

Regulatory Framework For E- Payment System In India

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ARTICLE DETAILS

Article History

Published Online: 31 December 2017

Keywords

E-payment, Digital payment, Online payment, Digital India, The Payment and Settlement Systems Act, 2007, RBI

ABSTRACT

The electronic payment system has grown increasingly over the last decades due to the growing spread of internet-based banking and shopping. As the world advances more with technology development, we can see the rise of electronic payment systems and payment processing devices. As these increase, improve, and provide ever more secure online payment transactions the percentage of check and cash transactions will decrease. India tries to stepping towards e-payment system. Today India is at a stage of demonetization so; in the present scenario this study is inevitable to makes electronic payments at any time through the internet directly to manage the e-business environment. The current article highlights the Regulatory Framework For E- Payment System In India.

INTRODUCTION

Now a day's world changed to digital world. Electronic payment system is a mode of payments over an electronic network such as the internet. In other words we can say that e-payment is a method in which a person can make Online Payments for his purchase of goods and services without physical transfer of cash and cheques, irrespective of time and location. Electronic payment system is the basis of online payments and online payment system development is a higher form of electronic payments. It makes electronic payments at any time through the internet directly to manage the e-business environment. In real world we have many types of payment systems like Net banking, Mobile banking, Aadhaar Enabled Payment System, e- wallet etc. Electronic payment systems are popular because of their convenience. However, they also may pose serious risks to consumers and financial institutions. RBI played major role in encourage role for e-payments in india. As the apex financial and regulatory institution in the country it is compulsory for the RBI to ensure that the payments system in the country is as technologically advanced as possible and in view of this aim, the RBI has taken several initiatives to strengthen the e-payments system in India and encourage people to adopt it[1]. The interface has been developed by National Payments Corporation of India (NPCI), the umbrella organisation for all retail payments in the country. The UPI seeks to make money transfers easy, quick and hassle free. The Payment and Settlement Systems Act, 2007 was a major step in this direction[2]. It enables the RBI to "regulate, supervise and lay down policies involving payment and settlement space in India." Apart from some basic instructions to banks as to the personal and confidential nature of customer payments, supervising the timely payment and settlement of all transactions, the RBI has actively encouraged all banks and consumers to embrace e-payments.

RESEARCH METHODOLOGY

The study based on secondary information/data. Different journals, newspapers, books and relevant websites have been consulted in order to make the study an effective one. The

present study is an attempt to examine the E- payment system in India.

E- PAYMENT OPTIONS IN INDIA

The Digital India programme is a flagship programme of the Government of India with a vision to transform India into a digitally empowered society and knowledge economy. "Faceless, Paperless, Cashless" is one of professed role of Digital India. Faceless, Paperless, Cashless is one of professed role of Digital India. As part of promoting cashless transactions and converting India into less-cash society, various modes of digital payments are available[3].

- ✓ Banking Card - Debit/Credit Cards
- ✓ Mobile Wallet - Paytm, Freecharge, Airtel Money, ICICI Pockets
- ✓ UPI - Unified payments Interface Apps
- ✓ Net Banking - Online Fund Transfer
- ✓ Mobile banking - The act of making financial transactions on a mobile device
- ✓ PoS - Point of Sale
- ✓ USSD - Unstructured Supplementary Service Data
- ✓ Micro ATM - Swipe Machines
- ✓ AEPS - Aadhaar Enabled Payment System

3.1 Banking Card

Plastic money offer consumers more security, convenience, and control than any other payment method. The wide variety of cards available – including credit, debit and prepaid – offers enormous flexibility, as well. These cards provide 2 factor authentication for secure payments e.g secure PIN and OTP. RuPay, Visa, MasterCard are some of the example of card payment systems. Payment cards give people the power to purchase items in stores, on the Internet, through mail-order catalogues and over the telephone. They save both

customers and merchants' time and money, and thus enable them for ease of transaction.

3.2 Mobile Wallet

A mobile wallet is a way to carry cash in digital format. You can link your credit card or debit card information in mobile device to mobile wallet application or you can transfer money online to mobile wallet. Instead of using your physical plastic card to make purchases, you can pay with your smartphone, tablet, or smart watch. An individual's account is required to be linked to the digital wallet to load money in it. Most banks have their e-wallets and some private companies. e.g. Paytm, Freecharge, Mobikwik, Oxigen, mRuppee, Airtel Money, Jio Money, SBI Buddy, itz Cash, Vodafone M-Pesa, ICICI Pockets etc[4].

3.3 Unified payments Interface Apps (UPI)

Unified Payments Interface (UPI) is an instant real-time payment system developed by National Payments Corporation of India facilitating inter-bank transactions. The interface is regulated by the Reserve Bank of India and works by instantly transferring funds between two bank accounts on a mobile platform. UPI is built over Immediate Payment Service (IMPS) for transferring funds. Being a digital payment system it is available 24-7 and across public holidays. Unlike traditional mobile wallets, which takes a specified amount of money from user and stores it in its own accounts, UPI withdraws and deposits funds directly from the bank account whenever a transaction is requested. It uses Virtual Payment Address (a unique ID provided by the bank), Account Number with IFS Code, Mobile Number with MMID (Mobile Money Identifier), Aadhaar Number, or a one-time use Virtual ID. An UPI-PIN (UPI Personal Identification number that one creates on the UPI app of the bank) is required to confirm each payment[5].

3.4 Net Banking

Internet banking, also known as online banking, e-banking or virtual banking, is an electronic payment system that enables customers of a bank or other financial institution to conduct a range of financial transactions through the financial institution's website[6].

Different types of online financial transactions are:

3.4.1 National Electronic Fund Transfer (NEFT)

National Electronic Funds Transfer (NEFT) is a nationwide payment system facilitating one-to-one funds transfer. Under this Scheme, individuals, firms and corporates can electronically transfer funds from any bank branch to any individual, firm or corporate having an account with any other bank branch in the country participating in the Scheme. Individuals, firms or corporates maintaining accounts with a bank branch can transfer funds using NEFT. Even such individuals who do not have a bank account (walk-in customers) can also deposit cash at the NEFT-enabled branches with instructions to transfer funds using NEFT[7]. However, such cash remittances will be restricted to a maximum of Rs.50,000/- per transaction. NEFT, thus, facilitates originators or remitters to initiate funds transfer transactions even without having a bank account. Presently, NEFT operates in hourly batches - there are twelve settlements from 8 am to 7 pm on week days (Monday

through Friday) and six settlements from 8 am to 1 pm on Saturdays.

3.4.2 Real Time Gross Settlement (RTGS)

RTGS is defined as the continuous (real-time) settlement of funds transfers individually on an order by order basis (without netting). 'Real Time' means the processing of instructions at the time they are received rather than at some later time; 'Gross Settlement' means the settlement of funds transfer instructions occurs individually (on an instruction by instruction basis). Considering that the funds settlement takes place in the books of the Reserve Bank of India, the payments are final and irrevocable. The RTGS system is primarily meant for large value transactions. The minimum amount to be remitted through RTGS is 2 lakh[8]. There is no upper ceiling for RTGS transactions. The RTGS service for customer's transactions is available to banks from 9.00 hours to 16.30 hours on week days and from 9.00 hours to 14:00 hours on Saturdays for settlement at the RBI end. However, the timings that the banks follow may vary depending on the customer timings of the bank branches.

3.4.3 Electronic Clearing System (ECS)

ECS is an alternative method for effecting payment transactions in respect of the utility-bill-payments such as telephone bills, electricity bills, insurance premia, card payments and loan repayments, etc.[9], which would obviate the need for issuing and handling paper instruments and thereby facilitate improved customer service by banks / companies / corporations / government departments, etc., collecting / receiving the payments.

3.4.4 Immediate Payment Service (IMPS)

IMPS offers an instant, 24x7, interbank electronic fund transfer service through mobile phones. IMPS is an emphatic tool to transfer money instantly within banks across India through mobile, internet and ATM which is not only safe but also economical both in financial and non-financial perspectives[10].

3.5 Mobile banking

Mobile banking is a service provided by a bank or other financial institution that allows its customers to conduct different types of financial transactions remotely using a mobile device such as a mobile phone or tablet. It uses software, usually called an app, provided by the banks or financial institution for the purpose. Each Bank provides its own mobile banking App for Android, Windows and iOS mobile platform.

3.6 Point of Sale (POS)

A point of sale (PoS) is the place where sales are made. On a macro level, a PoS may be a mall, a market or a city. On a micro level, retailers consider a PoS to be the area where a customer completes a transaction, such as a checkout counter. It is also known as a point of purchase[11].

3.7 Unstructured Supplementary Service Data (USSD)

The innovative payment service *99# works on Unstructured Supplementary Service Data (USSD) channel. This service allows mobile banking transactions using basic

feature mobile phone, there is no need to have mobile internet data facility for using USSD based mobile banking. It is envisioned to provide financial deepening and inclusion of underbanked society in the mainstream banking services. *99# service has been launched to take the banking services to every common man across the country. Banking customers can avail this service by dialling *99#, a “Common number across all Telecom Service Providers (TSPs)” on their mobile phone and transact through an interactive menu displayed on the mobile screen. Key services offered under *99# service include, interbank account to account fund transfer, balance enquiry, mini statement besides host of other services.[12] *99# service is currently offered by 51 leading banks & all GSM service providers and can be accessed in 12 different languages including Hindi & English as on 30.11.2016 (Source: NPCI). *99# service is a unique interoperable direct to consumer service that brings together the diverse ecosystem partners such as Banks & TSPs (Telecom Service Providers).

3.8 Micro ATM

Micro ATM meant to be a device that is used by a million Business Correspondents (BC) to deliver basic banking services. The platform will enable Business Correspondents (who could be a local kirana shop owner and will act as ‘micro ATM’) to conduct instant transactions. The micro platform will enable function through low cost devices (micro ATMs) that will be connected to banks across the country[13]. This would enable a person to instantly deposit or withdraw funds regardless of the bank associated with a particular BC. This device will be based on a mobile phone connection and would be made available at every BC. Customers would just have to get their identity authenticated and withdraw or put money into their bank accounts. This money will come from the cash drawer of the BC. Essentially, BCs will act as bank for the customers and all they need to do is verify the authenticity of customer using customers’ UID. The basic transaction types, to be supported by micro ATM, are Deposit, Withdrawal, Fund transfer and Balance enquiry.

3.9 Aadhaar Enabled Payment System(AEPS)

Aadhaar Enabled Payment System is a way to get money from the bank account. This system of getting money neither requires your signature nor Debit card. You don’t even need to visit a bank branch for getting money through the Aadhaar Enabled Payment System. Rather, it uses Aadhaar data for the authentication. Like UPI and USSD, this is another initiative by the NPCI[14].

4. The Payment and Settlement Systems Act, 2007 (PSS Act, 2000)

Reserve Bank of India took the lead and developed an effective electronic payment infrastructure in India. Its vision was to promote a safe, secure, reliable and efficient payment system. To empower RBI to regulate and supervise payment and settlement systems, The Payment and Settlement Systems Act, 2007 received the assent of the President on 20th December 2007 and it came into force with effect from 12th August 2008.[15] It also provides a legal basis for multilateral netting and settlement finality. RBI has decided to set up a national organization to own and operate all retail payment systems in India, so that it will be possible to achieve greater efficiency through uniformity and standardization in retail payments, expand its reach and develop innovative payment products to increase customers’ confidence. In April 2009 the

National Payments Corporation of India (NPCI) started its operations. It is owned by banks and financial institutions.

4.1 Objective of The Payment and Settlement Systems Act, 2007

The PSS Act, 2007 provides for the regulation and supervision of payment systems in India and designates the Reserve Bank of India (Reserve Bank) as the authority for that purpose and all related matters. The Reserve Bank is authorized under the Act to constitute a Committee of its Central Board known as the Board for Regulation and Supervision of Payment and Settlement Systems (BPSS), to exercise its powers and perform its functions and discharge its duties under this statute. The Act also provides the legal basis for “netting” and “settlement finality”. This is of great importance, as in India, other than the Real Time Gross Settlement (RTGS) system all other payment systems function on a net settlement basis.

4.2 Regulations made under the PSS Act, 2007

Under the PSS Act, 2007, two Regulations have been made by the Reserve Bank of India, namely, the Board for Regulation and Supervision of Payment and Settlement Systems Regulations, 2008 and the Payment and Settlement Systems Regulations, 2008. Both these Regulations came into force along with the PSS Act, 2007 on 12th August 2008. The Board for Regulation and Supervision of Payment and Settlement Systems Regulation, 2008 deals with the constitution of the Board for Regulation and Supervision of Payment and Settlement Systems (BPSS), a Committee of the Central Board of Directors of the Reserve Bank of India. It also deals with the composition of the BPSS, its powers and functions, exercising of powers on behalf of BPSS, meetings of the BPSS and quorum, the constitution of Sub-Committees/Advisory Committees by BPSS, etc. The BPSS exercises the powers on behalf of the Reserve Bank, for regulation and supervision of the payment and settlement systems under the PSS Act, 2007. The Payment and Settlement Systems Regulations, 2008 covers matters like form of application for authorization for commencing/ carrying on a payment system and grant of authorization, payment instructions and determination of standards of payment systems, furnishing of returns/documents/other information, furnishing of accounts and balance sheets by system provider etc[16].

4.3 Foreign entities allowed

The PSS Act 2007 does not prohibit foreign entities from operating a payment system in India and the Act does not discriminate/differentiate between foreign entities and domestic entities. (Pl see Sections 4 and 18 of the PSS Act, 2007) The PSS Act does not place any restriction on the types of payment systems / services a foreign entity can provide. However, any service provided by a domestic or foreign entity must be in accordance with the overall legal framework of the country.

4.4 License or approval or authorization

All entities, irrespective of domestic or foreign, need to obtain license/ approval / authorization from Reserve Bank before commencing payment system operations in the country. The PSS Act indicates that “No person can operate a payment system except under and in accordance with an

authorisation issued by the Reserve Bank?. Criteria are also specified for particular payment systems which form part of the respective payment system guidelines / instructions

4.5 Consequences of dishonour of electronic fund transfer

Dishonour of an electronic fund transfer instruction due to insufficiency of funds in the account etc., is an offence punishable with imprisonment or with fine or both, similar to the dishonour of a cheque under the Negotiable Instruments Act 1881. Subject to complying with the procedures laid down under the PSS Act, 2007, criminal prosecution of defaulter can be initiated in such cases. This provision was introduced to discourage dishonour of electronic payment instructions. (Section 25 of the Act)

4.6 Penalties or punitive action laid down

Under the PSS Act, 2007, operating a payment system without authorization, failure to comply with the terms of authorization, failure to produce statements, returns information or documents or providing false statement or information, disclosing prohibited information, non-compliance of directions of Reserve Bank violations of any of the provisions of the Act, Regulations, order, directions etc.,

are offences punishable for which Reserve Bank can initiate criminal prosecution. Reserve Bank is also empowered to impose fine for certain contraventions under the Act.[17] (Sections 26 and 30 of the PSS Act, 2007).

CONCLUSION

One of the technological innovations in banking, finance and commerce is the Electronic Payments. Electronic Payments enables us to perform financial transactions electronically fast and easily. Although it provides a number of benefits for customers and business opportunities, it comes with risks, especially security issues. The risk to the online payments are theft of payments data, personal data and fraudulent rejection on the part of customers E-payments systems should have reliable and secure methods to authenticate their customers thus reducing the inherent risks. however, The PSS Act, 2007 provides for the regulation and supervision of payment systems in India and designates the Reserve Bank of India as the authority for that purpose and all related matters.

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