Prepaid Payment Instrument

For Prelims: Prepaid Payment Instrument, RBI, DICGC, Remittance, **Insurance Fund, Regulated Entities.**

For Mains: Coverage of DICGC to Prepaid Payment Instruments.

Why in News?

A committee reviewing customer service standards for **RBI (Reserve Bank of India)** regulated entities has recommended the extension of **Deposit Insurance and Credit Guarantee Corporation (DICGC)** toPrepaid Payment Instrument (PPI) to protect against fraud and unauthorized transactions.

- The committee has recommended that the RBI should examine the possibility of extending DICGC cover to PPI segment, including bank **PPIs and later non-bank PPIs.**
- The RBI should incentivize regulated entities to improve customer service and **strengthen overall customer protection efforts.**

What are Prepaid Payment Instruments?

- **About:**
  - PPIs are instruments **that facilitate the purchase of goods and services,** conduct of financial services and **enable** Remittance **facilities**, among others, against the money stored in them.
  - PPIs can be issued as cards or wallets.
  - There are **two types of PPIs,**
    - Small PPIs and full-KYC (know your customer) PPIs. Further, small PPIs are categorized as – PPIs up to Rs 10,000 (with cash loading facility) and PPIs up to Rs 10,000 (with no cash loading facility).
  - PPIs can be loaded/reloaded by cash, **debit to a bank account, or credit** and debit cards.
    - The cash loading of PPIs is limited to **Rs 50,000 per month subject** to the overall limit of the PPI.
- **Issuance:**
  - PPIs can be issued by banks and non-banks **after obtaining approval from the RBI.**
    - As of November 2022, over 58 banks have been permitted to issue and operate prepaid payment instruments.
    - There are **33 non-bank PPI issuers** as of May 2023.

What is DICGC?

- **About:**
  - DICGC is a **wholly owned subsidiary of the RBI** and provides deposit insurance.
    - The deposit insurance system **plays an important role in maintaining the stability** of the financial system, particularly by **assuring the small depositors**

of the protection of their deposits in the event of a bank failure.
    - The deposit insurance extended by DICGC covers all commercial banks including **Local Area Banks (LABs), Payments Banks (PBs), Small Finance Banks (SFBs),** Regional Rural Banks (RRBs) and co-operative banks**,** that are licensed by the RBI.
- **Coverage:**
    - DICGC insures all deposits such as savings, fixed, current and recurring including accrued interest.
    - Each depositor in a bank is **insured up to a maximum of Rs 5 lakh** for both principal and interest amount held by them as on the date of liquidation or failure of a bank.
        - The earlier insurance **cover provided by DICGC was Rs 1 lakh.** However, the limit of insurance cover for depositors in insured banks was raised to Rs 5 lakh in 2020.
    - **DICGC does not cover,**
        - Deposits of foreign Governments.
        - Deposits of Central/State Governments.
        - Inter-bank deposits.
        - Deposits of the State Land Development Banks with the State co-operative banks.
        - Any amount due on account of any deposit received outside India.
        - Any amount which has been specifically exempted by the corporation with the previous approval of the RBI.
- **Funds:**
    - The Corporation maintains the following funds:
        - Deposit Insurance Fund
        - Credit Guarantee Fund
        - General Fund
    - The first two are funded respectively by the insurance premia and guarantee fees received and are utilised for settlement of the respective claims.
    - The General Fund is utilised for meeting the establishment and administrative expenses of the Corporation.

Source: IE