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# Regulating Digital Investments: Investor Risks and the Role of SEBI in India

Ashok Kumar. R

*Assistant Professor,  
School of Law, Vel Tech Rangarajan Dr. Sagunthala R&D Institute of Science and  
Technology, Avadi, Chennai*

Dr. Ajitha E

*Associate Professor,  
School of Law, Vel Tech Rangarajan Dr. Sagunthala R&D Institute of Science and  
Technology, Avadi, Chennai*

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# Regulating Digital Investments: Investor Risks and the Role of SEBI in India

## *Purpose*

*This study aims to examine the growing landscape of digital investments in India and critically analyze the role of the Securities and Exchange Board of India in regulating these emerging financial domains. It focuses on identifying key investor risks, particularly those arising from social media-driven financial advice, and evaluates the impact of such trends on investor behaviour and market integrity.*

## *Design/Methodology/Approach*

*The research adopts a qualitative and analytical approach based on secondary data sources, including SEBI reports, regulatory frameworks, academic literature, and policy documents. It integrates concepts from behavioral finance to understand investor decision-making patterns and examines recent developments in digital investment platforms and online financial ecosystems.*

## *Findings*

*The study finds that while digital investments have enhanced accessibility and participation in financial markets, they have also increased exposure to risks such as misinformation, speculative trading, herd behaviour, and lack of accountability among influencers. Although SEBI has implemented several investor protection measures, existing regulations are not fully equipped to address the dynamic and decentralized nature of digital financial content.*

## *Implications*

*The findings emphasize the necessity for a more adaptive and comprehensive regulatory framework to protect investors, particularly young and first-time participants. Strengthening disclosure requirements, implementing clearer and stricter guidelines for financial influencers, and promoting investor education and awareness initiatives are crucial for ensuring market stability and sustaining investor confidence.*

## *Originality*

*This paper contributes to the existing literature by linking digital investment trends with behavioral finance and regulatory*

*oversight in the Indian context. It provides a contemporary perspective on the challenges posed by finfluencers and offers policy-oriented recommendations for improving regulatory effectiveness.*

## KEYWORDS

*Digital Investments, SEBI, Investor Behaviour, Market Integrity, Financial Regulation, Indian Capital Market*

## 1. INTRODUCTION

The rapid advancement of financial technology has significantly transformed the investment landscape in India, enabling widespread participation through digital platforms. The proliferation of smartphones, low-cost internet access, and user-friendly investment applications has facilitated the growth of digital investments, including online stock trading, mutual funds, and algorithm-driven advisory services. This transformation has democratized financial markets by reducing entry barriers and attracting a large number of retail investors, particularly young and first-time participants.

In India, the securities market is regulated by the Securities and Exchange Board of India (SEBI), which is mandated to protect investor interests and ensure the orderly development of financial markets. However, the emergence of digital investment platforms has created new regulatory challenges, particularly given the decentralized and rapidly evolving nature of financial technologies. Traditional regulatory frameworks are often insufficient to address risks associated with digital ecosystems and cross-platform financial activities.

A significant development in recent years is the increasing influence of social media on investment decision-making. Financial influencers, or “finfluencers,” have gained prominence by disseminating investment-related content across platforms such as YouTube, Instagram, and Telegram. While these platforms enhance financial awareness, they also contribute to the spread of misleading or unverified information. For instance, SEBI identified thousands of misleading social media posts related to securities markets and initiated actions against such content to protect investors [1]. Furthermore, the number of flagged misleading posts has continued to rise, with over 1.33 lakh instances escalated to digital platforms by 2026, highlighting the scale of the issue[2]. Behavioral finance theories provide a useful framework for understanding how such digital influences affect investor behaviour. Retail investors are often subject to cognitive biases such as herd behaviour, overconfidence, and emotional decision-making, which are amplified in digital environments driven by rapid information sharing.

The increasing reliance on finfluencers has blurred the line between financial education and investment advice, creating challenges in distinguishing credible guidance from misleading recommendations [3]. Additionally, the growth of digital investments has led to a rise in financial fraud and cyber-related risks. Fraudsters increasingly exploit digital platforms and even misuse the names and logos of regulatory authorities such as SEBI and the Reserve Bank of India to deceive investors, resulting in significant financial losses[4]. These developments highlight the vulnerabilities within the digital investment ecosystem and the urgent need for robust regulatory mechanisms.

In response, SEBI has undertaken several initiatives, including introducing guidelines to regulate finfluencers, restricting unregistered advisory activities, and enhancing surveillance mechanisms across digital platforms. The regulator has also prohibited collaborations between regulated entities and unregistered financial influencers to reduce the risk of misleading advice and improve transparency[5]. Despite these efforts, enforcement challenges persist due to the vast volume of online content, jurisdictional overlaps, and the evolving nature of digital financial services. Against this backdrop, this study aims to examine the evolving landscape of digital investments in India and critically evaluate SEBI's role in regulating these emerging domains. By integrating insights from behavioral finance and regulatory frameworks, the paper seeks to analyze investor risks associated with digital platforms and assess the effectiveness of current regulatory measures. The study also highlights the growing impact of finfluencers on market behaviour and emphasizes the need for a more adaptive and technology-driven regulatory approach to ensure investor protection and market integrity.

## 2. LITERATURE REVIEW

The rapid expansion of digital investment platforms has attracted significant scholarly attention, particularly in the areas of fintech innovation, investor behaviour, and regulatory challenges. Existing literature broadly focuses on three key dimensions: (i) digital financial transformation, (ii) behavioral finance in online investment environments, and (iii) regulatory responses to emerging risks such as finfluencers.

### *2.1 Digital Transformation and Investment Accessibility*

Digital transformation has significantly reshaped financial markets by improving accessibility, reducing transaction costs, and enabling real-time trading. Studies indicate that fintech innovations have democratized investment participation, particularly among retail

investors and younger demographics [6], [7]. The integration of mobile technologies, algorithmic trading systems, and robo-advisory services has simplified complex financial processes, encouraging broader market participation.

However, this transformation has also introduced new vulnerabilities. Research shows that digital platforms often lack sufficient transparency and investor safeguards, leading to increased exposure to fraud and cyber risks [8]. In the Indian context, the rapid adoption of digital financial services has amplified both opportunities and risks, especially among less literate users [9].

## ***2.2 Behavioral Finance and Digital Investor Behaviour***

Behavioral finance plays a crucial role in understanding investor decision-making in digital environments. Traditional theories of rational decision-making are increasingly challenged by evidence of cognitive biases such as overconfidence, herd behaviour, and loss aversion [5], [6].

Recent studies highlight that digital platforms amplify these biases by enabling rapid information dissemination and real-time engagement. For instance, research on social media-driven investing shows that investors are highly influenced by peer opinions and trending narratives, often leading to speculative trading [10]. A 2025 study on finfluencer-driven markets found that exposure to online financial content significantly increases high-risk investment behaviour, particularly among Gen Z investors [11].

Furthermore, digital ecosystems contribute to phenomena such as Fear of Missing Out (FOMO), which drives impulsive investment decisions and excessive trading activity [12]. Empirical evidence suggests that increased reliance on digital information sources correlates with higher market volatility and irrational investment patterns [13].

## ***2.3 Rise of Finfluencers and Social Media Influence***

The emergence of financial influencers has become a central theme in recent research. Finfluencers play a dual role by enhancing financial literacy while simultaneously posing risks due to unregulated advisory practices. Studies indicate that a significant proportion of retail investors rely on finfluencer content for investment decisions, often without verifying the credibility of the source [14].

The highlights that many finfluencers operate without formal qualifications or regulatory oversight, increasing the risk of misinformation and fraudulent practices [15]. Similarly, international research emphasizes that conflicts of interest, undisclosed sponsorships,

and sensationalized content contribute to distorted market signals [16].

Empirical findings also suggest that finfluencers significantly influence IPO pricing and market sentiment by shaping investor attention and expectations [17]. This underscores the growing power of social media in financial markets and its implications for market efficiency.

## ***2.4 Regulatory Challenges and SEBI's Role***

Regulatory frameworks worldwide are struggling to keep pace with the rapid evolution of digital finance. In India, the Securities and Exchange Board of India has taken several initiatives to address emerging risks, including issuing guidelines on investment advisors and monitoring social media activities.

SEBI's consultation papers define finfluencers as individuals providing financial advice through digital platforms without formal registration, highlighting concerns regarding investor protection and market integrity [18]. Regulatory bodies such as the International Organization of Securities Commissions (IOSCO) have also emphasized the need for enhanced disclosure requirements, investor education, and cross-border regulatory cooperation [19].

Despite these efforts, literature identifies significant regulatory gaps. The decentralized nature of digital platforms, jurisdictional overlaps, and enforcement limitations make it difficult to regulate online financial content effectively [20]. Studies argue that existing frameworks are reactive rather than proactive, necessitating the adoption of technology-driven regulatory approaches such as AI-based surveillance systems [21].

## ***2.5 Research Gaps***

While existing literature provides valuable insights into digital investments and behavioral finance, several gaps remain:

- Limited integration of behavioral finance with regulatory analysis in the Indian context
- Insufficient empirical research on the effectiveness of SEBI's recent finfluencer regulations
- Lack of comprehensive frameworks addressing decentralized digital financial ecosystems

This study seeks to bridge these gaps by combining behavioral finance perspectives with regulatory analysis to evaluate investor risks and

policy effectiveness in India.

### 3. METHODOLOGY

This study adopts a qualitative and analytical research methodology based on secondary data sources. The research primarily relies on a comprehensive review of existing literature and regulatory documents to examine the evolving landscape of digital investments in India.

The data sources include official reports and circulars issued by the Securities and Exchange Board of India (SEBI), government publications, peer-reviewed academic journals, conference proceedings, industry reports, and credible financial news articles. These sources provide insights into regulatory frameworks, market trends, and emerging risks associated with digital investment platforms.

The analysis is conducted through a systematic evaluation of the collected data to identify key investor risks, such as misinformation, lack of transparency, and market volatility. Additionally, the study examines the effectiveness of SEBI's regulatory measures in addressing these challenges. To enhance the study's robustness, comparative insights from global regulatory practices are incorporated. This comparative approach helps in understanding international best practices and identifying potential improvements in the Indian regulatory framework.

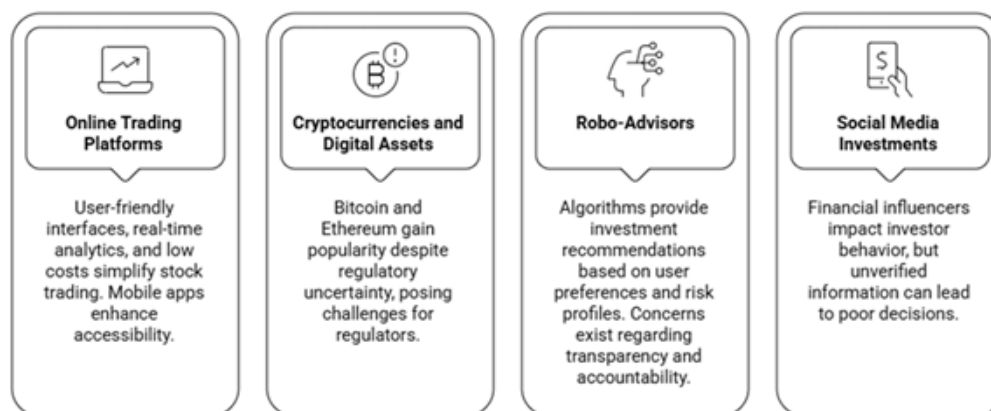
### 4. EVOLUTION OF DIGITAL INVESTMENTS IN INDIA

Figure 1 illustrates the key components of the digital investment ecosystem. It highlights four major elements: online trading platforms, cryptocurrencies and digital assets, robo-advisors, and social media-driven investments. Online trading platforms are depicted as user-centric systems offering features such as user-friendly interfaces, real-time analytics, and low-cost transactions, which enhance accessibility through mobile applications.

Cryptocurrencies and digital assets are shown as emerging investment instruments gaining popularity, with examples such as Bitcoin and Ethereum, while also indicating regulatory uncertainty and associated risks. Robo-advisors are represented as algorithm-based systems that provide personalized investment recommendations based on user preferences and risk tolerance, emphasizing both efficiency and concerns related to transparency and accountability.

Additionally, it includes the influence of social media investments, where financial influencers and online communities impact investor behavior. It also highlights the risks of misinformation and unverified content, which may lead to poor investment decisions. Overall, the figure

demonstrates how technological advancements, combined with behavioral and regulatory factors, shape the modern digital investment landscape.



**Figure 1:** Evolution of Digital Investments

## 5. INVESTOR RISKS IN DIGITAL INVESTMENTS

Digital investments, including online trading platforms, cryptocurrencies, robo-advisory services, and app-based financial products, have transformed the investment landscape. While these innovations enhance accessibility and convenience, they also expose investors to a wide range of risks that must be carefully understood and managed.

### 5.1. Market Risk and Volatility

Digital assets, especially cryptocurrencies, are highly volatile. Prices can fluctuate rapidly due to speculation, global economic events, regulatory announcements, or market sentiment. Such unpredictability can lead to substantial financial losses, particularly for inexperienced investors who may not have adequate risk management strategies.

### 5.2. Cybersecurity Risks

Digital investment platforms are susceptible to cyber threats such as hacking, phishing attacks, malware, and identity theft. Unauthorized access to investor accounts can result in loss of funds and sensitive personal information. Weak passwords, unsecured networks, and lack of awareness further increase vulnerability.

### 5.3. Fraud and Scams

The digital investment space has seen a rise in fraudulent schemes, including Ponzi schemes, fake mobile applications, impersonation of

legitimate platforms, and misleading Initial Coin Offerings (ICOs). Fraudsters often exploit investor greed and lack of knowledge, leading to significant financial damage.

#### ***5.4. Regulatory and Legal Risks***

Many digital investment products operate in a regulatory gray area. In India, while traditional securities are regulated by the Securities and Exchange Board of India, several digital assets, such as cryptocurrencies, lack comprehensive regulation. This exposes investors to legal uncertainties, a lack of protection, and difficulty in dispute resolution.

#### ***5.5. Liquidity Risk***

Certain digital assets may suffer from low liquidity, making it difficult for investors to buy or sell assets at desired prices. In extreme market conditions, investors may not be able to exit positions quickly, resulting in potential losses.

#### ***5.6. Technological Risks***

System failures, server outages, algorithmic errors, and software bugs can disrupt trading activities. Investors may face losses due to delayed transactions, incorrect executions, or platform downtime during critical market movements.

#### ***5.7. Data Privacy Risks***

Digital investment platforms collect vast amounts of personal and financial data. Improper handling or data breaches can lead to misuse of information, identity theft, and financial fraud.

### **6. ROLE OF SEBI IN REGULATING DIGITAL INVESTMENTS**

The Securities and Exchange Board of India plays a pivotal role in ensuring the stability, transparency, and integrity of India's financial markets. With the rapid growth of digital investments, SEBI has expanded its regulatory oversight to address emerging risks and protect investor interests.

#### ***6.1 Regulatory Framework***

SEBI has established a comprehensive regulatory framework governing stock exchanges, mutual funds, brokers, and other market intermediaries. Through strict guidelines on disclosure, compliance, and corporate governance, SEBI ensures transparency, fairness, and accountability in financial transactions. These regulations are continuously updated to adapt to evolving digital financial ecosystems.

## ***6.2 Regulation of Online Platforms***

With the increasing use of digital trading applications and online brokerage services, SEBI has introduced specific guidelines to regulate these platforms. It mandates compliance with Know Your Customer (KYC) norms, cybersecurity standards, and risk disclosure practices. Additionally, SEBI monitors algorithmic and high-frequency trading to prevent systemic risks and market abuse.

## ***6.3 Action Against Finfluencers***

SEBI has taken proactive steps to regulate financial influencers ("finfluencers") who provide investment advice on social media platforms. It restricts unregistered individuals and entities from offering financial recommendations without proper certification. This initiative aims to curb misleading information and protect retail investors from unverified and potentially harmful advice.

## ***6.4 Limitations in Cryptocurrency Regulation***

Despite its broad regulatory authority, SEBI currently has limited jurisdiction over cryptocurrencies and related digital assets. These instruments operate in a regulatory grey area in India, often involving multiple authorities such as the Reserve Bank of India and the Ministry of Finance. As a result, effective regulation requires inter-agency coordination and the development of a unified legal framework to address risks associated with crypto-assets.

# **7. CHALLENGES IN SEBI**

Despite the proactive role of the Securities and Exchange Board of India in regulating digital investments, several structural and technological challenges limit the effectiveness of its oversight in the rapidly evolving financial ecosystem.

## ***7.1 Rapid Technological Advancements***

The pace of innovation in financial technology (fintech), including blockchain, artificial intelligence, and algorithmic trading, often outstrips the development of regulatory frameworks. SEBI faces difficulty in continuously updating its policies to keep up with emerging digital products and services, leading to regulatory gaps and delayed responses to new risks.

## ***7.2 Jurisdictional Overlaps***

The regulatory landscape in India involves multiple authorities, such as

the Reserve Bank of India, the Ministry of Finance, and other sectoral regulators. This overlap creates ambiguity in jurisdiction, especially for hybrid financial products like cryptocurrencies and digital lending platforms, resulting in inconsistencies and coordination challenges.

### ***7.3 Cross-Border Transactions***

Digital investments frequently involve international platforms and foreign-based entities that operate beyond national boundaries. This makes enforcement of regulations, investigation of fraud, and recovery of investor funds more complex, as SEBI's authority is largely confined within India's jurisdiction.

### ***7.4 Enforcement Limitations***

The decentralized and often anonymous nature of digital financial systems, particularly blockchain-based platforms, poses significant challenges for monitoring and enforcement. Detecting fraudulent activities, tracing transactions, and taking timely corrective actions become difficult in such environments, limiting SEBI's ability to provide comprehensive investor protection.

## **8. RECOMMENDATIONS**

To strengthen investor protection and improve regulatory effectiveness in the evolving digital investment landscape, the following measures are proposed:

### ***8.1 Strengthening Regulatory Framework***

A comprehensive and clearly defined regulatory framework for digital assets and emerging investment platforms is essential. The Securities and Exchange Board of India should introduce specific guidelines addressing cryptocurrencies, digital trading platforms, and fintech innovations. Establishing legal clarity will reduce ambiguity, enhance compliance, and foster a secure investment environment.

### ***8.2 Enhancing Investor Awareness***

Investor education must be prioritized, particularly for first-time and retail investors entering digital markets. Large-scale financial literacy programs, awareness campaigns, and digital safety initiatives should be conducted to equip investors with knowledge about risks, fraud prevention, and informed decision-making.

### ***8.3 Leveraging Technology***

Regulators should adopt advanced technologies such as artificial

intelligence (AI), machine learning, and big data analytics to strengthen market surveillance. These tools can enable real-time monitoring, early detection of suspicious activities, and proactive prevention of fraud and market manipulation.

#### ***8.4 Regulating Finfluencers***

To curb misinformation and unverified financial advice, stricter regulations for financial influencers are necessary. Introducing mandatory certification, registration requirements, and accountability mechanisms will ensure that only qualified individuals provide investment-related guidance.

### **9. CONCLUSION**

The growth of digital investments has fundamentally transformed the financial ecosystem in India, making investment opportunities more accessible, efficient, and inclusive. The integration of financial technology, mobile platforms, and social media has significantly increased retail participation, particularly among young and first-time investors. However, this transformation has also introduced a complex array of risks, including market volatility, cybersecurity threats, misinformation, and behavioral biases influenced by digital environments. The Securities and Exchange Board of India has played a central role in addressing these emerging challenges by strengthening regulatory frameworks, enhancing investor protection mechanisms, and taking proactive measures to regulate online platforms and financial influencers. Initiatives such as improved disclosure norms, surveillance systems, and restrictions on unregistered advisory activities reflect SEBI's commitment to maintaining market integrity. Despite these efforts, regulatory limitations persist due to rapid technological advancements, jurisdictional overlaps with institutions like the Reserve Bank of India, and the decentralized and cross-border nature of digital financial activities. The study highlights that investor behaviour in digital markets is increasingly shaped by psychological and social factors, particularly the influence of finfluencers and online communities. These dynamics often lead to irrational investment decisions, speculative trading, and increased exposure to financial risks. Furthermore, global regulatory comparisons indicate that no single approach is sufficient; instead, a balanced and adaptive framework is necessary to address the evolving digital landscape. In this context, the adoption of a comprehensive and technology-driven regulatory strategy is essential. Strengthening regulatory clarity, promoting investor education, leveraging advanced technologies such as artificial intelligence for market surveillance, and ensuring effective inter-agency coordination will be critical for enhancing regulatory

effectiveness. Ultimately, the sustainable growth of digital investments in India depends on the ability of regulators, policymakers, and market participants to collaboratively address emerging risks while fostering innovation. A forward-looking and adaptive approach by regulatory authorities will not only safeguard investor interests but also contribute to the long-term stability, transparency, and resilience of the Indian financial markets.

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