

# UNIT 8 - Prepaid Payment Instruments - Explained



## What are prepaid payment instruments?

Prepaid payment instruments are those which facilitate purchase of goods and services against the value stored on such instruments. Value stored on them is paid by the holder using a medium (cash, debit card, credit card etc).

These are generally issued in the form of smart cards, mobile wallets, paper vouchers, internet accounts/wallets.

## Classification of PPIs

PPIs are usually classified into 5 categories as follows:

### 1. Closed System Payment Instruments

- They are usually **issued by businesses/organizations** for buying their own products or services only. These instruments do not permit cash withdrawal.
- E.g. - Delhi Metro Prepaid card - these can be **used for their respective establishments** only.

### 2. Semi-Closed System Payment Instruments

- These are redeemable at a group of **clearly identified establishments or stores** who enter into a contract with the issuer to accept that as a payment instrument.
- Do not permit cash withdrawal.
- E.g. - Sodexo cards are redeemable at designated stores only.

### **3. Semi-Open System Payment Instruments**

- These payment instruments can be used at **any card accepting point of sale terminals** for purchase of goods and services.
- Do not permit cash withdrawals.
- E.g. - Gift cards

### **4. Open System Payment Instruments**

- They can be used for purchasing goods and services and provide the **option of cash withdrawal** as well from ATMs.
- E.g. Debit cards, Credit cards.

### **5. Mobile Prepaid Instruments**

- The value of talk time issued by mobile service provider can also be used to avail other '**value added services**' from them. E.g. You can use 'Airtel Money' balance to avail caller tune benefits or other packs from Airtel.

#### Who can issue them?

Only those entities who are incorporated in India, have a **minimum paid up capital of Rs. 5 crore** and minimum positive net worth of **Rs 1 crore** at all times are permitted to issue such instruments. They should also be in compliance with capital adequacy requirements of RBI from time to time.

#### Where the money collected can be used?

- For PPIs issued by **SCBs and NBFCs**, outstanding balances are a part of net time and demand liabilities for purpose of maintenance of reserve requirements.

- For PPIs issued by **other entities**, outstanding balances are to be maintained in an **escrow account (non-interest bearing)** account with any SCB.
- Entities who have been into business for **>1 year** & whose accounts have been duly audited for a full accounting year can keep their these funds in an interest bearing account. But no loan can be given against such interest bearing deposit.

## Validity

All PPIs issued in the country shall have a **minimum validity period of 6 months** from date of issuance or activation.

## RBI's move after Demonetization

RBI in Nov, 2016 doubled the limit of prepaid payment instruments limit to **Rs 20,000** from earlier limit of Rs 10,000 to facilitate digital transactions. Balance in such PPIs can not exceed Rs 20,000 at one point of time.