



IAMA Comments on the Second Draft Guidelines for issuance and operation of Prepaid Payment Instruments in India

A. Purpose

To provide a framework for the regulation and supervision of all the entities involved in issuance of Prepaid Payment Instruments in the country and to ensure orderly development of this segment of the payments and settlement system in a prudent and customer friendly manner.

B. Scope

These guidelines lay down the eligibility criteria and the basic conditions for issuance of prepaid payment instruments in the country. All entities seeking to issue prepaid payment instruments in India shall comply with these guidelines.

All non-bank entities proposing to issue such instruments, unless otherwise specifically exempted as per the guidelines, shall seek authorization from the Reserve Bank of India, under the Payment and Settlement System Act 2007.

Banks and Registered Non-Bank Financial Companies seeking to issue such instruments shall seek approval from the Department of Payment and Settlement Systems, Reserve Bank of India. All entities currently issuing such instruments shall comply with the guidelines within three months from the date of issuance of these guidelines.

C. Structure

1. Introduction
2. Definitions
3. Eligibility
4. Exemption
5. Capital requirements
6. Safeguards against money laundering KYC/AML/CFT provisions
7. Deployment of Money collected
8. Issuance and reloading of prepaid payment instruments
9. Validity
10. Redemption
11. Fraud prevention and Security standards
12. Customer Protection Issue

1. Introduction

1.1 Banks and non-bank entities have been issuing prepaid payment instruments in the country. Hitherto only banks proposing to issue prepaid payment instruments were approaching Reserve Bank for authorization. Consequent to the passing of Payment and Settlement systems, Act 2007, all non-bank entities currently issuing prepaid payment instruments and those proposing to issue such payment instruments would have to approach Reserve Bank for authorization. In the emerging scenario, it is imperative to have a set of guidelines for prepaid payment instruments that would cover both banks and non-bank entities, to ensure orderly development and operations of prepaid instruments in the



country. Reserve Bank of India has therefore has brought out these set of operating guidelines. These guidelines lay down the eligibility criteria and the basic conditions for issuance of prepaid payment instruments in the country.

2. Definitions

2.1 Issuer: Entities issuing prepaid payment instrument to individuals/organizations. The money collected is retained by these entities and they make payment to the merchants who are part of the acceptance arrangement directly or through a settlement arrangement.

2.2 Holder: Individuals/Organizations who acquire prepaid payment instruments for purchase of goods and services.

2.3 Prepaid Payment Instruments: Prepaid payment instruments are payment instruments that facilitate purchase of goods and services against the value stored on such instruments. The value stored on such instruments represents the value paid for by the holder, by cash, by debit to a bank account, or by credit card.

The Prepaid instruments can be issued as smart cards, magnetic stripe cards, internet accounts, internet wallets, mobile accounts, mobile wallets, paper vouchers and any such instruments which can be used to access the prepaid amount (collectively called Payment Instruments hereafter). The prepaid payment instruments that can be issued in the country are classified under the four categories viz. (i) Closed system payment instruments (ii) Semi-Closed system payment instruments (iii) Semi-Open system payment instruments and (iv) Open system payment instruments.

In cases where distributors advance account in principal's book, in which distributor deposits amounts in principal's account for taking/availing goods and services of principal, will these trade/distributors' accounts be exempt from the definition of Prepaid Payment instrument above?

2.4 Closed System Payment Instruments: These are payment instruments generally issued by business establishments for use at their respective establishment only. These instruments do not permit cash withdrawal or redemption.

2.5 Semi-Closed System Payment Instruments: These are payment instruments which are redeemable at a group of clearly identified merchant locations/ establishments which contract specifically with the issuer to accept the payment instrument. These instruments do not permit cash withdrawal or redemption by the holder.

If the list has pre specified merchant locations, who accept certain number of point of sale terminals [POS] will they qualify for the same?

2.6 Semi-open System Payment Instruments: These are payment instruments which can be used for purchase of goods and services at any card accepting merchant locations (Point of sale terminals). These instruments do not permit cash withdrawal or redemption by the holder.

2.7 Open System Payment Instruments: These are payment instruments which can be used for purchase of goods and services and also permit cash withdrawal at ATMs.



For banks not having ATM facility and for all NBFCs without ATM facilities, but having authorized agent network, can they provide cash withdrawal options through these branches and their authorized agent networks?

2.8 Mobile Prepaid Instruments: The prepaid talk time issued by mobile service providers. This value of talk time can also be used for purchase of 'value added service' from the mobile service provider or third-party service providers.

The term "Mobile Payments" should be restricted to only SMS, USSD & "on device Java/Brew Client". Because using standard GPRS or CDMA data access methods, a customer can connect laptop and surf all web sites. There is no technological mechanism to regulate such transactions as "Mobile Payments" transactions. Similarly, with most new mobiles, there is a full web surfing facility available and by going to any website a customer can do any transactions.

2.9 Net Owned Funds: For the purpose of these guidelines "Net owned Fund" (NOF) will consist of paid up equity capital, free reserves, balance in share premium account and capital reserves representing surplus arising out of sale proceeds of assets but not reserves created by revaluation of assets. From the aggregate of items will be deducted accumulated loss balance and book value of intangible assets, if any, to arrive at net owned funds. The NOF should be computed on the basis of last audited Balance Sheet and any capital raised after the Balance Sheet date should not be accounted for while computing NOF.

- *Semi Closed entities issuing only close and semi-close ended products should be exempted from NOF provisions for at least first ten years.*
- *The intangible assets should not be deducted in calculation of NOF post ten years as the payment instrument issuer companies will have majority of assets in the form of intangible assets and hence at any time it will have a negative effect on the functioning of the company*

3. Eligibility

3.1 Banks and Non-Bank Finance Companies (NBFC), who comply with the eligibility criteria, would be permitted issue all categories of prepaid payment instruments.

Which specific categories NBFC companies can issue prepaid payment instruments. Or can any NBFC company can issue the same?

3.2 Only banks which have been permitted to provide Mobile Banking Transactions by the Reserve Bank of India shall be permitted to launch mobile based prepaid payment instruments (mobile wallets & mobile accounts).

Mobile Accounts having user-ID/account no = Mobile number, simplify user's ability to transact using the password. Mere usage of Mobile no as Account no, does not render the transaction as mobile payments. Customer on internet also uses used-id as Mobile



number. As a consequence, using mobile number as account number, i.e. "Mobile Accounts" should be excluded from the term "Mobile Payments"

3.3 Other entities would be permitted to issue only closed system prepaid payment instruments and semi-closed system prepaid payment instruments.

We suggest that non banking entities should be allowed to issue Semi-open system payment instruments, as majority of the retailers is accepting cash in the current scenario. Also, at present there are only 5 Lakh POST machines out of 15 million retailers in the country. This will help in increasing more penetration of POS machines in the country and thus increase cashless transactions by common man in the country like most of the Asian countries.

3.4 Mobile Prepaid value: Mobile Service Providers are permitted to issue mobile prepaid value. In addition to talk-value the use of such prepaid value as a payment instrument shall be restricted to the purchase of only such value added digital contents/services which are for use on the mobile phones. The use of mobile prepaid value for purchase of other goods and services shall not be permitted.

Can Banks launch mobile pre-paid instruments in association with mobile service providers for enabling purchase of goods and services from the pre-paid talk value loaded on pre-paid phones for SERVICES related to Mobile Telephony only or even MOBILE MALLs selling goods like tickets/flowers etc.?

4. Exemption

4.1 Entities issuing closed system Prepaid payment instruments are exempted from the purview of the guidelines and need not seek authorization from Reserve Bank of India, for issuance of such payment instruments subject to the following:

- i) A closed system payment instrument shall have a maximum value of Rs 5000/- only.
- ii) These instruments cannot be used for purchase of another prepaid payment instrument.
- iii) Amounts collected under the scheme shall be exempt from the provisions of paragraph 7 below, provided the value of outstanding instruments does not exceed Rs 50 Lakhs or 10% of the issuers' 'net owned funds', whichever is lower.

In our view the prescribed limit is too low. We suggest that the limit should be 50 million or 10% of the issuers' 'net owned funds', whichever is higher.

iv) Entities issuing such instruments shall inform Reserve Bank of India when they start operating such schemes.

v) A half yearly audited statement shall be submitted to the Reserve Bank by such entities indicating the total value of instruments issued during the period and the value outstanding as at the end of the period. It shall be accompanied by a certificate from the Statutory Auditors stating that the company complies with the provisions of paragraph 4.1(iii) above.



In our view the time period to submit the Audited Statement and Certificate from Statutory Auditors needs to be specified which should ideally be 60 days from the end of the half-year in line with SEBI Guidelines.

4.2 Foreign Exchange Prepaid Payment Instruments: Entities authorized under FEMA to issue foreign exchange prepaid payment instruments are exempt from the purview of these guidelines. The use of such payment instruments shall be limited to permissible current account transactions and subject to the prescribed limits under the Foreign Exchange Management (Current Account Transactions) Rules, 2000, as amended from time to time.

4.3 Mobile Prepaid Instrument: Mobile Prepaid Instruments are exempt from purview of the guidelines, subject to the following conditions:

- i) In addition to talk time-value the use of such prepaid instrument shall be restricted to the purchase of only such value added digital contents/services which are for use on the mobile phones.
- ii) The use of mobile prepaid instruments for purchase of any other goods or services shall not be permitted.
- iii) Encashment of such prepaid instruments shall not be permitted.

In our view any other entity, like Mobile Prepaid Operators, who comply with the above mentioned clauses and which are governed by an existing regulatory body at the center government level, should also be exempt from the purview of these guidelines, subject to the above mentioned conditions.

5. Capital requirements

5.1 Only banks and Non-Bank Finance Companies complying with the Capital Adequacy requirement prescribed by Reserve Bank of India from time-to-time shall be permitted to issue prepaid payment instruments.

5.2 All other entities shall have minimum net owned funds of Rs 10 Lakhs.

For non bank entities, we recommend to prescribe either Escrow requirements OR NOF but NOT BOTH.

6. Safeguards against money laundering KYC/AML/CFT provisions

6.1 The guidelines on Know Your Customer/Anti-Money Laundering/Combating Financing of Terrorism guidelines issued by the Reserve Bank of India to banks, from time to time, shall apply *mutatis mutandi* to all entities issuing prepaid payment instruments. Necessary systems shall be put in place to ensure compliance with these guidelines.

6.2 The use of prepaid payment instruments for cross border transactions shall not be permitted except for the payment instruments provided at paragraph 4.2 of the guidelines.

6.3 The maximum value of any prepaid payment instrument (where specific limits have not been prescribed) shall not exceed Rs 50,000/-.

(i) Can an entity issue a single card of Rs. 50,000, whether with/without KYC? If with KYC, which KYC Guidelines to follow?



(ii) For B2B services, where KYC is followed, this limit is too low. What is the solution for B2B cases?

(iii) Is the limit of Rs 50,000/- an annual or a one time limit?

(iv) Where full KYC is maintained (including PAN no.), the limit should be much higher.

6.4 Exemption/relaxation from the provision of KYC requirements are available only in the following cases:-

i) Semi-Closed System Payment Instruments up to Rs 1000/- may be issued without any KYC subject to reporting of annual turnover/suspicious transactions. The issuer should ensure that, under no circumstance, more than one card is issued to the same person.

Need more clarity and discussion on this.

Clause 6.4 (i) - If KYC requirements is exempted for Semi-Closed System upto Rs. 1,000/- subject to non issuance of more than one card to a person. Two points:-

a. Time limit is not defined. Does the clause means, if a semi closed instrument is issued to a person in month/day/year 1 then even in month/day/year 5 it cannot be issued.

Since upto Rs 1000 payment instrument, no KYC is required, it should be independent of access method (mobile or internet) used. This means that using payment instrument of Rs 1000 or lower should be allowed via both mobile and internet channel.

ii) Prepaid payment instruments up to Rs 5000/- can be issued by accepting any 'Government issued Identity Cards' as proof of identity. Such instruments shall not permit cash withdrawal.

Can these cards be reloadable above Rs 5000/- and what should be one time reload limit and annual limits. For KYC including PAN, can the reloadable limit be increased?

For cards initially issued for the amount upto Rs 1000/-, in lieu of Government issued identity cards and other KYC documents as prescribed by RBI, can money transfer to the reloadable prepaid payment instrument from customer's bank account/credit card be considered as adherence to KYC norms? (This action is like withdrawing cash from ATM which are KYC account.)

iii) Semi-closed Prepaid payment instruments which permit only payment of utility bills/ essential services up to a limit of Rs 10,000/- can be issued without any KYC being undertaken by the issuer. The entities issuing such instrument may ensure that these instruments are made acceptable only at institutions which maintain the identity of the customers. The utility bills/ essential services shall include only Electricity bills, water bills, telephone/mobile phone bills, and insurance premium, cooking gas payments, ISP for Internet/Broadband Connections, Cable/DTH subscriptions and Citizen Services by Government or Government bodies.



The essential services should include “Public Transport Services” including India Railways ticketing (IRCTC).

The monetary limit for the semi closed prepaid instruments which permit payment of only utility bills and essential services should be 20,000/- without KYC norms.

iv) Entities issuing prepaid payment instruments to institutions/companies for further issuance by these institutions/companies to their employees or other beneficiaries may ensure that these institutions/companies maintain the full details of the employees or beneficiaries to whom such payment instruments are issued. The value of individual payment instrument shall not exceed Rs 5000/-. Such instruments shall not permit cash withdrawal.

6.5 Entities issuing prepaid payment instruments shall maintain a log of all the transaction undertaken using these instruments. These data should be available for scrutiny by the Reserve Bank or any other agency / agencies as may be advised by the Reserve Bank. These entities should also file Suspicious Transaction Report (STR) to Financial Intelligence Unit - India (FIUIND).

Frequency of filing STR needs to be prescribed (annual/half-yearly).

7. Deployment of Money collected

7.1 The outstanding amount (float money) at a point of time could be substantial. Further, the turnover of funds may also be rapid. The confidence of public and merchant establishments on prepaid instrument schemes depends on the timely settlement of claims arising from use of such instruments. To ensure timely settlement, the issuers shall invest the funds collected only as provided here-in.

7.2 For schemes operated by banks and non-bank financial companies, the outstanding balances shall be part of the net demand and time liabilities for the purpose of maintenance of reserve requirements. This position will be computed on the basis of the balances appearing in the books of the bank as on the date of reporting.

7.3 Other entities issuing payment instruments (except those exempted from the purview of the guidelines) are permitted to maintain their outstanding balance in an escrow account with any scheduled commercial bank subject to the following conditions:

We believe this Escrow policy is to protect the financial interest and safety of the end consumer. Therefore, our understanding of the outstanding value is the unutilized amount which is issued in the hands of the instrument holder (Consumer) and not the amount lying between the instrument issuer and the trade channel.

The Reserve Bank should permit the issuers to maintain escrow account with more than one bank. Otherwise the efficiency and settlement might get affected.

For a closed ended payment instruments, not qualifying for the exemption, should have a liberal escrow requirement as against 100% as in case of other instruments.



Other entities issuing prepaid payment instruments should be allowed to maintain up to 50% of their outstanding balance in an escrow account.

The existing players should be given certain time limit to deposit the outstanding balance in escrow account.

i) NO interest is payable by the bank on such balances.

It should be left to entities and banks to decide whether nominal interest can be paid on the escrow accounts as per the normal bank rate or as mutually agreeable between bank and the specific entity.

ii) A quarterly certificate from the auditors shall be submitted certifying, the entity has been maintaining adequate balances in the account to cover the outstanding volume of payment instruments issued.

The Reserve Bank should prescribe the time limit within which such quarterly certificate is to be submitted. Ideally, this quarterly certificate should be submitted within a period of 60 days from end of every quarter in line with SEBI Guidelines for all listed Companies.

iii) The entity shall also submit an annual certificate, as above, coinciding with the accounting year of the entity to the Reserve Bank of India.

The Reserve Bank should prescribe the time limit within which such annual certificate is to be submitted. Ideally, this annual certificate should be submitted within a period of 90 days from end of the financial year.

iv) Adequate records indicating the daily position of the value of instruments outstanding *vis-à-vis* balances maintained with the banks in the escrow accounts shall be made available for the scrutiny to the Reserve Bank or the bank where the account is maintained on demand.

7.4 As an exception to the above, an entity can enter into agreement with the bank where escrow account is maintained, to transfer "core portion", of the amount in the escrow account to separate account on which interest is payable, subject to the following:-

i) The bank shall satisfy itself that the amount deposited represents the "core portion" after due verification of necessary documents.

ii) The amount shall be linked to the escrow account, i.e. the amounts held in the interest bearing account shall be available to the bank, to meet payment requirements of the entity, in case of any shortfall in the escrow account.

iii) This facility is permissible to entities who have been in business for at least **ONE YEAR** and whose accounts have been duly audited for the full accounting year.

iv) **NO LOAN** is permissible against such deposits. Banks shall not issue any deposit receipts or mark any lien for the amount held in such form of deposits.



8. Issuance and reloading of Prepaid Payment Instruments

8.1 All entities issuing prepaid payment instruments are permitted to issue reloadable or on reloadable prepaid payment instruments.

8.2 Reloading of closed system payment instruments would be permitted at the retail agents and issuers outlets against cash/debit cards/credit card.

Semi Closed system payment instruments should be permitted to reload at retail outlets of the issuers.

8.3 Banks and NBFCs are permitted to issue and reload such payment instrument at their branches against payment by cash/debit to bank account/credit card. Banks are permitted to issue and reload of such payment instruments through their business correspondents appointed as per the guidelines in this regard issued by the Reserve Bank.

8.4 Other entities shall be permitted to issue and reload such payment instrument through their outlets or through agents by payment by cash/debit to bank account /credit card subject to the following conditions:-

- i) The issuer may carryout proper due diligence of the entities appointed as authorized agents for sale of such instruments.
- ii) The issuer shall be responsible for all their payment instruments issued by the appointed agents.
- iii) The prepaid payment instrument issuers shall be responsible as the principal for all acts of omission or commission of their agents.
- iv) The sale/reloading by cash at the agent locations shall be restricted to the value of Rs 5000/-.

9. Validity

9.1 All prepaid payment instrument issued in the country shall have a minimum validity period of six months from the date of activation/issuance to the holder.

There should be maximum validity period of prepaid instrument, say one year.

9.2 In the case of non-reloadable prepaid payment instruments, the transfer of outstanding amount at the expiry of the payment instrument to a new similar payment instrument of the same issuer, purchased by the holder may permitted.

9.3 The outstanding balances in any payment instrument shall not be terminated immediately at expiration, of the instrument. The value may be depleted at the rate of 10 percent of the outstanding value per month. The holders may also be adequately cautioned in advance as regards the expiry of the validity of the payment instrument.

Our understanding is that the 10% is flat rate in equal installments over 10 months.

10. Redemption



10.1 The issuers of such instruments shall not dishonor customer instructions for payments/transfers of money, at approved locations, if there is sufficient balance outstanding against the instrument.

10.2 The holders of prepaid payment systems other than open-system payment instruments shall also be permitted to redeem the balance outstanding within the expiry date, if for any reason, the scheme is being wound-up or directed by the Reserve Bank to be discontinued.

10.3 Where redemption is provided as at 10.2 above, the redemption value shall not be in excess of the amount outstanding or the face value (loading limit) for the instrument.

11. Fraud prevention and Security standards

11.1 The prepaid payment instruments issuers shall put in place adequate information and data security infrastructure, and systems for prevention and detection of frauds. It is advisable to build a centralized database to prevent multiple purchase of payment instruments at different locations, leading to circumvention of limits if any prescribed for such payment instruments.

12. Customer Protection Issue

12.1 All Prepaid payment instruments issuers shall disclose all important terms and conditions in clear and simple language (preferably in English, Hindi and the local language) comprehensible to the instrument holder while issuing the instruments. These disclosures shall include:

- i) All charges and fees associated with the use of the instrument.
- ii) The expiry period and the terms and conditions pertaining to expiration of the instrument.
- iii) The customer service telephone number and website URL.

12.2 An effective mechanism for redressal of customer complaints shall be put in place by the entity issuing prepaid payment instruments.

Annexure:

Instrument Type	KYC defined	Recommendations/Clarity Sought
Closed	NA-subject to certain conditions	Nil
Semi closed	Upto Rs 1000-without any KYC - also only card to be issued to the same person Up-to Rs 5,000 - KYC will be Govt ID card	Rs 5000/- Request further clarity on limits- 1. the limit at any point in time or per load or total lifetime limits on a single card 2. Does this mean that Bank can issue 1 card to 1 person at any point of time and once that card is closed/expired, another card can be issued to the same person
Semi-open	Existing KYC-mutatis mutandi	Need clarity on whether complete ID, Signature and address proof is required - especially because most pre-paid cards are



		<p>handed over across the counter- hence ID proof is the bare minimum necessity - for all other cards which are couriered to the card holder - we can look at ID and address proof.</p> <p>Signature proof requirement may be relaxed especially to the illiterate or unbanked.</p>
Open	Existing KYC-mutatis mutandi	Same as semi-open cards
General - cards issued to institutions/corporations	<p>Banks to ensure full details of the employees / prospective card holders is maintained by corporates</p> <p>The value of these instruments shall not exceed Rs 5,000 and shall not permit cash withdrawal</p>	<p>We need clarity on what details are to be ensured by the institution/corporate. Eg. Employee Address, DOB, PAN etc And in case such details are maintained by the corporate - is there any minimum document to be collected by the Bank.</p> <p>Further the limit is very less and blocking cash withdrawal will block out low value salary accounts (retail industry, security agencies, telecom, KPOs/BPOs) from using this platform - we suggest that this value to be Rs 15,000 per load with max value at any point of time on the card to be Rs 50,000 and ATM withdrawal should be allowed.</p>