



PREPAID PAYMENT INSTRUMENTS (PPIS) IN INDIA - ECONOMY

NEWS: The RBI's decision to enable full-KYC PPIs to access UPI through third-party applications represents a significant step in creating a more inclusive and user-friendly digital payments ecosystem.

WHAT'S IN THE NEWS?

- **Purpose and Benefits:**
 - Prepaid Payment Instruments (PPIs), such as mobile wallets and prepaid cards, have become a cornerstone of India's shift toward a cashless economy.
 - They allow users to perform transactions without the need for linking to traditional bank accounts, offering greater flexibility and ease of use.
 - PPIs align with the government's goals of digital financial inclusion by making cashless transactions accessible, particularly for underserved and rural populations.
- **Role of UPI:**
 - The Unified Payments Interface (UPI) plays a vital role as the backbone of India's digital payments infrastructure, enabling instant and seamless transfer of funds between bank accounts and other digital platforms.

Challenges with PPI and UPI Interoperability

- **Lack of Interoperability:**
 - Before recent changes, PPIs were restricted in their usability, as transactions could only be initiated via the proprietary mobile applications of the issuing entity.
 - Users were unable to link their PPIs to popular third-party UPI platforms like Google Pay or PhonePe, which are widely used for payments in India.
- **Impact of Restrictions:**
 - This lack of interoperability caused inconvenience, forcing users to rely on multiple apps to complete different types of transactions.
 - The fragmented payment process limited the utility of digital wallets and slowed the broader adoption of digital payment systems across the country.

RBI's Revisions to Enable PPI Interoperability with UPI

- **New Guidelines for UPI Onboarding:**
 - The Reserve Bank of India (RBI) has now allowed only full-KYC (Know Your Customer) PPIs to be linked to UPI handles.



- This enables PPI holders to make seamless UPI payments, although PPI issuers functioning as Payment Service Providers (PSPs) still cannot onboard customers of other banks or PPIs.
- **Third-Party UPI Access:**
 - The revisions also allow full-KYC PPIs to be linked to third-party UPI platforms like Google Pay and PhonePe.
 - Authentication for these transactions will rely on the user's UPI credentials, simplifying the payment process and ensuring security.
- **Eliminating Bottlenecks:**
 - By removing the restriction of single-app reliance, the changes provide users with greater flexibility and foster the integration of PPIs into the larger UPI ecosystem.



Key Beneficiaries of the Revised Framework

- **PPI Holders:**
 - For users of mobile wallets and prepaid cards, the revisions provide the ability to use third-party UPI apps for payments, greatly enhancing convenience and accessibility.
 - The wider acceptance of PPIs across merchants and individuals reduces the friction in digital transactions.
- **Merchants:**
 - Businesses stand to benefit as the customer base expands with increased use of interoperable payment systems.



- Payment processes are streamlined, reducing delays and improving operational efficiency.
- **Third-Party UPI Applications:**
 - Popular UPI platforms such as Google Pay and PhonePe will see increased usage as more PPI users link their wallets to these applications.
 - This opens up opportunities to monetize their services through value-added features and tools.
- **PPI Issuers:**
 - PPI providers gain an expanded reach and improved operational efficiency by leveraging existing UPI infrastructure.
 - They can now cater to a broader audience while integrating their services with widely-used UPI apps.

Significance of RBI's Move

- **Milestone in Digital Payments:**
 - The RBI's decision to enable full-KYC PPIs to access UPI through third-party applications represents a significant step in creating a more inclusive and user-friendly digital payments ecosystem.
 - It breaks down the barriers that previously existed between two critical digital payment innovations, fostering interoperability and seamless integration.
- **Catalyst for Growth:**
 - The revisions are expected to drive greater adoption of digital payments by simplifying the process for users, especially in semi-urban and rural areas.
 - It encourages innovation among third-party UPI providers, who can now offer enhanced features and services.

Role in India's Transition to a Less-Cash Economy

- **Supporting Financial Inclusion:**
 - By enabling full-KYC PPI holders to participate fully in the UPI ecosystem, the move strengthens India's push toward greater digital financial inclusion.
- **Encouraging Seamless Integration:**
 - The updated framework ensures a smoother, more interconnected digital payments experience for all stakeholders, including consumers, merchants, and service providers.
- **Advancing Policy Objectives:**



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- The revisions reflect the RBI's commitment to fostering a robust, inclusive, and secure digital payment environment that meets the diverse needs of India's growing digital user base.
- **Sustainable Economic Growth:**
 - The move is aligned with India's long-term economic goals, contributing to the development of a less-cash economy and boosting digital transaction volumes.

Source: <https://www.thehindubusinessline.com/opinion/expanding-upi-access/article69054736.ece#:~:text=UPI%20ecosystem%20fully.-,The%20RBI's%20decision%20to%20enable%20full%20DKYC%20PPIs%20to%20access,more%20inclusive%20digital%20payment%20ecosystem.>



**P.L. RAJ IAS & IPS ACADEMY | 1447/C, 3rd floor, 15th Main Road,
Anna Nagar West, Chennai-40. Ph.No.044-42323192, 9445032221
Email: plrajmemorial@gmail.com Website: www.plrajiasacademy.com
Telegram link: https://t.me/plrajias2006 YouTube: P L RAJ IAS & IPS ACADEMY**