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POLICY BRIEF

From Payments to Prosperity

EXPANDING CREDIT ON UPI TO ALL AUTHORISED CARD NETWORKS



January, 2026

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EXPANDING CREDIT ON UPI TO ALL AUTHORISED CARD NETWORKS

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Abbreviations

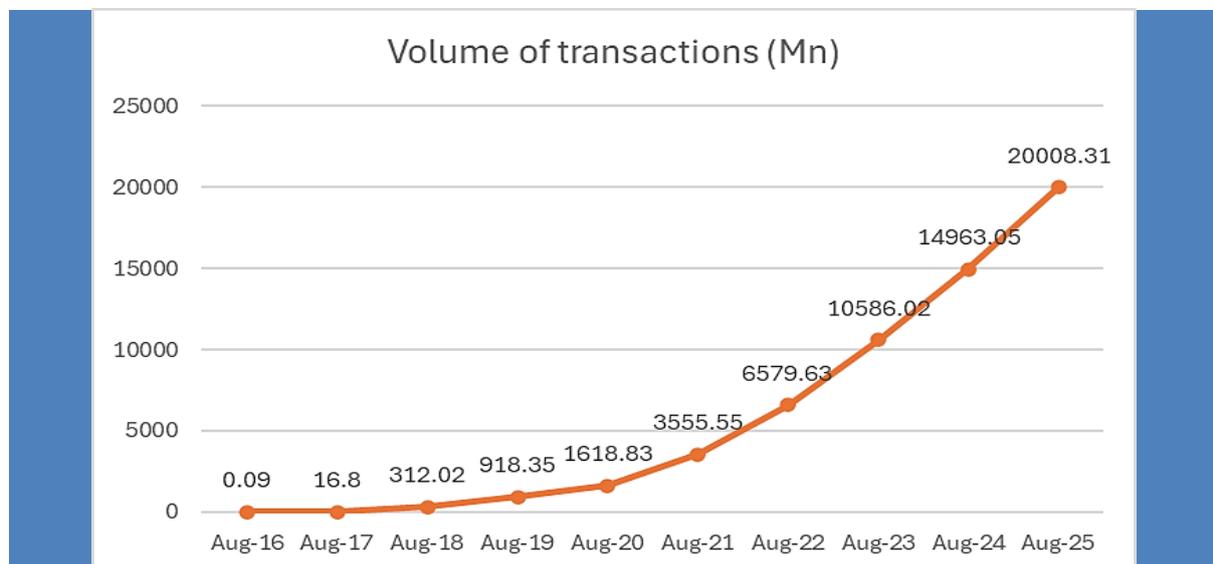
Abbreviation	Full Form
AA	Account Aggregator
API	Application Programming Interface
CASA	Current Account and Savings Account
CIC	Credit Information Company
CLOU	Credit Line on UPI
COU	Credit on UPI
DPI	Digital Public Infrastructure
EMI	Equated Monthly Instalment
GST	Goods and Services Tax
IPS	Instant Payment System
KYC	Know Your Customer
MDR	Merchant Discount Rate
MSME	Micro, Small and Medium Enterprises
NBFC	Non-Banking Financial Company
NPCI	National Payments Corporation of India
ONDC	Open Network for Digital Commerce
PA	Payment Aggregator
PMJDY	Pradhan Mantri Jan Dhan Yojana
RBI	Reserve Bank of India
SFB	Small Finance Bank
STP	Straight Through Processing
TPAP	Third-Party Application Provider
TPP	Third-Party Provider
ULI	Unified Lending Interface
UPI	Unified Payments Interface

1. Introduction

The Unified Payments Interface (UPI) has ushered in a new era of digital finance in India, driving one of the fastest transitions from cash to digital payments globally. In August 2025 alone, UPI recorded 20 billion transactions,¹ underscoring its scale as the default mode of payment for millions of Indians. More than a payments rail, UPI embodies India’s Digital Public Infrastructure (DPI) approach by building inclusive, interoperable networks that expand access and spark innovation at scale.

Globally, instant payment systems (IPS) have evolved to deliver speed, convenience, and lower costs. What distinguishes UPI is that it goes beyond being merely “instant.” Conceived as a DPI, UPI is trust-based, open, and interoperable, designed not only for efficiency but for inclusion. Unlike most Instant Payment Systems (IPS) that operate within closed or bank-only ecosystems, UPI enables open participation through its interoperable, Third-Party Application Provider (TPAP)-led architecture. This design fosters competition and innovation while ensuring, under robust regulatory and data-protection safeguards, that payments remain inclusive, secure, and user-centric. By allowing users to transact seamlessly across platforms, UPI fuels both competition and financial inclusion. Its architecture has transformed everyday life in India, making digital payments frictionless, universally accessible, and deeply embedded in commerce and society. The societal impact has been profound: UPI has reduced reliance on cash, accelerated financial inclusion, and enabled new business models. Its open design has empowered banks, fintechs, and merchants alike, creating powerful network effects that extend across every segment of the economy.

Figure 1: Growth in UPI Payments Volume



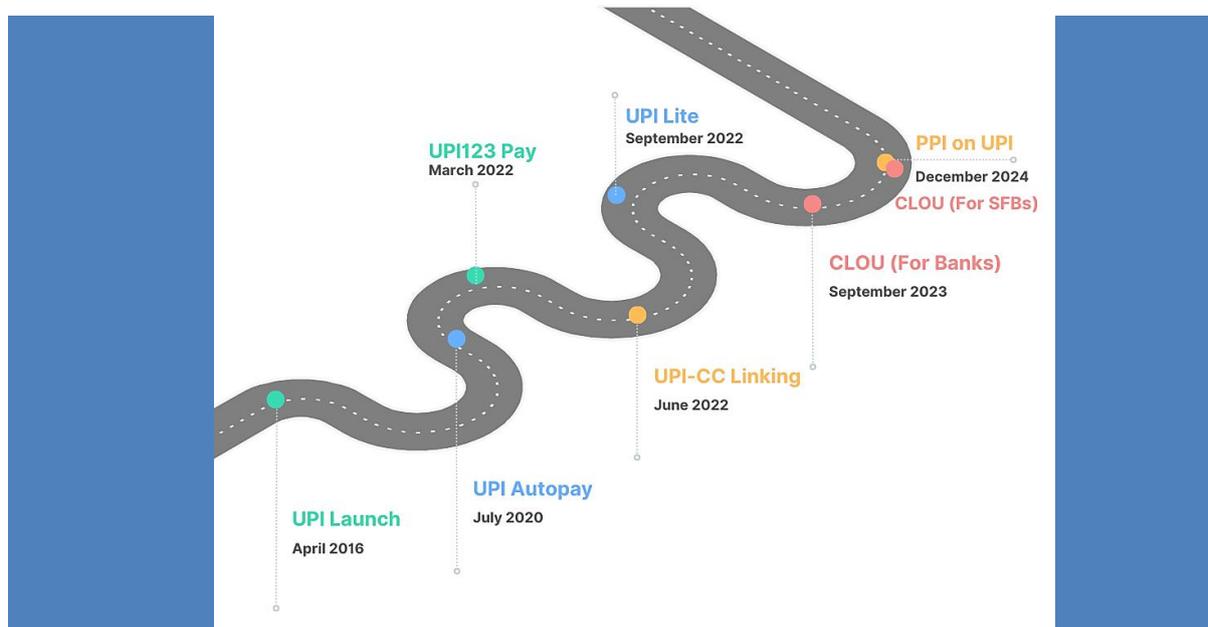
Having established itself as the foundation of digital payments, UPI next turned to credit as its new frontier. The shift came in June 2022, when the Reserve Bank of India (RBI) permitted the linkage of credit cards to UPI, starting with RuPay credit cards.² This move initiated the integration of credit into India’s most widely used payment system, expanding customer choice and improving the overall payments experience. The innovation advanced further in 2023, when the RBI introduced the Credit

¹ National Payments Corporation of India, “Unified Payments Interface (UPI) Product Statistics,” *NPCI*, <https://www.npci.org.in/what-we-do/upi/product-statistics>

² Reserve Bank of India, “Reserve Bank of India Press Release,” *RBI*, https://www.rbi.org.in/Scripts/BS_PressReleaseDisplay.aspx?prid=53831

Line on UPI (CLOU) framework,³ enabling banks to seamlessly link pre-sanctioned credit lines to UPI. Together, these interventions marked a decisive transition: credit no longer operated as a parallel system but became directly embedded within the country’s ubiquitous digital payment layer.

Figure 2: Timeline- UPI Evolution



This integration carried far-reaching implications. It positioned UPI not only as an instrument for instant payments but also as a powerful lever to democratise credit. By allowing consumers and merchants to access credit directly at the point of transaction, and through a familiar interface, UPI created a reinforcing cycle of adoption and utility. For lenders, it opened a low-cost, digital-first channel to expand reach; for users, it enabled frictionless access to formal credit.

At the same time, policy design has followed a cautious and incremental trajectory. Credit card usage on UPI remains limited to RuPay, consistent with the RBI’s and NPCI’s longstanding efforts to promote RuPay as a domestic alternative within the card ecosystem. Similarly, the RBI initially restricted credit lines on UPI to scheduled commercial banks, later extending eligibility to small finance banks. Within this step-by-step approach reflects a strong prudential focus, it also leaves significant segments of the ecosystem outside the current framework.

Industry stakeholders argue that the potential of “credit on UPI” remains underutilised. Embedding credit was intended to expand access, deepen credit markets, and harness UPI’s powerful network effects. These objectives can be achieved more quickly and at greater scale if policymakers widen participation beyond its current boundaries. Unlocking this potential will require a re-examination of access norms, while preserving the safeguards that underpin UPI’s role as a trusted public infrastructure.

³ Reserve Bank of India, “Operation of Pre-Sanctioned Credit Lines at Banks through Unified Payments Interface (UPI),” RBI, <https://www.rbi.org.in/scripts/NotificationUser.aspx?Id=12532&Mode=0>

2. The Evolving Credit Landscape (2025)

2.1 Unsecured Credit and Regulatory Guardrails

Unsecured credit occupies a critical space in India's financial landscape, especially as the country positions itself as an aspirational economy aiming to become a developed nation. In the current geopolitical and trade environment, accelerating domestic consumption and entrepreneurial activity is not merely desirable but necessary for sustaining growth momentum. Secured credit, while stable, cannot alone unlock the breadth of opportunities needed to drive large-scale economic expansion. For households and individuals still in the early stages of asset formation, unsecured lending often provides the only viable pathway to participate in the formal economy; supporting education, small businesses, consumption needs, and the creation of credit histories that underpin future growth.

At the same time, the very features that make unsecured credit powerful also create vulnerabilities if left unchecked. Rapid expansion without safeguards can amplify systemic risk, heighten borrower distress, and trigger macroeconomic shocks that reverberate across the financial sector. The imperative, therefore, is not to choose between growth and prudence but to strike a balance- leveraging unsecured credit as a catalyst for inclusive development while embedding strong governance, risk management, and regulatory guardrails. The Reserve Bank of India has been mindful of both the promise and risks in this segment. Over time, it has established a calibrated framework that balances innovation with prudence. Initiatives such as the Digital Lending Guidelines,⁴ co-lending frameworks,⁵ and adjustments to capital requirements for certain categories of consumer credit illustrate a risk-based, proportionate approach. These measures do not aim to stifle growth but to ensure that unsecured credit is extended responsibly, with transparency, accountability, and alignment to overall financial stability. In this way, RBI has laid down guardrails that allow the benefits of unsecured lending to be realised while mitigating systemic vulnerabilities. This habit of proactive vigilance, where regulators and the government align to address emerging risks, should also ease anxieties around UPI's credit-enablement journey, offering assurance that the system can continue to evolve without compromising its integrity.

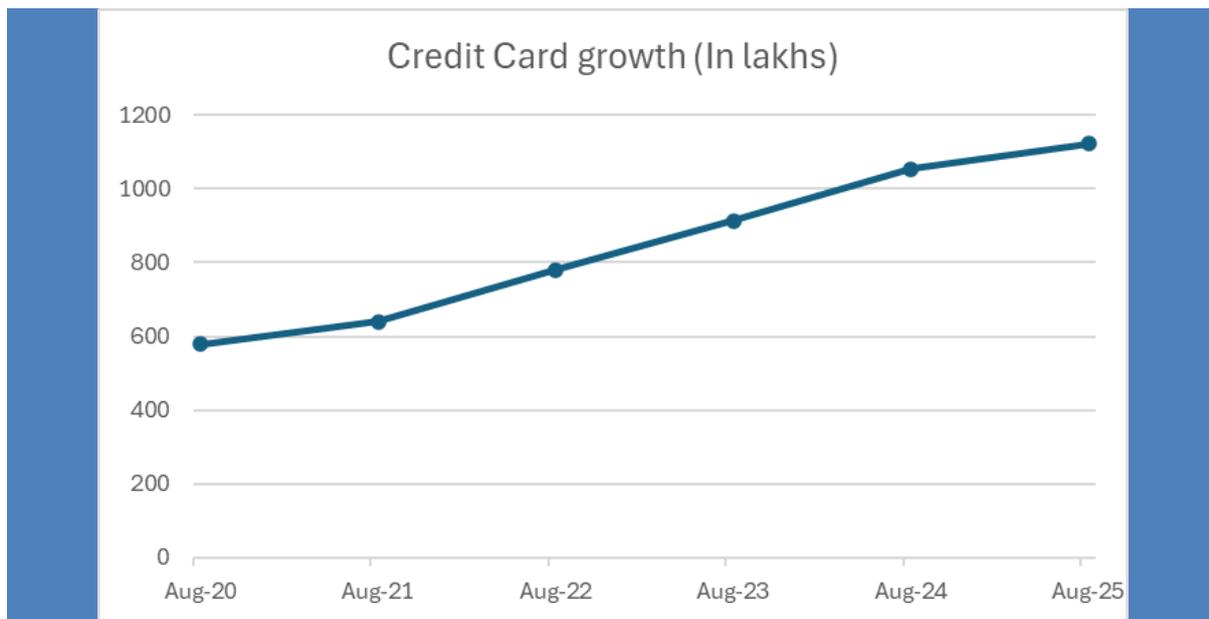
2.2 Credit Card Growth and Consumer Choice

Over the last five years, outstanding credit cards grew from 5.78 crore in August 2020 to 11.23 crore in August 25, reflecting a 94% increase.⁶ However, this surge does not directly translate into unique cardholders, since many customers hold multiple cards.

⁴ Reserve Bank of India, "Reserve Bank of India (Digital Lending) Directions, 2025," Notification No. 12848, May 8, 2025, <https://rbi.org.in/Scripts/NotificationUser.aspx?Id=12848&Mode=0>

⁵ Reserve Bank of India, "Reserve Bank of India (Co-Lending Arrangements) Directions, 2025," Notification No. 12888, August 6, 2025, <https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=12888&Mode=0>

⁶ Reserve Bank of India, *Payment System Indicators – August 2025*, <https://www.rbi.org.in/Scripts/PSIUserView.aspx?Id=51>



The uptick in issuance stems from multiple factors; with credit card-on-UPI integration (2022) as one catalyst, alongside rising consumer credit demand and aggressive bank–fintech partnerships. Card usage patterns reflect shifting consumer expectations. Over 70% of cardholders prefer cashback or reward-linked products,⁷ underscoring the central role of loyalty programs in adoption, according to TransUnion CIBIL. The surge in credit card–based EMI transactions highlights growing demand for no-cost financing of big-ticket purchases, while co-branded cards with major digital commerce players are deepening the ecosystem by linking spending to lifestyle and platform-driven consumption. Fintechs have further catalysed this wave, expanding consumer choice and embedding credit more seamlessly into everyday digital journeys.

Yet, industry stakeholders argue that growth in outstanding cards often reflects duplication rather than an expanding base of unique cardholders. World Bank data reinforces this concern, showing that only 4.6% of India’s population owns a credit card, a stark contrast to other emerging economies such as China (46%) and Brazil (43.5%).⁸

Customer centricity has remained a core focus for the RBI. The central bank itself has advanced a broader agenda to ensure consumer choice in payment networks. In March 2024, it directed banks and issuers to offer customers the option to select from all authorised credit card networks at the time of issuance or renewal, a move designed to reinforce neutrality and empower consumers.⁹ Yet the design of UPI-credit contradicts this principle by restricting participation exclusively to RuPay. This asymmetry matters because it reveals a tension in regulatory priorities: while the RBI promotes choice and competition in card issuance, it simultaneously enforces exclusivity in UPI-credit. Highlighting this inconsistency strengthens the case for reform. Extending the portability principle to UPI-credit would not only restore competitive parity but also align the framework with the regulator’s stated commitment to neutrality and innovation.

⁷ WhiteLabel Loyalty, “Eliminating friction: 3 reasons why card-linked technology benefits customers and brands,” *WhiteLabel Loyalty Blog*, February 22, 2023 (updated October 4, 2024), <https://whitelabel-loyalty.com/blog/loyalty/3-reasons-why-card-linked-technology-benefits-customers-and-brands/>

⁸ World Bank, *The Global Findex Database 2025: Connectivity and Financial Inclusion in the Digital Economy*, September 2025, <https://www.worldbank.org/en/publication/globalfindex>

⁹ Reserve Bank of India, “Arrangements with Card Networks for Issue of Credit Cards,” *Notification No. RBI/2023-24/131*, March 6, 2024, <https://rbi.org.in/Scripts/NotificationUser.aspx?Id=12619&Mode=0>

In shaping UPI, the RBI and NPCI have consistently stressed the importance of avoiding concentration risks. They have implemented measures such as proposals to cap the market share of UPI apps and promote NPCI's BHIM app, both designed to foster diversity and strengthen resilience within the ecosystem. In contrast, the approach to credit cards on UPI has taken a different path. By limiting credit card participation to RuPay, the framework effectively concentrates market access within a single network. While both approaches pursue distinct policy objectives, together they present a contrasting picture within UPI, one strand aims to diffuse concentration, while the other inadvertently reinforces it.

2.3 Merchant Economics and Fee Structures

To address concerns around fees, NPCI issued a circular in August 2024 introducing a merchant interchange fee (similar to MDR) for UPI credit-line transactions. Under the new rules, effective October 16, 2024, acquirer banks must pay issuing banks an interchange fee of around 1.2 percent.¹⁰ These charges significantly below the typical credit card MDR of up to 3.5 percent, were explicitly designed to create a sustainable revenue model for banks while keeping small-value payments costless. The impact on the ground has been mixed. Merchants, long accustomed to free UPI transactions, often struggled to distinguish between debit transactions and credit-on-UPI. Many disabled credit acceptance once they realised it left them at a net loss compared to debit UPI. Regulators have reinforced this bifurcation: the Finance Ministry continues to reiterate that UPI debit and small-value credit transactions will remain zero-MDR, most recently in June 2025 when it dismissed proposals for fresh transaction fees. Industry bodies such as the Payments Council of India have argued for reintroducing some MDR for large merchants to cover ecosystem costs, but as of 2025, NPCI's interchange rules for credit-on-UPI remain the only deviation from the original zero-MDR framework.

Beyond fees, merchants and aggregators have raised practical concerns about integrating credit-on-UPI. Technically, each credit facility (from different banks/NBFCs) requires new APIs and settlement flows behind the scenes. Industry observers note that tying credit to UPI still forces payment providers to reconcile multiple lending partners. For merchants (and payment aggregators), this means updating systems so that QR/UPI payments can trigger either a debit or credit charge, potentially following different settlement flows. Some of this complexity is easing with the emergence of UPI switch infrastructure developed by fintechs. These NPCI-certified switches act as middleware between banks, payment providers, and NPCI, standardising integrations and reducing the need for each player to build separate APIs for new UPI features. However, the switches only address the payment routing layer; the credit leg still requires settlement with individual lenders. Smaller merchants continue to face challenges in distinguishing debit from credit transactions and managing the additional compliance and support demands that credit-on-UPI entails.

Additionally, payment gateway executives emphasise the need for clear guidelines so acquirers and TPPs treat credit and debit UPI transactions distinctly in reports and compliance. The RBI and NPCI recognise these issues: their new UPI rules (August 2025) formally categorise credit line payments and mandate that banks report credit transactions for credit bureau updates. Yet, the industry continues to seek further clarity on point-of-sale settlement (specifically, whether credit transactions appear separately in merchant statements) and on integration support for small merchants.

These adoption challenges are not unique to credit on UPI. Similar sluggishness has been observed in other sectoral initiatives, such as the Unified Lending Interface (ULI) and financial services on ONDC, underscoring that scaling participation in open networks requires both strong ecosystem incentives and clearly demonstrated anchor use cases. Policy designs, therefore, must align with market readiness, introducing innovation in a calibrated manner that fosters sustainable adoption.

¹⁰ Preeti Motiani, "Will your payments through UPI credit line become costly as NPCI introduces merchant charges?" *The Economic Times*, September 12, 2024, <https://economictimes.indiatimes.com/wealth/spend/will-your-payments-through-upi-credit-line-become-costly-as-npci-introduces-merchant-charges/articleshow/113284532.cms?from=mdr>

2.4 UPI and India's DPI Leadership

Finally, at the global level, India has positioned itself as a torchbearer of DPI, a role reinforced during its G20 presidency. The Indian model has earned recognition not only for its scale but also for its ability to balance cost-effectiveness, interoperability, and resilience, features that collectively lower entry barriers and accelerate adoption. By making infrastructure open, inclusive, and trust-based, DPI has spurred job creation, enabled new business models, and expanded financial access to groups historically excluded from formal finance. UPI, as one of DPI's flagship manifestations, exemplifies these principles by providing a common-rails architecture that allows banks, fintechs, and technology firms to innovate freely while reaching millions of users. Yet restricting participation, whether by confining credit card linking to a single network or limiting credit lines to specific classes of institutions, risks undermining the foundational DPI principle of equitable access. For UPI to remain a true exemplar of India's DPI vision, the same openness and inclusivity that drove its payments success must also guide its credit journey. Only then can it sustain its role as a global lighthouse, showing how digital public goods can democratise access, foster competition, and generate broad-based economic impact.

3. Origins of the Current Framework

3.1 The Rationale Behind the Initial Phase

When the RBI and the NPCI introduced credit on the UPI, they imposed significant restrictions, effectively creating a "walled garden" for this new financial utility. Only scheduled commercial banks could extend credit, and only RuPay credit cards could be linked in the initial phase. This design was not arbitrary but reflected a risk-based, proportionate approach to regulation.

The scope of access was deliberately confined to institutions with stringent prudential requirements and diversified funding bases while excluding Non-Banking Financial Companies (NBFCs) and global card networks. The design dovetailed with the government's vision of payment sovereignty; by restricting the initial rails to RuPay, policymakers ensured that the technical rails and data flows remained under complete supervisory access and domestic control, reinforcing the Atmanirbhar Bharat agenda.

3.2 Prudential Rationale

By limiting credit-on-UPI to banks, regulators ensured that only entities with stringent prudential requirements and diversified funding bases extended credit on what had become critical national infrastructure.

This distinction is rooted in the structural differences between the two entities. Banks benefit from stable access to low-cost Current Account and Savings Account (CASA) deposits and are subject to rigorous liquidity coverage norms. In contrast, NBFCs have historically relied on wholesale markets and bank borrowings rather than public deposits, making their funding costlier and potentially more volatile during stress periods.

Furthermore, the regulator's caution is shaped by the memory of past crises and the historical volatility associated with "shadow banks". Unsecured credit, while essential for growth, carries inherent risks; if expanded rapidly without safeguards, it can heighten borrower distress and trigger macroeconomic shocks. Consequently, the RBI remained wary of granting NBFCs access to UPI's massive distribution rails, fearing that "systemic interconnectedness", where distress in the NBFC sector spills over into the banking system via borrowing links, could compromise the broader financial network. Even as the ecosystem evolved in 2024, regulators maintained this cautious tiering, extending access only to small finance banks while keeping NBFCs outside the framework to prioritise safety over rapid expansion.

3.3 Sovereignty and Strategic Control

The choice of RuPay over global networks reflected concerns of sovereignty and strategic control. As India's indigenous card scheme, operated by NPCI, RuPay fits squarely into the government's ambition to strengthen domestic DPI. By tying the growth of credit-on-UPI to RuPay, policymakers reinforced the Atmanirbhar Bharat agenda and reduced dependence on foreign-controlled networks. This move also ensured compliance with data localisation mandates¹¹, an area where international networks had faced regulatory scrutiny. Because RuPay is Indian-owned, it eliminated such concerns and gave regulators complete supervisory access to payment data. Integration was also smoother since NPCI operates both RuPay and UPI, allowing tighter control over the technical rails.

¹¹ Reserve Bank of India, "Storage of Payment System Data," *RBI*, <https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=11244&Mode=0>

3.4 Commercial Incentives and Zero-MDR Policy

Commercial incentives also shaped this policy choice. The government has maintained a zero merchant discount rate (MDR) regime for UPI and RuPay debit transactions since 2020.¹² Restricting credit-on-UPI to RuPay ensured alignment with this framework. Unlike global networks that depend on MDR-based revenue models, RuPay, as a not-for-profit domestic scheme, could operate within a zero-fee framework. The initial rollout even exempted small transactions under Rs. 2,000 from interchange or MDR.¹³ While this helped UPI credit scale without undermining the principle of low-cost digital payments, it gave banks little incentive to promote the feature aggressively.

¹² Reserve Bank of India, "Discussion Paper on Charges in Payment Systems," *RBI*, August 17, 2022, <https://www.rbi.org.in/Scripts/PublicationsView.aspx?id=21082>

¹³ Arun Jaitley, "It pays to swipe the card: Government pushes move from cash to digital," *The Indian Express*, December 15, 2016, <https://indianexpress.com/article/india/demonetisation-arun-jaitley-digital-transaction-cashless-economy-4417972/>

4. The Friction of Exclusions: Systematic Challenges

4.1 Limited Reach of RuPay Credit on UPI

These restrictions characterised by a walled garden approach was a deliberate balancing act. Regulators prioritised supervisory control and systemic stability by limiting participation to banks, while advancing sovereign control and domestic industry promotion by granting RuPay exclusive access.

However, these protective measures carried trade-offs. As credit-on-UPI was confined to RuPay-linked credit cards, it could not replicate the universal reach that UPI had achieved on the debit side. RuPay's credit card share was modest when credit-on-UPI launched and industry sources suggest it accounted for roughly 3% of credit card transaction volumes in 2023-24, expanding to between 12 and 16 percent by 2024-25.¹⁴ Even at the higher end, the majority of credit card users, who held other cards, were unable to use UPI for credit payments. In contrast, RuPay's dominance in debit cards was driven significantly by the Pradhan Mantri Jan Dhan Yojana (PMJDY) initiative, which issued over 36 crore RuPay debit cards to Jan Dhan account holders, embedding RuPay widely into India's financial inclusion architecture.

RuPay Market Share: Debit vs Credit (Indicative)

Year	RuPay Debit Card Share (%)	RuPay Credit Card Share (%)	Notes / Drivers
2014–15	~0	–	RuPay credit not yet launched; PMJDY rollout begins
2018–19	~60	~10	Massive issuance of RuPay debit cards under PMJDY (over 30 crore)
2022–23	~65	~3-5	Debit dominance sustained; credit market penetration still modest
2024–25	~65	~12-16	Credit share grows gradually; debit share stable due to PMJDY-driven base

This penetration reflects government-driven expansion more than organic market preference. It enabled RuPay to serve as the backbone of UPI-based credit, but limited choice for credit card users who did not hold a RuPay card.

4.2 Merchant Frictions and Fee Ambiguities

Merchants also faced challenges. UPI had always been free to accept, but RuPay credit-on-UPI transactions introduced interchange fees and MDR. This clash stems from a fundamental divergence in revenue models: since 2020, the government has enforced a zero-MDR regime for UPI and RuPay debit to drive mass adoption. This conditioned the market to view UPI as a free public utility. Consequently, when the NPCI introduced a 1.2% interchange fee for credit-on-UPI in late 2024, it created an

¹⁴ Moneycontrol, "RuPay's credit card market share rises to 12 percent in 2024, transaction volume growing 20% monthly," *Moneycontrol*, January 22, 2025, <https://www.moneycontrol.com/technology/rupay-s-credit-card-market-share-rises-to-12-percent-in-2024-transaction-volume-growing-20-monthly-article-12916512.html>

immediate economic shock. While this fee is significantly lower than the 3.5% MDR typical of traditional credit cards, merchants accustomed to zero costs viewed it as a net loss rather than a savings. Initially, merchants could not even distinguish whether a UPI payment came from a debit account or a credit card, creating billing confusion. This was not just a UI issue, but a backend reconciliation challenge. NPCI intervened to ensure that UPI apps flagged credit transactions, yet, uncertainty persists. Merchants accustomed to zero-cost UPI payments hesitate to accept the prospect of new fees, while larger retailers resist promoting UPI credit due to unclear revenue sharing and the risk of higher costs. Banks, who would typically educate merchants on the benefits of accepting credit, have been "tepid" in their promotion. As noted in parallel industry analysis, banks fear that aggressive promotion of low-margin UPI credit (1.2% fee) will "cannibalise" their high-margin credit card business (3.5% fee). Without a push from banks, merchants see only the cost of the fee, not the benefit of increased sales. The clash between UPI's zero MDR ethos and credit's need for a sustainable fee model has created friction, dampening merchant enthusiasm.

4.3 Bank Incentives and Adoption Barriers

For banks, the restrictive design created a fundamental misalignment of incentives. Banks faced a strategic conflict in promoting credit on UPI, fearing that it would cannibalise their significantly more profitable traditional credit card portfolios. Traditional credit cards generate merchant discount rates (MDR) of up to 3.5 percent, alongside lucrative income from revolving credit, annual fees, and cross-selling opportunities. In contrast, the Credit on UPI framework was introduced with interchange fees capped at roughly 1.2 percent, and initial rollouts explicitly exempted small-value transactions (under ₹2,000) to protect the zero-cost ethos of the ecosystem. Major private banks delayed their rollout, joining late and often only under policy nudges, while public sector and smaller banks carried most of the early load. The lack of strong revenue prospects, combined with the operational cost of enabling RuPay-on-UPI, led banks to promote the product only tepidly. Even today, adoption volumes remain limited compared to overall UPI traffic.

4.4 Concentration Risks and Single Points of Failure Competition and Market Concentration Risks

Finally, competition concerns also arise. Granting RuPay exclusive access for nearly two years tilted the market in favour of a single network. While this policy boosted RuPay's share, it raised questions of fairness, as card networks such as Visa and Mastercard were excluded from a transformative payment innovation. The lack of competition risked dampening innovation and concentrated power with NPCI, which operates both UPI and RuPay. For consumers, it meant fewer choices and limited access to card-specific benefits. The continued restriction on non-RuPay credit cards on UPI runs counter to the principle of competitive parity. It limits consumer choice, dampens competitive innovation, and increases the risk of a single point of failure. These outcomes mirror precisely the kind of concentration risks that NPCI and the RBI have previously identified as systemic concerns within the UPI ecosystem.

5. The Multiplier Effect

The preceding analysis has highlighted the constraints and trade-offs inherent in the current, narrowly defined framework for credit-on-UPI. While the cautious, incremental approach reflects a prudent regulatory stance, it also leaves significant economic potential untapped. This section transitions from diagnosing these challenges to making the affirmative case for reform. Expanding participation to include non-RuPay card networks goes beyond incremental improvement; it represents a transformative step that can create a powerful multiplier effect, amplifying benefits for consumers, enterprises, and the financial system at large. Similarly, fostering a more open, competitive, and inclusive ecosystem can enable policymakers to unlock the full potential of UPI as a democratising for both payments and credit.

5.1 Empowering the Consumer

Consumer choice is a foundational principle of a mature and efficient market. As discussed in Section 4, the RBI has already mandated network choice. Here, the focus is on what this means for consumer adoption and use on UPI-credit.

The current restriction has tangible consequences for the vast majority of Indian credit card users. While RuPay has made significant inroads, its credit card market share, estimated at 12% to 16% in 2024-25, implies that over four-fifths of credit card holders cannot link their primary, preferred card to UPI. This creates a significant friction point, limiting adoption and the utility of UPI credit's most powerful feature; its seamless integration into the ubiquitous QR code payment experience.

Different card networks also offer distinct and non-interchangeable value propositions tailored to diverse consumer segments. Global networks such as Visa and Mastercard have built extensive ecosystems with differentiated rewards programs, premium travel and lifestyle benefits, and near-universal international acceptance. RuPay, in turn, offers domestic affordability, lower processing fees for merchants, and unique integrations with government schemes. Denying consumers the ability to leverage these varied benefits on UPI reduces the platform's overall value. A consumer who prioritises international travel perks is just as disenfranchised by the current framework as a domestic user is empowered by it.

Finally, the policy gap between the RBI's card choice mandate¹⁵ and UPI's exclusivity creates a regulatory dissonance that extends beyond consumer inconvenience. It introduces uncertainty for market participants, particularly for international networks and their partner banks, who invest heavily in co-branded card programs. Their primary digital use case is effectively blocked from India's dominant payment rail, potentially disincentivizing long-term investment and innovation. Aligning UPI policy with the RBI's network-neutral stance would expand choice while maintaining the concentration safeguards discussed in Section 4. Therefore, harmonising UPI policy with the broader regulatory framework is a crucial step to ensure regulatory integrity, predictability, and market confidence.

5.2 Fortifying the Financial System

A cornerstone of financial stability is the diversification of risk. Concentrating a rapidly scaling credit product within a single network (RuPay) and a single class of institutions (banks) runs counter to this principle. While born of caution, such an approach inadvertently creates concentration risks that a more diversified framework would naturally mitigate. Expanding participation to include multiple regulated networks and a broader set of lenders is not a move toward deregulation, but a prudent strategy to distribute risk more evenly and enhance systemic resilience.

¹⁵ Reserve Bank of India, "Arrangements with Card Networks for Issue of Credit Cards," *Notification No. RBI/2023-24/131*, March 6, 2024, <https://rbi.org.in/Scripts/NotificationUser.aspx?Id=12619&Mode=0>

5.3 Igniting Competition through Network Inclusivity

Exclusivity, by design, is antithetical to innovation. The current closed-loop architecture of UPI credit, while serving the objective of strengthening a domestic network, risks curbing the very competitive dynamism that made UPI's debit functionality a global benchmark. Opening the platform to all authorised networks and a wider range of lenders would unlock powerful competitive forces. The outcome would be superior products for consumers, sharper pricing efficiency, and an accelerated evolution of India's growing embedded finance ecosystem.

At present, the framework concentrates significant market power in NPCI, which simultaneously acts as the operator of the UPI platform, the rule maker, and the owner of the sole permitted network, RuPay. This concentration raises important concerns around maintaining a level playing field and avoiding the creation of a single point of failure, a risk that both the RBI and NPCI have themselves acknowledged in other contexts, such as the imposition of market share caps for UPI apps. Introducing participation from global networks like Visa and Mastercard would not only expand consumer choice but also foster continuous innovation across the ecosystem. In practice, it would incentivise all players, including RuPay, to enhance features, security protocols, and develop value-added services for cardholders and merchants alike.

More profoundly, an open and multi-participant UPI credit ecosystem provides the ideal foundation for the next wave of fintech innovation, particularly embedded finance. This model integrates financial services, such as credit and insurance seamlessly into non-financial platforms and everyday user journeys. An open credit layer on UPI can unlock transformative use cases: such as the on-the-fly conversion of a UPI payment into an Equated Monthly Instalment (EMI) at the point of sale (a feature already being piloted by NPCI), or the provision of context-specific micro-insurance and flexible credit lines within e-commerce or gig economy applications.

Equally important, this shift addresses the long-term financial sustainability of the digital payments ecosystem. The government-mandated zero MDR regime for UPI and RuPay debit transactions, while critical in driving mass adoption, has left ecosystem participants, including banks and Payment Aggregators (PAs), bearing substantial infrastructure, maintenance, and compliance costs without a viable revenue stream. A vibrant, competitive credit ecosystem on UPI offers a logical and sustainable pathway forward. Credit transactions inherently support a globally accepted commercial model, based on interest and interchange fees. Allowing a market-driven but regulated fee structure for credit-on-UPI provides regulators with a clear pathway to building a sustainable business model. This approach addresses the ecosystem's viability challenge without undermining the "free for debit" principle that has been central to UPI's success as a public good and as a driver of financial inclusion. In effect, it enables the ecosystem to monetise higher-value credit services, with those revenues helping to subsidise the operational costs of the free payment layer. The outcome is a balanced and durable model that safeguards UPI's public good foundation while fostering a commercially viable and innovative financial marketplace layered on top of it.

6. A Calibrated Path Forward

The case for expanding the Credit on UPI framework is compelling, with the potential to deliver meaningful benefits for consumers, MSMEs, and the broader financial system. However, expansion must proceed alongside prudence. The following recommendations set out a pragmatic, phased roadmap to unlock innovation and deepen financial inclusion, while embedding prudential guardrails at every stage. This approach ensures that UPI's next phase of evolution remains both transformative and stable.

6.1 Mandating Competitive Neutrality

Regulators must apply the principle of competitive neutrality consistently across India's payments landscape. To this context, the current arrangement that permits only RuPay credit cards to link with UPI warrants reconsideration. Policymakers should open UPI to all authorised card networks operating in India, including Visa and Mastercard.

Such a move would logically extend the RBI's March 2024 circular, which reinforced consumer choice across credit card networks. Applying this same principle to UPI would address the existing policy inconsistency and create a more coherent regulatory framework. To operationalise this shift, NPCI should publish clear, standardised technical and operational guidelines for onboarding additional networks. NPCI should issue these guidelines within a defined and reasonable timeframe to ensure smooth, efficient, and non-discriminatory integration for all eligible participants.

6.2 Designing a Sustainable Commercial Model

Credit on UPI requires a commercially sustainable foundation that does not undermine the zero-charge design of debit UPI for small-value transactions. The policy question is not about fixing a specific fee, but about establishing clear design principles, transparency requirements, and evaluation metrics that allow the ecosystem to converge on a viable model under regulatory oversight.

First, regulators should retain zero charges for small-value UPI payments at micro and small merchants, regardless of the funding source. This safeguard preserves financial inclusion and prevents regressivity in everyday transactions.

Second, policymakers should permit a regulated, network- and issuer-agnostic interchange for higher-value credit transactions, calibrated to reflect risk, fraud management, and operating costs. Rather than prescribing a single fee, regulators should publish an acceptable range along with the methodology used for calibration. They should review this methodology at regular intervals, using data on fraud rates, chargebacks, and portfolio losses reported to the RBI and NPCI.

This report does not recommend a specific fee level. Instead, it proposes that the RBI and NPCI define and publicly disclose the calibration methodology, underlying data inputs, and review cadence, while continuing to protect zero charges for small-value payments at small merchants.

6.3 Ensuring Ecosystem Readiness

The success of an expanded credit-on-UPI framework hinges on the readiness of frontline participants, particularly small merchants and payment service providers. A targeted support programme is essential to enable adoption and effective management of new credit flows. To reduce technical complexity and integration costs, the NPCI, in collaboration with leading payment aggregators, should develop and distribute standardised, low-cost integration tools and APIs. This intervention is particularly important in a multi-lender environment with varying MDR structures, as it lowers barriers to participation for small merchants and fintechs with limited technological capacity.

Building on the fee-structure analysis in Section 3, regulators should mandate standardised merchant reporting and clear product tags that distinguish debit UPI from credit UPI at the settlement stage. Uniform, transparent reporting across all merchant statements and settlement reports is essential to ensure reconciliation and to build trust among ecosystem participants.

Limited awareness and understanding continue to constrain adoption among micro-merchants. To address this gap, NPCI, banks, and fintechs should jointly launch a large-scale, multilingual financial literacy and awareness campaign. The campaign should equip merchants to enable credit-on-UPI, understand applicable fee structures, interpret settlement reports, and recognise the potential benefits, including higher sales driven by customer access to credit. Building this foundational knowledge is critical to ensure that the expansion of UPI credit is not only technically viable but also widely and confidently adopted at the grassroots level.

In essence, the evolution of UPI from a payments innovation to a credit enabler marks a pivotal moment in India's financial inclusion journey. Strategically expanding Credit on UPI through universal access across card networks, commercially sustainable business models, and robust, data-driven risk controls can unlock transformative gains for consumers and the broader economy.

Recent policy signals from regulators and the government underscore a strong conviction in the transformative potential of credit-enabled UPI. A calibrated, evidence-based policy framework, anchored in competitive neutrality, user centricity, and ecosystem readiness, can guide UPI's next phase. Such an approach would deepen financial inclusion while preserving prudential discipline and systemic stability.

7. Conclusion

The transition of the UPI from a payments rail to a comprehensive credit enabler marks a pivotal moment in India's journey toward universal financial inclusion. As of August 2025, UPI's scale is unequivocal: it processed 20 billion transactions in a single month and now serves as the default mode of payment for millions of Indians. However, the existing framework, largely restricting credit on UPI to the RuPay network and scheduled commercial banks, has reached its natural limits. While this cautious, phased approach was necessary to ensure early systemic stability, it now constrains scale and leaves significant economic value unrealised.

To unlock the multiplier effects outlined above, the next phase of UPI's evolution must rest on four core pillars:

- **Competitive Neutrality and Consumer Choice:** UPI policy must align with the RBI's mandate on network portability. Opening UPI to all authorised card networks, including global players like Visa and Mastercard, would resolve existing policy inconsistencies and restore consumer choice. Doing so would also extend access to the 84-88% of credit card holders who currently remain outside the COU ecosystem.
- **Commercial Sustainability:** A strict zero-MDR framework for credit transactions is unlikely to sustain long-term participation by banks and payment service providers. Introducing a regulated, network-agnostic interchange for higher fee for higher-value credit transactions would create a viable commercial model, while continuing to subsidise debit UPI as a free-to-use digital public good.
- **Data-Driven Risk Governance:** India's DPI stack offers powerful tools for responsible credit expansion. Leveraging the Account Aggregator (AA) framework, the ULI, and the ONDC can enable more granular, real-time risk assessment and portfolio monitoring. This approach ensures that the growth of unsecured credit remains prudent and does not compromise systemic resilience.
- **Ecosystem Readiness:** The success of credit on UPI ultimately depends on adoption at the grassroots level. Standardised reporting formats, clear technical APIs, and large-scale, multilingual financial literacy initiatives are essential to help micro-merchants confidently distinguish between debit and credit flows and manage settlements effectively.

At its core, the goal is to transform UPI into a genuinely open and inclusive digital public good, one that democratises access to formal credit as decisively as it did for payments. By removing existing access barriers and fostering a competitive, multi-participant ecosystem, India can not only deepen financial inclusion but also reinforce its global leadership in DPI.

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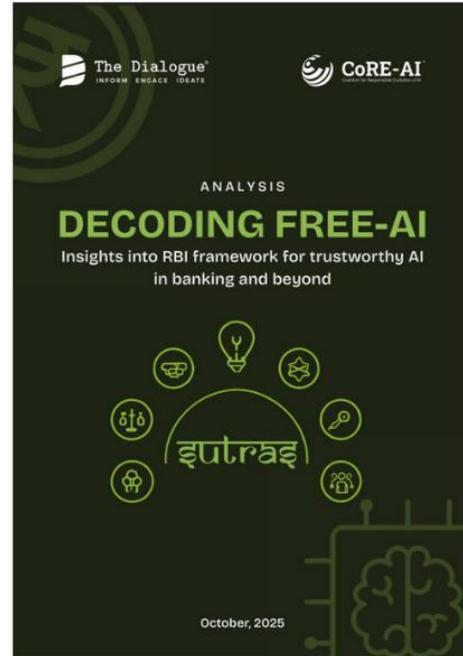
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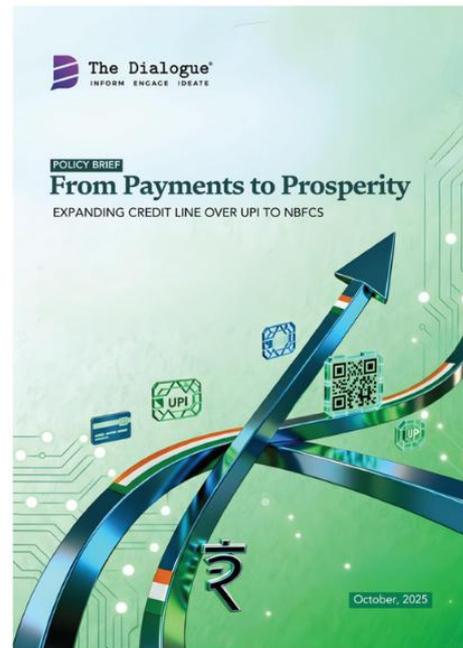
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