



Prepaid Payment Instruments facilitate the hassle free payments against the purchase of goods and services by storing a value.

Prepaid Payment Instruments

E--Newsletter

The recent developments in the technology and considering the ease provided by it in our day to day routine, we are becoming more and more dependent on the technology for everything. From doing the mobile recharges, booking tickets for trains, flights and movies and shopping for clothes, shoes and bags, everything has become online.

These technology driven companies provide a virtual marketplace where one can buy everything online from home appliances to grocery products. This online e-commerce is growing so fast that it is eliminating the traditional way of shopping.

These Companies provide for various options for making the payment online such as net banking, via debit/credit card and pre-paid/mobile wallets. While net banking and paying through debit/credit card is an old method of making the payments, pre-paid wallet is a recent development, which is often mistaken for mobile banking. These mobile wallets are the prepaid instruments which are regulated by RBI. In these wallets user

can store money and can make payment for various goods and services.

Pre-Paid Instruments



These instruments facilitate the hassle free payments against the purchase of goods and services by storing a value. The value is stored in these wallets using credit/debit card or via net banking.

Pre-paid instruments are mainly online wallets where one can store money and later on can pay this money using the same wallet for different services and goods.

Types of Pre-paid Instruments

There are three categories of pre-paid instruments:

Closed Instruments: This instrument is issued by the vendor for making the payment against the goods and services provided by the vendor itself. They do not permit cash withdrawal. For Example: Flipkart wallet, Uber Credits.

Semi-Closed Instruments: This instrument is issued mainly by the e-commerce service providers. Issuer takes money from the consumers and deposit in these wallets and then users use this money to make payment to the merchants. For Example: Paytm, PhonePe, PayPal. They are the leading issuers of semi-closed wallets in India. Money can be paid through these instruments but it cannot be withdrawn.

Open Instruments: Only banks are allowed to issue open instruments. It can be used to withdraw money at ATMs/ Point of Sales (PoS) etc. This instrument is issued only by banks and is used at any merchant for purchase of goods and services, including financial services, remittance facilities, etc.

Recent Developments:



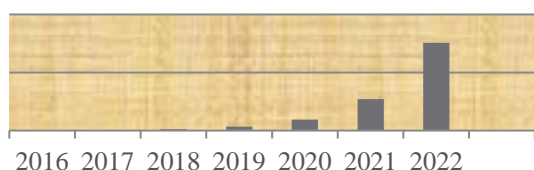
Demonetization drive implemented by Mr Narendra Modi was an exceptional move towards cashless economy. Since then, Indian policy makers and business enterprises are continuously trying to explore the possibility of moving towards a cashless economy. Till the year 2016, cash was the main source to make payment and was accounted for 96% of the monetary transactions in the country. The demonetization move primarily aimed to curb the black money in the economy thereby making it a “cashless economy”.

Post demonetization there is a significant change in the transaction method used by the people across the country. The people now choose to pay through cheques, debit & credit cards and e-wallet. The people have been encouraged to use the digital

platform for sending and receiving the money. Since then many prepaid wallet has been introduced and has grown recently such as Paytm, PhonePe, Ola Money Wallet, and Amazon Pay. The people are using this method of payment to make the transaction quick and hassle free.

Market Size

M-wallet Market (INR Billion), FY 2016 to FY 2022



Source: RBI, RNCOS

The purchase of goods and services, and money transfers against the value stored on the instrument is facilitated by prepaid wallets. The issuer company charges “service charge” for their services provided to the users at a certain percentage of the total value of the transaction. Post demonetization Indian pre-paid wallet market in FY 2016 was around INR 1.54 Billion, and it is expected to grow at a CAGR of 196% during FY

2017 to FY 2022 and will reach INR 1512 Billion by the end of FY 2022.

These E-wallets act as an alternative to traditional and current payment system. These wallets do not offer their services through agents or distributors, but are used directly by individual.

Laws Governing Pre-paid Instruments

The Reserve Bank of India (RBI) is the regulator and issues guidelines to provide a framework for the regulation of payment systems involving the issuance of Pre-paid Payment Instruments (PPIs) in the country. Section 18 of the Payment & Settlement Systems Act, 2007 empowers the RBI to issue the guidelines regarding regulation of payment systems in India. The RBI has issued guidelines on issuance and operation of PPIs in India in April 2009 initially, which have been amended from time to time, considering the developments in the field and the progress made by the PPI issuers.

Only Banks can issue all categories of pre-paid payment instruments in India, whereas Non-Banking Financial Companies (NBFCs) and other companies

are permitted to issue only closed and semi-closed system payment instruments, including mobile phone-based pre-paid payment instruments. All persons, looking to acquire a license for PPI shall have a minimum paid-up capital of INR 5 Crore and minimum positive net worth of INR 1 Crore at all the times. Applicant companies having FDI/FII are also required to meet the minimum capital requirement as applicable under Consolidated FDI policy guidelines of Government of India. Pre-paid wallet License can be obtained by Companies incorporated in India only.

Procedure for setting up of Semi Closed wallets by Companies/ NBFC/Banks as follows:

- NBFC/ Banks/ companies issues a semi closed PPI after getting the necessary authorization from RBI.
- The issuing company is required to open a Bank Account known as “Escrow Account”.
- Escrow Account is opened with any scheduled bank. The PPI holder’s money is saved in this account, and all the transactions are done through this account.

- The escrow account then transfers the amount to the merchant by keeping the mark up of the PPI issuer.

Current Scenario of Non-cash Payment Transactions



There are around 100 million consumers who are using e-wallets as an option to make transaction in India. The following are the non-cash payment instruments in India:

- Debit card
- Credit card
- Cheques and
- Money transfer through NEFT, RTGS

However, the people still prefer to transact either through RTGS transfers or

through cheques. But the youth of the nation is moving towards internet and mobile banking over traditional way of making the payments.

Observation

A full-fledged regulatory framework is provided on pre-paid instruments and online payment systems under the Payments and Settlements Act, 2007. In case of non-compliances, there is a provision for appropriate licenses, dispute settlement mechanism, as well along with the penalties.

The payment transaction system through digital channels, however, is still at a growing stage. Most of the retailers in the small cities do not have POS installations to offer card-based payments and moreover they are reluctant to install the same. However, the demonetization move has led to huge changes in the cashless payment system. More people have started transacting through Cheques, debit and credit cards and through these e-wallets. All merchants whether small or large, street dwellers have started accepting mobile wallet payments.

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