



## Linking Credit Cards With UPI

**For Prelims:** UPI, Financial Instrument, Digital Payment, RBI

**For Mains:** Linking Credit Cards With UPI, its Significance and Challenges, Government Policies & Interventions

### Why in News?

The [Reserve Bank of India \(RBI\)](#) has proposed to allow **linking of credit cards with the [Unified Payments Interface \(UPI\)](#) platform.**

- A credit card is a **financial instrument** issued by banks with a pre-set credit limit, help make cashless transactions. It enables cardholders to pay a merchant for goods and services based on her accrued debt.
- This is intended **to provide additional convenience to users and enhance the scope of [Digital Payments](#).**

### What is Unified Payment Interface?

- **About:**
  - It is an **advanced version of [Immediate Payment Service \(IMPS\)](#)**- round-the-clock funds transfer service to make cashless payments faster, easier and smoother.
  - UPI is a system that **powers multiple bank accounts into a single mobile application** (of any participating bank), merging several banking features, seamless fund routing & merchant payments into one hood.
  - UPI is currently the biggest among the **[National Payments Corporation of India \(NPCI\) operated systems](#)** including **[National Automated Clearing House \(NACH\)](#)**, **[Immediate Payment Service \(IMPS\)](#)**, **[Aadhaar enabled Payment System \(AePS\)](#)**, **[Bharat Bill Payment System \(BBPS\)](#)**, **[RuPay](#)** etc.
- **Need to Link Credit Card with UPI:**
  - The UPI has, over time, become **a popular mode of payment in India with more than 26 crore unique users** and five crore merchants on the platform.
  - In May 2022, about **594 crore transactions amounting to Rs 10.4 lakh crore were processed** through the interface.
  - At present, the **UPI facilitates transactions by linking savings/current accounts through users' debit cards.**

### What is the Significance of the Move?

- **Additional Avenue for Payment:**
  - The arrangement is expected **to provide an additional avenue for payment to**

customers and hence enhance convenience.

- **Credit Card Usage will Increase:**
  - It will **deepen the reach and usage of credit cards.**
  - It is anticipated that credit card **usage will be zooming up in India given UPI's widespread adoption.**
- **Avenues to build Credit on UPI:**
  - It opens up **avenues to build credit on UPI through credit cards in India**, where in the last few years, a number of [startups](#) like Slice, Uni, One etc. have emerged.
- **Bolster Transactions at more Merchant Sites:**
  - It is expected to bolster transactions and acceptance at more merchant sites.
  - People who generally prefer to pay by credit card so as to avail of a longer pay-back period or loans on credit-card outstanding, or who do not wish to touch their savings at the moment of purchase, can pay using credit cards via UPI.
- **Boost Overall Spending:**
  - The move will provide **a significant boost to overall spending** via credit cards — currently, spending through the use of credit cards is more than double the average spend via debit cards. More spending is generally a force multiplier for the economy.
- **Increase Average Ticket Size of Financial Transactions:**
  - Besides accelerating digital transactions this measure is also expected to **affect the average ticket size of financial transactions.**
    - Currently the average ticket size per transaction is Rs 1,600 while it is Rs 4,000 in credit cards.
  - So, with the new development the UPI transaction ticket size is likely to go up to somewhere around Rs 3,000 to Rs 4,000, analysts claim.

## What are the Challenges?

- It is not clear how the [Merchant Discount Rate \(MDR\)](#) will be applied to UPI transactions done through credit cards.
  - The MDR is a fee that a merchant is charged by their issuing bank for accepting payments from their customers via credit and debit cards.
- According to a norm **that has been in effect since January 2020, UPI and RuPay attract zero-MDR, meaning that no charges are applied to these transactions.**
- Applicability of zero-MDR on UPI could also be a reason why other card networks such as Visa and Mastercard may not have been onboarded to UPI for credit cards yet.

[Source: TH](#)

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