

# yearly round-up 2023

January 10, 2024



cyril amarchand mangaldas  
ahead of the curve

## Digital Payments Regulatory Landscape in India

### Introduction:

The ongoing Indian digital payments and credit boom has made it imperative for industry players and the Reserve Bank of India (RBI) to keep up with the ever evolving landscape, both in terms of new technologies and the regulatory environment required to foster growth of such technologies. We see new technologies coming to the fore each year, and consequent change in regulations to keep up with industry trends.

This round-up aims to provide a key snapshot of the 2023 payments regulatory space, and how 2024 may pan out, by:

- (a) providing an overview of the key changes in the Indian payments landscape over the past year, focusing on regulatory updates and industry trends;
- (b) evaluating the implications of the changes on various stakeholders; and
- (c) indication of potential trends in 2024.

### 2023 – A Quick Recap:

1. Driven by RBI's Payments Vision 2025, themed 4 E's, namely, e-payments for everyone, everywhere, everytime, the regulatory regime has evolved around the 6 (six) attributes laid down, i.e. safe, secure, fast, convenient, accessible and affordable e-payment options.<sup>1</sup>



2. Below are the key regulatory developments in the digital payments' space in 2023:
  - 2.1. First Set of Payment Aggregator (PA) Licences Roll-in:
    - (a) The licencing regime introduced for PAs (payment intermediaries in the online space who pool funds for settlement with merchants) in 2020 saw around 140 applications being made to the RBI by not just pure play payments players, but also by players in foodtech, edtech, etc., facilitating PA offerings.
    - (b) As of December 19, 2023, after a span of three years from the introduction of PA Guidelines, the RBI awarded final

<sup>1</sup> Paragraph 3, 'RBI Payments Vision, 2025', dated June 2022 ([here](#))

authorisation to seven players: (a) four existing PAs and (b) three new PAs; which was updated to nine players with: (a) one existing PA; and (b) one new PA.

- (c) With the above authorisations being granted, as of January 1, 2024: (a) 32 existing PAs and 20 new PAs with in-principle approval; and (b) eight existing PAs and 13 new PAs whose applications are under review; await their final outcome from the RBI.

## 2.2. National Payment Corporation of India (NPCI) Mandates Card-on-File Tokenization with Issuers:

- (a) NPCI, furthering RBI's mandate, has introduced Card-on-File Tokenization (**CoFT**) directly through card issuers.<sup>2</sup>
- (b) Cardholders can now initiate CoFT token generation through their bank's mobile or internet banking platforms, basis explicit consent with additional factor validation and control over where their card information is stored. Cardholders are allowed to choose specific merchants with whom they wish to generate and utilise tokens.

## 2.3. Increase in transaction limit for Recurring Payments:

The RBI has raised the e-mandate limit for recurring transactions to INR 1,00,000 per transaction from the previous limit of INR 15,000, wherein e-mandate transactions could be automatically processed without additional authentication for certain categories such as mutual funds, insurance premiums and credit card bills.<sup>3</sup>

## 2.4. Payment Aggregators Cross-Border – New Licensing Regime:

- (a) RBI's Department of Payment and Settlement Systems issued a Circular on Regulation of Payment Aggregator – Cross Border, on October 31, 2023 (**PA-CB Guidelines**), bringing all entities facilitating online cross-border payments for import and export of goods/ services, under the RBI's direct regulation, with such entities being termed as payment aggregators - cross-border (**Cross-Border PA**).

- (b) RBI, by way of PA-CB Guidelines, has now opened up cross-border payment aggregation business for non-bank entities, which was earlier the exclusive domain of Authorised Dealer Category I Banks (**AD Banks**). Earlier, entities involved in cross-border payments for import and export of goods and services had to tie up with AD Banks to operate, and were supervised through such AD Banks.<sup>4</sup>

## 2.5. Use of Credit Lines for UPI Payments:

Building upon the linkage of UPI with Rupay credit cards, RBI, in consonance with the Government of India, has now allowed users to connect their pre-sanctioned credit lines with their UPI accounts, eliminating the need for separate credit card transactions.<sup>5</sup>

## 2.6. Adoption of ISO 20022:

In line with the policy set out in Payments Vision 2025, the Committee on Payments and Market Infrastructures, RBI, has established standardised data requirements for ISO 20022, a global messaging standard for financial information exchange. This initiative aims to bring payment operations in India at par with global standards by ensuring a consistent approach.<sup>6</sup>

## 2.7. RBI's Fourth Regulatory Sandbox Cohort for Fraud Prevention:

Out of nine applications received, six companies have been chosen to participate in the "Test Phase", beginning February 2024, of which four companies focus on payments.<sup>7</sup>

## 2.8. Key NPCI Updates:

- (a) To enhance convenience and security for both consumers and merchants, NPCI has mandated all UPI members to adopt and actively offer Tap & Pay by January 31, 2024. This will enable users to initiate instant in-store payments with a simple tap of their enabled smartphone or tags equipped with secure chips.<sup>8</sup>

<sup>2</sup> Paragraph 3, 'Card-on-File Tokenisation (CoFT) – Enabling Tokenisation through Card Issuing Banks,' RBI Notification dated December 20, 2023 ([here](#))

<sup>3</sup> Paragraph 2, 'Processing of e-mandates for recurring transactions,' RBI Circular dated December 12, 2023 ([here](#))

<sup>4</sup> Paragraph 3.4 'Regulation of Payment Aggregator – Cross Border (PA – Cross Border)' RBI Notification dated October 31, 2023 ([here](#))

<sup>5</sup> Paragraph 2, 'Operation of Pre-Sanctioned Credit Lines at Banks through Unified Payments Interface (UPI),' RBI Notification dated September 04, 2023 ([here](#))

<sup>6</sup> 'ISO20022 standard Message Implementation,' RBI FAQ dated March 6, 2023 ([here](#))

<sup>7</sup> 'Regulatory Sandbox (RS) – Fourth Cohort on Prevention and Mitigation of Financial Frauds – Test Phase' RBI FinTech Press Release dated January 05, 2023 ([here](#))

<sup>8</sup> 'Introduction of UPI Tap & Pay,' NPCI Circular dated December 21, 2023 ([here](#))

- (b) Trading supported by blocked amount in the secondary market was approved by SEBI, based on RBI's approved facility of single-block-and-multiple-debit in UPI. NPCI has announced launch of the beta programme for equity segment, from January 1, 2024.<sup>9</sup>
- (c) Based on RBI's Statement on Developmental and Regulatory Policies<sup>10</sup>, NPCI has now introduced "Hello UPI - conversational payments"<sup>11</sup>. This shift holds immense potential to boost UPI adoption.
- (d) NPCI had introduced the P2PM category for small merchants. It has now mandated acquirers to populate the correct 'subCode' for merchant tag in UPI and reiterated the need for acquirers to undertake due diligence while on-boarding merchants.<sup>12</sup>



- 7 Razorpay, a leading PA, has acquired Mumbai-based JHKP Technologies, operator of digital invoicing and customer engagement platform BillMe. This move strengthens Razorpay's omnichannel payment ecosystem for businesses.

## C. Transactions:

1. **Funding:** Private Equity and Venture Capital investors provided substantial funding to Indian FinTech startups, contributing approximately USD 21 billion between financial year 2019 and financial year 2023. Entities involved in digital payments raised USD 6.2 billion (292 deals) and were major beneficiaries.
  - 7 PhonePe raised INR 3,732 crore from General Atlantic, Ribbit Capital, TVS Capital, and Tiger Global.
  - 7 Cashfree Payments strategically acquired Zecpe, a one-click checkout company, to improve D2C brands' checkout conversion rates. Zecpe now operates as Ecom360, a wholly-owned subsidiary of Cashfree.
2. **Mergers & Acquisitions:**
  - 7 In a big move, Slice (GaragePreneurs Internet Pvt Ltd.), a prepaid payment issuer and co-branded card provider, received approval from the RBI to merge with North East Small Finance Bank. This marks the first instance of the RBI giving approval to a FinTech entity to acquire/merge with a bank.

## D. Regulatory Frameworks for 2024:

1. **Regulatory Framework for Web-Aggregation of Loan Products:** The RBI is likely issue regulations on web-aggregators of loan products (**WALPs**). It has accepted the recommendations of the Working Group on Digital Lending in this regard. This framework intends to boost transparency, putting the needs of borrowers at the heart of the process.<sup>13</sup>
2. **Framework for Technology Service Providers (TSPs):** As TSPs have been playing increasingly important roles in the payments ecosystem, we may expect the RBI to issue framework to bring such players under light touch regulations.
3. **Building a Strong FinTech Ecosystem – Data Transparency and Support:**
  - (a) To foster a robust and dynamic FinTech sector, Indian regulators are proposing a dedicated information

<sup>9</sup> 'UPI for Secondary Market' NPCI Press Release dated December 29, 2023 ([here](#))

<sup>10</sup> 'Statement on Developmental and Regulatory Policies' RBI Press Release dated August 10, 2023 ([here](#)).

<sup>11</sup> Guidelines for 'Hello! UPI' NPCI Circular dated October 27, 2023 ([here](#)).

<sup>12</sup> Paragraph 2, 'Compliance to Merchant Onboarding in UPI and Usage Limits' NPCI Circular dated November 16, 2023 ([here](#)).

<sup>13</sup> Paragraph 3, 'Statement on Developmental and Regulatory Policies' RBI Press Release dated December 08, 2023 ([here](#))

repository to gather insights into the developments that have occurred in the FinTech ecosystem – product offerings, technologies, financial standing, financial information etc., to keep policy makers apprised of the evolving FinTech landscape.

- (b) FinTechs will be voluntarily sharing information for the repository, fostering transparency and collaboration. This knowledge base, slated to be operational from April 2024, promises to benefit both FinTechs and regulators, ultimately leading to a more vibrant and responsible FinTech ecosystem in India.<sup>14</sup>

4. **Draft Directions:** The RBI had also released a few other draft circulars/ guidelines in 2023, which have not yet been finalised. These include:

- (a) With the developments in technology, the RBI has stressed upon information security related concerns, which may lead to more directions focussing on: (i) information security at the customer's end; and (ii) information security at the regulated entity's end.

To this end, the RBI had published Draft Master Direction on Cyber Resilience and Digital Payments Security Control for Payment Systems Operators, and invited feedback till June 2, 2023.<sup>15</sup>

- (b) To provide customers choice related to card networks (which are currently determined basis bilateral arrangements between banks and card networks), RBI had issued a Draft Circular on Arrangements with Card Networks for Issue of Debit, Credit and Prepaid Cards, on July 5, 2023.<sup>16</sup>

5. **Offline UPI Payments:** To further boost UPI-Lite's (a dedicated on-device wallet launched in September 2022, which has exceeded ten million monthly transactions) adoption and address connectivity issues in India, the RBI plans to introduce offline UPI-Lite payments via Near Field Communication (NFC).<sup>17</sup>

## E. Regulatory Developments in 2024

1. **Final PA Licences:** With the rolling out of first set of PA licences, we expect more such licences being granted during 2024.

2. **Cross-Border PA Licence:**

- (a) As was the case with PA Guidelines, we can expect clarifications on the PA-CB Guidelines, either through a circular or frequently asked questions, to address industry queries.

- (b) Further, as seen during the PA licencing process, we may yet again see the RBI being flooded with applications, both from existing and new players. This may also result in timelines being extended for submission of application.

3. **Transactions:**

- (a) As more and more PA licences roll-in, we can expect fund raising rounds by players that will receive final licence from the RBI.

- (b) We may witness some foreign players (looking to) acquiring domestic PAs, to enable their entry both as a domestic and Cross-Border PA, since technical, personnel, infrastructure requirements, etc., for both licences are similar.

4. **Internationalisation:** In continuation with the ongoing Government of India policy on bi-lateral trade settlement arrangements, we may see the RBI entering into MoUs with its foreign counterparts, to enable seamless cross-border payments, including through UPI.

<sup>14</sup> Paragraph 7, *Ibid.*

<sup>15</sup> 'Draft Master Directions on Cyber Resilience and Digital Payment Security Controls for Payment System Operators' RBI Press Release dated June 02, 2023 ([here](#))

<sup>16</sup> 'Draft Circular - Arrangements with Card Networks for issue of Debit, Credit and Prepaid Cards' RBI Draft Circular dated July 05, 2023 ([here](#))

<sup>17</sup> Paragraph 6, 'Statement on Developmental and Regulatory Policies' RBI Press Release dated August 10, 2023 ([here](#))

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## Contributors:

**L. Viswanathan**  
Partner (Chair - Banking &  
Finance, Projects & Insolvency)  
[lviswanathan@cyrilshroff.com](mailto:lviswanathan@cyrilshroff.com)

**Ganesh Kumar**  
Senior Advisor (Former  
Executive Director, RBI)  
[ganesh.kumar@cyrilshroff.com](mailto:ganesh.kumar@cyrilshroff.com)

**Anu Tiwari**  
Partner (Co-Head,  
FinTech)  
[anu.tiwari@cyrilshroff.com](mailto:anu.tiwari@cyrilshroff.com)

**Utkarsh Bhatnagar**  
Principal Associate  
[utkarsh.bhatnagar@cyrilshroff.com](mailto:utkarsh.bhatnagar@cyrilshroff.com)

**Naman Lodha**  
Associate  
[naman.lodha@cyrilshroff.com](mailto:naman.lodha@cyrilshroff.com)

**Anushri Mandal**  
Associate  
[anushri.mandal@cyrilshroff.com](mailto:anushri.mandal@cyrilshroff.com)

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Peninsula Chambers, Peninsula Corporate Park, GK Marg, Lower Parel, Mumbai – 400 013, India  
T +91 22 2496 4455 F +91 22 2496 3666 E [cam.mumbai@cyrilshroff.com](mailto:cam.mumbai@cyrilshroff.com) W [www.cyrilshroff.com](http://www.cyrilshroff.com)  
Presence in Mumbai | Delhi-NCR | Bengaluru | Ahmedabad | Hyderabad | Chennai | GIFT City | Singapore