

MERCHANT DISCOUNT RATE



INTRODUCTION

Merchant Discount Rate (MDR) is a fee charged from a merchant by a bank for accepting payments from customers through credit and debit cards in their establishments. MDR compensates the card issuing bank, the lender which puts the PoS terminal and payment gateways such as MasterCard or Visa for their services.

AMENDMENT

Effective **1 Jan 2020**, the government waived MDR on payments made through prescribed electronic modes. **It has made it a must for every business with a turnover above Rs 50 crore to provide the option of digital payments through UPI, RuPay card and QR code to all customers, without any MDR charges.** It was indicated that the RBI and the concerned banks will absorb these costs from the savings that will accrue to them on account of handling less cash as people move to these digital modes of payment.

This revenue, for RuPay debit card, is expected to be around Rs 1,000 crore for 2020, while for BHIM-UPI, it is expected to be around Rs 800 crore.

RBI Report

The RBI had set up a committee to study the use of QR codes to process contactless transactions. Apart from this, the committee has discussed various aspects of the digital payment system such as inter-operability, scalability, innovation, awareness, privacy and security.

One of the most critical recommendations by RBI was allowing a lower fee instead of zero MDR.

“The government should allow a lower controlled interchange instead of zero MDR on QR code, UPI and RuPay debit card transactions, as well as give tax incentives to merchants who accept electronic transactions and promote incentive schemes to improve popularity of QR code-based transactions.”

The payments industry has spent more than Rs 2,000 crore in digital payments promotion and continues to invest more than Rs 1,000 crore in capital expenditure annually, the committee noted. Such action by the government will impact the ability to achieve the government’s goal of 4000 crore digital transactions and digital India initiative.

The RBI has highlighted that **opting for zero MDR by the government had a negative impact on the payment ecosystem** that is **impacting the survival of payment gateway entities, hampering innovation efforts and resulting in job losses and a slowdown in the expansion of the digital payment infrastructure in India.** The impact was maximum for the SME sector, and several jobs are directly or indirectly disappearing as there are no incentives or incomes for deploying QR codes.