Digital Payments: A critical driver to unlock inclusive growth

Adoption of digital payments by merchants and low-income consumers

Expanded access to financial services like savings, credit and insurance

Deep and lasting socio-economic transformation
Accelerating Financial Inclusion through digital payments

Catalyst is an operational initiative to expand consumer to merchant digital payments in India, especially among low and middle income populations using an ecosystem approach engaging government and private sector partners seeded by an alliance between Government of India & USAID housed in IFMR Lead with a multi-locational presence in Delhi, Mumbai, Chennai & Bangalore
Evolution

Nov’15- Aug ‘16

Financial Behavior Assessment

- Research insights on merchant and consumer behavior and adoption barriers for digital payment
- Pilots to meet credit needs using alternative lending solutions

Launch of “Catalyst”

Oct 2016

Starting Jan 2017

Geography-based Digital Payment Labs

- Geography centric ecosystem to incubate key business solutions and policies
- Design and implement coordinated interventions for ‘last-mile’ solutions using rapid iterative cycles

Large Scale Transformation

Starting early 2018

- Pan-India expansion through replicable implementation template
An Unprecedented Opportunity
to move the needle

The Indian Payments landscape is at an inflection point given two tectonic forces and a rapidly growing base of smartphone and internet users.

**Technology**
Introduction of open, interoperable platform technologies such as Aadhaar, Unified Payments Interface, and the "India Stack" with a layer of innovative apps above.

**Policy**
Step change in government & regulatory activism with initiatives like Jan Dhan Yojana, Direct Benefit Transfers, Small Finance and Payment Banks to promote democratization of finance.
Arun Kumar
31 Years old
Fruit seller
Mumbai

Does Arun have a Rupay card?

☑ Does it have money on it?

☑ Does he use it to pay local merchants?
  • Bus transit?
  • Water/ power/ cable bills?
  • Food & groceries?
  • Household consumables?
  • Clothes?

☒ Do local merchants accept card payments?

☒ Do local merchants pay their suppliers digitally?
Last mile payments connectivity is broken due to fragmentation of stakeholder incentives. An *ecosystem approach* requires:

1. Funding source digital accounts (from which consumers can pay digitally)
2. Engaging consumers to (actively and repeatedly) use digital accounts
3. Powering large scale merchant acceptance (to create enough use cases for consumers to pay digitally)
4. Digitizing merchant supply chains (so merchants are willing to accept digitally from consumers)
Digital Payments Ecosystem

FUNDING SOURCES
- Reinforce PMJDY, DBT
- Digitize daily wage earner payments
- Bundle voice plus salary accounts for informal employers
- Increase deposit points

ENGAGING CONSUMERS
- Financial services
- Priority use cases (Utilities, Transit, FPS, Health, Ed.)
- MFI digitization
- Incentives (e.g. rewards, SFA)
- Contextual products and interfaces
- Trust and trialability

ENABLING MERCHANTS
- Digital credit enablement
- Value added service bundles
- Niche solutions
- Business models for low trial cost
- Merchant financial literacy
- Incentives (KYC, tax, MDR waiver)
- Formalization and taxes

DIGITIZING SUPPLY CHAIN
- Supply chain automation aggregators
- Digital credit models
- Large brand “pull”
Priority **Use-cases and Solutions**

<table>
<thead>
<tr>
<th>Payment Type</th>
<th>Use-case</th>
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<tbody>
<tr>
<td>P2G</td>
<td>Public Transit</td>
</tr>
<tr>
<td></td>
<td>Public Distribution Services</td>
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<tr>
<td></td>
<td>Utility payments</td>
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<tr>
<td></td>
<td>Education sector</td>
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<tr>
<td></td>
<td>Healthcare</td>
</tr>
<tr>
<td>P2M</td>
<td>Kirana Store establishments</td>
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<tr>
<td></td>
<td>Gas Stations</td>
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<tr>
<td></td>
<td>Mobile recharge outlets</td>
</tr>
<tr>
<td></td>
<td>Small retailers</td>
</tr>
<tr>
<td>B2B</td>
<td>Retailer to Supplier/Distributor</td>
</tr>
<tr>
<td>P2P</td>
<td>Remittances</td>
</tr>
<tr>
<td>MFI</td>
<td>Loan Disbursements</td>
</tr>
<tr>
<td></td>
<td>Repayments</td>
</tr>
<tr>
<td>B2P</td>
<td>Salaries</td>
</tr>
</tbody>
</table>

**Payment Solutions**

- Debit/Credit Card
- Unified Payment Interface (UPI)
- Aadhar Enabled Payment System (AEPS)
- m-Wallets
- USSD
- Prepaid cards

**Incentives**
- Extending credit (loans) based on transaction history
- Induce additional savings (Cashback, rewards, discounts, etc.)
- Innovative distribution
- Demand creation models
- Digitising Supply Chain Management
- Savings and Investments

**Policy Drivers**
- MDR related regulation, waivers
- Acquirer incentives
- Tax Rebates linked to digital payments
- Surcharge ban
- Easy KYC, SFA for small ticket sizes
- Imposed limits on cash transactions
- Other relevant policy recommendations
An Ecosystem Approach
to test, validate & scale

1. Define an Ecosystem
Identifying representative geographies comprised of merchants, consumers, distributors, local government and service providers agencies that routinely transact with each other

2. Design & Test a Portfolio of Market-Driven Solutions
Validating components of an end to end solution, including technologies, product interfaces, business models, distribution tactics, demand creation strategies

3. Influence Policy
Designing and recommending evidence-based policies, regulatory incentives to facilitate digital payments

4. Scale & Transform
Replicating implementation templates based on successful rollout of digital payments by leveraging strategic partnerships & government programs
**Success:** an affordable, sustainable, scalable template for ecosystem digitization

**Merchant digitization:**
Number and % of merchants adopting digital payments, digital share of sales, improvement in merchant experience (NPS), Increased access to economic resources (e.g., credit, sales/profit growth)

**Consumer digitization:**
Number and % of consumers adopting digital payments (of total), digital share of wallet, improvement in consumer experience (NPS); efficiency gains (e.g., time savings, convenience, ease of use); access to economic resources (e.g., credit, income)

**Targeted Ecosystem:**
Incremental transaction volume digitized (#, $, % of total), average transaction size, number of players enrolled within an ecosystem (e.g., utility provider, schools, local govt. agencies), number of project locations, number of partners/service providers part of Catalyst, scale and performance issues

**Inclusiveness:**
% of active merchants with significant low-income/marginalized consumer base, % of active consumers that are low-income/marginalized, female participation rates

**Level of Policy influence:**
Number of policy experiments conducted, Number / quality of policies and regulations influenced, and their intended impact

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Digital Payment Lab

iterative quick learning pilots

6 – 8 month Pilot cycles

2 digital labs planned

Coordinated Pilots
- Tech Products
- Business Models
- Policy/Regulation
- Distribution Mechanisms
- Operation Design
- Demand Creation

Pilots are executed using rapid iterative experimentation methodology

DESIGN
- Pilot projects prioritization
- Need Assessment - Define use-cases and hypotheses to be tested
- Policy interventions to be tested
- Baseline & collect impact data
- Define ground level-operations

IMPLEMENT & TEST
- Execution of the pilots on-the-ground
- Monitoring & Evaluation of results with base-line data source
- Optimize and validate end-to-end model
- Document Learnings
What we bring to the table

**Thought Partnership**
- Strategic “ecosystem lens” to select portfolio of coordinated projects to move the needle
- Implementation partner to design end-to-end solutions, interfaces, and hypotheses to be tested on the ground

**Targeted funding**
- Incubation grants that solve for market failures (in collaboration with the “enlightened VC” community)
- USAID Credit Loan Guarantee (50% insurance against default)

**Project Delivery**
- On-the-ground Delivery / Project Management Unit (PMU) to track progress
- Coordination across multiple stakeholders and local/State Government actors

**Inform & Convene**
- Multi sector partnership across financial services & payment industry players, telcos, policymakers & regulators, think tanks, NGOs and foundations
- Inform policy maker and regulator with evidence-based policy recommendations
- Promote & disseminate learnings to broader national & global audiences

**Action Research**
- Behavioural research to improve interfaces and understand motivations behind adoption/usage
- Periodic M&E surveys to objectively assess project impact
- Topical, specialized research to deep dive in certain relevant areas (e.g., policy briefs, industry white papers)
What is ideas42?

- We use the theories of behavioral science to design solutions to some of the world’s most persistent social problems.
- Our design and testing expertise brings an evidence-based approach to financial product development, helping you adopt what actually works.

Behavioral Design + Testing Support

ideas42 works with banks, MNOs, fin-techs, and other financial service providers to solve priority business problems.

- Diagnose behavioral bottlenecks: What’s driving low product take-up or usage?
- Design light-touch, cost-effective modifications: How do we tweak designs to improve performance?
- Conduct quick iterative comparison tests: Which design is more effective at prompting the desired behavior?
Implementation plan

- Pilot Rollout
  - Planning
    - November 2016
- Design & Implement: Lab A
  - January 2017
- Design & Implement: Lab B
  - June 2017
  - August 2017
- Scale Up
  - January 2018
Geo-selection for Labs: **Jaipur and Indore are shortlisted**

Prospective geographies have been assessed on multiple parameters including:
- DBT penetration scheme
- CRISIL’s index of financial inclusion (2013)
- JAM preparedness
- Administration readiness

### Cities Assessed (work-in-progress)

<table>
<thead>
<tr>
<th>City – Tier 2 cities</th>
<th>State</th>
<th>Political Risk/Governance</th>
<th>Crisil’s Fin Inclusion</th>
<th>JAM Preparedness (DBT)</th>
<th>JAM Preparedness (BAPU)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Vishakhapatnam</td>
<td>Andhra Pradesh</td>
<td>Low</td>
<td>High</td>
<td>60%</td>
<td>96.59%</td>
</tr>
<tr>
<td>Vijayawada</td>
<td>Andhra Pradesh</td>
<td>Low</td>
<td>High</td>
<td>60%</td>
<td>96.59%</td>
</tr>
<tr>
<td>Gurgaon</td>
<td>Haryana</td>
<td>Medium</td>
<td>High</td>
<td>59%</td>
<td>0.21%</td>
</tr>
<tr>
<td>Faridabad</td>
<td>Haryana</td>
<td>Medium</td>
<td>Above Average</td>
<td>59%</td>
<td>0.21%</td>
</tr>
<tr>
<td>Indore</td>
<td>Madhya Pradesh</td>
<td>Low</td>
<td>Above Average</td>
<td>69%</td>
<td>27.56%</td>
</tr>
<tr>
<td>Bhopal</td>
<td>Madhya Pradesh</td>
<td>Low</td>
<td>High</td>
<td>69%</td>
<td>27.56%</td>
</tr>
<tr>
<td>Jaipur</td>
<td>Rajasthan</td>
<td>Low</td>
<td>Above Average</td>
<td>60%</td>
<td>20.75%</td>
</tr>
<tr>
<td>Kota</td>
<td>Rajasthan</td>
<td>Low</td>
<td>Above Average</td>
<td>60%</td>
<td>20.75%</td>
</tr>
</tbody>
</table>
A multi-sector partnership to deliver:

- Accion
- Airtel Payments Bank
- Aspada
- Axis Bank
- Basix (Sub-K)
- Better Than Cash Alliance
- Bill & Melinda Gates Foundation
- BizOm
- Blume Ventures
- BoloRo
- CAIT
- Capital First
- Capital Float
- CGAP
- CIBIL
- CUTS
- Eko
- Ezetap
- FICCI
- FINO
- FTCash
- Freecharge
- Hindustan Unilever Limited
- IAMAI
- ICICI Bank
- IDFC
- ItzCash
- Idea Payments Bank
- IFC
- Intellecap
- Instafeez
- ITC
- Janalakshmi
- KyePot
- Michael & Susan Dell Foundation
- Mindtree
- mSwipe
- Marico
- MasterCard
- MicroSave
- Mudra
- NeoGrowth
- Niyo
- Novopay
- NPCI
- Omidyar Network
- Oxigen
- PNB Metlife Foundation
- PayLo
- P&G
- PayTM Payments Bank
- PhonePe
- Prime Ventures
- Quikwallet
- Samsung Pay
- Samwad
- SEWA
- SIDBI
- Snapdeal
- Snapdeal
- Suvidha
- TCS
- ToneTag
- Visa
- Vodafone Payments Bank
- World Economic Forum
- Yes Bank

Co-partners: Ideas42, PRICE, Let Talk Payments

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