

An Overview of FinTech and Its Regulations

❖ Introduction

A linguistic blend of two individual terms, 'Finance' & 'Technology', "**FinTech**" is being used to denote the wide array of technological innovations that have a bearing on financial services.

In today's fast-paced digital world, technology has become a game-changer across industries, and the financial sector is no exception. **FinTech** is a rapidly growing industry that leverages innovation to enhance, streamline, and disrupt traditional financial services. Whether it's making payments with a tap, investing with a swipe, or taking a loan from your phone, **FinTech** is transforming how we interact with money.

❖ What is FinTech?

FinTech refers to the integration of technology into financial services, aiming to improve their delivery and accessibility. It encompasses a wide range of applications, from mobile banking apps to cryptocurrency platforms. **FinTech** startups and companies blend software, data, and digital tools to solve long-standing inefficiencies in banking, investing, lending, and insurance.

Today, more and more financial services are getting integrated with technology as a key carrier and delivery vehicle for these services: Aadhar, UPI, Digi Locker, and BharatPe are the base of all **FinTech**, and the financial services revolve around them.

❖ Regulations

RBI has described the incorporation of Technological innovations while provisioning and designing financial services that have significantly altered the dynamics of the financial sector, especially over the last decade. While the exact scope of activities under **FinTech** will keep evolving with emerging use cases, what will remain constant is the increasing embrace of Technology by the Financial sector. To keep pace with the dynamically changing landscape, RBI has been making continuous efforts to facilitate innovation in the **FinTech** sector for attaining the larger public groups.

When it comes to **FinTech** Regulations, the Reserve Bank of India (RBI) is the implementation agency under the Payment and Settlement Act 2007 (PSA 2007) and the Payment and Settlement Regulation 2008 (PSR 2008). The PSA 2007 and its regulation govern the entire **FinTech** Landscape and the various entities that operate under its licensing regime. The RBI has also issued specific guidelines and directions under the power vested to it under the PSA 2007 and PSR 2008:

- Master directions on prepaid payment systems.

- Master direction on Bharat bill payment system.
- Master directions on cyber resilience and digital payment security controls for non-bank payment systems.
- Guidelines on regulations of payment aggregators and payment gateways.

The Payment Aggregators (PA) and Prepayment Instruments (PPI) operated by scheduled banks are not subjected to any licensing. Non-bank payment Aggregators (PA) and Prepayment Instruments (PPI) are subjected to licensing. The major areas of operations for non-banks in the **FinTech** space are:

a) Prepayment Instruments (PPI's)

Pre-payment Instruments are also commonly referred to as "wallets. These wallets involve loading the card/virtual card or wallets and using the same on its own websites or third-party websites. The best example is "Amazon Pay Balance" or "OlaMoney Wallet". The loaded wallets are presently losing their importance due to the UPI payment system, which facilitates immediate payment instead of loading the funds into a wallet, where there is blocking of funds. Presently, there are 42 such PPIs licenced under the Payment & Settlement Act 2007.

b) Payment Aggregators (PAs)

These are entities that facilitate e-commerce sites and merchants to accept various payment Instruments (UPI/ Credit cards/ wallets, etc.) from the customers for completion of their payment obligations without the need for merchants to create a separate payment integration system of their own. PAs facilitate merchants to connect with acquires or sellers and buyers. In the process, they receive payments from customers, Pool and transfer them to the merchants after a while. The onboarding of the merchants and the KYC is the responsibility of PAs. The best examples of PAs are Google Pay (GPay), Amazon Pay, Razorpay, and CCAvenue. There are presently 37 such Payment Aggregators licenced by RBI.

While the PSA 2007 and its Regulation and licensing are administered by RBI, the National Payments Corporation of India (NPCI) is the technical, software and hardware backbone of the **FinTech** sector, facilitating the daily transactions seamlessly.

❖ **Core Services Offered by FinTech Companies**

1. Digital Payments and Wallets
2. Online Lending (Digital Lending Platforms)
3. Neobanking and Digital-Only Banks
4. WealthTech (Investment Platforms)
5. InsurTech (Insurance Technology)
6. RegTech (Regulatory Technology)
7. Blockchain and Cryptocurrency

❖ Benefits of FinTech

- **Convenience:** Services are available 24/7, often through mobile apps.
- **Speed:** Transactions, loan approvals, and investments happen in minutes.
- **Inclusion:** People with limited access to traditional banking can now use financial services.
- **Cost Efficiency:** Lower fees and operating costs compared to traditional players.
- **Personalization:** AI and data analytics help create tailored financial solutions.

❖ Challenges in FinTech

- Cybersecurity and data privacy
- Regulatory hurdles and compliance
- Fraud and misuse
- Consumer trust and awareness

❖ The Future of FinTech

The **FinTech** revolution is just beginning. With increasing internet penetration, smartphone usage, and digital literacy, especially in emerging markets like India, the industry is poised for exponential growth. Technologies like AI, blockchain, and IoT will continue to fuel innovation, making finance more inclusive, intelligent, and intuitive.

❖ Conclusion

FinTech is reshaping the financial landscape by making money management smarter, faster, and more accessible. As the world moves toward a digital-first economy, **FinTech** will play a vital role in bridging gaps, enhancing user experiences, and pushing the boundaries of what's possible in finance.

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