



भारतीय रिज़र्व बैंक  
RESERVE BANK OF INDIA

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DPSS.CO.PD.No. /02.14.003/2016-17

February 16, 2017

The Chairman and Managing Director / Chief Executive Officers  
All Scheduled Commercial Banks including RRBs / Urban Co-operative Banks /  
State Co-operative Banks / District Central Co-operative Banks /  
Payments Banks and Small Finance Banks /  
All Card Network Providers

Dear Madam / Sir,

**Draft Circular - Rationalisation of Merchant Discount Rate (MDR) for Debit Card Transactions**

Recent developments, including the commitment to greater adoption of digital payments by Government, have given a big boost to migration to non-cash forms of payments. There has been an increase in card transactions (other than at ATMs) and the momentum has to be maintained especially amongst small merchants who have just begun to accept digital payments.

2. The Reserve Bank of India had published for public consultation in March 2016 a concept paper outlining strategies for enhancing card acceptance in the country along with the options for rationalisation of Merchant Discount Rate (MDR). The inputs received for this paper, along with interactions with the industry representatives, has reinforced the felt need for wider acceptance of card payments by merchants in general, with specific focus on rapid adoption by the smaller merchants. Similarly, there are also certain industry segments, particularly those dealing with non-discretionary expenses, which may benefit from a rationalised MDR structure.

3. A reference is invited to our [circulars DPSS.CO.PD.No.2361/02.14.003/2011-12 dated June 28, 2012](#) capping the Merchant Discount Rates (MDR) structure for debit card transactions and [DPSS.CO.PD.No.1515/02.14.003/2016-17 dated December 16, 2016](#) rationalising MDR for transactions value upto ₹ 2000/- for the period January 1, 2017 to March 31, 2017. In the latter circular, it was also indicated that in the intervening period, the Reserve Bank of India will review the framework for charges for electronic payment transactions, in consultation with the stakeholders.

## Change in basis of MDR

4. Based mainly on consultations with various stakeholders, it has been decided to restructure MDR on the basis of merchant turnover rather than the present slab-rate based on transaction value. There is also a case for having a differential MDR for Government transactions and for certain special categories in view of the non-discretionary nature of those expenses, etc. Similarly, taking into account the need for encouraging asset-light digital infrastructure such as QR-code, there is a need to differentiate MDR between acquiring infrastructure involving physical terminals, including mPOS and digital acceptance infrastructure models such as QR Code. Similarly, in scenarios where the merchant is willing to pay upfront for the card acceptance infrastructure, the MDR has to be on the lower side.

### 5. Merchant categories:

5.1 The merchants shall be categorised as under:

- a. Small merchants with turnover outside the ambit of GST (turnover less than ₹ 20 lakhs p.a.)
- b. Government transactions
- c. Special category of merchants
- d. All other category of merchants with turnover within the ambit of GST (turnover above ₹ 20 lakhs p.a.)

5.2 The present GST limits have been considered for the above classification for transparency and uniformity. As and when the GST limits undergo a change, the same may be incorporated appropriately for merchant classification.

5.3 An indicative but not exhaustive list of merchants for special category and government transactions is given in Annex-1. While these categories have to necessarily be included under the special category, banks may add other categories of merchant to the list at their own discretion.

### 6. Merchant Discount Rate (MDR):

The maximum MDR for debit card transactions for different merchant categories shall be as under:

Sr. No	Merchant Category	Merchant Discount Rate (MDR) for debit card transactions (as a % of transaction value)	
		Physical POS infrastructure	Digital POS
1.	Small merchants	Not exceeding 0.40%	Not exceeding 0.30%
2.	Special category of merchants	Not exceeding 0.40%	Not exceeding 0.30%

Sr. No	Merchant Category	Merchant Discount Rate (MDR) for debit card transactions (as a % of transaction value)	
		Physical POS infrastructure	Digital POS
3.	All other category of merchants (other than Government)	Not exceeding 0.95%	Not exceeding 0.85%
4.	Government Transactions	<ul style="list-style-type: none"> <li>• Flat fee of INR 5 for transaction value INR 1 to INR1000</li> <li>• Flat fee of INR 10 for transaction value INR 1001 to INR 2000</li> <li>• MDR not exceeding 0.50% for transaction value above INR 2001 with cap of INR 250 per transaction</li> </ul>	

7. MDR for debit cards for petrol / fuel shall be decided subsequently after the industry consultation process with Oil Ministry is completed.

8. Further, a reference is also invited to our [circulars RBI/2016-17/59 DPSS.CO.PD.No.639/02.14.003/2016-17 dated September 1, 2016](#) on unbundling of MDR and [RBI/2015-2016/410 DPSS.CO.PD.No.2894/02.14.003/2015-2016 dated May 26, 2016](#) on putting in place a Board approved policy for merchant acquisition. It is reiterated that the banks and authorised card payment networks may strictly adhere to the above directions. Further, banks shall ensure that all merchants display the signage “No convenience or service charge is payable by customers” apart from any other signage.

9. Card networks shall suitably revise the applicable interchange and network fees, preferably on percentage basis rather than any flat fee basis. Banks shall also appropriately rationalise the monthly rentals, if any, recovered from the merchants taking into account the type of card acceptance infrastructure deployed at merchant location.

10. The directive is issued under Section 10(2) read with Section 18 of [Payment and Settlement Systems Act 2007](#), (Act 51 of 2007) and will be effective from **April 1, 2017**.

Yours faithfully

(Nanda S Dave)  
Chief General Manager

**Merchant Category List with differential MDR Structure**

<b>Sr No</b>	<b>Special Merchant Category*</b>
1	Utilities incl. Private Sector (Electricity, Water, Municipal Taxes). Excludes Telecom.
2	Education Sector (Govt. & Private sector). Coaching Classes excluded.
3	Hospitals (Only Government) and primary health care centres, Jan Aushadhi outlets
4	Agriculture and allied activities including fertilizers and seeds, nursery, farming equipment, APMCs and mandis, fisheries, milk cooperatives, vegetable mandis etc.
5	Cooperatives including KVIC
6	Army Canteens
7	State Transport & State Waterways; Toll collections
8	Insurance
9	Mutual Fund
10	PDS / Fair price shops
11	Places of Tourist Interest run by Govt. (ASI Monuments, Forest Dept./National Parks, Museums, Zoos & Aquariums, Govt. Libraries, Govt. Expositions etc.)

<b>Sr. No</b>	<b>Government Merchant Category*</b>
1	GST, Income Tax, Customs Duty, other Government Taxes & Levies & Fines
2	MEA Passport Fees
3	Visa Fees (Indian Consulates & Foreign Consulates operating in India)
4	Railways – Ticketing and Passenger services
5	Duties and registration charges such as Property registration, Vehicle Registration, Stamp Duty, Road Tax etc. and any other Municipal taxes.

\* Indicative, not exhaustive