

Indian radio cab operators Meru Cab, Easy Cabs allege FEMA violation by Uber; say flouting RBI norm on credit card transactions

By [Aditi Shrivastava](#), ET Bureau | 9 Aug, 2014, 03.52AM IST

BANGALORE: Taxi-booking app Uber, which has invited the ire of cabbies in the United States and Europe, has united radio taxi providers here too who have complained that the San Francisco startup is violating Indian law.

Indian radio taxi providers, including [Meru Cab](#), [Easy Cabs](#) and [Mega Cab](#), have filed a complaint with the Reserve Bank of India alleging foreign exchange violations by the American firm, which is one of the fastestgrowing startups in the world.

The Association of Radio Taxis claims that taxi hailing app [Uber](#) is in "gross contravention of Foreign Exchange Management Act (FEMA) and [RBI](#) mandate on [credit card transactions](#) in India". Valued at about \$18 billion (Rs 1.1 lakh crore) and backed by Amazon founder Jeff Bezos and Google, Uber has evoked awe and fear among competitors as it grows its technology-based services across cities globally at a rapid pace. The taxi providers alleged that Uber stores passenger creditcard details on its system.



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Concern over Payment Gateway

They claim that Uber is circumventing the two-stage credit card authentication mandated by the RBI using an international payment gateway.

The complaint went on to state that once a customer takes an Uber ride, the company charges the full fare from the passengers and routes it in foreign currency to The Netherlands-based Uber BV. It later remits back 80% money to the driver in his Indian account via wire transfer from the US-based Wells Fargo Bank, according to the letter written to the RBI.

"Collection of fares by Uber on behalf of a taxi driver in India should qualify as a capital account transaction under [FEMA](#) and since such a transaction is not specifically permitted under the regulations, it is our understanding that the transaction is in gross contravention of the Indian exchange control regulations," said the letter.

PAYMENT GATEWAY

The association also alleges that the payment should not be routed through an international [payment gateway](#) since Uber is just a facilitator for the transaction between the driver and the customer, who are both Indian citizens and two Indian citizens cannot do business in foreign currency, unless one holds an RBI forex broking licence.

"If Uber is a commission agent, then there may be a violation because Uber is accepting the full payment in dollars and remitting back in rupees. They should ideally charge only the commission in dollars and the rest in rupees," said Vaibhav Parekh, partner at Nishith Desai Associates, an independent lawyer that ET spoke to. The RBI and Uber declined to comment for the story.

"From what is publicly known it seems that Uber is treading on thin ice," said Parekh. According to Parekh it is likely that RBI could question Uber on foreign payments and insist that the company should not remit the money outside India.

ROADBLOCKS IN EUROPE

In London, the Licensed Taxi Drivers Association accused the firm of running illegal taxi meters because of the way Uber app automatically calculates fare using GPS data at the end of a trip. Similarly in Germany, Berlin Taxi Association won an injunction against Uber that could prohibit it from operating there, though the ruling isn't being enforced while Uber appeals the decision. Five-year-old Uber started operations in India about a year ago and is present in six cities, including Delhi, Bangalore, Mumbai and Chennai. Uber operates in about 150 cities globally.


"There are significant localisation challenges of services companies such as Uber. They aren't as easy to scale as businesses such as Google," said Kartik Hosanagar, professor at The Wharton School of the University of Pennsylvania.

"That said Uber has done a fine job thus far in handling these issues." Sunil Wattal, a professor at Temple University in the United States, said the outcry over Uber is more about protecting status quo. "In each of the places Uber operates, there have been concerns mostly from taxi operators, and after careful review, regulators mostly agree that Uber's business practices have adequate mechanisms to ensure consumer protection, traffic safety, insurance and taxation."

Uber, which has disrupted the taxi market in the US and the world over, is backed by Goldman Sachs and Google Ventures, among others, and is reported to have clocked over \$1 billion (Rs 6,000 crore) in gross bookings last year, with revenue estimated to be doubling every six months.

"It's hard to say which way this will go," said Hosanagar. "Either way, it won't prevent Uber from operating in India."

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