

FINTECH FLYER

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TUG OF WAR: PAYMENT AGGREGATORS VS. PAYMENT ORCHESTRATOR

In a dramatic shakeup of India's digital payments landscape, a fierce battle has erupted between Juspay Technologies Private Limited (**Juspay**), a payment orchestrator, and various payment aggregators (**PAs**) such as PhonePe, Razorpay, Cashfree and Paytm. What began as a strategic licensing win for Juspay quickly spiralled into a turf war that's now forcing merchants, fintechs, and regulators to rethink the future of payment flows in the country.

PAYMENT ORCHESTRATION – BATTLE

PAYMENT AGGREGATION

INTEROPERABILITY

POWER STRUGGLE

The conflict seems to have started after Juspay secured a PA license from the Reserve Bank of India (**RBI**) on 6 February 2024 and launched its own gateway service, 'HyperPG'. Other PAs saw this as a potential conflict of interest. PhonePe was the first to cut ties, followed by others, urging merchants to avoid third-party routing entirely and promoting direct integrations.

In its defense, Juspay argues it's a tech-first enabler, not a competitor, and insists that it empowers merchants with better routing, reliability, and choice. This showdown highlights a deeper industry tension: *Should payment infrastructure remain open and interoperable, or tightly controlled by aggregators through direct integrations?* For now, India's merchants are caught in the middle of a power struggle that could reshape how digital transactions are handled across the country.

We encourage the readers to share their inputs on this battle between the PAs and Juspay.

FINTECH JARGON:

Payment Orchestration: integrating and managing the entire payment process, including payment authorization, transaction routing, and settlement (which involves connecting to different payment service providers (**PSPs**), acquirers, and banks on a single, unified software layer). This entails efficiently managing the payment stack within 1 platform rather than handling possibly dozens of integrations with different PSPs, enabling efficient scaling.

Payment Aggregators: are entities that: (i) receive payments from customers; (ii) pool them; and (iii) transfer them on to the merchants after a period of time.

Payment interoperability: ability of different payment systems, platforms, and providers to seamlessly communicate and process transactions with each other, allowing users to send and receive payments across various networks.

RBI INVITES APPLICATIONS FOR RECOGNITION AS SRO-AA

On 12 March 2025, RBI issued a framework for Self-Regulatory Organisations (SROs) for the account-aggregator (AA) ecosystem (SRO-AA) (SRO-AA Framework), which provides a comprehensive outline of the characteristics, responsibilities, eligibility criteria, governance-related aspects, etc., in respect of the SRO-AA. Pursuant to the SRO Framework, RBI invited applications, through the 'PRAVAAH' (Platform for Regulatory Application, VALIDation and AuthOrisation) portal, latest by 15 June 2025, for recognition of an SRO-AA. This is significant milestone in the evolution of financial data sharing in India.

Background: One of the defining intentions of the RBI's actions over the last few years has been to empower every Indian with control over their data. Through its various interventions, the RBI has sought to encourage access to develop a robust financial system and enable secure portability of data between service providers. The RBI introduced a regulatory framework for Non-Banking Financial Company (NBFC) - AA on 02 September 2016 (AA Framework) to facilitate secure and seamless exchange of specified financial information through NBFC – AAs, which act as intermediaries between Financial Information Providers (FIPs) and Financial Information Users (FIUs). Owing to the fact that such FIPs and FIUs are regulated by multiple regulators such as the RBI, SEBI, IRDA and PFRDA,

the complexity in implementation has resulted in the requirement for an SRO to assist with standard setting and management of operational issues between stakeholders. The SRO Framework can be summarized as under:

1. *Key characteristics:* Establishment of ethical and professional standards, fostering a development-oriented environment, and maintaining impartial oversight, free from dominant member influence.
2. *Key objectives:* Promoting best practices, making rules for the conduct of its members, ensuring compliance, facilitating dispute resolution, supporting innovation, engaging with regulators by acting as a collective voice of its members to the RBI and other financial sector regulators, contributing to policymaking through data sharing and encouraging development and research.
3. *Eligibility:* Applicant must be a not-for-profit company registered under Section 8 of the Companies Act, 2013, demonstrate INR 2,00,00,000 net worth within a year of recognition of SRO-AA or commencement of operations as an SRO-AA, maintain diversified shareholding (maximum 10% per entity), and have robust infrastructure and governance.

SELF-REGULATION

ACCOUNT AGGREGATOR

4. *Membership*: Voluntary but encouraged for all AA ecosystem participants. SRO-AA must maintain at least 25 unique FIP and FIU members each.
5. *Governance*: Must include independent board members, fair representation, and conflict of interest safeguards. Key roles should meet “fit and proper” criteria.
6. *Functions and responsibilities*: Include code of conduct formulation, oversight and market discipline such as fraud prevention, trade practices, etc., grievance redressal and dispute resolution, public awareness, infrastructure provision, and acting as an intermediary between members and regulators.

STANDARD SETTING

MARKET DISCIPLINE

RBI CONSOLIDATES THE DIGITAL LENDING GUIDELINES

On 08 May 2025, RBI issued a comprehensive framework, i.e., the RBI (**Digital Lending**) Directions 2025 (**DL Guidelines**) in furtherance to RBI's efforts to streamline and consolidate the existing regulatory directions on the digital lending activities in India.

RBI extended the applicability of the DL Guidelines to All India Financial Institutions (**AIFIs**) (such as SIDBI, NABARD and EXIM Bank) and also clarified that applications only offering standalone functions on facilitating digital lending would be considered as Digital Lending Apps (**DLA**).

Additional compliances introduced:

(A) *Due diligence requirements w.r.t. Lending Service Providers (LSPs):* Directing Regulated Entities (**REs**) to: (1) institute a policy on: (a) origination of loans from LSPs; (b) monitoring mechanisms; (2) (while that was the case in most instances) mandatorily enter into a contractual arrangement with the LSPs; (3) collect information on inter alia income details of the borrowers towards assessing credit worthiness.

DIGITAL LENDING APPS

LENDING SERVICE PROVIDERS

(B) *Arrangements with multiple lenders:* In most instances, LSPs enter into arrangements with more than one finance partner. From 15 November 2025, a borrower's interaction on the DLA would be akin to any marketplace – with: (1) the DLA highlighting to the borrowers the offers matching the ask and those who do not; (2) details of the RE and the loan extensively set out along with a link to the Key Fact Statement (KFS) for each RE. This would inter alia help the borrower ascertain the APR (annual percentage rate) on the loan.

(C) *Registration with RBI's CIMS (Centralized Information Management System) Portal:* REs now report to the RBI on the DLAs associated with them (as an operator or participant both) and update the same periodically.

Further additions:

(A) *Processing and storage of data:* As a rule, all data is required to be stored only in servers located in India. However, the DL Guidelines permit the data collected to be proceed outside India, provided that, the same is brought back to India within 24 hours of processing.

(B) *Outsourcing agreements with LSPs:* The DL Guidelines provide an overreaching principle where the RE is responsible for its obligations under any statutory/regulatory provision and liable for the acts and omissions of the LSP.

LEX TAKEAWAY

RBI's DL Guidelines mark a pivotal step toward fostering a more transparent, accountable, and borrower-centric digital lending ecosystem. By consolidating existing regulations and introducing new safeguards, enhanced due diligence mandates, marketplace-style borrower interfaces, and strict data localization norms, RBI reinforces its commitment to consumer protection and systemic integrity and stability - in the rapidly evolving fintech landscape and reflects a clear shift towards aligning digital lending with traditional financial standards while preserving innovation. These measures are expected to enhance trust, reduce malpractices, and enable informed financial decisions for digital borrowers, ultimately leading to a more robust and trustworthy digital lending sector.

DATA PROCESSING AND STORING OUTSIDE INDIA

OUTSOURCING AGREEMENTS

CONSOLIDATION

TRANSPARENCY

AKIN TO E-COMMERCE MARKETPLACE

RBI RELEASES DRAFT DIRECTIONS FOR CO-LENDING ARRANGEMENTS

Pursuant to RBI's statement on development and regulatory policies dated 09 April 2025, RBI released the draft RBI (**Co-Lending Arrangements**) Directions, 2025 (**Co-Lending Directions**), inviting public/stakeholder comments till 12 May 2025:

The Co-Lending Directions seeks to reform and expand the co-lending framework across the financial ecosystem. Unlike the previous 'Co-Lending by Banks and NBFCs to Priority Sector' guidelines dated 05 November 2020 (**2020 Directions**) which focused primarily on priority sector lending between banks and NBFCs, these Co-Lending Directions broaden the scope to include all categories of loans (retail, SME, consumption) and permit all REs, banks, NBFCs, HFCs, and AIFIs to participate. This aims to mainstream co-lending, improve credit access, and deepen financial inclusion in India.

Some key differences between the 2020 Directions and the Co-Lending Directions are summarized as under:

| Aspect | 2020 Directions | Co-Lending Directions |
|----------------------|---|---|
| Scope | Limited to banks & NBFCs for priority sector lending. | Broad coverage of all REs and all loan types. |
| Interest Rate | Agreed all-inclusive rate by both lenders. | Blended rate based on REs' weighted average; separate disclosure of all charges in APR. |

| Aspect | 2020 Directions | Co-Lending Directions |
|---|---|--|
| Default loss guarantee provision (DLG) | Not specified. | Explicit provision for DLG up to 5%, governed by digital lending norms. |
| Asset Classification | As per each RE's own regulatory norms. | Unified classification at the borrower level across REs. |
| Operational Arrangements | Escrow use mandated for co-lending transactions. | Further clarity in respect of sourcing arrangements: all loan servicing, repayment, etc., shall be executed by the borrower directly in the RE's bank account without any pass-through account/ pool account of any third party. |
| Loan Sourcing & Servicing | Less detailed; general segregation of roles. | Requires written arm's-length agreements; no hidden credit enhancements. |
| Disclosures | Not mandatory. | Mandatory detailed disclosures on the website and financials. |
| Applicability Limitation | Only for priority sector lending. | Excludes loans above INR 100 Crore under multiple banking, consortium, or syndication models. |
| Minimum Share for Co-Lenders | 20% minimum share required by the sourcing partner. | No such minimum share is specified. |

LEX TAKEAWAY

The Co-Lending Directions signify a progressive and liberalized evolution of India's co-lending model. By introducing uniform standards, greater transparency, and shared accountability, these guidelines are poised to make co-lending more efficient and scalable. Their success, however, hinges on: (i) technological upgrades by REs; (ii) smooth operational coordination between partners; and (iii) robust regulatory compliance. If effectively implemented, the framework has the potential to catalyze credit penetration in underbanked segments, supporting India's broader financial inclusion goals.

CO-LENDING

DEFAULT LOSS GUARANTEE

PRIORITY SECTOR

MANDATORY DISCLOSURES

REGULATORY ACTIONS TAKEN BY THE RBI

In the months of March 2025 – May 2025, RBI issued orders for the imposition of monetary penalties. Some significant monetary penalties are summarized as under:

Significant Monetary Penalties:

| Name of entity | Penalty Amount (in INR) | Reason |
|--|-------------------------|--|
| <u>BANK</u> | | |
| Indian Bank | INR 1,61,40,000 | Contravention of the BR Act and non-compliance with certain directions on 'interest rate on advances', 'Kisan Credit Card (KCC) scheme' and 'lending to Micro, Small and Medium Enterprises (MSME) Sector', by: (i) failure to benchmark the interest rate on certain floating rate retail loans and loans to certain MSMEs to an external benchmark rate; (ii) obtaining collateral security in respect of certain KCC loans and loans to MSME; and (iii) failure to transfer the eligible amount to the depositor education and awareness fund (DEA Fund) within the prescribed period. |
| Jana Small Finance Bank Limited | INR 1,00,00,000 | Issued / allotted compulsory convertible preference shares to certain persons, which taken along with equity share capital held by them, made such persons hold more than permitted percentage of the paid-up share capital of the bank, without the prior approval of RBI as required under the Banking Regulation Act, 1949 (BR Act). |

| Name of entity | Penalty Amount (in INR) | Reason |
|--------------------------------|-------------------------|--|
| <u>BANK</u> | | |
| Punjab and Sind Bank | INR 68,20,000 | <p>Non-compliance with certain directions on ‘creation of a central repository of large common exposures - across banks’ read with ‘central repository of information on large credits (CRILC) - revision in reporting’ and ‘financial inclusion - access to banking services – basic savings bank deposit account (BSBDA)’ since the bank:</p> <p>(i) did not report certain borrowers with non-fund based exposure to central repository of information on large credits; and</p> <p>(ii) allowed certain BSBDA holders to open savings bank deposit accounts.</p> |
| HDFC Bank Limited | INR 75,00,000 | <p>Issued / allotted compulsory convertible preference shares to certain persons, which taken along with equity share capital held by them, made Non-compliance with certain directions on know your customer (KYC), since the bank:</p> <p>(i) did not categorize certain customers into low, medium or high-risk categories based on its assessment and risk perception; and</p> <p>(ii) allotted multiple customer identification codes to certain customers instead of a unique customer identification code (UCIC) for each customer.</p> |
| IDFC First Bank Limited | INR 38,60,000 | <p>Non-compliance with certain directions on KYC, since the bank failed to undertake the requisite customer due diligence process for opening current accounts of certain sole proprietary firms.</p> |
| Bank of Maharashtra | INR 31,80,000 | <p>Non-compliance with the ‘RBI (KYC) Directions, 2016’ (KYC Directions) since the bank did not adhere to certain regulatory requirements in respect of several deposit accounts opened using Aadhaar OTP-based e-KYC, in non-face-to-face mode.</p> |

| Name of entity | Penalty Amount (in INR) | Reason |
|---|-------------------------|---|
| <u>BANK</u> | | |
| ICICI Bank Limited | INR 97,80,000 | <p>Non-compliance with certain directions on ‘Cyber Security Framework in Banks’, KYC, and ‘Credit Card and Debit Card – Issuance and Conduct’ since the bank failed to:</p> <ul style="list-style-type: none"> (i) report a cyber security incident to RBI within the stipulated timeline; (ii) put into use a robust software for throwing alerts for certain categories of accounts; (iii) send credit card bills / statements to certain customers, but levied late payment charges. |
| <u>NBFC</u> | | |
| Mahindra & Mahindra Financial Services Limited | INR 71,30,000 | <p>Non-compliance with certain provisions of the ‘NBFC - Systemically Important Non-Deposit taking Company and Deposit taking Company (Reserve Bank) Directions, 2016’ (NBFC SI Directions) and KYC Directions, since the company:</p> <ul style="list-style-type: none"> (i) did not disclose the processing fees and other charges in certain loan application forms; (ii) did not furnish copies of loan agreements and did not convey details of the loans in the sanction letters to certain borrowers; (iii) did not give a final chance to certain borrowers to repay the loans, before the sale / auction of vehicles; and (iv) allotted multiple customer identification codes to certain customers, instead of a UCIC for each individual customer. |

| Name of entity | Penalty Amount (in INR) | Reason |
|---|-------------------------|---|
| <u>NBFC</u> | | |
| Transactree Technologies Private Limited (Lendbox) | INR 40,00,000 | Non-compliance with certain provisions of the ‘NBFC– Peer to Peer Lending (P2P) Platform (Reserve Bank) Directions, 2017’ (P2P Directions), since the company: <ul style="list-style-type: none"> (i) routed the amounts disbursed and collected in loan accounts in the P2P platform through a ‘co-lending escrow account’ in violation of the laid down ‘Fund Transfer Mechanism’; and (ii) did not: (a) disclose the credit assessment and risk profile of the borrowers to the prospective lenders; and (b) disbursed loans to individual borrowers without the specific approval of individual lenders. |
| Bridge Fintech Solutions Private Limited (Finzy) | INR 10,00,000 | Non-compliance with certain provisions of the P2P Directions, since the company: <ul style="list-style-type: none"> (i) disbursed loans to individual borrowers without the specific approval of individual lenders; (ii) took partial credit risk, which was not provided under the ‘scope of activities’ for NBFC-P2P companies; (iii) did not, in certain instances: (a) ensure that its agreements with service providers included clauses to recognize the right of RBI to cause an inspection to be made of the service providers; and (b) undertake an annual review of the service providers; and (iv) did not conduct periodic review of the compliance of the fair practices code and functioning of the grievance redressal mechanism. |

| Name of entity | Penalty Amount (in INR) | Reason |
|---|-------------------------|---|
| <u>NBFC</u> | | |
| Visionary Financepeer Private Limited | INR 16,60,000 | <p>Non-compliance with certain provisions of the P2P Directions, since the company:</p> <ul style="list-style-type: none"> (i) disbursed loans to individual borrowers without the specific approval of individual lenders, and did not ensure that each individual lender and borrower had signed a loan agreement; (ii) did not disclose the required details of the borrowers to the lenders; (iii) did not have a board approved policy for the pricing of services provided by it; (iv) did not, in certain instances: (a) ensure that its agreements with service providers included clauses to recognise the right of RBI to cause an inspection to be made of the service providers; and (b) undertake an annual review of the service providers; and (v) took partial credit risk, which was not provided under the 'scope of activities' for NBFC-P2P companies. |
| Fairassets Technologies India Private Limited (Faircent) | INR 40,00,000 | <p>Non-compliance with certain provisions of the P2P Directions, since the company:</p> <ul style="list-style-type: none"> (i) disbursed loans without the specific approval of individual lenders; (ii) did not undertake and disclose the credit assessment and risk profile of the borrowers to the prospective lenders; (iii) took partial credit risk by foregoing the management fee partially / fully, which was not provided under the 'scope of activities' for NBFC-P2P companies; and (iv) did not comply with RBI's directions on 'fund transfer mechanism', when it allowed repayments to lenders from fresh funds provided by new / existing lenders or through repayments pooled from the borrowers, rather than from a specific borrower to a specific lender. |

Cancellation of certificate of registration:

Further, on 29 May 2025, RBI cancelled the certificate of registration of the NBFC, M/s N. Y. Leasing Private Limited due to irregular lending practices since it violated RBI guidelines on outsourcing financial services in its digital lending operations by outsourcing its core decision-making functions such as such as sourcing of customers, conducting their due-diligence, disbursement of loans, collection of repayments etc. as well as KYC verification to the service provider.

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