

Driving Sales Through Merchant Credit Card EMI

1. Introduction

Payment for purchases through easy payment options such as EMI (Equated Monthly Instalments) has been a common facility used by consumers to fulfil their immediate purchase requirements through easy access to credit. However availing EMI requires significant paper work to be done by the consumer, which can be cumbersome.

An easier option for consumers is to convert their purchases on credit cards to EMI, an option provided by some credit card issuers. A typical credit card EMI facility involves the issuer calling up the consumer, after a purchase is done, to convert the purchase payment to EMI. An example follows:

Rahul buys an air conditioner of brand Orion, for Rs 24,000 using his MyBank credit card. He buys this at a shop of Jai Electronics. After two days, his bank, MyBank, calls him up and asks him whether he would like to convert the payment to a three months EMI plan (monthly payment of $\text{Rs } 24,000/3 = \text{Rs } 8,000$) for a one time fee of Rs 500/-. If Rahul agrees to this, he would be charged Rs 500/ + Rs 8,000 in the current month and Rs 8,000 per month for the next two months.

While this feature is useful, there are several challenges in this approach, which make its usefulness limited. Firstly, since it is available only after the purchase has been completed it is only a convenience and does not help induce consumer purchase decision. Secondly, being a post-purchase event, it does not help the merchant specifically and therefore it is difficult to get the merchant to promote it or participate in sharing the cost of supporting EMI. Finally since it is based on calling the consumer, the process involves reaching out the consumer and speaking to them at length, which can be challenging leading to low conversion. What would be more useful is an option for the consumer to convert to EMI at the time of making the purchase.

Recently credit card issuers have enabled such a facility by allowing consumers to opt for an EMI mode of payment while carrying out the purchase at the merchant, i.e. prior to swiping of the credit card. No additional paperwork is required and being prior to purchase it helps trigger sales. Such EMI options are commonly referred as Merchant Credit Card EMI options.

2. Background On Merchant Credit Card EMI

Merchant Credit Card EMI is an interesting payment innovation that can trigger sales and improve usage of credit cards benefiting all stakeholders. Typical categories in which merchant credit card EMI can be beneficial are as follows:

- a) Consumer durables and IT products – basically utility items costing much more than monthly savings.
- b) High quality daily use apparel – items people would like to buy for their quality but cannot afford paying for in one instance.

- c) Vacations – travel and stay plans for family.
- d) Home improvement and furnishings
- e) Aspirational categories of products

EMI options help in spreading the payment for the consumer; so these options are typically provided by the merchant on the MRP of the product and may even include a small processing fee/charge. Hence these help the merchant drive sales while protecting margins.

Market research in India indicates that after introduction of Merchant Credit Card EMI in 2010, sales of products on EMI has grown by over 100% on a year-on-year basis in certain categories such as apparels. In consumer durable retail formats it has helped increase store sales by over 15-20% on a year-on-year basis.

3. The Financials Behind Merchant Credit Card EMI

In a Merchant Credit Card EMI plan the merchant gets the money for the purchase on the next day as per regular credit card batch closure. The consumer gets charged on their credit card based on the tenure of the EMI scheme selected. Since the consumer is paying for the purchase in instalments, with no guarantee or collateral provided to credit card issuer for the same, the entire risk lies with the issuer. The issuer has to additionally fund the period over which the payment will be received and therefore their cost of funding the transaction increases. The issuer therefore needs to cover this increased risk and interest cost. They do this by passing on this cost as a charge to either the merchant, the consumer or in some cases the manufacturer of the product. This charge is called subvention.

In the above example, assume that the bank ABC would like to recover a charge of 3% on the 3 month EMI tenure to cover the increased risk and interest. This 3%, translating to Rs 720/- can be recovered from either of the parties benefiting from the service, namely:

- a) Consumer, i.e. Rahul, benefiting due to convenience
- b) Merchant, i.e. Jai Electronics, benefiting due to increased walk-ins, sales
- c) Manufacturer, i.e. Orion, benefiting due to increased sales.

As one can see, the merchant is an additional party who maybe ready to participate in bearing the subvention charge. We will see in the next section how the same transaction could have been carried out using Merchant Credit Card EMI and the various charge options.

The total charge to be recovered varies depending upon the tenure and is typically around 3% for 3 months, 5% for 6 months, 7.5% for 9 months and 10% for a 12 months period.

The recovery of this interest is carried out in different ways depending upon the party paying for it, as follows;

- a) Consumer – in this case the charge is applied on the credit card statement and typically recovered in the first month.
- b) Merchant – in this case the money due to the merchant from the purchase is debited by this interest amount and then paid.
- c) Manufacturer – in this case either the issuer recovers it from the manufacturer without charging either the consumer or the merchant, or, in some cases the merchant pays and then gets it reimbursed from the manufacturer.

The charge is recovered either as a % of the sale value, or as a flat processing fee or as a combination of both, depending upon the positioning of the EMI by the merchant and the bank.

4. How Does It Work?

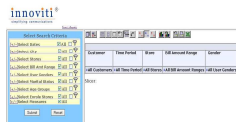
Merchant Credit Card EMI schemes require a special kind of POS software to be deployed at the merchant location. This can be done using multi-bank EMI software such as that provided by Innoviti through its [uniPAY EMI](#) system.

Typically the card issuers would enter into an agreement to market the EMI facility with the merchant. This would include a) deciding on the subvention charge passed to the merchant and that charged to the consumer, b) marketing by the issuer on behalf of the merchant, c) promotion of the scheme within the outlet and other marketing activities.

Consumers wishing to avail this option need to inform the cashier at the time of purchase. The cashier selects mode of payment (MOP) as EMI, selects issuer and EMI tenure on the POS software and swipes the card to process the transaction. The card issuer authorizes the overall purchase amount against the outstanding credit limit on the card and then authorizes the EMI based on the terms agreed upon with the merchant. Once authorized the consumer signs a charge-slip authorizing the entire credit limit and another charge slip approving the conversion to EMI. The EMI slip would also contain the consumer’s approval of processing charges or interests that the consumer would need to bear (see details in Section 3 above).



Customer brings product to cash till, decides to pay fully/partially through EMI



Cashier bills product, selects MOP as EMI, selects



Card swiped, authorized by Innoviti uniPAY EMI system. Charge-slip and EMI slip printed with



Backend MIS report and settlement with banks

The merchant receives their money against the purchase on the next day as per usual merchant settlement cycle, with the EMI charges as per agreement (see details in Section 3 above). The consumer is charged the purchase value and any associated processing charges in equated monthly instalments on the credit card statement.

Considering the above example, let us assume that MyBank had entered into an agreement with manufacturer, Orion, to bear 2% of the subvention charge. Let us further assume that the merchant, Jai Electronics were to bear another 1% of the subvention (they regularly pay banks 1.5% for credit card processing anyway). Then the various parties involved would be paying as follows to MyBank:

Rahul: No charge

Orion: Rs 480/-

Jai Electronics: Rs 240/-

The zero-cost EMI for Rahul along with the ease of converting to EMI at the time of purchase could be favourable triggers and could result in increased purchases at Jai Electronics for Orion products.

5. Special features

Certain EMI software systems (such as [uniPAY](#)) allow for special features such as options for defining which products will support which EMI options (tenures). They can also define which issuer cards will be supported for each product. This allows the manufacturer, retailer and bank to work out strategies for promoting specific product-bank EMI options.

Manufacturers can also use these software to build a direct customer connect thereby helping promote other product categories to the customer. Depending upon the consumer's credit history, the manufacturer along with the bank and retailer can work out incentive programs for the customer to continue to buy on EMI. As an example the credit card points earned could be multiple times if the purchase happens on EMI.

6. Benefits?

Merchant Credit Card EMI is a novel payment solution that benefits all the stakeholders in the process, as follows:

1. Consumer:
 - a. Zero paperwork, hassle-free access to credit at multiple merchant locations.
 - b. Allows consumers to enjoy products and services which would otherwise be out of their reach.
2. Merchant:

- a. Increase in walk-ins through issuer promotions
 - b. Increased conversions at store by making available easier payment options for consumers
 - c. Ability to sell products without discounting, improving margins
3. Bank:
- a. Improving the card visibility with the consumer.
 - b. Increased earnings from the card through interest income.
4. Manufacturer:
- a. Ability to push specific category of products without discounting, improving margins.

7. In Summary

In summary, Merchant Credit Card EMI provides consumers an option to convert a credit card purchase to EMI at the time of making the purchase, with no additional paperwork. This can help trigger consumer conversion in the store while allowing the retailer and the manufacturer to maintain margins. The purchase amount gets converted to EMI and gets charged to the consumer over the EMI tenure, on their credit card. The increased risk and interest cost is shared between the consumer, merchant and manufacturer. Even though Merchant Credit Card EMI is currently less than 2% of the overall credit card transactions per month, it is expected to become significant in the coming months.