

Merchant Discount Rate(MDR)

June 28, 2020

Why in news?

- Recently, the government has mandated that neither the customers nor the merchants will have to pay the Merchant Discount Rate(MDR) while transacting digital payments **using BHIM UPI, UPI QR Code, Aadhaar Pay, Debit Cards, NEFT, RTGS, among others.**
- Department of Revenue (DoR) will notify RuPay and UPI as the prescribed mode of payment for undertaking digital transactions without any MDR. Accordingly, all companies with a turnover of 50 crore or more shall be mandated by DoR to provide the facility of payment through RuPay Debit card and UPI QR code to their customers

What is MDR?

- **MDR** is the cost paid by a **merchant** to a bank for accepting payment from their customers via digital means
- It is the sum total of all the charges and taxes that a digital payment entails. For instance, the MDR includes bank charges, which a bank charges customers and merchants for allowing payments to be made digitally. Similarly, MDR also includes the processing charges that a payments aggregator has to pay to online or mobile wallets or indeed to banks for their service.

Why are non-bank payment service providers complaining?

- Contrary to public perception, the MDR has not been made zero. The FM's decision has just shifted its incidence on to the RBI and banks.
- However, if banks pay for the MDR it will adversely affect their likelihood to adopt the digital payments architecture.
- Moreover, many payments providers apprehend that the

banks will find a way of passing on the costs to them.

- In turn, this will negatively impact the health of a sector that needs nurturing.