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
Closed System Payment Instruments	• 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	• 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	• 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	• 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

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