

UPI and RUPAY

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Source: *The Hindu*

Manifest pedagogy: The transformation towards a less cash economy along with possible downstream benefits of using electronic payments in terms of Fastag, broadening of tax collections and operational efficiency, the innovation made through UPI/RUPAY have been a step in the right direction. India has been able to establish itself in the fintech sector and beyond with these initiatives.

In news: With a view to promote digital payments, no MDR charges will be applicable on Rupay and UPI from Jan 1, 2020.

Placing it in syllabus: Cashless Economy

Static dimensions: Digital payments & Demonetization

Current dimensions: MDR& MDR rules for UPI, RuPay

Content:

Digital payments:

- **“Faceless, Paperless, Cashless”** is one of professed role of Digital India.
- As part of promoting cashless transactions and converting India into less-cash society, various modes of digital payments are available.
- **These modes are:** Banking Cards, USSD, Aadhar Card, AEPS, UPI, Mobile Wallets, Banks Prepaid Cards, Point of Sale (PoS), Internet Banking, Mobile Banking, Micro ATMs.

The **Reserve Bank of India** has forecast an outcome of 50 per cent increase in mobile-based payment transactions as per its **‘2021 vision document’**.

According to **global advisory KPMG**, digital payments in India

are witnessing thriving growth with a **compound annual growth rate (CAGR) of 12.7 per cent** in the number of non-cash transactions.

One of the key factors which played a transformational role and democratized mobile payments in India was the **role played by wallet players**. Another factor that has led to the next wave in mobile payments is the **Unified Payments Interface (UPI)-based real time payments**.

Some factors such as **inter-operability** and possibility of origination **across different platforms** such as mobile wallets, are further fuelling the growth of UPI transactions. The **volume of UPI transactions have increased at a CAGR of 246 per cent during the period from 2016-17 to 2018-19**.

Demonetization:

- Demonetization is a **process of stripping a currency unit of its status as a legal tender**.
- Once demonetized, the currency unit will **no longer be valid as legal currency**.
- Usually, a new currency replaces the old currency unit/s.
- In **1946**, the Reserve Bank of India had demonetized Rs. 1,000 and Rs. 10,000 currency notes which were then under circulation.
- In **1954**, the Government introduced new currency notes of Rs. 1,000, Rs. 5,000, and Rs. 10,000 which were demonetized in 1978.
- On **November 8, 2016**, honourable PM Narendra Modi announced the demonetization of the currency notes of Rs. 500 and Rs, 1,000.

Benefits:

- It will help formalize India's informal economy and help in the creation of a less-cash economy.
- It will plug financing to terrorists.

- It will help unearth black money.
- Will expand the fiscal space of the government.
- It will help in increasing savings.
- It will help in reducing interest rates in the banking system.
- Reduce counterfeit currency notes.

Merchant Discount rate (MDR):

- 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.
- MDR charges are **usually shared in pre-agreed proportion between the bank and a merchant** and is expressed in percentage of transaction amount.
- Since 1 January, 2019 small merchants pay a maximum MDR of 0.4% of bill value and larger merchants pay 0.9%.

MDR rules for UPI and Rupay:

- In order to promote digital payments, **no MDR charges will be applicable on transactions through RuPay and UPI platforms from January 1, 2020.**
- RuPay and UPI will be notified soon as the prescribed mode of payment for digital transactions without any MDR by the **Department of Revenue (DoR).**
- The **business establishments with annual turnover of Rs 50 crore or more** shall offer such low-cost digital modes of payment to their customers and no charges shall be imposed on customers as well as merchants.
- Now **indigenously developed** digital payment medium like RuPay and BHIM UPI will have edge over the payment gateway promoted by foreign companies.
- **RBI and banks will absorb these costs** from the savings that will accrue to them on account of handling less

cash.

- Two laws- **Income Tax Act and the Payments and Settlement Systems Act**, 2007 have already been amended to give effect to these provisions.

Criticisms:

- According to the **Payments Council of India**, there will be a significant negative impact on the payment ecosystem – innovation, job losses and a slowdown in the expansion of the digital payments.
- If there is zero revenue to be made from the over 500 million-plus active RuPay debit cards, service providers will start withdrawing PoS terminals to cut their losses.
- Multinational electronic payment companies such as Visa and Mastercard are likely to face losses.
- The move could affect credit card companies in the long run as more people will be influenced to make payment through cheap UPI platforms.