

# Digital Payments in India: A Guide to Regulatory Framework

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Any financial transaction made by electronic methods rather than cash or tangible instruments such as cheques is referred to as a digital payment. With the establishment of the National Payments Corporation of India ("NPCI") in 2008, there was a broad usage of digital payments in India. Since then, payment systems such as digital wallets, the Unified Payments Interface ("UPI"), and the Bharat Interface for Money ("BHIM") have arisen.

- [Another question that arises is – Are digital wallets safe?](#)
- [Digital Payment Regulations in India](#)
  - [Reserve Bank of India and National Payments Corporation of India](#)
  - [Payment and Settlement Systems Act, 2007](#)
  - [Ministry of Electronics and Information Technology](#)
  - [Pradhan Mantri Jan Dhan Yojana](#)
- [Security and Privacy pertaining to digital payments in India](#)
- [Requirements and Compliance Guidelines for Merchants](#)
- [Trends and Future Outlook](#)
- [Conclusion](#)
- [FAQs](#)
  - [What is the regulatory framework for digital payments in India?](#)
  - [What are the security and privacy regulations for digital payments](#)

- [in India?](#)
- [What are the future prospects for digital payments in India?](#)

## **Another question that arises is – Are digital wallets safe?**

The government's quest toward a cashless economy has resulted in the creation of a strong regulatory framework to safeguard the [safety and security of digital transactions](#). This has helped the digital payment industry. The Reserve Bank of India ("RBI") is the major regulatory organization in India in charge of supervising digital payments in India. The RBI has set several recommendations and regulations for digital payments, including Know Your Customer ("KYC") standards, two-factor authentication, and transaction amount restrictions.

The government has also launched several measures to encourage the usage of digital payments, such as the Digital India campaign and the launch of the BHIM app. Incentives such as rebates and discounts have also been given to encourage people to use digital payment methods.

## **Digital Payment Regulations in India**

Various regulatory authorities in India control the digital payment industry, including the RBI, the NPCI, and the Ministry of Electronics and Information Technology ("MeitY").

### **Reserve Bank of India and National Payments Corporation of India**

The RBI regulates and supervises digital payment systems in India, such as electronic cash transfers, prepaid payment instruments, and card payments. It offers rules and regulations concerning digital payment system security, risk management, client protection, and other factors. The NPCI operates and manages payment systems such as UPI, Immediate Payment Service ("IMPS"), and Bharat Bill Payment System ("BBPS"). It is in charge of the creation and operation of these systems, as well as assuring their efficiency and security and resolving any payment-related issues.

### **Payment and Settlement Systems Act, 2007**

All digital payments in India, including those made using mobile wallets, prepaid cards, and online platforms, are governed under the [Payment and Settlement Systems Act, 2007](#). The act creates a framework for oversight and monitoring of digital payment service providers, as well as standards for client protection and dispute resolution. It also authorizes and supervises payment system operators, as well as issues regulations to ensure the safety and efficiency of the digital payments industry.

### **Ministry of Electronics and Information Technology**

MeitY is in charge of developing the country's digital infrastructure, which

includes e-governance, digital literacy, and digital payments. It collaborates with other regulatory bodies and industry stakeholders to promote digital payment system adoption in India.

## **Pradhan Mantri Jan Dhan Yojana**

With the introduction of new payment systems and the execution of various initiatives to promote digital payments, India's legislative framework for digital payments has undergone considerable changes in recent years. To improve financial inclusion and promote the usage of digital payments, the government has established many projects, including Digital India and the Pradhan Mantri Jan Dhan Yojana ("PMJDY").

The Indian government's implementation of e-RUPI, a cashless and contactless digital payment option, is intended to improve the effectiveness of Direct Benefit Transfer ("DBT") in the country. These initiatives have built a solid ecosystem for digital finance, paving the way for a cashless economy.

Overall, India's regulatory environment for digital payments is strong and expanding, with a focus on maintaining security, protecting customers, and encouraging innovation and the use of digital payment systems.

## **Security and Privacy pertaining to digital payments in India**

In India, security and privacy are critical features of digital payments. The RBI has issued guidelines for digital payment security, including the adoption of two-factor authentication and encryption for sensitive data.

Furthermore, the [Draft Digital Personal Data Protection Bill, 2022](#) seeks to govern the collection, storage, and use of personal data by companies involved in digital payments. In addition, the government released the National Cyber Security Policy 2013, which aims to defend key information infrastructure from cyber threats. Despite these precautions, data breaches, phishing attempts, and identity theft continue to be a problem for digital payments in India. Consumers must be aware of these risks and take the required safeguards, such as using secure payment methods and monitoring their transaction history regularly.

## **Requirements and Compliance Guidelines for Merchants**

To maintain the security of cardholder data during digital transactions, merchants in India must adhere to the Payment Card Industry Data Security Standards ("PCI DSS"). The PCI DSS framework requires merchants to establish a secure network, keep cardholder data secure, monitor and test security systems regularly, and maintain an information security policy.

Merchants must also follow the RBI's KYC standards, which require them to verify the name and address of their clients before onboarding them.

Compliance with these principles protects merchants from fraud and data breaches while also increasing customer confidence in the digital payment system.

## **Trends and Future Outlook**

The digital payments landscape in India is expected to continue its growth trajectory in the coming years. With initiatives such as the UPI, BharatQR, and the adoption of digital wallets in India, the usage of digital payments is likely to increase further. The COVID-19 pandemic has also accelerated the shift towards digital payments, as people increasingly avoid physical contact with cash.

In terms of future outlook, there is a growing interest in using emerging technologies such as blockchain and artificial intelligence to enhance the security and efficiency of digital payments. The government is also expected to continue its focus on promoting digital payments through various initiatives and policies. Overall, the future of digital payments in India looks promising, with the potential to transform the payments landscape and drive financial inclusion.

## **Conclusion**

Digital payments have developed as a significant force in India's economy, fueled by the government's push toward a cashless economy and technology improvements. The legislative environment for digital payments in India has been constantly expanding to keep up with the changing landscape, with the PSS Act providing a solid foundation for assuring security and privacy. To ensure the proper operation of the digital payments industry, merchants must follow certain standards.

As India transitions to a more digital economy, the future outlook for digital payments is promising, with the sector likely to grow at a rapid pace. The implementation of new technologies like UPI and e-RUPI, as well as the increasing penetration of smartphones and internet connectivity, will continue to promote the expansion of digital payments. The transition to a cashless economy is expected to speed up in the next years, delivering more ease and financial inclusion to millions of Indians.

## **FAQs**

### **What is the regulatory framework for digital payments in India?**

The RBI and the PSS Act control the regulatory environment for digital payments in India. The RBI develops digital payment rules and regulations, as well as controls payment service providers and intermediaries. The PSS Act establishes a legal framework for the regulation and oversight of the country's payment and settlement systems. Other regulations and laws that apply to digital payments include the Information Technology Act, 2000, and the Consumer Protection Act, 2019.

## **What are the security and privacy regulations for digital payments in India?**

The RBI has published data security and customer protection rules, requiring different security measures such as two-factor authentication, encryption, and safe PIN storage. The Personal Data Protection Bill, 2019, is also intended to increase the framework for data privacy and security. To monitor and address any security concerns, the NPCI has established a dispute resolution process as well as a security operations center. Entities that process card transactions are also subject to the PCI DSS.

## **What are the future prospects for digital payments in India?**

The future of digital payments in India looks bright as the government and private sector continue to invest in and develop the digital finance ecosystem. With the increasing prevalence of smartphones and the internet, digital payments have the potential to become the preferred means of transaction in India. The introduction of new technologies such as blockchain and artificial intelligence is also predicted to change the digital payments sector and improve security and efficiency. As more merchants and consumers use digital payments, cash transactions are projected to decline, contributing to the expansion of India's digital economy.

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