FAQs

Sectoral

BFSI - Fintech & Financial Services

1. What are the initiatives being taken for the FinTech space in India?

To enable regulated and orderly growth of FinTech ecosystem in India, several steps are being taken by different regulators: a) Reserve Bank of India (RBI) • Setting up of a regulatory sandbox, which was established based on the recommendations of Working Group on FinTech and Digital Banking, set up by Financial Stability and Development Council - Sub Committee (FSDC-SC). Within the sandbox, the eligible entities can live test their innovative products or services in a controlled environment. RBI Sandbox is based on thematic cohorts; the first cohort was on Retail Payments, the second cohort was on Cross Border Payments, and the third cohort, which was recently opened by RBI, on MSME Lending. To know more about this, please visit the RBI website here. • Innovation Hub is an entity set up to promote innovation across the financial sector by creating an eco-system that facilitates access to financial services and products. The Innovation Hub is expected to collaborate with financial sector institutions, technology industry and academic institutions and co-ordinate efforts for exchange of ideas and development of prototypes related to financial innovations, as well as develop infrastructure to promote FinTech research and facilitate engagement with innovators and start-ups. To know more, please click here. • HARBINGER 2021-Innovation for Transformation is a global hackathon with the theme ‘ Smarter Digital Payments ’. The Hackathon invites participants to identify and develop solutions that have the potential to make digital payments accessible to the under-served, enhance the ease of payments and user experience, while strengthening the security of digital payments and promoting customer protection. To know more, please click here. b) Securities Exchange Board of India (SEBI) • Regulatory Sandbox has been launched by SEBI with the aim to grant certain facilities and flexibilities to the entities regulated by SEBI so that they can experiment with FinTech solutions in alive environment and on limited set of real users for a limited time frame. To know more, please click here. • Innovation Sandbox will Innovation Sandbox facilitates access to an environment provided by Enabling Organizations like Stock Exchanges, Depositories and Qualified Registrar and Share Transfer Agents, wherein innovators would be testing their innovations in isolation from the live market and would be used for offline testing of the proposed solution of the applicant. To know more, please click here. You can also visit https://innovation-sandbox.in/ . c) Insurance Regulatory and Development Authority of India (IRDAI) • Regulatory Sandbox has been created by the IRDAI with the objective to use innovative ideas to foster growth and increase the pace of most innovative companies, in a way that provides flexibility in dealing with regulatory requirements and at the same time focussing

on policyholder protection. Recently, the IRDAI has extended validity of its sandbox regulations by another 2 years. To know more, please visit https://www.irdai.gov.in/Defaulthome.aspx?Page=H1.
d) International Financial Services Centres Authority (IFSCA) • Regulatory Sandbox framework has been launched by the IFSCA. Under this framework, entities operating in the capital market, banking, insurance and financial services space will be granted certain facilities and flexibilities to experiment with innovative FinTech solutions in a live environment with a limited set of real customers for a limited time frame. These features will be fortified with necessary safeguards for investor protection and risk mitigation, and the Regulatory Sandbox shall operate within the IFSC located at GIFT City. For more details, please visit https://ifsca.gov.in/Circular .

2. Which are some of the key regulatory authorities that are working towards the development of the FinTech sector in India?

· RBI – RBI is India's central bank and regulatory body under the jurisdiction of Ministry of Finance, Government of India, and regulates the banking and financial system, payment and settlement systems, the foreign exchange regime, and the currency system. · SEBI – SEBI is the regulatory body for securities and commodity market in India under the jurisdiction of Ministry of Finance, Government of India, and regulates the securities market, including securities such as shares, scrips, bonds, debentures, commodities, mutual funds and government securities. · IRDAI – IRDAI is a regulatory body under the jurisdiction of Ministry of Finance, Government of India and is tasked with regulating and licensing the insurance and re-insurance industries in India. · IFSCA- The IFSCA is a unified authority for the development and regulation of financial products, financial services and financial institutions in the International Financial Services Centre (IFSC) in India. At present, the GIFT IFSC is the maiden international financial services centre in India.

3. What licenses are required for different activities in the FinTech sector?

For undertaking Banking services or Payments, clearing and settlement services or Lending services – certain licenses / approvals from the RBI will have to be taken. For more information in this regard, please visit https://www.rbi.org.in/. For undertaking Securities trading activities, certain licenses / approvals will have to be taken from SEBI. For more information in this regard, please visit https://www.sebi.gov.in/ Depending on the nature of the Investment management / advisory services or Market Provisioning services, approvals may have to be taken from IRDAI or SEBI or RBI or other sectoral regulators. Cloud-based information technology services may require approvals under the Information Technology Act, 2000 and/or Information Technology (Intermediaries Guidelines) Rules 2011 from the Central Government and/or the relevant Ministry, or other sectoral regulators.

4. How is the use of FinTech in alternative finance activities regulated?

• Peer-to-peer lending - Non-banking financial company-peer to peer (NBFC-P2P) platforms are governed by the NBFC-P2P Lending Platform Directions 2017, issued by the RBI. An NBFC-P2P is defined as a non-banking institution that acts as an intermediary to provide loan facilitation services, whether online or otherwise, to participants. This does not include loan facilitation services for institutional lenders such as banks or NBFCs. Any FinTech activities related to NBFC-P2P, will require approvals from the RBI. • Payment platforms - The Reserve Bank of India has notified Guidelines for the Trade Receivables Discounting System (TReDS Guidelines) setting up an institutional mechanism for financing trade receivables of Micro, Small and Medium Enterprises (MSMEs) from corporate and other buyers including government departments and PSUs. TReDS covers clearing and settlement activities and is regulated as a payment system under the Payment and Settlement Systems Act 2007. For more information in this regard, please click here.

5. How are payment services regulated in India?

RBI regulates payments-related activities in India and issues circulars and directions applicable to different payments-related activities. Payment services are regulated under the Payment and Settlement Systems Act 2007. A payment system is defined as ‘ a system that enables payment to be effected between a payer and a beneficiary, involving clearing, payment or settlement service or all of them, but does not include a stock exchange ’. These include credit cards, debit cards, smart cards and money transfers. Any entity interested in commencing a payment system is required to obtain authorisation from RBI. The payment providers broadly fall under the following categories: payment aggregators and payment gateways, prepaid payment instruments, financial market infrastructure (clearing houses), retail payment organisations, card payment networks (Visa, MasterCard, etc), cross-border money transfers, ATM networks, white-label ATM operators and instant money transfer. There are three types of prepaid payment instruments: open payment instruments, which are payment instruments that can be used to make a payment to any merchant; semi-closed, which are payment instruments that can be used to make payment to a defined set of merchants; and closed, which are payment instruments of a merchant for payment only to that merchant. For more information, please click here.

6. What are Prepaid Payment Instruments (PPIs)?

PPIs are instruments that facilitate purchase of goods and services, conduct of financial services, enable remittance facilities, etc., against the value stored therein. For more information, please click here.

7. Who are the issuers of PPIs? Who is a holder of PPI?

PPIs can be issued by banks and non-banks. Banks can issue PPIs after obtaining approval from RBI. The non-bank PPI issuers are companies incorporated in India and registered under the Companies Act, 1956 / 2013. They can operate a payment system for issuing PPIs to individuals / organisations after receiving authorisation from RBI. A holder of a PPI is an individual who obtains / purchases the PPI from the PPI issuer. However, in case of a gift PPI, any other intended / targeted beneficiary, though not being the purchaser, can also be a holder. For more information, please click here.

8. How many PPI issuers have been approved by RBI? Where can I find the list of authorised bank and non-bank PPI issuers?

The list of PPI issuers is available on the RBI website. List of Bank-PPI issuers is available here, and Non-bank PPI issuers is available here. For more information, please click here.

9. What are the various types of PPIs?

PPIs that require RBI approval / authorisation prior to issuance are classified under two types:
a) Small PPIs (or minimum-detail PPIs): These PPIs are issued by banks and non-banks after obtaining minimum details of the PPI holder. These PPIs can be used for purchase of goods and services at a group of clearly identified merchant locations / establishments which have a specific contract with the issuer (or contract through a payment aggregator / payment gateway) to accept the PPIs as payment instruments. Funds transfer or cash withdrawal from such PPIs is not permitted.
a) Full-KYC PPIs: The PPIs are issued by banks and non-banks after completing Know Your Customer (KYC) of PPI holder. These PPIs can be used for purchase of goods and services, funds transfer or cash withdrawal. For more information, please click here.

10. What are Closed System PPIs?

These PPIs are issued by an entity for facilitating the purchase of goods and services from that entity only. Cash withdrawals are not permitted. These instruments cannot be used for payment or settlement for third party services. The issuance or operation of such instruments is not classified as a payment system requiring approval / authorisation by RBI and are, therefore, not regulated or supervised by RBI. For more information, please click here.

11. What are the types of Small PPIs?

Small PPIs can be of two types: a) PPIs upto 10,000/- (with cash loading facility). These PPIs shall be converted into full-KYC PPIs within 24 months. b) PPIs upto 10,000/- (with no cash loading facility). For more information, please click here.

12. How can PPIs be loaded? Is there any limit on loading of PPIs by cash or electronic means?

PPIs can be loaded / reloaded by cash (not permitted in one type of Small PPI), debit to a bank account, credit and debit cards, PPIs (as permitted from time to time) and other payment instruments issued by entities regulated in India and in Indian Rupees (INR) only. The cash loading of PPIs is limited to 50,000/- per month subject to overall limit of the PPI (not permitted in one type of Small PPI). The limit on loading of PPIs via electronic / online means is subject to overall limit of the PPI. For more information, please click here.

13. How long can a customer hold a Small PPI (with cash loading facility)?

A Small PPI (with cash loading facility) can be held for a maximum period of 24 months only. The 24 months shall be counted from the day of opening such a PPI. Within this period of 24 months, it has to be converted into a full-KYC PPI failing which, no further credit in such PPI shall be allowed. However, the PPI holder shall be allowed to use the available balance. For more information, please click here.

14. Can a PPI holder close the ‘Full-KYC’ PPI? If yes, what will happen to the outstanding amount?

PPI issuers shall give an option to the ‘Full-KYC’ PPI holders to close the PPI and transfer the balance to bank account as per the applicable limits of this type of PPI. For this purpose, the issuer shall provide an option at the time of issuing the PPI, to the holder to provide details of pre-designated bank account or other PPI to which the balance amount available in the PPI shall be transferred in the event of closure of PPI, expiry of validity period of such PPIs, etc. At the time of closure, a holder can specify a bank account which is different from pre-designated account given earlier. For more information, please click here.

15. In what form can a PPI be issued?

PPIs can be issued as cards, wallets, and any such form / instrument which can be used to access the PPI and to use the amount therein. PPIs in the form of paper vouchers cannot be issued. For more information, please click here.

16. Can PPIs be used for cross-border outward & inward transactions?

Full-KYC PPIs issued by Authorised Dealer Category-I banks, can be used in cross-border outward transactions for permissible current account transactions under FEMA viz. purchase of goods and services. This facility shall be enabled only on explicit request of a PPI holder. Bank and non-bank PPI issuers, who are Indian agents of the authorised Overseas Principal (OP), are permitted to issue full-KYC PPIs to beneficiaries of inward remittance under the Money Transfer Service Scheme (MTSS) of the RBI. It means that the entity undertaking this activity needs to be an authorised PPI issuer as well as an Indian Agent under MTSS (authorised by Foreign Exchange Department, RBI). For more information, please click here.

17. Is it mandatory for a PPI issuer to allow interoperability?

Yes, it is mandatory for a PPI issuer to allow interoperability. It is mandatory for the PPI issuer to give the holders of full-KYC PPIs interoperability through authorised card networks and UPI. All modes of acceptance (including QR codes) and PPI issuance are required to be interoperable by March 31, 2022

18. What is National Electronic Funds Transfer (NEFT) System?

National Electronic Funds Transfer (NEFT) is a nation-wide centralised payment system owned and operated by the RBI. For more information, please click here.

19. Can the NEFT system be used for remitting funds even by those who do not have a bank account?

Yes, the person having no bank account can remit funds through NEFT to a beneficiary having a bank account, with another NEFT member bank. It can be done by depositing cash at the nearest NEFT enabled branch of any bank, by furnishing additional details such as complete address, telephone number, etc. Such cash remittances will, however, be restricted to a maximum of 50,000/- per transaction.

20. Can NEFT be used to transfer funds from / to NRE and NRO accounts?

Yes, NEFT can be used to transfer funds from / to NRE and NRO accounts in the country. This, however, is subject to the adherence of the provisions of the Foreign Exchange Management Act, 2000 (FEMA) and Wire Transfer Guidelines.

21. What are the different Centralised Payment Systems (CPS) operated by the RBI?

The RBI owns and operates following CPS: a) Real Time Gross Settlement (RTGS) System – It is the country ' s Large Value Payment System and was introduced in March 2004. It was subsequently enhanced to Next Generation-RTGS (NG-RTGS) built on the ISO 20022 standard with advanced features such as hybrid functionality, liquidity management functions, future date functionality, scalability, etc. The transactions settle real-time on a gross basis in the books of RBI and have a floor value of Rs. 2 lakh. RTGS also settles Multilateral Net Settlement Batch (MNSB) files emanating from ancillary payment systems such as CCIL and NPCI. It is available round the clock on all days of the year with effect from December 14, 2020. b) National Electronic Fund Transfer (NEFT) system – It is a retail payment system and was introduced in November 2005. NEFT has a straight through process which operates in 48 half-hourly batches 24x7x365 with effect from December 16, 2019. There is no floor or ceiling for the amount that can be transferred in a single transaction, because of which NEFT has emerged as a popular hybrid payment system. For more information, please click here.

22. Which are the non-bank entities enjoying access to CPS presently?

Some of the non-bank entities with access to CPS include standalone primary dealers, clearing corporations of stock exchanges, central counterparty (CCIL), retail payment system organisation (NPCI), select financial institutions (NABARD, EXIM Bank) and DICGC. For more information, please click here, and here.

23. What is Unified Payments Interface?

Unified Payments Interface (UPI) is an instant payment system developed by the National Payments Corporation of India (NPCI), an RBI regulated entity. UPI is built over the IMPS infrastructure and allows you to instantly transfer money between any two parties' bank accounts.

24. What is IMPS?

IMPS is an innovative real time payment service that is available round the clock. This service is offered by National Payments Corporation of India (NPCI) that empowers customers to transfer money instantly through banks and RBI authorized Prepaid Payment Instrument Issuers (PPI) across India.

25. How is the use of FinTech in the insurance sector regulated?

Insurance technology (InsurTech) is regulated by the IRDAI at the national level. IRDAI issued the Insurance Web Aggregators Regulations 2017 to supervise web aggregators as insurance intermediaries providing a website for price comparison and information about insurance products. To act as an insurance web aggregator or telemarketer, interested entities must obtain a registration certificate after satisfying the eligibility criteria in these regulations. The Web Aggregators Regulations now allow for Web Aggregators to be wholly foreign controlled subject to furnishing an undertaking. Further, the IRDAI has also recently notified the IRDAI (Regulatory Sandbox) Regulations, 2019 for facilitating innovation; these regulations allow insurers, intermediaries, insurance intermediaries as well as other with entities with a minimum net worth of INR1 million to apply for a permission to test their insurance products and services in a controlled regulatory sandbox. The IRDAI has also issued the Insurance E-Commerce Guidelines to promote e-commerce in the insurance sector. The Insurance E-Commerce Guidelines allow entities to set up insurance self-network platforms (ISNPs) for selling and servicing insurance products. E-commerce activities can be conducted on ISNPs subject to compliance with the Insurance E-Commerce Guidelines. For more information, please visit https://www.irdai.gov.in/Defaulthome.aspx?Page=H1

26. What is Gujarat International Finance Tec-City (GIFT City)?

GIFT City is being developed as a global financial and IT Services hub, a first of its kind in India, designed to be at par or above with globally benchmarked financial centres. GIFT ’ s Master Plan facilitates Multi Services Special Economic Zone (SEZ) with International Financial Services Centre (IFSC) status, Domestic Finance Centre and the associated social infrastructure. For more information, please click here.

27. What is an IFSC?

IFSC Stands for International Financial Services Centre (IFSC). An IFSC caters to the customers outside the jurisdiction of domestic economy. Such centres deal with the flow of finance, financial products, and services across the borders. IFSC as envisaged under the Indian context “ is a jurisdiction that provides financial services to nonresidents and residents (Institutions), in foreign currency other than Indian Rupee (INR) ” . IFSC is setup to undertake financial services transactions that are currently carried on outside India by overseas financial institutions and overseas branches/ subsidiaries of Indian financial institutions. For more information, please click here.

28. What is the aim of setting up GIFT-IFSC?

The IFSC in GIFT City (GIFT IFSC) seeks to bring back those financial services transactions that are currently carried on outside India by overseas financial institutions and overseas branches/subsidiaries of Indian financial institutions to the Indian shores. Specifically, it seeks to bring them to a centre that has been designated for all practical purposes as a location having the same eco system advantage as their present offshore location, which is physically in India. For more information, please click here.

29. What is FinTech?

A linguistic blend of two individual terms ‘ Finance ’ & ‘ Technology ’ , FinTech is being used to denote the wide array of technological innovations that have a bearing on financial services.