



भारतीय रिज़र्व बैंक
RESERVE BANK OF INDIA
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June 28, 2012

The Chairman and Managing Director / Chief Executive Officer
All Scheduled Commercial Banks including RRBs /
Urban Co-operative Banks / State Co-operative Banks /
District Central Co-operative Banks / Authorised Card Payment Networks

Madam / Dear Sir,

Merchant Discount Rates (MDR) structure for debit card transactions

The Merchant Discount Rate (MDR) for debit and credit cards has hitherto been similar in India. The debit card is a secured product with the card usage being linked to the availability of funds in the accounts of the customers. Credit cards, on the other hand, are a part of the unsecured credit product portfolio of the issuers. The credit card usage is linked to the credit limit sanctioned by the issuer and carries with it an element of credit risk. Thus given the different nature of the two products, there is no rationale for having a similar MDR for debit and credit cards. Further, it is observed that debit cards are mostly being used for withdrawal of cash at ATMs.

2. Given this scenario, it is necessary to encourage the use of debit cards, especially at smaller merchants/service providers and location by way of lower MDR. This move would encourage all categories and types of merchants to deploy the card acceptance infrastructure and also facilitate acceptance of small value transactions. Further, in the case of the acquiring banks, a certain element of guarantee on the Return on Investment (ROI) is required for deepening the card acceptance infrastructure. A lower MDR with the expected increase in transaction volume on account of network effects would result in a reasonable ROI for acquiring banks.

3. Accordingly, in consultation with the stakeholders, it has been decided to cap the MDR for transactions undertaken with debit cards as under:

- (a) not exceeding 0.75% of the transaction amount for value upto Rs 2000/-;
- (b) not exceeding 1 % for transaction amount for value above Rs 2000/-.

4. This directive is issued under section 18, of the Payment and Settlement Systems Act, 2007 (Act 51 of 2007) and will be effective from **July 1, 2012**.

5. Please acknowledge receipt and ensure compliance.

Yours faithfully

(Vijay Chugh)
Chief General Manager