

Article



Mobile Wallets – Technology re-defined

Shruti Agarwal

shruti@vinodkothari.com

(Financial Services division)

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Mobile Wallets – An Overview

The advent of smart phones and e-gadgets has affected not only our choice of using products & services but also the payment system we opt for. With the ever expanding world of technology, it is observed that the various mobile payment methods are becoming a preferred mode of payment for a large number of consumers. Amongst the popular payment methods, M-Wallets are the ones that have gained momentum in the market place. The ease of using e-wallets as a substitute to physical wallets have made M-Wallets as one of the most convenient ways of making payment through the use of mobile phones.

Recently, there is a spurt in the market participants, including Non-Banking Financial Companies (NBFCs) and other companies apart from banks, who have availed the license for providing such services under the governing laws and provisions.

This article summarizes the law governing the mobile wallets in India, market scenario and other aspects leading to the popularity of the M-Wallet industry.

Regulatory aspects

The principal law governing payment systems in India is The Payment and Settlements Act, 2007¹ (the Act) read along with Payment and Settlement Systems Regulations, 2008 and Amended up to 2011 and Board for Regulation and Supervision of Payment and Settlement Systems (BPSS) Regulations, 2008², The Payment and Settlement Systems (Amendment) Act, 2015 - No. 18 of 2015³.

Section 18 The Payment and Settlements Act, 2007 empowers Reserve Bank of India (RBI) *“regulate the payment systems or in the interest of management or operation of any of payment systems or in public interest, it is necessary to do so lay down policies relating to the regulation of payment systems including.....pertaining to the conduct of business relating to payment systems.”*

Accordingly, Policy Guidelines on Issuance and Operation of Pre-paid Payment Instruments in India⁴ (“Guidelines”) issued by RBI provides a framework for the regulation and supervision of persons operating payment system operating payment systems involved in the issuance of Pre-paid Payment Instruments (PPIs) in the country and to ensure development of this segment of the payment and settlement systems in a prudent and customer friendly manner.

The definition of PPIs as per Para 2.3 of the afore-mentioned policy is reproduced below:

¹ <http://rbidocs.rbi.org.in/rdocs/Publications/PDFs/86706.pdf>

² <https://www.rbi.org.in/scripts/OccasionalPublications.aspx?head=Payment%20and%20Settlement%20Systems%20Regulations.%202008>

³ <http://rbidocs.rbi.org.in/rdocs/content/PDFs/PSN190515F.pdf>

⁴ <https://rbi.org.in/scripts/NotificationUser.aspx?Mode=0&Id=9935>



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*“Pre-paid payment instruments are payment instruments that facilitate purchase of goods and services, including funds transfer, against the value stored on such instruments. The value stored on such instruments represents the value paid for by the holders by cash, by debit to a bank account, or by credit card. The pre-paid instruments can be issued as smart cards, magnetic stripe cards, internet accounts, internet wallets, mobile accounts, **mobile wallets**, paper vouchers and any such instrument which can be used to access the pre-paid amount (collectively called Prepaid Payment Instruments hereafter). The pre-paid payment instruments that can be issued in the country are classified under three categories viz. (i) Closed system payment instruments (ii) Semi-closed system payment instruments and (iii) Open system payment instruments.”*

Mobile wallets categorized under semi-closed system payment instruments are the most popular amongst the payment methods grabbing attention of the customers. These payment instruments facilitate purchasing of goods and services but do not accommodate withdrawals from the instrument. Only the banks are allowed to issue open system payment instruments which can be used for purchase of goods and services, and also permit cash withdrawals from ATMs.

Basis above the types of PPIs are as follows:

Types of Pre-paid Payment Instruments (PPIs):

<i>Closed System</i>	<p><i>It is used when the goods or services are acquired directly from the entity which issues this instrument. It does not allow cash withdrawal or redemption.</i></p> <p>The best example of this being payment credited into “Ola money” or “freecharge” wallet. In this case the amount so credited can be utilized for either travelling or recharging of mobile respectively.</p>
<i>Semi Closed System</i>	<p><i>These are 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</i></p>



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	<p><i>payment instruments.</i></p> <p>Example: for travelling in UBER we need to pay using PayTm wallet.</p> <p>Similarly PayUMoney can be used to do multiple payments. For example booking tickets from bookmyshow and payment is made from PayUMoney.</p>
Open System	<p><i>These allow payment to be made for the purchase of goods and services along with facilities such as fund transfer, cash withdrawal, etc.</i></p> <p>Example of these are credit cards, debit cards, etc.</p>

Eligible entities who are permissible to issue PPIs⁵

Entity	System which can be offered	Capital Requirements⁶
Banks	<i>Can issue all sorts of PPIs if it satisfies the eligibility</i>	<i>Banks complying with the capital adequacy requirements are allowed to issue PPIs.</i>

⁵ Persons authorized under Foreign Exchange Management Act (FEMA) to issue foreign exchange pre-paid payment instruments and where such persons issue such instruments as participants of payment systems authorised by the Reserve Bank of India, are exempt from the purview of these guidelines. As they are required to comply with the Foreign Exchange Management (Current Account Transactions) Rules, 2000

⁶ Applicant companies having FDI/FII should meet the minimum capital requirement as applicable under Consolidated FDI policy guidelines of Government of India.



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	<p><i>requirement</i></p> <p><i>If the bank is allowed to provide Mobile Banking Transactions then it can offer mobile based pre-paid installments (i.e. mobile wallets and mobile accounts)</i></p>	
<p>NBFCs and other persons</p>	<p><i>Are authorized to issue closed and semi closed systems including mobile based pre-paid instruments.</i></p>	<p><i>NBFCs complying with the capital adequacy requirements are allowed to issue PPIs.</i></p> <p><i>For any other person minimum capital required is Rs 500 lakhs. Further they are also required to maintain positive net worth of Rs 100 lakhs at all times.</i></p>

Note: Companies incorporated in India will be eligible to apply for Authorisation.

Limits for PPIs

Categories of PPIs	Quantum of Limits prescribed for PPIs
Where are no specific limits are prescribed for the value of the PPIs	The value shall not be more than Rs 50,000/-
Types of semi closed pre-paid payment instruments based on the customer due diligence	Limit Prescribed
By accepting minimum details of customer	Upto Rs. 10,000/- can be provided subject to the condition that the amount outstanding at



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	any point shall not be more than Rs 10,000/-. Also, the replenishment value in the instrument shall not be more than Rs. 10,000/-
By accepting any 'officially valid document' defined under Rule 2(d) of the Prevention of Money Laundering Rules, 2005	More than Rs 10,000 but not more than Rs 50,000.
Where full Know Your Customer (KYC) details are maintained	Upto Rs 1,00,000/-.

Requirement of maintaining an escrow Account

Banks are not required to maintain escrow account. The outstanding balance in the scheme shall form part of the bank's "net demand and time liabilities".

NBFCs and other entities are required to maintain an escrow account with a scheduled commercial bank. Further the entity is also required to obtain a quarterly certificate on balance held in escrow account by the auditor. The entity is mandatorily required to insert a certain clause in the agreement with the bank which states that amount lying in the escrow account shall be used for making payment to the merchant. The master circular provides a specimen of such clause too. Following are the list of transactions that can be effected in and from the said escrow account:

Credits

- a. *Payments received towards sale / reload of PPIs, including at agent locations*
- b. *Refunds received for failed / disputed / returned / cancelled transactions.*

Debits

- a. *Payments to various merchants/service providers towards reimbursement of claims received from them*



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- b. Payment to sponsor bank for processing funds transfer instructions received from PPI holders as permitted by RBI from time to time.*
- c. Payment towards applicable Government taxes (received along with PPI sale/reload amount from the buyers)*
- d. Refunds towards cancellation of transactions in a PPI in case of PPIs loaded / reloaded erroneously or through fraudulent means (on establishment of erroneous transfer /fraud). The funds have to be credited back to the same source from where these were received. These funds are not to be forfeited till the disposal of the case.*
- e. Any other payment due to the PPI issuer in the normal course of operating the PPI business (for instance, service charges, forfeited amount, commissions)*
- f. Any other debit as directed by the regulator / courts / law enforcement agencies.*

Conclusion:

Though the M-Wallet companies are gaining market at an unparalleled speed, they still need to attract large number of consumer base to combat competition and stabilize their emergence. In the past year, the Indian market has been flooded with various payment gateways. The core reason of growing digital industry is the unavailability of bank accounts to a substantial population of the economy. Therein, the M-Wallet industry plays a major role in facilitating that part of population to transact day to day transactions.

With the large number of start-ups joining the race, it would be a challenge for the small players to maintain their existence and grow in this digitalised world. However, the M-Wallet industry continues to maintain their sheen with the growing number of start-ups entering the market.