Owing to the significant growth in wireless networks, India has over 1 billion mobile users today. With rapid technological advancements, mobile phones are not being used merely as a communication device but as a personal computer, a data storage device, a navigation device and a virtual wallet.

In recent years, the mobile wallet space in India has witnessed remarkable growth due to the increase in money transfers through phones as well as specific person-to-merchant transactions like mobile recharges and transit payments. Today, mobile subscribers across the country are using their mobile phones to send, receive and spend money.

For users, ease of use, reliability and security have been the biggest drivers for the adoption of mobile wallets. Currently, no documentation such as know your customer (KYC) is required for transactions up to Rs 10,000 in the case of semi-closed wallets. Further, one-click payments add to user convenience and save time. There are also a large number of discounts and cash-back offers for customers, which motivate them to use these wallets. A mobile wallet is typically used for person-to-merchant transfers, bill payments, utility payments, mobile and DTH recharges, media and entertainment, toll and transit and online shopping.

Several companies have explored this space owing to the low capex and opex associated with this business as compared to the conventional money transaction business. Wallet providers have to make marginal investments for issuance and acceptance infrastructure, as they do not have to incur additional expenditure on issuing plastic cards or on establishing physical point-of-sale terminals. Further, there are hardly any renewal, replacement or settlement costs involved. Wallet providers often deploy different technologies, wherein service access is possible through multiple channels, such as SMS, mobile applications, internet/GPRS and USSD. Most importantly, there is a readily available market comprising 1,000 million plus-mobile subscribers, who are potential mobile wallet users, a highly lucrative option.

Market composition and characteristics

Currently, several companies including pure-play mobile wallet companies, telecom operators, financial institutions, banks and e-commerce companies are operating in this market. In the pure-play segment, Paytm, MobiKwik, Oxigen, Citrus, mRupee and freecharge are some of the key players. In fact, Paytm has over 100 million wallet users, which is double the penetration of Visa and Maestro combined in India.

Telecom operators have also come out with digital wallets and are offering the mobile money service as a value-added offering. They allow prepaid top-ups and purchase of digital content through their billing platforms. As of the quarter ended June 30, 2016, Bharti Airtel had 8.6 million Airtel Money users while Idea had over 3.4 million prepaid payment instrument (PPI) customers. Meanwhile, Vodafone India's M-Pesa had 1.3 million active customers as of end-March 2016. Tata Teleservices Limited also offers mobile wallet services under the brand name mRUPEE. Recently, Reliance Jio Infocomm Limited has also launched its digital wallet service, JioMoney wallet. Besides offering money storage and transfer features offered by other wallets, the company is also aiming to target offline merchants to adopt wallet technology to accept payments. The company has already tied up with 50,000 online merchants for the service.

In addition, banks, e-commerce and lifestyle merchants have been active in this space and have come up with their own wallets such as SBI Buddy, ICICI Pocket, RBL Shmart, Axis Lime, HDFC Chillr and Citi Masterpass. BookMyShow and Flipkart have also launched their own wallets for user convenience.

Growth drivers

Technological advancements have been the biggest growth driver for the mobile wallet market in India. User-friendly smartphone applications, faster mobile connectivity and advanced devices have enhanced the user experience while making mobile payment transactions. Today, m-wallets can be accessed through various technologies including interactive voice response, SMS, GPRS, wireless application protocol, USSD and 3G.

Wireless penetration in India has shown unprecedented growth and currently stands at over 80 per cent. With over 220 million smartphone users, the country is turning out to be a lucrative market for mobile wallet companies.

Further, the flourishing e-commerce business is acting as a growth catalyst for the mobile wallet market. Online merchants and aggregators are increasingly driving growth in the wallet acceptance infrastructure. This is evident from recurring transactions under categories like bill payments, transit, grocery, travel and entertainment.

The Reserve Bank of India (RBI) has also been providing adequate regulatory support. It has enhanced the balance limit in semi-closed wallets from Rs 50,000 to Rs 100,000. In addition, the go-ahead has been given for a pilot project to check the technical and operational feasibility of allowing cash payouts from mobile wallets of non-banking entities.

On the user front, the convenience associated with mobile wallets has been a major demand driver for such products. Single-click payments through mobile phones are convenient, especially for making payments such as for taxi rides and small-value fund transfers while on the go.

Leveraging opportunities

In order to achieve success and sustainability in a highly competitive market, mobile wallet companies would need to eventually shift their focus from being exclusively customer-driven to shareholder-driven and be product specific. To this end, companies can introduce “customer delight” offerings to differentiate themselves from their counterparts. This involves introducing value-added features such as spend/expense analysis, budgeting features, loyalty programmes, upcoming deals from highly frequented stores, and predictive suggestions on auxiliary items for recent purchases. Based on the consumer’s behaviour and transaction history, suggestions can be made for timely and customised purchases.

Secondly, these companies can drive customer engagement through a “one-stop shop” arrangement. This would include leveraging consumer behaviour to create use cases in segments such as media and entertainment, travel and insurance payments, and thus create a one-stop digital solution for a range of payments.

Moreover, strategic partnerships can help wallet companies to reduce costs and achieve higher efficiency. The number of transactions can increase through tie-ups with merchants.

In a bid to encourage the use of mobile wallets, companies should also develop ways to increase acceptance at offline stores, restaurants and niche e-commerce websites, thereby increasing the revenue per customer. New technologies such as near field communication

(NFC) must be explored to increase convenience.

Further, mobile wallet companies should keep diversifying to increase their competitiveness. They can provide customers with various offerings such as a marketplace with intuitive purchasing suggestions, a ready repository of deals from other platforms and cross-selling of financial products.

Challenges and the way forward

At present, one of the biggest challenges faced in the mobile wallet space is the presence of several players. The segment is hypercompetitive, which limits the market share per player. Around 50 entities including telecom operators, digital innovators, and payment service providers have a PPI licence from RBI. Early entrants in the market have significant advantage with a higher market share due to a large customer base. Moreover, the presence of too many players in the market has led to the emergence of the "one consumer many wallets" phenomenon. This has made achieving customer stickiness and loyalty extremely difficult. Apart from low customer retention, the number of active users on any given wallet currently is not very significant. Only about 40 per cent of wallet owners are active on different applications.

Profit margins are not sufficient to cover the high costs involved in tying up with merchants and retaining customers. Given the highly competitive nature of the market, it is not possible to charge the customer for transactions.

There are huge gaps in acceptance infrastructure development. Acceptance infrastructure as is prevalent in the physical world has not caught up with the virtual wallet payment mode. In addition, lack of interoperability is a key issue. Currently, there is no interoperability among different wallets, unlike ATMs. Further, current strategies largely revolve around quick acquisition targeted at well-defined customer segments. The KYC norms mandated by RBI also act as a hindrance for business to business payments where the large size of the transaction typically exceeds the set limit.

Going forward, it is important to overcome barriers to drive growth in this space. Mobile payments are also helping tap the rural markets without significant capital investments. Identification of best practices, exploration of sustainable business models and continued engagement with regulators are crucial to create an enabling environment for mobile wallet adoption in India.

Based on a presentation by Abhinav Dasgupta, Principal Consultant, Payments Transformation, PwC India at a tele.net conference