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## Semi-Annual FinTech Compendium 2024

July – December 2024

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## Introduction

This compendium consolidates all the key developments pertaining to FinTech sector in India which were circulated as a part of the JSA Prisms and Newsletters during the calendar period from July 2024 till December 2024.

## The Reserve Bank of India

### Master Directions on cyber resilience and digital payment security controls for non-bank payment system operators

The Reserve Bank of India ("**RBI**"), *vide* notification dated July 30, 2024 issued the Master Directions on cyber resilience and digital payment security controls for non-bank payment system operators to establish a governance mechanism for managing information systems and cybersecurity risks among non-bank Payment System Operators ("**PSOs**").

These directions will be phased in from April 2025 to April 2028, based on the PSO's categorisation as small, medium and large as per the oversight framework for financial market infrastructures and retail payment systems . Large PSOs, such as the National Payments Corporation of India ("**NPCI**"), card payment networks and payment aggregators must comply by April 2025. On the other hand, small PSOs, such as small Prepaid Payment Instrument ("**PPI**") issuers and money transfer operators have until April 2028 to ensure compliance with the directions.

Key provisions under the directions include:

1. PSOs' Board of Directors ("**Board**") are responsible to oversee information security risks, with the option to delegate to a sub-committee;
2. PSOs must adopt Board-approved information security policies and cyber crisis management plans to address security risks and cyber threats, along with policies for access control and network security measures;
3. PSOs must follow a 'secure by design' approach, conducting regular security testing, implementing data leak prevention policies, and complying with outsourcing guidelines;
4. PSOs must establish incident response mechanisms, including stakeholder notification procedures;

5. for digital payments, PSOs must provide online alerts for failed transactions, transaction velocity and other parameters, including behavioural biometrics; and
6. PSOs issuing PPIs must send One-Time Passwords ("**OTPs**") and transaction alerts in a customer's preferred language and enforce cooling periods for fund transfers.

PSOs are also required to ensure that the third parties they engage with (such as payment gateways and vendors), are contractually obligated to comply with the directions.

## Draft framework on alternative authentication mechanisms for digital payment transactions

RBI, vide a press release dated July 31, 2024 published draft framework on alternative authentication mechanisms for digital payment transactions, aiming to reduce the reliance on OTPs sent via Short Message Service ("**SMS**") for Additional Factor Authentication ("**AFA**").

The draft guidelines state that all digital payments must include mandatory AFA, which must be dynamically generated after the transaction is initiated (other than for card-present transactions); specific to each payment; and not reusable. These requirements do not apply to card present transactions, which may continue to rely on Personal Identification Number ("**PIN**") based AFA. However, certain transactions, such as small value card-present transactions, mass transit payments, gift PPIs, and recurring e-mandate transactions, are exempted from the requirement for AFA.

RBI advised issuers to adopt a risk-based approach considering factors such as customer risk profile, transaction value, and payment channel to determine the appropriate AFA.

The draft guidelines signal RBI's push towards modernising digital payment authentication emphasising flexibility in securing transactions. This approach aims to reduce vulnerabilities associated with SMS-based OTPs while accommodating diverse transaction types and risk profiles.

## Draft directions on Aadhaar enabled payment system – due diligence of Aadhaar enabled payment system touchpoint operators

RBI published draft directions on Aadhaar enabled payment system – due diligence of Aadhaar Enabled Payment System ("**AePS**") touchpoint operators to safeguard bank customers from fraud in AePS based transactions caused by identity theft or compromised credentials.

AePS allows acquiring banks to onboard agents to operate AePS touchpoints and terminals for transactions using Aadhaar-based biometric or OTP authentication. The draft directions state that acquiring banks must conduct due diligence on these agents, as prescribed under the Master Direction - Know Your Customer ("**KYC**") Direction, 2016. The draft directions also specify that each AePS touchpoint operator can only be onboarded by 1 (one) acquiring bank. Additionally, acquiring banks are required to monitor operators' activities and set operational limits based on their location and risk profile.

The draft directions highlight RBI's focus on mitigating fraud risks in Aadhaar-enabled transactions by enforcing strict due diligence and monitoring of agents. By limiting operators to 1 (one) acquiring bank, the directions aim to enhance accountability and tighten oversight in rural and remote payment ecosystems.


## RBI announces the Unified Lending Interface

RBI announced its plans to launch the Unified Lending Interface ("**ULI**") during the RBI@90 Global Conference held on August 26, 2024.

ULI aims to enable lending institutions to offer frictionless, end-to-end digital credit. The system will streamline lending by granting access to digitised financial and non-financial data from multiple data service providers. Additionally, ULI proposes to utilise standardised Application Programming Interface ("**APIs**") that will allow lenders to easily access information from various sources without complex integrations, thereby reducing the time required for credit appraisal and particularly benefiting smaller and rural borrowers.

Previously known as the 'Public Tech Platform for Frictionless Credit', ULI is currently in its pilot phase, and regulations are yet to be finalised. RBI indicated that the regulations will be notified once the system is officially launched.

The introduction of ULI marks a significant step towards digitising and streamlining the lending process, enhancing access to credit for underserved segments. By utilising plug and play APIs and consent-based data sharing, ULI aims to facilitate faster and more efficient credit appraisals, driving financial inclusion in India's lending landscape.

## RBI 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, RBI 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 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, PSOs, 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.


## UPI access for PPIs through Third-Party UPI -Enabled App

RBI, on December 27, 2024, published a circular allowing PPIs users to make and receive 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. Holders of full 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.

 


## NPCI

### NPCI launches Unified Payments Interface circle for delegation of payments

NPCI, *vide* circular dated August 13, 2024 introduced Unified Payments Interface ("**UPI**") circle ("**UPI Circle**") , a feature that allows UPI users to delegate payment authority to trusted secondary users.

Under UPI Circle, there are 2 (two) roles of the primary user *i.e.,* the account holder who initiates the circle and controls delegation; and the secondary user *i.e.,* a trusted individual of the primary user who can make payments within a set limit.

The UPI Circle allows for 2 (two) types of delegation:

1. **Full Delegation**: The primary user grants the secondary user full authority to initiate and complete transactions within a defined spending limit (subject to maximum monthly limit of INR 15,000 (Indian Rupees fifteen thousand) and per transaction limit of INR 5,000 (Indian Rupees five thousand) without needing further approval; and
2. **Partial Delegation**: The secondary user can initiate transactions, but the primary user must authenticate and approve the payment using their UPI PIN.

UPI Circle thus introduces a flexible delegation system, allowing primary users to securely share payment authority with trusted individuals. This feature enhances convenience while maintaining control through customisable limits and optional approval steps, broadening UPI's use cases for families and businesses.

## Ministry of Finance

### Ministry of Finance issues draft banning 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, RBI 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.

## Quick Snapshots

1. **NPCI introduces auto top-up on UPI Lite**: NPCI introduced a new auto top-up feature on UPI Lite. UPI Lite is a wallet that enables users to make small-value transactions without the need for a UPI PIN. Currently, users can make PIN-less transactions of up to INR 500 (Indian Rupees five hundred) and maintain a maximum balance limit of INR 2,000 (Indian Rupees two thousand). However, when the balance is exhausted, users must manually reload it from their bank accounts. The new auto top-up feature aims to streamline this process, automatically reloading the UPI Lite balance by a user-selected amount (within the maximum balance limit) whenever the balance falls below a minimum threshold set by the user. NPCI requested that members currently using UPI Lite implement this feature by October 31, 2024.

2. **NPCI enables UPI mandate feature of single block multiple debits**: NPCI introduced a new single block multiple debits feature on UPI mandate services. Currently, users can create a UPI mandate to authorise transactions by blocking funds in their accounts for future debits. With this new feature, users will be able to establish a UPI mandate with a blocking functionality that allows them to pre-authorise a transaction by reserving funds in their account for multiple debits. These debits can be initiated later until the blocked funds are exhausted or the mandate service is revoked. NPCI issued guidelines regarding this feature and has instructed members to implement the changes by November 30, 2024.

3. **NPCI launches UPI Interoperable Cash Deposit ("UPI-ICD") to enable cash deposits at Automated Teller Machine ("ATMs") using UPI**: NPCI launched ("**UPI-ICD**") facility enabling users to deposit cash at cash deposit and recycler machines in banks and ATMs using UPI. Currently, cash deposits at cash deposit and re-cycler machines are primarily done using debit card. With UPI-ICD, users can deposit cash without the need to carry a debit card, offering greater convenience

and flexibility. The transaction limit for UPI-ICD is INR 50,000 (Indian Rupees fifty thousand) per transaction.

4. **NPCI launches 'UPI One World' wallet for all foreign tourists**: In a bid to further boost the usage of India's leading digital payment infrastructure, NPCI introduced the 'UPI One World' wallet for all international tourists. This wallet will enable foreign visitors to make payments at merchant locations by simply scanning quick response codes using the 'UPI One World' app. NPCI initially launched 'UPI One World' wallet during last year's G20 summit, but its usage was limited to tourists from G20 countries. This functionality is expanded, allowing almost all foreign tourists to access the UPI payment system.

5. **NPCI Bharat BillPay Limited ("NBBL") proposes expansion of Bharat Bill Payment System ("BBPS") to cross border transactions to foreign outward remittances**: NBBL has proposed to expand the scope of BBPS to include cross border foreign outward remittances. Currently, BBPS supports cross border foreign inward remittances. This initiative aligns with RBI's approval to allow cross border transactions for all personal inward and outward non-trade bills of a current account nature, routed through any authorised payment system. NBBL is expected to issue operational guidelines for this expansion soon.

6. **RBI recognises a self-regulatory organisation in the FinTech sector**: Under the aegis of RBI's framework for Self-Regulatory Organisation(s) in the FinTech Sector ("**SRO-FT**"), RBI has recognised the Fintech Association for Consumer Empowerment as an SRO-FT. RBI also noted that it received 2 (two) other applications, one of which was returned for resubmission while the other is still under review.

7. **RBI includes FASTag and National Common Mobility Card ("NCMC") within the e-mandate framework**: RBI has extended the e-mandate framework for recurring transactions to cover payment systems like FASTag and NCMC, which involve recurring payments without a fixed period. Previously, the e-mandate framework only applied to transactions with a set frequency. In addition, RBI has introduced an automatic replenishment facility for these payments. Notably, both FASTag and NCMC transactions are exempt from the 24 (twenty-four) hour pre-debit notification, which is otherwise mandatory under the e-mandate framework. Following this, NPCI has also incorporated these transactions into the UPI Autopay framework, instructing participants to ensure auto-replenishment occurs without the need for the 24 (twenty-four) hour pre-debit notification.

8. **NPCI warns against unauthorised use of UPI 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.

9. **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)).

10. **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 extended this timeline.

## 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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