Indian Economy · GS - III

The regulation of digital wallets requires a balance between financial innovation, consumer protection and systemic security. Examine the role of the Reserve Bank of India in regulating prepaid payment instruments and discuss the challenges in ensuring a secure digital payments ecosystem.

EXAM YEAR	PAPER	SUBJECT
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MARKS	WORD LIMIT
10	~150 words

Answer Hint

RBI regulatory mandate, PSS Act 2007, prepaid payment instruments, KYC compliance, cybersecurity audits, consumer protection, interoperability, fraud prevention, financial inclusion, regulatory innovation.

Model Answer

Introduction

Digital wallets and prepaid payment instruments (PPIs) have expanded India's cashless payment ecosystem. Their growth requires robust regulation to maintain public trust and financial stability.

RBI's Regulatory Role

The Reserve Bank of India regulates PPI issuance and operations under the Payment and Settlement Systems Act, 2007. Its framework includes:

- **Authorisation:** Entities must obtain the required RBI approval before commencing regulated operations.
- **KYC compliance:** Customer verification requirements help prevent money laundering and misuse.
- **Cybersecurity:** Security audits and risk-management systems protect payment infrastructure.

- **Consumer safeguards:** Grievance redressal and transaction-related protections strengthen user confidence.

Key Challenges

1. **Cyber threats:** Phishing, identity theft and data breaches threaten digital transactions.
2. **Fraudulent activities:** Weak verification can facilitate financial crime.
3. **Operational risks:** Technical failures and service disruptions affect payment reliability.
4. **Inclusion gaps:** Limited digital literacy and connectivity restrict access among vulnerable groups.

Way Forward

Risk-based supervision, stronger cybersecurity standards, transparent disclosures, interoperable systems and financial literacy can improve the ecosystem.

Conclusion

A secure digital payment system requires innovation supported by proportionate regulation, technological resilience and effective consumer protection.

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