

# Niti Aayog Pushes for Lower MDR

Govt think-tank also says there should be no charge on transactions made using Aadhaar-enabled payment system

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**New Delhi:** The government has expressed its reservations over the merchant discount rates (MDR) proposed by the Reserve Bank of India, saying that these are too high and will act as a dampener on the massive digital transaction drive underway in the country in the aftermath of demonetisation.

The Niti Aayog has clearly stated that it does not support any charge on transactions made using the Aadhaar-enabled payment system, while low or no charges should be imposed on debit card transactions as there are no risks involved, a senior official told ET on condition of anonymity.

According to the official, even though some amount of financial risk is involved as far as credit card transactions are concerned, bank fees should not be so high that they discourage users from using plastic and compel them to return to cash transactions.

"Digital transactions must be brought at par with the cash transactions as we aim to move from low-volume, high-value transactions to high-volume, low value transactions under the digital payment drive," the Niti Aayog official added.

The ministry of electronics and IT has however taken a slightly

## Points of Contention

**GOVT NOT KEEN ON MERCHANT DISCOUNT RATES PROPOSED BY RBI**

**What Niti Aayog says:**

- **MDR will hit** digital transaction drive after note ban
- **High bank fees** will discourage users from using plastic
- **Digital transactions must** be brought at par with cash


**MeitY is however** keen to help all stakeholders

**Ministry has sent** recommendations to RBI on MDR issue

**RBI lowered MDR** on debit card transactions till March 31

**MDR for debit card** transactions was capped between **0.75%** and **1%**

**RBI now has to create a long-term MDR regime**



more relaxed view and is keen to adopt international practices to ensure that all stakeholders benefit.

According to a senior official of the IT ministry, recommendations have been sent to the central bank on the MDR issue.

"We are not saying that there should be zero MDR," the official said. "We understand that there are multiple stakeholders involved and so we are saying that the rate should be such that the interest of stakeholders is met while the customers don't feel a burden. We are working with the regulators on this issue and have called for a discussion where we can look at international best practices and take a call on this matter."

RBI had significantly lowered MDR on debit card transactions until March 31 to support the digital payment drive kick-started by the government. However, a long-term MDR regime has to be put in place by the central bank so there's clarity for banks, merchants and consumers.

The effects of a reduced MDR rate should be offset by increased volume as transactions rise exponentially following demonetisation, said another government of-

## THE DEBATE

If there is a less-cash economy, then the cost of maintaining ATMs etc. should come down for banks, which will make up for so-called loss of MDR from digital transactions

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cial. "If there is a less-cash economy, then the cost of maintaining ATMs etc. should come down for banks, which will make up for so-called loss of MDR from digital transactions," he said.

However, in the case of Aadhaar Pay, there should not be any MDR on merchants and they should instead be incentivised since they have to deploy additional infrastructure such as biometric devices.

The central bank had released draft norms that proposed to link MDR to the annual revenue of the merchant, a departure from the current flat rate charged on all such transactions.

In 2012, RBI capped the MDR for debit card transactions of up to Rs 2,000 at 0.75% and at 1% for those

above that.

The draft norms propose to create four different classes of merchants—smaller ones that have an annual turnover of up to ₹20 lakh; government transactions; special category merchants; and all others that have an annual turnover of over ₹20 lakh.

The special category merchants include those that provide services related to utilities, hospitals, educational institutions excluding coaching classes, insurance, mutual funds, army canteens, state transport and state waterways, and agriculture and allied activities.

According to the proposed regulations, smaller merchants and those in the special category will be charged MDR not exceeding 0.4% on physical transactions at point of sale (PoS) or other terminals and at a rate not exceeding 0.3% for online transactions.

Above ₹20 lakh, physical transactions will be charged at a rate not exceeding 0.95%, while online transactions will be charged an MDR not exceeding 0.85%.

For government transactions, the draft guidelines propose a flat fee on small-value transactions. For transactions up to ₹1,000, they suggest a flat fee of ₹5, while those between ₹1,001 and ₹2,000 will attract a ₹10 charge.

For all government transactions worth ₹2,001 and above, the RBI proposes a 0.5% merchant discount rates.