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What's new?

Reserve Bank of India introduces draft circular on Additional Factor of Authorisation for cross-border Card Not Present transactions

Following the Reserve Bank of India's ("RBI") February [Statement on Developmental and Regulatory Policies](#), RBI has introduced a [draft circular](#) on **Additional Factor of Authorisation** ("AFA") for international Card Not Present ("CNP") transactions.

Since 2009, RBI has [required](#) AFA for domestic CNP transactions, while exempting international transactions from this requirement. Many merchants utilised the AFA exemption for international CNP transactions by using foreign acquirers to facilitate payments for domestic transactions – in light of which, RBI issued a [circular in 2014](#) stating:

"[W]here cards issued by banks in India are used for making card not present payments towards purchase of goods and services provided within the country, the acquisition of such transactions has to be through a bank in India and the transaction should necessarily settle only in Indian currency, in adherence to extant instructions on security of card payments."



Now, RBI intends to align the framework for authenticating international CNP transactions (i.e., for purchase of goods and services provided from outside India using a card issued by an Indian issuer) with the domestic framework – requiring AFA for such transactions as well. This framework will require card issuers to register their bank identification numbers with card networks for AFA validation.

RBI releases the framework for imposition of penalties and compounding under the Payment and Settlement Systems Act, 2007



RBI has released the [Framework for imposing monetary penalty and compounding of offences under the Payment and Settlement Systems Act, 2007](#) ("PSS Act"), superseding its earlier circular dated January 10, 2020. This updated framework, effective immediately, reflects amendments to the PSS Act. This development provides greater clarity and formalises RBI's approach to enforcing compliance within the payment ecosystem. The framework details the process for compounding certain offences under the PSS Act, offering a mechanism for resolution prior to or during formal proceedings. Eligible contraventions (excluding those punishable solely by imprisonment), may be subject to compounding upon application to RBI. The determination of the compounding amount will be based on principles similar to those governing penalties, with a potential reduction of 25%. However, repeated contraventions will attract higher compounding fees. The framework emphasises that the submission of a compounding application does not guarantee its acceptance. Entities subject to monetary penalties or compounding actions will be required to disclose these details in their annual financial statements, and RBI

will also issue public disclosures. This formalised framework underscores RBI's commitment to ensuring robust compliance within the payment and settlement systems, providing regulated entities with a clearer understanding of the enforcement landscape and the available mechanisms for addressing non-compliance.

RBI invites applications for recognition of Self-Regulatory Organisation(s) for the Account Aggregator ecosystem

With an aim to have a dedicated Self-Regulatory Organisation(s) (“SRO”) for the account aggregator (“AA”) ecosystem, RBI has released a [Framework for Recognising Self-Regulatory Organisation\(s\) for the Account Aggregator Ecosystem \(SRO-AA\)](#) (“SRO-AA Framework”),

Recognising the complexity of and increasing transactions within the AA ecosystem, RBI aims to foster a market-driven mechanism to address operational issues and promote sustainable development. RBI envisions SRO-AAs to be credible and independent bodies with the following key characteristics/responsibilities: (a) true representation of the ecosystem; (b) establishment of codes of conduct and oversight mechanisms; (c) development-oriented approach; (d) independence from undue influence; and (e) provision for grievance redressal and dispute resolution.



To be recognised, an SRO-AA must meet specific eligibility criteria:

1. be a not-for-profit company under Section 8 of the Companies Act, 2013;
2. have, and thereafter, maintain a minimum net worth of INR 2,00,00,000 (Indian Rupees two crore) (approx. USD 231,000 (US Dollars two hundred and thirty-one thousand) within 1 (one) year after recognition as an SRO-AA or before commencement of operations as an SRO-AA, whichever is earlier;
3. have diversified shareholding with no single entity holding 10% or more;
4. possess the necessary infrastructure and IT capabilities to deploy technological solutions; and
5. applicant and its key executives should have professional competence and a clean reputation.

Membership in an SRO-AA will be voluntary but encouraged for all AAs. SRO-AAs will also be expected to have a balanced representation of financial information providers and financial information users, with at least 25 (twenty-five) unique entities from each group.

SRO-AAs will have several key functions, including setting codes of conduct and benchmarks, overseeing member activities, promoting knowledge sharing and public awareness, facilitating common services, and establishing dispute resolution mechanisms. Crucially, it will also act as a bridge between its members and RBI and other financial regulators, keeping them informed, providing data, and adhering to their guidelines. RBI will oversee the recognition process and has the authority to revoke recognition if the SRO-AA's functioning is detrimental or not in line with its objectives.

In conclusion, this framework lays a robust foundation for a self-governed and responsible AA ecosystem under RBI's oversight. By establishing clear criteria for SRO-AAs and outlining their crucial functions in setting industry standards, ensuring compliance, and facilitating dispute resolution, RBI aims to foster a mature and efficient data-sharing environment. This initiative is expected to promote the orderly growth and stability of the AA ecosystem, fostering a collaborative environment where innovation can flourish within a framework of self-regulation. This allows AAs to proactively shape industry best practices and demonstrate responsible data handling, ultimately building greater trust and facilitating wider adoption of AA services.

Quick snapshots

1. **RBI proposes to introduce exclusive domain names:** With an aim to curb fraud in digital payments, RBI has introduced an exclusive internet domain name (bank.in) for Indian banks. RBI is yet to issue detailed guidelines in relation to such allocation. However, RBI has clarified that the Institute for Development and Research in Banking Technology (IDRBT) will act as the exclusive registrar for these domain names. Going forward, RBI also proposes to introduce an exclusive domain name “fin.in” for other non-bank entities in the financial sector. This initiative will reduce cyber security threats and malicious activities like phishing, and streamline secure financial services, thereby enhancing trust in digital banking and payment services.
2. **National Payments Corporation of India (“NPCI”) plans to stop pull transactions:** In line with the government’s broader vision of securing digital payments, NPCI is moving towards curbing online payment frauds by phasing out collect calls for merchant transactions. To this end, NPCI has requested payment aggregators and banks to authenticate big merchants before allowing them to use collect calls. However, guidelines for implementing this are yet to be released.
3. **FinTechs come together to establish a new SRO:** Members of the FinTech Convergence Council, including prominent FinTech founders, including those behind Jupiter, Fi and Lendingkart, have come together to establish the India Fintech Foundation, a newly proposed SRO for the FinTech sector. They await approval from RBI to function as an SRO. The organisation is proposed to be a representative of the entire FinTech industry, from payments to lending to digital currency. At present, RBI has recognised the Fintech Association for Consumer Empowerment (FACE) as an SRO in the FinTech sector.
4. **RBI approves new payment aggregator licenses:** RBI has granted Payment Aggregator (“PA”) licenses to several PAs this quarter, including Easebuzz Private Limited (Easebuzz), Nomisma Mobile Solutions Private Limited (ftcash), Phi Commerce Private Limited (Payphi), Resilient Payments Private Limited (BharatPe X) and Vay Network Services Private Limited (VendorToPay).

Deals in the Fintech sector

1. ToneTag, a digital payments startup that has built a sound-based payment system to power both online and offline merchant transactions, has raised USD 78,000,000 (US Dollars seventy eight million) in a fresh funding round from ValueQuest Scale Fund and Iron Pillar. Notably, the company also offers an inventory management system for merchants and works with the NPCI to power ‘UPI123 Pay’, a feature phone-based payment system. The company proposes to use the fresh funding to scale up its operations and tap global markets.
2. Insurtech startup InsuranceDekho has raised USD 70,000,000 (US Dollars seventy million) in its latest funding round co-led by Beams FinTech Fund, Japan's Mitsubishi UFJ Financial Group and insurer BNP Paribas Cardif. The company proposes to deploy the freshly raised funds in expanding its footprint, enhancing its tech stack and strengthening its position in the Indian insurance market.
3. Cashfree Payments has raised US Dollars 53,000,000 (US Dollars fifty three million) in a funding round led by Korean digital entertainment giant, KRAFTON and existing investor Apis Growth Fund II. The company plans to use the capital to scale up its products, invest in new payment infrastructure projects and push its D2C brands. The collaboration will also position Cashfree to leverage synergies with KRAFTON, fueling innovation and pioneering new solutions across multiple digital sectors.
4. Scapia, a travel-focussed FinTech startup, has secured USD 40,000,000 (US Dollars forty million) in an equity funding round led by Peak XV Partners. The round also saw participation from existing investors Elevation Capital, z47 and 3State Capital. The company plans to use the fresh funding to invest in brand building, build new services and categories focused on young travellers, and also expand the team by 50%.

5. Rezolv, a debt resolution platform for banks and non-banking financial companies, has raised USD 3,500,000 (US Dollars three million five hundred thousand) in its seed funding round led by 3one4 Capital. The company proposes to use the funding for product innovation, expansion, and deeper integration with financial institutions.
6. Mysa, a B2B FinTech startup, has raised \$2,800,000 (US Dollars two million eight hundred thousand), in its seed funding, led by Blume Ventures, with participation from Emphasis Ventures, Antler, Neon Fund, IIMA Venture and other angel investors. The company proposes to use the funding to enhance platform capabilities, grow the team and drive customer experience.
7. OneStack, a FinTech platform for cooperative banks, has raised USD 2,000,000 (US Dollars two million) in a Series A funding round led by Pentathlon Ventures, with participation from Yatra Angel Network. The company proposes to use the fresh capital to expand into southern and eastern pockets of the country and deploy its core banking system solutions such as UPI and enable BBPS switch.
8. Mobileware Technologies, a digital payments infrastructure company, has secured INR 7,25,00,000 (Indian Rupees seven crores twenty-five lakh) (approx. USD 870,000 (US Dollars eight hundred and seventy thousand)) in a strategic investment from Zagggle.
9. Yenmo, a FinTech start up that provides instant loans against mutual funds, has raised USD 1,000,000 (US Dollars one million) in the funding round led by Y Combinator with participation from Pioneer Fund, Zaka VC and other angel investors. The company proposes to use the new funding to expand its product offerings, enhance its digital platform and develop a comprehensive in-house lending stack.
10. B2B SaaS company Perfios has acquired an AI-driven debt management and collection platform Credit Nirvana, in a bid to enhance its suite of financial services technology for an undisclosed amount. By integrating CreditNirvana's AI-driven capabilities with Perfios' existing solutions, Perfios aims to unlock new efficiencies.
11. Super.money has acquired the technology and key team members of BharatX, a Y Combinator-backed FinTech credit start up, for an undisclosed sum. The acquisition will enable Super.money to strengthen its credit offerings, particularly in the checkout financing space.

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,
21 Ranked Lawyers



12 Practices and 50
Ranked Lawyers



14 Practices and
12 Ranked Lawyers



20 Practices and
22 Ranked Lawyers



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Among Top 7 Best Overall
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11 Ranked Practices

11 winning Deals in
IBLJ Deals of the Year

11 A List Lawyers in
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of the Year 2024

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7 Practices and
3 Ranked Lawyers

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