

RBI's ban on MasterCard in India

Mastercard is a leading US based financial services company which process payments between the banks of merchants and card issuing banks of the buyers who use debit, credit and prepaid cards of the company. In India, major players are VISA, Mastercard, American Express and India based Rupay card. From July 20, 2021 RBI banned Mastercard from issuing debit and credit cards in India. Mastercard stored the local data on outside servers and did not erase data of Indian transactions within 24 hours as mandated. Mastercard also have been non-compliant with RBI's requirement of appointed a domestic auditor. Mastercard maintained data at two places, some part is being kept in India and some part is outside the country. Due to this dual maintenance of record of Indian leg of transactions, it is not possible to detect fraud activities. RBI asked some additional information regarding data localization in April, 2021 and company delayed in providing this data and submitted the data to RBI on July 20, 2021 after banning the company. Mastercard was hopeful of uplifting the ban after this submission but RBI did not respond on this and continued the ban while company said that it is committed to legal and regulatory obligations in India. These restrictions will be for issuing new cards but not to existing ones issued by Mastercard. RBI introduced data localization rule in April, 2018 and according to this rule, foreign payment issuers can store data for smooth processing provided data is deleted within 24 hours. If the data is stored outside India, there is high fraud risk that could lead to phishing attacks. Also, RBI was not agreed to do external audit by company's overseas auditor. RBI wants assurance that local data would be stored in India. India has a total of 902 million debit cards and 62 million credit cards in circulation. Around 70 per cent of credit cards are of VISA and Mastercard and Rupay has the highest number of debit cards in India. This ban would impact the banking ecosystem as many banks and NBFC's such as ICICI bank, Axis bank, RBL bank etc. are associated with Mastercard for the issuance of credit cards. Due to this ban, all associated banks will have to shift to their business to other service providers in India which is a time-consuming process and will impact the consumer sentiments and there will be halt in banking services. VISA will be benefitted due to this ban as Rupay has low acceptance in international market. In 2019, India had over 52 million credit card which indicates a very large number. A fine or some other method to ensure compliance would be better decision rather than banning service providers as it adversely impacts the ecosystem of banking industry.

Questions for Discussion

1. Who will get benefit from the Mastercard ban in India?
2. Discuss the impact of ban on Mastercard on Indian banking ecosystem.