



FINTECH NEWSLETTER: RECENT LEGAL DEVELOPMENTS AND MARKET UPDATES IN INDIA

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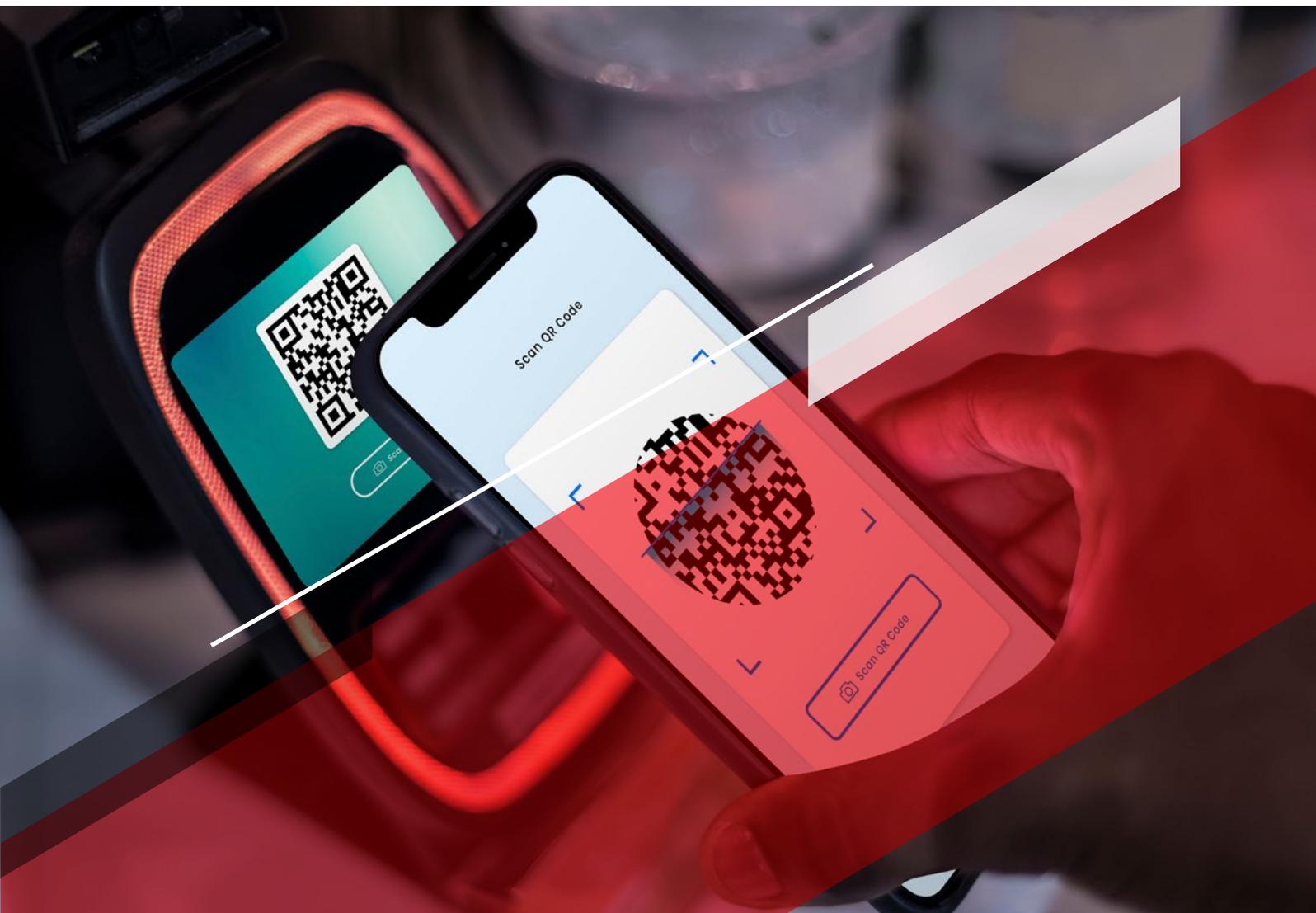
INTRODUCTION

The fintech space in India witnessed several developments in the month of February, with the tabling of the Union Budget ("**Budget**") in Parliament being the main highlight. The Budget laid out the government's vision for the fintech space and its intention to boost it, including through extension of the DigiLocker services to fintech entities to enable and encourage innovation in the sector and ensure sharing & storing of data in a secured manner. The announcement of a National Financial Information Registry for checking credit worthiness is also a welcome initiative.

The Reserve Bank of India ("**RBI**") continued to take active measures to provide impetus to the fintech space, by recently publishing a list of frequently asked questions ("**FAQs**") on the Guidelines on Digital Lending ("**Digital Lending Guidelines**") providing much needed clarity to industry stakeholders on several fronts including the applicability of the Digital Lending Guidelines to different businesses.¹

The RBI also took swift measures to solve for and iron out the concerns for easier payments by foreign nationals in India by amending the Master Directions on Prepaid Payment Instruments ("**PPI Master Directions**") to enable Unified Payments Interface ("**UPI**") services for G20 foreign travellers in India. The positive trends in the fintech space have also continued with the linkage between India's UPI and its equivalent in Singapore, PayNow, which was announced by the Prime Ministers of the two countries, while PhonePe became the first fintech platform in India to allow cross-border UPI payments. These significant developments along with the evolving payments infrastructure and innovations coupled with 71 billion digital payment transactions and 55 million active neobank accounts, are expected to help the fintech industry scale new heights every day.²

This newsletter highlights key developments, announcements and measures as well as other developments in the Indian fintech space from February 01, 2023, to February 28, 2023.



RECENT LEGAL & REGULATORY DEVELOPMENTS

RBI releases list containing the current status of all payment aggregator applications

With a view to provide greater clarity to all stakeholders and to ensure greater transparency, the RBI on February 15, 2023, released a list containing the current status of all applications made by entities seeking authorisation to act as online payment aggregators ("PAs") under the Payment and Settlement Systems Act 2007 ("PSS Act"). In 2020, RBI had issued the Guidelines on Regulation of Payment Aggregators and Payment Gateways ("PAPG Guidelines") which mandated that all online non-bank Payment Aggregators (PAs), existing as well as new, were required to apply to RBI, within the prescribed timelines, for seeking authorisation under the PSS Act.³

The list issued by the RBI has been divided into multiple categories indicating the stage of processing and in-principle approval, with a further bifurcation into whether the applicant can or cannot operate as a PA under its in-principle approval, pending authorisation.⁴ The RBI will be updating this list on a fortnightly basis.

The RBI has also advised that all stakeholders must transact only with: (a) existing PAs, where such PAs have either been granted in-principle authorisation by RBI or their application is currently under process; or (b) new PAs, where such entities have received authorisation under PSS Act.¹

FAQs on Digital Lending Guidelines released

The RBI recently issued a list of FAQsⁱⁱ on the Digital Lending Guidelines,⁵ which provide some pertinent clarifications in relation to the digital lending framework *inter alia*, on: (a) *Applicability of Digital Lending Guidelines*: The FAQs clarify that all lending transactions that are mostly undertaken through digital means even if there is some physical interface with the borrower, would qualify as digital lending transactions; (b) *Appointment of Nodal Grievance Officer*: Only those Lending Service Providers ("LSPs") that have an interface with borrowers would be required to appoint nodal grievance officers and those LSPs operating at the back-end would not be mandated to on-board a grievance officer; (c) *Role of PAs*: A PA also performing the role of an LSP must comply with the Digital Lending Guidelines; (d) *Loan recovery in cash*: Loans can be recovered by LSPs in cash, by deploying physical interface for such recovery, only where necessary; (e) *Repayment by corporate employer*: Where loans have been granted against the salary of an employee, who is a customer of the

regulated entity ("RE"), the repayment can be effected by the corporate employer, through deductions from the employee's salary; (f) *Disclosure of floating APR rates*: The prevailing annual percentage rate ("APR") for the loaned amount must be disclosed to the borrower as part of the key fact statement while the floating APR may be disclosed to the borrower via SMS/e-mail each time it is revised subsequently; (e) *Recovery agents*: Names and particulars of empanelled recovery agents authorised to contact the customer in case of loan default, must be communicated to the customer at the time of sanction of the loan through email/SMS, before such recovery agent contacts the defaulting customer.

The RBI amends PPI Master Directions to allow travelers from G20 countries to avail UPI services for P2M transactions in India

Pursuant to the announcement made by the RBI in its Statement on Developmental and Regulatory Policies earlier in February, the RBI notified an amendment, effective immediately, to the PPI Master Directions to enable the offering of UPI services to foreign travellers from the G-20 countries, arriving at select international airports, for merchant payments (P2M) while they are in India.⁶ This facility will gradually be made available to all foreign nationals and across all entry points in India.

As per this amendment, banks/non-banks PPI issuers can issue INR denominated full-KYC prepaid payment instruments ("PPI(s)") to foreign nationals/NRIs from G-20 countries after physical verification of their passport and visa at the point of issuance. Such PPIs can be issued in the form of wallets linked to UPI but can only be used for P2M transactions. Loading/reloading of such PPIs can be done against receipt of foreign exchange by cash or any other payment instrument.⁷ However, the conversion to INR should be carried out only by entities authorised to deal in foreign exchange under the Foreign Exchange Management Act 1999 ("FEMA"). Such PPIs will be required to comply with all regulations applicable to Full KYC PPIs under the PPI Master Directions, including the permissible limits of loading / reloading.

Further, on February 21, 2023, the RBI announced the rolling out of UPI P2M services for foreign travellers arriving from G20 countries at the Bengaluru, Mumbai

i. Please see a previous edition of this newsletter [here](#) for more background on payment aggregator licences.
ii. Our detailed analysis on the FAQs to the Digital Lending Guidelines is available [here](#).

and Delhi airports. To begin with, ICICI Bank, IDFC First Bank and two non-bank PPI issuers, Pine Labs Pvt. Ltd. and Transcorp International Ltd. Will issue UPI linked wallets as per the recently amended PPI Master Directions.⁸

RBI updates 'Alert List' on unauthorised forex trading platforms

The RBI updated the 'Alert List' of entities which are neither authorised to deal in foreign exchange under FEMA nor authorised to operate electronic trading platforms ("ETPs") for forex transactions ("Alert List").⁹ The first edition of the Alert List was released by RBI in September last year (2022), following the caution released by RBI to the general public against unauthorised forex trading platforms.¹⁰

It has been clarified that the Alert List is not exhaustive and an entity whose name doesn't appear in the Alert List should not be assumed to be authorised by the RBI to deal in foreign exchange or operate ETPs for forex transactions. The status of an ETP should only be ascertained from the authorised list available on RBI's website.¹¹ RBI also reiterated that undertaking forex transactions for purposes other than those permitted under FEMA, or any transactions on unauthorised ETPs is a punishable offence.

The RBI announces pilot project for QR code-based coin vending machines

In a bid to ensure the general public's ease of access to coins and to improve their distribution, the RBI has announced a pilot project (to be rolled out at 19 locations in 12 cities) for QR code-based Coin Vending Machines ("QCVM") in collaboration with certain banks. The QCVM is proposed to be a completely cashless coin dispensing machine which would dispense coins against a UPI debit to the requesting customer's bank account without the need to feed cash into the machine. Customers will be able to withdraw coins in desired quantities and denominations.¹²

The Securities and Exchange Board of India ("SEBI") issues advisory on cybersecurity best practices

In view of the increasing cyber security incidents, the SEBI has issued an advisory for all SEBI regulated entities ("SEBI REs") on commensurate updation of

cybersecurity best practices.¹³ SEBI has taken note of the increasing cyber security incidents and the fact that "interconnectedness and interdependency of financial entities" entails that the cybersecurity risk to a particular entity is no longer limited to that entity alone and can have a cascading effect. The advisory is to be read harmoniously with other applicable SEBI circulars [including but not limited to the Cybersecurity and Cyber Resilience framework, Annual System Audit Framework ("Cyber Security Framework") and subsequent updates issued by the SEBI from time to time.

The compliance of this advisory is to be documented as part of their cybersecurity audit report conducted as per the Cyber Security Framework and is to be submitted as per the existing reporting mechanism and as per the frequency of the respective cybersecurity audit.

Key highlights from Budget 2023 for fintech sector¹⁴

The government's increasing focus on India's technology sector and the continued investments in India's digital public infrastructure were some of the reassuring announcements from Budget 2023 for the fintech sector. Four specific announcements by the Union Finance Minister in her speech are of particular significance for the fintech sector. Firstly, it has been announced that the scope and range of documents available in the DigiLocker will be expanded to enable the provisioning of new and innovative fintech services. Secondly, just like DigiLocker for individuals, an "Entity DigiLocker" will soon be rolled out for use by MSMEs, large businesses and charitable trusts. This will enable entities to store and share their documents with various authorities, regulators, banks and other businesses. Thirdly, the government has announced that it will simplify the KYC process and work towards adopting a 'risk-based' approach instead of a 'one size fits all' approach.¹⁵ Fourth, the government announced the creation of a National Financial Information Registry ("NFIR") which will be a central repository for all financial and ancillary information of an individual or entity to enable lenders, including fintechs, to better assess credit worthiness. NFIR is expected to be much larger than the current credit information bureaus and also cover information such as taxes, corporate balance sheets, shareholding, etc.

The RBI announces second edition of its global hackathon 'HaRBInger'

RBI has announced the second edition of its global hackathon "HaRBInger 2023" on the theme of 'Inclusive Digital Services'. The hackathon has invited participants

to develop solutions to make digital financial services accessible to the differently abled, facilitate efficient compliance, extend the reach of Central Bank Digital Currencies and enhance the scalability of blockchains.¹⁶



INDUSTRY CHALLENGES

MeitY blocks 94 digital lending apps, unblocks some a few days later

To protect customer interests in view of the rising growth of the fintech sector, especially on digital lending, the Ministry of Electronics and Information Technology ("MeitY") on February 5, 2023 reportedly blocked 94 "illegal" digital lending apps under section 69A of the Information Technology Act 2000 read with the emergency blocking provisions of The Information Technology (Procedure and Safeguards for Blocking for Access of Information by Public) Rules 2009. Though no official communication was issued by MeitY, news

reports claimed that a majority of the apps which were blocked had "Chinese connections".¹⁷ The blocked apps surprisingly included popular digital lending apps such as Lazypay, Kisst and India Bulls Home Loans.¹⁸ However, a few days later, pursuant to representatives of some of these blocked apps meeting MeitY officials and submitting relevant documents to show their *bona fides*, MeitY reportedly directed internet service providers ("ISPs") and application stores to unblock access to some of the digital lending apps including LazyPay, Kisst, BuddyLoans, Indiabulls Home Loans, Faircent and mPokket.¹⁹



MARKET UPDATES AND MAJOR DEALS IN INDIAⁱⁱⁱ

The year 2023 is off to a great start as it has already witnessed some major deals in India. It has been reported that the funding in India jumped to 144% (USD 637 million) at the beginning of the year.²⁰ Fintech also emerged as the most funded sector and with around 6,600 fintech startups, the sector has become a leading contributor to financial literacy in India.²¹ The fintech sector in India is expected to reach USD 200 billion in revenue by 2030 as per a report.²² In the background of this predicted growth, leading banks are visibly working to create separate business units to collaborate with fintech companies to launch new products and services.

In light of the above blocking orders issued against certain digital lending apps and the subsequent revocation of the same for some of the apps, news reports have claimed that the RBI, in consultation with the MeitY will soon release a whitelist of digital lending apps to provide clarity to all stakeholders.²³ The whitelist is expected to boost consumer confidence in digital lending and prevent consumers from falling prey to illegal and fraudulent lending apps. In a related development, Union Minister of State for Finance Dr. Bhagwat Kisanrao Karad, in a written reply to a question asked in Parliament in the Budget Session, stated that all application stores will be required to host only those digital lending apps which are regulated by the RBI and are whitelisted.²⁴

The RBI, through a press release on February 13, 2023, announced that it has cancelled the Certificate of Registration issued to two NBFCs due to violation of RBI Guidelines on Outsourcing and Fair Practices Code in relation to their digital lending operations; non-compliance with extant regulations pertaining to charging of excessive interest; and for engaging in unsavoury loan recovery practices. These two entities are Kudos Finance and Investments Pvt. Ltd. (Pune) and Credit Gate Pvt. Ltd. (Mumbai).²⁵

UPI and Singapore's PayNow have been linked for cross-border money transfers. The UPI-PayNow integration will allow users of the two payment systems to send money across borders quickly, securely, and affordably via their respective mobile apps. The RBI noted that money stored in bank accounts or e-wallets can be moved to or from India using only the UPI-ID, cellphone number, or Virtual Payment Address. By virtue of this linkage, Singapore has become the first nation with which cross border Person-to-Person (P2P) payment facility using UPI has been launched.²⁶

Despite these developments in the fintech sector, the cryptocurrency space continues to face uncertain and turbulent times as many members at G20 summit called for a ban on private cryptocurrency²⁷ and Binance terminated wallet services for Zangmei Labs, which operates the crypto exchange WazirX.

PhonePe has become the first fintech platform in India to allow cross-border UPI payments in India. A PhonePe user can activate the bank account for UPI International which will allow users who are traveling abroad to make payments to foreign merchants using UPI, eliminating the need of a credit card or forex card. The payment will be made in the foreign currency directly from user's bank account in India. Currently, the service has been launched in countries such as UAE, Singapore, Nepal and Bhutan. The National Payments Corporation of India plans to roll out UPI International to more countries in 2023. Moreover, other fintech entities' applications are also expected to add cross-border UPI support in the coming months.²⁸

On the domestic front, **HDFC**, the largest private bank in India and the NPCI have announced that HDFC RuPay credit card holders can now link their cards with UPI-enabled apps. This will offer customers of HDFC Bank more opportunities to use their credit cards and merchants will benefit from more people using assets like QR codes without having to install and pay for expensive machines.²⁹

HDFC Bank has also begun a pilot project under the RBI's Regulatory Sandbox programme. The pilot project has been launched in collaboration with Crunchfish, IDFC Bank and M2P Fintech and aims to explore offline digital payments for customers and merchants. As part of the pilot test, this programme, also known as "OfflinePay," will be implemented in 16 cities and will enable customers and merchants to make and receive payments in the absence of any mobile network. This is to increase the use of digital payments in rural areas and smaller towns with weak network connectivity. The offline transaction amount would be capped at approximately USD 2 per transaction during the pilot.³⁰

iii. To the extent any transactions involve clients of IndusLaw, the information herein is based on statements in the media and not our professional knowledge of the relevant transaction.

Reliance Retail has partnered with Innoviti Technologies, ICICI Bank, and Kotak Mahindra Bank to facilitate acceptance of the Digital Rupee issued by the RBI at its retail stores. Reliance Retail is the first organised retail chain in India to do this. Reliance Retail's Freshpik locations will be the first to accept the Digital Rupee and thereafter all Reliance Retail locations will follow. Customers can easily authorise a payment through the Digital Rupee by scanning the QR code and entering the passcode on the Digital Rupee app terminal powered by ICICI Bank or Kotak Mahindra Bank. The customer will get an instant notification of the payment.³¹

Cashfree Payments has acquired the fintech startup Zecpe for around USD 10-12 million. The acquisition will boost Cashfree Payments' direct to customer ("D2C") checkout capabilities and provide services such as address pre-filling, return-to-origin reduction, quicker and more seamless checkout as well as fraud detection to improve its overall checkout process and experience for merchants and other users.³²

PhonePe^{iv} raised USD 100 million in a funding round led by Ribbit Capital, Tiger Global, and TVS Capital Funds. This was the second tranche of the company's USD 1 billion funding round. The fresh funds will be utilised to launch new businesses in sectors such as lending, stockbroking, Open Network for Digital Commerce ("ONDC") as well as to expand PhonePe's payments and insurance businesses.³³

Alibaba, the China-based group has sold 3.3% stake in One97 Communications, the parent entity of Paytm, an Indian payments firm, to cut down losses in the investments made in Paytm.³⁴ The transaction was valued at approximately USD 168 million.

Sonata Finance Pvt. Ltd., an NBFC-microfinance institute is being sold to Kotak Mahindra Bank for USD 65.04 million, subject to regulatory approvals. Post acquisition, Kotak Mahindra Bank aims to leverage Sonata's distribution network, provide a wider set of banking products to Sonata's customers and strengthen lending to the economically weaker sections of society.³⁵

LoanKuber, a fintech startup which runs a digital mortgage platform, has raised USD 2 million in its ongoing Series A funding round led by its existing investor Inflection Point Ventures. LoanKuber plans to deploy the fresh funds to scale its asset under management, improve its existing technology stack and build and expand the team.³⁶

Lendingkart Technologies Pvt. Ltd., a fintech startup focused on providing credit to MSMEs and small businesses, acquired Upwards, a digital lending platform, for approximately USD 121 million to enable Upwards to leverage Lendingkart's credit, capital and distribution capability to offer credit to industrial workforce and new businesses.³⁷

Siply, a micro-savings fintech startup acquired myPaisaa, an online chit platform owned by Finsave Technologies for USD 7.5 million. Siply aims to use the platforms to offer innovative financial services which are completely digital and to promote growth of financial services and investments to fulfil the needs of underserved people in India.³⁸

iv. INDUSLAW advised PhonePe and Ribbit Capital in this deal.



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