To,

All Members in UPI,

Dear Sir / Madam,

Subject: Standard Operating Procedure (SOP) – Market Share Cap for Third Party Application Providers (TPAP)

Background

UPI platform has become a preferred payment option for customers and has recorded over (two) 2 billion monthly transactions in November, 2020. With a view to provide diverse opportunity to the UPI ecosystem as it further scales up, 30% volume cap ("**Volume Cap**") for a Third Party Application Provider ("**TPAP**") in UPI is mandated *vide* NPCI Circular no. NPCI/UPI/OC-97/2020-21 dated November 05, 2020 (the "**Volume Cap Circular**"). NPCI envisages that in due course the UPI volumes will increase exponentially and all the players (current and new) in the UPI ecosystem will have an opportunity to grow their volumes further.

As per the Volume Cap Circular, the following points are applicable:

i. Payment Service Provider ("**PSP**") and each TPAP should ensure that the total volume of the transactions initiated through the TPAP shall not exceed 30% of the overall volume of transactions processed in UPI, during the preceding three (3) months (on a rolling basis); and

ii. The aforesaid Volume Cap is effective from 01st January, 2021. Existing TPAPs, which are exceeding the Volume Cap as on 31st December 2020, will have a period of two (2) years from the effective date of this Volume Cap to comply with the provisions hereof.

Objective

The objective of this document is to put in place a Standard Operating Procedure ("**SOP**") to be followed for carrying out monitoring of market share cap for a TPAP and take corrective steps in case of any breach by a TPAP. Currently with over 500 million smartphones, 1.2 billion Aadhaar users and 1 billion mobile phones, it is possible to increase the UPI user base to five times (5X) in the next three (3) to five (5) years, aspiring to achieve a billion transactions a day on this fully interoperable platform that UPI is. Truly, UPI has the potential to be one of the first of its kind with

the fully interoperable systems, and with participation of the banks and fin-techs collaborating together.

The evolution of UPI by top players over the time has been elaborated in the following chart since inception.
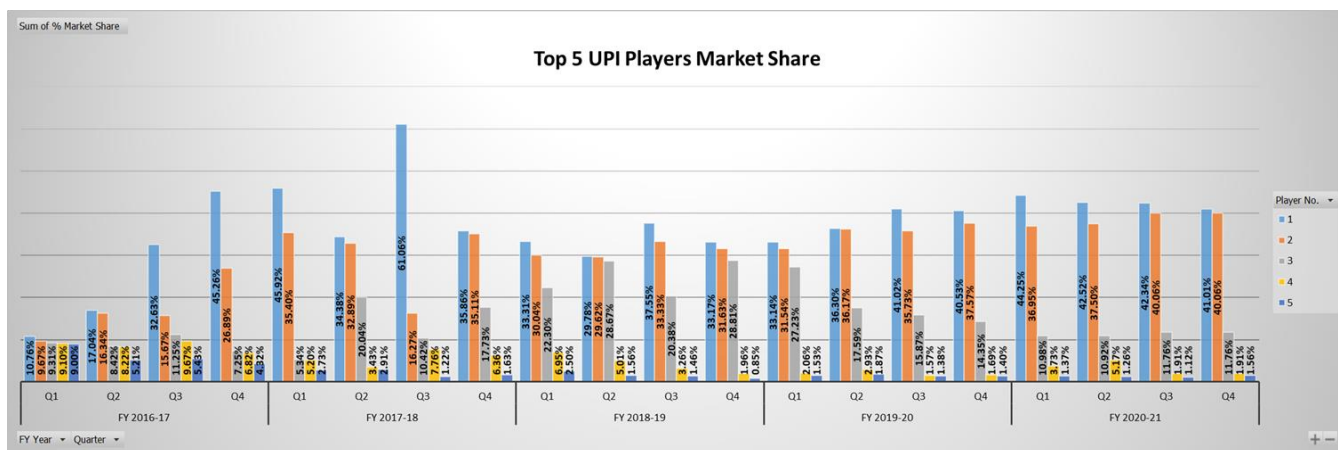
When we look at the future of UPI, reaching to billion transactions a day, there is a need to smoothen out all the transactions in the UPI ecosystem. One such effort was UPI multi-bank model, which was implemented to mitigate the risks on the banks by means of mandating large TPAPs for the UPI access. The suggested measures in this SOP, shall also encourage the new players to increase their volumes in UPI, so as to even out the distribution of market share among all participants. While, recently UPI has admitted some of the new players, there have been significant contributions by the existing players who have put in lot of efforts to grow the UPI ecosystem. Keeping this on mind, the Volume Cap Circular provides for two (2) years' timeline to the existing TPAPs exceeding the Volume Cap for compliance. This timeline provides for sufficient time to review the balance in the UPI market share with the emergence of new players and do not hinder UPI volume growth to the extent possible.

Methodology

The design principle used in this SOP to control the Volume Cap is by means of user on-boarding on the TPAP's payment platform ("**TPAP UPI App**"). This is done in such a way to ensure that the user on-boarded already are not impacted and that their transaction will not decline, to the extent possible. Further there will be a provision to exempt the players to some extent when the Volume cap is reached, so that it does not create sudden disruption in the market. Such exemption may be for a limited time period of upto (six) 6 months basis the request by TPAP through their PSP Bank upon breach of certain threshold(s). This decision to permit exemption will be decided by NPCI basis the merits of the case. The TPAP shall work towards moderating or restricting the

new customer onboarding, as the case may be, which could eventually bring down the market share of such TPAP with a view to achieve compliance. UPI as on today has over (fifty) 50 enabled apps (listed on NPCI website) which will provide sufficient choice to a customer, if in case the user faces issues at the time of on-boarding owing to restrictions on the Volume Cap. The Volume Cap is applicable only for the transactions initiated from a TPAP UPI App (acting as Payer) and not applicable for the recipient end, i.e., Payee TPAP end.

For the purpose of clarification, a '**Payer TPAP**' shall mean a participant in the UPI which can onboard a customer, create his UPI ID, create device binding and UPI PIN; whereas, '**Payee TPAP**' shall mean a participant in UPI who can on- board a customer or a merchant and allow them to receive money basis allocated UPI ID or raise a collect request. It is further clarified that there are no restrictions at a Payee TPAP's end as far as Volume Cap is concerned and as Payee, TPAP may continue to onboard new customers and merchants for the purpose of receiving UPI payments.

Calculation of TPAP Market Share

The following points shall be considered for calculating the Market Share of a TPAP:

1. '**Total Volume of UPI Transactions**' shall mean the aggregate of all successful financial transactions in UPI ecosystem. Payments to UPI Id, account number + IFSC combination, the financial leg of the mandate transactions (both one-time mandate and recurring), payment to PPIs and other permissible account types which are being implemented in near future shall also be considered. This shall include all P2P, P2PM and P2M transactions performed in UPI through various modes like Push, Collect, Intent, QR or any other future modes including B2B and B2C transactions.

2. '**TPAP UPI Transactions**' shall mean the aggregate of all successful financial transactions on TPAP UPI App shall be considered for the computation. This shall include all P2P, P2PM and P2M transactions performed on TPAP UPI App through various modes like Push, Collect, Intent, QR or any other future modes. Payments to UPI Id, account number + IFSC combination, the financial leg of the mandate transactions (both one-time mandate and recurring), payment to PPIs and other permissible account types which are being implemented in near future shall also be considered. For exclusions, kindly refer clause 5.

3. '**On-us Transactions**' in UPI that are not processed and settled through the UPI Central System has to be reported by the UPI app providers on monthly basis before the 3rd day

of the following month to be considered in computation in the prescribed format as provided in the **Annexure-I** herein below. This shall be included in Total Volume of UPI transactions and TPAP UPI Transactions.

4. '**Total Volume of the TPAP**' or '**Volume Cap**' shall be calculated basis the Payer TPAP logic, i.e., the financial transaction shall be attributed to the participant in UPI on the payer's side.

   E.g. A merchant initiating a collect request through a UPI app with handle @abc to a customer with handle @xyz. For a successful financial transaction, the transaction count shall be attributed to the payer app of the customer i.e. @xyz, the transactions where the TPAP act as payer for the financial leg of transactions (including mandates), shall be included in the total volume of that TPAP.

5. '**Pre-approved B2C and B2B transaction**' shall mean those credit transactions which are of the nature of a merchant or customer cashback / reward, merchant settlements, corporate disbursements, vendor payments, refunds and any financial incentive as may be provided by a TPAP to its user. Pre-approved B2C and B2B transaction shall not be calculated for the purpose of calculating TPAP UPI Transactions. However, this shall be considered as part of Total Volume of UPI Transactions.

6. Total Volume of UPI Transactions shall be calculated basis the transactions processed in UPI during the preceding three (3) months (on a rolling basis). The calculation will be done basis the three (3) months volume of TPAP UPI transactions and three (3) months total Volume of UPI transactions (Previous 3 months from the month of calculation).

7. The identifier for a TPAP shall be the unique UPI handle of the TPAP. For the multi-bank TPAP, cumulative volume generated from all the handles shall be considered.

8. NPCI may also deal with outliers coming due to minor fluctuations and also by computing the quarterly average if the need arises.

9. The new customer shall be identified by the new device binding initiation request by the TPAP to the PSP. If an existing user making a device binding request for any reason (including change of phone, upgrade of app, creation of a secondary/back up handle on same TPAP etc.), it shall be not considered as new customer and shall be allowed to on-board irrespectively.

10. Moderated On-boarding shall mean accepting or allowing upto 50% of the total customer on-boarding requests (Previous 3 months from the month of calculation) for the concerned TPAP. NPCI will review the action plan submitted by TPAP and their PSP Bank. If found satisfactory then it will allow the appropriate moderated on-boarding. NPCI may get this verified as and when needed.

Market Share Cap for TPAP in UPI

Formulae to compute Market Share of a TPAP is as follows:

$$Market\ Share\ of\ TPAP\ (\%) = \frac{TPAP\ UPI\ Transactions}{Total\ Volume\ of\ UPI\ Transactions}$$

Monitoring UPI transaction threshold:

The Volume Cap of a TPAP shall be monitored and communication on reaching the following thresholds shall be made to the respective TPAP.

Level	Market Share of TPAP (Threshold)	Alert
Level 1	25% to 27%	First alert to the TPAP and PSP Bank(s) by way of Email/Letter to which TPAP and PSP Bank(s) must acknowledge
Level 2	27.1% to 30%	Second alert to the TPAP and PSP Bank(s) by way of Email/Letter, to which TPAP and PSP Bank(s) must provide evidence of actions taken in compliance to the Volume Cap.
Level 3	>30%	TPAP and PSP Bank(s) must stop the on-boarding of new customer and provide undertaking with regards to the same in order to achieve the compliance. NPCI may offer an Exemption to ensure the smooth implementation of the user on-boarding restrictions from customer perspective.

Table 1: Market Share threshold – Adherence to Volume Cap

The alerts are passed to the TPAPs and PSP Bank(s) to ensure that it takes remedial steps (for eg: moderating the new on-boarding, promotional activities, cash back offers etc.).

Compliance to the Volume Cap for existing TPAP

The existing TPAPs, which are exceeding the Volume Cap will have a period of two (2) years i.e. from 01st January, 2021 until 31st December 2022 to comply with the SOP in a phased manner and NPCI will review the same on a half-yearly basis starting from January 2022.

Exemption

Upon breach of threshold(s), basis request by TPAPs through their PSP Banks, there will be a provision to exempt the players to some extent when the Volume cap is reached. NPCI may provide the exemptions after evaluating the case basis justifications provided, recommendations from the PSP Banks and also studying the impact to the UPI ecosystem. Such exemption may last maximum up to 6 months unless specifically further extended. During exemption, if it is found that the Market Share of a TPAP is near / breached the Volume Cap, such TPAP may be asked to immediately <u>Moderate</u> the on-boarding of new customer along with a plan to remedy the non-compliance to be reported to NPCI within (five) 5 working days from the date of notification by NPCI **("Breach Notification")**.

During the Exemption, if permitted, the TPAP must adopt the new customer on-boarding in a moderated manner only. If it is observed that the TPAP continues to on-board new customers without any moderation, NPCI shall issue a notice to stop. The provision of Exemption will ensure that existing users are not put to inconvenience and new customer on-boarding is also not fully shut as mentioned in this SOP. This provision may help TPAP to continue to maintain the trust, while working towards to achieve the compliance.

It is imperative that once the new customer on-boarding is stopped, the market share for such TPAP should reduce naturally. In the event the market share is reducing and if it appears that it may take longer than the exemption period as anticipated, NPCI may offer additional time at its own discretion. In case the market share is not reducing, NPCI shall discuss the modalities with the TPAP to achieve the compliance including putting restrictions on the new customer on-boarding. In any case, it will be ensured that transactions of the existing users are not declined to the extent possible.

If the breach is not remedied during the Exemption, then NPCI reserves the right to:

    i. In case TPAP does not remedy the NPCI direction, NPCI shall levy the penalty as per the provisions of "Action on non-compliance" mentioned below; and/or

    ii. Block the new user on-boarding for the concerning TPAP, from its central UPI system

Customer Communication

TPAP and PSP Bank(s) shall communicate following as illustrative message to new customers in the event of moderated on-boarding or stopping of complete on-boarding:

"Dear user, as per NPCI rules any UPI app with more than 30% market share cannot onboard new customers until their market share goes down. Currently, <App name's> UPI market share is <XYZ>% so unfortunately, you'll have to wait a while before you can access our UPI services. We apologize for the inconvenience and promise to notify you as soon as NPCI allows us to onboard you again!'."

Action on non-compliance

Notwithstanding to the contrary contained in the SOP, NPCI is authorized to penalize the non-compliant TPAP under the provisions of the UPI Procedural Guidelines, as may be issued from time to time. Any other compliances as imposed by NPCI, RBI, Government or any other Regulatory body needs to be adhered to irrespective of the position on the Market Cap.

Reporting

The Volume Cap for a TPAP shall be effective from 01st January, 2021 and the approved logic to calculate the Total Volume of the TPAP shall be uniformly reported on the NPCI website. As a first step to achieve compliance, NPCI has started reporting UPI app's value and volume on the NPCI website, which shall be further improved in accordance to the SOP in the due course.

NPCI shall share the details on the TPAP volumes, the compliance to the SOP and actions taken with the Regulator.

Validity and authority to modify the SOP

NPCI has issued this SOP, as indicated in the Volume Cap Circular. As the UPI ecosystem is subject to regulatory and ecosystem changes and keeping in mind the same, the SOP shall be reviewed at least once every (six) 6 months hereon to ensure the objectives of the SOP are met without customer inconvenience to the extent possible. In due course, depending upon the growth of UPI ecosystem and/or to mitigate any new emerging concentration risk, NPCI will widen the applicability of Volume Cap to other UPI players. NPCI shall take a consultative approach to the extent possible in the change management process of this SOP along with the ecosystem. Any changes in the SOP shall be published on NPCI website after the due approval process.

Any Regulatory or Government of India direction if found in conflict to this SOP, such order shall prevail.

Annexure - I

On-us transaction Reporting to NPCI:

"**On-us Transactions**" in UPI means those transactions which are not processed and settled through the UPI Central System which have to be reported to NPCI by PSP Bank(s) on monthly basis before the 3rd day of each following month. Data should be shared in the following format to upi_tpap_sop@npci.org.in:

Month:		
Transaction Type	On-us transaction (Volume)	On-us transaction (Value)
P2P		
P2M		
P2PM		

Table 4: On-us transactions volume and value reporting format

Note: The data reported after the deadline of 3rd of the following month shall not be considered