It's a high-volume, low-margin game: PAs eye the online payments boom

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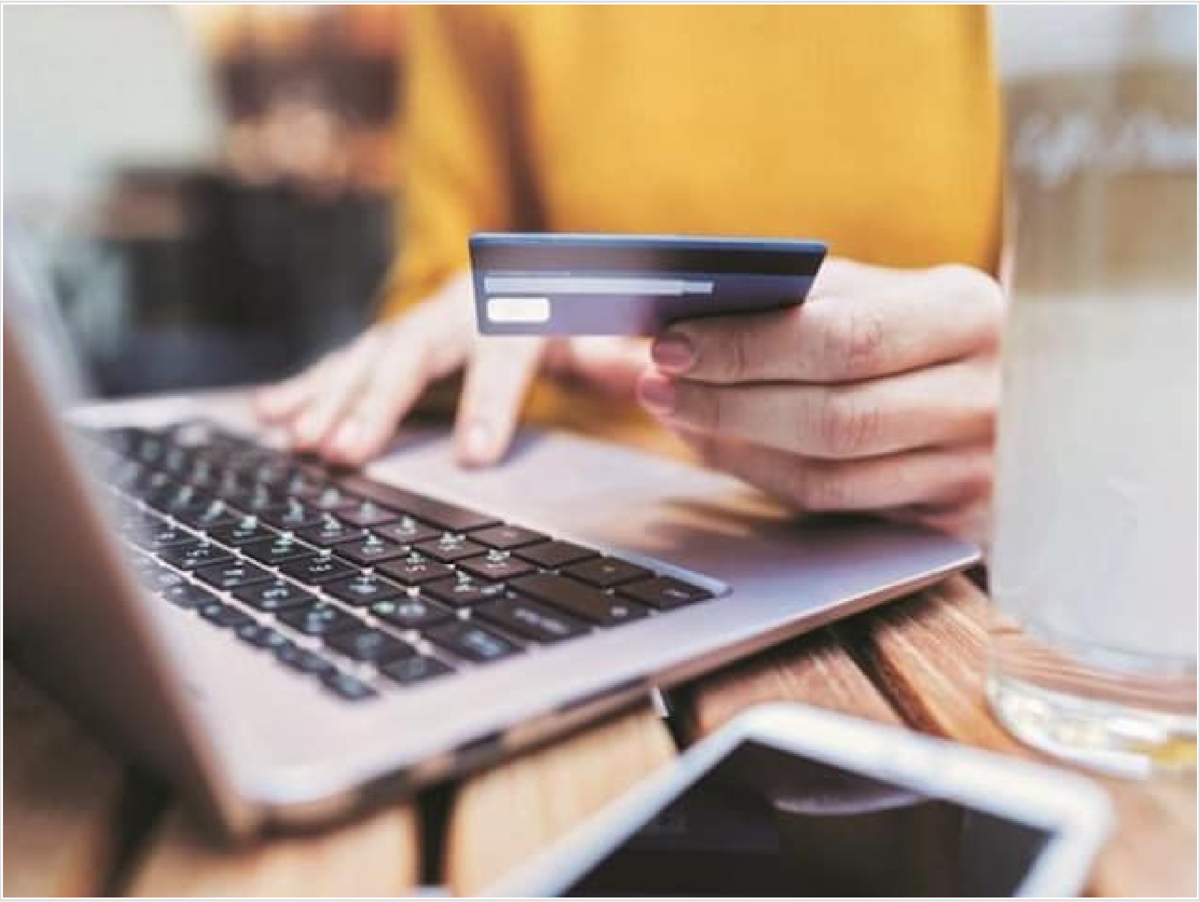

Twenty-eight new payment aggregators (PA) — entities that seek to process payments for merchants — are waiting for a licence from the Reserve Bank of India (RBI) to start operations, in addition to 50 existing players.

Of the 28 new players, 19 have been granted in-principle authorisation by the central bank; the applications for the rest are under consideration. Similarly, among the existing players, 32 entities have received an in-principle nod, according to a list published by the central bank earlier this month, outlining the status of such applications, which will be updated on a fortnightly basis.

What does this mean? The central bank has clarified that an “in-principle” authorisation should not be construed as “authorisation”. For the purpose of “authorisation”, the entity would have to submit to the RBI a System Audit Report (SAR) along with a certificate from a chartered accountant regarding compliance with the net worth requirement. So how are the 32 existing players operating without authorisation?

The RBI defines PAs as entities that enable e-commerce sites and merchants to accept various payment instruments from the customers to complete their payment obligations without the need for merchants to create a separate payment integration system of their own. In other words, PAs collect payments from customers for a particular merchant for the entire day and transfer them to the merchant on the next day — that is, settlement is on a T+1 basis. “Payment aggregators handle payments, security, compliances and the funds of the merchants. All the funds come into our escrow bank account and we do timely settlement (T+1),” said Vishwas Patel, director, Infibeam Avenues Ltd and chairman of Payments Council of India (PCI). Infibeam Avenues is one of the existing entities that has received an in-principle approval from the RBI for a PA licence but is awaiting the final nod.

The fact that the 32 players operate with “in-principle” approval is because the RBI started bringing PAs under its ambit only in March 2020; several of them had started operations well before.

Today, entities backed by Tata and State Bank of India are some of the players that are waiting in the wings to join existing ones from the stable of Reliance, Amazon, Google and Zomato.

Why are such entities eyeing a PA licence and what would a licence mean to the players that are already functioning as PAs? “Being an RBI-regulated entity with a licence gives merchants a lot of comfort to handle their payments and gives us more credibility,” Patel explained.

The rapid growth of online payments in India — particularly post-Covid-19 pandemic — has encouraged players of all sizes, small and big, to take a shot at the payments business. Online payments have grown astronomically in the past five years. Transactions on the Unified Payments Interface (UPI), the real-time payment system developed by the National Payments Corporation of India, has grown 6.5 times between March 2020 and January 2023. According to latest data, UPI processed over eight billion transactions worth around Rs 13 trillion in January 2023.

UPI is just one example. According to data compiled by Worldline, payment modes such as UPI, debit and credit cards, prepaid payment instruments, mobile wallets and prepaid cards processed 23.06 billion transactions worth Rs 38.32 trillion during July-September 2022. UPI was the most popular mode of payments, cornering 42 per cent market share in terms of volume and 65 per cent in terms of value. The average ticket size of the UPI P2P transaction is Rs 2,576, next to credit cards at Rs 4,843, according to the Worldline data.

According to an industry insider, large business houses are now entering the payments space because they want to keep the payments part of the business with themselves to provide a seamless experience for all their stakeholders. It’s a natural extension from their existing business, he said.

“Three to four years ago there was a clear differentiation between a physical and an e-commerce set-up,” said Anuj Khosla, chief executive officer-digital business, Hitachi Payment Services Pvt. Ltd. “There were merchants who would only do face-to-face transactions and merchants who were only doing e-commerce. Now, consumer behaviour has changed. People who would buy food, vegetables or medicines physic

ally a few years back have now gone online,” Khosla said. Hitachi Payment Services has also received in-principle authorisation from the RBI for payment aggregator business though it will start operations after final approval.

Khosla pointed out that the Covid-19 pandemic was one of the main reasons for the change in consumer behaviour. Today, even smaller merchants are looking for a digital presence to cater to the customers who prefer online purchases.

But if 80 players compete in a market, how will the business become profitable?

“We are not fighting against each other. We are fighting against cash. The objective is towards a less-cash economy,” said Ramesh Narasimhan, CEO, India, Worldline. Worldline ePayments India Pvt Ltd, an existing PA, has also received the regulator’s approval.

Yet, the revenue for such players is determined by the merchant discount rate (MDR) — the rate charged to a merchant for payment processing services on debit and credit card transactions.

“Money can be made in the payments business. In case of UPI and RuPay debit cards, the merchant is not paying the MDR but the government is paying. So, on every transaction, there is money to be made. But it’s a high-volume, low-margin game,” Infibeam’s Patel said.

Typically, on a credit card transaction, the issuer (in this case the bank that issues the credit card) charges the merchant Rs 1.60-1.65 per per transaction. The PA adds only 15 to 20 basis points over the bank charges. The same dynamics apply to debit cards, net banking, wallets and so on.

“The PAs can also offer value added services to the merchants to make the business more attractive and add margins to the business. The payments business is the core but before the payment takes place, one could offer live e-commerce software-as-a-service platforms to businesses and earn money through these platforms. During the payment transactions, merchants can be offered chargeable transaction-enhancing solutions and security features. Similarly, after payments, lending and cross-selling financial and other product/services opportunities can also be tapped into,” Patel explained.

But industry players anticipate that low-margin, high-volume games could lead to consolidation.

“It’s not like a conventional industry where you have a certain time to build up…it’s all left to individual companies. They should be able to price it in the market correctly. Companies have different objectives, strategies. A mature company like us wants to remain profitable, because that is how you can reinvest in the business,” said Worldline’s Narasimhan.

“Consolidation is something that is definitely going to happen. It is already happening. And it is something we look forward to,” he added.