



Article

Digital Wallets and Financial Regulation

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Abstract: Digital wallets have rapidly become integral to the global shift toward cashless economies, offering seamless, contactless payment solutions for consumers and businesses alike. This article explores the evolving legal and regulatory landscape surrounding digital wallets in 2025, with a primary focus on India and comparative insights from the United States, United Kingdom, European Union, and Asia-Pacific regions. It outlines key regulatory objectives including consumer protection, data privacy, cybersecurity, licensing, interoperability, and innovation support. In India, the Reserve Bank of India (RBI) plays a central role in regulating digital wallets through the Payment and Settlement Systems Act, IT Act, Digital Personal Data Protection Act (DPDP), and Master Directions for Prepaid Payment Instruments (PPIs). Globally, countries are converging around stronger Know Your Customer (KYC) norms, robust privacy protections, and increased accountability of wallet operators. The article discusses recent challenges—such as fraud, cross-border compliance, and crypto integration—and highlights best practices and future regulatory pathways to ensure the continued safe and inclusive growth of digital wallets worldwide.

Keywords: Digital wallets, e-wallets, RBI regulations, Prepaid Payment Instruments (PPIs), Payment and Settlement Systems Act, Information Technology Act,

INTRODUCTION

Digital wallets—software platforms that securely store payment credentials and facilitate digital transactions—have emerged as crucial drivers of cashless economies worldwide. With their rapid adoption, policymakers and regulators face the dual challenge of enabling innovation while addressing risks such as consumer protection, data privacy, cybersecurity, and financial stability. This article examines the evolving legal and regulatory landscape surrounding digital wallets, focusing on global trends and India's robust framework.

DIGITAL WALLET: DEFINITION AND GROWTH

Digital wallets (also called e-wallets) allow users to store funds, make payments, and transfer money via mobile devices or computers, often leveraging features like QR codes and biometric verification. Their usage has soared due to contactless payment trends and government-led financial inclusion programs. In India, for example, the volume of digital wallet transactions has grown exponentially, spurred by platforms such as PayTM, PhonePe, and Google Pay^{[1][2]}.

Key Regulatory Objectives

The regulation of digital wallets typically addresses:

- **Authorization and Licensing:** Defining eligibility to issue and operate digital wallets under central bank oversight.
- **Security and Compliance:** Mandating data encryption, two-factor authentication, and anti-money laundering measures.
- **Customer Protection:** Ensuring grievance redressal, limiting liability for unauthorized losses, and mandating disclosure of fees and terms.
- **Interoperability:** Allowing users to transact seamlessly across wallet providers and payment systems.
- **Data Protection and Privacy:** Enforcing purpose-limited data collection, informed consent, and data deletion rights.
- **Innovation Enablement:** Facilitating regulatory sandboxes for fintech experimentation.

India's Regulatory Framework

RBI's Oversight

The Reserve Bank of India (RBI) is the primary regulator of digital wallets in India, acting under the **Payment and Settlement Systems Act, 2007**. The RBI issues "Master Directions" on Prepaid Payment Instruments (PPIs) that outline the requirements for wallet operators, including^[2]:

- **Authorization:** Only licensed banks, NBFCs, or registered companies can issue digital wallets; FDI rules apply.
- **Capital and Net Worth:** Non-bank issuers must maintain a minimum net worth of ₹15 crore, increasing to ₹25 crore.
- **KYC Norms:** Full KYC is mandatory for large-value wallets; simplified KYC is allowed for limited-value, reloadable PPIs.
- **Transaction Limits:** Regulate monthly and annual load limits for wallets based on verification.
- **Interoperability:** Mandated since 2021, enabling cross-wallet, UPI, and bank account transfers.
- **Consumer Grievances:** Customer care and nodal officers are mandated; complaints must be resolved within 48 hours (max 30 days). Zero-liability is ensured for losses due to issuer negligence.
- **Inspections and Supervision:** Wallet issuers undergo regular RBI audits and risk-based inspections.
- **Ombudsman Scheme:** The RBI provides dispute resolution through its Ombudsman for Digital Transactions.
- **Regulatory Sandbox:** The RBI's sandbox approach allows testing of innovative payment solutions and business models.

Information Technology Act, 2000

This act confers legal validity on electronic records and digital signatures, which are fundamental to digital wallet transactions. Provisions ensure that electronic contracts and payments are enforceable, and address cybersecurity, data protection, and crime prevention for online transactions^[2].

Data Protection

The **Digital Personal Data Protection Act, 2023**, strengthens data privacy, requiring:

- Informed consent for personal data processing.
- Clear disclosure and deletion of data once the purpose is fulfilled.
- Rights for users to access, correct, erase, and object to data processing.
- Stringent penalties for non-compliance.

Payment Aggregators and Payment Gateways Guidelines (2020)

These rules ensure wallet providers acting as aggregators meet baseline technology, capital, and security standards^[2].

Compliance and Enforcement

The RBI enforces its rules via fines, suspensions, or revocation of wallet licenses for non-compliance. Recent cases have involved action against entities for violations ranging from KYC lapses to money laundering^[2].

GLOBAL REGULATORY LANDSCAPE

United States

The Consumer Financial Protection Bureau (CFPB) extends oversight to all major digital wallets handling more than 50million transactions annually. Key rules include^{[3][4]}:

- Requirements for transparency on data use and privacy.
- Protocols for resolving errors and fraud.
- Mandates for allowing users to opt-out of certain data practices.
- Alignment of fintech wallet rules with those for traditional banks.
- Regulatory interest in "Buy Now, Pay Later" options and crypto wallet services.

UNITED KINGDOM (UK) AND EU

Regulators such as the Financial Conduct Authority (FCA) and Payment Systems Regulator (PSR) closely monitor digital wallets under Payment Services Regulations and the Electronic Money Regulations. These agencies are considering stricter interventions for wallet providers, particularly those intertwining with Big Tech ecosystems like Apple and Google wallets^{[5][6]}. The focus is on:

- Open banking integration.
- Strong customer authentication.
- Broader liability frameworks for wallet-initiated payments.
- Seamless interoperability across wallets and banks.

Other Regions

Many jurisdictions (e.g., APAC, MENA) have emulated India and the EU by^{[7][8][9]}:

- Mandating KYC/AML.
- Setting transaction and reload limits.
- Defining specific licensing requirements for local and foreign wallet operators.
- Implementing cross-border payment frameworks.

Key Challenges

- **Fraud and Cybersecurity:** Digital wallets are frequent targets for phishing, hacking, and unauthorized access.
- **Data Protection:** The collection and storage of sensitive personal and financial data increases privacy risks.
- **Cross-Border Regulation:** Transaction flows across jurisdictions require harmonization of compliance and interoperability standards.
- **Crypto Integration:** Many digital wallets are integrating cryptoasset support, navigating evolving AML, tax, and consumer protection rules^{[5][3][4]}.

Illustrative Table: Regulatory Landscape for Digital Wallets (2025)

Region	Regulator	Key Legislation & Regulations	Consumer Protection	Data Privacy
India	RBI	PSS Act, IT Act, DPDP Act, RBI Master Directions	Ombudsman, zero liability, KYC	Explicit, robust
US	CFPB, Federal Reserve	EFTA, Dodd-Frank, CFPB 2024/25 regs	Error/fraud prevention, opt-out	Heightened post-2025
UK/EU	FCA, PSR, EMA	PSD2, EMD2, Open Banking, GDPR	Strong auth, recourse, fair disclosure	GDPR, consent
Asia-Pacific	Various central banks	Tiered KYC, cross-border rules	Limits for non-KYC, monitoring	Emerging, variable

Graph: Digital Wallet Transaction Growth (India, 2015–2025)

[image:1]

This illustrative graph shows the exponential rise in digital wallet transactions in India, highlighting the push for financial inclusion and contactless payments after 2020.

Best Practices for Digital Wallet Providers

- **Adopt Secure Technology:** Two-factor authentication, encryption, and biometric ID verification.
- **Ensure Regulatory Compliance:** Update processes with RBI/Master Direction changes and maintain requisite capital and disclosure standards.
- **Enhance Transparency and User Education:** Clearly disclose all terms, enable easy dispute reporting, and limit consumer liability.
- **Support Interoperability and Innovation:** Seamless integration with UPI, QR, and banking systems; participate in regulatory sandboxes.
- **Uphold Data Privacy:** Full compliance with consent, purpose limitation, and data minimization mandates.

CONCLUSION

Digital wallets are at the forefront of financial inclusion and cashless economies. Regulatory frameworks in India and globally are evolving to balance the drive for innovation and digital adoption with consumer safety and systemic stability. As digital wallets adopt new technology and expand cross-border, continuous regulatory updates, data protection protocols, and robust compliance programs will be essential in sustaining trust and growth in the financial ecosystem^{[2][5][3]}.

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