

3rd Annual Report

2015-2016



CONTENT

• INTRODUCTION	2
• POLICY	3
• KEY INTERACTIONS	7
• ANNUAL CONFERENCE	9
• EXECUTIVE COUNCIL	12
• MEMBERS	13

INTRODUCTION



The year 2015-16 has been an exciting year for the digital payments industry. In India's quest to go digital and a massive change in the overall market dynamics, the payments industry – considered to be the very foundation of the economy – has not been left untouched, witnessing a rapid growth in its digital payments segment.

Along with the Reserve Bank of India, the Government of India has been pushing out policies to encourage a movement towards a less cash society. This is happening through various initiatives: Payments Banks, Bharat Bill Payment Services, proposal to do away with surcharge / convenience fees, etc.

Payments Council of India (PCI), the only representative body of the digital payments players in the payments and settlement ecosystem, has been continuously interacting with the regulator and the government to assist them with the agenda of moving to a less cash economy and inclusive payment system.

A majority of the recommendations from PCI & IAMA paper on 'Draft proposal for facilitating electronic transaction' submitted to Ministry of Finance were included in the Union Budget and further, the guidelines were issued by the Department of Economic Affairs (DEA) for driving the adoption of digital payments in India.

PCI has been involved in active stakeholder discussion, representation and submissions to various government authorities during the year. Some of them are feedback to Department of Electronics and Information Technology (DeitY) on 'Draft Framework for electronic payments and receipts for government departments' and 'Representation to Central board of direct taxes (CBDT) on Mandatory Quoting of PAN for certain transactions via Prepaid Payment Instruments'.

With 11 in-principle licenses issued by Reserve Bank of India for setting up payments banks, a Payments Bank group was formed under PCI to represent their issues and concerns in going live and thereafter. It currently has 6 members out of the 8 who have opted to utilize the in-principle licenses given to them.

With thrust and focus of the government on bringing digital payments at par with offline transactions, and the favorable confluence of positive consumer reception, PCI is extremely excited at the prospect of country's booming digital payments industry. PCI intends to work closely with its members, the regulator and other key stakeholders in driving the growth of the industry.



PCI has been actively involved in interactions with and representations to the regulator, government and various government departments and stakeholders. Some of the key representations and submissions during the year were:

1. Ministry of Finance, Government of India

i Union Cabinet Note on Facilitating Electronic Transactions

In its measure to incentivize electronic transactions and disincentivize cash transactions, Government of India invited comments on a Draft Proposal for Facilitating Electronic Transactions (E-transactions). The Key recommendations included in Payments Council of India's (PCI) feedback to the draft proposal were:

- Rationalization of Interchange rates for debit cards and credit cards take the 'issuing bank-acquiring bank' network into consideration, and provide for a solution that enables acquiring banks to recover the capital and operating expenditures and motivates the acquirers to rapidly expand the payment acceptance ecosystem across the country.
- Account for cash transactions at POS. The consumers can sign up with a National authority/ body via a mobile no or using any other authentication, which can be used at the PoS terminals to account for cash payments. In addition, the merchant can issue a cash payment receipt to the consumers via the PoS terminals which will keep a track of cash payments more transparently and disincentivize cash payments
- Aligning KYC requirements based on the risk profile and safety requirements of the customers.
- Provide subsidies/tax benefits for electronic and digital payment service providers. These benefits could either be in the form of reduction/exemption of service tax, or tax-free holidays.

In line with the Draft Proposal for facilitating electronic transactions, a lot of positive changes were announced by the government for encouraging the use of digital payments. There were some key announcements made in the budget speech by the Finance Minister and further, the guidelines were issued by the Department of Economic Affairs (DEA) for driving the adoption of digital payments in India. Some of them were development of 'PayGov India' as a single unified portal across central, state governments and their public sector undertakings for collection purpose, working out a multi tiered authentication framework for low, medium and high value transactions, to create necessary assurance mechanisms for fraudulent transactions and formulate a comprehensive customer protection policy for transactions through cards and digital means.



Majority of the recommendations from PCI feedback submitted to Government were included in the budget. Some of the recommendations were:

- Inclusion of prepaid payment instruments in the definition of electronic transactions
- Waiver of surcharge on digital payments for essential commodities, utility service providers, petrol pumps, gas agencies, railway ticket counter IRCTC by government departments/Central Public sector undertakings/ Organizations with provisions to budget this cost of electronic payments and
- Formulating a differentiated MDR for some key transaction segments such as utility payments and railway ticketing, among others.
- Facilitate collection of all revenue, fees, penalties etc through digital means beyond a certain threshold by government departments by introducing appropriate acceptance infrastructure.

2. Reserve Bank Of India

a. Department of Payment and Settlement Systems

i Inclusion of PPIs on National Unified USSD Platform (NUUP)

NPCI's National Unified USSD Platform (NUUP) helps the Banking customers to transact through an interactive menu displayed on the mobile screen by dialing a single number across all Telecom Service Providers. PPIs are not allowed to join NUUP platform as per guideline issued by Telecom Regulatory Authority of India (TRAI). TRAI has issued these guidelines basis Inter Ministerial Committee on Financial Inclusion in 2010, when PPIs were not in existence. A representation was sent to RBI to consider issuing a letter to TRAI describing the role and inclusion of PPIs in Financial Inclusion.

ii Role of Mobile as POS to drive Financial Inclusion and Less Cash Society

Low penetration of POS drives the case for promoting multiple forms of point of sale devices in India. Payments Council of India shared a note with RBI on the complementarities of traditional POS and mPOS which arise from the differences in use case and costs across the different solutions. The note elaborated on how traditional POS and mobile based POS solutions are complementary to each other, and should be grown in tandem. The note also highlighted the common challenges faced by the industry irrespective of the model of acceptance to drive the growth POS deployment in the country. Some of the challenges highlighted were:

- Merchant onboarding
- Common KYC
- Interstate Tax regime
- Chargeback Rules
- Cost of POS terminals
- Unfavorable economic distribution for acquirers

iii Measures for mitigating the risk of fraudulent flow of money via the prepaid channel

Prepaid Payment Issuers feel the need for appropriate industry wide standard measures to safeguard the industry and the consumers against the possible misuse of the channel for fraudulent transactions and support the regulator to keep a track at an industry level. In view of the same, PPI industry has come together and has adopted common measures/practices which can be followed industry wide to alleviate the risk of fraud. A Consolidated report on adoption of these measures would be shared by PCI with RBI from time to time.

iv Feedback on Committee report Medium Term Financial Inclusion

The Deepak Mohanty Committee constituted by the Reserve Bank of India in July 2015 had on December 28, 2015 released the Report on Medium-term Path on Financial Inclusion with the vision to spread the reach of financial services to unbanked population in the country. PCI is fully appreciative of the financial inclusion initiative envisaged by the committee and submitted the members feedback on the report. Level playing field to be provided to non- bank players and end to end digital KYC for bank account opening were some of the feedbacks shared on the report by PCI.



v Feedback on Concept paper on Card Acceptance Infrastructure

In its endeavor to digitize cash transactions, RBI invited stakeholder comments on measures for expansion of card acceptance infrastructure. PCI along with its members shared a detailed feedback on strategies for enhancing acceptance infrastructure and differentiated Merchant discount rates. PCI suggested a 2 step approach for promoting wide spread adoption of card usage for payments being incentivizing acquirers to develop the acquiring infrastructure and incentivizing merchants to prefer debit cards over cash.

b. Department of Banking Regulation

i Paperless Bank Account Opening

PCI shared a note with Department of banking regulation on end to end digital KYC verification and paperless account opening process based on Aadhaar based biometric/OTP verification in combination with a dual factor authentication. This dual factor authentication for obtaining consent of the customer for the terms and conditions attached with opening a bank account will help to do away with the need of obtaining a wet signature for bank account opening.



3. Other Government Departments

a. Submission of feedback to DeitY on Framework for electronic payments and receipts

Payments Council of India submitted its feedback to DeitY on the 'Draft Framework for electronic payments and receipts for government departments'. The submission stressed on inclusion of non-banks as a compulsory payment option for all the government payments.

b. Representation to CBDT on Mandatory Quoting of PAN for certain transactions via Prepaid Payment Instruments

Point no 13 in the list of transactions under Sec 114 B of the 22nd Income Tax Amendment Rules mandated 'Quoting of PAN for payment in cash or by way of a bank draft or pay order or banker's cheque of an amount aggregating to more than fifty thousand rupees in a financial year in the event of Payment for one or more pre-paid payment instruments'

This notification was welcomed as a step in the direction of curbing cash transactions in order to address various issues related to cash handling in general and the curbing of black money in particular. However, in view of difficulty to obtain PAN from the target nontaxable segment, payments Council of India filed a representation with Central Board of Direct Taxes on exempting a certain category of PPIs which require minimum KYC from the notification and for full KYC the limits to be revisited in line with limits of deposits with a bank.

KEY INTERACTIONS

PCI interacts regularly with the regulator, government and other stakeholder to promote the growth of digital payments industry. Some of the key interactions of PCI during the year were:

i **Dr. Saurabh Garg, Joint Secretary, Department of Economic Affairs, Ministry of Finance**

PCI chairman, Mr. Naveen Surya and Dr. Subho Ray, President, IAMAI met Dr. Saurabh Garg, Joint secretary at Department of Economic Affairs. Discussion was focused on submission made by PCI members on 'Draft proposal for facilitating electronic transactions'. At the meeting, the key points of discussions were impediments for growth of digital payments sector and the ways to overcome them. Dr. Saurabh Garg was instrumental in drafting the Union Cabinet note for promoting digital transactions which encompassed recommendations from PCI members.

ii **Shri. Rajesh Aggarwal, Joint Secretary, Department of Financial Services, Ministry of Finance**

PCI Chairman and IAMAI President met Shri Rajesh Aggarwal from Department of Financial Services. Mr. Aggarwal was apprised on the ground level work done by prepaid payment issuers for financial inclusion. A white paper drafted by PwC on 'PPIs driving Financial inclusion' which highlighted the work done by PPIs and recommended opening up G2P payment via prepaid channel among others was shared with him as well.



iii **National Institute of Public Finance and Policy (NIPFP) and Department of Economic Affairs (DEA), Ministry of Finance**

In the backdrop of the measures envisaged in the Union Cabinet note, a panel discussion was hosted by NIPFP and DEA jointly to appreciate and review the policy interventions needed to promote the use of digital payments and replace cash. The participants included policy-makers, stakeholders, academics etc. PCI was invited at the panel discussion as a representative body of non-banking entities in the payments and settlement systems. The points of discussion at the meeting were 'Enabling competition and innovation in payments' and 'Strengthening payments legislative and regulatory architecture'.

iv **Department of Disinvestment, Ministry of Finance**

A meeting of the taskforce for implementation of cabinet decisions on promotion of payments through cards and digital means was summoned by the Department of Disinvestment. The meeting was presided by Shri. Neeraj Gupta, Secretary, Department of Disinvestment. PCI was one of the invitees at the meeting along with other stakeholders and experts. The main points of discussion at the meeting were:

- Assessment of the payment infrastructure existing in the context of cards and various other digital means
- Rationalization of the Merchant Discount Rate (MDR) on the card transactions
- Feasibility of Inter-operability of various payments interface

v **Shri. N.S. Viswanathan, Executive Director, Reserve Bank Of India**

Out of the 42 entities which applied for the payments banks licensee, RBI granted in principle approval to only 11 entities. Mainly Telcos and NBFCs were selected by RBI for granting license. PCI Chairman along with some executive council members and important stakeholders met Shri Viswanathan to better understand as to what is required of PPIs that they can be considered for grant of Payments Bank license going forward.



vi Shri. ChandanSinha, Executive Director, Reserve Bank Of India

ShriChandanSinha took over as the Executive Director of Department of Payment and Settlement Systems in June 2015. PCI arranged for a meeting between him and some executive council members to share a brief overview of the governance and working of PCI and its current endeavors. Some of the research reports, white papers and notes drafted by PCI members were shared with him.



vii Shri. Rajinder Kumar, Chief General Manager, Department of Banking Regulation, Reserve Bank of India

PCI secretariat met Shri Rajinder Kumar and apprised him on formation of a Payments Bank group under PCI. PCI secretariat was then invited to be a part of the meeting on digital KYC with representatives from various public sector and private sector banks. The agenda of the meeting was to find out ways of opening a bank account in a paperless manner. Further, PCI shared a note on end to end digital KYC verification and paperless account opening process based on Aadhaar based biometric/OTP verification in combination with a dual factor authentication. RBI was very positive on the implementation of paperless bank account opening and are working towards it.

viii Smt. Nanda Dave, Chief General Manager, Department of Payment and Settlement Systems

Some members of PCI met Smt. Nanda Dave and apprised her of the common risk mitigation measures agreed upon by the PPI industry to alleviate the risk of fraud via the prepaid channel. An update on the adoption of these risk mitigation measures by the PCI members including the timelines of the work in progress was shared with her.

NEW SEGMENT:

Reserve Bank of India issued the final guidelines for licensing of Payments Banks and 41 entities applied for this license to be part of this initiative of extending the banking services to the unbanked.

PCI hosted a seminar for applicants of the Payments Banks Licenses to share a brief on the concept and approach of RBI and educate them on the products & services offered by National Payments Corporation of India (NPCI). This Seminar was jointly hosted with NPCI.

After screening of applications through a strict due diligence process, RBI granted in principle licenses to 11 entities. With agreement of all licensees, a Payments Bank group was formed under PCI to represent their interests. Mr. Vijay Shekhar Sharma and Mr. Suresh Sethi agreed to chair and co-chair the committee respectively.



ANNUAL CONFERENCE



DIGITAL MONEY 2015:

PCI organized the eight edition of its annual conference catering to the digital payments industry in October 2015. The digital payments space is reinventing itself with each passing day as the payments industry is turning into an effective pile of innovation and trials. Catering to the massive proliferation of digital payments in recent times, Digital Money conference was designed to assess and empower the digital payments landscape. The conference focused on the multichannel approach & other emerging trends instigating unified and seamless customer experience in regards to Digital Payments.

The theme of the eight edition was 'Digital Money for Digital India'. The conference was a premier source of information & interaction, where industry leaders, stalwarts and regulator spoke about the initiatives and insights drive the growth of the digital payment industry.

The conference started with the welcome address by PCI Chairman Mr. Naveen Surya, followed by a keynote address by Mr. Alpesh Shah, Senior Partner and Director at Boston Consulting Group. Mr. Rajeev Ahuja, Head of strategy at Ratnakar Bank also delivered an address at the inaugural session of the conference.

The Conference touched upon discussions on:

- **Ecommerce –Paving the way for Digital Money in India**
- **Investors view on Digital Payments Industry in India**
- **Wider Adoption of eTransactions – What can drive acquiring, acceptance and usage?**
- **Changing Business Models in Prepaid - What is scalable and sustainable in the long run?**
- **Mobile Money in India – The Roadmap for growth**
- **Transportation and Digital money – What is in Store?**
- **Payments Banks - Moving towards differentiated banking**



Smt. Nanda Dave, Chief General Manager, Department of Payment and Settlement Systems, Reserve Bank of India delivered the valedictory address at the conference and spoke about the wide variety of payment methods which co-exist in the digital payments sector. She reiterated RBI's vision of less cash economy and said they continuously work under the predominant principle of less cash.



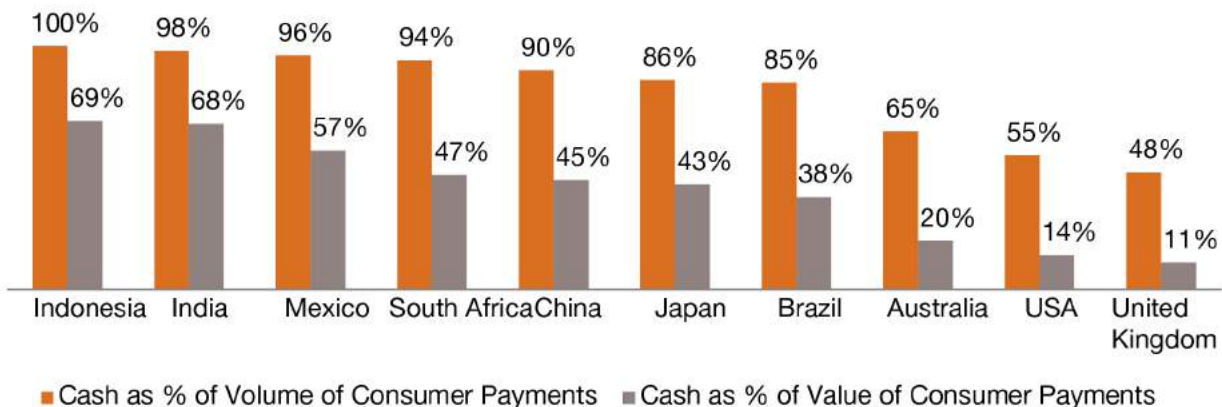
WHITE PAPER:

A white paper drafted by PriceWaterhouseCoopers on 'Disrupting Cash- Accelerating Electronic Payments in India' was released at the conference. The white paper accentuated India's preference for cash as high and persistent.

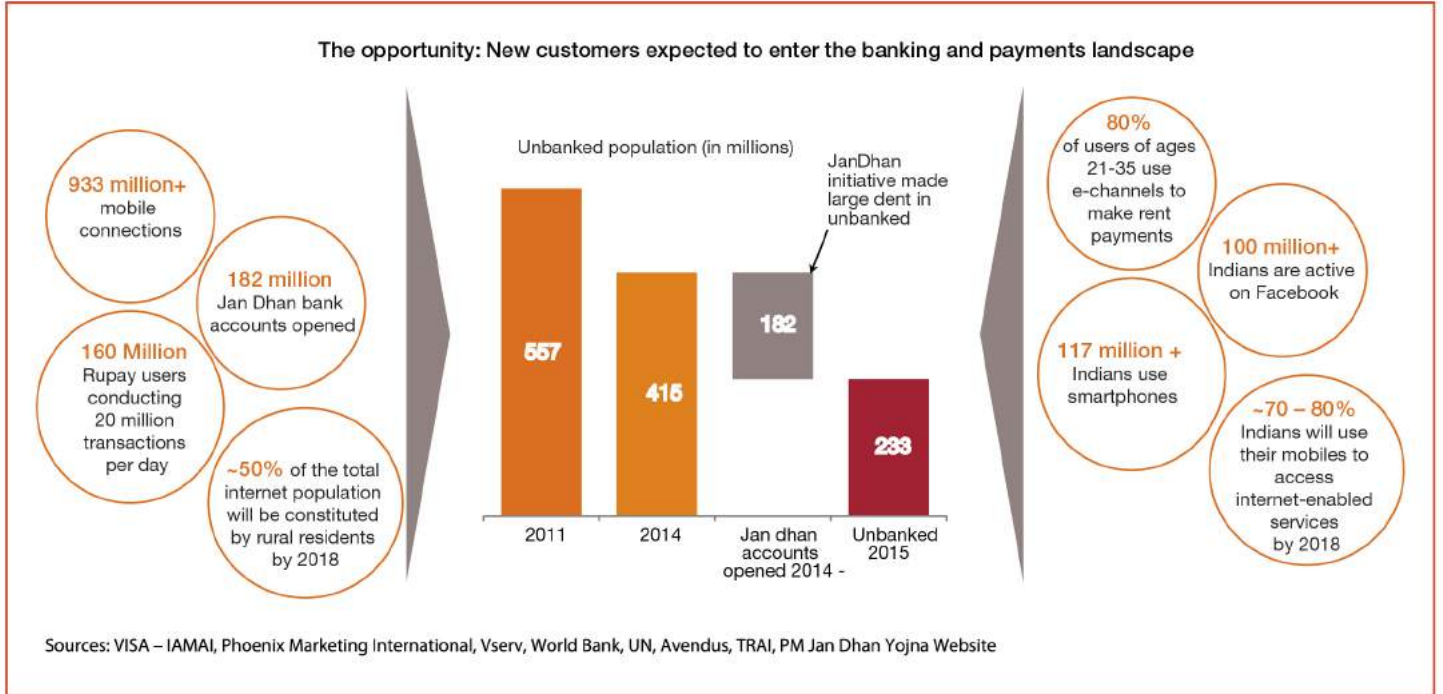
Further, Indian consumers implicitly recognise the cost and risks associated with the use of cash, yet prefer it for a variety of reasons. Easy avoidance of taxes, low access to financial services and patchy digital infrastructure and connectivity put in motion have sustained a vicious circle in which cash thrives.



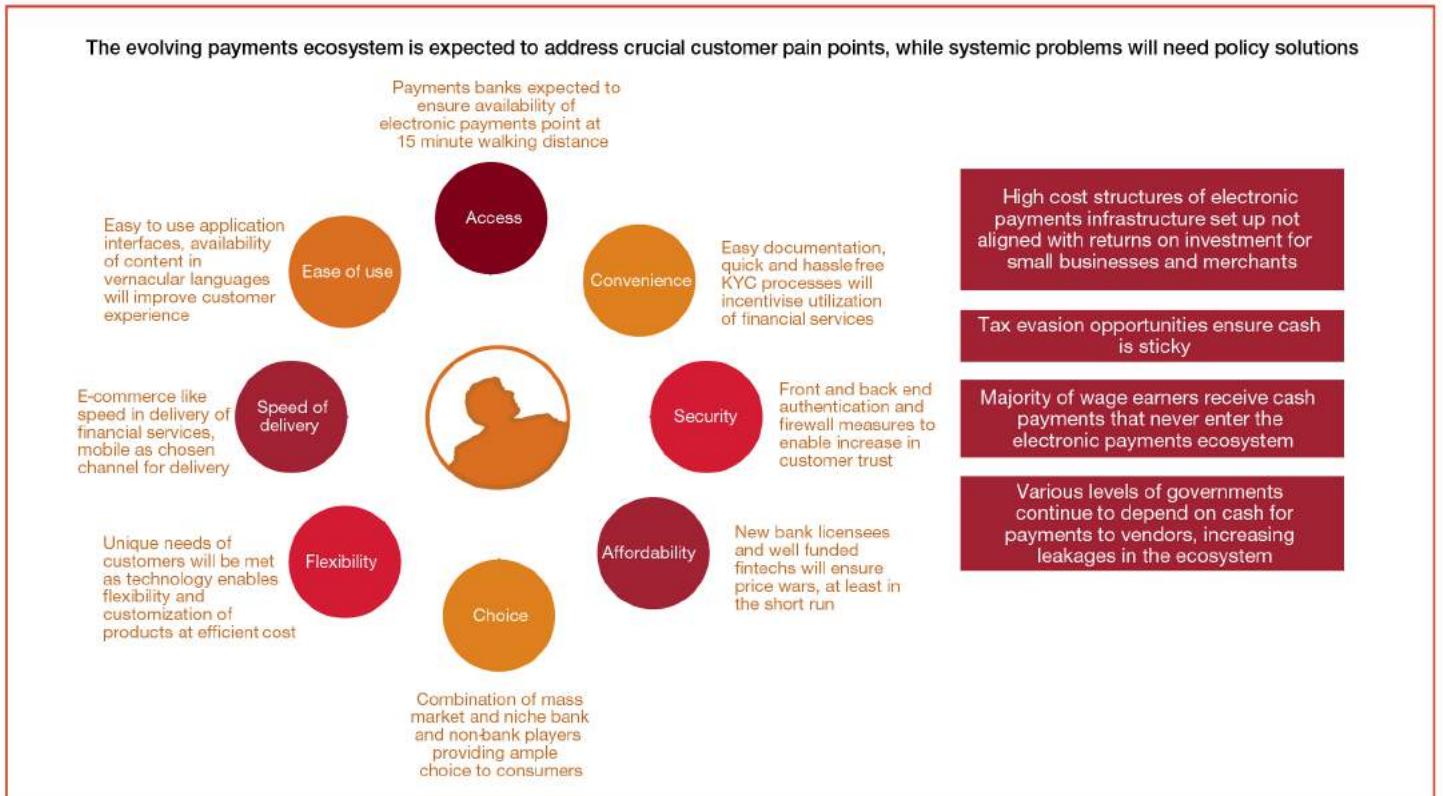
The Persistence of Cash in Consumer Transactions



The study highlighted that with intense competition and strategic collaboration among the payments market participants lowering the costs of banking and unbanked consumers beginning to find utility in formal financial services, the opportunity would be immense.



The white paper suggested market participants focus on following core issues and build capacity to deal with them individually and/or collectively for disrupting cash.



EXECUTIVE COUNCIL



Naveen Surya

Chairman -PCI & Managing Director,
Itz Cash Card



Vishwas Patel

Vice Chairman - PCI & Founder and CEO,
Avenues India



Loney Antony

Managing Director,
Hitachi Payment Services



Kiran Shetty

Former Managing Director &
Regional VP, India & South Asia,
Western Union



Vijay Shekhar Sharma

Founder & CEO,
Paytm



Rajiv Warriar

Managing Director,
Sodexo SVC India



Dewang Neralla

Chief Executive Officer,
Atom Technologies



Deepak Chandnani

Chief Executive Office, South Asia
& ME, Worldline



Sunil Kulkarni

Deputy Managing Director,
Oxigen Services



Suresh Sethi

Chief Executive Officer,
Vodafone M-Pesa



Kunal Shah

Chairman- IAMAI and Co-founder
& CEO, Freecharge

MEMBERS



ABOUT PCI

The Payments Council of India was formed under the Aegis of IAMAI in the year 2013 catering to the needs of the digital payment industry. The Council was formed inter-alia for the purposes of representing the various regulated payments and settlement industry players, to address and help resolve various industry level issues and barriers which require discussion and action. The council works with all its members to promote payments industry growth and to support our national goal of 'Cash to Less Cash Society' and 'Growth of Financial Inclusion' which is also the Vision Shared by the RBI and Government of India. PCI works closely with the regulators i.e. Reserve Bank of India (RBI), Finance Ministry and any similar government departments, bodies or Institution to make 'India a less cash society'

ABOUT IAMAI

The Internet and Mobile Association of India [IAMAI] is a young and vibrant association with ambitions of representing the entire gamut of digital businesses in India. It was established in 2004 by the leading online publishers, but in the last 12 years has come to effectively address the challenges facing the digital and online industry including mobile content and services, online publishing, mobile advertising, online advertising, ecommerce and mobile & digital payments among others.

Twelve years after its establishment, the association is still the only professional industry body representing the online and mobile VAS industry in India. The association is registered under the Societies Act and is a recognized charity in Maharashtra. With a membership of over 250 Indian and MNC companies, and with offices in Delhi, Mumbai and Bengaluru, the association is well placed to work towards charting a growth path for the digital industry in India.

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