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## LEGAL ASPECT OF FINTECH IN INDIA

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### INTRODUCTION

In India, the financial landscape is in midst of a digital transformation. Since few years, the QR codes have been replacing currency notes and algorithms replacing bank employees. But behind this simplicity of tap-to-pay experience, there lies a complex network of legal obligation. The technology is getting advance each day but the law is still the same as since most of our financial rules were written at that time when money moved through bank branches and paperwork. Now India is facing the challenges for regulating a fast-evolving, digital first financial world.

In this blog, we'll explore how FinTech works in India, how is it regulated and by whom, it's challenges and why it is the time for India to build a legal framework for this rapidly growing sector.

### EVOLUTION OF FINTECH IN INDIA

When technology is used for financial services that is called FinTech. In India example of FinTech includes mobile wallets, payment apps, instant loan platforms, online insurance and more.

A major role has been played the Government programs like Digital India, Jan Dhan Yojana and the Introduction of Adhar and UPI (Unified Payment Interface) which helped FinTech grow rapidly.

Those who never had access to traditional banks are now a part of formal financial system through FinTech. But as these have used by the millions of people and now have become so popular, the questions also arise of legality, security and consumer rights.

## **WHO REGULATES FINTECH IN INDIA?**

There is no single law for FinTech currently as different government bodies regulate different types of services, just as- The Reserve Bank of India(RBI), The Securities and Exchange Board of India (SEBI), The Insurance Regulatory and Development Authority of India (IRDAI), The Ministry of Electronics and Information Technology (MeitY), etc. are the government regulating bodies where The Reserve Bank of India(RBI) controls most of FinTech companies dealing with payments, wallets and lending. The RBI does this through laws like the Payment and Settlement Systems Act, 2007 and RBI Act, 1934. The Securities and Exchange Board of India (SEBI), it regulates investment related and stock related FinTech where robo-advisors and trading apps assists in Trading and looks after investments. Companies that offer digital insurances are regulated by The Insurance Regulatory and Development Authority of India(IRDAI). The Insurance Regulatory and Development Authority of India(IRDAI) safeguards the digital security/protection and cyber law as per Information Technology Act, 2000.

These Government regulating bodies often create confusion as the powers of each bodies sometimes overlap and companies sometimes don't know which license they need.

## **CHALLENGES IN THE FINTECH SECTOR**

### **1. Ambiguity in legal definition**

Many new business models like Buy Now Pay Later (BNPL) or online only neobank do not fit easily into the traditional legal categories as it doesn't fall into existing laws. Both customers and service providers get in confusion due to this businesses may unknowingly violates rules and customer may be unaware of their rights.

### **2. Data Privacy and User Consent**

Sensitive data of customers are collected by this FinTech platforms like name, bank details, income and spending habits. These data are used in what way by the FinTech platforms are still a serious legal issues and for the *Digital Personal Data Protection Act, 2023* now provides clear rules that the companies must get the permission of the customers before using their data and disclose the actual use of the data of the customer.

This is newly enacted act which is step forward in today's time but still many FinTech platforms still don't follow these rules properly. Enforcement and awareness of this Act are still weak.

### **3. Digital Lending Apps infringing Consumer rights**

During the Covid-19 pandemic, many digital lending platforms started offering small loans with huge interest and hidden fees. Some of them even used unethical forceful way to collect money.

To struck down unethical way to collect money by these platform, RBI released Digital Lending Guidelines in 2002. These guidelines are as follows-

- a. Loans must be given and collected by the RBI approved banks or NBFCs.
- b. Transparency must be followed while showing the charges to the customer.
- c. The data of the borrower must be protected.

These rules are for the protection of the customer especially who are to well versed with the financial terms and digital tools.

### **4. Cyber Fraud**

As there is an increase in the financial services going online, eventually the digital fraud grows. Fake apps, phishing messages/calls, data theft have become common. The RBI has set rules for the payment systems security and CERT-In (India's cyber emergency team) also requires companies to report any hacking or breach. Still, plenty of smaller FinTech firms do not have resources to follow all these standards which leaves users at risk.

### **5. Cryptocurrencies Unclear Status**

Bitcoin and Ethereum and other Cryptocurrencies in India are still in grey area in India. In 2018, the RBI has banned these Cryptocurrencies but later in the year 2020, Supreme Court struck down the ban. The government has started taxing the crypto-income (30% tax and 1% TDS), but there is still no specific law regulating crypto in India.

Simultaneous, the RBI has launched a Central Bank Digital Currency (CBDC) on a trial basis. Where such digital rupee could change the way we use money in the future, but there is no clear law till now to support it's use.

## **WHY INDIA NEEDS A FINTECH LAWS**

There is no perfection in the current working legal system as there are multiple regulators and different rules, businesses often find it hard to know what has to be followed. It is very difficult for the consumers while trying to report a fraud, understand their rights or file complaints. India really needs a dedicated FinTech policy that brings all the rules into one place. Where these laws should consist-

- i. Define what FinTech includes
- ii. Make it easy to get licenses and approvals
- iii. Protect consumers and their personal data
- iv. Support innovations and fair competition
- v. Create fast and simple grievance redressal systems

India can become a global FinTech leader with the right legal framework while ensuring fairness, safety and the trust in the system.

## **CONCLUSION**

The face of finance is changing in India due to FinTech. It makes the banking and payments easier, faster, and more accessible. But this rapid growth brings new legal challenges. With scattered laws and multiple regulators, the current system is not enough to protect users or guide new companies.

India needs a genuine clear, balanced and futuristic legal structure that supports innovation while safeguarding rights. With the fast-paced technology, one that moves with the importance of trust.

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