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Banks approve reduced fees for UPI, RuPay

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BENGALURU: Banks have decided that they will not charge a part of the fees on Unified Payments Interface (UPI) and RuPay card transactions as long as the merchant discount rate (MDR) remains zero following the government announcement, three people aware of the matter said. After a letter from the Indian Banks' Association (IBA) on removing entire fees on these transactions, which would have meant significant revenue loss for its owner National Payments Corporation of India (NPCI), the two parties have reached an understanding for now.

The move was discussed and approved in the NPCI steering committee meeting on Monday, said the sources mentioned earlier. TOI reported in its January 24 edition, saying IBA had asked NPCI to remove multiple charges like interchange fees, payments service provider (PSP) fee and switching fees. "Interchange will be zero is what was decided in yesterday's meeting. NPCI is still reviewing other fees, but it is against making those fees to nil," one of the people mentioned earlier said.

For context, a bank, which used to get MDR from merchants for facilitating the payments, would pay interchange fees to the issuer bank and then pay a switching fee to the network — NPCI — along with a fee to PSPs like PhonePe or Google-Pay. NPCI, according to sources, is unwilling to make additional fees like switching

and PSP fees to zero as it will hit its revenue, and growth of UPI, which has clocked over 1 billion transactions per month since October 2019.

This comes at a time when e-payments firms are reeling under pressure due to zero MDR and are looking at the government for a breather. But it might only come "after a few weeks or months", sources involved in discussions with the government on the matter added. The move will impact the fast-paced growth of digital payments infrastructure in India and the ease of use in

promoting digital payments as the key revenue channel of PSPs will be hit. As reported on January 10, annual revenue loss could be to the tune of Rs 1,800 crore due to zero MDR.

Banks could also look at other avenues to shore up revenues as well by passing the cost to consumers. “It is possible that the banks might try to make up for the revenue loss from zero MDR by increasing charges on cash withdrawals. The RBI only mandates that the first three transactions in six metro locations are free. In non-metros it’s first five. The charges on other transactions are left to the individual bank’s discretion,” said an IBA official. Most banks already have stopped ATM expansion and might also allocate less money towards PoS (point-of-sale) expansion. With MDR becoming zero, it was inevitable that the interchange fee also becomes zero, industry experts said after IBA’s letter last week.