



भारतीय रिज़र्व बैंक
RESERVE BANK OF INDIA

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उप गवर्नर

Deputy Governor

DPSS.CO.PD.No. 11 / 02.12.004 / 2017-18

July 3, 2017

Shri Rajeev Chandrasekhar
Member of Parliament (Rajya Sabha)
211, North Avenue
New Delhi – 110 001

Dear Sir

Suggestions regarding surveillance and policy requirements for transforming and digitizing the economy

Please refer to your email dated March 02, 2017 addressed to the Governor, Reserve Bank of India and his interim response dated March 02, 2017 on the captioned subject. We have examined the issues and concerns flagged by you in the letter. Our views are given below.

2. As you are aware, the Pradhan Mantri Jan Dhan Yojana Scheme and its features have been decided by the Government of India with the objective of furthering financial inclusion and as such include the wider set of banking and financial services including insurance, remittance, credit etc. Hence, limiting the usage of these accounts only to receiving government benefits and subsidies would impact the broader objective. In any case, the decision to limit the scope of usage of these accounts opened under the PMJDY vests with the Government.

3. Aadhaar is one among the officially valid documents in terms of PML Act and Rules thereunder which are administered by the Government. The Reserve Bank has not mandated the use of Aadhaar. However, we have enabled the regulated entities to use Aadhaar-based e-KYC either through biometric authentication or through OTP. In the case of the latter, there are certain restrictions placed on the account including its validity period, account balance etc. till such time the regular KYC process is completed. The regulatory requirements for reporting of suspicious transactions to FIU-IND are applicable to all accounts, including Jan Dhan accounts. The issue of verification process adopted by UIDAI at the time of Aadhaar enrolment is beyond the purview of the Reserve Bank.

4. We have noted your concerns regarding the challenges posed by growing digital transactions in terms of security of platforms, infrastructure, capacity building and legislative requirements to deter and prosecute the perpetrators. The issue of cyber security of systems

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हिंदी आसान है, इसका प्रयोग बढ़ाइए



of banks and regulated non-bank entities, particularly in payment systems, is receiving our close attention. Besides monitoring the security aspects as part of the supervisory set up, we have also laid down requirements for regulated non-bank entities in payment systems for IS Audit etc. The Reserve Bank has also been monitoring the developments and issuing instructions from time to time on safety and security and risk mitigation measures for payment transactions. Taking into account the risks that may accrue in the absence of end-to-end encryption in mobile payments, such as in the case of USSD based payments, the Reserve Bank has prescribed a cap of Rs. 5000/- on the transaction value in such systems.

5. The Reserve Bank has been following up on the developments in respect of virtual currencies, including Bitcoins. The Bank has also issued Press Releases on two occasions cautioning the users against the risk emanating from usage of such virtual currencies (copies enclosed for ready reference). An internal Group has again been set up in the Bank to examine recent developments concerning virtual currencies and related regulatory aspects. At the national level, a Committee constituted by the Ministry of Finance, Government of India, under the chairmanship of Special Secretary (Economic Affairs) and comprising representatives from different Government Departments, RBI & other Regulators is also examining the issues relating to Digital Currencies (including Bitcoins).

6. We agree that the telecommunication infrastructure in the country needs to be further augmented to cater to the growing use of mobile and online payments. As the action in this regard needs to be taken at the Government level, the Bank has also flagged this issue in appropriate forums.

Yours faithfully,

A handwritten signature in blue ink, appearing to be 'B.P. Kanungo', is written over a horizontal line.

(B.P. Kanungo)
Deputy Governor

Encl: As above



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February 01, 2017

RBI cautions users of Virtual Currencies

The Reserve Bank of India had cautioned the users, holders and traders of Virtual Currencies (VCs), including Bitcoins, about the potential financial, operational, legal, customer protection and security related risks that they are exposing themselves to, vide its [press release dated December 24, 2013](#).

The Reserve Bank of India advises that it has not given any licence / authorisation to any entity / company to operate such schemes or deal with Bitcoin or any virtual currency. As such, any user, holder, investor, trader, etc. dealing with Virtual Currencies will be doing so at their own risk.

Press Release: 2016-17/2054

Jose J. Kattoor
Chief General Manager



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December 24, 2013

RBI cautions users of Virtual Currencies against Risks

The Reserve Bank of India has today cautioned the users, holders and traders of Virtual currencies (VCs), including Bitcoins, about the potential financial, operational, legal, customer protection and security related risks that they are exposing themselves to.

The Reserve Bank has mentioned that it has been looking at the developments relating to certain electronic records claimed to be "Decentralised Digital Currency" or "Virtual Currency" (VCs), such as, Bitcoins, litecoins, bbqcoins, dogecoins etc., their usage or trading in the country and the various media reports in this regard.

The creation, trading or usage of VCs including Bitcoins, as a medium for payment are not authorised by any central bank or monetary authority. No regulatory approvals, registration or authorisation is stated to have been obtained by the entities concerned for carrying on such activities. As such, they may pose several risks to their users, including the following:

- VCs being in digital form are stored in digital/electronic media that are called electronic wallets. Therefore, they are prone to losses arising out of hacking, loss of password, compromise of access credentials, malware attack etc. Since they are not created by or traded through any authorised central registry or agency, the loss of the e-wallet could result in the permanent loss of the VCs held in them.
- Payments by VCs, such as Bitcoins, take place on a peer-to-peer basis without an authorised central agency which regulates such payments. As such, there is no established framework for recourse to customer problems / disputes / charge backs etc.
- There is no underlying or backing of any asset for VCs. As such, their value seems to be a matter of speculation. Huge volatility in the value of VCs has been noticed in the recent past. Thus, the users are exposed to potential losses on account of such volatility in value.
- It is reported that VCs, such as Bitcoins, are being traded on exchange platforms set up in various jurisdictions whose legal status is also unclear. Hence, the traders of VCs on such platforms are exposed to legal as well as financial risks.
- There have been several media reports of the usage of VCs, including Bitcoins, for illicit and illegal activities in several jurisdictions. The absence of information of counterparties in such peer-to-peer anonymous/pseudonymous systems could subject the users to unintentional breaches of anti-money laundering and combating the financing of terrorism (AML/CFT) laws.

The Reserve Bank has also stated that it is presently examining the issues associated with the usage, holding and trading of VCs under the extant legal and regulatory framework of the country, including Foreign Exchange and Payment Systems laws and regulations.

Press Release: 2013-2014/1261

Ajit Prasad
Assistant General Manager