

Holding All the Cards: RBI Issues Draft Prepaid Payment Instruments Directions

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Introduction

On 22 April 2026, the Reserve Bank of India (RBI) issued the Draft RBI (Prepaid Payment Instruments) Directions, 2026 (Draft PPI Directions). Released following a comprehensive review of the extant Master Directions on Prepaid Payment Instruments, 2021 (PPI MD), the Draft PPI Directions aim to promote the security of prepaid payment instruments (PPIs) in India, with tighter controls on their issuance, features and monthly transfer limits.

Feedback on the Draft PPI Directions may be submitted by regulated entities, the public and other stakeholders until 22 May 2026. We have set out below the key changes proposed to be introduced.

Key Changes introduced in the Draft PPI Directions

(a) Changes to the definition and categorisation of PPIs.

- i. Exclusion of digital currency. Under the PPI MD, PPIs were defined as '*instruments that facilitate purchase of goods and services, financial services, remittance facilities, etc., against the value stored therein.*' The Draft PPI Directions broaden the definition to cover the facilitation of transactions generally, while clarifying that the value stored does not include digital currency.
- ii. Restriction on marketplaces offering closed system PPIs. Currently, PPIs classified as 'Closed System PPIs' (*issued by an entity for purchase of goods or services from that entity alone*) are excluded from RBI authorisation requirements. The Draft PPI Directions, while doing away with this formal category, preserve the exemption for such PPIs issued by any entity '*other than a marketplace*'. The newly introduced definition of 'marketplace' is aligned with that under the RBI (Regulation of Payment Aggregators) Directions, 2025, namely an e-commerce entity providing an information technology platform to facilitate buyer-seller transactions. The requirements for authorisation largely remain unchanged, including a minimum net worth of INR 5 crores at the time of application (*to be evinced by a certificate by the statutory auditor*), rising to INR 15 crores by the end of the third year, along with 'fit and proper' checks for the promoters and directors of the entity.
- iii. Removal of board approved PPI policy requirement. At present, each PPI issuer must implement a board approved policy covering all PPI related activities. The Draft PPI Directions are silent on this requirement, as well as on several other board approved policies currently mandated under the PPI MD.
- iv. Re-categorisation of PPIs. Specific categories such as Gift PPIs, Transit PPIs and PPIs for Foreign Nationals or NRIs have been retained and reclassified as "Special Purpose PPIs", distinct from "General Purpose PPIs" which encompass Full KYC PPIs and Small PPIs.

Comments.

- i. Marketplace issued PPIs have been excluded from the scope of the closed system exemption, and hence, PPIs utilised for purchases made on marketplace platforms will now need to be issued by a licensed PPI issuer.
- ii. The Draft PPI Directions also exclude PPIs denominated in digital currencies, including wallets in Digital Rupee (*India's Central Bank Digital Currency, or e₹*), currently offered to retail users by approximately 19 banks on a pilot basis. Apart from a 2022 Concept Note and Frequently Asked Questions, no standalone RBI directions on the Digital Rupee exist, suggesting that the RBI intends to regulate e₹ wallets separately.
- iii. The RBI has also sought to simplify PPI issuance for authorised entities, notably by removing the requirement for various board approved policies.

(b) Changes to structure of Full KYC PPIs.

- i. PPI issuance limits. Under the PPI MD, there was no explicit restriction on a PPI issuer to issue more than one Full KYC PPI to the same holder (*unlike Small PPIs*). The Draft PPI Directions extend this restriction to Full KYC PPIs as well, thereby restricting each PPI issuer to issue only one Full KYC PPI to each holder.
- ii. Monthly debit limits. Currently, fund transfers are capped at INR 10,000 per month, with an enhanced limit of INR 2,00,000 for pre-registered beneficiaries. The Draft PPI Directions impose an overall monthly debit limit of INR 2,00,000, with person to person (P2P) transfers capped separately at INR 25,000 per month, with no enhanced limit for transfers to pre-registered or known beneficiaries.
- iii. Reduced cash loading limit. Cash loading to Full KYC PPIs was permitted up to INR 50,000 per month under the PPI MD. The Draft PPI Directions reduce this to INR 10,000 per month.
- iv. Removal of explicit cash withdrawal limits. The PPI MD prescribed explicit limits of INR 2,000 per transaction and INR 10,000 per month for cash withdrawals. The Draft PPI Directions remove these, subjecting cash withdrawals to extant RBI regulations.

Comments.

- i. The Draft PPI Directions significantly tighten the Full KYC PPI framework. The PPI issuance limits will require issuers to review existing arrangements, including co-branded card portfolios, and take steps to consolidate or close multiple PPIs held by a single holder.
- ii. The revised P2P transfer cap could affect recurring transfers previously made under the enhanced limit for pre-registered beneficiaries, and the reduction in cash loading limits may pose difficulties in cash heavy, semi-rural and rural contexts. The bifurcated limit structure (*overall debits and P2P transfers*) also imposes a dual monitoring obligation on PPI issuers.

(c) Changes to structure of Small PPIs.

- i. Maximum validity of two years. Currently, Small PPIs must be converted to Full KYC PPIs within two years, failing which no further credit is permitted (*though the holder may use existing balances*). The Draft PPI Directions prescribe a hard maximum validity of two years, after which the outstanding balance must be transferred back to the source account. No further Small PPI may be issued to the same holder after expiry.
- ii. Removal of cash loading distinction. The PPI MD distinguished between Small PPIs with cash loading facility and those without (*loadable only from bank accounts, credit cards or Full KYC PPIs*). The Draft PPI Directions remove this distinction, permitting cash loading across all Small PPIs.

Comments.

The Draft PPI Directions clarify that Small PPIs are to be issued only where customer due diligence cannot be completed. Combined with the restrictions on validity and re-issuance, the regulatory intent appears to be to curtail the routine use of Small PPIs.

(d) Changes to loading / reloading and expiry of PPIs.

- i. Restrictions on credit card loading. Under the PPI MD, all PPIs could be loaded using cash, bank account debit, or credit and debit cards. The Draft PPI Directions limit credit card loading to Special Purpose PPIs only.
- ii. Loading through agents. Currently, banks can load PPIs through Business Correspondents (BCs), while banks and non-banks may load PPIs through authorised agents, subject to a board approved policy on agent engagement. The Draft PPI Directions permit banks to load only through BCs, and non-banks to load only through 'agents in person' under the RBI's Framework for Outsourcing of Payment and Settlement-related Activities by Payment System Operators dated 3 August 2021 (PSO Outsourcing Framework). The requirement to display a list of authorised agents on platforms has also been removed.
- iii. Mandatory closure of inactive PPIs. Under the PPI MD, PPIs with no transactions for one consecutive year were to be classified as inactive following notice to the holder, but there was no mandatory closure obligation. The Draft PPI Directions require the PPI issuer to close the PPI after one year of inactivity, without any explicit notice requirement. That said, Transit PPIs retain their perpetual validity.
- iv. Mandatory refund upon closure. Under the PPI MD, PPI issuers could transfer outstanding balances on expired PPIs to their profit and loss accounts after three years from expiry. Under the Draft PPI Directions, outstanding balances from closed PPIs must be credited back to the source account or a verified bank account of the holder.

Comments.

- i. The Draft PPI Directions are silent on 'reloading' of PPIs. In addition, the minimum validity period for General Purpose PPIs is now defined with reference to the date of issuance only, rather than the date of last loading or reloading. Given that loading through BCs and agents remains permitted, clarity is awaited on whether 'loading' is intended to encompass reloading as well.
- ii. While the PSO Outsourcing Framework sets out general compliance requirements for outsourced service providers of payment system operators, there is limited regulatory guidance on what 'agents in person' entails beyond requiring the physical presence of the agent.
- iii. PPI issuers will also no longer earn 'breakage revenue' from unspent balances. This is particularly significant for Gift PPIs, promotional wallet credits, small residual amounts and dormant PPIs, which when aggregated would represent material revenue for large issuers.

(e) Changes to Special Purpose PPIs.

- i. Restriction on cash purchase of Gift PPIs. Under the PPI MD, Gift PPIs could be purchased using bank account debit, credit cards or cash, with KYC of the purchaser required only for cash purchases. The Draft PPI Directions prohibit cash purchases of Gift PPIs, which also removes the associated KYC requirement.
- ii. Maximum validity for Gift PPIs. Gift PPIs previously had no prescribed maximum validity and could be revalidated on request. The Draft PPI Directions introduce a maximum validity of one year from the date of issuance, alongside retention of the existing restriction on reloadability.

(f) Changes to compliances applicable to co-branding arrangements.

- i. Removal of one-time RBI approval. Non-banks entering co-branding arrangements are currently required to obtain one-time RBI approval. The Draft PPI Directions remove this requirement.
- ii. Removal of board approved policy, due diligence and disclosure requirements. The Draft PPI Directions also remove the requirements for a board approved policy on co-branding, due diligence on co-branding partners and prominent display of the PPI issuer's name on the instrument.
- iii. Flexibility in co-branding. Under the PPI MD, only the bank could act as PPI issuer in arrangements with a non-bank. The Draft PPI Directions remove this restriction, though the co-branding partner's

role remains limited to marketing and distribution, and the PPI issuer remains liable for all acts of the partner.

Comments.

The Draft PPI Directions ease the compliance burden around co-branding, particularly through removal of the one-time RBI approval and associated governance requirements. However, given that the PPI issuer remains fully liable for the acts of its co-branding partner, it would be prudent for issuers to maintain voluntary internal governance frameworks for such arrangements.

(g) Changes to cross-border transactions and issuance to non-residents.

- i. Prohibition on cross-border use of PPIs. Under the PPI MD, INR denominated PPIs could be used for certain cross-border transactions, including outward trade transactions (up to INR 10,000 per transaction) and inward remittances under the RBI's Money Transfer Services Scheme. The Draft PPI Directions prohibit the use of PPIs for any cross-border transactions.
- ii. Revised limits for PPIs issued to foreign nationals and NRIs. The monthly debit limit for PPIs issued to foreign nationals and NRIs visiting India, previously tied to the Full KYC PPI limit, has been revised to INR 5,00,000 under the Draft PPI Directions.

(h) Miscellaneous changes.

- i. Removal of merchant reporting to escrow bank. Under the PPI MD, PPI issuers must submit the list of acquired merchants to the escrow bank, which ensures payments are made only to eligible merchants. The Draft PPI Directions remove this requirement.
- ii. Removal of transaction log retention requirement. The current obligation on PPI issuers to retain logs of all transactions for at least ten years does not appear in the Draft PPI Directions.
- iii. Simplified calculation of core portion. Under the PPI MD, the core portion of the escrow account eligible to earn interest was computed on the basis of fortnightly outstanding balances. The Draft PPI Directions simplify this to a monthly basis.

Concluding Remarks

The Draft PPI Directions represent a significant recalibration of India's PPI regulatory framework, tightening controls on issuance and transaction limits while reducing compliance, reporting and approval burdens on issuers. Consumer protection remains a regulatory priority, as reflected in the mandatory closure and refund obligations for inactive PPIs. At the same time, operational flexibility has been extended to issuers in several areas, particularly on co-branding and board governance requirements.

The RBI has not presently contemplated any transition period for PPI issuers to comply with the various new requirements proposed to be introduced under the Draft PPI Directions. A reasonable timeline for implementation, along with clarity on other operational aspects, would be beneficial for the industry.

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