
ROLE OF RBI IN REGULATING DIGITAL PAYMENTS AND FINTECH

I. Introduction

The Reserve Bank of India (RBI) plays a central role in regulating and supervising India's rapidly growing digital payments ecosystem. Ten years on, India has moved from traditional payment systems such as Real Time Gross Settlement (RTGS) and National Electronic Funds Transfer (NEFT) to modern digital platforms like Unified Payments Interface (UPI), mobile wallets, and online payment gateways. These technologies have made transactions faster and more convenient for individuals, businesses, and government institutions.

The rapid expansion of digital payments has also created new challenges such as cyber fraud, misuse of customer data, unfair practices by some FinTech companies, and lack of transparency in digital lending. To address these risks while encouraging innovation, RBI has introduced several regulatory measures and guidelines. The legal foundation for regulating payment systems in India is the Payment and Settlement Systems Act, 2007, which designates RBI as an authority for supervision, regulation, and authorisation of payment systems operating in the country.¹ RBI has supplemented this law with updated guidelines for FinTech companies, payment aggregators, prepaid instruments, and digital lenders to create a secure and efficient digital payments.

Digital Payments are electronic or online methods of transactions where the payer and payee both use digital modes to send and receive monetary amount requiring no hard cash [currency notes] in the transaction making the payment convenient and instant.²

II. Role of RBI in financial system

The Board for financial Supervision, constituted as a committee of the Central Board of Directors of the Reserve Bank of India was set up to strengthen financial system integrating supervision over financial institutions, commercial banks and non-banking financial intermediaries. RBI exercises one of its main functions as regulator and supervisor of payment and settlement systems in the country meeting the requirements of public at large under Chapter IV of the Payment and Settlement Systems Act, 2007.³ A key role to serve as regulator and supervisor of payment and settlement systems is to aim upholding public trust in the systems by utilising the powers to issue

¹ The Payment and Settlement Systems Act, 2007, § 3.

² *An Overview On Digital Payments*, https://www.researchgate.net/profile/S-Sahayaselvi/publication/336835369_An_Overview_On_Digital_Payments/links/5db52c584585155e270755d8/An-Overview-On-Digital-Payments.pdf.

³ *Reserve Bank of India*, <https://www.rbi.org.in/commonman/english/Scripts/Organisation.aspx#:~:text=%22to%20regulate%20the%20issue%20of,complex%20economy%2C%20to%20maintain%20price> (last visited Apr. 8, 2026).

directions, to be confidential, inspect, and not to impose charge for using electronic modes of payment.

III. Regulation of Digital Payment Systems

The Reserve Bank of India (Authentication mechanisms for digital payment transactions) Directions, 2025 rules that all the payment transactions through an online platform are required a two-factor authentication while most digital payments ecosystem has adopted SMS platform for One Time Password as additional factor. These directions are issued under Section 18 which points out the power of Reserve Bank to give directions generally in the interest of management or operation laying down policies of payment systems including domestic, international, non-electronic and electronic, read with Section 10(2) of the Payment and Settlement Systems (PSS) Act, 2007 which states that RBI from time to time, issue guidelines for proper and effective administration of the payment systems.⁴

Under Section 4 of the Payment and Settlement Systems Act, 2007 (PSS Act, 2007), no person or entity other than RBI can operate or commence a payment system unless authorised by the Reserve Bank. Additionally, any person desirous of commencing or operating a payment system shall apply for authorisation under section 5 of the PSS Act, 2007. Any unauthorised operation of payment system attracts an offense under the PSS Act, 2007 and will be liable for penal action ensuring strict security standard, maintaining trust in digital payments, protecting the consumers from financial risks.⁵

The Reserve Bank from time to time, directs to determine standards on the basis of the structure of payment directives, maintaining timings by payment systems, manner of funds transfer within the system via paper, electronic or any other means, between banks and other system participants.⁶ With a view to consolidate all regulations related to Payment Aggregators, RBI issued (Regulation of Payment Aggregators) Directions, 2025, thereby directing the authorisation process and process for carrying out due diligence of merchants by the Payment Aggregators.⁷

IV. FinTech and Reserve Bank Regulations

FinTech being an umbrella term denotes innovation in technology on financial services, enabled resulting in latest business models, processes, applications, or products with associated material

⁴ (Reserve Bank of India (Authentication Mechanisms for Digital Payment Transactions) Directions, 2025, par. 6)

⁵ Reserve Bank of India, 2,

[https://www.rbi.org.in/commonman/english/scripts/FAQs.aspx?Id=420#:~:text=In%20terms%20of%20Section%204,%2C%202007\(Section%205\)](https://www.rbi.org.in/commonman/english/scripts/FAQs.aspx?Id=420#:~:text=In%20terms%20of%20Section%204,%2C%202007(Section%205).). (last visited Apr. 8, 2026).

⁶ The Payment and Settlement Systems Act, 2007, § 10.

⁷ Regulation of Payment Aggregators (PAs) - DRAFT,

<https://rbidocs.rbi.org.in/rdocs/Content/PDFs/DC2RPAP160420247DBE432D82074038BBA0AD723EDC5CA4.PDF>.

effect on financial markets and institutions. RBI submitted a report of the inter-regulatory Working Group on FinTech and Digital Banking [23.11.2017] to study the regulatory issues. Key recommendations from the above study suggested a need for deeper understanding of various FinTech products and their interaction with financial sector for regulating the banks and encouraging to collaborate with FinTech or start-ups to improve their operational experience for uncomplicated customer experience. The Reserve Bank, as a regulatory authority, actively monitors the development in FinTech through collaborative measures domestically and with international organisations. Furthermore, the developments include -

- a. A Task Force on FinTech (TFFT) which assesses the risk arising from digitalisation of finance impacting business models of banks. Upcoming phase [Third Phase] will aim to assess risks for banks, and making recommendations on how committee should proceed with collected information.⁸
- b. Assessment of FinTech is done through Financial Innovations Network (FIN) under RBI, which identified three promises common to broad range of FinTech innovations –
 - (i) push toward better decentralised financial system,
 - (ii) better accessibility and convenience of financial services, and
 - (iii) greater efficiency, in which FinTech firms may eliminate intermediaries such as financial institutions.⁹
- c. Committee on Payments and Market Infrastructures (CPMI) established a dedicated Working Group to evaluate the impact of innovation and analyse implications of such innovations on payment services and systems, focusing specifically on the technical and infrastructural features of products and services that utilize innovative technologies like blockchain and distributed ledgers¹⁰
- d. The European Commission initiated a Task Force on Financial Technology (TFFT) in November 2016, to evaluate and capitalize on innovations in this sector while formulating strategies to tackle the possible challenges posed by FinTech. The efforts of this Task Force are rooted in the Commission's aim to create a thorough strategy for FinTech¹¹
- e. The World Bank is actively involved in Secretarial Standard Board (SSB) work streams related to FinTech collaborating with national governments, including RBI, establishing supportive structures for technology adoption, market access, equal opportunities, and improved financial access – serving as a technical, policy, or financing partner IFC in investments, risk-sharing,

⁸ Reports- Reserve Bank of India, 4.1.1, <https://www.rbi.org.in/Scripts/PublicationReportDetails.aspx?UrlPage=&ID=892> (last visited Apr. 9, 2026).

⁹ Reports- Reserve Bank of India, 4.1.2, <https://www.rbi.org.in/Scripts/PublicationReportDetails.aspx?UrlPage=&ID=892> (last visited Apr. 9, 2026).

¹⁰ Reports- Reserve Bank of India, 4.1.3, <https://www.rbi.org.in/Scripts/PublicationReportDetails.aspx?UrlPage=&ID=892> (last visited Apr. 9, 2026).

¹¹ Reports- Reserve Bank of India, 4.1.4, <https://www.rbi.org.in/Scripts/PublicationReportDetails.aspx?UrlPage=&ID=892> (last visited Apr. 9, 2026).

and engaging with private sector stakeholders in this area, such as via the SME Finance Forum.¹²

V. Regulatory Sandbox

Regulatory Sandbox is live testing or trial of new products or services in a regulatory environment for the purpose of testing enabling innovators, financial service providers, and customers to perform field trials to gather data on the advantages and dangers of new innovations, while diligently overseeing and managing risks offering a framework for regulators to interact with the ecosystem creating regulations, thereby promoting availability of pertinent, affordable financial products. The Regulatory Sandbox, under the supervision of RBI serves as a crucial instrument which facilitates more adaptive, evidence driven regulatory framework adapting with newer technologies.¹³ Boundary conditions for participants in sandbox include -

- i. having not more than one hundred retail clients [unlimited wholesale clients],
- ii. testing period not more than twelve months,
- iii. maximum annual rate of interest at 24%,
- iv. adequate compensation arrangements,
- v. have dispute resolution processes,
- vi. meet disclosure and conduct requirements.¹⁴

VI. Customer Data Protection

FinTech entities being heavily dependent on technology for every product they offer to consumers, collect personal and sensitive information of the customer and become owners/custodians of such data. Section 43A of the Information Technology Act, 2000, provides for payment of compensation by a body corporate in case of negligence in implementation of security practices and procedures while handling sensitive personal data resulting in wrongful loss to any person. Section 72A of the Information Technology Act, 2000, specifies the punishment with imprisonment for a term extending to three years and fine for any disclosure of information, knowingly and intentionally, without consent of the person concerned and in breach of lawful contract.¹⁵ Under Chapter VII of the Payment and Settlement Systems Act, 2007, RBI has the power to impose penalties, suspend licenses, or take enforcement action against entities or person who fail to comply with regulations. These penalties act as a deterrent and encourage FinTech

¹² *Reports- Reserve Bank of India*, 4.1.5,

<https://www.rbi.org.in/Scripts/PublicationReportDetails.aspx?UrlPage=&ID=892> (last visited Apr. 9, 2026).

¹³ *Enabling Framework for Regulatory Sandbox*, https://fintech.rbi.org.in/FS_Publications?id=1262 (last visited Apr. 9, 2026).

¹⁴ *Reports- Reserve Bank of India*, 4.2.4.1.2,

<https://www.rbi.org.in/Scripts/PublicationReportDetails.aspx?UrlPage=&ID=892> (last visited Apr. 9, 2026).

¹⁵ The Information of Technology Act, 2000, § 72A.

entities and payment operators to follow proper standards of governance and consumer protection.¹⁶

VII. Conclusion

The Reserve Bank's regulatory framework addresses risks like cyber fraud, data misuse, and unfair FinTech practices through guidelines, inspections, and penalties governed under the Payment and Settlement Systems Act, 2007 and Information Technology Act, 2000. Revolutionary changes help build trust among users, promotes financial inclusion, and protects the consumers from potential risks by shaping a secure digital system. The Reserve Bank also promotes innovation via FinTech collaborations and Regulatory Sandbox initiatives, enabling controlled testing of new technologies. The regulatory uncertainty surrounding FinTech could potentially hamper development but international standard setting bodies including regulatory authorities are taking steps to actively monitor FinTech developments both domestically and in cooperation with international organisations.

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¹⁶ "Offences and Penalties", The Payment and Settlement Systems Act, 2007.