

# The Legal Implications of Disruptive Financial Technologies

Bhagamma G.<sup>1</sup>, Mohammad Edris Abdurahim Zai<sup>2</sup>, Abdul Malik Ghakhtalai<sup>3</sup>, Asifullah Samim<sup>4</sup>, Basira Sadat<sup>5</sup>

<sup>1</sup>Research Scholar (Law), Department of Studies in Law, University of Mysore

<sup>2</sup>University of Mysore

<sup>3</sup>University of Mysore

<sup>4</sup>University of Mysore

<sup>5</sup>University of People

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## ABSTRACT

Financial technology (FinTech) has rapidly transformed the traditional financial services industry, offering new ways of accessing, managing and investing money. However, with these advancements come various legal challenges that require attention. This paper examines the intersection of FinTech and law, discussing the regulatory challenges and legal implications of disruptive financial technologies. The paper also explores the role of law in shaping the future of FinTech and ensuring compliance in a FinTech-driven economy. Additionally, the paper analyzes the legal frameworks and best practices regarding data privacy and security in FinTech and the emerging legal issues in the use of cryptocurrencies and digital assets. The study concludes that while FinTech provides numerous opportunities for the financial industry, legal considerations must be carefully evaluated to manage the associated risks and ensure sustainable growth.

## INTRODUCTION

Financial technology, or FinTech,<sup>1</sup> refers to the use of technology to improve and automate financial services. This can include everything from mobile banking and online trading platforms to digital currencies and blockchain technology. FinTech is a rapidly growing industry that is disrupting traditional financial services and transforming

the way we manage our money.<sup>2</sup> Some of the key areas of focus within the FinTech industry include payments, lending, investing, and personal finance management. FinTech companies often leverage advanced technologies such as artificial intelligence, machine learning, and big data analytics to offer innovative solutions that are faster, more efficient, and more accessible than traditional financial services. There are many different types of financial technology, or FinTech, that are used to improve and automate financial services. Some examples of FinTech include:

<sup>1</sup>What Is “fintech” and How Is It Changing Financial Products? (Central Bank of Ireland) <<https://www.centralbank.ie/consumer-hub/explainers/what-is-fintech-and-how-is-it-changing-financial-products>> accessed 16 April 2023.

<sup>2</sup>Fintech and the Future of Finance’ (World Bank) <<https://www.worldbank.org/en/publication/fintech-and-the-future-of-finance>> accessed 16 April 2023.

<sup>\*</sup>Corresponding author.

E-mail address: [bhagammag@gmail.com](mailto:bhagammag@gmail.com) (Bhagamma G.)

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## Mobile Banking Apps

These allow users to manage their bank accounts, transfer funds, and make payments from their mobile devices.<sup>3</sup> Mobile banking apps are a type of financial technology (fintech) that has become increasingly popular over the past few years. These apps are designed to allow users to access their bank accounts and perform various banking transactions using their mobile devices. Here are some key features and benefits of mobile banking apps:

1. **Convenience:** Mobile banking apps provide customers with 24/7 access to their accounts, allowing them to perform transactions at any time and from any location. This eliminates the need to visit a physical bank branch, saving time and effort.
2. **Security:** Mobile banking apps use various security features such as two-factor authentication, fingerprint scanning, and facial recognition to ensure the safety of user data and transactions.<sup>4</sup>
3. **Transaction monitoring:** Mobile banking apps allow users to monitor their transactions in real-time, providing them with instant alerts for any suspicious activity.
4. **Transfer money:** Users can transfer money to other accounts or pay bills using mobile banking apps. This feature makes it easy for users to manage their finances and pay bills on time.
5. **Investment management:** Some mobile banking apps also offer investment management services, allowing users to invest in stocks, mutual funds, and other financial instruments.
6. **Budget tracking:** Some mobile banking apps provide budget tracking features that allow users to monitor their expenses and set financial goals.

## Digital Wallets

These allow users to store digital versions of their credit and debit cards, as well as other forms of payment such as digital currencies. Digital wallets are a type of financial technology (fintech) that allow users to store, manage, and make transactions with their money electronically.<sup>5</sup> They are essentially virtual wallets that can be accessed through

<sup>3</sup>MobileBanking Online in India | HDFC Bank' <<https://www.hdfc-bank.com/personal/ways-to-bank/mobilebanking>> accessed 16 April 2023.

<sup>4</sup>Laura Grace Tarpley He CEPF, Evelyn, 'The Best Mobile Banking Apps of April 2023' (*Business Insider*) <<https://www.businessinsider.com/personal-finance/best-mobile-banking-apps>> accessed 16 April 2023.

<sup>5</sup>Digital Wallet' (*Corporate Finance Institute*) <<https://corporatefinanceinstitute.com/resources/cryptocurrency/digital-wallet/>> accessed 16 April 2023.

a mobile device or computer. Here are some key features and benefits of digital wallets:

1. **Convenience:** Digital wallets allow users to make transactions quickly and easily, without the need for cash or physical credit cards. Users can make payments using their mobile devices or computers, making transactions faster and more convenient.
2. **Security:** Digital wallets use various security features such as password protection, fingerprint scanning, and two-factor authentication to ensure the safety of user data and transactions.
3. **Contactless payments:** Digital wallets offer contactless payment options, allowing users to make payments without the need for physical contact. This is particularly useful in situations where hygiene is a concern, such as during a pandemic.
4. **Loyalty programs:** Some digital wallets offer loyalty programs that allow users to earn rewards and cash-back for their transactions.
5. **International payments:** Digital wallets allow users to make international payments quickly and easily, without the need for complex wire transfers.
6. **Budget tracking:** Some digital wallets provide budget tracking features that allow users to monitor their expenses and set financial goals.

## Peer-to-Peer (P2P) Lending Platforms

These allow individuals to borrow and lend money directly with one another, without the need for traditional banks or financial institutions. Peer-to-peer (P2P) lending platforms are a type of financial technology (fintech) that allows individuals and businesses to borrow and lend money directly with each other, without the need for traditional financial institutions such as banks.<sup>6</sup> Here are some key features and benefits of P2P lending platforms:

1. **Access to funding:** P2P lending platforms provide borrowers with an alternative source of funding, particularly for those who may not have access to traditional bank loans.
2. **Higher returns:** P2P lending platforms offer lenders the opportunity to earn higher returns on their investments compared to traditional savings accounts or bonds.
3. **Diversification:** P2P lending platforms allow lenders to diversify their investment portfolios by spreading their investments across multiple loans.

<sup>6</sup>Peer-to-Peer (P2P) Lending and Borrowing in India | P2P Money Transaction on Economic Times' 2 <<https://economictimes.indiatimes.com/wealth/peer-to-peer?from=mdr>> accessed 16 April 2023.

4. **Fast and easy:** P2P lending platforms offer a fast and easy loan application process, allowing borrowers to access funds quickly and with minimal paperwork.
5. **Lower fees:** P2P lending platforms typically charge lower fees compared to traditional financial institutions, which benefits both borrowers and lenders.
6. **Risk assessment:** P2P lending platforms use algorithms and data analytics to assess the creditworthiness of borrowers and determine the risk level of loans. This helps to mitigate the risk of default and protects lenders' investments.

## Robo-Advisors

These are automated investment platforms that use algorithms to provide personalized investment advice and portfolio management.<sup>7</sup> Robo-advisors are a type of financial technology (fintech) that use algorithms and artificial intelligence to provide automated investment advice and management to clients. Here are some key features and benefits of robo-advisors:

- i. **Cost-effective:** Robo-advisors typically charge lower fees compared to traditional human financial advisors, making them more accessible to a wider range of clients.
- ii. **Personalized advice:** Robo-advisors use client data such as age, income, and investment goals to provide personalized investment advice and management.
- iii. **Diversification:** Robo-advisors help clients to diversify their investment portfolios by investing in a range of asset classes, based on the client's risk tolerance and investment goals.
- iv. **Automation:** Robo-advisors automate investment management tasks such as rebalancing and tax-loss harvesting, saving clients time and effort.
- v. **Transparency:** Robo-advisors provide clients with real-time access to their investment portfolios and performance data, making it easy for clients to track their investments.
- vi. **Accessibility:** Robo-advisors are accessible through online platforms, making it easy for clients to access their accounts and make changes to their investments.

## Blockchain Technology

Blockchain Technology is a decentralized, distributed ledger technology that is used for secure and transparent transactions, as well as for digital currencies such as Bitcoin

<sup>7</sup>The Best Robo-Advisors Of April 2023 – Forbes Advisor' <<https://www.forbes.com/advisor/investing/best-robot-advisors/>> accessed 16 April 2023.

and Ethereum.<sup>8</sup> Blockchain technology is a type of distributed ledger technology (DLT) that enables secure, transparent, and tamper-proof transactions without the need for intermediaries such as banks or governments. Here are some key features and benefits of blockchain technology:

- a. **Decentralization:** Blockchain technology is decentralized, meaning that there is no central authority controlling the system. This makes it more transparent and resistant to fraud or manipulation.
- b. **Security:** Blockchain technology uses advanced cryptographic techniques to secure transactions and prevent unauthorized access or tampering.
- c. **Transparency:** Blockchain technology provides a transparent record of all transactions, which can be viewed and verified by anyone with access to the network.
- d. **Efficiency:** Blockchain technology enables fast and efficient transactions, without the need for intermediaries such as banks or payment processors.
- e. **Cost-effectiveness:** Blockchain technology can reduce transaction costs by eliminating the need for intermediaries and automating processes.
- f. **Trust:** Blockchain technology enables trust between parties who may not know each other or trust each other, by providing a secure and transparent record of all transactions.

## Crowdfunding Platforms

These allow individuals and businesses to raise funds from a large number of people through online platforms.<sup>9</sup> Crowdfunding platforms are a type of financial technology (fintech) that enable individuals or businesses to raise funds from a large number of investors or donors through an online platform. Here are some key features and benefits of crowdfunding platforms:

- a. **Access to funding:** Crowdfunding platforms provide an alternative source of funding for individuals or businesses, particularly for those who may not have access to traditional bank loans or venture capital funding.
- b. **Lower barriers to entry:** Crowdfunding platforms have lower barriers to entry compared to traditional funding sources, making it easier for individuals or businesses to raise funds.
- c. **Diversification:** Crowdfunding platforms enable investors to diversify their investment portfolios by spreading their investments across multiple projects or campaigns.

<sup>8</sup>What Is Blockchain Technology? - IBM Blockchain | IBM' <<https://www.ibm.com/topics/blockchain>> accessed 16 April 2023.

<sup>9</sup>The 23 Best Crowdfunding Sites to Launch Your Business or Product' <<https://blog.hubspot.com/sales/crowdfunding-sites>> accessed 16 April 2023.

- d. **Marketing and promotion:** Crowdfunding platforms can provide a platform for individuals or businesses to market and promote their products or services to a large audience.
- e. **Community building:** Crowdfunding platforms can help to build a community around a project or campaign, which can help to create a sense of ownership and support for the project.
- f. **Feedback and validation:** Crowdfunding platforms can provide feedback and validation for a project or campaign, based on the level of interest and support from investors or donors.

## Insurtech

Insurtech refers to the use of technology to improve and automate the insurance industry, including areas such as underwriting, claims processing, and customer service.<sup>10</sup> Insurtech is a term used to describe the application of technology and innovation to the insurance industry. Insurtech companies use technology to improve the efficiency and effectiveness of the insurance value chain, from underwriting and risk assessment to claims management and customer service. Here are some key features and benefits of insurtech:

- a) **Personalization:** Insurtech companies use data analytics and artificial intelligence to provide personalized insurance solutions to customers, based on their individual needs and risk profiles.
- b) **Speed and efficiency:** Insurtech companies use technology to automate and streamline insurance processes, such as underwriting and claims management, which can lead to faster and more efficient service.
- c) **Cost-effectiveness:** Insurtech companies can reduce costs by automating processes and reducing the need for intermediaries, making insurance more affordable and accessible to a wider range of customers.
- d) **Transparency:** Insurtech companies provide customers with real-time access to their insurance policies and claims data, making it easier for customers to understand and manage their insurance.
- e) **Innovation:** Insurtech companies are driving innovation in the insurance industry, through the development of new products and services, such as usage-based insurance and peer-to-peer insurance.
- f) **Risk management:** Insurtech companies are using technology to improve risk assessment and management, which can lead to more accurate pricing and better risk mitigation strategies.

<sup>10</sup>What Is Insurtech? (TIBCO Software) <<https://www.tibco.com/reference-center/what-is-insurtech>> accessed 16 April 2023.

## Regtech

Regtech refers to the use of technology to improve compliance and regulatory processes for financial institutions, including areas such as anti-money laundering (AML) and know-your-customer (KYC) requirements.<sup>11</sup> Regtech (regulatory technology) is a term used to describe the application of technology and innovation to compliance and regulatory processes in the financial industry. Regtech companies use technology to help financial institutions comply with regulatory requirements, such as anti-money laundering (AML), know-your-customer (KYC), and data privacy regulations. Here are some key features and benefits of regtech:

1. **Automation:** Regtech companies use technology to automate compliance processes, which can reduce errors, improve efficiency, and save time and resources.
2. **Analytics:** Regtech companies use data analytics and machine learning to analyze large amounts of data, which can help financial institutions identify potential compliance risks and improve risk management strategies.
3. **Standardization:** Regtech companies can help financial institutions standardize their compliance processes, making it easier to comply with regulatory requirements across different jurisdictions.
4. **Flexibility:** Regtech solutions can be customized to meet the specific needs of individual financial institutions, allowing them to adapt to changes in regulations and market conditions.
5. **Collaboration:** Regtech companies can facilitate collaboration between financial institutions and regulatory authorities, making it easier to share information and ensure compliance.
6. **Cost-effectiveness:** Regtech solutions can reduce the cost of compliance for financial institutions, by automating processes and reducing the need for manual intervention.

## Digital Banking

These are banks that operate entirely online, without any physical branches.<sup>12</sup> Digital banks, also known as neo-banks, are financial institutions that operate entirely online without any physical branch locations. Digital banks offer a range of banking services, including savings and

<sup>11</sup>What Is RegTech? (Ascent RegTech) <<https://www.ascentregtech.com/what-is-regtech/>> accessed 16 April 2023.

<sup>12</sup>Digital Banking: What Is Digital Banking Products in India | HDFC Bank' <<https://www.hdfcbank.com/personal/resources/learning-center/digital-banking/what-is-digital-banking/>> accessed 16 April 2023.

checking accounts, loans, and credit cards. Here are some key features and benefits of digital banks:

- a) **Accessibility:** Digital banks are accessible anytime and anywhere through mobile apps or web browsers, making it easier for customers to manage their finances on the go.
- b) **Low fees:** Digital banks often offer lower fees compared to traditional banks, as they have lower overhead costs without physical branches to maintain.
- c) **Personalization:** Digital banks use data analytics and artificial intelligence to provide personalized banking services to customers, based on their spending habits and financial goals.
- d) **Speed and efficiency:** Digital banks use technology to automate and streamline banking processes, such as account opening and loan applications, which can lead to faster and more efficient service.
- e) **Innovation:** Digital banks are driving innovation in the banking industry, through the development of new products and services, such as real-time payments and budgeting tools.
- f) **Security:** Digital banks use advanced security measures to protect customer data and prevent fraud, such as two-factor authentication and biometric authentication.

## Financial Management Apps

Financial Management Apps allow users to track their spending, create budgets, and manage their finances more effectively.<sup>13</sup> These are just a few examples of the many different types of financial technology that are currently in use. The FinTech industry is constantly evolving and expanding, with new technologies and innovations being developed all the time. Financial management apps are mobile applications that help individuals manage their personal finances. These apps typically offer a range of features, such as budgeting tools, expense tracking, bill reminders, and investment tracking. Here are some key features and benefits of financial management apps:

- i. **Budgeting tools:** Financial management apps provide tools to create and manage budgets, which can help users track their spending and save money.
- ii. **Expense tracking:** Financial management apps allow users to track their expenses and categorize them, making it easier to identify areas where they can cut back on spending.

<sup>13</sup> Elizabeth Gravier, 'These Top Budgeting Apps Sync with Your Bank Accounts, Are Widely Available and Come Highly Rated' (CNBC) <<https://www.cnbc.com/select/best-budgeting-apps/>> accessed 16 April 2023.

- iii. **Bill reminders:** Financial management apps provide reminders for upcoming bills, such as credit card payments and utilities, helping users avoid late fees and penalties.
- iv. **Investment tracking:** Financial management apps allow users to track their investment portfolios, monitor market trends, and receive alerts for potential buying or selling opportunities.
- v. **Personalized recommendations:** Financial management apps use data analytics and machine learning to provide personalised financial advice and recommendations based on users' spending habits and financial goals.
- vi. **Security:** Financial management apps use advanced security measures to protect user data and prevent unauthorized access, such as encryption and two-factor authentication.

## Financial Technology in the Banking System

There are many different types of financial technology, or FinTech, that are used in the banking system to improve and automate financial services.<sup>14</sup> Here are some examples:

- **Mobile banking apps:** These allow customers to manage their bank accounts, transfer funds, and make payments from their mobile devices.
- **Online banking platforms:** These allow customers to access their bank accounts and perform transactions through a web portal.
- **Digital wallets:** These allow customers to store digital versions of their credit and debit cards, as well as other forms of payment such as digital currencies.
- **Payment gateways:** These allow businesses to accept online payments from customers using a variety of payment methods.
- **Automated teller machines (ATMs):** These allow customers to withdraw cash, deposit checks, and perform other transactions using self-service machines.
- **Electronic funds transfer (EFT):** This refers to the transfer of funds from one bank account to another using electronic means, such as wire transfers or ACH (automated clearing house) payments.
- **Fraud detection and prevention software:** This is used by banks to detect and prevent fraudulent transactions and activities.
- **Loan origination systems:** These allow banks to process and approve loan applications more quickly and efficiently.

<sup>14</sup>Daniel Broby, 'Financial Technology and the Future of Banking' (2021) 7 Financial Innovation 47.

- **Customer relationship management (CRM) software:** This is used by banks to manage customer interactions and provide personalized services.
- **Artificial intelligence and machine learning:** These are used by banks to analyze customer data and provide personalized recommendations for financial products and services.<sup>15</sup>
- These are just a few examples of the many different types of financial technology that are used in the banking system. The FinTech industry is constantly evolving and expanding, with new technologies and innovations being developed all the time.

## FINANCIAL TECHNOLOGY APPLICATIONS

Financial technology (FinTech) apps are applications that provide various financial services, such as budgeting, investing, money transfers, and bill payments, through mobile devices or the internet. Here are some popular FinTech apps:

- **Robinhood:** Robinhood is an investing app that allows users to buy and sell stocks, options, and cryptocurrencies with no commission fees. It also offers research tools and market data.
- **Venmo:** Venmo is a mobile payment app that allows users to send and receive money from friends and family. It is widely used for splitting bills, paying for rent, and making online purchases.
- **Acorns:** Acorns is a micro-investing app that automatically invests users' spare change by rounding up their purchases to the nearest dollar. It also offers personalized investment portfolios and retirement accounts.
- **Mint:** Mint is a personal finance app that helps users track their spending, create budgets, and manage their bills. It also offers credit score monitoring and alerts.
- **PayPal:** PayPal is a digital wallet app that allows users to send and receive money, pay for purchases online and in-store, and manage their account balances and transaction history.
- **Zelle:** Zelle is a person-to-person payment app that enables users to send and receive money instantly between bank accounts in the US.
- **SoFi:** SoFi is a financial services app that offers various products, including student loan refinancing, personal loans, mortgage loans, and investing and banking services.

<sup>15</sup>ibid.

These FinTech apps have transformed the way people access and manage their finances, providing convenience, accessibility, and transparency.

## FINANCIAL TECHNOLOGY APPLICATION IN INDIA

India has seen a significant rise in the adoption of financial technology (FinTech) apps in recent years,<sup>16</sup> as more people have access to smartphones and digital payment systems.<sup>17</sup> Here are some popular FinTech apps in India:

- **Paytm<sup>18</sup>:** Paytm is a mobile payment app that allows users to pay bills, transfer money, and make purchases both online and offline. It also offers services like mobile recharges, ticket bookings, and insurance.
- **PhonePe<sup>19</sup>:** PhonePe is another mobile payment app that allows users to transfer money, pay bills, and make purchases online and offline. It also offers features like mobile recharges, credit card payments, and gold investments.
- **Google Pay<sup>20</sup>:** Google Pay is a digital wallet app that allows users to send and receive money, pay bills, and make purchases online and offline. It also offers features like mobile recharges and bill reminders.
- **Mobikwik<sup>21</sup>:** Mobikwik is a digital wallet app that allows users to transfer money, pay bills, and recharge mobiles and DTH connections. It also offers features like personal loans and insurance.
- **Freecharge:** Freecharge is a mobile payment app that allows users to recharge mobiles, pay bills, and make purchases online and offline. It also offers features like cashback and discounts.
- **Groww:** Groww is an investment app that allows users to invest in mutual funds, stocks, and gold. It also offers personalized investment recommendations and portfolio tracking.
- **Zerodha:** Zerodha is a trading app that allows users to invest in stocks, bonds, and mutual funds. It also offers features like charting tools, trading strategies, and educational resources.

<sup>16</sup>The Financial Technology Law Review - The Law Reviews' <<https://thelawreviews.co.uk/title/the-financial-technology-law-review/india>> accessed 16 April 2023.

<sup>17</sup>Broby (n 14).

<sup>18</sup>What Is Financial Technology (FinTech)? A Beginner's Guide for 2023' (Columbia Engineering Boot Camps, 2 September 2021) <<https://bootcamp.cvn.columbia.edu/blog/what-is-fintech/>> accessed 16 April 2023.

<sup>19</sup>ibid.

<sup>20</sup>ibid.

<sup>21</sup>ibid.

These FinTech apps have made financial transactions more convenient and accessible for people in India, especially those who live in remote areas or do not have access to traditional banking services.

## FINANCIAL TECHNOLOGY AND LAW

Financial technology and law are closely related, as FinTech companies operate within a highly regulated industry.<sup>22</sup> Regulatory compliance is a key concern for any company operating in the financial services space, and FinTech companies are no exception. In fact, given the highly innovative and disruptive nature of FinTech, these companies often face unique regulatory challenges that require specialized legal expertise. Some of the key legal considerations for FinTech companies include compliance with banking and financial services regulations, data protection and privacy laws, and intellectual property laws.<sup>23</sup> For example, FinTech companies that offer payment services must comply with regulations such as the Payment Card Industry Data Security Standard (PCI DSS), as well as laws governing electronic transactions and online banking. Additionally, data protection laws such as the General Data Protection Regulation (GDPR) in the European Union and the California Consumer Privacy Act (CCPA) in the United States impose strict requirements for the collection, processing, and storage of personal data. FinTech companies must also navigate a complex landscape of intellectual property laws, as they often rely on proprietary technologies and innovative business models. This can include obtaining patents for new inventions, protecting trademarks and trade secrets, and enforcing copyright laws to prevent unauthorized use of their software and other digital assets.

## FINANCIAL TECHNOLOGY AND BANKING SYSTEM IN INDIA

India has seen significant growth in the field of financial technology (fintech) and banking system over the past decade.<sup>24</sup> Fintech is revolutionizing the traditional banking industry and is playing a crucial role in the economic growth of the country. Here are some key developments in fintech and banking system in India:

<sup>22</sup>What Is Fintech Law and Why Study It? (<https://www.lawstudies.com>) <<https://www.lawstudies.com/articles/what-is-fintech-law-and-why-study-it>> accessed 16 April 2023.

<sup>23</sup>Financial Technology and the Law : Combating Financial Crime | SpringerLink' <<https://link.springer.com/book/10.1007/978-3-030-88036-1>> accessed 16 April 2023.

<sup>24</sup>Rashmi Dabbeeru and DN Rao, 'Fintech Applications in Banking and Financial Services Industry in India' (7 July 2021) <<https://papers.ssrn.com/abstract=3881967>> accessed 16 April 2023.

- **Digital payments:** The Indian government's push for a cashless economy has led to a surge in digital payments. Payment systems such as Unified Payments Interface (UPI), Bharat Interface for Money (BHIM), and mobile wallets like Paytm, PhonePe, and Google Pay have gained significant traction.
- **Digital lending:** Fintech companies have disrupted the traditional lending industry by offering quick and easy loans to individuals and businesses. Online lending platforms like Lendingkart, Capital Float, and KredX have made the process of obtaining loans much simpler and faster.
- **Open banking:** The Reserve Bank of India (RBI) has introduced the concept of open banking, allowing third-party providers to access customers' financial data with their consent. This has led to the emergence of financial aggregators like BankBazaar and Paisabazaar.
- **Regulatory framework:** The RBI has introduced regulations to ensure that fintech companies operate within a defined framework. Guidelines have been issued for digital wallets, peer-to-peer lending, and other fintech activities to ensure consumer protection and prevent fraud.
- **Digital banks:** The RBI has issued licenses to two digital banks – Fino Payments Bank and Paytm Payments Bank. These banks offer services like savings accounts, current accounts, and digital wallets, with a focus on providing a seamless digital banking experience.<sup>25</sup>

## FINANCIAL TECHNOLOGY AND TAXATION

Financial technology (fintech) has revolutionized the way we conduct financial transactions and manage our finances.<sup>26</sup> It has also brought significant changes to the taxation system, making it easier for individuals and businesses to comply with tax regulations. Here are some ways in which fintech and taxation are interconnected:

- **Automated tax filing:** Fintech companies are providing automated tax filing solutions that use artificial intelligence and machine learning algorithms to accurately calculate tax liabilities and file tax returns. This saves time and effort for individuals and businesses, and reduces the risk of errors.

<sup>25</sup>'Financial Services Sector in India | Fintech Industry in India' <<https://www.investindia.gov.in/sector/bfsi-FinTech-financial-services>> accessed 16 April 2023.

<sup>26</sup>'Tax Implications of Next-Gen Banking Technology - KPMG Global' (KPMG, 10 April 2023) <<https://kpmg.com/xx/en/home/insights/2019/09/next-generation-banking-technology-and-implications-fs.html>> accessed 16 April 2023.

- **Digital payment records:** With the rise of digital payments, financial institutions and payment providers are maintaining digital records of transactions. These records can be easily accessed and used as proof of income or expenses for tax purposes.
- **Blockchain-based solutions:** Blockchain technology has the potential to revolutionize the tax system by providing secure and transparent records of transactions. This can help prevent tax fraud and ensure compliance with tax regulations.
- **Tax planning tools:** Fintech companies are providing tax planning tools that use data analytics and algorithms to optimize tax planning strategies for individuals and businesses. These tools help in minimizing tax liabilities and maximizing tax savings.
- **Crypto taxation:** With the rise of cryptocurrencies, tax authorities are working on regulations for taxing crypto transactions. Fintech companies are also developing solutions for calculating and reporting crypto taxes.

## LIABILITY UNDER FINANCIAL TECHNOLOGY

Liability under financial technology, or fintech, refers to the legal responsibility that fintech companies may have in the event of financial losses or damages suffered by their customers or other parties.<sup>27</sup> Liability can arise in a number of ways, including breaches of contract, violations of regulatory requirements, and negligence in the design or implementation of fintech solutions. Here are some key areas where liability may arise in fintech:

- **Data breaches:** Fintech companies are responsible for protecting customer data from unauthorized access or data breaches. If a data breach occurs and customer data is compromised, the fintech company may be liable for damages.
- **Payment processing errors:** Fintech companies that offer payment processing services may be held liable for errors in processing payments, such as delays or incorrect amounts.
- **Fraudulent activity:** Fintech companies may be liable for fraudulent activity that occurs on their platforms, such as identity theft or phishing scams.
- **Non-compliance with regulations:** Fintech companies are subject to a range of regulatory requirements, such as anti-money laundering and data privacy laws.

<sup>27</sup>Nadeera Ranabahu, 'Financial Technology to Address the Liability of Poorness? A Typology of FinTech Organisations' (2022) ahead-of-print European Journal of Innovation Management <<https://doi.org/10.1108/EJIM-07-2022-0359>> accessed 16 April 2023.

Failure to comply with these regulations may result in fines or legal action.

- **Design and implementation of fintech solutions:** Fintech companies may be liable for damages resulting from the design or implementation of their fintech solutions, such as errors in code or faulty algorithms.

## REGULATION OF FINANCIAL TECHNOLOGY

The regulation of financial technology, or fintech, varies by country and region.<sup>28</sup> Here are some examples of laws and regulations that may apply to fintech companies:

- **Payment Services Directive 2 (PSD2):** PSD2 is a European Union directive that regulates payment services and requires banks to provide third-party providers with access to customer accounts, enabling the development of new fintech products and services.
- **General Data Protection Regulation (GDPR):** The GDPR is a European Union regulation that sets standards for data privacy and security, including the collection, storage, and use of personal data by fintech companies.
- **Anti-Money Laundering (AML) regulations:** AML regulations require fintech companies to implement measures to prevent money laundering and terrorism financings, such as customer due diligence and transaction monitoring.
- **Securities laws:** Fintech companies that offer investment services or products may be subject to securities laws, which regulate the sale and trading of securities, such as stocks and bonds.
- **Consumer protection laws:** Fintech companies are subject to consumer protection laws, which require transparency and fairness in advertising, pricing, and contract terms.
- **Cybersecurity regulations:** Fintech companies must comply with cybersecurity regulations, which require measures to protect against cyber threats and data breaches.

## THE CONUNDRUM OF FINANCIAL TECHNOLOGY

Financial technology, or fintech, presents a number of challenges for the legal system, as it often operates across

<sup>28</sup>Nazariy Hazdun, 'Council Post: Fintech Regulation: Legal And Regulatory Aspects' (*Forbes*) <<https://www.forbes.com/sites/forbes-techcouncil/2022/07/20/fintech-regulation-legal-and-regulatory-aspects/>> accessed 16 April 2023.



borders and may involve new technologies and business models that are not covered by existing laws and regulations.<sup>29</sup> Here are some of the key challenges that fintech poses for the legal system:

- **Cross-border regulation:** Fintech companies often operate across borders, which can make it difficult for regulators to oversee their activities and enforce applicable laws and regulations.
- **Rapidly evolving technology:** Fintech is a rapidly evolving field, and new technologies and business models may outpace the ability of the legal system to keep up with them.
- **Legal uncertainty:** Fintech may operate in legal gray areas, as existing laws and regulations may not cover new fintech products and services. This can create uncertainty for fintech companies and their customers.
- **Risk of financial crimes:** Fintech may create new opportunities for financial crimes, such as money laundering and terrorism financing, which can be difficult to detect and prevent.
- **Data privacy and security:** Fintech often involves the collection and use of large amounts of personal data, which can create privacy and security risks for customers.
- **Intellectual property issues:** Fintech companies may face challenges in protecting their intellectual property rights, such as patents and trademarks, as they may be subject to legal challenges from competitors.

## FUTURE OF FINANCIAL TECHNOLOGY

The future of financial technology (fintech) is likely to be shaped by several trends and developments.<sup>30</sup> One trend is the increasing use of blockchain technology, which has the potential to transform financial transactions and record-keeping. Blockchain can increase transparency, security, and efficiency in financial transactions, and it could also enable new forms of financial products and services. Another trend is the use of artificial intelligence (AI) and machine learning (ML) in financial services. AI and ML can be used to analyze vast amounts of data, detect patterns, and make predictions, which can improve risk management, fraud detection, and customer service. Regulation will also play a significant role in the future of fintech and law. As fintech continues to disrupt traditional financial services, regulators will need to adapt to ensure consumer protection, prevent financial crime, and maintain financial stability. In addition, there is likely to

<sup>29</sup>Emilios Avgouleas, 'Resolving The Sustainable Finance Conundrum: Activist Policies And Financial Technology' (25 January 2021) <<https://papers.ssrn.com/abstract=3772959>> accessed 16 April 2023.

<sup>30</sup>'Fintech and the Future of Finance' (n 2).

be increased collaboration between fintech firms and traditional financial institutions, as both seek to leverage each other's strengths and expertise. This could lead to new hybrid business models that combine the agility and innovation of fintech with the established infrastructure and customer base of traditional financial institutions. Therefore, the future of fintech and law is likely to be characterized by continued innovation, regulatory adaptation, and collaboration between traditional and emerging players in the financial services industry.

## CONCLUSION

In conclusion, disruptive financial technologies have the potential to revolutionize the financial services industry and offer numerous benefits to consumers and businesses alike. However, they also raise several legal implications that must be carefully considered and addressed. These implications include data privacy and security, consumer protection, financial stability, and regulatory compliance. To ensure the responsible and sustainable development of disruptive financial technologies, it is essential for policymakers, regulators, and industry players to work collaboratively to strike the right balance between innovation and regulation. By doing so, we can realize the full potential of these technologies while minimizing their potential risks and challenges. financial technology has emerged as a game-changing force in the financial services industry, with the potential to transform the way we manage our money. From mobile banking to blockchain technology, FinTech has already disrupted traditional financial services and is continuing to grow at a rapid pace. With its focus on payments, lending, investing, and personal finance management, FinTech companies are offering innovative solutions that are faster, more efficient, and more accessible than ever before. By leveraging advanced technologies such as artificial intelligence, machine learning, and big data analytics, FinTech is poised to revolutionize the financial services industry and create new opportunities for consumers and businesses alike. As the FinTech industry continues to evolve, it is important for policymakers and regulators to keep pace with these developments and ensure that consumer protection and financial stability remain top priorities.

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