

The Chairmen and Managing Directors /
Chief Executive Officers of
All Scheduled Commercial Banks

Madam/ Dear Sir

Issuance and Operation of Prepaid Payment Instruments

Please refer to our Policy Guidelines for issuance and operation of Prepaid Payment Instruments issued vide our circular [DPSS.CO.PD.No.1873 /02.14.06/ 2008-09 dated April 27, 2009](#) on the above subject.

2. As per paragraph 7.3 of the said Guidelines, non-bank persons issuing prepaid payment instruments are required to maintain their outstanding balance in an '**escrow account**' with a scheduled commercial bank. A set of conditions including the stipulation that the funds available in the 'escrow account' are to be used **only** for making payments to the participating merchant establishments, has also been prescribed for smooth operation thereof.

3. On a review of the extant arrangements, in order to give further protection to the merchants and holders of the prepaid payment instruments, it has been decided to mandate an exclusive clause in the agreement signed/to be signed between the issuer/operator and the bank maintaining 'escrow account', which would enable the bank to use the money in the 'escrow account' only for making payment to the merchants/holders in preference to the other creditors in the event of liquidation/bankruptcy of the issuer.

4. Accordingly, all the banks are advised to add the following paragraph in the agreement entered into with the issuer/operator of prepaid payment instruments for operating escrow account:

"It is expressly agreed and confirmed that the amount lying in the escrow account is charged unto the holders of the prepaid payment instruments and the merchant establishments to pay the dues arising out of usage of the prepaid payment instruments or otherwise. Provided further, that the amount in the escrow account shall be deemed to be a security charged unto the participating merchant establishments or holders of the prepaid payment instruments issued by the issuer and to be utilised to redeem the dues arising out of usage of the said prepaid

payment instruments in the first instance or otherwise to be paid to the holders of the same on surrender of the instrument and settlement of the dues in the event of the scheme being wound up or being directed by the Reserve Bank of India to be discontinued, as provided for in the operative guidelines issued by the Reserve Bank on April 27, 2009 on Issuance and Operation of Pre-paid Payment Instruments, as amended from time to time."

5. You are also advised to necessarily record the charge of the holders of the prepaid payment instruments and/or the merchant establishments with the Registrar of Companies under Section 125 of the Companies Act, 1956.

6. Please ensure its compliance and confirm the same to this office latest by February 28, 2011. All new agreements entered into by banks (including renewals) for maintaining / operating escrow accounts from the date of this circular shall incorporate the provisions set out in Para 4 above.

7. This directive is issued under Section 18 of the Payment and Settlement Systems Act, 2007 (Act 51 of 2007).

Meanwhile please acknowledge the receipt of this circular.

Yours faithfully

Sd/-

(G. Padmanabhan)
Chief General Manager