INR 85,800 CRORE

DIGITAL MONEY

A DIGITAL PAYMENT INDUSTRY REPORT

May, 2014
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EXECUTIVE SUMMARY

The market size of payments made through digital means is **INR 85,800 Crore as of December 2013**. This does not include remittances. The modes used for making such payments are Credit/Debit card payments, payments through Net Banking and payments using Mobile Wallet, Pre-Paid Cash cards and Immediate Payment systems (IMPS) over the Internet. There has been a compounded annual growth rate (CAGR) of 10% since 2010 till December 2013 in payments made through digital means. It is expected that there will be a 40% growth in this fiscal year to reach **INR 120,120 Crore by Dec, 2014**. The growth will be mainly determined by factors like: ease of payment, growth in e-commerce industry, faster billing cycle and absence of logistical constraints in managing and transporting physical currency.

According to National Payments Corporation of India (NPCI) and Reserve Bank of India (RBI), approximately 800 Million transactions were carried out in the year 2013 through the digital mode. Of this, Net-banking payments comprise 44% of the total number of transactions, followed by Debit cards (32%) and Credit Cards (21%). The rest result from other payment methods like Immediate Payment Systems, Mobile wallet, Prepaid Cash cards etc.

Online travel is the most common purposes for which online transactions are carried by the users - it constitutes nearly 60% of the total value of transactions, followed by Financial services (23%) and e-Tailing (12%).
Almost 80% of the total transactions are undertaken through Desktop PCs or Laptops. Although the proportion of the transactions made through handheld devices like Mobile Phones and Tablet PCs are quite smaller than the Desktops and laptops, it is expected to go up till 30% mark by 2020.

Usage of online payments is predominantly high (70%) among the consumers. Business markets operate in a complex manner where the purchase process/Purchase cycle is longer and complicated than the consumer buying process and involves multiple stakeholders in the organization. Although, this trend is changing with Small & Medium Businesses in India undertaking their payment processes online as it facilitates cost reduction and improves ease of usage.
CURRENT MARKET SIZE OF THE ONLINE PAYMENT INDUSTRY

Current market size of online payment stands as INR 85,800 Crore with a CAGR (2010-2013) of 10%. Top two factors that are driving the growth of Digital payments are

- Increase in Penetration of Internet among the urban and rural India and
- Rapid growth of the e-Commerce in India Particularly in Online Travel and e-Tailing segments.

DIFFERENT MODES OF PAYMENT

Payment modes can easily be classified into – Cards (Debit/Credit), Net banking, Immediate Payment Systems (IMPS), Mobile Wallets, Pre-paid Cash Cards etc.

Out of around 800 Million online transactions made in 2013, nearly 53% of the transactions are made using Credit and Debit cards. The volume of online payments made through Credit cards is only 21% while Debit cards constitute 32% of the payments.

The reason for higher number of transactions made through Debit cards is due to the fact that the number of outstanding Debit cards (approx. 350 Million) is much higher than the credit cards (approx. 19 million)*.

In terms of value of transaction; an average value of payment using Credit cards is INR 1,400 which is thrice the size of a Debit card transaction (Average ticket size of which is INR 450). Net- Banking Transactions constitute 44% of the total volume of transactions. It includes e-Commerce transactions like Product purchase, ticket booking, electronic tax filing etc. Figures mentioned do not include non e-commerce Inter-bank fund transfers.

**PURPOSES TO PAY DIGITALLY**

Online traveling, financial services and e-tailing are the main purposes for which transactors use different modes of digital payments. Online travel industry which include air and train ticket bookings, hotel accommodations and tour packages contribute nearly 60% of the Digital payments followed by Financial services (comprising of online mobile recharge and DTH service, Online tax filing, Payment of Insurance premiums, Gas and electricity bills) and e-Tailing.

Digital Downloads (including downloads of eBooks, Music, Movies, etc.) and Other online services include websites for searching Jobs, Real estate and matrimony contribute 4% and 2% respectively.

**DEVICES USED FOR DIGITAL PAYMENTS**

Desktop PC & Laptops are commonly used for making online payments due to:
- **Better visibility:** Larger screen size provides better visibility while making payments and avoids mistakes while entering the details.

- **Better connectivity:** The Internet connections in Desktop PCs and Laptops usually are more stable than Mobile Internet connections.

- **Variety of services and applications:** There is a lack of handheld device friendly applications available through which payments can be made online.

At present, handheld devices are mainly used for mobile recharge and bill payments. Usage of Tablet PC and Smartphone may increase in the upcoming years as more applications are being developed in the financial services, e-Tailing and Online Travel space.

![Diagram of Devices used while making Payments Online]

<table>
<thead>
<tr>
<th>Device Used for Payment</th>
<th>Value of Transactions (INR Crore) - 2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Desktop PC / Laptops</td>
<td>68,640</td>
</tr>
<tr>
<td>Tablets / Mobile phones</td>
<td>17,160</td>
</tr>
</tbody>
</table>

*Source: In-depth Interview with Digital payment gateway players, December 2013*

**CONTRIBUTION OF DIFFERENT CITIES IN THE DIGITAL PAYMENT GATEWAY SPACE**

The contribution of Top 4 metros which include Delhi, Mumbai, Kolkata and Chennai is approximately 60% of the total Digital payment gateway market size. Next 4 metros - Bangalore, Hyderabad, Ahmedabad, Pune together contributes only 25% to the total market size. The rest of the cities in other town classes comprise the rest of the market size.
CONTRIBUTION: BUSINESS AND CONSUMER MARKETS

Among Business and Consumer markets, usage of Digital payments is predominantly high (70%) among the consumers.

Business markets operate in a complex manner where the Purchase process/Purchase cycle is longer and complicated than that of the consumer buying process and involves multiple stakeholders in the organization. However, this trend is changing with Small & Medium Businesses in India undertaking their payment processes online as it facilitates cost reduction and improving the productivity of commercial activities.
CHALLENGES FACED BY DIGITAL PAYMENT GATEWAY INDUSTRY

Growth comes with lots of hurdles in the road and online payment industry is not an exception to that. A CAGR of 10% also experiences a lot of regulatory and social challenges. Key challenges being the RBI regulatory & KYC norms, these are technical in nature and hinder the growth of the Digital Payments.

Also a significant portion of the population still lacks knowledge in making transactions using Debit/Credit Card, Net Banking and other online payment modes. This makes them more skeptical in making transactions online.

The Merchant-customer dispute is another issue that gets highlighted in many instances as there might be service related issues due to which customer gets disappointed and refrains from doing the purchase online.

Other challenges include the complex systems and authentication process, mature ecosystem of acceptance across touch points, business model is not remunerative for all the stakeholders to benefits are hindering the growth of the Digital Payment gateway industry.
ANNEXURE: STUDY METHODOLOGY

As a part of the study, IMRB International conducted comprehensive business interviews with the founders and senior executives of Digital payment gateway service providers in India. These interviews provided comprehensive insights perspective on opportunities and challenges in store for various stakeholders. The insights of different respondents are aggregated and further analyzed and reported.

These findings have been supported with secondary research, analysis and insights provided by I-Cube 2013, RBI and NPCI Digital Transaction data to determine and validate the market size estimation.

The contact details of the executives of the Digital Payment Gateway service providers are provided to IMRB International by IAMAI.
About Payment Council Of India (PCI)

The Payments Council of India (PCI) has been formed inter-alia for the purposes of representing the various regulated non-banking payment industry players to address and help resolve various industry level issues and barriers, which require industry level discussion and action. PCI would work with all its members to promote payment industry growth and to support our national goal of 'Cash to Less Cash Society' and 'Growth of Financial Inclusion' which is also Vision Shared by the RBI and Government of India. PCI would work closely with the regulators i.e. Reserve Bank of India (RBI), Finance Ministry and any similar government departments, bodies or Institution to make 'India a less cash society'. It is an affiliate of IAMAI.

The Internet and Mobile Association of India [IAMAI] is a young and vibrant association with ambitions of representing the entire gamut of digital businesses in India. It was established in 2004 by the leading online publishers, but in the last ten years has come to effectively address the challenges facing the digital and online industry including mobile content and services, online publishing, mobile advertising, online advertising, ecommerce and mobile & digital payments among others.

Ten years after its establishment, the association is still the only professional industry body representing the online and mobile VAS industry in India. The association is registered under the Societies Act and is a recognized charity in Maharashtra. With a membership of 160 plus Indian and MNC companies, and with offices in Delhi, Mumbai and Bengaluru, the association is well placed to work towards charting a growth path for the digital industry in India.

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About IMRB International and IAMAI

eTech Group | IMRB (a specialist unit of IMRB International) is a research based consultancy offering insights into IT, Internet, Telecom & Emerging Technology space.

Our continuous link with industry and a constant eye on the pulse of the consumer ensures that we can decode the movements of technology markets & consumers. To our clients we offer an understanding of the present market environment and a roadmap for the future.

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