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BANK INDEPENDENT CASHLESS ECONOMY THROUGH MODERN RBI INSTRUMENTS

[1]*KUNJ BIHARI TIWARI*, [2]*KIRTI GUPTA*, [3]*DR. SURENDER YADAV*, [4]*MANISH MATHURIA*, [5]*MANISH SHARMA*

[1-4]Department of Computer Science Engineering,
Maharishi Arvind College of Engineering & Research Center, Jaipur, India
[5]Department of Computer Engineering
Poornima Institute of Engineering & Technology (PIET), Jaipur, India

erkbtiwarics@gmail.com

ABSTRACT : *To make a cashless society in India using PPI instruments through wallet creation without any bank account with automated system, where any one initiate any transaction through automated wallet system without bank account. The Government of India has encouraged the shift to a less–cash society with its push for digital payments through the modern (PPI) banking instrument. Objective of the research is to analyze the possible way of DMT (Domestics money transfer) for wallet creation independent to bank. the research article were viewed and analyzed which give as positive impact and the scope of the topic. The advantages and disadvantages are presented in article. The process of wallet creation and to understand modern RBI Instrument are studied .position of india among the different countries is graphically represented. the associate terms and condition are highlighted .the overall conclusion of the research is that the cash less economy in India is growing and it will establish great market in near future using Modern RBI Instruments.*

KEY WORDS : Wallet System, PPI, Cashless, RBI Instrument, BC Wallet, Domestic Pay Service, DMT, B2C, KYC, Full KYC, Partial KYC. Payment Bank, Digital Transformation Of Banking System

1 INTRODUCTION

To provide a framework for the regulation and supervision of persons operating payment systems involved in the issuance of Pre-paid Payment Instruments (PPIs) in the country and to ensure development of this segment of the payment and settlement systems in a prudent and customer friendly manner. For the purpose of these guidelines, the term 'persons' refers to 'entities' authorized to issue prepaid payment instruments and 'entities' proposing to issue pre-paid payment instruments in view of the references received from PPI issuers on certain issues pertaining to the operations of PPIs, a comprehensive review of extant guidelines and instructions has also been carried out, in consultation with the stakeholders. These guidelines, covering both banks and non-bank persons, lay down the basic eligibility criteria and the conditions for operations such payment systems in the country.

1.1 Payment Banks

While credit is a critical need of all sectors, payments and savings are also central to an efficient system. One of the big concerns over the last few years has been the fall in financial savings. There is a need to increase it and bring more people to save in the formal banking and financial system.
For that, a robust financial system is required which fosters enough competition and also allows variety of participants to fulfil increasing complex needs of the Indian economy. RBI's recent announcement of allowing payments banks was a welcome move as it may allow access of financial services to the unbanked population with last mile connectivity in rural areas where physical access is difficult. Importantly, increasing banking access will increase the productivity in the economy, which will start reflecting in the GDP growth of the country. Overall, payments banks have potential to bring about another revolution in the banking sector and economy as a whole.

Fig 1.1 Payment Banks

2 SCOPE

These guidelines lay down the eligibility criteria and the basic conditions for payment system operators Involved in the issuance of Pre-paid Payment Instruments in the country. All persons authorized to operate payment systems and involved in the issuance of Pre-paid Payment Instruments in India shall comply with these guidelines. All persons proposing to operate payment systems and involved in the issuance of Pre-paid Payment Instruments shall seek authorization from the Department of Payment and Settlement Systems, Reserve Bank of India, under the Payment and Settlement Systems Act, **2007**.

3 TERMS/KEYWORDS

3.1 Issuer:

Persons operating the payment systems issuing pre-paid payment instruments to individuals/organizations. The money so collected is used by these persons to make payment to the merchants who are part of the acceptance arrangement directly, or through a settlement arrangement.

3.2 Individuals/Organizations:-

Who acquire pre-paid payment instruments for purchase of goods and services, including financial services.

3.3 Payment Instruments:

Pre-paid payment instruments are payment instruments that facilitate purchase of goods and services, including funds transfer, against the value stored on such instruments. The value stored on such instruments represents the value paid for by the holders by cash, by debit to a bank account, or by credit card. The prepaid instruments can be issued as smart cards, magnetic stripe cards, internet accounts.

4. FUTURE OF MOBILE WALLET:

As majority of the payments bank candidates have already introduced mobile wallet or e- wallet, it is important to understand the present and future of mobile wallet or e-wallet when NPCI is all set to launch UPI in 2016 which will dramatically change the Indian payment system. (We have already discussed UPI in detail earlier in the report). Before we go into discussion on future of mobile wallet, it would be better to get basic idea on mobile wallet.

The mobile wallet (also known as m-wallet, digital wallet, or e-wallet) is a type of payment service through which businesses and individuals can receive and send money via mobile devices. As per RBI, mobile wallets can be divided into 3 different categories.

1.Closed wallets,

2.Semi-closed wallets and

3.Open wallets.

(i) Closed Wallets:

Closed mobile wallets can be used only for that particular company (or online merchant) goods and services. No redemption or cash withdrawal is possible with such wallets. For example, makemytrip wallet

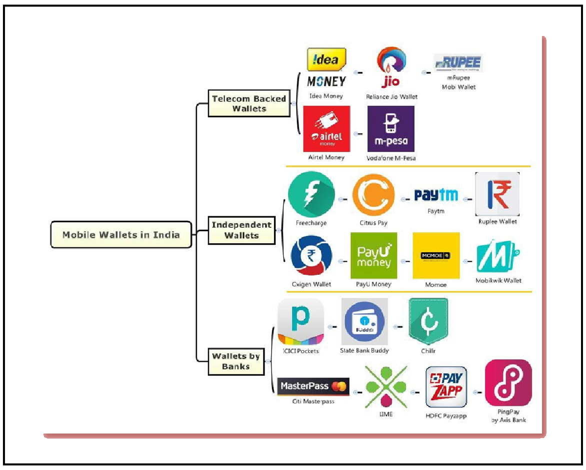
(ii) Semi-closed Wallets:

Semi-closed wallets also do not allow redemption or cash withdrawal but they can be used to transact for goods and services (inclusive of financial services) at several different merchant locations that have the required tie-up (contract) with the wallet issuing company to accept payments. For example, paytm

(iii) Open Wallets:

Open Wallets are those that allow redemption as well as cash withdrawals (from automated teller machines / business correspondents) in addition to the other features offered by semi-closed ones. For example, m-pesa.

Fig: 4.1 Growth in m-Wallet Transactions



5. SAFEGUARDS AGAINST MONEY LAUNDERING (KYC/AML/CFT) Provisions

5.1 The guidelines on Know Your Customer/Anti-Money Laundering/Combating Financing of Terrorism guidelines issued by the Reserve Bank of India to banks, from time to time, shall apply mutatis mutandis to all the persons issuing pre-paid payment instruments.

5.2 As PPI issuers are operating a Payment System, provisions of Prevention of Money Laundering Act, 2002 and Rules framed there under, as amended from time to time, are also applicable to PPI issuers. Necessary systems shall be put in place to ensure compliance with these guidelines.

6 DEPLOYMENT OF MONEY COLLECTED

6.1 The money collected against issuance of pre-paid payment instruments at a point of time could be substantial. Further, the turnover of funds may also be rapid. The confidence of public and merchant establishments on pre-paid instruments schemes depends on certainty and timeliness of settlement of claims arising from use of such instruments. To ensure timely settlement, the issuers shall invest the funds collected only as provided here-in.

6.2 For the schemes operated by banks, the outstanding balance 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.

6.3 Other non-bank persons issuing payment instruments are required to maintain their outstanding balance in an escrow account with any scheduled commercial bank subject to the following conditions:

(i) The escrow balance must be necessarily maintained with only one scheduled commercial bank at any point of time.

(ii) In case there is a need to shift the escrow account from one bank to another, same may be effected in a time-bound manner without unduly impacting the payment cycle to the merchants. The migration should be completed in the minimum possible time and with the prior approval of RBI.

(iii) The balance in the escrow account should, at no time, be lower than the value of outstanding PPIs and payments due to merchants. While as far as possible PPI issuers should ensure immediate credit of funds to escrow on sale / reload of PPIs to end-users, such credit to escrow account should not be later than the close of business day (on which the PPI has been sold / reloaded) under any circumstances.

(iv) The amount so maintained in the escrow account shall be used only for making payments to the participating merchant establishments and other permitted payments. Following debits and credits will only be permitted from the escrow account: Credits a. Payments received towards sale / reload of PPIs, including at agent locations b. Refunds received for failed / disputed / returned / cancelled transactions. Debits c. Payments to various merchants/service providers towards reimbursement of claims received from them d. Payment to sponsor bank for processing funds transfer instructions received from PPI holders as permitted by RBI from time to time.

7 REFUND PROCESS

Payment towards applicable Government taxes (received along with PPI sale/reload amount from the buyers) . Refunds towards cancellation of transactions in a PPI in case of PPIs loaded / reloaded erroneously or through fraudulent means (on establishment of erroneous transfer /fraud). The funds have to be credited back to the same source from where these were received. These funds are not to be forfeited till the disposal of the case. g. Any other payment due to the PPI issuer in the normal course of operating the PPI business (for instance, service charges, forfeited amount, commissions) h. Any other debit as directed by the regulator / courts / law enforcement agencies.

8 VALIDITY

8.1 All pre-paid payment instruments issued in the country shall have a minimum validity period of one year from the date of activation/issuance to the holder.

8.2 In the case of non-reloadable pre-paid payment instruments, the transfer of outstanding amount at the expiry of the payment instrument to a new similar payment instrument of the same issuer, purchased by the holder may be permitted.

8.3 PPI issuers shall caution the PPI holder at reasonable intervals, during the 30 days' period prior to expiry of validity period of PPI, before forfeiting outstanding balances in the PPI, if any. The caution advice shall be sent by SMS / e-mail / post or by any other means in the language preferred by the holder indicated at the time of on-boarding the customer (sale of PPI). Further, the information about expiry period as well as forfeiture policy should be made known to the customer at the time of sale / reload of the PPI, and should be clearly enunciated in the terms and conditions of sale of PPI. Where applicable, it should also be clearly outlined on the website of the issuer.

9. TRANSACTIONS LIMITS

9.1 There is no separate limit on purchase of goods and services using PPIs and the holder is allowed to use the PPI for these purposes within the overall PPI limit applicable.

9.2 Transaction limits and monthly caps are, however, applicable on funds transfers permitted in PPIs under Domestic Money Transfer (DMT) Guidelines. PPI issuers should ensure that all incoming funds to a PPI under DMT are within the overall permissible limits for that category of PPI.

9.3 Refunds in case of failed / returned / rejected / cancelled transactions may be applied to the respective PPI account immediately even if such application of funds results in exceeding the limits prescribed for that category of PPI. However, PPI issuers will be required to maintain complete details of such returns / refunds etc. and be in readiness to provide them as and when called for. Further, PPIs issuers will be required to put in place necessary systems that enable them to monitor frequent instances of refunds taking in place in specific accounts and if necessary / called for be in a position to substantiate with proof for audit purposes to the regulator.

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