Mobile Payment Landscape 2016

Growth Engine for Digital Payments

Foreword – Mobile Payment Landscape

- Mobile Payments mode of delivery – current and future
- Consumer approach and comfort and adaptability of the value chain
- New Entrants, some big companies, large multinational, telcos, Banks and disruptive OTT startups and their role
- Which part of the value chain will dominate and players best placed to make money from mobile payments?
- Overall market developing and also asked them to provide the benefit for their experience and opinions on key topics
- We surveyed 1000 users across various demographics and economic class, including people in jobs, housemakers, retired professionals, college students etc.
- The insights they provided gives a fascinating snapshot of an industry in transition, with all parts of the business represented
- However Business models are in churn and value chain players all across are evaluating their options and thinking their need to evolve their business plans to stay ahead of the competition

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Executive Summary - Indian Mobile Payment (M-Payment) market is in explosive growth phase

- **Market Overview**
  - Mobile Banking transaction grew by 4000% in value terms and over 500% in volume terms from 2012 to 2015
  - Indian Wallet Transactions over the last 3 years, volume & Value, have grown by over 500% to Reach USD 551 MN and 2.6 Bn respectively in 2015
  - However nearly 95% of all transactions are cash based signaling huge opportunity
  - Fickle loyalty , hence Deals, Discounts and Cash backs offered to attract users
  - Recharge e-commerce are the biggest revenue generator
  - Migrants are being targeted for remittance , while youth, professionals and business persons are riding the m-commerce boom
  - Three Pillar of growth: Value Proposition, Distribution, Partnerships & Tie-ups
  - The current economics and ROI for M-Wallet services are attractive for existing as well as new players
- **Drivers**
  - Favorable, digitally aware Demography
  - Convenience
  - Deals, Discounts and incentives
  - M-Commerce
  - Smartphone growth and Usage
  - Transactions
- **Competitive Analysis**
  - Hyper competitive market
  - Fintech companies (Paytm, Oxigen etc.) rule the market in terms of centrality and distinctiveness.
  - Telcos are focused on remittances and money transfers form a small user base
  - Financial services players are late adopters and slow to market
  - Mobile payments are following the m-commerce growth curve, however ROIs and valuations will be under stress in 2016 and beyond

Executive Summary

- **Government Initiatives**
  - Government is trying to break the cash cycle
  - Government incentivizing digital payment and esp. mobile payment and JAM* usage for subsidy transfer
  - Path breaking regulations on JAM, Payment banks, BBPS, UPI etc.
  - Subsidy transfer using wallet will be a game changer for digital payment esp mobile payments/ wallet payments

- **Business Models**
  - Two types of business models are emerging,

  a. based on ownership which is dominant today

  b. Based on services.
  - As the ownership structures blur we will see services based business model take up prominence

- **Technology trends**
  - Online / offline integration using Card readers, Virtual cards, PoS, non internet based payment, MST, Sound pay, QR codes
  - UPI/ Interoperability
  - Authentication using biometrics
  - Social Payments using social apps
  - Better fraud detection techniques

- **Risks and Challenges**
  - Cash Economy
  - Infrastructure challenges
  - Lack of education
  - Threat to m-wallets after UPI
  - Frauds: Increasing security breaches in wallets
  - Money in wallets does not give interest
  - Dependency on online retailers
  - Sustainacne now depends majorly on diversification
  - BBPS may make merchant acquisition irrelevant

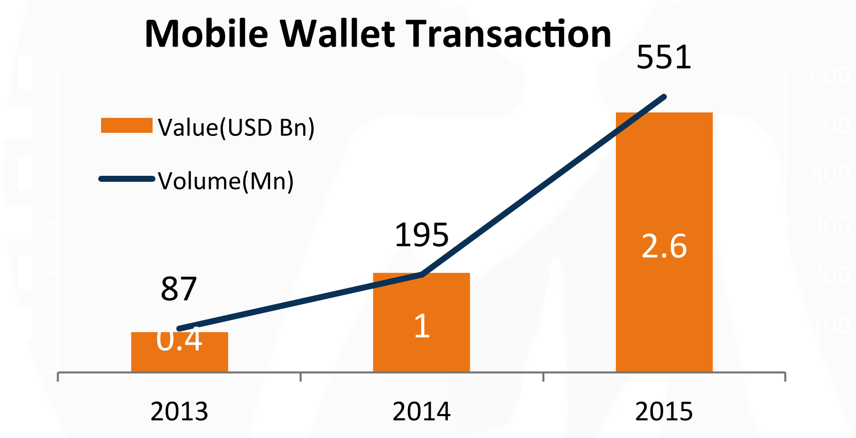
Statement of Work (Table of Content)

- Executive Summary
- Trends
- Overview
    - Cash cycle
    - Mobile payments
    - Growth of m-Banking and m-Wallet
    - Need, & Value Chain
    - Classification of mobile payments
    - Drivers and Restraints
    - Evolving Business Models (KPI)
- Drivers and Restraints
    - Evolving Business Models
    - Payment Banks
    - Security and Solutions
- Regulatory overview and Trends
    - BBPS
    - UPI
    - Payment Banks etc.
- Supply side trends
- Segmentation
- Demand Side Trends
    - B2C: Consumers Behavior, no of users, transactions over various platforms, vendor loyalty, switching probability, ease of accessibility
    - Detailed Consumer study(sample size 1000)
    - B2B: Enterprise adoptions / Opportunities
- Go To Market Strategy
- Competitor Profiling
- Security & Solutions
- Future outlook
    - Market Forecasts (2016-22)
- Definitions and Abbreviations
- Research Methodology

Over the last 3 years m-Wallet Volume and Value have grown by over 500%

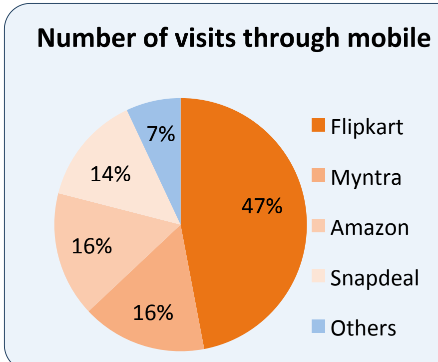
m-Wallet

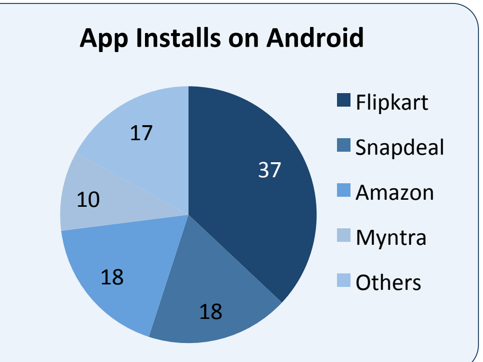
- Average Ticket size of wallet transaction is about USD 5
- Transactions from Oct 14 to Oct 15 have grown by 120% to INR 15 Bn
- While total volumes have grown by 127% during the same period
- Per transaction value of mobile banking (INR 950) is 32 times compared to m-Wallet transaction (INR 30)
- Banked transaction growth shows appetite for m-transaction, indicating a sizeable opportunity for Mobile Payments over the next few years
- Unbanked users can also transact using mobile (m-wallet),USSD, WAP Portal, Kiosk etc..
- Proximity transactions Involving contactless solution (like NFC, sound pay, MST) and involve stored value or may be linked to a bank

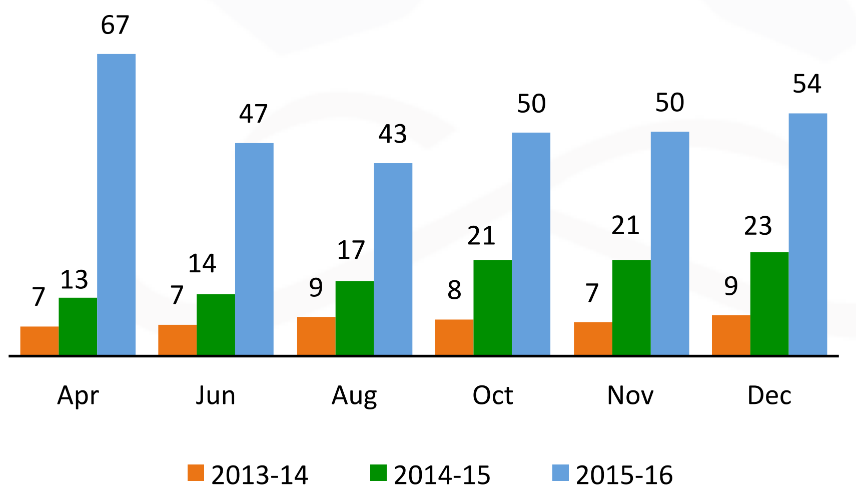


m-Commerce

- Flipkart transactions from mobile have grown to 70% in July 2015 from 15% in July 2014
- Expansion in 3G and 4G networks will only add to growth of m-commerce especially in Tier 2 and Tier 3 cities







Need for Mobile Payments

Need

Government

- Challenges with Cash
    - “Cost of Cash in India”2015 report estimates cost of managing cash in India is USD 3.5 Bn pa
    - Parallel economy
    - Tracking transactions for revenue generation is difficult

Customer

- Convenience
    - 24x7 Availability of currency, payment sand transfers
    - Incompetent banking infrastructure
    - Banking reach is limited
- Better offers, deals & discounts

Merchant

- Opportunities
    - Reduction in lost sales
    - Reduced processing time
- Cost Effective
    - Government might extend subsidy on infrastructure / devices for digital Payments

Providers

- Technology
    - Increasing In-app payments
    - Mobile based financial transaction on rise
- Telco’s
    - Opportunity to upsell content services
- Bank
    - Increase number of transactions

Source: Monk Analysis ,Mastercard,, Livemint

Clarity Emerging for Various Stakeholders

Infrastructure

India is 2nd largest smart phone market in the world

Internet users will reach 319 Mn by June 2016

Affordable 3G & 4G

Over 1 Mn retailers accepting offline payments using wallets

Regulatory

Mobile Payment as a tool for Financial Inclusion:

Cost of Cash as the Primary factor for service selection

Incentivizing digital infrastructure

Positive Regulatory environment (UPI, BBPS, Payment Banks

Subscribers

Smartphones is an essential bouquet of service rather than a standalone product

App usage is Intense and encompass diverse purpose

India is comfortable being online

Wallet usage is a credible (ready to use, recommend and started to understand security issues)

Youth (18-24) and working segment driving Wallet adoption and usage

90-95% of transaction are happening offline while only 5 % are happening on digital platform

Competition

Merchant acquisition for Offline presence

Differentiation using technology on rise

Driving GMV and e-commerce integration or extending various financial services (payment banks etc..)

Cash backs, deals and discounts primary attractions

Targeting small payments (tickets, cabs, movie)

Three methods of offline payments – push, pull and tap & go method

Revenues

India's payment market in 2015 was worth ~USD 253.49 Bn & is growing by CAGR 12%

India is the largest currency producer & user after china

~73% of all purchases are done in cash

Branch banking is declining by 7%

m-wallets Enabling Offline Payments

Currently services are free for customers, only merchants have to pay 1-2% transaction fee to wallet providers

Source : Primary Discussions, Monk Analysis

Categories of Wallets

Wallets

On the basis of nature

Open	Semi Closed	Closed
Wallets in which money can be loaded and withdrawn	Wallets in which money can be loaded and can be used for paying at multiple places but can't be withdrawn	Wallets in which money can be loaded or comes in by refund or return & can only be used at the company's store only
Example:- Banks Wallets	Example:-Paytm, Airtel Money, Vodafone m-pesa, Freecharge, Mobikwik etc..	Example:- Flipkart Wallet

On the basis of ownership

Banks	Telco's	Device	Technology
Wallets designed by banks for their customers, can be used for paying for multiple service	Wallets designed by Telco's for their subscribers, these can be used to avail variety of services	Wallets that are present in the hand held device itself	Wallets that are designed purely as a third party app or incorporated in an particular operating system
Example- SBI Buddy, ICICI Pockets	Examples:- Airtel Money, Vodafone M-Pesa	Examples:- Apple Pay	Example:- Paytm, Android pay

RBI is the overall regulator for Mobile payment forming guidelines along with TRAI

Regulatory Bodies

- The Payment & Settlement Systems Act (2007) empowers RBI to authorize & regulate entities operating payment systems in India
- Payment council of India (estb.-2013) - regulates non-banking payment companies under guidance of IAMAI
- Banks should ensure technology standards, interoperability, interbank clearing, settlement arrangements, grievance & redressal mechanism & transaction limits to ensure safe, secure transfer of funds
- Only Indian Rupee based services should be provided and All pre-paid payment instruments issued shall have a minimum validity period of 6 months from the date of activation/issuance to the holder

Key Acts and Laws

- Payment and Settlement System Act, 2007
- Indian Banking and Regulation Act, 1949
- Information Technology Act, 2000
- Board for regulation and supervision of payment settlement system regulations, 2008
- Payment and settlement system regulation, 2008

Mobile Banking Guidelines

Mobile Banking guidelines

- Banks can offer mobile based Banking service only to their own customers
- Banks should have a system of registration before commencing mobile based payment service to a customers
- Banks should issue a new mobile pin and provide 2 facto authentication to its mobile banking customers

Bank led model

- Mandatory for micro payments companies to tie up with banks
- All transactions must originate in one bank account and terminate in another bank account
- Banks licensed & supervised in India with physical presence are permitted to offer mobile payment services to Indian residents

KYC

- The services should be restricted to only to bank accounts/ credit card accounts in India which are KYC/ AML compliant

Technology & Security

- The Payment Card Industry Data Security Standard (PCI DSS) standards are applicable
- The Information Security Policy of the banks may be suitably updated and enforced to take care of the security controls required specially for mobile phone based delivery channel

Source : RBI, Monk Analysis

Cash Burn, Well Funded Players, Low Customer Loyalty and Intense Competition Marks the Industry

Low Bargaining Power for vendors

- Low bargaining power of suppliers as number of suppliers is increasing with the passing day
- Investor driven Consolidation in next 18 months
- Low differentiation

Threat of New Entrants

Threat from New Entrants

- Entry of well funded new Entrants
- Product differentiation and brand switching cost leading to margin pressures
- New Entrants with better discounts can increase cash burn

Bargaining Power of suppliers

Competition

Intense competition among vendors Low brand switching costs and low degree of differentiation among products has led to intense rivalry

Bargaining power of customers

Threat of Substitutes

- Cash Economy still strong
- Parallel Economy
- Traditional Banking is considered more secure hence can be a substitute
- Virtual Currencies

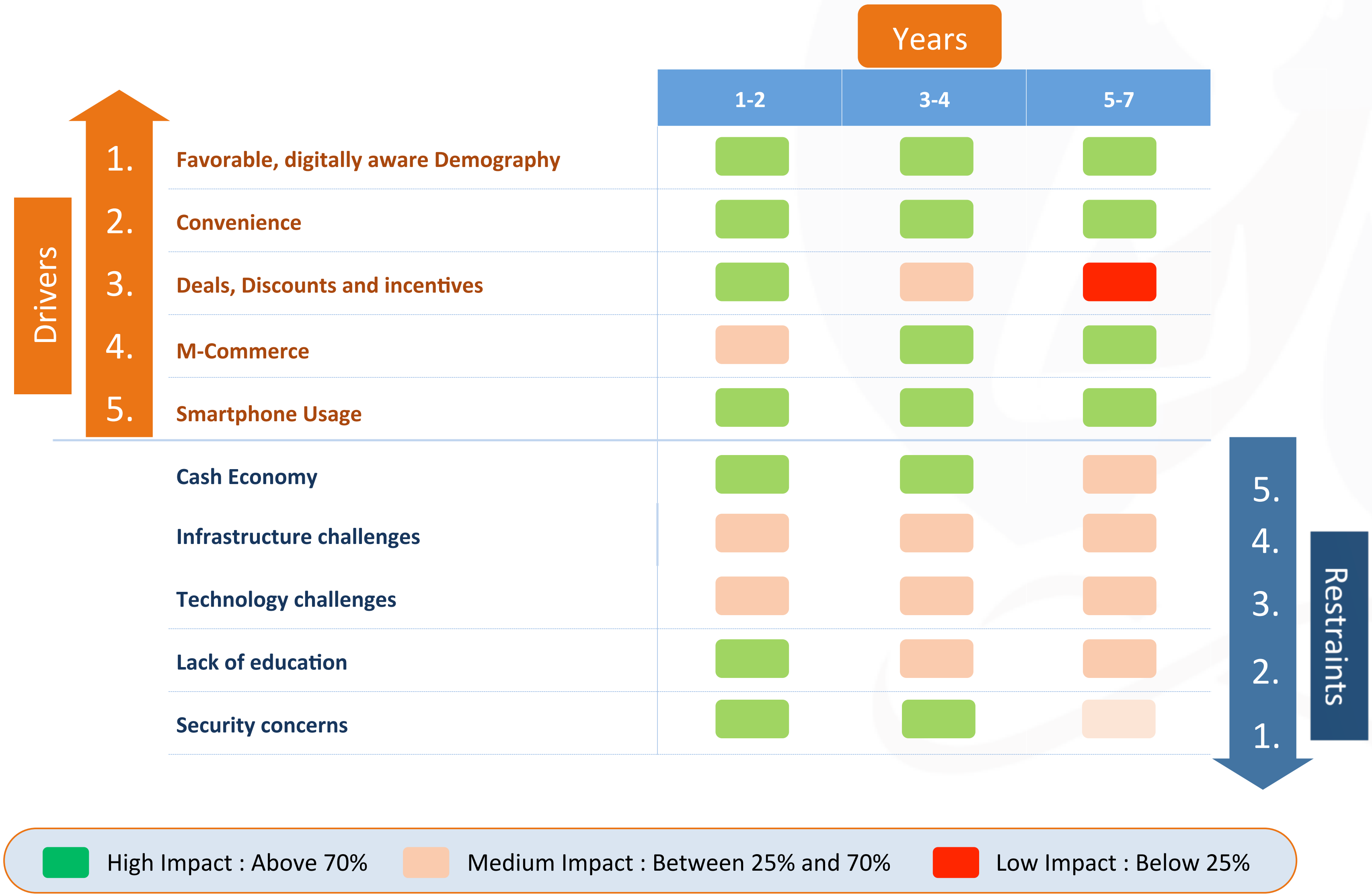
Threat of Substitutes

High Buyers bargaining power

- Buyer’s market, higher bargaining power of buyers, low switching costs
- Discounts, bargain and deals lead to higher retention costs and Low loyalty
- Low per unit transactions value
- Differential services and better segmentation key to success

Source : Primary Discussions, Monk Analysis

Drivers and Restraints of Mobile Payment Industry



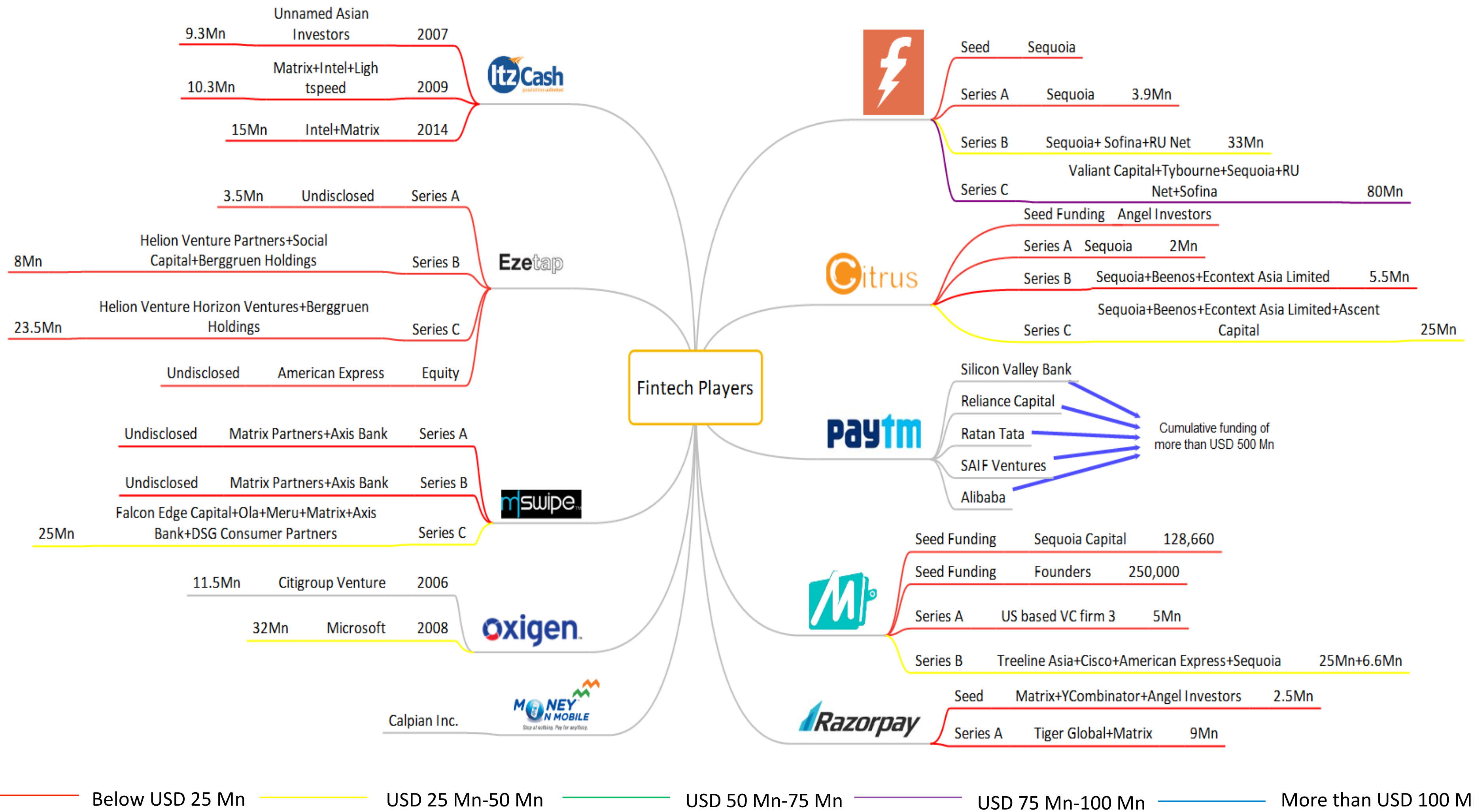
Source: Monk Analysis

Five Clear Business Models Emerging

Ownership Type	Channel	Services	Customer	Revenue
Telco Based (Airtel Money, Vodafone m-pesa)	Telecom Operator – Own Distribution / 3rd party channel partners.	They employ two types of model – Self help and BC model. They also act as BC of a Bank	Migrant Population	Transaction fee on remittance. Commission charged from the merchants
Bank Based (Axis lime, ICICI pockets & SBI buddy)	Direct and Unilateral channel	Recharges, bill payments and money transfer	Youth, Unbanked and captive users	Transaction fees
Device Based (apple pay and Samsung pay)	Own Distribution / 3rd party channel partners.	Developing their own device backed ecosystem	Youth, Unbanked and captive users	Transaction Fee
Fintech Based (Paytm, Oxigen, Freecharge, Mobikwik etc..)	Online and offline presence (through company owned retail stores)	Recharge, money transfer and Bill Payments, m-commerce, offline payment using PoS	Youth, upwardly mobile, professionals, business owners, and traders etc.	Transactions fees, registration fees and commission on money transfer. These companies also charge from merchants Every time a payment is made to them.
Assisted	Offline presence through outlet or Business Correspondents	Works as service aggregator/ facilitator. They club different services provided by different types of wallet and bring them on a single platform	unbanked population and migrants. They have strong hold at bottom of the pyramid	Commissions and Service Charges

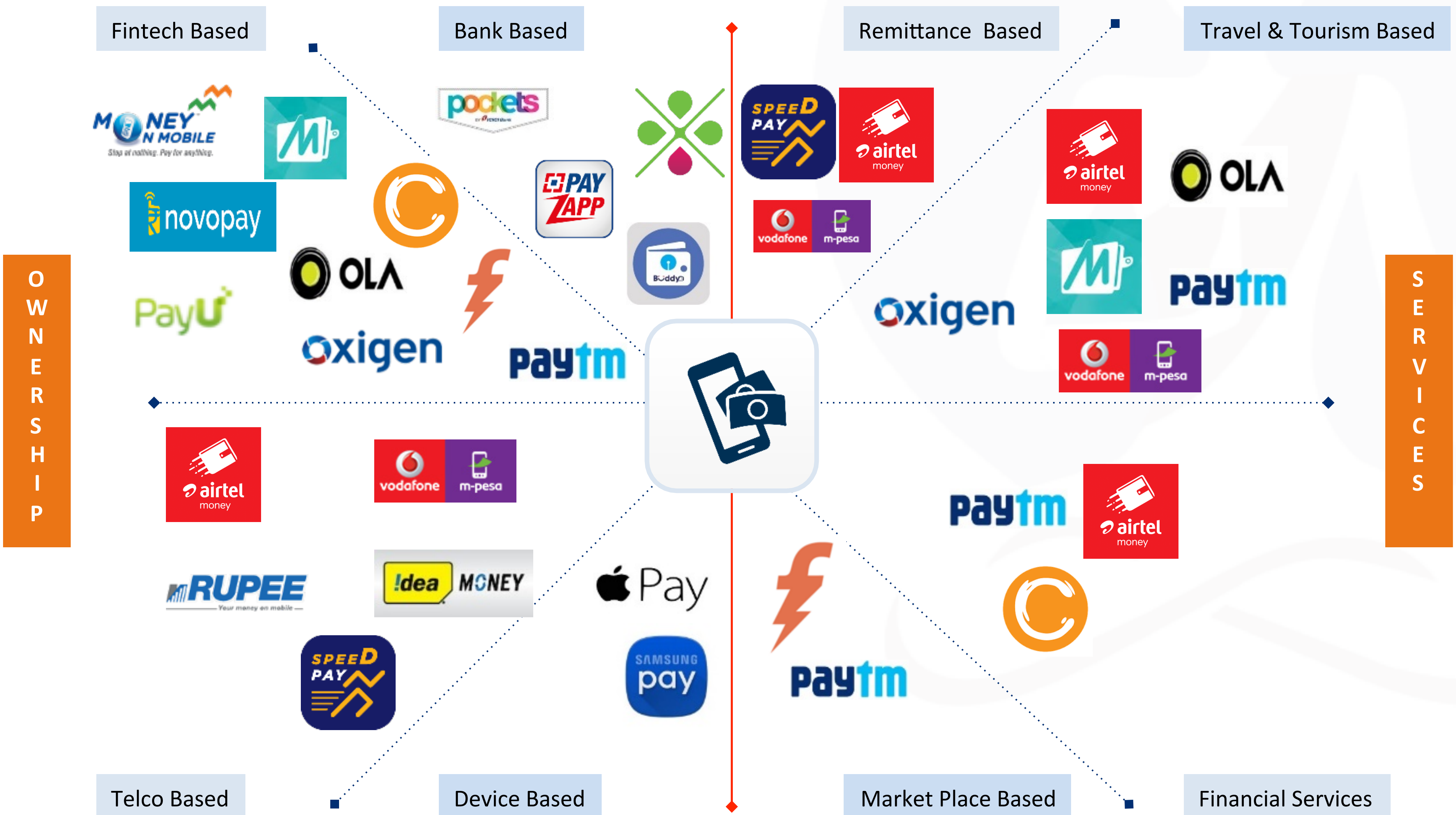
Source : Monk Analysis , Company Websites, Primary Discussions

Fintech are absorbing most of the investments coming into this sector



Source : News articles

Services will Define Future Business Models



Source: Monk Analysis

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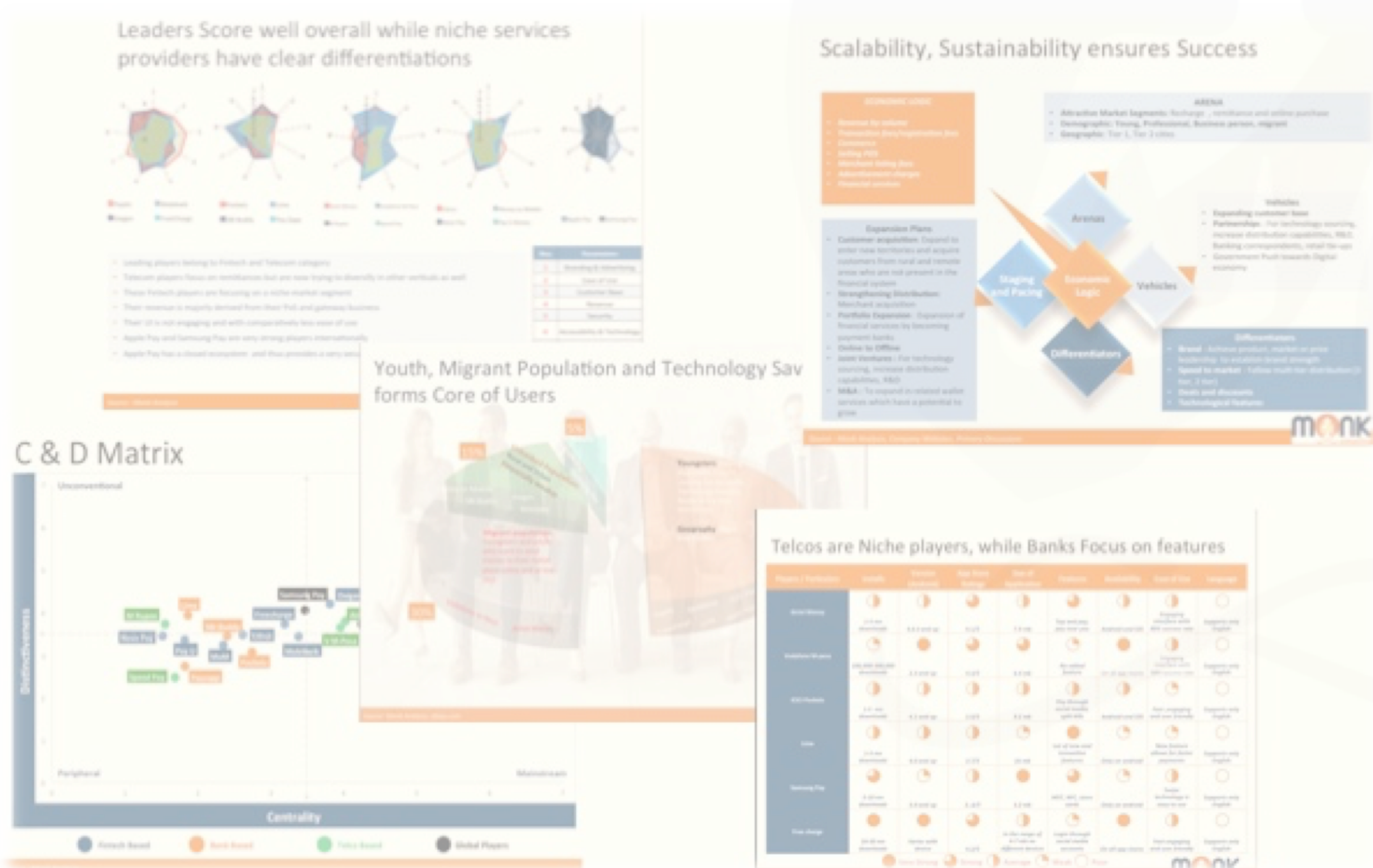
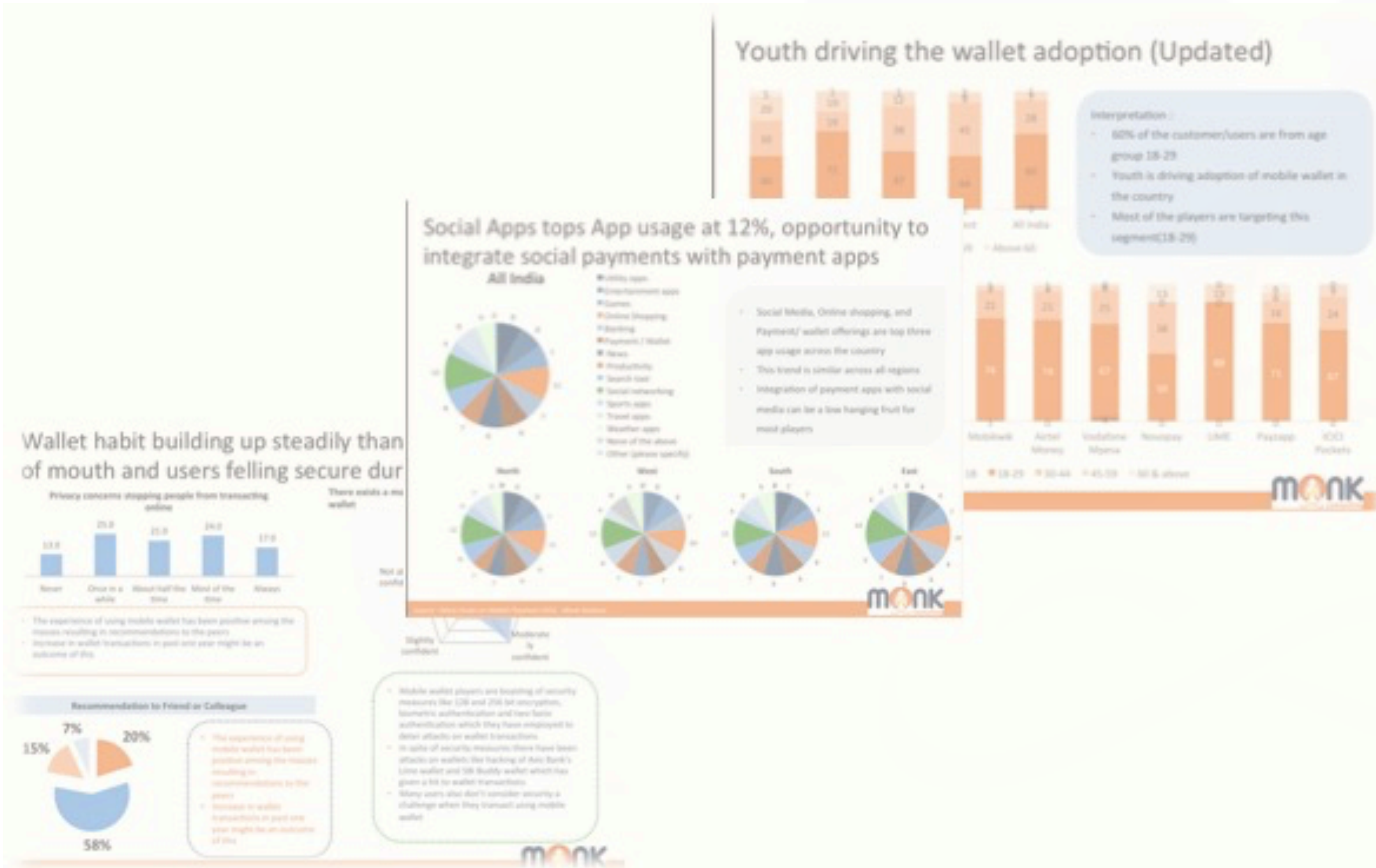
C & D Matrix

Source : Monk Analysis

Competitive Analysis based on detailed profiling of players

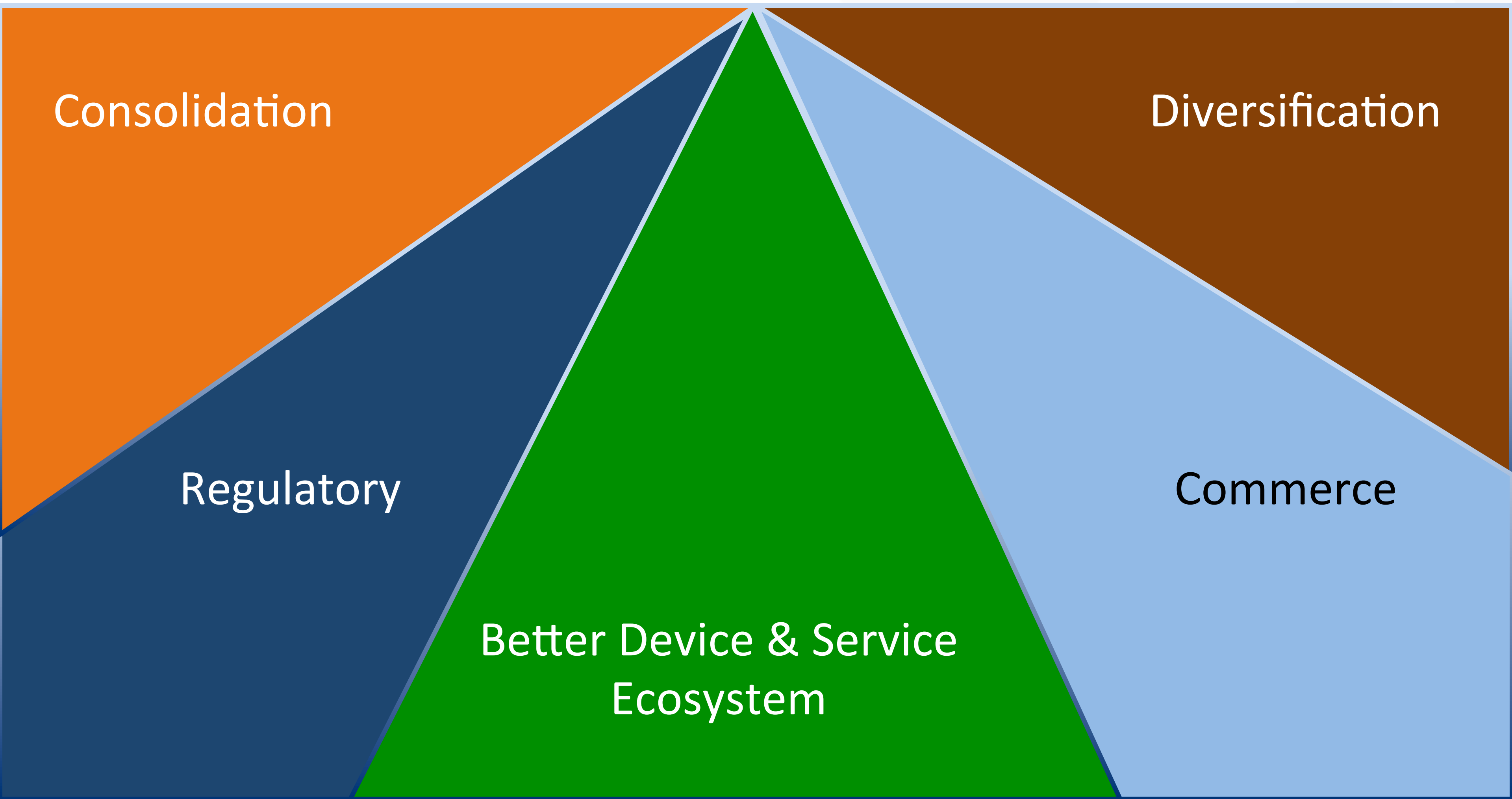


Consumer Study – sample size 1000, youth driving wallet adoption



Future Outlook- 5 point roadmap

2015 - 2022



Airtel Money
Vodafone m-Pesa
ICICI Pockets
Mobikwik
Lime
Paytm
Oxigen Wallet
Citrus Pay
NOVO Pay
Money on Mobile
Apple Pay
Samsung Pay
FreeCharge

COMPETITOR PROFILING

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- Monk consulting leverages speedy advise, high interactivity and locational flexibility
- We are based out of NCR region with registered office at Udaipur Rajasthan

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