

Tokenisation

December 30, 2021

In news- Recently, the Reserve Bank of India has extended the implementation date of card-on-file (CoF) tokenisation norms by six months to June 30, 2022.

New guidelines of RBI-

The following are new guidelines from RBI that will come into effect starting July 1, 2022:

- **E-commerce companies** such as Amazon, Flipkart and any online delivery platforms such as Zomato and Swiggy **won't be able to save customers' credit/debit card details on their servers.**
- This comes after **RBI's auto debit policy, which came into effect in October**, restricting any automatic recurring payment services including utility bills, phone recharges, DTH, and even OTT services such as Netflix, Amazon prime among others.
- RBI wants **all the merchants and e-commerce firms to delete all saved card details of their customers** available on their servers and mandate the adoption of card-on-file (CoF) tokenisation as an alternative to card storage (applies to domestic, online purchases)..
- According to the central bank, **all merchants need to use encrypted tokens for transactions—and this should be achieved through tokenisation.**
- As per the rules, card service providers have to send a notification to customers five days prior to the date of payment and debit will be allowed only after the customer approves the payment.

About tokenisation-

- It refers to the **replacement of actual card details with a unique alternate code called the 'token'**, which is

unique for a combination of card, token requestor (i.e. the entity which accepts request from the customer for tokenization of a card and passes it on to the card network to issue a corresponding token) and identified device.

- A tokenised card transaction is considered safer as the actual card details are not shared with the merchant during transaction processing.
- **Customers who do not have the tokenisation facility will have to key in their name, 16-digit card number,** expiry date and CVV each time they order something online.
- If a credit/debit card is used at a Point of Sale (POS) machine or on an e-commerce market place, the credit card number is transferred to the tokenisation system which generates 16 random characters, also called 'token', to replace the original credit card number.
- In case of multiple cards, each will have to be tokenised.
- Normally, in a tokenized card transaction, parties / stakeholders involved are merchant, the merchant's acquirer, card payment network, token requestor, issuer and customer.
- However, an entity, other than those indicated, may also participate in the transaction.
- **It aims at improving the safety and security of the payment system.**