

April 27, 2009

Issuance and Operation of Pre-paid Payment Instruments in India (Reserve Bank) Directions, 2009

Reserve Bank of India having been satisfied that for the purpose of enabling it to regulate the issue and operation of Pre-paid Payment Instruments and in public interest it is necessary so to do, in exercise of the powers conferred by section 18 of the Payment and Settlements Systems Act, 2007 (Act 51 of 2007) and of all the powers enabling it in this behalf, lays down the policy relating to the regulation of the issue and operation of pre-paid instruments in India and gives to every system provider, system participant and any other person proposing to issue pre-paid payment instruments, the directions as specified in the Annex hereto.

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Chief General Manager

Annex

Policy Guidelines for issuance and operation of Pre-paid Payment Instruments in India

A. Purpose

To provide a framework for the regulation and supervision of persons operating payment systems involved in the issuance of Pre-paid Payment Instruments in the country and to ensure development of this segment of the payment and settlement system in a prudent and customer friendly manner. For the purpose of these guidelines, the term 'persons' refers to 'entities' authorized to issue prepaid payment instruments and entities proposing to issue pre-paid payment instruments.

B. Scope

These guidelines lay down the **eligibility criteria and the basic conditions** for payment systems operators involved in the issuance of Pre-paid Payment Instruments in the country. All persons seeking to operate payment systems involved in the issuance of Pre-paid Payment Instruments in India shall comply with these guidelines.

All persons proposing to operating payment systems involved in the issuance of Pre-paid Payment Instruments shall seek authorization from the Department of Payment and Settlement Systems, Reserve Bank of India, under the Payment and Settlement System Act 2007.

All persons currently operating such payment systems shall comply with the guidelines within three months from the date of issuance of these guidelines.

C. Structure

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1. Introduction

1.1 Banks and non-bank entities have been issuing pre-paid payment instruments in the country. Hitherto only banks proposing to issue pre-paid payment instruments were approaching Reserve Bank for authorization. Consequent to the passing of Payment and Settlement systems, Act 2007, all persons currently operating payment systems involved in the issuance of Pre-paid Payment Instruments and those proposing to operate such systems would have to approach Reserve Bank for authorization. In the emerging scenario, it is imperative to have a set of guidelines for pre-paid payment instruments that would cover both banks and non-bank persons, to ensure orderly development and operations of pre-paid payment instruments in the country. Reserve Bank of India has therefore brought out these operating guidelines. These **guidelines lay down the basic eligibility criteria** and the conditions for operating such payment systems in the country.

2. Definitions

2.1 Issuer: Persons operating the payment system issuing pre-paid payment instrument to individuals/organizations. The money collected is retained by these persons 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 pre-paid payment instruments for purchase of goods and services.

2.3 Pre-paid Payment Instruments: Pre-paid 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 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 instruments which can be used to access the pre-paid amount (collectively called Payment Instruments hereafter).

The pre-paid payment instruments that can be issued in the country are classified under the three categories viz. (i) Closed system payment instruments (ii) Semi-Closed system payment instruments and (iii) Open system payment instruments.

2.4 Closed System Payment Instruments: These are payment instruments issued by a person for facilitating the purchase of goods and services from him/it. These instruments do not permit cash withdrawal or redemption. As these systems do not facilitate payments and settlement for third party services, issue and operation of such instruments are not classified as payment systems.

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.

2.6 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) and also permit cash withdrawal at ATMs.

2.7 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 so computed, the NOF would be arrived at after deducting the accumulated loss balance and book value of intangible assets, if any. 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.

2.8 All 'limits' in the value of instruments stated in the guidelines, indicate the maximum value of such instruments that can be issued to any customer.

3. Eligibility

3.1 Banks who comply with the eligibility criteria would be permitted to issue all categories of pre-paid payment instruments.

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 pre-paid payment instruments (mobile wallets & mobile accounts).

3.3 Non-Bank Finance Companies (NBFC) and other persons would be permitted to issue only semi-closed system pre-paid payment instruments.

4. Exemption

4.1 **Foreign Exchange Pre-paid Payment Instruments:** Persons authorized under 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. 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.

5. Capital requirements

5.1 Banks and Non-Bank Finance Companies who comply with the Capital Adequacy requirements, prescribed by Reserve Bank of India from time-to-time, shall be permitted to issue pre-paid payment instruments.

5.2 All other persons shall have a minimum paid-up capital of Rs 100 lakhs and positive net owned funds.

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 persons issuing pre-paid payment instruments. Necessary systems shall be put in place to ensure compliance with these guidelines.

6.2 The use of pre-paid payment instruments for cross border transactions shall not be permitted except for the payment instruments provided at paragraph 4.1 of the guidelines.

6.3 The maximum value of any pre-paid payment instrument (where specific limits have not been prescribed including the amount transferred as per paragraph 9.2) shall not exceed Rs 50,000/-.

6.4 The following types of pre-paid payment instruments can be issued on carrying out Customer Due Diligence as detailed:-

(i) Semi-Closed System Payment Instruments up to Rs 1000/- may be issued against any identity document furnished by the customer subject to reporting of annual turnover/suspicious transactions. It shall be ensured that under no circumstance, more than one active instrument is issued to the same person by the same issuer.

(ii) Pre-paid payment instruments up to Rs 5000/- can be issued by accepting any 'officially valid documents defined under Rule 2(d) of Prevention of Money Laundering Act, as proof of identity. Such instruments shall not permit cash withdrawal.

(iii) Semi-closed Pre-paid 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 persons issuing such instrument may ensure that these instruments are made acceptable only at institutions which maintain the full 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.

(iv) Semi-closed pre-paid payment instruments can be issued to institutions/companies for further issuance by these institutions/companies to their employees or other beneficiaries. Persons issuing such payment instruments shall ensure that these institutions/companies maintain the full details of the employees or beneficiaries to whom such payment instruments are issued. The maximum value such payment instruments that can be issued by the institutions/companies shall not exceed Rs 5000/-.

6.5 Persons issuing pre-paid 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 persons shall also file Suspicious Transaction Report (STR) to Financial Intelligence Unit – India (FIU-IND).

7. Deployment of Money collected

7.1 The money collected against issuance of pre-paid payment instruments 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 pre-paid 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 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 non-bank persons issuing payment instruments are required to maintain their outstanding balance in an escrow account with any scheduled commercial bank subject to the following conditions:-

- i) The amount so maintained shall be used only for making payments to the participating merchant establishments.
- ii) **NO** interest is payable by the bank on such balances.
- iii) 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.
- iv) The entity shall also submit an annual certificate, as above, coinciding with the accounting year of the entity to the Reserve Bank of India.
- v) 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 scrutiny to the Reserve Bank or the bank where the account is maintained on demand.

7.4 As an exception to the above, the 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 persons 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.

Note: For the purpose of these guidelines "Core Portion" may be computed as under:-

Step 1: Compute lowest daily outstanding balance (LB) on a fortnightly (FN) basis, for one year (26 fortnights) from the preceding month.

Step 2: Calculate the average of the lowest fortnightly outstanding balances [(LB1 of FN1+ LB2 of FN2++ LB26 of FN26) *divided by* 26].

Step 3: The average balance so computed represents the "Core Portion" eligible to earn interest.

8. Issuance and reloading of Pre-paid Payment Instruments

8.1 All persons issuing pre-paid payment instruments are permitted to issue reloadable or non-reloadable pre-paid payment instruments.

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

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

- i) The issuer may carry out proper due diligence of the persons 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 pre-paid 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/- per customer.

9. Validity

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

9.2 In the case of non-reloadable pre-paid 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 be permitted.

9.3 The outstanding balance in any payment instrument shall not be forfeited unless holders are cautioned at least 15 days in advance as regards the expiry of the validity of the payment instrument.

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 pre-paid payment instruments systems shall 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 pre-paid 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 by the issuer 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 Pre-paid 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 pre-paid payment instruments.

12.3 In case of pre-paid payment instruments issued by banks, customers shall have recourse to Banking Ombudsman Scheme for grievance redressal.
