

# WHY MDR REMAINS A THORNY ISSUE FOR PAYMENTS PLAYERS

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## What are merchant discount rates?

Merchant discount rate (MDR) is a charge paid by merchants to banks and payment service providers for every transaction by giving them infrastructure to accept digital payments during a transaction. The cost is shared by the acquirer bank, the bank whose customer made the payment, and the card network provider such as Visa, MasterCard, RuPay. It is applicable on peer-to-merchant payments or commercial transactions. Starting 1 January 2020, the Union finance ministry scrapped MDR for all RuPay and UPI transactions, even as banks were allowed to impose the cost using other card payment networks.

## Why was the MDR for RuPay, UPI scrapped?

The announcement to scrap MDR for RuPay and Unified Payments Interface transactions was first made during Union budget in July 2019. The Union finance ministry had then said that from 1 January 2020, businesses with annual turnover of more than 50 crore will have to offer low-cost digital payment options to customers and MDR is not levied on either customers or merchants. The decision was taken to boost payments through home-grown real-time payments system UPI at merchant locations, along with RuPay debit cards. The idea is also to address tax evasion by digitizing monetary transactions.

## How does this impact digital payment players?

The payments industry says it negatively impacts their revenue and affects small startups and fintech companies, as banks are not able to pay for their service. Banks are also not investing in additional infrastructure to support smooth flow of digital payments. It is for this reason that these companies are asking to be compensated for the infrastructure.

## How are customers affected in this cycle?

Consumers have gained the most because of the steps that have been taken by the government to boost digital payments in the country. However, they have also been increasingly facing failure in UPI-related payment transactions. UPI payments do not impose any cost on the customer or the merchant as the MDR is zero. As a result, experts believe that banks do not have any incentive for making greater investment to ensure that the UPI system is robust or to get more customers to adopt the real-time digital payments system.

## What is the way going ahead?

The government could look at the various options that are available to reimburse MDR to payment players for merchant transactions on UPI and the RuPay network. Government officials have held meetings with private digital payment firms recently to hear their grievances. According to executives, the government is modelling costs to understand the extent of funds that could be required to reimburse transaction fees for UPI and RuPay payments for a year. However, no decision has been taken in this regard yet.

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