Payment Aggregators

Prelims: RBI, Payment and Settlement Systems Act, 2007, Payment Gateway.

Mains: Payment Aggregators.

Why in News?

Recently, the **Reserve Bank of India (RBI)** has given in-principle approval to 32 firms to operate as **Online Payment Aggregators (PA),** under the **Payment and Settlement Systems Act, 2007 (PSS Act).**

- 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.

Note

In principle approval means that an approval has been granted **based on certain conditions or assumptions**, but that additional information or steps may be required before final approval is given.

What is a Payment Aggregator?

- **About:**
  - Online payment aggregators are companies **that facilitate online payments by acting as intermediaries between the customer and the merchant.**
    - The RBI introduced **Guidelines for Regulating PAs** and Payment Gateway in **March 2020.**
- **Functions:**
  - They typically provide **a range of payment options to customers**, including credit and debit cards, bank transfers, and e-wallets.
  - Payment aggregators collect and process payment information, **ensuring that transactions are secure and reliable.**
  - By using a payment aggregator, **businesses can avoid the need to set up and manage their own payment processing systems**, which can be complex and expensive.
    - Some examples of payment aggregators include **PayPal, Stripe, Square, and Amazon Pay.**
- **Key Features:**
  - **Multiple Payment Options:** Payment aggregators offer a range of payment options to customers, making it easier for them to pay for goods and services.
  - **Secure Payment Processing:** Payment aggregators use **advanced security measures** to ensure that transactions are safe and secure.

    - **Fraud Detection and Prevention:** Payment aggregators use algorithms and machine learning to detect and prevent fraud, reducing the risk of chargebacks and other payment disputes.
    - **Payment Tracking and Reporting:** Payment aggregators provide detailed reports on payment transactions, making it easier for businesses to manage their finances and reconcile their accounts.
    - **Integration with Other Systems:** Payment aggregators can integrate with a range of other systems, such as accounting software and inventory management systems, to streamline the payment process and make it easier to manage business operations.
- **Types:**
    - **Bank Payment Aggregators:**
        - They involve **high setup costs and are difficult to integrate.**
        - They lack many of the popular payment options along with detailed reporting features. Because of the **high cost, bank payment aggregators are not suitable for small businesses** and startups.
        - e.g.; Razorpay and CCAvenue.
    - **Third-Party Payment Aggregators:**
        - Third-party PAs offer **innovative payment solutions to businesses and have become** more popular these days.
        - Their user-friendly features include **a comprehensive dashboard,** easy merchant onboarding, and quick customer support.
        - e.g.; PayPal, Stripe and Google Pay.
- **RBI's Criteria for Approving an Entity as Payment Aggregator:**
    - Under the payment aggregator framework, only firms approved by the RBI can acquire and offer payment services to merchants.
    - A company applying for aggregator authorisation **must have a minimum net worth of Rs 15 crore in the first year of application**, and at least Rs 25 crore by the second year.
    - It must also be compliant with **global payment security standards.**

How is the Payment Aggregator different from Payment Gateway?

- A payment gateway is **a software application that connects an online store or merchant to a payment processor**, allowing the merchant to accept payment from a customer.
    - Payment aggregators, on the other hand, are **intermediaries that provide a single platform to connect multiple merchants** to different payment processors.
- The main difference between a payment aggregator and payment gateway is that the **former handles funds while the latter provides technology.**
- Payment aggregators can offer a payment gateway, **but vice versa is not true.**

What are RBI's Other Initiatives to Regulate Fintech Firms?

- **RBI's Fintech Regulatory Sandbox:**
    - Established in 2018 with the primary objective of being a controlled regulatory environment for testing fintech products.
- **Payment System Operators license:**
    - This initiative was brought in in order to scrutinize the ever-expanding payments landscape in India.
- **Digital Lending Norms:**
    - All digital loans must be disbursed and repaid through bank accounts of **regulated entities** only, without the **pass-through of lending service providers (LSPs)**
- **RBI's Payment Vision 2025:**
    - It aims to **elevate the payment systems** towards a realm of empowering users with **affordable payment options accessible anytime and anywhere** with convenience.
    - It builds on the initiatives of **Payments Vision 2019-21.**
- **RBI's upcoming White-List:**
    - The RBI has prepared a "white-list" of digital lending apps **(List of Approved Lenders)** in order to **curb rising malpractices in the digital lending ecosystem.**

Source: IE