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**LAWKNIT ANALYSIS: RBI'S STATEMENT ON DEVELOPMENTAL AND REGULATORY POLICIES**


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Reserve Bank of India (RBI) has released 'Statement on Developmental and Regulatory Policies' on August 10, 2023 ("**Statement on Regulatory Policies**")<sup>1</sup>, thereby listing various developmental and regulatory policy measures relating to Financial Markets, Regulation, and Payment Systems. The RBI's Statement on Regulatory Policies provides insight into the upcoming changes in the regulatory space.

The insights from the Statement on Regulatory Policies relevant to Fintech companies are as follows:

### 1. Conversational payments in UPI:

*"It is, therefore, proposed to launch an innovative payment mode viz., "Conversational Payments" on UPI, that will enable users to engage in a conversation with an Artificial Intelligence ("AI")-powered system to initiate and complete transactions in a safe and secure environment. This channel will be made available in both smartphones and feature phones-based UPI channels, thereby helping in the deepening of digital penetration in the country."*

**LawKNIT Analysis:** In many cases, chat features may be outsourced. This brings to the forefront the issues of data privacy and of liability. It seems to be very apt with the time as Parliament has just passed the Digital Personal Data Protection Bill, 2023 ("**DPDP Bill**"). While, it will be a great feature from financial inclusion and business perspective, it would be quite fascinating to see how liability concerns will pan out in this circumstance and the factors that the authorities will prescribe to make such contracts legally enforceable it would be considering one party is an AI system. This may be the formal beginning of introduction of AI into legal contract leading to wide use of smart contracts.

### 2. Offline payments in UPI and increase small value transaction limit:

*"To promote the use of UPI-Lite, it is proposed to facilitate offline transaction using Near Field Communication (NFC) technology. This feature will not only enable retail digital payments in situations where internet / telecom connectivity is weak or not available, it will also ensure speed, with minimal transaction declines."*

*"To encourage wider adoption of this mode of payments and bring in more use cases into this mode, it is now proposed to increase the per transaction limit to ₹500. The overall limit is, however, retained at ₹2000 to contain the risks associated with relaxation of two-factor authentication."*

**LawKNIT Comments:** The UPI Lite feature is introduced by National Payments Corporation of India (NPCI) to enable the small transaction in offline mode through their mobile stored wallet. Given the successful advent of UPI Lite the value of transaction has been increased from INR 200 to INR 500 per transaction, however, overall limit is retained to INR 2000.

### 3. Public Tech Platform for Frictionless Credit

*"For digital credit delivery, the data required for credit appraisal are available with different entities like Central and State governments, account aggregators, banks, credit information companies, digital identity authorities, etc. However, they are in separate systems, creating hindrance in frictionless and timely delivery of rule-based lending. To address this situation, a pilot project for digitalisation of Kisan Credit Card (KCC) loans of less than ₹1.60 lakh was started in September 2022. The pilot tested end-to-end digitalisation of the lending process in a paperless and hassle-free manner. The KCC pilot is currently underway in select districts of Madhya Pradesh, Tamil Nadu, Karnataka, UP, Maharashtra and the initial results are encouraging. The pilot also enables doorstep disbursement of loans in assisted or self-service mode without any paperwork. A similar pilot is being carried out for dairy loans based on*

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<sup>1</sup> [Reserve Bank of India - Press Releases \(rbi.org.in\)](https://www.rbi.org.in/press-releases)



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*milk pouring data with Amul in Gujarat. Based on the learnings from the above pilots and expand the scope to all types of digital loans, a digital Public Tech Platform is being developed by the Reserve Bank Innovation Hub (RBIH). This Platform would enable delivery of frictionless credit by facilitating seamless flow of required digital information to lenders. The end-to-end digital platform will have an open architecture, open Application Programming Interfaces (APIs) and standards, to which all financial sector players can connect seamlessly in a 'plug and play' model."*

**LawKNIT Analysis:** This pilot project of Kisan Credit Card (KCC) loans which an end-to-end disbursement of loans in a paperless mechanism would be a tested way for digital lending platforms to adopt it. This will open a way for a secure and assured mechanism developed for digital lending sector to use it, protecting borrowers' and lenders' interest. Given this pilot has been done in rural area, the same will facilitate financial inclusions.

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