RBI's restriction on Card Networks

Why in news?

The Reserve Bank of India (RBI) has ordered a certain card network to stop “unauthorised payments” made using business cards.

Card network
• **Financial intermediary**- They are also known as a payment network or card association that facilitates transactions between merchants and cardholders. • **Digital payment ecosystem**-It plays a crucial role in enabling electronic payments and ensuring the smooth transfer of funds between different parties involved in a transaction. • **Role**-They provide the infrastructure and technology that allows credit and debit cards to be used for purchasing goods and services. • **Authorised card networks in India-**Visa, Mastercard, RuPay, Diners Club, and American Express. • They were developed to utilise one mode of payment to pay for goods and services at multiple merchants and avoid carrying cash around.

What is the issue?

- RBI said that the card network was allowing businesses to make payments to entities that were not authorised to accept card payments, which was a violation of The *Payment and Settlement Systems (PSS) Act, 2007*.
- **Intermediary arrangement**- A card network had an arrangement that enabled businesses to make card payments through certain intermediaries to entities that did not accept card payments.
- Thus, the intermediary was accepting card payments from corporates for their commercial payments, and was then remitting the funds via IMPS (Immediate Payment Service), RTGS (Real-Time Gross Settlement), or NEFT (National Electronic Fund Transfer) to non-card accepting recipient.
- **Violation of PSS Act**- A “close scrutiny” revealed that such arrangement qualified as a payment system under Section 4 of the PSS Act, such a payment system requires authorisation, which had not been obtained in this case.
- **Undesignated account**-The intermediary in such an arrangement pooled a large amount of funds into an account that was not a designated account under the PSS Act.
- **Non-compliance of KYC norms**-The transactions processed under this arrangement did not comply with the ‘originator and beneficiary information’ requirements, as stipulated under the ‘Master Direction on KYC (Know Your Customer)’ issued by the RBI.

The Master Direction on KYC is a set of guidelines issued by the RBI to ensure

that the entities regulated by it follow certain customer identification procedures and monitor their transactions to prevent money laundering and terrorist financing

- **Regulation**-RBI has advised the card network to keep all such arrangements in abeyance until further orders.
- There has been no restriction with respect to the normal usage of business credit cards.

Key provisions of Payment and Settlement System Act, 2007	
Key aspect	**Description**
About	It 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.
Definition of payment system	It is a system which enables a payment between a payer and a beneficiary, including clearing, payment, or settlement service, but it does not include a stock exchange.
Designation of payment system	The Act empowers the Reserve Bank of India (RBI) to designate payment systems in India
Regulation	The RBI has the authority to regulate and oversee payment and settlement systems to ensure their efficiency, integrity, and stability.
Consumer protection	The Act outlines the rights and responsibilities of consumers and the obligations of payment system providers to ensure consumer protection.
Offences	It includes unauthorized operation of a payment system, failure to comply with the terms of authorization, failure to produce statements, return information, or documents providing false information, disclosure of prohibited information, violating the provisions of the Act, not acting in compliance of the directions given by the RBI.
Penalty	RBI is empowered to initiate a criminal proceeding against the offender. RBI can even impose fines on the person for contravening certain provisions of the Act.

Quick facts

Immediate Mobile Payment Services (IMPS)
• It is a time period *instant inter-bank funds transfer* system managed by National Payment Corporation of India. • IMPS is obtainable 24/7 throughout the year together with bank holidays.
RTGS (Real Time Gross Settlement)
• It is a system that allows for the *instantaneous transfer* of money and/or securities between banks. • It has a minimum transfer limit of Rs. 2 lakh and no maximum transfer limit.
NEFT (National Electronic Fund Transfer)

• It is a *one-to-one fund* transfer system in India that allows you to transfer money from one bank account to another, within the same or different banks, across the country.
• It has no minimum or maximum transfer limit. However, the transfer limit may vary depending on the specific conditions set by the respective banks.
• NEFT transactions are *settled in batches*, not in real-time

References

1. Indian Express- RBI restrains card network
2. Indian Express-RBI card network unauthorised payments

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