

Rise of the Digital Wallets in India

At

Lyra Networks Pvt Ltd

A Project Report Presented to

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**Durgadevi Saraf Institute of Management Studies,
Mumbai**

On

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In

**Partial fulfilment of the academic requirements for the
Post Graduation Diploma in Management Programme**

By

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STUDENT'S DECLARATION

This is to declare that the study presented by me to Durgadevi Saraf Institute of Management Studies, in partial completion of the PGDM under the title“Rise of Digital Wallets in India”had been done under the guidance of Dr.Padma Singhal & Mr. Sachin Shet during May-June/July 2019.

Place: Mumbai

Signature of the Student

Date:28/07/2019

Roll No.20182110

Certificate –Faculty Mentor

Certified that the project titled “Rise of Digital Wallets in India” presented by Mr.Hitesh Jesing Gohil , Roll no-20182110 represents his/her original work which was carried out by him/her at the Durgadevi Saraf Institute of Management Studies under my guidance and supervision during the period from May,2019 to July,2019.

Name of guide: Dr. Padma Singhal

Signature of Faculty guide:

Date: 28/07/2019

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Student Name- Mr.Hitesh Jesing Gohil

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Executive Summary

As every start up finds a need in the market for a product ready to be consumed by the consumers, businesses etc, the digital wallets have the same story where they found the need of such a product in the market and try to get the key from consumer by usage of their phones for the same.

Before the rise of digital wallets there was seen the lots of cash usage in India, and the demonetisation gave rise to new and updating technologies to be used as a medium for cash. The very first demonetisation in India which was in the year of 1946 did not affect the India much as we were still not an economy and were still dealing in paisa rather than in rupees.

The second demonetisation took place in the year 1978 with the aim of removing black money which got the notes of ₹1000, ₹5000 and ₹10,000 out of circulation and after some years lead to the rise of a new product called as plastic cards, which was widely accepted by the time passed till late 90's where plastic cards were been in the hands of every individual in metro cities and had less acceptance in the rural areas which took time to adapt and still working on the same.

The third demonetisation which took place in the recent years i.e. in the year 2016 on 8th November took out the circulation of ₹1000 and ₹500 notes and introduced the new notes of ₹2000 and ₹500, the process took a long time and did work for removal of black money at some extent which also introduced to the use of e-wallets/digital wallets in India and the extent of it had increased due to the regular updating of mobile phones i.e. Android, iOS and Windows too

The Application of digital wallets was started by usage of mobile phones which developed into smart phones from the year 2012-13. The smart phones captured the market by new and innovative technology used for entertainment and many other ways as individual used less and less of laptop/desktop at the same time and some reports also say the mobile market would eat up the desktop by the end of year 2030. The smart phones didn't have the spread till urban parts but also the rural parts of India as India was becoming technological savvy by time to time.

The usage of smart phones been understood by every individual in India also became an indicator for the rise of digital wallets in India as the need was been seen by some great key players of Fintech industry itself.

The Report prepared shows both the primary and secondary data answering what,how,when and where it lead to rise of digital wallets in India.

The Primary research consists of the questionnaires been given by the company i.e. Lyra networks pvt ltd. It shows the response of various industries towards the digital wallets of India. The response are been recorded in an excel sheet which will also be shared in the Report.

The data collected through report is been collected through various primary market research techniques that includes Survey over a phone call, Direct meetings to various companies and many more mediums were used for the research

The primary data includes data from every industry and also includes data from some of the named companies in India. This data includes about 10-15 questions which shows the issues faced by the companies in using digital wallets and much more

The Secondary research consists of various articles been posted on the famous newspapers and blogs which shows the upward trend of digital wallets in India due to various indicators and also shows many more reasons which led to rise of digital wallets in India.

The Research also includes a case study of Paytm the Company with the greatest customer base of the digital wallets consumption in India. The case study shows the timeline of Paytm from the start till the current trend by Paytm and much more.

This Report defines the learnings about digital wallets but also helped us in various ways by how and where to target the company to carry out the primary market research of the need and also to find out the functioning of this part of Fintech industry, which is in current trend having not only products of digital wallets but payment gateway and many more.

The learnings during internship are been noted and been very much helpful in making of this report which will be always remembered and be a part of my forthcoming career.

Chapter 1: Digital Wallets in India

1.1: Introduction to Fintech

India, The country with a population of more than 1.3 billion always finds a new business and tries to succeed with new modes of reaching to consumers. Which in case of Industrial appearance of E-commerce build new ways for consumers to buy and sell online also brought up the market of Fintech products in the market.

Defination:

Fintech is the collaboration finance and technology which is been upgraded by handling of transactional operations. It is the modern Financial solution been brought up and absorbed by India due to some indicators. It first started by making its appearance in the banking industry, which has been expanded to insurance and many other industrial sectors till this time. By using Machine Learning, Fintech companies try to analyse customer expectations and try to meet them by responding to the needs, this creates customised supply to the customers by forecasting demand.

The Evolution:

For a high liquid assisted economy like India's, the first major shift towards electronic way of managing money began in the early 90's with the introduction of Electronic Fund Transfers. People gradually opened up to adapting Fintech services in their daily lives. Eventually, mobile phones and the internet started to replace liquid assisted financial transactions. This activated the shift to a more advanced and fast-paced economy. Now, new business propositions are emerging from the growth of Fintech.

Fintech Success in India:

Banks have been actively supporting technology platforms such as e-wallets from the very beginning. As they provide smoother back-end operations and customer-friendly services. Some banks are taking it even further by strategically aligning with start-up Fintech organizations to provide better financial services.

In a developing nation like India that encourages innovation, Fintech startups have a great market for expansive growth. Start-up companies are

paving the way and creating initiatives towards digitizing India. With the recent demonetization that encouraged citizens to go cashless, the digital movement has transformed into a reality.

It is very hard to keep up with the rapid technological changes taking place in a financial industry. However, the Indian Government has not only kept pace but has also created an initiative called 'Startup India' and has provided a dedicated fund of \$1.5 billion to support upcoming and innovative Indian startups.

One of the example is UPI, Unified Payment Interface, which is a system set up by the Government of India. UPI channels multiple banks accounts into a single mobile interface in an attempt to unify the people towards the cashless India. Further, the National Payments Corporation of India is soon going to launch UPI 2.0 with certain changes according to the Indians needs and wants.

Impact of Fintech:

The growth of Fintech has changed the aspect of loan processing too. While lending used to be limited to banks and credit unions, now Fintech companies are also extending loans to consumers with the ability to provide personal loans, mortgages, business lines of credit, etc. has taken Fintech to the another level. Now, market-based lending platforms are upto developing technology solutions online to simplify lending procedures, both for individuals and for businesses.

The Challenges:

Data security is one of the major issues within the Fintech industry. With digitization, confidentiality of data is exposed to increased levels of risk. Protection has to be the topmost priority to make sure that customer information is not vulnerable to cybercrime.

Customer trust is also a problem that Fintech companies will need to overcome. The main challenge is to build the trust required for consumers to look beyond their traditional mindset. This will encourage them to change the way they have always been using the financial services.

Regulations could act as a threat to the innovation that the Fintech segment thrives on. The more conditioned the rules are, the more difficult it will be to create value out of advanced technology. However, if implemented the right

way, rules can also help promote the way Fintech companies will function in India.

The Future:

Blockchain has made an entry into the market and shows a promising future, with other big players. Financial inclusion will now become a reality as technology will allow for integrated penetration into rural India. Per NASSCOM's report, by 2020, the Fintech industry is expected to grow by 1.7 times and be valued at approximately \$8 Billion.

1.2: Introduction to Digital wallets

A Digital Wallet refers to a service that lets us carry out monetary transactions electronically. Cashless payments for monetary transactions can be done through a Digital Wallet. A Digital Wallet can also be linked to the individual's bank account. India has seen a great increase in the number of digital wallet transactions. The nation is seen as slowly moving towards a cashless economy.

A digital wallet has two major components: one of which is software application and another is information storage. The software is responsible for security, encryption and the actual transaction. This software application is the main component which provides User Interface (UI) as well as safe and secure transactions capabilities. The software part is been covered by the client side. The other component, which stores the information, is actually a database which contains user's input information. The user information includes items such as billing address, shipping address and payment methods.

There is another type of digital wallet available, which is known as a server-side digital wallet. It is generally created by the organizations for users. These types of wallets are gaining popularity as they are more secure, efficient and provide added functionalities.

The digital wallet might need the individual's driver's license, health card, loyalty card and other identification documents stored over the phone. The credentials can be passed to a merchant's terminal wirelessly. Increasingly, digital wallets are being made not just for basic financial transactions but also to check the holder's credentials. For example, a digital wallet could verify the age of the buyer to the store while purchasing alcohol.

Operations of Digital Wallets

To combat theft, simplify the finances, avoid being the "check-writing person", perhaps it's time for a wallet upgrade. For that, a person might consider the digital wallet. The term digital wallet is an umbrella descriptor for a range of technologies that lets us perform many tasks. In short, a digital wallet is a transformation in the way we pay for many things.

Many digital wallet services work through apps on the smartphone. At the supermarket, for example, a person might simply tap the phone to a compatible check-out register to pay instantly. For others, all a person need to use is something known, such as the mobile phone number and a code. No matter what form it takes, a digital wallet is based on encryption software that replaces the old, analog wallet during monetary transactions. A person benefits by the protection and convenience. Merchants benefit because they're more protected against fraud and they sell more products, faster.

A smartphone digital wallet will help to pay for stuff, and it will also store the concert tickets, bus and subway passes and gift cards too. Retailers will reward customer loyalty by offering instant freebies, discounts and coupons. A digital wallet could change the way a person would organize the finances and life in general.

We can differentiate the types of digital wallets into two broad categories: client-side and server-side. Within both categories are wallets that function only with specific vendors and others that will work with just about any merchant.

Client-side wallets generally refer to those maintained by consumers, the end user. Just download and install a program and then enter all of our pertinent payment and shipping information, all of which is stored on our own personal computer. Then, when a person decides to check out at a compatible Web site, our wallet's software completes most of the basic information so we don't have to. Suddenly, the impulsive online shopping constants get much faster and more expensive.

In a server-side wallet, the company supporting the digital wallet maintains our e-wallet account on their servers. An Individual doesn't have any physical plastic cards to lose, nor can anyone steal them, which is a benefit to the retailer, which would otherwise expect to deal with a significant amount of credit card fraud. Merchants generally prefer server-side wallets because they have a

greater degree of standardization. Client-side software, on the other hand, varies depending on the developer, and differences can result in frustrations for both buyers and sellers, which is why server-side wallets are gaining more steam.

Paying at home is one thing; paying on the go is quite another. It's easy to see how quick and easy checkout benefits a person being at his/her home or office computer. Doing the Christmas shopping from the desktop! A digital wallet spares our fingers from the constant repetition of typing the 16-digit credit card number. But a mobile digital wallet - that is, on our smartphone - could transform the way we pay no matter where we are. More than half of Indians now own smartphones, and experts say that number will only continue to rise. More and more of those phones are equipped with a near-field communication chip, which is a vital component to the mobile digital wallet infrastructure. It was estimated that around half of smartphones could have NFC by 2015.

Basically, NFC is a type of wireless communication with a short range of only a few centimetres. With regard to digital wallets, NFC means a person can pay for everything from fast food to check-point meters simply by tapping the phone to a compatible POS (point-of-sale) terminal and then entering the secret PIN. That's the way Google Wallet works. Google Wallet is one of the most prominent smartphone apps leveraging the power of NFC. All of the credit card data as well as loyalty and gift cards and all sorts of other data is stored on Google's servers and not on our phone. Wallet works online, too, much like PayPal or other wallet services. Just sign into the password-protected account and complete a purchase in seconds instead of minutes.

Right now, Google Wallet is the one NFC-based wallet system that's really making the inroads into the Indian market. That's because around 150,000 merchants have Wallet-ready payment kiosks. Without compatible systems, of course, merchants simply aren't equipped to process digital wallet payments. But other companies are trying to catch up. PhonePe Mobile Wallet is a direct competitor to Google and is supported by various wireless carriers

That's why some wallets are anti-NFC. PayPal, for example, now works at major stores such as Big Bazaar, Pepperfry and about a dozen others. After setting up of account online, to check out, we need to simply provide the mobile phone number and punch our PIN, and that new kitchen countertop or office chair is all ours. Regardless of the payment method involved, wallets still have

major hurdles to clear. The concerns that plague just about everyone considering trading their old cowhide wallet for one made of bits and bytes.

When it comes to unveiling digital wallets to consumers, two hot-button words always appear: security and privacy. It's easy for people to imagine all of the ways criminals could abuse digital wallets. Those digitally masked bad guys could hack into our account, spend away our life savings and run up our credit card balances. Or maybe they'd steal our identity. Concerns are heightened when we consider the complexity of a digital-wallet transaction, especially compared to the simplicity of cash or straight credit. In the case of a smartphone, our data passes through not only the smartphone's hardware and operating system but then also through a specific payment app, and finally, the source of the payment, such as our bank or PayPal account.

The more parties involved, the greater the chances that one of them could experience a security lapse on any given day. In spite of those potential problems, some experts say that the digital wallet concept is still superior to older payment methods. If we lose a load of cash! There is a chance of not getting it back. If the credit card is been stolen! And the thief ran up our tab at stores all over the place before we even realized it was missing.

Digital wallets, however, have redundant integrated protections. For both online and offline purchases, our digital wallet relies on digital certificates. Digital certificates are simply attachments to electronic correspondence that verify our identity and provide a way for a receiver to encode a reply.

What's more, smartphones with NFC have encrypted chips specifically designed for managing financial security. This so-called secure element does nothing but stores the data needed to initiate and complete a transaction. Even with the phone and our PIN, a hacker can't get at the data on that rigorously guarded chip. It's worth noting that NFC doesn't require battery power to function. NFC chips need so little energy that they operate by borrowing power from the magnetic field of NFC terminals. So if our phone's battery is completely dead, we may still be able to buy groceries and pay for a cab to get home.

The digital wallet wars are just heating up, and it's getting messy for companies and consumers alike. Major companies are falling all over themselves to get our digital wallet business. Household names such as Google, Visa, MasterCard and PayPal are thriving for the attention. All of these organizations are jockeying for the upper hand, in part by creating alliances with other corporate

giants. PayPal started with Amazon. Google Wallet first found love with MasterCard. It's all part of the plan to slowly worm their way into our life. They know that if they can convince us to use their form of wallet first, we will be unlikely to switch anytime soon

Yet in spite of their efforts, India and most of the rest of the world lag far behind Japan and South Korea in terms of digital wallet adoption. Understanding why is a simple matter of seeing just how story of the digital wallet has turned out to be.

From smartphone manufacturers and banks to credit card companies and wireless carriers, there are a lot of stakeholders in the digital wallet puzzle. All of them want a cut of the profits. And hardly anyone can agree to a business model that satisfies everyone. Some call this standoff as the "digital wallet wars." The intense competition creates an overcrowded and confusing digital wallet marketplace for consumers. No one knows how they're supposed to choose between Google Wallet, Phone Pe or any of the many other wallet options.

That's especially true for NFC-based wallets, because so few vendors are equipped to accept that form of payment. The obstacles to NFC, in addition to business model wrangling and no-holds-barred competition, mean it will be a while before an individual would ditch the old wallet in favour of a digital one. It will probably be, at minimum a decade before the digital wallet dream comes true. Until then, digital wallets could remain something of a novelty, and we will lug around our leather-bound wallet the way a person always have. It would be great to watch the corporate wars surrounding digital wallets, though because the outcome could determine the form of money a person would use for a long time to come.

Chapter 2: Key Players in Digital Wallets

2.1: Key Players in Digital wallets in India

Digital wallets in India are becoming a preferred way of making online payments as an individual won't have to enter debit or credit card details.

Actually, people are not comfortable and even feel scared to enter these details on phone apps. With additional security layers and ease of use, digital wallets make an ideal choice for anyone. Digital wallets in India are different from UPI (Unified Payments Interface). UPI and digital wallets are also going to benefit e-retailers that provide COD (Cash on Delivery) service to its customers.

List of Digital Wallets in India:-

1. Paytm

Paytm was founded in 2010 by Vijay Shekhar. It has a subscriber base of over 160+ million users. At present, Paytm is the largest and most preferred among the digital wallets in India that gained maximum popularity when demonetization move was announced by the government. It offers wide range of services like mobile & DTH recharge, electricity and phone bill payments, booking of train, bus, flight and movie tickets etc.

You can also pay money to other users using bar code or phone number. Paytm recently launched the service without internet that has made its services available to people who don't have a smartphone or internet connection.

2. BHIM App

BHIM (Bharat Interface for Money) is an easy and secure UPI app launched by NPCI (National Payments Corporation of India) backed by RBI. Bank account holders need to link the mobile number to their accounts as BHIM app works only with this registered mobile number.

You can send and receive money using VPA (Virtual Payment Address) without disclosing bank account details. With BHIM Aadhaar Pay, merchants can receive payments from customers over the counter by authenticating the biometric details (using fingerprint scanner) of a user with Aadhaar database. Merchants can download the related app of their bank on Google Play store to get registered.

3. Mobikwik

Founded in 2009 by young entrepreneurs Bipinpreet Singh and Upasana Takku, Mobikwik has 30+ million users and more than 1 lakh plus retailers. Recharge mobiles, DTH, pay landline, gas, electricity bills, easily make purchases using Mobikwik app.

4. Freecharge

This was launched in 2010 by Kunal Shah and Sandeep Tandon. You can make prepaid, postpaid, DTH, metro recharge and utility bill payments using Freecharge wallet app. It also allows you to make online and offline purchase. Its “Chat-n-Pay” service enables you to chat and pay friends, family and merchants in less than 5 minutes.

5. Google Pay

It's a new highly secure payment app launched by Google for India. Send money to friends and instantly receive money in your bank account using UPI. With Google Pay's Cash Mode, you can instantly send or receive payments to anyone nearby without sharing personal details like your phone number or bank account. Some online shopping sites are enabling payment using Google Pay feature to make checkout faster. You can also make money using Google Pay.

When you download Google Pay using some referral code and make first transaction of more than 150 rupees, you will make 51 rupees. With every transaction, you get chance to win upto Rs. 1000 and when you make transaction of Rs. 500 or more, you get a scratch card with a chance to win Rs. 100,000. You can send referral codes to as many friends as you want and keep earning. You can use this link to download Google Pay to earn your first 51 rupees.

6. Oxigen

Oxigen was founded in 2014 by Pramod Saxena to offer micropayment of services and remittances in real time. With 20 million customers, 15000 plus registered merchants and 500,000 plus retail outlets using oxigen, it has built a strong business in India.

It offers services like mobile/DTH /Data card recharges, bill payments, instant money transfers, online shopping and more.

7. ICICI Pockets

Pockets is a visa powered UPI enabled e-wallet of ICICI bank. It's not necessary to have ICICI bank account to use this app. Customers of other banks can also use this wallet to pay bills, shop anywhere, recharge mobiles and much

more. If you are an ICICI bank customer, you can login with your internet banking user id and password.

Users can also get physical card to shop anywhere offline or online. Its 'mVisa' and 'touch & pay' features make it unique and preferred wallet. See how 'touch and pay' feature works:

If you are ICICI bank customer, you can use its official mobile banking app iMobile as well.

8. PhonePe

Powered by Yes Bank, PhonePe is a UPI based app launched by Flipkart, a leading marketplace. You can make bank to bank payments by using mobile numbers or VPA (Virtual Payment Address). Also, recharge any prepaid Mobile/Datacard/DTH, pay postpaid landline, datacard and mobile bills, electricity, gas bills and more. You can also do shopping on Flipkart using PhonePe.

9. Jio Money

Jio payment app is the latest wallet launched by Reliance. It can be used by customers of any telecom service provider. You can download JioMoney from Google Play Store or Apple App Store.

If you buy Jio's LYF handset, you will be able to access JioMoney app with preloaded offers and discounts directly from merchants.

10. ABPB Wallet

Mobile wallet service offered by Aditya Birla Payments Bank was previously Idea Money. You can recharge mobile, DTH and data connections, make cashless shopping, send money to other ABPB users, make travel, hotel bookings and more. Idea mobile users can access wallet offline by dialling *400# and follow simple instructions.

11. Amazon Pay

Amazon Pay is a unique service offered by Amazon that enables you to pay while shopping online not only on Amazon but on third party websites as well, by using the payment information already stored with your Amazon Account. You don't need to re-enter your payment information.

To start using Amazon Pay, just open an account on Amazon. You will be automatically get registered for Amazon Pay, the first time you use it.

12. Vodafone M-Pesa

Recharge mobile, DTH and pay for many utility services with M-Pesa. It offers a unique service that helps users collect cash from nearby outlet when someone

transfers money in their wallet. This service is available across more than 1,20,000 outlets. Also, you get 5% cashback on your transactions.

13. HDFC PayZapp

Install app on your phone and link your debit or credit card to Payzapp to send money, shop online and offline, buy movie tickets and more. Get great discounts at SmartBuy, pay bills and recharge your mobile, DTH and data card. You can also compare and book flight tickets and hotels using this app.

14. Citrus Wallet

CitrusPay was launched in 2011 and has 21 million registered users and 8000+ merchants. Citrus is one of the leading payment gateways in India used by online merchants. Send and receive money using mobile number. Split your bills, share a cab and much more.

15. Citi MasterPass

Citi MasterPass is the first global wallet launched in India by Citibank and MasterCard in 2015 that enables Citibank India customers shop online worldwide. It stores your payment and shipping information in one place so you can shop and checkout faster on sites that display “Buy with MasterPass” button. You can add credit, debit or reloadable prepaid cards issued by MasterCard, Visa, Maestro, American Express, Diner’s Club and Discover.

16. TMW

Download TMW app on your mobile (presently available for Android). Use it for recharges, shopping, wallet and bank transfer, meal voucher and Bharat QR. You just need to create UPI ID for sending and receiving payments. When you send money, it is transferred instantly in the recipient’s bank account.

17. Airtel Money

Use Airtel Money to recharge mobile and DTH of all operators, pay postpaid & landline bills. Use for spas and shopping, to send & receive money from any Airtel Money customer, send money to any bank account via NEFT and more.

18. Ola Money

Download Ola Money app and make purchases with your money stored on Ola app for a seamless shopping experience. You can also avail offers from select partner sites like MyBusTickets using this app and pay postpaid mobile bills, mobile recharges, electricity bills, gas bills.

19. MomoeXpress

A Bengaluru based startup that was acquired by Shopclues, enables you to make payments at over 3000 outlets/ restaurants in Bengaluru and Pune without waiting for the bill. They have recently added Mobikwik, ICICI and Payzapp payment options as well. You can also use MomoXpress wallet where you need to make payments on phone.

20. Ezetap

Install Ezetap app on Android phone. After signing in, you will be prompted to install associated service app. Download that as well. This will enable you to pair Ezetap device with your phone. After this follow instructions to make transactions.

21. MoneyonMobile

Use your this app to recharge mobile phone, DTH, pay electricity, telephone bills, for online shopping, domestic transfers and more. MoneyonMobile is a smartphone and mobile SMS application.

22. Itz cash

This is India's leading phygital i.e. both physical and digital payments platform that issues prepaid cards for offline and online transactions. Now use Itz e-wallet to recharge mobile, DTH, pay electricity, gas, landline bills, transfer money and more. You can also recharge mobiles of friends in your contact list without entering the phone number.

The above data is the secondary research data which shows the mobile wallets key players in India, out of which some of them have been never heard of as it has less presence in this Industry. The secondary data shows the first come first serve basis been adopted by Paytm and have acquired great position in the market as compared to other competitors.

The Primary research data which is attached to this report shows that about 55-65% market is been acquired by the Paytm as a biggest player in the market while 5-7% of market is acquired by both Oxigen and Mobikwik Wallets while others include Payzapp by HDFC, Jio wallets, Airtel money etc. And the other 35-40% is been acquired by Phone Pe, G pay, BHIM and Amazon pay who are the upcoming digital wallets in India. The data collected includes all type of business mostly comprising of various MSME's.

The Data further elaboration shows that there is been various number of wallets been used by small and medium players as compared to the big players in India

i.e. Future Genrali, Fab Cars, Craftsvilla etc. The adoption by big companies includes mostly of Paytm, G Pay, UPI and Phone Pe. There is also been seen that there is a great amount of increase in Transactions by the top companies as compared to the MSME's which shows that there is been a difference of about 25-30% in the increase in transactions, while the cash transactions have also been decreased for all companies at the same rate of 15-18%. The Satisfaction level of the top digital wallets service is been rated as 4.2/5 in the whole primary study which makes them the Key players of digital wallet industry in India.

2.2: History of Digital wallets in India

This has been possible with the development of the internet, online payments began to operate first in the 1990s. Established of Stanford Federal Credit Union in 1994 was the first institution to offer online banking services to all its customers. In the starting, online payment system was not user-friendly and needed specialized knowledge of data transfer protocol. Individuals everywhere throughout the world began utilizing the inclining strategies when they embrace an arrangement of instalment for things that they need and need. Advancement is the characteristic slant to create and utilize frameworks to achieve practical answers for ordinary errands. The advancement of electronic payment frameworks takes after accessible innovation, which can achieve the alluring result of tolerating money in return for products.

Mobile wallets are finally getting traction after years of effort by players across the ecosystem. NFC penetration in merchant POS terminals and the leading mobile device manufacturers' integration of NFC functionality were the two catalysts for the development of the space. While the launch of NFC-enabled mobile wallets creates the opportunity for ubiquitous payment capabilities across merchants, closed-loop payment platforms, such as Starbucks' mobile payment capability, have been around for several years and have served as proofs of concept for the broader mobile wallet offering. Banks, device manufacturers or original equipment manufacturers (OEMs), mobile network operators (MNOs), merchants, and third-party providers are all competing in this fast-evolving space

Chapter 3: Rise of Digital Wallets in India

3.1: Indicators for Rise of Digital Wallets in India & Their Current Trends

"The total volume of retail electronic payments witnessed about nine-fold increase over the last five years," says RBI Governor Shaktikanta Das had said in his keynote address at NITI Aayog's FinTech Conclave in March 2019. The future of the sector is likely to be far rosier. According to a new ASSOCHAM-PwC India study, India's digital payments transaction value is projected to more than double to \$135.2 billion (Rs 9.44 lakh crore) in 2023 from \$64.8 billion this year.

"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 per cent," said the study. This, in fact, is ahead of China's growth rate of 18.5 per cent and 8.6 per cent for the US, albeit on a smaller base. Moreover, in the next four years, India's share of worldwide transaction value of digital payments is set to increase from 1.56 per cent to 2.02 per cent.

Demonitization's Impact on Rise of Digital Wallets in India.

The growth trends in Digital Payments over the past seven years are discussed. As mentioned in the note on data sources there are two official sources on Digital Payments. They are RBI and MeitY, both of which are relevant and important. The narrative on the growth trends which covers the period from 2011-12 to 2017-18 is presented separately for both the data sources. The analysis covers the trends over the years 2011-12 to 2015-16 i.e. Years preceding demonetization and compares the growth trends over the last two years i.e. 2016-17 and 2017-18 which is the post demonetization period.

Volume – Overall Growth Performance (MeitY Data)

The volume of overall payments steadily increased over the period 2011-12 to 2015-16, recording a compound average annual growth rate (CAGR) of over 58.9 per cent. The rate of growth in volume of overall payments further accelerated to 104.4% per cent in 2017-18. The growth in 2017-18 is spectacular and could be attributed to development of innovative digital payments platform such as BHIM-UPI, BHIM Aadhaar and Bharat QR Code. It

is noteworthy that the growth in 2017-18 is much higher than the trend growth rate over the last five years (2011-2016).

Volume – Overall Growth Performance (RBI)

The volume of overall payments steadily increased over the period 2011-12 to 2015-16, recording a compound average annual growth rate (CAGR) of over 28.4 per cent. The volume of overall payments accelerated by over 56 per cent in 2016-17. However, rate of growth in volume was of the order of 44.6 per cent in 2017-18. There is a clear surge in 2016-17 (Growth rate of 56%) and subsequent moderation in the growth (Growth rate of 44.6%) in 2017-18. Notwithstanding this it is noteworthy that the growth in 2017-18 is much higher than the trend growth rate over the last five years (2011-2016).

This trend in the digital payments growth has also been accompanied by the rising currency in circulation after demonetization. The outstanding stock of currency in circulation which hovered around 12 per cent of GDP during 2011-12 to 2015-16, declined to 8.8 per cent during 2016-17, reflecting the impact of the demonetization. But as per data of RBI available in April 2018 this trend has reversed as the outstanding stock of currency in circulation has climbed back to 11.3 per cent of GDP.

The demonetization of specified bank notes effected in early November 2016 as also the series of measures announced by the Government and the RBI to promote the movement from cash to non-cash modes of transactions, impacted the volume and value of payments systems.

Volume The year-on-year (y-o-y) growth of digital payments in 2017-18 was of the order of 44.6% which was nearly double the CAGR growth in volume for the period 2011-2016.

Instrument Wise Growth Trends :

Transactions relating to IMPS, PPI and Debit card had exhibited growth rates in triple digits in the year 2016-17. This growth trend however has slowed down in 2017-18 and all these instruments exhibited double digit growth.

UPI however has grown multi-fold in the year 2017-18 and touched 915.2 million transaction in 2017-18. This instrument had minimal presence in year 2016-17.

The volume of paper clearing had been persistently showing negative growth throughout the year 2017-18 compared to the positive growth in 2016-17.

NEFT volumes had showed an impressive increase in 2016-17. It continued to grow in 2017-18 albeit a slower pace.

The total value of payments in 2016-17 Rs. 2258780.5 (Billion). This increased to Rs. 2527539.2 (Billion) by registering a growth of 11.9% in 2017-18. This growth in 2017-18 was less than half of the growth rate achieved in 2016-17 which was 31.1%. The trend growth of value for the years 2011-16 was however 12.7%.

Attractive Offers and Discounts offered by Digital Wallets in India

India is witnessing an exponential growth in the area of digital payment in recent times. With ever-increasing internet and mobile penetration, the country is all set to witness a massive surge in the adoption of digital payments in the coming years. Furthermore, flagship government initiatives such as Digital India will act as key catalysts and enablers of this transformation.

The value proposition of a mobile wallet is not about the payment, but the value-added services that can be offered across a mobile-enabled environment. No one wants to be left behind in this race of accumulating 'customer' and in a competitive environment, they all are coming out with attractive offers and discounts. Million-dollar investments are being pumped into the mobile payments industry. The industry of mobile wallet has too much to promise on the outside, which has caused many public companies' valuations to be inflated. Some companies are also actively investing in mobile payment startups that could have strategic value for them. Investors too are pumping huge amounts of money into startups that aren't even close to profitable. Putting money into something is easy but the tricky part is getting the value out of it

For any new entrant thinking of venturing into this market, unless the business model is strong enough, it will eventually be a loss-making proposition. And even though new entrants may acquire customers owing to the large customer base in our country; these questions remain: With so many deep-pocket players in the market, how will it continue to attract customers. To the investors, blindly pumping money into a new venture without much experience will only

over-crowd the already crowded market, and further decrease their chances of profiting, if at all.

Hopefully, with the launch of Phone Pe and Google Wallet in the country, and their deciding to support barcode and app-based payments as well, all the commotion will fall into place and the payment at most of the merchants will be streamlined and standardised, leading to a better life for customers.

After the sudden high of cashless payments triggered by demonetisation of high-value currency notes a year ago, there has been a decline in mobile wallet transactions lately. For example, according to Reserve Bank of India (RBI) data, there was a three per cent dip in the number of transactions using prepaid payment instruments, which include mobile wallets, in August 2017 (261.1 million) compared to July 2017 (270.2 million). As the Indian mobile wallet market, projected by Capgemini to grow to \$4.4 billion by 2020, gets more crowded, service providers are looking at innovation and tie-ups to stay ahead of competition.

For Paytm, India's leading mobile payments company, some of the significant product launches this year have included Paytm Inbox (a messaging platform that allows money transfer) and Paytm BHIM UPI (unified payments interface). The rationale behind the new products, says senior vice-president Deepak Abbot, is to allow users multiple payment options and enable them to transfer money seamlessly. On which Abbot says "We are focused on driving aggressive product innovation using our app. Most recently, we upgraded our Paytm QR scanner to read non-Paytm QR Codes generated using open standards. App security is of paramount importance to us, and we have introduced crucial security measures like fingerprint lock and app password to ensure our customers' money is safe at all times," adding the app has also been enabled in 10 regional languages to aid customers and local shopkeepers.

While demonetisation came as a boon for Paytm, as it emerged as an enabler for millions of consumers and merchants post-November 8, 2016, Abbot asserts that once they appreciated its convenience, the number of repeat transactions per user on the platform has risen consistently even as cash was back in the system. "Paytm" has become a verb in common parlance and is considered the primary alternative to cash, which reflects the trust the company has earned, he adds.

MobiKwik has forged a string of partnerships this year. In August, BSNL went digital by launching a bespoke mobile wallet developed and issued by MobiKwik. Recently, the company has partnered with Bajaj Finserv Ltd. to develop an EMI wallet through which customers can avail of credits and loans. MobiKwik has also developed India's first auto-load wallet for IndusInd Bank's 13 million-plus customers. "MobiKwik has identified partnerships as its growth strategy. They would help us realise aspirations of the masses looking for an array of financial services in a single platform," says co-founder Upasana Taku. She adds that over 78 per cent of Mobikwik users are millennials who find value in paying digitally.

Prior to demonetisation, the number of transactions on Mobikwik stood at 35 million, which has now touched 66 million. Its frequency for active users grew by 110 per cent and gross merchandise value grew to \$2 billion. While the value of transactions on mobile wallets fell from Rs 84 billion in January 2017 to Rs 72.6 billion in August 2017, as per RBI data, and major players like Paytm and MobiKwik have been registering losses, growth opportunities remain.

Experts suggest companies can differentiate themselves by coming up with new capabilities that are innovative and address challenges. D D Mishra, research director, Gartner India, points out that the adoption of mobile wallets needs to be increased and the competition is with cash, not other companies. "Mobile wallets should rethink their strategies to make usage more convenient than cash. Lack of trust, lack of awareness and education, lack of Internet penetration, additional surcharge on payments, lack of bank accounts and the comfort of using cash are some of the barriers they need to overcome. Innovation and partnerships can solve some of the problems but evolving a larger ecosystem towards adoption is another thing. Hence, the scope of innovation should extend towards driving social change," he adds. In the payments industry, large players are showing more and more interest, as India has a lot of untapped opportunities. "Given the size of the opportunity and the government's commitment towards digital transactions, it is but obvious that it will attract some of the large players such as Google, Amazon and Flipkart," says Mishra, adding that the investments required should be more in order to tap those opportunities as cashless payments pick up.

Introduction of UPI

UPI transactions surged to about 405 million in September, up nearly 70% from about 235.65 million in July and 165% from about 151 million at the beginning of this year, show data shared by the RBI and the National Payments Corporation of India, which runs UPI.

Digital wallet transactions dropped to 320 million in July — the latest month for which data is available — from about 326 million in January. Nearly 90% of the transactions on UPI and digital wallets are small-value peer-to-peer fund transfers, as per industry estimates.

Debit card payments through point-of-sale terminals, or card reading machines a good indicator of the adoption of digital payments for merchant transactions increased to 366 million in July 2018 from 301 million in January 2018, RBI data show.

Chapter 4: Marketing Strategies by Digital Wallets in India

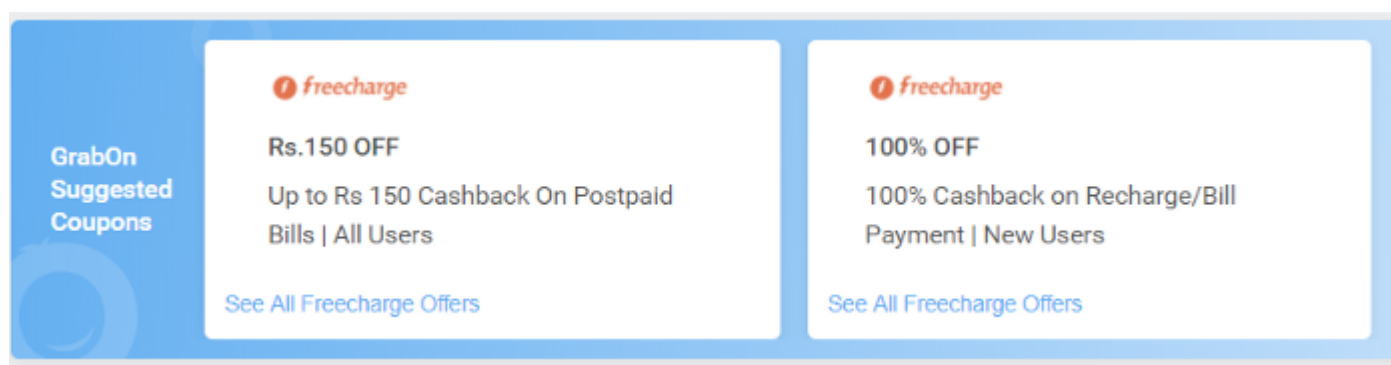
4.1: Growth hacks used

To develop the ecosystem and compete with other major players within the markets, mobile wallets utilized these below mentioned methods.

Cashback to new and existing customers

This is still the most effective marketing technique that is being used by all mobile wallets to acquire new customers and ensure repeat customers.

Customers are encouraged to sign-up and come back and in return certain % of the total transaction value is credited back to mobile wallets. There was a great amount of increase in customer retention which was offered by digital wallet companies as an advertisement also as an USP for the Paytm - the first upcoming digital wallet brand, which started by giving cashbacks on every transaction made by the consumer, whether it be Utility or any Purchase on E-commerce or any of the bookings for the movie tickets. This promotion method attracted more and more consumers for the usage of digital wallets in India. The same marketing strategy is been used by the various upcoming Competitors i.e. Amazon Pay, G Pay, Mobikwik etc.



Partnering with others

Since there is a lot of overlap in terms of target customers of many startup's that have been successfully running in India and their customers have been using their services very frequently, lot of times mobile wallet companies tie up with them to ensure high repeat customer rates for them and lowering the customer acquisition costs on marketing by giving extra discounts or cashback. Due to this increase many digital wallet companies started to acquire or merge their services to become the Alpha in the current market, the biggest example of that could be the acquiring of Freecharge by Axis Bank. As banks play a key role in the digital wallets processing of transaction. The banks merging and acquiring the digital wallets have been seen a great increase, Also the banks have also came up with the wallets of their own as they have already established as a brand in India.



Use of social media and online marketing to promote product and offers

Use of social media platforms to connect with the target customer group who is an extensive user of social media platforms like Twitter and Facebook and content heavy strategy to engage customers has helped major players reach out to “Innovators” and “Early adopters” who have helped in increasing the their customer base. As acceptance of smart phones took a great rise in India from the year 2011-12. The usage of phones to socialize also increased and with the help of various social media platforms like Facebook, Instagram, Google+ etc

showed a great rise in the acceptance of new technologies in the market out of which was the acceptance of digital wallets in India, which had a boom after a certain time due to paid and organic advertisement on social media platforms by the key players in India. The great increase was also due to the word of mouth which was been socialized by various celebrities, influencers and general public as well. This great acceptance been socialized by the public figures also led to acceptance of digital wallets in India.