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ABOUT US

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EXPANDING HORIZONS OF FINTECH: AN EVOLVING BLIGHT TO DATA PRIVACY

AUTHORED BY - MR. ARKAJIT DEBNATH¹

Abstract

Technology's rise has highlighted its significance in advancing humanity as a whole. Still, there are also some features of technology that, if not managed, might lead to widespread mayhem among users. One of those facets is the data privacy breach, which refers to the idea that personal information should be shielded from unauthorized and ignorant access. The inability of the individual to govern their own data is hindered by the absence of privacy legislation. Individuals cannot be confident that their personal information will be kept private and safe without robust legal protection. Due to the lack of data privacy rules, people frequently have no idea who has access to their data or how much it is being used, making it impossible to determine if it is being handled responsibly and ethically. Such a pertinent legal loophole has given rise to numerous opportunities for cybercrime, including financial fraud, phishing, data breaches, and many others. It has also given rise to online blackmail, which involves intimidating people with the threat of disclosing their private information by using explicit images or videos to coerce them into giving money, providing more compromising material, or engaging in sexual acts. Through several stages of social engineering, the criminals take advantage of the victim's vulnerabilities and set the way for simple data extraction to perpetrate such an infraction. Without appropriate privacy regulations, people may be the target of such heinous acts on a mass scale, especially in a nation with a rich cultural heritage like India. According to the NCRB statistics, there have been 17,406 documented incidents of financial cyber attacks under various headings just in 2021, which has led to India's rapid rise as a hub of cybercrime, particularly in the financial fraud sector. The numerous facets of data privacy and new cybercrime scenarios will be covered in this paper, with particular emphasis on financial frauds.

Keywords: Data Privacy, Data Protection, Financial Frauds, Cyber Crimes

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Introduction

FinTech, an abbreviation for financial technology, refers to the emerging field that aims to revolutionize the delivery of financial services through digital platforms. This innovative technology seeks to automate and streamline the provision of financial services, thereby enhancing efficiency and accessibility for users. By leveraging digital means, FinTech endeavors to transform traditional financial processes and enable seamless transactions in the digital era. Introduction Financial technology, known as fintech, has emerged as a powerful tool for enhancing financial operations, processes, and overall management for companies, business owners, and consumers. This is achieved through utilizing specialized software and algorithms, which are predominantly employed on computers and, more recently, on smart phones. Fintech has revolutionized financial activities, providing individuals and organizations with improved control and efficiency in their financial endeavors. This paper explores the fundamental aspects of fintech and its role in facilitating enhanced financial management.

The term "fintech" was first introduced in the 21st century to describe the technological advancements utilized in the back-end operations of well-established financial institutions. In recent times, a notable transition has occurred, wherein the focus has shifted towards consumer-oriented services, leading to the emergence of a consumer-oriented definition. Financial technology (fintech) has expanded significantly in recent years, encompassing various sectors and industries. These sectors include education, retail banking, fundraising and non-profit, and investment management. This study aims to investigate the topic of interest, specifically focusing on the number 4. Financial Technology, commonly called FinTech, is a burgeoning industry encompassing businesses seeking to deliver financial services through software and cutting-edge technology. The advent of globalization has had a profound impact on the financial services industry, particularly in terms of innovation and the adoption of modern technology. This has led to a significant transformation in traditional financial services as they have transitioned from conventional modes to digital platforms. The global FinTech industry has experienced substantial growth in recent years, with over 12,000 start-ups emerging worldwide.² In 2015 alone, the sector witnessed a massive influx of approximately USD 19 billion in funding. This substantial investment reflects the increasing importance and potential of FinTech in the global market. This study aims to examine the topic of interest and provide a comprehensive analysis. The research in the field of Financial Technology (FinTech) encompasses a wide range of areas within the banking

² Rustad, M. L., & Koenig, T. H. (2019). Towards global data privacy standard. Florida Law Review, 71(2), 365-454.

industry and is instrumental in facilitating the emergence of novel business models. One such area of focus is developing and utilizing alternative forms of currency, commonly referred to as crypto currencies. The financial services domain encompasses a wide range of innovations, with technology playing a crucial role as the primary facilitator.

Fintech - Meaning, Scope and Ambit

The abbreviation "FinTech" refers to the emerging field of "financial technology," which refers to the new technology that aims to automate the supply of financial services via digital channels. At its heart, fintech refers to applying specialized computer software and algorithmic processes to assist individuals, corporations, and company owners better managing their financial activities, operations, and lives. These applications can be found on personal computers and, increasingly, mobile phones. When financial technology began to emerge in the 21st century, the word "fintech" was initially used to refer to the technology used in the back-end systems of established financial organisations. Since then, there has been a shift towards more consumer-oriented services, and as a result, there has been a shift towards a more consumer-oriented definition. Today, education, retail banking, fundraising and non-profit organizations, investment management, and other industries are included in the "fintech" report, to name just a few examples.⁴ A company that aims to achieve its goal of delivering financial services through the use of software and contemporary technology is referred to as having a focus on "Financial Technology," which is now more commonly known as the term "FinTech." It has been observed that introducing innovation and current technology into traditional financial services through digital mode was brought about due to globalization's introduction of these two factors. Within the realm of financial technology in 2015, the world witnessed the launch of over 12 thousand new businesses and a vast worldwide environment, totaling 19 billion US dollars. FinTech caters to new business models and spans a variety of subfields within the realm of banking. These subfields include crypto currencies, which are more recent forms of monetary exchange. It covers the entire spectrum of new developments in the realm of financial services, with an emphasis on the role of technology as the primary catalyst.

Fintech - An emerging tool for economic transaction

When fintech was first introduced about ten years ago, people would be perplexed and curious whether it existed. While it's currently a buzzword that everyone uses, it is expanding dramatically as the way that commerce is done online. Fintech is something other than brand-new just because it's popular. Even though the word wasn't included in the Merriam-Webster dictionary until 2018,

the idea has been around for a while. ATMs, for instance, and signature-verifying technologies that banks began using in the 1860s were formerly at the forefront of fintech innovation.⁷ Since there were many new fintech start-ups, incubators, and investments from public and private investors in 2015, it is the year with the most fintech advances in India. In fact, the Oxford Dictionary now includes the term "Fintech" with the definition "Computer programs and other technology used to support or enable banking and financial services."³ In Wikipedia, "Fintech" is defined as "Financial technology, a line of business based on employing software to provide financial services. Start-ups that specialize in financial technology typically aim to upend established economic systems and enterprises with low software dependence."⁴

The COVID epidemic served as a shot in the arm for the nation's fintech industry, providing it with the vital momentum and growth trajectory to increase its reach nationwide. While the value of UPI transactions grew 105% from INR 2.02 lakh crore in December 2019 to INR 4.16 lakh Cr in December 2020, the volume increased by 70% year over year from 1.30 billion transactions in December 2019 to 2.2 billion in 2020. Investors moved quickly to give their start-ups the money they needed to grow. Fintech topped the list with \$2.1 Bn in fundraising across 131 deal counts in 2020, out of 900+ start-up deals and \$11.5 Bn in total funding raised. Fintech capital is anticipated to increase to \$2.7 Billion in 2021, per Inc42 Plus. The financing portion alone is thought to be \$819 million. The Flipkart founder Sachin Bansal-owned Navi Technologies dominated the list of top fintech acquisitions last year with a \$398 Million investment from Bansal, Gaja Capital, and the World Bank's investment arm IFC. Pine Labs came in second with \$300 Million, while PaySense's acquisition by PayU came in third with \$185 Mn.⁹ According to the Worldline India Digital Payments Report, the number and value of UPI transactions increased by over 80% and 99%, respectively, in the second Quarter of FY 21. India has not lagged behind either; now, it is one of the significant FinTech markets worldwide, with the highest adoption rate of 87%. India has experienced remarkable growth in FinTech and some of its international rivals, particularly after post-Covid. By 2025, it is predicted that India's FinTech industry will have grown from its current value of USD 50–60 billion to USD 150–160 billion. With roughly 2100+ FinTech start-ups, India ranks second only to the United States regarding FinTech centers.

³ Zagaris, B., & Mostaghimi, A. (2022). Cybercrime and data privacy. *International Enforcement Law Reporter*, 38(10), 408-414.

⁴ Startup Talky. How UPI Payments Impacted Fintech Industry. 18.05.2021. <https://startuptalky.com/upi-impact-fintech-industry/>

FinTech in India can be broadly categorized into seven types based on the solutions they offer, according to which these categories of FinTechs are:

1. **Digital payments** - Electronic payment solutions covering both remittances and merchant payments; these also include enterprise payments
2. **Alternative lending** -Technology-enabled solutions for alternative credit scoring (for credit workflows) to provide loans to underserved MSME* and retail consumers
3. **InsurTech** - Solutions using new technology to expand the distribution of insurance products and re-imagine them according to the unique requirements of different types of customers
4. **InvestmentTech** - Technology solutions for significantly greater ease of investing and personal wealth management
5. **Robo advisor** - These include robo-advisory solutions that use artificial intelligence technologies to automate investment advice.
6. **RegTech** - Technology solutions for the improved automation of regulatory compliance
7. **BankTech** -Any other technology solutions not covered above but help banks and financial institutions meet the ever-increasing and changing requirements of customers

Relation between Phishing and Fintech Apps

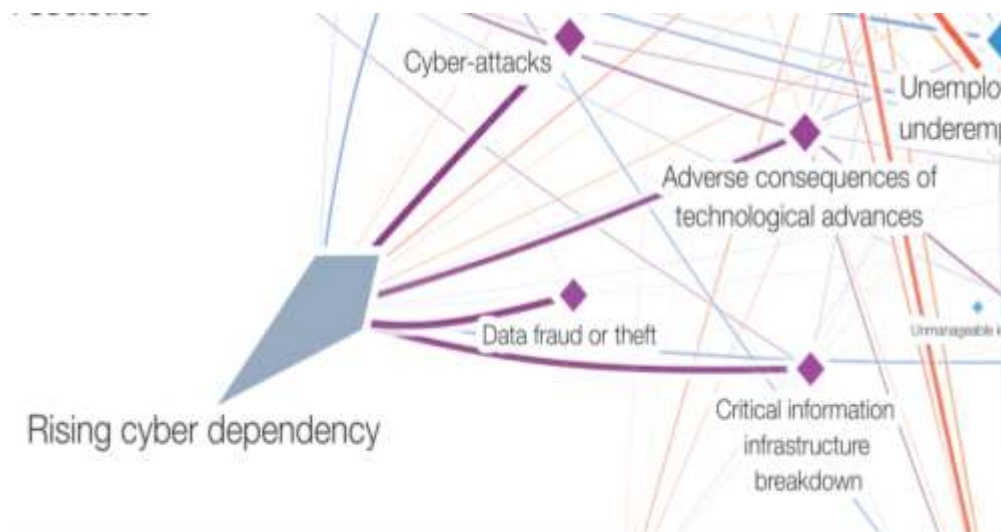
Phishing is a crime which has originated from the core of data privacy. Data privacy deals with the data of the person and the theft of the particular data, whereas the crime of phishing is more oriented to the data that has already been stolen, and phishing is the mode by which the data stolen data has been used for incorporation.⁵ Fintech is facing various issues regarding cybercrimes, which hamper the free flow of financial transactions over technological means. Phishing, being the most affecting attack on Fintech, makes it a serious problem to deal with.

In a comparative analysis between the pre-pandemic era and the initial years of the pandemic, it has been reported that online fraud attacks have witnessed a significant surge of 223%. The Fintech industry has not remained impervious to cyber attacks, as reports indicate a considerable wave of up to 70% in such incidents during 2021. The phenomenon of fraudsters assuming the identity of high-ranking individuals within an industry and engaging in social engineering fraud, thereby capitalizing on the vulnerability of human trust, is widely acknowledged.

⁵ Finance Magnates. The Challenges and Opportunities of Data Privacy in Fintech Ecosystem. 10.07.2023. 22:27. <https://www.financemagnates.com/fintech/data/the-challenges-and-opportunities-of-data-privacy-and-security-in-the-fintech-ecosystem/>

World Economic Forum Global Risk Perception Survey 2019

The World Economic Forum Global Risk Perception Survey 2018-2019 conducted a comprehensive investigation by soliciting the opinions of numerous participants. These respondents were explicitly asked to select three significant trends they believed would be crucial in shaping global development over the next decade. They were also requested to identify the underlying factors contributing to the worldwide escalation of these trends. Consequently, the chart presented above was created based on the findings of this survey.⁶ The present chart provides an overview of various risks and their interdependencies. The given chart offers a clear indication of the interconnectedness between different vulnerabilities. In the subsequent chart, the focal point has been directed towards the interdependencies among various risks, particularly cyber crimes. Under the findings of the World Economic Forum Global Risk Perception Survey, it has been determined that multiple threats, such as cyber-attacks, negative repercussions resulting from technological advancements, data theft or fraud, and critical disruptions to information infrastructure, are contingent upon a singular factor: the escalation of cyber dependency. The attached chart provides compelling evidence suggesting that individuals' increasing reliance on technology and the internet has significantly contributed to the surge in cybercrimes and related offences.



Source: World Economic Forum Global Risk Perception Survey 2019

⁶ World Economic Forum, Global Risk Report 2019

Anti Phishing Working Group Report 2022 4th Quarter

The Anti-Phishing Working Group (APWG) is a globally recognized organization with its primary headquarters in the United States. It currently operates branches in both the United States and the European Union. The primary objective of the APWG is to combat cybercrime, explicitly focusing on identity theft and phishing activities conducted through online platforms. The APWG aims to eradicate these illicit practices from the digital landscape by employing various strategies and initiatives. The institution under consideration is a specialized entity established with the primary objective of addressing the escalating and persistent phishing issue, which has experienced substantial and continuous expansion in recent times.

This study aimed to analyze the phishing activity trends as outlined in the APWG phishing activity trends report for the fourth Quarter of 2022. Specifically, the report presented a comprehensive comparison of phishing attacks observed during the period spanning from 2019 to the present. By examining this data, the researchers aimed to gain insights into the evolving nature of phishing attacks over the past few years. This paper presents an analysis of the escalating global phishing landscape. The present study examines the phenomenon of phishing crimes, with a specific focus on the year 2022. The report reveals that this year witnessed an unprecedented surge in phishing attacks, reaching 4.7 million incidents.⁷

Furthermore, a comprehensive analysis of historical data indicates a consistent upward trend in the frequency of such attacks, with an average annual growth rate of nearly 150%. These findings shed light on the alarming escalation of phishing crimes and underscore the urgent need for effective countermeasures to mitigate their detrimental impact. According to the Anti-Phishing Working Group (APWG), 1,350,037 attacks were documented during the fourth Quarter. This figure represents a slight increase compared to the third Quarter, which saw 1,270,883 attacks.

In its report, the Anti-Phishing Working Group (APWG) analyzed phishing attacks during the fourth Quarter of 2022. The report further categorized the targeted industries that were affected by these attacks. According to various reports, the banking industry has consistently encountered many phishing attacks. This trend continued into the fourth Quarter of 2022, when banks and financial sectors accounted for 27.7% of all phishing attacks. The present study aims to analyze the trends in cyber attacks within the economic sectors, explicitly focusing on comparing the third

⁷ APWG report on phishing. Quarter 4 2022.

Quarter and subsequent periods. In the third Quarter of 2022, it was observed that the percentage of phishing attacks targeting the banking sector amounted to 23.2%. The observed increase of 4.4% in phishing attacks during a single quarter is a noteworthy indicator of the growing prevalence of this phenomenon. The accompanying pie chart below illustrates the distribution of targeted industries during the fourth Quarter of 2022. Notably, the financial sector, encompassing banking institutions, emerges as the primary target of phishing attacks persistently observed throughout 2022.



Source: Anti Phishing Working Group Report 2022 4th Quarter

RESULTS OF DIGITAL CHANGE IN THE BANKING INDUSTRY'S DRAWBACKS

1. High risk of reputational and financial damages in the event of inadequate execution

- Banking is one of the few industries that carries this risk. Therefore, all digital transformation efforts in this area need to be well thought out, modelled, and tested. The primary objective in this case is to incorporate innovations as seamlessly and safely as possible while avoiding any disturbance of the current flow of business activities.⁸ Otherwise, flaws could develop that cause data breaches, the loss of sensitive information, or the possibility of unauthorised access to bank accounts.

⁸ Siddiqui, D. (2022). Data privacy laws in india. Jus Corpus Law Journal, 2(4), 538-545.

2. **Strict hardware and human requirements** - Digital technologies demand highly qualified specialists to be implemented most efficiently. Moreover, firms must switch out outdated systems with more up-to-date ones as hardware and software age. Compared to many other industries, banking has far higher criteria and stakes.

3. **High prices** - Banking wants the most advanced technologies and top-tier professionals because of its high standards. As a result, substantial expenses are incurred. High prices for superior software, however, produce greater earnings and safety.

FINTECH IN THE BANKING INDUSTRY

Even though big data and digital technologies have been upending the financial services sector, a recent McKinsey report claims that investors believe fintech start-ups will become a significant force in the future and that the end has already begun. In the early years, banks had become rather traditional due to the emergence of fintech businesses. However, banks are now collaborating with fintech start-ups to modernize their current systems and enable speedier operations to provide customers with a better experience.⁹ Similarly, FinTechs have facilitated cooperation between various financial service providers, allowing them to supply goods and services through an open architecture by utilizing data analytics.

Traditional and fintech banking

Fintech has altered and evolved over time to match the client's needs, and in recent years, it has been much more widely recognized. Interest in the fintech industry is at an all-time high due to rising security concerns and customer expectations. Traditional banking has several fundamental issues, such as location restrictions, a lack of 24-hour services, and complex and time-consuming processes. The fintech sector can now efficiently address these issues brought about by traditional banking sectors¹⁰. Fintech companies aim to shield users from unexpected costs by identifying their needs. The banking industry dramatically benefits from fintech, whether for money transfers, obtaining loans and insurance, or just setting up and keeping a bank account. Most banking operations are being automated by fintechs, which increases transaction speed, shows transparency, and ensures security. 16 Banks are, among the various services they provide, primarily money depositories—convenient locations to store and collect cash. With so many ways

⁹ Fortune. As silicon valley fantasises about web 3, India leaps ahead on payments. 30.06.2022. 18:30. <https://fortune.com/2022/06/30/blockchain-india-upi-payments-global-reach/>

¹⁰ Rose, J., Andrews, K., & Kenny, K. (2021). Introduction to the fintech ecosystem. Department of Justice Journal of Federal Law and Practice, 69(3), 23-38.

to use the internet these days, banks and other financial organizations are making it simpler than ever to access riches. These fintech examples from businesses and services across the sector push banking into the digital era. They range from entirely mobile banks and payments between friends to AI-enhanced chat-bots and anti-money laundering software. The banking sector is receiving technologies from fintech that will increase its efficiency. Banking institutions are using chat-bots to improve the customer experience, Smartphone apps are being used to give clients real-time access to their bank accounts, and machine learning is being used to protect against fraud. 17 The fintech landscape (for banking) can be roughly divided into three categories:

1. **Payments and remittances:** Emphasize cutting-edge payment methods
2. **Process improvement:** Boost processes' effectiveness to make them more quick-acting, low-cost, and labor-intensive.
3. **Customer engagement:** Increase customer satisfaction and convenience to encourage self-consumption of banking services rather than reliance on conventional transactional methods.

In 2016, 80% of the leadership responded to the CII-PwC study, which found that fintech is or will be a strategic partner for banks¹¹. 75 per cent of those surveyed thought fintech might aid in creating insights by utilizing analytics and big data and supplying new and enhanced solutions to consumer wants. The involvement of banks with fintech firms that specialize in consumer banking, payments, and remittances is greater than 75%. The rise of fintech will likely supplant banks since it has access to the two Cs that fintech start-ups desire—customers and money. On the other hand, Fintech companies would benefit from financial institutions perceiving them less as competitors and more as creative organizations that they can work with, learn from, and even partner with. Such actions would herald a time when cooperation, rather than competition, would foster the development of traditional and fintech firms. Legacy banking organizations will become obsolete in the current financial services ecosystem unless they take the digital transformation path, which can introduce new customer targeting perspectives, ensure agile operations, and allow reinvention at every stage, allowing these organizations to stay on par with, if not ahead of, the competition.¹² Both banks and fintech have advantages and disadvantages, and rather than working separately and aiming for the same consumer segments, they will profit from collaboration and leveraging their benefits to make up for one another's disadvantages. Banks can

¹¹ McCormack, U. (2019). Towards new fintech ecosystem. *International Financial Law Review*, 2019(2), 93-97.

¹² Forbes. How India is taking UPI global. 11.08.2023. 03:22pm. <https://www.forbesindia.com/article/take-one-big-story-of-the-day/how-india-is-taking-upi-global/87477/1>

quickly contact clients with substantial cash and support while meeting their increasing demands. However, the most effective customer service options can be found in the finance industry.¹³ Fintech: An ally or adversary of banks? Fintech businesses can pinpoint multiple use cases for technology adoption and capture technological disruptions and advances. They can produce a value proposition for clients that are both enticing and economical. Banks, on the other hand, cannot concentrate on such creative technology use, and as a result, they risk losing customers to emerging fintech companies. Banks benefit from a broader customer base and a history of sustained patronage. Additionally, they have a solid financial foundation that enables them to invest in emerging trends and concepts outside of fintech companies' purview. In summary, banks can increase client demand while the fintech industry offers innovation and disruptive technologies. Therefore, it is up to banks to try and incorporate these innovative thoughts and fintech ideas into their banking model¹⁴. Thus, rather than working with fintech firms, banks will consume and incorporate fintech ideas into their everyday operations. Issues Related to Fintech

1. Cyber security and Data Protection
2. Enforcement of Smart Contracts
3. Liability concerns
4. Unauthorized use of biometrics - fingerprints
5. KYC Authentications

Important regulatory bodies in charge of regulating fintech for the financial services sector

Indian Reserve Bank

This is India's central bank. It controls the currency, foreign exchange regimes, payment and settlement systems, and banking and financial institutions. The Deposit Insurance and Credit Guarantee Corporation, a wholly-owned subsidiary of the Reserve Bank of India, also insures bank deposits and provides credit facility guarantees¹⁵. It controls the operations of housing financing institutions through the National Housing Bank, another wholly-owned subsidiary.

Indian Securities and Exchange Board

The securities market, which includes securities like shares, scripts, bonds, debentures, commodities, mutual funds, and government securities, is regulated by this body.

¹³ Yadav, Y. (2020). Fintech and international financial regulation. *Vanderbilt Journal of Transnational Law*, 53(3), 1109-1146.

¹⁴ Calomiris, C. W. (2021). Chartering the fintech future. *Cato Journal*, 41(2), 383-412.

¹⁵ Magnuson, W. (2018). Regulating fintech. *Vanderbilt Law Review*, 71(4), 1167-1226.

Indian Insolvency and Bankruptcy Board

This has regulatory control over information utilities, insolvency professionals, and insolvency professional agencies. Corporate insolvency resolutions, corporate liquidations, individual insolvency resolutions, and individual bankruptcies are all regulated by this legislation.

Regulatory and Development Authority for Insurance

This governs, oversees, and advances the insurance industry.

Authority for the Regulation and Development of Pension Funds

To protect the interests of subscribers in pension funds and associated matters, this promotes old age income security by establishing, regulating, and developing pension funds.

Organization for Employees' Provident Funds

This aids the Central Board of Trustees in managing the Employees' Deposit Linked Insurance Scheme, the Employees' Pension Scheme, and the Employees' Provident Funds Scheme, all contributory provident funds for the workforce employed in India's formal sector.

Indian Central Government

The government makes several policy decisions in the financial sector, notably through the Ministry of Finance and the Ministry of Commerce and Industry, which are subsequently put into practice by the appropriate sectoral regulators.

India's Unique Identification Authority

This governmental agency, created by the Aadhaar Act of 2016, oversees the administration and use of the Aadhaar number, which serves as India's de facto national identification number. It is also in charge of the framework guiding how participants in the FinTech industry use the Aadhaar number. The UID number is frequently utilized for customer onboarding and KYC verification.

Indian National Payments Corporation

An initiative of the Reserve Bank of India and the Indian Banks' Association, this umbrella institution oversees India's retail payments and settlement systems.

Conclusion:

Banking is being transformed by FinTech. An industry survey predicts India's FinTech will reach \$150 billion in five years. Over 2,000 FinTech companies, most founded in the last five years, have expanded undeterred by the pandemic and produced at least eight Unicorns since January 2018. Realizing this potential possibility will require 20-25 billion dollars in investments, giving the story an international feel. Leveraging FinTech, banks are digitizing their whole operations. The FinTech revolution has made them paperless, presenceless, and cashless. All banks are now fully automated. While banks improved automation, FinTech helped reinvent how banking services were offered to customers. 22 COVID-19 is a significant threat to the world economy and financial markets. Like many countries, India is implementing a nationwide lockdown, limiting population movement, closing public places and transport, and encouraging the public to stay indoors, maintain social distancing, and work from home to contain the coronavirus outbreak. Large and small firms experience significant short-term activity declines due to economic upheaval. The digital payments sector's short-term financial forecast is comparable to economic growth, which is projected to be badly damaged. However, the industry's steadiness and creativity will help restart the economy in the new normal. The Indian fintech market was worth Rs 1,920 billion in 2019. It will grow at a CAGR of 22% from 2020 to 2025 to Rs 6,207 billion. Over the past four and a half years (2016–2020), India's fintech sector received \$10 billion in investments. we believe the fintech industry is well-positioned to generate long-term partnerships despite COVID-19 and surpasses China.

The pandemic has made the financial system a digital hub for the world. Covid-19 introduced open banking, which boosted fintech's involvement in banking.¹⁶ Better regulation of financial services benefits clients and private and governmental institutions. Personal and national banks like SBI introducing KYC via video call is a positive move for fintech in the current situation. Fintech can also boost the economy during and after pandemics. Technology and innovation in banking created opportunities despite the country's problems. Fintech makes it easy and fast for providers and tech-savvy receivers to obtain banking services on their phones. Thus, FinTech benefits India's banking system and economy. FinTech's greater use depends on policymakers and regulators. Individuals must be cautious when using FinTech policies, and regulators and governments must make strict laws to curb its misuse and give it wings to fly by introducing FinTech rules and regulations.

¹⁶ Cooper, D. P. (2005). Investigations: understanding data privacy. *Journal of Financial Crime*, 12(4), 352-359.