4. Payment System in India - Economy

PayU gets RBI clearance for unified online, offline and cross-border payment aggregation
Payment Aggregators (PAs) are RBI-regulated entities that handle, aggregate, and settle funds for merchants, unlike Payment Gateways (PGs) which are primarily unregulated technology providers that only route transaction data. Non-bank PAs require RBI authorization and must meet a rising net-worth requirement, maintain escrow accounts, and adhere to strict security and KYC guidelines.

Payment Aggregators (PAs) and Payment Gateways (PGs) in India

The distinction between Payment Aggregators (PAs) and Payment Gateways (PGs) lies fundamentally in their involvement in funds handling and their regulatory status under the Reserve Bank of India (RBI).

I. Definitions and Differentiation (Tabular Comparison)

Feature	**Payment Aggregator (PA)**	**Payment Gateway (PG)**
Definition	An entity that facilitates the aggregation of payments made by customers to merchants and subsequently settles the collected funds to the merchants.	An entity that provides technology infrastructure to route and facilitate the processing of a payment transaction.
Involvement in Funds Handling	Involved (Receives, pools, and transfers payments).	Not involved (No involvement in the handling of funds).
Primary Function	Funds handling, collection, and settlement.	Technology infrastructure and routing.
Regulation by RBI (PSSA)	Fully regulated; non-bank PAs require RBI authorisation under the PSSA.	Primarily considered 'technology providers'; not required to seek separate authorisation from the RBI.
Examples (PAs)	Amazon (Pay) India, Google India Digital Services, Razorpay, Pine Labs.	-

Categories of Payment Aggregators (PA)

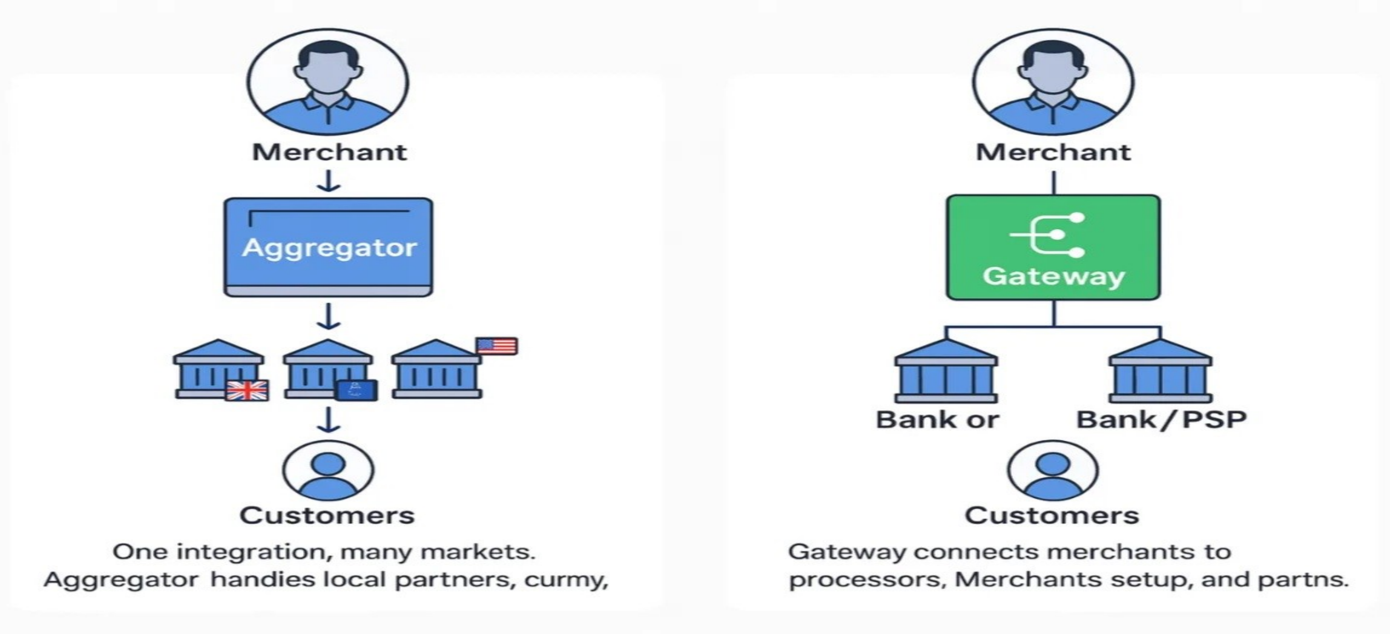
PAs are categorized based on their functional environment -

PA – Online (PAO) - Facilitates transactions where the acceptance device and payment instrument are **not** in close physical proximity (e.g., e-commerce payments).

PA – Physical (PAP) - Facilitates transactions where both the acceptance device and payment instrument are physically present in close proximity (e.g., Point of Sale).

PA – Cross Border (PA – CB) - Facilitates aggregation of cross-border payments for current account transactions (inward/outward) that are not prohibited under FEMA.

Regulation of Payment Aggregators (PAs)



The activities of non-bank PAs are regulated in their entirety by the RBI under the Payment and Settlement Systems Act, 2007 (PSSA).

Authorization and Corporate Requirements

Authorisation - Non-bank PAs require authorisation from the RBI to operate under the PSSA. Banks do not require a separate authorisation.

Corporate Status - A non-bank PA must be a company incorporated in India under the Companies Act, 2013.

Foreign Investment - 100% FDI is permitted under the automatic route, guided by the Consolidated FDI Policy and relevant FEMA guidelines.

Management - Promoters and directors must satisfy the RBI's 'fit and proper' criteria (record of fairness, integrity, and good reputation).

Change in Control - Any takeover, acquisition of control, or change in the management of a non-bank PA requires RBI's prior approval.

Net-Worth Requirements

PAs must achieve and maintain a phased minimum net-worth -

At Application - Minimum net-worth of ₹15 crore.

Ongoing - Must attain a minimum net-worth of ₹25 crore by the end of the third financial year of the grant of authorisation, and maintain it thereafter.

Compliance and Risk Management

Escrow Account - Non-bank PAs must maintain the funds collected on behalf of merchants in a separate escrow account with a Scheduled Commercial Bank (SCB) in India.

KYC and Reporting - Must undertake Customer Due Diligence (CDD) of their merchants in accordance with RBI's Master Direction on KYC. Must register with the Financial Intelligence Unit-India (FIU-IND) and meet all reporting requirements. Must undertake a background and antecedent check of the merchants to prevent malafide intentions or selling prohibited products.

Information Security - Must put in place a Board-approved Information Security Policy and implement security measures.

Operational Limits and Timelines

Settlement Timelines (Domestic) - Payment to the merchant shall be not later than on the day after the date of delivery confirmation (Td+1), where the merchant is responsible for delivery.

Transaction Limits - PAs shall not place limits on the transaction amount for a particular payment mode; this responsibility lies with the issuing bank or entity. For cross-border payments (PA – CB), the maximum transaction value is capped at ₹25 lakh for both inward (incoming) and outward (outgoing) transactions.

Authentication - PAs shall not give an option for ATM PIN as a factor of authentication for card-not-present transactions.

Regulations for Payment Gateways (PGs)

Regulatory Status - PGs are primarily considered **'**technology providers' or 'outsourcing partners' of banks or non-banks, and are not required to seek separate authorisation from the RBI under the PSSA.

Good Practice - While not fully regulated, PGs are recommended to adhere to the baseline technology-related recommendations as a measure of good practice.

Applicable Guidelines (Bank PG) - In the case of a bank PG, the RBI's guidelines on 'Managing Risks and Code of Conduct in Outsourcing of Financial Services by banks' are applicable.

Source - https - //economictimes.indiatimes.com/industry/banking/finance/payu-gets-rbi-clearance-for-unified-online-offline-and-cross-border-payment-aggregation/articleshow/125406452.cms?from=mdr