

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.¹



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

¹ Paragraph 3, 'RBI Payments Vision, 2025', dated June 2022 ([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, 2024.⁹
- (c) Based on RBI's Statement on Developmental and Regulatory Policies¹⁰, NPCI has now introduced "Hello UPI - conversational payments"¹¹. 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.¹²



- 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.¹³
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

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

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

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

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

¹³ 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.¹⁴

- 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, 2023.¹⁵

- (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, 2023.¹⁶

- 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).¹⁷

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.

¹⁴ Paragraph 7, *Ibid.*

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

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

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

yearly round-up 2023

January 10, 2024



cyril amarchand
mangaldas
ahead of the curve

Contributors:

L. Viswanathan
Partner (Chair - Banking &
Finance, Projects & Insolvency)
lviswanathan@cyrilshroff.com

Ganesh Kumar
Senior Advisor (Former
Executive Director, RBI)
ganesh.kumar@cyrilshroff.com

Anu Tiwari
Partner (Co-Head,
FinTech)
anu.tiwari@cyrilshroff.com

Utkarsh Bhatnagar
Principal Associate
utkarsh.bhatnagar@cyrilshroff.com

Naman Lodha
Associate
naman.lodha@cyrilshroff.com

Anushri Mandal
Associate
anushri.mandal@cyrilshroff.com

Disclaimer:

All information given in this alert has been compiled from credible, reliable sources. Although reasonable care has been taken to ensure that the information contained in this alert is true and accurate, such information is provided 'as is', without any warranty, express or implied as to the accuracy or completeness of any such information.

Cyril Amarchand Mangaldas shall not be liable for any losses incurred by any person from any use of this publication or its contents. This alert does not constitute legal or any other form of advice from Cyril Amarchand Mangaldas.

Should you have any queries in relation to the alert or on other areas of law, please feel free to contact us on cam.publications@cyrilshroff.com

Cyril Amarchand Mangaldas
Advocates & Solicitors

100+ years of legacy

1000 Lawyers

Over 170 Partners

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 W www.cyrilshroff.com
Presence in Mumbai | Delhi-NCR | Bengaluru | Ahmedabad | Hyderabad | Chennai | GIFT City | Singapore