

FIS

# FLAVORS OF ***FAST***

Country Reports  
**India**



# Introduction

The fifth edition of global fintech leader FIS' faster payments<sup>1</sup> industry report, *Flavors of Fast*, demonstrates how quickly the global payments ecosystem is evolving. When *Flavors of Fast* was first published in 2014, there were 14 live faster payment schemes in the entire world. In 2018, that number has nearly tripled. There are now 40 live faster payment schemes, five real-time schemes actively preparing for launch, and 16 more "on the radar."

Adoption of faster payments remains strong, particularly in regions that have encouraged innovation and invited third parties to use the real-time rails (the network or central infrastructure that facilitates the movement of funds) to deliver a frictionless user experience. Despite that more than half of India's population remains offline, its real-time scheme now processes nearly three million faster payments transactions each day, up from two million a day in 2017.

China now processes more than 25 million faster payments transactions a day, more than double its 2017 transaction volume. Economically significant regions like the United States (US) and Australia recently launched their first real-time schemes, and since its November 2017 launch, banks in more than 15 European countries, including Germany and the United Kingdom (UK), have gone live with the SEPA Instant Credit Transfer (SCT Inst) scheme.

Meanwhile, Hong Kong prepares to launch its faster payment rail in fall 2018, as the UK reconsiders the future of its modernized payments system and explores new frontiers of open banking.

Despite that processing speed is an inherently critical component of a real-time scheme, it's not the end game. "The proliferation of the number of schemes and adoption points to the fact that global faster payments rails are no longer an outlier, but the faster payment rail on its own is not transformative. The real value we're seeing is in the overlay services that use the rail to bring additional value for end users, banks and other parties attached to the scheme," explains Andrew Hewitt, FIS Director Payment & Data Solutions.

As regions continue to invite and encourage innovation on their real-time rails (including from providers who aren't traditionally involved in financial services) we predict that 2018 marks the start of a pivotal shift in how, why and for whom real-time rails will deliver contextual relevance, frictionless experiences and value.

In this report, we examine the state of faster payments in India, whose Immediate Payment Service (IMPS) continues to be one of the most sophisticated and evolved faster payments schemes in the world. It is the only scheme in the 2018 *Flavors of Fast* report to receive a "5" rating – the highest possible rank – on our Faster Payments Innovation Index (FPPI).

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<sup>1</sup> Flavors of Fast Definition of a Faster Payment: Inter-bank fully electronic payment systems in which irrevocable funds are transferred from one bank account to another, and where confirmation back to the originator and receiver of the payment is available in one minute or less.

# Scheme Overview

In a move to radically modernize the Indian payment ecosystem, encourage more underbanked people into the financial mainstream, and reduce the reliance on cash, the Indian government initiated IMPS with the National Payment Corporation of India (NPCI) almost a decade ago. IMPS allows bank customers to use a mobile device, the internet and other channels to make immediate payments. A banking code (the Indian Financial System Code) + account number (person-to-account, or P2A), mobile money identifier (MMID) + mobile number (for person-to-person, or P2P, payments) or Aadhaar number (government-issued identity number) connects bank accounts and completes payments. Based on ISO 8583 standards (no plans to upgrade to ISO 20022), IMPS operates 24/7; nearly every major Indian bank participates. Since launching IMPS, India has built one of the most evolved and sophisticated public digital payments infrastructures in the world.

5

FPII Rank



## Fast Facts

- IMPS launched in 2010
- Awarded the highest rating of 5 on FIS' FPII\*
- Operated by the National Payment Corporation of India (NPCI)
- Real-time, immediate and continuous settlement 24/7
- One of the fastest-growing immediate payment services, rising from 2.0 million transactions per day in 2017 to 2.8 million today
- More than INR 24 million in value transferred daily
- Supports consumer, retail, business and government payment capabilities

\* The Faster Payment Innovation Index (FPII) is FIS' five-point comparative rating system to compare and contrast diverse payment schemes. The higher the FPII score, the stronger the possibilities for innovation.



# Closer Perspective

One of the fastest-growing immediate payment services in the world, IMPS' daily transaction volumes have grown to nearly three million a day. The growth is partly attributed to the fact that the second most populous country in the world has widely embraced the smartphone as a payment vehicle, but primarily driven by the additional overlay services offered on top of the faster payments rails. These services are offered through the Unified Payments Interface (UPI), an overlay on IMPS that gives an application programming interface (API) to application developers, enabling the initiation and collection of payments.

**Like many other countries in Asia, the resurgence of the QR code as a payment origination mechanism, especially for street sellers and taxi services, has created massive demand for the faster payment services and driven large volumes of traffic.**





## Another Year of Impressive Growth

Over the next 10 years (and beyond) we expect to see India and other emerging markets build on the accelerating growth in electronic payments, leading to increased participation by new and disruptive market players. India will be at the forefront of this payments transformation. Representing almost 18 percent of the world's population, even modest market developments in India are extremely significant.

In addition to the ubiquity of smartphones driving usage, the growth in UPI-based services has led to the creation of a wealth of new innovative payment solutions. The adoption rates of instant payments in India reflect this continuing evolution, with the use of app-based originated payments adversely impacting traditional debit and credit card usage volumes.

**In June 2018, NPCI announced that monthly UPI transaction volume has risen by about 2,000%, over the course of just one year; it is now offered by more than 100 banks.**

## Chat Apps Disintermediate Banks

Much of the recent success of immediate payments in India is attributed to social media. More specifically, the speed with which people have accepted making payments through their social media platforms, rather than banking apps, has been directly responsible for much of the growth. Money transfer apps like Google Tez and Paytm payment services have added chatting features, and chatting apps like WhatsApp and Hike messaging now enable money transfers; immediate payments are now built into the social fabric.

Social media apps are continuing to innovate with the use of QR code-based special offers that promote (sponsored) services at discounted prices. Promoting loyalty, merchants can offer temporarily discounted offers through customers' preferred social media platforms in the form of a QR code. The offers can be tailored to individuals using behavioral analytics and geolocation.

Such tactics are a serious game-changer for India and the adoption rates of immediate payments. However, banks are increasingly being disintermediated, as social media platforms continue to offer frictionless payment services that increasingly eliminate the need for traditional banking channels. With enormous client reach – in some cases, approaching one billion active users per month – these services threaten to bypass the traditional financial services players altogether.





## Advanced Payments Infrastructure

The dynamic nature of the Indian market and its ability to leapfrog developments in more mature markets creates challenges that have never confronted the developed world, but also creates opportunities for innovation that will set the pace for markets worldwide. Payment platforms will evolve from being commoditized propositions to strategic solutions that complement and add value to people's lifestyles.

With the continued development of online purchase tools and increasing consumer acceptance and confidence, India, along with other emerging markets, is driving the ongoing global acceleration of e-commerce spending. The proliferation of smartphones and tablets, which serve as a convenient, cash-free and card-free financial transaction medium, has proven a major driver of this growth. Consequently, India is seeing rapid development of new payment concepts and business structures based on mobile infrastructure initiated by online retailers and payment service providers.

Mobile financial technology providers and social media apps are leveraging the familiarity of the mobile device, coupled with the assurance of security and ease of use, to provide impetus to the growing cashless economy, supported by regulators and the Indian government. Increasingly, companies are creating smartphone apps that significantly reduce reliance on traditional payment processes and provide a unique customer experience that increases engagement and removes traditional friction points. India and some other emerging markets will continue to be at the forefront of innovation and the adoption of mobile technology for payments.

## Innovation on UPI

The drive toward a cashless society that is underpinned by IMPS is founded on the provision of innovative overlay services. To simplify the creation of such services, the NPCI launched UPI. With these services, the payment originator does not need to know the bank details of the beneficiary and security is ensured by combining the virtual address plus mobile (possession) and mobile PIN (knowledge).

UPI is a combination of real-time payments with open interfaces, which replaces cash, POS and wallets. Though most UPI transactions are P2P transfers, India has seen the launch of many innovative overlay services through UPI, including mobile apps from retailers that take payments directly from bank accounts (bypassing traditional bank interfaces). Adoption rates of UPI payments and transactions originating through UPI-based apps are now predicted to quickly eclipse debit and credit card volumes; this is impressive despite that traditional debit and credit card usage is lower in India than much of Europe and the US.

**The growth of mobile penetration has had a massive impact on financial inclusion, with people moving from no previous banking history to being able to make payments via a mobile phone.**



## The QR Resurgence

A rebirth of QR codes is further driving the adoption of immediate payments in India, particularly for street sellers and taxi services. A stallholder can simply display a QR code which the customer scans, and the payment is done, instantly and virtually frictionless, with no requirement to carry a physical debit or credit card.

The Bharat QR service was launched by the government of India in 2017 as part of a solution to reduce the reliance on cash. The Bharat QR code is an interoperable payment acceptance solution that supports Visa, MasterCard and Amex, and RuPay cards and BHIM-UPI for wider acceptance. Bharat QR code will enable rapid rollout of digital payments acceptance infrastructure throughout the country, as it does not involve any upfront investment in a point-of-sale (POS) device. The risk of data theft or security issues through tampered or cyber-compromised point of sale devices is minimized. The Bharat QR code service also supports dynamic QR codes, which may be printed on electricity bills, gas bills and other utility bills so customers can easily make payments to the respective vendors.

These services prove that QR codes can add value when approached with a mobile-first mindset. As with much of Asia, India has much lower levels of debit and credit card usage compared to other countries, and consequently, many smaller merchants do not accept them. For these markets, QR codes are a simple and viable way to initiate transactions and reduce the high use of cash. Merchants who register for the service are provided with a static QR code that contains credit card-type information and the alias the merchant uses. This alias is used to resolve payments to the bank account of the merchant. Registered customers also have an alias that links to their preferred bank account used for payments. For banks, however, it is a race to capture merchants for their services through a sophisticated and well-designed app.

**We expect the volumes of faster payments to continue growing in India for at least the next five years, driven largely by the increasing presence of technology giants into India's digital payments space, and the open architecture and interoperability that UPI offers.**



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