



JSA Newsletter FinTech

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JSA Fintech Newsletter – Fourteenth Edition

RBI action against Paytm Payments Bank

RBI imposed restrictions on Paytm Payments Bank Ltd to onboard new customers.

In a recent press release, exercising its power under Section 35 A of the Banking Regulation Act, 1949, the RBI has prohibited Paytm Payments Bank Ltd ("**Paytm**") from onboarding new customers with immediate effect; and has ordered the appointment of a new information technology audit firm ("**IT Auditor**") to conduct a comprehensive System Audit of the Paytm's IT System. Onboarding new customers will only be permitted once specific permission is granted by the RBI, after the RBI reviews the report provided by IT Auditor.

Reports indicate that the RBI's action against Paytm is due to data leaks to servers in China, which is a violation of the RBI's Circular on Storage of Payment System Data. The RBI has previously taken regulatory action against American Express Banking Corp. and Mastercard for similar violations of the Circular on Storage of Payment System Data. Paytm has refuted the reports and stated that all its data servers are located in India and it proudly supports data localization.

RBI Geo-Tagging Framework

RBI launches Geo-Tagging Framework to map payment touch points.

The purpose behind the RBI's Framework for Geo-tagging of Payment System Touch Points ("**Geo-Tagging Framework**") is to collect information which can provide insights on regional penetration of digital payments, monitor infrastructure density across different locations, identify scope for deploying additional payment touch points, and to facilitate focused digital literacy programmes.

PSOs are required to maintain a registry ("**Registry**") containing the geographical coordinates for all payment touch points and submit the same to the RBI. Payment touch points include Points of Sale ("**PoS**") terminals and Paper-based / Soft QR Codes (i.e., Bharat QR, UPI QR etc.) deployed by merchants to receive payments from their customers.

The Registry must contain (a) merchant related information; (b) merchant location details; (c) general payment touch point details; and (d) payment touch point location details. Reporting by PSOs will be through the Centralised Information Management System by the RBI, and must be made in two files:

1. File 1 containing details of merchants acquired/onboarded by the PSO; and
2. File 2 containing details of the payment touch points deployed by the acquired/onboarded merchant.

PSOs which deploy touchpoints are also required to report details of all existing payment touchpoints within a timeline which will be specified by the RBI. As and when additional touch points are added or in case of changes/updates to existing touchpoints, PSOs will be required to report the same to the RBI within 7 calendar days. PSOs are initially required to submit the contact details of a nodal officer under the Framework by March 31, 2022.

New RBI Initiatives for FinTech

In a recent press release, the RBI has announced two key initiatives for the FinTech market.

UPI for Feature Phones (UPI123pay)

RBI has enabled UPI for feature phones through UPI123Pay. UPI123Pay will replace the NUUP (National Unified Platform) which currently uses the short code of *99# for the accessibility of UPI in feature phones. UPI123Pay includes distinct features such as:

1. **App-based Functionality:** An app will be installed in feature phones to facilitate the UPI service.
2. **Missed Call Facility:** This will allow feature phone users to access their bank account and perform routine transactions such as receiving, transferring funds, regular purchases, bill payments, etc., by giving a missed call to the number displayed at the merchant outlet. The customer will receive an incoming call to authenticate the transaction by entering UPI PIN.
3. **Interactive Voice Response (IVR):** UPI payment through pre-defined IVR numbers would require users to initiate a secured call from their feature phones to a predetermined number and complete UPI on-boarding formalities to be able to start making financial transactions without internet connection.
4. **Proximity Sound-based Payments:** This will enable contactless, offline, and proximity data communication on any device using sound waves.

UPI123Pay will make UPI facilities accessible to those who are so far from the digital payment landscape and will help in achieving financial inclusion initiatives. The coming decade will witness a transformational shift in this market.

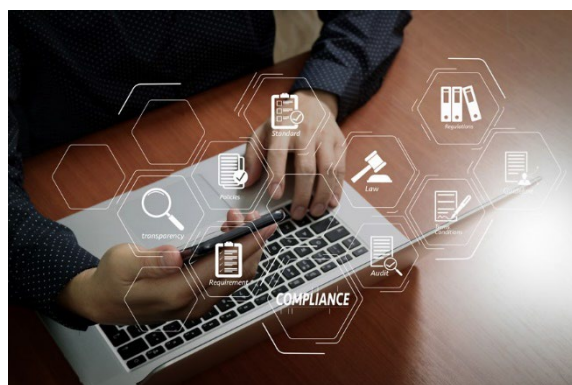
24x7 Helpline for Digital Payments (DigiSaathi)

RBI has come up with a vision to accelerate the adoption of digital payment services among users. A rich and inclusive ecosystem will revolutionize digital payment services by building trust between the service providers and users. DigiSaathi is a 24x7 Helpline for customers – providing assistance with issues related to the entire gamut of digital payments. Currently, the services are available in Hindi and English through a toll-free number, shortcode options, a dedicated website, and chatbots.



Payment System Regulations Amended

The RBI has amended the Payment and Settlement System Regulations, 2008.



The most notable change to the Payment and Settlement System Regulations, 2008 ("PSSR") by the 2022 amendment ("Amendment") is the requirement for all payment system participants to comply with the regulations, guidelines and instructions set out in the Schedule of the PSSR. Earlier, this requirement was limited to payment system providers – i.e., persons who operate authorised payment systems. Now, all persons participating in a payment system will be required to comply with the several regulations, guidelines and instructions, including the Uniform Regulations and Rules for Bankers' Clearing Houses; Procedural Guidelines on National Electronic Funds Transfer System; and RTGS System Regulations, 2013.

Other changes brought by the Amendment include the removal of the requirement to submit specific returns/documents required to the Reserve Bank of India by payment system providers and omission of certain

guidelines from the Schedule of the PSSR. Payment system providers are no longer specifically required to submit monthly returns containing statistics of their payment systems; immediate and monthly details of defaults; quarterly disputes and bankers' certificates; or annual returns regarding their staff strength, income/expenditure and changes to their management.

New NPCI Circulars on UPI

The NPCI has released circulars on UPI features, interoperability and for the launch of an on-device wallet.

Usage of UPI features

NPCI has a vision for digital payments and technology and has been aggressively innovating and adding new features in UPI from time to time to expand its usage. Recently, NPCI published a circular dated January 27, 2022 on guidelines for UPI features. UPI has easy accessibility and interoperability, which has led to its adoption across India. The NPCI attributes UPI's success to four pillars:

1. The first pillar is co-creation with the ecosystem.
2. The second pillar is interoperability, which covers all levels of the ecosystem.
3. The third pillar is its inclusive nature for all the participants, at all points.
4. The fourth pillar is its compatibility with existing and future user interfaces and acceptance channels.

UPI system has functionality that enables pay, collect, intent, P2P, P2M, AutoPay, and IPO; and interfaces that have compatibility with smartphones, feature phones, ATMs, embedded devices, voice, IVR, and POS. It has also been designed for diverse payment mechanisms like QR code, UPI ID, UPI Number, Account Number and IFSC. Its Protocol/Communication has wide approach which has been channelized with internet, USSD, NFC, Bluetooth, sound/tone based and ultrasonic platforms.

Additionally, UPI features will be enhanced to support IoT and embedded payments (connected cars, eSIM), voice based uses (IVRS, missed call, virtual assistant), app based uses (software tool kit), and technology enhancement towards payments authentication processes (face and biometric authentication).

The NPCI aims to encourage innovation within the ecosystem along with sharing of processes, technology and methodology to enhance UPI features.

In the above spirit, through the January 27 circular, the NPCI now requires all UPI features by payment system providers or third parties associated with them to be interoperable; and has prohibited tokens, payment IDs and proprietary QR codes which do not conform to interoperability standards.

Adherence to RBI PPI Interoperability guidelines

In its circular dated January 31, 2022, NPCI has published guidelines for interoperability of prepaid payment instrument ("PPI") wallets through UPI.

UPI interoperability guidelines require (a) PPI issuers to facilitate all basic/standard features; (b) PPI issuers to act as Payment System Providers (PSP) in UPI, wherein NPCI shall issues handle to the PPI users; (c) PPI holders to be onboarded for UPI by their own PPI issuer only; and (d) authentication to be completed by the PPI holder as per existing wallet credentials.

Notably, for the purpose of settlement, non-bank PPI issuers are required to participate through a sponsor bank, and must adhere to the requirements of the sponsor bank arrangement in UPI.



Introduction of “On-Device wallet” – UPI Lite for Small Value Transactions

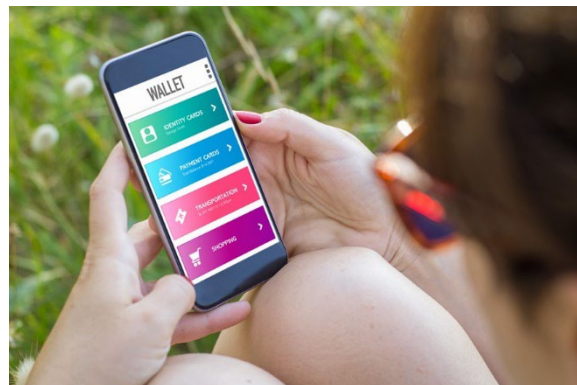
In its circular dated March 16, 2022, NPCI has launched UPI Lite for small value transactions in near offline mode (i.e., debit offline and credit online) and will, at a later point, complete offline mode (i.e. debit and credit offline).

Once a user enables UPI Lite – On Device Wallet on their UPI Apps, they will be able to allocate funds from their bank account to UPI Lite. Allocated funds shall reside with the user’s bank in escrow/pool/designated account and on the common library of the user’s UPI App. Such transaction will be in near offline mode wherein debit from UPI Lite balance shall be permitted offline and credit facility including refund will be processed online in the user’s bank account. Replenishment of funds will be allowed only in online mode with additional factor authentication (AFA) or using UPI AutoPay which has been registered by the user in online mode with AFA. Transactions will be limited to INR 200 and the total limit for the on-device wallet will be INR 2000.

UPI Lite will enable faster near real-time small value payments and uncluttered bank statements. With UPI Lite, NPCI also seeks to reduce the load on the banking system.

UPI Lite balance will be non-interest bearing, and transactions will not require AFA (UPI PIN). However, users will be recommended to implement a passcode (biometric, pattern etc.) to access their UPI apps. Users will also be allowed to have multiple UPI Lite on-device balances, depending on the number of UPI apps installed. Users must be allowed to enable or disable UPI Lite at any time, but only in online mode – with fund transfer between UPI Lite and the user’s bank account being processed in real-time.

UPI Lite balance shall be displayed on the home screen of the UPI app. Additionally, the UPI app will use UPI Lite by default for transactions equal or less than INR 200. The user shall receive a consolidated debit SMS for transactions at regular intervals, after the transactions are presented to the user’s bank. The UPI app shall also enable users to raise complaints/disputes for UPI Lite based transactions – and should ensure that online dispute functionality (ODR) is made available. The issuing bank shall also facilitate handling of customer grievances, once the transaction information is made available to it.



ASCI Guidelines for Crypto

The Advertising Standards Council of India has published its Guidelines for Advertising Virtual Digital Assets and Linked Services



The Advertising Standards Council of India (“**ASCI**”) has published its Guidelines for Advertising Virtual Digital Assets and Linked Services (“**ASCI Guidelines**”) which apply to the advertisement of cryptocurrency and NFTs. Similar to the Finance Act, 2022 (*see Quick Snapshots below*), the ASCI Guidelines term cryptocurrency and NFTs as VDAs. The ASCI Guidelines require all ads for or featuring VDAs, VDA products or VDA exchanges to contain the following disclaimer (“**Disclaimer**”):

“Crypto products and NFTs are unregulated and can be highly risky. There may be no regulatory recourse for any loss from such transactions.”

The ASCI Guidelines will apply to VDA advertisements released on or after April 1, 2022; and also require advertisers and media owners to take down existing non-compliant advertisements by April 15, 2022. The ASCI Guidelines require VDA advertisers to publish their name and contact details; and prohibit:

- the use of the words ‘currency’, ‘securities’, ‘custodian’ and ‘depositories’ in relation to VDAs;
- the comparison of VDAs with other asset classes;
- the depiction of VDAs as easy investments/guaranteed returns/solutions to money-problems;

- depiction of minors dealing with or talking about VDAs; and
- the provision of biased past returns/returns for period of less than 12 months.

The ASCI Guidelines contain detailed requirements relating to advertisements of VDAs, varying based on the medium of advertisement:

1. **Print/Static:** The Disclaimer must be equal to at least 1/5th of the advertising space at the bottom of the advertisement, against a plain background, in an easy-to-read font.
2. **Video:** The Disclaimer should be placed at the end of the advertisement, with a voice over at normal speaking pace. In case of advertisements over 2 minutes long, the Disclaimer should be repeated at the beginning and end of the video. The Disclaimer should also be featured on screen for at least 5 seconds.
3. **Audio:** The Disclaimer must be spoken at the end of the advertisement at normal speaking pace. In case of advertisements over 90 seconds long, the Disclaimer must be repeated at the beginning and end of the advertisements.
4. **Social Media Posts:** The Disclaimer must be included in the caption, video and pictures. The Disclaimer in the caption must be placed upfront, at the beginning of the post.
5. **Disappearing Stories/Posts Unaccompanied by Text:** The Disclaimer must be voiced at the end of the story if the story is longer than 15 seconds. If the story is 15 seconds long or shorter, the Disclaimer must be carried in a prominent and visible manner as an overlay.

Quick Snapshots

RBI Cautions Against Unauthorized PPIs

In a press release dated February 22, 2022, the RBI has urged the public to exercise caution while using unauthorized PPIs – stating that members of the public should verify and satisfy themselves that the applications they are using are authorised to carry out the activities they perform or are assured to perform. The press release has been issued in light of an application called 'sRide', which the RBI found to be operating a semi-closed PPI without RBI's authorisation under the Payment and Settlement Systems Act, 2007.

Finance Act on Crypto

The Finance Act, 2022 ("**Finance Act**") has introduced a new tax code for cryptocurrency and NFTs, which fall under the definition of 'virtual digital assets' ("**VDAs**"). Under the Finance Act, income from the transfer of a VDA is taxable at a rate of 30% (plus applicable surcharge and cess). Further, the period of holding the VDA would not impact its taxability; and no set-off of losses is permitted. The Finance Act has also introduced a 1% TDS on the sale consideration of a VDA. This would require VDA marketplaces/exchange platforms to withhold TDS before payment/settlement is made to users.

The Department of Economic Affairs, RBI and the Revenue Department are also currently working on FAQs on the taxation of cryptocurrencies.

Shadow Lending

The Enforcement Directorate ("**ED**") has reportedly urged the RBI to cancel the licenses of 40 NBFCs in the digital lending business – allegedly tying up with digital loan applications which engage in 'shadow lending'. The ED has found that these NBFCs have no control over loans or recovery.

Separately, the RBI has also sought information from a number of NBFCs on BNPL – in an inquiry on the roles of participants in the ecosystem, in light of the Master Direction on Transfer of Loan Exposures dated September 24, 2021. This follows the RBI's Report of the Working Group on Digital Lending Including Lending Through Online

Platforms and Mobile Apps which recommended that balance sheet lending must only be conducted by regulated entities.

Investments in Fintech Sector

- Fintech Start-up Minko offering credit to retail shops has raised \$1.5 million (Approx. INR 114 crore) in a seed round that saw participation from Mumbai Angels, CRED founder, and LetsVenture.
- Swipe, a fintech start-up has raised \$2 million (Approx. INR 152 crore) in seed rounds from Y Combinator, Cred's Kunal Shah, GFC, and other prominent angels participated.
- Kuhoo, a student loan fintech platform has raised \$20 million (Approx. INR 1500 crore) seed fund from West Bridge Capital.
- CredAvenue, an enterprise debt marketplace has raised a \$137-million round led by firm Insight Partners at a valuation of \$1.3 billion in the participation of Dragoneer, besides existing investors Sequoia Capital, Lightspeed Ventures, TVS Capital, and Lightrock.
- Money View, a fintech platform operated by Whizdm Innovations Pvt Ltd, has raised \$75 million (Approx. INR ₹576 crore) in its series D round of funding wherein existing investors Tiger Global and Accel participated in this round.
- A payment issuance infrastructure platform that powers B2B payments and lending on a card, CARD91 has raised \$13 million (Approx. INR 986 crore) in a pre-Series A funding round.
- BeyondIRR, a B2B wealth-tech platform has secured seed funding from Zerodha's Rainmatter and Udaan.
- INDmoney, Neo-banking platform has raised \$11 million in its Series round D wherein Singapore-based Sixteenth Street Capital, Lenskart founder Peyush Bansal, and entrepreneur and influencer Ankur Warikoo participated.
- Bharti Airtel telecom company has acquired stakes in a blockchain-based digital marketing company Aquilliz which provides a blockchain platform 'Atom' - a middleware technology meant to build a collaborative digital marketing ecosystem that is interoperable for all its players.
- INDmoney, an AI (artificial intelligence) based investment management platform has raised \$75 million (Approx. INR 568 crore) as a part of its Series D funding round, led by Steadview Capital, Tiger Global Management, and Dragoneer Investment Group. In its previous Series C funding in January 2020, had raised \$ 12 Million (Approx. INR 90 crore) from Tiger Global and Steadview Capital.
- FPL Technologies, operates OneScore, which is a digital credit score platform (a fintech start-up), has raised \$75 million (Approx. INR 568 crore) as part of its Series C funding round, from QED Investors Janchor Partners, Sequoia Capital India, Matrix Partners, and Hummingbird Ventures. In its previous Series B funding, seven months before had raised \$ 35 Million (Approx. INR 263 crore).
- M2P Fintech, a payments infrastructure start-up, less than three months after closing its previous funding, has raised \$56 million (Approx. INR 420 crore) in a Series C financing round, led by Insight Partners, the New York base PE VC firm including the participation of MUFG Innovation Partners, and Tiger Global and Better Capital.

For more details, please contact km@jsalaw.com



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