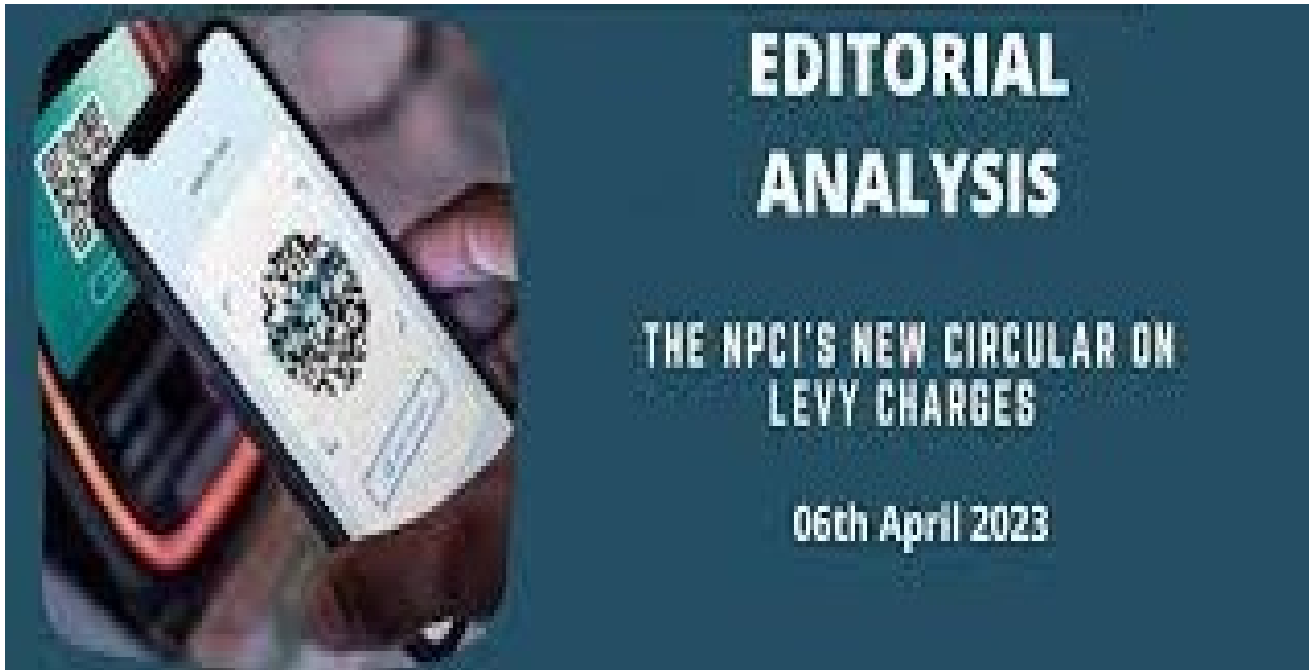


1. The NPCI's new circular on levy charges

Prelims Syllabus: Economy

Mains Syllabus: GS-III Economics - Indian Economy and issues relating to planning and mobilization of resources.



Why in News?

- The National Payments Corporation of India (NPCI), which governs the Unified Payment Interface (UPI), directed the banks that they can now levy charges on merchant transactions made via Prepaid Instrument wallets using UPI.
- As these directions by NPCI got leaked to the media, the NPCI clarified that the usual bank-to-bank UPI transactions would not be charged and that customers will not have to pay for transactions made via Prepaid Payment Instruments (PPI) on UPI.
- NPCI clarified that the new interchange charges are only applicable for PPI merchant transactions.

Prepaid Payment Instruments (PPIs)

- Prepaid Payment Instruments (PPIs) are a type of payment method that is used to purchase various goods and services as well as send or receive money by using the stored value in the wallet.
- Under the PPI mode of transaction, the users must pre-load the digital wallet with a desired amount by using cash, or debit to a bank account, by credit/debit cards, or UPI.

- PPIs can be in the form of mobile wallets, vouchers, secure tokens, physical smart cards, or any other form that allows access to prepaid funds.
- The most prevalent form of PPI used in India at present is the mobile wallet.
- It is to be noted that PPIs can only be used in Indian rupees.

PPI interoperability

- Earlier, in order to use PPI at any merchant, it was mandatory for the respective merchant to be engaged directly by the specific PPI issuer (specific network).
- The PPIs with which the merchant did not have a direct tie-up used to get rejected.
- This provision restricted the customers of one specific mobile wallet to use the money in the wallet only at those merchant locations which had a direct tie-up with the same PPI wallet provider.
- i.e. if a customer had a Paytm wallet, he/she could only use the money in the wallet for making payments to those merchants who accepted Paytm QR codes.
- The RBI has now mandated interoperability among different PPI wallet providers to address the issues associated with this limitation of PPIs.
- The PPI issuers have now tied up with NPCI for issuing interoperable RuPay PPI cards and for developing interoperable wallets on UPI rails.
- PPIs in the form of mobile wallets can now be linked to UPI which creates interoperable wallets on UPI rails.

The working of PPI interoperability through UPI

- Linking one's PPI wallet to UPI would enable individuals to transact using the Scan and Pay option on all UPI interoperable QR codes and facilitate the use of PPI wallets at all merchant locations.
- With the help of PPI interoperability, individuals can also send or receive money to any other wallet user.
- Likewise, a merchant with any UPI QR code would be able to accept payments from any PPI issuer or mobile wallet.
- PPI on UPI is expected to increase the incidence of merchant transactions in rural areas and enhance digital financial inclusion by catering to services such as healthcare, education, utility bills, transit, etc.

Charges associated with wallet transactions on UPI

- The PPI-enabled merchants were already paying charges to the PPI issuer for the acceptance of mobile wallets or prepaid cards.
- With the latest changes, the charges are now aligned at a network level with some standardisation.
- From April 1, 2023, an interchange fee of up to 1.1% would be levied on transactions made using PPIs such as gift cards, wallets, etc. for transactions on UPI.
- However, the charges are applicable if the transaction is more than ₹2,000.
- Further, it is clarified no charges are applicable if the merchant is accepting UPI payments from a customer's bank account as the charges are only applicable if the merchant accepts transactions made using PPI wallet.
- Officially there are no charges to be paid by the customers. However, merchants could pass on the burden to customers in the form of price increases or other such means.

