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Merchant Discount Rate (MDR) Framework for UPI

***Prelims:** Current events of national and international importance | Economy*

Why in News?

The Ministry of Finance notified a revised Merchant Discount Rate (MDR) framework for the Unified Payments Interface (UPI).

Merchant Discount Rate (MDR)

- **Definition -** A fee levied on merchants for processing digital payment transactions.
- **Ecosystem Mechanism -** The collected MDR is shared among acquiring banks, issuing banks, payment service providers (PSPs), and third-party app providers (TPAPs) to sustain digital payment infrastructure, fraud prevention, and cybersecurity.

Key Highlights of the New MDR Framework

- The framework introduces a nominal MDR on select large-value Person-to-Merchant (P2M) transactions starting **October 15, 2026**.
- **Implemented via -** National Payments Corporation of India (NPCI) guidelines.
- **Zero Charges -** Person-to-Person (P2P) transfers (which constitute ~37% of UPI volume and ~70% of value) remain **100% free** for consumers, irrespective of the transaction amount.
- P2M transactions valued at **up to Rs. 2,000** will attract **Zero MDR**.
- Approximately 96% of all UPI merchant transactions fall below this threshold, shielding micro and small businesses.
- **Nominal Rate on Large-Value P2M Payments**
    - For P2M transactions exceeding **Rs.2,000**, a standard MDR of **0.4%** applies.
    - **Capping on High-Value Transactions-** For large transactions of **Rs.75,000 and above**, the MDR is strictly capped at a maximum of **Rs.300**.

UPI PAYMENTS

UPI Payments above ₹2,000 to Attract 0.4% MDR

From October 15, small payments stay free.
Here's what you need to know.

Bigger Payments, Smarter System!

TRANSACTION VALUE	% APPLICABLE MDR	MDR PAID BY MERCHANT
Up to ₹2,000	0%	₹0
₹3,000	0.40%	₹12
₹10,000	0.40%	₹40
₹20,000	0.40%	₹80
₹30,000	0.40%	₹120
₹40,000	0.40%	₹160
₹50,000	0.40%	₹200
₹60,000	0.40%	₹240
₹70,000	0.40%	₹280
₹75,000 and above	Fixed cap	₹300
₹1,00,000	Fixed cap	₹300
₹5,00,000	Fixed cap	₹300

NO CHARGES
on UPI payments up to ₹2,000.

0.40% MDR
applies to merchants above ₹2,000.

MAXIMUM
₹300 per transaction.

More digital payments → Safer | Simpler | A stronger economy

- **Concessional Rates for Specific Sectors**
    - **Essential Sectors (Flat Rs.5)-** Critical public utility services (Railways, telecom, insurance, fuel, agricultural inputs) pay a flat MDR of Rs.5 per transaction above Rs.2,000.
    - **Capital Markets (0.02%)-** Payments towards stockbrokers, securities, and mutual funds attract a low MDR of **0.02%** (capped at ₹300) to promote retail participation.
- **Small Vendor Exemption -** Small street vendors receiving up to **Rs.1 lakh per month** via QR codes under the Person-to-Person-Merchant (P2PM) classification remain completely exempt from MDR.
- **Strict Ban on Consumer Surcharges-** UPI apps and merchants are prohibited from charging "platform fees" or passing on MDR costs to end consumers.

Reference

PIB | UPI Continues to Remain Free for Peer to Peer Transactions