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BANKING AND FINANCE

Banks as Custodians, Not Arbiters: Karnataka High Court Reaffirms Proportionality in Account Freezing Orders

Sri. Madhu v. IndusInd Bank Ltd. & Anr. | WP No. 38362 of 2025 | NC: 2026:KHC:27735 Introduction In a significant judgment delivered on 9th June, 2026, the High Court of Karnataka at Bengaluru, in Writ Petition No. 38362 of 2025 (Sri. Madhu v. IndusInd Bank Ltd. & Anr.), has authoritatively laid down that a […]

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Introduction

In a significant judgment delivered on 9th June, 2026, the High Court of Karnataka at Bengaluru, in Writ Petition No. 38362 of 2025 (Sri. Madhu v. IndusInd Bank Ltd. & Anr.), has authoritatively laid down that a banking institution, while acting upon freezing directions issued by investigating agencies, is strictly bound by the scope and quantum of those directions. The Court held that a bank cannot, on its own initiative, extend the freeze to the entire account on the basis of a mere apprehension that further directions may be received in the future. This ruling carries significant implications for banking practice, the rights of account holders, and the procedural obligations of financial institutions in the context of cybercrime investigations.

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Background and Facts

The Petitioner, Sri. Madhu, a resident of JP Nagar, Bengaluru, maintained a account with IndusInd Bank. His account was subjected to a debit freeze pursuant to two separate communications received by the bank from different investigating agencies: the Superintendent of Police, Cyber Crime Police Station, Mehsana, Gujarat, who sought a freeze to the extent of Rs. 15,000/-, and the Barrackpore Police Station, West Bengal, which sought a freeze to the extent of Rs. 10,000/-. The aggregate of the directed freeze thus amounted to Rs. 25,000/-. Notwithstanding this, IndusInd Bank proceeded to freeze the Petitioner's entire account, citing an apprehension that additional freezing directions from other investigating agencies might follow. This left the Petitioner with no access to his salary credits or any other funds in the account.

The Legal Challenge

Aggrieved by what he characterised as an arbitrary and disproportionate exercise of power, the Petitioner invoked the extraordinary writ jurisdiction of the High Court under Articles 226 and 227 of the Constitution of India. He sought a Writ of Mandamus directing the bank to lift the freeze on amounts exceeding Rs. 25,000/- and to permit normal operation of his account in respect of all surplus funds, including future salary credits. The Petitioner's counsel argued that even if the freezing directions were valid, the bank's authority was circumscribed entirely by the terms of those directions, and any action in excess thereof was legally unsustainable.

The Bank's Defence

IndusInd Bank, appearing through its counsel, sought to justify the total account freeze on the ground that it had received multiple communications from distinct investigating authorities across different states. The bank contended that in such circumstances, the possibility of further freezing requests from yet other agencies could not be ruled out. This argument, while commercially understandable, raised a fundamental question regarding the nature and extent of a bank's authority in the implementation of externally issued freezing directions.

The Court's Analysis and Legal Reasoning

The Honourable Justice Suraj Govindaraj, after hearing arguments from both sides, delivered a nuanced and principled oral order. The Court held unequivocally that the power exercised by a bank in implementing a freeze is not an independent power but is entirely derivative in nature. The bank functions as a custodian of the account and is obligated to implement only what is

lawfully directed by the competent investigating authority. Its power is therefore co-extensive with, and circumscribed by, the terms of the directions it receives. The Court further held that the bank's apprehension of future directions could not constitute a valid legal foundation for freezing funds beyond the amounts already directed. A possibility or apprehension of a future event, the Court observed, cannot be equated with a subsisting lawful order. Administrative convenience and anticipatory action are no substitutes for a valid legal mandate. Critically, the Court invoked the principle of proportionality, holding that any restriction imposed on a bank account must correspond in extent to the direction received and must not exceed the limits prescribed by the issuing authority. The relationship between a bank and its customer is contractual in nature, and the funds in a customer's account remain that customer's property, subject only to lawful restrictions imposed by competent authorities.

The Final Order and Its Broader Significance

The writ petition was allowed. The Court directed that the debit freeze be restricted to Rs. 25,000/- the aggregate of the two directed amounts and that the Petitioner be permitted to operate his account freely in respect of the remaining balance and future credits. The bank was further directed to comply within four days of receiving a certified copy of the order. Importantly, the Court issued a prospective direction to IndusInd Bank, placing it on notice that in all future cases, it must strictly adhere to the tenor of the directions received and refrain from imposing restrictions beyond those expressly authorised. The Court also articulated a general principle for all banking institutions: where a freezing direction specifies an amount, the bank must ordinarily earmark or lien only that specified sum and permit operation of the balance, unless the direction itself mandates a complete freeze or a statutory provision requires otherwise.

Conclusion

The judgment in Sri. Madhu v. IndusInd Bank Ltd. & Anr. is a timely and important affirmation of the principle that administrative convenience cannot override legal rights. It establishes that banking institutions occupy a strictly ministerial role in the enforcement of freeze orders, with no inherent or residual authority to expand their scope.

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