

2ND ANNUAL REPORT
2014-15



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An Overview

The year 2014-15 has seen many initiatives by the regulator to promote the growth of the payments industry. With a much action in the payments ecosystem, Payments Council of India (PCI) has been very proactive in addressing, representing and resolving industry level issues and collaborating with other common cause parties to drive the growth of the digital payments industry.

With the support of its members, PCI has focused on key areas: proactive public policy, frequent interactions with the regulator, broader and inclusive industry participation, research, and an exclusive conference for drawing the roadmap of moving towards a less cash economy and networking.

The erstwhile working group on White Label ATMs & POS was restructured and renamed as 'Physical and Mobile POS' to work on addressing industry issues, making representations to the regulator and the developing POS ecosystem in India. While Mr. Loney Antony continued to chair this group, Mr. Deepak Chandnani was selected as the Co-Chair of the group.

Key issues being worked upon by the four committees of PCI were:

- Unlocking the potential of prepaid instruments with Aadhaar
- Balancing the Security and Usability of Payment Instruments (2FA)
- Coordinated efforts between issuers and acquirers to drive the adoption of electronic payments for everyday purchases using debit cards
- Loading of Foreign Remittances on Prepaid Cards
- Increasing the acceptance infrastructure of Merchants and Improving the debit card spends in India
- Enabling facilities on POS and much more.

The year also saw PricewaterhouseCoopers coming on board as a Knowledge Partner and jointly working on developing white papers for submission to the regulator on identified issues.

PCI Website (www.paymentscouncil.in)

Independent website of PCI was launched to showcase the latest endeavors of PCI and to share recent regulatory updates, current industry news, members' list, and payment industry's perspectives.

Policy



A) Some of the key notifications issued by RBI during the year:

i) Guidelines for Licensing of Payments Banks

In the Union Budget 2014-2015 presented on July 10, 2014, the Hon'ble Finance Minister announced that: "After making suitable changes to current framework, a structure will be put in place for continuous authorization of universal banks in the private sector in the current financial year. RBI will create a framework for licensing small banks and other differentiated banks. Differentiated banks serving niche interests, local area banks, payment banks etc. are contemplated to meet credit and remittance needs of small businesses, unorganized sector, low income households, farmers and migrant work force".

Accordingly, the Reserve Bank formulated and released for public comments draft guidelines for licensing of payments banks in the private sector on July 17, 2014. Several comments and suggestions were received from interested parties and public on the draft guidelines. Considering the feedback received the final guidelines on payments banks were released by RBI on 27th Nov 2014.

Highlights of the Guidelines:

- Objectives
- Eligible Promoters
- Scope of activities
- Deployment of funds
- Capital Requirement
- Promoters Contribution
- Foreign Shareholding
- Other conditions
- Procedure for application
- Procedure for RBI decision

ii) Implementation of Bharat Bill Payment System (BBPS) – Guidelines

In the Second Quarter Review of Monetary Policy 2012-13, Reserve Bank of India announced the setting up of a Committee to finalize the modalities of implementing an electronic GIRO payment system in India. The Payment Systems Vision in India 2012-15 also highlighted the existence of a huge bill payments market with a diverse and a complex biller market structure with varied national /regional players and private / state owned entities.

RBI released the final guidelines on the Bharat Bill Payment System (BBPS) on 28 Nov 2014. The National Payments Corporation of India (NPCI) will act as the authorized Bharat Bill Payment Central Unit (BBPCU) to set the standards for BBPS processes, in addition to undertaking clearing and settlement activities related to the BBPS. Bharat Bill Payment Operating Units (BBPOUs) will be the authorized operating units - existing players (both banks & non-banks) catering to the requirements of bill payments as well as aggregation of payment services will be a part of BBPS.

Key roles and responsibilities:

- BBPCU to set operational standards (ex: time discipline for realization of payments, processes and procedures for operational / technical requirements, dispute resolution mechanism etc.)
- BBPOU to onboard billers / aggregators as per standards set by BBPCU, develop infrastructure, handle customer transactions, grievances and disputes, and provide value added services to billers / aggregators / merchants / agents.

iii) Issuance and Operation of Pre-paid Payment Instruments (PPIs) in India- Relaxations

RBI issued a circular vide RBI/2014-2015/105DPSS.CO.PD.PPI.No. 3/02.14.006/2014-15 on July 1, 2014 on the relaxations in the Master Circular – Policy Guidelines on Issuance and Operation of Pre-paid Payment Instruments in India.

Based on a comprehensive internal review and the feedback received from the entities currently authorized to issue prepaid payment instruments, RBI considered necessary to amend certain provisions of the existing guidelines/issue additional guidelines for ensuring growth of the prepaid payment industry.

Key roles and responsibilities:

- The Full KYC account limit enhanced from Rs. 50,000 to Rs.1,00,000 The balance in the PPI should not exceed Rs. 1,00,000 at any point of time
- The maximum validity of the gift cards was enhanced from one year to three years. Other provisions of PPI guidelines with respect to Gift Cards will not continue to be applicable
- Additional guidelines - Introduction of new categories of PPIs issued by banks
- Issue of multiple PPIs by banks from fully-KYC compliant bank accounts for dependent/family members
- Rupee denominated PPIs issued by banks for visiting foreign nationals and NRIs

iv) White Label ATMs (WLAs) in India – Guidelines

RBI issued a circular vide circular DPSS.CO.PD. No. 2298 / 02.10.002 / 2011-2012 dated June 20, 2012 and DPSS.CO.PD. No. 1088 / 02.10.003 / 2013-14 dated November 14, 2013 on guidelines on White Label ATM's in India. This Directive was issued under Section 10(2) read with Section 18 of Payment and Settlement Systems Act 2007 (Act 51 of 2007).

The extract of the guidelines were:

Based on the review of the operations of White Label ATM (WLA) as well as representations received from the stakeholders, RBI decided to:

- a. Allow WLAs to accept international credit/debit/prepaid cards. The cards issued under card payment network schemes (authorized under the PSS Act 2007) will be allowed for the purpose. The WLA operators (WLAO) have to ensure that they have established technical connectivity with the respective card network operators either directly or through their sponsor banks. However, in the case of cards issued under any other card scheme, the routing and settlement should take place based on the bilateral arrangement put in place by the existing authorized networks for such purpose.
- b. Permit the facility of Dynamic Currency Conversion (DCC) for the use of international cards at

WLAs if the operator so decides to implement the DCC facility. The currency conversion rate will only be obtained from authorized dealer bank. WLAO will be restricted to converting the amount requested by the international cardholder (based on the DCC option selected by him) to his home currency using a Base Exchange Rate provided by the AD bank.

- c. Enable delinking cash supply from that of sponsor bank arrangements. WLAO would be now able to tie up with other commercial banks for cash supply at WLAs. While the cash would be owned by the WLAO, the responsibility of ensuring the quality and genuineness of cash loaded at such WLAs would be that of the cash supplier bank. A suitable Service Level Agreements (SLA) may be drawn up between the WLAO and the cash supplier bank for adequate supply of genuine and good quality notes.
- d. WLAOs who have been authorized under PSS Act 2007 and have commenced operations are required to intimate RBI regarding commencement of the services indicated in para (a), (b) and (c) above.

The directive was issued under Section 10(2) read with Section 18 of Payment and Settlement Systems Act 2007 (Act 51 of 2007).

B) PCI Submissions on the Draft Guidelines issued by RBI from time to time

i) Feedback on Draft Guidelines for licensing of Small and Payment Banks was made to RBI

PCI in its feedback submitted to RBI on the Draft guidelines for licensing of small and payment banks made following key recommendations.

Key recommendations:

- Dilution of Promoters equity holdings and voting rights
- Net Worth requirements
- Capital requirements
- Value limit on deposits
- Cross Border transactional services
- Product Pricing
- CRR requirements

ii) Feedback on Draft Guidelines for Implementation of Bharat Bill Payment System (BBPS)

PCI in its feedback submitted to RBI on the Draft guidelines for Implementation of Bharat Bill Payment System (BBPS) made the following key recommendations

Key recommendations:

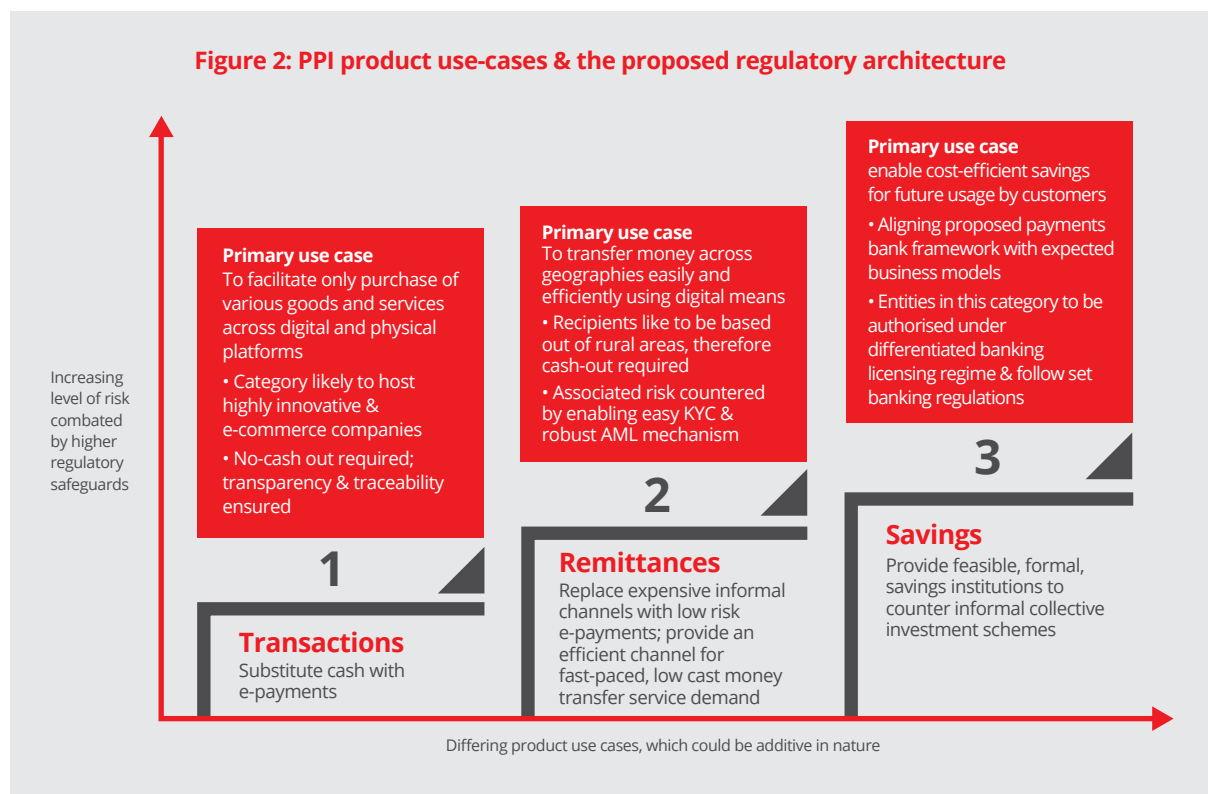
- Scheme
- Eligibility criteria for system participants
- Role of BBPOUs in settlement
- Roles and Responsibilities of BBPOUs

C) Proactive Submissions made by PCI

i) Aligning the regulatory architecture for prepaid in India

PCI had engaged PricewaterhouseCoopers to draft a document proposing a tiered regulatory structure for Prepaid Payment Issuers. The case made before RBI is that based on the risk present in

each business segment, regulatory requirements and supervisory oversight could be tailored, reducing the load on the market participants and regulators alike. Issuers operating in the high risk zone can be subject to bank-like regulation, currently being proposed for the PPIs transitioning to payments banks. On the other hand, Issuers operating on retail transactions through nodal/escrow accounts with no cash out facilities can be subject to light touch regulations. The White Paper proposing the above mentioned regulatory architecture has been submitted to RBI for review.



ii) Standardization of OTP

A white paper on 'Recommendations for improving the transaction flow of electronic payments' was submitted to RBI.

Key recommendations:

- Standardization of generation of OTP processes across all the banks
- Enabling of on-the-fly OTP generation for all the banks
- Enabling debit cards over IVR for all banks

iii) Balancing the Security and Usability of Payment Instruments (2FA)

While there is significant policy and regulatory focus on providing the access to financial products, we feel there is an equal focus required on deepening a customer's usage of these products to drive an integrated program of financial inclusion, hence a recommendation for gradual relaxation of 2FA, starting with returning customers at trusted merchants/ Payment Gateways and encouraging innovation in payments authentication within extant guidelines was made via a white paper filed with RBI on balancing the security and usability of payment instruments.

iv) Coordinated efforts between issuers and acquirers to drive the adoption of electronic payments for everyday purchases using debit cards

A white paper on driving the adoption of electronic payments using debit cards was filed with RBI. The major recommendation was capping the interchanges fees for Debt cards at a lower rate than

currently applied in the market. This cap in conjunction with the Merchant Discount Rate (MDR) cap will leave sufficient margins for the acquiring banks and the Intermediaries to earn some revenue so that they can continue to work towards developing the market and fill the gap between the existing POS Terminals and Cards Issued. The Rupay Debit Card Interchange fee model was suggested to be emulated.

D) Interactions of PCI members with Reserve Bank of India & National Payments Corporation of India

i) Meeting with the RBI governor on the key issues faced by the Digital Payments Industry

PCI had arranged a meeting with Dr. Raghuram Rajan, Governor, Reserve Bank of India. Some of the members of Executive Council had represented PCI. At the meeting critical issues faced by the non-bank payment service providers and how the current endeavors of PCI are aligned to achieve its vision of encouraging the growth of non-banking payment system providers were discussed with Governor along with Shri G Padmanabhan, Executive Director, Reserve Bank of India.



The focus areas of discussion were relaxations in Payments Banks and BBPS guidelines, Integration of Prepaid Payment Issuers with Bharat Bill Payment Systems, granting recognition to the non-bank players for a role in financial inclusion, bringing parity in using electronic and physical cash, Use of technology to mitigate the fundamental risks liquidity and settlement for non-bank players and automated dashboard for STR's at the centralized level.



ii) CEOs Roundtable with Shri G. Padmanabhan, Executive Director, Reserve Bank of India

A Roundtable discussion on 'The Future of Digital Payments – A Less Cash Economy' was organized with Shri G. Padmanabhan and CEOs of various non-bank payment service providers, at the Digital Money Conference to deliberate on new and innovative products, systems and solutions in the digital payments industry. At the discussion, a lot of new and existing products and process were brainstormed and debated on. Few action points were agreed to be worked upon. White papers and documents based on the action points have been submitted to his office.

iii) Presentation of a Report on 'Unlocking the potential of prepaid instruments with Aadhaar (biometric capture) – Cash Out Pilot' to RBI

PCI had worked closely with RBI in the reporting the outcome and the issues faced by the PPI's during the pilot of 'Unlocking the potential of prepaid instruments with Aadhaar (biometric capture) – Cash Out. PCI had engaged IMRB international to do a survey of the pilot and present a consolidated report of all PPI's. Same was submitted to RBI. Major challenges faced by PPI's in adoption of cash payout using Aadhaar were unavailability of Aadhaar cards and its authentication at both ends.





iv) Meeting with National Payments Corporation of India (NPCI)

Some of the members of Executive Council of PCI had a meeting with Shri A P Hota, Managing Director & CEO, NPCI and his team. NPCI and PCI agreed to work together to drive the growth of the payments ecosystem. Some of the areas being worked upon are 'enabling facilities on POS, to jointly host a roundtable session with Payments Bank applicants, and enabling Interoperability of Merchants acceptance acquired through NPCI'.

E) Ongoing endeavors of PCI

i) Self-Regulatory Organization

Issuance and use of PPIs in India is at a nascent stage of development but with enormous potential for growth. The industry players having felt the imperative need for some level of self-discipline and self-regulation for PPIs at an industry level, which could support and supplement RBI regulation, a common body serving as a Self-Regulatory Organization (SRO) is formed under PCI.

PCI upon such acceptance shall in its role as an SRO for the PPI Industry:

- regulate the operations and set best standards of practice and business conduct of its members and their representatives with a view to ensuring the compliance of regulations laid down by the regulator
- promote the best practices amongst the industry players
- under the guidance of RBI, on an ongoing basis streamline the standards and best practices across the industry

A structure and principles of the SRO have been documented and a meeting with RBI for discussing the same has been conducted. The Working committee and the Enforcement Directors appointed have finalized the SRO audit template and the first audit for the year 2014-15 is expected to be completed and the audit report submitted to RBI.

ii) Increasing the Merchant's Acceptance Infrastructure and the Debit Cards Spends in India

PCI along with PwC is working on identifying ways to further increase debit card usage and facilitate the proliferation of merchant acceptance infrastructure across rural and semi-urban areas of the country. With respect to this, a PwC has shared an initial report on comparable markets outside India which have seen transformational growth in debit card usage on POS and their respective triggering points for such growth. A detailed research needs to be carried out to identify action points for the industry and regulator. is expected to be completed and the audit report submitted to RBI.

Event



Continuing the success of the previous six editions, Payments Council of India (PCI) organized its two-day annual conference on Financial Inclusion and Digital Payments on 9th and 10th of September 2014. The conference was rebranded as '**Digital Money**'.

This Conference threw light on the roadmap from a traditionally cash driven economy to a less cash economy and the role of Digital Payments in achieving it. The Conference was conducted with the aim of working out a common agenda and pathway to ensure adequate access to financial services at an affordable cost and in a transparent manner through various institutional agencies.



The theme of the conference was 'Digital Payments: Paving the way for greater Financial Inclusion-Roadmap for the Future' which was accentuated in the inaugural session of the conference. The Special Addresses by Dr. Laveesh Bhandari and Dr. Ashima Goyal emphasized the role of Digital and Mobile Transfers for Meaningful Financial Inclusion and Digital Inclusion for Inclusive Growth. Mathew Titus delivered a Special Address on 'Financial Inclusion: What lessons and insights does Microfinance offer'. Dr. Subir Gokarn in his special address on The Major Road Blocks on the Financial Inclusion Highway highlighted the three sides of a triangle to financial inclusion viz. Product, Delivery and Awareness.

Mr. Ari Sarker, Division President - South Asia, MasterCard while said though India is known for paper cash, there is a huge potential to shift to electronic payments. Ludwig Schulze, Chief Executive Officer, Mistral Mobile delivered an address on the topic 'Payments & Banking on Mobile: When?' at the conference



The conference touched upon discussions on:

- Prepaid Payment Instruments -The Consumer Facet
- Building Blocks for a Less Cash Economy
- Merchant Aggregators, Payment Gateways and Card Networks: A Symbiosis, POS & Acquiring - Payment Innovations
- Prepaid Instruments – The Corporate Facet. Gifting, Loyalty, Incentivizing - Transforming Payments Solutions
- eCommerce – The ePayments Way: Gaining Momentum
- White label ATMs: Assisting in Payments and Financial Inclusion.

The Conference received participation from the key digital money ecosystem participants being the banks, prepaid payment issuers, merchant aggregators, acquirers, domestic and international transfer facilitators, payment network, payments processors, payment technology and service providers, business correspondents and many more.

At the Valedictory Session Shri Vijay Chugh, Principal Chief General Manager, Department of Payment and Settlement Systems, Reserve Bank of India got into discussion with Naveen Surya, Chairman, PCI and Managing Director, Itz Cash Card Ltd and Vishwas Patel, Vice Chairman, PCI and Founder & CEO, Avenues India on the various issues of the Digital Payments Industry and the limitations and challenges faced by the regulatory bodies.



Research

A report called the 'Digital Payments Industry Report' highlighting the statistics of the digital payments industry was released in May 2014 in association with IMRB international

DIGITAL PAYMENT GATEWAY 2013

Total Market Size: INR 85,800 Crore | Total Volume of Transaction: 800 Mn

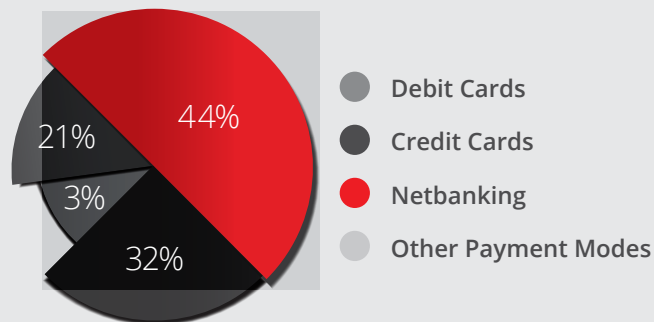
Contribution of Major Purposes in Online Payment Gateway Industry

Categories of Purposes	Contribution to Total Market Size
Online Travel	50,465
E-Tailing	10,662
Financial Services	19,689
Digital Downloads	3,554
*Other Online Services	1,422

*Other Online services include Job sites, Classifieds, Matrimonial, Real Estate etc.

The digital payments industry is expected to grow at a rate of 40% to reach INR 120,120 crore by December 2014 which was pegged at INR 85,800 crore in December 2013. The report further finds that there has been a compounded annual growth rate (CAGR) of 10% since 2010 till December 2013 in payments made through digital means. The modes used for making such payments are Credit/Debit card payments, payments through Net Banking and payments using Mobile Wallet, Pre-Paid Cash cards and Immediate Payment systems (IMPS) over the Internet and does not include remittances.

Contribution of Different Payment modes to the total volume of transactions



Other Online payment methods (IMPS, Mobile Wallet, Prepaid Cash Cards)

Source: IMRB International, All India Estimates, December 2013

Modes of Payments	Total number of Payments 2013 (Millions of Transaction)
Debit Cards	254
Credit Cards	170
Net Banking	352
Other Online Payment Methods (IMPS, Mobile Wallet, Prepaid Cash Cards)	24

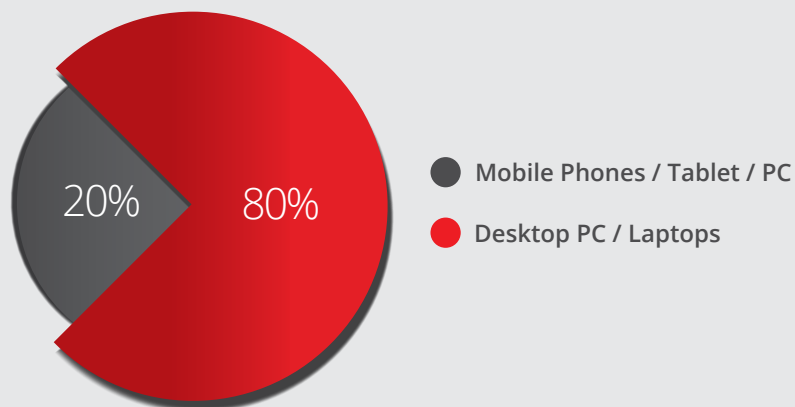
Source: IMRB International, All India Estimates based on RBI and NPCI, December 2013

According to the report, out of around 800 million online transactions made in 2013, nearly 53% of the transactions are made using Credit and Debit cards. The volume of online payments made through Credit cards is only 21% while Debit cards constitute 32% of the payments.

In terms of value of transaction; an average value of payment using Credit cards is INR 1,400 which is thrice the size of a Debit card transaction (Average ticket size of which is INR 450). Net-Banking Transactions constitute 44% of the total volume of transactions. It includes e-Commerce transactions like Product purchase, ticket booking, electronic tax filing etc. Figures mentioned do not include non e-commerce Inter-bank fund transfers.

Almost 80% of the total transactions are undertaken through Desktop PCs or Laptops. Although the proportion of the transactions made through handheld devices like Mobile Phones and Tablet PCs are quite smaller than the Desktops and laptops, it is expected to go up till 30% mark by 2020. Usage of online payments is predominantly high (70%) among the consumers.

Devices Used While Making Payments Online



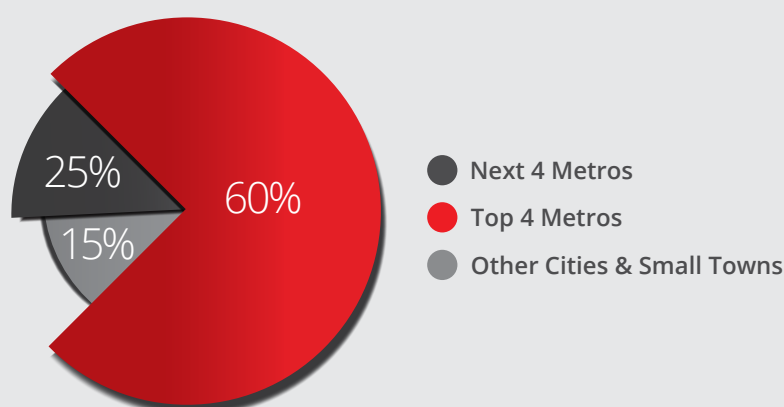
Device used for payment	Value of transactions (INR Crore) - 2013
Desktop PC / Laptops	68,640
Tablets / Mobile Phones	17,160

Source: In-depth Interview with Digital Payment Gateway Players, December 2013

Online traveling, financial services and e-tailing are the main purposes for using different modes of digital payments. Online travel industry which include air and train ticket bookings, hotel accommodations and tour packages contribute nearly 60% of the Digital payments followed by Financial services (comprising of online mobile recharge and DTH service, Online tax filing, Payment of Insurance premiums, Gas and electricity bills) and e-Tailing. Digital Downloads (including downloads of eBooks, Music, Movies, etc.) and other online services include websites for searching Jobs, Real Estate and Matrimonial contribute 4% and 2% respectively.

The report finds that the top 4 metros which include Delhi, Mumbai, Kolkata and Chennai are approximately 60% of the total Digital payment gateway market size. Next 4 metros - Bangalore, Hyderabad, Ahmedabad, Pune together contributes only 25% to the total market size.

Contribution of town-class in digital payment gateway market



Town-class	Value of transactions (INR Crore)
Top 4 metros	51,480
Next 4 metros	21,450
Other cities & Small towns	12,870

Source: IMRB International, All India Estimates, December 2013

Members



Executive Council



Naveen Surya

Managing Director,
Itz Cash Card



Vishwas Patel

Founder & CEO,
Avenues India



Sunil Kulkarni

Deputy Managing Director,
Oxigen Services



Loney Antony

Managing Director,
Prizm Payments



Rajiv Warriar

Managing Director,
Sodexo SVC India



Dewang Neralla

Chief Executive Officer,
Atom Technologies



Kiran Shetty

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



Deepak Chandnani

Chief Executive Officer ,
South Asia & ME, Atos Worldline



Govindarajan Parthasarathy

Chief Marketing Officer – Bharti Airtel
& CEO - Airtel Money



Rajan Anandan

Managing Director & VP, Sales &
Operations, Google India

About Internet and Mobile Association of India (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 10 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. Ten 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 charitable institution in Maharashtra. With a membership of 180 plus Indian and MNC companies, offices in Delhi, Mumbai and Bengaluru, the association is well placed to work towards charting growth path for the digital industry in India.

About Payments Council of India (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 non-banking payment 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'.

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