



21 December, 2021

Shri Vivek Deep
Executive Director,
Reserve Bank of India

Subject: Joint Industry letter on the Reserve Bank of India's Directive on Card on File Tokenization.

Dear Sir,

Our groups represent a large community of companies that develop, sell, or rely on digital technologies for day-to-day business operations. We are committed to generating value for India's digital markets with a concerted focus on enhancing the quality of service, convenience, and security. We focus on unlocking the transformative power of digital technologies to make India a \$5 trillion economy.

We welcome the significant progress that the Government of India and the Reserve Bank of India (RBI) has made in supporting the growth of a safe, convenient, and secure digital payments ecosystem. However, we are concerned that the unintended outcomes of recent RBI directives will hamper the use of digital payments by Indian consumers. Furthermore, they may restrict companies' ability to innovate and offer user friendly payments solutions.

The RBI's Directive dated September 07, 2021, on Card on File (CoF) tokenization, read with Guidelines on Regulation of Payment Aggregators and Payment Gateways prohibit merchants from storing customer card details on their servers with effect from January 01, 2022, and mandate the adoption of CoF tokenization as an alternative to card storage. We welcome the objective of ensuring security and reducing fraud from the payment ecosystem and agree that card on file tokenization is a step in the right direction.

However, there are several operational challenges that can hinder the transition to the token-based payments ecosystem. In the following paragraphs, we explain how attaining 'ecosystem readiness' is a sequential process of going live with stable API documentation for tokenized transactions. We also highlight how the digital payments ecosystem is a long way from consumer-ready solutions, and finally, how the implementation of tiered timelines for compliance can help minimize disruption to consumer services.

1. The sequential process to 'ecosystem readiness'

With respect to tokenized transactions, 'ecosystem readiness' must be viewed holistically from the end consumer's perspective, and not as a compliance mandate of a particular bank

or card network. ***Thus, consumers should be able to successfully conduct payment transactions using tokenized card details for the ecosystem to be considered 'ready'.***

The merchant community recently witnessed disruptions when relevant regulations for processing of e-mandate on cards were operationalized. In this case, even though piecemeal solutions (such as Billdesk's SI-Hub) were ready, and a few banks had announced readiness prior to the rules being operationalized, there were disruptions in processing recurring payments once the compliance deadline triggered. Merchants irrespective of size and compliance levels are still reeling from this impact as till date, several large banks are not yet ready with e-mandate management systems. The experience with the RBI's directive on recurring payments suggests that 'readiness' of a handful of stakeholders in the payments ecosystem is not enough to avoid disruptions in online payments.

Considering the heterogeneous set of merchants that currently serve the Indian consumer, **the ability of the digital payments ecosystem to fulfill tokenized transactions will depend on a sequential process of infrastructure creation.** Banks (Issuers and Acquirers) and card networks have to first go live with workable application programming interfaces (APIs) that enable seamless information flows (i.e. request for token generation, payment requests on the user's bank, and user authentication). Payment Aggregators/Payment Gateways (PA/PGs) can then roll out their solutions on top of the API documentation shared by issuers and card networks.

2. Present state of readiness

Today, banks and card networks are not prepared to process any transactions with tokenized card data. It is unlikely that banks, networks and PA/PGs will be ready with functional consumer-ready solutions by the December 31, 2021, deadline set by the RBI. Merchants are yet to receive stable API documentation from PA/PGs that can enable the processing of card transactions. Notably, merchants cannot start testing and certification their payment processing systems, until banks, card networks, and PA/PGs are certified and live with stable APIs for consumer-ready solutions.

Merchants serve as vital stakeholders in the digital payments value chain. We contribute to India's digital economy by delivering frictionless and personalized payment experiences to our consumers. This is reflected in the fact that today retail digital payments account for over 75% of total retail payments, in terms of value. The RBI directives place a functional deadline of card-data purging on merchants and PA/PGs, without specifying any deadline on banks and card networks to develop and go-live with workable solutions such as tokenization. Should the no-card storage obligation trigger in the absence of ecosystem-wide card tokenization solutions, our diverse range of digital products and services would be disrupted, which would directly impact consumers.

Merchants regardless of size will be unable to provide life cycle management services such as refunds, redressal of complaints, and rewards. As a result, the consumer experience would be tedious and be prone to errors, lags, and failures. Further, even compliant merchants would either lose out or be unable to monetize their digital services and product offerings - merely due to lapses in implementation with technical regulations.

These unintended but consequential disruptions stifle our ability to unlock the transformative power of digital payments to propel India towards a \$5 trillion economy.

3. Way forward - ensure readiness through tiered timelines

We are also concerned with the imminent disruption to online payments since 300 - 350 million people are expected to buy goods and services via online stores by 2025. Considering the state of readiness by banks and card networks, once merchants and PA/PGs are forced to purge card data, services such as grievance redressal, cashback, and rewards, EMI payments, recurring (auto-debit) transactions, and guest checkouts will break down, causing direct harm to consumers. We have detailed these diverse use cases in the **Annexure** below.

Disruptions of this nature erode trust in digital payments and reverses consumer habits back towards cash based payments.

Therefore, we recommend that:

A. tiered timelines be enforced for compliance with the above RBI directives.

Banks, card networks, and technology service providers should first implement tokenization solutions, and thereafter merchants can be allowed an additional six-month period to integrate with the same.

B. timelines to comply with the PA/PG Guidelines should be extended by at least six months post readiness by banks and card networks.

Merchants and PA/PGs should be required to purge card data once card networks and banks are ready and migration to the tokenization framework is complete on an ecosystem level.

C. compliance levels of banks and card networks in terms of readiness with tokenization solutions be monitored by the RBI

Even if a single issuer or acquiring bank or card network fails to complete integration with tokenization solutions, merchants would, despite their own best efforts, be unable to effectively serve all consumers having accounts or cards at such bank or card network.



Thus, the RBI should monitor compliance levels of banks and card networks in terms of readiness with tokenization solutions. RBI should also require card networks and banks to demonstrate their consumer-focused readiness on tokenization before (a) requiring merchants to integrate with the system and (b) requiring merchants to delete card on file information.

D. consumer awareness is key

Consumers should not have to struggle through their confusion like they did post 30 September on the e-mandate regulation. Therefore, the RBI along with banks and supported by the rest of the ecosystem must diligently ensure consumer awareness and knowledge building in this regard.

In addition, we suggest the RBI to continuously monitor the compliance levels of banks and card networks in terms of readiness with the tokenization solutions to ensure that transition to the tokenization ecosystem does not result in business and consumer interruption. We also urge the RBI to require card networks and banks to demonstrate their consumer-focused readiness on tokenization before (a) requiring merchants to integrate with the system and (b) requiring merchants to delete card on file information.

We appreciate your consideration and stand ready to work with you or to provide any additional input or assistance.

Signed,

Merchant Payments Alliance of India (MPAI)
Alliance of Digital India Foundation

Copy to:

Shri P. Vasudevan
Chief General Manager
Department of Payment and Settlement Systems
Reserve Bank of India

Shri K. Vijayakumar,
General Manager
Department of Payment and Settlement Systems
Reserve Bank of India

Annexure

*Imminent consumer side use case disruptions***Consumer Impact: Use Case Disruptions**

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Addressing Consumer Grievances through Refunds

1. Merchants use card data to ensure that they are able to identify unfulfilled / disputed orders and address specific consumer questions around delivery, quality etc. Importantly, access to card details helps in the prompt processing of refunds
2. **In the absence of stable tokenization solutions, merchants will be unable to identify users for speedy grievance redressal**
3. Consumers may have to enter their 16-digit card details for receiving refunds, which hampers trust and convenience

Recurring Transactions

1. Consumers will see increased friction in paying for subscription-based services that require storage of card data to bill consumers on a recurring basis
2. **The industry as well as consumers are still recovering from the disruption caused by e-mandate on recurring transactions (e-mandate)**
3. The current fintech solution (SI Hub) requires card numbers to be sent (by merchants) to process recurring transaction. It is still to achieve seamless processing of tokenized card data

Consumer Impact: Use Case Disruptions

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EMIs and Promotions

1. BIN ranges (first few digits of card data) are required to identify if EMI is supported by a card network or not. BIN ranges help to identify routing of a transaction
2. Similarly, BIN is required to apply for offer/promotions run by merchants, view offers against a specific card, and for processing cashback
3. **In the absence of BIN, availability of offers/promotions to consumers and their ability to successfully pay EMIs will be impacted**

Guest Checkouts

1. Consumers may wish to not have their card data tokenized and opt for guest-checkouts. This is a convenient option for consumers who wish to effect a one-time transaction with a merchant
2. **There remains ambiguity on how long merchants can store the untokenized card data for transaction fulfillment**
3. Merchants, will therefore, not be able to ascertain the payment instrument against which a refund has to be processed