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EDITORIAL ANALYSIS

Fair Pricing Could Help Sustain the UPI Network

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Fair Pricing Could Help Sustain the UPI Network

The Indian Express 26 August 2026 GS3

INTERVIEW ANGLE

"UPI is free to the user and costs about Rs 20,700 crore a year to run. Someone is paying that. Is it better that the payer be a large merchant, a bank, or the taxpayer?"

Source: Original editorial ↗ The Indian Express

Every fact web-verified against primary sources

THE LIFT LINE

A free service still has a bill. The only question a policy can answer is who receives it.

WHY THIS EDITORIAL MATTERS FOR YOUR EXAM

Digital public infrastructure is among the most examined economic themes of this cycle, and the MDR question is where its economics becomes concrete. This editorial also stands as a direct counterpoint to the position argued in the same newspaper four days earlier, which makes it unusually useful for building a two-sided answer.

GS Paper 3: Indian economy; mobilisation of resources; banking and financial sector; digital infrastructure.

CONCEPT	MEANING	WHY IT IS TESTABLE
Merchant Discount Rate (MDR)	The fee a merchant pays for accepting a digital payment, shared among acquirer, issuer and network	The instrument at the centre of the debate
Unfunded mandate	A statutory or policy obligation imposed without corresponding funding	Describes the position of banks under zero MDR
Price elasticity	Responsiveness of demand to a change in price	Why a uniform charge is the wrong instrument

BACKGROUND AND CONTEXT

How UPI Is Funded

MDR on UPI person-to-merchant transactions is zero. The Government has provided a budgetary incentive intended to compensate banks and payment providers for this. The column's central figures:

ITEM	FIGURE
Annual UPI operating cost, per the Parliamentary Standing Committee on Finance, report tabled 12 August 2026	About ₹20,700 crore
Budgetary allocation compensating for zero MDR	About ₹2,000 crore
Resulting shortfall	Roughly ten times the compensation

The Institutional Setting

UPI is operated by the **National Payments Corporation of India (NPCI)**, incorporated in **2008** under Section 25 of the Companies Act, 1956, now Section 8 of the Companies Act, 2013, headquartered in **Mumbai** and promoted by the **RBI** and the **Indian Banks' Association**. It is regulated by the RBI under the **Payment and Settlement Systems Act, 2007**. UPI grew from **1.78 crore transactions in FY 2016-17** to **over 24,162 crore in FY 2025-26**.

The Standing Disagreement

This column takes a position **opposite** to one argued in the same newspaper on **22 August 2026**, which held that MDR on transactions above ₹2,000 could cost the retail economy roughly ₹27,000 crore annually and that the network should instead be funded from systemic savings. Reading the two together is the most efficient way to prepare this topic.

THE ANALYSIS

1. The gap is the argument. A network costing about ₹20,700 crore a year to run, compensated at about ₹2,000 crore, leaves roughly nine-tenths of its cost unfunded. That residual does not vanish; it is absorbed by banks and payment service providers as an **unfunded mandate**.

2. Unfunded mandates degrade exactly what matters most. A payment network's critical attributes are capacity, uptime and fraud control. These are cost centres with no revenue attached under zero MDR. An operator that cannot recover its costs has a weak commercial case for investing in them, which is a poor position for infrastructure whose failure is systemic.

3. Elasticity varies by orders of magnitude across the user base. A charge of a few paise on a ₹40 transaction is meaningful to a street vendor operating on very thin margins. The same percentage on a large retail chain's receipts is an ordinary cost of business, comparable to what it already pays on card acceptance. A **single national answer to a question with this much variance is necessarily wrong for most of the distribution.**

4. The counter-position is not merely defensive. Zero MDR was not an accident; it was the instrument that produced acceptance at scale, and acceptance at scale is what produced the inclusion gains. Reversing it risks the adoption it purchased, particularly among small merchants for whom cash carries no explicit fee. The 22 August argument that the state should fund the network from **currency-management savings** is a serious proposal, because those savings are real and directly attributable.

5. The data proposal deserves more attention than it gets. Permitting the use of **anonymised aggregate payment data** for research and policy recovers value from publicly supported infrastructure without charging any user. It also carries obvious risk, since payment data is granular and re-identification is a live concern, which is why the column pairs it with explicit privacy standards.

DATA AND INSTITUTIONS VAULT

PRELIMS-GRADE FACTS:

- MDR is the fee a merchant pays for accepting a digital payment; it is zero on UPI person-to-merchant transactions in India.
- Annual UPI operating cost cited by the Parliamentary Standing Committee on Finance, report tabled 12 August 2026: about ₹20,700 crore; compensating allocation about ₹2,000 crore, roughly 11 per cent of actual costs.
- UPI is operated by NPCI (incorporated 2008, Mumbai, promoted by RBI and IBA), regulated by the RBI under the Payment and Settlement Systems Act, 2007.
- UPI volume rose from 1.78 crore transactions in FY 2016-17 to over 24,162 crore in FY 2025-26.
- NPCI's proposed 30 per cent market-share cap on third-party apps has been repeatedly deferred.

MDR applies to **person-to-merchant (P2M)** *transactions, not to person-to-person transfers, which were never within its scope. Also distinguish* **MDR** *(paid by the merchant) from a* **transaction charge on the consumer***; the proposals under discussion concern the former.*

THE DEBATE

FOR (calibrated pricing): A ten-fold gap between cost and compensation is not sustainable. The shortfall is an unfunded mandate degrading investment in capacity and fraud control. Elasticity varies enormously, so a capped charge on large commercial users raises revenue where it will not deter usage.

AGAINST (keep UPI free): Zero MDR produced the adoption that produced the inclusion. Any charge risks reversing it, particularly among small merchants for whom cash appears free. The retail economy cost could reach tens of thousands of crores. Fund the network from currency-management savings instead.

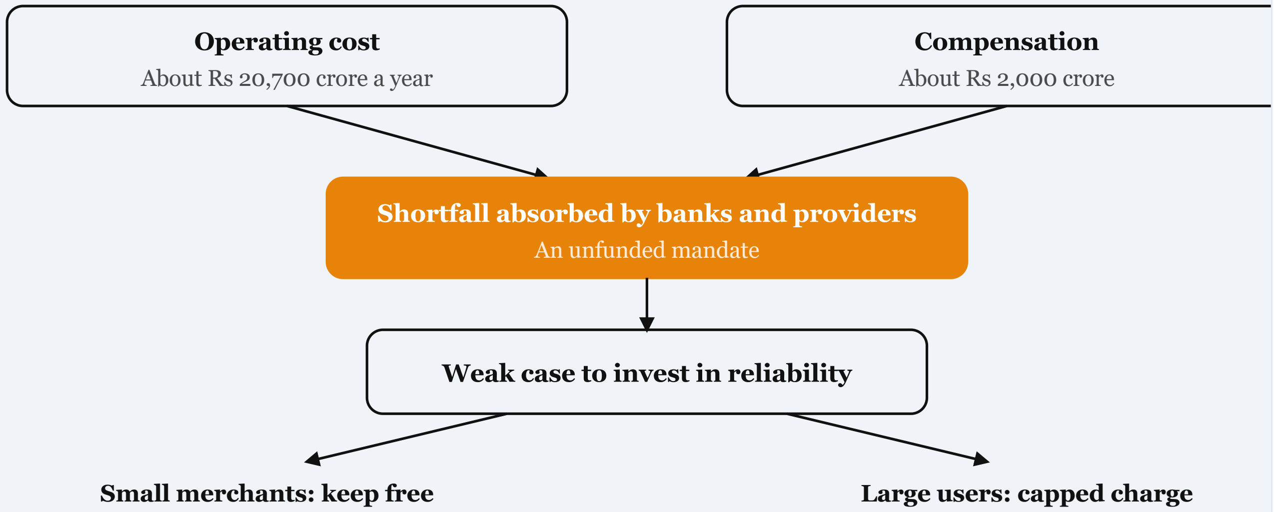
Balanced verdict: The disagreement is narrower than it appears, because **both sides accept that the network must be funded**; they differ on the payer. That makes segmentation the natural resolution: preserve zero MDR for consumers, small merchants and low-value transactions where elasticity is high and adoption remains fragile; permit a **capped** charge on large commercial users and high-value transfers where it is not; and meet the residual from **quantified currency-management savings** rather than an unspecified budget line. Publishing the cost and compensation figures annually would also convert a debate currently conducted on estimates into one conducted on record.

HOW TO THINK ABOUT THIS

When a service is free at the point of use, locate the payer before evaluating the policy. There is always one: the taxpayer, a cross-subsidising customer segment, or the provider absorbing an unfunded mandate.

Each option has a distinct failure mode. Taxpayer funding is transparent but competes with other spending. Cross-subsidy is invisible but distorts the subsidising segment's behaviour. Provider absorption is politically easiest and the most dangerous, because it degrades service quality slowly and without any decision being announced. Identifying which of the three is operating, and naming its failure mode, is the analytical move that turns "should it be free" into a question with a determinate answer.

DIAGRAM-IN-WORDS



Nine-tenths of the cost sits in the orange box, where no decision was ever announced. Segmentation at the bottom is what lets the network be funded without losing the merchants who made it work.

TAKEAWAY BOX

A free service still has a bill. The only question a policy can answer is who receives it.

MDR is zero on UPI P2M transactions; annual operating cost cited at about ₹20,700 crore against about ₹2,000 crore compensation; NPCI incorporated 2008, Mumbai, promoted by RBI and IBA; regulated under the Payment and Settlement Systems Act, 2007; UPI volume 1.78 crore in FY 2016-17 to over 24,162 crore in FY 2025-26; NPCI's 30 per cent app market-share cap repeatedly deferred.

Is it legitimate for the state to require private banks to run a public utility at a loss, without either compensating them or announcing that it has done so?

Connects to past UPSC Mains questions on digital payments and financial inclusion, on digital public infrastructure, and on the fiscal cost of subsidies.

"Zero MDR did not make UPI free; it relocated the cost to parties who did not choose to bear it." Critically examine.

Source: Fair Pricing Could Help Sustain the UPI Network — Ujiyari.com | Free UPSC & State PCS Editorial Analysis

KEY ARGUMENTS AT A GLANCE

Writing in The Indian Express, the argument is that with the Parliamentary Standing Committee on Finance, in a report tabled on 12 August 2026, citing roughly Rs 20,700 crore in annual UPI operating costs against a zero-MDR compensation allocation of about Rs 2,000 crore, the present bargain is fiscally unsustainable, and that UPI should stay free for consumers and small merchants while a capped Merchant Discount Rate is permitted on larger commercial users and high-value transactions, alongside public use of anonymised payment data under clear privacy standards.

✓ SUPPORTING

- A gap of roughly ten times between the cost of running the network and the budgetary compensation for keeping it free means the shortfall is absorbed by banks and payment providers as an unfunded mandate, which suppresses their incentive to invest in capacity, fraud control and reliability.
- Price elasticity differs sharply across the user base, so a charge that would deter a small merchant operating on thin margins would be immaterial to a large commercial user for whom payment acceptance is a routine business cost.
- Anonymised aggregate payment data is a public good generated by a publicly supported network, and permitting its use for research and policy under privacy safeguards recovers value from the infrastructure without charging any user.

⚠ COUNTER

The counter-view, argued in this newspaper only days earlier, is that any Merchant Discount Rate risks pushing merchants and consumers back toward cash, that even a small charge on transactions above a threshold could cost the retail economy tens of thousands of crores annually, and that the state should instead fund UPI out of the systemic savings digital payments already generate, including reduced currency printing and lower cash-handling costs for banks. On this reading, the network's value lies precisely in being free at the point of use.

→ WAY FORWARD

The resolution lies in segmentation rather than a single national answer: retain zero MDR for consumers, small merchants and low-value transactions; permit a capped charge on large commercial users and high-value transfers where elasticity is low; fund the residual from quantified currency-management savings rather than from a general budgetary line; and publish the cost and compensation figures annually so the size of the subsidy is a matter of record rather than of estimate.

MAINS ANSWER FRAMEWORK

QUESTION

Zero Merchant Discount Rate drove UPI's adoption but leaves its operating costs unfunded. Examine the case for calibrated pricing and its implications for financial inclusion. (250 words)

INTRODUCTION

The Unified Payments Interface is free at the point of use and expensive to operate, and the difference has until now been absorbed rather than resolved. Writing in The Indian Express, the argument is that the scale of that difference has become large enough to threaten the network it sustains.

BODY

The Merchant Discount Rate is the fee a merchant pays for accepting a digital payment, distributed among the acquiring bank, the issuing bank and the network operator. India set MDR on UPI person-to-merchant transactions at zero, which removed the principal friction to merchant acceptance and is a substantial part of why UPI reached over 24,162 crore transactions in FY 2025-26.

The cost of that decision did not disappear; it moved. The column cites the Parliamentary Standing Committee on Finance placing annual UPI operating costs at roughly Rs 20,700 crore against a budgetary allocation of about Rs 2,000 crore intended to compensate for zero MDR, leaving a shortfall of nearly ten times that is borne by banks and payment service providers.

An unfunded mandate of that scale has predictable consequences: it weakens the commercial case for investing in capacity, fraud detection and reliability, precisely the areas where a systemically important payment network cannot afford weakness. The proposed remedy is calibrated rather than uniform, exploiting the fact that price elasticity varies enormously across users.

A charge that would deter a vegetable vendor operating on thin margins is immaterial to a large retail chain for which payment acceptance is an ordinary cost of doing business. Against this stands the position argued in the same newspaper days earlier, that any MDR risks reversing adoption and pushing users back to cash, and that the state should instead fund the network from the systemic savings digital payments generate through reduced currency printing and lower cash handling.

CONCLUSION

A balanced answer should note that the two positions differ less on principle than on who bears the cost, since both accept that the network must be funded. Segmentation reconciles them: zero MDR preserved where elasticity is high and adoption is fragile, a capped charge where it is not, and the residual met from quantified currency-management savings rather than an unspecified budget line.

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