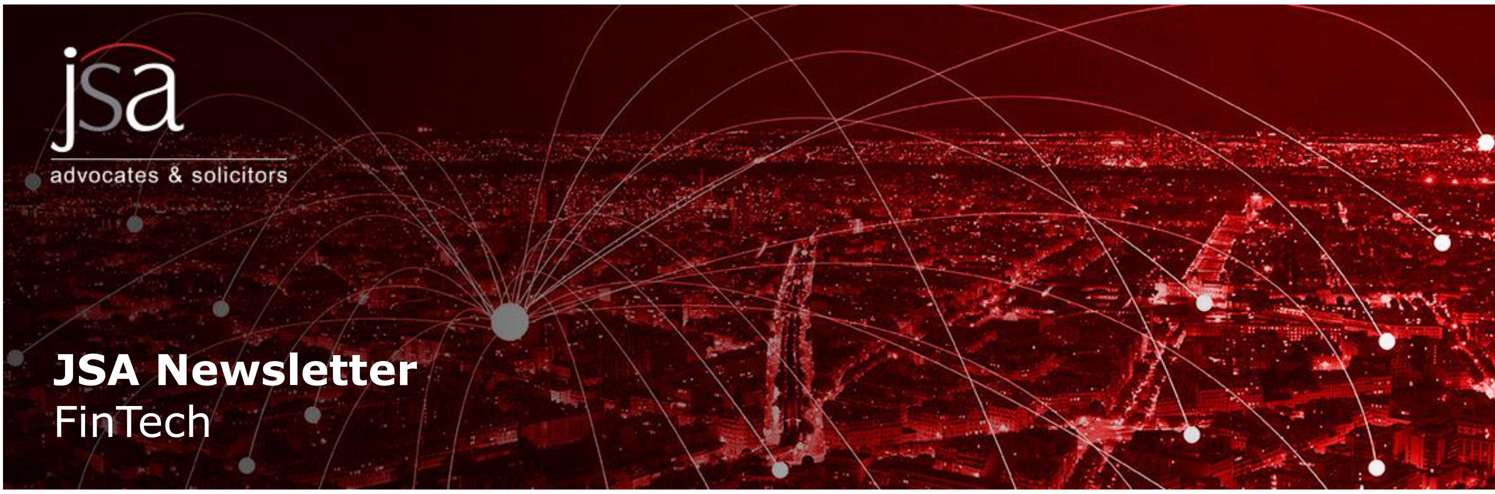
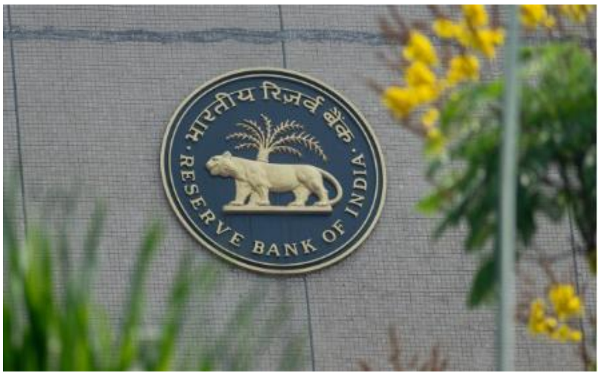


28th Edition, (July – September 2025)

What's new?

Reserve Bank of India issues the Reserve Bank of India (Regulation of Payment Aggregators) Directions, 2025



The Reserve Bank of India ("**RBI**") has issued a new Master Direction on the Regulation of Payment Aggregators, effective September 15, 2025 ("**New PA Directions**"). The New PA Direction consolidates prior circulars covering both domestic and cross-border operations and follows public consultations on draft amendments released in April 2024. It aims to standardise the regulatory framework and provide greater clarity to the payments sector. Key updates include explicit coverage of offline payment aggregators, clarification of RBI's position on third-party payouts, and standardised merchant Know Your Customer ("**KYC**") practices for payment aggregators. While the New PA Directions formalises many practices and offers welcome clarity, certain areas, most notably the classification of hybrid physical/online transactions and the wording around simplified KYC, may still require further clarification.

For a detailed analysis, please refer to the JSA Prism of September 18, 2025.

RBI updates the KYC Master Directions

With an aim to enhance financial inclusion while ensuring robust customer due diligence, RBI has amended the Master Directions on Know Your Customer ("**KYC MD**"). The amendments strengthen customer onboarding, clarify the scope of obligations for Regulated Entities ("**REs**"), and introduce safeguards for Persons with Disabilities ("**PwDs**").

The revised KYC MD requires REs to adopt customer acceptance policies that do not result in denial of services to PwDs, and to ensure that applications for onboarding or KYC updation are not rejected without due consideration, with reasons for rejection duly recorded. REs may now also rely on third-party due diligence not only at the commencement of account-based relationships, but also for occasional high-value transactions and international money transfer operations.

Further, the amendments expand biometric-based e-KYC to include Aadhaar face authentication, which may be conducted through bank staff or authorised agents. Importantly, the liveness check in the video-based customer identification process must be implemented in a manner that does not exclude persons with special needs.

RBI releases the Framework for Responsible and Ethical Enablement of Artificial Intelligence

In December 2024, RBI convened a Committee (“**Committee**”) to deliberate on a Framework for Responsible and Ethical Enablement of Artificial Intelligence (“**FREE AI**”). The Committee was asked to –

(a) assess AI adoption in the financial sector;

(b) identify potential risks associated with AI use, and

(c) submit proposals to encourage the responsible adoption of AI tools.

The Committee has now submitted the (“**FREE AI Report**”) to RBI on August 13, 2025 after several rounds of stakeholder consultation.

Notably, the FREE-AI Report indicates the Committee’s inclination to foster innovation while addressing ethical and governance concerns. This is in line with the Indian Government’s (NITI Aayog’s) National Strategy for AI and India’s AI Mission. The FREE-AI Report places significant emphasis on encouraging innovation and capacity building. It proposes an AI innovation sandbox for regulated entities and FinTech’s to develop AI-driven solutions.

The FREE-AI Report also recommends future amendments to RBI master directions, particularly those governing outsourcing, digital lending, fraud risk governance, customer service management, and IT governance. These amendments are expected to introduce obligations on disclosure of AI tool and algorithm use, implementation of fairness audits, transparency in decision-making, regular testing of AI models for accuracy and fraud risks, and new protocols for mitigating AI-related cybersecurity incidents.

For a detailed analysis, please refer to the JSA Prism of August 29, 2025.

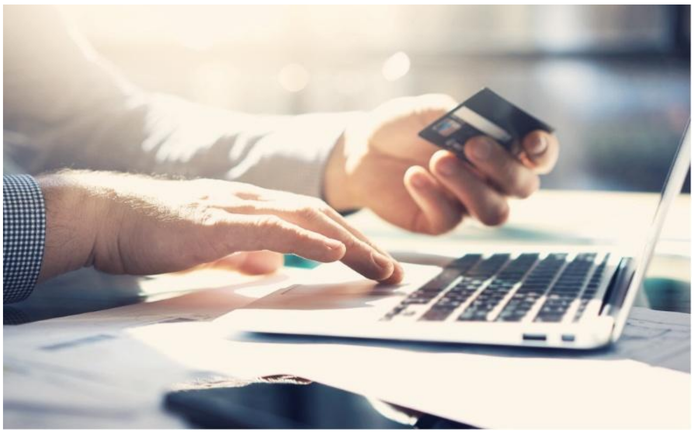
National Payments Corporation of India introduces additional requirements for Unified Payments Interface Circle Full Delegation framework

The National Payments Corporation of India (“**NPCI**”) issued an addendum on July 8, 2025, to its earlier circular on Unified Payments Interface (“**UPI**”) Circle – Delegated Payments. The addendum introduces enhanced requirements under the ‘Full Delegation Framework’, building upon the circular dated August 13, 2024. It focuses on improving identification, verification, and consent processes when primary users authorise secondary users to make transactions within defined spend limits.

The updated framework now requires primary users to restrict delegation to specific segments such as family members or domestic/small business employees. Payment System Providers (“**PSPs**”) are also required to share additional documentation details, including document type and ID number, with the secondary payer PSP and the issuer bank. Issuer banks are required to verify secondary users using name, mobile number, and identification number from an ‘Officially Valid Document’ under the KYC MD.

Further, secondary payer PSPs are required to obtain explicit consent from secondary users for the collection of such additional details before processing delegation requests. NPCI has directed all UPI member banks, PSPs, and third-party app providers to update their systems and implement these changes by August 31, 2025.

RBI issues directions on authentication mechanisms for digital payment transactions



RBI has issued the Reserve Bank of India (Authentication mechanisms for digital payment transactions) Directions, 2025, mandating 2 (two)-factor authentication ("**2FA**") across all digital payment modes. The norms follow a draft circular released in February 2024 and require the use of secure, dynamic authentication factors, moving beyond reliance on SMS-based one-time passwords.

Under the revised framework, all digital payments, including UPI, cards, wallets, net banking, NEFT, IMPS, and account transfers, must undergo 2FA, except for card-present transactions. At least 1 (one) authentication factor must be dynamically generated or proven to be unique to each transaction. While SMS-based OTPs may still be used, RBI encourages the adoption of advanced methods such as biometrics, app-based tokens, and device-native authentication.

Certain categories remain exempt from mandatory 2FA, including small-value contactless payments, recurring e-mandate transactions (post-registration), specified Prepaid Payment Instrument ("**PPI**") transactions, PPI gift cards, NETC toll payments, and travel bookings via IATA-approved global distribution systems. The norms do not apply to cross-border digital payments; however, card issuers must now validate non-recurring cross-border card-not-present transactions, register their bank identification numbers with card networks, and implement risk-based controls for such transactions.

Quick snapshots

1. **Registered intermediaries now permitted to use the 'e-KYC Setu System' of the NPCI**: Registered intermediaries currently use Unique Identification Authority of India ("**UIDAI**") e-KYC services in the securities market. Digital KYC verification has been undertaken using the KYC User Agency mechanism, and/or Digilocker. The Securities Exchange Board of India ("**SEBI**"), *vide* a press release dated June 30, 2025, has announced that registered intermediaries can now use the 'e-KYC Setu System' developed by the UIDAI along with the NPCI to perform digital KYC verification and ease the process of customer onboarding digitally. This facility acts as an alternate mechanism to undertake Aadhaar-based e-KYC of their clients.

2. **RBI Guidelines for due diligence and monitoring of Aadhaar Enabled Payment System ("AePS") operators**: In a move to strengthen security and compliance in AePS transactions, RBI, on August 14, 2025, has issued detailed guidelines for the due diligence of AePS Touchpoint Operators ("**ATOs**"). Under the new directives, acquiring banks must conduct a thorough KYC verification of ATOs before onboarding. It must conduct periodic updates and re-verification if ATOs remain inactive for over 3 (three) months. Banks are also required to continuously monitor ATO activities using transaction monitoring systems. It must impose risk-based operational limits and regularly review these parameters in line with emerging fraud trends. Further, strict system-level controls must be in place to ensure that technological tools such as Application Programming Interfaces ("**APIs**") are used exclusively for AePS operations.

3. **Success story from the fifth cohort of RBI regulatory sandbox**: In the fifth cohort of RBI regulatory sandbox, 5 (five) entities were selected to test their products. Out of the products that completed the test phase, the blockchain based deep-tier financing solution proposed by Indian Banks' Digital Infrastructure Company Private Limited ("**IDBIC**") was found viable. The product enables micro, small, and medium enterprises within a creditworthy anchor's supply chain to access affordable finance. The platform functions by tokenizing the Tier-1 supplier invoice upon its acceptance by the anchor, against which lenders can digitally provide funds..

4. **RBI establishes Regulatory Review Cell ("RRC") to streamline regulatory reforms**: RBI has set up a RRC within its Department of Regulation to streamline regulatory changes and expedite the review process. As part of this initiative, RBI has also constituted an independent 'Advisory Group on Regulation', chaired by Mr. Rana Ashutosh Kumar Singh, Managing Director, State Bank of India, along with 5 (five) other financial sector executives, to channel industry feedback on regulations to the RRC. The RRC will ensure that RBI regulations are reviewed every 5 (five) to 7 (seven) years, thereby enabling a more systematic and comprehensive approach to regulatory updates, which were earlier effected primarily through circulars.

5. **Ministry of Communications launches UPI - Universal Postal Union ("UPU") integration project to enhance cross-border remittances**: The Ministry of Communications has unveiled the UPI-UPU integration project, an initiative aimed at transforming cross-border remittances for millions worldwide. Developed jointly by the Department of Posts, NPCI International Payments Limited, and the UPU, the project integrates India's UPI with the UPU interconnection platform, combining the extensive reach of the postal network with the speed and affordability of UPI.

6. **The International Financial Services Centres Authority ("IFSCA") signs Memorandum of Understanding ("MoU") with Australian Securities and Investments Commission ("ASIC") to enhance regulatory cooperation**: IFSCA and ASIC have entered into an MoU to strengthen inter-regulatory cooperation and promote a robust and effective financial services ecosystem in both jurisdictions. The MoU aims to facilitate mutual assistance and information sharing between the regulators on trends and best practices relating to financial market regulation, the use of technology, and other areas of mutual interest. It will also enable the timely exchange of information on key developments concerning financial services, regulatory compliance, supervision, and enforcement of market participants.

7. **RBI grants Paytm payments services authorisation to operate as an online payment aggregator:** RBI has authorised Paytm Payments Services to operate as an online payment aggregator. This authorisation removes the earlier restrictions on onboarding merchants.

Deals in the FinTech sector

1. Amazon has acquired digital lending startup Axio (formerly Capital Float), 8 (eight) months after entering into a definitive agreement with the startup. Amazon plans to use axio to boost its buy now, pay later offering in India. While Amazon did not disclose the financial details of the transaction, one report stated that the deal was valued at around USD 200,000,000 (US Dollars two hundred million). This move comes after a series of investments by Amazon into Axio - first, a USD 22,000,000 (US Dollars twenty-two million) investment in 2018, and later a second investment of USD 22,000,000 (US Dollars twenty-two million).
2. Paytm's board has approved an investment of INR 300,00,00,000 (Indian Rupees three hundred crore) (approx. USD 33,800,000 (US Dollars thirty-three million eight hundred thousand)) in its investment and wealth management subsidiary, Paytm Money. The funds will be infused through an issuance of 30,00,00,000 (thirty crore) equity shares. Paytm Money provides stock broking and mutual fund distribution services, among others. It has also received SEBI approval to operate as a registered research analyst.
3. Paytm is acquiring 100% of Foster Payment Networks by purchasing 90.01% stake from Paytm Financial Services for INR 54,50,00,000 (Indian Rupees fifty-four crore fifty lakh) (approx. USD 6,100,000 (US Dollars six million one hundred thousand)), and the remaining 9.99% for INR 6,50,00,000 (Indian Rupees six crore fifty thousand) (approx. USD 700,000 (US Dollars seven hundred thousand)).
4. Mumbai-based banking infrastructure startup TransBnk has raised USD 25,000,000 (US Dollars twenty-five million) in its Series B round led by Bessemer Venture Partners. TransBnk is a Mumbai-based API banking startup founded in 2022, and provides API platforms that connect corporates, FinTech players, and lenders with banks. Investments were also made by Arkam Ventures and Fundamentum Partnership, as well as existing backers such as 8i Ventures, Accion Venture Labs and GMO Venture Partners. With this investment, TransBnk plans to expand to Southeast Asia and the Middle East, as well as enhance the company's India operations.
5. CredRight raised USD 10,000,000 (US Dollars ten million) in its Series B round, led by Norwegian investment firm Abler Nordic, and with existing investors Unleash Capital and the Michael and Susan Dell Foundation participating. CredRight offers digital loans to small businesses, such as micro-enterprises consisting mainly of small shopkeepers and traders who cannot access credit easily. It runs 125 (one hundred and twenty-five) low-cost branches across 4 (four) states to reach these businesses. With this investment, CredRight plans to expand its loan book, upgrade its technology stack, and expand to entrepreneurs located in tier 2 (two) to tier 4 (four) cities in India.
6. FinTech startup Kiwi has raised USD 24,000,000 (US Dollars twenty-four million), via a funding round led by Vertex Ventures Southeast Asia and India. Existing investors Nexus Venture Partners, Omidyar Network and Stellaris Venture Partners also participated in the round. Kiwi currently issues RuPay credit cards in partnership with Yes Bank and AU Small Finance Bank, enabling consumers to make payments via UPI, India's most widely used retail payment mode. With this investment, the company plans to launch credit lines on the UPI within the next 6 (six) months.
7. DPDZero, a Bengaluru based startup that helps banks, non-banking financial companies and micro-finance institutions in debt collection, raised USD 7,000,000 (US Dollars seven million) in a Series A funding round led by GMO Venture Partners. SMBC Asia, Blume Ventures, India Quotient and Sinarmas Group also participated. The company plans to use the fresh capital to develop its multi-lingual AI agent and build its field agent network to streamline the issue of debt collection for financial institutions.
8. Digital lending platform Fibe has raised INR 225,00,00,000 (Indian Rupees two hundred and twenty-five crore) (approx. USD 25,000,000 (US Dollars twenty-five million)) by issuing 22,500 (twenty-two thousand five hundred) non-convertible debentures at a face value of INR 1,00,000 (Indian Rupees one lakh) (approx. USD 1,100 (US Dollars one thousand one hundred)) each. The fundraise saw participation from multiple institutional investors

including Franklin Templeton Alternative Investments Fund, India. The fresh proceeds will be deployed by the startup to strengthen its lending operations.

9. Mitigata, a full-stack cyber resilience platform, has raised USD 5,900,000 (US Dollars five million nine hundred thousand), in a funding round led by Nexus Venture Partners. Existing investors, Titan Capital and WEH Ventures also participated in the round. The company plans to use the capital to develop its AI-backed security and risk management tools. The company is India's first regulated insurance broker under the Insurance Regulatory and Development Authority of India, specialising in cyber insurance.

10. Altum Credo Home Finance, a Pune-based finance company aimed at improving access to affordable housing, has secured INR 170,00,00,000 (Indian Rupees one hundred and seventy crore) (approx. USD 19,100,000 (US Dollars nineteen million one hundred thousand)), from its existing investor, British International Investment. With this investment, the company plans to expand its operations, and thereby expand credit access for low-income borrowers. Such investment will enable the construction of homes and improve sanitation, electricity, safety and household assets.

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).

This Newsletter has been prepared by:

Probir Roy Choudhary
Partner

Yajas Setlur
Partner

Hrishikesh Reddy Kothwal
Associate

Moushami Nayak
Associate

Nikhil George
Associate

18 Practices and
41 Ranked Lawyers

7 Ranked Practices,
21 Ranked Lawyers

14 Practices and
12 Ranked Lawyers

12 Practices and 50 Ranked
Lawyers

20 Practices and
22 Ranked Lawyers

8 Practices and
10 Ranked Lawyers
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14 Ranked Practices

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9 winning Deals in
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For more details, please contact km@jsalaw.com

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