The Dialogue®

INFORM ENGAGE IDEATE

POLICY BRIEF

From Payments to Prosperity

EXPANDING CREDIT LINE OVER UPI TO NBFCS

October, 2025

POLICY BRIEF

From Payments to Prosperity

EXPANDING CREDIT LINE OVER UPI TO NBFCS

Authors
Raunaq Sharma and Ranjeet Rane

Research Assistant
Ripudaman Chauhan

Copyeditor and Thematic Designer
Akriti Jayant

The Dialogue is a public policy think tank with a vision to drive a progressive narrative in India's policy discourse. Founded in 2017, we believe in facilitating well-researched policy debates at various levels to help develop a more informed citizenry, on areas around technology and development issues. The Dialogue has been ranked as the world's Top 10 think tanks to watch out for, by the Think Tank and Civil Societies Programme (TTCSP), University of Pennsylvania in their 2020 and 2021 rankings.

For more information
Visit thedialogue.co

Suggested Citation
Sharma, *R. & Rane, R. (October, 2025). Policy Brief: From Payments to Prosperity: Expanding Credit Line over UPI to NBFCs*. The Dialogue.

Catalogue No.
TD/DE/PB/1025/10

Publication Date
October 6, 2025

Contents

List of Abbreviations

Abbreviation	Full Form
AA	Account Aggregator
CASA	Current Account and Savings Account
CC-UPI	Credit Card on UPI / Credit Card Linkage on UPI
CICs	Credit Information Companies
CLOU	Credit Line on UPI
CP	Commercial Papers
CRAR	Capital to Risk-Weighted Assets Ratio
DPI	Digital Public Infrastructure
FY	Financial Year (e.g., FY24)
GDP	Gross Domestic Product
IPS	Instant Payment Systems
MCC	Merchant Category Code
MDR	Merchant Discount Rate
MSMEs	Micro, Small, and Medium Enterprises
NBFC-ML	Non-Banking Financial Company - Middle Layer
NBFC-UL	Non-Banking Financial Company - Upper Layer

NBFCs	Non-Banking Financial Companies
NPCI	National Payments Corporation of India
NPA	Non-Performing Asset
NTC	New-to-Credit
ONDC	Open Network for Digital Commerce
PMJDY	Pradhan Mantri Jan Dhan Yojana
RBI	Reserve Bank of India
SBR	Scale-Based Regulation
SFBs	Small Finance Banks
TPAP	Third-Party Application Provider
TPPs	Third-Party Providers
ULI	Unified Lending Interface

Executive Summary

India's Unified Payments Interface (UPI) has redefined the digital payments landscape, delivering instant, seamless transactions to millions and driving the growth of a dynamic fintech ecosystem. Since its inception, UPI has led India's digital public infrastructure journey, emphasising interoperability, openness, and trust. The platform's success rests not only on transaction volumes but also its ability to reduce dependence on cash, deepen financial inclusion, and catalyse innovative business models for banks, fintechs, and merchants. Over the years, progressive enhancements, including interoperability across payment platforms and the integration of new participants, have set the stage for further evolution.

The integration of credit functionality onto UPI marks the next major milestone, with the potential to democratise access to formal credit much as UPI transformed payments. Yet this journey faces significant constraints in both policy and market design. Structural limitations have kept many of the most impactful credit providers, particularly those serving MSMEs and financially excluded segments, from fully participating. The current framework also narrows options for consumers and merchants, weakening the very network effects that powered UPI's success in payments. Uncertainty around fee structures, commercial incentives, and operational clarity has led to tepid adoption among key stakeholders. As a result, UPI's potential to bridge credit gaps, spark new competition, and deepen financial inclusion remains only partially realised.

India's broader economic aspirations demand a strong, inclusive, and resilient financial sector. As the country targets higher growth, a five trillion-dollar GDP, and greater global competitiveness, efficiently channeling formal credit, particularly to MSMEs and underserved segments, will be central to this ambition. Expanding UPI's scope to include more lenders and flexible, digital credit solutions aligns with India's growth trajectory and goals of deepening financial participation.

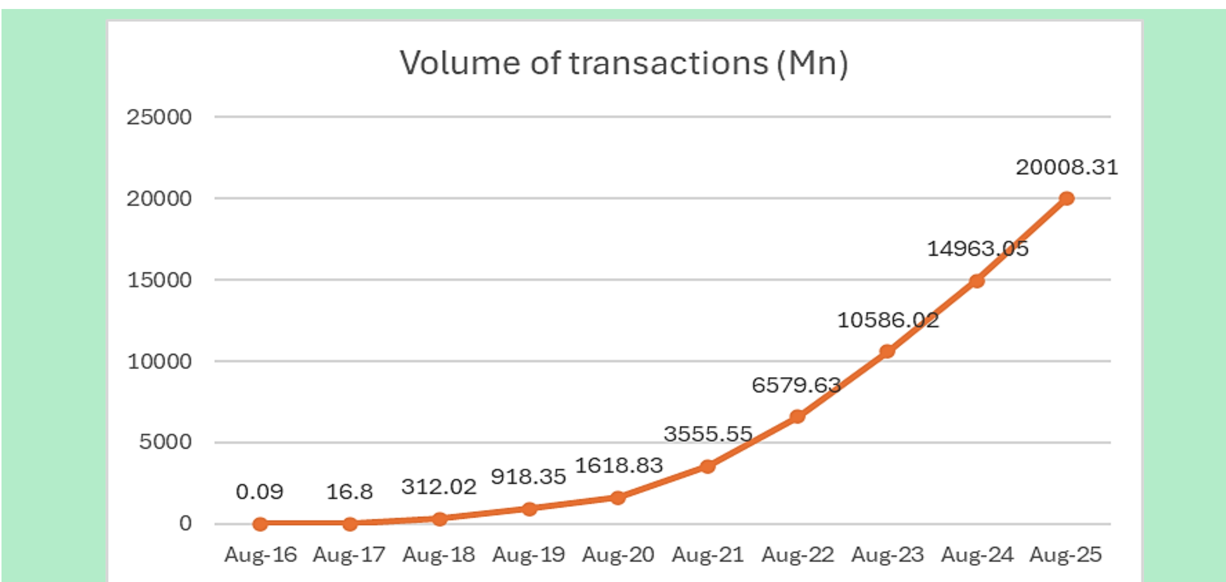
This report analyses the regulatory and market environment for credit on UPI, drawing on market data, policy reviews, and consultations with key personnel from banks, NBFCs, payment service providers, card networks, and merchants. The findings underscore the urgent need to re-examine existing frameworks and enable a more open, competitive, and sustainable approach to digital credit. The recommendations call for broadening participation for regulated lenders, opening credit linkage to all authorised card networks, developing a viable commercial model for credit transactions, strengthening risk management through digital public infrastructure tools, and ensuring ecosystem readiness with clear guidelines and merchant literacy initiatives. By adopting these reforms, India can unlock the next frontier of digital financial services, fostering greater innovation, competition, and financial inclusion. This vision supports not only a more dynamic credit ecosystem but also India's ambition to build a world-leading, inclusive digital economy.

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 DPI approach: building inclusive, interoperable networks that expand access and spark innovation at scale.

Instant payment systems (IPS) worldwide have steadily evolved to offer speed, convenience, and lower costs for users. What makes UPI distinctive is that it goes beyond being merely "instant." Conceived as DPI, UPI is trust-based, open, and interoperable- designed not just for efficiency, but for inclusion. Unlike most IPS that operate within closed or bank-only ecosystems, UPI enables open participation through its Third-Party Application Provider (TPAP)led, interoperable design. This drives competition and innovation while ensuring, under strict data and regulatory safeguards, that payments remain inclusive, secure, and user-centric. This openness allows users to transact seamlessly across platforms fuelling both competition and financial inclusion. This architecture has transformed everyday life in India, making digital payments seamless, universally accessible, and deeply embedded in commerce and society. The societal impact is profound: UPI has reduced dependence on cash, accelerated financial inclusion, and enabled new business models. Its open design has empowered banks, fintechs, and merchants alike, creating a network effect that touches every segment of the economy.

Figure 1: Growth in UPI Payments



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

Having established itself as the foundation of digital payments, UPI's next frontier became credit. The pivotal shift came in June 2022, when the Reserve Bank of India (RBI) permitted credit card linkage on UPI- beginning with RuPay credit cards[2]. This step marked the start of embedding credit into India's most widely used payment system, enhancing customer choice and experience. The innovation deepened in 2023, when RBI introduced the Credit Line on UPI (CLOU) framework,[3] allowing banks to link pre-sanctioned credit lines seamlessly to UPI. Together, these moves signaled a new era: credit was no longer a parallel system but directly integrated into the country's ubiquitous payment layer.

Figure 2: Timeline- UPI Evolution

This integration carried far-reaching implications. It positioned UPI not only as a tool for instant payments but also as a lever to democratise credit. By enabling consumers and merchants to access credit precisely at the point of transaction- and through the same 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 offered frictionless access to formal credit.

Policy design, however, has taken a cautious, incremental path. Credit cards on UPI remain confined to RuPay, consistent with RBI and NPCI's longstanding efforts to promote RuPay as a domestic alternative in the card ecosystem. Similarly, credit lines on UPI were initially permitted only for scheduled commercial banks,

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

[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

with subsequent extension to small finance banks. This step-by-step approach reflects the regulator's prudential focus, but also leaves much of the ecosystem outside the framework.

Industry stakeholders argue that the potential of "credit on UPI" remains underutilised. The core objectives of embedding credit- expanding access, deepening markets, and leveraging UPI's network effects- can be realised faster and more broadly if participation widens beyond current confines. Unlocking this potential requires re-examining access boundaries, while preserving the safeguards that make UPI a trusted public infrastructure

2. Policy Considerations

2.1 Regulatory Design and Scope of Access

When the RBI and the NPCI introduced credit on the UPI, they imposed significant restrictions. Only scheduled commercial banks could extend credit, and only RuPay credit cards could be linked in the initial phase. This design reflected deliberate policy choices shaped by concerns over systemic stability and the government's larger vision of payment sovereignty and self-reliance. By excluding Non-Banking Financial Companies (NBFCs) and global networks such as Visa and Mastercard, regulators signalled their preference for a gradual and controlled rollout of this new feature.

2.2 Financial Stability and Prudential Rationale

The primary rationale was financial stability. 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. While NBFCs are also subject to regulatory requirements, the details vary by their scale and tier, and regulators have consistently distinguished them from banks. Banks benefit from stable access to low-cost deposits and prudential buffers such as capital adequacy and liquidity coverage norms. NBFCs,though regulated by the RBI and subject to capital requirements, have historically relied more on borrowings from banks or wholesale markets. Unlike banks, they cannot mobilise low-cost Current Account and Savings Account (CASA) deposits, and only some can take public deposits.

Additionally, the memory of past crises, including NBFC failures and lending booms in unsecured segments, made RBI particularly wary of granting NBFCs access to UPI's vast reach. Even in 2024, RBI extended credit-on-UPI only to small finance banks, keeping NBFCs outside the framework.[4] However, NBFCs today are structurally stronger and more diversified than when earlier restrictions were framed. The share of bank loans in their funding has steadily declined, with growing reliance on market borrowings, and other diversified instruments, which remain durable.

2.3 Sovereignty and Strategic Control

The choice of RuPay over global networks reflected concerns of sovereignty and strategic control. AsIndia's indigenous card scheme, operated by NPCI, RuPay fit 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 mandates[5], 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

---

[4] Reserve Bank of India, "Press Release No. 59245," *RBI*, https://www.rbi.org.in/Scripts/BS_PressReleaseDisplay.aspx?prid=59245; Reserve Bank of India, "Operation of Pre-Sanctioned Credit Lines at Banks through Unified Payments Interface (UPI), Notification No. 12532," RBI, https://www.rbi.org.in/scripts/NotificationUser.aspx?Id=12532&Mode=0

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

payment data. Integration was also smoother since NPCI operates both RuPay and UPI, allowing tighter control over the technical rails.

2.4 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.[6] 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.[7] While this helped UPI credit scale without undermining the principle of low-cost digital payments, it gave banks little incentive to promote the feature aggresively.

---

[6] 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

[7] 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/

3. Challenges Owing to Current Framework

3.1 Limited Reach of RuPay Credit on UPI

These restrictions reflect 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. Because 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.[8] 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

[8] 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

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.

3.2 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. Initially, merchants could not even distinguish whether a UPI payment came from a debit account or a credit card, creating billing confusion. 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. The clash between UPI's zero MDR ethos and credit's need for a sustainable fee model has created friction, dampening merchant enthusiasm.

3.3 Bank Incentives and Adoption Barriers

For banks, the restrictive design created weak incentives. Interchange revenues were negligible or capped, and credit card usage patterns did not align well with UPI's low-value, high-frequency transaction profile. 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.

3.4 NBFC Exclusion and the MSME Credit Gap

The exclusion of NBFCs has been particularly consequential for innovation and financial inclusion. NBFCs play a pivotal role in serving "credit thin-file" customers, specially micro, small, and medium enterprises (MSMEs). The MSME sector, which contributes nearly a third of India's GDP, continues to face a credit gap of about 24 percent, or nearly ₹30 lakh crore.[9]

At the same time, NBFCs also play a critical role in reaching beyond MSMEs to other underserved segments such as thin-file individuals, first-time borrowers, and self-employed entrepreneurs. These groups often show reliable repayment potential but lack formal collateral or lengthy credit histories, making them less visible to traditional banks. By leveraging alternative data, innovative underwriting, and last-mile presence, NBFCs have proven effective at responsibly extending small-ticket, short-cycle credit to such customers.

Yet, regulators do not allow NBFCs to extend credit via UPI, sidelining the very institutions best positioned to use digital rails for last-mile delivery. As a result, NBFCs can not connect their proven credit models with a platform that already underpins their customers' daily financial lives. MSMEs that rely on UPI for payments cannot access small ticket, flexible credit lines from their trusted NBFCs. This gap undercuts UPI's potential

[9] Small Industries Development Bank of India (SIDBI), *Understanding Indian MSME Sector: Progress and Challenges*, May 13, 2025, https://www.sidbi.in/uploads/Understanding_Indian_MSME_sector_Progress_and_Challenges_13_05_25_Final.pdf

as a democratiser of credit, leaving a mismatch between the platform's ubiquity in payments and its narrow reach in credit.

3.5 Design of UPI Credit Lines versus Platform Loans

Currently, merchants and other users can access short-term, transactional credit products such as term loans, merchant cash advances, or early wage access loans, typically offered through UPI platforms bylenders based on recent transaction history or payment flows. These loans are one-off and situational, designed to meet immediate liquidity needs rather than provide ongoing access to funds.

A regulated credit line via UPI, in contrast, would provide pre-approved, flexible, and reusable access to credit. It would allow users to draw as needed within a defined limit, manage cash flows dynamically, and build a continuous credit relationship with lenders. The key distinction is flexibility and reusability: platform loans are transactional, whereas UPI credit lines create ongoing, controlled access to funds. The main value of a UPI-linked line lies in its immediacy and on-demand access. Unlike traditional merchant loans or cash advances, where users must apply each time they need credit, a UPI-linked credit line provides pre-approved funds ready for use, similar to a working capital or overdraft facility, but seamlessly accessible at the point of payment. This ensures flexibility and continuity, enabling users to manage liquidity efficiently without repeated applications.

3.6 Competition and Market Concentration Risks

Finally, competition concerns also arise. Granting RuPay exclusive access for nearly two years titled 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, undermines competitive innovation, and increases the risk of reinforcing a single point of failure, precisely the kind of concentration NPCI and RBI have flagged as a systemic concern in the UPI ecosystem.

4. The Evolving Credit Landscape (2025)

4.1 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,[10] co-lending frameworks,[11]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.

4.2 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.[12].However, this surge does not directly translate into unique cardholders, since many customers hold multiple cards.

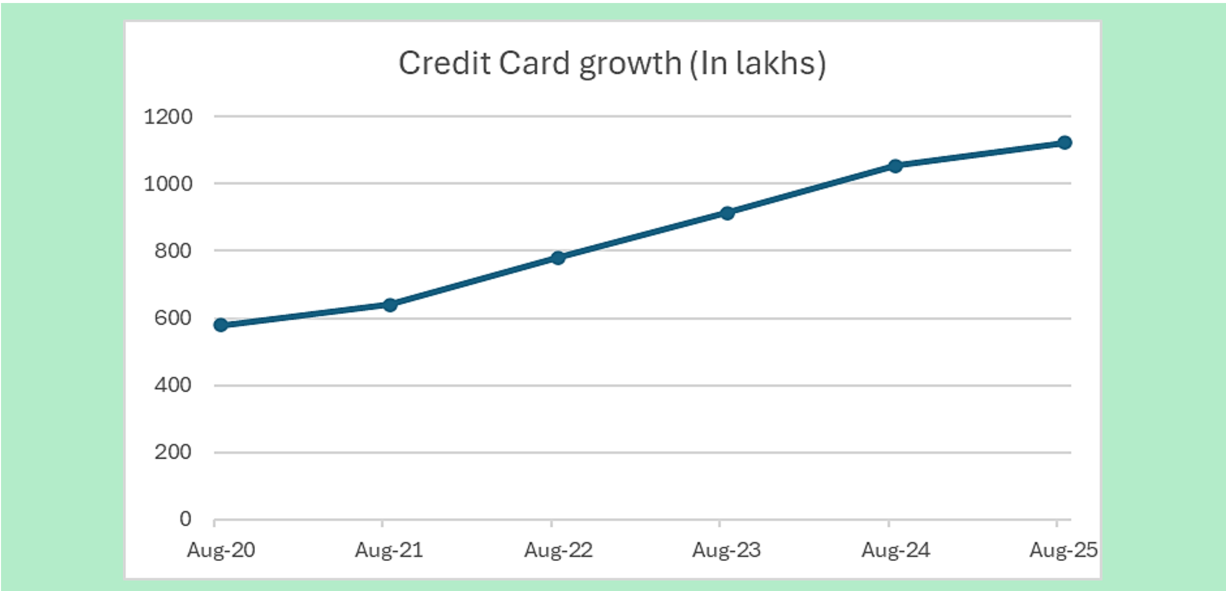
---

[10] 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

[11] 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

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

Figure 3: Credit Card Growth



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,[13] 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%).[14]

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

[13] 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/

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

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.[15] 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.

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.

4.3 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.[16] 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 reintroduced 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

---

[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

[16] 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

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, some 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.

4.4 NBFCs, CLOU, and Systemic Implications

India's NBFC sector has evolved far beyond the "shadow bank" label, as underlined by RBI leadership and reiterated by the Government of India. Gross loan advances doubled from ₹24 lakh crore in March 2021 to ₹48 lakh crore by March 2025,[17] while GNPA ratios improved from 6.4% to 3%, reflecting the sector's resilience and maturity. The Scale-Based Regulatory framework, combined with the proposed NBFC SRO model, underscores proportionate oversight and governance.[18] These measures address long-standing concerns about robust governance and supervisory oversight, signalling a shift from viewing NBFCs as lightly regulated entities to recognising them as systemically important players.

Concerns around systemic interconnectedness have also evolved. NBFCs today are structurally stronger and more diversified than when earlier restrictions were framed. The share of bank loans in their funding has steadily declined: CRISI estimates that bank borrowings accounted for 47.0% of liabilities by June 2024, down from higher levels in prior years, while non-convertible debentures rose to 28.5%,[19] and commercial papers, securitisation, and foreign currency borrowings formed a growing share. In FY24 alone, NBFCs

---

[17] Indian Masterminds Bureau, "NBFC Loan Book Doubles to ₹48 Lakh Crore; FM Sitharaman Calls for Institutional Co-Lending with Banks," *Indian Masterminds*, July 10, 2025, https://indianmasterminds.com/news/nbfc-loan-book-doubles-to-rs48-lakh-crore-fm-sitharaman-calls-for-institutional-co-lending-with-banks-details-inside-128490/

[18] Reserve Bank of India, "Invitation of Applications for Recognition of Self-Regulatory Organisations (SROs) for NBFCs," *Press Release No. 2024-25/58123*, June 19, 2024, https://www.rbi.org.in/scripts/BS_PressReleaseDisplay.aspx?prid=58123; Reserve Bank of India, "Omnibus Framework for Recognition of Self-Regulatory Organisations for Regulated Entities of the Reserve Bank," *Press Release No. 2023-24/2085*, March 21, 2024, https://www.rbi.org.in/Scripts/BS_PressReleaseDisplay.aspx?prid=57534

[19] Malvika Bhotika, "NBFCs diversify funding sources amid rising borrowing costs," *Economic Times*, September 30, 2024, https://bfsi.economictimes.indiatimes.com/news/nbfc/nbfcs-diversify-funding-sources-amid-rising-borrowing-costs/113810500

raised over ₹5.5 trillion from bond and CP markets,[20] underscoring their deeper integration into market financing. In the near term, bank lending may rise again following RBI's rollback of elevated risk weights on NBFC exposures in early 2025. However, this should be seen as a cyclical recalibration rather than a structural reversal. The sector's strategic pivot toward market borrowings and diversified instruments remains durable and, in essence, mitigates the risk of systemic interconnectedness.

The industry response to CLOU has also been cautious, particularly among leading banks with strong credit card portfolios. Unlike CLOU, credit cards generate not only interchange income but also lucrative revenue from revolving credit, fees, and cross-selling opportunities. With credit cards now seamlessly linked to UPI, banks see little incentive to promote CLOU aggressively, as it could cannibalise their more profitable card businesses. By contrast, NBFCs view CLOU as a promising entry point. Regulatory restrictions have kept them out of the credit card segment, making CLOU a rare opportunity to participate meaningfully in small-ticket, unsecured lending over UPI without encroaching on banks' territory in the credit card ecosystem.

4.5 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.

---

[20] Bfsi, E. (2025, June 17). NBFCs shifting funding strategy, tapping public deposits and bond markets for capital: Report. ETBFSI.com. https://bfsi.economictimes.indiatimes.com/news/nbfc/nbfcs-embrace-bond-markets-and-public-deposits-for-capital-amid-lending-boom/121901946

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-Banking Financial Companies (NBFCs) and 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.

The policy gap between the RBI's card choice mandate[21] 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.

[21] 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

Finally, allowing well-regulated NBFCs to offer small-ticket, flexible credit lines can introduce a fundamentally new levels of convenience. Consumers would gain frictionless access to formal credit precisely when they need it, transforming UPI from a simple payment tool into a comprehensive financial management platform embedded seamlessly in their daily lives.

5.2 A Definitive Step Towards Closing the MSME Credit Gap

As detailed in Section 3, the MSME credit gap remains substantial, and NBFCs have successfully brought significant numbers of new-to-credit firms into formal finance. Broadening participation in UPI credit offers a unique opportunity to address this chronic and debilitating gap faced by India's Micro, Small, and Medium Enterprises (MSMEs), a sector that contributes nearly a third of the nation's GDP but struggles with timely and adequate finance.

NBFCs have proven particularly effective in bridging this gap, demonstrating agility and risk appetite that often exceed those of traditional banks, specially at the micro-enterprise level. Their specialised underwriting models leverage alternative data and deep local market knowledge, enabling them to serve credit-thin-file customers and new-to-credit (NTC) borrowers whom banks may overlook.

The current UPI framework, by excluding these vital institutions, sidelines the very players best positioned to leverage digital rails for financial inclusion. The true innovation of credit-on-UPI lies in embedding credit access directly into a merchant's daily transaction flow. Allowing an NBFC-sanctioned credit line on UPI would enable an MSME owner to access working capital seamlessly at the precise moment of making a supplier payment via a QR code scan. This represents a revolutionary shift from the current paradigm, which requires businesses to apply for discrete, episodic term loans or cash advances, a cumbersome process ill-suited for managing dynamic liquidity needs. Credit transforms from a high-friction, pre-planned activity into a fluid, on-demand utility.

Enabling NBFC credit on UPI also serves as a direct policy tool to accelerate MSME formalisation, a key government objective. By embedding digital credit into daily business transactions, it creates a strong incentive loop that aligns small business interests with the goals of the digital economy. The RBI has explicitly noted that formalisation, through measures such as Udyam registration, GST filing, and adoption of digital payments like UPI, is essential for improving creditworthiness in the eyes of lenders.

Currently, for many MSMEs that continue to rely on informal credit channels, UPI functions only as a payment rail. Integrating NBFC credit directly into this platform would transform it into a gateway to formal finance. An MSME that records daily sales through UPI suddenly acquires a tangible incentive to deepen its digital footprint, since this very data can be leveraged (with consent, via the Account Aggregator framework) by an NBFC to underwrite a competitive credit line. This integration establishes a virtuous cycle. Regular UPI transactions create a reliable data trail; this data trail, in turn, enables NBFCs to extend flexible, risk-assessed credit; access to such credit empowers MSMEs to expand their businesses; and expanding businesses, in turn, conduct greater volumes of digital transactions, further strengthening their creditworthiness. The result is a self-reinforcing loop that advances the twin policy goals of formalisation and financial inclusion. Crucially, it achieves this not through top-down mandates but through market-based incentives that align the interests of small enterprises with those of the digital economy.

5.3 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.

The regulatory landscape governing NBFCs has evolved significantly, rendering obsolete the "shadow bank" narrative that may have shaped earlier policy choices. The RBI's Scale-Based Regulation (SBR) framework[22] now provides a multi-tiered supervisory architecture that calibrates regulatory intensity to systemic importance. Within this framework, NBFCs classified in the Upper Layer (NBFC-UL), the largest and most significant entities, are subject to enhanced, bank-like prudential norms. These encompass stricter requirements for capital adequacy, liquidity buffers, governance, and disclosure, effectively addressing the risks associated with their scale and interconnectedness.

Including such well-regulated, systemically important NBFCs is therefore a prudential imperative. It diversifies both credit origination and risk-holding capacity, reducing the burden on banks as the sole intermediaries. Furthermore, the NBFC sector itself has taken proactive steps to de-risk its funding profile. Reliance on bank borrowings has steadily declined, constituting 47% of liabilities by mid-2024, while market-based instruments such as non-convertible debentures and commercial papers account for a growing share of funding.

This diversification of funding reduces the risk of systemic contagion, where stress in the NBFC sector could otherwise disproportionately affect bank balance sheets. The SBR framework has, in effect, created a new category of quasi-banks in the form of NBFC-ULs. The policy question, therefore, is no longer whether NBFCs are sufficiently regulated to participate in critical infrastructure, but why this highly supervised subset continues to be excluded. Their risk profile is now subject to close proactive oversight by the RBI itself. Maintaining their exclusion from UPI credit implies a lack of confidence in the efficacy of the RBI's own new regulatory framework. It suggests that despite the rigorous standards imposed by the SBR, these entities are still deemed too risky for participation in a payment rail that is central to the future of digital finance. Reversing this stance would serve as a powerful affirmation of the success and sufficiency of the SBR framework, signaling that it has effectively mitigated the very risks that once justified a more restrictive policy approach.

5.4 Catalysing the Ecosystem: Igniting Competition and Innovation

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

[22] Reserve Bank of India, "What is Scale Based Regulatory Framework or SBR Framework for NBFCs?" *FAQs on Non-Banking Financial Companies (NBFCs)*, accessed October 2, 2025, https://www.rbi.org.in/commonman/english/scripts/FAQs.aspx?Id=1167

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 significant benefits for consumers, MSMEs, and the broader financial system. Yet, progress must be balanced with prudence. The following recommendations outline a pragmatic, phased roadmap that seeks to unlock innovation and deepen financial inclusion while embedding prudential guardrails at every stage. This ensures that UPI's next evolution remains both transformative and stable.

6.1 A Phased Approach to NBFC Inclusion

To harness the unique strengths of NBFCs in serving last-mile credit needs while carefully managing systemic risk, their entry into the UPI credit ecosystem should follow a phased, data-driven strategy. Such an approach allows regulators to build evidence, refine safeguards, and gradually scale confidence before broader participation.

The initial phase should be limited to NBFCs classified in the Upper Layer (NBFC-UL) under the RBI's Scale-Based Regulation (SBR) framework. This cohort of approximately 15 of the largest and most systemically important NBFCs is already subject to enhanced, near-bank-like prudential norms, including higher capital adequacy (CRAR), strengthened governance standards, and rigorous disclosure obligations. Their regulatory maturity makes them ideal candidates for a pilot, minimising incremental risks to the financial system.

A critical component of this phased inclusion is the enforcement of strict purpose-based usage rules through technological means. A primary regulatory concern with opening credit access on a mass platform like UPI is the risk of uncontrolled lending for speculative or high-risk purposes. Instead of a blanket institutional ban, regulators can adopt a more precise mechanism that already exists in payments infrastructure, known as Merchant Category Codes (MCCs). Every merchant accepting digital payments is assigned a four-digit MCC that identifies their line of business. Regulators could create a positive list of permissible MCCs where credit line transactions are enabled, alongside a negative list of high-risk MCCs that would be automatically restricted at the network level.

Following a successful review of the pilot phase, eligibility could be cautiously extended to select Middle Layer (NBFC-ML) entities in a second phase. Entry into this phase should not be automatic but conditional upon meeting clearly defined and stringent benchmarks on capital adequacy, asset quality, governance standards, and sustained profitability. This approach ensures that only the most resilient and well-governed institutions are permitted to participate, thereby expanding access in a controlled manner while maintaining systemic safeguards

Table 6.1: Proposed Phased Inclusion Framework for NBFCs on UPI

Phase	Eligible Entities	Permissible Products	Key Risk Mitigation Measures	Review Period
Phase 1 (Pilot)	**NBFC-UL** as defined under RBI's SBR framework.	Pre-sanctioned, small-ticket, revolving credit lines linked to UPI.	• **MCC-Based Restrictions:** NPCI to enforce a positive list of permissible MCCs and a negative list of blocked MCCs. • **Strict Credit Limits:** Lower initial credit limits per user. • **Enhanced Reporting:** Mandatory, granular reporting of portfolio performance to RBI.	18 Months
Phase 2 (Expansion)	**NBFC-ML** meeting stringent criteria (e.g., CRAR > 18%, Net NPA < 2%).	Same as Phase 1, with potential for modestly higher credit limits based on performance data.	**MCC-Based Restrictions:** Continue enforcement. **Dynamic Risk Limits**: Introduce limits based on the user's UPI transaction history. All Phase 1 safeguards remain in force.	24 Months
Phase 3 (Broad-Basing)	**Wider set of registered NBFCs** meeting baseline prudential norms.	Potential expansion to include small-ticket, on-the-fly EMI products at checkout.	**MCC Refinements:** Update restriction lists based on data from Phases 1 & 2. .	Ongoing

6.2 Mandating Competitive Neutrality

The principle of competitive neutrality must be applied consistently across India's payments landscape. To this end, the current exclusive arrangement that permits only RuPay credit cards to be linked to UPI should be discontinued. UPI should instead be opened to all authorizsd card networks operating in India, including Visa and Mastercard.

This step would represent a direct and logical extension of the RBI's March 2024 circular, which reinforced consumer choice in credit card networks. Applying this same principle to UPI would resolve the current policy dissonance and create a more coherent regulatory environment. To operationalise this, NPCI should be mandated to publish clear, standardised technical and operational guidelines for the onboarding of new networks. These guidelines should be issued within a defined and reasonable timeframe, ensuring that integration for all eligible participants is smooth, efficient, and non-discriminatory.

6.3 Designing a Sustainable Commercial Model

For credit-on-UPI to thrive, innovate, and remain resilient, it must rest on a financially sustainable foundation. The zero-MDR regime, while critical in driving adoption for debit payments, is not viable for credit transactions, which involve higher costs and risks for participants. A structured, tiered MDR or interchange fee framework is therefore essential.

First, the principle is to preserve **zero MDR for small-value transactions**. All UPI transactions (whether from a debit account or a credit line) below a defined threshold, such as ₹2,000, at small merchant outlets should remain free of charge to the merchant. This safeguard can continue to be supported by the government's existing incentive schemes, thereby retaining the public good nature of UPI for every day, low-value payments and protecting vulnerable merchants.

Second, for higher-value credit transactions above this threshold, a **regulated interchange fee should be permitted**. This mirrors the model introduced by NPCI in August 2024 for credit line transactions, where an interchange of approximately 1.2% was established. This same principle should apply consistently to all forms of credit extended via UPI, including linked credit cards. Such a structure ensures a predictable revenue stream for issuers to cover the cost of credit and fraud risk, while also enabling acquirers and payment applications to recover their operational expenses.

Third, as advocated by several industry bodies, the MDR could follow a **tiered approach based on merchant size**. Large, organised merchants with higher turnovers could be subject to a modest, regulated MDR, while smaller merchants remain exempt. This framework carefully balances the imperative of ecosystem sustainability with the policy goal of promoting digital adoption among small businesses. It also addresses the widespread industry concern that a universally free model can not be sustained over the long run.

6.4 Architecting a Data-Driven Risk Management Framework

India's DPI stack offers a unique opportunity to build a next-generation risk management framework for digital credit that is more dynamic, precise, and inclusive than traditional models. Regulators should proactively mandate and encourage the use of these tools to strengthen credit governance.

Lenders, including banks and NBFCs, should be strongly encouraged to leverage the Account Aggregator (AA) framework for underwriting UPI-linked credit lines. The AA ecosystem has reached critical scale, with over 112 million users having linked their accounts as of September 2025, making it a viable solution for accessing a borrower's comprehensive financial data with explicit consent. This capability can be further enhanced through other DPIs, such as Unified Lending Interface (ULI) and the Open Network for Digital Commerce (ONDC).

India's DPI stack provides a unique opportunity to build a next-generation risk management framework for digital credit. However, for new infrastructures like the ULI to succeed, a clear and compelling anchor use case is essential. Slow adoption to date has largely stemmed from the absence of such a use case, with senior industry officials noting that “there needs to be the establishment of an anchoring use case" for ULI to gain traction. This paper identifies a powerful, yet underutilised, anchor, enabling a complete Straight Through Processing (STP) journey for unsecured loans, particularly UPI-linked credit lines. Implementing this approach would provide frictionless access to credit for millions of borrowers while demonstrating ULI’s transformative potential, driving widespread adoption among both lenders and users.

This framework also enables more accurate credit assessment, especially for new-to-credit (NTC) customers who lack formal credit histories but generate rich alternative data. Such data can include bank account statements, GST filings and other such alternate data- ranging from earning history on a gig platform to milk pouring data of a cattle farmer tracked by the cooperative societies. Furthermore, high-frequency data from UPI transaction trails can support real-time portfolio monitoring. By providing an immediate and continuous view of a borrower's financial health, lenders can detect early signs of stress and take proactive risk mitigating measures, representing a significant improvement over reliance on static, periodic credit bureau reports.

Like ULI, ONDC is building an open protocol layer to democratise access to credit. By standardising APIs and enabling seamless interoperability, ONDC lowers integration costs and expands the reach of credit products. This architecture directly addresses India’s challenge of high customer acquisition costs and the exclusion of low-ticket borrowers, providing a scalable pathway for affordable, transparent, and inclusive credit distribution. Furthermore, the network could allow UPI applications to function as buyer interfaces, enabling consumers to view, compare, and select lenders offering credit lines. This approach empowers customers while giving lenders an efficient mechanism to reach the digital last mile at scale.

Finally, it is imperative that all credit extended via UPI, regardless of the transaction amount, is reported to all four licensed Credit Information Companies (CICs). This ensures a borrower's total leverage is accurately captured across all lenders, preventing over-indebtedness. Crucially, it also supports financial inclusion by allowing NTC customers to build a formal credit history, unlocking access to a broader range of financial products in the future.

6.5 Ensuring Ecosystem Readiness

The success of an expanded credit-on-UPI framework depends critically on the readiness of frontline participants, including small merchants and payment service providers. A targeted program to support their adoption and management of new credit flows is essential. To reduce technical burdens and integration costs, NPCI, in collaboration with leading payment aggregators, should develop and distribute standardised, low-cost integration tools and APIs. This is particularly important in a multi-lender environment with variable MDR structures, as it simplifies participation for small merchants and fintechs with limited technology resources.

Building on the fee-structure analysis in Section 3, standardised merchant reporting and clear product tags distinguishing debit UPI from credit UPI at settlement are necessary. Regulators should mandate clear, distinct, and uniform reporting for credit and debit transactions across all merchant statements and settlement reports. Such clarity is fundamental for building trust and ensuring smooth reconciliation.

Finally, a lack of awareness and understanding remains a significant barrier for many micro-merchants. A large-scale, multi-lingual financial literacy and awareness campaign should be launched, driven by NPCI, banks, and fintechs. This campaign should educate merchants on how to enable credit-on-UPI, understand how the fee structure works, interpret settlement reports, and realise the potential benefits, such as increased sales from customers with access to credit. Building this foundational knowledge is crucial to ensure that the expansion of UPI credit is not only technically feasible 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 juncture in India's financial inclusion journey. Strategically expanding Credit on UPI through phased NBFC participation in CLOU, universal access for all card networks, commercially sustainable business models, and robust data-driven risk controls can unlock transformative benefits for consumers and the broader economy.

Recent policy signals from regulators and the government reflect strong conviction in the transformative potential of credit-enabled UPI. A calibrated, evidence-based policy framework anchored in the principles of competitive neutrality, user centricity, and ecosystem readiness can guide UPI's next phase, deepening financial inclusion while safeguarding systemic stability.

About our Authors

Raunaq Sharma

Senior Research Associate, The Dialogue

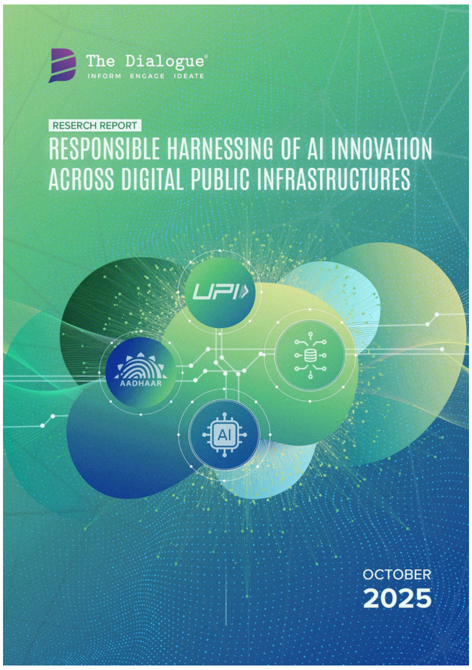
Raunaq Sharma is a public policy professional specialising in Artificial Intelligence, Data Privacy, and Content Moderation. As a former Senior Associate at Chase India, he led key campaigns on online age verification, content governance, and AI safety for leading technology firms. His prior roles at Carnegie India, PRS Legislative Research, and the Office of the Advisor to the Chief Minister of Delhi have further strengthened his policy research credentials.

Ranjeet Rane

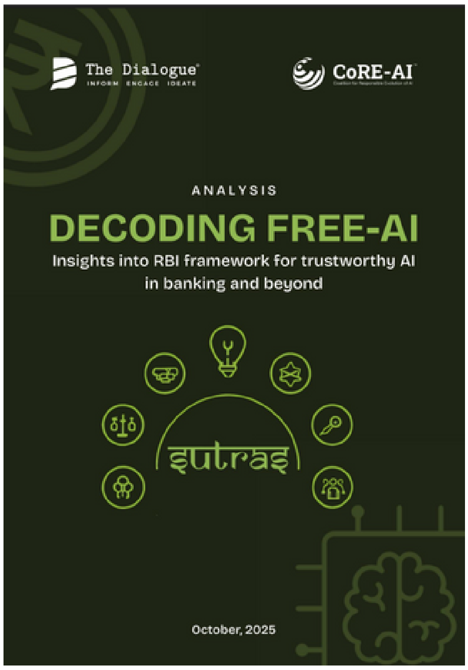
Partner, Fintech & Sustainable Finance Lead, The Dialogue

Ranjeet Rane is Partner at The Dialogue, where he leads the Fintech and Sustainable Finance verticals. A public policy professional with over 15 years experience in tech policy, fi nancial regulation, and digital innovation, he previously led policy research at RBIH and ReBIT. Ranjeet is a PhD scholar, amateur birder, and longtime advocate for responsible innovation in India's digital economy.

More from Our Research



Research Report: Responsible Harnessing of AI Innovation Across Digital Public Infrastructures



Analysis: Decoding FREE-AI : Insights into RBI Framework for Trustworthy AI in Banking and Beyond

Research Paper- Digitising India: Towards an Inclusive Growth of the Ecosystem

Policy Brief: The 25th Report of the Parliamentary Standing Committee on Finance

thedialogue.co

LinkedIn | The Dialogue

X | The Dialogue

Whatsapp | The Dialogue

Instagram | The Dialogue