



UNIFIED PAYMENTS INTERFACE

Business Case Study of THE RISE of UPI

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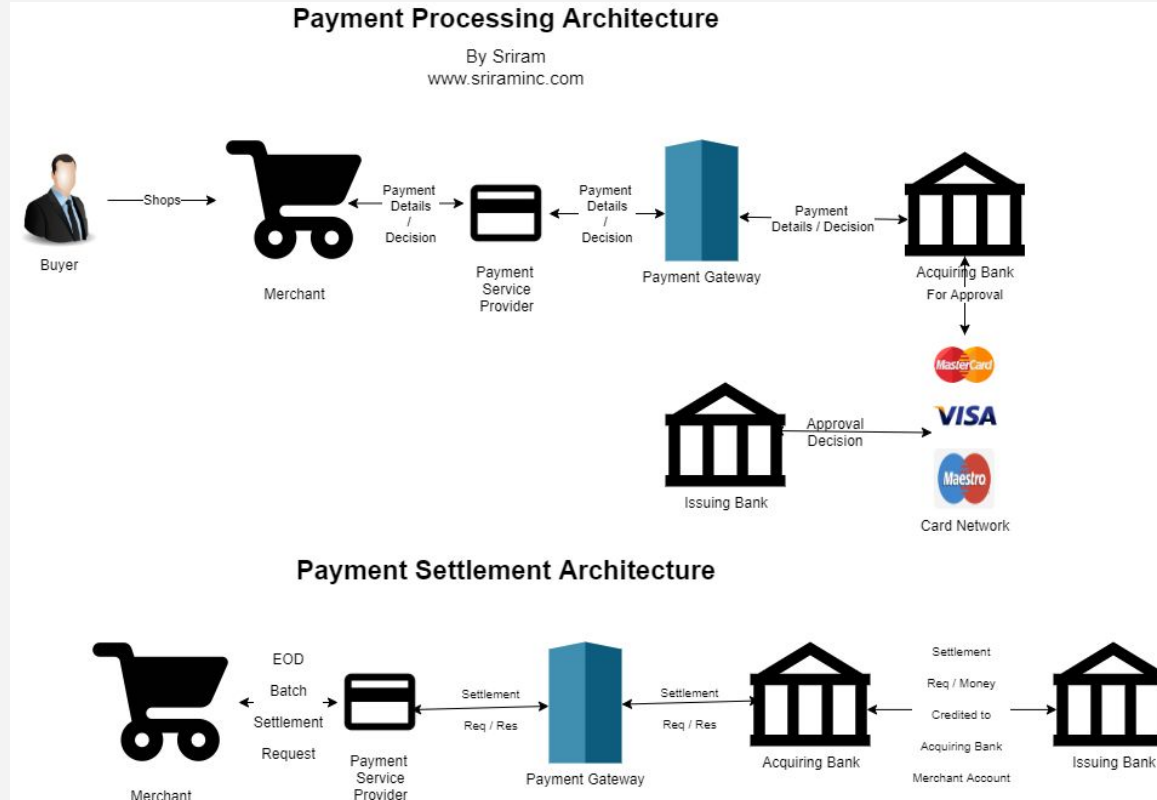
UPI

- 8th June, 2022 → Reserve Bank of India officially allowed the users to link their credit cards to all UPI platform.
- Issuing bank + Visa → 3%, this is MDR (Merchant Discount Rate)
- Razorpay → 0.5%.

Merchant Discount Rate

- Instead of credit limit, the amount gets deducted directly from your bank account so the repayment process is eliminated.
- The MDR for credit card is way more than debit cards
- While debit cards are capped at 0.9% MDR, credit cards are capped at 1-3% MDR.

Payment Processing Architecture



Merchant Discount Rate



Merchant Discount Rate

The whole MDR charge would be divided
in the following manner



Merchant Discount Rate

- MDR is an important value adding process that are carried out by the customers bank and card network.
- In this case Visa, both these fees are deducted from the merchant's revenue as Merchant Discount Rate.
- Zero MDR on Rupay, UPI to kill digital payment, industry, says payment council of India.
- Rs 1300 cr cashback on UPI, Rupay transactions. Govt allows reimbursement of merchant charges.

Important Facts

- When you make a debit card transaction, your bank does not take a risk by paying the shopkeeper on your behalf because the money is being transferred from your account to merchant's account.
- Banks take a risk to pay your bill to the shopkeeper on your behalf with the hope that you would pay it back.
- If Rupay credit cards start incurring zero MDR, either the banks will not be rewarded for the credit risk, or the govt again has to pay a very hefty amount to compensate for their losses.

Important Facts

- If Rupay incurs zero MDR and Visa/Mastercard incur 2.5% MDR, then automatically the shopkeepers will stop accepting Visa/Mastercard, so their market will collapse.
- Zero MDR great for debit cards. But it could be a disaster for debit cards.

Important Facts


- Debit card users in India → 92 crore users
- Credit card users in India → 7.4 crore users
- Value of payment: Debit card users generate 64000 crore, Credit card users generate 1.07 lakh crore.
- Average Spending on Credit Card:
Debit card → 700 Rs per month
Credit card → 14500 Rs per month

Important Facts

- Credit card owners are way more richer than majority of debit card.
- Major chunk of debit card owners have less spending capability than major chunk of credit card owners.

Credit Cards vs Debit Cards


Credit Cards vs. Debit Cards



A blue credit card with a gold chip, a contactless symbol, and the text 'CREDIT CARD', '0000 1111 2222 3333', '10/22', and 'NAME LASTNAME'.

Credit Card

- ✓ Offers rewards, cashback, discounts and travel benefits
- ✓ Helps in building credit score
- ✓ Milestone, welcome & renewal benefits
- ✓ Increased purchasing power/emergency funds
- ✓ Long Interest-free credit period up to 50 days
- ✓ Post purchase EMI conversion
- ✓ Complimentary insurance cover for fraud transactions



A blue debit card with a gold chip, a contactless symbol, and the text 'DEBIT CARD', '1234 5678 9012 3456', '01/25', and 'CARD HOLDER NAME'.

Debit Card

- ✓ Saves you from debt-trap
- ✓ Limited fee & charges
- ✓ No interest charges
- ✓ Higher cash withdrawal limits
- ✓ Easy to avail

paisabazaar.com

Zero MDR Debit Card Benefits & Issues

- Financial inclusion.
- Cashless economy.
- Digitalization.

Issues:

- Could be ripping off a valuable source of income from Mastercard & Visa.
- No incentive to operate in India.

Result of Visa & Mastercard Leaving India

- Govt. will have to take the load of compensating for the losses incurred by the bank, which is going to be enormous.
- Govt. card network will become a monopoly.

Ways to Handle

- Imposing MDR zero for a limited amount of transaction.
- Lower economic pyramid will be benefitted without killing the revenue of Visa/Mastercard.

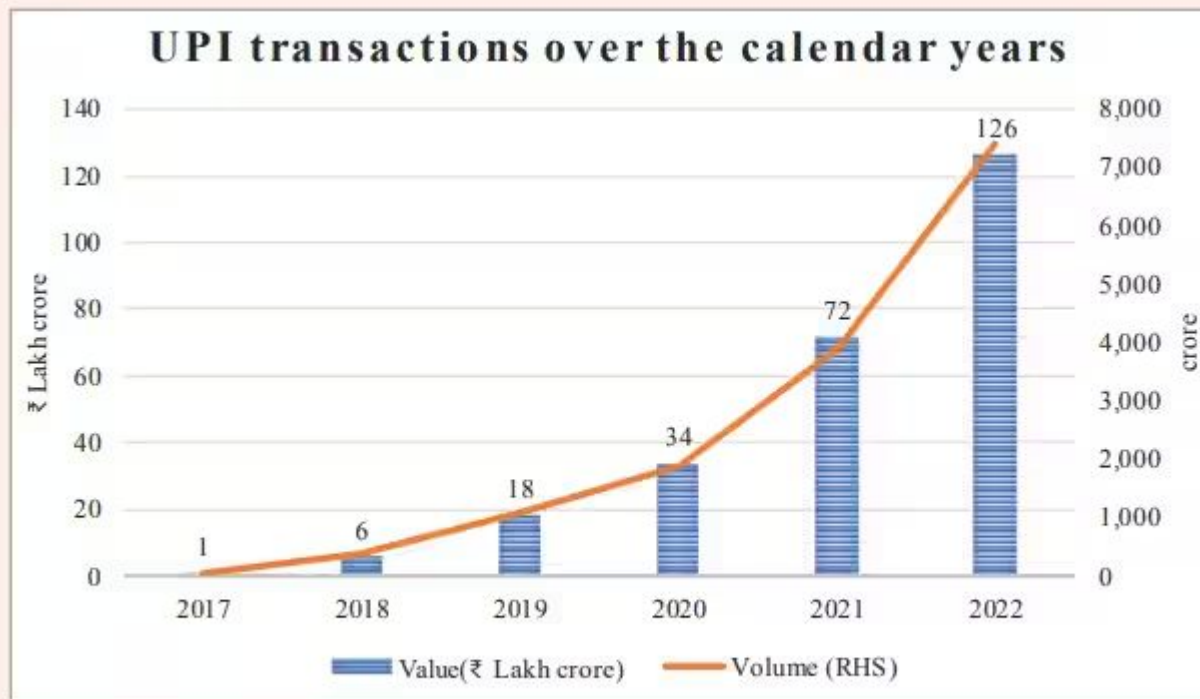
Advantages of UPI

- Scope of using credit card will explode by 45 million because of the UPI linking to credit cards.
- If govt introduces micro finance credit line based on UPI, it will be amazing.
- Credit worthiness rises, Line of credits rises.
- Handling accounting of cash actually caused the economy of India 2% of entire GDP (2.7 lakh crore Rs). This cost can be eliminated.

UPI, Rupay vs Other Cards



UPI Transaction

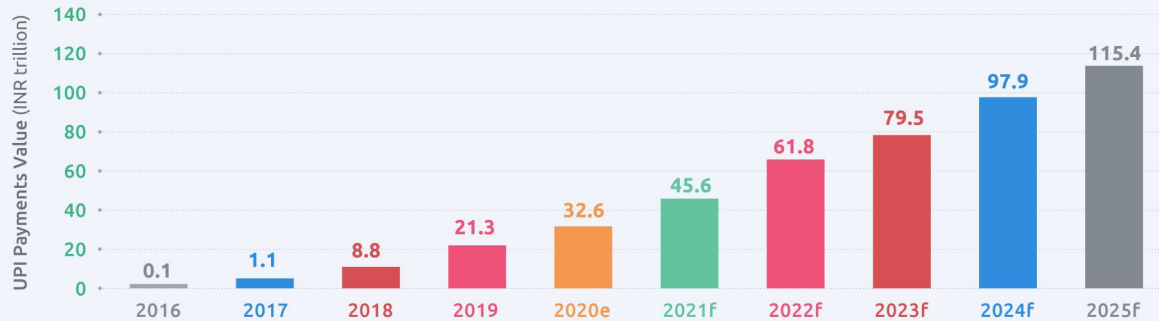


Source: NPCI

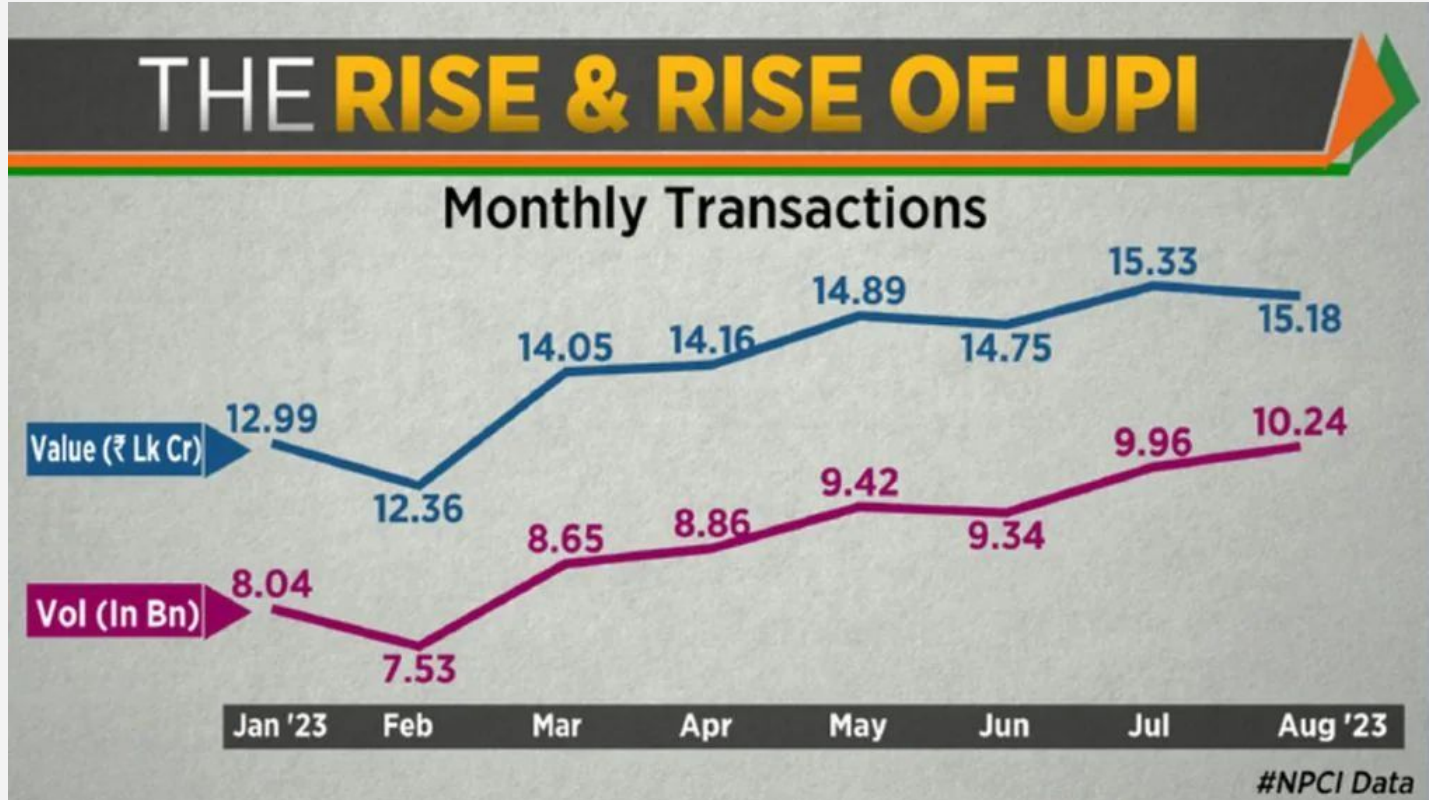
UPI Payment Value

India: UPI Payments Value

(INR trillion), 2016-25f



UPI Popularity



UPI Transaction

UPI Transactions Value In CY21 [In Cr] - App Wise

PhonePe, Google Pay, Paytm, Amazon Pay and WhatsApp

