Revision of MDR

Why in news?

\n\n

RBI announced a revision of the MDR, which is set to come into effect from January 1, 2018.

\n\n

What is MDR?

\n\n

\n
- Merchant discount rates (MDR), is the charge that a merchant has to pay to the bank concerned every time a consumer uses his debit card on the point-of-sales (PoS) machine.
\n
- Currently, MDR is 0.25 per cent for purchases below Rs 1,000 and 0.5 per cent for those between Rs 1,000 and Rs 2,000.
\n
- According to the revised rates for shops up to revenue of Rs 20 lakh per year, MDR will be 0.4 per cent of the purchase value or Rs 200, whichever is lower.
\n
- For stores above that bracket, MDR will be 0.9 per cent or Rs 1,000, whichever is lower.
\n

\n\n

What is the need for this move?

\n\n

\n
- 90% of the MDR margin is cornered by the bank issuing the debit card, enabling digital transactions does involve costs such as PoS machines, debit cards, and the transaction technology.
\n
- A lower MDR would reduce the economic incentive for banks to provide such

services.
\n
- In fact, the RBI has argued that even this marginal increase in the MDR is not adequate to cover all the costs.
\n
- Clearly, a lower MDR can only work when there is a big enough scale of such digital transactions.
\n

\n\n

What are the concerns with revised rates?

\n\n

\n
- As of now, merchants are charged based on a consumer's transaction amount.
\n
- According to the RBI's new scheme, the MDR will be levied on the basis of the turnover of the merchants, the key point of distinction being an annual turnover of Rs 20 lakh.
\n
- Due to this even small-value transactions will turn out to be costly, and retailers would pass on the extra cost to customers, even though the MDR is not supposed to be paid by consumers.
\n
- This change will provide a disincentive for consumers and merchants to transact digitally and hamper the increasing use of debit cards, especially in the rural segment.
\n
- Another concern is the distribution of the MDR among the issuers, the acquirers, and the card networks.
\n

\n\n

\n\n

Source: Business Standard

\n

SHANKAR IAS PARLIAMENT
Information is Empowering