

India Demonetisation Monitor

Issue #3

November 2017

Demonetisation anniversary marks solid growth of India's digital payments economy

One year after demonetisation, the Indian economy has a significantly larger digital footprint. Following a decline earlier this year, India is once again converging toward a peer group of developing electronic payments markets, according to Visa's Digital Payments Tracker for India, a composite index of public economic and connectivity metrics blended with Visa transaction data.

The payments landscape in India has transformed considerably over the past year. Obsolete notes were almost entirely returned to the central bank, but it appears that fewer new replacement notes were printed than those removed from the system, making alternative payment methods—primarily mobile and/or digital—necessary.

Digital participation is increasing on both sides of the market: strong growth in the number of active debit/credit cards and mobile payments transactions indicate the new digital model is winning over consumers, while merchant acceptance points have doubled in some sectors and cities.

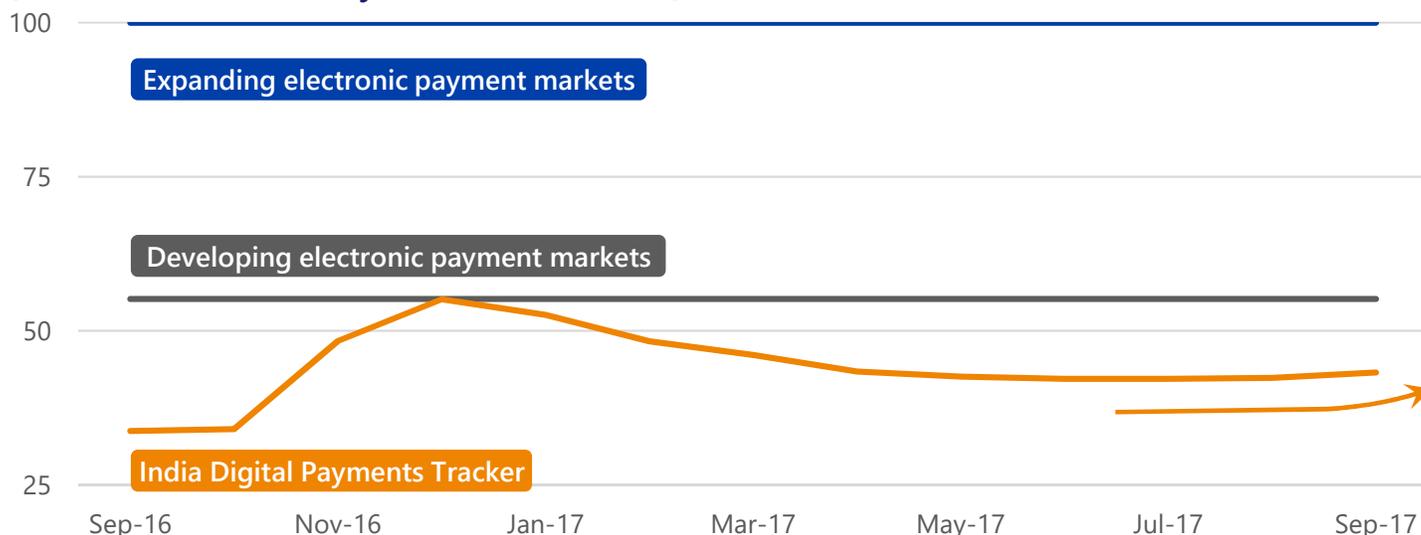
Key Points:

India's digital growth is on the upswing again, after declining for much of this year

The growth of digital payments appears to be faster now than it was before demonetisation

The sharp pick-up in debit card usage relative to credit cards is the biggest development

Tracking India's development as a digital payments market (Indexed based on five key economic indicators*)



Sources: Visa Business and Economic Insights analysis of industry data, including Haver Analytics.
*Indicators provided on Page 4.

The digital footprint of the Indian economy is now much larger

Digital now makes up a larger portion of payments in India and is growing at a faster pace than it was before demonetisation. Three key transformations took place in the country's payments landscape over the past year:

- 1) India's digital footprint has increased** in the past year across a range of metrics. The total number of active Visa point-of-sale (POS) terminals, increased by more than two-thirds as of September 2017. Likewise, the number of active cards in use nearly doubled after demonetisation, as have new channels of payment, such as mobile mVisa transactions. With increased points of connection, electronic payments are likely to steadily gain in usage, which in turn could trigger a faster pace of growth in digital than was occurring before.
- 2) Debit card usage rose dramatically compared to credit card usage.** After demonetisation, the number of active debit cards increased to about three times the number of active credit cards—up from double the number of credit cards prior to October 2016. This is consistent with the increase in deposits in the banking system actually funding digital wallets and is one of the biggest changes to occur in the Indian payments landscape over the past year.
- 3) The average value of digital payments is lower than prior to demonetisation.** Lower-price transactions (less than INR500 or USD7.67) account for more than 50 percent of debit transactions at Visa POS terminals (up from less than 40 percent before demonetisation). This is consistent with digitalisation across a wide range of income cohorts.

Not surprisingly, India's digital footprint broadened as its position relative to other developing digital payments markets improved, according to Visa's Digital Payments Tracker. For most of 2017, much of the gains India recorded immediately after demonetisation were reversed. As newly printed bills replaced the old in circulation, some slippage was to be expected.

Rapid growth in the digital payments infrastructure, however, is enabling the transition from physical to digital commerce, reducing the consumer's need to hold cash at home.

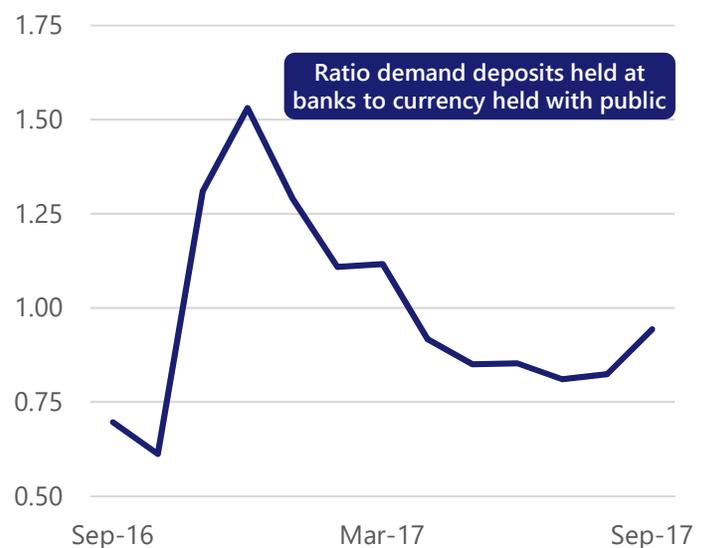
As a result, in September, for the first time this year, the Digital Payments Tracker showed India once again converging with a peer group of developing payments markets.

Cash is increasingly available to fund digital wallets.

Where cash is held determines potential growth of digital wallets. Cash stored in a physical form is not readily accessible to the newly expanding digital payments ecosystem, but cash deposited in the banking sector can fund digital wallets and be used for an array of payments channels that have proliferated in India since demonetisation.

The index is showing strong growth again as deposits are growing faster than currency held by the public, consistent with greater funding of digital wallets going forward.

Ratio of deposits to cash

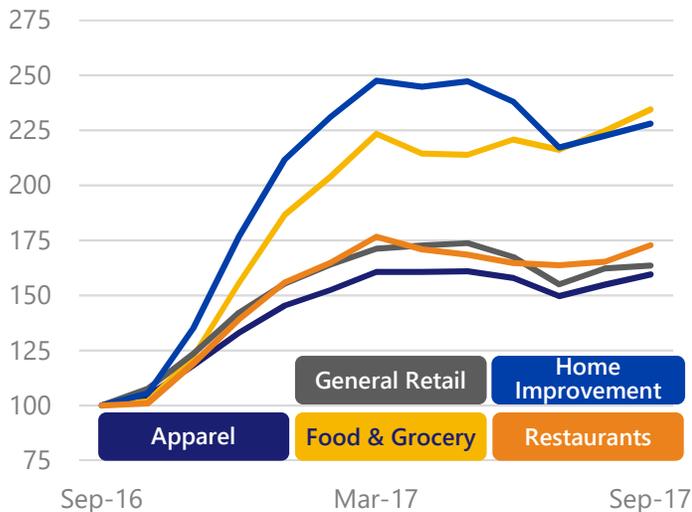


Sources: Visa Business and Economic Insights; Reserve Bank of India; Haver Analytics.

The digital footprint of the Indian economy is now much larger

Merchant acceptance has grown significantly across segments. The strongest increase was concentrated in a key sector of everyday spending, food and groceries, where the sum of active merchant terminals increased more than two-fold over the past year. Key sectors such as apparel and accessories, general retail and restaurants posted increases of more than 50 percent. These gains point to the more cash-intensive sectors of the economy migrating to greater digital payment intensity, which is one of the key metrics included in Visa's index.

Strong increase in the number of active terminals across merchant categories



Sources: Visa Business and Economic Insights

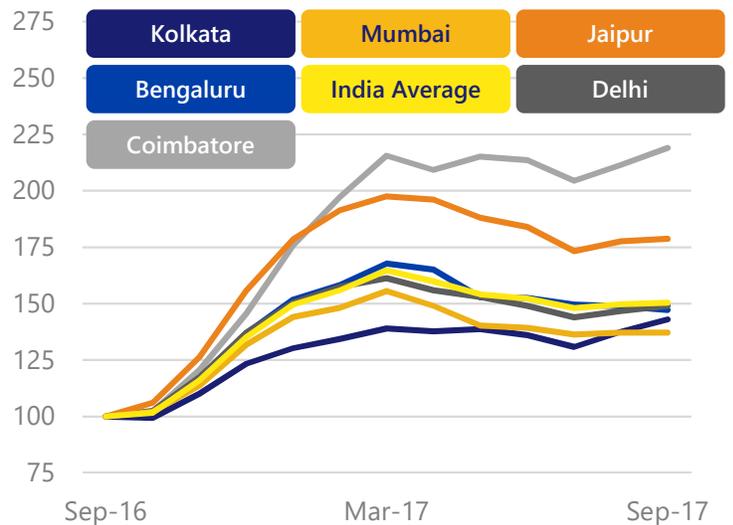
Beyond the broad national trends, similar dynamics are happening at the municipal level. The largest growth in active merchant outlets was concentrated in India's three mega-cities of Mumbai, Delhi, and Bengaluru—increasing nearly 50 percent in both the Delhi region and Bengaluru, and nearly 40 percent in Mumbai.

These three cities could gain \$6.4 billion in direct annual benefits as they move toward a more cashless future, according to a recent Visa report ("Cashless cities: Realizing the benefits of digital payments"), assuming their transition meets an "achievable level of cashlessness."

Perhaps even more impressive: growth in merchant acceptance has been faster in smaller regional cities, suggesting the digital payment ecosystem is being broadly adopted.

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Digital acceptance has picked up across India led by second-tier cities



Sources: Visa Business and Economic Insights

Coimbatore is one of India's fastest growing tier-II cities due to its manufacturing base. The number of active merchants in Coimbatore more than doubled post demonetisation, while in Jaipur—a major tourist destination and the capital of Rajasthan—the number increased 80 percent in the year since demonetisation.

City-level analysis suggests that industry-specific drivers are also influencing the digital transition. Manufacturing and tourism, for example, experience considerable efficiency gains from digitalisation, which may explain why the digital transition is outperforming in smaller cities.

Digital payments should continue to grow in India.

Demonetisation had a major impact on both the payments landscape and the economy, but the country weathered it well. The new lower-equilibrium level of cash is clearly funding digital and mobile payments wallets. Continued progress appears likely—with India's digital payments ecosystem set for further growth in the second year after demonetisation.

Editorial Note: This will be the final issue of the India Demonetisation Monitor. A new digital payments monitor for the Asia-Pacific region will be introduced in the first quarter of 2018, tracking Asia's ongoing digital transformation.

India Demonetisation Monitor and Digital Payments Tracker

Key Indicators	Baseline*	Dec 2016	Mar 2017	Jun 2017
GDP-to-cash ratio	8.96	19.45	13.07	10.7
Deposits-to-cash ratio	0.61	1.53	1.12	0.85
Restaurants accepting Visa-branded cards per 1 million urban residents	116.16	156.73	186.22	183
Mobile phone subscriptions per 100	84.34	85.90	90.70	92.1
Visa PCE penetration rate	3.60%	4.00%	4.42%	5.31%

Source: Visa Business and Economic Insights analysis of industry data, including Haver Analytics * Baseline figures are from October 2016 and refer to the state of indicators pre-demonetisation.

Visa's India Demonetisation Monitor is a quarterly publication that follows India's move to a "less cash" society, aiming to capture the tipping point when consumers are digitally-enabled and primed for a more dynamic payments infrastructure and economy. The newsletter includes a composite index of five key industry and economic indicators that track India's progress as a digital payments market relative to other economies where digital payments are either still developing or already taking off. The Tracker combines the five indicators—GDP-to-cash ratio, deposits-to-cash ratio, food service venues accepting Visa-branded cards, Visa-branded cards' share of personal consumption expenditures, and mobile phone subscriptions—with varying weights to create the composite index.

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