



FINTECH NEWSLETTER: RECENT LEGAL DEVELOPMENTS AND MARKET UPDATES FROM INDIA

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INTRODUCTION

As we enter the last quarter of 2024, the fintech landscape in India is witnessing significant transformations, driven by a blend of regulatory advancements and innovative market strategies. Financial regulators such as the Reserve Bank of India ("**RBI**"), the Securities and Exchange Board of India ("**SEBI**"), the Insurance Regulatory and Development Authority of India ("**IRDAI**"), and the International Financial Services Centres Authority ("**IFSCA**") have continued to finetune the regulatory landscape surrounding the fintech sector in line with the themes of investor and customer protection and discipline among regulated entities with respect to, *inter alia*, critical infrastructure and net worth requirements.

The RBI has been at the forefront, implementing new regulations aimed at enhancing the operational integrity of non-banking financial companies ("**NBFCs**") and

ensuring compliance with fair lending practices. Recent actions include the suspension of loan disbursements by several NBFCs due to concerns over excessive interest rates and inadequate assessment of borrower's income among others, highlighting the RBI's commitment to protect borrowers.

Additionally, the RBI's recent initiatives to raise transaction limits for UPI123Pay and UPI Lite reflect a commitment to fostering greater accessibility and convenience in digital payments.

In this edition of the Fintech Newsletter, we outline these updates and highlight other regulatory developments and industry challenges in the Indian fintech space from September 01, 2024, to October 31, 2024.



RECENT LEGAL & REGULATORY DEVELOPMENTS

SEBI Issues Circular for Specific Due Diligence of Investors and Investments of AIFs¹

SEBI vide circular dated October 08, 2024, issued specific due diligence measures to be carried out by Alternative Investment Funds ("**AIF**") to prevent circumvention of the SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018 ("**ICDR Regulations**"), Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002 ("**SARFAESI Act**"), Foreign Exchange Management (Non-Debt Instruments) Rules, 2019 ("**NDI Rules**") and the prudential norms specified by the RBI for regulated lenders with respect to income recognition, asset classification, provisioning and restructuring of stressed assets.

The circular introduces due diligence requirements to prevent circumvention of the aforementioned laws in specific scenarios, some of which are as follows:

- As per Regulation 22(1)(ss) of the ICDR Regulations, AIFs have been designated as Qualified Institutional Buyers ("**QIB**"). To prevent AIFs from facilitating investors who are ineligible for QIB benefits, specific due diligence measures will have to be undertaken by AIFs in line with implementation standards formulated by the Standard Setting Forum for AIFs ("**SFA**").
- AIFs also enjoy benefits as Qualified Buyers ("**QB**") under the SARFAESI Act and may hence avail subscriptions to Security Receipts ("**SR**") issued by Asset Reconstruction Companies ("**ARC**"). In a similar manner proposed above and to prevent investors who are ineligible for QB benefits on their own, SEBI has prescribed due diligence requirements in line with implementation standards of the SFA for every scheme of AIFs having an investor who contributes 50% (fifty percent) or more to the corpus of the scheme before making any investments in SRs issued by ARCs or availing QB benefits under the SARFAESI Act.
- Under the NDI Rules, a person resident outside India but from a country sharing a land border with India or a person whose beneficial owner is situated or is a citizen of such country, must invest in equity of an Indian company only after securing government approval. In this regard, due diligence requirements in line with the implementation standards of the SFA has been prescribed by SEBI for the schemes where 50% (fifty percent) or more of the corpus is contributed by investors who are from or whose beneficial owners

are from a bordering country. The AIF manager must report details of these investors and schemes in the specific due diligence standards prescribed by the SFA within 30 (thirty) days of the investments within the scheme.

RBI Introduces Internal Risk Assessment Guidance for Money Laundering and Terrorist Financing²

On October 10, 2024, the RBI issued a comprehensive Internal Risk Assessment ("**IRA**") Guidance for Money Laundering/Terrorist Financing Risks ("**Guidance Note**") to support Regulated Entities ("**RE**") in identifying and managing money laundering ("**ML**"), terrorist financing ("**TF**"), and proliferation financing ("**PF**") risks. The Guidance Note is designed to enhance the resilience of REs by setting detailed processes for IRA exercises that assess and mitigate risk exposure in a dynamic regulatory environment.

The Guidance Note applies to all REs, including banks, NBFCs, and Payment System Operators ("**PSO**"), mandating dual-level risk assessment at both the business and individual levels. The Guidance Note necessitates distinct assessments based on key risk factors, ensuring that REs can tailor risk-based controls to their specific risk profile.

Key risk factors identified by the Guidance Note include customer type, geographic exposure, product complexity and delivery methods. Each RE must assign weights to these factors and apply suitable internal controls, such as policies on customer due diligence, AML units and teams, training, transaction reporting, and sanctions screening, in line with internationally recognized standards like those from the FATF.

The Guidance Note further requires REs to quantify risks using a weighted approach, translating identified risks into a three-tier risk level (high, medium, low). This quantification integrates both inherent risk scores and control effectiveness to calculate a residual risk level, guiding REs in establishing a prioritized remediation or risk mitigation strategy.

Reflecting heightened global standards, the Guidance Note extends to PF risks, urging REs to assess the potential for breaches in targeted financial sanctions and implement controls aligned with FATF recommendations. This proactive approach aligns with the RBI's overarching AML efforts.

The Guidance Note calls for REs to adopt robust internal controls and governance frameworks, prioritizing areas where residual risk levels remain high. The approach is intended to foster a culture of compliance, allowing REs to adapt dynamically to emerging ML and TF threats. REs must act promptly on any IRA findings, implementing measures to mitigate vulnerabilities identified through periodic assessments. The Guidance Note reaffirms its commitment to safeguarding India's financial sector against ML, TF or PF threats by ensuring that REs implement comprehensive, risk-based assessment and mitigation processes. Compliance with these standards is expected to enhance transparency, foster trust and align REs with global regulatory practices.

RBI Issues New Framework for Credit Information Reporting After License Cancellations³

On October 10, 2024, the RBI issued a circular introducing a framework for the reporting of credit information by financial institutions whose licenses or Certificates of Registration ("**CoR**") have been cancelled. This move is intended to address challenges faced by borrowers of such entities, ensuring that their credit history is accurately reported despite the cancellation of their lenders' regulatory status.

Under the Credit Information Companies (Regulation) Act, 2005 ("**CICRA**") only Credit Institutions ("**CI**") with valid licenses or CoRs are permitted to furnish credit information to Credit Information Companies ("**CICs**"). Entities whose licenses have been cancelled are no longer considered CIs under the CICRA, creating a gap in the reporting of borrowers' ongoing repayments.

To address this gap, the RBI has mandated that CIs whose licenses or CoRs have been revoked must continue to report the credit information of borrowers onboarded prior to cancellation until the completion of the loan lifecycle or the winding-up of the institution, whichever occurs first. Entities whose licenses have been cancelled will still have access to Credit Information Reports for borrowers onboarded before the cancellation, but they will not be required to pay annual or membership fees to CICs. The CICs are also required to tag such institutions as "Licence Cancelled Entities" in their systems.

The new credit information reporting requirements must be implemented within 6 (six) months of the issuance of

the notification, i.e., by April 10, 2025, ensuring that even entities with cancelled licenses continue to fulfil their obligations under the CICRA.

The framework introduced via the circular provides relief to borrowers, ensuring that their repayment history remains updated and accessible to credit agencies, even after the cancellation of their lender's CoR. It also establishes clear guidelines for CICs to manage and tag these cancelled entities, hence promoting transparency in the credit reporting system. The RBI's circular reflects its ongoing efforts to maintain the integrity of credit reporting while providing necessary safeguards for borrowers affected by regulatory actions. Financial institutions must now align their systems with these new requirements to ensure compliance within the stipulated deadline.

Consultation Paper on Rule 8(1)(f) and 8(3)(f) of the Securities Contracts (Regulation) Rules, 1957 ("**SCRR**")

The Department of Economic Affairs ("**DEA**"), Ministry of Finance, ("**MoF**"), Government of India on September 10, 2024, issued a consultation paper seeking public comments on Rules 8(1)(f) and 8(3)(f) of the SCRR (the "Consultation Paper")⁴.

Rules 8(1)(f) and 8(3)(f) of SCRR sets out the disqualifications for a person from becoming a member of a recognized stock exchange in India and the conditions to continue being a member of such exchanges respectively. The said rules prohibit stockbrokers (i.e., *trading members of recognized stock exchanges*) from undertaking any business other than that of securities or commodity derivatives except in the capacity of a broker or an agent not incurring 'personal financial liability'. The scope of the said restriction under SCRR has been expanded by circulars issued by stock exchanges ("**Exchange Circulars**") wherein the scope of activities of a stockbroker have been further explained.⁵ The restrictions under the SCRR, specifically the expanded scope of the said restriction through the Exchange Circulars have faced criticism from stakeholders and has even been challenged before the Bombay High Court for being too restrictive.⁶ As identified by the Consultation Paper, more than 100 (hundred) stockbrokers have been found in violation of the Exchange Circulars since their introduction. In light of these developments and multiple

representations from stakeholders, the MoF has issued the Consultation Paper.

The Consultation Paper recognises that the cause for ambiguity and repeated violations by stockbrokers is the broad nature of restriction on 'any business' being undertaken by stockbrokers outside of securities or commodity derivatives. Further, it also states that *"prohibiting the making of any investments by a broker, including in group companies, may place unreasonable fetters on its ability to use its retained earnings as per its commercial prudence."*

In light of the foregoing, the DEA has proposed amending the existing Rules 8(1)(f) and 8(3)(f) of SCRR by clarifying that any investments made by a stockbroker which does not involve client funds or client securities, or which do not involve creating a financial liability on the broker, would not be considered as a 'business' for the purposes of the restrictions set out therein. The Consultation Paper has sought feedback from stockbrokers, exchanges and other stakeholders on the proposed amendment and on specific queries in this regard like the need for an indicative list of prohibited activities by October 10, 2024.

While an acknowledgement of the discontent among stockbrokers vide Rules 8(1)(f) and 8(3)(f) of the SCRR and the Exchange Circulars is a positive, it remains to be seen whether industry players view the proposed amendment as a sufficient resolution of the issue. Further, it will be worth seeing how the proposed amendment to the SCRR evolves based on stakeholder inputs.

Amendments to Guidelines for Business Continuity Plan (BCP) and Disaster Recovery (DR) of Market Infrastructure Institutions (MIIs)

SEBI through a circular dated September 12, 2024⁸ ("**MII Circular**") has modified the guidelines issued by it on business continuity and disaster recovery for market infrastructure institutions prescribed by it for stock exchanges, clearing corporations and depositories through previously issued master circulars.⁹

Through the MII Circular, SEBI requires stock exchanges, clearing corporations and depositories to also have a Near Site ("**NS**") in addition to having a Disaster Recovery Site ("**DRS**") to ensure zero data loss in the event of a disaster. Further, the manpower deployed for the DRS is required to have the expertise equivalent to manpower deployed for the Primary Data Centre ("**PDC**") to enable independent operations at short notice. Additionally,

through the MII Circular, SEBI requires Recovery Point Objective ("**RPO**") for market infrastructure institutions to be near zero and that there should be a documented process for data reconciliation when resuming operations from the DRS or other sites. PDC, DRS, and NS of are also required to ensure high availability, fault tolerance, no single point of failure, near-zero data loss, and data integrity market infrastructure institutions.

A more robust framework for disaster recovery and business continuity for market infrastructure institutions would boost confidence for market intermediaries and investors alike and would be a net-positive for all stakeholders involved on a macro level. That said, this would also mean additional compliance burden for market infrastructure institutions.

The IRDAI has issued the Master Circular on Protection of Policy Holders

The IRDAI, through a circular dated September 05, 2024 has issued the Master Circular on Protection of Policy Holders ("**Master Circular**").¹⁰ The Master Circular consolidates and provides a summary of important and relevant information at various stages of an insurance contract for the prospects / policyholders / customers and the broad requirements to be complied with by insurers under the Insurance Regulatory and Development Authority of India (Protection of Policyholders' Interests, Operations and allied Matters of insurers) Regulations, 2024.

The Master Circular has been divided into 2 (two) parts - the first part covers the information relevant for prospects/ policyholders/ customers for availing life insurance, health insurance and general insurance products and the second part lists out the broad requirements to be complied with by insurance companies.

The Master Circular lists out the roles and responsibilities of insurance company at each stage of a prospect/ policyholder/ customers procuring an insurance policy. This includes the following:

The pre-sale obligations of the Insurer includes: (i) assessing the needs of the prospect based on specific factors prescribed by the IRDAI such as age (ii) offering the insurance product to the prospect/customer either directly or through distribution channels such as corporate agents, insurance brokers, web aggregators, etc. and (iii) obligations with respect to advertisements such as carrying the registration number and details

of the insurer and the unique identification number of insurance products advertised; (iv) issuing an accurate prospectus for the insurance product being sold among others.

The proposal stage obligations of Insurers include: (i) illustrating the benefits of the policy through illustrations on the specific benefits that would become payable on the occurrence of various events covered in the policy based on factors such as age, premium paid, policy terms etc.; (ii) assisting the prospect/customer in splitting the policy and availing the insurance policy either as a single policy or multiple policies with varied sum assured as per the needs of the prospect; (iii) assisting the prospect/customer in filling and submitting the proposal form; and (iv) assisting in the Know Your Customer ("**KYC**") process.

The obligations of an insurer at the stage of providing the policy document includes: (i) issuing a customer identification sheet containing the important information and basic features of the policy issued at one place; (ii) providing an option for the policyholder to return the policy during the free-look period prescribed by IRDAI; and (iii) providing an option for the policyholder to download and store the policy document through DigiLocker.

During the currency of the policy, insurers are required to: (i) collect premiums directly or through its intermediaries; (ii) providing a grace period of payment of premium by the policy holder based on the timelines prescribed by IRDAI depending on the nature of the insurance products; and (iii) responding to service requests and grievance redressal. Finally, at the time of claim, insurance companies are required to process the claim within the turn-around-time prescribed by IRDAI based on the nature of the insurance policy.

By summarizing the aforesaid requirements in one document, the IRDAI has created a comprehensive reference document for the benefit of both prospect/policyholder/ customers and insurers.

IFSCA Issues Operational Guidelines for Foreign Currency Accounts under LRS¹¹

On October 10, 2024, the IFSCA issued a circular directing International Financial Services Centre Banking Units ("**IBU**") on the management and operation of Foreign Currency Accounts ("**FCA**") for Indian resident individuals.

The circular applies to IBUs authorized to open FCAs for Indian residents under the Liberalised Remittance Scheme ("**LRS**") as established by the RBI's circular dated July 10, 2024.¹² The FCAs can receive remittances from India and other locations, with clear directions on the allowable usage of these funds. The following are the circular's key directions to IBUs:

- IBUs must verify remittances through an Authorized Person ("**AP**") and secure documentation of the required returns submitted by resident individuals to the AP.
- IBUs are mandated to ensure that funds in the FCA are used strictly for declared purposes and that remittances from non-Indian locations consist of funds initially remitted under LRS or returns on such investments.
- Any unspent or unused foreign exchange in FCAs must be repatriated within 180 (one hundred and eighty) days unless reinvested, via an AP, into the designated bank account of the individual in India.
- The circular restricts the use of FCA funds for domestic transactions between Indian residents, requiring IBUs to obtain declarations from account holders to ensure compliance. IBUs must enforce strict Anti-Money Laundering ("**AML**") and Know Your Customer standards in accordance with the IFSCA (Anti Money Laundering, Counter Terrorist-Financing and Know Your Customer) Guidelines, 2022, including periodic compliance reviews and adherence to any additional circulars on AML measures.¹³
- Funds in FCAs may be used to acquire financial products or services offered in International Financial Services Centres ("**IFSCs**"), including short-term fixed deposits [under 180 (one hundred and eighty) days] provided they meet reinvestment or repatriation conditions.
- IBUs can remit FCA funds for permitted current or capital account transactions in foreign jurisdictions, except in jurisdictions flagged by the Financial Action Task Force or otherwise restricted by the RBI.
- IBUs must further report FCA openings and operations to the IFSCA, including the procedures in place for ensuring compliance with the circular.

The circular provides a robust framework for IBUs to manage FCAs under the LRS, reinforcing reporting and oversight measures. The circular further clarifies the responsibilities of IBUs in handling FCAs for Indian resident individuals, emphasizing compliance with LRS, AML standards, and remittance verification. IBUs must promptly implement these requirements to align with IFSCA's goal of transparent and secure financial transactions.

IFSCA issues circular on net-worth requirements for Capital Market Intermediaries

The IFSCA, through a circular dated September 05, 2024, ("**Net-worth Circular**")¹⁴ clarified the requirement set out in Regulation 6 of IFSCA (Capital Market Intermediaries) Regulation, 2021 ("**CMI Regulations**").

The CMI Regulations prescribe specific net-worth requirements for each class of capital market intermediaries such as stockbrokers, investment advisers, investment bankers, account aggregators etc. regulated by the IFSCA, depending on where the relevant entity is incorporated. All such entities are mandatorily required to comply with the requirements set out therein.

The IFSCA, through the Net-worth Circular has clarified that all capital market intermediaries are required to maintain the requisite net-worth at all times and that any entities which fail to maintain the requisite net-worth at any time would be prohibited from undertaking any existing or new business activity in the International financial services centre(s) till the time the net worth is restored. Additionally, the IFSCA, through the Net-worth Circular has reserved the right to take action for non-compliance with aforesaid requirement.

IFSCA Prescribes Information Submission Format for Payment Service Providers¹⁵

On October 8, 2024, the IFSCA issued a circular introducing a format for information to be submitted by Payment Service Providers ("**PSP**") to the IFSCA. The circular specifics various reporting obligations for PSPs along with their respective timelines, including but not limited to, declaration of net worth; auditor's certificate

of net worth; auditor's certificate on maintenance of balance in escrow accounts; account issuance service; cross-border and intra IFSC money transfer service; merchant acquisition service; e-money issuance service; escrow service; safeguarding of applicable funds; information on appointed agents; security of IT systems and other infrastructure; and grievance redressal.

The circular reiterated that failure to submit returns within the prescribed time period or providing incorrect information in the returns would be treated as a failure to comply with a condition of the authorisation as a PSP and the said PSP would hence be liable for action under Regulation 12(1) of the IFSCA (Payment Services) Regulations, 2024, i.e., revocation of authorisation to operate as a PSP.

IFSCA Issues Comprehensive Master Circular for Credit Rating Agencies in IFSCs¹⁶

On October 1, 2024, the IFSCA released a Master Circular for Credit Rating Agencies ("**CRA**") ("**CRA Master Circular**") operating within IFSCs. The CRA Master Circular consolidates earlier guidelines and replaces previous circulars as outlined under the IFSCA (Capital Market Intermediaries) Regulations, 2021 thereby consolidating regulatory expectations and establishing clear guidelines for CRAs in IFSCs by outlining operational standards and reporting requirements.

The CRA Master Circular outlines the registration process for CRAs, emphasizing that applications must be submitted through the Single Window Information Technology System, an online platform designed for regulatory submissions. The CRA Master Circular lists permissible activities for CRAs, including credit ratings, sovereign ratings, ESG ratings, and valuation services.

Among numerous compliances, the CRA Master Circular mandates that at least 1/3rd (one-third) of a CRA's board must consist of independent directors. CRAs are also required to establish a Code of Conduct to guide their operations and ensure accountability. The CRA Master Circular also outlines procedures for rating methodologies, monitoring, review and withdrawal.

INDUSTRY DEVELOPMENTS

RBI issues Guidelines to facilitate accessibility to digital payment systems for Persons with Disabilities¹⁷

On October 11, 2024, the RBI issued a notification titled 'Facilitating accessible digital payment systems for Persons with Disabilities ("PwD") – Guidelines'. The RBI referenced its Master Circular on Customer Service in Banks¹⁸ and the Accessibility Standards and Guidelines for Banking Sector¹⁹ ("**Accessibility Guidelines**") issued by the MoF. It has advised banks and authorised non-bank payment system providers to review their payment systems and devices to facilitate accessibility to PwDs. Based on such a review, they were further advised to make necessary modifications to their payment systems such as Point-of-Sale machines. The RBI advised PSPs to comply with the Accessibility Guidelines issued by the MoF wherever applicable. Lastly, PSPs were directed to submit details of their systems and devices that need to be modified along with a time bound plan to achieve such changes. These details were to be submitted within a month of issuance of the circular, i.e., by November 22, 2024.

RBI Raises Transaction Limits for UPI123Pay and UPI Lite²⁰

The RBI has raised transaction limits for UPI123Pay and UPI Lite, aiming to boost the adoption of Unified Payments Interface (UPI) technology. UPI123Pay, introduced in March 2022, allows feature-phone users to access UPI and is available in 12 (twelve) languages. The RBI has increased the transaction limit for UPI123Pay from INR 5,000 (five thousand rupees) to INR 10,000 (ten thousand rupees) to facilitate a broader range of transactions. This adjustment followed consultations with stakeholders and is expected to create more use cases for feature-phone users in India.

Additionally, the RBI has raised the UPI Lite wallet limit to INR 5,000, (five thousand rupees), with a per-transaction cap of INR 1,000, (one thousand rupees), compared to previous limits of INR 2,000 (two thousand rupees) overall and INR 500 (five hundred rupees) per transaction. UPI Lite is designed for small-value transactions, supporting payments via a wallet with auto-replenishment features, enabling offline payments without a PIN. This change aims to reduce reliance on bank servers and internet connectivity, especially beneficial for users in areas with limited network access.

INDUSTRY CHALLENGE

In August 2024, the RBI Governor Shaktikanta Das announced RBI's plan to launch 'Unified Lending Interface' ("**ULI**"), a platform to enable the delivery of frictionless credit through seamless flow of data to lenders using open architecture, APIs, and standards that can be used on a 'plug-and-play' model²¹. This is exactly one year after the RBI launched the pilot for a 'Public Tech Platform for Frictionless Credit' to test the feasibility of having a digital public infrastructure akin to the UPI.

ULI solves multiple issues that India's credit delivery system currently faces. First, it aims to facilitate lenders with reliable data, credit history, and alternate data sources (like transaction history, spending patterns, etc.) of prospective borrowers, which are not readily available for underserved sections of the society, especially farmers and MSMEs. Second, since banks, NBFCs, and peer-to-

peer lenders currently operate in silos and have their own processes to facilitate credit, ULI provides a standardized and uniform interface to connect lenders with borrowers, which improves interoperability and reduces procedural hurdles that borrowers face. Third, through a centralised credit information system, it creates more transparency in the ecosystem and avoids instances where a borrower overexposes itself by availing loans from multiple lenders leading to higher default rates.

While ULI is seen a welcome step and RBI would hope that it has the same success as UPI, it will be interesting to see how it tackles the fundamental issues that have plagued India in the past with respect to the lack and differential access to credit, especially to the marginalised sections. For instance, ULI proposes to rely on alternate data sources to tackle the issue of lack of legitimate documents available about prospective

borrowers. These alternate data sources may range from land records, telecom and utility bills, tax filings, e-commerce transactions, and any other digital footprint of the borrower. The quality and reliability of these alternate data points is currently unclear, so is the credibility of the 'data service providers' who will be facilitating them. Further, whether prospective lenders, who still follow a traditional approach to lending, will be comfortable relying on these alternate data points is still left to conjecture. Unless there is evidence to what these alternate data points mean and how do they truly define the creditworthiness of a borrower, relying on them might be risky and create systemic risk.

Challenges around data privacy, lack of user autonomy, integration with legacy systems, possibility of algorithmic bias, and plausibility of inaccurate and incomplete data, are other issues that ULI may need to navigate as it scales up and penetrates within different parts of the country.

While one may be optimistic of the RBI overcoming the aforesaid challenges as it has in the context of payments, one must factor in the fact that the ULI (a

technology solution) alone may not be the answer to solve the problem. RBI must get major scheduled banks and NBFCs on-board to the idea and consult them to identify the potential gaps they foresee in relying on and implementing the ULI. Without there being a business case and potential of bad debts not being imminent, banks and NBFCs may not have the incentive to disburse loans through ULI. Carefully setting the criteria for 'data service provider' who feed the alternate data points will also be key, as well as deciding how such alternate data points are read and evaluated to assess the loan application of a borrower.

ULI holds great potential to transform India's credit landscape, and we hope that with the help of banks, NBFCs, and other stakeholders, and establishment of robust and clear processes, RBI solves for one of India's long-standing problems of credit access.



MARKET UPDATES AND MAJOR DEALS IN INDIA

MARKET UPDATES

PhonePe partners with Liquid Group to offer UPI payment services in Singapore

PhonePe announced its partnership with Liquid Group, Singapore to allow users to scan and pay using their PhonePe app at the outlets of Liquid Group's extensive merchant base in Singapore, including popular tourist spots like Changi Airport. Liquid Group's partnership with NPCI International Payments Limited will enable merchants to accept UPI payments, enabling Indian travellers to use their UPI apps to scan QR codes and make payments in INR in Singapore.

NRIs in Singapore can link their NRE/NRO accounts to pay for services in India, including payments of utility bills, making fund transfers to family and friends, and online or offline payments to merchants.²²

RBI bars four NBFCs from disbursing loans

The RBI restricted four NBFCs from issuing or disbursing loans with effect from October 21, 2024. This decision follows the RBI's identification of concerns regarding the NBFCs pricing policies, particularly in their Weighted Average Lending Rate (WALR) and excessive Interest Spread charged over their cost of funds, which was found to be not in compliance with the Master Direction – Reserve Bank of India (Regulatory Framework for Microfinance Loans) Directions, 2022 dated March 14, 2022, the Master Direction – Reserve Bank of India (Non-Banking Financial Company–Scale Based Regulation) Directions, 2023, dated October 19 and provisions of the Fair Practices Code issued by the RBI.

The RBI also highlighted other regulatory breaches by these NBFCs, including inadequate assessment of borrowers' household income, disregard for monthly repayment capacities on microfinance loans, and high interest rates. Additional issues noted by the RBI included lapses in Income Recognition & Asset Classification (IR&AC) norms, instances of loan evergreening, improper management of gold loan portfolios, and non-compliance with mandated disclosures on interest rates and fees. The companies also reportedly failed to follow proper procedures for outsourcing core financial services, leading to the RBI's decision to suspend their lending activities.²³

NPCI sends warning letter to fintech entities offering 'unauthorised use of UPI API' as a service

The National Payments Corporation of India ("NPCI") has issued a warning letter to fintech companies, urging them to restrict their use of the UPI API exclusively for payment-related purposes. NPCI has expressed concerns over the unauthorized use of UPI APIs wherein some companies were reportedly offering "APIs as a service" through commercial partnerships with third parties. Specifically, certain fintech companies have been using UPI IDs to offer UPI ID verification services, which allow merchants to validate user details and ensure payment accuracy. However, the NPCI clarified that UPI APIs should only be used for processing transactions initiated by UPI consumers or for risk management and fraud prevention purposes, as outlined in their guidelines dated September 25, 2020²⁴ and that any other use is prohibited unless expressly approved.

The letter emphasized that any breach of these compliance standards will be treated seriously, potentially resulting in penalties or the suspension of UPI services.²⁵

Paytm gets NPCI approval to onboard UPI users again

In January 2024, the RBI had restricted Paytm Payments Bank Limited ("PPBL") from engaging in numerous activities due to persistent non-compliance and continued material supervisory concerns. As a result, PPBL was prohibited from offering fund transfers, Bharat Bill Pay, and UPI services, leading to the closure of all nodal accounts associated with One97 Communications Limited and PPBL.

NPCI has now granted One97 Communications Limited, Paytm's parent company, approval to onboard new users to its UPI app.²⁶

RBI cancels Certificate of Registration of 2 NBFCs

In exercise of the powers conferred on it under Section 45-IA (6) of the Reserve Bank of India Act, 1934, the RBI cancelled the certificate of registration of 2 (two) NBFCs²⁷. The reasons for said cancellation of the NBFC's certificate of registration has not been disclosed.

Increase in UPI transaction by 10%

October witnessed an increase in the number and value of transactions undertaken using UPI. 16.58 billion (approx. sixteen billion) transactions have taken place in October, which is a 10% (ten percent) increase from the previously recorded 15.04 billion (approx. fifteen billion) transactions in September.

The gross transaction value rose by 14% (fourteen percent) from INR 20.64 lakh crore (twenty lakh sixty-four thousand crore rupees) in the month of September to INR 23.50 lakh crore (twenty-three lakh fifty thousand crore rupees) in the month of October.²⁸ This is indicative of the exponential growth and adoption rate of UPI payments.



MAJOR DEALS

MoneyView:1: Financial services platform MoneyView has entered the unicorn club following a new funding round from its existing investors, Accel India and Nexus Venture Partners, and the acquisition of employee benefit startup Jify. Jify, a Mumbai-based startup, partners with corporations to offer their employees a zero-cost, real-time access to their salaries in advance. This acquisition will enable MoneyView to enhance its financial services platform by expanding into employee-focused solutions, and strengthen its offerings across credit, savings, and investment products, while deepening its reach into financially underserved users.²⁹

FlexiLoans: Digital lending platform FlexiLoans has secured a funding of INR 290 crore (two hundred and ninety crore rupees) in its Series C equity funding round led by global investors Accion, Nuveen, and Fundamentum, along with existing investor Maj Invest. FlexiLoans focuses on MSMEs that are often excluded from traditional lending systems due to a lack of conventional credit history. Through its in-house NBFC, Epimoney Private Limited, and integrations with over 20 (twenty) lenders, the platform provides working capital loans ranging from INR 2 lakh (two lakh rupees) to INR 25 lakh (twenty-five lakh rupees), along with supply chain finance with limits between INR 25 lakh (twenty-five lakh rupees) and INR 10 crore (ten crore rupees). FlexiLoans plans to use the fresh capital to expand its operations, enhance product offerings, and strengthen its infrastructure.³⁰

Drip Capital: Drip Capital, a digital platform for trade finance, has secured USD 113 million (one hundred and thirteen million dollars) in new funding. This includes USD 23 million (twenty-three million dollars) in equity from Japanese institutional investors GMO Payment Gateway and Sumitomo Mitsui Banking Corporation (SMBC) and USD 90 million (ninety million dollars) in debt financing led by the International Finance Corporation and East West Bank. Drip has been utilizing artificial intelligence to enable efficient credit risk assessment and enhanced customer experiences. The funds will be used for developing new financial products and strengthening trade facilitation capabilities.³¹

Northern Arc Capital: Northern Arc Capital Limited, a Chennai-based fintech NBFC, raised INR 229 crore (two hundred and twenty-nine crore rupees) from 15 (fifteen) anchor investors including Quant Mutual Fund and SBI Life Insurance, before opening bids for Initial Public Offering (IPO). It raised INR 777 crore (seven hundred and seventy-seven crore rupees) through the IPO, which received strong demand with a subscription rate of 110.71 (one hundred and ten point seven one) times. The NBFC

provides direct and indirect credit access to underserved households and businesses through its partners. The fresh issue will be used to meet future capital needs of the company towards onward lending.³²

M2P Fintech: a software services provider for banks, has raised INR 850 crores (eight hundred and fifty crore rupees) in its Series D funding round through a mix of primary and secondary deals. Africa-focused investment firm Helios Investment Partners led the round. This funding round values the company at over INR 6,550 crores (six thousand five hundred and fifty crore rupees), taking it closer to unicorn status. M2P aims to use this investment to enhance its artificial intelligence and advanced data capabilities, enabling the delivery of innovative financial products. The company also intends to expand into select ASEAN and African countries while further solidifying its presence in the Middle East³³.

Lendingkart: an MSME focused digital lending platform has raised INR 252 crores (two hundred and fifty-two crore rupees) (approximately USD 29 million) from its existing investor Temasek-owned Fullerton Financial Holdings (FFH). The investment comes amid Lendingkart facing a severe cash crisis and a larger stress in the unsecured loan market and will enable Lendingkart to deepen its reach in underserved markets and enhance its technology to cater to the financial needs of small businesses³⁴.

Navi Finserve Limited:² Navi Finserve Limited, an NBFC, raised INR 206 crores (two hundred and six crore rupees) (approximately USD 24.5 million) by way of a securitisation transaction with Goldman Sachs (India) Finance Private Limited. The transaction was structured through pass-through certificates rated IND AA (SO) by India Ratings and was backed by a pool of unsecured personal loans managed by Navi Finserv³⁵.

Zinc Financial Advisors Private Limited: Zinc Financial Advisors Private Limited, a startup providing financial planning services to students seeking to study abroad, has raised INR 214 Crores (two hundred and fourteen crore rupees) (approximately USD 25.5 million) in a seed funding round led by Nexus Venture Partners, with participation from Quona Capital, EDBI, Global Ventures, and Saison Capital. The funding will enable Zinc to drive product innovation and expand its offerings³⁶.

Swara Fincare:³ Swara Fincare, an NBFC, has raised INR 19.4 Crores (approximately nineteen crore rupees) (approximately USD 2.3 million) as part of its series A funding led by UC Impower Fund with the participation of Piper Serica Angel Fund. Swara Fincare will use this funding to ramp up its distribution network, develop new products and to enhance its technology platform³⁷.

1. IndusLaw represented MoneyView in this deal.

2. Navi Finserv Limited is a client of IndusLaw.

3. IndusLaw represented UC Impower Fund in this deal.

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