



Twentieth Edition, (July – September 2023)

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What's New?

RBI issues draft circular on card network portability

The Reserve Bank of India (“**RBI**”), has published a [draft circular on Arrangements with Card Networks for issue of Debit, Credit and Prepaid Cards](#) (“**Draft Circular**”) – proposing a new framework that seeks to enable cardholders to choose any preferred card network for cards they hold. The RBI invited industry comments on the Draft Circular up to August 4, 2023, and we (JSA) also made submissions on the same on behalf of our clients. The move is aimed at giving consumers more choice and control over their payment options. However, there are practical and business considerations which we believe the RBI must also consider.



Under the rules proposed under the Draft Circular, card issuers will be prohibited from entering into any arrangements or agreements with card networks that restrict them from offering cards on multiple networks. This would allow cardholders to choose between different networks – such as Visa, Mastercard and RuPay at any time.

The proposed rule is in line with the RBI’s efforts to promote competition and innovation in the payments sector. The RBI also hopes that this will benefit consumers by giving them more flexibility and control over their payment options.

However, in the long run, this move may create saturation in the market and impact growth and development in the card ecosystem. This also appears to be an attempt by the RBI to promote migration of cardholders to the RuPay network.

Delhi High Court classifies PayPal as a ‘reporting entity’



In December 2020, the Financial Intelligence Unit India (“**FIU-IND**”) ordered PayPal Payments Private Limited (“**PayPal**”) to register as a “reporting entity” under the Prevention of Money Laundering Act, 2002 (“**PMLA**”) and imposed a penalty of ₹ 96,00,000 (Indian Rupees Ninety Six Lakhs) (approx. \$116,000 (US Dollars One Hundred and Sixteen Thousand)) for failing to do so. PayPal challenged the order and penalty in the Delhi High Court, arguing that it was a technology provider and did not fall under the definition of a “payment system operator” under the PMLA.

The Delhi High Court rejected PayPal’s argument and held that the definition of “payment system” for purposes of the PMLA must be interpreted broadly to include any system that enables the transfer of money between two parties. The Hon’ble High Court found that PayPal’s technology enabled the transfer of money between parties, and consequently classified PayPal as a “payment system operator” under the PMLA. However, the Hon’ble High Court partially relieved PayPal by quashing the penalty – stating that PayPal’s violation of the law was not deliberate and that it acted in good faith.

PayPal has appealed the Delhi High Court’s decision to a larger bench.

The broad interpretation of the term “payment system” as taken by the Hon’ble High Court blurs the line between regulated and unregulated entities – creating an onerous obligation for even unregulated entities under the Payment and Settlement Systems Act, 2007 (such as payment gateways) to comply with the reporting and other obligations under the PMLA. However, this interpretation is consistent with the recent

approach of the FIU-IND, which has sent notices to other previously unregulated entities directing them to comply with the obligations of reporting entities under the PMLA.

RBI develops a digital public tech platform for credit enablement

As part of the Statement on Developmental and Regulatory Policies, the RBI announced the development of a public tech platform for frictionless credit (“**Platform**”), developed by the Reserve Bank Innovation Hub (RBIH). The platform is an end-to-end digital platform with open architecture and open application programming interfaces (APIs) and standards to which all financial sector players can connect seamlessly in a plug and play model. In essence, the Platform will enable delivery of frictionless credit by facilitating the flow of required information to lenders, to assist them with making informed lending decisions. The platform will also be linked to services such as Aadhaar e-KYC, land records from on-boarded State Governments, satellite data, PAN validation and account aggregation by RBI authorised account aggregators.

The pilot project of the Platform was rolled out in August 2023 and primarily focussed on products such as Kisan Credit Card loans, dairy loans, MSME loans (without collateral), personal loans, and home loans through participating banks. RBI proposes to broaden the scope based on the learnings of the pilot project.

The development of the public tech platform for credit enablement is a major step forward in the RBI’s efforts to promote financial inclusion and make credit more accessible to people across India.

RBI Governor and NPCI launch key digital payment initiatives at the Global FinTech Fest, 2023

The 2023 edition of the Global FinTech Fest was organised from September 5, 2023, till September 7, 2023 in Mumbai with the theme ‘Global Collaboration for a Responsible Financial Ecosystem – Inclusive | Resilient | Sustainable’. At the event, the [RBI Governor](#) and [National Payments Corporation of India](#) (“**NPCI**”) announced the launch of several digital payment initiatives, including:

1. **UPI-ATM**, which will enable users to withdraw cash at ATMs using their UPI application. The ability to withdraw cash at ATMs through UPI was previously contemplated by RBI in a [notification](#) dated May 19, 2022, on Interoperable Cardless Cash Withdrawal. Please see the [Fifteenth](#) and [Sixteenth](#) editions of our FinTech newsletter for details on the same;
2. **Credit Line on UPI**, which will enable pre-sanctioned credit lines from banks via UPI, to foster a more streamlined and digital banking ecosystem. NPCI has also [issued](#) operational instructions for implementation of the same;
3. **UPI LITE X**, an enhanced version of UPI Lite (an on-device wallet for small value digital payments), which will enable users to send and receive money whilst being completely offline, thereby allowing initiation and execution of transactions even in remote areas and areas with poor connectivity;
4. **UPI Tap & Pay**, which, as the name suggests, will enable users to tap near-field communication (“**NFC**”) enabled quick response (“**QR**”) codes at merchant locations to complete their payments;
5. **Hello! UPI**, a conversational payment mechanism that will enable users to make voice-enabled UPI payments through UPI apps, telecom calls and other internet of things (IoT) devices. This facility will initially be available in English and Hindi and will gradually be enabled in several regional languages. In particular, this facility aims to benefit senior citizens and digitally inexperienced persons who can simply give voice commands to transfer funds and then input UPI PIN to complete the transaction;



6. **BillPay Connect**, a nationalised number for bill payments across India which will enable users to conveniently fetch and pay their bill by sending a 'Hi' on the messaging app or giving a missed call to the number;
7. **UPI AutoPay on QR**, a solution that will allow users to scan a QR code to set up recurring payment instructions; and
8. **OTG Ring**, a contactless payment wearable ring that will allow users to make payments to any NFC-based device and will aim to replace plastic cards for various open-loop transit programs.

All these developments will contribute to increasing the adoption rate of FinTech products and services and further India's aim to become the global leader for FinTech.

Parliament enacts the Digital Personal Data Protection Act, 2023



The Parliament of India enacted the Digital Personal Data Protection Act, 2023 ("DPDPA") - India's first comprehensive law on protection of personal data. A draft of the DPDPA (in its bill form) was circulated in November 2022 and underwent public consultation before taking its current form. For a detailed analysis of the DPDPA, please refer to [JSA Prism dated August 5, 2023](#). The DPDPA has been notified in the official gazette of India for general information. Its provisions will take effect once specific sections of the enactment, along with rules, are notified for enforcement.

Draft Digital India Bill to be released soon

We expect the draft Digital India Bill ("DIB") to be published for public consultation soon. With the DIB, the Government seeks to replace the existing two-decade old Information Technology Act, 2000 and overhaul India's digital regulatory landscape.

The DIB will reportedly include provisions to tackle new-age cyber-crime and regulate artificial intelligence and algorithmic accountability. The DIB may also include significant penalties for non-compliance.



Quick Snapshots

1. **CBDC and UPI QR codes are now interoperable:** As part of its ongoing pilot project for retail central bank digital currency ("CBDC-R"), RBI announced interoperability of the QR codes for UPI and CBDC-R. Both UPI payments and use of CBDC-R may be undertaken by scanning a QR code which will procure the recipient's details. However, now, to leverage the acceptance and adoption of UPI and likewise, encourage the adoption of CBDC-R – both these QR codes will be interoperable. This means the same QR code may be scanned to make payments to (a) a merchant's bank account (UPI) or (b) the merchant's CBDC-R wallet. At present, several banks, including Axis Bank, SBI, Kotak Mahindra Bank and HDFC Bank have introduced UPI interoperability in their digital rupee application. NPCI has also [issued](#) instructions in this regard.
2. **Central Government introduces point of sale (PoS) reforms:** The Central Government has introduced PoS registration reforms to promote a cleaner and safer digital ecosystem. The reforms include (a) mandatory registration of franchisees, agents and distributors by PoS licensees, (b) indisputable verification of PoS by the licensee and (c) blacklisting of fraudulent PoS for 3 (three) years. All these steps

are proposed to help with the identification, blacklisting and elimination of rogue PoS from the licensees' system and to provide encouragement to the upright PoS.

3. **Mastercard launches solution to enhance security of guest checkout transactions:** In furtherance of RBI's mandate to tokenise all card data and prohibition on merchants and payment aggregators from storing card data – Mastercard has launched the ALT ID solution for guest checkout transactions (i.e., transactions where the customer opts to manually input card details for each transaction). The solution will create an alternate identifier for the real card numbers provided by cardholders during guest checkout transactions on e-commerce platforms, thereby enhancing online payment security for both merchants and consumers.
4. **Enhanced transaction limits for small value offline digital payments:** In furtherance of RBI's [Statement on Regulatory Development](#), RBI [enhanced](#) the per transaction limit for small-value digital payments conducted in offline (face-to-face) mode from ₹ 200 (Indian Rupee Two Hundred) (approx. \$2 (US Dollars Two)) to ₹ 500 (Indian Rupees Five Hundred) (approx. \$6 (US Dollars Six)). Consequently, NPCI has also [adopted](#) this enhanced threshold for UPI Lite transactions. This move will encourage the adoption rate of UPI Lite and enable users to undertake transactions of up to ₹ 500 (Indian Rupees Five Hundred) (approx. \$6 (US Dollars Six)) without two-factor authentication or utilising the bank's core banking systems in real time (which will in turn decrease time taken for transaction processing). It will also simplify the payment process for users undertaking small value transactions due to absence of requirement of two-factor authentication, thereby increasing volumes.
5. **UPI in Sri Lanka:** The Prime Minister of India has entered into an agreement with the Sri Lankan President for the acceptance of UPI in Sri Lanka, thereby adding yet another country to the list of countries that accept India's "crown jewel".
6. **Cross-border bill payments for NRIs:** The CEO of Bharat BillPay Limited announced during the G20 Summit that soon non-resident Indians ("NRIs") in the United Kingdom will be able to make recurring bill payments on Bharat Bill Payment System ("BBPS") directly. At present, this facility is extended to NRIs residing in several middle eastern countries. For the rest of the world, NRIs have to transfer the money to their resident family members who can in turn make payment. However, soon NRIs residing in the United Kingdom will also be able to make direct payments on BBPS without having to route it through a resident family member.

Investments in the FinTech Sector

1. Perfios Software Solutions, a FinTech focussed software-as-a-service (SaaS) company has raised approximately \$229,000,000 (US Dollars Two Hundred and Twenty Nine Million) from Kedaara Capital in a transaction that comprised of a primary and a secondary leg. Perfios plans to use the funds to fuel its continued global expansion plans in North America and Europe alongside investing in new age technologies to enhance its comprehensive stack of decision analytics SaaS products.
2. Credgenics, a debt collection-focused software-as-a-service startup has raised approximately \$50,000,000 (US Dollars Fifty Million) in a round led by existing investors Westbridge Capital, Accel and Tanglin Ventures. Credgenics plans to use the fresh funds for product development, international business expansion and capturing other banking, financial services and insurance industry segments.
3. Brine Fi, a decentralised exchange has raised approximately \$16,500,000 (US Dollars Sixteen Million Five Hundred Thousand) in a series A funding round led by Pantera Capital.
4. CredRight, a FinTech startup that provides institutional debt capital to micro, small and medium enterprises in tier 3 (three) and tier 4 (four) towns in India, has raised approximately \$9,700,000 (US Dollars Nine Million Seven Hundred Thousand) in a mix of equity and debt funding. The equity capital

round was led by Michael and Susan Dell Foundation while the debt capital round saw participation from Blacksoil, Caspian Debt and Westen Capital. CredRight plans to use the funding to expand into newer locations and strengthen its technology stack.

5. Efficient Capital Labs, a business-to-business software-as-a-service-focused FinTech startup, has raised approximately \$7,000,000 (US Dollars Seven Million) in a pre-Series A funding round led by QED Investors. The company plans to use the fresh capital to build its technological stack, expand team and achieve better unit economies.
6. GradRight, a FinTech platform that helps students aspiring for education overseas secure financing, has raised approximately \$6,050,000 (US Dollars Six Million Fifty Thousand) in a Series A funding round from IvyCap Ventures.
7. Xtracap Fintech, a supply-chain finance platform has raised approximately \$3,000,000 (US Dollars Three Million) from IIFL Fintech Fund.
8. Vegapay has raised approximately \$1,100,000 (US Dollars One Million One Hundred Thousand) in a pre-seed funding round led by Eximius Ventures. The company plans to use the fresh capital to develop its technology stack further and to create an omnichannel lending solution.
9. CheqUPI, a UPI wallet for foreign nationals, has raised approximately \$500,000 (US Dollars Five Hundred Thousand) in a pre-seed funding round from Y Combinator. It has also joined the Y Combinator Accelerator Program.
10. Plus, a jewellery savings application, has raised approximately \$350,000 (US Dollars Three Hundred and Fifty Thousand) in a seed funding round from EvolveX, WeFounderCircle, Venture Catalyst, Jito Angel Networks and angel investors. Plus plans to deploy the proceeds for expanding its operations by acquiring jeweller partners.
11. BizPay, an expense management platform, has raised an undisclosed amount in a seed funding round from Inflection Point Venture. BizPay plans to use this funding for product development and marketing.
12. Aaritya Tech, a WealthTech platform has raised an undisclosed amount in a seed funding round from Accel and Elevation Capital.

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).

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17 Practices and
24 Ranked Lawyers



16 Practices and
11 Ranked Lawyers



7 Practices and
2 Ranked Lawyers



11 Practices and
39 Ranked Partners
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9 Ranked Practices

11 winning Deals in
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