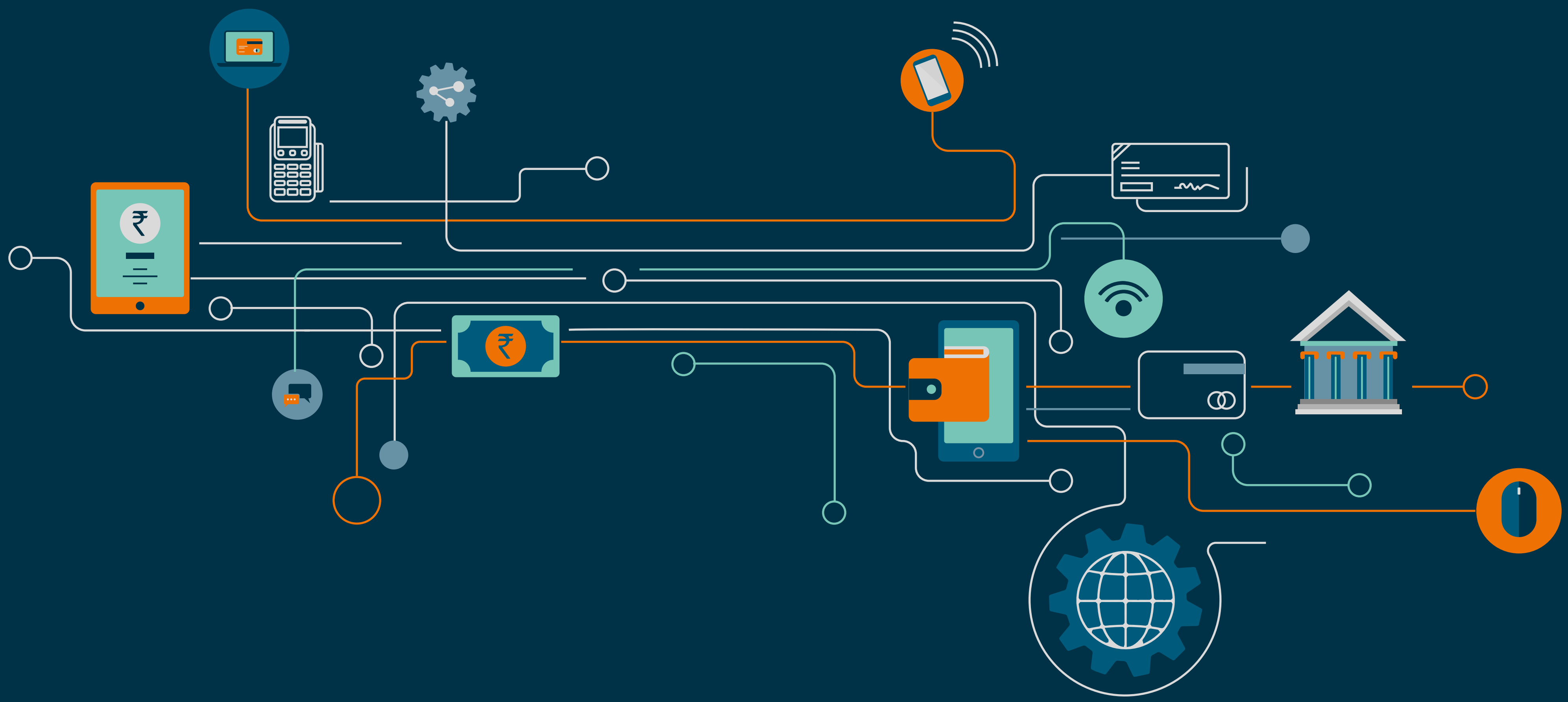
Digital Payments - India



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BANKS AND NBFCS

Pre-2007, as per the Indian law, only banks and non-banking financial companies (NBFCs) could run payment systems.
These were linear payment systems, either linking bank accounts or providing credit services.

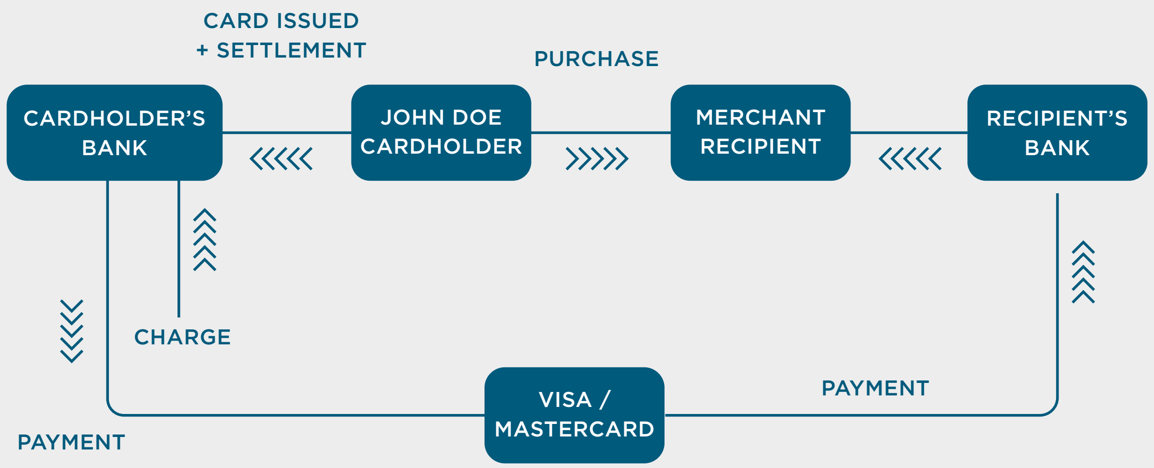
A. BANK ACCOUNT BASED PAYMENT INSTRUMENTS

Under the Banking Regulation Act, 1949, banks are strictly regulated in their prudential, operational, and governance matters, and foreign investment in banks is capped at 49%. With a full banking license, banks can accept demand deposits and carry out lending and money transfer activities. However, new bank licenses are very rarely issued by the Reserve Bank of India (RBI).

All settlements happen by way of RBI approved settlement systems.

B. LENDING BASED PAYMENT INSTRUMENTS

Lending based payment systems like credit cards involve extension of credit to a borrower by a bank or an NBFC.



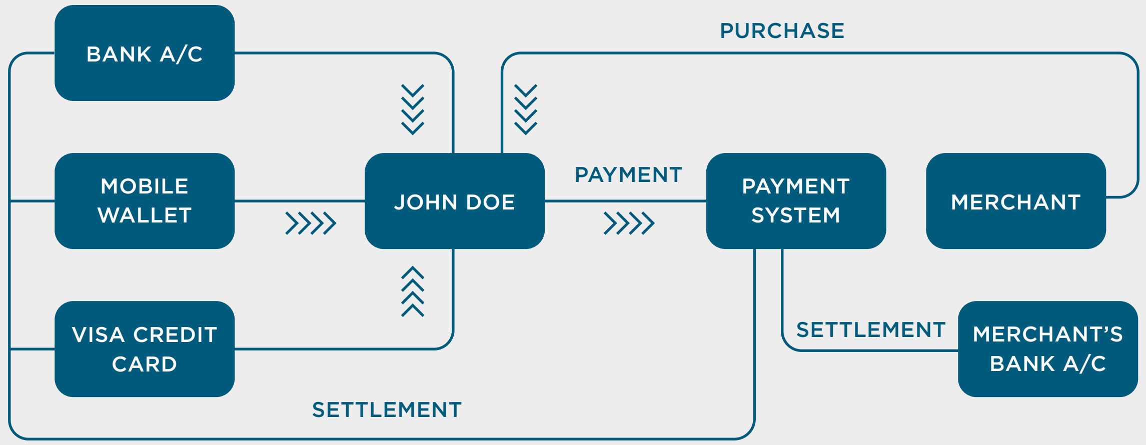
Regulations governing banks are as per 'A' above.
NBFCs are comparatively less strictly regulated than banks. However, they are still bound by strict prudential, reporting and corporate governance guidelines. Foreign investment up to 100% is allowed.
Any payment instrument that comprises extension of credit needs either a banking or an NBFC license.

NON-BANK PAYMENT SYSTEMS

Post 2007, participants who are neither banks nor NBFCs are allowed to set up payment systems.

C.1 PAYMENT SYSTEMS

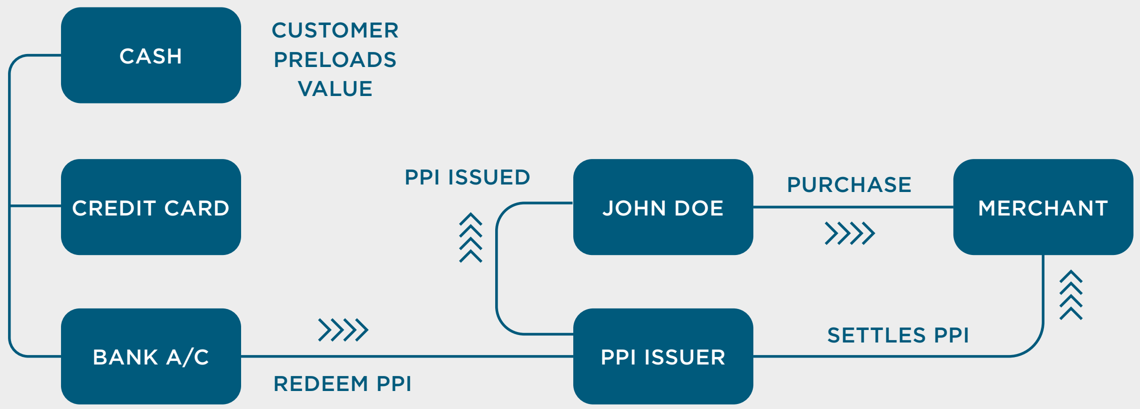
A payment system can be a payment system or a stored value instrument that is a 'pass through' mechanism to channel and settle payments.
If the payment system, or any part of it, involves a banking or NBFC (e.g., accepting deposits, lending etc) activity, banking/NBFC licenses will still be required.



Licensing involves more focus on technology than on prudential or governance norms. Foreign investment up to 100% is allowed. System security, technical architecture, KYC, AML, customer service and interconnectivity are key factors that the RBI looks at while granting a payment system authorization.

C.2 PRE-PAID PAYMENT INSTRUMENTS

There are separate regulations (2009) under the Payment and Settement Act, 2007 that govern the issue and operation of prepaid payment instruments. The kind of PPIs that are approved depend on the entity issuing them – a bank can issue PPIs with more options (cash in, cash out) than a non-bank entity.



The current regulatory regime encourages payment systems to be set up, and this is comparatively easier than setting up a bank or an NBFC. However, the scope of activities of a payment system has to be clearly defined and should fit into the regulatory framework.