EXPLAINED: WHAT IS MERCHANT DISCOUNT RATE AND WHY DOES IT MATTER?

- Merchant Discount Rate (alternatively referred to as the Transaction Discount Rate or TDR) is the **sum total of all the charges and taxes that a digital payment entail**. If customers don't pay and merchants don't pay, some entity has to pay for the MDR costs.
- It has been reported that several Non-bank payment service providers (PSPs) are claiming that they are staring at a shutdown after the budget announcement.

What was the Budget Announcement?

- The budget speech announced a slew of steps aimed at promoting digital payments and a less-cash economy. In particular, it said, "...there are low-cost digital modes of payment such as BHIM UPI, UPI-QR Code, Aadhaar Pay, certain Debit cards, NEFT, RTGS etc. which can be used to promote less cash economy.
- I, therefore, propose that the business establishments with annual turnover more than 50 crore shall offer such low-cost digital modes of payment to their customers and no charges or Merchant Discount Rate shall be imposed on customers as well as merchants."
- In other words, the **government has mandated that neither the customers nor the merchants will have to pay the so-called Merchant Discount Rate** (or MDR) while transacting digital payments.
- It is good news for both customers and merchants because their costs of digital payments come down. However, the payment services providers are now complaining.

What is MDR?

- Merchant Discount Rate (alternatively referred to as the Transaction Discount Rate or TDR) is the sum total of all the charges and taxes that a digital payment entail.
- For instance, the MDR includes bank charges, which a bank charges customers and merchants for allowing payments to be made digitally.
- Similarly, MDR also includes the processing charges that a payments aggregator has to pay to online or mobile wallets or indeed to banks for their service.

Who will bear the MDR costs?

- If customers don't pay and merchants don't pay, some entity has to pay for the MDR costs. In her speech, the FM has said: "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…Necessary amendments are being made in the Income Tax Act and the Payments and Settlement Systems Act, 2007 to give effect to these provisions.“

Then why are non-bank payment service providers complaining?

- Contrary to public perception, the MDR has not been made zero.
- The FM’s decision has just shifted its incidence on to the RBI and banks.
- However, if banks pay for the MDR it will adversely their likelihood to adopt the digital payments architecture.
- Moreover, many payments providers apprehend that the banks will find a way of passing on the costs to them.
- In turn, this will negatively impact the health of a sector that needs nurturing.