

21.09.2026

Smt. Nirmala Sitharaman

Hon'ble Union Minister of Finance & Corporate Affairs

Ministry of Finance, Government of India

North Block

New Delhi – 110001

Subject: Representation seeking reconsideration of the proposed UPI Merchant Discount Rate (MDR) framework — request for a differentiated and sustainable approach that protects small retailers while strengthening India's digital payments ecosystem

**Honorable Minister,
Greetings from RAI!**

Retailers Association of India (RAI), the apex body representing India's retail sector — including a significant base of MSME and small retailers — wishes to respectfully place before the Government certain concerns relating to the proposed 0.4% Merchant Discount Rate (MDR) on UPI Person-to-Merchant (P2M) transactions above ₹2,000, capped at ₹300 for transactions of ₹75,000 and above.

At the outset, RAI places on record its strong support for what UPI has achieved for India's digital payments ecosystem. UPI has transformed the way Indians make and receive payments, bringing millions of consumers and merchants into the formal digital economy. We believe that well over 80% of India's transactions can, over time, become digital and traceable, and we remain fully supportive of that objective.

RAI also recognises that the UPI ecosystem must be financially and operationally sustainable as transaction volumes continue to grow. However, we believe that the cost of sustaining this critical digital public infrastructure should be shared by all stakeholders who derive value from it — Government, banks, payment ecosystem participants and merchants — rather than placing a disproportionate burden on small retailers.

It is in this context that RAI respectfully requests the Government to reconsider the proposed MDR framework after appropriate consultation with merchant and industry stakeholders, particularly with regard to its applicability and rate for ordinary retail transactions.

RAI's key concerns are as follows:

1. Risk of a shift towards cash

The introduction of a merchant-level cost on UPI acceptance may encourage some small retailers to prefer cash, particularly for transactions where margins are low. This could weaken the progress made over the past decade in bringing small merchants into the digital payment ecosystem.

This risk is particularly relevant during the festive season, when transaction volumes and ticket sizes typically increase. The objective of the policy should be to ensure that a retailer does not have to weigh whether to accept digital payment or cash based on the cost of accepting UPI.

2. The proposed ₹1 lakh threshold does not adequately reflect retail economics

RAI is concerned that the proposed exemption/threshold based on monthly UPI receipts of ₹1 lakh may not adequately reflect the economics of the retail business.

Retailers typically operate with relatively modest gross margins. A retailer may have a gross margin of approximately 18% on sales, but this margin is used to meet a range of operating expenses — rent, employee salaries, utilities, logistics, technology, inventory-related costs and other overheads. The resulting net profit can therefore be substantially lower, often around 2%.

Against this backdrop, an MDR of 0.4% of the transaction value is not a nominal cost; it can represent a material proportion of a retailer's actual net earnings on a sale. The threshold should therefore be evaluated not merely on the basis of the volume of UPI transactions, but in the context of the actual economics and profitability of retail businesses.

Beyond the direct cost, there is also a behavioural risk: if the charge is significant enough, retailers may look to pass it on to consumers or steer customers towards cash — neither outcome being desirable from the perspective of maintaining India's digital payment momentum.

3. Need for a differentiated approach based on the underlying payment instrument

A significant proportion of UPI transactions are funded directly from savings or current accounts. Such transactions differ materially from credit-funded transactions in terms of their underlying cost structure and the absence of conventional credit risk.

RAI therefore believes that debit-linked/account-to-account UPI transactions and credit-linked UPI instruments should not necessarily be treated identically. Where UPI is used in conjunction with a credit facility or credit-linked instrument, the underlying economics may provide a stronger basis for a merchant charge.

Normal account-to-account UPI transactions, however, merit separate consideration, particularly given their importance to the formalisation of small retail businesses.

4. A smoother and more predictable MDR transition

RAI respectfully suggests that, if the Government believes some level of MDR is necessary to ensure the long-term sustainability of the UPI ecosystem, a nominal flat MDR of ₹5 per transaction for bills above ₹2,000 could be considered for ordinary retail transactions.

Such a structure would provide a simple, predictable and manageable cost for retailers, while allowing the payments ecosystem to transition gradually from the current zero-MDR regime.

A flat ₹5 charge would also reduce the incentive for a retailer to pass the cost on to the consumer or discourage UPI acceptance, while preserving the simplicity of UPI for both merchants and consumers.

RAI believes this approach would be more consistent with the nature of a bank-to-bank payment enabled through a UPI interface, particularly for ordinary account-to-account transactions, while still recognising the need for the ecosystem to move towards greater financial sustainability.

5. Recognition of the wider economic benefits of UPI

UPI has become a critical component of India's digital public infrastructure, and its benefits extend well beyond the immediate payment transaction.

Digital payments provide greater traceability, support formalisation, facilitate better financial records for businesses, and contribute to the broader objectives of transparency and tax compliance.

RAI therefore believes that the cost of sustaining and expanding the UPI ecosystem should be viewed as a shared ecosystem cost, with an appropriate contribution from all stakeholders who benefit from its continued growth — including Government, banks, payment service providers and merchants.

6. Need for a structured stakeholder consultation

RAI respectfully submits that any significant change to the economics of UPI merchant acceptance warrants consultation with the stakeholders who will directly experience its impact.

We therefore request that the Government undertake a structured and time-bound consultation with merchant associations, retailer bodies, banks, payment ecosystem participants and other relevant stakeholders before the proposed framework is finalised or revised.

Such a consultation would allow the Government to assess the impact of different MDR structures across retailer categories, transaction values, margins and payment instruments, and arrive at a framework that supports both ecosystem sustainability and continued merchant adoption.

RAI's requests

1. Reconsider the proposed MDR framework after stakeholder consultation

RAI requests that the proposed MDR framework be reconsidered following a structured consultation with merchant and industry representatives, particularly keeping in view the impact on small and MSME retailers.

2. Consider a nominal ₹5 MDR for ordinary retail transactions above ₹2,000

As a practical transition mechanism, RAI proposes a flat ₹5 MDR for ordinary retail UPI P2M transactions above ₹2,000, rather than an ad-valorem charge of 0.4%.

This would provide a predictable and manageable cost for retailers while supporting the long-term sustainability of the UPI ecosystem.

3. Adopt a differentiated approach for credit-linked UPI transactions

The Government may consider a differentiated framework for credit-linked UPI instruments, where the underlying cost and risk structure is materially different from ordinary bank-to-bank, account-to-account transactions.

4. Ensure that the cost of sustainability is shared across the ecosystem

RAI supports the principle that UPI infrastructure should become financially sustainable. However, this sustainability should be achieved through an appropriate and balanced contribution from Government, banks, payment ecosystem participants and merchants, recognising the wider economic benefits that UPI generates for each of these stakeholders.

RAI believes that India should continue to aspire towards a predominantly digital and traceable payments economy, and that the policy framework should reinforce — rather than inadvertently weaken — this transition.

We would welcome the opportunity to engage further with the Ministry of Finance, the National Payments Corporation of India (NPCI), and the Reserve Bank of India on this important matter. RAI would be pleased to share ground-level data and feedback from its retailer members on transaction patterns, margins and the likely impact of different MDR structures.

Given that the festive season is already underway, we respectfully request that this representation be accorded urgent consideration, and that an appropriate consultation with merchant stakeholders be undertaken at the earliest.

We look forward to a constructive response and to continuing our engagement with the Government in furthering India's digital payments, retail formalisation and inclusive growth objectives.

Warm Regards,
For and on Behalf of Retailers Association of India,



Gautam Jain, Director – Advocacy, RAI

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