News: Tightening the rules for credit and debit card issuance and use in the wake of rising frauds related to card transactions, the Reserve Bank of India (RBI) on Wednesday asked banks to allow only domestic card transactions at ATMs and point of sale (PoS) terminals in India at the time of issuance or reissuance of a card.

Why?

Banks are now issuing international debit cards to most of their customers, thereby increasing the risk of frauds.

Background

- Over the years, the volume and value of transactions made through cards have rise manifold. The volume of card transactions touched 1,60,462 lakh and value at Rs 45,12,210 crore for the year ended March 2019. Of this, debit card volumes were 1,42,738 lakh and value at Rs 39,04,264 crore.

- In a bid to promote digital payments, the government had recently said no Merchant Discount Rate (MDR) charges will be applicable on transactions through homegrown RuPay and UPI platforms beginning January 1, 2020.

- The MDR pricing structure that National Payments Corporation of India (NPCI) had arrived at, effective October 2019, for RuPay debit card is 0.4 per cent (0.3 per cent when the transaction is QR-code based) for transactions up to Rs 2,000 and 0.6 per cent (0.5 per cent when the transaction is QR-code based) for payments exceeding Rs 2,000, with a ceiling on MDR of Rs 150 for any transaction.

- The government had indicated that the RBI and the concerned banks will
absorb these costs from the savings that will accrue to them on account of handling less cash as people move to these digital modes of payment.

Changes in the usage norms

- The RBI has also asked banks to offer all cardholders the facility to switch on or off and set or modify transaction limits within the overall card limit.

- The RBI has asked banks to offer three facilities to customers after issuance of card. Issuers should provide cardholders the facility for enabling ‘card not present’ (domestic and international) transactions, ‘card present’ (international) transactions and contactless transactions.

1. ‘Card not present’ transactions involve furnishing of card number and CVV (card verification value) in transactions executed online.
2. ‘Card present’ transactions need the card for use in PoS or ATM terminals.
3. Contactless transactions are done using RFID technology or near-field communication (NFC).

- The new changes will come into effect from March 16, 2020.

- For existing cards, issuers may take a decision, based on their risk perception, whether to disable the card not present (domestic and international) transactions, card present (international) transactions and contactless transaction rights, the central bank said. Existing cards which have never been used for online (card not present) or international or contactless transactions should be mandatorily disabled for this purpose.

- There should be alerts, information and status through SMS/e-mail, as and when there is any change in status of the card. The provisions of this circular are not mandatory for prepaid gift cards and those used at mass transit systems.

Significance

The new rules will improve user convenience and increase the security of
card transactions.

About Merchant Discount Rate (MDR)

- The merchant discount rate is the rate charged to a merchant for payment processing services on debit and credit card transactions.
- The merchant must set up this service and agree to the rate prior to accepting debit and credit cards as payment.
- The merchant discount rate is a fee that merchants must consider when managing the overall costs of their business.