

India's exploding payments market: When electronic goes electric and eclectic

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While principally aimed at curbing the grey economy, Indian Prime Minister [Narendra Modi's](#) ballyhooed demonetization campaign last year spotlighted the war between cash and electronic payments in the mother of all emerging markets. And electronic payments are growing faster in India than any market of consequence. On Earth.

Unlike China, India is open and enjoys rule of law. And unlike the U.S., its in-play and non-traditional payment systems comprise a good portion of the mix. For U.S. opportunity in processors and networks beckons.

To be sure, cash remains India's dominant retail-payment system. But in addition to [Norway](#) and [Sweden](#), India represents one of the few countries where demand for cash is down. As of October, currency in circulation represented just 91 percent of the pre-demonetization level.

In September general-purpose Indian credit and debit card payments surged 96 and 112 percent respectively year over year. Post-terminal deployment was up 96 percent. Dorothy, you're not in Kansas anymore (though you might as well be in Norway, Denmark or India, mobile phone in hand).

India's four largest merchant acquirers—the [State Bank of India](#), [Axis Bank](#), [HDFC Bank](#) and [ICICI \(First Data\)](#)—increased September transactions year over year by 91, 70, 42 and 78 percent respectively. Smaller acquirers, [Yes](#), and [Baroda](#) grew transactions year over year a 195 and 174 percent respectively. And [Ratnakar's](#) exploded by a whopping 6688 percent.

Payments in the cards

Meanwhile, global networks [Mastercard](#) and [Visa](#), along with the [National Payments Corporation of India's](#) national champion [Rupay](#), reign in payment cards. Per capita retail card payments are a paltry 3.4, testifying to enormous growth headroom.

After being boxed out of China, the global networks can't afford to lose India. Mastercard CEO [Ajay Banga](#) promises to invest \$800 million there, a sum that includes acquisitions.

In contrast with Europe and North America, non-card systems—including the Chinese FinTech giants that compete through proxies, domestic mobile-payment systems and global tech giants—vie for payments pride of place.

High-flying [Paytm](#) represents India's largest nontraditional retail-payment system. The digital wallet and issuer boasts 275 million users, a branded network with 6 million merchants, and a payments bank. Paytm charges merchants a 1.99 percent merchant discount rate plus the 18 percent general service tax assessed on acquirer fees.

Here's how that translates to business volume: In the year ending March 2017, Paytm did 1.5 billion transactions and \$5 billion in payment volume. It also benefits from growth capital from [Ant Financial](#) and [Softbank](#) CEO [Vijay Sharma](#), who says Softbank (headquartered in Japan) is willing to burn \$200 million per year for 5 or 6 years, aiming for 500 million users by 2020. *It's one of the largest fund raises by an Indian digital startup, with Softbank's investment amounting to \$1.4 billion.*

Paytm is starting to build an ecosystem similar to [Alipay's](#) and [WeChat Pay's](#). It introduced chat. With ICICI bank, it's introducing co-branded instant digital credit. And if Ant Financial acquires MoneyGram, Paytm should have access to global money-transfer compliance.

A payments stack you can't hold back

The state and the [National Payments Corporation of India](#) (NPCI) together play a bigger role in the Indian payments market than anything comparable in the U.S.

[In August 2016](#), apps for NPCI's Unified Payments Interface (UPI) became operational. UPI enables instant account-to-account payments initiated by mobile phone, along with payment requests. Payee and Payer payment service providers support participation.

Architects of the evolving Indian payments stack envision an atomistic payments world where consumers and merchants use the UPI and the national digital ID to make near-free irrevocable bills, along with P2P and retail payments. Each Indian is in the "[Aadhaar](#)" database, tied to a 12-digit number and biometric data that includes fingerprints and iris scans, along with photos, addresses and phone numbers.

Note that UPI isn't a retail-payment scheme; the NPCI has its own mobile-UPI app [Bharat Interface for Money](#), supporting retail. Transactions shot up by 38 percent in November. Many banks have their own UPI apps.

To jumpstart use, the [Reserve Bank of India](#) instructed banks and prepaid-payment-instrument licensees not to charge customers for UPI and Immediate-Payment-Service transactions under \$15 for the first three months of 2017.

To make it easier for more consumers and merchants to use payment "cards," the NPCI, Mastercard and Visa developed a QR-code standard [BharatQR](#). Consumers scan the merchant's QR code instead of swiping or inserting cards.

[Enter the high-tech heavyweights](#)

Meanwhile, the tech colossi don't want to miss out of Bharat's burgeoning payments market. In September [Google](#) launched its free payment scheme [Tez](#), instead of Android Pay. Google isn't trying to generate transaction fees: Rather, it's boosting consumer engagement on its platform, monetized through increased advertising revenue.

Not to be outdone, [Apple](#) SVP [Eddy Cue](#) has declared that Apple Pay also wants into India. The world's most valuable company, however, only has about 3 percent of the smartphone market, making their mobile wallet a nonstarter.

However, [Samsung Pay](#) by October had 2.5 million users. With modest NFC adoption, its magnetic-secure-transmission technology enables the

handset to “trick” point-of-sale terminals into thinking they’re reading mag stripes.

[Amazon](#) offers Amazon Pay to merchants off platform. India’s Amazon, [Flipkart](#), has a mobile-UPI app [PhonePe](#), which enjoyed a sizzling 800 percent transaction growth since last December.

The world’s leading social network [Facebook](#) has 200 million WhatsApp users in India and supposedly preparing to introduce integrated payments.

Chinese fintech colossus [Tencent](#) led a \$175 million D funding round for [Hike](#), a chat service with 100 million registered users. In June, Hike launched its payment system using UPI, beating chat competitor Facebook to the punch.

[MobiKwik](#) is a mobile-payment system with 65 million users and 2 million merchants, backed by [Sequoia](#), [American Express](#), and [Bajaj Finance](#). It trumpeted a 400 percent increase in QR-code-based payments this year.

With 340 million smartphones, Bharat is the world’s second largest smartphone market. MNO [Airtel](#) has Airtel Money, run through [Airtel Payments Bank](#). [Vodafone](#) in January, 2017 launched [M-Pesa Pay](#) for merchants.

And late to the party (but perhaps fashionably late), [PayPal](#) announced its support for domestic payments in India last month.

Parting shot: A trajectory making history

On its current trajectory in the next decade, India is likely to become one of the world’s top three payments markets along with China and the U.S. Even if that doesn’t happen, it’s beyond question that for a good many players, India’s payments system is paying off.

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