

Cross-border payment aggregators: Regulations and business use cases

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Foreword

Dear readers,

It is my pleasure to bring to you the latest edition of our payments newsletter. In this edition, we take a look at Reserve Bank of India (RBI)'s circular on 'Regulation of payment aggregator - cross-border (PA-CB)'. We have discussed the implications of the circular from the perspective of non-banks along with the potential business use cases for PA-CBs.

I hope you find this to be an insightful read.

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01

Introduction

On 31 October 2023, the Reserve Bank of India (RBI) issued a circular (RBI/2023-24/80 CO.DPSS.POLC.No.S-786/02-14-008/2023-24)¹ bringing all entities (referred to as payment aggregator - cross border [PA-CB]) facilitating cross-border payment transactions for import and export of goods and services under the direct regulation of the RBI. This circular is in line with the RBI Payments Vision 2025, which focuses on bringing non-bank entities within the RBI's regulatory ambit.

Prior to this circular, cross-border transactions for import and export of goods and services were primarily enabled through online payment gateway service providers (OPGSPs). The RBI did not have any licencing or authorisation requirements for these entities. They were simply required to open accounts with the Authorised Dealer Category-I banks (AD banks) to facilitate cross-border payments for import or export transactions. Due to the introduction of this circular, non-bank entities can now enter into the payment aggregation business – which was earlier limited to only AD banks. In addition, import of services along with goods is permitted for import PA-CB, which was earlier restricted for OPGSPs to import goods and software only. Having said that, PA-CBs now face the prospect of operating as full-stack payment systems, without the protective shield of an AD bank.

¹ RBI circular CO.DPSS.POLC.No.S-786/02-14-008/2023-24 dated 31 October 2023) on Regulation of PA-CBs



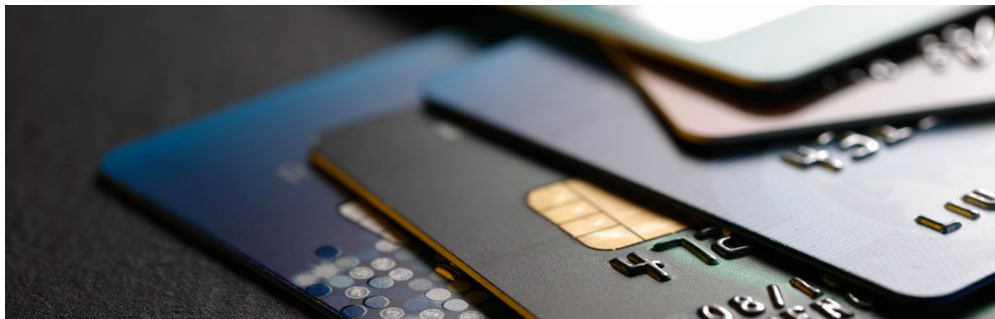
02 Requirements and implications

The circular has introduced three categories of PA-CB, as shown below:



These PA-CBs can process import or export transactions, the maximum value of which (goods or services sold or purchased) shall not exceed INR 25,00,000 per unit.

In order to operate as a PA-CB, certain requirements have been prescribed by the RBI in the circular.



1. Obtaining authorisation

The non-bank entities willing to work as PA-CB need to obtain approval from the Department of Payment and Settlement Systems (DPSS), RBI, Central Office (CO) in the manner prescribed in the circular.

AD Category-I banks	No separate approval required.
Non-banks which provide PA-CB services as on the date of the circular	Apply to the RBI for authorisation by 30 April 2024 as prescribed in the circular.
Non-banks which do not provide PA-CB services as on the date of the circular / new non-bank PA-CB	Seek approval from the DPSS, RBI and CO prior to commencement of PA business (a single authorisation will be required by a non-bank to undertake PA and PA-CB activity).

In addition, the entities need to ensure adherence to the guidelines on governance, merchant on-boarding, customer grievance redressal and dispute management framework, baseline technology recommendations, security, fraud prevention and risk management framework as provided by the RBI in the circular dated 17 March 2020 (within a period of three months from the date of RBI's circular for entities providing PA-CB services).² The compliance should be ensured on an ongoing basis to retain the authorisation.

² <https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=11822&Mode=0>



Implications

The circular necessitates that all the instructions issued by the RBI regarding payment aggregators will be applicable to PA-CBs. Therefore, all instructions – such as those relating to tokenisation, restrictions on storage of card credentials – will be applicable to PA-CBs.

All existing entities that are covered under the scope of PA-CB activity will have to scale up their technology and business practices to ensure compliance with these requirements. This may involve huge financial outlay for the PA. In addition, entities will have to ensure that the newer technology used is compatible with their existing infrastructure.

On the other hand, new non-bank entities can opt for single authorisation to undertake PA and cross-border PA business.



2. Minimum net worth criterion

The net worth criterion is provided for non-bank entities as below:

Non-banks which provide PA-CB services as on the date of the circular	<p>INR 15 crore at the time of submitting application to the RBI for authorisation;</p> <p>INR 25 crore by 31 March 2026</p>
Non-banks which do not provide PA-CB services as on the date of the circular / new non-bank PA-CBs	<p>INR 15 crore at the time of submitting application to the RBI for authorisation;</p> <p>INR 25 crore by end of the third financial year of grant of authorisation</p>

Implications

Non-bank entities need to ensure that they have sufficient capital. The same may be raised by the promoters or public issuance of shares.

As an alternative, non-banks may evaluate mergers in order to satisfy their capital requirements.

3. Maintenance of collection account

Import PA-CB and export PA-CB shall maintain an import collection account (ICA) and export collection account (ECA) respectively, with an AD Category-I scheduled commercial bank.

In case a PA-CB also engages in domestic PA activity, the ICA and ECA shall be kept separate from the escrow account(s) opened for such PA activity.

Implications

The PA-CBs shall have to enter into an agreement with the AD Category-I bank in order to maintain a collection account. The AD bank maintaining the ICA or ECA shall ensure that all requirements under the Foreign Exchange Management Act (FEMA) – including obligations regarding the reporting and reconciliation of entries in the Export Data Processing and Monitoring System (EDPMS) or Import Data Processing and Management System (IDPMS) – are adhered to. Due to this overarching obligation, PA-CBs and AD banks will also have to agree on their obligations from a foreign-exchange compliance perspective.

In case of import PA-CB, sufficient balance needs to be maintained. Accordingly, fund management would become an important aspect in order to ensure remittance.

4. Agreement with merchants

PA-CBs may enter into an agreement and on-board merchants located abroad or collaborate with e-commerce marketplaces or entities providing PA services abroad.

Implications

The PA-CBs would have the flexibility to tie up with domestic or overseas PAs, as required, for existing or future business models.

This can help provide technological expertise to the merchants or vendors and provide a one-stop solution for cross-border payments.

3 https://www.rbi.org.in/Scripts/BS_ViewMasDirections.aspx?id=11566

5. Customer due diligence

PA-CBs would be required to undertake customer due diligence for merchants (i.e. directly onboard merchants, e-commerce marketplaces or entities providing PA services abroad) as per the Master Direction – Know Your Customer (KYC) Direction, 2016.³

In case of import transactions exceeding INR 2,50,000 (per unit goods/services imported), the concerned PA-CB shall undertake due diligence of the buyer as well.

Implications

All PA-CBs are required to register themselves with the Financial Intelligence Unit-India (FIU-IND). This pre-requisite appears to be in line with a recent judicial decision, where the Delhi High Court held that an OPGSP was liable to be viewed as a payment system operator as defined under the Prevention of Money Laundering Act (PMLA), and accordingly, a reporting entity for the purpose of the PMLA.⁴

The PA-CB would have to ensure adherence to the Master Direction on KYC. Moreover, it would have to collect all the necessary documents from the merchants and ensure that ongoing due diligence is done. It would have to maintain the KYC records for at least five years and provide necessary information and cash transaction reports (CTR)/suspicious transaction reports (STR) to the director of Financial Intelligence Unit - India (FIU-IND).

The adherence to compliance and reporting requirements will necessitate a substantial financial outlay for non-bank entities.

4 <https://inc42.com/buzz/paypal-challenges-delhi-hcs-payment-system-operator-tag-under-pmla/>

PA-CBs can offer several services to customers. Some of the potential business use cases for PA-CBs are highlighted below.

1. Currency conversion and hedging

PA-CBs can provide currency conversion facility to the customers. They may also help provide foreign exchange hedging facility to customers after evaluating the requirement.

2. Wallet payments

PA-CBs can enable wallet-based payment facilities for customers. They can also tie up with other wallet providers and offer wallet payment interoperability.

3. QR-based payments

Export PA-CBs can provide proxy identifiers such as QR code to customers for receiving payments without sharing actual bank account details. This facility allows customers to remain carefree about communicating the change, if any, in the underlying bank account linked to the PA-CB. Customers may be provided with the feature of generating multiple QRs as well, which can help to track and reconcile payments.

4. Line of credit facility

Import PA-CBs may offer credit facility to the customer. Using this, customers may be able to make instant payments to the seller/beneficiary.

5. Integrating business model with payment links

Export PA-CB can integrate/embed the payment links for remittances with the business model of the customer – for example, a payment link generated through website/chatbots to enable the customer to receive payments seamlessly. Moreover, notification on receipt of payment can also be enabled.

6. Shareable payment links

PA-CBs can accept payments by generating payment links on behalf of the customer for receiving payments without a website. The link may be embedded or shared with the payee to collect the amount.

7. Recurring payments

PA-CBs can enable customers to make recurring cross-border payments and also manage their subscriptions.

8. Virtual account management

Export PA-CBs can provide virtual account management services to customers, which can facilitate tracking the receivables and reconciliation of the payments.

9. Export bill discounting

Export PA-CBs can provide export bill discounting service to the seller. This may be backed by the letter of credit document issued by the importer's bank.

The PA-CB circular issued by RBI is an important step towards bringing cross-border payment transactions under the regulatory ambit. The circular is meant facilitate entities to keep a track of payment transactions by introducing checks and reporting requirements for PA-CBs.

As a next step, all entities already facilitating or willing to facilitate cross-border payment transactions will need to assess their offerings and comply with the requirements of the PA guidelines and the circular. Moreover, they would have to commence with applications for authorisation in the manner specified in the circular.

Having said that, it is expected that the RBI will introduce further clarifications on the following areas:

1. Applicability of circular to entities providing services in offline mode:

The circular defines PA-CBs as entities facilitating cross-border payments in online mode. Basis this definition, it is not clear whether the circular intends to cover only a certain subset of electronic payments. Further clarification on the same is expected.

2. Applicability of circular for delivery vs payment (DvP) transactions:

The RBI's 'Guidelines on regulation of payment aggregators and payment gateways' dated 17 March 2020 (PA guidelines) have been made applicable to PA-CBs. The RBI has stated that the PA guidelines are not applicable on DvP transactions but are applicable to transactions where payment is made in advance and goods are delivered in a deferred manner.



As the PA-CB circular makes the PA guidelines applicable to all PA-CBs, the applicable timelines in relation to remittances where goods are delivered in advance and payment is deferred may have to be operationally assessed by PA-CBs. Further clarification on this is expected from the RBI.

3. Value limit: The circular states that with regard to import and export transactions processed by PA-CBs, the maximum value per unit of goods/services sold/purchased shall be INR 25,00,000. This limit is 'per unit' of goods/services – unlike the limit prescribed for OPGSPs which was 'per transaction'. Considering this, further clarification on the measurability of unit is expected.

Overall, the circular is a huge step towards bringing non-bank entities into the payment aggregation business.

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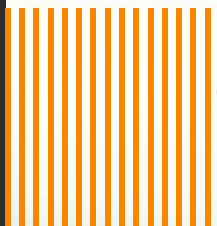
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