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PAYTM WALLET SERVICES

RBI's In-Principle Approval and the Road to Revival

Paytm Wallet Services: Latest News

The Reserve Bank of India (RBI) has granted in-principle authorisation to Paytm Payments Services Ltd (PPSL) — a wholly-owned arm of Paytm's parent One 97 Communications — to set up and operate a payment system for issuing Prepaid Payment Instruments (PPIs), including digital wallets.

This comes over two-and-a-half years after the RBI imposed debilitating restrictions on Paytm Payments Bank, which had effectively shut down Paytm's wallet services.

If finalised, this would mark the return of Paytm's wallet — once India's largest digital wallet offering — this time operating under PPSL instead of the bank.

1. What the RBI's In-Principle Approval Actually Means

This is not final approval — PPSL cannot yet commence wallet operations.

Full operations require a Certificate of Authorisation, granted only after PPSL fulfils specific RBI conditions:

- Undertake a system audit, including a cybersecurity audit, via a CERT-In empanelled auditor or qualified information systems auditor.
- Audit must comply with RBI's Master Directions on Cyber Resilience and Digital Payment Security Controls (dated November 5, 2026) for non-bank Payment System Operators.
- Ensure compliance with RBI's April 6, 2018 circular on storage of payment system data.
- Deadline: PPSL must submit the system audit report within six months of the RBI's letter — failure leads to automatic lapse of the in-principle authorisation, with no further consideration for final approval.
- Any future change in PPSL's shareholding or ownership must follow RBI's July 2022 directions on prior approval for takeover/acquisition of non-bank payment system operators.

PPSL had applied for this authorisation in December 2025, anticipating the bank licence cancellation. Following the announcement, One 97 Communications' shares rose 1.1%, closing at ₹1,945 on the BSE.

2. Background: How Paytm's Wallet Ended Up in Trouble

Paytm transferred its prepaid instruments business to Paytm Payments Bank in 2017, complying with RBI norms requiring payments banks to house such operations separately.

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In April 2026, RBI cancelled Paytm Payments Bank's banking licence entirely, stating its operations were "detrimental to the interest of the bank and its depositors."

This followed years of regulatory action, culminating in a full business shutdown.

3. Timeline: RBI's Regulatory Action Against Paytm

- 2018: RBI scrutiny began over KYC (Know Your Customer) violations — notably, a single PAN linked to multiple customer accounts, raising red flags about bypassing regulatory safeguards.
- June 2018: RBI audit found significant gaps in customer onboarding verification; the bank was directed to halt new customer onboarding until compliance improved.
- March 2022: Bank formally barred from onboarding new customers.
- October 2023: RBI imposed a ₹5.39 crore penalty on the bank.
- January 2024: RBI barred the bank from accepting deposits, top-ups, prepaid instruments, wallets, FASTags and NCMC cards after February 29, 2024, citing persistent non-compliance and supervisory concerns — including failure to maintain a "Chinese wall" with group company One 97 Communications.
- April 2026: RBI cancelled the banking licence entirely, invoking Section 22(3)(c) of the Banking Regulation Act, 1949 — which requires that a bank's management not be prejudicial to public or depositor interest.
- The RBI also invoked Section 22(3)(e), stating no useful purpose would be served by allowing continuation.
- The bank was barred from conducting banking business under Section 5(b)/Section 6 of the Act.

4. Impact on One 97 Communications

- The RBI's actions caused One 97 Communications' stock to plunge 40–50%.
- Paytm's integrated payments ecosystem broke down — disrupting wallets, merchant settlements, FASTag and autopay services.
- The company was forced to partner with banks like Axis Bank and YES Bank, migrate users/infrastructure, and absorb higher compliance costs.
- This led to temporary user and merchant attrition toward rivals like Google Pay and PhonePe, though it eventually pushed Paytm toward a leaner, partner-driven business model.

5. Conclusion

Paytm's journey from India's leading digital wallet provider to regulatory shutdown, and now a cautious path to revival, highlights the critical importance of compliance, transparency and robust cybersecurity in India's fintech ecosystem.

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Topic For Group Discussion (GD) And Lecturette For SSB Interview

The RBI's conditional approval signals opportunity — but final authorisation remains contingent on Paytm successfully rebuilding regulatory trust through verified systemic safeguards.

