



**Policy Consensus Centre's Inputs on Draft
Master Direction on Prepaid Payment
Instruments, 2026.**

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Policy Consensus Centre's Inputs on Draft Master Direction on Prepaid Payment Instruments, 2026.

Recently, Policy Consensus Centre (PCC) held an online consultation to seek the views of various stakeholders on the Draft Master Direction on Prepaid Payment Instruments (PPI), 2026. We submit our observations and recommendations on the Draft Master Direction on Prepaid Payment Instruments (PPIs), 2026, pursuant to a stakeholder consultation convened with industry participants, legal experts, policy researchers, fintech practitioners, and payments ecosystem stakeholders.

At the outset, we appreciate the Reserve Bank of India's continued efforts toward strengthening consumer protection, improving ecosystem governance, enhancing interoperability, and mitigating risks associated with digital payment systems. The move toward a more harmonised and principle-based framework for PPIs reflects the maturity of India's digital payments ecosystem and the increasing systemic relevance of non-bank payment instruments.

At the same time, there are certain concerns regarding the proportionality, timing, operational implications, and broader financial inclusion impact of some of the proposed measures, that we submit here for your consideration. The recommendations below seek to provide constructive suggestions that preserve regulatory objectives while minimising unintended consequences for consumers, MSMEs, and legitimate PPI use cases.

Key Recommendations and Rationale

Recommendation 1: Reconsider the Proposed Monthly Debit Cap of INR 2 Lakh and P2P Sub-limit

Reconsider the proposed monthly debit cap of INR 2 lakh and the P2P transaction sub-limit. Alternatively, increase the thresholds for fully KYC-compliant PPIs; adopt a differentiated framework based on customer category, used case, and transaction risk; and, permit enhanced limits for low-risk, fully traceable, and compliant users.

Rationale

Based on stakeholders feedback and our own analysis, we would like to state that PPIs are increasingly used for legitimate high-frequency digital transactions including utility payments, travel and transit, quick commerce, rent payment, small business transactions, and merchant payments.

Uniform limits may introduce transactional friction, reduce usability for legitimate users, push users back toward less efficient payment channels, disproportionately affect digitally dependent users, and undermine convenience-led adoption of PPIs.

We also think that the proposed limits appear prescriptive rather than principle-based in nature, especially in the absence of publicly articulated risk-based justification for the specific thresholds proposed.

Furthermore, digital transactions conducted through PPIs are inherently more traceable than cash transactions, thereby reducing certain risks associated with money laundering when compared with cash-intensive systems.

Recommendation 2: Adopt a Risk-Based and Proportional Regulatory Framework

Introduce differentiated regulation based on

- scale of operations,
- nature of wallet,
- customer profile,
- transaction type,
- interoperability level,
- KYC compliance status, and
- risk exposure

Rationale

We agree with the objective of improving oversight and consumer protection. However, there are concerns that a uniform compliance framework may disproportionately burden smaller fintech entities and low-risk use cases.

On the other hand, a proportional framework would reduce unnecessary compliance costs, support innovation, prevent excessive market consolidation, and, allow regulatory focus on higher-risk entities and activities. Since the RBI already follows scale-based regulation in other segments of the financial sector, a similar calibrated approach could be considered for PPIs.

Recommendation 3: Preserve the Financial Inclusion Role of PPIs

Ensure that regulatory tightening does not inadvertently weaken the role of PPIs as an entry point to formal digital finance.

Rationale

PPIs have historically functioned as low-friction onboarding tools and accessible digital payment instruments for first-time users. They have also been a bridge between informal cash-based users and formal financial systems.

Particular concerns are with regard to low-income users, students, migrant workers, users with limited banking access, and, individuals with low digital familiarity. Rigid limits, dormant account restrictions, and expiry-related compliance burdens could create barriers for precisely those users that PPIs originally helped formalise.

Infact, excessive friction may result in reduced adoption, user drop-offs, reversion to cash usage, and reduced financial inclusion outcomes.

Recommendation 4: Permit Enhanced Limits for Corporate and Controlled-Use PPIs

Create a separate category for:

- corporate PPIs,
- employee expense cards,
- controlled-use enterprise wallets,
- restricted merchant-category PPIs.

Consider permitting higher limits for such instruments subject to full KYC, auditability, employer accountability, restricted usage conditions.

Rationale

Corporate PPIs often differ fundamentally from retail consumer wallets because transactions are traceable, usage is employer-governed, merchant categories can be restricted, and therefore misuse risks are lower.

Unlike conventional credit cards, PPIs allow controlled expenditure, use-case restrictions, improved governance, and better expense management.

Accordingly, applying the same retail limits to enterprise PPIs may unnecessarily constrain legitimate business operations. The Draft Master Directions already espouses this principle by setting different limits for travel cards.

Recommendation 5: Clarify Regulatory Treatment of Closed-Loop and Semi-Closed Systems

Provide greater clarity and differentiated treatment for:

- closed-loop wallets,
- ecosystem-restricted PPIs,
- low-value stored instruments,
- transit and utility-linked wallets.

Rationale

Certain closed-loop systems operate within restricted ecosystems, involve low-value repetitive transactions, and carry significantly lower systemic risk. Bringing such instruments under tighter compliance structures similar to open interoperable systems may increase operational burden without commensurate regulatory benefit.

A calibrated framework could better balance innovation, consumer utility, operational practicality, and, risk mitigation.

Recommendation 6: Strengthen Fraud Monitoring Through Technology Rather Than Static Limits

Complement or partially replace rigid transaction caps with AI-enabled monitoring, behavioural analytics, real-time fraud detection, transaction pattern analysis, and enhanced suspicious transaction monitoring.

Rationale

Most fraud and mule-account risks arise from misuse patterns rather than merely transaction size. This sophisticated misuse may not adequately be addressed by the static thresholds. Rather, technology-enabled supervision may produce more targeted and effective outcomes.

We suggest that risk detection frameworks based on behavioural anomalies, velocity checks, linked account analysis, suspicious merchant categorisation could provide more efficient safeguards while preserving legitimate user convenience.

Recommendation 7: Clarify Treatment of PPI User Funds During Insolvency Proceedings

Introduce explicit safeguards regarding treatment of customer balances in the event of insolvency of a PPI issuer.

Rationale

Our consultation particularly highlighted regulatory ambiguity concerning legal characterisation of PPI balances, priority of customer claims, and treatment of escrowed funds during insolvency. It was noted that while PPIs are increasingly regulated in a quasi-deposit-like manner, equivalent depositor protections may not currently exist in insolvency scenarios.

It was recommended that

- Customer funds be explicitly ring-fenced,
- Escrow balances be treated as third-party assets, and,
- Customers receive priority protection during liquidation or resolution processes.

This would materially strengthen consumer confidence and align with broader consumer protection objectives.

Recommendation 8: Ensure Principle-Based Regulation is Reflected in Operational Design

Where possible, shift from rigid numerical prescriptions toward outcome-oriented supervisory standards.

Rationale

RBI's stated intent to move toward a principle-based governance framework. However, there are a few concerns that several provisions continue to rely heavily on hard-coded transactional restrictions.

It is suggested that supervisory flexibility, contextual assessment, differentiated risk management, may better reflect principle-based regulation than fixed numerical thresholds alone.

Recommendation 9: Consider Phased and Calibrated Implementation

Adopt a phased implementation timeline for major operational changes.

Rationale

There was overwhelming consensus that current global economic uncertainties, inflationary pressures, MSME liquidity constraints, remittance volatility, consumer dependence on frictionless digital payments make this a sensitive period for introducing restrictive transactional measures.

A phased approach would reduce disruption, allow ecosystem adaptation, permit data-driven recalibration, minimise unintended consumer impact.

We do support Reserve Bank of India's objectives of enhancing consumer protection, reducing fraud, improving governance, strengthening interoperability, and ensuring ecosystem resilience.

However, we respectfully submit that a calibrated, risk-based, and proportionate framework would better preserve innovation, competition, financial inclusion, and consumer convenience while still achieving supervisory objectives

We therefore request the Reserve Bank of India to consider the above recommendations while finalising the Draft Master Direction on Prepaid Payment Instruments, 2026.

We would be grateful for any opportunity to further engage with the Reserve Bank and provide additional data, operational feedback, or ecosystem-level analysis in support of these submissions.



About Policy Consensus Centre (PCC)

The Policy Consensus Centre (PCC), founded by Ms. Nirupama Soundararajan and Mr. Arindam Goswami, emerges with a distinct mission: to conduct impactful policy research and drive policy transformations. Our focus encompasses pivotal sectors crucial for India's advancement, along with those that have been underexplored. In the intricate landscape of India, divergent opinions often hinder consensus-building for policymakers amidst diverse stakeholders.

PCC stands dedicated to comprehensive, evidence-driven research, promoting inclusivity and rigor. Our objective resides in cultivating accord among stakeholders through independent, data-centric analysis, a catalyst for meaningful policy shifts. In a climate where some research entities avoid unconventional subjects, PCC remains resolute in advocating thorough exploration across all sectors. Our belief underscores the necessity to scrutinize seemingly unconventional domains, an approach vital for identifying accurate risks and formulating sound policies.

PCC champions the synergy of economic rationale and empirical data, pivotal in fostering consensus and enabling effective policymaker engagement. In essence, PCC embodies a pioneering spirit committed to navigating uncharted territories, propelling well-informed policy decisions for India's holistic growth.

Ms. Nirupama Soundararajan

Co-founder & CEO

Email: nirupama@policyconsensuscentre.org

Mr. Arindam Goswami

Co-founder & Partner

Email: arindam@policyconsensuscentre.org



Policy Consensus Centre

A 430 Second Floor, Defence Colony, New Delhi 110024

Email: info@policyconsensuscentre.org Website: www.policyconsensuscentre.org

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