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India banknote crunch raises profile of online payment groups



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 YESTERDAY Simon Mundy in Mumbai

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After more than three centuries of transacting almost entirely in cash, the merchants of Mumbai's Bazargate area late last year suddenly started displaying stickers on their shopfronts bearing the names of virtual mobile "wallets" such as Paytm and MobiKwik.

These digital payment companies moved quickly to sign up small merchants across India after the government's shock [removal](#) last November of high-value banknotes — 86 per cent of currency in circulation — which left citizens [struggling](#) to lay hands on cash for weeks afterwards.

A year on, however, most Bazargate shopkeepers say cash transactions are once again dominant, and some have stopped accepting smartphone-based digital payments altogether.

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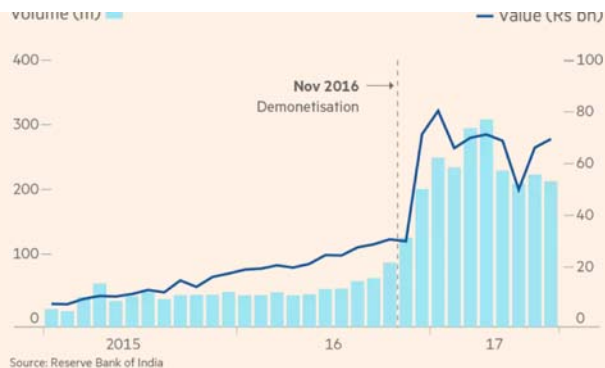
"I prefer Paytm — it means I don't have to handle cash," says Manoj Shah, 45, in his family's stationery shop. "But now it's come down to two or four transactions a month, from perhaps five a day [right] after demonetisation."

Signs that the growth of mobile money is stuttering have given ammunition to critics of Prime Minister Narendra Modi, who vowed that a shift away from cash would be a lasting legacy of his disruptive policy, boosting economic efficiency and tax transparency.

But while cash is once again king, many in the industry say demonetisation has given a significant long-term boost to [digital payments](#), by raising awareness among Indian consumers and forcing businesses to set up acceptance infrastructure.

"Some people may have moved back to cash but they still understand what this thing is," says Vijay Shekhar Sharma, founder of Paytm, India's biggest mobile wallet group with more than 200m users. "The biggest benefit [of demonetisation] was that every Indian citizen now knows what mobile payments is and how it can be done."

Mobile wallet usage



Transactions using mobile wallets were worth Rs72.6bn (\$1.1bn) in August, according to the latest central bank statistics, down from a peak of Rs83.5bn in January but still more than double the figure in the month before demonetisation.

“Demonetisation accelerated the adoption of digital money by at least three years,” says Bipin Preet Singh, co-founder of Paytm rival MobiKwik.

But it remains unclear how far this has boosted the wallet providers’ profitability. The latest financial figures from the unlisted companies show Paytm and MobiKwik recorded net losses of Rs15bn (\$248m) and Rs1.1bn, respectively, in the year to March 2016.

And while mobile wallets have spearheaded the growth of digital payments in India, their future seems increasingly uncertain as the government seeks to drive mobile transactions through a new state-backed platform.

Launched in August last year, the Unified Payments Interface enables money to be sent directly between accounts at different banks and eliminates the need for a separate virtual wallet.

The value of UPI transactions hit Rs70.6bn in October and is set to rise: Google and Indian ecommerce leader [Flipkart](#) have launched apps running on the system, and [Facebook](#)-owned messaging giant WhatsApp is preparing to [do the same](#).

Debit card usage at point of sale machines

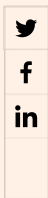


Paytm for its part is moving to fend off this new competition by adapting its system to support UPI payments and promoting a new banking service offering savings accounts. MobiKwik too has been shifting course, focusing on providing bespoke payment apps for large companies.

MobiKwik’s backers include Sequoia Capital and US tech group [Cisco](#), while Paytm’s investors have made it one of India’s most highly valued technology companies, backed by Chinese ecommerce giant Alibaba and Japan’s [SoftBank](#), which in May [bought a stake](#) of about 20 per cent for \$1.4bn.

Such valuations appear “bizarre”, says **Robin Raina**, chief executive of US-based financial technology group [Ebix](#), which has invested in several Indian tech companies. Wallet providers have tried to attract customers by offering “cash back” on transactions, a flawed tactic that will boost short-term usage without bringing long-term loyalty, he argues.

But there are broader signs of behavioural change, says Harshil Mathur, chief executive of Razorpay, which provides an online payment system for



some of India's leading web companies.

[Amazon](#) and its competitors were long forced to adopt the unusual practice of accepting cash payments on delivery for most orders in India. But since demonetisation, the share of cash on delivery for ecommerce orders has declined from roughly 65 per cent to 40 per cent, says Mr Mathur.

More traditional businesses, from private colleges to furniture-moving firms, also are turning to digital payments services as awareness of their speed and efficiency grows, Mr Mathur adds.

As momentum grows in Indian digital payments, banks are responding as well, slowing the pace of new branch openings and ATM installation.

"It's now incumbent on us to find ways to incentivise people to engage with us in a digital fashion, and to disincentivise people from dealing with us in cash or physical form," says Primit Jhaveri, chief executive of Citigroup's Indian business.

UPI reshapes the mould

Seven weeks after throwing India into turmoil last year with his shock demonetisation announcement, Prime Minister Narendra Modi appeared to offer a remedy for Indians struggling to secure cash: a government-backed mobile payments app.

The app runs on the state-created United Payments Interface, and enables users to set up a simple ID — for example, "xyz@upi" — that is linked with their bank account. Any funds sent to that ID are transferred directly to the account from that of the sender, at no cost and with no need for any further information. With all major banks now on board, a Citi account holder can seamlessly send money to, say, an Axis Bank or SBI user, and vice versa.

The government is allowing private companies to set up apps that give access to UPI. Unlike most other payment apps, the integration with users' bank accounts removes the need to transfer funds to and from a separate account for mobile payments. UPI also offers greater convenience than banks' own mobile apps that require users to input recipients' full bank account details in order to send money.

Leaders in India's financial industry have hailed the UPI platform as an area in which the country has forged ahead of most developed countries — few of which have a mobile payments platform that is integrated with all major banks. One exception is Sweden, where banks in 2012 launched Swish — an app enabling mobile payments between bank accounts that now claims to handle more than 25m transactions each month.

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