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## Foreign Card Payment Network Companies Barred: RBI

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### Why in News

Recently, the **Reserve Bank of India (RBI)** has **barred three foreign card payment network firms** - Mastercard, American Express and Diners Club — from taking new customers on board **over the issue of storing data in India.**

- As many as **five private sector banks**, including Axis Bank, Yes Bank, and IndusInd Bank, are to be **impacted by the RBI’s decision.**
- The **Personal Data Protection Bill** also has **provisions pertaining to ‘data localisation’.**

### ‘MASTER’ OF CREDIT

Share of payment providers in banks’ credit card schemes (%)



	VISA	RuPay	Mastercard
RBL Bank	0	0	100
YES Bank	0	0	100
Bajaj Finserv	0	0	100
HDFC Bank	38	2	45
IndusInd Bank	47	0	40
ICICI Bank	64	0	36
Axis Bank	65	0	35
SBI Cards	86	4	10

\*Note: HDFC Bank's 15% cards are with Diners Club & IndusInd Banks' 13% cards are with American Express  
Source: Nomura Research

### Key Points

- **RBI's Circular on Data Storage-April 2018:**
  - All system providers were **directed to ensure that within six months the entire data** (full end-to-end transaction details, information collected or carried or processed as part of the message or payment instruction) **relating to payment systems operated by them is stored in a system only in India.**
  - They were also **required to report compliance to the RBI** and submit a board-approved system **audit report conducted by a Computer Emergency Response Team - India (CERT-IN) empanelled auditor** within the timelines specified.
- **Reason of Non- Compliance given by Payment Firms:**
  - **High Cost:**  
Payment firms like Visa and Mastercard, which currently store and process Indian transactions outside the country, have said **their systems are centralised and expressed the fear that transferring the data storage to India will cost them millions of dollars.**
  - **Localization Demands from Other Countries:**  
Once it happens in India, there could be similar demands from other countries, upsetting their plans.
  - **Lack of Clarity:**  
While the **Finance Ministry had suggested some easing of norms in transferring the data**, the RBI has refused to change, stating that the payment systems need closer monitoring in the wake of the rising use of digital transactions.
- **Significance of RBI's Move:**
  - The RBI's decision to restrict entities from onboarding new customers is a crucial development in their endeavour to **ensure that all payment system operators store or localise their end-to-end transaction data** only in India.
  - The motivation behind such a move is **to carry out effective law enforcement requirements** as data access for law enforcement purposes has been a challenge.

- **Regulation of Payment Firms:**

- Firms such as Mastercard, Visa and **National Payment Corporation of India (NPCI)** are Payment System Operators authorised to operate a card network in India under the **Payment and Settlement Systems (PSS) Act, 2007**.
- Under the Act, the **RBI is the authority for the regulation and supervision of payment systems in India**. The RBI's payment system enables payments to be effected between a payer and a beneficiary and involves the process of clearing, payment or settlement, or all of them.

It includes both, paper-based such as cheque, demand draft and digital such as **National Electronic Fund Transfer (NEFT)**, **BHIM app**, settlement systems.

- The RBI has decided to allow non-bank entities — Prepaid Payment Instrument (PPI) issuers, card networks, **White Label ATM** operators, **Trade Receivables Discounting System (TReDS)** platforms – to become members of the centralised payment system and effect fund transfer through **Real Time Gross Settlement (RTGS)** and NEFT.

## **Way Forward**

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- It is necessary for all entities to comply with the RBI's localisation mandate. At the same time, however, it's true that **hard localisation may impact India's payments ecosystem**.
- To have a more effective mechanism for law enforcement, India **needs to move beyond MLAT (Mutual Legal Assistance Treaty)**, which is slow and ineffective, **to a system based on bilateral treaties on data transfers** with the **European Union**, UK and the US.
- The idea must be **to ensure that Indian law enforcement requirements of access to data are met in a timely manner** while at the same time allowing data flows to foster innovation and trade in the tech ecosystem.

**Source: TH**