RBI and Payment Aggregators

Why in News?

RBI has issued final guidelines for bringing payment aggregators (PAs) under its direct supervision.

What is the significance of the move?

- Extending RBI's regulatory oversight is a welcome move.
- PAs (like Bill Desk, CCAvenue, etc.) facilitate online payments and they play a crucial role in the digital payments ecosystem.
- So, the RBI guidelines will be instrumental in ensuring that only serious players with robust governance framework remain in the market.

What was the distinction made?

- The 2019 RBI discussion paper proposed common regulatory framework for PAs and PGs without making any distinction in their roles.
- Contrary to these, the final guidelines distinguished a PG from PA as,
    1. Payment Gateways (PGs) - Merely provides technological infrastructure without any access to consumer funds.
    2. Payment Aggregators (PA) - Actually handles consumer funds.
- Accordingly, only PAs are mandated to comply with the regulatory requirements outlined in the guidelines.
- However, as a measure of good practice, PGs are recommended to adopt the baseline technology measures in the guidelines.

What is the mandate regarding net-worth?

- The discussion paper recommended a net-worth requirement of Rs 100 crore for PAs and PGs, which was heavily criticised by the industry.
- But, the final guidelines mandate PAs to have a net-worth of Rs 15 crore initially, and then Rs 25 crore by 2023.

What consumer difficulty was addressed?

- The guidelines require refunds to be made to the original method of payment, unless an alternate mode has been agreed to by the consumer.
- This may prohibit the practice of many e-commerce platforms to credit refunds automatically to a consumer's e-wallet created on the platform.
- This was a difficult practice for a consumer, as the amount in these wallets can only be used for transactions on that particular platform.
- Now, the e-commerce platforms have to credit the refunds to the account from where the amount was originally debited.

What are the issues that require further clarity?

- **Account with only one SCB** - The guidelines require PGs to maintain an escrow account with only one State Cooperative Bank (SCB).
- It may be worthwhile to reconsider this provision and enable more than one account, in light of Yes Bank debacle.
- Due to restrictions imposed by the RBI on Yes Bank, the nodal accounts maintained by payment intermediaries with it could not be operated.
- This resulted in disruption of services by fintech companies, especially related to paying out merchants.
- **Background check** - In addition to undertaking KYC for on-boarding merchants, PAs have been mandated to undertake background and antecedent check of the merchants.
- This is to ensure that such merchants do not have any mala fide intention of duping consumers or selling counterfeit products.
- Mandating PAs to address the regulator's concern regarding the quality of the merchant and its goods appears to be an onerous burden for a PA.
- **Grievance redressal** - The PA is mandated to maintain customer grievance redressal mechanisms in line with RBI's prescriptions on turnaround time for resolution of failed transactions.
- Unlike the regulatory prescriptions for prepaid payment instrument issuers, there is no requirement for PAs to report about the receipt of complaints and action taken status thereon to the RBI.
- **Preparation of plans** - The impact of the Yes Bank moratorium on the fintech sector clearly indicates the relevance of business continuity plans.
- Accordingly, it may have been useful for guidelines to refer to preparation of plans by PAs.

Source: Financial Express

IAS PARLIAMENT
Information is Empowering
A Shankar IAS Academy Initiative