UPI Payment Charges

What is the issue?

After the RBI's discussion paper seeking stakeholder views on charges in payment systems, the Finance Ministry clarified that there is no consideration in the government to levy any charges for UPI services.

What is Unified Payments Interface?

- UPI is a system that powers multiple bank accounts into a single mobile application, merging several banking features, seamless fund routing & merchant payments into one hood.
- It also caters to the "Peer to Peer" collect request which can be scheduled and paid as per requirement and convenience.
- The interface is developed by the **National Payments Corporation of India (NPCI)** and regulated by the Reserve Bank of India (RBI).

To know more about UPI interface, click here

What did the RBI discussion paper say?

- The RBI had asked stakeholders if merchant discount rate (MDR), a fee paid by merchants to acquiring banks, should be brought back for UPI transactions.
- There are four types of charges
    - Merchant discount rate (MDR)
    - Intercharge- carved out of MDR and shared with the payment issuer
    - Convenience fee- charged by merchants for providing service
    - Surcharge- charged for processing a transaction through a certain payment mode in addition to MDR
- Much of the discussions revolve around MDR and intercharges.
- Levies across all categories of digital payments – IMPS, NEFT, RTGS, UPI and payment instruments such as debit cards, credit cards and prepaid instruments are under review.
- **Need for charging the digital transactions**- The failure rate with UPI transactions is increasing at over 1.4% as the efficiencies of the existing systems cannot be improved in the current cost structure and levy of charges may de-bottleneck this situation.
- From a user perspective, it makes sense to swap the carrying cost of cash with the cost of making payments through a card or mobile phone.

RTGS and NEFT are owned and operated by the RBI.

IMPS and UPI and RuPay are owned and operated by National Payments Council of India (NPCI).

Debit and credit cards are operated by card networks such as Visa and MasterCard.

What is MDR?

- A merchant discount rate is the rate levied on debit and credit card transactions to a merchant for the payment processing services.
- Before accepting debit and credit cards as payment the merchant must set up this service and agree to the rate.
- Most retailers will expect to pay a fee of 1% to 3% for each transaction's payment processing.
- Currently, the government has mandated a “zero-charge framework” for UPI transactions, with effect from January 1, 2020.
- This translates into charges on UPI for users as well as merchants being nil.
- In its discussion paper, the RBI has approximated that with an average value of Rs 800 for a merchant transaction, various stakeholders enabling the UPI transaction, including the payer and beneficiary banks, the third-party app, and the NPCI, incur a cost of Rs 2.
- Recently, the RBI allowed UPI on credit cards as well starting with NPCI’s RuPay cards.

What was the government’s argument?

In the Budget 2022-23, the government allocated Rs 200 crore for reimbursement of charges towards RuPay debit card and UPI transactions.

- The Finance Ministry has termed the UPI services as a “digital public good’.
- It has clarified that there is no consideration in government to levy any charges for UPI services and the cost recovery have to be met through other means.
- The government has stressed that there will be a focus to promote use of payment platforms that are economical and user friendly.

References

1. https://indianexpress.com/article/explained/explained-economics/upi-payment-charges-explained-8104133/
2. https://www.thehindubusinessline.com/blexplainer/bl-explainer-should-we-pay-for-the-digital-transactions/article65794764.ece
3. https://cleartax.in/g/terms/merchant-discount-rate#:~:text=of%20Payment%20Processors-,What%20is%20a%20Merchant%20Discount%20Rate%3F,and%20agree%20to%20the

%20rate.

