

The Law of Prepaid Payment Instruments (PPIs): A Guide For New Market Entrants

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In this resource, we present an easy-to-navigate guide on the law and landscape of Prepaid Payment Instruments (PPIs) in India, for businesses seeking to enter the market as issuers, co-branding partners, and intermediaries.

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I. Understanding PPIs & the market

Prepaid Payment Instruments (PPIs) are instruments that “facilitate the payment of goods and services against the value stored therein”¹. This value may either be loaded by the customer (i.e. the “holder”) themselves (such as in the case of e-wallets), or may be loaded by the issuer (such as in the case of reward cards²).

PPI’s emerging relationship to traditional payment instruments such as debit cards, credit cards, and the payment services offered by banks is both (a) “alternative” and also (b) “complementary”. PPIs emerge as an *alternative* offering for demographics traditionally not catered to by banks (the so-called “underbanked” population), who still need to be included in the digital-economy/cashless ecosystem.

¹ Master Directions on Prepaid Payment Instruments (PPIs), available at: https://www.rbi.org.in/scripts/bs_viewmasdirections.aspx?id=12156.

² This is generally seen in the case of closed system PPIs where the funds can only be used to purchase goods and services from the specific company that issued it. In case it is done by any other category of PPIs (which are regulated by the RBI), actual funds should be transferred to the PPI,

For instance, consider groups who do not qualify for a bank account due to a lack of documentation or other qualifying criteria, but may still be able to load their cash into an e-wallet (not linked to a bank account), and make digital payments via the same.

For other demographics, PPIs emerge as a *complementary* offering, as they complement the lifestyles of these groups. Prepaid metro-cards for commuting, prepaid food cards as a corporate perk, the apparel card for cosmopolitan gifting, loaded e-commerce wallets for online shopping enthusiasts, bill-payment apps, and so on. In many cases (such as in the examples cited above), PPIs add value to a larger ecosystem of offerings of the issuers, to help the companies create “customer-delight” by reducing the friction associated with day-to-day payments, and in some cases also giving customers rewards for the same.³

In a nutshell: common *use cases* for PPIs today include settlements, e-commerce purchases, remittances, toll-payments,⁴ gifting, commuting, etc. PPIs help in financial inclusion by allowing consumers to overcome several “long-standing barriers or deterrents to the use of digital payments”⁵. Hence, the most prominent benefits for the users of PPIs are as follows:

- a. In the case of e-wallets, for instance, they emerge as substitutes to physical wallets both in terms of convenience and also safety (for a brief explainer on e-wallets, see also our resource [here](#)).
- b. Payment cards emerge as an alternative to using a debit card or credit card for the limited purpose of effecting payments and hence also lowering the transaction risks associated with the same (for instance, the risk of credit card fraud or banking fraud).
- c. Includes users who may not be part of formal banking channels yet, and are ineligible for a bank account, into the cashless ecosystem.
- d. Reduce the friction associated with day-to-day payments.
- e. Cost reduction compared to traditional payment offerings by banks, viz-a-viz transaction cost, account maintenance fees, admin cost, etc.

³ World Bank, ‘Innovation in Payments: Opportunities and Challenges for EMDEs’, available at: <https://documents1.worldbank.org/curated/en/099735104212220539/pdf/P1730060f0f36d0ef09ecb0c5e283741c3a.pdf>

⁴ Reserve Bank of India, ‘Payment Systems Report for half year ended December 2024’, available at: <https://rbidocs.rbi.org.in/rdocs/Publications/PDFs/PSR270120251BEE95CF47F2426B9740075D405FA070.PDF>

⁵ World Bank, ‘Innovation in Payments: Opportunities and Challenges for EMDEs’, available at: <https://documents1.worldbank.org/curated/en/099735104212220539/pdf/P1730060f0f36d0ef09ecb0c5e283741c3a.pdf>

The RBI's annual report for FY 24-25⁶ reveals the PPI transaction volumes in the said year to be 70,252 lakhs, and transaction value to be around 2.2 lakh crores. And from a global standpoint, the growing internet availability and smartphone adoption have allowed e-wallets to gain worldwide traction⁷.

Fuelling the PPI fire is the super-app model, or “embedded payments”, which is aimed at fully integrating payments into core business services, and enabling the end users to initiate and receive the payments within the business's platform⁸. For example, consider e-commerce platforms, which allow the customer to make payments through wallets without ever having to leave the platform (when, for instance, the customer chooses netbanking and is redirected to the banking page, it may become an undesirable friction point, causing the customer to drop off from the shopping journey). Users are also persuaded to use PPI services when it becomes a prerequisite to accessing full-fledged services in the super-app.

At this juncture, it is also pertinent to address how they really differ from the other payment instruments offered by banks and financial institutions.

How do PPIs differ from other payment instruments offered by banks and FIs in India?

Firstly, users do not earn any interest on the money kept in the PPI account (as opposed to funds kept in a savings account), nor are they able to “overdraw” money as such (compared to a current account). PPIs function on a “fill-and-pay” model. Crucially, to issue a PPI, one does not necessarily need to be a financial sector entity (which adds to its appeal for potential issuers) and there is a variation of PPIs which which business may issue at present without requiring regulatory permits and licenses from RBI (i.e., closed loop, as discussed below), as opposed to credit cards and debit cards, which are necessarily issued by financial sector entities after navigating a labyrinth of compliances and permits. PPI offerings also differ from Payments Banks (PBs), which operate under a different regulatory regime, and where PBs are able to accept savings deposits and also provide interest, and undertake certain banking functions.⁹

⁶ Reserve Bank of India, Annual Report 2024-2025, available at:

<https://rbidocs.rbi.org.in/rdocs/AnnualReport/PDFs/OANNUALREPORT202425DA4AE08189C848C8846718B080F2A0A9.PDF>

⁷ Bank for International Settlements & World Bank Group, ‘Payment aspects of financial inclusion in the fintech era’, available at:

<https://documents1.worldbank.org/curated/en/230091592918282222/pdf/Payment-Aspects-of-Financial-Inclusion-in-the-Fintech-Era.pdf>

⁸ Ibid.

⁹ Reserve Bank of India, ‘Guidelines for Licensing of Payments Banks’, available at:

https://www.rbi.org.in/scripts/bs_viewcontent.aspx?id=2900

A bird’s eye view of key differences between PPIs and Credit Cards/Debit Cards

	PPIs	Credit Card & Debit Card
Who is the issuer?	Both financial & non-financial sector entities permitted. Can also be issued without RBI approval in case of a closed-system (<i>see discussion below</i>).	Banks and NBFCs (NBFCs do not, however, issue debit cards as they cannot accept demand deposits).
Can it be used to avail credit	No. It is a “fill-and-pay” model.	Yes, in the case of credit cards.
Loading of instruments	Cash loading (where permitted), loading from a bank account, credit card, or other full KYC PPIs. Cannot load through credit lines.	Linked to a bank account in case of debit cards, and a line of credit is made available in case of credit cards
Cash-withdrawal	Restricted, and allowed subject to additional compliance.	Allowed.
Can users earn interest?	No.	Yes, in case of funds stored in the savings account.

II. Navigating the legal framework: The bare-bones

In India, the Reserve Bank of India (RBI) regulates the issue of, and compliance relating to, PPIs, as empowered under Section 18 and Section 10 of the Payment and Settlement Systems Act, 2007. The RBI regulates the PPIs via the ‘Master Directions on Prepaid Payment Instruments’ (‘PPI Directions’). In discussing the law of PPIs, it is important to first highlight the major regulatory concerns or risks associated with the use and issuance of PPIs, which form the basis of the regulations:

- Anti-money laundering, financial crime risk, and fraud risk
- Technological risks and systemic/operational risks
- Consumer protection concerns
- Ensuring the separation of accounts and funds
- Ensuring that the PPI issuers are not engaging in regulatory arbitrage (*for instance, turning the PPI into a quasi-credit card through loan loading, see also our explainer on loan-loaded PPIs [here](#)*)

PPIs may be broadly categorised into: (a) PPIs that do not require approval or authorisation by the RBI prior to their issuance – also known as “closed-system PPIs”; and (b) PPIs that do require approval or authorisation by the RBI before their issuance, which may either be “Small PPIs” or “Full KYC PPIs”. There are also certain special-use cases for which specific instructions are given, such as Gift PPIs, PPIs for

mass-transit systems, and PPIs to foreign nations/NRIs visiting India. Issuance of PPIs in the form of a paper voucher is not permitted (*Para 7 of PPI Directions*).

However, before jumping to the compliance, one needs to evaluate whether the device/instrument may even be called a “payment” instrument at the outset (and hence necessitating consideration of the compliance).

i. Closed system PPIs

Consider a common use case: You walk into an apparel store and make some hefty purchases. Subsequently, you are rewarded for your shopping spree with the store’s reward points/reward coins, which you can use for your next purchase. In effect, this is *usually* nothing but the store giving the customer a discount of a certain value, and subsequently recognizing that discount when the customer comes to avail it. A discount of ₹500 on the customer’s next purchase is packaged and marketed as a “reward point” worth ₹500 that the customer can use against their next purchase.

The instrument (be it a card or an account) is a mere *instrumentality/medium* for recognizing that discount. In such a case, does the apparel store suddenly need to obtain “approval and authorisation” from the Reserve Bank of India, for what would otherwise be a mundane business practice? One may argue that there is *at the outset* no “payment” being effected *per se* (there is merely a discount provided, and a subsequent recognition of that discount), and hence the question of it being a “payment system” (which requires evaluation from the standpoint of RBI compliances and the PSS Act) may not arise¹⁰. Of course, this is ultimately very fact-sensitive and would need to be vetted on a case-by-case basis.

Consider now a second scenario, where upon visiting an apparel store, a customer purchases a gift card, and upon the payment of ₹500, the said amount is “loaded” onto the instrument, and the individual to whom it is gifted is empowered to make purchases of such value from the store (and not for any other purposes). Here, although there is a payment being effected between a payer and beneficiary, it would in our view be considered a “**closed-system PPI**”. This refers to instruments that are issued by an entity for facilitating purchases from that entity alone, and do not permit cash withdrawals/payments, or settlements for third-party services. Such PPIs do not require approval and authorisation by the RBI, and are not regulated or supervised by the RBI (*see* Para 2.1 of PPI Directions).

ii. PPIs that do require authorisation by RBI (i.e, those that are not closed-system PPIs)

PPIs that do require authorisation by RBI, i.e., those that are not closed-system PPIs, are (i) small PPIs; and (ii) full KYC PPIs. The most *essential and substantive features* of these are as follows:

¹⁰ The elements of a “payment system” are: (i) payment which is effected; (ii) between a payer; and (iii) beneficiary (refer Para 2(i) of the PSS Act).

- a. **Small PPIs** have a more restricted use case and may only be used for the purchase of goods and services. They cannot be used for fund transfers or cash withdrawals. They are called “small” PPIs because the amount outstanding (i.e., the maximum funds loaded) cannot exceed ₹10,000. Further, the amount loaded onto them in any month cannot exceed ₹10,000, and in a financial year, exceed ₹1,20,000. The fact that they have a restricted use also means certain PPI-related risks are reduced (see intro to Para II), and hence, issuers have lighter KYC requirements to comply with (hence, they are also called “minimum-detail PPIs”).

Small PPIs are further subdivided on the basis of whether or not cash-loading is permitted (cash loading as opposed to reloading through a bank account).

- i. **Cash-loading not permitted:** Where cash-loading is not permitted, funds would need to be loaded through a bank account/credit card/full-KYC PPI.
- ii. **Cash-loading permitted:** In case cash-loading is permitted, given the presence of an AML and financial crime risk, it is to be noted that the PPI should be converted into a full-KYC PPI within 24-months from the date of issue, failing which, no further loading of funds may be allowed, however, the existing funds can be utilised/extinguished, (Para 9.1 (1)(i) of the PPI Directions). Further, it shall not be issued to the same user in the future (who applies with the same mobile number and minimum details). Hence, if the conversion to full KYC has not taken place in 24 months, closing and re-issuing it cannot be a way to circumvent the rules.

A simplified onboarding as part of the KYC process may be followed for Small PPIs, and issuers are required only to collect the “minimum details” (Para 2.8 of the PPI Directions)¹¹.

- b. **Full KYC PPIs:** These are PPIs from which withdrawal of funds and fund transfers are permitted. The reloading may be done through cash/bank-account/creditcard/ other full-KYC PPI. They are called “full-KYC” because, unlike Small PPIs, where a simplified onboarding process may be followed, issuers must comply fully with the onboarding process prescribed under the [KYC Master Directions](#) in the case of Full KYC PPIs. Certain points need to be noted for Full KYC PPIs.
- i. **Fund-transfer limits:** In case funds are being transferred from this PPI to the PPI holder’s “back-to-source” account (i.e., the account from which it was loaded) or the PPI holder’s own bank account, then the transfer limits may be as per the internal policies and codes of the PPI issuers. In case of fund transfer to certain “pre-registered beneficiaries”, it shall be capped at ₹2,00,000 per month per beneficiary (a tighter cap as per internal policies may be imposed).

¹¹ Minimum details shall necessarily include a mobile number verified with One Time Password (OTP) and a self-declaration of name and unique identity / identification number of any ‘mandatory document’ or ‘Officially Valid Document (OVD)’ or any such document with any name listed for this purpose in the Master Direction on KYC, as amended from time to time.

In other cases, however (e.g., transfer to third parties), there is a limit of ₹10,000 per month. Such a limit is not, however, applicable to the purchase of goods and services (although the issuer may set tighter limits as per internal policies).

- ii. **Amount-outstanding:** As opposed to the small-PPIs, here the amount outstanding (i.e., maximum funds the PPI may hold) is ₹2,00,000.

Key Differences between Small PPIs and Full-KYC PPIs at a glance

	Small PPIs	Full KYC PPIs
The maximum funds that may be stored	₹10,000	₹2,00,000 <i>(Para 9.2(d))</i>
Reloading limits	Up to ₹10,000 per month	Cash loading to the PPI shall be limited to ₹50,000/- per month
Can it be used for the purchase of goods and services?	Yes	Yes
Can it be used for cash withdrawal and fund transfer?	No.	Yes, subject to specified limits
Is reloading through cash permissible?	Only in the case of PPIs with a cash-loading facility (subject to additional compliance)	Yes
Extent of KYC conducted?	Can be issued after obtaining “minimum details” of the PPI holder	Must comply with full CDD procedures as provided under the KYC Master Directions

- iii. Reloading of PPIs through credit lines

Issuance of credit cards is highly regulated, and possible only by banks and NBFCs after navigating the compliances in the [Credit Card & Debit Card Directions](#). The prerequisites and eligibility criteria for issuance of PPIs are relatively lighter (e.g., the net worth requirements, non-financial sector entities are also allowed to issue, etc). This leniency is accorded because the purpose of a PPI is to facilitate digital payments/transactions/withdrawals made through pre-loaded funds, and to enable digitally what could otherwise have been done physically by the customer. It is not for credit-creation.

Formerly, a practice which was in vogue was for the PPI issuers to tie up with banks/NBFCs, such that the customer would be able to obtain a loan from the bank/NBFCs, and the funds from the loan would be used to load the PPIs. There were concerns that such 'loan-loaded PPIs' were functioning as quasi-credit cards, and on June 20, 2022, the RBI had clarified to entities that they may not load the PPIs through credit lines.

The concern appeared to be that entities were issuing (or involved in the issuance of) PPIs that resembled credit cards without actually complying with the [Master Direction – Credit Card and Debit Card – Issuance and Conduct Directions, 2022](#).

iv. Analysis of Co-branding arrangements

The essence of co-branding arrangements is as follows: One entity wishes to make the PPI facility available to its customers or user base (say for instance, an airplane offering a travel wallet, or a fintech offering a payment card), and the other entity (for instance a bank or NBFC) has the capabilities to handle the legal, technical, and operational aspects of the PPI (such as applying for approvals, conducting KYC, ensuring regulatory compliances, etc). The entities leverage their differential capabilities and enter into a co-branding arrangement for mutual gain.

These differential capabilities are not merely technical/infrastructural. There may be other subtleties, such as when a bank and a non-bank enter into a co-branding arrangement for a prepaid instrument, it is certain that the insignia of the bank on the instrument will lend immense credibility (as opposed to say, that of only the non-banking entity), and will form a basis for the customer's decision-making. The customer will naturally begin to view the instrument as possessing the robustness, security, and oversight associated with banks. It is intuitive that in such cases, the bank would have a large degree of responsibility for the issuance and operation of the PPI.

A snapshot of compliance to be ensured in the co-branding of PPIs, as per Para 7.11 of the PPI Directions.

Requirement	Particulars
Board Approved Policy	Arrangement shall be as per the Board Approved Policy, which shall capture the roles and responsibilities of the co-branding partners and address the risks associated with the co-branding arrangement (e.g, reputational risks, IT risks, financial risk, if any, etc).
Partner's Credentials	Shall be a company incorporated in India, and may also be a government department or ministry

Due Diligences	The issuer should carry out due diligence on the co-branding partner to protect against reputational risk. Where the entity is a financial entity (such as Banks and NBFCs), approval from the partner’s regulator for entering into such an arrangement should be available.
KYC & AML Compliance	PPI issuers shall abide by the KYC Directions, PML Act and Rules, and maintain a log of the transactions for 10 years whilst filing the Suspicious Transaction Reports (where warranted).
Issuer’s liability	Issuer shall be liable for all acts of the co-branding partner.
Logo Display	The name/logo of the non-issuing partner <i>may</i> be made visible on the instrument; however, the name of the PPI issuer, in any case, <i>should</i> be prominently visible.
Bank & Non-Bank Co-branding	The bank shall be the issuer, and the role of the non-bank entity shall be limited to marketing/distribution/providing access to the PPI. The bank, as the issuer, would also be responsible for all the compliance under the PPI Directions.
Bank-Bank Co-branding	Compliances shall be the responsibility of the PPI issuer.
Non-Bank and Non-Bank co-branding	The co-branding partnership agreement shall clearly indicate which of the entities is the issuer, and the issuer shall be responsible for compliance.

v. Interoperability

The [Bank for International Settlements](#) defines interoperability to mean the technical compatibility that enables payment systems to be used in conjunction with other payment systems, allowing the participants in different systems to conduct, clear, and settle payments and transactions across the systems, without having to participate in multiple systems.¹² This understanding is also largely captured and restated in the PPI Directions.

Without interoperability, promoting the widespread use of PPIs would remain challenging because PPI issuers are unable to create a widespread acceptability network for their consumers, and without the acceptability network, customers are less inclined to use the PPI, and may just settle for cash payments¹³.

¹² Bank for International Settlements Glossary, available at: https://www.bis.org/publ/qtrpdf/r_qt2003c.pdf

¹³ Payments Council of India, ‘Aligning Regulatory Architecture for Prepaid Payment Instruments in India’, available at: https://www.iamai.in/sites/default/files/research/PCI_PPI%20framework.pdf

The PPI Directions therefore place upon full-KYC PPI issuers a mandate to enable interoperability through card-networks in case of a card based PPI, and the UPI network in case of e-wallets, and prescribe various compliances in this regard.

III. A snapshot of *other* pre- and post-approval compliance for non-bank issuers

Having thus far evaluated whether the PPI proposed to be issued comes under the ambit of RBI regulation, or is excluded, and the sub-type of PPI desired to be issued, the prospective issuers may now take note of the *other* pre- and post-approval compliances applicable to such issue.

Kindly note that the snapshot presented below is merely for the purposes of providing an *overview* of pre- and post-approval compliances and is not intended to be exhaustive or granular in nature.

1. Pre-approval compliances	
Requirement	Particulars
Incorporation & Constitutional Documents	Shall be a company incorporated in India under the Companies Act 2013, and the Memorandum of Association shall cover the activity of proposed PPI issuance.
Capital Requirements	<p>Minimum positive net-worth of ₹5 crore at the time of application. By the end of the third financial year from the date of final authorisation, the minimum positive net-worth achieved shall be ₹15 crore.</p> <p>The net worth certificate shall be submitted every year as per the specified format (in Annex-2 of the PPI Directions) as per the audited balance sheet of the financial year (FY), within 6 months of the FY's completion.</p>
How should the application be made?	As per Form-A as prescribed under Regulation 3(2) of the Payment and Settlement Systems Regulation, 2008.
Declaration and undertaking to be submitted by directors	To be submitted as per Annex-3 of the PPI Directions.
Once the Certificate of Authorisation (CoA) has been granted	Business should commence within 6 months, failing which the authorisation would lapse (however, entities may make an application for a 6-month extension, which RBI reserves the right to decide upon).
2. Post-approval compliances	
Requirement	Particulars

Proposed major changes	Any proposed “major changes” in the product features, structures, or operation of the payment system should be communicated to the RBI.
Takeover/ change in control and management/ acquisitions	Should be communicated to the regulator within 15 days.
Anti-money laundering and KYC	The provisions of the KYC Directions shall be applicable mutatis mutandis to PPI issuing entities. Further, a log of transactions undertaken using the PPI shall be maintained for at least 10 years.
Board Approved Policies	Shall have board-approved policies in place for (i) issuance of various types/ categories of PPIs; (ii) achieving interoperability; and (iii) Information security.
Reliance on third-party services	Banks are permitted to rely upon Business Correspondents (BC) for reloading, subject to compliance with the BC guidelines of the RBI.
Maintenance of funds in an escrow account	Non-bank issuers maintain their funds in an escrow with a Scheduled Commercial Bank.
Permitted debits and credits	The permitted debits and credits need to be as specified by the regulations.
Validity of the instrument	PPIs to have a minimum validity period of one year from the date of last loading/reloading in the PPI. Post the expiry, in case the customer approaches the issuer for a refund of the monies stored, the same shall be remitted to their <i>bank account</i> .
Notice prior to the expiry date	Issuers shall caution the PPI holder at reasonable intervals, during the 45-day’ period prior to expiry of the validity period of the PPI. The caution advice shall be sent by SMS/e-mail / any other means in the language preferred by the holder indicated at the time of issuance of the PPI.
Refunds	Shall be applied to the respective PPI immediately, even if it results in exceeding the limits prescribed for that type/ category of PPI. Complete details of such refunds should be maintained. The issuer should also monitor if there are frequent instances of returns taking place in their PPI.
Security, fraud prevention, and risk management	The issuer shall put in place adequate information and data security infrastructure and systems for the prevention and detection of fraud (including a board-approved policy for information security). Further, it shall be ensured that the <i>minimum</i> risk-management and security measures captured in the regulation (Para 15.3) are adhered to.
Communications to customers, and customer protection	The important terms and conditions regarding the instrument shall be disclosed to the customer in plain and simple language, and shall include a clear description of the fees and charges, expiry terms, and conditions.

	<p>Further, an option may be provided to the customers to receive an account statement of transactions for the past 6 months (at a minimum), and in any case, it shall be ensured that the transaction history of the least 10 transactions is provided.</p>
Grievance Redressal Framework & Ombudsman	<p>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 turnaround times for complaint resolution.</p> <p>Even in the case of co-branded arrangements, the ultimate responsibility for grievance redressal shall rest with the issuer.</p> <p>Moreover, in case banks and non-bank issuers, customers shall have recourse to the Reserve Bank, Integrated Ombudsman Scheme, 2021.</p> <p>It shall be ensured that the complaints received are also reported to the RBI, in the specified timelines and format.</p>
Fair Practices	<p>In addition to the above, the issuer is required to ensure transparency in pricing and the charge structure by disclosing the charges for various types of transactions on its website, ensuring uniformity of charges at an agent level, acknowledging customer payments through a receipt, etc.</p>
Information System Audits	<p>Bank issuers shall be guided by the extant RBI instructions relating to the cybersecurity framework for banks, and non-bank issuers shall ensure submission of a Systems Audit Report (SAR) to the RBI, including a cybersecurity audit conducted by a CERT-IN empanelled auditor, within 2 months of the Financial Year's close.</p>
Actionables for the issuer relating to limiting the customer's liability	<p>Bank issuers are to be guided by the extant instructions regarding the limitation of the customer's liability in electronic transactions. Non-bank issuers have to ensure that their customers register for SMS transaction alerts (so they are apprised in case there is an unauthorised use). Moreover, the customers should be provided with a phone number or email for the purposes of flagging a transaction, and to this extent, shall also be provided with a 24/7 toll-free helpline and a direct link for lodging complaints.</p> <p>The customer should promptly receive a receipt for the complaint lodged, and the issuer should immediately pursue remedial measures to prevent further unauthorised use of the PPI.</p>