Technology Law Analysis

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DIGITAL PAYMENTS THRIVING: ECOSYSTEM FURTHER LIBERALIZED

BACKGROUND

The Reserve Bank of India ("**RBI**"), India's central bank, has recently issued guidelines for interoperability of prepaid instruments ("**PPIs**") in India. The RBI had towards the end of last year issued new directions on issuance and operation of PPIs in India[1] ("**PPI Directions**") which amongst other things aimed to provide for harmonization and interoperability of PPIs. Our detailed write-up on the PPI Directions is available here.

The RBI Guidelines for Interoperability for PPIs[2] ("**Guidelines**") essentially follow suit from the PPI Directions to facilitate implementation of interoperability of PPIs. Interoperability is the technical compatibility to enable multiple payment systems to be used in conjunction with each other. Interoperability for PPIs would allow issuers, system providers and users in different systems to effect transactions without participating in multiple systems. The Guidelines appear voluntary and apply to PPI issuers opting for interoperability of their PPIs.

For instance, with interoperability, users of e-wallets issued by different issuers would be able to transact with each other. For instance, if a merchant's website accepts payments via a particular card network and if a prepaid card / wallet is compliant with the technical specifications of such network, then the said prepaid card / wallet could also be used for transacting on the merchant's website.

RBI MASTER DIRECTIONS ON ISSUANCE AND OPERATION OF PPIS

The PPI Directions contemplate that common standards be adopted by all payment system providers so as to allow customers to use a set of payment instruments seamlessly with other users within the segment, i.e. interoperability of PPIs. This should be enabled in phases.

In the first phase:

- PPI issuers (banks and non-banks) should have made their KYC-compliant PPIs in the form of wallets interoperable amongst themselves through the Unified Payment Interface[3] ("**UPI**"). A six month window prescribed given for compliance.

In subsequent phases:

- Interoperability should be enabled between wallets and bank accounts through UPI, and
- Interoperability for PPIs in the form of cards should also be enabled.

No specific timeline was prescribed for these phases.

RBI GUIDELINES FOR INTEROPERABILITY OF PPIS

The Guidelines are issued pursuant to the PPI Directions in order to operationally implement the framework mentioned above for interoperability. The Guidelines provide that the PPI issuer should also comply with other security and technical specifications under applicable banking laws (including on KYC, cyber security, fraud prevention etc.) and applicable rules and requirements of the National Payments Corporation of India (NPCI) that develops and operates UPI, and respective card networks.

A snapshot of the same is tabulated below:

	Interoperability via Authorized Card Networks	Interoperability via UPI
Type of PPI	- Must for KYC-compliant **card** based PPIs. - Optional for meal, card and mass transit system (MTS) PPIs.	Must for KYC-compliant **wallet** based PPIs.
On-boarding	PPI issuers could be on-boarded on the card network. Even non-bank PPI issuers could participate as members / associate members of the card networks.	- PPI issuers will be issued a handle.[4] The PPI issuer should only link their customer wallets to the handle issued to them. - PPI issuers should only on-board their own customers for UPI interoperability.
Settlement	Non-bank PPI issuers can participate directly or through a sponsor bank arrangement.	Non-bank PPI should participate through a sponsor bank.

Specific safety and security functions	▪ Card issued by non-bank PPI issuers should be EMV Chip and PIN compliant from the start.[5] ▪ If PPI issuers of meal cards issue opt for interoperability, they too should issue EMV Chip and PIN compliant cards. ▪ If PPI issuers of gift and MTS opt for interoperability, they could issue such cards with or without EMV Chips and PINs.	Authentication should be completed by the PPI holder as per their existing wallet credentials. Hence, a transaction would be pre-approved before it reaches the UPI.
Technical requirements	PPI issuer to adhere to specific requirements of the card network / UPI including rules and regulations applicable to the specific payment system such as technical requirements, certifications and audit requirements, governance, etc.	
Reconciliation, customer protection and grievance redressal	PPI issuers to adhere to all guidelines, requirements and mechanisms prescribed by the card network / NPCI for UPI.	

ANALYSIS

The much awaited guidelines from the RBI have finally been released, one that is expected to bring a paradigm shift in the digital payment industry in India which is already worth about USD 200 billion and expected to touch USD 1 billion by 2023.[6]

The Guidelines should be seen as an upward step for the entire payments ecosystem in India. It is understood to be welcomed by the fin-tech and digital payments industry as it is likely to only increase usage of e-wallets, gift cards and bank account payments via UPI in India. In fact, with interoperability in place, customers would not only be able to transact with others via e-wallets of different issuers, but customers would also be able to use their e-wallets / prepaid cards from various issuers to make online payments on a wide range of websites.

However, given that certain interoperability requirements are optional for PPI issuers, it is left to be seen as to how soon the scope of usage of PPIs is widened. We understand that in the coming days, the industry would come together to discuss additional technical compatibility requirements and logistics to make their PPIs more interoperable.

Also, given that the PPI, especially the e-wallet space is a very competitive market in India, a move like this to increase usage of PPIs across platforms should only drive competition and result in an enhanced customer experience. This would also improve R&D capabilities and investment traction in this space.

Also, cashbacks are an incentive for on-boarding e-wallet users today, but with a wider scope of acceptance of a PPI, this may itself become an added user incentive. In addition, this could also lead to an increase in authorizations from the RBI for issuing and operating semi-closed and open system PPIs.

However, the RBI data localization mandate would continue to apply. Hence, market entrants as well as existing PPI issuers, including MNCs, intending on expanding the scope of usage of their PPI or issuing a new range of PPIs (for instance gift cards, meal vouchers etc.) would need to comply with the existing data localization compliances.

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You can direct your queries or comments to the authors

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[1] Available at: https://rbi.org.in/Scripts/NotificationUser.aspx?Id=11142&Mode=0 . Last accessed: October 17, 2018.

[2] Available at: https://rbi.org.in/Scripts/NotificationUser.aspx?Id=11393&Mode=0. Last accessed: October 17, 2018.

[3] See: http://cashlessindia.gov.in/upi.html. Last accessed: October 17, 2018.

[4] Non-bank PPIs would also be allowed to use the existing *99# USSD.

[5] This applies to fresh, reissued and renewed PPI cards.

[6] See: https://www.financialexpress.com/industry/facebook-and-google-chase-a-new-1-trillion-indian-digital-payments-market/1294550/. Last accessed: October 17, 2018.

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