

Uber's payment system flouts norms: RBI

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Company will have time till October 31 to comply with the apex bank's instructions

Mumbai, August 22:

Mobile app Uber's global woes have come following it to India. Uber India Systems will have to change its payment mechanism as the Reserve Bank of India (RBI) has declared that the process flouts norms under the Foreign Exchange Management Act (FEMA).

Uber currently charges the full fare from the passengers who use its cab services and routes it in foreign currency to the Netherlands-based Uber BV. It later remits back 80 per cent money to the driver in his Indian account through wire transfer from the US-based Wells Fargo Bank. Since the transaction is executed using an international gateway, there is no need for a two-step verification (not mandatory overseas).

"These entities are evading the mandate of additional authentication by following payment models which are resulting in foreign exchange outflow. Such camouflaging and flouting of extant instructions on card security... resulting in an outflow of foreign exchange in the settlement of these transactions, is not acceptable," RBI said in a circular issued late Friday evening. This is in violation of the Payment and Settlement Systems Act 2007 besides FEMA, it added.

Uber will have time till October 31, 2014 to comply with RBI's instructions. The circular follows a letter written by the Association of Radio Taxis (ARTs) to RBI Executive Director G Padmanabhan on July 28. The letter pointed out that Uber has been flouting norms by not following the RBI-mandated two-stage authentication in credit card transactions.

As the fare collected from passengers is routed directly through an international payment gateway, it created a non-level-playing field for other industry players.

An email sent earlier to Uber remained unanswered.

Uber is present in over 110 cities and has been facing opposition in some places.

Overseas trouble

Last week, the local Government in Berlin voted to ban Uber on safety grounds, saying it was a risk to passengers to be transported in unlicensed cabs. In June, taxi drivers across Paris, Madrid, Barcelona, Rome and London took to the streets in protest against the controversial app. London's Licensed Taxi Drivers Association has called for the app to be banned or duly regulated, claiming it "acts like an unlicensed taxi meter".

According to Vaibhav Parikh, Partner at Nishith Desai Associates, when two Indians are doing a transaction, it can't be in foreign currency; it can only be in the rupee. "Uber can take money out of India only when they are providing a service here. But actually, they are offering only a platform for drivers and customers to meet. They can't take full money out of the country as their share is only the commission."

Under FEMA, the maximum legal penalty in case of violation is three times the amount involved. RBI has the option of not imposing any penalty at all if it feels the mistake was genuine and the company will not repeat it in the future. The third option is compounding – where the person or company involved accepts the mistake and pays a penalty. It is a voluntary process to settle the matter.

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