Merchant Discount Rate

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Why in News?

The Union Finance Ministry dismissed reports of the government planning to levy a merchant discount rate (MDR) on large-ticket UPI transactions.

- The Merchant Discount Rate (MDR) is a fee that businesses, including merchants, must pay to payment processing companies for facilitating transactions.
- It is done through digital payment methods such as credit cards, debit cards, and Unified Payments Interface (UPI).
- This fee serves to compensate various entities involved in the payment process, including the bank that issues the card, the bank that provides the Point of Sale (PoS) terminal, network providers, and payment gateways for their respective services.
- The MDR encompasses all associated charges and taxes related to electronic or digital payments, typically expressed as a percentage of the transaction amount, which generally ranges from 1% to 3%.
- The specific rate applied can vary based on factors such as the
    - Volume of business transactions,
    - The types of cards used (debit or credit), and
    - The average transaction value, often referred to as average tickets or average sales.
- Before merchants can accept card payments, they must establish this service and agree to the applicable MDR rate.
- Merchants need to factor these fees into their overall business expenses and pricing strategies.
- Notably, MDR charges are automatically deducted from the merchant's account during the settlement of transaction batches.
- Furthermore, according to regulations set by the Reserve Bank of India (RBI), ***business owners are prohibited*** from passing these MDR charges onto their customers, ensuring that the cost remains a part of the merchant's operational expenses.

Reference

MoneyControl | Merchant Dicount Rate

