



DIGITAL PAYMENTS TAKE OFF IN INDIA

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SUMMARY

On November 8, Prime Minister Narendra Modi announced that at the stroke of midnight, currency notes of Rs. 500 and Rs. 1,000 denominations would cease to be legal tender.

Following the announcement, digital payments through credit and debit cards as well as digital wallets have accelerated, and the government is continuing its push to decrease cash payments in the economy.

- The government has announced incentives including waiving service taxes on digital payments, discounts on purchases (petrol, railway tickets, highway tolls), and more.
- Over 12.6 trillion rupees (\$185 billion) have been deposited into bank accounts since the government's announcement on November 8.
- GDP growth is expected to suffer in the short-run, according to [S&P and Moody's](#).
- Shortage of card-reading machines has been a boon for mobile payments companies.
- The Reserve Bank of India has waived off two-factor authentication requirements to transactions valued under Rs. 2,000.
- The Finance Ministry has announced plans to make all payments above Rs. 5,000 by government departments to contracts via electronic payments.
- A [high-level committee of chief ministers](#) has been formed to develop a roadmap for increased use of digital payments in the economy.
- The government is working on an upgraded Unified Payments Interface for banks to increase ease of use and security across the network.

ABOUT ASG

Albright Stonebridge Group (ASG) is a leading global business strategy firm. We help clients understand and successfully navigate the economic, political, and social landscape in international markets. ASG's worldwide team of commercial diplomats has served clients in more than 110 countries.

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EXPONENTIAL GROWTH IN DIGITAL AND ELECTRONIC PAYMENTS SECTOR

India's nascent digital payments sector, estimated to reach US\$ 500 billion in annual transactions by 2020, will emerge as the clear winner. This is already happening across the country's economy. While India's e-commerce sector currently relies on cash-on-delivery (COD) for over 60 percent of all transactions, [the latest data from SnapDeal](#), India's largest e-commerce marketplace, shows that almost 75 percent of purchases were made using digital payments. Merchants in India have reported that they are struggling to make credit and debit card payments as there have been shortages of card reading machines. Porush Singh, South Asia division president for MasterCard recently said that "Banks used to get 1,000 orders a day, but are now up to 4,000 or 5,000, and normally they wouldn't maintain a very high stock."

DIGITAL PAYMENTS COMPANIES HAVE SEEN A RAPID UPTICK IN TRANSACTIONS VOLUMES IN RECENT WEEKS.

Prime Minister Modi and his government have made it a priority to use the demonetization campaign as an opportunity to usher in a digital payments revolution in the country. The government has rolled out a number of measures to facilitate adoption, including waiving the requirement of two-factor authentication for transactions in excess of Rs. 2,000. The central government will also bear the cost of the transaction fees and merchant discount rates (MDR) – charges that are levied on customers with each card transaction. When announcing these measures, Finance Minister Arun Jaitley commented that "the government wants to increase the pace of this switchover."

Government-owned petroleum companies are offering 0.75 per cent discount on sale price to consumers on purchase of petrol and diesel for customers that use digital payments for their purchases. The demonetization effort has already boosted digital transactions for these purchases, with cash transactions of Rs. 360 crore per day shifting to digital payments.

PayTM and other digital payments start-ups have seen their customer base grow exponentially since the November 8 announcement. PayTM CEO Vijay Shekhar recently said that the company has added over 10 million users. FreeCharge, PayTM's competitor owned by SnapDeal, has seen its customer base grow by fourteen times since the announcement. The growth has attracted new entrants to the market with Mukesh Ambani's Reliance Jio launching JioMoney as another digital payments solution for consumers.

This trend is set to continue in the coming weeks and months. A number of announcements have already been made to encourage adoption of digital payments. There is also talk of levying transaction costs on cash transactions to further incentivize the transition. The current payments infrastructure and [security framework](#) is not built to handle a pronounced increase in digital transactions. The increased demand for these services, however, makes India's digital payments industry the most attractive in the world. The liquidity crunch and the top-down push to reduce the economy's dependence on cash means that market dynamics and policy guidelines will align to ensure the successful development of a cashless economy.

ASG's South Asia Practice has extensive experience helping clients navigate markets across the region. For questions or to arrange a follow-up conversation please contact [Uzair Younus](#).

