

Technology Law Analysis

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NO INTERNET? NO PROBLEM, AS INDIAN REGULATOR ENABLES OFFLINE DIGITAL PAYMENTS

BACKGROUND

In a significant boost for offline digital transactions, the Reserve Bank of India (RBI) has released a framework¹ for facilitating small value digital payments in offline mode. An 'offline digital payment' is a transaction that does *not* require the internet or telecom connectivity. The framework, effective from January 3, 2022 is expected to boost digital transactions in areas with no or poor internet or telecom connectivity, particularly in semi-urban and rural areas in India.

As per the RBI's '*Statement on Developmental and Regulatory Policies*'², three pilots were successfully conducted in different parts of India to test small-value transactions. Based on the feedback, the RBI thought it fit to introduce such solutions and a framework suitable for conducting retail digital payments in offline mode throughout India. This is the first framework of its kind to enable digital payments sans the internet.

FRAMEWORK

Authorized payment system operators, payment system participants and banks that are interested to provide or enable such payment solutions for their users may facilitate small value digital payments as per the following criteria:

1. The framework applies to payments made face-to-face (in proximity) using any mode or instrument like cards, e-wallets, mobile devices etc.
2. Offline payments may be made subject to a limit of INR 200 (approx. USD 3) per transaction and an overall limit of INR 2,000 (approx. USD 30) for all offline transactions. The user limit may be replenished only through online mode.
3. Such transactions require user consent, though no additional factor of authentication is required such as a pin or one-time-password sent to the user's email address or phone number.
4. Users are entitled to similar protection against customer liability in case of fraudulent / unauthorized transactions and grievance redressal, as for regular electronic banking transactions.
5. Transaction alerts may be sent to the user after a time-lag, and though not necessary to be sent for *each* transaction, when sent they should provide details of each previous transaction.
6. The acquirer should absorb liabilities arising from any technical or transaction security issues at the merchant's end.

ANALYSIS

Boost for digital payments

In a sector which saw about 6 billion debit and credit card transactions at an amount of USD 174 billion and almost 5 billion prepaid instrument transactions (e-wallets, gift cards etc.) at an amount of USD 27 billion in FY 2020-21,³ enabling digital payments in an offline mode is set to significantly boost digital payments in the country. Though the new framework may not have a significant impact on digital payments in metro or tier one cities in India, it should in the semi-urban and rural parts of India. Though telecom and internet connectivity in semi-urban and rural India is picking up, there is still some catching up to do. For instance, the Union Minister for Electronics, IT and Communication stated in Parliament in March 2021 that 25,067 villages in India lack mobile and internet connectivity.⁴ In such places, the framework proposes to have a huge impact as it would enable people to transact in person through their cards, e-wallets and mobile without internet connections.

Pilot testing a welcome step

It is a welcome and encouraging takeaway that the RBI had tested the proposed solutions through three pilot programs conducted over the course of about a year in different parts of India. Basis the feedback, the RBI thought it prudent to roll out the framework. This appears a well-planned and thought-out approach and sets a precedent for RBI and an example for other industry regulators to consider piloting proposed product and technology solutions before issuing enabling framework for its implementation in the sector.

Infrastructure considerations

The framework appears clear on the compliance requirements and criteria for implementation of the framework by banks and payment system operators. The RBI has not mandated specific technological solutions. Presumably, this

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may be left to the industry players to develop, test and deploy relevant product solutions to enable their users to transact in offline mode.

We would need to watch for instance, whether debit cards currently in use can be used for offline payments; or whether fresh debit cards would need to be issued that would be compliant for use in offline mode. For instance, cards with specific radio frequency identification (RFID) technology were issued to make them compliant for near-field communication (NFC) contactless payments.

Reference to mobile device is interesting as one of the possible solutions. Banks and payment service providers may work out some solutions of embedded software with device companies. Banks, payment service providers and perhaps card networks may need to discuss and work with telecom and internet service providers on aspects such as processing payments through point-of-sale (PoS) terminals, mobile devices etc. either with or in the absence of network, and communicating transaction alerts to the user upon the user receiving connectivity.

Implementation uncertainties

The framework is left to the banks and payment system operators to implement, at their 'desire' and is not a mandatory obligation placed on them. Given recent trends, for instance the new recurring payments e-mandate registration framework that took effect in October 1, 2021 (after multiple extensions), banks have been slow in developing and deploying technology solutions and infrastructure, and may also take a backseat in implementing offline payments for their users, especially if not adequately incentivised. It would be interesting to observe if RBI continues the push for offline payments and ultimately mandates the banks and payment system operators to implement the framework.

Kirana shops the winner

In a world increasingly dominated by the internet and e-commerce, this step appears to benefit the '*kirana*' shops or local family-run shops, grocers and vendors the most. With an abundance of them in semi-urban and rural India where mobile data and internet connectivity may be infrequent, low or absent, footfall at such shops are bound to increase if consumers can transact through their card, mobile or e-wallet in offline mode for small value purchases like household items and groceries.

The framework may also benefit local merchants and vendors in such regions that facilitate low value mobile recharges, lottery ticket sales, wallet reloading and sale of gaming or content related vouchers. Such transactions, that may typically be settled in cash by the consumer, could be done offline via the user's card, e-wallet or mobile device.

— Aaron Kamath & Gowree Gokhale

You can direct your queries or comments to the authors

¹ Available at: <https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=12215&Mode=0>. (Last accessed: January 15, 2022).

² Available at: https://www.rbi.org.in/Scripts/BS_PressReleaseDisplay.aspx?prid=52368. (Last accessed: January 15, 2022).

³ Source: https://www.rbi.org.in/Scripts/BS_ViewBulletin.aspx?Id=20737. (Last accessed: January 16, 2022).

⁴ See: <https://www.thequint.com/news/hot-news/25067-villages-in-india-lack-internet-connectivity-prasad-in-ls>. (Last accessed: January 15, 2022).

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