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GOVERNMENT OF INDIA
Ministry of Electronics and Information Technology

New Delhi, the 27th December, 2017

NOTIFICATION

Subject: Subsidizing MDR charges on Debit Cards/BHIM UPI/AePS transactions of value less than or equal to Rs. 2000/-.

No. 6(19)/2017- DPD - 1

- 1) The Digital India Programme envisions transforming India into a digitally empowered society and knowledge economy by making available digital infrastructure, digital governance and digital services to every citizen. Promotion of digital payments ecosystem is an essential aspect of the Digital India programme and has the potential to transform India's economy and extend inclusion of financial services to all those who remain excluded.
- 2) Finance Minister in his Budget Speech on February 1, 2017 had announced a target of 2,500 crore digital payment transactions for FY. 2017-18.
- 3) In the digital payments ecosystem, merchants play a very crucial role especially in a country like India where nearly 90% of merchants are from the unorganized sector in the form of small grocery stores, local outlets, etc. Besides, there are vendors, auto/taxi drivers etc., who constitute a large share of unorganized merchants. The transaction amount at each of these merchants is generally small.
- 4) In the Debit Card/BHIM UPI/Aadhaar-Pay payment eco system, when any payment is made at a merchant Point of Sale (POS) through a POS machine or QR "scan & pay" or online mode of payment, Merchant Discount rate (MDR) charge is payable by the merchant to his bank (Acquirer). A portion of this is shared by the acquirer bank with the card issuing bank and the card network operator.

- 5) RBI has issued a directive on 6th December, 2017 revising MDR applicable for debit card transactions which will be effective from 01.01.2018 wherein merchant category wise differential MDR rates have been proposed for transactions.
- 6) It has been decided by the Government to reimburse the MDR charges on small transactions which are less than or equal to Rs. 2000/- in value so that such digital payment transactions are promoted. The MDR on such transactions for the merchant will effectively become zero and hence they will come on par with cash transactions. The salient features of the scheme are as follows:-
 - i) MDR applicable on Debit Card/BHIM UPI/Aadhaar-Pay transactions less than or equal to Rs. 2000/- in value will be borne by Government for a period of two years with effect from 1st January 2018 by reimbursement of the same to the acquirer banks so that no MDR is payable by the merchant in respect of such transactions. Accordingly, the banks shall not charge any MDR from merchants for all eligible transactions under this scheme and consequently the consumers will not be overcharged citing MDR as a reason.
 - ii) No MDR will be applicable in case of transaction value less than or equal to Rs. 2000/-. However, for transaction value above Rs.2000/-, MDR would be applicable on the entire transaction value. For example, no MDR will be applicable in case of a transaction value of Rs.1800 and in respect of a transaction of Rs.2300/-, MDR would be applicable on the entire transaction value of Rs.2300/-.
 - iii) Each acquirer bank has to ensure that in accordance with the relevant RBI instructions, there should be no "bundled" agreement with the merchants covering both debit cards & credit cards.
 - iv) In line with the RBI instructions dated 6.12.2017, the agreements should include a clause that MDR charges should not be passed on by the merchants to the customers while accepting payments through debit cards / BHIM UPI / Aadhaar Pay.

- v) Each acquirer bank will be required to submit their respective reimbursement claims in the format to be laid down.
- vi) Such claim shall be accompanied with a certificate that the share of the MDR charges that is due to the issuer bank and the card network operator have been paid in full and the share of the acquirer bank has been clearly identified.
- vii) For every quarter the acquirer banks should submit a report duly certified by their statutory auditors regarding the volume and value of the debit card / BHIM UPI / Aadhaar Pay transactions (showing on-us and off-us transactions distinctly).
- viii) Along-with the claim, the acquirer banks should submit to the RBI, a certificate from their auditor confirming that with respect to the claim under examination, MDR has neither been charged from the consumer by the merchant nor charged by the bank from the merchant in respect of the applicable low value transactions.
- ix) The Scheme is applicable to banks having operations in India and transactions done in India.
- x) The Committee set up to look into the issues relating to reimbursement of MDR to the acquirer banks with effect from 1.1.2018, has examined the inputs from Indian Banks Association (IBA) and leading acquirer banks and has suggested a cap of 0.40% of value of total debit card transactions less than or equal to Rs.2000/- with regard to reimbursement of MDR on such low value transactions for a period of one quarter with effect from 1.1.2018. The committee has also recommended that a detailed consultative process for the reimbursement may be worked out.

- xi) Therefore, for a period of one quarter starting from 1.1.2018 there will be a cap on MDR reimbursable to the acquirer banks which will be at 0.40% of the total value of the debit card / BHIM UPI / Aadhaar Pay transactions less than or equal to Rs.2000. If felt necessary this cap could be revisited thereafter.
- xii) The reimbursement mechanism in respect of such low value transactions would be evolved through a consultative process involving the RBI, IBA and banks. Thereafter, the procedure for quarterly reimbursements of MDR to the Acquirer banks will be worked out and communicated to all concerned.
- 7) The banks are requested to ensure that the transition to this new scheme of MDR reimbursement for low value transactions w.e.f 1.1.2018 is done smoothly without any hitch.


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