The proposed regulatory framework for pre-paid payment instruments

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Why do we care about pre-paid payment products?

- Relatively slower growth.

	UPI	PPI	IMPS	PoS Terminals	Mobile banking
Volume	13.21%	0.54%	1.06%	-3.41%	-1.54%
Value	7.29%	1.51%	3.43%	-2.69%	4.59%

Average m-o-m growth (January - May 2017)

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- But, second largest share in small value payment transactions.

	UPI	PPI	IMPS	PoS Terminals	Mobile banking	Large value systems
Volume	0.48%	10.03%	7.17%	30.5%	7.46%	44.36%
Value	0.02%	0.02%	0.51%	0.50%	1.24%	97.71%

Share of payment instruments in digital transactions (January-May 2017)

Re-cap: Key features of the proposed regulatory framework

1. Capital requirement of Rs. 5 crores replaced with ongoing minimum networth requirement of Rs. 25 crores.
2. Mandates full Know Your Customer (KYC) for all consumers of Pre-paid Payment Instruments (PPIs).
3. Technology-specific solutions for transaction security.

Problems with the regulatory framework

1. Disproportionate networth and safeguarding requirements.
2. Lack of competitive neutrality between banks and non-banks.
3. Over-prescriptive technological requirements, but lacking in overall consumer protection.
4. Vague licensing process.

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Risk level	Capital adequacy
Where the PPF has deposited consumers' funds in an account with no operational control	No minimum capital adequacy requirement.
In all other cases.	To be determined by the APRA on a case-by-case basis as per guidelines or 5% of total outstanding liabilities arising from consumers' deposits.

Minimum capital adequacy requirements for PPFs in Australia

Safeguarding requirements

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Country	Safeguarding requirements
Australia	Unencumbered high quality liquid assets
United Kingdom	1. Liquid, low-risk assets placed with a custodian; OR 2. Other assets coupled with an insurance policy that covers the funds.

Safeguarding requirements for PPFs in Australia and the UK

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   - PPIs issued by non-banks can only receive specific inward personal remittances.
   - Approval process for eligibility to receive such remittances.
   - PPIs issued by banks can undertake full-fledged cross-border remittances under the authorised dealership license.

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3. Access to core payments infrastructure.

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    - AFA requirements.
3. Weak on overall consumer protection mandate:
    - Transaction limits
    - PPIs given liberty to set their own transaction limits, including for fund transfer back to holder's bank account
    - Inter-operability effectively postponed.

Problems with the licensing process

1. Separate licensing process *de hors* the *PSS Act*.
2. Screening for *prima facie* eligibility and fit and proper criteria.
3. Additional checks on essential aspects such as 'customer service and efficiency, technical and other related requirements'.
4. Grant of in-principle approval valid for six months.
5. Submission of system audit report by the in-principle license holder.
6. Additional conditions as the Reserve Bank of India (RBI) may impose for the grant of a final license.

Take-aways: Scope for rationalisation

1. Restore competitive neutrality between banks and non-banks.
2. Prescribe risk-based capital and safeguarding requirements.
3. Provide for a principle-based consumer protection framework.
4. Risk-based approach towards KYC.
5. Strengthen the licensing process.