



# PayU Gets Approval as Payment Aggregator

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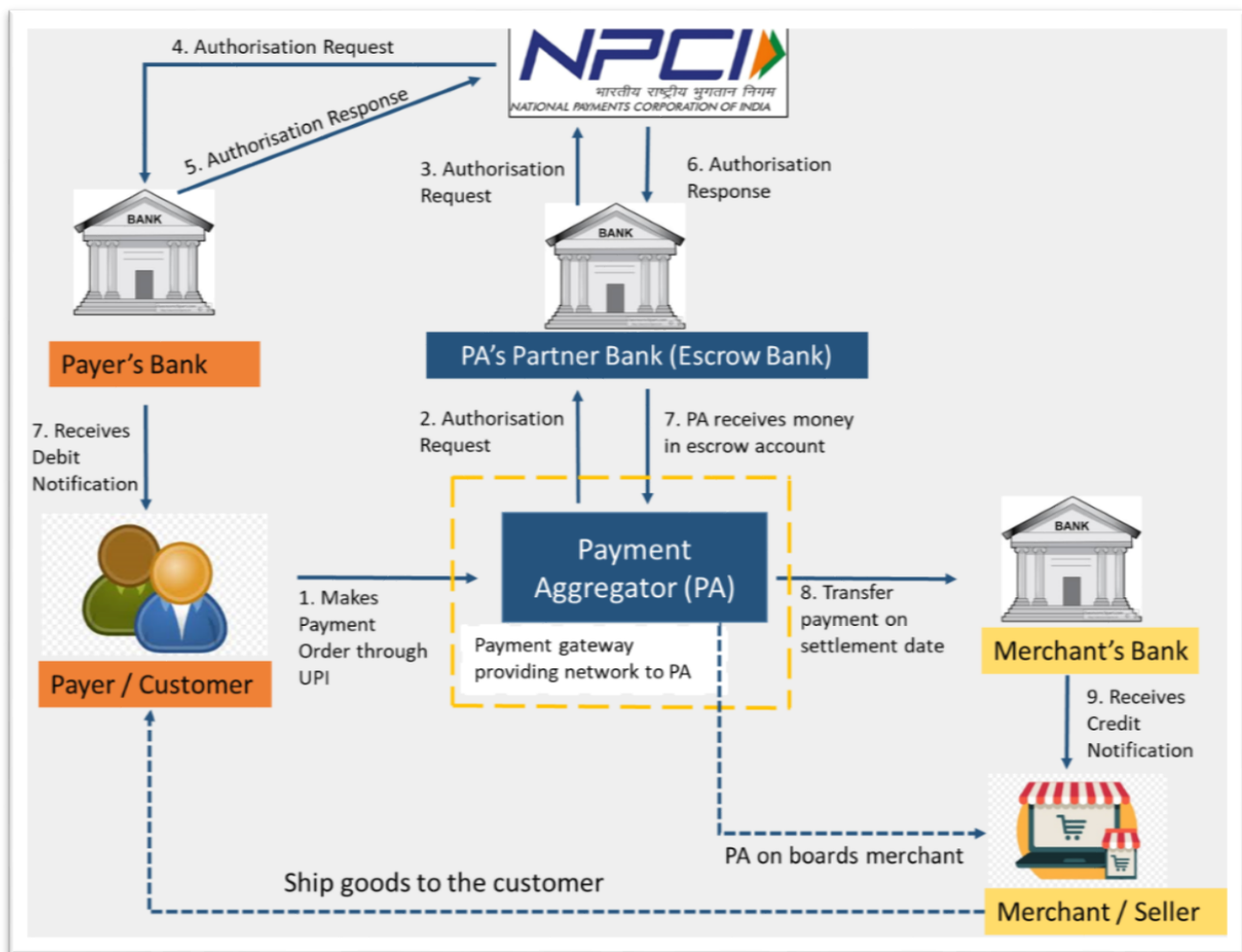
## Why in News?

Fintech firm PayU has recently announced that it has received in-principle approval from the [Reserve Bank of India \(RBI\)](#) to operate as a [payment aggregator \(PA\)](#), under the **Payment and Settlement Systems (PSS) Act, 2007**.

- The **in-principle approval from RBI** permits PayU to onboard new merchants, yet **final approval typically takes six months to a year**.

## What is a Payment Aggregator?

- **About:**
  - PA acts as an **intermediary between businesses and financial institutions**, handling payment processing on behalf of merchants.
    - A payment aggregator simplifies the process of accepting electronic payments for businesses.
  - Payment aggregators streamline the payment acceptance process, allowing businesses to avoid the complexities of establishing direct relationships with financial entities.
  - They enable businesses to accept various payment methods, including credit cards, debit cards, e-wallets, and bank transfers, through a single platform.
  - Some examples of payment aggregators include Google Pay, Amazon Pay, Phone pe, and PayPal.
- **Capital Requirements:**
  - New PAs must have a **minimum net worth of Rs 15 crore** at the time of application and **reach Rs 25 crore by the end of the third financial year** post-authorisation.
- **Authorisation Process:**
  - While banks provide PA services as part of their normal banking relationship and do not require separate authorisation, non-bank PAs must obtain authorisation from the **RBI under the Payment and Settlement Systems Act, 2007 (PSS)**.
- **Settlement and Escrow Account Management:**
  - Non-bank PAs are mandated to maintain funds collected in an [escrow account](#) with a [scheduled commercial bank](#).
    - PAs must adhere to specific timelines for settling funds with merchants based on the transaction lifecycle and agreed-upon terms.



#### End to end non-bank payment aggregator transactional flow

The blue dotted lines in the fig. do not form part of payment system, but forms an important part of legal basis in merchant on-boarding process and shipment of goods to the customers in a PA business model.

#### Note:

- Unlike PAs, **Payment Gateways (PG)** provide technology infrastructure to route and facilitate the processing of online payment transactions **without handling funds**.
  - Payment Aggregators, on the other hand, **allow merchants to have multiple payment options** on their portal, covering the functionality of a payment gateway.

| Basis of Distinction     | Payment Gateway                                                          | Payment Aggregator                                                                                                     |
|--------------------------|--------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------|
| <b>Role</b>              | A network bridging the gap between the merchant and the bank.            | A solution streamlining end-to-end payment processes.                                                                  |
| <b>Payment Options</b>   | Primarily debit/credit card payments.                                    | Offers multiple options: UPI, debit/credit cards, net banking, etc.                                                    |
| <b>Integration</b>       | Merchants integrate each payment method or bank separately.              | Integration requires partnering with just one service provider.                                                        |
| <b>Services Provided</b> | Transaction processing services.                                         | Provides transaction processing along with additional services like access to reports, customer support, etc.          |
| <b>Funds Handling</b>    | Does <b>not store funds</b> ; securely transmits encrypted payment data. | <b>Handles funds</b> through its Merchant Identification Number (MID). Transactions processed through the aggregator's |

|                 |                                                           |                               |
|-----------------|-----------------------------------------------------------|-------------------------------|
|                 |                                                           | system.                       |
| <b>Examples</b> | Axis Bank, HDFC Bank, MPGS (Mastercard Payment Gateways). | PhonePe PG, Stripe, Cashfree. |

## Payment and Settlement Systems (PSS) Act, 2007

- The PSS Act, 2007, provides for the regulation and supervision of payment systems in India and designates the RBI as the authority for that purpose and all related matters.
- The Reserve Bank is authorised 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.
- According to Section 4 of the PSS Act, 2007, **only the Reserve Bank can authorise the operation of a payment system**. Any person wanting to operate a payment system must apply for authorization under Section 5 of the PSS Act, 2007.
- The PSS Act 2007 **does not prohibit foreign entities from operating a payment system in India**. The Act does not discriminate/differentiate between foreign entities and domestic entities.
- Operating a payment system without authorization, non-compliance with Reserve Bank directions, or violating any provisions of the PSS Act, 2007 can result in criminal prosecution initiated by the Reserve Bank.

## UPSC Civil Services Examination, Previous Year Question (PYQ)

### Prelims

#### Q1. With reference to digital payments, consider the following statements: (2018)

1. BHIM app allows the user to transfer money to anyone with a UPI-enabled bank account.
2. While a chip-pin debit card has four factors of authentication, BHIM app has only two factors of authentication.

Which of the statements given above is/are correct?

- (a) 1 only
- (b) 2 only
- (c) Both 1 and 2
- (d) Neither 1 nor 2

Ans: (a)

#### Q2. Which of the following is a most likely consequence of implementing the 'Unified Payments Interface (UPI)'? (2017)

- (a) Mobile wallets will not be necessary for online payments.
- (b) Digital currency will totally replace the physical currency in about two decades.
- (c) FDI inflows will drastically increase.
- (d) Direct transfer of subsidies to poor people will become very effective.

Ans: (a)

#### Q3. Consider the following statements: (2017)

1. National Payments Corporation of India (NPCI) helps in promoting the financial inclusion in the

country.

2. NPCI has launched RuPay, a card payment scheme.

**Which of the statements given above is/are correct?**

- (a) 1 only
- (b) 2 only
- (c) Both 1 and 2
- (d) Neither 1 nor 2

**Ans: (c)**

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