

# IFSCA (Payment Services) Regulations, 2024- An Overview

IFSCA has attempted to benchmark the regulatory regime in line with that in the international regulations governing payment services in jurisdictions like those in Singapore, United Kingdom and European Union. The regulations although is principle-based, has tried to cover all aspects relating to the efficient functioning of the payment services operations, safeguarding of the customers and applicable funds, governance of the PSP etc.



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## INTRODUCTION

With a view to develop GIFT - IFSC as a preferred jurisdiction for payment services ecosystem, IFSCA notified the IFSCA (Payment Services) Regulations in January, 2024. These regulations have been benchmarked to international regulations governing payment services in jurisdictions like those in Singapore, United Kingdom and European Union. The regulations lay down the framework for entities providing the following payment services to seek authorisation from IFSCA:

- a) Account issuance service (including e-money account issuance service)
- b) E-money issuance service
- c) Escrow service
- d) Cross border money transfer service
- e) Merchant acquisition

## KEY HIGHLIGHTS

- The Payment Service Provider (PSP) shall be a company with its registered office in IFSC. A single authorisation shall enable the PSP to provide any of the 5 enabled services.
- Basis the volume of transactions enabled, the PSP may be designated by the IFSCA as Regular Payment Service Provider (RPSP) or Significant Payment Service Provider (SPSP).

- The net-worth criteria and threshold criteria is different for both RPSP and SPSP.
- Authorisation shall be issued to the PSP in the form of grant of Certificate of Authorisation, which shall be valid unless revoked by the Authority or surrendered by the Payment Service Provider.
- A Financial institution, set up as a company and authorised by the Authority under applicable regulatory framework, may also seek authorisation to act as a Payment Service Provider under these regulations.

## DEFINITION(S) OF THE ENABLED PAYMENT SERVICES AND PERMISSIBLE ACTIVITIES THEREIN

- i. **Account issuance service (including e-money account issuance service):** Issuance of a payment account to a payment service user, irrespective of whether such user is situated in IFSC or outside IFSC. The PSPs providing account issuance services shall also provide services to enable payments to be made into the payment account as well as to allow users to make withdrawals from payment accounts. A PSP is also allowed to issue both, physical or electronic form. Any e-wallet issued by a PSP cannot hold Indian Rupee (INR) in any form. It can only hold currencies such as United States Dollar (USD), Euro (EUR), Great Britain Pound (GBP) and any other currencies specified by the IFSCA. E-wallets issued by a PSP are also prohibited from storing any cryptocurrencies or stablecoins.
- ii. **E-money issuance service:** For the purpose of these regulations, e-money refers to a monetary value denominated in a specified foreign currency, representing a claim that has been already paid in advance and is acceptable by a person other than the issuer. PSPs providing e-money issuance service are not permitted to use the funds for financing services or permit withdrawal of cash equivalent to e-money.
- iii. **Escrow services:** Arrangements wherein funds are held by a PSP in an escrow account with an IFSC

Banking Unit (“IBU”) or an IFSC Banking Company (“IBC”) on behalf of two parties that are in the process of completing a transaction. Any PSP providing escrow services to other PSPs may hold escrow accounts with multiple banks for providing such services to the PSPs.

- iv. **Cross border money transfer service:** Refers to the transmission of money from a person in IFSC to anyone outside IFSC and receiving money from any person outside IFSC for transferring such money to a person situated in or outside IFSC. Additionally, this service also includes transfer of money from a person in the IFSC to a person in any other country including India.
- v. **Merchant acquisition services:** Similar to the payment aggregation services to merchants in India. Allows the merchant to facilitate different modes of payments from their customers. However, payment gateway services have been excluded from the scope of these services.

## PROCESS FOR AUTHORISATION

- i. In the first stage, the parent company/person may make an application to the Authority on behalf of the proposed PSP company. The Authority while assessing the application shall look into such relevant criteria(s) as it may deem fit like Fit and Proper of the applicant, past experience of the applicant or it’s relevant persons in the payment’s domain, financial soundness etc. before the grant of authorisation.
- ii. IFSCA after being satisfied that the applicant has fulfilled the necessary conditions (as mentioned in the Regulations) for authorisation may issue an “in-principle approval” to the applicant. IFSCA while issuing the “in-principle approval” may impose some additional requirements/conditions that shall be fulfilled by the applicant before the grant of final authorisation.
- iii. One of the conditions in the in-principle approval letter shall be that the applicant needs to form a company incorporated in IFSC and put in the necessary capital as a part of the net-worth requirements. If the parent company is a person resident in India, it is advised to consider the provisions of FEMA including those relating to opening of foreign subsidiaries, transmission of capital from the resident company to the non-resident subsidiary etc.
- iv. The PSP shall submit the application stating its fulfilment of the necessary conditions as mentioned in the “in-principle approval” letter, post-which the Authority may grant authorisation to PSP to carry-out the payment services. Issuance of “in-principle approval” by the Authority shall not automatically entitle the Applicant to be granted an authorisation.

The regulations proposes the minimum aspects relating to the Governance arrangements that shall be placed by the PSP in relation to its operations of conducting the payment services. The PSP(s) are encouraged to put in place some additional safeguards in addition to the minimum requirements as mentioned in the regulations.

## NET-WORTH REQUIREMENTS

Every PSP needs to satisfy the net-worth requirements on ongoing basis. Net-worth requirement for RPSP is USD 100,000 and it is on higher side for the SPSP at USD 250,000. The RPSP and SPSP needs to achieve an increased net-worth of USD 200,000 and USD 500,000 respectively, within three years of designation as RPSP or SPSP.

## GOVERNANCE AND RISK MANAGEMENT

The regulations proposes the minimum aspects relating to the Governance arrangements that shall be placed by the PSP in relation to its operations of conducting the payment services. The PSP(s) are encouraged to put in place some additional safeguards in addition to the minimum requirements as mentioned in the regulations.

The regulations also provide for the aspects that the PSP shall look into while entering into third-party service relationships and for the purpose of risk management arising out of such relationships.

Duties of the PSP in relation to the payment services users or IFSCA and in relation to the overall operations have been obligated under these regulations. These includes duty to protect Applicable Funds, duty of co-operation with the Authority, duty towards Payment Service Users, duty to secure the information technology systems and other infrastructure, Redressal of grievances and dispute resolution.

## SAFEGUARDING ARRANGEMENTS

For the purpose of carrying out the payment services operations, the PSP needs to appoint a Nodal Bank. The PSP shall maintain an escrow account (different escrow accounts for different services) with the Nodal bank for provision of services to the payment service users.

The regulations also empower the Authority to require a PSP to maintain security deposit of a specified amount either at the time of authorisation or at any time thereafter.



Where a PSP surrenders the authorisation granted to it or the authorisation granted to it has been revoked by the Authority, the Authority may apply the security deposit, to the extent required, to pay any sums outstanding and claimed by payment service users who are customers of the concerned PSP.

A PSP authorised under the IFSCA (Payment Services) Regulations would be a regulated entity and hence need to comply with the requirements of the IFSCA (Anti Money Laundering, Counter-Terrorist Financing and Know Your Customer) Guidelines, 2022.

## CONCLUSION

IFSCA has attempted to benchmark the regulatory regime in line with that in the international regulations governing payment services in jurisdictions like those in Singapore, United Kingdom and European Union. The regulations although is principle-based, has tried to cover all aspects relating to the efficient functioning of the payment services operations, safeguarding of the customers and applicable funds, governance of the PSP etc.

The regulations would also permit Indian fintech entities looking to offer their products globally to develop IFSC as their base from which to expand their offerings to jurisdictions across the world. The regulations would also support the process of “reverse-flipping” as many of the Indian fintechs having holding companies in foreign jurisdictions are engaged in providing on or more of the payment services enabled by the regulations.

In conclusion, the IFSC Payment Regulations establish a new benchmark for regulatory governance, requiring

robust risk management frameworks tailored to the digital realm.

## RECENT DEVELOPMENTS IN THE PAYMENT DOMAIN

1. In exercise of its power under the Payments and Settlement Systems Act, 2007 (“PSS Act”), IFSCA has recently released Consultation paper on the IFSCA (Payment and Settlement Systems) Regulations, 2024 for regulating and authorising the payment systems in IFSC.
2. IFSCA is in the process of setting up a real-time foreign currency settlement system (FCSS), wherein the financial institutions in IFSC shall be able to settle their transactions denominated in foreign currency. Once fully operational, the FCSS system will save IFSC Banking Units (IBUs) both the time and cost of using the correspondent banking channel to settle transactions among themselves. For this purpose, the Clearing Corporation of India (CCIL) has set up a subsidiary in IFSC to act as the system operator for the FCSS. They are in discussions with Indian Financial Technology and Allied Services (IFTAS) to provide the software solution for the FCSS. A settlement bank having direct membership of the RTGS (Real-Time Gross Settlement) system in the US is also being identified.

*Note: The above essay is based on the author’s understanding of the IFSCA (Payment Services) Regulations, 2024 and knowledge regarding the current happenings in the payment’s space. The views expressed by the author is personal and do not represent the views of the IFSCA.*