

HOW TO SUCCEED IN INDIA'S

FAST-CHANGING DIGITAL PAYMENTS LANDSCAPE

SUMMARY

1

India's digital payments landscape has grown fast, and is expected to reach US\$1 trillion by 2023 — up from US\$200 billion in 2018.

2

Growth is being driven in part by the government's efforts at financial inclusion. It was also spurred by 2016's demonetisation policy and by regulatory moves to encourage digital take-up.

3

Given relatively low levels of smartphone ownership there is enormous potential to grow.

4

However, margins are low (or even negative for most mobile wallet providers), adding to other challenges such as regulatory burdens and increased competition, including from Facebook's WhatsApp Pay.

5

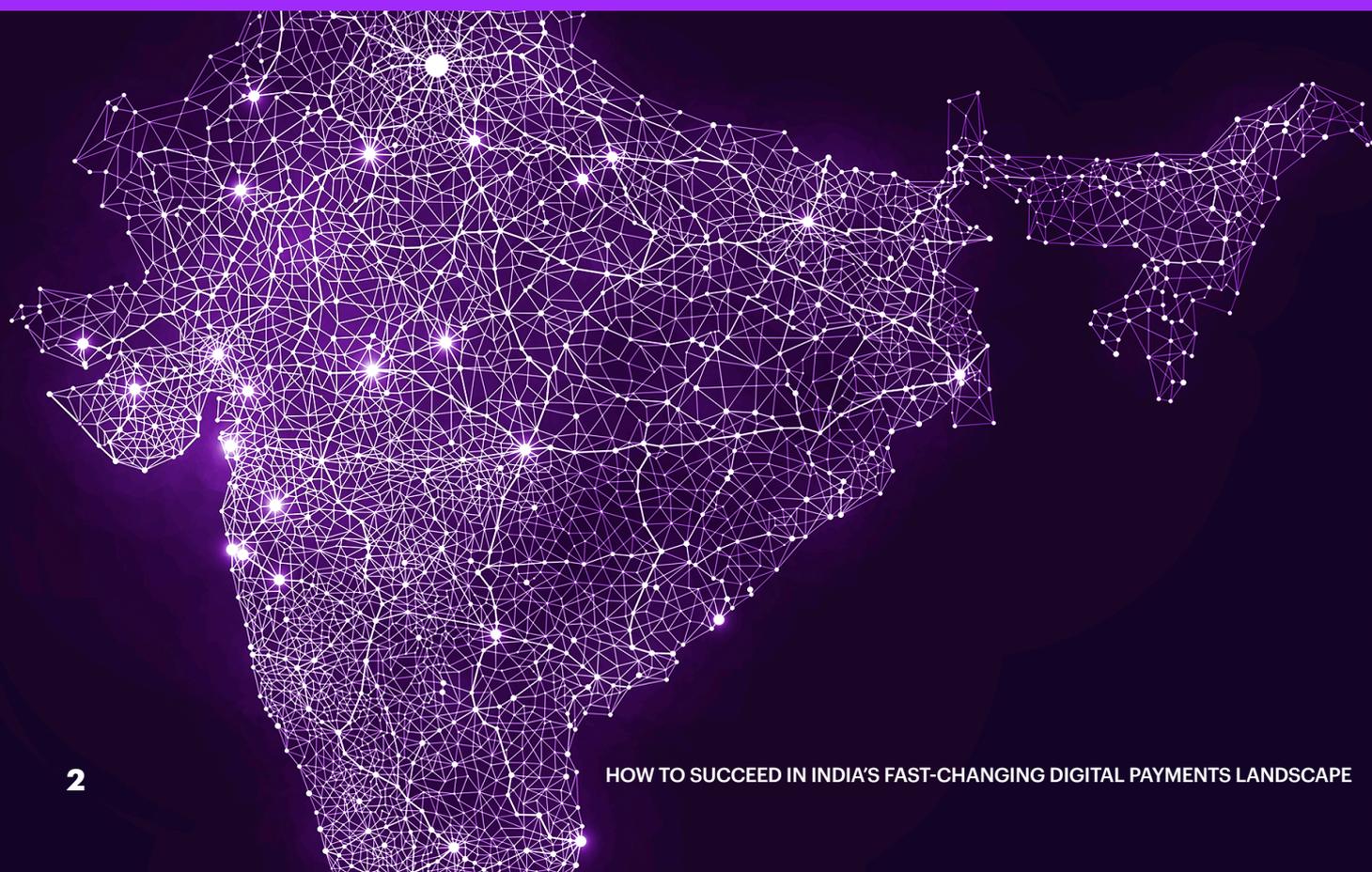
For banks, the government's efforts to promote a cashless society should be a boon, provided they diversify their product and service offerings. For a range of reasons, bank accounts will remain a key part of India's retail banking landscape.

6

For their part, digital payments providers must look at alternative revenue streams if they are to survive and thrive in this huge — and hugely competitive — market.

7

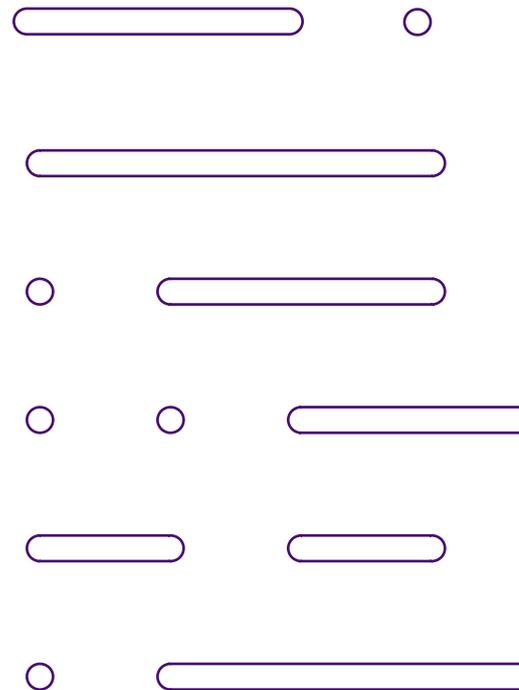
Monetising data is a key area, and is one at which large tech firms like Facebook are proficient. Other options include personal finance solutions — which market leader Paytm has started to provide — as well as loans and trade finance for SMEs and businesses. Moving into the B2B payments space is another strategy with great potential.



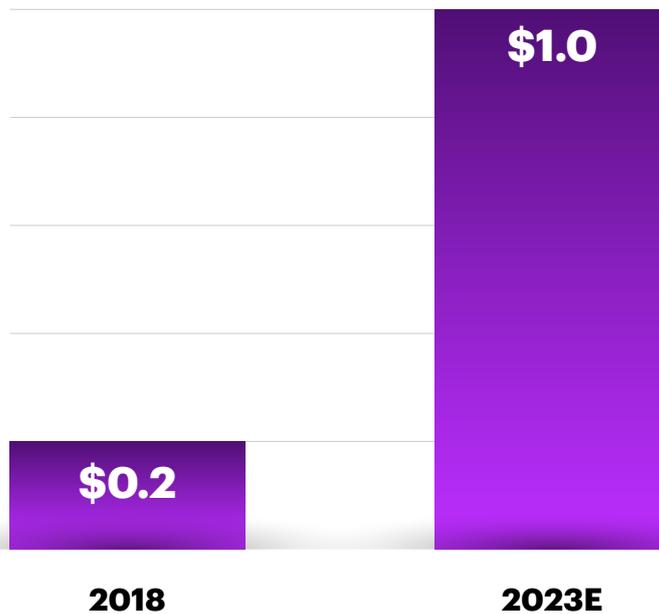
1 A NEW PAYMENTS WORLD



In the past three years, India's digital payments landscape has undergone rapid change. Mobile wallets enjoyed a boom in 2016 after the government removed 500- and 1,000-rupee bills from circulation in a bid to tackle, among other things, counterfeiting and tax evasion.¹ By one count, that totalled 86.4 percent of cash by value.² With less cash in circulation, many people were forced to switch to digital payments, propelling the adoption of mobile wallets like market leader Paytm.



INDIAN MOBILE PAYMENTS MARKET Trillions (\$)



Source: Business Insider Intelligence Payments Briefing



However, the mobile wallet boom that was helped by demonetization was undermined by the launch of the Unified Payments Interface (UPI) by the National Payments Corporation of India (NPCI), a government-supported umbrella body for retail payments — which allows instant fund transfers between bank accounts via mobile phones and other digital channels. By the end of 2017, UPI — which NPCI data shows is used by 40 third-party providers including Google Pay, Amazon Pay, Uber India, Ola Cabs and local start-up PhonePe³ — had overtaken mobile wallets by value of transactions, recording about US\$1.4 billion, with the latter recording about US\$1.36 billion.⁴

One reason for the tectonic shifts in India's digital payments landscape is the influence

of the regulator and central bank, the Reserve Bank of India (RBI), whose Vision 2021 is central to this process (see box). The RBI has also worked to ensure that local firms can compete against global giants, and is pushing the financial inclusion of the country's largely unbanked rural majority

Another reason is increased ownership of smartphones: recent research shows India had 400 million smartphone users in 2018, but this amounted to just 44 percent of the potential market for the devices.⁵ The same research estimates there will be more than 700 million smartphone users in India by 2022.

Couple that with regulatory and legislative drives to advance digital payments and the financial

inclusion of India's unbanked — and largely rural — majority, and there is reason to believe the market will keep growing fast: Credit Suisse estimates that India's digital payments market will grow from US\$200 billion in 2018 to US\$1 trillion by 2023.⁶

1. Here is what PM Modi said about the new Rs 500, Rs 2000 notes and black money, India Today (November 8, 2016). See: <https://www.indiatoday.in/india/story/live-pm-narendra-modi-addresses-nation-350943-2016-11-08>
2. Analysis of Impact of Demonetization on Digital Transactions in India, IOSR Journal of Business and Management (IOSR-JBM) (April 2018). See: https://www.researchgate.net/publication/329948959_Analysis_of_Impact_of_Demonetization_on_Digital_Transactions_in_India
3. See NPCI website: <https://www.npci.org.in/upi-PSP%263rdpartyApps>
4. Digital payments to grow to \$1 trillion by 2023: Credit Suisse, Financial Express (February 7, 2018). See: <https://www.financialexpress.com/industry/technology/digital-payments-to-grow-to-1-trillion-by-2023-credit-suisse/1055252/>
5. India: Mid-Tier Smartphone Segment to Grow 4x in Next Five Years, Counterpoint Research (September 26, 2018). See: <https://www.counterpointresearch.com/wp-content/uploads/2018/10/India-Mid-Tier-Smartphone-Segment-to-Grow-4x-in-Next-Five-Years.pdf>
6. "The WhatsApp Moment in Payments", Credit Suisse Equity Research (February 5, 2018).

THE RBI'S VISION 2021

The driving goal of the RBI's policy document is to ensure India's payment and settlements systems are safe, secure, efficient, fast and affordable.⁷

Among its achievements to date, the RBI lists the introduction of innovative systems, a shift from paper to electronic methods of payment, a focus on the customer, and significant growth in electronic retail payments.

Looking ahead, the RBI stresses the need for ongoing innovation, and issues such as competition, cyber-security and financial inclusion for the hundreds of millions of Indians outside the banking sector.

Vision 2021's approach has two prongs: to deliver an "exceptional customer experience"; and to do so by enabling an ecosystem that can deliver it.

Achieving its goals, the RBI says, will see digital payments' transaction turnover as a proportion of GDP rise from about 10.4 percent in 2019 to 14.8 percent by 2021. It expects UPI will see average growth of more than 100 percent per year.

7. Payment and Settlement Systems in India: Vision 2019-2021, RBI. See: <https://rbidocs.rbi.org.in/rdocs/PublicationReport/Pdfs/PAYMENT1C3B80387COF4B30A56665DD08783324.PDF>



GROWING COMPETITION

India's digital payments' potential has attracted some of the world's biggest companies: Google, Amazon and Samsung all have payment apps that run on UPI. WhatsApp, which is owned by Facebook, signed up 1 million customers during its pilot of WhatsApp Pay, and is expected to go live in the coming months with its payments service.⁸ Given that WhatsApp's customer-base in India is in excess of 400 million,⁹ with Facebook saying in 2017 that it had 250 million users,¹⁰ the tech giant has the potential to take a sizeable slice of the large and fast-growing digital payments pie.

India's digital payments landscape clearly has enormous potential, but success requires meeting a range of challenges. For a start, data must be held within India's borders — a factor believed to have caused Apple to shelve its launch of Apply Pay in India in 2018.¹¹

Secondly, tougher know your customer (KYC) regulations have made this process more onerous, increasing costs. Mobile wallet providers had until late August 2019 to verify all users (though the RBI extended that

at the last minute to February 29, 2020 — then later said it would allow a KYC-lite option),¹² with players like PhonePe going door-to-door to meet the new requirements for proof of ID and proof of address.¹³ That became necessary after the Supreme Court ruled in late 2018 that firms could not use the government-run Aadhaar ID system for e-verification purposes.¹⁴

The arrival of UPI didn't help mobile wallet firms, as we saw earlier. Meanwhile, fierce competition in that mobile wallet space means players are loss-making as they compete to secure market share. (That said, Paytm — although still a loss-making entity in terms of its wallet business — is making money in other areas: Its Paytm Payments Bank made a profit of about US\$3 million in its most recent financial year, the first payment bank to do so.¹⁵)

Most recently, the government's proposal to cut the merchant discount rate (MDR) to zero has disappointed digital payments companies, according to industry body the Payments Council of India, and could hinder new

merchant onboarding.¹⁶

The market, then, remains in a state of flux, with the winners and losers yet to be determined. And while the opportunities are enormous, the coming years will see no shortage of challenges, particularly for mobile wallet providers. With new entrants such as WhatsApp Pay looming, what will it take to survive and thrive in the digital payments space of the world's second most-populous nation?

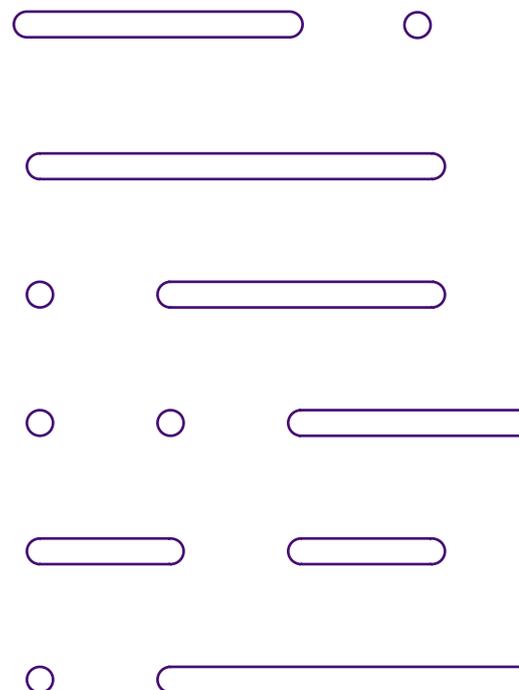
8. WhatsApp Pay India launch: Global head gives a timeline for the roll-out, *Hindustan Times* (July 25, 2019). See: <https://www.hindustantimes.com/tech/whatsapp-pay-to-launch-in-india-later-this-year-global-head/story-VmFXHc83VpEC4hc9jRQI.html>
9. WhatsApp reaches 400 million users in India, its biggest market, *TechCrunch* (July 26, 2019). See: <https://techcrunch.com/2019/07/26/whatsapp-india-users-400-million/>
10. *Ibid.*
11. After Amazon and WhatsApp, Apple orders 'stop payment', *Economic Times* (September 6, 2018). See: <https://economictimes.indiatimes.com/news/economy/policy/after-amazon-whatsapp-apple-orders-stop-payment/articleshow/65694577.cms>
12. 'Low KYC' norm to help mobile wallets retain their customers, *The Economic Times* (February 5, 2020). See: <https://economictimes.indiatimes.com/industry/banking/finance/banking/low-kyc-norm-to-help-mobile-wallets-retain-their-customers/articleshow/739448959.cms>
13. PhonePe rolls out doorstep verification as KYC deadline looms, *The Times of India* (August 17, 2019). See: <https://timesofindia.indiatimes.com/business/india-business/phonepe-rolls-out-doorstep-verification-as-kyc-deadline-looms/articleshow/70710162.cms>
14. RBI norms for video KYC may be out in a month, *Economic Times* (July 4, 2019). See: <https://economictimes.indiatimes.com/small-biz/startups/newsbuzz/rbi-norms-for-video-kyc-may-be-out-in-a-month/articleshow/70066774.cms>
15. Paytm Payments Bank posts profit of Rs 19 crore in FY19, *Business Today* (May 23, 2019). See: <https://www.businesstoday.in/sectors/banks/paytm-payments-bank-profit-of-rs-19-cr-in-fy19/story/349320.html>
16. Zero MDR to hurt payments industry, will collapse merchant acquisition: Payments Council of India, *Economic Times* (July 8, 2019). See: <https://tech.economictimes.indiatimes.com/news/internet/zero-mdr-to-hurt-payments-industry-will-collapse-merchant-acquisition-payments-council-of-india/70131427>

2 ROOM FOR MOST (FOR NOW)



WhatsApp Pay's pending entry into India's digital payments market will have many of its competitors in the e-payments and mobile wallets spaces fearful — even if market leader Paytm, with 350 million registered users as of June 2019,¹⁷ has less to worry about than smaller players.

Their concerns are understandable. WhatsApp can leverage vast numbers of customers that use its messaging service and Facebook, giving it significant reach.





That said, the sheer size of India's market and the fact that most people are currently unserved mean that for now at least there is room for most players. Although some mobile wallets might see less traction as a result, they are unlikely to be driven out of business altogether in the short-term — not least because many are well-established.

One area where WhatsApp could do well is with India's vast small-business market: at the 2019 F8 developer conference, Facebook's CEO Mark Zuckerberg announced that WhatsApp would let businesses display their product catalogue within their WhatsApp Business profile.¹⁸ That should prove a hit with the millions of small businesses in India that lack a website.

Eventually, as the mobile wallet market matures, it will consolidate, with less room for smaller players to operate. Already the number of mobile wallets has shrunk from about 60 in 2017 to 49 as the tough market and regulatory requirements see some merge and others close.¹⁹

It raises the question: what should the remaining mobile wallet firms do to try and ensure they are still around in a few years? One step is to look at alternative revenue streams — an aspect we examine below.

Apart from finding ways to diversify revenues, they would do well to work together as a unit and take clues from other markets: form a consortium that can lobby the regulator to uphold their interests, not least

as regards KYC requirements. Beyond that, they must focus on security and tailor their technology to build-in solutions that can work in the B2B space — other strategies that we also assess below.

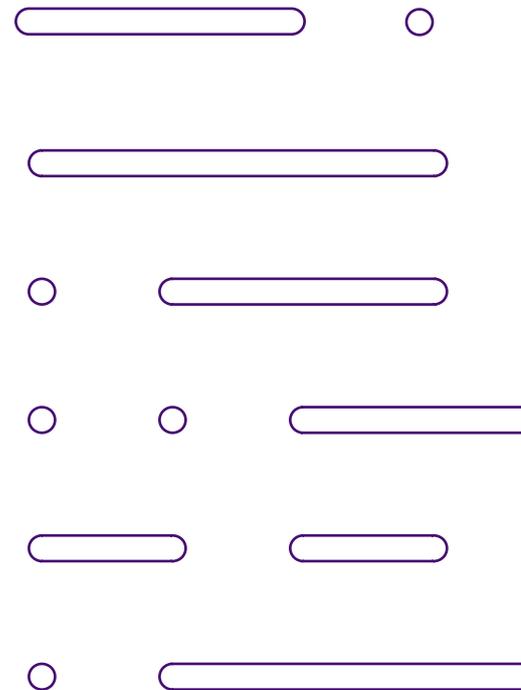
17. Paytm looks to hit 12 billion transactions by end of FY20, LiveMint (June 5, 2019). See: <https://www.livemint.com/companies/start-ups/paytm-looks-to-hit-12-billion-transactions-by-end-of-fy20-1559758593578.html>
18. Facebook at F8 says WhatsApp to get shopping catalogs, CNET (April 30, 2019). See: <https://www.cnet.com/news/facebook-at-f8-says-whatsapp-to-get-shopping-catalogs/>
19. After an incredible boom, e-wallets are dwindling in India, Quartz India (November 19, 2018). See: <https://qz.com/india/1467876/paytm-mobikwik-amazon-crowd-out-indias-smaller-e-wallets/>



3 BANKS AND THE DIGITAL PAYMENTS ENVIRONMENT



Although India's population is underbanked, the country itself has too many weak banks.²⁰ RBI figures show there are 22 private sector banks, 20 public sector banks, 45 regional rural banks, 10 small finance banks and seven payments banks. There are also more than 40 international banks.²¹ The result is that India's banking landscape itself is going through a consolidation as the government seeks to strengthen the financial sector.²²



Banks are, of course, at the heart of the traditional payments landscape, but even in a future India that has attained the government's vision of a digital, largely cashless society, there will be a place for them. In fact, those banks that survive the consolidation process should enjoy a growing role.

For a start, the push for financial inclusion under the government's 2014 PMJDY initiative has seen about 375 million bank accounts

opened by November 2019, with deposits worth about US\$15 billion.²³ One effect has been a significant rise in the number of electronic transactions, driven at least in part by the government's push to digitise payments, for example by banning cash transactions above 2 lakhs (about US\$665).

Banks, then, are enjoying a triple win: they are sitting on more cash; they have the opportunity to develop new revenue streams

in terms of mobile wallets and other digital payment solutions for their clients; and they can parse the data flows to offer customers better, more personalised services. In short, the government's push towards a cashless society is good news for banks — provided they take steps to provide such services in the first place.

BANK ACCOUNTS ARE HERE TO STAY



In addition, despite the growth of digital wallets, bank accounts are here to stay. The success of UPI, which allows instant transfers between bank accounts, is one factor. Another is that although 375 million people have signed up for so-called Jan Dhan bank accounts, hundreds of millions remain unbanked; many are likely to open accounts in the coming years.

Banks are also well-positioned

given wallets' inherent limitations: they are a stored value facility that can hold a maximum of about US \$1,000, and the customer can make only 10–20 transactions a day — with individual limits applied to transactions too. That means people still need bank accounts for a range of tasks, such as paying taxes, buying a car or taking a loan against a property. And so, although the move to mobile wallets

has helped transactions in the peer-to-peer and B2C space, they are not a solution for high-value transactions, and do not remove the need for bank accounts.

20. The risks from India's rotten banks, *The Economist* (October 10, 2019). See: <https://www.economist.com/leaders/2019/10/10/the-risks-from-indias-rotten-banks>

21. See: <https://rbi.org.in/CommonPerson/english/scripts/banksindia.aspx>

22. Finance Ministry starts groundwork for fresh bank consolidation, *Livemint* (May 27, 2019). See: <https://www.livemint.com/industry/banking/finance-ministry-starts-groundwork-for-fresh-bank-consolidation-1558945007770.html>

23. See: <https://www.pmjdy.gov.in/account>

IS THE FUTURE INSTANT, INVISIBLE AND FREE (IIF)?

The global payments space has changed significantly in recent years, with China leading the way. But as digital solutions proliferate, earnings from fee-based services are being compressed in areas such as mutual funds, brokerage commissions — and banking.²⁴

These advances in technology have driven a proliferation of payments providers and solutions, and drawn in US\$29 billion in investments since 2010.²⁵ All of this has made payments easier and cheaper, and propelled industry growth of about 60 percent.²⁶

However, many new entrants and incumbents are losing money. This applies as much to players in India as elsewhere, and raises an important question: if innovation in the payments space doesn't create sustainable shareholder

value but is instead a stage on the road to a world in which all payments are “instant, invisible and free”, how will players differentiate themselves to stay relevant — and to stay in business?

As businesses like Alibaba and Tencent in China have shown, domination in the social, shopping and lifestyle arenas also means control of the payments space — and the rich data that flows from that. Those involved in the payments space in India need to look at options to insulate themselves from existential risk.

As Accenture's Alan McIntyre, senior managing director — banking, puts it: “If you're an incumbent in the payments industry, there's plenty to worry about in terms of fee compression, new entrants and a loss of information.”

24. Payments proliferation trends, Accenture (November 1, 2018). See: <https://www.accenture.com/id-en/insights/banking/perspectives-payments-proliferation-mcintyre>

25. Ibid.

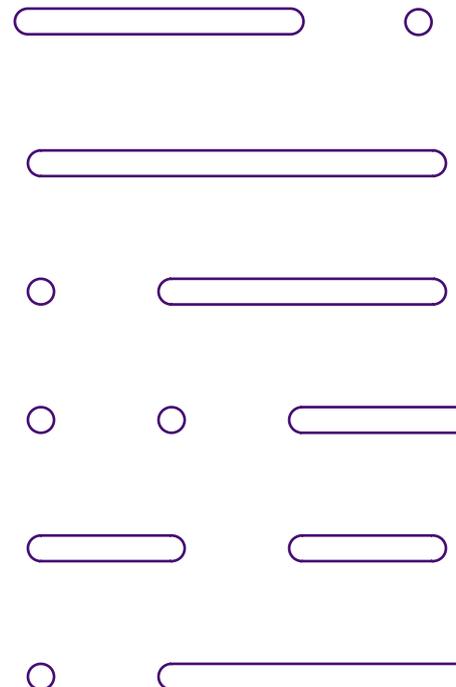
26. Ibid.

4 LOOKING AHEAD — AND ABROAD



The key test for digital payments firms — and particularly for mobile wallet companies — is how to respond to the challenges they face. The biggest task facing mobile wallet firms was the need to meet the KYC requirement for all of their customers by the end of February 2020. The RBI’s decision that month to allow a KYC-lite option likely helped some firms from losing large numbers of customers.²⁷

Another difficulty is that mobile wallet players are restricted to taking small deposits and allowing payments only between individuals or on a C2B basis. To survive they must expand beyond those narrow parameters and grow their operations into new areas.



27. 'Low KYC' norm to help mobile wallets retain their customers, The Economic Times (February 5, 2020). See: <https://economictimes.indiatimes.com/industry/banking/finance/banking/low-kyc-norm-to-help-mobile-wallets-retain-their-customers/articleshow/73948859.cms>



The way to do that is by leveraging their key asset: their payments data. It provides a rich, ongoing stream of information that they can analyse in order to deliver personalized products and services to their customers. They can either design those products and services alone or, as is more likely, partner with others to provide them.

Some have already started to do so, with Paytm providing perhaps the best example: it evolved from a simple wallet to a service that offered multiple payment options. Later it opened a payments bank (although the

recent shuttering of Aditya Birla Payments Bank²⁸ raises questions over that space). Paytm continues to reposition itself. In May 2019, it launched a credit card in association with US banking giant Citi, with the payments firm's customers able to apply for the card via their app.²⁹ Cards will be offered based on the applicant's digital history with Paytm, lowering the risk of default.

Other areas that digital payments providers should consider include microloans, and collaborating with banks to offer larger loans for individuals. Still more opportunities

abound in B2B fields, not least providing small working capital loans or trade financing, both of which are perennial issues for small businesses.

B2B e-commerce, meanwhile, is expected to reach US\$700 billion by 2020.³⁰ Digital players that can tap the market for intra-SME payments and the wholesale market should benefit from a steady stream of regular revenue.

28. Aditya Birla Payments Bank shuts down in less than 18 months since its start; what customers should do now, Financial Express (July 20, 2019). See: <https://www.financialexpress.com/industry/banking-finance/aditya-birla-payments-bank-shuts-down-in-less-than-18-months-heres-what-customers-should-do-now/1650662/>
 29. Paytm and Citi Partner to Launch Paytm First Card, Citigroup press release (May 14, 2019). See: <https://www.citigroup.com/citi/news/2019/190514a.htm>
 30. India e-commerce, US Department of Commerce. See: <https://www.export.gov/article?id=India-e-Commerce>



INTERNATIONAL PIONEERS

There are useful lessons to learn from other countries whose digital payments markets are also in transition. In Indonesia, for example, market leaders Go-Pay and Ovo both spent heavily to garner market share, offering discounts and incentives to expand their customer base. Now they are going head-to-head with a credit-like service in a country where a large proportion of the population lacks bank accounts or credit cards.³¹ For about two dollars a month, Go-Pay customers can defer payment for purchases until the month-end.

Both are hopeful that this service will mark the first step on the road to becoming full financial platforms that can tap Indonesia's large number of unbanked. In the absence of personal credit history, the companies will use data analysis to assess credit risk, which will allow them to start providing personal financial products through their platforms in collaboration with banks.³²

In China, where the digital payments experience is solidly entrenched, the ecosystems of Alibaba and Tencent offer customers a single-access

gateway that meets their needs in a hyper-personal way. And Alipay's expansion into foreign markets, as well as the ability for foreigners to open Alipay accounts, have further increased the potential of wallet payments in China, and is definitely an attractive option for wallet providers in India i.e. targeting tourists and temporary visitors so that they can easily open mobile wallets.

31. Cash-burning Indonesian payment apps seek profit in credit, Nikkei Asian Review (July 1, 2019). See: <https://asia.nikkei.com/Business/Startups/Cash-burning-Indonesian-payment-apps-seek-profit-in-credit>
 32. Ibid.

ENORMOUS CHANGE, ENORMOUS POTENTIAL

At this stage it is not clear which path India's digital payments providers will follow, though Paytm's foray into credit cards shows that it is looking at a world beyond low-margin payments processing, including P2P lending: in mid-2019 Paytm partnered with Clix Capital, a financial services provider, to offer loans via Paytm's platform.³³

While it is true that India's digital payments market has changed enormously in recent years, there can be little doubt that there is much more change to come. It is the players that seek out viable solutions in these challenging times that will have the best chance of survival in the long run.

33. Paytm teams up with Clix to offer loans, Economic Times (July 23, 2019).
See: <https://economictimes.indiatimes.com/small-biz/startups/newsbuzz/paytm-teams-up-with-clix-to-offer-loans/articleshow/70340382.cms?from=mdr>



About Accenture

Accenture is a leading global professional services company, providing a broad range of services and solutions in strategy, consulting, digital, technology and operations. Combining unmatched experience and specialized skills across more than 40 industries and all business functions — underpinned by the world’s largest delivery network — Accenture works at the intersection of business and technology to help clients improve their performance and create sustainable value for their stakeholders.

With 505,000 people serving clients in more than 120 countries, Accenture drives innovation to improve the way the world works and lives.

Visit us at www.accenture.com

Disclaimer: This document makes descriptive reference to trademarks that may be owned by others. The use of such trademarks herein is not an assertion of ownership of such trademarks by Accenture and is not intended to represent or imply the existence of an association between Accenture and the lawful owners of such trademarks.

Copyright © 2020 Accenture.
All rights reserved.

Accenture and its logo are trademarks of Accenture.