Merchant Discount Rate in Petrol Pumps

Why in news?

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The All India Petroleum Dealers Association recently announced that **petrol pumps across the country would not accept credit or debit cards** in protest against the Merchant Discount Rate, the burden of which was placed entirely on the dealers. The association later deferred this move till January 13 after the transaction fees were waived till that date.

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What is Merchant Discount Rate?

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- **The rate charged to a merchant by a bank for providing debit and credit card services.**
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- The merchant must set up this service with a bank, and agree to the rate prior to accepting debit and credit cards as payment.
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- At the moment the charges are one per cent on all credit card transactions and 0.25-1 per cent on all debit card transactions.
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Why the dealers protest?

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- After the demonetisation exercise began, the government had waived the service tax on the MDR surcharge from December 8 for card-based payments up to Rs. 2,000 and got banks to waive the MDR charges on debit cards till December 31, 2016.
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- Banks are expecting some revenue in return for facilitating transactions through point of sale (PoS) devices.

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- Fuel dealers raised a red flag on the **decision by certain banks to levy the MDR of up to one per cent on card payments.**
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How the central government handles the MDR issue?

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- By Monday, the Petroleum Minister said that **neither the consumer nor the dealers would bear the MDR for fuel refills even after January 13.**
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- Since November 8, public sector banks have been advised by the Centre to charge a maximum of Rs. 100 a month as PoS device rentals from small merchants, and the move has benefited 6.5 lakh of the 15 lakh PoS devices.
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- Public sector oil marketers were asked to offer a 0.75 per cent discount to customers using non-cash means to tank up.
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- The Railways, public sector insurers and others have been asked to offer discounts or charge lower rates for cashless transactions.
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Way ahead:

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- Petroleum outlets are particularly important for a cash-lite economy push as they handle nearly Rs. 2 lakh crore of cash a year.
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- In a situation where people are cash-strapped and the government is nudging them towards alternatives, the uncertainty of the sort created at fuel pumps should be avoided as it could lead to a crisis of confidence.
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- Last February the Cabinet had given the **nod for rationalising MDR charges**. An expert panel to recommend legislative and other changes was constituted in August and it mooted greater transparency in fees for digital payments, protection for private data of consumers, a mechanism to ensure they will not be liable to pay for unauthorised transactions or system errors, and the creation of a new payments regulator.
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- To build confidence in a less-cash economy, people elbowed into a new way of life need clarity and consistency in policy along with a visible road map to secure their confidence.
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