

FROM LOOKING BRIGHT TO LOOKING UNCERTAIN:EVOLVING PAYMENT WALLET SCENARIO IN INDIA

Ms. Swarupa C. Kulkarni¹

Mrs.Samidha D.Parab²

Abstract

The introduction of digital wallets, Universal Payments Interface (UPI) and other new-age payment services has opened up new possibilities for sustainability of ideal cash less economic system. Traditionally, India is a cash-based economy with large proportion of its population neither financially literate nor having access to a formal banking system. Additionally India is also world's second biggest evolving smart phone market with over 220 million smart phone users. This highlights the increased penetration of mobile services and the possibility of adopting total digitization by continued customer education and adoption of newer technologies. Thrust to this is also added by various digital initiatives by the government which is adopting digitization at a faster pace and at the same time rolling out customer friendly digital platforms for faster and effective delivery. With reference to the above trend of being digital, this research paper focuses on the evolving "fintech" viz financial aspect of digital transaction and its relevance to the payment processing industry, but particularly the concept of e-wallets or digital wallets.

Keywords: *E- Banking, Universal Payments Interface (UPI), Payment wallets, Fintech, Digital economy*

Objectives

- To understand the consumer adoption of e-wallets in India
- To understand the evolution of e- wallet industry in India
- To understand the current market dynamics of the e-wallet industry

Introduction

8th November 2016, the day when demonetization got introduced in the Indian economy has been a revolution of sorts unheard of since independence. Following this move by the government,

¹ Asst. Prof, Management, Institute of Management & Computer Studies, Thane, Maharashtra

² Asst. Prof, Management, Institute of Management & Computer Studies, Thane, Maharashtra

various economists have jumped in and come with various theories and predictions with regards to its effect on the functioning and condition of the Economy as whole and its subsequent effects. However, one industry that got catapulted to the big league has been the digital payment industry. With the immediate ban on high value currency notes and with no alternative choice for immediate payment transactions, the participants in the Economy were forced to adopt the digital payment wallet system, which until now though was present, but were never contenders for usage in day to day financial transactions. With the preceding months of less availability of cash, and the growing government stance to push India into a transparent and digital economy has led to various innovations and newer paradigms in the shift from being a cash dependent economy towards a cashless and a digital economy.

The fintech companies have thereby deployed a ton of solutions and innovations in their present system to ensure faster adoption and processing by the masses to ensure their branded “e-wallets” gain market share, by hosting the maximum number of financial transactions. Considering the urgent need and in consultation with the Reserve Bank and various banking partners, changes in the nascent wallet transaction were done to ensure higher adoption. Some changes for instance, were not only limited to raising the monthly transaction limit Rs 20,000 but innovation of software systems like introduction of QR code based financial transactional delivery system and Scan-and Go POS systems.

A wallet is basically a small software program used for online purchase transactions wherein the buyer and seller traditionally have to be on the same platform and a common currency denominator is to be used, in order to note exchange of financial transactions and proper reconciliation. Employing the same perspective, an e -wallet is basically a type of pre-paid account in which a user can store money for any future transaction be it payments for groceries or flight tickets, provided the vendor is also listed in the same platform. So basically e-wallet is like our regular wallet itself but it has lost the physical form and taken electronic form.

The USP of the platform is that users can get through a purchase in mere seconds with a simple tap or scan of their mobile device, and not needing to punch in their respective banking account/card details, thereby limiting the opportunities for any fraudulent transaction to occur. Such has been the adoption of traditional businesses based purely on cash transactions, that they have also opted for e- wallets transactions, looking at lower transactional costs as compared to traditional “machine (debit/card) based transactions and eliminating the need for cash handling. This has lead to many business opportunities and greater potential revenue.

Literature Review

The purpose of this study is to understand the evolution of e-wallets and the factors influencing the market share of this industry. In cash dominant economy like India, there is certainly going to be a massive structural change, when greater adoption of digital payment system happens. Hence, the need for development of proper communication channel between various partners involved in and around the e-wallet ecosystem, so that seamless transactions can occur. Digital transactions are getting popular and the faster adoption in Indian market is throwing up newer avenues for digital payment economy to grow.

Pawan Kalyani (2016) Empirical Study about the Awareness of Paperless E- Currency Transaction like E- Wallet Using ICT in the Youth of India. He focused on increasing popularity of paperless e-currency transactions and need of educating overall population in terms of technology.

Gurpreet Singh Sambhy (2014) described the rapid growth and development of payment systems in India. Information technology and payment systems have witnessed acceptance and wide scale deployment of electronic payment systems. However, these systems are still far away from mature and they need to be refined more especially in developing countries.

Research Methodology

The aim of this research paper is to find various factors that led to easier adoption and initial growth of e-wallets and the factors that are posing as hindrance to projected growth rates of these companies in India. The study is based on secondary sources of data/ information obtained through various books, journals, projections by established rating agencies, market research reports and newspaper editorials that have been referred in order to make the study as effective as possible. The study attempts to examine the Cashless Payment System in India and its impact on e-Wallet industry.

Opening an e-wallet

In order to avail the e-wallet services, a user needs to choose a suitable e- wallet service provider platform and get him/her registered, by completing a minimal or extensive KYC (Know Your Customer) verification procedure, depending on the needs and usage.

Once the user gets registered for an e-wallet, funds need to be added into it for completing transactions.

The process to add balance to e-wallet is as follows:

1. Go to Profile in the Wallet Interface
2. Search for option “Add Money”
3. Select any of the options from net banking, debit card, credit card or UPI to transfer the money to e-wallet.
4. Choose the amount to be transferred and authorize the payment by following given instructions.
5. After payment authorization, the amount will be credited to e-wallet by debiting from customer’s bank account or from credit card account.

Penetration of e-wallets into the Market

In order to create an alternate economy during demonetization many customers and vendors took advantage of e-wallet facility to ensure continuous transactional processing. People running short of cash hurriedly downloaded apps to pay digitally from mobile phone recharges to essential purchases like groceries and milk. The pre-demonetization era of earlier use of digital payment services for payment of electricity bills, travel, event bookings got evolved to hosting a range of essential day to day products or services that led to successful working of economy rather than coming to a complete halt in the months of November 2016 to January 2017, wherein normalcy was restored as per the Central Bank. Increase in the number of mobile phones and introduction of cost effective high speed data services has led to faster adoption of e-wallets. With this, India has started experiencing the adoption of the contemporary international trends. E-wallet providers are rising as payment bank institution which is going to be very lucrative for this industry.

Considering the current scenario, contribution from phones and tablets is expected to increase to 30% by year 2020. Mobile payments in India are estimated to grow from \$86 million in 2011 to \$ 1.15 billion in 2016, with a compounded annual growth rate of 68%.

Since there are so many e-wallet companies available in the market, many a times customers get confused thinking what should be the best way to pay. Should it be net banking, credit cards, UPI, NEFT, RTGS, IMPS, USSD, Aadhaar-linked BHIM or a combination of them? Till now, customers have grabbed whatever is the easily available option to pay.

Strategies Adopted by E-wallets

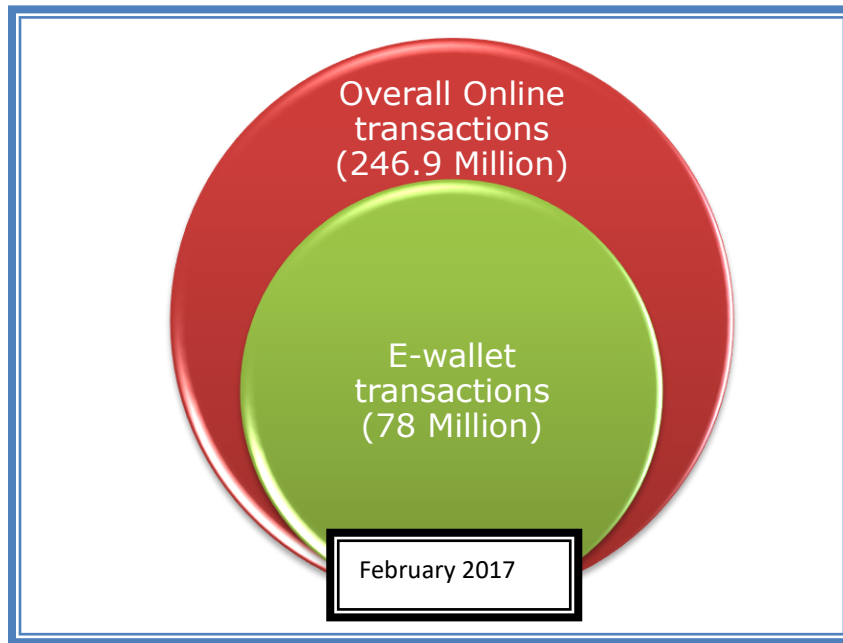
Mobile wallet companies like Paytm, MobiKwik and Freecharge etc. were focusing on various customer acquisition strategies by ways of offering deep discounts on purchase of wide range of products and spending large amount on advertisements. This way e-wallet companies were trying to artificially stimulate and expand the market with cashback offers to initiate wider customer adoption and reach.

To sustain in this highly competitive scenario, e-Wallets are coming up with unique business strategies to help realize investments and market themselves differently from their peers. Paytm for instance introduced Paytm Lifafa during the festival times to stimulate the traditional Shagun philosophy and switching it smart to a digital payment initiative in diwali this year. It became popular when news came out stating that on duty soldier in Jammu and Kashmir used his Paytm digital wallet and transferred a gift of Rs.1001 to his family in Raipur. One more incidence of a government official posted in the Andaman Islands sent digital cash as a gift along with a personal message to his sister for Bhai Dooj through Paytm Lifafa. According to e- wallet companies, during diwali season they have witnessed a jump of three-four times in peer-to-peer payments through digital wallets.

Some e-wallet companies, majority of them have applied for payment bank service to integrate in their platform, so as to widen their product offering and provide customers the benefits of a traditional banking experience.

Changing Market Trends

Due to above mentioned circumstances; it was assumed that India is witnessing an exponential growth in the area of digital payments. But the numbers tell a different story. The data from RBI states that the share of the eight standalone e-Wallets in total wallet transactions fell to 31% in February 2017 from 42% in November 2016. E-Wallets contributed 78 million of the 246.9 million online transactions in February this year.

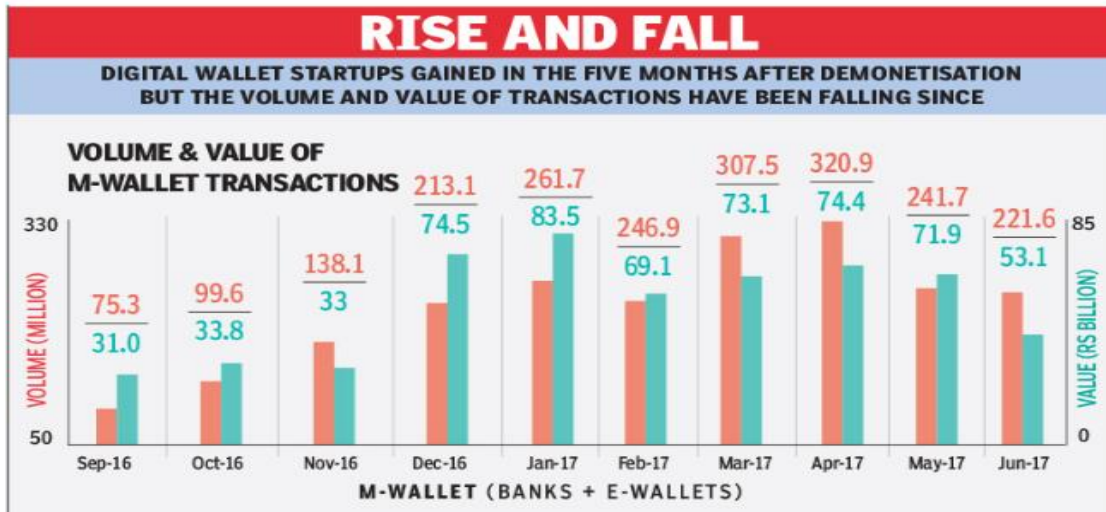


Payments startups have been convincing investors that the increasing number of transactions of e-payments will help to make up any loss in revenue even though RBI does not increase transaction rates. But, the available data states another story. Data from RBI as of June 2017 indicates that digital wallet industry has actually contracted by 30% that is 221.63 million transactions in June 2017 from 320.87 million transactions in April 2017.

In reality, the big banks have actually encashed this opportunity and benefited from it. They have been successful to capitalize this opportunity since they already have existing network of customers as well as available infrastructure. The launch of UPI, BHIM and Bharat QR has given banks a biggest boost. This has helped their apps to be more convenient, faster and cheaper for customers to use as compared to e-Wallets. Banks have also focused on its young customers while developing their apps that focus more on hunting down dining offers, discounts at clothing stores and cash backs etc.

One more aspect to focus is that government has lowered merchant discount rates so as to facilitate the goods and services at affordable rates for customers but at the same time expensive for banks and e-wallets.

These changes can be managed and loss can be absorbed by the banks since they have so many other verticals. But, it will be a heavy load for those whose bread and butter is directly based on e-wallets and digital transactions.



E-WALLETS VS BANK APPS					STANDALONE DIGITAL WALLETS HAVE NOT FARED AS WELL AS MOBILE APPS CREATED BY BANKS			
	Nov-16		Dec-16		Jan-17		Feb-17	
	Volume	Value	Volume	Value	Volume	Value	Volume	Value
Bank apps	79.09	20.05	125.11	53.48	174.67	62.53	168.95	50.11
e-wallets	59	13	88	21	87	21	78	19
Total	138.09	33.05	213.11	74.48	261.67	83.53	246.95	69.11

Note: Volume of transactions in million and value of transactions in Rs billion Source: RBI

Reference:

<https://timesofindia.indiatimes.com/trend-tracking/right-to-privacy-this-is-how-safe-your-tech-is/articleshow/60231420.cms>

With the initiative from government various payment apps and systems such as UPI, BHIM and, Bharat QR are being introduced. Banks are also offering various mobile banking innovations in terms of frictionless experience with more benefits. Hence, industry experts say that there is no high demand in future as well for standalone wallets.

E- Wallets face a barrier

As all Indians are experiencing digital transformation since 1813 million transactions worth Rs. 2,07,552 billion were made digitally in June 2017. But the point to note here is that most of these transactions were facilitated by usage of debit cards, NEFT, IMPS and RTGS and not by wallets. In terms of value of transactions as well, wallets have been left behind.

In a developing country like India, customers prefer least hurdles to complete a payment. Even though e-Wallets got some popularity in recent times, they have some limitations. One of the biggest drawback is they are not interoperable. It means for transferring money, it is mandatory for both sender and receiver to have same company's account- like Paytm to Paytm. Besides, the money in the wallet does not earn interest.

Until now recently, e-Wallets were being dubbed as the most secure payment system. However, a recent hack in Mobikwik's payment system in the September of 2017, has raised serious concerns of the backend data protection method. Additionally, wallets find it financially unviable to adopt modern financial tools like blockchain technology or key fraud analysis tools, which have been lapped up by the banks and NBFC's and regaining the edge that they lost to e-wallet players.

Steps taken to curtail barrier

Earlier, e-Wallet companies were not allowed to enable users to access UPI that enable users to transfer funds from one bank account to another. But recently, from 7th Nov 2017, Paytm integrated BHIM UPI on its platform in order to ensure seamless transfer of funds between user with an expectation to double user base. This move also enables merchants on Paytm to be able to accept payments from a wider set of customers.

e-wallets are also diversifying their business base and bringing in more vendors or big players on their platform to ensure higher number of transactions on their platforms. This helps bring more churn and ensures the volume of businesses and their MVP increases, in line with increasing the valuation of these e-wallet player.

Some e-wallets have tied up with financial institutions to issue traditional debit cards and virtual cards that enable their wallet to be functional across categories and players removing a hindrance. However, such innovations incur costs and increase the asset size of the companies, which is against the traditional aim of these companies i.e. to work in an asset light model. The adoption level has not only limited to payment processing but the future holds the key, wherein unbanked customers get into financial inclusion with the help of wallet companies and a sizeable and functional credit can also be made available to them by leveraging the data these e-wallet players hold.

Scope of the Study

To make this study more accurate and derive precise solutions primary data can be gathered by:

- Direct interactions with management committees of e-wallet organizations like Paytm, Freecharge etc.
- Direct interactions with existing customers those are using e-wallet apps can help to understand the problems faced by them.
- To understand the future of mobile banking industry in India

This will help to overcome the existing problems and implement the improved and user friendly apps.

Limitations of the study

- This paper is based purely on secondary data available through various market research journals, newspapers, websites etc.
- The problems with the secondary data are the reliability and accuracy of the data.
- Secondary data can also distort the result of the research. And it may also raise the issues of authenticity and copyright.

Conclusion

Today, digital wallets are popular. Tomorrow, direct payment systems may score over intermediaries such as mobile wallet and plastic money companies. The aim of each one is to provide the best and most secure payments experience. The acceptance and adoption of online payment methods is increasing by leaps and bounds. The penetration of smart phones, fast spread of internet and the rapidly growing online retail segments are huge pillars of growth. The point to be focus here is that, customers are using e-wallets only to make small payments and hence there is no revenue stream and margins are very narrow. Hence, to stay in the competition without burning hole in the balance sheet, one of the options e-wallets have is Diversification. It may include entering into the financial services segment, collaborating with non-banking financial companies etc.

References:

1. <http://pmjandhanyojana.co.in/list-e-wallet-companies-india/>
2. <http://www.smartcardindia.in/ewallet.html>
3. <https://timesofindia.indiatimes.com/trend-tracking/digital-wallets-may-soon-run-out-of-cash/articleshow/60237048.cms>
4. <http://www.thehindubusinessline.com/money-and-banking/aditya-puri-sees-no-future-for-digital-wallets/article9549243.ece>
5. <http://www.iamwire.com/2016/03/scenario-digital-payments-india-2016-trends-future/133921>
6. <http://www.thehindubusinessline.com/catalyst/the-future-of-mobile-wallets-in-india/article8332085.ece>
7. <http://www.livemint.com/Opinion/f5xo11OSPqxGWUdaWKVb8J/Why-India-needs-to-work-on-financial-literacy-now-more-than.html>
8. <http://www.jmeit.com/JMEIT%20Vol%203%20Issue%203%20Jun%202016/JMEITJUN0303004.pdf>