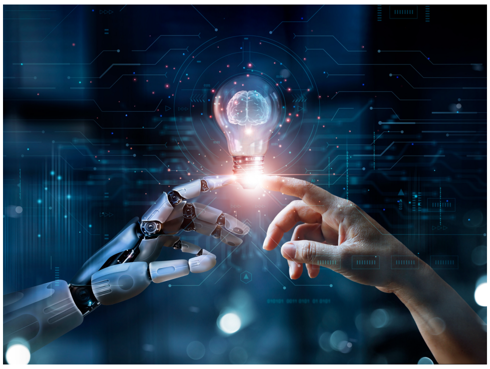
Twenty Fifth Edition (October – December 2024)

What's New?

Reserve Bank of India constitutes a committee to develop a Framework for Responsible and Ethical Enablement of Artificial Intelligence in the financial sector

In furtherance of the Statement on Developmental and Regulatory Policies dated December 6, 2024, the Reserve Bank of India ("**RBI**") has constituted a committee to develop a Framework for Responsible and Ethical Enablement of Artificial Intelligence ("**FREE-AI**") in the Financial Sector. FREE-AI will focus on leveraging the transformative potential of technologies such as Artificial Intelligence ("**AI**"), Machine Learning ("**ML**"), and cloud computing to enhance decision-making and streamline processes within the sector. Under FREE-AI, the committee will also address associated risks, including algorithmic bias and data privacy issues related to the use of AI/ML in the financial sector. In particular, RBI has assigned the committee the following functions:



1. to assess the current level of adoption of AI in financial services in India and globally;
2. to review regulatory and supervisory approaches on AI with a focus on financial sector globally;
3. to identify potential risks associated with AI, if any and recommend an evaluation, mitigation and monitoring framework and consequent compliance requirements for financial institutions, including banks, non-banking financial companies, FinTechs, payment system operators, etc.; and
4. to recommend a framework including governance aspects for responsible, ethical adoption of AI models/applications in the Indian financial sector.

The committee has been instructed to submit its report within 6 (six) months of its first meeting.

This initiative by RBI signals a proactive approach to regulating AI in finance, aiming to balance innovation with risk management. This framework will likely influence the development and deployment of AI-driven financial products and services, setting a precedent for other regulatory bodies in India.

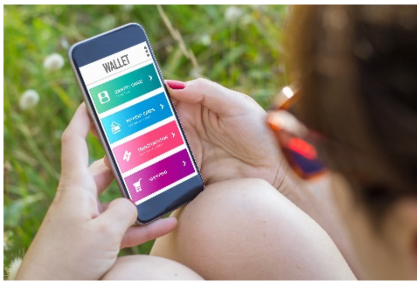
Ministry of Finance issues Draft Banning of Unregulated Lending Activities Bill for stakeholder inputs

On December 13, 2024, the Department of Financial Services under the Ministry of Finance, released a draft bill titled the Banning of Unregulated Lending Activities Bill ("**BULA Bill**") to curb unregulated digital lending in India. The BULA Bill aims to prohibit entities not authorised by RBI or other regulators from engaging in public lending, including digital loans. It introduces penalties, fines, and imprisonment, for those violating the law, and empowers the Government to take action against lenders using unethical lending methods. The BULA Bill grants authorities the power to investigate and regulate these activities. The BULA Bill is open for public consultation, with a deadline of February 13, 2025, for stakeholder feedback.

Key provisions of the BULA Bill include:

1. **Wrongful inducement in lending practices:** The BULA Bill prohibits any entity from knowingly making false, deceptive, or misleading statements, promises, or forecasts (digitally or otherwise) to induce another person to apply for a loan from unregulated lenders. This provision specifically targets deceptive practices to attract borrowers and aims to protect consumers from misleading lending schemes.
2. **Unregulated lending activities**: The Government may designate certain lending activities as unregulated under this law, prohibiting these practices. The BULA Bill lists 'Regulated Lending Activities' in Schedule I and defines them as activities regulated under provisions of the certain statutes listed in the said Schedule I (these include, Reserve Bank of India Act, 1934, Companies Act, 2013, Limited Liability Partnership Act, 2008).
3. **Competent authority**: The BULA Bill empowers the Government to set up an authority ("**Competent Authority**") to enforce the BULA Bill. The Competent Authority (these will be designated government officials not below the rank of secretary) has extensive powers to investigate potential violations. If it believes a lender is in contravention of the law, it can provisionally attach the lender's accounts and assets. The Competent Authority is granted civil court-like powers, including:
   a) enforcing attendance and compelling the production of records;
   b) receiving evidence on affidavits; and
   c) issuing commissions for the examination of witnesses and documents.
4. **Central database of lenders**: The Government may designate an authority to establish and maintain an online database of lenders operating in India. This database will allow the public to search for regulated lenders and report illegal or cloned lenders. It will also enable the Competent Authority to gather information on lenders for regulatory purposes.
5. **Information sharing**: Lenders are required to notify the Competent Authority when they commence operations and share details about their lending activities. If there is suspicion that a lender is involved in unregulated activities, the authority can request detailed information on the lender's loans and operations. Moreover, any relevant information will be shared with the Central Bureau of Information, State Police, and other investigative agencies to ensure coordinated action against illegal lenders.
6. **Designated courts**: The Government will establish 'Designated Courts', specifically for cases related to unregulated lending activities. These courts will be presided over by judges of at least the rank of District and Sessions Judge, ensuring that cases are handled efficiently. Only these courts will have jurisdiction over such matters.
7. **Punishment for violations:** The law introduces severe penalties for those engaged in unregulated lending:
   a) lenders who operate in violation of the law face imprisonment of up to 2 (two) to 7 (seven) years and fines ranging from INR 2,00,000 (Indian Rupees two lakh) (approx. USD 2,320 (US Dollars two thousand three hundred and twenty)) to INR 1,00,00,000 (Indian Rupees one crore) (approx. USD 116,000 (US Dollars one hundred and sixteen thousand));
   b) lenders using unlawful means to harass borrowers or recover loans face stricter penalties, including imprisonment of up to 3 (three) to 10 (ten) years and fines up to twice the loan amount; and
   c) any entity or individual publishing or promoting unregulated lending advertisements must issue a retraction at no cost.

Unified Payments Interface access for Prepaid Payment Instruments through Third-Party Unified Payments Interface -Enabled App



RBI, on December 27, 2024, published a circular allowing Prepaid Payment Instruments ("**PPI**") users to make and receive Unified Payments Interface ("**UPI**") payments through any Third-Party UPI-Enabled App ("**TPAP**").

Previously, UPI transactions involving PPIs were confined to mobile apps provided by the specific PPI issuer. This restriction limited user convenience and the broader adoption of PPIs for UPI transactions. Now, holders of full Know Your Customer ("**KYC**") PPIs can link their wallets to any UPI apps, by connecting the customer PPI to their UPI handle. UPI transactions using PPI through the issuer's application will be authenticated using the customer's pre-existing PPI credentials. Thus, such transactions will be pre-approved before they reach the UPI system. On the other hand, UPI transactions using PPI through TPAPs will be authenticated using the UPI credentials. This is a step towards RBI's goal for interoperability of full KYC PPIs – first implemented in 2021.

Quick Snapshots

1. **National Payments Corporation of India ("NPCI") warns against unauthorised use of UPI Application Programming Interface ("API")**: NPCI has issued a formal warning to FinTech companies against unauthorised use of UPI APIs for identity verification and other purposes that are unrelated to UPI payments or fraud prevention. NPCI has reiterated that such practice violates NPCI and RBI guidelines and emphasised that failure to comply could result in imposition of heavy penalties and cessation of UPI services.

2. **RBI revises transaction limits for UPI LITE**: In furtherance of the Statement on Developmental and Regulatory Policies dated October 9, 2024, RBI has amended the Framework for Facilitating Small Value Digital Payments in Offline Mode to enhance the transaction limit for UPI LITE transactions from INR 500 (Indian Rupees five hundred) (approx. USD 6 (US Dollars six)) per transaction to INR 1,000 (Indian Rupees one thousand) (approx. USD 12 (US Dollars twelve)) per transaction. Further, the total limit of the UPI LITE wallet has also been enhanced from INR 2,000 (Indian Rupees two thousand) (approx. USD 23 (US Dollars twenty-three)) to INR 5,000 (Indian Rupees five thousand) (approx. USD 58 (US Dollars fifty-eight)).

3. **NPCI extends timeline for compliance with volume cap**: NPCI has extended the timeline for TPAPs providers in the UPI ecosystem to comply with NPCI's volume cap till December 31, 2026. Previously, all TPAPs were mandated to ensure by December 31, 2024, that the volume of total transactions initiated through their app did not exceed 30% of the overall volume of transactions processed in UPI during the preceding 3 (three) months. The aim behind introducing the volume cap was to encourage free competition and new entrants in the TPAP ecosystem, thereby contributing to the overall success of UPI. In view of various factors including present usage, NPCI has now extended this timeline.

4. **NPCI permits PayTM to onboard new UPI users**: After a 9 (nine) month long embargo imposed on One97 Communications ("**PayTM**") by RBI, NPCI has now permitted PayTM to onboard new users on UPI as a TPAP. This permission is, however, subject to PayTM's compliance with all NPCI procedural guidelines and circulars.

5. **NPCI removes restrictions imposed on WhatsApp Pay**: NPCI has removed restrictions imposed on WhatsApp Pay, permitting it to expand its UPI services to users all over India. Earlier, NPCI had imposed a user onboarding cap of 100,000,000 (one hundred million) on WhatsApp Pay to ensure a smooth rollout and avoid overburdening the banking infrastructure. This cap has now been lifted with effect from December 31, 2024.

6. **RBI removes restrictions on Navi**: RBI has removed supervisory restrictions on Navi Finserv Limited ("**Navi**"), a digital lender. Earlier, RBI had imposed restrictions on Navi and other non-banking financial companies in view of RBI's concerns into usurious pricing – which received criticism from industry stakeholders. RBI's removal of such restrictions with respect to Navi is on the basis several rounds of interaction between RBI and Navi, and Navi implementing revamped processes and systems and committing to ensure fairness in loan pricing.

Deals in the FinTech sector

1. QuID Cash, a business-to-business supply chain digital lending platform, has secured USD 4,500,000 (US Dollars four million five hundred thousand) in a pre-series A round of investment led by existing investor Mintcap Enterprises. The company intends to use the fresh capital to invest in technology to grow its business.
2. CredFlow, a FinTech startup that provides cash flow management solutions to Indian SMEs, has raised USD 3,700,000 (US Dollars three million seven hundred thousand) in pre-Series B funding round, led by existing backers Inflexor Ventures and a Singapore-based family office. The company proposes to use the funds for growing its lending business vertical, developing multiple new products and solutions.
3. The Money Club, a FinTech platform that provides on-demand liquidity, has raised USD 2,500,000 (US Dollars two million five hundred thousand) in a Series A round led by Prudent Investment Managers. The round also saw participation from existing investors such as Venture Catalysts, LetsVenture, Z21 Ventures and Supermorepheus. The company plans to use the fresh capital to boost its financial solutions and technological capabilities to extend financial support to underserved populations.
4. PeLocal, a FinTech startup which provides payment services through WhatsApp, has raised USD 2,000,000 (US Dollars two million) in seed funding led by Unicorn India Ventures. The company proposes to use the funds in expansion of the business and to help strengthen go-to-market strategies for rolling out large-scale projects.
5. Mintifi, a supply-chain financing platform, has raised USD 180,000,000 (US Dollars one hundred and eighty million) in its Series E round comprising of primary and secondary transactions. The round was co-led by Prosus and Teachers' Venture Growth, the late-stage venture and growth equity investment arm of Canadian firm Ontario Teachers' Pension Plan. It also saw participation from PremjiInvest. The company will use the fresh capital to expand its offerings, including dealer management systems, loans against property, and domestic and overseas factoring.
6. Curie Money, a FinTech startup which operates a banking app that integrates investments with payments, has secured USD 1,200,000 (US Dollar one million two hundred thousand) in a seed investment round led by venture capital firm India Quotient. The round also saw participation from some institutional investors and angel investors in the FinTech sector. The company proposes to use the money to strengthen its core team, advance its product development, scale its technology infrastructure, and build partnerships to fuel grow and market expansion.
7. Navanc, a FinTech startup which provides AI-led property score and stack for secured lending, has raised USD 1,000,000 (US Dollars one million) in a seed funding round led by Prarambh Ventures. The round also saw participation by Inflection Point Ventures (IPV), Brigade REAP FirstPort Capital, and other angel backers in Navanc's seed round. The company proposes to deploy the funds towards expanding operations across India, with a focus on strengthening its presence in urban and semi-urban areas. It will also invest in its AI FinTech capabilities by incorporating Generative AI and Computer Vision models.
8. Wealthy Nivesh, a wealth management startup, has secured USD 1,000,000 (US Dollars one million) in fresh funding round which saw participation from several angel investors and family offices.
9. Zinc, a goal-based wealth-tech platform focused on children's education, has raised 25,500,000 (US Dollars twenty five million five hundred thousand) in seed funding led by Nexus Ventures Partners. The round also saw participation from Quona Capital, EDBI, Global Ventures and Saison Capital. The company plans to use the funds to drive product innovation, expand offerings and secure key financial licenses to help families save and invest for their children's international education.
10. Toucan Payments India has acquired Neo Banking Software Platform PayNet Systems as part of its expansion journey. The acquisition will forge an AI-driven financial services platform by integrating

Toucan Payments' advanced payment processing and AI technologies with PayNet Systems' digital lending and neobank solutions.

FinTech Practice

JSA is one of India's pioneering law firms in the FinTech space. JSA's FinTech group brings together an integrated multi-practice team to support clients with transactions, disputes and regulatory matters at the intersection of financial services and technology. Our practice leverages the experience and in-depth technology expertise of attorneys across practice areas and allows us to offer clients access to time-tested strategies and holistic advice. Our experienced attorneys are well positioned to assist clients navigate through the complex legal, regulatory and compliance landscape within which these businesses and their technologies operate. Our strong relationships with regulators, banks, insurers, funds, large technology companies and infrastructure and service providers mean that we understand the issues that affect every area of the financial technology ecosystem. This enables us to deliver incisive, informed and innovative advice across the FinTech spectrum. We work with financial institutions, as they adapt and transform, FinTech start-ups, from inception through to all rounds of funding, to IPO and beyond, large technology companies diversifying into FinTech and Investors and strategic acquirers as they identify and secure strategic opportunities in the FinTech space.

Our areas of expertise inter alia include: (a) Prepaid payment instruments and variations thereof, (b) Remittance (person-to-person and person-to-merchant) models and services, (c) Central treasury arrangements and collection agency models, (d) Artificial Intelligence (AI) and Machine Learning (ML) enabled payment systems, (e) Alternative lending and payment platforms, (f) blockchain enabled service offerings, including smart contracts, (g) crowdfunding and crowdsourced investments, (h) Cryptocurrencies, including initial coin offerings, (i) InsurTech products and business models, (j) investments, including PE/VC financing into fintech and financial services companies, (k) Invoice trading and receivable discounting platforms, (l) Payment services and solutions (both cross-border and domestic).

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18 Practices and
41 Ranked Lawyers

7 Ranked Practices,
16 Ranked Lawyers

Elite – Band 1 -
Corporate/ M&A Practice
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3 Band 1 Practices
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4 Band 1 Lawyers,1 Eminent
Practitioner

12 Practices and
50 Ranked Lawyers

14 Practices and
38 Ranked Lawyers

20 Practices and
22 Ranked Lawyers

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11 Ranked Practices
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11 winning Deals in
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