

REPRESENTATION / CITIZEN POLICY SUBMISSION

A Tiered Flat-Fee Structure for UPI Merchant Discount Rate (MDR): Extending Sector Parity to General and Essential-Commodity Retail

To: The UPI and Services Steering Committee,
National Payments Corporation of India (NPCI)

Copy to: Department of Financial Services, Ministry
of Finance, Government of India; Reserve Bank of
India

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Subject: *Request to extend flat-fee MDR treatment to
general and essential-commodity retail merchants, in a
tiered structure, ahead of the 15 October 2026
implementation*

1. Background

Effective 15 October 2026, the UPI and Services Steering Committee (NPCI) has notified a Merchant Discount Rate (MDR) of 0.4% on Person-to-

Merchant (P2M) UPI transactions above Rs 2,000, capped at Rs 300 per transaction. Person-to-Person transfers and transactions below Rs 2,000 remain free.

The Committee has already recognised that an ad valorem charge is unsuitable for certain thin-margin, high-volume sectors: fuel, railways, telecom, and insurance have been granted a flat Rs 5 MDR instead of the percentage-based charge. Capital markets, mutual funds, and stockbroking attract a lower 0.02% rate. Small merchants receiving under Rs 1 lakh per month via UPI QR remain fully exempt.

This submission requests that the same principle already applied to fuel, railways, telecom, and insurance be extended, in a tiered form, to general retail merchants and essential-commodity trade (groceries, vegetables, kirana stores), where the current 0.4% ad valorem structure is proving disproportionate.

2. Wider Public-Interest Case: Currency-Management Savings and UPI's Global Standing

Beyond merchant-level fairness, there is a broader fiscal and strategic case for keeping UPI adoption growing rather than risking a slide back to cash. The Reserve Bank of India's own annual report records that expenditure on security printing of currency notes rose by nearly 25% to Rs 6,372.8 crore in 2024-25, up from Rs 5,101.4 crore the previous year — and this figure covers printing alone, before accounting for the further recurring cost of storage, transport, note verification, and destruction of soiled currency across the RBI's currency-chest network. Every transaction that shifts durably from cash to UPI reduces this recurring national expenditure; every transaction that reverts to cash adds to it. This saving should be weighed explicitly against the MDR's revenue target when the Committee calibrates fee levels, since a fee structure that pushes essential retail back to cash works against the very cost-saving

rationale that justified promoting UPI in the first place.

UPI has also grown into an instrument of India's international standing in digital public infrastructure. As of 2026 it is live for outbound Indian users in roughly ten countries — the UAE, Singapore, France, Greece, Nepal, Sri Lanka, Bhutan, Mauritius, Qatar, and Cambodia — with the Department of Financial Services publicly stating its intention to extend reach further into East Asia. This international rollout depends on UPI's domestic scale and reliability remaining credible as a model other countries choose to adopt. A fee structure that visibly dampens domestic merchant participation, even in one segment, carries a reputational cost to this positioning that is worth the Committee's consideration alongside the domestic revenue objective.

3. The Problem

Since the notification, fuel-dealer associations across Delhi-NCR, Punjab, Uttar Pradesh, Mumbai, Karnataka, Rajasthan, and Madhya Pradesh have

protested the charge, several petrol pumps have posted “No UPI, Only Cash” boards, and retail and apparel trade bodies have separately warned that the fee could push small merchants back toward cash ahead of the festive season — weakening GST reporting and formalisation gains built up over the past six years of a zero-MDR UPI regime.

A significant part of this reaction stems from the fact that the ad valorem structure already exceeds a modest flat fee at the very first transaction slab. At Rs 2,001, the 0.4% charge works out to about Rs 8 — already above the Rs 5 flat rate given to fuel, rail, telecom, and insurance. The gap widens sharply as transaction value rises, reaching the full Rs 300 cap at Rs 75,000 and above (see table, Section 5).

Everyday essential retail — a vegetable vendor, a kirana store, a small grocer — shares the same characteristics that justified the flat-fee carve-out for fuel and telecom: thin margins, fixed or near-fixed pricing, high transaction frequency, and inability to pass the cost to price-sensitive consumers. There is

no structural reason this category should be treated differently.

4. Structural Measures Proposed

Structural Measure 1: Introduce a tiered flat-fee slab for general and essential-commodity retail merchants.

- Tier 1 (Rs 2,000 – Rs 10,000): flat Rs 5 MDR, aligned with the existing fuel/rail/telecom/insurance rate.
- Tier 2 (Rs 10,001 and above): revert to the existing 0.4% ad valorem rate, capped at Rs 300, so that the exchequer's and NPCI's revenue recovery on genuinely high-value transactions is not reduced.
- This hybrid model protects the overwhelming majority of daily consumer-facing transactions, which fall in the lower slabs, while preserving the revenue rationale of the percentage model at higher values.

Structural Measure 2: Define “essential-commodity retail” as a recognised MDR category, on par with fuel, railways, telecom, and insurance.

- Category to explicitly include: fruit and vegetable vendors, kirana and grocery stores, ration/PDS-

linked outlets, and other GST-registered or Udyam-registered micro-retail trade in daily essential commodities.

- Classification could be operationalised through existing merchant category codes (MCC) already used by NPCI/acquiring banks, requiring no new registration burden on the merchant.

Structural Measure 3: Direct a defined share of the existing small-merchant support fund toward this category, backed by a lender-side credit-guarantee arrangement.

- NPCI has already earmarked 5% of MDR collections for a small-merchant support fund. A defined portion of this fund could subsidise the revenue difference for essential-commodity retail during an initial transition period (e.g. 12–18 months), easing both merchant resistance and NPCI's revenue-adjustment concerns.
- Where the fund extends working-capital or transition support to eligible merchants as credit/advances rather than a pure subsidy, that exposure should be backed by a dedicated credit-

guarantee or business-loss insurance arrangement between the fund administrator and an insurer — on the model of the existing CGTMSE (Credit Guarantee Fund Trust for Micro and Small Enterprises) and CGFMU schemes, where a trust guarantees 75–85% of a lender's exposure to an MSME borrower.

- In case a merchant is unable to repay an advance drawn from the fund, the guarantee/insurance layer absorbs the shortfall so the fund's own corpus — and NPCI's broader MDR pool — is not depleted by individual defaults.
- As with CGTMSE, this guarantee sits at the institutional level between the fund administrator and the insurer, funded from a guarantee-fee built into the fund's own operating cost — it need not be a separate disclosed condition on the merchant's loan agreement, keeping the merchant's borrowing terms as simple as any standard working-capital advance.

Structural Measure 4: Institute a periodic review mechanism tied to inflation and transaction-volume data.

- The Rs 2,000 threshold, the flat-fee amount, and the tier boundary should be reviewed every 6–12 months against retail inflation and UPI transaction-volume growth, rather than fixed indefinitely — so the structure does not require repeated public agitation to be revisited.

Structural Measure 5:

Publish a transparency dashboard on MDR collection and fund utilisation.

- A public dashboard showing aggregate MDR collected by sector, the distribution across issuing bank / app provider / acquirer, and utilisation of the small-merchant support fund would allow trade bodies and citizens to verify that the stated rationale (infrastructure, cybersecurity, small-merchant support) is being met, reducing the trust deficit currently driving the protests.

5. Comparative Impact: Current Rate vs. Proposed Tiered Structure

Transaction Value	Current MDR (0.4%, general merchants)	Proposed Tier-1 Flat Fee	Proposed Tier-2 (0.4%, capped)
Rs 2,001 - Rs 2,500	Rs 8 - Rs 10	Rs 5	N/A
Rs 5,000	Rs 20	Rs 5	N/A
Rs 10,000 (tier boundary)	Rs 40	Rs 5	N/A
Rs 20,000	Rs 80	N/A	Rs 80
Rs 75,000 and above	Rs 300 (capped)	N/A	Rs 300 (capped)

6. Existing Sector Treatment (for Reference)

Category	Current Treatment	Fee Basis
Fuel, Railways, Telecom, Insurance	Flat fee (already in force)	Rs 5 flat
General retail merchants (incl. essential food/vegetable trade)	Ad valorem (proposed to reform)	0.4%, capped at Rs 300
Capital markets, mutual funds, stockbroking	Ad valorem	0.02%, capped at Rs 300
Small merchants (under Rs 1 lakh/month via UPI QR)	Exempt	Nil

7. Expected Outcomes

- Removes the immediate incentive for essential-commodity retail to revert to cash, protecting six years of digital-payment formalisation gains.
- Extends an already-accepted principle (flat fee for thin-margin sectors) rather than requesting a new concession, making the ask administratively straightforward for the Committee to evaluate.
- Preserves NPCI's stated revenue objective at higher transaction values through the Tier-2 ad valorem slab.
- Reduces the political and media pressure currently building around the MDR rollout ahead of the festive season, without requiring a full rollback.
- Protects the currency-management cost savings (Rs 6,372.8 crore in annual security-printing expenditure alone, per RBI's FY25 report) and the international credibility of UPI as a digital-payments model, both of which depend on sustained domestic adoption.
- Insulates the small-merchant support fund's corpus from individual merchant defaults through a standard credit-guarantee structure, so fund

solvency does not become a fresh point of risk for NPCI.

8. Request

It is respectfully requested that the UPI and Services Steering Committee consider extending the flat-fee treatment presently applicable to fuel, railway, telecom, and insurance transactions to general and essential-commodity retail merchants, in the tiered form outlined above, before the 15 October 2026 implementation date, or as an early amendment shortly thereafter.

I would welcome the opportunity to provide any further data or clarification the Committee may require.

Yours faithfully,

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