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RBI ROLLS OUT FRAMEWORK FOR ONLINE DISPUTE RESOLUTION SYSTEMS FOR DIGITAL PAYMENTS

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Introduction

On 6 August 2020, the Reserve Bank of India (RBI) issued its statement on developmental and regulatory policies *inter alia* setting out measures to deepen digital payments. The RBI acknowledged the significant increase in the number of disputes and grievances in the digital payments space, and recognised the need for technology-driven redressal mechanisms (which are rule-based and automated) to resolve such disputes effectively and expeditiously. The RBI now proposes to mandate adoption of online dispute resolution (ODR) systems by the payment system operators (PSOs) in a phased manner for addressing all forms of disputes arising in the digital payments ecosystem.

As a first step, the RBI issued a notification simultaneously with the abovementioned statement on ODR system for digital payments (ODR Notification) mandating PSOs to adopt ODR systems for disputes and grievances arising out of failed transactions in all payment systems. ODR systems are intended to operate as an automated mechanism (with nil or minimal manual intervention) for resolving disputes, which is rule-based, system-driven, user-friendly, non-discriminatory and transparent.

Regulatory framework for resolution of failed transactions

In 2019, the RBI had prescribed a framework for resolution of failed transactions (Framework), and defined such transactions as transactions which have not been fully completed due to any reason not attributable to the customer. Such reasons could include failure of communication links, non-availability of cash in an automated teller machine (ATM), time-out of sessions while making online payments, etc. The RBI had also clarified that failed transactions would include instances where payments cannot be made to the beneficiary account due to lack of complete or accurate information for processing the payment, and related delays in initiating a reversal transaction.

The Framework requires reversal of payments within a specified time frame (ranging between 1 to 5 days from the date of transaction) for failed transactions effected through various payment systems such as ATMs, credit/debit card payments, immediate payment system (IMPS), unified payment interface (UPI), prepaid payment instrument (PPI), etc. The RBI had also prescribed a compensation of INR 100 for each working day during which the reversal of payments is delayed. Any breach in following the timelines and procedures outlined in the Framework would entitle customers to

approach the banking ombudsmen (who are RBI appointed officers entrusted with investigation of complaints) under the Banking Ombudsman Scheme, 2006.

Key Highlights of the ODR Notification

The ODR Notification is applicable to both bank and non-bank PSOs, as well as payment system participants (PSPs) who are the participating members of a payment system. The RBI has prescribed a timeline of 1 January 2021 within which PSOs are required to implement the ODR system for failed transactions in their respective payment systems.

As part of such implementation, PSOs are required to ensure that each of its participating PSPs are given access to the ODR system. Both PSOs and PSPs have the responsibility to ensure that customers are provided the facility to lodge disputes and grievances on the ODR system. The ODR system may be offered through single or multiple delivery channels, including web-based or paper-based complaint forms, interactive voice response (IVR), mobile applications, call centres, short message service (SMS), through branches or offices, etc.

To begin with, the RBI only requires disputes relating to failed transactions to be processed through the ODR system. The RBI has clarified that the terms of the Framework would continue to apply, and the payment reversal timelines and penalties prescribed therein will continue to strictly apply even when a failed transaction is lodged on the ODR system. The RBI intends to extend the ODR mechanism to other types of payment disputes in future, based on the feedback received in implementation of ODR systems for failed transactions.

From an operational perspective, the RBI has clarified that the processes adopted in the ODR system to resolve disputes must be simple and should require only minimum details for resolution. The ODR system must be designed to automatically fetch the required details basis the information provided by the customers. PSOs and PSPs are also required to specifically consider data confidentiality related aspects while conceptualising and designing the parameters of the ODR system. The customers raising a dispute on the ODR system must be allotted a unique reference number and facility for tracking the status of resolution of such disputes. If such disputes are not resolved even after one month, the customers may approach the banking ombudsmen to obtain relief.

With respect to mobile phone / application (App) based payment systems such as UPI, the relevant third party App providers (who offer UPI based payment solutions on their respective mobile Apps) are also required to provide customers with a facility to lodge disputes through their mobile Apps which is integrated at the back end with the ODR system of the UPI payment system.

Comments

The ODR Notification is in line with the '*Payment and Settlement Systems in India: Vision 2019 - 2021*' policy document issued by the RBI, under which the core theme was to provide every Indian with access to a bouquet of e-payment options that are safe, secure, convenient, quick, and affordable.

Given the proliferation in usage of digital payment methods by consumers (especially after the onset of the COVID-19 pandemic), it is important for the regulator to ensure development of a robust mechanism for resolving customer disputes efficiently. Such mechanism would also increase the trust of the customers in new age payment options, and provide them an assurance that any issues in the payment process would be immediately resolved.

The RBI has provided flexibility to market players to offer the ODR system through multiple channels, and design the contours of their respective ODR systems. This would

also go a long way in encouraging innovation in the payments space to develop automated mechanisms to resolve disputes within a short period.

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