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Building India's 2.0: PayNearby

As Anand Kumar Bajaj sat in the headquarters of Nearby Technologies in Mumbai, India, he reflected on his FinTech startup's place in the country's digital revolution. His office marked the third point of a neat triangle whose other vertices were Powai Lake—an artificial lake in the neighborhood of the Indian Institute of Technology Bombay and the National Institute of Industrial Engineering—and the Chhatrapati Shivaji Maharaj International Airport, a bold exclamation of architecture that doubled as an art gallery. It was no accident that he had chosen these headquarters as the birthplace of his flagship brand, PayNearby, in 2016. The ten-minute drive to either adjacent location was a reminder that technology, interconnectedness, and access to remote locations were on the fore of his mind when he envisioned launching the national, yet "hyperlocal," financial services provider four years earlier.

PayNearby was founded by a 4-person co-founding team including Bajaj, Subash Kumar, Rajesh Jha, and Yashwant Lodha (see **Exhibit 1** for details on the founders). At the time, 90% of Indians did not have easy access to financial services. It was with this insight that the team formed, and declared it their imperative to simplify the high-end technology involved. In doing so, they believed they could make it accessible to those at the bottom of the social pyramid. Forming PayNearby meant each member having to leave previously successful corporate and entrepreneurial careers in an effort to secure the "last-mile" penetration that PayNearby was designed to deliver.

Bajaj's efforts had proven successful during the company's short tenure thus far. PayNearby followed a B2B2C (business-to-business-to-consumer) model (see **Exhibit 2** for details), by which it collaborated with local retailers and *किराना* – *kirana* stores, the staple mom-and-pop hybrids of grocery and convenience stores in India. The goal was to establish a full suite of financial services to the some 400 million underbanked Indians, who by that year were still predominantly relying on cash to handle their transactions in the quickly evolving economy. These services were relatively simple in concept—including remote bill pay, money transfers, banking, and SMS payment options (see **Exhibit 3** for service offerings and app interface)—but the solution Bajaj envisioned was novel. Instead of requiring the average consumer to have a smartphone to use the PayNearby app, as with many other companies in the payment space, he would instead crowdsource the smartphones of storeowners themselves. This allowed users to manage their money and transactions without needing to own any technology themselves beyond their identification materials and login credentials.

Bajaj's consumer-focused model, by which he brought the technology to the market rather than stand by for its adoption, had rapidly caught on. By the end of 2019, PayNearby was active in 800,000

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of the country's grocery markets, a figure that was not only 10% of the national total, but also over 6 times the number of bank branches in India. However, this "pizza bread" strategy meant that, while PayNearby's expansion was wide, it was not yet deep. The company survived on a mere 5 basis points, and their number of competitors had climbed to over 200. Additionally, their market penetration could not continue indefinitely, as greater spread necessarily meant fewer untapped PIN codes remaining (see **Exhibit 4** for details on the Indian PIN code system). How could Bajaj use the expansion he had already achieved to make his pizza dough rise? What new products could be added to PayNearby's suite that would secure a future for "PayNearby 2.0," and not allow it to perish as so many other payment services had? Bajaj contemplated the next stage of life for his flagship brand.

Background

The Financial Landscape of India

While the growth of India's economy in recent years had been significant, there were still many obstacles remaining from the perspective of universal financial inclusion. The second-largest population in the world, at 1.53 billion people, had access to only 120,000 bank branches throughout the country, with a similar number of ATMs. Furthermore, the average distance to a bank or ATM for Indian consumers and retailers was about 20 kilometers, which took users an average of two hours to reach. This made the transaction costs around banking and other financial services steeper than they would be in many other countries. In addition to the relative lack of supply, there were other issues surrounding banking and payment services. Trust between consumers and financial service providers was tenuous. While as many as 4 out of 5 Indians had access to bank accounts by 2020 – up from less than half in 2016 – their use was infrequent, and none were accessible after 2:00pm. In 2016, 90% of all transactions were done in cash; while this number dropped by 2020, it still stood around 78%.

Exacerbating these pressures on India's cash economy was that the notes themselves were at times unreliable. The untraceable nature of cash meant that opportunities for corruption, counterfeiting, bribery, and localized extortion abounded. Among these, tax evasion was also a particular bane of the Indian government. In late 2016, it sought to combat illegal cash holdings, known as "black money," by banning all 500 and 1,000 rupee notes. Prime Minister Narendra Modi made an unscheduled television appearance on November 8th of that year declaring that such currency, which made up 80% of all cash in circulation, was no longer legal tender. Citizens had just three weeks to adjust; long lines formed in front of the few banks open for restricted hours during which the people could convert their old bills into a limited amount of legal currency. The transaction required government identification, which 300 million Indians did not have. Police were frequently called in to subdue tensions, consumers had trouble buying basic necessities such as milk and bread, and experts turned their eyes toward a vision of how their cash economy could survive in the cash-strapped era.

Another dimension that tugged at the viability of India's cash reliance was its considerable share of migrant workers. Such workers traveled large distances to procure their living; one that they had to share with their families back home. As such, the process generally demanded money transfers from urban and semi-urban areas to rural areas. The demand for a service that could allow this transfer of funds over greater and greater distances also carried with it a demand for one that was trustworthy, reliable, and timely. What financial institutions lacked in terms of the public trust and ease of access was held instead by the kiranas and other local retailers. It was this trust and convenience that Bajaj would identify as the access point for PayNearby. By placing his service in the hands of retailers who already had established ties with local consumers, he could deploy his suite of services to address the obstacles surrounding the needs of rural, unbanked, and underbanked Indians alike.

PayNearby: Goals and Implementation

Bajaj knew from the outset that the endeavor would be a massive undertaking, in terms of both physical scale and working hours, in order to introduce PayNearby to the various local vendors across the country. Each had to be supplied with the appropriate technology as well as the training to use and share it with their customers. To incentivize local retailers to join, Bajaj would demonstrate how use of PayNearby could bolster sales by as much as 30%, since users who were accessing their money were more likely to make transactions in the store beforehand or afterward. In addition, the concurrent rise of India's digital economy and the proliferation of superstores had been progressively making the local retailers obsolete. By showing how PayNearby could increase engagement opportunities with their communities, Bajaj could offer partnering retailers stability in the shifting transactional landscape.

The time-intensive and costly process of "digitally upskilling" so many retailers (see **Exhibit 5** for details) was worth it for PayNearby's model. While most of the cost was expended in scoping out and setting up each new network node, the basic network upkeep was of minimal expense. Further still, the wider PayNearby spread, the stronger the demand for it would be in each additional location, making marginal uptake increasingly simple. As far as security concerns, Bajaj knew he could employ biometrics. India's Aadhaar database (see **Exhibit 6** for details) was a system by which residents could register information such as their fingerprints, retinal scans, and photograph, and be provided with a unique identification (UID) number, also called Aadhaar. By offering retailers a fingerprint scanner (see **Exhibit 7** for an example) to be used with their app, PayNearby could take advantage this pre-established Aadhaar system. Doing so would solve most of the typical security concerns around financial and banking services at transaction endpoints while also allowing customers to pay by thumb.

Once the initial investments were made to set up the network, PayNearby's revenue stream would come from charges made per transaction. By taking small cuts of these transactions and being proactive in their approach to spreading the service, PayNearby reached over 18,000 PIN codes by 2020, and saw volumes of one million digital transactions daily with a monthly throughput of ₹42 billion (see **Exhibit 8** for details on partner commissions and location-based transaction volumes). Revenues, as tied to commissions on the service's Gross Transaction Value (GTV), saw a similar uptick as adoption of the service and monthly throughput increased (see **Exhibit 9** for year-over-year growths). Bajaj, during the crucial initial years of spreading PayNearby to as many locations as possible, had secured a stable and growing profit for the company.

PayNearby 2.0: Decisions for Bajaj

By 2020, PayNearby had already tapped into 18,000 of its initially identified 19,000 viable PIN codes. While the initial expansion seemed a success, Bajaj knew that to continue onward into the future, PayNearby would need to shift from its focus on penetrating new locations for its service and look instead toward its new identity. While there were many ways to grow the company's core services, there were also several new roads the company could take to build new verticals and brands. The far-reaching pizza dough strategy could be augmented with new "toppings," such as insurance services, travel advisory, lending, enterprise solutions, investment, and so on. Creating these options for existing customers could also grow the company to cover new ones, as the company would evolve in the eyes of its current market and see uptake for reasons other than its basic financial services alone.

However, any new service or brand launched on the back of PayNearby might find itself in a precarious position. PayNearby existed on only 5 basis points; the risk of a failed venture could easily be great enough to put the whole company's survival into question. It was important not just to expand into areas that had strong potential for growth, but also to target ones that could complement

PayNearby's existing expertise and umbrella of services most effectively. Piling too much on the still fresh and thinly laid dough, so to speak, could threaten the viability of the company. Indeed, FinTech startups often ran the risk of over-promising and under-delivering. Given PayNearby's successes to this point, Bajaj knew that any additions to the company had to be more than just well calculated. In a similar manner, Bajaj also examined the prospect of expanding PayNearby into more traditional banking services as well. Was it right to turn the ingenuity of the brand toward setting up as a brick-and-mortar enterprise, or were PayNearby's strengths incompatible with joining a banking system which had thus far left so many Indians underserved?

Looming behind these questions of adapting to the future was a greater threat to the stability of PayNearby. Bajaj's success with the brand, in no small part due to a relatively low barrier of entry to the space, might be precisely what could allow any of the company's over 200 competitors to step in and seize its market share. Among them, Novopay stood out; it had a similar business model, while also having ties with IDFC First Bank, RBL Bank, and Axis Bank. Two others, Paytm and PhonePe, were giants in the peer-to-peer payment space akin to China's WeChat and Alipay. Both had deep pockets, and both were looking for ways to have offline retailers digitize and join their online payment systems. In view of the competition, Bajaj knew he had to dig the moat around PayNearby's existing niche not through predatory gatekeeping, but through the same type of continual innovation that had brought the company to where it was. Otherwise, an agile startup or sufficiently funded juggernaut could step in and cut PayNearby out of the picture.

The Road Ahead

Four years earlier, when Bajaj had first set foot in PayNearby's headquarters, he knew he was setting out not just to create a strong company, but to provide as much social good as possible for his growing country. He had left his previous position as the six-year CIO of Yes Bank because he saw an opportunity to build the infrastructure that could usher in a "Digital India." Instead of placing his profit model in front, he focused first on inclusion and worked backward to make the process profitable. Yet in doing so, he had also created conditions such that, should his company ever fail or even waver, he risked harming the welfare of a substantial number of previously underserved Indians. He therefore weighed his next move not simply as a business prospect, but as a national plan.

Would he be able to shift PayNearby's vision from year-by-year metrics of expansionary success? Could he create a brand which would weather the next five or ten years? If so, what about next fifty? His plans for PayNearby 2.0 relied on the fledging FinTech company not succumbing to the pitfalls which plagued countless others in the digital age: doing too much too soon, not doing enough, being too content with initial success and settling in, not being content enough and growing overzealous. How would he contend with bumping up against the barrier of his viable market penetration? How would he deal with the startups that nipped at his heels or the giants that stood in his way? As beautiful as he found the growth of an India empowered by technology, he also knew it to be fickle in whom it favored. On the sign just next to his desk read the company motto, "har dukaan digital pradhan:" "local retailers are our digital leaders." To enable his people to lead, he had first to build.

Exhibit 1 PayNearby Founders**Anand Kumar Bajaj**
CEO

- Years of experience: 20+
- Previous work experience:
 - Yes Bank: Chief Innovation Officer
 - ICICI Bank: AGM (Branch Automation)
- Other Accolades: Honored by NASSCOM, FIIA, World Payment Congress, Golden Peacock and Finnoviti awards
- Holds 5 patents

**Subhash Kumar**
Sales & Distribution,
Tech and BD

- Years of experience: 20+
- Responsible for network expansion and sales strategy
- Previous work experience:
 - Hermes: COO for 7 years and Operations Manager for Travel and Gaming business for 8 years

**Rajesh Jha**
Insurance, Loan &
International

- Years of experience: 20+
- Heading new businesses: Insurance, Travel and Lending
- Previous work experience:
 - Founded wealth and investment advisory business in India and Singapore

**Yashwant Lodha**
Tech & Operations

- Years of experience: 6+
- Responsible for financial operations and day-to-day functioning of the company
- Previous work experience:
 - YES Bank: Product Manager—UPI
 - Tally: Manager, Strategy & Analytics

Source: PayNearby

Exhibit 2a Opportunity for the B2B2C Model: Part 1

INEFFICIENCIES IN FINANCIAL SERVICES

Extremely costly proposition for the Bank and the Customers



Customer inconvenience to avail financial services during working hours



Minimal access to banking services in home town for a large migrant population



Financial services accessible only in **few major cities**



No instant, scalable and interoperable platform available



High cost of financial services



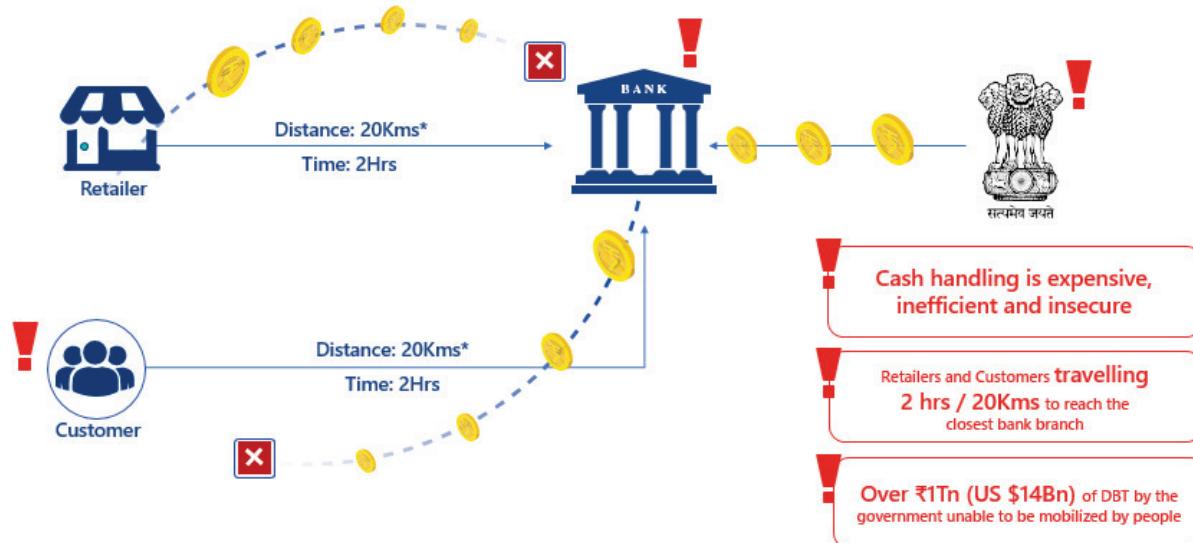
Low Education and Financial Literacy

Source: Company documents.

Exhibit 2b Opportunity for the B2B2C Model: Part 2

INCONVENIENT BANKING

Challenges For The Underbanked

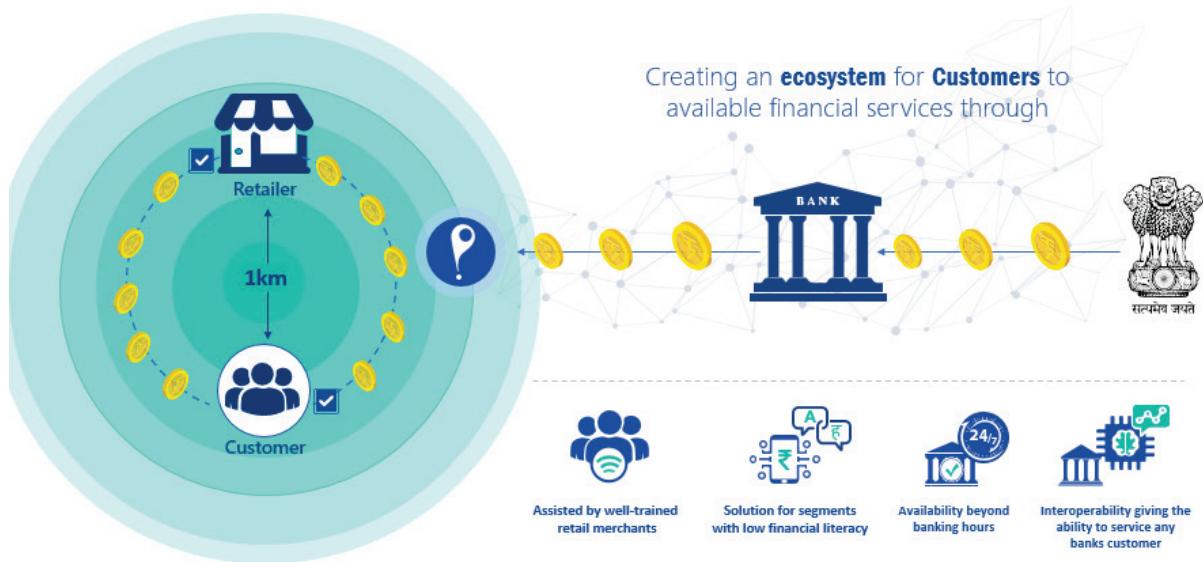


Source: Company documents.

Exhibit 2c PayNearby's B2B2C Model: Part 1

B2B2C Model: DIGITALLY ASSISTED CONVENIENCE

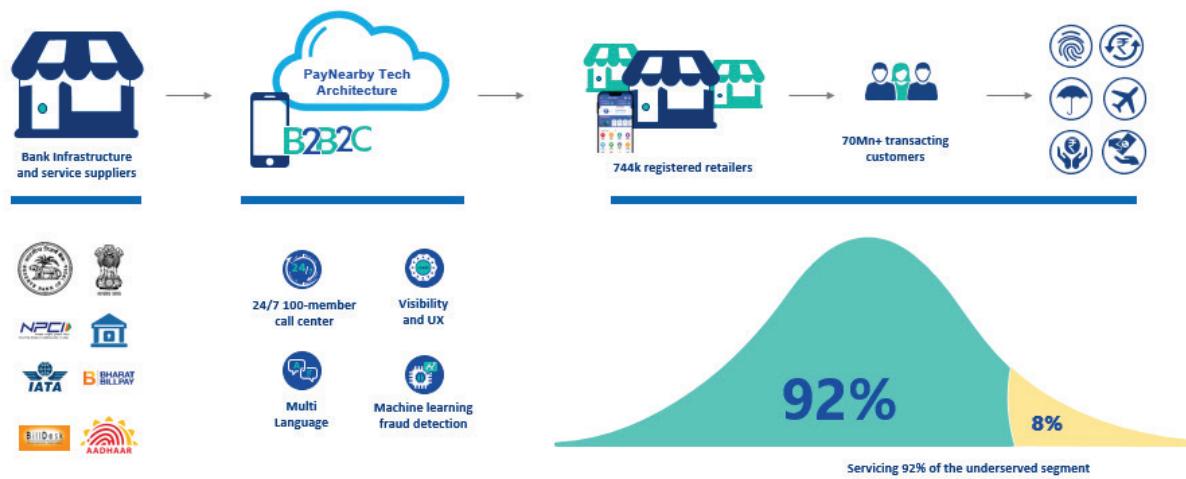
Building a bridge towards a growing ecosystem



Source: Company documents.

Exhibit 2d PayNearby's B2B2C Model: Part 2

THE PAYNEARBY PLATFORM



Source: Company documents.

Exhibit 3a PayNearby's Service Offerings



Source: Company documents.

Exhibit 3b PayNearby App Interface



Source: Company documents.

Exhibit 4 The Indian PIN Code System**PIN CODES IN INDIA**

India has the largest number of post offices in the world. Post offices use an unique PIN code system to make the process of delivering letters and parcels more efficient. **This system was introduced in 15th August 1972.**

The PIN code consists of 6 digits and each digit has a specific relevance.

First digit reflects region in India, second the sub-region, third the sorting district, and last three represent the post office code. Thus the first 3 digits collectively indicates the postal district while the last 3 digits designates the specific post office within the district. In India there are 9 PIN regions, out of which 8 belongs to geographical regions, and the digit 9 is reserved for the army Postal service.

456001

Region in India
Sub-region
Sorting district
Post office



As of 30 May 2019, India has 19252 PIN codes (Source: <https://bit.ly/1Pincode>). These PIN codes cover over 155600 villages, towns, districts, and cities across India. Tamil Nadu, Uttar Pradesh, Maharashtra, Kerala, Karnataka, Andhra Pradesh, West Bengal and Gujarat account for **60% of PIN codes across India**.

Source: Company documents.

Exhibit 5 PayNearby's Digital Upskilling Process

DIGITAL UPSKILLING:

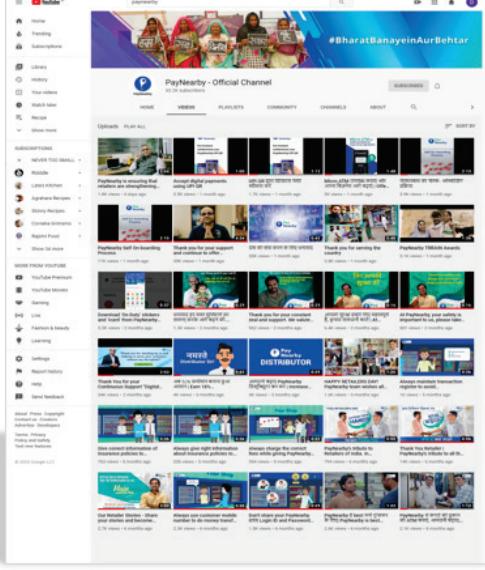
 **RASCI**
Retailers Association's Skill Council of India

Retailers receive National Skill Development Corporation's Certificate under Prime Minister Skill Development Scheme (PMKY) Additional benefits include:

- ₹ 500 is credit into retailer's account on successful completion of certification.
- Annual accidental coverage of ₹ 2 Lakh for 3 years.

 **TRRAIN** Circle Association with a reliable partner to help further retailer's career and life. Benefits: Exclusive Deals, Health Benefits, Tips, Financial Schemes, Digital Radio, Free Counselling and Career Planning

We have over 400 videos available in our YouTube channel to help retailers understand how to use PayNearby platform, how to earn more, how to process a transaction, best practices, etc. These videos are used to train our retailers and are available in primarily in Hindi and multiple regional languages.



Source: Company documents.

Note: 1 Lakh = 100,000

Exhibit 6 The Aadhaar Database**INDIA – AADHAAR CARD**

The Aadhaar programme is the largest biometrics based identification system in the world. The Government of India through Unique Identification Authority of India (UIDAI) has so far issued more than 124 crore Aadhaar numbers to the residents of India.

Aadhaar number is a 12-digit unique identification number issued to its citizens. The system provides single source offline/online identity verification across the country for residents. Once enrolled, a person can use the 12-digit Aadhaar number to authenticate and establish their identity multiple times using electronic means or through offline verification. It eliminates the hassle of repeatedly providing supporting identity and address documents to access services, benefits, and subsidies. The Aadhaar system enables mobility to millions of people who migrate from one part of the country to another.

Aadhaar identity platform with its inherent features of Uniqueness, Authentication, Financial Address and e-KYC, enables the Government of India to run ~252 welfare schemes including some major welfare types such as Direct Benefit Transfers (DBT), subsidy payments, LPG-PAHAL, MGNREGS, pensions, scholarships, mid-day meals, etc.

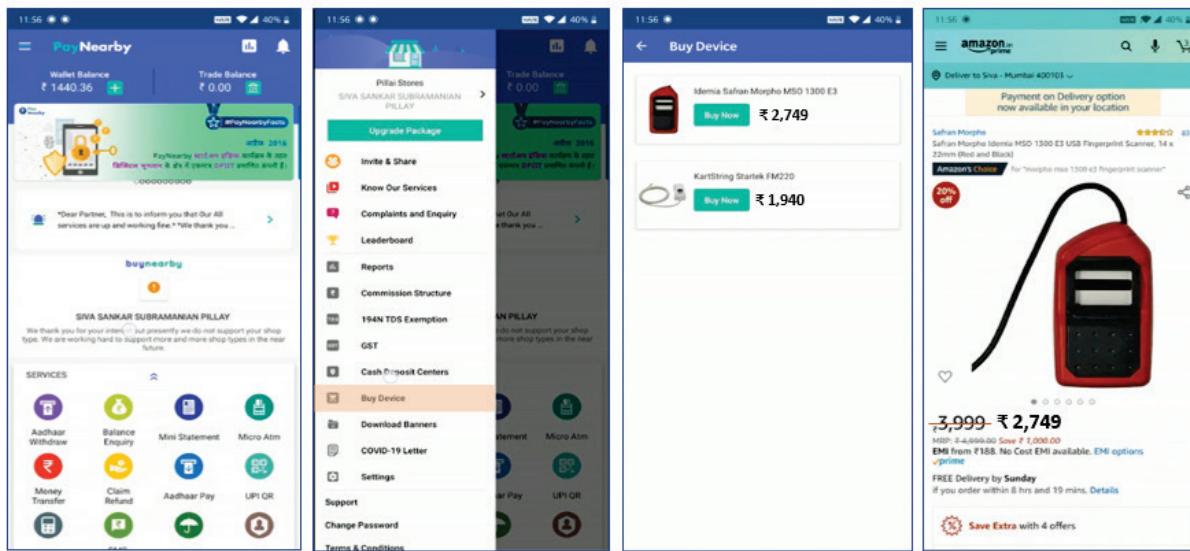


Source: Company exhibit, Unique Identification Authority of India, Government of India

Note: 1 Crore = 10,000,000

Exhibit 7 Typical Fingerprint Scanner

BIOMETRIC DEVICE WITH PRICING



Source: Company Data / Amazon.in

Exhibit 8a PayNearby Partner Commissions



COMMERCIALS – EARNINGS & EXPENSE



70% of our earnings are paid to our channel partners as commission.
We retain **30%** for business and operational expenses.



Our average earnings on our flagship products (Money Transfer & Cash withdraw) is **0.52%** of the transaction value. We distribute **~77%** of the commission earned to our channel partners.



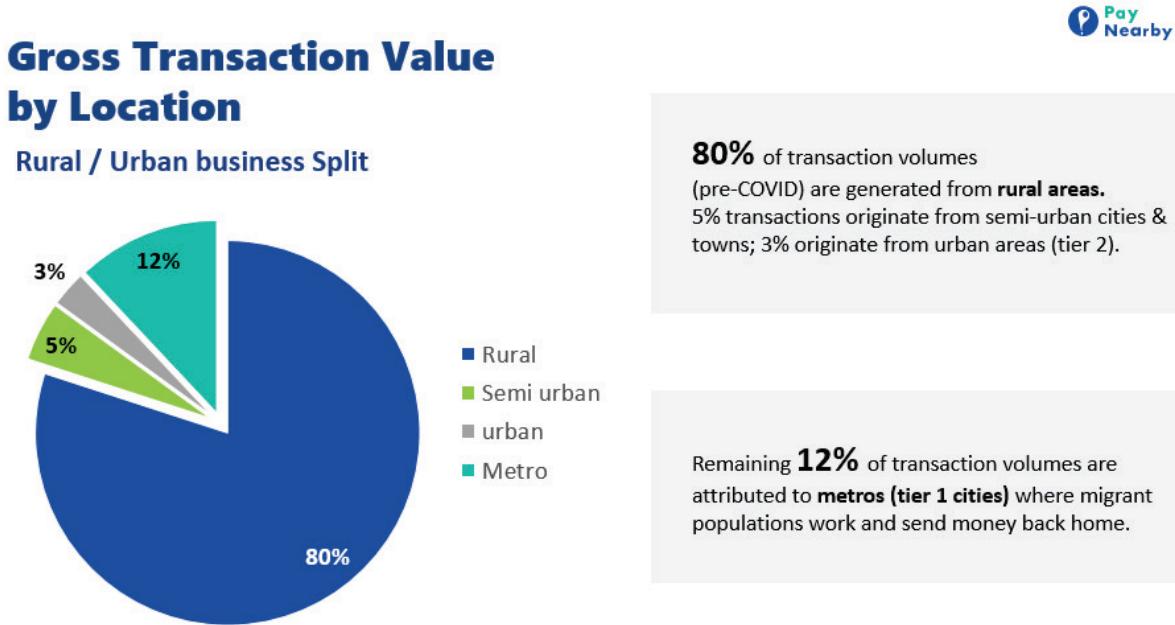
Products like Bill Payments and Mobile recharges we pay out almost **70%** as commissions to partners.



Products with higher margins like insurance and travel work on a **50-50%** model.

Source: Company documents.

Exhibit 8b PayNearby Location-Based Transaction Volume Breakdown



Source: Company documents.

Exhibit 9a PayNearby's Year-over-Year Growth

Item	FY2017	FY2018	FY2019	FY2020E	FY2021P
Total Retailers – Registered (End of Period)	10,233	124,169	497,492	812,906	1,186,582
GTV (INR Mn)	12,782	97,511	319,032	488,269	649,637
Revenue (INR Mn)	28	301	1,590	2,683	3,253
Gross Profit (INR Mn)	15	158	485	666	1,048

E- Estimated

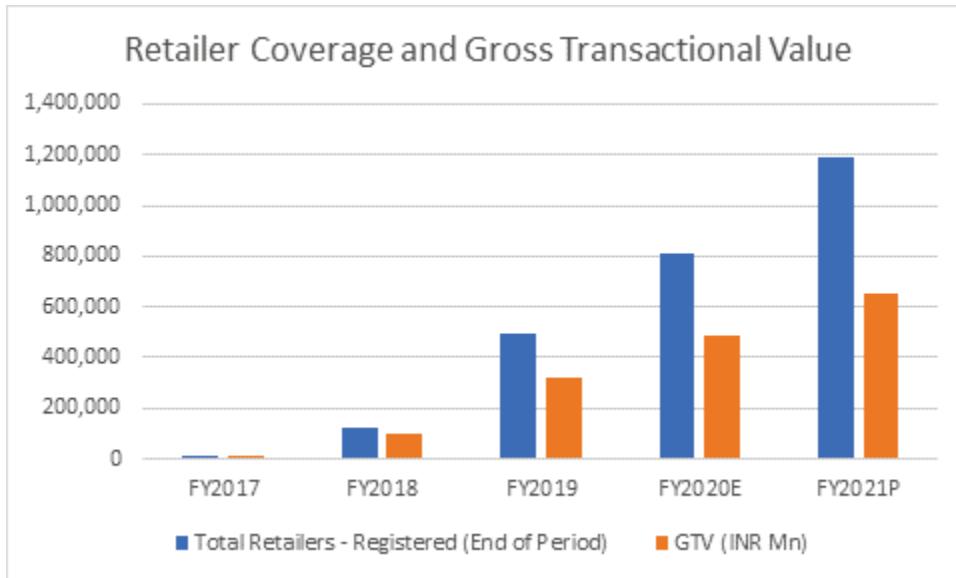
P- Projected

FY - April to March

Source: Company documents.

Note: 1 INR ≈ 0.013 USD

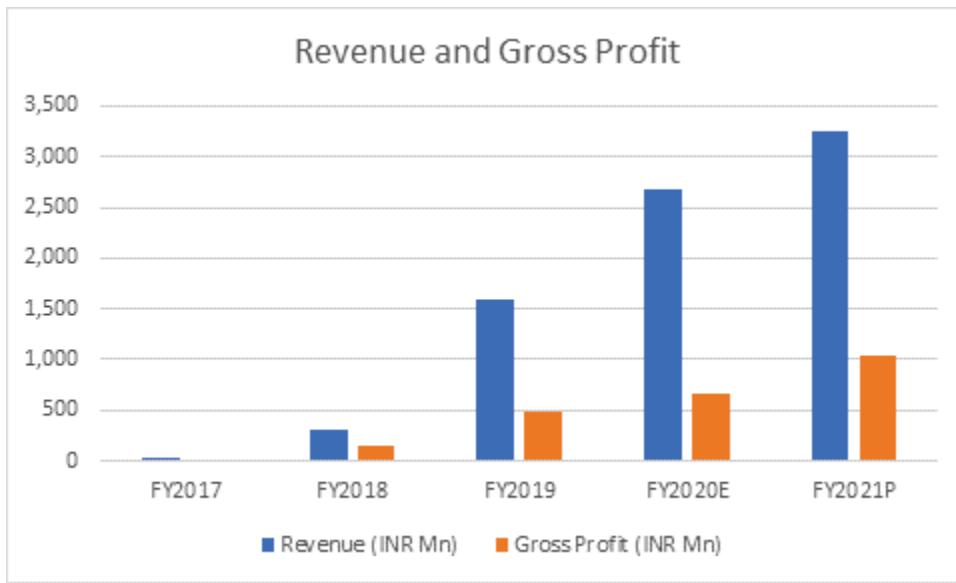
Exhibit 9b PayNearby's Year-over-Year Growth (cont'd)



Source: Company documents.

Note: 1 INR ≈ 0.013 USD

Exhibit 9c PayNearby Year-over-Year Growth (cont'd)



Source: Company documents.

Note: 1 INR ≈ 0.013 USD