoniously in their respective spheres.

28.41. The doctrine of 'error apparent on the face of the record' requires careful application. Not every error of fact or law constitutes an error apparent on the face of the record. The error must be one that is self-evident, one that



strikes the reader immediately upon perusing the record, without the need for elaborate argument, external evidence, or detailed legal analysis. In the present case, the error is precisely of this character. The Permanent Lok Adalat's own award establishes the following: (a) BSNL was negligent; (b) BSNL caused the loss to the Co-operative Bank; (c) the Co-operative Bank suffered a substantial financial loss. Having established these three things, all of which point inescapably to full compensation for the established loss, the Permanent Lok Adalat then awarded Rs.5,00,000/- without a single sentence of explanation. The award does not say 'only Rs.5,00,000/- of the loss was caused by BSNL'. It does not say 'the balance of the loss was the Co-operative Bank's own fault'. It does not say 'the Co-operative Bank did not prove its loss beyond Rs.5,00,000/-'. The award simply moves from a finding of full liability to a direction for partial compensation, with no logical bridge. This is the very definition of an error apparent on the face of the record.

28.42. The duty to give reasons for a decision is not merely a procedural requirement; it is a



substantive safeguard against arbitrariness. When a statutory adjudicatory body gives reasons, it demonstrates that its decision is based on a rational assessment of the evidence and the law. The requirement to give reasons disciplines the decision-making process itself. It forces the decision-maker to confront the evidence and the arguments and to explain how the evidence and the arguments lead to the conclusion reached. When reasons are absent, particularly in relation to a key finding such as the quantum of compensation, the decision cannot be assessed for correctness, cannot be effectively challenged, and may conceal an arbitrary exercise of power. In a legal system committed to the rule of law, reasoned decision-making is not optional. The Permanent Lok Adalat's failure to give any reason for restricting the compensation to Rs.5,00,000/- is a failure of this fundamental obligation.

28.43. The quantum of interest at 9% per annum requires specific justification. The choice of an appropriate interest rate in compensation cases involves a judgment about what rate would



fairly reflect the cost of being deprived of the use of money during the relevant period. Several factors are relevant: (a) the prevailing rates of interest during the relevant period; (b) the rate at which the claimant could borrow money to replace the lost funds; (c) the rate of return that the claimant could have earned on the lost funds; and (d) the desirability of providing a fair and realistic compensation without being punitive to the tortfeasor. In India, prevailing bank lending rates during 2019-2024 generally ranged from 8% to 12%. A rate of 9% per annum is below the lower end of bank lending rates and does not therefore involve any element of punishment of BSNL. It represents a moderate, fair and principled rate that adequately compensates the Co-operative Bank for the loss of use of its money without unjustly burdening BSNL. The Permanent Lok Adalat's rate of 6% was below market rates and inadequately compensated the Co-operative Bank for its deprivation. The enhanced rate of 9% from the date of loss is both fair and appropriate.



28.44. The consequential damages of Rs.5,00,000/- represent this Court's assessment of a fair and proportionate sum for the non-monetary losses suffered by the Co-operative Bank. This Court has considered: (a) the reputational harm to an institution established in 1913 and serving its community for over a century; (b) the acute liquidity stress during the two-year gap between the fraud and the insurance proceeds; (c) the management bandwidth consumed in dealing with the aftermath of the fraud, including the criminal investigation, the PLA proceedings, and the regulatory consequences; and (d) the disruption to the Co-operative Bank's members and depositors. The sum of Rs.5,00,000/- is a conservative estimate of these real and quantifiable consequences. This Court is satisfied that it is a fair and proportionate award under this head, not designed to punish BSNL but to make the Co-operative Bank as whole as possible in terms of the non-monetary dimensions of its loss.

28.45. In closing the analysis under Point 5, this Court reiterates the following. The Permanent Lok Adalat's core findings, that BSNL was negligent,



that BSNL was liable, and that Canara Bank was not liable, are sound, well-reasoned and supported by the evidence. This Court has examined these findings carefully and has affirmed them. The deficiency in the impugned award is limited to the quantum of compensation, a failure to carry the sound liability finding through to its logically necessary conclusion of full compensation. This Court's intervention is directed precisely at correcting this limited but important deficiency. The award is not set aside; it is modified. BSNL's core finding of liability stands, enhanced to its legally correct consequence.

28.46. One important aspect of writ jurisdiction under Article 226/227 deserves specific mention in the context of Permanent Lok Adalat awards. The PLA is not an ordinary court or civil tribunal. It is a statutory alternative dispute resolution body with limited jurisdiction, created for a specific purpose and governed by a specific statute. When such a body exercises its adjudicatory power under Section 22-C(8), that is, when it decides the dispute without the parties' consent after conciliation has failed, it



is functioning more like a tribunal than a settlement facilitator. Its adjudicatory decisions are therefore subject to the standards of reasoned adjudication that apply to all statutory tribunals. The duty to decide on the basis of evidence, to consider all relevant factors and ignore irrelevant ones, and to give reasons for the decision reached, applies in full force to the PLA when it adjudicates under Section 22-C(8).

28.47. This Court also notes that BSNL's writ petition (W.P.No.4674/2025) was filed challenging an award that is favourable only to a partial degree to the Co-operative Bank. The award imposed a payment of Rs.5,00,000/- on BSNL, a small fraction of the established loss. Had BSNL simply complied with this award, the present proceedings would have been unnecessary. BSNL chose instead to challenge even this limited award. In dismissing W.P.No.4674/2025, this Court is merely upholding a lawful, properly-jurisdictioned, evidence-based finding of liability against BSNL. The dismissal of BSNL's petition is the natural



and inevitable consequence of the findings recorded under Points 1 through 4.

28.48. The Co-operative Bank's challenge in W.P.No.16104/2025, by contrast, is a challenge to the adequacy of the relief granted, not to the finding of liability. The Co-operative Bank accepts the Permanent Lok Adalat's finding that BSNL was negligent and liable. It complains only that the compensation of Rs.5,00,000/- is grossly disproportionate to the established net loss of Rs.50,50,762/-. This limited challenge, seeking adequacy of compensation without challenging any substantive finding, is precisely the kind of challenge that writ courts routinely entertain in relation to statutory awards. The basis of interference (error apparent on face of record in the form of inadequate and unexplained compensation) is well-established and clearly made out.

28.49. The enhancement of compensation from Rs.5,00,000/- to Rs.50,50,762/- is a tenfold increase. This may appear dramatic, but it is only because the Permanent Lok Adalat's award was so dramatically low relative to the



established loss. This Court is not awarding any amount above the established net loss (Rs.50,50,762/-); it is directing payment of the established loss. The award of interest at 9% from the date of the loss and consequential damages of Rs.5,00,000/- represent modest additions that reflect the full compensatory principle. The combined amount, Rs.50,50,762/- + 9% interest from 07.02.2019 + Rs.5,00,000/-, is the legally correct compensation for a loss of this nature, and nothing more.

28.50. This Court has not awarded any punitive or exemplary damages against BSNL. The compensation directed is purely compensatory in character. It is calculated to make the Co-operative Bank whole, no more, no less. BSNL is not being punished through this judgment. It is being required to pay for the loss it caused. This is the basic obligation of any tortfeasor: to make good the loss. The fact that the loss is large reflects the seriousness of the negligence and the scale of the harm it enabled, not any punitive intent on this Court's part.



28.51. This court answers point no, 5 by holding that (a) The impugned award calls for interference to the extent of the quantum of compensation, which is manifestly inadequate and constitutes an error apparent on the face of the record. (b) W.P.No.4674/2025 filed by BSNL is dismissed. The finding of BSNL's liability is affirmed. (c) W.P.No.16104/2025 filed by the Co-operative Bank is partly allowed. The quantum of compensation is enhanced as directed.

29. **Answer to Point No. (6): What Order?**

29.1. Before issuing the operative directions, this Court considers it appropriate to step back from the specific legal issues addressed under each Point and to reflect on the broader legal, social and economic landscape in which this case is situated. Such a reflection is not merely an academic exercise. It contextualises the judgment, explains the rationale behind the directions, and may serve as guidance to similar disputes that are likely to arise with increasing frequency as India's digital economy deepens.



- 29.2. The Digital Economy and the OTP Ecosystem: India's transition to a digital economy over the past decade has been one of the most remarkable transformations in the country's economic history. The Pradhan Mantri Jan Dhan Yojana brought hundreds of millions of citizens into the formal banking system. The introduction of the Unified Payments Interface (UPI) by the National Payments Corporation of India (NPCI) created a real-time, low-cost payment infrastructure that now handles over a thousand crore transactions per month. NEFT and RTGS facilitate trillions of rupees in fund transfers annually. The Digital India programme, e-governance initiatives, and the proliferation of fintech services have made digital transactions the norm rather than the exception for individuals, businesses and institutions across India. This transformation has brought immense economic benefits: efficiency, financial inclusion, reduction in transaction costs, and the formalisation of the economy.
- 29.3. However, this transformation has also created new vulnerabilities. The security of digital



transactions depends on layered authentication systems, of which the OTP-based two-factor authentication is the most widely deployed in Indian banking. This system has a single critical dependency: the mobile number registered for OTP purposes must remain under the exclusive control of the legitimate account holder. If this dependency fails, as it does in a SIM swap fraud, the entire security architecture is bypassed instantly. The criminal who controls the duplicate SIM becomes, from the banking system's perspective, indistinguishable from the legitimate account holder. The fraud is perfect and is complete before the victim even becomes aware.

29.4. The Role of Telecom Service Providers in the Digital Financial Ecosystem: Telecom service providers occupy a unique and irreplaceable position in this architecture. They are not merely peripheral service providers. They are the custodians of the mobile numbers that serve as the authentication anchors for the entire OTP-based digital payment system. Their role in the digital financial ecosystem is structurally equivalent to the role of a vault



keeper in a traditional banking system. Just as a vault keeper who carelessly or dishonestly gives access to unauthorised persons bears responsibility for the resulting theft, a telecom service provider that carelessly or dishonestly issues a duplicate SIM bears responsibility for the financial fraud that the duplicate SIM enables.

29.5. This structural position of telecom service providers has several important implications for civil liability. First, the standard of care applicable to telecom service providers in relation to SIM management must reflect the severity of the potential harm and the importance of the function. A minor administrative lapse in the issuance of a physical magazine subscription is a very different matter from a negligent SIM swap that enables the theft of lakhs of rupees from anyone including a banking institution as in this case. The standard of care must be calibrated to the risk. Second, the duty of care is owed not only to the subscriber directly affected but to the banking and financial system as a whole, which relies on the integrity of the telecom



layer for its security. Third, regulators, courts and the telecom industry itself must recognise and act upon the role of telecom service providers as critical infrastructure providers in the digital financial system.

29.6. The Present Case as a Paradigm: The present case is a paradigmatic instance of SIM swap fraud. A banking institution had its registered mobile number compromised through a duplicate SIM issued by a telecom service provider's official. Within hours, substantial funds were drained from its account. The harm was swift, severe and largely irreversible at the moment of fraud. The pattern is precisely that which has been documented in thousands of similar cases across India. The legal response must be clear and consistent: where a telecom service provider's negligence or its official's misconduct directly enables a SIM swap fraud, the telecom service provider bears full civil liability for the consequential loss.

29.7. The Civil-Criminal Boundary: This Court wishes to emphasise the importance of maintaining a clear boundary between civil and criminal



proceedings. It is not this Court's function, in these writ proceedings, to assess the criminal guilt of any person. The criminal proceedings before the competent criminal court will run their course, with all the procedural safeguards that criminal law provides. This judgment is confined to the civil liability of BSNL as a service provider for the deficiency in its service and the consequent loss suffered by the Co-operative Bank. The findings in this judgment, based as they are on the civil standard of proof (preponderance of probabilities), are not findings of criminal guilt and must not be read as such.

29.8. Treatment of Recoveries in the Digital Fraud Context: This Court also addresses, for future guidance, the appropriate treatment of insurance proceeds and other recoveries in digital fraud compensation cases. The principle that this Court has applied, that direct recoveries of the stolen funds reduce the net compensable loss, while collateral insurance proceeds do not reduce the tortfeasor's liability, is of general application. It protects the incentive for institutions to obtain insurance



coverage against digital fraud risks. It also preserves the insurer's subrogation rights, which are essential to the functioning of the commercial insurance market.

29.9. The verification of subscriber identity before issuing a duplicate or replacement SIM card is not a bureaucratic formality. It is a critical security measure upon which the financial safety of millions of bank account holders depends. Every telecom service provider must treat every request for a duplicate SIM card with the gravity it deserves. The verification must be thorough, the documentation must be examined carefully, and where there is any doubt about the identity or authority of the applicant, the request must be declined and the subscriber must be contacted through alternate channels. The financial consequences of issuing a duplicate SIM to a fraudster can be catastrophic for the victim and, as this judgment demonstrates, equally consequential for the telecom service provider in civil law.

29.10. While the primary fault in the present case lies with BSNL, banking institutions must also take



proactive steps to protect their customers and themselves from SIM swap fraud. These steps may include: registering multiple OTP delivery channels so that the loss of one channel can be detected and compensated; implementing time-delays between SIM swap notifications and large transactions to provide a window for detection; sending transaction alerts to alternate communication channels; and educating customers about the risks of SIM swap fraud and the precautions they can take. These measures are not a substitute for telecom service providers' duty of care but are an additional layer of protection. The Court recognises that Canara Bank, in the present case, had a sound authentication system. Future enhancements to the system, however, can only strengthen the overall security architecture.

29.11. This Court notes that while it is not the function of a court to issue directions to regulators in these proceedings, the present case highlights the importance of effective regulatory oversight of SIM swap procedures by the Department of Telecommunications and the Telecom



Regulatory Authority of India. The regulatory framework must ensure that prescribed verification procedures are actually followed in practice, that penalties for non-compliance are meaningful and enforced, and that customers are notified promptly and effectively when any SIM swap is requested in respect of their numbers. Regulatory oversight of telecom service providers' SIM management practices is a matter of urgent public importance in the digital economy.

29.12. In view of the finding on point no.1 to 5 above this court passes the following:

ORDER

- i. W.P.No.4674/2025 (BSNL's Petition) is **DISMISSED**. BSNL's challenge to the impugned award dated 09.08.2024 passed by the Permanent Lok Adalat in PLD No.64/2021 is rejected on all grounds. The finding of negligence against BSNL, the finding of BSNL's vicarious liability, and the direction to pay compensation to the Co-operative Bank, as contained in the impugned award, are affirmed, subject to the enhancement of quantum directed herein.
- ii. W.P.No.16104/2025 (Co-operative Bank's Petition) is **PARTLY ALLOWED**. The



impugned award dated 09.08.2024 passed by the Permanent Lok Adalat in PLD No.64/2021 is modified to the extent of the quantum of compensation payable by BSNL to the Co-operative Bank, as follows.

- iii. BSNL (Bharat Sanchar Nigam Limited, represented by the General Manager, Telecom District, BSNL, and the CPIO/DGM (Admn), O/O PGM Bangalore Telecom District) is directed to pay to Basaveshwara Pattana Sahakara Bank Niyamitha (Co-operative Bank) the following amounts within a period of three (3) months from the date of this order:
 - a. A sum of Rs.50,50,762/- (Rupees Fifty Lakhs Fifty Thousand Seven Hundred and Sixty Two only) as compensation for the net financial loss suffered by the Co-operative Bank on account of the seven fraudulent RTGS/NEFT transactions effected between 06.02.2019 and 07.02.2019, which were directly caused and facilitated by the unauthorised and negligent issuance of a duplicate SIM card by BSNL;
 - b. Interest on the said sum of Rs.50,50,762/- at the rate of 9% (nine per cent) per annum from 07.02.2019 (the date of the last fraudulent transaction) until the date of actual payment; and



- c. A further sum of Rs.5,00,000/- (Rupees Five Lakhs only) as compensation for consequential damages, including reputational harm, loss of public confidence, liquidity disruption, and operational costs incurred by the Co-operative Bank as a direct and foreseeable consequence of BSNL's negligence.
 - d. In the event of default in payment within three months from the date of this order, the entire outstanding amount shall carry interest at the enhanced rate of 12% (twelve per cent) per annum from the date of default until the date of actual payment.
- iv. The finding of the Permanent Lok Adalat that Canara Bank (Canara Bank, Shiralkoppa Branch, Respondent No.1 in W.P.No.16104/2025) is not liable for the loss suffered by the Co-operative Bank is affirmed. No relief is granted against Canara Bank. No direction is issued against Canara Bank. The Co-operative Bank shall have no claim against Canara Bank in relation to the transactions described in these proceedings.
 - v. The criminal proceedings pending before the competent criminal court in relation to the fraud, shall continue entirely unaffected by this order.
 - vi. Insurer's Subrogated Rights: Nothing in this order shall prejudice the rights, if any,



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of the Co-operative Bank's insurer to recover from BSNL or the Co-operative Bank the amounts paid as insurance proceeds, by way of subrogation, in accordance with law.

Sd/-
(SURAJ GOVINDARAJ)
JUDGE

PRS
List No.: 1 Sl No.: 101