

# Regulatory Surprises In India

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dia, the U.S. International Trade Administration, which supports American businesses overseas, cited nontransparent or unpredictable regulations and tariffs.

One such move came in August last year, when India's Ministry of Commerce and Industry abruptly announced that the import of laptops and other personal-computing devices would require permits, a move that would make the process more onerous. After an outcry, the government ultimately diluted the new rule.

In 2020, Chinese firms and Indian internet users were caught off guard by India's decision to ban 59 Chinese apps,



DIVYAKANT SOLANKI/EPA/SHUTTERSTOCK

A QR code for Paytm's digital-payment system in Mumbai.

citing national security, after India and China engaged in a deadly clash on their disputed Himalayan border. In one fell swoop, TikTok—owned by Chinese social-media giant **ByteDance**—lost its biggest market. India has banned dozens more apps since.

Internet-policy experts say India's bans should be accompanied by more public notice

and disclosures about the process. In the U.S., a months-long legislative process is under way that could potentially ban TikTok.

India's trade and technology ministries didn't respond to requests for comment.

It was India's most unexpected policy move of recent years that helped Paytm rise in the first place. In 2016,

Modi canceled two widely used currency notes to combat tax evasion, a step that throttled many small businesses that operated largely on cash and slowed economic growth.

The decision was a shot in the arm for Paytm, which immediately advertised its digital wallet on the front pages of major newspapers. The company became synonymous with mobile payments in India and has nearly 100 million active monthly users.

For years, Paytm was on the right side of India's drive to curb the use of cash and move more transactions into the formal domain—and tax them. In 2017, Paytm Payments Bank started operations as a new type of bank in India intended to serve users who often struggle to access financial services. While it couldn't lend, it could sell loans and other financial products from traditional banks and collect fees.

But the affiliate ended up in the crosshairs of India's cen-

tral bank, which has focused its sights on reining in new avenues of lending and policing how companies vet new customers, affecting both startups and established financial firms, such as foreign credit-card issuers. The RBI, which is seen as one of the country's more methodical regulators, had previously flagged issues related to customer due diligence at the Paytm bank, and last year fined it.

A person familiar with the matter said the Paytm affiliate didn't address the compliance issues previously raised, leading to further action. Analysts said that the stringency of the Paytm Payments Bank action, while directed at a single entity, signals that the bank won't tolerate lapses. "This is a warning to the entire sector," said Hemindra Hazari, a banking analyst in Mumbai.

One of the risks Paytm faces now is that the affiliate's regulatory woes drive away a core income-generating client base—shopkeepers and mer-

chants who use Paytm's technology to conduct transactions for a fee. The hit to Paytm comes amid growing competition from competitors like **Walmart**-backed PhonePe and **Alphabet**'s Google Pay, which have taken over market share.

The government has sought to temper concerns among startups sparked by Paytm's troubles. In February, Finance Minister Nirmala Sitharaman met with fintech firms. At the meeting, Sitharaman asked regulators, including the central bank, to meet startups monthly to field their concerns over regulation, the ministry said.

Some experts said drastic action in this case was warranted.

"The one thing regulators have realized around the world is that fining people fails to have...much of an impact," said Siddarth Pai, founding partner of **3one4 Capital**, a venture fund that manages around \$500 million.