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Discriminatory approach for RuPay debit cards:
Some suggestions for corrective measures

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The Law

1. The Government of India has enacted a new payment system law. Section 10A of the Payment and Settlement Systems Act 2007, inserted by the Finance Act, provides that no bank or system provider shall impose any charge on a payer making payment, or a beneficiary receiving payment, through electronic modes prescribed under Section 269SU of the Act. Consequently, any charge including the Merchant Discount Rate (MDR) shall not be applicable on or after January 1, 2020 on payment made through prescribed electronic modes. The text of Section 10A is

> *"10A. Notwithstanding anything contained in this Act, no bank or system provider shall impose any charge upon anyone, either directly or indirectly, for using the electronic modes of payment prescribed under section 269SU of the Income-tax Act, 1961."*

2. The government has now notified the prescribed modes of payment as *RuPay debit card* and *BHIM-UPI*. Therefore, effective January 1, 2020, vide the enacted law, banks and other bona fide payment service provides can no longer charge any fee when they provide RuPay debit card and BHIM-UPI acceptance infrastructure to the merchants. Moreover, since January 2018, the government and the Reserve Bank of India (RBI) had already set rules whereby such charges were not allowed to be recovered from the consumers when they use debit cards and/or BHIM-UPI as their preferred payment modes.

The Revenue Structure

3. Historically, card payments had a well-defined revenue generating structure, where the revenue came from the fees paid by merchants accepting such digital modes of payments. The bank that issued card and the bank acquiring the merchant got the

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major share of the revenue, while the network providers like mastercard, VISA and RuPay, got a very small share of the generated revenue.

The MDR

4. The MDR pricing structure that National Payments Corporation of India (NPCI) had arrived at, effective October 2019, for RuPay debit card is 0.4% (0.3% when the transaction is QR-code based) for transactions upto Rs 2000 and 0.6% (0.5% when the transaction is QR-code based) for transactions exceeding Rs 2000, with a ceiling on MDR of Rs 150 for any transaction. Based on the average ticket size, Table 1 provides a revenue estimate taking, 0.4% as the average MDR pricing. It is seen that the RuPay based debit card system generated average revenue of Rs 57.49 crore per month in this financial year (upto December 2019).

Table 1: RuPay debit card transactions

Month'year	RuPay Debit Card Volume (lakh)	RuPay Debit Card Value (Rs crore)	RuPay Debit Card Average Ticket Size (Rs)	Revenue from Debit Card (Rs crore) @0.4%
Apr'19	1146	13220	1154	52.88
May'19	1119	13707	1225	54.83
Jun'19	1121	13359	1192	53.44
Jul'19	1181	14027	1187	56.11
Aug'19	1210	13892	1148	55.57
Sep'19	1218	13838	1136	55.35
Oct'19	1326	16878	1273	67.51
Nov'19	1258	14694	1168	58.77
Dec'19	1340	15732	1174	62.93

Source: NPCI for first two data columns, and author's estimate

5. As of December 2019, for BHIM-UPI, NPCI had an MDR cap of 0.3% subject to a maximum of Rs 100. Additionally, to promote on boarding of small and medium merchants with less than Rs 1 lakh worth of BHIM-UPI transactions in a month, there is no fees imposed. Also, for merchants other than online merchants, there are no transaction fees when the ticket size is within Rs 100. What does this mean in revenue terms? In absence of exact distribution of revenue generating transactions, Table 2 provides an estimate based on average revenue @ 0.02% of the net value of transactions (which comprises both P2P and P2M BHIM-UPI transactions)[1]. The estimate suggests that BHIM-UPI had potential to generate revenue of Rs 40.50 crore in December 2019.

[1] Since we have zero MDR corresponding to P2P and few sub-categories of P2M, we have considered only 1/15th of the total value as earning MDR @ 0.3%. That is equivalent to considering the total value earning MDR @0.02%. The estimate is quite conservative.

Table 2: BHIM-UPI transactions

Month'year	BHIM-UPI Volume (lakh)	BHIM-UPI Value (Rs crore)	BHIM-UPI Average Ticket Size (Rs)	Revenue from BHIM-UPI (Rs crore) @0.02%
Apr'19	7818	142034	1817	28.41
May'19	7335	152449	2078	30.49
Jun'19	7545	146566	1942	29.31
Jul'19	8223	146387	1780	29.28
Aug'19	9183	154505	1682	30.90
Sep'19	9550	161457	1691	32.29
Oct'19	11484	191360	1666	38.27
Nov'19	12188	189229	1553	37.85
Dec'19	13084	202521	1548	40.50

Source: NPCI for the first two data columns, and author's estimate

The Concerns

6. So how would the system work now without any revenue stream for RuPay debit card and BHIM-UPI (the prescribed modes of payment)? Also, how would the system work in presence of the induced discrimination between RuPay on the one hand and mastercard/VISA on the other hand?

The Corrective Approach – RuPay

7. The government has indicated that *"RBI and Banks will absorb these costs from the savings that will accrue to them on account of handling less cash as people move to these digital modes of payment"*. Thus, though informal, the government has prompted that the RBI and the banks would fund the required MDR revenue to run the prescribed modes of payment. Since we are pondering on how banks' revenue losses need to be compensated, it appears prudent to consider that RBI alone funds for the required revenue.

8. This revenue, for RuPay debit card, is expected to be no more than Rs 1000 crore for calendar year 2020, while for BHIM-UPI, it is expected to be another Rs 800 crore. The question is, given the extant law, should RBI hesitate to part with this Rs 1000 crore to support for the revenue loss on RuPay debit cards? Even if RBI does provide this support, an important question remains as to whether it would serve the purpose of promoting card payments in the presence of merchants being still overburdened on the fee for accepting other cards (cards other than RuPay debit cards). Note that for mastercard/VISA, effective January 2020, the merchants no longer enjoy zero MDR on transactions upto Rs 2000. Could the answer lie in

allowing merchants, at their discretion, not to accept cards other than RuPay debit cards? Currently this is not allowed.

9. How should the government and the RBI solve this complex problem? If there is a revenue differential for banks between RuPay and mastercard/VISA, banks would always in their commercial interest have a tendency to promote that card scheme which generates more revenue for them. Therefore, RBI would need to set a revised cap on debit card MDR, on lines currently set for RuPay debit card by NPCI. Alternatively, if RBI feels appropriate, it can increase the revenue support for RuPay debit card, in order to maintain parity with extant MDR caps set by RBI.

10. The setting up of an Acceptance Development Fund wherein a pooled regulatory fund would be used to incentivise the growth of payment infrastructure in rural India needs to be an independent initiative.

The Corrective Approach – BHIM-UPI

11. The MDR pricing structure for BHIM-UPI introduced by NPCI in October 2019 appears quite reasonable as it attempts to encourage small and medium merchants to get on-boarded and be active in acceptance of digital payments. In order to see the tempo not fading and as a means of encouragement to payment service providers, RBI should provide for the necessary support for the banks' revenue loss towards BHIM-UPI also.

Concluding Remarks

12. During the two calendar years 2018 and 2019, the Ministry of Electronics and Information Technology (MaitY) provided required MDR support to banks on debit cards and BHIM-UPI transactions having ticket size within Rs 2000. Going forward, in case RBI provides the necessary support for debit cards and BHIM-UPI (which does not include mastercard/VISA debit cards), it may be prudent to let NPCI manage the logistics.

13. The government has identified small and medium unorganised businesses comprising merchants whose annual turnover is not exceeding Rs 2 crore. In fact, linking their business in terms of the digital means of payment, the government under The Finance Bill 2017 has put in place the following:

> *The tax liability under the scheme of presumptive income tax for small and medium tax payers whose annual turnover is upto Rs 2 crores, only 6% (rather than 8%) of their annual turnover is counted as presumptive income in respect of turnover which is received by non-cash means.*

This law took effect from April 1, 2017 and apply in relation to the assessment year 2017-18 and subsequent years.

14. Accordingly, at some point of time in the near future, the law under Section 10A of the Payment and Settlement Systems Act, 2007 should be modified so as to allow reasonable MDR to be charged to large merchants having annual turnover in excess of Rs 2 crore.

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