The payments juggernaut

India's digital payments market is booming, thanks to government support and innovative fintechs, but it faces a challenge from the internet giants. ***Tim Green*** *reports*

On 8 November, 2016, the Indian government banned the use of 500 and 1,000 rupee banknotes. The next morning, the country's leading mobile wallet company, Paytm, took out newspaper ads, which thanked Indian prime minister Narendra Modi for "taking the boldest decision in the financial history of independent India". Paytm was right to be grateful. Overnight, the government had provided a giant nudge to the Indian people to start using digital payments.

Helping Paytm was clearly not Modi's primary aim. In removing high-denomination notes, the government sought to attack the black economy and improve tax revenues, but the process simultaneously gave a boost to electronic payments. After demonetisation, anyone who wanted to make a large-value purchase had little choice but to go digital. As a result, the Reserve Bank of India (RBI) reported a 56 per cent rise in digital transaction volumes during 2016-17.

Srinivas Nidugondi, senior vice-president at mobile operator company Mahindra Comviva, believes the government was right to press ahead with its programme. He says: "A digital economy is more transparent and organised. There's a cost of cash that does not often get talked about. But now digital payments are common, and they are mostly done by mobile wallets and not cards."

The government had been engineering a move away from cash since 2010. Its programme began with the launch of a system, Aadhaar, to give every Indian a unique numeric ID. They can use Aadhaar to speed up various processes such as opening a bank account. In India, 1.2bn people now have one. Next came demonetisation, and then the launch of the Unified Payments Interface (UPI) by the National Payments Corporation of India (NPCI). The interface lets people link an alias (mobile number, Aadhaar ID or even fingerprint) to their bank account. They can then move money without disclosing bank details. Shortly afterwards, the government launched its own app, BHIM (Bharat Interface for Money), through which to make UPI payments.

Giving people a phone-based payment option made sense. Like other developing nations, India's race to digital had largely skipped the PC and gone straight to mobile. The trade body GSMA says 627m Indians now use the mobile internet. But was the government going too far in creating its own payments app? Could BHIM displace Paytm and the rest of India's popular mobile wallets? Well, no. Instead, the wallet companies co-opted UPI, and then used their marketing and design nous to maintain their advantage. During 2017 and 2018, all the big players incorporated UPI into their apps. Today, there are 144 banks and other payment institutions live on the platform.

The ascendancy of India's mobile wallets was a decade in the making. Paytm's story began in 2010 when it built a platform for topping up phone and TV subscriptions online. Users could load money into the app with cash through a licensed agent or by linking a bank account. Over the years, Paytm expanded its operations. In January 2014, it launched the Paytm Wallet, giving users the option to pay for many other services through the platform, such as Indian Railways and Uber. In 2017, it moved into e-commerce via its Mall app, which now features 140,000 sellers.

Unsurprisingly, Paytm's success attracted competition. Today, the mobile wallet companies have millions of users (though not all are active). They include: Paytm – 350m; MobiKwik – 107m; FlipKart/PhonePe – 100m; Google Tez – 45m; BHIM – 46m; ItzCash – 35m; PayU/Citrus Pay – 30m; FreeCharge – 27m; and Oxigen – 20m.

The success of these companies has not extended to "pure" mobile money services. Vodafone's M-Pesa and others use the basic USSD text channel to give poorer Indians an option for making payments via feature phones, but they have mostly failed. Observers say users find them too expensive (M-Pesa launched with a 1.5 rupee charge per transaction) and complicated (up to five steps to make a payment).

The wallet companies have also applied themselves to another challenge: physical shopping. Making physical merchants in India "digital ready" had proved difficult for traditional card-based networks. The problems are obvious: a complicated activation process, concerns about tax liability, reliable network connectivity and power supply. Then there is cost. Installing a card reader can cost up to 10,000 rupees (£115) and 250 rupees a month in maintenance fees. According to Deloitte, India has 2,389 point-of-sale terminals per 1m people. In the UK, the number is 32,858.

The wallet companies have provided a cheap and democratic alternative. Merchants can use the phone as an acceptance device and print out a QR code (a type of barcode) to trigger a payment. Set-up is fast and uncomplicated. Here is how the process works for the BHIM UPI app:

1. Download the app from the Google Play store.
2. Launch app, choose language, verify mobile number, set passcode and validate bank account.
3. Tap "I am merchant" option in the menu.
4. Enter merchant details: business name, business type, address, PIN code.
5. Tap to download QR code.
6. Print out QR code.
7. Invite customer to scan QR code to make a payment.

The Indian government has played its part in growing the market by mandating four types of "prepaid payment instruments": open, semi-open, closed and semi-closed. The specialist wallet companies mostly run semi-closed systems that can be used to buy most goods and services from a merchant, as well as sending money to someone. They cannot be used for cash or ATM withdrawals.

It is working. According to eMarketer, India is now the world's fastest-growing "proximity mobile payment" market. It says 73.9m people – 7.6 per cent of the population – made in-store mobile payments in 2018. This summer, Paytm said it would invest $35m in expanding its QR code-based payments to 20m new merchants.

Sakshi Chadha, manager of market engagement for the Mobile Money Programme at GSMA, says: "These schemes have been successful because of the trust element provided by UPI. People do not want to expose their bank details to a merchant. And wallets like Paytm and MobiKwik have been clever with loyalty schemes and other incentives. That's helped them to gain market share in stores."

For now, India's top mobile wallet players are thriving. But they know more competition is coming, this time from the Silicon Valley giants. Google has already made headway. In 2017, it launched Tez, an app based on UPI. Since India is overwhelmingly an Android market (which makes Apple Pay a negligible influence), Google was able to market its app heavily. Within months, Tez transformed the UPI space. When Tez (since rebranded as Google Pay) went live in August 2017, monthly UPI transactions were around 17m. By December, they hit 145m. Credit Suisse estimated Google Pay accounted for 52 per cent of UPI payments at this point.

> *"The mobile wallets have been clever with loyalty plans and other incentives to gain market share*

It helps that Google Pay charges no transaction fees. This is because users do not top it up with funds. Instead, the wallet pulls money directly from the user's bank account. By comparison, Paytm, Oxigen, MobiKwik and others charge around 2.9 to 4 per cent per payment. Amazon is also targeting India. It is already live with an online payment wallet, and recently confirmed plans to launch Amazon Pay UPI. An even bigger move could come from WhatsApp. The Facebook-owned platform is huge in India, with 300m users. Clearly, it has a vast customer base ready to go.

The question is: when will it go? WhatsApp did some testing on a UPI app in 2018, but has failed to win over regulators. At the time of writing, there was still no official launch date. Still, insiders believe WhatsApp could make a significant impact. Nidugondi says: "I think Facebook is looking towards China and WeChat as the model for what is possible in India.
I am sure that is the long-term goal." ■

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