India’s open payments competition can spread to other markets

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India promises to be an epic payments battleground between traditional payment systems and tech giants, and perhaps a harbinger for emerging markets in general.

Traditional retail payment systems such as Mastercard and Visa enjoy powerful network effects and market position in Europe and North America. But they were restricted in China, mobile commerce phenoms Alipay and WeChat Pay, and card network monopoly China UnionPay sewed up the market.

The world’s largest in-play payments market India, however, is a wide open creative and competitive ferment, with Indian consumers and merchants the ultimate winners.

With backing from Ant Financial, Paytm is just one of many well-heeled competitors battling in India's wide open payments market.

Card networks including national champion RuPay, U.S. tech titans, Chinese fintech powers, MNOs, and an etailer are among the major players in India. MasterCard and Visa bring the power of their global networks tailored to the subcontinent to bear. Unlike in the U.S., they face formidable and nontraditional competitors on near equal footing.

For U.S. tech behemoths, India is irresistible. Like the global payment networks they've largely been boxed out of China. In mature European and North American markets consumers and merchants are well served by existing payment systems and banks. Consequently, American tech titans haven't attempted to build payment networks. Instead they use and facilitate access to existing systems, thereby increasing consumer engagement on and the value of their platforms.

Tech platforms such as Google, Apple, Facebook and Amazon enjoy network effects in markets where the winner takes all or there are only a couple winners. Payments are a critical part of consumers' daily activity. It's not surprising they can then use payments to reinforce their centrality in consumers' lives.

Emerging markets like India, however, are another story. Cash rules. Traditional payment-card systems and banks are relatively weak. The dynamic between traditional payment networks, tech platforms, banks and MNOs is very different.

Google moved. In September the search mammoth introduced Tez, or "fast" in Hindi, a P-to-P and retail payments system, crossing the payments Rubicon. Tez uses banks' National Payments Corporation of India's Unified Payments Interface instantly drawing funds from consumers' accounts. While Google has provided payments since at least 2005 when it launched Checkout, until now it's leveraged existing payment systems.

Facebook's next. With 200 million active WhatsApp users in India it's going to launch a payments product embedded in chat, taking a cue from Tencent's enormously successful, with 600 million active users, WeChat Pay. Using payments to more deeply engage its users underscores why the world's leading social network in 2014 poached PayPal chief David Marcus.

The NPCI has its own mobile-UPI app BHIM, primarily supporting P-to-P payments. India's Amazon Flipkart has the other major mobile-UPI app Phonepe, which enjoyed sizzling 800% transaction growth since December. It has 25,000 merchants and focuses on retail payments.

Major social network Facebook offers domestic P-to-P payments, on which it loses money. It's not attempting to make money directly on payments but rather to boost engagement and thereby ad revenue. Acquiring or partnering with Western Union would give Facebook or Google worldwide money-transfer reach.

The world's most valuable company Apple is unlikely to be a factor in India. In China the iPhone is losing share and notwithstanding support from banks and China UnionPay, Apple Pay is nearly irrelevant. In India Apple's position is even weaker.

In the developed world Chinese fintech Garguantuas Ant Financial and Tencent will have difficulty providing more than merchant acceptance for Alipay and WeChat Pay for Chinese tourists and business travelers. In India they're competing for more, through proxies. Alibaba and Ant Financial own 62% of Paytm, a high-growth Indian digital wallet and payment network with 225 million active users and 5 million merchants.

Leveraging MoneyGram's network, Ant Financial could enable its portfolio company Paytm to provide global money transfer.

The NPCI, Mastercard, RuPay and Visa are supporting a new QR-code standard in response to Paytm.

Fast on Alipay's heels, Tencent led a $175 million D funding round in which India's leading mobile network operator Bharti also participated, for Hike, a chat service with a 100 million registered users. It's very much like and attempting to emulate WeChat's ecosystem in China. In June Hike launched its payment system.

Vodafone is India's second largest MNO. Its M-Pesa is the poster boy of a successful emerging market payment system, the leading payment network in Kenya and active in 10 other emerging market including India. India is a bigger prize than all the rest combined. Active in India since 2013, earlier this year M-Pesa rolled out M-Pesa Pay for merchants. But M-Pesa faces longer odds on the subcontinent than in sub Saharan Africa. Number four MNO Airtel has Airtel Money.

By 2024 India is forecast to become the world's most populous country. With more aggressive economic liberalization – think Hong Kong, which the Wall Street Journal and Heritage Foundation's Index of Economic Freedom rates the world's economically freest country, but with more than 1.3 billion people.

Ultimately it could be the world's biggest payments market as well. And, competition between card networks, tech titans Facebook and Google, Chinese fintechs’ proxies Paytm and Hike, and M-Pesa will be fierce, and offer signs how other large emerging payments markets may evolve.

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