Digital payment trends in India

In a country like India where digitization is rampant with growth in internet and mobile users, proliferation of internet enabled devices, affordable mobile internet, increasing use of mobile apps and favourable demographics, digitization in payments has gained significant momentum and has huge potential too.

The global payments market is growing at a rapid rate and is expected to cross the $2 trillion mark by 2020, according to NASSCOM. Digital payments in India will more than double to $135.2 billion in 2023 from $64.8 billion this year, according to an Assocham-PWC India study. Also, India is expected to clock the fastest growth in digital payments' transaction value between 2019 and 2023 with a compounded annual growth of 20.2%. As per the study, India's share of worldwide transaction value of digital payments is also set to increase from 1.56% to 2.02% in the next four years.

According to *India Digital Payments Report* by Worldline India, there are 3.72 million (as of March 2019) point of sale (POS) terminals in India. The average ticket size of debit cards and credit cards is INR 1,323 and INR 3,427 respectively on the POS terminals. There are 925mn debit cards and 47mn credit cards in circulation in India as of March 2019. And UPI is emerging as the fastest growing payment channel.

With such terrific growth and projections, let us understand what factors were behind such growth. Among factors which led to the exponential growth in digital transactions are demonetization, discounts on mobile wallets and UPI transactions. Funding from a diverse set of domestic and international stakeholders also contributed to the growth in digital payments. The regulatory efforts and the early successes of wallets of non banking players (like Paytm) played a catalyst's role in enhancing the digital landscape in the country in the last three years, with heavy traction in the past one year. The rise of digital commerce, innovation in payments technology using AI, blockchain, the Internet of Things (IoT) and real-time payments and the introduction of mobile point of sale (POS) devices have also contributed to growth. Innovation has been one of the biggest drivers for the growth of India's digital payments economy. India is one of the countries with the most advanced and innovative payment instruments.

India has been quickly catching up with new technologies and has adopted newer payment channels at a very fast pace. Key growth driver for digital payments would be inter-operability between the pre-paid instrument (PPI) players. What makes interoperability possible today is the UPI, which allows users possessing accounts in different banks to transact with each other in real time. The National Payment Corporation of India (NPCI) launched Unified Payments Interface (UPI), a one-touch transaction for transferring money between parties using a "unique virtual address," which has been widely adopted by banks and fintech companies. Bharat Interface for Money (BHIM), an extension of UPI and USSD, enabled digital payments through UPI. With the release of UPI 2.0 (P2B) as well as increased acceptance and the entrance of a number of international players such as Google, WhatsApp whose platforms are UPI-based, this growth is only going to grow manifold.

Here are some of the other trends in digital payments ecosystem in India –

Consumers are rapidly switching to non-cash payment methods that provide simple and convenient ways to transfer money across bank accounts.

Alternate payment channels such as contactless and wearables are gaining acceptance.

Growth through lower cost terminals as well as asset-lite modes such as QR is expected in the coming years.

Near Field Communication (NFC) payments or otherwise known as contactless payments (or sometimes referred to as Tap-and-go) made through either NFC enabled cards and/or phones, is expected to pick up pace. MasterCard, NPCI and Visa have made substantial investments on this technology. In fact, NPCI launched the National Common Mobility Card (NCMC) which users need only tap the terminal without having to enter a PIN for transactions below INR 2000. The NCMC card will also serve as the National Common Mobility Card which means it can not only be used at establishments to pay for goods and services but also as a common card on various transportation networks across the country.

The last few years have seen entry of hundreds of new players in the payments space. A lot of these provide niche solutions. However, consumers demand ubiquity, and look for instruments that work across use cases, both online and offline. Hence, consolidation could be expected, and few large players may dominate. Infrastructure rationalization is likely as payments intermediaries come together or evolve.

While on the growth side, everything seems hunky dory, there are some challenges that needs to be addressed by digital payments industry. Digital payments industry has to address challenges such as low margins primarily due to a cashback-driven culture, process inefficiencies like Know Your Customer bottlenecks and cyber security threats.

Though our country has taken rapid strides towards financial inclusion in the last few years, we are still largely a cash-based economy. More than 45 per cent of the country's bank accounts have no transactions and only around 13 per cent Indian adults borrow through formal channels. The creation of a regulatory, social, commercial and infrastructure framework that will help in the creation of the last mile access of financial and other primary services to the larger India is thus one of the primary needs.

The digital payments in the country received a major push with government's Cashless India initiative – launched under the Digital India campaign. To transform the country into a "less-cash" society, the government has been promoting the use of digital payment methods such as banking cards, Unstructured Supplementary Service Data (USSD), mobile wallets, internet banking, mobile banking, Aadhar-enabled Payment Systems (AEPS) and micro ATMs.

The first phase of Modi government started with a big digital leap by introducing a host of digital initiatives like – eSign, eHospital, Digi Locker, BHIM (Bharat Interface for Money) UPI (Unified Payments Interface), Direct Benefit Transfer (DBT), EPFO web portal & mobile app etc. Demonetisation was also a big step to push India towards digital economy. In the last interim budget, the government announced intent to create 1 lakh digital villages in the next 5 years.

Industry expects the government to continue to push digitization of financial systems whilst the consumer will, more and more, be encouraged to shift to digital platforms for financial transactions. A couple of announcements made in this budget that signal encouragement of digital payments are - TDS of 2% on cash withdrawal exceeding INR 1 crore in a year from a bank account; Business establishments with annual turnover more than INR 50 crore shall offer low cost digital modes of payment to their customers and no charges or Merchant Discount Rate shall be imposed on customers as well as merchants.

However, budget proposal not to charge Merchant Discount Rate (MDR) will benefit customers and merchants but may hurt payments acquiring industry. Non-bank payment service providers like aggregators/processors who are significant part of payments eco system may struggle to sustain without a commercial model.

Though India has a high fintech adoption rate, it lags behind countries like US, Singapore, China and UK in terms of funding and growth. Stricter regulations and mechanisms to ensure information protection as well as investments by the government to ensure data security will go a long way especially in digital payments.

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