

November 2023



## RBI Circular on Regulation of Payment Aggregators Facilitating Cross Border Transactions

### Regulatory Update

The Reserve Bank of India (“**RBI**”) has issued a circular on ‘Regulation of Payment Aggregators – Cross Border’ on October 31, 2023 (“**PA-CB Circular**”), bringing all entities facilitating cross-border payment transactions for import and export of goods and services under the direct regulation of the RBI. The PA-CB Circular replaces the RBI’s earlier instructions on the facilitation of cross-border payments for small value export and import transactions, which were consolidated in the circular dated September 24, 2015 (“**OPGSP Circular**”).

Last year, the RBI released a draft circular on the processing and settlement of small value export and import related payments on April 7, 2022. The PA-CB Circular has been issued in light of developments in cross-border payments based on feedback received on the draft circular.

The PA-CB Circular defines PA-CBs as “*entities that facilitate cross-border payment transactions for import and export of permissible goods and services in online mode*”. PA-CB activity is then further classified into three categories – ‘export only’, ‘import only’ and both ‘export and import’.

Please see below our analysis in connection with the key provisions of the PA-CB Circular and the likely implications for the cross-border payments industry.

### Key developments

- RBI approval for PA-CB activity:  
*For existing OPGSPs:* Erstwhile OPGSPs (which are now termed as ‘PA-CBs’) have been equated with and are being regulated as payment aggregators (“**PAs**”) under the PA-CB Circular.

A non-bank undertaking PA-CB activity as of the date of the PA-CB Circular will need to apply for an approval from the

RBI by April 30, 2024. Failing which, it will need to wind up its PA-CB activity by July 31, 2024. Such a non-bank entity can continue its PA-CB business during the pendency of its application with the RBI.

Additionally, a non-bank PA-CB must register with the Financial Intelligence Unit-India (“**FIU-IND**”) as a prerequisite to applying for RBI’s approval. Therefore, a PA-CB will be treated as a reporting entity and will be obligated to undertake client due diligence, maintain a record of specified transactions for the prescribed period and report specified transactions to the FIU-IND.

*For existing payment aggregators:* A non-bank PA must inform the RBI about its existing PA-CB activity and whether it intends to continue such activity within 60 days from the date of the PA-CB Circular. If it intends to continue its PA-CB activity, the non-bank PA must separately seek RBI approval. This intimation and approval requirement is applicable for both a PA already authorised by RBI and a non-bank entity whose PA application is pending with the RBI.

*For any non-bank intending to commence PA-CB activity:* Going forward, any non-bank intending to commence PA-CB activity will need to obtain RBI’s approval, prior to commencement of such business.

*AD category-I banks* are exempt from this requirement of obtaining a separate RBI approval.

- Capital requirements and governance:  
An entity currently undertaking PA-CB activity must have a minimum net worth of INR 15 crore at the time of applying for RBI approval, which must be increased to INR 25 crores by March 31, 2026. A new non-banking entity who intends to undertake PA-CB activity must have a minimum net worth





of INR 15 crores at the time of applying for RBI approval and must attain a minimum net worth of INR 25 crore by the end of the third financial year from receipt of authorisation.

An existing PA-CB must also comply with the standards applicable to PAs for governance, merchant onboarding, customer grievance redressal and dispute management framework, baseline technology recommendations, security, fraud prevention and risk management framework within three months from the date of the PA-CB Circular.

- **KYC norms:**

A PA-CB must now comply with the same KYC due diligence norms as a PA. For facilitating cross-border transactions, a PA-CB may onboard merchants either directly or indirectly (by entering into agreements with e-commerce marketplaces or entities providing PA services). A PA-CB will need to undertake a customer due diligence/ KYC check of all entities onboarded by them directly (merchants, e-commerce marketplaces or entities providing PA services).

A PA-CB must also ensure that it does not facilitate payment transactions for the import/export of restricted/prohibited goods and services (which are not permitted under the prevailing Foreign Trade Policy).

If the per unit value of the goods/services imported is more than INR 2.5 lakhs, then the concerned PA-CB must undertake due diligence of the buyer too.

- **Settlement flow:**

For Import PA-CBs

Payments for imports will be received in an escrow account of the PA. The payment is then transferred to an import collection account maintained by the PA-CB with an AD Category-I bank, through which it is onward transferred to the foreign merchants for settlement.

For Export PA-CBs

Export PA-CBs will maintain different export collection accounts for each currency (INR or foreign currency). All export proceeds will be credited to the relevant export collection account with the AD Category-I bank. Onward settlement to merchants will be carried out through the

export collection account only. The PA-CB can finally settle in non-INR currencies only for merchants it has directly onboarded.

For Import and Export PA-CBs:

Such PA-CBs must comply with the requirements specified for both import and export flows. Separate import and export collection accounts must be maintained for facilitating import and export transactions.

The permitted debits and credits for a PA-CB are the same as for a PA:

Permitted credits from the escrow account are: (i) monies collected from customers, (ii) transfers in connection with refunds, (iii) pre-funding by merchants and PAs, and (iv) payment received for onward transfer to merchants such as under promotional activities etc.

Permitted debits from the escrow account are: (i) payments to merchants/service providers, (ii) payment to any other account on the specific direction of merchants, (iii) transfer representing refunds, (iv) payment of commission to intermediaries, and (v) payment of amount received under promotional activities etc.

- **Transaction Limits:**

The OPGSP Circular capped the value of import payments to USD 2,000 and export payments to USD 10,000. In a significant development, the PA-CB Circular prescribes a 'per unit value' limit. A PA-CB can process payments for goods and services having a per unit value of up to INR 25 lakhs.

## Implications for the Payments Industry

The RBI has moved from a light-touch approach to a full approval regime for PA-CBs. The requirement of obtaining RBI's prior approval and registration with the FIU-IND could prove to be operationally and practically challenging for PA-CBs. While such changes will encourage transparency and reporting for cross-border transactions, they may discourage players from carrying on PA-CB business in India.



## Snapshot comparison

Regulatory requirements	OPGSP Circular (2015)	PA-CB Circular (2023)
Requirement to obtain RBI authorisation	No	Non-banks: Yes, existing non-bank PA-CBs must apply for RBI approval by April 30, 2024 (or wind up their PA-CB business by activity by July 31, 2024). AD Category-I banks: No
Net worth requirements	No	Yes, PA-CBs must have a minimum net worth of INR 15 crores at the time of making an application.  Their net worth must be increased to INR 25 crores by March 31, 2026 (for existing non-banks undertaking PA-CBs activity) or within the third financial year from receiving RBI approval (for new PA-CBs).
Transaction limits	Cap on aggregate transaction value: Import: USD 2,000 Export: USD 10,000	Cap on per unit value of goods/ services provided: INR 25,00,000.
Nature of transactions with can be facilitated	Import: goods and <u>software</u> Export: goods and services (as permitted under India's foreign trade policy).	Import and export of goods and <u>services</u> (as permitted under India's foreign trade policy).
Due diligence / KYC norms	OPGSP to follow appropriate due diligence procedures while onboarding merchants.	PA-CBs must undertake proper customer due diligence and KYC checks (per RBI's master directions) before onboarding merchants. This includes both merchants in India (for export transactions) and overseas merchants (for import transactions).  Further, PA-CBs must also undertake KYC checks for a buyer having a per-unit transaction value of more than INR 2.5 lakhs.
Technology standards	Adhere to the Information Technology Act, 2000 and all applicable regulations.	Yes, PA-CBs must comply with the baseline technology recommendations specified in the RBI's PA-PG Guidelines dated March 17, 2020.

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