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RBI notifies new PPI norms

RBI's latest PPI notification imposes interoperability requirements, increases maximum limit, and now permits cash withdrawal from full-KYC PPIs of Non-Banks.

In April, the RBI had announced a change in policy for full-KYC Prepaid Payment Instruments (**"PPIs"**). This new policy was notified into law on May 19, 2021, which now mandates interoperability increases the maximum amount outstanding, and permits cash withdrawal from non-bank full-KYC PPIs.

From March 31, 2022, issuers are required to give holders of full-KYC PPIs interoperability through card networks (for PPIs in the form of cards) and UPI (for PPIs in the form of electronic wallets). Interoperability is mandatory on the acceptance side as well. Migration towards interoperability did not gain much traction under the earlier 'Prepaid Payment Instruments – Guidelines for Interoperability', which had made adoption of interoperability voluntary. Notably, interoperability will continue to be optional for Gift PPIs. Further, PPIs for Mass Transit Systems are exempted from these requirements.

The maximum amount outstanding in respect of full-KYC PPIs has also been increased from INR 1,00,000 to INR 2,00,000. Further, cash withdrawal is now permitted for Full-KYC PPIs of non-bank PPI issuers, a feature which was earlier restricted to bank issued PPIs. There is a maximum limit of INR 2,000 per withdrawal, with an overall limit of INR 10,000 per month. PPI issuers offering this facility are required to establish proper customer redressal mechanisms and a suitable cooling period for cash withdrawal, upon opening or loading/re-loading funds into such PPIs, in order to mitigate fraud risks.

The RBI believes this change in policy will boost migration to full-KYC PPIs and complement the acceptance infrastructure.

RBI is considering Central Bank Digital Currency

RBI Deputy Governor discusses plans for Central Bank Digital Currency ("CBDC")

On July 22, 2021, the Deputy Governor of the RBI, Shri T Rabi Sankar, discussed RBI's plans for CBDC in a webinar. He defined CBDCs as *"legal tender issued by a central bank in digital form. It is the same as fiat currency and is exchangeable one-to-one with the fiat currency. Only its form is different."* He also distinguished CBDCs from private virtual currencies (such as Bitcoin), stating that private virtual currencies lack intrinsic value and *"sit at substantial odds to the historical concept of money."*

He discussed the advantages of CBDC – payments using CBDC would reduce settlement risk and enable more real-time and cost-effective globalization of payment systems. CBDC would also offer the public an alternative to private virtual currencies – offering the benefits of virtual currencies but eliminating any risks associated with volatility. At the same time, he drew attention to risks associated with CBDC, such as the reduced intermediation of banks – thereby reducing credit creation; the ease of withdrawal of balances, which could enable 'flight of deposits'; and the risk of cyber-attacks and frauds.

Finally, he stated that the RBI has been exploring the pros and cons of CBDC for some time and is working towards a 'phased implementation strategy', in relation to use cases of CBDC that could be implemented with little or no disruption. The issues under examination are:

- The scope of CBDC – whether it should be used in retail and wholesale payments.
- The underlying technology – whether it should be a distributed or centralized ledger or vary by use-case.
- The validation mechanism – whether it should be token based or account based.
- Distribution architecture – whether it should be issued by the RBI or through banks.
- Degree of anonymity.

RBI relaxes KYC norms

RBI relaxes KYC norms and expands the scope of video KYC at the peak of the second wave of COVID-19

On May 5, 2021, the RBI relaxed the requirement under the Master Direction on KYC for Regulated Entities (**"REs"**) to carry out periodic updates of KYC of existing customers. This relaxation was made in light of COVID-19 restrictions that had been reinstated across the country, on account of the second wave of COVID-19 which reached its peak in May. REs have been advised that, in respect of customer accounts where periodic updating of KYC is due and pending, no restrictions on the operations of such accounts shall be imposed until December 31, 2021, unless warranted under instructions of any regulator, law enforcement agency, court etc.

On May 10, 2021, the RBI amended the Master Direction on KYC, expanding the scope of 'Video based Customer Identification Process' (**"V-CIP"**) from individual customers to proprietorship firms and authorized signatories and beneficial owners of legal entities, as well. The amendment also enabled the submission of officially valid documents and PAN electronically, through 'DigiLocker'. 'DigiLocker', an initiative by the Ministry of Electronics and Information Technology, is a digital document wallet which enables access to authentic digital documents.

Notably, V-CIP eliminates the need for in-person KYC. The V-CIP procedure can also be used to convert limited accounts opened through non-face-to-face Aadhaar OTP based e-KYC to full-KYC accounts.

NPCI introduces UPI Prepaid Vouchers

Prepaid Vouchers on UPI will enable services such as COVID vaccines, donations, gift vouchers etc. and may be issued as P2P or B2C vouchers

In UPI Operating Circular No. 112/2021-22, dated July 8, 2021 (**"OC 112"**), the National Payments Corporation of India ("**NPCI**") introduced Prepaid Vouchers (**"PVs"**) in UPI for two core categories – Person to Person (**"P2P"**) and Business to Consumer (**"B2C"**). The NPCI suggested use-cases for such PVs, including enablement of services such as COVID vaccines, donations, and gift vouchers. OC 112 outlines the scope for B2C UPI PVs:

- B2C UPI PVs can only be issued by banks authorized by RBI to issue PPIs and who are participating as Payment Service Providers (**"Issuers"**) in the UPI ecosystem. Issuers must follow all directions issued by RBI on PPIs.
- Businesses, corporates and State and Union Government departments can be account holders (**"Sponsors"**) for the issuance of B2C UPI PVs. Only full-KYC compliant Sponsors can request the creation of B2C UPI PVs. Such PVs will be limited to a maximum of INR 10,000 – in accordance with RBI regulations.
- B2C UPI PVs will not be transferable or re-loadable and will be for one-time-use only. B2C UPI PVs will also only be permitted to be redeemed for purchases of goods and services from designated merchants, as may be defined by the Issuer at the time of issuance. Cash out or cash back will not be permitted.
- 10 B2C UPI PVs can be issued on a single mobile number for COVID-19 and healthcare related services. This limit is configurable for other schemes.
- Each B2C UPI PV will have a defined validity as per its use case, but not beyond one year from the date of issuance. For COVID-19 and healthcare related services, such PVs will be valid until March 31, 2022.
- Beneficiaries of B2C UPI PVs can redeem such PVs at any merchant location falling under the merchant category that may be defined at the time of issuance. This facility will only be provided to designated merchants bearing valid Merchant Category Codes.

RBI issues regulations on investment in Payment System Operators from FATF non-compliant jurisdictions

In order to ensure consistency with its earlier notification directed at NBFCs, the RBI has issued regulations on investment in Payment System Operators ("PSOs") from FAFT non-compliant jurisdictions

On June 14, 2021, the RBI notified regulations on investments in PSOs, from jurisdictions identified by the Financial Action Task Force (FATF) as jurisdictions with weak measures to combat money laundering and terrorist financing. This notification was issued to ensure consistency with the RBI's earlier notification dated February 12, 2021, which was directed at NBFCs.

Investors in existing PSOs, holding investments made prior to the classification of the jurisdictions as FATF non-compliant, may continue to hold their investments or bring in additional investments as per extant regulations, so as to support continuity of business. However, new investors from or through non-compliant

FATF jurisdictions, whether in existing PSOs or entities seeking RBI authorization as PSOs, are not permitted to acquire, either directly or indirectly, 'significant influence' in the concerned PSO. The RBI has clarified that such investments must be restricted to below 20% of the voting power (including potential voting power) in such PSO.

Quick Snapshots

1. BHIM UPI partnership in Bhutan

NPCI International Payments Ltd. (NIPL), NPCI's internal arm, has partnered with the Royal Monetary Authority (**"RMA"**) of Bhutan for enabling and implementing BHIM UPI QR-based payments in Bhutan. This collaboration will enable acceptance of UPI powered BHIM App in Bhutan. RMA will ensure acceptance at all RMA acquired merchants in Bhutan. The purpose of this partnership is to enable the two lakh Indian tourists who travel to Bhutan each year to make purchases through BHIM UPI.

2. RBI raises concerns over 'big tech' in Financial Stability Report, July 2021

In its Financial Stability Report of July 2021, the RBI raised concerns over operational risks, too-big-to-fail issues, antitrust, cybersecurity and data privacy issues relating to big tech in financial services. The RBI acknowledged that big tech holds the promise of supporting financial inclusion and generating lasting efficiency gains. However, the RBI criticized big tech's 'opaque overarching governance structures', dominance and exploitation of network effects. The RBI noted that financial stability objectives may be achieved by 'blending activity and entity-based prudential regulations of big techs'. Notably, the RBI also observed that, as the digital economy transcends national borders, international coordination of rules and standards is becoming more pressing.

3. RBI clarifies its position on cryptocurrency

On May 31, 2021, the RBI clarified its position on cryptocurrency, instructing banks and other REs not to cite or quote from its circular dated April 6, 2018 (**"2018 Circular"**). The 2018 Circular had instructed REs to not deal in virtual currencies or provide services for facilitating any person or entity dealing or settling virtual currencies. The 2018 circular was challenged by the Internet And Mobile Association of India (**"IAMAI"**), an industry body, and set aside by the Supreme Court in 2020.

Nevertheless, the RBI also clarified that such REs may continue to carry out customer due diligence processes in line with governing standards for KYC, Anti-Money Laundering (**"AML"**), Combating of Financing of Terrorism (**"CFT"**) and obligations of reporting entities under the Prevention of Money Laundering Act, 2002, in addition to ensuring compliance under relevant provisions of the Foreign Exchange Management Act, 1999. Notably, the IAMAI has welcomed the RBI's clarification and is setting up a board to oversee the establishment of a self-regulatory code to govern its crypto-exchange members.

4. RBI takes supervisory action on American Express, Diners Club and Mastercard

In April 2021, the RBI found American Express Banking Corp. (“American Express”) and Diners Club International Ltd. (“Diners Club”) to be in violation of its directions on Storage of Payment System Data dated April 6, 2018 (“Data Localization Circular”) and prohibited the entities from on-boarding new Indian customers onto their card networks. Again, in July 2021, the RBI took similar action against Mastercard Asia / Pacific Pte. Ltd. (“Mastercard”) for violation of the Data Localization Circular.

The Data Localization Circular requires all Payment System Providers to ensure that all transaction data collected and processed relating to payment systems operated by them is stored exclusively in India (unless there is a foreign leg to a transaction, in which case such data may also be stored in the foreign country).

5. ED serves WazirX with notice

The Enforcement Directorate (“**ED**”), on June 11, 2021, announced that it had issued a notice to Zanmai Labs, parent company of crypto-exchange WazirX, for violation of the Foreign Exchange Management Act, 1999, on account of transactions involving INR 27.9 billion. The notice is related to an ongoing money laundering investigation into illegal betting applications. The investigation revealed that Chinese nationals had allegedly laundered INR 570 million through WazirX. The ED also stated that that WazirX does not collect requisite AML and CFT documents.

6. RBI constitutes Regulations Review Authority 2.0

The RBI constituted a new Regulations Review Authority (“**RRA 2.0**”) to internally review as well as seek suggestions from REs and other stakeholders on the simplification and ease of implementation of its regulations. The RRA 2.0 will focus on streamlining regulatory instructions, reducing compliance burdens on REs, and reducing reporting requirements. Its terms of reference will be i) to remove redundancies and duplications in regulatory and supervisory instructions; ii) to reduce compliance burdens on REs by streamlining reporting mechanisms and removing obsolete instructions and paper-based submission of returns, wherever possible; iii) to obtain feedback from REs on the simplification of procedures and ease of compliance; and iv) to examine and recommend changes to the dissemination process of RBI circulars and instructions.

7. Investments in Fintech Sector

The cryptocurrency space has seen action. Bangalore based startup, Bitcipher Labs, which operates cryptocurrency investment platform CoinSwitch Kuber, has raised USD 25 million, valuing CoinSwitch Kuber at over USD 500 million. Polygon, a blockchain scalability platform, has also raised an undisclosed amount from billionaire investor Mark Cuban.

Major players are also preparing for IPOs. One97 Communications Limited, parent company of payments services platform, Paytm, has filed for an IPO which stands at USD 2.23 billion. Insurance web aggregator, Policybazaar, has also received approval from its board to raise approximately USD 870 million through an IPO. Mobikwik has also filed a draft prospectus for a USD 255 million IPO. Mobikwik provides financial services including payment gateway, digital wallet, insurance, lending, investments in mutual funds etc. Delhi-NCR based Pine Labs has made news for raising USD 285 million in May, followed by another USD 600 million in July. Pine Labs is also preparing for an IPO.

As usual, lend-tech platforms have been garnering investments. Fintech lending platform KreditBee has raised USD 8.2 million in a mix of debt and equity. Capital Float has also raised USD 6.8 million in debt for a period of 3 years. Further, Credit Fair, a consumer lending fintech startup, has raised USD 15 million in a seed round. Finally, retailer financing startup Progcap announced that it has raised USD 25 million.

Mynd Solutions, which operates M1xchange and holds a Trade Receivables Discounting system license, has raised USD 10 million in a funding round led by Amazon. Another interesting fintech is Qapita, a Hyderabad and Singapore based startup, which provides software solutions for ESOPs and capitalization table management. Qapita raised USD 5 million in a pre-Series A round. Fampay Solutions, a fintech which provides a payments service focused on teenagers, also announced that it has raised USD 38 million in Series A funding. Corporate card startup, Kodo, has raised USD 8.7 million in seed capital.

Bangalore based unicorn, Nextbillion Technology – which owns Groww, has announced its first acquisition - the acquisition of Indiabulls Housing Finance's mutual funds business, for USD 23.8 million. Banking technology startup Zeta has also recently become a unicorn, following a USD 250 million investment led by Softbank Group's Vision Fund 2.

Online payments firm, Cashfree, has raised an undisclosed amount from State Bank of India. Garagepreneurs Internet, the parent company of Slice, a payments and credit solutions platform, has raised USD 20 million in a new investment round. Mastercard has also made an investment in Bangalore based, Instamojo Technologies, a digital payment and e-commerce solutions provider. RenewBuy, an insurance platform, announced that it has raised USD 45 million as part of its Series C funding round. Finally, Kredent InfoEdge, which owns StockEdge, has raised USD 1.3 million. StockEdge is a website and mobile application for analysing stocks on BSE and NSE.

For further details, please contact km@jsalaw.com

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Ahmedabad | Bengaluru | Chennai | Gurugram | Hyderabad | Mumbai | New Delhi

