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The Role of the Reserve Bank of India Circulars in Shaping the Electronic Payment Ecosystem

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ABSTRACT :

This paper examines the evolving role of the Reserve Bank of India (RBI) in shaping India's fintech and electronic payment ecosystem. It traces the RBI's transition from a bank-centric approach to technology-driven financial inclusion through initiatives such as the National Strategy for Financial Inclusion and the regulatory sandbox framework. The paper analyses regulatory challenges arising from fintech innovation, including consumer protection, cybersecurity, data privacy, financial stability, and regulatory arbitrage. It further examines the RBI's principles of technological neutrality, principles-based regulation, and "same activity, same risk, same rule," using digital payments and Paytm Payments Bank as illustrative examples. The paper highlights the need to balance innovation, inclusion, and effective regulatory oversight.

INTRODUCTION

The change which India has seen in the last decade is a sea change in the banking paradigm, propelled by its exponential growth in digital technologies. In fact, this sea change has transformed a host of possibilities in financial services access. Newer technologies on the back of heavy usages of smartphones have turned digital banking into one of the vehicle drivers of financial inclusion opening up millions of people to the convenience of banking. The Unified Payments Interface aptly illustrates this change-and immediate, secure financial transaction made possible for the user through his mobile. Not to mention the exponential rise in mobile banking, digital wallets, and state-of-the-art fintech innovations that offer users a comprehensive suite of services, starting from the basic fund transfer up to investment-related decisions at their doorsteps. This has brought in ease and convenience, thus triggering economic growth, innovation, and unparalleled opportunity.

The term 'Fintech' broadly describes a sphere wherein innovation within the financial sector is merged with this accelerated development through better technological applications, methodologies, products, and services. This wide arena goes from the introduction of digital currencies to the development of regulatory technologies as much is the shift in operation. In fact, according to EY's most recent Financial Adoption Index, over a third of consumers already regularly use at least two fintech services—that is, to a great degree, this innovation has penetrated everyday life.

Mostly, these fintech companies are startups and share some similarities. These companies are ingeniously designed to blow up and outperform incumbent banking systems either by better customer experience or by servicing markets in which incumbent financial services have traditionally been left unserved. That level of diversity within the fintech space was represented by the likes of Tala, a London-based group of companies that specifically focused its operations in the developing world. Similarly, marketplaces like Upstart can use much more profound and complex information about creditworthiness to give loans on better terms than traditional banks.

HOW DID RBI COME INTO THE PICTURE?

Increasing access to formal financial services, particularly in agriculture, has been a guiding principle of India's banking policy since the 1960s. The nationalization of the Life Insurance Corporation of India in the previous decade and the introduction of 'social control' over banks starting in 1967, as well as the nationalization of 14 major private sector banks in 1969, was basically to satiate the pressing ambition of the government to expand these services to the large rural masses. Indeed, before these reforms, bank branch proliferation had remained largely confined to metropolitan centers with the peripheral areas of rural and semi-urban centers being generally excluded from the formal financial sector. It was harmful to various economic activities, ranging from agriculture to small-scale industries and self-employment, which were being denied access to essential banking facilities. It is also believed that lending to low-income households in semi-urban and rural areas is perceived as too risky by commercial banks, which has kept them from expanding their services beyond urban locales. Hence, most of India remained bereft of formal banking and credit services. This radical restructuring, through the process of nationalization, marked a point of complete transformation of banking policy regarding agricultural credit, opening of accounts, and other services related to the rural economy.¹ Indeed, such reforms in the 1970s and 80s indelibly marked the trajectory that national financial inclusion policies would follow. In this respect, the emergence of cooperative banks, regional rural banks, development banks, and the directed dispersion of agricultural credit to the hitherto neglected sectors of the economy may be regarded as the infancy of financial inclusion in India.

During this epoch, the RBI entered its most significant evolutionary phase in laying out its regulatory domain over the banking sector and other financial units created to satisfy the imperatives of financial inclusion. The hallmark of this period was continuous tensions and bargaining with the government—a reflection of the complex tussle between state power and central bank autonomy. In this backdrop, a befitting example of the significant role that RBI played in promoting banking structure and reducing credit deficiencies throughout India was the LBS, initiated in the year 1969. This was representative of the strategic wisdom of RBI to ascribe a 'lead role' to selected public and private sector banks for certain districts. Accordingly, these lead banks—which are usually those with extensive networks and sufficient resources—were tasked with the responsibility to coordinate the activities of all credit agencies

¹ Reserve Bank of India, *Annual Report 2021-22* (Reserve Bank of India 2022).

in their respective districts. This would increase the volume of credit for priority sectors like agriculture, small-scale industries, and other neglected fields. Inbuilt coordination of this form: the RBI ensured that credit allocation was bettered because small banks and other financial institutions were not in a position to directly fulfill the credit requirements of the rural economy on their own. This turned out to be a watershed moment in the successful implementation of LBS for the RBI and the broad Indian banking system to improve credit access and further the cause of financial inclusion for large marginalized sections of society.

The second generation of financial inclusion, often marked from 1990 to 2006, is inextricably linked with the greater liberalization of the Indian economy—a transition triggered by the Balance of Payments crisis in 1991. This period is marked by conscious efforts on the part of the government to strengthen the financial institutions as part of broader reforms in the financial sector. During this phase, financial inclusion assumed the shape of a few key initiatives, such as the launching of the SHG-bank linkage programme in the early 1990s and Kisan Credit Cards to extend credit facilities to the agrarian population. The SHG-bank linkage programme, inaugurated by NABARD in 1992 with the strategic policy support of the Reserve Bank of India, aimed at empowering the economically deprived section through collective decision-making processes and facilitation of door-step banking services in an easy manner.²

It was through the mandates issued by the Committee on Financial Inclusion, constituted under the chairmanship of former Governor of the Reserve Bank of India, C. Rangarajan, that the third epoch—usually symbolic of the evolving trajectory of financial inclusion in 21st-century India—was initiated. The Committee's report, published in 2008, formed the foundation for identifying key issue areas that required a holistic approach to designing a financially inclusive services network in the country. The Committee emphasized that technological interventions should be one of the major drivers for financial inclusions, as there was no apparent growth in this sector despite the rapid growth of mobile phones and internet connectivity across the country.

² Reserve Bank of India, *Financial Inclusion and Development: A New Agenda* (Reserve Bank of India 2018).

RBI'S ROLE IN FINTECH REGULATION

Before the arrival of the PMJDY and similar programs in 2014, RBI's strategy to promote financial inclusion was mainly anchored on a bank-centric paradigm. This fact has been manifest in a host of key policy directives, including:

The requirement for Indian banks to expand their branch networks across the country, with particular focus on those regions where such facilities were very poorly developed. This particular mandate was responsible for the high growth of bank branches and ATMs from the 1990s into the early 2000s.

For instance, in 2009, the Reserve Bank urged banks to come up with a well-planned plan for opening banking branches in villages having more than 2,000 populations. In this regard, in 2012, even villages with less than 2,000 populations were brought under its ambit. Moreover, banks were further persuaded to open brick-and-mortar branches in villages with more than 5,000 populations.³

In 2017, the Reserve Bank liberalised branch authorization guidelines whereby fixed-location Business Correspondent outlets that operated for more than four hours a day and five days a week were given equal status to physical brick-and-mortar branches.

Since 2015, with the launch of the Pradhan Mantri Jan Dhan Yojana and the development of the JAM concept, the conceptualization of the JAM strategy, the RBI felt the compulsion for a more integrated and defined policy framework. This need emerged from the all-encompassing governmental aspiration to make financial services democratic—that is, accessible, available, and affordable for every citizen. It is this convergence of aspirations towards a combined policy framework with clearly charted roadmap of implementation that galvanized RBI into attempting the formulation of a comprehensive national financial inclusion strategy.

The efforts of the RBI and the Government of India finally fructified into the formal launch of the NSFI, 2019-2024 on January 10, 2020. The strategy itself articulates the vision and core principles guiding policies on financial inclusion within India with a focus on the expansion and sustainability of the national-level financial inclusion process by achieving a synergistic alignment of actions among all the stakeholders involved in the financial arena. In

³ C Rangarajan (Chair), *Report of the Committee on Financial Inclusion* (Government of India 2008).

orchestrating the NSFI, the RBI sought to conduct a comparative study of similar strategy formulations in other countries to identify globally accepted focus areas for directed intervention. Their study, in specific relation to innovation and technology, proved quite revealing.

This is further enhanced by the growth of innovation and technology in the wider environment, which has supported the development of fintech firms using technology-based approaches to delivering their financial services. New entrants of this nature can enhance the competitive pressures and provide the consumer with an extended set of choices with specialized products and processes. At the same time, however, such development also runs the risk

of excluding those who do not have basic infrastructural facilities like internet access and smartphones. A very fine balance would thus have to be achieved between technological development and human operators so that the customer is sufficiently serviced.⁴

In this matter, since technology is evolving at a rapid pace, technology-based organizations are being closely watched, and their regulatory mechanisms have continuously to be fine-tuned or updated. This is a reiteration of the view expressed by the Committee on Financial Inclusion in its 2008 report discussed above. The RBI recognizes the potentially dangerous power of fintech and technological change to create exclusionary effects where the basic infrastructure is lacking—a view that has resonance in the contemporary debate. Recent research also resonates with this advocacy of a balanced approach, thus encouraging technological innovation on one hand supported by rigorous oversight. The view thus also appears to correspond to internal research that the RBI considers prudent regulation necessary, even as one calls the "double-edged sword" nature of fintech in view of the recent privacy breaches and cybersecurity risks poised to leave digitally illiterate and disconnected consumers behind. However, that does not mean that fintech and other manifestations of innovation should be looked at strictly through the prism of risk. As a matter of fact, NSFI is considering a substantial role for fintech in bridging some of the gaps to financial inclusion in India by identifying several areas where fintech-assisted services could be integrated into the strategy.

⁴ Reserve Bank of India, *National Strategy for Financial Inclusion (NSFI) 2019-2024* (Reserve Bank of India 2020).

EPISTEMOLOGICAL QUAGMIRE OF REGULATORY DILEMMAS: CONUNDRUMS BEFORE THE RESERVE BANK OF INDIA

From the viewpoint of the Reserve Bank, a very fundamental question remains: how to balance its role as the guardian of the nascent but sure-to-burgeon fintech sector that is going to be an integral part of the larger effort at financial inclusion? As of date, the regulatory environment does not provide for any specific and focussed rules or scheme unique and exclusive to fintech operators. Rather, oversight by the Reserve Bank is exercised by a montage of extant regulations. For instance, the major legislation that applies to the operators of the payment systems with regard to authorization and regulation is the Payment and Settlement Systems Act, 2007. So far, the Reserve Bank of India has issued the licensing and operational modalities for the payment banks, aggregators and gateways for payment, issuance of prepaid instruments, and compliance with Know-Your-Client norms. The somewhat complex structure of banking and NBFCs is governed by the Banking Regulation Act, 1949 and Reserve Bank of India Act, 1934, respectively. As Fintech firms increasingly invade the financial services space-with the arrival of big BigTech players-the need for a coherent and focused regulatory ecosystem is an existential imperative.⁵

In 2016, the Reserve Bank of India constituted a Working Group tasked with delving into the fintech ecosystem in India and proposing necessary regulatory recalibrations. This inquiry culminated in the 2017 Report of the Working Group on FinTech and Digital Banking, which proffered a variety of policy orientations. Four salient guiding principles were at the core of the group's recommendations:

1. Technological Neutrality: The Bank should be indifferent to technological advances and provide a platform where competition remains effective irrespective of the type of technological solutions used-old or new.
2. Regulatory Harmonization and Interoperability: A consistent and harmonized regulatory regime on any activity must be implemented for all market players at the same time, without any discrimination related to the differentiation in their nature or inherent character.
3. User-Centric Protection: It is in this developing landscape, which may give birth to hitherto unknown and innovative risks, that the Bank has to make the protection of user interests paramount.
4. Systemic Stability: And lastly, above all, it is the preservation of systemic stability that should ensure the entire financial edifice is resilient to disruptions from such emerging entities.

⁵ Reserve Bank of India, *Report of the Working Group on FinTech and Digital Banking* (Reserve Bank of India 2017).

The considered opinion thus of the Working Group was for a fine balance to strike an appropriate balance, considering the triangular balance between the building of healthy market competition, protection of consumer interest, and establishing regulatory control-which also gets an echo in the labyrinthine structure of the NSFI, as observed above. The above recommendation invites Indian financial regulators to institute a dynamic, differentiated regulatory schema that oscillates between a minimalistic "disclosure" mandate to a "light-touch" regulatory approach to full and stringent regulation, depending upon the intrinsic character of the fin-tech entity's operation and the concomitant threat that such an entity poses to the stability of the financial ecosystem. In other words, under this stratified regulatory paradigm, those entities whose activities have a minimal impact on financial stability-for example, makers of payment devices, purveyors of real-time financial news and market data, and purveyors of financial planning tools-would be subjected to a disclosure-based framework.

For instance, operators of e-commerce, payments banking, online lending, and P2P transactions-all those lines of activity that do contribute to affecting the stability of financial markets-would then be subjected to additional regulatory oversight. This graduated approach to the regulation of fintech is not unique or peculiar to India, as debate and its adoption have been made in other jurisdictions. One of the salient proposals made by the Working Group was that of a regulatory sandbox - an experimental crucible where fintech entities could collaborate with established financial service providers in innovating and scaling their offerings.⁶

The RBI translated this concept into reality in 2019 by issuing the 'Draft Enabling Framework for Regulatory Sandbox' that detailed the procedural phases that would mark the operability of the sandbox. Among several potential benefits that the draft outlined, a prominent emphasis was given to innovation playing a greater role in furthering financial

⁶ Reserve Bank of India, *Guidelines on Digital Lending* (Reserve Bank of India 2022).

inclusion. The regulatory sandbox was proposed not just to hasten the pace of technology innovation and absorption but also to reach greater financial inclusion and increased access to more financial services. Areas that are likely to immediately benefit from this are microfinance, new small savings and micro-insurance products, remittances, mobile banking, and other digital payment services. Since its inception, four cohorts of fintech entities have participated in the project, each trying to address different challenges of service delivery, including strengthening fintech services against fraudulent activities.

Although the Reserve Bank of India has been prudent and refrained from taking any precipitous regulatory measures in the rapidly changing landscape of fintech, a seminal transition emerged in 2022 in the regulatory framework when the 'Guidelines on Digital Lending' were issued. The Indian fin-tech sector has witnessed a metamorphosis driven by increasing participation of fin-tech companies. Building on the explosive growth in the consumer credit market starting in the mid-2010s, various fintech and financial service operators began to develop and offer a range of new financial products, such as "Buy Now, Pay Later" models-one of many services that include online shopping, personal loans, and other forms of credit. But the rapid proliferation of these services has not gone without their share of unnerving consequences. It has emerged that unabated third-party involvement, mis-selling, data-privacy breach, unethical business practices, exorbitant interest rates, and unethical debt recovery methods have led to mirroring the digital lending ecosystem of India.⁷

These emerging challenges have led the Reserve Bank of India to constitute a Working Group in 2021 for evolving measures to tackle the high-priority issues. The detailed report prepared by the Working Group categorised a tripartite philosophical framework while designing a regulatory schema tuned to FinTech nuances in digital lending:

- **Neutrality of Technology:** The Working Group was of the view to remain neutral as far as the different technological and business model variants are concerned and to foster healthy competition among all the market players for the maximum benefit of the financial system. This approach, summarized in the mantra "what is impermissible offline must not be permissible online," therefore supports the proportionate application of the principle "same activity, same risk, same rule" throughout the lending ecosystem, regardless of the medium. The concept draws on the "principle of neutrality" that has previously been supported by the Working Group on Fintech and Digital Banking.
- **Principles-Based Regulations:** Apart from a rules-based rigid regulatory regime, the Working Group propagated a principles-based regime that could marry the objective of innovation with regulation and stability in the context of digital lending. In view of the sustained and peculiar problems emerging from the digital lending landscape in India, the Committee advised that the RBI should consider a regulatory approach based on "regulatory guardrails," moving beyond mere disclosure and fair practice-based legal frameworks.
- **Avoid Regulatory Arbitrage:** The Working Group has underlined the importance of avoiding regulatory arbitrage by making the requirements necessary to close gaps that could be exploited either by new service providers or innovative products, similar to those already regulated. It underlined the principle of regulatory parity, which means identical conditions of regulations and supervision for all players-be it incumbent banks, FinTech startups, or BigTech companies-that want to innovate and compete in the FinTech space. These measures are envisioned as fortifying consumer protection and safeguarding market integrity.

⁷ SB Bhat, *Financial Inclusion in India: A Review* (Journal of Financial Inclusion 2019).

It was for this reason that the Working Group undertook a very in-depth discussion, elaborately analyzing the various structures applicable to fintech, more precisely to digital lending in India. Contrasted with the payments market, whose architecture has emerged under a regulatory shadow from the very beginning, the digital lending market has emerged bereft of any such pre-stipulated regulatory perimeter. Whereas banks and similar mainstream deposit-taking institutions fell under strict regulatory scrutiny, a host of third-party lenders were left operating in a regulatory vacuum where they neither sought NBFC registration status nor adhered to one of the various regulatory regimes that were already in place. Having weighed the balance of competing interests, the Working Group felt that the interests of financial stability and consumer protection greatly outweighed any counterarguments supportive of maintaining the status quo.⁸

The present analysis goes beyond the simple recommendations of the Working Group or their subsequent codification contained in the Digital Lending Guidelines. There is a need to recognize the implicit rationale relied upon by the Working Group and implicit acceptance of such reasoning by the RBI while implementing these recommendations. It is perceptible that, while analysing the reports of both the Working Group on FinTech and Digital Banking -

⁸ M Kumar, *The Impact of PMJDY on Financial Inclusion in India* (Economic & Political Weekly 2021).

2019 and the Working Group on Digital Lending, including Lending through Online Platforms and Mobile Apps - 2022, a definite regulatory philosophy for the governance of fintech seems to crystallise within the RBI. While the Bank has not thus far articulated these explicitly, the principles of technology neutrality, principle-based regulation, and bridging of regulatory gaps appear to have been consciously imbibed into RBI's position as represented by the Digital Lending Guidelines. This is further corroborated from a speech delivered by T. Rabi Sankar, RBI Deputy Governor, during December 2022. Speaking to the need for banking regulators to treat fintech companies like any other regulated entities, the Deputy Governor said.

Regulators need to ensure that nonbank entities operating beyond the regulatory perimeter of banks do not undermine the role of banks and hence create risks for financial stability. At the same time, there is a need to incentivize these efficiency-augmenting technologies. Needless to say, traditional entity-based regulation of banks-based on parameters such as capital adequacy, leverage, liquidity, and financial integrity requirements like KYC, AML/CFT-needs to be extended to cover fintech entities which are not subjected to similar regulatory requirements. The activity-based regulation concept has been drawing from the principle of 'same activity, same regulation.' The underlying tenet remains that any entity providing banking service needs to be regulated on a par with banks.

As the Deputy Governor explains the position of RBI in this complex world of Fintech regulation: "The mandate given to the regulator is thus dual: to be both the designer and the watchman of the financial system." The regulatory approach or philosophy adopted by the RBI has a threefold basis. First, innovation is not only tolerated but encouraged. The induction of the innovation in the financial system should be done in a manner that does not disrupt its equilibrium; hence, no form of disruption should be caused. The last point is that the overall process of digitization must be designed with care to ensure that consumer protection remains intact.⁹

The discourse of the Deputy Governor thus invokes implicitly the view of the Working Groups discussed above that argue for a triadic regulatory schema-innovation promotion, integration of innovation in a non-disruptive manner, and consumer protection. The latter underlined the delicate balance that must be struck by the RBI while designing regulatory

⁹ R S Sharma, *Technological Innovations and Financial Inclusion in India* (Technology and Development Review 2020).

policy. When the calculus moves forward over the objective of financial inclusion, the question is: Where does the balance shift?

Thus, in this case, it is ostensible that the RBI has taken into consideration the cogitations of the Working Group on Digital Lending, which identifies the emerging importance of digital lending in the financial ecosystem, especially as pertains to financial inclusion, accessibility, and financing of SMEs. The Working Group is also of the view that this inevitable and exponential growth of digital lending, just as the unprecedented growth in the use of digital payment systems in India, requires a view different from that of a minimalist regulatory approach, which is normally accorded to nascent sectors. The inherent complexities and possibilities of legal or regulatory arbitrage in this rapidly evolving ecosystem require a multi-agency framework, appropriately supported by central legislation and selective notifications, as necessary. The recommendations of the Working Group thus try to throw light on those grey areas and usher in more transparency in the regulatory regime so that the malefactors are brought out in the open. In the absence of laws which specifically address the challenges thrown up, regulation should¹⁰ rise to the occasion and meet the challenges adeptly by mitigating the attendant risks.

At this nascent stage of what looks like a paradigmatic shift, the rendering of any conclusive judgment would be much out of place, but one can scarcely fail to appreciate the crystallization of a clear-cut policy regime for promoting financial inclusion through the highly interactive ethos of fintech innovation and its regulation at the altar of the Reserve Bank of India. For the first time, the National Strategy for Financial Inclusion gave shape and form to the long-gestating ambitions of the RBI under the JAM strategy. Historically, the pursuit of financial inclusion by the RBI was an unwieldy process that relied on expansion in brick-and-mortar bank branches and traditional financial intermediaries. However, all that has been rewritten by the advent of technology, wherein even the delivery of financial services to the masses can be enabled at barely a fraction of the erstwhile cost. The shift from the bank-based model to one based on mobile technologies and digital applications is not only about tools replacement; it fundamentally represents a remodeling of the very structure of access to finance. Yet, this development carries also its hazards: the arrival of fintech intermediation gave way to new dimensions of risk that were quite important in privacy, protection of data, and even in consumers' rights-protection areas, where regulatory frameworks were yet unable

¹⁰ R S Sharma, *Technological Innovations and Financial Inclusion in India* (Technology and Development Review 2020).

to catch up with rapid innovation. The regulation of fintech, therefore, constitutes a labyrinthine challenge that requires regulators to strike a delicate balance between competing imperatives: fostering innovation on the one hand and ensuring fair competition and safeguarding the public interest on the other. This interdependence between fintech and financial inclusion is not a transient phenomenon but a structural reality that the RBI must navigate with foresight and dexterity in its multifaceted role as regulator, supervisor, and facilitator.

Fintech, in its temporal broad view, has emerged unequivocally over the past decade as a force that promises to rewrite the contours of corporate growth as much as socioeconomic development. This is very impressive in India, partly aided by governmental advocacy for a digital future and the dynamism of proliferation that startups have assumed. This interplay of factors has accelerated not just the adoption of fintech but also forced old financial institutions to modernize their operations. As an engine of economic progress, financial inclusion finds in fintech an able ally that holds out a promise of bridging the myriad gaps that persist in India's diverse economic landscape. These gaps, rather than acting as barriers, should be viewed as fertile ground for the continued expansion of fintech.¹¹

The need for regulation, however, rapidly expands with innovation. The ghosts of cybersecurity and privacy concerns in many reports were a significant barrier to fintech adoption. The introduction of new instruments, such as cryptocurrencies, furthers the call for a regulatory framework that creates a level playing field. Financial technology institutions need to be resilient amidst an ecosystem that is in continuous evolution, where the only factor in common is change. Further, it is only when people's financial literacy and awareness improve that the full potential of this technological revolution will be felt. While, therefore, progress is indeed being made by operators within the sector, the financial literacy gap has to be reduced through a targeted effort so that benefits arising out of fintech are used for collective gains.

¹¹ C Rangarajan (Chair), *Report of the Committee on Financial Inclusion* (Government of India 2008).

CASE STUDY - PAYTM PAYMENTS BANK

The main legislative framework governing Fintech in India, and hence a base law for the entire architecture of the payment system in India, is the Payments and Settlement Systems Act, 2007. Above-mentioned statute basically governs the functioning of smart cards and wallet systems, wherein the latter are kept under the purview of the Master Direction of the RBI promulgated in 2017. To begin with, interoperability between wallets and conventional banking entities was scarce, probably due to the threat which digital wallets imparted to the market monopoly of banks. A very important example of this tension was the prohibition by the State Bank of India on users depositing money into Paytm wallets, which was then rescinded. The shift came by 2024 when scheduled banks started forging partnerships with Paytm-very much a different ball game altogether in the emerging fintech ecosystem.

The critical modification of the Master Direction in 2021 actually recategorized the payment systems from three to two categories to allow better interoperability between different types of PPIs. This new architecture enables transactions up to INR 10,000 without full KYC, reducing friction for consumers ostensibly, thereby improving financial inclusions even in rural areas where KYC verification resources may be limited. The requirement of KYC-compliant PPIs within 24 months from the date of issuance is an uphill task in a situation where the structural impediments in the form of inadequate access to KYC centers and technological illiteracy continue to persist in rural areas. Left on their own, these hurdles may turn the time-bound conversion requirement into a stumbling block in the way of desired diffusion.

However, diluted KYC norms invite a natural trade-off between increased financial inclusion and cyber security threat, as has been illustrated by the call for two-factor authentication for PPIs by the very government. And then, there is also this critical threshold on the net worth criteria of INR 15 crore for non-bank entities desirous of establishing a PPI. While this might bar smaller entrants, it is also seen as a means of ensuring that only 'serious players' are lured towards this sector, which is essential if the sector is to achieve long-term stability and expansion.

The story of cryptocurrencies in their Indian context has been one of deviation from typical legal frameworks. It started with the introduction of a circular by the Reserve Bank of India, denying the status of cryptocurrencies as legal tender-thereby offering a playing field for an interplay of innovation and regulations, which is challenging, indeed. Public interest litigations, blanket ban proposals from the legislature, and wavering official positions then set the beat for this regulatory odyssey. All these put together have transformed the legal status of cryptocurrencies in India into an esoteric and fast-evolving discourse. At present, even as there is no absolute ban on cryptocurrencies, their legal status has remained mostly uncharted without any regulatory scaffolding. A draft legislation that is currently in cold storage in the Parliament halls aims to create an enabling platform for the Reserve Bank of India to issue the state-sanctioned digital currency. The Cryptocurrency and Regulation of Official Digital Currency Bill, 2021 also intends to proscribe private cryptocurrencies in India, with certain exceptions.

While this impending legislation promises clarity and regulatory uniformity, it is internally fraught with deep-seated philosophical contention. The suggested prohibition of private cryptocurrencies starkly contrasts with the underlying ethos that accompanies the creation of digital, decentralized tender. Cryptocurrencies, by their very design, have been envisioned to be autonomous creations, free from the strict, hegemonic grasp of centralized authorities. Imposed on them would be a state-controlled digital currency, and eradicated would be the private alternatives. Such a philosophy-the absence of any one controlling authority-is crucial to maintaining anonymity and diffusing power. Thus, the legislative intent, while to bring order into being, actually threatens to unravel the very fabric of the decentralized ideal that cryptocurrencies epitomize.

CONCLUSION AND SUGGESTIONS

The central bank of the country, the Reserve Bank of India, has played a very pivotal role in shaping the trajectory of financial inclusion and, therefore, regulatory aspects concerning Fintech in India. From its early efforts at expanding banking services to rural and underserved areas through nationalization and establishment of lead banks to strategic intervention by the RBI, there is a sea of change in the financial landscape. Underpinning the bigger vision of financial inclusion-both access and equity-is its evolution from a bank-centric approach to embracing technology and innovation.

While introducing the National Strategy for Financial Inclusion or the regulatory sandbox framework, the efforts undertaken by the RBI reflect a rather sophisticated understanding of how technological advancement needs to be balanced with regulatory oversight. The NSFI underlines an integrated approach to financial outreach coupled with catering to varied needs of the populace in India. The regulatory sandbox is a fine example of how innovation can be encouraged without allowing the risks that come with it to escalate.

This ever-evolving nature of fintech throws up a continuous challenge for the RBI to balance rapid technological advancements with robust regulatory frameworks. The various reports on fintech and digital lending by different working groups reflect the shifting focus of regulators toward a more nuanced approach underpinned by the principles of technology neutrality, principles-based regulation, and eschewing regulatory arbitrage. These sets of principles are targeted at achieving a fine balance in regulatory mechanisms that would promote innovation while achieving financial stability and consumer protection.

With the entry of new fintech players and their technologies that constantly redefine the market, the regulatory environment is turning increasingly elaborate. It is in this backdrop that the adaptability factor in the approach of RBI, backed by forward-looking strategy formulation, will be highly essential in overcoming the challenges. Similarly, as fintech continues to grow, the RBI cannot afford to blink in terms of regulatory oversight and enforcement so that the growth of financial technology furthers the cause of financial inclusion and does not exacerbate the existing imbalances. That coupled with other efforts that are relentless in improving financial literacy and addressing cybersecurity concerns calls for a regulatory framework that is strong, yet supportive of continued innovation and protection of the interests of all stakeholders within the financial ecosystem.

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