UPI at 10: India’s Digital Payments Giant Faces a New Cost-Sharing Challenge

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UPI at 10 Latest News

- UPI has completed 10 years since its launch, now accounting for **86% of all digital transactions** in India.
- But explosive growth has piled up costs for the payments ecosystem, reviving the debate on who should pay for it — with a recent amendment to the **Payments and Settlement Systems Act, 2007** now permitting merchant fees on UPI payments.

How UPI Came About

- The RBI’s **2012 “vision document”** noted an average Indian made just **six non-cash transactions a year** — a figure unthinkable today.
- UPI was built by the RBI-regulated **NPCI** and the Indian Banks’ Association, with groundwork starting in 2012-13.
- It launched as a pilot in April 2016 and went fully operational that August.

- By 2025-26, India recorded **28,174 crore digital transactions** — 86% via UPI, used by over 55 crore people through 703 participating entities.

Early Growth Was Slow

- Even after demonetisation in November 2016, adoption crawled: monthly transaction value stayed under Rs 10,000 crore until December 2017.
- It took another year to cross Rs 1 lakh crore a month.
- A key barrier was the **Merchant Discount Rate (MDR)** — the fee merchants paid on digital transactions.

Zero MDR: The Turning Point

- The **Nandan Nilekani-led High-Level Committee on Deepening of Digital Payments** (2019) recommended scrapping MDR for customers and small merchants, with government subsidy instead.
- From 2020, the government began subsidising UPI/RuPay transactions up to Rs 2,000, capped at 0.15% of transaction value, shared between banks and payment providers.
- The COVID-19 pandemic then accelerated adoption sharply, as people avoided cash handling.

Private Investment Fuelled the Boom

- A Bank for International Settlements (BIS) paper noted investment in Indian fintech spiked in 2019 (driven by UPI adoption and big deals like Paytm, PhonePe) and again in 2021 (post-COVID digital payment preference).
- Most investment flowed into companies offering payment services and point-of-sale infrastructure.

Banks Have Been Left Behind

- Two US-backed apps — PhonePe and Google Pay — together handled 80% of UPI transaction volume and 83% of value in July 2026.
- As per the experts, banks have “missed the payments bus” and can’t match these volumes.
- SBI itself handled just 0.1% of UPI volume in July — ranked fourth among banks, behind Kotak Mahindra Bank (0.6% share).
- A regulatory cap limiting any single player to 30% market share has been repeatedly postponed; the current deadline is December 2026.

The Cost Problem

- UPI transaction growth has been staggering — up 1,800%, compared to just 17% growth in card transactions since November 2019.
- This scale comes with rising costs — technology, banking infrastructure and compliance — estimated at around Rs 20,000 crore a year.
- Government subsidies for sub-Rs 2,000 transactions don’t cover this gap.

The Case for Reintroducing MDR

- Industry voices argue zero MDR was right for driving initial adoption, but the next phase needs to create more value per transaction, including data-driven credit access for merchants and consumers.
- The industry is pushing for MDR of 0.3-0.6% on transactions above Rs 2,000 for large merchants.
- Such transactions form just 4% of person-to-merchant payments but account for 68% of total value — making them a viable revenue base without hurting small merchants or ordinary users.

The Next Wave of Growth

- The finance ministry has said subsidies alone cannot sustain UPI's next growth phase.
- **Domestically,** growth is expected to come from rural and semi-urban areas.
- **Internationally,** NPCI is targeting **greater cross-border presence** — UPI already operates in nine countries (Bhutan, France, Mauritius, Nepal, Singapore, Sri Lanka, UAE, Qatar, Cambodia).
- The India-Singapore UPI-PayNow linkage, active for over three years, is seen as a template, since traditional international transfers can cost up to 7% and take days to settle.

Conclusion

- UPI's decade-long journey from a pilot project to handling 86% of India's digital transactions is a genuine success story of financial inclusion.
- But sustaining this scale now demands a fairer cost-sharing model — one that funds future growth without compromising the accessibility that made UPI a global example.

Source: IE
