

Implement RBI's Tokenisation Circular in Consumer Interest

Background

The Reserve Bank of India (RBI) had done well to convert challenges thrown by demonetisation and the pandemic into opportunities for promoting digital payments. Digital transactions in India have risen manifold in the past few years. Estimates suggest that India's online retail market will reach US\$350bn by 2030 from US\$45-50bn at present, which may contribute nearly 40 percent of the US\$800bn consumer digital economy. It is believed that by 2025, around 80 percent of payment transactions shall be cashless.¹ However, a lack of timely and proper implementation of the RBI's recent circulars may derail such growth.

The circular on 'Processing of e-mandate on cards for recurring transactions' (recurring payments) came into effect on October 01, 2021. The RBI would have taken note that many stakeholders in the ecosystem were not ready by this deadline. Consequently, over 70 percent of e-mandates for recurring payments have failed since October, causing immense inconvenience to consumers and merchants.²

A similar fate awaits them, *vis-a-vis* the circular on 'Card Transactions: Permitting Card-on-File Tokenisation (CoFT) Services' (tokenisation), in case of the likely delay in operationalising CoFT by stakeholders involved in the card-based digital payments value chain. This is also likely to adversely impact the government's vision of a digital and cashless India.

Problematique

The recent CoFT circular issued on September 07, 2021 permits card issuers to offer tokenisation services. The actual card details are replaced with a unique code comprising the card, token requestor and merchant, to enable cardholders to benefit from the security of tokenised card transactions. The RBI circular clarifies that with effect from January 01, 2022, no entity in the card transaction/payment chain, other than the card issuers and card networks (token issuers) can store the actual card data and there is an additional requirement of mandatory purging of data stored previously by all the downstream entities, including merchants, payment gateways and payment aggregators.

This poses implementation and regulatory challenges. The first leg of the problem is regarding the lack of consultation and consensus among stakeholders. Before issuing the tokenisation circular, the preparedness of the digital payments ecosystem and time period required for building/integrating digital infrastructure was not adequately discussed with the multiple inter-dependent stakeholders (including card issuers, card networks, merchants, payment gateways, payment aggregators and consumers). Accordingly, arguably, the RBI has not assessed the readiness of the industry players in the digital payments ecosystem.

More specifically, the second leg of the problem relates to the stringent functional deadline

¹ <https://www.aciworldwide.com/wp-content/uploads/2021/04/transactions-2025-an-economic-times-report-on-the-future-of-payments-in-india.pdf>

applicable to merchants for purging all the saved data. However, there is no technical deadline for the token issuers to build the digital infrastructure for card tokenisation. Consequently, in case of failure of the ecosystem, consumers shall have to enter their card details each time they have to make an online card transaction, which is inconvenient and may pose further data safety concerns.

CUTS Project

With this background, it becomes essential to bring forth a multi-stakeholder perspective on tokenisation, its implementation, and possible adverse consequences emanating from the same. Accordingly, CUTS International is implementing a two-month project with the following objectives:

- Assess the readiness of the digital payments ecosystem to implement CoFT by the deadline, as well as highlight the possible adverse implications of non-operationalisation by the deadline; and
- Bring forth a consumer perspective on the likely adverse consequences of non-implementation of CoFT by the deadline.

The following methodology will be adopted to achieve these objectives:

- **Desk Research:** Comprehensive literature review will be conducted on the subject. This shall include recent and upcoming regulations enacted by the RBI on related issues, opinions of thought leaders, studies conducted on the possible impact of such regulations, good international practices adopted for regulation-making in the digital payments sphere, etc.
- **Key Informant Interviews (KIIs):** The digital payment ecosystem *wrt* operationalising CoFT involves orchestration of multiple stakeholders. Accordingly, KIIs will be conducted with policy influencers, industry representatives, subject experts, and

consumer groups to bring forth their perspectives on the subject.

- **Primary Interaction with Consumers:** A national-level consumer survey would be conducted with appropriate respondents from different socio-economic and geographic backgrounds. The data collected from the survey shall be collated and analysed, for providing appropriate consumer-facing recommendations.
- **Advocacy:** A Focus Group Discussion (FGD) would be conducted, wherein research findings would be presented for sensitising stakeholders regarding a consumer perspective on CoFT. The FGD shall also facilitate cross-learning, based on which recommendations from our study would be finalised. Open and one-to-one letters would also be written to relevant policymakers and influencers, entailing such research-backed recommendations.

Project Outputs & Outcome

The following outputs are expected to be prepared as a part of the project.

1. Open letter to the RBI and/ or op-eds
2. Briefing Paper on CoFT and its implementation challenges
3. Presentation encapsulating findings from the consumer survey

The project is envisaged to help in sensitising relevant stakeholders on the possible implementation challenges involved in operationalising CoFT by the deadline and the consequent adverse impact on consumers and merchants.

Duration

The project would be completed within two months, between November-December 2021.

