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BLOG: LEGAL ASPECTS OF FINTECH IN INDIA

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ABSTRACT

By offering services like electronic payment, mobile banking, etc. FinTech has completely changed the financial landscape in the country. This paper discusses the regulatory structure that regulates FinTech. It includes the functions of regulatory bodies like RBI, SEBA, and IRDAI, and refers to the major statutes governing this sector like the PSS Act, IT Act, PMLA, and DPDP Act. The paper also addresses the key areas that have remained problematic, namely cyber security issues, safeguarding of personal information, keeping up with regulations, and financial inclusiveness issues. A well-designed regulatory environment paired with continued innovations are fundamental if India has to keep up with world standards and make sustainable use of FinTech.

INTRODUCTION

FinTech or Financial Technology, refers to the use of technology which helps to improve and deliver financial services more efficiently. The term was firstly introduced by a banker in New York in 1972¹. Today, FinTech includes various services such as online banking, digital wallets, mobile payment apps, blockchain, and artificial intelligence. These innovations have made financial transactions faster, easier, and accessible for all the individuals and businesses. India is one of the fastest-growing FinTech markets which leads the sector, with companies like Paytm, Gpay, and PayU. Government initiatives for promoting digital payments and a cashless economy have further helped in accelerating its growth. According to the Financial Stability Board (FSB), FinTech is a technology-driven innovation which internationally creates new financial products, services, and business models.

¹ Rashmi Shri R S, *A Study on Legal Framework and Regulation of Fintech in India*, Volume 12, Issue 2, JETIR, (1) (2025)

LEGAL FRAMEWORK OF FINTECH

The FinTech sector in India is mainly regulated by three authorities which are, the Reserve Bank of India (RBI), the Securities and Exchange Board of India (SEBI), and the Insurance Regulatory and Development Authority of India (IRDAI).² A FinTech company depends on the kind of financial services the company gives, such as digital payments, online loan, investment services, or digital insurance and the regulator accountable for same. Before going ahead with the procedures, FinTech companies should get the licenses or consent from these controllers.

- I. RESERVE BANK OF INDIA (RBI):** The RBI regulates digital banking, payment procedures and other banking-related activities. To make sure that the financial services remain safe, secure, and stable, RBI issues licenses, make rules, and observe compliance. It also focuses on protecting customer and prevent them from fraud in the financial sector.³
- II. SECURITIES AND EXCHANGE BOARD OF INDIA (SEBI):** It manages the securities and capital markets in India. It also supervises investment advisors and online investment platforms. SEBI works to protect the investors, prevent insider trading and other unfair practices. It also ensures transparency and fairness in the securities market.⁴
- III. INSURANCE REGULATORY AND DEVELOPMENT AUTHORITY OF INDIA (IRDAI):** The IRDAI manages the insurance sector, which includes digital insurance platforms and companies. IRDAI ensures that the insurance providers follow legal standards, offer transparent services, and promote innovation in the digital insurance.⁵

Although India has a strong regulatory framework for FinTech, the sector still faces some challenges. Different controllers may have the responsibilities that overlays, and fast technological developments often grows the existing laws. Thus, controller should continuously update their rules to encourage innovation while ensuring consumer protection, data privacy, and overall financial stability in India.

LEGISLATIONS GOVERNING THE FINTECH SECTOR IN INDIA

² Reserve Bank of India Act, No. 2 of 1934, Acts of Parliament, 1934 (India); Securities and Exchange Board of India Act, No. 15 of 1992, Acts of Parliament, 1992 (India); Insurance Regulatory and Development Authority Act, No. 41 of 1999, Acts of Parliament, 1999 (India).

³ Reserve Bank of India, *Payment and Settlement Systems Act, 2007*.

⁴ Securities and Exchange Board of India Act, No. 15 of 1992, Acts of Parliament, 1992 (India).

⁵ Insurance Regulatory and Development Authority Act, No. 41 of 1999, Acts of Parliament, 1999 (India).

There are several laws that regulate the FinTech sector, which helps to ensure safe, transparent, and secure financial services in India.

- I. PAYMENT AND SETTLEMENT SYSTEMS ACT, 2007⁶:** It is the main law that governs payment systems in India. It gives RBI the authority to regulate digital payment services in the country. Any company who wants to operate a payment system must firstly obtain the approval by RBI. To protect the customer data, manage risks, and report suspicious transactions, the Act requires strong cybersecurity by FinTech companies. It also imposes penalties for unauthorized operations and any kind of non-compliance.
- II. INFORMATION TECHNOLOGY ACT, 2000⁷:** This Act provides the legal recognition to digital transactions and online records. It encourages the use of digital authentication methods, like Aadhaar-based OTPs and electronic signatures, which are nowadays largely used in FinTech services. The Act helps to prevent cybercrimes such as hacking, identity theft, and cyber trafficking.
- III. PREVENTION OF MONEY LAUNDERING ACT, 2002 (PMLA)⁸:** It provides FinTech companies to follow Know Your Customer and Anti-Money Laundering procedures in their operations. They need to verify customer identities, maintain the transactional records, and report any kind of suspicious activities to prevent financial crimes in India.
- IV. DIGITAL PERSONAL DATA PROTECTION ACT, 2023⁹:** DPDP Act protect personal data of the users. It requires FinTech companies to get consent of the user before collecting their data, ensure secure storage and implement strong cybersecurity measures to prevent them from cyberattack. The Act also provides some penalties for data misuse and non-compliance, which helps to build the trust in digital financial services.

CHALLENGES FACED BY FINTECH IN INDIA

In spite of its fast growth, the FinTech sector in India faces several challenges.

- I. UNBANKED POPULATION:** Most of the people in India still do not have their bank accounts and good internet connection. Even the one who have their bank accounts

⁶ Payment and Settlement Systems Act, No. 51 of 2007, Acts of Parliament, 2007 (India).

⁷ Information Technology Act, No. 21 of 2000, Acts of Parliament, 2000 (India).

⁸ Prevention of Money Laundering Act, No. 15 of 2003, Acts of Parliament, 2003 (India).

⁹ Digital Personal Data Protection Act, No. 22 of 2023, Acts of Parliament, 2023 (India)

often experience slow internet connection, making digital transactions more tough. Low level of financial literacy also prevents many people from using online financial services confidently.

- II. REGULATORY AND COMPLIANCE ISSUES:** FinTech companies must follow all the strict rules set by regulators like the RBI, SEBI, and IRDAI. While these regulations always protect the consumers and prevent them from any kind of fraud, they can be at high price and hard for new startups and foreign companies to follow the rules.
- III. CYBERSECURITY RISKS:** FinTech companies store huge amounts of personal and financial data online for further use. This makes companies main target of hackers and cybercriminals to get cyberattack. Strong cybersecurity measures are important to protect customer information and maintain their trust in the FinTech Companies.
- IV. LIMITED GOVERNMENT SUPPORT:** Many startups usually face challenges due to less financial assistance and policy support from the government. This may discourage different kind of innovation and delay the growth of the FinTech industry.

CONCLUSION

The FinTech sector in India has changed the way financial services are conveyed, by making the transactions seems more faster, secure, and accessible to everyone. Government inventiveness, technological developments, and increasing digital adoption have played a significant role in growth of FinTech. However, the sector continues to face some challenges such as cybersecurity threats, data privacy concerns, and less financial education in some of the areas. To ensure the sustainable growth in the country, FinTech companies must contribute with regulatory requirements while investing in security actions and customer awareness. With a continuous innovation of government policies, and effective regulation, the Indian FinTech sector has ability to promote the financial services, strengthen the digital economy, and importantly contribute to the country's economic development.