



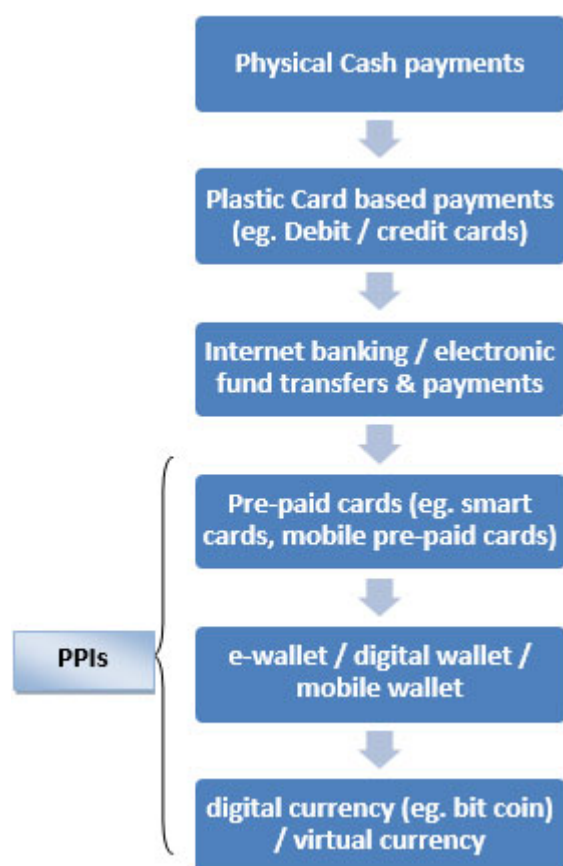
Prepaid Payment Instruments (PPIs)

Why in news?

Recently, National Payments Corporation of India (NPCI) has introduced interchange fees of up to 1.1% on merchant UPI transactions done using prepaid payment instruments.

What are Prepaid Payment Instruments (PPIs)?

- **PPI** - Prepaid payment instruments are payment instruments that facilitate purchase of goods and services against the value stored on such instruments.
- PPIs can **only be used in Indian rupees**.
- PPIs can be in the form of mobile wallets, physical smart cards, secure tokens, vouchers or any other method that allows access to prepaid funds.



Classification	Description
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Closed System Payment Instruments	<ul style="list-style-type: none"> • Generally issued by business establishments for use at their respective establishment only. • Do not permit cash withdrawal or redemption. • RBI approval is not required for issuing them. • Eg. Web portals for online shopping - Make my Trip, Flipkart, etc. run wallets for its customers
Semi-Closed System Payment Instruments	<ul style="list-style-type: none"> • Redeemable at a group of clearly identified merchant locations/ establishments which contract specifically with the issuer to accept the payment instrument. • Do not permit cash withdrawal or redemption by the holder.
Semi-open System Payment Instruments	<ul style="list-style-type: none"> • Used for purchase of goods and services at any card accepting merchant locations (Point of sale terminals). • Do not permit cash withdrawal or redemption by the holder.
Open System Payment Instruments	<ul style="list-style-type: none"> • Payment instruments which can be used for purchase of goods and services and also permit cash withdrawal at ATMs

- **Issuing PPI** - Banks and Non-Bank Finance Companies (NBFC), who comply with the eligibility criteria, would be permitted issue prepaid payment instruments.
- Only banks which have been permitted to provide Mobile Banking Transactions by the RBI shall be permitted to launch mobile based prepaid payment instruments (mobile wallets & mobile accounts).
- Other entities would be permitted to issue only closed system prepaid payment instruments and semi-closed system prepaid payment instruments.

Mobile Prepaid Instruments - The prepaid talk time issued by mobile service providers.

What is PPI interoperability?

- **Interoperability** - It is the technical compatibility that enables a payment system to be used in conjunction with other payment systems.
- **PPI interoperability through UPI** - After the RBI has mandated interoperability among different PPI issuers, they tied up with National Payments Corporation of India (NPCI) for issuing
 - Interoperable RuPay PPI cards or
 - Creating interoperable wallets on UPI rails
- The user can now send/receive money to any other wallet user. Similarly, a merchant with any UPI QR code can now accept payments from any PPI issuer or mobile wallet.
- **Advantages** - PPI on UPI will speed up the growth of merchant transactions in rural areas and further deepen digital financial inclusion.
- It will enable universal acceptance of wallets across all UPI QR codes and devices, thus increasing the salience or relevance of wallets.

What are the recent changes made by NPCI?

- The interchange rates vary according to merchant category codes, in the range of **0.5% to 1.1%**.

- The charges are applicable if the transaction is ***more than Rs. 2,000.***
- Charges are applicable only if a person have accepted or consented to the transactions made using ***PPI Wallet*** (No charge for merchant accepting UPI payments from a customer's bank account).
- It also include charges for *UPI-wallet-loading* that will be paid by wallet issuers to remitter banks or the bank accounts from which the amount is being debited.

Interchange fee

- It is a fee charged by the receiver bank/payment service provider to the merchant.
- The PPI owner will receive the applicable interchange fee from the merchant.
- The interchange fee is usually levied to cover the cost of accepting, processing and authorising the transaction.
- Users will not be charged for these transactions.

What will be the impact of the change?

- **On merchants** - Smaller merchants and shopkeepers are unlikely to be impacted as it is applicable only on payments of over Rs. 2,000.
- However, MDR (merchant discount rate) is applicable on wallets on UPI in certain cases and this move may lead to higher MDRs imposed on merchants.
- This may subsequently impact merchants' ability to absorb the higher costs.
- Currently, MDR for bank-to-bank UPI transactions is zero.
- **On customers** - Officially there are no charges to be paid by the customer. However, merchants may pass on the additional burden to customers by way of price increases or some other means

A merchant discount rate, or MDR, is a rate charged to a merchant for the payment processing of debit and credit card transactions.

Quick facts

National Payments Corporation of India (NPCI)

- It is an umbrella organisation for operating retail payments and settlement systems in India.
- It is an initiative of RBI and Indian Banks' Association (IBA) under the provisions of the Payment and Settlement Systems Act, 2007, for creating a robust Payment & Settlement Infrastructure in India.
- It has been incorporated as a "Not for Profit" Company under the provisions of Section 25 of Companies Act 1956 (now Section 8 of Companies Act 2013).
- **Aim** - To provide infrastructure to the entire Banking system in India for physical as well as electronic payment and settlement systems.

Initiatives of NPCI

- **RuPay** - Indigenously developed Payment System
- **Immediate Payment Service (IMPS)** - For real time payments in retail sector.
- **National Automated Clearing House (NACH)** -Offline web based system for bulk push and pull transactions.
- **Aadhaar Payment Bridge (APB) System** - helps Government in making the Direct Benefit Transfers
- **Aadhaar enabled Payment System (AePS)** - To access these funds at door step & drive the financial inclusion in India.
- **National Financial Switch (NFS)**- Largest network of shared Automated Teller Machines (ATMs) in India facilitating interoperable cash withdrawal, card to card funds transfer and interoperable cash deposit transactions.
- **Unified Payments Interface (UPI)**- A 24*7 payment system which allows instant money transfer money to any bank account
- **Bharat Bill Payment System (BBPS)** - One-stop bill payment solution for all recurring payments
- **National Electronic Toll Collection (NETC)**- To meet the electronic tolling requirements of the Indian market.

References

1. [The Hindu| PPI Interoperability](#)
2. [The Hindu Business Line|PPI](#)
3. [RBI | Guidelines on PPI](#)
4. [Arthapedia | PPI](#)



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