

Prepaid Payment Instruments (PPIs) – Guidelines for Interoperability

written by Sindhuja Kashyap | November 16, 2018

Demonetization may have faced mixed reaction from the people; digital payment platforms have definitely welcomed it with open arms and delight. Increase in reliance placed by the public on digital payment methods lead Reserve Bank of India (“RBI”) to issue the Master Direction on Issuance and Operation of Prepaid Payment Instruments[1] (“Master Direction”). Clause 18 of the Master Direction opened gate for the anticipation of guidelines on interoperability of Prepaid Instruments (“PPI”). RBI on October 16, 2018 issued guidelines for interoperability of Prepaid Instruments (“Guidelines”)[2] under Section 18 read with Section 10(2) of the Payment and Settlements Act, 2007, thereby closing down on all confusions regarding the same that existed due to absence of any guidelines till date. The guidelines provide a requirement of Board approved policy for achieving PPI interoperability from the PPI issuers in addition to the already existing requirements as mentioned in the Master Direction.

Interoperability principally means technical compatibility that enables a payment system to be used in conjunction with other payment systems. In general terms, this helps transactions between wallet holders issued by two different issuers.

The Master Direction directed the PPI Issuers (both bank and non-bank entities) to ensure compliance of KYC of all PPIs and then to enable the interoperability of such KYC-compliant PPIs in three phases namely:

1. Interoperability of PPIs issued in the form of wallets through Unified Payments Interface (UPI),
 2. Interoperability between wallets and bank accounts through UPI, and
 - Interoperability for PPIs issued in the form of cards through card networks
- The PPI issuer who chooses to participate in such interoperability shall also have the duty to ensure adherence to the other security and technical specifications as applicable under banking laws including but not being limited to KYC, cyber security, fraud prevention and any further requirement as provided by National Payment Corporation of India (“NPCI”).

Guidelines for interoperability: Common to wallets and Cards

In case of PPI issued in the form of wallet interoperability shall be enabled through UPI and in case of PPI issued in the form of cards, the cards shall be affiliated to authorised card networks. Adherence to the requirements of card networks/UPI has been laid down as a condition precedent for facilitating interoperability.

Guidelines for interoperability: Through card networks

Card networks have been provided with an option to on-board PPI issuers to join their network. Further, non-bank PPI issuers have been allowed to participate as members/associate members of authorised card networks.

Settlement: For the purpose of settlement, a non-bank PPI issuers can participate directly or through a sponsor bank arrangement and shall have an obligation to adhere to the requirements of respective card networks settlement system.

PPI issuers and Banks involved in such interoperability through card networks, including those operating exclusively in meal segment shall ensure that the PPI issued in the form of card and all such reissuance and renewal of it shall be EMV Chips and PIN compliant.

Guidelines for interoperability: Through UPI

PPI issuers shall act as Payment System Providers (PSP) in the UPI. The opportunity of participation in the interoperability through UPI has been extended to both bank and non-bank PPI issuers. A non-bank PPI issuers are allowed to participate in the *99# USSD service as the same is part of UPI. PPI issuers shall solely be responsible for on-boarding their PPI holder for UPI. However, in case a PPI issuer is acting as PSP, they shall be restricted from on-boarding PPI holder of any bank or any other PPI issuer. All and any transaction will be pre-approved before it reaches the UPI.

Settlement: For the purpose of settlement, a non-bank PPI issuer shall participate through their sponsor bank and must ensure adherence to the requirements of sponsor bank arrangement in UPI, in addition to the requirement provided by NPCI.

Conclusion

RBI in the Master Direction had hinted towards separate issuance of the operational guidelines with regard to the interoperability of PPI and the same had been long awaited by the PPI issuers. This definitely gives the customers the ability to use a set of payment instruments seamlessly with other users within the segment, thereby giving customers the power to use their e-wallets/prepaid cards from various issuers on innumerable websites for all their online payment requirements. One may seem confused with the mandatory obligation put on PPI issuers by RBI for interoperability through its Master direction and a mere suggestion or discretion on PPI issuers by RBI for interoperability through its Guidelines. Further, the dilemma that still persists is the implementation of these Guidelines due to absence of any timeline for the same. Irrespective of few glitches awaiting clarification, these Guidelines seem to instill greater user confidence and a positive step towards digital India.

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[1] DPSS.CO.PD.No.1164/02.14.006/2017-18 dated October 11, 2017;

[2] DPSS.CO.PD.No.808/02.14.006/2018-19 dated October 16, 2018;

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