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Resetting the rules:

Overhaul of the regulatory framework for Payment Aggregators

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Introduction

On 15 September 2025, the Reserve Bank of India (RBI) issued the Reserve Bank of India (Regulation of Payment Aggregators) Directions, 2025 (PA Directions), which was made effective immediately. The PA Directions rationalise and repeal the existing payment aggregator regulatory frameworks, i.e., (i) Guidelines on Regulation of Payment Aggregators and Payment Gateways dated 17 March 2020 (PA-PG Guidelines); (ii) Clarifications on Guidelines on Regulation of Payment Aggregators and Payment Gateways dated 31 March 2021 (Clarifications to PA-PG Guidelines); and (iii) Regulation of Payment Aggregator – Cross Border dated 31 October 2023 (PA-CB Regulations), along with few ancillary operational circulars.

The PA Directions have been issued pursuant to the two draft directions[1] released by the RBI for public consultation in 2024 (Draft Directions). The PA Directions brings in physical payment aggregation services within the regulatory purview of RBI and harmonises the various categories of payment aggregators. The new guidelines also introduce stricter merchant due diligence obligations. The PA Directions are applicable to banks, non-bank PAs and authorised dealer banks (AD Banks).

Key Changes introduced in the PA Directions

(a) <u>Definitions and categories of Payment Aggregators (PAs)</u>.

- The PA Directions define a payment aggregator as an entity which facilitates aggregation (and subsequent settlement of) payments made by customers to the merchants for purchase of goods, services or investment products by the customers, and where the payment is made by the customer through one or more payment channels through the interface of the merchant (which may be physical or virtual).

- Further, PAs have now been classified into three categories:

  (i) <u>Payment Aggregator – Online (PA-O)</u>. These are payment aggregators which are involved in the facilitation of transactions where the acceptance device and payment instrument are not present in close proximity at the time of making the payment.

  (ii) <u>Payment Aggregator - Physical (PA-P)</u>. These are payment aggregators which are involved in facilitation of transactions where both the acceptance device and payment instrument are physically present in close proximity while making the payment.

  (iii) <u>Payment Aggregator-Cross Border (PA-CB)</u>. These are payment aggregators which are involved in aggregation of cross-border payments for current account transactions which are not prohibited under the Foreign Exchange Management Act, 2000 (FEMA) for merchants onboarded through e-commerce mode.

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[1] Reserve Bank of India Draft Circular for Comments on 'Regulation of Payment Aggregators – Physical Point of Sale' dated 16 April 2024; and Reserve Bank of India 'Draft Amendments to the Existing Guidelines on Payment Aggregators and Payment Guidelines' dated 16 April 2024.

- Updated terminologies. While the erstwhile PA-CB Regulations classified PA-CBs as (i) Export-only PA-CBs, (ii) Import-only PA-CBs, and (iii) Export and Import PA-CBs, the PA Directions now discuss PA-CBs as being involved in inward transactions (resulting in inflow of foreign exchange into India) and outward transactions (entailing outflow of foreign exchange from India). Additionally, the terminologies for import collection account and export collection account have been substituted with inward collection account (ICA) and outward collection account (OCA) respectively.

- Definition of e-commerce. 'E-commerce' has now been defined as 'buying and selling of goods and services, including digital products, conducted over digital and electronic network'. The term 'digital and electronic network' includes network of computers, television channels, web pages, extranets, mobiles, etc.

- Definition of merchant. A 'merchant' has been newly defined under the PA Directions as an entity or a marketplace which sells goods, provides services, or offers investment products. The definition also specifically calls out that merchants include exporters and overseas sellers.

Comments.

(1) Until now, PA-Ps were unregulated and physical payment aggregation business was outside the purview of the RBI. Businesses which are involved in providing point-of sale based payment services and other physical payment aggregation services will now be required to be directly licensed with the RBI, and must revisit their operational processes to ensure compliance with the PA Directions.

(2) The PA Directions now recognises merchants involved in offering of investment products, and clarifies that payment aggregators can support payment flows for such merchants. While the term 'investment products' has not been specifically defined under the PA Directions, this is a welcome clarification from the RBI.

(3) The PA Directions do not specifically exempt 'Delivery versus Payment' transactions where the merchants deliver the product / service to the customers simultaneous with the making of the payment. Such transactions would now fall within the ambit of payment aggregation and must comply with the PA Directions.

(4) With respect to PA-CBs, the PA Directions appear to liberalise the regulatory framework by permitting PA-CBs to process payments for permissible current account transactions under FEMA (as against only permissible trade transactions under the foreign trade policy of India).

(b) Harmonised authorisation process.

- Akin to erstwhile PA-PG Guidelines, banks are not required to obtain separate authorisation to undertake PA business. Non-bank entities must seek authorisation from the RBI through PRAVAAH portal for operating as a PA.

- There have been no changes to the prescribed capital requirements for seeking PA authorisation (upfront minimum net-worth of INR 15 crore at the time of application, and a requirement to attain net-worth of INR 25 crore by end of third financial year after grant of authorisation).

- With respect to PA-Ps, we have summarised in the table below the authorisation requirements.

NATURE OF ENTITY	ACTION ITEM FOR AUTHORISATION	TIMELINE
Existing PA (PA-O / PA-CB) already having a Certificate of Authorization (CoA) from RBI	Intimate the RBI regarding existing PA-P business to receive a revised CoA.	Immediately
Entity whose CoA application for PA business is pending with the RBI	Intimate the RBI regarding existing PA-P business.	By 31 December 2025 (failing which the PA-P business must be wound down)
Existing PA desirous of commencing business in another PA category	Intimate RBI regarding interest in commencing a new category of PA business	30 days prior to commencing the new business
Entity carrying on only PA-P business	Apply to RBI for CoA	By 31 December 2025 (failing which the PA-P business must be wound down)

Comments:

The PA Directions align the authorisation requirements for PA-Ps with the existing authorisation process for PA-Os and PA-CBs. Businesses which had segregated their physical payment aggregation business in a separate entity may need to relook their internal corporate structure and evaluate merits of consolidating various types of payment aggregation businesses in a single entity for operational convenience.

(c) Conduct of PA activities.

- Appointment of grievance redressal officer. PAs must appoint an officer responsible for responding to merchant's queries and adopt an escalation matrix for grievance redressal. The erstwhile PA-PG Directions mandated appointment of a nodal officer for handling customer grievances.

- Business restrictions. PAs must not carry out marketplace business and aggregate funds for merchants with whom they do not have a contractual relationship.

- Restriction on co-mingling of funds by PA-CBs. There should be no co-mingling of funds or netting off for outward and inward transactions under any circumstances.

- Value limits on inward / outward transactions. The PA Directions have set a maximum value per transaction of INR 25,00,000 (~USD 28,000) for inward or outward transactions processed by a PA-CB.

- Compliances on dealing in foreign currency. PA-CBs are prohibited from dealing in foreign currency with any entity other than an AD Bank. PA-CBs have to provide such information as required by the exporter / importer to the AD Bank of the exporter / importer for closure of entries in the RBI's Import / Export Data Processing and Monitoring System. Settlement in non-INR currencies has been permitted only for those merchants directly onboarded by the PA-CB facilitating inward transactions (and not in case of agreements with e-commerce marketplaces).

Comments.

The PA Directions introduce various additional compliance requirements which must be considered by various types of payment aggregators while reviewing their existing or proposed business operations.

(d) Revised KYC and Due Diligence standards.

- Mandatory customer due diligence (CDD) of merchant. Under the erstwhile PA-PG Guidelines, PAs were not required to undertake CDD of merchant if such merchants maintained KYC-compliant bank accounts into which the PAs settled the funds collected by them. The PA Directions introduces a paradigm shift in merchant onboarding requirements, mandating CDD as per the Reserve Bank of India (Know Your Customer (KYC)) Directions, 2016 (KYC Directions).

- Reliance on Central KYC Registry (CKYCR). PAs are now mandatorily obligated to retrieve merchant KYC records from CKYCR with explicit merchant consent, ensuring standardised verification protocols across all regulated entities. CKYCR must therefore be the first port of call for undertaking CDD, and only if the CKYCR record is found to be not updated / not present, or if the PA cannot access the CKYCR while its authorization application is pending, must the PA undertake other modes of KYC as prescribed in the KYC Directions. This requirement addresses the fragmented approach previously observed in merchant onboarding, where verification standards varied significantly across different PAs.

- Alternate CDD measures for small merchants. The PA Directions prescribes an alternate process for undertaking CDD of smaller merchants, whose annual turnover does not exceed INR 40,00,000 (~USD 45,000), or in case of exporters, whose annual export turnover does not exceed INR 5,00,000 (~USD 5,500). The alternate process entails the following:

  (i) Obtaining a copy of the PAN / Form 60 of the merchant and verifying it with the issuing authority;

  (ii) Conducting Contact Point Verification (CPV) of the merchant; and

  (iii) Obtaining a certified copy of one officially valid document (OVD) of the proprietor or of the person holding power of attorney to operate the account, as applicable. One of the documents or the equivalent e-documents, as prescribed for CDD of sole-proprietary firms or legal entities must be verified.

- Due diligence through assisted mode. Non-bank PAs can utilize agents to undertake merchant due diligence through digital KYC or assisted V-CIP. The ultimate responsibility of merchant due diligence would be on the PA.

- Facilitation of merchant category code (MCC). Notably, the PA Directions now explicitly stipulate that the PA is required to facilitate allotment of appropriate MCC and merchant ID / terminal ID to the merchants, including those onboarded by overseas PAs.

- Arrangements with marketplaces. The PA Directions specifically regulate arrangements of PAs with marketplaces by mandating PAs to ensure that the marketplaces onboarded by them are not accepting any payments on behalf of sellers not onboarded on the marketplace's platform. PAs are also obligated to validate whether the funds are being transferred to the bank account of the merchant to whom the funds were due. Additionally, PAs are now also required to monitor the subsequent transactions undertaken by the merchants to ensure that the transactions are in line with the merchant's business profile as verified pursuant to the KYC Directions.

- Registration with FIU-IND. The PA Directions also make it explicitly clear that non-bank PAs (which would now include PA-Ps) qualify as reporting entities, and must therefore be required to register with the Financial Intelligence Unit – India (FIU-IND) and comply with all applicable reporting and compliance obligations under the KYC Directions, and Prevention of Money Laundering Act, 2002 and the rules issued thereunder.

- Extended timeline for CDD compliance. Considering the comprehensive changes to merchant due diligence requirements, the RBI has granted PAs an extended timeline until 15 September 2026 to ensure that merchants onboarded till 31 December 2025 are onboarded in compliance with the new due diligence requirements prescribed under the PA Directions. This leeway would not be available for merchants onboarded by PAs after 1 January 2026.

- Obligations of acquiring bank. The PA Directions also place certain obligations on the acquiring banks who would now need to have a specific policy to process payments for merchants acquired by non-bank PAs. Such banks must also have the ability to obtain due diligence records of the merchant from the non-bank PA when required and must ensure that such merchants are onboarded by the PA in compliance with the merchant policy of the bank.

Comments.

(1) The mandatory CDD requirement for PAs will significantly increase operational costs and compliance burden for PAs who are now directly responsible for conducting the KYC of merchants onboarded by them. The RBI's emphasis on CKYCR as the first measure of undertaking CDD appears to be in alignment with the recent revisions to the KYC Directions. While it may reduce the cumbersome KYC process, the availability and reliability of records in the CKYCR remains a practical challenge which needs significant improvement.

(2) The heightened due diligence obligations now require PAs to play a proactive role in accurately categorizing merchants and adequately monitoring the transactions processed by them, even after the settlement of funds into the merchant accounts. This would increase the risk management obligations of the PAs.

(3) PAs would also now need to closely scrutinize marketplace-seller arrangements and may need to relook certain flows involving settlement of payments to a particular merchant for or on behalf of an unrelated third-party beneficiary.

(e) Fund settlement.

- Operation of escrow account. The PA Directions stipulate various provisions regarding operation of the escrow account operated by the PA, which include:

  (i) Domestic PAs (PA-O and PA-P) must maintain their escrow account with a scheduled commercial bank, and PA-CBs must maintain their OCA and ICA with an AD Bank.

  (ii) Pre-funding of the escrow account is permitted only for domestic PAs, and not for PA-CBs. Withdrawal of pre-funded amounts by the PA is not permitted.

(iii) Inter-escrow transfer of funds is permitted for domestic PAs, but not for PA-CBs.

(iv) All PAs are required to maintain a day end balance in the escrow account equivalent to the amount realized in the escrow account towards funds payable to the merchants but not settled to them.

(v) While domestic PAs continue to be permitted to avail interest on the core portion maintained in the escrow account, it has been clarified that no interest shall be payable on the balances maintained in the escrow account of a PA-CB.

- Permitted debits and credits. Notably, there are a few key changes to the permitted debits and credits as well:

  (i) The receipt of funds from other PAs for settlement to their merchant, as well as payment to another PA or PA-CB for ultimate settlement of funds to the merchant, has now been permitted. However, this permitted debit must not be used to transfer funds from an entity acting as a Bharat Bill Payment Operating Unit (BBPOU) to its BBPS escrow account, except where the entity acts as a PA to an Agent Institution as defined in the RBI (Bharat Bill Payment System) Directions, 2024.

  (ii) Debits to specified third party accounts on the instructions of the merchant continue to be permitted. However, the PA Directions impose a condition that such debits to a third party account can only be implemented if the merchant (who may have a physical or online presence) has an annual turnover exceeding INR 40,00,000 (~USD 45,000) or an annual export turnover of INR 5,00,000 (~USD 5,500), and such third party beneficiary is the payee which interfaces with the payer for purchase / delivery of goods, services or investment products, for the underlying transaction.

- Settlement timelines. The PA Directions also provide additional flexibility for settlement of funds by the PA to the merchant. In the erstwhile PA-PG Guidelines, the settlement timelines with merchants were pegged to the date of shipment / delivery / refund of the product / debit to the customer's account. However, under the PA Directions, the PA and the respective merchant can determine these settlement timelines as part of their contractual arrangement. The only regulatory stipulation in this regard is that such agreement must be fair, equitable and must transparently mention the settlement timelines.

Concluding Remarks

The PA Directions consolidate the regulatory framework for payment aggregators in India and introduce a licensing and supervisory framework for physical payment aggregators. The introduction of mandatory KYC and CDD requirements for merchants onboarded by a payment aggregator could entail significant changes to existing merchant onboarding processes adopted by such payment aggregators.

Payment aggregators would also need to closely evaluate and ensure compliance with the various operational requirements under the PA Directions. This would also include revisiting various existing policies as well as contractual documentation with merchants to align with the regulatory stipulations under PA Directions.

- Smita Jha (Partner); Prashanth Ramdas (Partner); Pritish Mishra (Principal Associate); Jino Mathews Raju (Associate) and Ananya Giri Upadhya (Associate)

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