

Future of Meal Card Solutions amidst RBI Guidelines for Prepaid Payment Instruments (PPIs)



With the advent of Digital India, the Reserve Bank of India has undertaken a comprehensive review of the guidelines relating to issuance and operation of Prepaid Payment Instruments (PPIs) including meal cards, gift cards, loyalty cards etc. and issued Master Directions on Issuance and Operation of Prepaid Payment Instruments in October 2017. With this, it has also taken a step forward towards digitisation of meal solutions and other such instruments. This article intends to take an overview of the changing face of PPIs with special emphasis on the meal solutions. It also shares certain key insights upon the future of growth and opportunities for the PPI sector. Read on to know more....

The ease of use of various Prepaid Payment Instruments (PPIs) like meal cards, gift cards, loyalty cards etc. has helped them gain acceptance among a vast majority of people in India. The growing usage of PPIs for purchase of goods and services as well as funds transfer and employee benefits like meal benefits, conveyance reimbursements, medical reimbursements etc. has invited the attention of the regulatory bodies like the Reserve Bank of

India (RBI) to strengthen the norms for safety, security, risk mitigation and customer protection aspects related to usage of PPIs. Accordingly, the RBI has undertaken a comprehensive review of the instructions relating to the issuance and operation of PPI and issued Master Directions on Issuance and Operation of Prepaid Payment Instruments in October 2017.

The major changes made in the Master Directions relate to eligibility to issue semi-closed and open system PPIs, regulatory and KYC requirements, safeguards against Money Laundering (KYC/AML/CFT) provisions, rationalisation of types of PPIs, issuance and loading of PPIs, customer service, grievance redressal and protection-related aspects such as security, fraud prevention and Risk



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Management Framework of such instruments as also the system, deployment of unused balances, fraud monitoring, audit and reporting requirements etc.

Types of PPIs

PPIs are broadly classified under the following three categories:

- (i) **Closed system PPIs** - These are PPIs issued by an entity, including individuals, proprietorship firms, partnership firms etc., for facilitating the purchase of goods and services from that entity only. These instruments do not permit cash withdrawal or redemption. As these instruments cannot be used for payments and settlement for third-party services, the issue and operation of such instruments are not classified as payment systems requiring approval/authorisation by the Reserve Bank of India. This can be compared with vouchers issued by food retail chain for purchases from that brand outlet itself.
- (ii) **Semi-closed system PPIs** - These are PPIs which can be used for purchase of goods and services, including financial services, remittance facilities etc. at a group of clearly identified merchant locations/establishments which have a specific contract with the issuer (or contract through a payment aggregator/payment gateway) to accept the PPIs as payment instruments. These instruments do not permit cash withdrawal, irrespective of whether they are issued by a bank or non-bank PPI Issuers. Most of the mobile wallets are examples of semi-closed system PPIs.
- (iii) **Open system PPIs** - These are PPIs which shall be only issued by banks, can be used for the purchase of goods and services, including financial services, remittance facilities etc., at any merchant locations e.g. gift cards etc. Banks issuing such PPIs shall also facilitate cash withdrawal at ATMs/Point of Sale (PoS)/ Banking Correspondents (which work as agents of the bank in unbanked/under-banked geographies).

Government's Digital India Initiatives

Post demonetisation, the government has been actively working towards creating a less-cash economy. Digital payment systems are being encouraged for the growth of a less-cash society in India. Recently launched BHIM (Bharat Interface for Money) app based on Unified Payments Interface (UPI) to facilitate e-payments directly through banks

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is one of the live examples reflecting the commitment of the government in this direction.

Similarly, the requirement of issuing PPIs like meal cards, gift cards etc. only in electronic form will positively contribute in encouraging the shift from cash culture towards digital payment society.

Meal Vouchers as a Tax-Saving Employee Benefit

Companies have found that providing their employees with meal vouchers that can be used during a working day to buy meals have improved productivity. In fact, the International Labour Organisation (ILO) recognises meal voucher programs as being important to an employee's health and well-being.¹ Frequently used by employees at office cafeterias to have lunches (often subsidised), meal vouchers are a popular tax saving tool offered by most Indian companies.

The valuation of the perquisite embedded in the provision of the food and non-alcoholic beverages or meal vouchers is guided by Rule 3(7)(iii) of the Income Tax Rules, 1962. It states as below:

"The value of free food and non-alcoholic beverages provided by the employer to an employee shall be the amount of expenditure incurred by such employer. The amount so determined shall be reduced by the amount, if any, paid or recovered from the employee for such benefit or amenity.

Provided that nothing contained in this clause shall apply to free food and non-alcoholic beverages provided by such employer during working hours at office or business premises or through paid vouchers which are not transferable and usable only at eating joints, to the extent the value thereof in either case does not exceed fifty rupees per meal or to tea or snacks provided during working hours or to free food and non-alcoholic beverages during working hours provided in a remote area or an off-shore installation."

As quoted above, the Income Tax rules provide an exemption to the extent of ₹ 50 per meal in respect

¹ Food at Work – Workplace Solutions for Malnutrition, Obesity and Chronic Diseases by Christopher Wanjek, Published by International Labour Organisation

of the value of food and non-alcoholic beverages or meal vouchers provided by the employer. If the value of food and non-alcoholic beverages or meal vouchers exceeds ₹50 per meal, the value in excess of the amount shall be made taxable. This rule does not specify the number of meals which can be consumed per day. As such, one or two meals per day during the working hours can be considered reasonable.

Further, to ensure the usage of meal vouchers for the intended reasons, the same are not transferable in any other form and can be utilised only for the purchase of food and non-alcoholic beverages.

Future of Meal Vouchers - Meal Cards and Digital Meal Solutions

RBI has allowed banks and non-bank entities to issue prepaid meal instruments subject to the following conditions:

- Such PPIs shall be issued only as semi-closed PPIs, in electronic form that are reloadable.
- No prepaid meal instruments in paper voucher form shall be issued after February 28, 2018.
- No cash withdrawal or funds transfer shall be permitted from such instruments.
- The amount outstanding at any point in time in such PPIs shall not exceed ₹1,00,000/-. However, if customer KYC is still pending and only minimum details have been provided including duly verified mobile number and identity proof, the amount outstanding may not exceed ₹10,000/- at any point in time.
- All PPIs issued in the country shall have a minimum validity period of one year from the date of last loading/reloading in the PPI. PPI issuers are free to issue PPIs with a longer validity.

Here are the key takeaways for the meal voucher program arising out of the master directions issued by the RBI:

- Meal vouchers in paper format will not be issued beyond February 28, 2018.
- Meal vouchers, like all other prepaid instruments,

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can only be issued in electronic form and will be reloadable. This includes magnetic stripe cards, mobile and internet wallets and smart cards.

As such, paper vouchers will no longer be a tenable solution for the company to offer tax-friendly meal options for their employees. However, prepaid meal instruments in form of meal cards and digital meal solutions can be used instead.

Customer Protection and Grievance Redressal Framework

To enhance the faith and trust for the widespread use of PPIs in the country, RBI has also laid down several measures in respect of customer protection and grievance redressal as below:

- PPI issuers shall disclose all important terms and conditions in clear and simple language (preferably in English, Hindi and the local language) to the holders while issuing the instruments. These disclosures shall include the associated fees, charges and the expiry date of such instrument.
- PPI issuers shall put in place a formal, publicly disclosed customer grievance redressal framework, including designating a nodal officer to handle the customer complaints/grievances, the escalation matrix and turn-around-times for complaint resolution.
- PPI issuers shall clearly outline the amount and process of determining customer liability in case of unauthorised/fraudulent transactions involving PPIs.
- PPI issuers shall provide an option for the PPI holders to generate/receive account statements for at least the past 6 months.

Benefits for the Employers through Digital Instruments

Why the changes are beneficial for employers

The proposed shift from physical to digital instruments entails following benefits to the employers:

- Offering Tax-Friendly Options to Employees-** Even while the physical meal vouchers provided the same tax benefits, the employees will be more keen on accepting meal cards or digital meal solutions, as the same can be used even for online payments etc.
- Administrative Ease-** The meal cards/digital meal solutions can be loaded with one click for

all the active solutions. In the case of physical vouchers, the companies would have to set up a team to administer and distribute the vouchers. A shift to a digital meal voucher solution will help companies streamline the process of managing this employee benefit in lesser time and costs.

3. **Adherence to compliance**– The tax benefits often come with an added compliance burden for the employers. With meal cards and other digital meal solutions, restrictions on the use of the cards can be inbuilt within the card itself.

Why digital meal solutions are beneficial for employees

The shift from physical to digital instruments will emerge as a win-win situation for both employers and employees. This is how it benefits the employees:

1. **Tax Savings**– Since a meal card is easier to carry, employees will be inclined to opt for meal cards than meal vouchers. This will result in tax savings in the hands of the employees.
2. **No issues for broken payments**– Digital meal vouchers come in fixed denominations and as such, either have to be used in conjunction with cash or letting off the balance value, in case the billing at the food outlet is not equal to the denomination value. Such issues are eliminated with meal cards, as exact balance can be deducted from the card.
3. What about no fear of losing physical vouchers?
4. Or, keeping a track on expenses?

The Way Forward for PPI Industry

While meal vouchers are already making a move to go digital from physical meal vouchers, the industry is moving towards digitisation of other employee benefits like conveyance reimbursements, telephone and mobile reimbursements, medical reimbursements etc. Further, through government's continued thrust on digital economy and the RBI's master directions on issuance and operation of PPIs, the industry is undergoing a paradigm shift. As per the statistics released by RBI in its monthly bulletins, the total volume of transactions through PPIs was 748 million in 2015-16. However, this volume was surpassed in the 4 months post demonetisation (November 2016-February 2017) with PPIs clocking 1,006 million transactions in the period. While the country is slowly settling down in the post-demonetisation era, the continued usage of PPIs as a payment system is an encouraging signal. During the

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first 7 months of FY 2017-18 (April 2017 to October 2017), a total of 1903 million transactions were made through Prepaid Payment Instruments.

The industry is at an inflection point led by fast-changing consumer behaviour, government/regulatory initiatives, ever-increasing entrepreneurial activity and strong investor appetite. Further, by prescribing several customer-friendly measures including putting in place a grievance redressal framework, the usage of PPIs is expected to show an encouraging growth in the times to come. This synergy is unleashing tremendous innovation and would transform the financial services/payment sector in India. It is expected that by 2020,

- 40% of merchants are expected to have electronic payment acceptance devices like PoS, NFC reader.
- 50% of total internet population expected to be constituted by rural residents.
- 70 –80% Indians will use their mobiles to access internet-enabled services.
- 50% of the bill payment transactions will be using electronic channels.

Smartphone penetration, increasing awareness about digital payments, preference for hassle-free transactions and secured payment solutions are driving growth for digital payments.²

Conclusion

PPIs are indeed going to be the talk of the town in the time to come as emerging companies and startups are introducing innovative and effective ways in their way of working. Charles Darwin stated once, it will be the 'Survival of the Fittest' and in this case those who adapt more quickly and more swiftly to the changing business requirements will be the 'fittest'. With PPIs reshaping the financial systems, it is going to be a win-win situation for the consumers at large. ■

² Axis Direct Research Report – 29Jun16, NPCI – Driving Digital Payment Revolution