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UPDATES

Framework for Authorisation of Pan-India Umbrella Entity for Retail Payments

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This update covers:

The Reserve Bank of India (**RBI**) has been reviewing the ecosystem for payment systems in India, which is currently dominated by the National Payments Corporation of India (**NPCI**). The NPCI currently operates a large number of highly used payment systems including UPI, IMPS, CTS, BHIM, RuPay, NETC, BharatQR and AePS. In order to minimise risks such as single point failure, lack of innovation and monopolistic trends that are likely to arise from this concentration of operations, the RBI decided to encourage participation in the retail payments space.

The RBI has invited applications from payment system operators, payment service providers and technology service providers to set up, manage and operate new payment systems in the retail space.

In this context, the RBI published a Draft Framework for Authorisation of Pan-India New Umbrella Entity for Retail Payments (**Draft Framework**) on 10 February 2020, with an objective to establish new umbrella entity/entities (**Umbrella Entity**) to set up, manage and operate new payment systems in the retail space. The Draft Framework outlined the scope of activities to be carried out by an Umbrella Entity and provided the requirements to be fulfilled by applicant entities.

The RBI invited comments from the public on the Draft Framework and following deliberations on the feedback received, it issued the final Framework for Authorisation of Pan-India Umbrella Entity for Retail Payments (**Framework**) on 18 August 2020. Notable changes from the Draft Framework include (i) an expansion of the scope of activities to include interoperability with the NPCI, and the adoption of measures to enhance inclusivity, access, convenience, interoperability and safety, and (ii) a requirement for the applicant to commence operations within 6 to 12 months of receiving 'in principle' approval from the RBI.

1 Scope of Activities of an Umbrella Entity

Umbrella Entities must be incorporated in India under the Companies Act, 2013, either as a for-profit or a non-profit company and will be authorised by the RBI under the Payment and Settlement Systems Act, 2007. They will perform the following activities:

a. setting up, managing and operating new payment systems in the retail space, monitoring related issues globally, and ensuring the development of these systems;

b. operating clearing and settlement systems for participating financial institutions, and identifying and managing related risks such as settlement, credit and liquidity;

c. ensuring fairness, equity and competitive neutrality in determining participation in the system, safety of the system and efficient payments exchange;

d. carrying out other activities to foster the retail payments ecosystem in India, such as enhancing inclusivity, access, convenience, interoperability and safety;

e. maintaining interoperability with the systems operated by the NPCI; and

f. participating in the RBI's payment and settlement systems as required.

2 Requirements for Applicants

Applications for authorisation as an Umbrella Entity should be submitted to the RBI before 26 February 2021 in the format available *here*. The applicants must provide their incorporation and management information, and fulfil the following requirements:

2.1 Eligibility of promoters

Promoters of the Umbrella Entity must be owned and controlled by 'resident Indian citizens'. The term 'resident Indian citizen' is defined under the Foreign Exchange Management (Non-Debt Instrument) Rules, 2019 to mean an individual who is a person resident in India and is a citizen of India by virtue of the Constitution of India or the Citizenship Act, 1955.

2.2 Experience

Promoters should have three years' experience as a (i) Payment System Operator, an entity that operates an authorised payment system or (ii) Payment Service Provider, including banks or non-banks which provide payment services or participate in a payment transaction or (iii) Technology Service Provider, an entity that provides only technology platform or support (software, hardware or a technical service) to bank payment gateways, non-bank payment aggregators, e-commerce platforms, etc. (being pure technology service providers, they do not at any point hold the monies transacted between the customer and merchant).

2.3 Capital and Shareholding

Umbrella Entities must have a minimum paid up capital of INR 5,000,000,000. An entity holding over 25% of the paid-up capital of the Umbrella Entity will be deemed to be a promoter but no single promoter should have more than 40% investment in the capital of the Umbrella Entity. The shareholding pattern should be diversified. Each promoter must demonstrate a capital contribution of at least 10% at the time of application. The balance can be secured at the time of commencement of operations. Promoter shareholding can be diluted to a minimum of 25% after five years of commencement of the business. A minimum net worth of INR 3,000,000,000 should be maintained at all times.

2.4 Memorandum

The applicant's memorandum of association must cover the proposed activities of the Umbrella Entity.

2.5 Foreign Investment

The applicant must fulfill requirements under the Foreign Exchange Management Act, 1999 (**FEMA**) or obtain approval under the FEMA, as applicable, in case it has any foreign direct investment or foreign portfolio investment.

2.6 Fit and proper criteria

Promoters should conform to the fit and proper criteria prescribed by the RBI under the Framework. The Umbrella Entity shall also conform to the norms of corporate governance for appointments to its board. The RBI will have the right to approve the appointment of directors and to nominate a member on the board of the Umbrella Entity.

2.7 Business Plan

The application should contain a detailed business plan including: (i) the retail payment systems to be set up, (ii) particulars of the payment system such as technology, security, operational structure, risks and benefits, proposed timelines and scale of operation, (iii) organisational strategy to carry out the activities listed in Section 1 above, (iv) grievance redressal mechanism, and (v) evidence of experience in the payment systems ecosystem. Umbrella Entities should commence operations within 6 to 12 months of obtaining 'in principle approval' from the RBI.

3 Processing the Application

The applications will be scrutinised by an External Advisory Committee (**EAC**) after all the applications are received on 26 February 2021. The EAC will submit its recommendations to the RBI. The Board for Regulation and Supervision of Payment and Settlement Systems will be the final authority on whether an applicant should be authorised as an Umbrella Entity. The RBI will endeavour to complete this process within six months.

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