

Research Brief On Guidelines Set Up By The Reserve Bank of India For Digital Wallets In India by Rohan Bhasin ...

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Introduction to PPIs

A Prepaid Payment Instrument is nothing but a bridge that allows for the purchase of goods and services. It also facilitates funds transfer against the value that is stored on these payment instruments. The value on these instruments describes the amount paid by the person in cash, by debit to a bank account or through credit card systems. These instruments can be put into issue through these financial mediums such as these :-

- Mobile Wallets
- Internet Wallets
- Paper Vouchers
- Internet Accounts
- Magnetic Stripe Cards

Scope of PPIs In India

The RBI had permitted the issuance of prepaid payment instruments in the country and the same is seen as a means to settle transaction under the Payment and Settlements Systems Act, 2007. Like all other developed nations of the world, India also launched its parallel real-time gross settlement systems (RTGS) infrastructure around the year 2007. The emergence of new mode of payments was seen as a striking opportunity by both business houses and new generation entrepreneurs and they came up with innovative ideas and solutions to combat the issues faced by the general public to transact, be it an online or a physical transaction.

Business houses started to issue gift voucher to lure more and more customers towards their products and services. This tactic was slowly picked by the small-scale retail outlets to attract customers by giving away free and pre-paid vouchers to their regular customers. The startups on the other hand came to the rescue of the dying online transactions due to the complication faced by people undertaking online transactions. They introduced the concept of e-wallets, where one could transfer money and the same could be used to settle transactions on a latter period. The issuance of prepaid payment instruments are the stepping stone to move on to a cashless economy, where transactions will be settled through exchange of information via a centralized data centre. The instruments will be the ultimate weapon against currency terrorism.

The Rupee Demonetization (An act which gave the government power to eradicate rupees 500 and 1000 notes on November 8th, 2016) was initiated to stop black money cash flow and introduce sectors of the population to electronic payments systems which come under the umbrella of the PPI sector.

Commonly found PPIs in India

Commonly found PPIs in India

Some of the commonly found PPIs in India are:

- **Mobile Prepaid Instruments:** The prepaid talk time issued by mobile service providers. This value of talk time can also be used for purchase of 'value added service' from the mobile service provider or third-party service providers.
- **Gift Cards issued by Banks, NBFCs and other persons (shops, companies etc):** These are non-reloadable cards issued for a maximum validity period of 3 years, upto the specified limit (Rs. 50,000/-). Further, they cannot be redeemed against cash.
- **Social benefit cards:** Banks are permitted to issue PPIs to Government Organisations for onward issuance to the beneficiaries of Government sponsored schemes (eg. Food vouchers). Here verification of the beneficiary is not the responsibility of banks, but is

that of the government organization issuing such cards. They can be loaded / reloaded upto the specified limit (Rs. 50,000 as on October 2015) only by debit to a bank account, maintained by the Government Organizations with the same bank.

- **Remittance Cards:** These are PPIs issued by banks for credit of cross border inward remittances.
- **Corporate Cards:** Banks are permitted to issue prepaid instruments upto the specified limit (Rs.50 000 as on Oct 2015) to corporates listed on stock exchanges, for onward issuance to their employees. These are linked to the bank accounts of the employees but fundamental responsibility for identification of the beneficiary lies with corporates and not with banks. These are loaded / reloaded only by debit to the bank account and provides for facility of fund transfer (for the amount remaining on the card) to the bank account of the employee.
- **Foreign Travel Cards:** These are Rupee denominated non-transferable PPIs issued by overseas branches of banks in India (directly or by cobranding with the exchange houses/money transmitters) for visiting foreign nationals and Non Resident Indians (NRIs). The cards can be issued upto a maximum amount of Rs.2 lakhs by loading from a KYC compliant bank account. However, cash withdrawal from such PPIs are restricted to Rs 50,000/- per month. Such PPIs are activated by the bank only after the traveller arrives in India and can be used only for transactions in India. The transactions are settled in Indian Rupee.
- **PPI for Mass Transit Systems (MTS):** These are semi-closed PPIs issued by the mass transit system operator (eg. Metro trains, transport corporations etc.) for automated fare collection. Apart from the mass transit system, such PPIs can be used also at other merchants whose activities are allied to or are carried on within the premises of the transit system. They are reloadable in nature and at no point of time the value / balance in PPI can exceed the limit of Rs. 2,000/-.

RBI has decided to rationalise the operational guidelines for PPIs with a view to encouraging competition and innovation, and strengthening safety and security of operations, besides improving customer grievance redressal mechanisms. It is proposed to bring in interoperability into usage of PPIs. Interoperability amongst KYC compliant PPIs

is proposed to be implemented within six months of the date of issuance of the revised Master Directions, i.e., by October 11, 2017.

Link to Master Direction : https://rbi.org.in/Scripts/BS_ViewMasDirections.aspx?id=11142

Brief on the Guidelines set by the RBI

These Master Directions have been prepared to facilitate the Prepaid Payment Instrument Issuers, System Providers, System Participants and all other Prospective Prepaid Payment Instrument Issuers to have all the extant instructions on the subject at one place.

- In exercise of the powers conferred under Section 18 read with Section 10(2) of the Payment and Settlement Systems Act, 2007 (Act 51 of 2007), the Reserve Bank of India (RBI) being satisfied that it is necessary and expedient in the public interest to do so, hereby, issues these Directions.
- These Directions shall be called the Reserve Bank of India (Issuance and Operation of Prepaid Payment Instruments) Directions, 2017 (Master Direction).
- These Directions shall come into effect from October 11, 2017.
- Existing authorised Prepaid Payment Instrument (PPI) issuers shall ensure compliance with the revised requirements on or before February 28, 2018, except where timelines have been specified in this Direction.
- Applicability: The provisions of the Master Direction shall apply to all PPI Issuers, System Providers and System Participants.
- The purpose is to provide a framework for authorisation, regulation and supervision of entities operating payment systems for issuance of PPIs in the country;
- To foster competition and encourage innovation in this segment in a prudent manner while taking into account safety and security of transactions as well as systems along with customer protection and convenience.
- To provide for harmonisation and interoperability of PPIs
- For the purpose of these Directions, the term ‘entities’ refers to banks and non-bank entities who have approval / authorisation from the RBI to issue PPIs as well as those who are proposing to issue PPIs.
- Banks and non-bank entities have been issuing PPIs in the country after obtaining necessary approval / authorisation from RBI under the Payment and Settlement Systems Act, 2007 (PSS Act). These entities have been operating within the framework of the initial guidelines on “Issuance and Operation of PPIs” issued in April 2009 and the subsequent Master Circulars issued on the subject, as amended from time to time. Taking into account the developments in the field and the progress made by PPI issuers, all existing guidelines issued on the subject till date have been reviewed and are contained in the Master Direction.
- The Master Direction lays down the eligibility criteria and the conditions of operation for payment system operators involved in the issuance of semi-closed and open system PPIs in the country. All entities approved / authorised to operate payment systems involving the issuance of PPIs shall comply with these Directions.

- No entity can set up and operate payment systems for issuance of PPIs without prior approval / authorisation of RBI.

Eligibility criterion for PPIs

- Banks who comply with the eligibility criteria, including those stipulated by the concerned regulatory department of Reserve Bank of India shall be permitted to issue all categories of PPIs, after obtaining approval from the Department of Payment and Settlement Systems, Reserve Bank of India.
- However, taking into account the technical requirements, only those banks providing Mobile Banking facilities to their customer shall issue mobile phone-based PPIs (for example, mobile wallets)
- Other entities, including Non-Banking Financial Companies, shall be permitted to issue only semi-closed system PPIs, including mobile phone-based PPIs (for example, mobile wallets).

Limits for PPIs

All 'limits' in the value of instruments stated in the guidelines, indicate the maximum value of such instruments, denominated in INR, that shall be issued to any holder, unless otherwise specified.

Cash Limits

According to paragraph 7.7 in the Masters Directions, Cash loading to PPIs shall be limited to **Rs.50,000/-** per month subject to overall limit of the PPI.

KYC Limits

BI had introduced tougher **KYC** norms for digital **wallets** in October. ... RBI in October introduced tougher **KYC** norms for digital **wallets**, or prepaid payments instruments, making he

revised guidelines **mandatory** for even semi-closed **wallets** in which users cannot load more than Rs 10,000 a month.

Non KYC Limits (PayTM)

Non KYC User will continue enjoying the normal Paytm wallet with limitations & shopping experience. KYC users enjoy benefits to deposit up to **Rs.1 lakh** in paytm. Users can submit KYC (Know your Customer) documents like Aadhaar card, voter card, address proof and other details to avail further benefits

Classification of Payment Systems in India

- RBI has broadly classified the PPIs into three categories
- **Closed System Payment Instruments:** These are payment instruments issued by an entity for facilitating the purchase of goods and services from it. These instruments do not permit cash withdrawal or redemption. As these instruments do not facilitate payments and settlement for third party services, issue and operation of such instruments *are not classified as [payment systems](#)*. Hence, RBI approval is not required for issuing them.
- These are issued by companies for in-house goods and services and are sweetened with bonus points and cash backs to ensure the loyalty of their customers. Eg. Many of the web portals for online purchases /shopping - Make my Trip, Flipkart, Jabong etc. run wallets for its customers. Pre-paid cards of mobile companies also belong to this category.
- **Semi-Closed System Payment Instruments:** These are payment instruments which can be used for purchase of goods and services, including financial services at a group of clearly identified merchant locations/ establishments which have a specific contract with the issuer to accept the payment instruments. These instruments do not permit cash withdrawal or redemption by the holder.
- PPIs for amounts upto Rs.10,000/- can be created under this category by accepting minimum details of the customer, provided the amount outstanding at any point of time does not exceed Rs. 10,000/- and the total value of reloads during any given month also

does not exceed Rs. 10,000/-. Amount upto Rs.50,000/- can be created in PPIs by accepting any 'officially valid document' which is compliant with anti-money laundering rules. Such PPIs are non-reloadable in nature; The above two can be issued only in electronic form;

- Amount upto Rs.1,00,000/- can be created by with full [Know Your Client norms](#) (KYC) and can be reloaded.
- **Open System Payment Instruments:** These are payment instruments which can be used for purchase of goods and services, including financial services like funds transfer at any card accepting merchant locations [point of sale (POS) terminals] and also permit cash withdrawal at ATMs / [Banking Correspondents](#) (BCs). However, cash withdrawal at POS is permitted only upto a limit of Rs.1000/- per day subject to the same conditions as applicable hitherto to debit cards (for cash withdrawal at POS).

Certificates of Authorization

Certificates of Authorisation issued by the Reserve Bank of India under the Payment and Settlement Systems Act, 2007 for Setting up and Operating Payment System in India

The Payment and Settlement Systems Act, 2007 along with the Board for Regulation and Supervision of Payment and Settlement Systems Regulations, 2008 and the Payment and Settlement Systems Regulations, 2008 have come into effect from 12th August, 2008.

The list of 'Payment System Operators' authorised by the Reserve Bank of India to set up and operate in India under the Payment and Settlement Systems Act, 2007 can be accessed from this link :- <https://rbi.org.in/scripts/publicationsview.aspx?id=12043#mainsection>

List of Circulars consolidated for the Master Circular

At the bottom of the linked page, one can also find the list of policy guidelines established for PPI regulation.

Link :- https://www.rbi.org.in/Scripts/bs_viewcontent.aspx?Id=3325#AP

Customer Protection and Grievance Redressal Framework

- PPI issuers shall disclose all important terms and conditions in clear and simple language (preferably in English, Hindi and the local language) to the holders while issuing the instruments. These disclosures shall include:
 - a) All charges and fees associated with the use of the instrument.
 - b) The expiry period and the terms and conditions pertaining to expiration of the instrument.
- PPI issuers shall put in place a formal, publicly disclosed customer grievance redressal framework, including designating a nodal officer to handle the customer complaints / grievances, the escalation matrix and turn-around-times for complaint resolution. The complaint facility, if made available on website / mobile, shall be clearly and easily accessible. The framework shall include, at the minimum, the following:
 - a) PPI issuers shall disseminate the information of their customer protection and grievance redressal policy in simple language (preferably in English, Hindi and the local language).
 - b) PPI issuers shall clearly indicate the customer care contact details, including details of nodal officials for grievance redressal (telephone numbers, email address, postal address, etc.) on website, mobile wallet apps, and cards.
 - c) PPI agents shall display proper signage of the PPI Issuer and the customer care contact details as at (b) above.
 - d) PPI issuers shall provide specific complaint numbers for the complaints lodged along with the facility to track the status of the complaint by the customer.
 - e) PPI issuers shall initiate action to resolve any customer complaint / grievance expeditiously, preferably within 48 hours and resolve the same not later than 30 days from the date of receipt of such complaint / grievance.
 - f) PPI Issuers shall display the detailed list of their authorized / designated agents (name, agent ID, address, contact details, etc.) on the website / mobile app.

Complete Link : http://naavi.org/ppi/16_grievance_redressal.html

List of Circulars consolidated for the Master Circular

Sr. No.	Circular No.	Date	Subject
1.	DPSS.CO.PD.No.1873/02.14.06/2008-09	27.04.2009	Policy Guidelines for issuance and operation of Prepaid payment Instruments in India
2.	DPSS.CO.PD.No.344/02.14.06/2009-10	14.08.2009	Policy Guidelines for issuance and operation of Prepaid payment Instruments in India
3.	DPSS.CO.No.1041/02.14.006/2010-2011	04.11.2010	Policy Guidelines for issuance and operation of Prepaid payment Instruments in India
4.	DPSS.No.2174/02.14.004/2010-2011	23.03.2011	Policy Guidelines for issuance and operation of Prepaid payment Instruments in India
5.	DPSS.CO.No.2501/02.14.06/2010-11	04.05.2011	Policy Guidelines for issuance and operation of Prepaid payment Instruments in India
6.	DPSS.CO.PD.No.225/02.14.006/2011-12	04.08.2011	Policy Guidelines for issuance and operation of Prepaid payment Instruments in India
7.	DPSS.PD.CO.No.62/02.27.019/2011-2012	05.10.2011	Domestic Money Transfer- Relaxations
8.	DPSS.CO.PD.No.2256/02.14.006/2011-12	14.06.2012	Policy Guidelines for issuance and operation of Prepaid payment Instruments in India
9.	DPSS.CO.PD.No.560/02.14.006/2012-13	01.10.2012	Policy Guidelines for issuance and operation of Prepaid payment Instruments in India
10.	DPSS.CO.PD.No.563/02.14.003/2013-14	05.09.2013	Cash withdrawal at Point of Sale (POS) - Prepaid Payment Instruments issued by banks
11.	DPSS.CO.PD.No.2074/02.14.006/2013-14	28.03.2014	Prepaid Payment Instruments in India – Consolidated Revised Policy Guidelines
12.	DPSS.CO.PD.No. 2366/02.14.006/2013-14	13.05.2014	Prepaid Payment Instruments in India – Consolidated Revised Policy Guidelines
13.	DPSS.CO.PD.No.980/02.14.006/2014-15	03.12.2014	Issuance and operation of Prepaid payment instruments (PPIs) in India-Relaxations
14.	DPSS.CO.AD.No.1344/02.27.005/2014-15	16.01.2015	Computation of Net-worth
15.	DPSS.CO.PD.No.58/02.14.006/2015-2016	09.07.2015	Issuance and operation of Prepaid payment instruments (PPIs) in India- Introduction of New Category of PPI for Mass Transit Systems (PPI-MTS)
16.	DPSS.CO.PD.No.1288/02.14.006/2016-17	22.11.2016	Special Measures to incentivise Electronic Payments – (i) Enhancement in Issuance Limits for PPIs in India (ii) Special measures for merchants
17.	DPSS.CO.PD.No.1610/02.14.006/2016-17	27.12.2016	Master Circular on Issuance and Operations of Prepaid Payment Instruments – Amendments to paragraph 7.9
18.	DPSS.CO.PD.No.1669/02.14.006/2016-2017	31.12.2016	Special measures to incentivise Electronic Payments – Extension of time

Sources

Here are the links for the various sources for this brief :-

<https://www.businesstoday.in/sectors/banks/rbi-issues-guidelines-to-allow-payments-among-mobile-wallets/story/285462.html>

<https://www.financialexpress.com/money/heres-all-you-need-to-know-about-payment-and-settlement-systems-act/571445/>

<https://m.rbi.org.in/Scripts/FAQView.aspx?Id=73>

<https://rbidocs.rbi.org.in/rdocs/Content/PDFs/53MD01C4EE0F66D24BCD8D9074B0BC2B9E7F.PDF>

https://en.wikipedia.org/wiki/Prepaid_Payment_Instruments_in_India

<https://www.indianeconomy.net/splclassroom/what-are-prepaid-payment-instruments-ppis/>