POLICY CONSENSUS CENTRE

Policy Brief

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Stakeholder Consultation on RBI Draft Master Directions on PPIs, 2026: Regulatory Transition, Ecosystem Impact and Industry Implications

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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.

Table of Contents

List of Abbreviations

EV	Electric Vehicle
INR	Indian Rupee
KYC	Know Your Customer
MSMEs	Micro, Small, and Medium Enterprise
ODR	Online Dispute Resolution
P2P	peer-to-peer
PPIs	Prepaid Payment Instruments
RBI	Reserve Bank of India

1. Background

Prepaid Payment Instruments (PPIs) have evolved into a foundational layer of India's digital payments ecosystem, deeply embedded in everyday financial activity. What began as simple stored-value wallets has now become an essential infrastructure enabling merchant payments, utility bill settlements, subscription economies, mobility services, gig economy payouts, and household budgeting. As the regulatory framework for PPIs is being revisited, it is critical to assess not only the intended safeguards but also the potential systemic consequences on usage, inclusion, and economic efficiency. The scale of adoption today means that even incremental regulatory changes can have wide-reaching implications across consumers, merchants, and digital platforms.

With its rapid growth, PPIs are no longer peripheral financial tools; they now function as integrated digital infrastructure supporting different types transactions across the economy. Consumers use wallets for daily merchant payments, quick commerce purchases, transit systems, and recurring digital subscriptions. They also serve as tools for financial management, allowing households to separate discretionary spending from primary bank accounts and maintain better budgeting discipline. For gig economy workers and informal earners, PPIs provide immediate access to earnings and enable seamless micro-transactions. This evolution positions PPIs as a critical enabler of India's digital-first financial ecosystem rather than a supplementary payment method.

2. Regulatory Changes in RBI Draft PPI Directions, 2026

Recently, the Reserve Bank of India (RBI), released the draft Master Direction on Prepaid Payment Instruments (PPIs), 2026. The proposed draft aims to transform the operationally prescriptive framework under the 2021 Master Directions to a much more consolidated, principle-based and "ecosystem governance-oriented" framework under the draft 2026 Directions. The proposed draft does not completely overhaul the PPI ecosystem but rather suggests simplification and consolidation of categories of PPIs, allows stronger interoperability and ecosystem integration, tightens governance and conduct standards, moves toward lifecycle-based regulation of wallets/PPIs, and aligns PPIs more closely with broader RBI digital payments architecture (such as KYC, grievance, online dispute resolution (ODR), ombudsman, outsourcing, etc.).

3. Regulatory Proposals and Potential Frictions

While most of the structural changes would enhance the efficiency of PPI operation and functionality, some specific changes raised concerns amongst stakeholders of the PPI industry including digital wallet service providers, MSMEs and merchants, e-commerce platforms, payment aggregators, and low-income/informal economy users. For example, the proposed monthly debit cap of INR 2 lakh and a INR 25,000 peer-to-peer (P2P) sub-limit could restrict legitimate high-frequency users and disrupt routine payment flows such as bill settlements, insurance premiums, and gig economy payouts. Similarly, restrictions on credit card loading may reduce consumer flexibility in managing short-term liquidity, optimising rewards, and maintaining controlled budgeting systems. In parallel, the reduction of cash loading limits from INR 50,000 to INR 10,000 per month may disproportionately affect users transitioning from cash-heavy environments, particularly in semi-urban and rural segments. Additionally, mandatory expiry rules for smaller wallets and forced closure of dormant accounts may unintentionally reduce trust and continuity in digital wallet usage, especially among first-time digital adopters.

3.1 Stakeholder Implications

The impact of these changes extends across multiple stakeholder groups. For consumers, increased restrictions may translate into reduced convenience, higher transaction friction, and greater reliance on primary banking channels for everyday spending. This could diminish the flexibility that wallets currently provide for budgeting and controlled expenditure management.

Small merchants and MSMEs, many of whom have adopted QR-based wallet payments as a low-cost digital acceptance method, may experience a decline in transaction volumes and velocity. This could inadvertently increase dependence on cash transactions, slowing down the progress of digital adoption at the grassroots level.

For the gig economy and informal workforce, PPIs are deeply integrated into payment systems that support instant payouts, incentives, and micro-transactions. Any restrictions on throughput or transfer flexibility could disrupt operational models across delivery platforms, mobility services, and freelance ecosystems that depend on real-time liquidity. The proposed regulations will also increase the operational burden on smaller fintech companies with additional compliance measures.

3.2 Financial Inclusion and Innovation Risk

One of the most significant roles played by PPIs is in advancing financial inclusion. They serve as entry-level digital financial instruments that allow users with limited banking access or low digital familiarity to participate in the formal financial system. Their low-friction onboarding and ease of use make them particularly important for first-time digital users.

However, measures such as mandatory expiry cycles and forced migration of balances may create unintended barriers to sustained adoption. Instead of encouraging continued usage, such provisions may lead to drop-offs among new users who view wallets as transitional financial tools. Beyond inclusion, PPIs also enable emerging innovation use cases such as family wallets, delegated payments for senior citizens, teen spending controls, EV charging payments, IoT-based transactions, and smart mobility ecosystems. Overly restrictive frameworks could slow the development of these next-generation financial applications.

3.3 Geopolitical Context and Need for Payment Stability

The broader macroeconomic environment adds further relevance to the regulatory debate. Ongoing geopolitical tensions, particularly in West Asia, have introduced heightened uncertainty for Indian households, MSMEs, and migrant workers who depend on predictable financial systems. In such periods of volatility, financial behaviour typically prioritises liquidity access, spending flexibility, seamless digital transactions, and low-cost payment mechanisms.

At the same time, public guidance encouraging financial prudence underscores the importance of stability in everyday payment infrastructure. Introducing additional friction into widely used digital payment systems during such uncertain times may unintentionally amplify stress for consumers and small businesses. PPIs currently serve as a stabilising tool by enabling controlled spending, quick access to funds, and financial segmentation, all of which become especially valuable in uncertain global conditions.

4. Scope of the Discussion

In this regard, the Policy Consensus Centre held a stakeholder consultation to convene diverse voices from the PPI ecosystem including wallet-based services, MSMEs and merchants, platform-based service providers, banks and payment aggregators, foreign visitors and consumers (users) of wallet-based services. The consultation examined the Reserve Bank of India's draft Master Direction on Prepaid Payment Instruments, 2026, and its likely effect on the payment's ecosystem. The discussion further helped understand if the proposed draft strike the right balance between innovation, financial integrity, and consumer protection.

5. Summary of the Discussion

Participants broadly welcomed the shift from an operationally prescriptive framework to a consolidated, principle-based one, along with the move towards stronger interoperability, unified grievance redressal and closer alignment with the wider digital payment's architecture. At the same time, several specific provisions drew concern. The proposed monthly debit cap of INR 2 lakh, the peer-to-peer sub-limit, restrictions on credit card loading and the reduction in cash loading limits from INR 50,000 to INR 10,000 were seen as measures that could introduce friction for legitimate high-frequency users, including those paying utility bills, insurance premiums and rent, and those transacting through gig and delivery platforms. The absence of a clearly stated, risk-based rationale for these specific thresholds was raised repeatedly, along with the observation that a flat cap sits uneasily with the stated intent of principle-based regulation.

The discussion also considered the wider consequences of the draft for financial inclusion, competition and consumer protection. Participants noted that prepaid instruments have served as a low-friction entry point to formal digital finance for first-time users, students, migrant workers and low-income households, and that mandatory expiry cycles and forced closure of dormant accounts could weaken this role rather than strengthen it. Questions were raised on whether tighter compliance requirements would disproportionately burden smaller fintech entities and push the market towards consolidation, and on whether static transaction limits are an effective response to fraud when technology-enabled monitoring could achieve the same outcome with less disruption. A separate concern centred on the treatment of customer balances held in prepaid instruments in the event of an issuer's insolvency, an area the draft leaves largely unaddressed. Participants also weighed the timing of the reforms against a backdrop of geopolitical uncertainty and its bearing on household and MSME liquidity, and generally favoured a phased and calibrated rollout over an abrupt one. The session closed with broad support for the RBI's underlying objectives of consumer protection, fraud reduction and ecosystem resilience, alongside a shared view that the specific numerical thresholds proposed would benefit from further evidence and recalibration before finalisation. The following recommendations emerged from this discussion.

6. Recommendations

Monthly Debit Cap and Peer-to-Peer Sub-limit

Reconsider the proposed monthly debit cap of INR 2 lakh and the P2P transaction sub-limit. Increase thresholds for fully KYC compliant instruments, adopt a differentiated framework based on customer category and transaction risk, and permit enhanced limits for low-risk, fully traceable and compliant users. Any final thresholds should be supported by published, risk-based data rather than applied uniformly.

Risk-based and Proportional Regulation

Move towards differentiated regulation based on scale of operations, nature of the wallet, customer profile, transaction type, interoperability level, KYC status and risk exposure, consistent with the scale-based approach the RBI already follows in other segments of the financial sector.

Financial Inclusion

Ensure that tighter lifecycle and compliance rules do not weaken the role of prepaid instruments as an entry point to formal finance for low-income users, students, migrant workers and those with limited banking access or digital familiarity.

Corporate and Controlled-Use Instruments

Create a distinct category for corporate prepaid instruments, employee expense cards and restricted merchant-category wallets, with higher limits permitted subject to full KYC, auditability and employer accountability, in recognition of their materially lower misuse risk relative to retail wallets.

Closed-Loop and Semi-Closed Systems

Provide clearer, differentiated treatment for closed-loop wallets, ecosystem-restricted instruments and low-value, transit or utility-linked wallets, given their lower systemic risk relative to open interoperable systems.

Fraud Monitoring

Complement or, where appropriate, replace static transaction caps with technology-enabled monitoring, including behavioural analytics, velocity checks and real-time pattern detection, which can address misuse more precisely while preserving convenience for legitimate users.

Treatment of Funds in Insolvency

Introduce explicit safeguards for customer balances held in prepaid instruments in the event of an issuer's insolvency. Customer funds should be ring-fenced, escrow balances treated as third-party assets, and customers given priority during liquidation or resolution, in line with protections available to depositors.

Principle-based Design

Where feasible, replace fixed numerical prescriptions with outcome-oriented supervisory standards, allowing for contextual assessment and differentiated risk management consistent with the RBI's stated principle-based intent.

Phased Implementation

Adopt a phased and calibrated timeline for major operational changes, given prevailing global economic uncertainty, inflationary pressure and MSME liquidity constraints, to allow the ecosystem to adapt and permit data-driven recalibration before full enforcement.

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