

RBI allows credit cards to be linked to UPI; marks shift from 'pay now'

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The Reserve Bank of India (RBI) on Wednesday allowed linking of credit cards to Unified Payments Interface (UPI), which so far was being used as a 'pay now' facility, wherein money was debited from a customer's bank account directly for any transaction.

Initially, home-grown card network Rupay Credit cards will be linked with UPI.

"This arrangement is expected to provide more avenues and convenience to the customers in making payments through UPI. This facility would be available after the required system development is complete," the RBI said. "So far, UPI is being used as a "pay now" instrument, which means if there is money in your bank account, you can use UPI. Now, UPI can be used like a credit facility. Effectively, one will be using the credit facility that is available on the credit card. The first stage is to be able to use that with Rupay and over time it will be extended to other providers as well," said Rajiv Anand, deputy managing director, Axis Bank, to CNBC TV18.

Currently, UPI is linked through the debit card of customers to their savings account or current accounts. And, allowing linking of UPI with credit cards is meant to provide customers with more choices. However, the RBI has not worked out the pricing structure yet. "This improves the choice that the customer has. How the pricing structure will work out, we will have to see because pricing is something that the banks and system entities have to do. At this point, we will introduce the arrangement and see how the pricing goes," said T Rabi Sankar, deputy governor of RBI. "The basic objective of linking credit cards to UPI is to provide a customer wider choices of payments," he said.

Whether it is credit card, debit card, or UPI, the consumer doesn't incur any charge, it is the merchant who bears the cost in terms of merchant discount rate (MDR). Usually in MDR, the issuing bank takes 60 per cent, and the balance is shared between the network provider (Visa, MasterCard, etc) and acquirer. While there is no MDR on UPI, for debit cards, it is capped at 0.9 per cent. There is, however, no cap on MDR for credit cards. "...all ecosystem players need more clarity on it because in giving credit, there is a cost of funds involved for issuing banks, while in UPI transactions, the MDR is zero. There are lots of questions and a whole lot of clarity required regarding the same," said Vishwas Patel, chairman of Payments Council of India.

"We are reaching out to RBI officials and also talking to NPCI to assess the linking up of credit cards with UPI and how it can be successfully rolled out, at the same time making it commercially viable for all players involved," he said.

According to Macquarie Research, there are around 6 million card-accepting point of sale machines in India and 50 million merchants are accepting UPI payments. Hence, this can drive greater credit card usage.

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“Depending on the usage, adoption, and issuance of Rupay cards and eventually adoption by Mastercard/Visa (assuming RBI extends this facility to them in the longer run), plain vanilla bank to bank account transactions could move towards credit cards,” said Suresh Ganapathy, associate director, Macquarie Capital.