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EDITORIAL ANALYSIS

Someone Is Already Paying for UPI. It Should Be Cheaper to See Who.

MINT

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INTERVIEW ANGLE

"If a country wants a genuinely free digital payment option for citizens, is it better engineered as a fee-free flagship product like UPI subsidised by the state, or as a separate zero-cost instrument, a central bank digital currency, while the flagship product is allowed to charge a transparent fee for its higher service tier?"

Every fact web-verified against primary sources

THE LIFT LINE

UPI was never free. It was billed to the taxpayer instead of the payer, and the invoice just came due.

WHY THIS EDITORIAL MATTERS FOR YOUR EXAM

Digital payments answers often treat zero-MDR UPI as an unqualified public good and stop there. This editorial supplies the harder point: a payments system with no user-facing price still has a real cost, and the question worth examining is not whether someone pays, since someone already does through subsidy, but whether that payment is transparent, and who should bear it going forward. Read alongside the 6 August 2026 daily article on the Taxation and Other Laws (Amendment) Bill, this editorial is the substantive policy case for the power that Bill merely creates.

GS Paper 3: Indian economy and issues relating to planning, mobilisation of resources; government budgeting; digital payments infrastructure and fintech regulation; effects of liberalisation on the economy.

CONCEPT	MEANING	WHY IT IS TESTABLE
Zero MDR	No merchant discount rate charged on UPI and RuPay debit card transactions, mandated since January 2020	Section 10A, PSS Act 2007; the funding gap at the centre of this debate
Merchant Discount Rate (MDR)	The fee a merchant pays the acquiring bank, shared with issuer, network and infrastructure provider	Zero for UPI/RuPay since 2020, the revenue UPI currently lacks
e-Rupee / Digital Rupee (CBDC)	RBI's Central Bank Digital Currency, retail pilot from December 2022, wholesale pilot from November 2022	The editorial's proposed free alternative to a priced UPI
Two-track funding design	UPI priced modestly and transparently, while the CBDC serves as the genuinely free digital-cash option	The editorial's actual proposal, distinct from simply "charge for UPI"
NPCI	National Payments Corporation of India, set up in 2008 under the aegis of RBI and IBA, operates UPI	The institution absorbing UPI's uncompensated infrastructure cost

BACKGROUND AND CONTEXT

UPI's zero-MDR **mandate** has been law since **January 2020**, under **Section 10A of the Payment and Settlement Systems Act, 2007**, inserted by the **Finance (No. 2) Act, 2019**. It made UPI and RuPay debit card transactions free of merchant fees, a decision widely credited with driving adoption to its current scale, a **record 23.66 billion transactions worth about Rs 29.88 lakh crore in July 2026** alone, per NPCI data, up roughly **22 per cent in volume** and **19 per cent in value** year-on-year.

Zero MDR also removed the revenue that would normally fund the system. Banks, NPCI and payment service providers absorb the cost of switching capacity, fraud management, settlement and support, and the resulting gap has been filled since 2020 only by **annual government incentive schemes**, which are discretionary and budget-dependent rather than a stable funding mechanism.

The **Taxation and Other Laws (Amendment) Bill, 2026**, passed by the Lok Sabha on **6 August 2026** (covered in Ujiyari's 6 August daily edition), amended the PSS Act to create the **statutory power** to modify the zero-MDR framework, without itself imposing any charge. Reported government thinking favours confining a future fee to **transactions above roughly Rs 2,000** to larger merchants, which represent a small share of UPI's transaction volume but a large share of its value, while all person-to-person transfers stay free.

RBI Governor Sanjay Malhotra has publicly stated that UPI **"is not free even now," someone, currently the government through subsidy, is already paying**, and that the more important question is ensuring costs are borne transparently rather than debating whether they exist.

The **RBI's e-rupee (Digital Rupee, e₹)**, India's Central Bank Digital Currency, has run a **retail pilot (e₹-R) since 1 December 2022** in a closed user group starting with four banks and four cities, and a **wholesale pilot (e₹-W) since 1 November 2022** for government securities settlement. **NPCI**, which operates UPI, was set up in **2008** under the aegis of the RBI and the Indian Banks' Association.

THE ANALYSIS

1. "UPI is free" was always a framing choice, not a fact. The infrastructure cost never disappeared when MDR went to zero; it moved from a visible per-transaction fee to an invisible line in the government's annual incentive-scheme budget. The editorial's contribution is naming this plainly rather than treating zero-MDR as costless.

2. The proposal is a two-track design, not a blunt fee on UPI. The editorial does not argue simply for adding MDR back to UPI. It proposes that the e-rupee take over the role of the genuinely zero-cost digital-cash instrument while UPI becomes a modestly, transparently priced rail, a distinction worth holding onto since it changes what "ending zero MDR" would actually mean for a user.

3. The enabling legislation and the policy case are now sequenced. The 6 August 2026 Taxation Bill created the statutory power to modify zero MDR; this editorial makes the substantive case for when and how that power might be used, arguing transparency of cost, not merely government willingness to charge, should drive the decision.

4. The targeted-fee design already under discussion is consistent with the editorial's caution. Reported government thinking limits any charge to larger merchant transactions above roughly Rs 2,000, protecting person-to-person transfers and small-ticket payments, the segment most sensitive to a fee, which suggests the transparency argument and the adoption-protection argument are not actually in tension in the current proposal.

5. The e-rupee's scale is the untested assumption in this design. The retail pilot has run since December 2022 without approaching anything like UPI's transaction volume. A two-track system depends on the CBDC being genuinely capable of absorbing the zero-cost use case at scale, and that capability has not yet been demonstrated.

6. The counter-argument deserves real weight. UPI's zero-cost status for individuals and small merchants is a large part of why it displaced cash and cards specifically among low-margin, low-income users; even a narrowly targeted fee changes the calculation for merchants near the threshold, and general taxation remains an available alternative to funding the gap through user fees at all.

DATA AND INSTITUTIONS VAULT

PRELIMS-GRADE FACTS:

Zero MDR on UPI and RuPay debit cards: since January 2020, under Section 10A, PSS Act 2007, inserted by the Finance (No. 2) Act, 2019

UPI, July 2026: 23.66 billion transactions worth about Rs 29.88 lakh crore, up ~22% volume / ~19% value year-on-year (NPCI data)

Taxation and Other Laws (Amendment) Bill, 2026: passed Lok Sabha 6 August 2026, creates statutory power to modify zero MDR

Reported fee proposal: limited to merchant transactions above roughly Rs 2,000

e-Rupee (CBDC) retail pilot (e₹-R): launched 1 December 2022, closed user group

e-Rupee wholesale pilot (e₹-W): launched 1 November 2022, government securities settlement

NPCI: established 2008, under the aegis of RBI and the Indian Banks' Association (IBA)

WATCH THE TRAP: DO NOT WRITE THAT THIS EDITORIAL CALLS FOR "CHARGING FOR UPI" AS A BLUNT POLICY. ITS ACTUAL PROPOSAL IS A TWO-TRACK SYSTEM: UPI PRICED MODESTLY AND TRANSPARENTLY, THE E-RUPEE SERVING AS THE PARALLEL ZERO-COST DIGITAL-CASH OPTION. COLLAPSING THIS INTO A SIMPLE "END ZERO MDR" ANSWER MISSES THE DESIGN DISTINCTION THE EDITORIAL IS MAKING.

THE DEBATE

Argument FOR a transparent UPI charge. The cost of running UPI's infrastructure is real and already being paid, currently through opaque, discretionary government incentive schemes rather than any stable mechanism. A modest, transparent fee confined to larger merchant transactions replaces a hidden exchequer subsidy with a visible, sustainable funding source, without touching the person-to-person transfers or small-merchant payments that matter most for financial inclusion.

Argument AGAINST introducing any UPI charge now. UPI's zero-cost status, for both users and merchants, is central to why it achieved a scale no fee-bearing instrument in India has matched. Even a narrowly targeted fee risks discouraging adoption among merchants near the threshold, and the funding gap could instead be closed through general taxation, spreading the cost across all taxpayers rather than concentrating it on payment users, while the e-rupee's ability to absorb the zero-cost use case at UPI's scale remains unproven.

Balanced verdict. The two-track design, a modestly priced UPI alongside a genuinely free e-rupee, is a more defensible position than either extreme, provided the fee stays confined to larger merchant transactions as currently proposed and the e-rupee's scale-up is treated as a precondition rather than an afterthought. Transparency about who bears the cost today is itself a reasonable first step, independent of whether or when a fee is eventually introduced.

HOW TO THINK ABOUT THIS

The transferable pattern: **when a public good is offered for free, the cost has not vanished, it has only moved to a less visible ledger, and the right question is whether that ledger is transparent and sustainable, not whether the good is "actually" free.**

A government offering a zero-price service, whether a payments rail, a transit system or a utility, is making a funding choice, not eliminating a cost. That funding typically comes from general taxation, cross-subsidy from another revenue stream, or discretionary budget allocation, each with a different distributional effect and a different degree of year-to-year certainty. The analytical error is treating "no user-facing price" as evidence that no policy choice was made, when the more useful question is who is actually paying, whether that arrangement is disclosed, and whether it can be sustained as the service scales.

This same structure recurs in electricity subsidies, where the visible tariff understates true generation cost and the gap appears instead as a discom deficit or a state budget line; in public transit fare policy, where fare-box recovery ratios reveal how much of the actual operating cost a "low fare" system is quietly shifting to the exchequer; and in free public Wi-Fi or broadband schemes, where infrastructure and maintenance costs are absorbed by the state and never appear on the user's bill at all.

DIAGRAM-IN-WORDS

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UPI'S FUNDING MODEL, THEN AND PROPOSED

BEFORE (2020-2026): ZERO MDR, HIDDEN SUBSIDY
  User pays: Rs 0            Merchant pays: Rs 0
        ↓                             ↓
  Infrastructure cost (switching, fraud, settlement)
        ↓
  Funded by: ANNUAL GOVT INCENTIVE SCHEMES (discretionary, opaque)

PROPOSED (Mint editorial, two-track):
                      ┌──────────────────────┐
  UPI (priced)        │  modest, TRANSPARENT │
  large-merchant      │  fee on txns         │
  txns > Rs 2,000     │  above threshold     │
                      └──────────────────────┘
                              +
                      ┌──────────────────────┐
  e-RUPEE (CBDC)      │  genuinely FREE      │
  digital cash        │  use case, small/    │
  alternative         │  P2P transactions    │
                      └──────────────────────┘
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RESULT: cost made visible, split between a priced UPI tier
        and a free CBDC tier, instead of one hidden subsidy
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TAKEAWAY BOX

A free product with a hidden bill is not free, it is unaudited. UPI's next reform is not a price, it is a receipt.

zero MDR since **January 2020** *(Section 10A, PSS Act 2007); UPI* **July 2026: 23.66 billion transactions / Rs 29.88 lakh crore***; Taxation and Other Laws (Amendment) Bill passed* **6 August 2026***; proposed fee threshold* **above Rs 2,000***; e-rupee retail pilot* **December 2022***, wholesale pilot* **November 2022***; NPCI established* **2008**.

when a government subsidises a "free" public service indefinitely rather than disclosing and pricing its real cost, is that a legitimate act of financial inclusion policy, or a transparency failure that happens to also be popular?

UPSC has examined digital payments, financial inclusion and government subsidy design; this editorial updates the zero-MDR debate with the enabling legislation's passage and the CBDC dimension, both current and testable.

"A payments system offered free to its users is not a costless system, only one whose cost has been made less visible." Examine this claim with reference to UPI's zero-MDR framework and the case for a modest, transparent usage charge.

Sources: Mint, Reserve Bank of India, National Payments Corporation of India, PRS Legislative Research

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Source: Someone Is Already Paying for UPI. It Should Be Cheaper to See Who. — Ujiyari.com | Free UPSC & State PCS Editorial Analysis

KEY ARGUMENTS AT A GLANCE

Mint's Editorial Board (7 August 2026) argues that UPI, now the dominant channel for retail digital payments in India, should move to a user-pays or merchant-pays funding model rather than continue running on an opaque mix of forgone bank and NPCI revenue and discretionary annual government incentive schemes, and proposes that the RBI's e-rupee (Central Bank Digital Currency) take over the role of a genuinely free digital-cash instrument, freeing UPI to become a modestly, transparently priced payments rail.

✓ SUPPORTING

- The scale makes the funding question unavoidable: UPI processed a record 23.66 billion transactions worth about Rs 29.88 lakh crore in July 2026 alone, NPCI data show, up roughly 22 per cent in volume and 19 per cent in value year-on-year, meaning the infrastructure cost, switching capacity, fraud monitoring, settlement, customer support, scales with a payments system now larger than the annual transaction count implies for a decade-old product.
- Zero MDR was a deliberate adoption strategy, not a permanent design principle: Section 10A of the Payment and Settlement Systems Act, 2007, inserted by the Finance (No. 2) Act, 2019 and effective from January 2020, set UPI and RuPay debit card merchant discount rates to zero, and the resulting funding gap for banks and NPCI has since been filled only by annual, budget-dependent government incentive schemes rather than any recurring revenue mechanism.
- RBI Governor Sanjay Malhotra has publicly signalled the same underlying position, stating that UPI is not free even now, someone, currently the government through subsidy, is bearing the cost, and that who pays matters less than ensuring the costs are paid transparently rather than absorbed indefinitely by the exchequer or by banks with shrinking appetite to keep doing so for free.
- The Taxation and Other Laws (Amendment) Bill, 2026, passed by the Lok Sabha on 6 August 2026, has already created the statutory power to modify the zero-MDR framework by amending Section 10A of the PSS Act, and reported government thinking favours confining any charge to larger merchant transactions, those above roughly Rs 2,000, which account for a small share of UPI transaction volume but a large share of transaction value.

⚠ COUNTER

UPI's zero-cost status for both individuals and merchants is precisely what drove its adoption to a scale no fee-bearing payment instrument in India has matched, including displacing cash and card transactions among exactly the low-margin, small merchants and low-income users a transaction fee would burden most, and introducing any charge, however modest or narrowly targeted at larger transactions, risks reversing part of that adoption gain among merchants closest to the threshold, particularly if the government's incentive-scheme funding shortfall could instead be closed through general taxation, spreading the cost across all taxpayers rather than payment users specifically.

→ WAY FORWARD

Adopt the two-track structure Mint proposes rather than treating "charge UPI" and "keep UPI free" as the only options: confine any UPI charge to the narrow, high-value merchant segment already under discussion, keep all person-to-person transfers and small merchant payments free as the government has already committed, publish the actual infrastructure cost and incentive-scheme spend transparently each year so the subsidy is visible rather than hidden inside the exchequer, and accelerate the RBI's e-rupee retail pilot, which has run since December 2022, so that a genuinely zero-cost digital-cash instrument exists in parallel for users and use cases where a UPI charge would be least tolerable.

✍️ MAINS ANSWER FRAMEWORK

QUESTION

The zero-MDR mandate on UPI, in place since January 2020, has driven adoption but left the cost of running the infrastructure unfunded except through discretionary government incentive schemes. Examine the case for a transparent, modest UPI usage charge, and discuss whether India's Central Bank Digital Currency can serve as the zero-cost alternative such a charge would require. (250 words)

INTRODUCTION

UPI has grown from a 2016 payments innovation into the dominant channel for India's retail digital transactions, processing a record 23.66 billion transactions worth close to Rs 29.88 lakh crore in July 2026 alone. Its zero-MDR design, in place since January 2020 under Section 10A of the Payment and Settlement Systems Act, 2007, has been central to that adoption, but it has also meant the infrastructure's real cost has been funded only by discretionary annual government incentive schemes rather than any recurring revenue source.

Mint's 7 August 2026 editorial argues this funding model needs a transparent replacement.

BODY

The Taxation and Other Laws (Amendment) Bill, 2026, passed by the Lok Sabha on 6 August 2026, has already created the statutory power to modify the zero-MDR mandate, though it does not itself impose a charge; reported government thinking favours limiting any fee to larger merchant transactions, those above roughly Rs 2,000, which represent a small share of UPI volume but a large share of its value, leaving person-to-person transfers and small-ticket merchant payments untouched. RBI Governor Sanjay Malhotra has publicly acknowledged that UPI is not actually free today, the government subsidises the gap left by zero MDR, and that the more important question is not whether costs exist but whether they are borne transparently.

Mint's editorial adds a design distinction worth holding onto: the proposal is not simply to add a fee to UPI as it stands, but to let the RBI's e-rupee, whose retail pilot has run in a closed user group since December 2022 and whose wholesale pilot for government securities settlement has run since November 2022, serve as the genuinely zero-cost digital-cash instrument, while UPI itself becomes a modestly priced, presumably higher-service, payments rail funded transparently rather than through an opaque annual budget allocation. This is a two-track proposal, a free option and a priced option operating in parallel, rather than a blunt case for ending UPI's zero-cost status outright.

CONCLUSION

The strongest version of this argument treats UPI's zero-MDR era as a successful, time-bound adoption strategy rather than a permanent commitment, while insisting that any transition to a paid model preserve free access for individuals and small merchants, the users a fee would burden disproportionately. Whether the e-rupee can realistically scale to serve as the free alternative at UPI's current transaction volume, given its pilot has run since 2022 without approaching UPI's scale, is the practical question that will determine whether this two-track design is achievable on the timeline the enabling legislation now permits.

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