

THE ALTERNATIVE PAYMENTS LANDSCAPE IN INDIA



by **docomo** digital



India's digital wallet industry overheats with competition

Prior to Prime Minister Narendra Modi's demonetisation policy, commerce in India was overwhelmingly ruled by cash—over 85% of all transactions were cash-intensive. The controversial policy—which devalued two-thirds of in-circulation currency—had the unexpected side effect of creating a temporary cash shortage that drove the appeal of cashless payment options, and laid the groundwork from which India's digital payments industry would blossom.¹

Five years on, and the situation on the ground looks decidedly different.

Though cash remains dominant thanks to low smartphone penetration and hoarding habits driven by the COVID-19 pandemic,² digital payment options are becoming increasingly central to Indian life. Data from the Reserve Bank of India (RBI) showed that in 2019, electronic transactions tripled since the demonetisation policy came into effect, led by debit cards, digital wallets and bank transfer.³

Digital wallets, in particular, have experienced a massive uptick in adoption since those early days. According to GlobalData, digital wallets are "gradually displacing" cash and card use, and is set to reach a total transaction value of \$1.4 trillion by 2024.⁴ The industry is extremely competitive, with over a hundred different apps on offer at varying levels of openness. It is currently dominated by home-grown names such as PhonePe, Paytm and Jio Pay, as well as a handful of big international brands, such as Google and Amazon.

Driving "Digital India"

While these private companies have been key to the success of digital wallets in India so far, the most impact has come from India's government. Prime Minister Modi's "Digital India" roadmap has laid the groundwork for the emergence of the integral infrastructure needed to drive the take-up of digital payments.

Perhaps the most important infrastructural development in the digital wallet space is the United Payments Interface (UPI), an interbank payment system created by the National Payments Corporation of India, a consortium of local banks regulated by the RBI. The UPI was launched in 2016 to enable inter-bank transactions by allowing users to connect their accounts to integrated apps including digital wallets, in order to make instant money transfers via phone numbers, QR codes and various identification codes.⁵

Fast forward to today, and the UPI has become arguably the most important piece of financial technology in the country with more than half of all digital transactions flowing through the system and more than 200 banks integrated within its network. In October 2020, the UPI crossed over 2 billion transactions, and is available on just about every single major digital wallet in the country,⁶ making it very popular for users in urban and rural geographies across India.

UPI's clear advantage over other digital wallets is its interoperable structure. Unlike most digital wallets in the country, the UPI isn't beholden to a single ecosystem of merchants. Instead, it operates as an underlying structure that can be integrated with any app, in order to create a cheap payment option for all consumers regardless of which platform they choose to use.

The impact of UPI hasn't been all sunshine though, especially for digital wallet operators. UPI's widespread popularity has been said to have de-emphasised the impact of wallet-first fintechs like Paytm, which are not interoperable, and rely on transaction fees and merchant services to sustain their margins.⁷ Furthermore, a number of unfavourable policies have recently emerged from RBI—such as a 30% cap on UPI transactions⁸ and stringent know-your-customer (KYC) requirements—which have sparked concerns that smaller operators will have to consolidate to survive or exit the market entirely.⁹

¹ The Economic Times. One year of demonetisation: Pick, and choose, your e-wallet. Available online at: <https://economictimes.indiatimes.com/blogs/et-commentary/one-year-of-demonetisation-pick-and-choose-your-e-wallet/>

² Quartz India. Digital payments and cash hoarding are both hitting record highs in India. Available online at: <https://qz.com/india/1944392/despite-google-whatsapp-payments-cash-is-king-in-digital-india/>

³ Entrepreneur. How has Digital Payment Ecosystem Changed Since Demonetisation. Available online at: <https://www.entrepreneur.com/article/342061>

⁴ GlobalData. Mobile wallet transactions in India to exceed INR100 trillion by 2024, says GlobalData. Available online at: <https://www.globaldata.com/mobile-wallet-transactions-india-exceed-inr100-trillion-2024-says-globaldata/>

⁵ Penser. The Phenomenal Success of India's Mobile Payments System. Available online at: <https://www.penser.co.uk/article/fintech/the-phenomenal-success-of-indias-mobile-payments-system/>

⁶ ETBFSI. UPI transactions by value jump 105% yearly as COVID-19 surges usage. Available online at: <https://bfsi.economictimes.indiatimes.com/news/fintech/upi-transactions-by-value-jump-105-yearly-as-covid-19-surges-usage/80126556>

⁷ Techcrunch. Whatsapp receives approval to expand its payment service in India. Available online at: <https://techcrunch.com/2020/11/05/whatsapp-receives-approval-to-expand-its-payments-service-in-india/>

⁸ Techcrunch. Google and Walmart face growth hurdles as India caps payments transactions. Available online at: <https://techcrunch.com/2020/11/05/google-and-walmart-face-growth-hurdles-as-india-caps-payments-transactions/>

⁹ Scroll. After an incredible boom, e-wallets are dwindling in India. Available online at: <https://scroll.in/article/902689/after-an-incredible-boom-e-wallets-are-dwindling-in-india>

A sampling of popular e-wallets across markets and their fees

Paytm, which is India's leading e-wallet, charges no fees to businesses using an all-in-one QR code if the payment is received via UPI or RuPay debit cards. For businesses receiving payments through their Paytm e-wallets, there are no charges for payments of up to INR100,000 (\$1,374). Any transaction larger than this is charged a fee of 0.84% + GST¹⁰

Google does not charge any transaction fees to merchants using Google Pay for Business Android App to accept payments from their customers.¹¹

In 2019, the Indian government imposed a new rule disallowing banks from charging a fee of 2% on digital payments to those retailers who had payments volume of at least INR500 million (\$6.9 million) a year.¹²

Top e-wallets: **Paytm, Google Pay and PhonePe**¹³

Google Pay and PhonePe duke it out

The first digital wallet to truly take advantage of the UPI system was Google Pay, which reported over 75 million users as of mid-2020, but this doesn't mean the company dominates. In fact, Google Pay is currently locked in a struggle with home-grown brand, PhonePe, the second most popular app. In terms of numbers, the difference between both the wallets is razor slim and changing on a weekly basis, but Google Pay is considered the market leader.¹⁴ In December 2020, it was reported that Google had 960 million transactions under its belt (and about 43.4% of the UPI market share) compared to its nearest competitors, PhonePe (868.4 million transactions) and Paytm (260 million).¹⁵

While both apps allow for UPI payments, PhonePe's service also allows users to link credit and debit cards. Google, on the other hand, relies on close partnerships with UPI banks to enable payments. The apps are startlingly similar: both enable P2P payments, mobile reloads and shopping services across a huge network of local merchants.

The offering from the American tech giant was launched in 2017 as Tez, before eventually being folded into the better-known Google Pay brand.¹⁶ Google Pay's advantage in the country was driven partly by the dominance of the Android OS in India—iPhones only make up about 4% of the handset market due to their exorbitant price, and Samsung Pay relies heavily on NFC machines for contactless payments¹⁷—the company's global branding, and partnerships with government agencies and local banks.¹⁸

Payments in Google Pay are run through the UPI system, but Google's role as an OEM has also given it power over the technology it uses to process payments. The Google Pay app makes use of innovative "audio QR" technology for making payments with nearby devices, a clever workaround due to the lack of NFC-enabled POS machines in India.¹⁹

PhonePe, on the other hand, is a digital wallet created by local e-commerce maven Flipkart, which was eventually acquired by Walmart in 2020. The platform has reportedly registered a user base of 250 million,²⁰ and enables both UPI and digital wallet payments.²¹ PhonePe in particular pushes its local roots as an app "built for India, by Indians," and is making a bid to become a "super-app" in the vein of Southeast Asia's Grab or China's Alipay.

In 2019, the firm launched PhonePe Switch, an in-app integration that would give customers access to a range of merchants across industries like food delivery, travel, hotels and insurance.²² The company has also made a concerted effort to reach offline merchants by offering access to POS machines.²³ The company announced it would be spun-off in December 2020 in order to secure more access to capital funding.²⁴

Fighting for a slice of a shrinking pie

While Google Pay and PhonePe fight over first place, new entrants and established players are looking for footholds wherever they can find them. After Google Pay and PhonePe, the third most popular digital wallet in India as well as the most-established is Paytm, the Alibaba-backed operator which launched in 2010.

Paytm started life as a mobile wallet before the UPI came online, and was long considered the standard bearer for India's then-nascent digital wallet scene. In recent years, however, Paytm has seen its popularity slip thanks in part to the emergent UPI, and a mandate by RBI for mobile wallets to conduct KYC verifications.²⁵ Like other digital wallets, Paytm has been expanding its service into super-app territory. Customers can pay for movie tickets, bills, education services and physical goods through the app and Paytm's browser-based interface. However, as the digital wallet industry contracts, the platform has struggled to monetise its shrinking payments business, despite its widespread acceptance by online and offline merchants in India. The app has integrated with rival PhonePe's parent company, Flipkart to enable e-commerce payments,²⁶ and is also making a play to launch its own mini app store in order to challenge the dominance of Google Play, after a highly-public spat with Google.²⁷

American tech giant Amazon made big financial bets on India, with massive investments in payments infrastructure being used to grease its e-commerce business and launch a super-app ecosystem.²⁸ Despite investing heavily, building out a foothold among brick-and-mortar merchants, and even launching India-specific services, like P2P payments, Amazon Pay is struggling with losses.²⁹

Despite a rocky start, Facebook's social messaging app WhatsApp finally launched its Payment function in November 2020 after years of fighting regulatory hurdles. WhatsApp Payment was launched just a year after PhonePe in an attempt to capitalise on the app's 400 million users, its biggest market

globally.³⁰ The service was created in partnership with several local banks and designed to allow simple message-based P2P payments through the UPI system.³¹ Though the service is also looking relatively sluggish compared to competitors, most market watchers remain optimistic, based on predictions that app's cultural dominance and convenience will win over users in the long term.

India is home to one of the world's most mature telecommunication industries in the world, so it's no surprise that telcos have also begun spinning off their own digital wallets. Reliance Jio, one of the largest telcos in India, launched its JioMoney Wallet in partnership with the State Bank of India to enable financial transactions, mobile top-ups and bill payments. Users can also link their bank cards to the wallet for payments, alongside using the app's UPI integration.³²

Other telcos like Airtel (Airtel Money), Vodafone (m-pesa) and Tata (mRupee) have also made digital wallet offerings available, but moving forward, there is a possibility that telcos will see more opportunity in India's nascent direct carrier billing space. There are definitely challenges: though the country has over 460 million internet users, only 27.3% of the population has access to a smartphone.³³ However, most of the country interacts with the internet through a mobile phone, and the increasingly affordable rate of data plans will mean more users are coming online than ever before.

Direct carrier billing could also make inroads among India's almost 200 million unbanked, as well as its huge rural population. The Indian government has launched a slew of policies targeted at financial inclusion, such as the Aadhaar digital ID initiative, which has helped drive access to digital banking initiatives, but many Indians still find themselves underserved.³⁴ Direct carrier billing could allow telcos to skirt the shrinking mobile wallet industry and carve out its own path in the fintech sector.

¹⁰ Paytm. Paytm for Business. Available online at: <https://business.paytm.com/pricing>

¹¹ Google. About the Google Pay for Business app. Available online at: <https://support.google.com/pay-offline-merchants/answer/9232116?hl=en>

¹² Business Insider. India's government has removed digital payment fees for merchants. Available online at: <https://www.businessinsider.com/indian-government-removes-merchant-digital-payment-fees-2019-7?IR=T>

¹³ Comscore. Mobile Contactless Payments Rise to the Centre as Mobile Device Focus Grows. Available online at: <https://www.comscore.com/Insights/Blog/Mobile-Contactless-Payments-Rise-to-the-Centre-as-Mobile-Device-Focus-Grows>

¹⁴ Techcrunch. Google and Walmart establish dominance in India's mobile payments market as WhatsApp Pay struggles to launch. Available online at: <https://techcrunch.com/2020/06/03/google-and-walmarts-phonepe-establish-dominance-in-indias-mobile-payments-market-as-whatsapp-pay-struggles-to-launch/>

¹⁵ Livemint. Google Pay continued to lead in UPI market in November. Available online at: <https://www.livemint.com/companies/news/google-pay-continues-upi-leadership-in-nov-whatsapp-pay-makes-a-slow-start-11607361449732.html>

¹⁶ Google India Blog. Google Pay — the next step in the Tez journey. Available online at: <https://india.googleblog.com/2018/08/google-pay-next-step-in-tez-journey.html>

¹⁷ SamMobile. I just uninstalled Samsung Pay, as it is now effectively useless (for me). Available online at: <https://www.sammobile.com/opinion/i-just-uninstalled-samsung-pay-because-its-now-effectively-useless/>

¹⁸ ETBFSI. Not just Google, the world is watching India's UPI. Available online at: <https://bfsi.economicstimes.indiatimes.com/news/editors-view/not-just-google-the-world-is-watching-indias-upi/72810296>

¹⁹ The Verge. Google's new payment app for India uses sound to transfer money. Available online at: <https://www.theverge.com/2017/9/18/16325004/tez-google-india-audio-qr-cash-payments>

²⁰ Fortune India. Paytm's big play. Available online at: <https://www.fortuneindia.com/enterprise/paytms-big-play/105080>

²¹ Techcrunch. Walmart's PhonePe zips past Google Pay in India as UPI tops 2B monthly transactions. Available online at: <https://techcrunch.com/2020/11/02/walmarts-phonepe-zips-past-google-pay-in-india-as-upi-tops-2-billion-monthly-transactions/>

²² Business Standard. PhonePe's super app platform 'Switch', a one-stop solution for customers. Available online at: https://www.business-standard.com/article/companies/phonepe-s-super-app-platform-switch-a-one-stop-solution-for-customers-119091901357_1.html

²³ Livemint. PhonePe clocks 972 million transactions on UPI in February. Available online at: <https://www.livemint.com/companies/news/phonepe-clocks-972-million-transactions-on-upi-in-february-11614599082488.html>

²⁴ Business Today. PhonePe to be spun off from Flipkart, valued at \$5.5 billion. Available online at: <https://www.businesstoday.in/current/corporate/flipkart-announces-spin-off-of-phonepe-valued-at-5-billion-dollar/story/423810.html>

²⁵ Techcrunch. Google and Walmart establish dominance in India's mobile payments market as WhatsApp Pay struggles to launch. Available online at: <https://techcrunch.com/2020/06/03/google-and-walmarts-phonepe-establish-dominance-in-indias-mobile-payments-market-as-whatsapp-pay-struggles-to-launch/>

²⁶ The Times of India. Flipkart allows PhonePe rival Paytm at checkout. Available online at: <https://timesofindia.indiatimes.com/business/india-business/flipkart-allows-phonepe-rival-paytm-at-checkout/articleshow/78155448.cms>

²⁷ Fortune India. Paytm's big play. Available online at: <https://www.fortuneindia.com/enterprise/paytms-big-play/105080>

²⁸ S&P Global Market Intelligence. 2020 India Mobile Payments Market Report. Available online at: https://www.spglobal.com/marketintelligence/en/documents/indiamobilepayments_2020finalreport.pdf

²⁹ The Times of India. Amazon Pay India's loss widens to Rs1,868.5 crore in FY20. Available online at: <https://timesofindia.indiatimes.com/business/india-business/amazon-pay-indias-loss-widens-to-rs-1868-5-crore-in-fy20/articleshow/79684663.cms>

³⁰ Business of Apps. WhatsApp Revenue and Usage Statistics (2020). Business of Apps. Available online at: <https://www.businessofapps.com/data/whatsapp-statistics>

³¹ Techcrunch. WhatsApp rolls out payments in India. Available online at: <https://techcrunch.com/2020/11/05/whatsapp-receives-approval-to-expand-its-payments-service-in-india/>

³² Goodreturns. Jio Money App. Available online at: <https://www.goodreturns.in/jio-money-ewlt6.html>

³³ J.P. Morgan. 2020 E-commerce Payments Trends Report: India. Available online at: <https://www.jpmorgan.com/merchant-services/insights/reports/india-2020>

³⁴ Refinitiv. Accelerating financial inclusion in India. Available online at: <https://www.refinitiv.com/perspectives/ai-digitalization/accelerating-financial-inclusion-in-india>

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