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FINTECH NEWSLETTER: UNVEILING INDIA'S LATEST LEGAL SHIFTS AND MARKET WAVES

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INTRODUCTION

William Gibson's seminal cyberpunk science-fiction novel 'Neuromancer' (1984) is often cited for its comment on the accessibility of technological innovations for the masses, artfully captured by the phrase *"the future is already here – it is just not very evenly distributed"*. Recent fintech developments seem to embody the essence of this theme perfectly.

While measures such as updating the framework for regulatory sandboxes and international partnerships for broadening the expanse of cross-border UPI payments were undertaken on one hand, concerns also loomed over the non-compliant conduct of a few players in the space, which the Reserve Bank of India ("**RBI**") sought to address. Further, regulators such as the International Financial Services Centres Authority ("**IFSCA**") and the Securities and Exchange Board of India ("**SEBI**") also continued to actively work towards ensuring regulatory compliance and balance the needs of innovation through their regulatory action.

Separately, fintech funding globally still remained on an upward trend in 2024, with the months of February and March showing significant growth compared to January. Notably, March was the first month this year to surpass USD 1 (one) billion in funding, reflecting a substantial improvement in funding from February. A detailed account of the regulator deals has been provided below. In this backdrop, we present to you our Fintech newsletter which captures key developments and updates in the Indian fintech landscape from February 01, 2024, to March 31, 2024.

REGULATORY UPDATES

Amendments to Master Directions on Prepaid Payment Instruments

On February 23, 2024, the RBI vide a notification, amended the Master Directions on Prepaid Payment Instruments ("**PPI**") dated August 27, 2021 ("**PPI-MD**"). The amendment allows authorized bank and non-bank PPI issuers to issue PPIs for payments within different public transport systems.

Such PPIs referred to as "PPIs for Mass Transit Systems" ("**PPI-MTS**") are mandated to incorporate an Automated Fare Collection application designed for transit services, toll collection, and parking. These PPI-MTS are specifically designated for transactions solely within public transportation modes such as rail, metro, buses, and waterways, as well as for tolls and parking fees. The maximum outstanding balance in a PPI-MTS is capped at INR 3,000 (Indian Rupees Three Thousand Only) at any given time, although they can be reloadable. Importantly, PPI-MTS can be issued without requiring Know Your Customer (KYC) verification of the holders. The PPI-MTS may have perpetual validity wherein they are exempt from being subject to the conditions regarding 'Validity and Redemption' outlined in the PPI-MD. In the case of PPI-MTS, cash withdrawals, refunds, or fund transfers are not permitted.

RBI issues Master Directions on Bharat Bill Payment System

On February 29, 2024, the RBI introduced the Master Direction - Reserve Bank of India (Bharat Bill Payment System) Directions, 2024 ("**BBPS Directions**")[1]. This new directive replaces the Guidelines on Implementation of BBPS ("**BBPS Guidelines**") issued in 2014, along with other related guidelines and circulars issued over time. Scheduled to take effect from April 01, 2024, the BBPS Directions mark a significant shift in the regulatory landscape surrounding bill payments in India.

Key features of the BBPS Directions include provisions allowing both banks, non-bank payment aggregators and other existing entities authorised as a BBPS Operating Units ("**BBPOU**") to participate in the BBPS ecosystem without requiring separate authorization. Unlike the previous BBPS Guidelines, which mandated entities intending to function as BBPOUs to seek explicit approval from the RBI, the BBPS Directions streamline the process. Under the BBPS Directions, banks and non-bank payment aggregators intending to operate as BBPOUs, will not require separate authorisation, but only need to notify the Department of Payments and Settlement Systems at the RBI's Central Office before commencing operations.

This revised framework is expected to facilitate easier entry into the BBPS ecosystem, potentially leading to a surge in BBPOUs as perceived by industry stakeholders. The BBPS Directions also clarify the roles and responsibilities of each party in the ecosystem, operations of the escrow account as well as grievance redressal mechanics to be implemented.

RBI updates the framework for regulatory sandbox

On February 28, 2024, the RBI introduced an updated framework for its regulatory sandbox ("**Updated Framework**"), amending the previous framework from 2019 ("**2019 Framework**")[2]. This revision comes after gathering feedback from fintech companies and stakeholders, as well as insights gained from overseeing four cohorts under the initial framework.

Under the Updated Framework, a regulatory sandbox cohort is now extended to run for a period of 9 (nine) months, compared to the previous duration of 7 (seven) months under the 2019 Framework. Entities engaging in the regulatory sandbox must ensure that all data handled during their activities align with the obligations outlined in the Digital Personal Data Protection Act 2023. Furthermore, a new concept of "theme-neutral" cohorts has been introduced, allowing participation for cohorts comprising of innovative products/services/technologies from diverse sectors within the RBI's regulatory domain in the regulatory sandbox regime of the RBI.

Entities interested in applying for a cohort under the Updated Framework must meet the eligibility criteria outlined, which allows fintech companies including start-ups, banks, financial institutions, any other company, limited liability partnership and partnership firms, partnering with or providing support to financial services businesses. The focus of the regulatory sandbox will be to encourage innovations wherein, there is (a) absence of governing regulations; (b) a need to temporarily ease regulations for enabling the proposed innovation; or (c) the proposed innovation shows promise of easing/effecting delivery of financial services in a significant way. In addition to such factors, the applicants will also have to ensure it maintains a minimum net worth requirement of INR 10,00,000 (Indian Rupees Ten Lakh Only), compliance with the "Fit and Proper" criteria proposed under the

Updated Framework, possesses a satisfactory credit history for both the entity and its promoters/partners/ directors, amongst other conditions.

IFSCA issues regulations for payment system providers proposing to operate in GIFT City

The IFSCA has introduced the IFSCA (Payment Services) Regulations 2024 ("**PS Regulations**") delineating the legal framework governing entities offering diverse financial services within or from the Gujarat International Finance Tec-City (GIFT City).

The PS Regulations encompass a range of payment services, including account issuance services, cross-border money transfer services, merchant acquisition, e-money issuance services, and escrow services. You can find a detailed read of our article on this here.

Key highlights from the RBI's Statement on Developmental and Regulatory Policies

On February 08, 2024, the RBI released its Statement on Developmental and Regulatory Policies, outlining proposed measures spanning financial markets, regulations, payment systems, and fintech. Noteworthy updates from the statement include plans to review the regulatory framework for Electronic Trading Platforms ("**ETP**") and solicit public feedback on a revised framework. This review comes in response to the growing integration of onshore forex markets with offshore counterparts and advancements in technology, along with industry requests for access to offshore ETPs.

Recognizing the evolving landscape of digital payment authentication beyond SMS-based OTPs, the RBI intends to introduce a principles-based framework to authenticate digital payment transactions, aligning with its focus on enhancing security in digital payments.

Further, in its Central Bank Digital Currency-Retail ("**CBDC-R**") pilot, the RBI proposes to introduce programmability and offline functionality to broaden CBDC-R use cases, allowing users to define payment parameters, specify geographical areas of use, and set validity periods, while also enhancing access in areas with limited internet connectivity.

Additionally, the RBI aims to streamline the onboarding process for Aadhaar Enabled Payment System ("**AePS**") touchpoint operators and issue enhanced requirements to mitigate fraud risks in AePS transactions, aiming to bolster security and curb recent increases in AePS-related frauds.

RBI issues circular on providing card network choice for credit cards

By exercise of its powers under the Payment and Settlement Systems Act, 2007 ("**PSSA**"),[3] the RBI issued a circular on arrangements of banks/non-banks with card networks for issuance of credit cards, on March 06, 2024 ("**Card Network Circular**"), allowing more flexibility and option of choice to customers to select their preferred card network.

It was observed that existing arrangements between authorised card networks[4] and banks/non-banks (i.e., card issuers) for issuance of credit cards did not offer customers the ability to choose their card network, with these decisions being made by the card networks and issuers based on the arrangements between them. In view of this, the Card Network Circular prescribes that (i) card issuers are prohibited from entering into exclusive card network arrangements with card networks that restrain customers from availing services of other card networks, and (ii) card issuers are now mandated to allow customers to choose from a variety of authorised card networks at the time of issue and for existing cardholders, this option is to be provided at the time of the next renewal.[5]

Further, card issuers and authorised card networks are directed to ensure adherence to the requirements of the Card Network Circular in (i) existing agreements at the time of amendment or renewal thereof, and (ii) when fresh agreements are executed.

The Card Network Circular will come into effect on September 06, 2024, and is not applicable to (i) credit card issuers with the number of active cards issued by them being 10 lakh (1 million) or less in number; and (ii) card issuers who issue credit cards on their own authorised networks.

RBI releases final omnibus framework for recognising SROs of regulated entities

The RBI released the final omnibus framework ("**Omnibus Framework**") for recognition of self-regulatory organisations ("**SRO/s**") for RBI-regulated entities ("**REs**"), on March 21, 2024. The Omnibus Framework *inter alia*, codifies the eligibility criteria and governance standards which will be common for all SROs. Other sector-specific guidelines will be issued separately by the RBI whenever it calls for applications for recognising SROs for a category/class of REs.

Some notable highlights of the Omnibus Framework are listed below.

- Eligibility to qualify as an SRO: An entity seeking to operate as an SRO must *inter alia*, (i) be incorporated as a not-for-profit company under Section 8 of the Companies Act, 2013 and have the prescribed net-worth; (ii) be able to discharge responsibilities of an SRO "on a continuing basis" and have a diversified shareholding with no entity (by itself or in concert) owning exceeding 10% (ten percent) or more of the paid-up share capital; (iii) be able to represent the sector and have specific membership or be able to submit roadmap for attaining specific membership within a reasonable timeline; and (iv) be compliant with fit and proper criteria.

- Characteristics and objectives of an SRO: The SRO should have the authority to not only set professional and ethical governance standards among its members (i.e., REs accepting the membership of the SRO) but also enforce them, via its membership agreements. SROs must also promote progressive practices to further a culture of compliance among its members.

- Responsibilities of the SRO towards members: SROs will *inter alia*, be responsible for (a) developing a reasonable, non-discriminatory fee structure, (b) disseminating sector-specific information from publicly available data for creating public awareness on matters of interest to members, and (c) instituting a dispute resolution/arbitration framework for its members along with a grievance redressal mechanism.

- Responsibility of the SRO towards RBI: The primary responsibility of SROs towards RBI is to engage in periodic interactions and keep it regularly informed about developments in the sector and member(s)' non-compliance with the applicable guidelines/ laws. SROs also have to furnish all information/data periodically sought from the RBI and also submit an annual report within 3 (three) months of the close of an accounting year.

RBI amends the Master Direction on Credit & Debit Cards

The RBI issued multiple amendments to the Master Direction - Credit Card & Debit Card – Issuance and Conduct Directions, 2022 ("**Cards MD**") on March 07, 2024. The Cards MD prescribes regulations relating to the issuance, general governance, consumer protection and other conduct regarding credit, debit and co-branded cards. While the RBI has introduced multiple changes to the Cards MD in terms of the obligations imposed on NBFCs issuing credit cards and banks issuing credit/ debit cards ("**Card Issuers**"), some notable changes are listed below.

- Ownership of data and transfer: The storage and ownership of card data must remain with Card Issuers and they are prohibited from sharing card data or transaction data with their outsourcing partners unless it is essential for the discharge of the service provider's services. Further, such sharing would only be permitted with the cardholder's explicit consent. Card Issuers are now also specifically required to ensure compliance with the Master Direction on 'Outsourcing of Information Technology Services' issued by the RBI in April 2023 and as updated from time to time.

- Fetching of data from co-branding partner: Data relating to co-branded card transactions may now be displayed on the co-branding partner's ("**CBP**") platform with requisite security measures. For this, the CBP will have to acquire this data in an encrypted form from the Card-Issuer, however, the CBP cannot store or access such data. Such transaction data should only be visible to the cardholder.

- Exemption from prior approval for NBFCs: No prior approval would be required for banks and NBFCs registered with the RBI to become a CBP of Card-Issuers.

Failure to process closure: The amended Cards MD now clarifies that a penalty of INR 500 (Indian Rupees Five Hundred Only) and payable to customers, shall be levied on a per *calendar day* basis (irrespective of it being a working day or not) on the Card Issuers who fail to complete the card closure process within 7 (seven) working days.

RBI notifies clarifications to its norms for investment in AIFs by REs

The RBI, by virtue of its powers under the Banking Regulation Act, 1949 and the RBI Act, has notified certain clarifications as on March 27, 2024 ("**Clarification Circular**") vis-à-vis its circular dated December 19, 2023 ("**AIF Circular**") on investments made by REs in Alternative Investment Funds ("**AIFs**"). The AIF Circular was aimed at addressing concerns prevalent in such investments, particularly the substitution of REs' loan exposure to borrowers with indirect exposure via investments in AIF units. Accordingly, an RE was prohibited from investing in any AIF scheme having downstream investments in any "debtor company"[6] of the RE. As per the Clarification Circular, it has now been clarified that investments in equity shares of an RE's debtor company would be excluded from the aforementioned prohibition.[7]

Additionally, as per the AIF Circular, an investment by REs in AIF schemes via intermediaries such as mutual funds were to be excluded from the scope of the AIF Circular. If the AIF scheme in which an RE already participates as an investor invests by way of downstream investment in any of the debtor companies, the RE's investment would need to be liquidated within 30 (thirty) days from the date of such investment by the AIF. As per the AIF Circular, the RE was obligated to make a "100 (hundred) percent provision on such investment" upon its failure to liquidate it within the specified period. In this regard, the Clarification Circular now states that such provisioning would be limited to the extent of RE's investment in the AIF scheme that was subsequently invested in its debtor company.

Also, the REs' investments in subordinated units of an AIF scheme with a "priority distribution model"[8] were to be subject to full deduction from their capital funds, as per the AIF Circular. This has now been clarified to apply only in cases where the concerned AIF scheme has no downstream investment in any of the REs debtor companies. Moreover, it was clarified that this deduction was to be equitably distributed between both Tier-1 and Tier-2 capital of the RE and would include investments in all forms of subordinated exposures of AIF schemes.

INDUSTRY DEVELOPMENTS

Pro-active Steps by SEBI

Indian regulators demonstrate a dual focus on facilitating ease of business operations and fostering digital innovation in the fintech sector while also safeguarding customer interests. In February, the SEBI notably took several proactive measures. Starting with a press release cautioning the public against unregistered and unregulated entities[9], SEBI emphasized the importance of due diligence before investment, vigilance against promises of high returns, and staying informed about SEBI's enforcement actions. This cautionary stance was followed by the issuance of public notices[10,11] and orders[12] targeting certain entities and individuals involved in investment advisory services, without obtaining registration from the SEBI. Additionally, SEBI exhibited its commitment to streamlining business practices through the release of consultation papers aimed at enhancing ease of operations for Foreign Portfolio Investors[13], Mutual Funds[14] and Portfolio Managers[15]. These regulatory initiatives reflect a concerted effort to strike a balance between promoting financial innovation and ensuring investor protection.

RBI prohibits an unnamed card network from facilitating unauthorised commercial payments

In a press release dated February 15, 2024, the RBI addressed a concerning issue involving a specific card network. It highlighted that this network had established a system facilitating unauthorized business-to-business (B2B) card payments. This system allowed businesses to make card payments to non-card accepting recipients, facilitated through an unregulated intermediary. A day prior, it had been reported[16] that the RBI had ordered card networks to halt B2B commercial card transactions and the industry speculated that the primary concern was that several intermediaries pooled large amount of funds into their bank accounts without maintaining a designated account as required under the Payment and Settlement Systems Act 2007 ("**PSS Act**").This was also coupled with concerns around absence or lack of KYC compliance as mandated by the RBI on the beneficiaries bank account.

The RBI, through its press release, clarified the concern being largely twofold – one being unregulated intermediaries pooling and holding substantial funds in their accounts, not being a designated account under the PSS Act; and another significant concern being transactions under such arrangements not complying with requirements under the KYC master direction issued by the RBI.

The RBI underscored its ongoing scrutiny of the issue and directed the concerned card network to suspend all such arrangements until further notice, signaling its commitment to ensure the integrity and compliance of payment systems in the country. This development serves as a reminder to all participants in the payment ecosystem of the importance of compliance and adherence to regulatory requirements to foster trust and transparency in financial transactions.

RBI releases a list of 'Do's and Don'ts' to caution the general public against KYC updation fraud

In response to growing concerns surrounding fraudulent activities disguised as KYC updates, the RBI issued a press release on February 02, 2024, emphasizing the importance of public vigilance against such scams. The RBI shared a list of precautions in public interest, including establishing direct communication channels with banks/financial institutions when receiving KYC update requests and obtaining contact details solely from official sources. In case of cyber fraud, individuals have been advised to promptly inform the relevant bank/financial institution and, additionally, to report the incident through the cybercrime helpline or the National Cyber Crime Reporting Portal. The RBI also cautioned against sharing account login credentials, PINs, OTPs, passwords, or KYC documents/details with unknown parties and advised against clicking on suspicious links received via email or SMS.

RBI releases FAQs to address developments on PPBL by RBI

On January 31, 2024, the RBI issued a press release[17] prohibiting the PPBL, from accepting additional deposits or conducting credit transactions in customer accounts, wallets, PPIs, etc. after February 29, 2024. However, customers with such accounts, wallets, PPIs, etc. were allowed to withdraw or use the funds available in their accounts up to their available balance. Further, the said press release also directed PPBL to settle all pipeline transactions and nodal accounts in respect of transactions initiated prior to the aforesaid date, by March 15, 2024. This decision by the RBI raised numerous concerns among customers who utilized wallets, PPIs, and Unified Payments Interface ("**UPI**") services provided by PPBL or linked to Paytm. In response to these concerns, the RBI issued another press release along with a set of Frequently Asked Questions[18] ("**FAQs**") to address the concerns.

Key points from the FAQs include customers right to withdrawal or utilization of funds from savings accounts or PPBL wallets even after March 15, 2024 without making additional deposits or transfers (excluding interest, refunds, or cashbacks). Withdrawals, debit mandates, such as automatic UPI mandates, linked to PPBL accounts will only function up to the available balance. For minimum KYC customers using PPBL wallets, only merchant payments with the available balance will be permitted. Merchants utilizing Paytm soundboxes, QR codes, or POS terminals linked to PPBL accounts won't receive any credit after March 15, 2024, although they can continue receiving payments into accounts with other banks. PPIs issued by PPBL can still be used up to the available balance post-March 15, 2024, but no further top-ups or fund transfers into such PPIs will be allowed beyond this date.

RBI issued another press release on 16 February 2024 extending some of the timelines imposed by the January 31, 2024 press release. As per this press release, the timeline for deposits and credit transactions into PPBL savings accounts, wallets, PPIs, etc. was extended till March 15, 2024. RBI reiterated that customers could continue to withdraw or use existing funds in their PPBL accounts or PPIs up to their available balance even after March 15, 2024. Consequently, the updated timeline for PPBL's restriction from providing banking services, except for withdrawals or utilization of existing funds, was extended to March 15, 2024.

RBI issued another press release[19] on February 23, 2024, advising National Payments Corporation of India ("**NPCI**") to consider the request of Paytm's parent entity, One97 Communications Ltd ("**OCL**"), to participate as a Third-Party Application Provider ("**TPAP**") for UPI transactions, which could be implemented by migrating existing '@paytm' UPI handles to handles of newly identified Payment Service Provider ("**PSP**") banks. On March 14, 2024 NPCI granted approval[20] to OCL to participate as a TPAP under a multi-bank model. Four banks including State Bank of India and Yes Bank would be acting as payment service provider banks ("**PSP Banks**") to OCL, with Yes Bank also acting as a merchant acquiring bank for existing and new merchants. "@Paytm" handle would be redirected to Yes Bank, which will enable existing users and merchants to continue to do UPI transactions and AutoPay mandates in a seamless and uninterrupted manner. OCL was also advised to complete the migration of all existing handles and mandates, wherever required, to new PSP Banks, at the earliest.

PayPal registers as a 'reporting entity' with FIU-Ind under the PMLA 2002

In December 2020, PayPal faced a penalty of INR 96,00,000 (Indian Rupees Ninety Six Lakh Only) from the Financial Intelligence Unit of India ("**FIU-India**") over alleged breaches of the Prevention of Money-Laundering Act, 2002 ("**PMLA**"). Contesting the penalty, PayPal took the matter to the Delhi High Court ("**Delhi HC**"), achieving partial success as the court invalidated the imposed penalty. Nevertheless, the Delhi HC recognized PayPal as a 'payment system operator', mandating it to comply with the PMLA regulations as a 'reporting entity'. PayPal then appealed this ruling before a division bench of the Delhi HC, and the case remains pending.

According to media reports, PayPal has officially enrolled as a 'reporting entity' with FIU-India, in compliance with the recent regulatory framework governing cross-border payment aggregators. It has also reportedly appointed a principal officer for liaising with the FIU-India and is in the midst of selecting a designated director, as stipulated by the framework of the PMLA.[21]

NPCI's global wing partners with Eurobank in Greece for cross-border UPI payments Cross-border payments using UPI

In a press release dated February 29, 2024, NPCI International Payments Limited ("**NIPL**") announced the signing of a Memorandum of Understanding ("**MoU**") with Eurobank, a Greek financial institution, to facilitate foreign inward remittances to India through UPI. NIPL has been actively extending the reach of UPI to various countries, with recent initiatives including the enablement of UPI services for Indian tourists visiting the Eiffel Tower in France in partnership with French payments provider Lyra. This collaboration is anticipated to particularly benefit the Indian community residing in Greece, enabling them to send money easily and promptly to India. Additionally, Indians can utilize UPI services in countries such as Sri Lanka, Nepal, UAE, and Mauritius.

NPCI is developing a 'Digital Payments Score' system aimed at enhancing credit scoring methodologies

During a recent fintech conference, Ms. Praveena Rai, Chief Operating Officer of NPCI, reportedly stated plans for NPCI to initiate a trial of a system facilitating digital payments scores ("**DPS**") in collaboration with select lenders. This initiative aimed at strengthening the country's credit scoring system while creating more efficiency and growth. Ms. Rai emphasized the prevailing lack of understanding among the public regarding the necessity of establishing a credit identity and highlighted the potential of a DPS mechanism to bolster credit scoring methodologies nationwide. Additional insights suggest that the DPS may be determined by various factors, including an individual's financial stability, timely bill payments, and the ability to support high-value transactions with adequate income.

Union Finance Minister Smt. Nirmala Sitharaman engages with stakeholders in the startup and fintech ecosystem

Union Finance Minister Nirmala Sitharaman led a meeting aimed at fostering an open dialogue to bolster India's fintech landscape for global competitiveness with representatives from the startup and fintech sectors. Among the key outcomes were proposals for the regulators including RBI to conduct monthly virtual meetings with fintech and startup entities to address their queries and issues, and for the Department of Financial Services to organize day-long workshops with law enforcement agencies to address concerns raised by fintech ecosystem partners. Additionally, discussions centred on simplifying and digitizing the KYC process across fintech entities, and calls for regulatory bodies like the RBI, Department for Promotion of Industry and Internal Trade (DPIIT), and Ministry of Finance to evaluate changes in ownership/control of listed fintech companies to ensure compliance with regulations. Moreover, it was noted that the forthcoming Digital India Act will tackle cybercrime-related challenges.

RBI signs MoU with Bank of Indonesia for promoting use of local currencies

The Governor of the RBI signed a Memorandum of Understanding (MoU) with the Bank of Indonesia ("**BI**") on March 07, 2024 in Mumbai for instituting a framework to promote the use of local currencies i.e., Indian Rupees (INR) and the Indonesian Rupiah (IDR) for cross-border transactions. This framework is expected to enable exporters and importers to pay in their respective domestic currencies, thereby enabling the development of an INR-IDR foreign exchange market. Further, the use of local currencies is expected to (i) optimise costs and settlement time for such transactions; (ii) contribute to promoting trade between India and Indonesia; and (iii) strengthen financial integration and economic relations between India and Indonesia.

Innoviti acquires license to operate as a PA from the RBI

Innovati, a company operating in the digital payments space since 2002 allowing users to accept payments and monetize real-time sales data, has finally acquired a license from the RBI to operate as a Payment Aggregator ("**PA**"). This development comes 2 (two) years after the entity 'Innoviti Link', which reportedly serves close to 2,500 (two thousand five hundred) online merchants, received its in-principle approval from the RBI to operate as a PA. It has a pan-India presence with its services being offered in 28 (twenty-eight) states and is reported to process transaction volumes exceeding USD 10 (ten) billion annually. In addition to Innoviti, several other entities have also received PA licenses recently including the payments solution provider Concerto Software and Systems (for its gateway 'Vegaah'), Amazon Pay, Tata Payments and JusPay.[22]

RBI gives approval to NPCI Bharat BillPay Ltd. for implementing interoperable internet banking system

RBI Governor Shaktikanta Das, in his address at the Digital Payments Awareness Week celebrations has revealed that the NPCI Bharat BillPay Ltd. ("**NPCI BBL**") has received RBI's approval for implementing interoperable internet banking system. This announcement was made in the backdrop of the RBI's Payments Vision of 2025 where an interoperable payment system for internet banking transactions was envisaged.

Online merchant payment transactions carried out through internet banking are currently processed through Pas and are not interoperable, which requires a bank to separately integrate with each PA of different online merchants. However, given the large number of

Pas in the industry, it is challenging for each bank to integrate with each existing PA.

In the absence of a payment system and rules for inter-operable transactions between banks and Pas addressing this issue, delays are routinely observed in the actual receipt of payments by merchants coupled with settlement risks. Accordingly, in furtherance of RBI's vision of an interoperable payment system for internet banking transactions[23] and in view of these prevalent concerns due to the lack thereof, RBI has now given approval to NPCI BBL for implementing such an interoperable internet banking system.

RBI released its annual report of the Ombudsman scheme

The annual report (2022-23) of the Ombudsman scheme ("**Annual Report**") was released by the RBI on March 11, 2024, which expanded *inter alia,* on the roles and functioning of the Ombudsmen, policy initiatives undertaken to bolster the framework, along with awareness initiatives launched under various schemes/ programs. As the first stand-alone report under RBI's Integrated Ombudsman Scheme (RB-IOS), 2021, the Annual Report highlights the activities undertaken by the RBI Ombudsman ("**ORBIOs**"), Centralised Receipt and Processing Centre (CRPC) and the Contact Centre in 2022-23. A total of 7,03,544 (seven lakh three thousand five hundred fifty-four) complaints were received at the ORBIOS and the CRPC between April 01, 2022 and March 31, 2023, which was an increase of about 68.24% (sixty eight point two four percent) over last year.

Of these, a majority i.e., 85.64% (eighty five point six four percent) of the complaints were digitally received and more than half the total complaints received by ORBIOs were resolved via mutual settlement/conciliation/ mediation.[24] Further, of the 122 (one hundred and twenty two) appeals received against the Ombudsmen's decisions, 3 (three) were received under the erstwhile schemes. The policy initiatives undertaken during the year in the consumer protection space were also highlighted, including those mentioned below.

- Programs such as the 'Nationwide Intensive Awareness Programme' (launched in collaboration with Res in November 2022), town hall events and around 238 other awareness programs were organised on grievance redressal and consumer protection, tailored to the specific audience group.
- A 'Committee for Review of Customer Service Standards in RBI Regulated Entities (Res)' was instituted to *inter alia,* review Res' standards of customer service on May 23, 2022. Its report was submitted on April 24, 2023 and the recommendations therein are currently being assessed by RBI.
- RBI's Internal Ombudsman Scheme was extended to apply to all Credit Information Companies (CICs) in October 2022.

Finally, as part of RBI's "medium-term strategy framework for 2023-25", during the period between April 01, 2023 to March 31, 2024, the Consumer Education and Protection Department (CEPD) will *inter alia,* review, consolidate and update the and review and integrate its internal ombudsman schemes applicable to different categories of RBI regulated entities.

Permission granted to 4 (four) entities to undertake UIDAI's e-KYC Aadhaar Authentication service

The Union Ministry of Finance ("**Finance Ministry**"), vide its notification dated March 14, 2024, permitted 4 (four) reporting entities namely (i) Wealthsteet Financial Services Pvt Ltd, (ii) Equal Identity Pvt Ltd, (iii) Neo Wealth Management Pvt Ltd, and (iv) Samco Securities Ltd, to perform authentication services under the Aadhaar (Targeted Delivery of Financial and Other Subsidies, Benefits and Services) Act, 2016 ("**Aadhaar Act**"). These entities were chosen by the Finance Ministry after being satisfied about their compliance with applicable laws such as the data privacy and security standards codified in the Aadhaar Act, in consultation with the Unique Identification Authority of India ("**UIDAI**") and SEBI.

Separately, SEBI released a circular dated March 19, 2024, whereby it referenced its Master Circular on KYC norms for the securities market that incorporated provisions on *inter alia,* entities permitted to undertake UIDAI's Aadhaar authentication service in the securities market as sub-KYC User Agency ("**KUA**"), and the on-boarding process of such sub-KUA. It also cited 2 (two) gazette notifications issued by the Finance Ministry permitting certain entities respectively to undertake UIDAI's Aadhaar authentication service.[25] With respect to the 4 (four) newly notified entities, it was clarified that they would have to comply with its Master Circular on KYC norms along with all other directions that may be prescribed by UIDAI.

MARKET UPDATES AND MAJOR DEALS IN INDIA[i]

There has been an uptick in the funds raised by fintechs across the globe with funding in February[26] and March[27] seeing an upward trend compared to deals in January. In fact, the month of March was particularly impressive in terms of growth as the overall funding recorded in the month crossed the USD 1 billion mark for the first time in 2024. The month also saw a conspicuous increase in funding from USD 875 million (in February 2024) to USD 1.18 billion.[28]

However, while there has been growth from the month of January 2024, the overall funding in the first quarter of 2024 fell an amount of approximately 57% (fifty seven percent) compared to last year, coming at the backdrop of RBI's action against Paytm.[29] Further, among the fintech sector, the 'Alternative Lending' segment accounted for most of the funding in the first 3 (three) months.[30]

Juspay, a leading payments infrastructure company, acquired LotusPay for an undisclosed amount. The acquisition would strengthen Juspay's offerings in the banking, financial services and insurance ("**BFSI**") sector, and enhance Juspay's recurring payment capabilities.[31]

Cashinvoice, a Mumbai based supply chain financing platform, has raised US$ 34,00,000 in a Series A funding round., comprising investors Pravega Ventures, HDFC Bank, and returning investor Accion Venture Lab. With this investment, the company plans to benefit from HDFC's corporate banking relationship, co-develop products that are applicable in supply chain financing and expand operations to disburse loans worth USD 2.4 billion to micro, small and medium enterprises by the end of the in March 2025.[32]

Signzy, a fintech SAAS startup, acquired Difenz, a provider of fraud risk management solutions, for US$ 5 million. This acquisition is proposed to help Signzy is poised to enhance its offerings by integrating AI-driven KYC compliance solutions to financial institutions.[33]

Svatantra Microfinance Pvt. Ltd., a microfinance institution (MFI) aimed at providing affordable financial solutions to women entrepreneurs, entered into an investment agreement worth USD 230 (two hundred thirty) million with Advent International and Multiples Private Equity. The investment comes against the backdrop of the company's recent acquisition of Chaitanya India Fin Credit Ltd. This agreement marked the largest investment by private equity investors in the Indian microfinance sector.[34]

Mufin Green Finance, a listed NBFC raised USD 5 (five) million from BlueOrchard, which was the sole investor in a debt funding round. The fresh funds are proposed to be utilised in advancing sustainability initiatives in the financial sector.[35]

Onramp Money, a start-up offering fiat-crypto on-ramping and off-ramping services culminated its seed funding round for an undisclosed amount with the venture capital vertical of the FunFair Technologies Group named FunFair Ventures. The capital raised in its seed funding round is expected to be used to fund product development and market outreach programmes.[36]

Perfios Software Solutions, a fintech-focused SaaS company raised USD 80 (eighty) million from the venture capital vertical of Ontario Teachers' Pension Plan, namely Teachers' Venture Growth (TVG). The fresh funds are proposed to further help the company in strengthening the digital transformation journey of its partners, powering financial inclusion and providing financial services across the globe.[37]

Optimo Loan, a lending platform targeted towards micro small and medium enterprises (MSMEs), has raised USD 10 (ten) million in its seed funding round that was led by Omnivore and Blume Ventures. The company's founder Prashant Pitti also invested in this round. It seeks to utilise the fresh funds to revolutionise MSME lending in rural India by way of its cutting-edge technology and its improved distribution model.[38]

KreditBee, a Bengaluru-based fintech startup operating in the credit and lending space raised USD 9.4 (nine point four) million as part of an extended Series D round. The existing investors of the company which included Advent International, and Mirae Asset Ventures also participated in this round. The fresh the capital is expected to be utilised for business expansion.[39]

i. To the extent any transactions involve clients of IndusLaw, the information herein is based on statements in the media and not our professional knowledge of the relevant transaction.

MobiKwik, a Delhi-based startup raised INR 50 crores (Indian Rupees Fifty Crore Only) from BlackSoil (approximately USD 5.9 million). The funds were raised by allotting 800 (eight hundred) non-convertible debentures (NCDs) to BlackSoil in two tranches, with an interest rate of 15% (fifteen percent) on the investment amount.[40]

Aye Finance, a fintech startup operating in the lending space, has raised INR 137 crores (Indian Rupees One Hundred and Thirty Seven Crore Only) (approximately USD 16 million) in debt from IIV Mikrofinanzfonds and another private fund managed by Invest in Visions. The fresh funds are proposed to be used for offering financial assistance to MSMEs across India.[41]

BlackSoil, an NBFC raised INR 100 crores (Indian Rupees One Hundred Crore Only) (approximately USD 11 million) from its family offices and existing Indian investors via a rights issue. The fresh funds are expected to be utilised for augmenting its borrowing capabilities and credit profile.[42]

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4. The list of authorised card networks currently consists of American Express Banking Corp., Diners Club International Ltd., MasterCard Asia/ Pacific Pte. Ltd., National Payments Corporation of India–RuPay, and Visa Worldwide Pte. Limited.
5. This obligation would not apply to card issuers with active cards under 10 lakhs. Also, card issuers who issue credit cards on their own authorised card network are excluded from the applicability of the Card Network Circular.
6. Para 2(i) of the AIF Circular: "The debtor company of the RE, for this purpose, shall mean any company to which the RE currently has or previously had a loan or investment exposure anytime during the preceding 12 months".
7. All other investments, including those in hybrid instruments would still be covered in the AIF Circular.
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