



FAO: Reserve Bank of India

To: P. Vasudevan, Vivekdeep, Rabi Shankar and M. Rajesh
Via email

Merchant Risk Council,
1-3 Burton Hall Park,
Burton Hall Road,
Dublin 18,
Ireland.

Copied to:

Ministry of Electronics and Information Technology

To: Archana Dureja, Vijay Kumar, Kunaal P, Saurabh Gaur,
Rakesh Maheshwari, Rahul Gosain, Rajesh Suri,
Chandrakar Ajay; Ashwini Vaishnav (Minister), Rajeev Chandrashekhar (MoS)

Ministry of Finance

To: Tarun Bajaj (Revenue Secretary), Anil Kumar Jha (Additional Secretary), Nirmala
Sitharaman (Minister)

Tuesday 30th November 2021

Dear Sirs,

I hope you, your families and all the staff at the Reserve Bank of India are keeping safe and well during the continuing global pandemic.

I am writing again on behalf of the Merchant Risk Council (MRC) and our members, following the merchant industry round table discussion on 23 November 2021, to voice the further concerns raised and to ask your consideration for a staggered approach for merchants to ensure compliance.

In the first instance, we would like to thank you sincerely for having representation at the round table discussion. We hope you found it a useful exercise to attend and hear directly from the merchants operating in India, and the challenges they face, especially regarding creating new infrastructure to replace existing/ legacy rails in a very short timeframe.

You will have heard at the meeting, all industry attendees understand, respect, and welcome the RBI intent to help reduce and prevent payment fraud.

The speakers noted recognition and support for the RBI objective to deliver a Digital India. Participants very much want to collaborate to facilitate compliance enablement across the



ecosystem, but it was recognised *all* stakeholders need to cooperate to reach a level, compliant, and truly ready playing field.

Participants deliberated upon the nature and meaning of readiness. Technical readiness is a function of the following - conceptualising, developing, and designing infrastructure, then testing it, fixing any bugs/ gaps, then completing an integration in an interdependent ecosystem, and finally rolling it out to the consumer. In the context of the payments ecosystem, this process needs to be completed by every participant in the payments chain - i.e., the card schemes, card issuing banks, payment processors and merchants. What's more is that every participant must undertake this exercise in a sequential manner - first the card schemes, then banks, then processors and the final participants downstream, the merchants.

Until the upstream participants share stable state documentation (i.e., the final APIs) with merchants, they are technically incapable of even starting to build a relevant infrastructure from their end. Even when merchants complete building the infrastructure, the comprehensive solution will be far from being ready to be rolled out to consumers - it will require testing, fixing the gaps and only after that will it truly be a ready tokenization solution.

Readiness, therefore, must not be determined purely based on regulatory compliance, which (as it stands today) can arguably be completed purely by virtue of confirming infrastructure creation. Readiness must be taken from the customer perspective, i.e., is the consumer able to successfully complete a purchase/ payment.

Moreover, in this inherently interdependent and complex ecosystem that is digital payments, it is crucial for those upstream (like card networks, banks, and processors) to be able to demonstrate consumer-focused readiness - this must be shown at least on the parameters of token provisioning, token processing, settlement, reconciliation, refund, and chargebacks.

In addition, the upstream entities must also clarify what the transaction per second or TPS looks like. Typically, in case of legacy rails, millions of transactions are processed in a second,



so it is important that to deem the new system truly consumer-ready, the TPS per token requestor be a comparable figure.

Until the comprehensive tokenization solution is consumer-ready, it is not the RBI approved alternative to card storage for non-card networks and non-banks. Therefore, until such time that the RBI receives confirmation and demonstration of consumer-focused readiness on the tokenization solution, (1) RBI must continue to monitor and mandate card networks, banks, and processors to become consumer-ready with a tokenization solution on priority, and (2) no-card storage and related data deletion compliances cannot come into effect.

We recommend there are no changes made, in this context, for one-time/ guest checkout transactions considering the merchant doesn't store payment credentials in this instance, only the regulated entity, the acquirer, has access to that data.

The importance for the regulated entities to comply in a timely manner with tokenization rules was noted at the merchant session, however merchants will need more time (currently it is less than a 3-month timeline available from the 7 September announcement to 31 December) to make the required technical updates, carry out testing scenarios, work with 3rd party providers and network partners to ensure the changes made by all parties work together. Merchants can do all this only after the card schemes, banks and payment processors have completed their tech development, design, testing and fixing, and then have provided merchants with the necessary stable state documentation.

All encouragement, audits, monitoring and support the RBI can provide to card networks and banks is welcome.

The layers of complexity introducing tokenization are numerous not least due to the number of players involved and the need to collaborate cross-industry to ensure the end user is key and central to the task in hand.

All merchants recognised the importance of the RBI's vision for a Digital India and wish to ensure a level of comfort and confidence for consumers, especially those new to



eCommerce. Consumer education is of the utmost importance, and it would be valuable for RBI and card issuing banks to conduct extensive education and outreach campaigns focused on customers before the new system comes into effect. All parties here wish to ensure customers understand what is happening with their payments and there is no disruption to their engagement with subscription merchants with whom they have been dealing for some time.

As mentioned before, we want to help all stakeholders deliver on the requirements, comply with the payments regulations, support you making the system more secure, while avoiding confusion for the consumer. It is a strength of the MRC that we facilitate this kind of collaboration across all relevant industry stakeholders, for the greater good of the payments ecosystem. We take pride in helping payment service providers meet their regulatory requirements, keeping payments systems secure.

From the round table session, there were several important asks from merchants:

- a. A staggered approach to the compliance deadline – Seeking a 6-month timeline, for merchants, after the rest of the upstream ecosystem (i.e., card networks, banks, and payment processors etc.) have completed their readiness and have provided merchants with stable-state documentation (which is the starting point for merchants to commence building their infrastructure).
- b. Factor in a phased approach for the ecosystem e.g., a 10% roll out as a test phase pursuant to which there will be a fully-fledged launch.
- c. During this time, RBI and banks can ensure extensive consumer education and awareness programmes to educate consumers on the need for their consent and ensure they develop a high degree of trust in the evolving, safer, and successful transaction-friendly digital payments landscape.
- d. For clarity on the requirements for each entity within the payments ecosystem. To enable interoperability, avoid disruption and ensure all parties are ready for the required changes, there needs to be a specific framework available to each party



To be completely clear, the 6-month timeline for merchants is not from now, but from when the upstream ecosystem is ready for merchants to build and test all transaction scenarios. The group asked for two key timeline changes, the first date to ensure compliance by RBI's regulated entities and the following 6 months to prepare the ecosystem for 100% readiness. In parallel, any no-card storage norms should also be extended by the same timeframe as for merchants, a tokenization solution is the regulatory-approved alternative to storing card data.

A sincere concern was raised about the risks with the current timeline, in rushing the change process it will result in consumer disruption and a negative customer experience in the New Year.

We again implore the RBI to consider appropriate measures to ensure a seamless delivery of the new regulations, to ensure the RBI's vision can be truly achieved. The additional six months post upstream readiness as described above will support this.

MRC intends to continue to work with all parties to connect those who need to engage to make this work. We are also at your disposal if you wish to discuss in person or to engage any of our members directly. We welcome your comments and are happy to take any questions you may have. We very much hope you will consider the earnest requests raised here today. Thank you.

Sincerely,

A handwritten signature in black ink, appearing to read 'Una Dillon', is positioned below the word 'Sincerely,'.



Úna Dillon | Managing Director (MRC EU), VP Global Expansion & Advocacy, MRC

MRC | www.merchantriskcouncil.org |

Email: una@merchantriskcouncil.org | Tel: +353 872 04 7579

Building Better Commerce

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