

Due Diligence of Aadhaar Enabled Payment System Touchpoint Operators

Introduction

The Reserve Bank of India ('RBI') has issued directions to enhance the security and robustness of the Aadhaar Enabled Payment System ('AePS'), a payment system operated by the National Payments Corporation of India (NPCI) that facilitates interoperable financial transactions using Aadhaar-based authentication. The directions (to be effective from 1 January 2026), address rising frauds due to identity theft or compromise of customer credentials and aim to strengthen due diligence and fraud risk management for AePS Touchpoint Operators (ATOs).

Key points

Definitions

- **AePS:** A payment system enabling transactions (e.g., cash withdrawal, deposit, fund transfer, balance enquiry) via Aadhaar number and biometric/OTP authentication.
- **Acquiring Bank:** The bank onboarding ATOs.
- **AePS Touchpoint:** Terminals (mobile or fixed) facilitating AePS transactions.
- **ATO:** Individuals operating AePS touchpoints.

Due diligence requirements

- Acquiring banks must conduct due diligence on ATOs before onboarding, following the Know Your Customer (KYC) procedures outlined in the RBI's Master Direction on KYC (2016, as updated).
- If an ATO is already a Business Correspondent/sub-agent with completed KYC, the same can be adopted.
- Periodic KYC updates are mandatory.
- For ATOs inactive for three months (no financial/non-financial transactions), banks must re-verify KYC before allowing further transactions.

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- Banks must monitor ATO activities through transaction monitoring systems, setting operational parameters based on risk profiles (e.g., location and type of ATO, volume and velocity of the transactions, etc.).
- Periodic reviews of operational parameters are required to address emerging fraud trends.
- Banks must implement system-level controls to ensure that technologies like APIs are used solely for AePS operations.

Weblink <https://rbidocs.rbi.org.in/rdocs/notification/PDFs/NT63467C7E2AC96C4F1F88CC91C49CF18BEC.PDF>

Therefore

The directions come on the background of the RBI's 'Statement on the Developmental and Regulatory Policies' announced on 8 February 2024. Considering the significant role played by AePS in financial inclusion, the directions mandate robust due diligence and ongoing monitoring of ATOs to mitigate fraud risks, ensuring the safety and reliability of the AePS.

