

## Approach Paper on Pre-paid payment instruments

### **1. Introduction.**

1.1 Consequent to the Payment and Settlement systems, Act 2007 coming into effect from August 12, 2008, all non-bank entities currently issuing pre-paid payment instruments and those proposing to issue such instruments would have to approach RBI for authorization. Hitherto only banks proposing to issue pre-paid cards were approaching RBI for authorization. In the emerging scenario it is imperative to issue a set of guidelines for pre-paid payment instruments that would cover both banks and non-bank entities, for the orderly development and operations of pre-paid instruments in the country.

1.2 This document on pre-paid payment instruments covers the following:-

- i) What are pre-paid payment instruments?
- ii) Who can issue pre-paid payment instruments?
- iii) What type of business will be licensed, supervised and/or reviewed?
- iv) Capital Requirements.
- v) Safeguards against money laundering - KYC/AML/CFT provisions.
- vi) Deployment of Money collected.
- vii) Reloading.
- viii) Redemption.
- ix) Money Transfer.
- x) Fraud prevention and Security standards.
- xi) Customer Complaints and Redressal

### **2. What are pre-paid payment instruments?**

2.1 Pre-paid payment instruments 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.

2.2 The pre-paid instruments can be of different types. Presently, they are issued as smart cards, magnetic stripe cards, internet accounts, internet wallets, internet purse, mobile accounts, mobile wallets, mobile purse and paper vouchers.

2.3 The pre-paid payment instruments are generally of four types viz. (i) closed-system payment instruments (ii) Semi-Closed system payment instruments (iii) Semi-Open system payment instruments and (iv) Open system payment instruments.

*i) **Closed System Payment Instruments:*** These are payment instruments generally issued by business establishments for use at that establishment only or for availing services from a service provider. These instruments are generally not re-loadable and do not permit cash withdrawal. Examples of such instruments are gift vouchers issued by certain merchant establishments and telephone calling cards. The mobile pre-paid value may also be considered as closed-system prepaid payment instrument though they can be used for availing additional value added services.

*ii) **Semi-Closed System Payment Instruments:*** *These are* payment instruments which are redeemable at a group of establishments associated with a particular shopping mall, tourist resorts etc. or at establishments and service providers listed out by the issuer. These instruments are generally issued by third party service providers. These instruments can be issued in re-loadable or non-reloadable formats but do not permit cash withdrawal.

*iii) **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 can be issued in re-loadable or non-reloadable formats but they do not permit cash withdrawal. Examples of such cards are the gift cards issued by banks which are operated and settled through recognized card companies.

*iv) **Open System Payment Instruments:*** These are payment instruments which can be used for purchase of goods and services. These instruments can be issued in re-loadable or non-reloadable formats. These instruments also permit cash withdrawal at ATMs. Examples of such cards are the Payroll cards and travel cards issued by banks which are operated and settled through recognized card companies.

### **3. Who can issue pre-paid payment instruments?**

3.1 To start with only banks and NBFCs, subject to approval from Reserve bank, would be permitted to issue open system pre-paid payment instruments. Other eligible entities, to start with, would be permitted to issue only pre-paid payment instruments other than open-system payment instruments.

3.2 Fit and proper criteria would be prescribed by the Reserve Bank for all entities proposing to issue pre-paid payment instruments.

### **4. What type of business will be licensed, supervised and/or reviewed?**

4.1 Entities issuing closed system pre-paid payment instruments may be exempted from the purview of the guidelines. However, such entities will have to adhere to the limits/reporting requirements prescribed by the Reserve Bank. All other entities would require authorization from the Reserve Bank to carry on the business.

### **5. Capital requirements**

5.1 Only banks/NBFCs meeting the regulatory Capital Adequacy Ratio will only be permitted to issue all types of pre-paid payment instruments.

5.2 For other non-banking entities no minimum capital requirement may be prescribed. They may however be subjected to cap on the value of the instruments, volume of instruments issued and reporting requirements.

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

6.1 The KYC/AML/CFT requirements would be applicable based on features of the instruments and vulnerability for misuse. Semi-open system payment instruments and open system payment instruments are the instruments which are most susceptible to misuse. These cards which include gift cards and travel cards would be subjected to higher safeguards. In these cases identifying the customer to whom the card has been issued keeping his address particulars and maintaining transaction log would be necessary to safeguard against money laundering.

6.2 Semi-Closed System Payment Instruments up to Rs 500/- may be to be issued without any KYC subject to reporting of annual/suspicious transactions. These instruments can be permitted to be purchased from retail locations against cash and should not be reloadable. Reloading of such cards may be permitted when the cards are loaded by debit to a bank account or using credit cards.

6.3 The entity issuing all other pre-paid instruments should carryout KYC of the pre-paid instrument holders. Further, the entities should be able to put in place checks and balances to ensure adherence to the limit, if any, prescribed for such instruments..

6.4 Entities issuing pre-paid instruments should 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 (FIU-IND).

6.5 A few non-bank entities, have been issuing pre-paid lunch coupons for the last few years. These companies do not issue these cards to individuals. The cards are issued to companies, who in turn issue the cards, mostly, to their employees. While these, cards are meant for meal coupons etc, which can be used by the employees for payment for meals at the locations where they are accepted, they can be used for purchase of groceries also. In case of such cards these entities should ensure that the companies to whom these cards are issued maintain the full details of the persons who will be using the cards. This is important since these meal/lunch coupons can also be used for buying provisions at stores / shopping malls.

6.6 Similarly, travel cards/expense cards are also issued to companies for onward issue to their employees. These cards permit transactions as permissible under Open System Payment Instruments. In these cases also the issuers should ensure that companies to whom these cards are issued maintain the full details of the persons who will be using the cards.

## **7. Deployment of Money collected**

7.1 The entities issuing pre-paid instruments would hold with them the money collected against the issuance of the instrument. The outstanding amount (float money) at a point of time could be substantial. 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 scheme operator should deploy the funds collected in safe and liquid investments.

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 Non-bank entities issuing pre-paid payment instruments (except those exempted from the purview of the guidelines) should maintain an escrow account with their banks to the extent of outstanding balances in the cards issued by them. The amount may be kept separately from the working capital and other funds of these entities.

7.4 The use of such funds by companies for any other purpose other than for settlement of claims against use of these instruments by the holders for purchase of goods and services would be strictly be prohibited.

## **8. Reloading of cards**

8.1 Both banks and non-banks may to issue reloadable instruments. The maximum limit for such re-loadable instruments would differ based on the entity and instruments and would be prescribed by RBI from time to time.

8.2 Reloading of closed system instruments would be permitted at the retail agents and issuers outlets against cash/debit cards/credit card. Reloading may also be permitted through ATMs, internet banking and mobile banking channels.

8.3 The issuing entity should be able to ensure that the limits prescribed for any instrument is not breached.

## **9. Redemption**

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

9.2 The holder of pre-paid payment instruments should 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.

9.3 Where redemption is provided as at 9.2 above, the redemption value shall not be in excess of the amount outstanding or the face value (loading limit) for the instrument.

## **10. Money Transfer**

10.1 Pre-paid payment instruments can be used for transfer of funds online (internet) or using mobile phone networks. The schemes which facilitate such transfer require greater safeguards against misuse. To begin with only banks may be permitted to issue such cards.

## **11. Fraud prevention and Security standards**

11.1 The issuer has to put in place systems for prevention and detection of frauds. Adequate information and data security infrastructure should be put in place.

## **12. Complaints and Redressal**

12.1 A effective mechanism for redressal of customer complaints shall be put in place by the entity issuing such instruments.