

Prepaid Payment Instruments, its regulation and current issues

Kirti Kumari | Finserv | Vinod Kothari Consultants Pvt. Ltd.



KOLKATA

1006-1009, Krishna Building
224, AJC Bose Road,
Kolkata, India 700 017
Tel.: +91-33- 2281 1276/3742
Email: info@vinodkothari.com



MUMBAI

403-406, Shreyas Chambers
175, D.N. Road, Fort,
Mumbai, India 400 001
Tel.: +91-22-2261 4021/ 6237 0959
Email: bombay@vinodkothari.com



DELHI

A-467, First Floor,
Defence Colony,
New Delhi, India 110 024
Phone: +91-11-4131 5340
Email: delhi@vinodkothari.com

Visit: www.vinodkothari.com

Mail to: finserv@vinodkothari.com



RBI Tightens Noose On Prepaid Payment Instruments; Payment Council Asks Govt To Step In

The central bank has recently raised concerns on PPIs being loaded through credit lines, as this could lead to systemic risks.


RBI bars non-bank PPIs from loading credit lines; details here

The central bank directed PPIs to stop this practice immediately if not done already.

 The Economic Times

****** [flips to term loans from credit line post RBI note](#)


***** said it will offer a real-time term loan for card customers for every transaction, instead of a revolving credit line. The fintech player...

 Business Standard

[RBI examining PPI credit, BNPL models; in talks with fintechs](#)

...

Earlier this week, the RBI directed non-bank PPI issuers not to load their wallets and cards from credit lines. Fintech players have approached...

 The Economic Times

[Non-banks can't load credit lines on prepaid payment instruments, says RBI](#)

The regulator in a one-page circular addressed to non-bank pre-paid payment instruments (PPIs) directed them to stop such practice...

1 month ago

 The Economic Times

********* [stops buy-now-pay-later payment product amid PPI concerns](#)

******** the lending arm of ********* has temporarily stopped support for its buy-now-pay-later (BNPL) payment product ******** UPI amid...

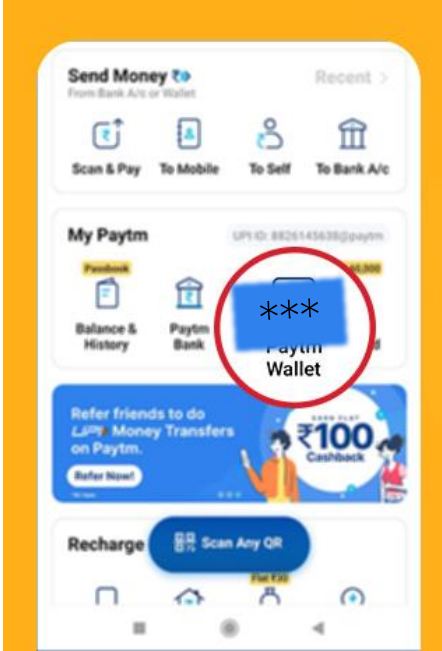
Content

- Introduction
- Comparison – PPI, Credit Card, Debit Card
- Statistics
- Regulations governing Credit Card
 - Characteristics and features
 - Permissibility to NBFC for issuing credit cards
- Regulations governing Prepaid Payment Instruments (PPIs)
 - Classification
 - Characteristics
 - Permissibility to Non-Banks for issuing PPIs
 - Normal Structure of PPIs
 - Innovative Structure prevailing
- Why PPIs backed with credit lines being issued
- Growth of PPIs
- RBI's concern on issue of credit backed PPIs
- Future of credit backed PPIs



Introduction

Payment Instruments – What are they?



Definition as per Glossary terms used in PSS by BIS :

“Payment Instrument: any instrument enabling the holder/ user to transfer funds.”

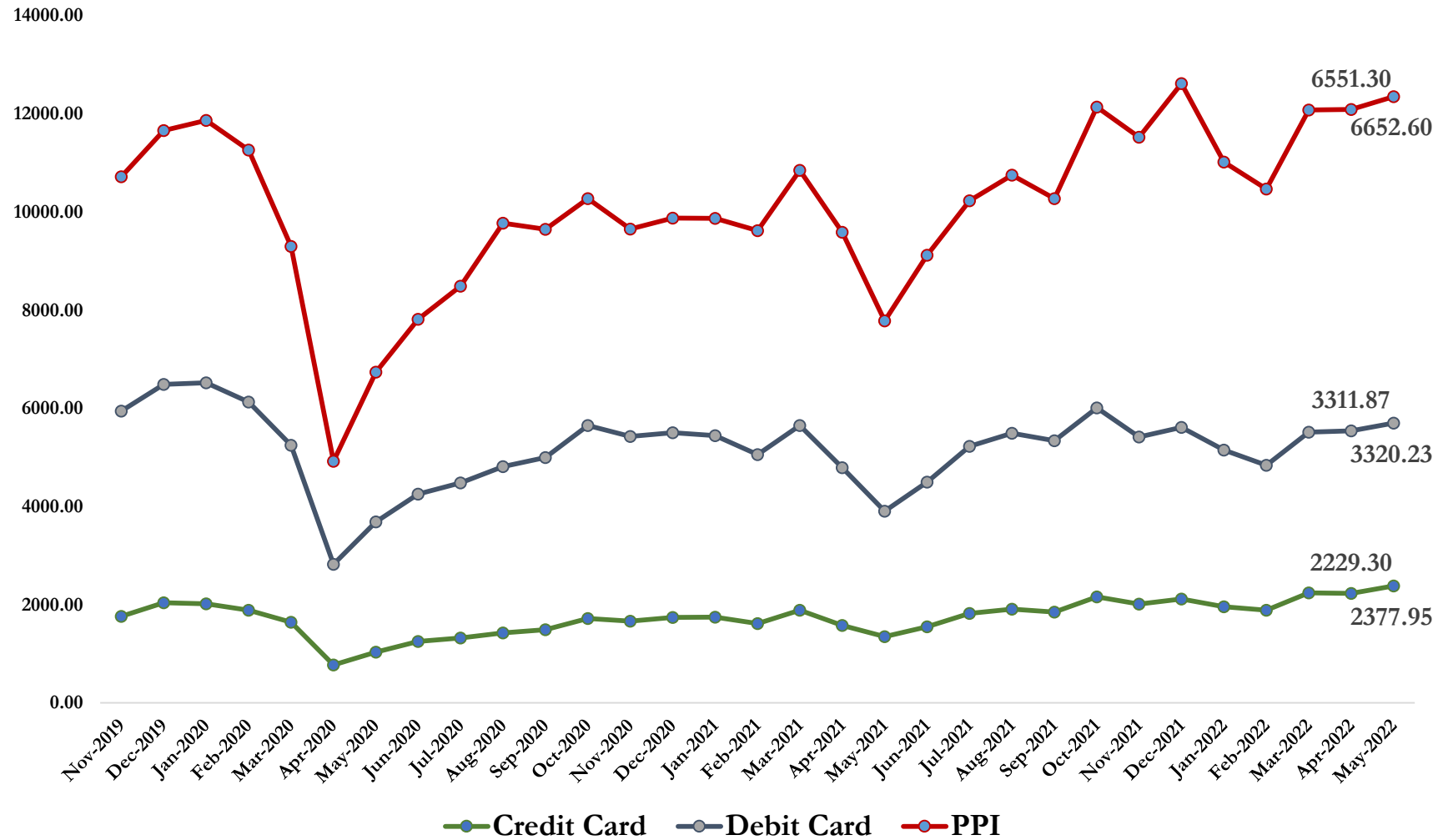
Current Market Scenario: There are three common payment instruments prevailing in the market which are regulated by RBI – **Prepaid Payment Instruments, Credit Cards and Debit Cards**

Comparison between the prevailing payment instruments

Basis	PPIs	Credit cards	Debit Cards
Issuer	Banks and Non-Banks with prior approval of RBI. Compliance requirement for Non-Banks are more.	SCBs, NBFCs, RRBs and UCBs.	Only Banks
Loading	cash, debit to a bank account, credit and debit cards, PPIs (as permitted from time to time) and other payment instruments issued by regulated entities in India	Revolving line of credit	Linked to saving Bank/current account
Usage	purchase of goods and services, financial services, remittance facilities, etc.	Purchase goods & services or draw cash advances	Withdraw cash, make online payments, PoS transaction, fund transfer, etc.
Cash withdrawal	Depends on type of card	Allowed	Allowed

- **PPI:** *Instruments that facilitate purchase of goods and services, financial services, remittance facilities, etc., against the value stored therein. PPIs that require RBI approval / authorisation prior to issuance are classified under two types viz. (i) Small PPIs, and (ii) Full-KYC PPIs.*
- **Credit Card:** *is a physical or virtual payment instrument containing a means of identification, issued with a pre-approved revolving credit limit, that can be used to purchase goods and services or draw cash advances, subject to prescribed terms and conditions.*
- **Debit Card:** *is a physical or virtual payment instrument containing a means of identification, linked to a Saving Bank/ Current Account which can be used to withdraw cash, make online payments, do PoS terminal/ Quick Response (QR) code transactions, fund transfer, etc. subject to prescribed terms and conditions.*

Statistics



Volume in Lakhs (Month wise data)

- PPI includes transaction done through wallet (5198.06 Lakhs) and cards (1454.54 Lakhs) in the month of May-2022.
- The use of PPIs in India is comparatively more than other payment instruments.

Volume in Lakhs

Yr.	Cash withdrawal at ATMS			Cash withdrawal at PoS	
	Credit	Debit	PPI	Debit	PPI
FY 2020-21	51.41	60,602.23	252.17	353.50	41.27
FY2021-22	62.38	64,898.81	326.11	79.42	12.84

Value in Crore

Month	Value of Transaction		
	Credit	Debit	PPI
May 2022	1,13,696	65,959	28,257
April 2022	1,05,459	65,062	27,664

Regulations governing such payment instruments

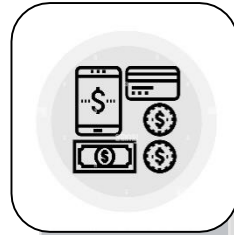


Credit Cards

Regulated by RBI's Master Direction – Credit Card and Debit Card – Issuance and Conduct Directions, 2022



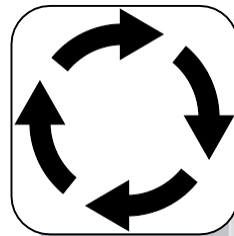
Characteristics of Credit Cards



Payment Instrument



Physical or virtual form



Revolving line of credit



Means of Identification



Open-ended

- **Means of identification** – Typically, the identification is done by the card number which has the BIN, as well as unique identification of the card
- **A revolving line of credit** is a mode of lending wherein the lender agrees to lend an amount equal to or less than a pre-determined credit limit, as approved for the borrower.

Credit Card: *is a physical or virtual payment instrument containing a means of identification, issued with a pre-approved revolving credit limit, that can be used to purchase goods and services or draw cash advances, subject to prescribed terms and conditions.*

Permissibility to NBFC for issuing Credit Cards

Eligibility

- Approval of RBI required
- Require Certificate of Registration

Net-owned fund

- Minimum Net owned fund of Rs.100 crore

Co-branding arrangement

- NBFCs can act either as card issuer or co-branding entity.
- NBFCs to fulfill specified eligibility criteria.
- In case of co-branding arrangement with banks, NBFCs to also comply with the guidelines specified in NBFCs master Direction
- Role limited to marketing and distribution of credit cards

- ❑ For NBFCs, the only way to issue credit cards is to use the approval route
- ❑ The RBI at the time of granting approval is likely to do a complete scan of the activities of the NBFC, any regulatory observations about the NBFC, etc.

Co-branded Card is a card that is issued jointly by a card-issuer and a co-branding entity bearing the names of both the partnering entities.

Card-issuers - Banks which issue debit or credit cards and NBFCs which have been permitted by RBI to issue credit cards in India.

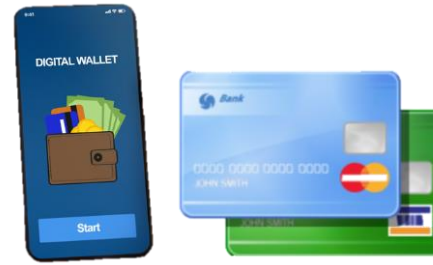
A stack of prepaid payment cards is shown in the background. The top card is a brown MasterCard with the red and orange logo. Below it is a blue American Express card with the white logo. The bottom card is a gold Visa card with the blue logo. The cards are slightly out of focus, creating a sense of depth.

Prepaid Payment Instruments (PPIs)

*Regulated by RBI's Master Direction on Prepaid
Payment Instruments (MD-PPIs)*

Classification

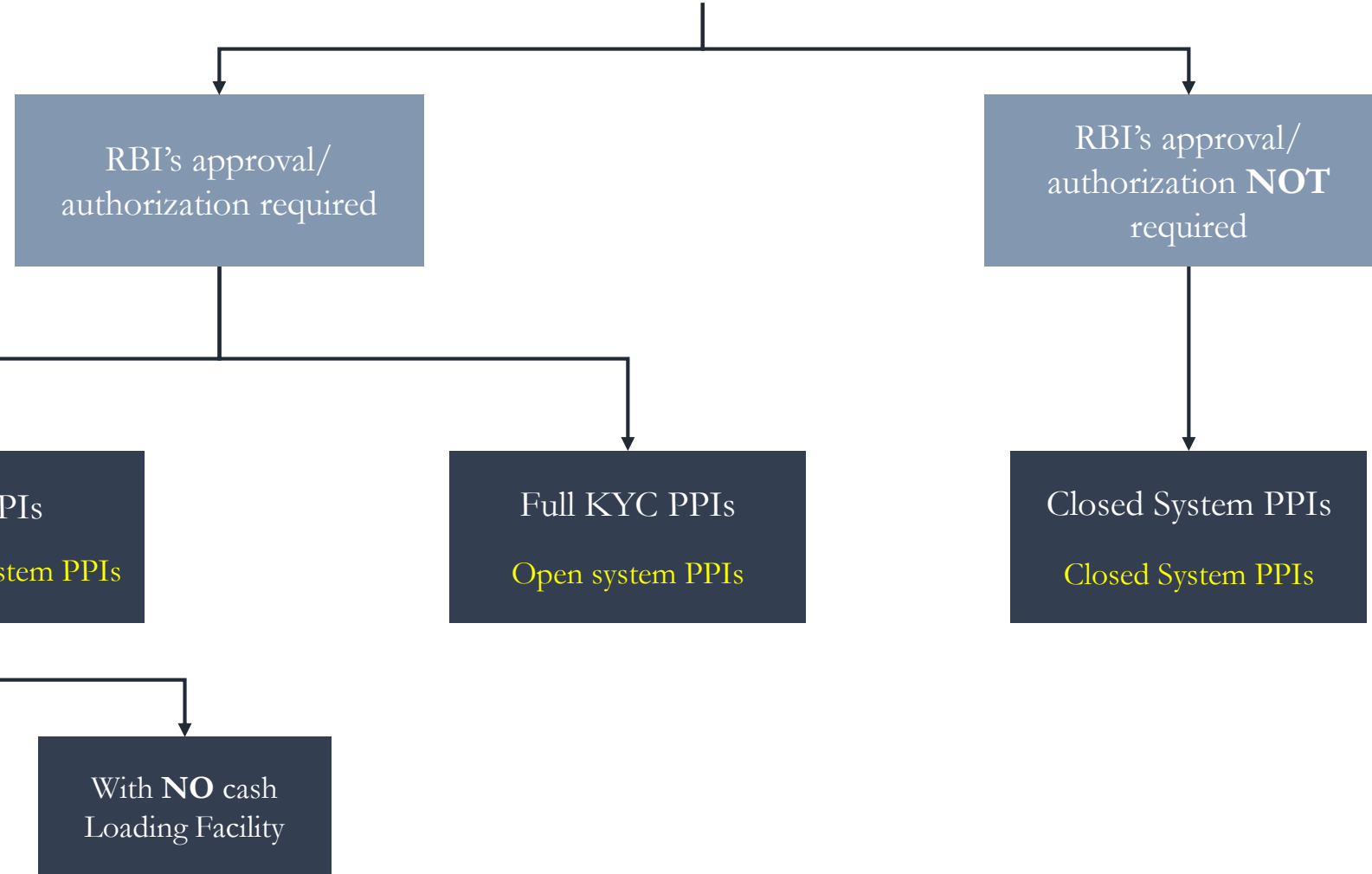
PPI: Instruments that facilitate purchase of goods and services, financial services, remittance facilities, etc., against the value stored therein. PPIs that require RBI approval / authorization prior to issuance are classified under two types viz. (i) Small PPIs, and (ii) Full-KYC PPIs.



PPIs

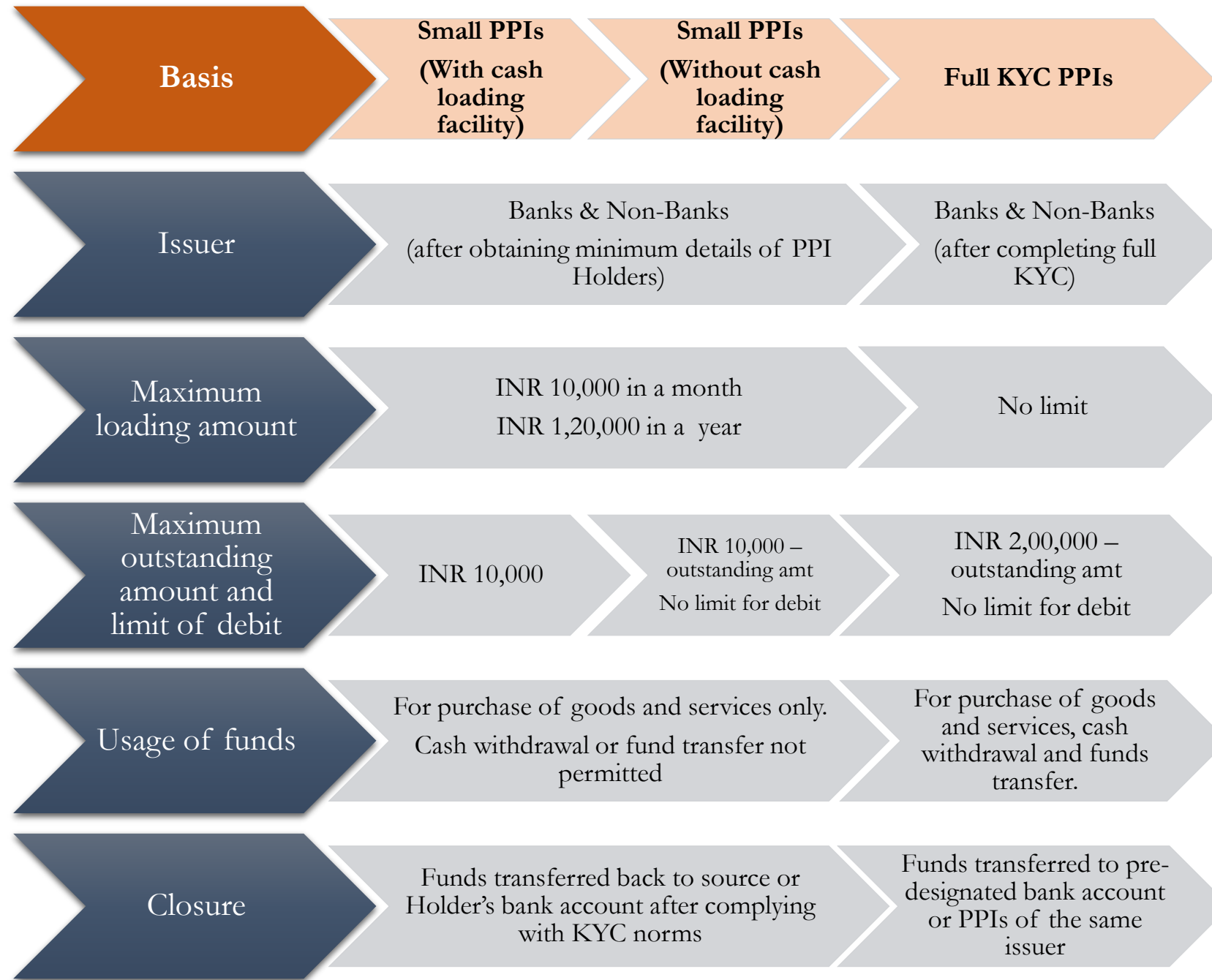
New Master Directions

Erstwhile Master Directions



- Can be issues by anyone.
- Not a part of payment & settlement system
- No cash withdrawal

Characteristics of each type

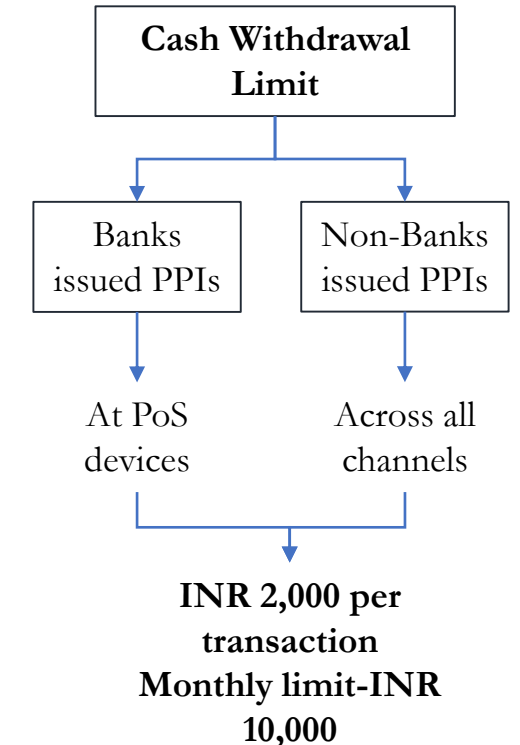


These PPIs are reloadable in nature and can be issued in Electronic Form.

Loading and reloading of PPIs

1. Small PPIs (without cash loading facility) - from a bank account / credit card / full-KYC PPI

By cash, debit to a bank account, credit and debit cards, PPIs (as permitted from time to time) and other payment instruments issued by regulated entities in India and shall be in INR only.



Permissibility to Non-Banks for issuing PPIs

Eligibility

- Certificate of Authorisation (CoA) from RBI
- Company incorporated in India and registered under Companies Act, 1956/2013
- MOA should include proposed activity of PPI issuance

Net-worth

- Minimum Net-worth of INR 5 crore
- Achieve minimum net-worth of INR 15 crore by the end of 3rd FY from the date of receiving final authorisation

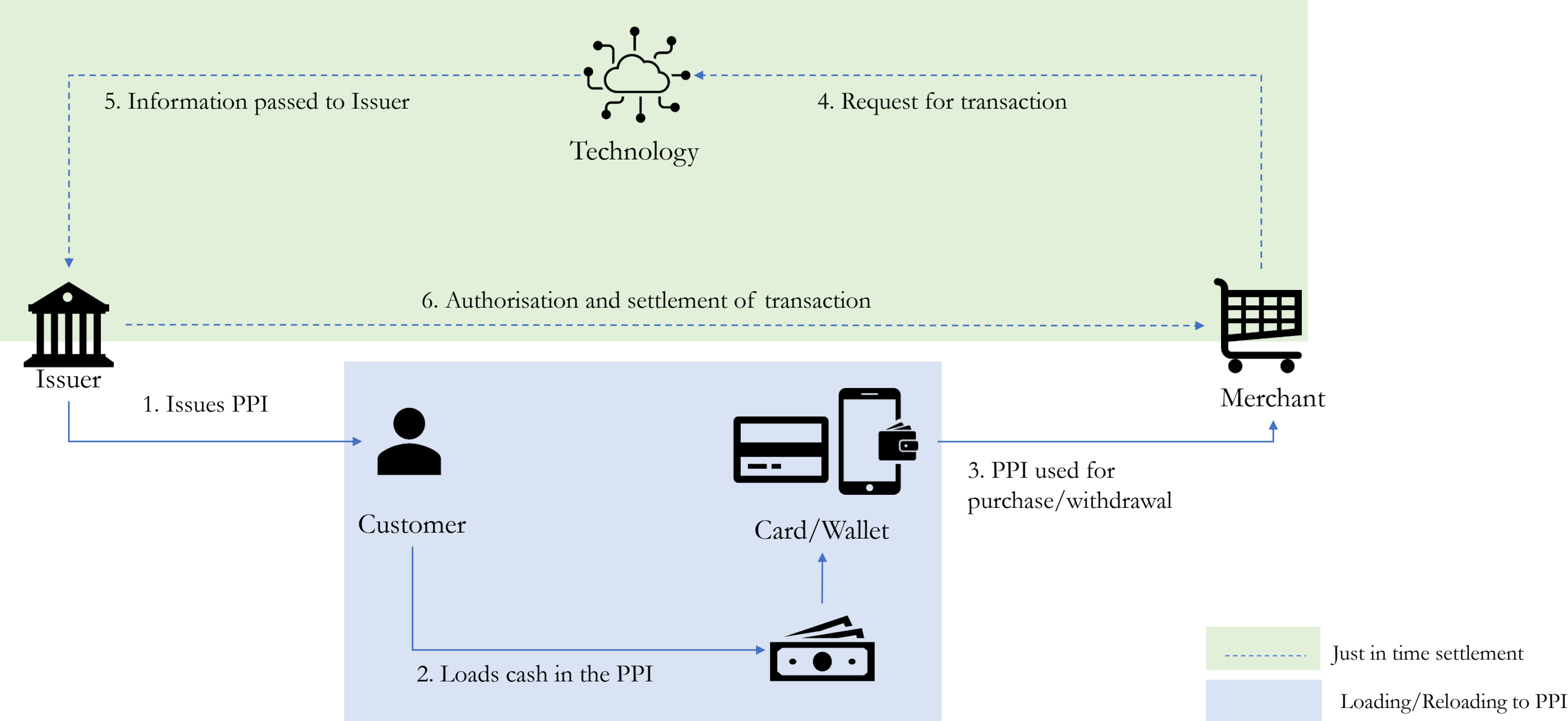
Validity of registration

- Valid for perpetuity subject to compliance with conditions stipulated in the RBI's circular dated Dec 4, 2020.
- Cooling period of 1 year if CoA is revoked/not renewed/application rejected/voluntarily

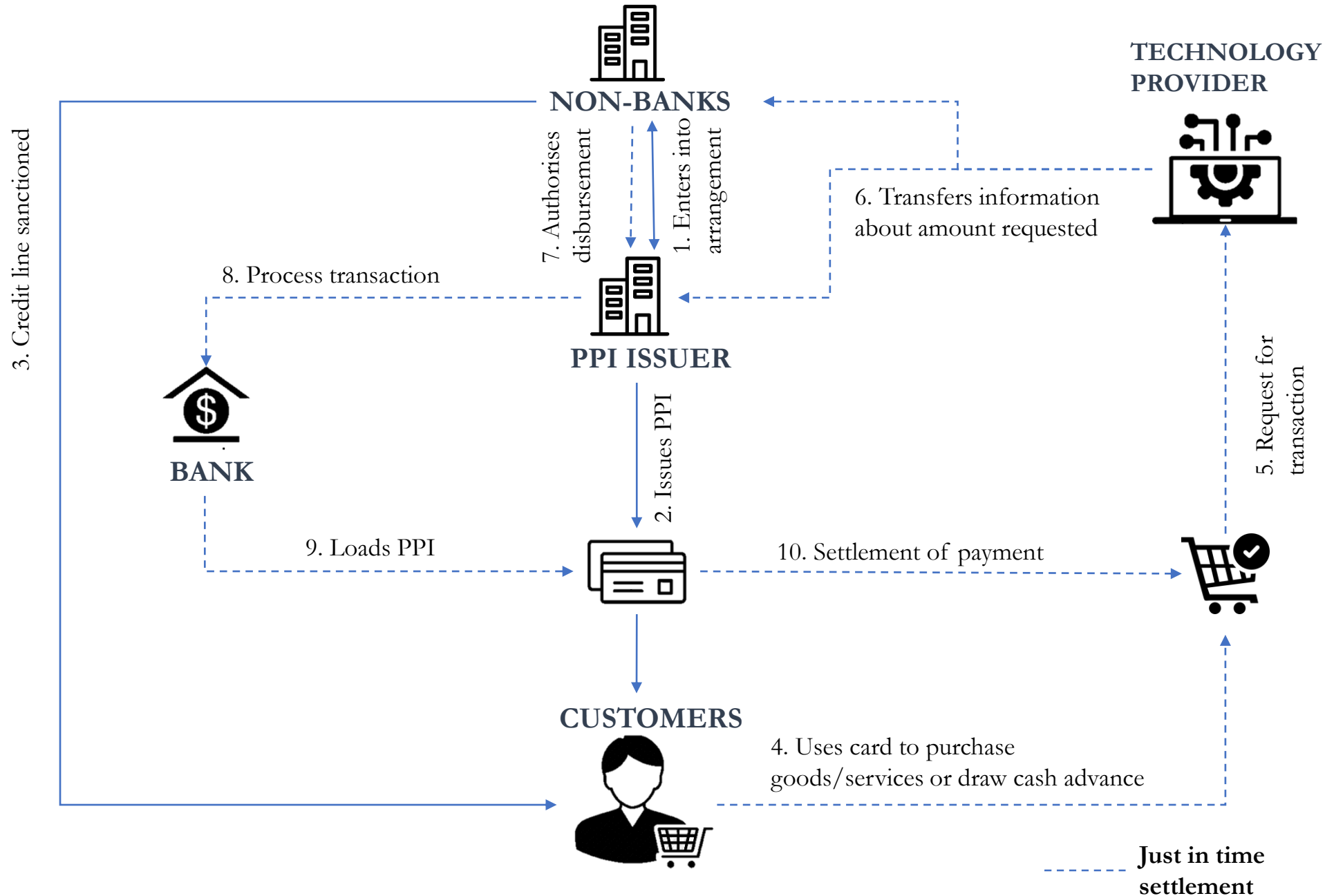
Co-branding arrangement

- One time approval from DPSS is required
- Co-branding between two non-bank PPI issuers: the agreement shall clearly indicate which partner is the PPI issuer
- Co-branding between a bank and non-bank: Bank should be the issuer. Non-banks role limited to marketing

Normal structure of PPI Cards



Innovative structure prevailing in the market



- In this structure prepaid cards are loaded with credit lines which are either simple or revolving.
- The non-banks tie up with the PPI issuer
- The customers who utilizes the amount pay back in installments.
- **Similar customer experience as that of credit cards**



Why PPIs backed with credit line are being issued?



Credit cards are allowed to customers with **full-KYC** only



The Fintech entities are catering to the financial needs, mainly of the younger generation or people with no credit history



The structure embeds the convenience of a credit card through a line of credit



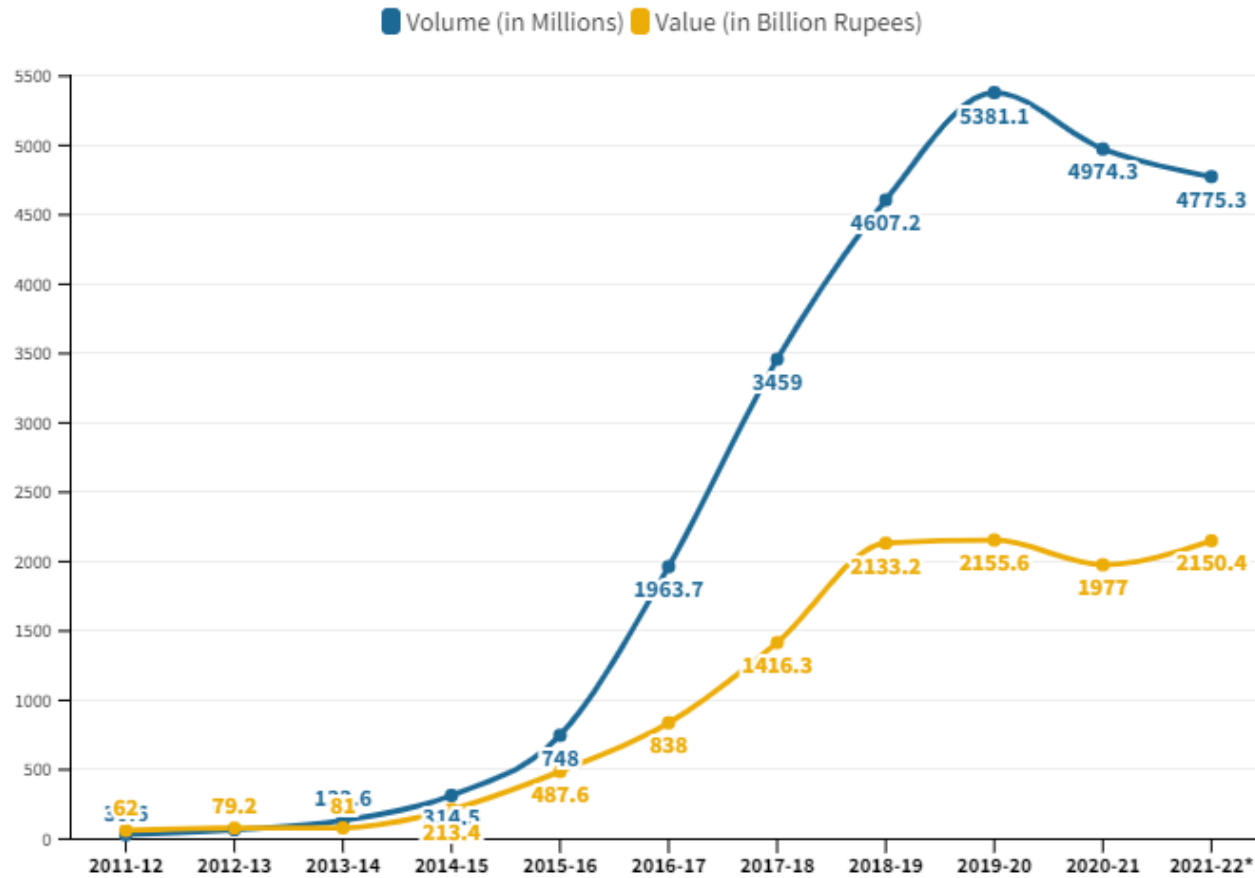
Enables the lenders to monitor the end use of such loan proceeds



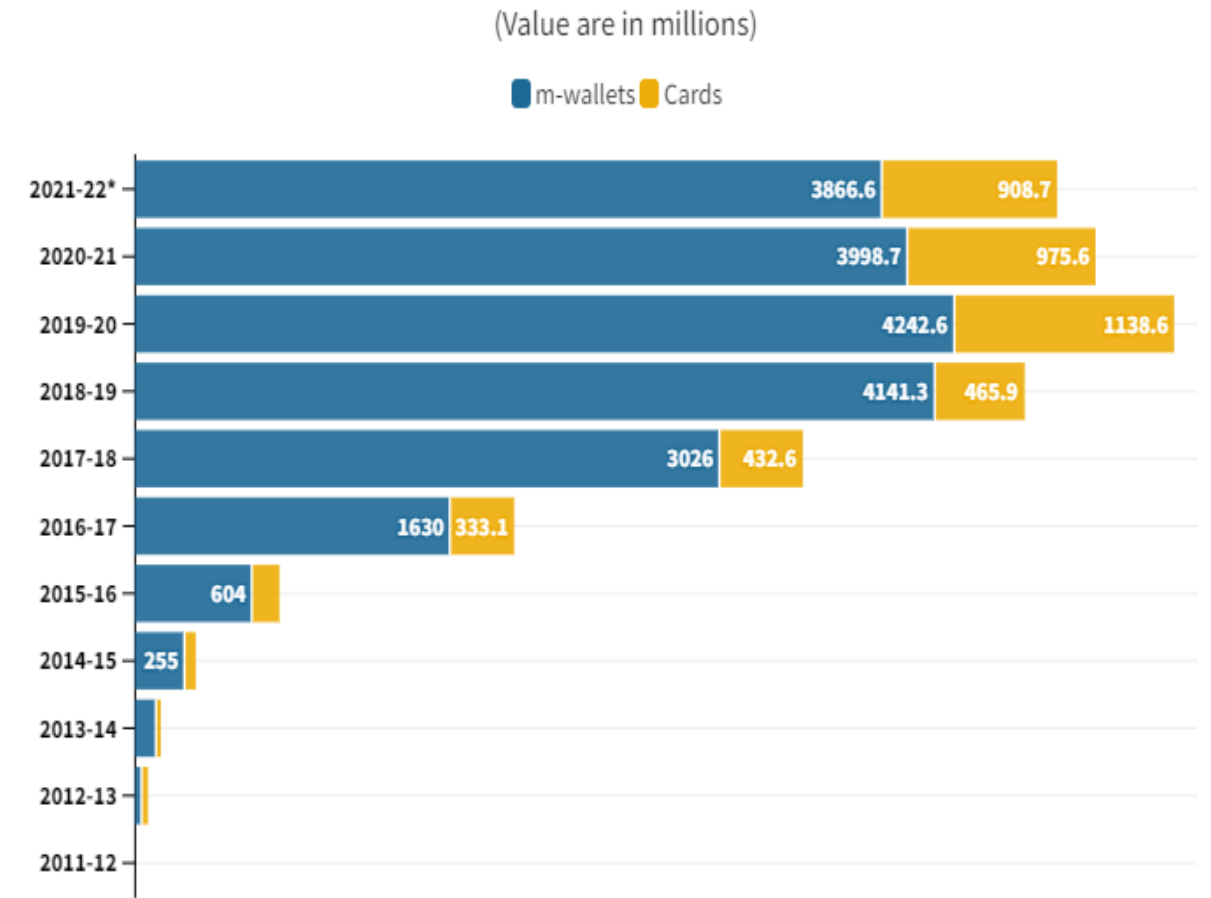
Tie-ups with fintech help banks/NBFCs access the fintech player's existing customer base.

Growth in transaction with PPIs

Transaction growth of Prepaid Payment Instruments






Growth in transaction volume of m-wallets and Cards



Source: [RBI Data Warehouse](#)

*Data for 2021-22 is till Dec-2021 only

RBI's concern pertaining to issue of PPIs backed by credit line

भारतीय रिज़र्व बैंक
RESERVE BANK OF INDIA
www.rbi.org.in

CO.DPSS.OVRST.No.S538/06-07-004/2022-23 June 20, 2022

All Authorised Non-bank Prepaid Payment Instrument (PPI) Issuers


Madam / Dear Sir,

Loading of PPIs through Credit Lines

A reference is invited to the provisions contained in paragraph 7.5 of the Master Directions on PPIs (PPI-MD) dated August 27, 2021 (updated as on November 12, 2021) – *"PPIs shall be permitted to be loaded / reloaded by cash, debit to a bank account, credit and debit cards, PPIs (as permitted from time to time) and other payment instruments issued by regulated entities in India and shall be in INR only."*

2. The PPI-MD does not permit loading of PPIs from credit lines. Such practice, if followed, should be stopped immediately. Any non-compliance in this regard may attract penal action under provisions contained in the Payment and Settlement Systems Act, 2007.

Yours faithfully


(Amitabh Khandelwal)
General Manager

भुगतान और निपटान प्रणाली विभाग, केंद्रीय कार्यालय, 14वीं मंजिल, केंद्रीय कार्यालय भवन, शाहीद भगत सिंह मार्ग, फोर्ट, मुंबई - 400001
फोन: (91-22) 2260 1000; फेक्स: (91-22) 2265 9566; ईमेल: sgmdpssc@rbi.org.in
Department of Payment and Settlement Systems, Central Office, 14th Floor, Central Office Building, Shaheed Bhagat Singh Road, Fort, Mumbai -400001
हिंदी अक्षरों में, इसका प्रयोग बंद है

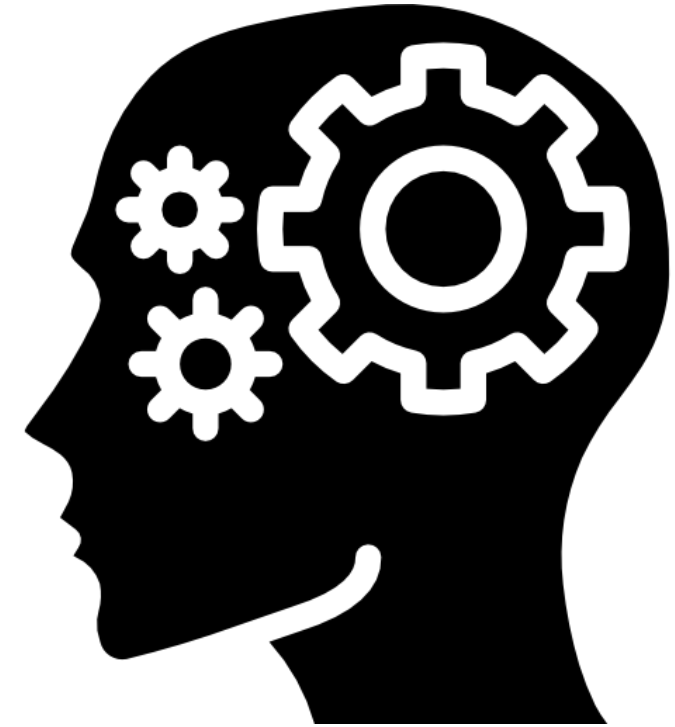
- Fintechs are tying up with Banks & NBFCs, many of whom does not have license to lend money to customers
- The main purpose of a PPI license is to act as a payment instrument and not as a credit instrument
- Such instruments are akin to credit card
- The KYC guidelines for issuing PPI are less strict as compared to that of a credit card.
- Increasing the risk in the system.

Future of PPI backed with credit line

Various views:

- No issues in case the credit is disbursed from lender to the bank account of cardholder and from there the holder loads the PPI.
- No issues if the line of credit is used to make payment on specified e-commerce sites or other places. (This would restrict the use of the loan)
- The line of credit by lender, accessible by use of the card or the app, cannot be a revolving line of credit.

Payments Council of India (*PCI*) along with several fintech firms have sought the government's intervention requesting it to resolve the fallout



Thank You

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