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Impact of the COVID-19 outbreak on digital payments

pwc

Foreword

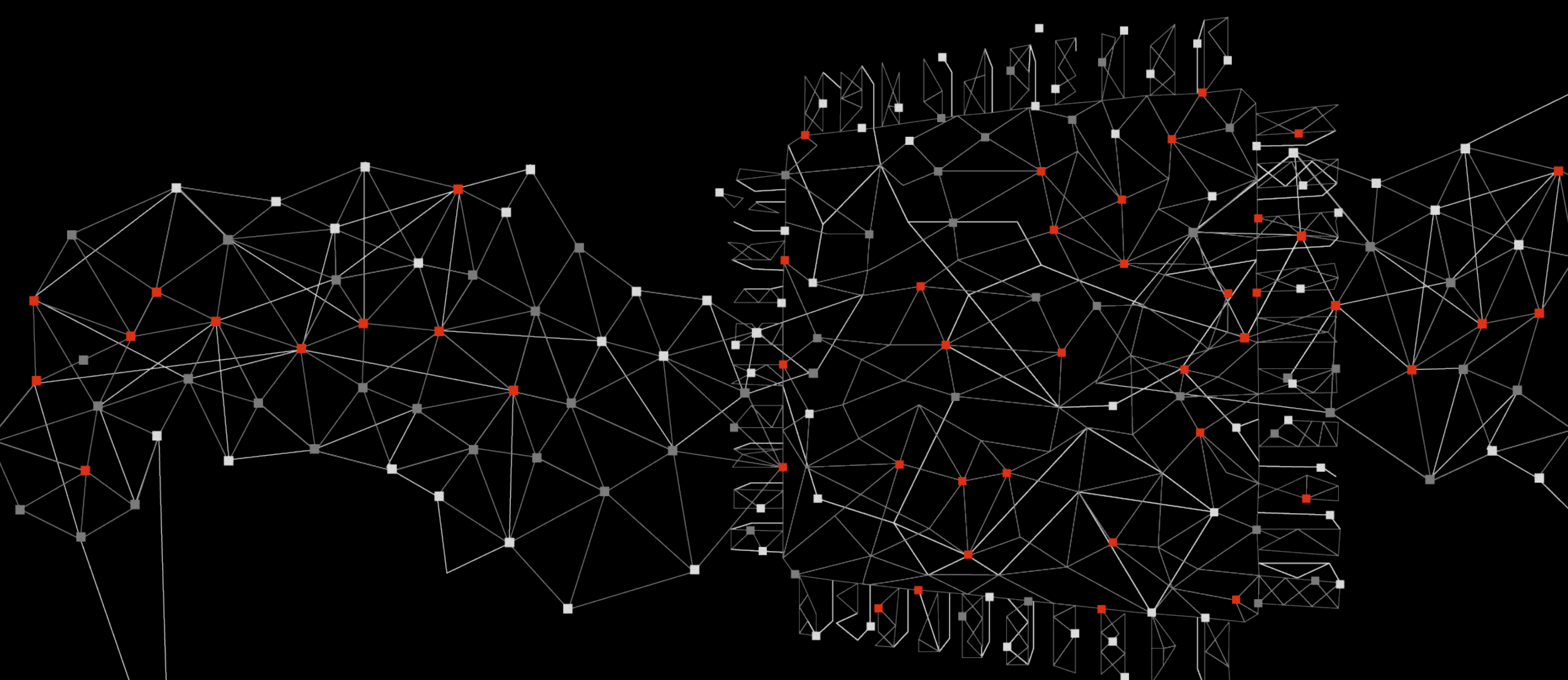
Dear readers,

It is my pleasure to bring to you the latest edition of our payments newsletter, where we explore the effect of the COVID-19 pandemic on digital payments.

In addition to our views, based on our extensive experience across the FinTech and payments landscape and insights from our work with clients, we have captured the impact of the ongoing COVID-19 pandemic and look at the way forward for digital payments in the post-COVID era.

I hope you will find this newsletter to be a good and insightful read.

For details or feedback, please write to vivek.belgavi@in.pwc.com or mihir.gandhi@in.pwc.com



In this issue

Introduction

The ongoing spread of COVID-19 has become one of the biggest threats to the global economy and financial markets. To contain the impact of the coronavirus outbreak, India, like many countries across the globe, is taking several measures, including a nationwide lockdown; limiting movement of the entire population; shutting down public places and transport; and urging the public to stay indoors, maintain social distance, and work from home. The resulting economic disruption is huge and the short-term decline in activity for businesses, both large and small, considerable.

With economic growth expected to be severely hit, the financial outlook of the digital payments sector is no different and will follow a similar trajectory, at least in the short term. But the industry's stability and potential for innovation will play an invaluable role in rebooting the economy in the new normal.

Business impact

The adverse effects of the COVID-19 pandemic are trickling down to major sectors of the Indian economy, with manufacturing, auto, retail, aviation and hospitality bearing the brunt of the lockdown. This in turn has affected fast-growing digital payments which are closely linked to the aforementioned sectors. Shut shops, travel bans and reduced discretionary spends by consumers (on dining out, movies and entertainment and so on) are further negatively impacting digital payments.

Digital payment volume declines are seen in airlines, tourism, hospitality, hotels, entertainment, e-commerce (non-essentials) and restaurants, among other sectors.

Further, cross-border payments, be they B2B or C2B, have significantly declined owing to the temporary shutting down of borders further, resulting in restricted movement of goods. International remittances too have been affected and have reduced.

However, there are also a few areas that are seeing an uptick in digital payments by way of increased adoption during the lockdown. These include online grocery stores, online pharmacies, OTT players (telecom and media), EdTechs, online gaming, recharges and utility/bill payments.

Digital payment volumes are also receiving a boost through the Government, which has pledged monetary assistance to the poor via direct transfers to bank accounts.

The finance minister and the CEO of the National Payments Corporation of India have also urged people to increase the use of digital payments in order to make payments contactless.

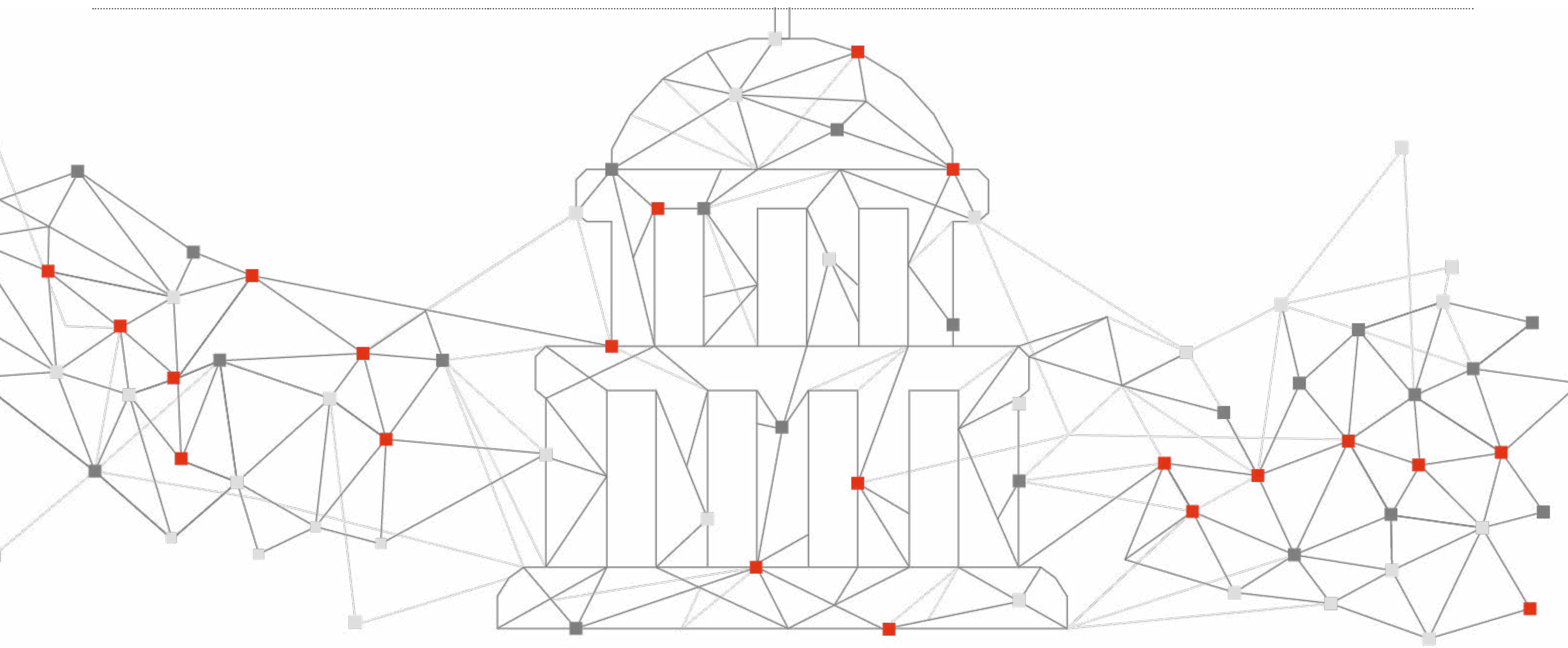
Digital payments, once a convenience, have become a necessity in these times. With a majority of the sectors that contribute to digital payments still in a state of flux, it is still too early to ascertain the long-term impact of COVID-19 on digital payments.

Sectoral impact

Payment players will be impacted differently, depending upon their exposure to various sectors. This view has been taken keeping in mind a timeframe of at least six months for these sectors, depending on how/when the pandemic is curtailed:

Sector	Impact	Remarks
Aviation		An acquirer with large exposure to the aviation industry is at risk due to the threat posed by increased refunds and chargebacks as flights are cancelled across the board.
Tourism and hospitality		Acquirers having large exposure to the hospitality industry will face headwinds as complete the lockdown restricts business to a very large extent.
Electronics and consumer durables		Volumes of payment companies having clients in the electronics and consumer durables segment will take a hit owing to the disruption in supply chains, delivery and demand.
Hotels and restaurants		The lockdown has caused severe loss of business for restaurants and hotels. The restrictions on travel have hampered the peak season for many. This in turn will have an adverse impact on payment volumes.
Physical retail (non-essential)		Non-essential physical retail has also taken a hit as forced closure has resulted in loss of business. Payment companies will see a marked decline in these transactions.
E-commerce (non-essentials)		Non-essential e-commerce businesses will be adversely affected as they prioritise essentials given the limited delivery bandwidth due to the lockdown.
Small and medium businesses and capital loans		Players with exposure to SMB and capital loans will be negatively impacted as working capital dries up for many players owing to temporary closure of businesses, impacting repayments and increasing the possibility of non-performing assets (NPAs).
Cross-border payments		Payment companies with large cross border transactions will be impacted as supply-side uncertainties, factory closures and trade barriers are affecting cross border trade.
International remittances		International remittances will decrease as wages of Indians abroad would be negatively affected.
Payment fees – card schemes		Major card schemes have delayed the roll-out of their new interchange fee structure. Sectors like real estate and auto would see rate decreases, while growth sectors like e-commerce and mobile ordering would see a hike in fees. Overall network fees would decrease for card schemes.
Physical retail (essentials)		With concerns of transmission of the virus through the exchange of physical currency, digital payments at local grocery stores have increased. Payment players having exposure to this category stand to gain.

Sector	Impact	Remarks
Telecom		Telecom companies will also see an increase in transactions as payments and recharges shift to digital channels. Further, the boost in demand for broadband internet services will also fuel the rise in transactions.
Insurance		Owing to the COVID-19 pandemic, insurers have seen a rise in digital payments as new and renewal policy payments are made online.
EdTech		The lockdown and shutdown of schools and educational institutions have proved to be a boon for EdTech companies, with an increase in demand for their services enabled by online payments.
Domestic remittances		The lockdown has caused severe loss of business for restaurants and hotels. The restrictions on travel have hampered the peak season for many. This in turn will have an adverse impact on payment volumes.
Healthcare/pharma		Payment players associated with the healthcare/pharma sector will see an increase in digital payments due to the COVID-19 pandemic.
E-commerce (essentials)		Players catering to online selling of essential items have seen a surge in transactions due to the lockdown. Payment processors having exposure to such retailers stand to gain in relative terms considering the current situation.
Government		Payments involving the Government(s) would increase on two counts: firstly, the financial aid provided by the Government via Direct Benefit Transfer (DBT) (G2P); and secondly, donations made to Government funds like PM CARES and PMNRF. P2G would contribute to an increase in digital transactions.



Impact on payment categories

Payment systems have demonstrated that they are dependable and durable, and continue to command a high level of confidence from the general population. However, closure of businesses and the lockdown have resulted in lower transaction volumes overall. In this section, we look at the relative impact of the COVID-19 pandemic on various payment categories.

Payment category		Relative impact	Remarks
Issuance	Cards		Concerns over transmission of the virus through the exchange of physical currency will boost online card transactions.
	Wallets		Wallets will also see increased traction for P2P transfers, bill payments and P2M payments for essential services owing to the lockdown and aversion to exchanging cash. However, some wallet players have increased their fees for merchants and consumers, leading to merchants not accepting their wallets for transactions.
	Bank accounts		Fund transfers to/from bank accounts will likely see an uptick as people substitute cash with digital transfers.
Acquiring	ATM		Transactions at ATMs will decrease as a result of the lockdown being enforced. Not much cash will be required compared to earlier.
	PoS		PoS terminals at stores selling essential items will see an uptick in transactions, while those at most other establishments will see a decline.
	Payment gateways		Payment gateways will see an increase in volumes as transactions go online. They can also tie up with small stores selling essentials who are currently seeking to establish an online presence.

Payment category		Relative impact	Remarks
Payment infrastructure	UPI		UPI is primarily driven by P2P and P2M payment transactions. With fears of virus transmission through cash, P2M UPI transactions for essential services (including QR based payments) will see an increase.
	IMPS		The IMPS facility will see relatively increased activity as fund transfers shift to digital means.
	BBPS		With no physical avenues to pay bills, people are adopting BBPS, leading to a relatively higher number of transactions.
	NETC		The NETC programme, which facilitates FASTag toll payments, will be adversely affected due to restrictions on travelling.

Way forward

As the COVID scenario continues to unfold, its impact on the behaviour and expectations of customers, as well as those of businesses, will become more apparent. However, what is clear now is that we will settle into a new normal once the pandemic dies down. To aid the recovery and lead the emergence into this new normal, it is imperative for the digital payments ecosystem to evolve rapidly and help shape the post-COVID era.

We look at a few fundamentals that will drive the way forward:

Short term

- Banks offering fee waiver on select digital payments (IMPS, NEFT, RTGS) and cash withdrawals from third-party ATMs
- RBI offering a three-month moratorium on loans and credit card dues (not many people are expected to avail this as the interest charges will be very high)
- Immediate financial assistance from the Government through DBT
- NPCI fast-tracks contactless and online onboarding for UPI and UPI QR

Medium to long term

- Increase in transactions being converted into EMIs owing to the slowdown
- Increase in usage of DBT rails by governments
- Contactless payments (e.g. QR), SMS link-based payments and wearables will see an uptick
- Increase in customer education initiatives and measures to combat fraud
- Increase in virtual card issuance and usage
- Increased online presence of small and medium businesses
- Payment processors will be encouraged to invest in service quality and to increase infrastructure and capacity
- Online, paperless processes to issue products like unsecured loans and credit cards without any in-person contact
- Shift in consumer behaviour – greater adoption of digital payments
- Rapid buildout of omnichannel capabilities
- Consolidation in the payments sector with a view to survive – possible deal activity

Short term

Against the backdrop of the COVID-19 pandemic, several measures have been taken from the payments perspective:

Banks

- There have been concerns over the transmission of the virus through the exchange of physical currency. To discourage cash exchange and promote digital payments, banks have temporarily waived fund transfer charges on their digital platforms such as NEFT, RTGS and IMPS.
- Further, some banks have also waived charges on cash withdrawals from third-party ATMs via debit cards to ensure convenient access to funds.

Reserve Bank of India (RBI)

- The RBI has provided a three-month moratorium on payment of loans and credit card dues.

National Payments Corporation of India (NCPI)

- NPCI has fast-tracked the onboarding system on UPI or UPI-QR to make it totally contactless and fully online. This is expected to support small business (for essential services) to build an online presence in a short time span.

Government

- The Government has leveraged the digital pipeline of Jan Dhan–Aadhaar–Mobile (JAM) to transfer financial assistance funds directly to bank accounts.

Medium to long term

- Continued digital payments push: There will be a continued push to adopt digital payments from governments, regulators and banks alike. There will be a marked shift away from cash as digital means gain popularity and acceptance and transform from a convenience to a necessity.
- Consumer behaviour: People's anxiety of immediate survival, be it food and/or medicines, is counteracting long-standing apprehensions of digital transactions that may have inhibited greater adoption until now. There will be a marked shift in consumer behavior, with a significant population of first-time adopters continuing with digital payments even after the current crisis ends.
- Real-time contactless payments: Real-time contactless payments will gain traction. They will assist in moving the needle on digital payments toward high-volume but low-value transactions from the current low volume, high-value tilt and eventually lead to a decline in cash usage. Wearables will also gain traction as people look to adopt contactless payment modes.
- QR/link-based payments: QR code payments will see an uptick – as they are cost-effective and contactless. Offerings such as offline to online payments will also an increase. These will gain traction as they will assist a lot of small and individual business owners (like milk and vegetable vendors) to collect payments when people are hesitant to use cash, and eventually lead to a decline in cash usage.
- DBTs: Higher utilisation of DBT rails will be seen as India recovers, thereby enabling instant infusion of money to the bottom of the pyramid. This in turn will drive rural spending, which will help in kick-starting the economy.
- EMI transactions: We may also see a slightly larger proportion of transactions being converted to EMIs owing to the slowdown that may result from the COVID-19 pandemic.

- Increased online presence: Companies with a large online presence will likely suffer to a smaller extent owing to the expected slowdown. Players with zero or limited online presence as well as small businesses may need to contemplate tie-ups with payments specialists. Banks and other payment service providers may offer subsidised prices to such businesses to start operating online.
- Process overhaul: The disruption caused by the pandemic will compel financial players to prioritise a process overhaul. Touchpoint experience will change overall with all channels moving to social distancing norms along with associated regulatory hurdles. Banks and NBFCs will offer unsecured and consumer durable loans as well as credit cards with zero paperwork and no in-person contact. Adoption of video KYC is expected to gain momentum. Further, increase in virtual card issuance and usage will also be seen.
- Payment processors: They will be encouraged to invest in service quality and to increase infrastructure and capacity owing to the expected increase in digital transactions going forward. New growth for both retail and corporate payments will come from industries which are transitioning to increased digital adoption: EdTech, entertainment, telemedicine, pharma, etc. The focus will shift to omnichannel payment services. And with more players providing digital payment platforms, the resulting competition should also help to enhance the overall service experience for end users.
- Customer education: There will be an increased focus on customer education to reduce contact during payments – for instance, asking customers to insert the card in the POS machine themselves as opposed to handing over the card to the salesperson, or using the contactless feature on cards for payments below INR 2,000.
- Catalyst for innovation: The current crisis will act as a catalyst for innovation with FinTechs being at the fore. There will be greater e-commerce based offers as against PoS. The rapid buildout of omnichannel capabilities—which will link payments in any environment, physical or digital—will become a baseline requirement for all payment players.
- Driving productivity: Incumbents would have to focus on a productivity agenda by leveraging technology for their sales force (e.g. feet on street selling cards or relationship managers of transaction banking teams) and on streamlining operations in work from home scenarios. Installing collaboration tools is only the first step. Further, companies that had created lending adjacencies would probably need to reskill people as collections are not happening due to moratoriums and new business is slow.
- Combat fraud: With rising digital transactions, fraud will see an increase, with fraudsters using the surge in online activity to target unsuspecting consumers and merchants. All ecosystem players will have to increase risk monitoring, make use of business intelligence tools and ramp up real-time monitoring systems while also ensuring customer education initiatives are in place. Tokenised payments will also see a spike.
- Payments industry consolidation: The trend of consolidation among payment processors and acquirers will continue as companies look at survival. Digital payments companies are essentially cash businesses and depend on the risk capital they carry. As transactions dip, there could be more deals action in this space.

Post the crisis, any payment player with an omnichannel, integrated solution and with exposure to cross-border payments is likely to come out stronger.

Payments technology updates

Payment aggregators to face stricter norms

Economic Times

The RBI will soon treat all payment aggregators as regulated entities under the Payment and Settlement Systems Act (2007) under its direct supervision, bringing in tighter regulations for the country's digital payment industry.

Read more.

NPCI directs banks to allow cash withdrawals through UPI

Bloomberg Quint

The National Payments Corporation of India has allowed cash withdrawal at merchant locations via UPI apps. This will enable the service in line with the existing Cash-at-PoS model.

Read more.

Starting April 1st, UPI based P2P transactions to cost upto INR 5 per transaction

The Tech Portal

Banks facilitating UPI payments will now charge users for peer-to-peer transactions, with an initial 20 transactions being waived off.

Read more.

Account aggregators gear up to launch their platforms

Financial Express

As the government looks to provide more support to India's fintech industry, private players such as banks and fintech startups are now adopting Reserve Bank of India's (RBI) account aggregator (AA) framework, which seeks to bring disparate financial customer data onto a single platform.

Read more.

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