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Mobile Wallet Payments – The Next Big Wave in India

- 49% of the users in metro and tier 1 cities have an intent to use the mobile wallet services in the future, however in Mumbai and Delhi it is expected to be around 67% and 69% respectively
- 52% of the individuals are aware about Mobile Wallet payment in metros and tier 1 cities in India, however the awareness levels in Delhi and Mumbai are higher with 67% and 74% respectively
- Mobile Wallets are being used the most for Mobile recharge (67%), followed by online shopping and travel bookings
- 15% of the consumers have used wallet service in the past six months; PayTM is the most preferred service provider with 40% of consumers using the app followed by free charge and Airtel Money.

What is common thread among the business men, students, IT professionals, rural farmers and Kirana store owners? Smart phone. With more than 1billion telecom connections, the use of mobile as a platform to create access and incentivize usage of electronic payments will create a dent in the cash volume transactions.

The payments landscape in India is at a point of inflection. New business models and fresh thoughts to product design and delivery is needed to change the Indian payment habits. The product needs to be nimble, affordable technology and with the mobile handset as a channel of delivery of services. In India, where most of the population doesn't have credit and debit cards, the mobile phone is fast becoming a tool that acts as a catalyst for digital payment solution. After e-commerce, the digital and wallet payments will be the next big wave.

Indian economy is amongst the most cash-intensive economies in the world, with cash to GDP ratio of 12%. This is 3 to 4 times more than comparable economies like Brazil and South Africa. Almost 98% of consumer transactions are still cash based. This adds pressure on the government, in the form of the cost of managing this high cash dependence. RBI and commercial banks spends over 21,000 crores. This also creates inefficiencies in system in the form of black money, non-transparency etc.

In a bid to reduce cash transactions and promote payments through cards and digital means, the Government in the current budget has cleared a proposal to withdraw surcharges, service charges and convenience fees on cards and digital payments. This will also help the government plan to gradually reduce the size of unbanked population thereby bringing them under financial inclusion.

The value of India's mobile wallet transactions is expected to grow exponentially in the coming years to reach ~USD12bn by 2020 on the back of rising transactions in e-commerce, utility bill payments and other online transactions.

There are two business models. A mobile wallet company beyond traditional offerings can provide market place model as Paytm has done or else a mobile wallet can remain as a facilitator of secure payment partnering other e-commerce companies and retailers setting up a secure transaction. However, in case of the former, the challenge resides in signing up more online and offline retailers. The value proposition of a mobile wallet is not only about the payment, but instead about the services that can be offered across a mobile-enabled environment. Some mobile wallet providers are giving facilities to unbanked consumers to deposit money into their wallet through agents.

The financial institutions and e-commerce firms have realized the potential of mobile wallets in terms of business opportunity, consumer experience and loyalty. That is why each one of them is coming up with their own wallet e.g. SBI Buddy. E-commerce giants like Flipkart and Snapdeal have launched wallet payment through Flipkart money and Freecharge. Amazon is planning to launch digital wallet payment in this year.

The Reserve Bank granted 'in-principle' approval to 11 entities, including Reliance Industries, Aditya Birla Nuvo, Paytm, Vodafone, and Airtel, to set up payments banks. For cellular majors Airtel and Vodafone, the licensing will help them to make inroads in rural areas and play a bigger role in overall financial inclusion campaign promoted by the government of India. RBI's approval will bring new avenue for business and build stronger trust with a larger consumer base. Paytm has over 100 million wallet users, which is double that of Visa and Maestro penetration together (in India).

In recent years, wallet companies have increasingly formed collaborations with service providers and financial institutions to offer a robust and seamless mobile wallet platform to the users. Usage of mobile wallet is growing across various applications such as money or banking transactions, mobile recharge & bill payments, ticket bookings, utility applications, etc.

Wallet providers also save money by bundling transactions to get high volume discounts. In addition, mobile wallet companies operating in India are offering attractive deals and incentives to attract new users. It is to be noted that the consumer will get this discount over and above the discount being offered by the vendor site. This leads to the alarming trend of downloading the apps just to avail discounts and cashbacks. Currently all these companies are focusing on increasing their brand awareness and vying to increase their business size through new customer acquisition. To promote discounts, companies rely on advertising on television and other mass media such as print and radio.

According to a recent Ipsos study conducted across 6 cities covering metros and Tier 1 towns, product awareness was noticed highest in Delhi, Mumbai and Bangalore. Paytm, Free charge and Airtel money were the top service providers used by the consumers.

Mobile recharge followed by online shopping and ticket booking were the major purpose for using the wallet payment. Chennai and Kolkata residents have booked tickets for entertainment like movies and plays.

Apart from value for money, ease of use, simple authentication, faster processing time and security stood out as main reasons for using this service. Lack of product understanding and security concerns were main deterrents for the non-users.

A big opportunity does not come without any concerns. The problem areas are the same for all wallet companies' working on thin margins, controlling and preventing fraud while adding customers to widen the market share. Companies are experimenting on various options like face recognition, iris authentication, thumb print etc. to address the fraud and theft in the mobile wallet payment space.

So far, small and medium sized businesses have found their calling in this space, with bigger brands like Google, Airtel etc. still sitting on the fence. In the next 2-3 years we can expect some of these wallet payment companies set to join the Indian billion dollar unicorn club.

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