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Analysis of Payment Trends in E-Commerce Business in India

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I. INTRODUCTION

India is one of the fastest growing e-commerce markets, and one with the greatest untapped revenue pools globally. International merchants including Amazon, Walmart and Facebook are investing in the market to establish their brand early on.[1]

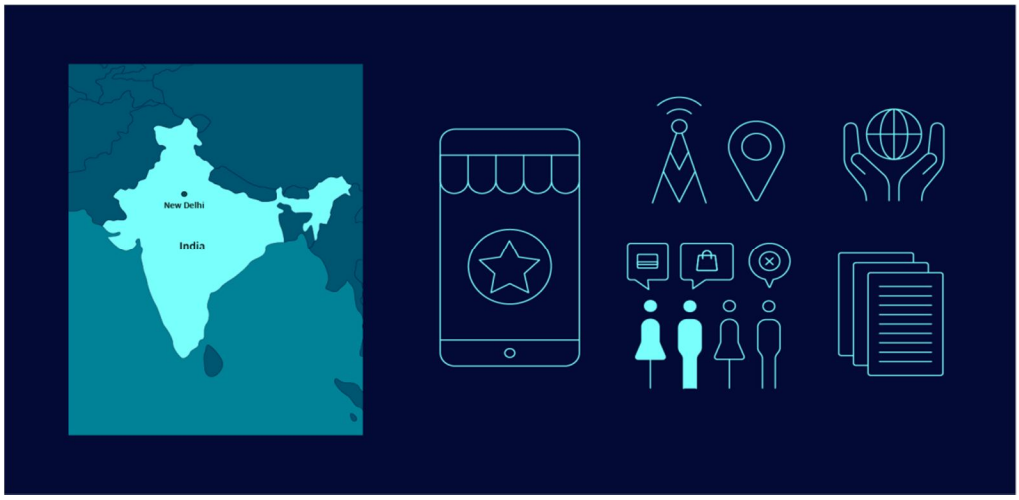


Increased bandwidth availability, affordable data plans and increased awareness driven by government programs is rapidly bridging the digital gap between urban and rural India. Consequently, potential customers can be found across India's vast geography.[2]



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India is sharpening its customer protections in an effort to regulate its burgeoning e-commerce market and to offer consumers a sophisticated customer experience in line with more developed Western e-commerce markets. Merchants must abide by the new Consumer Protection Act to avoid falling foul of the law.



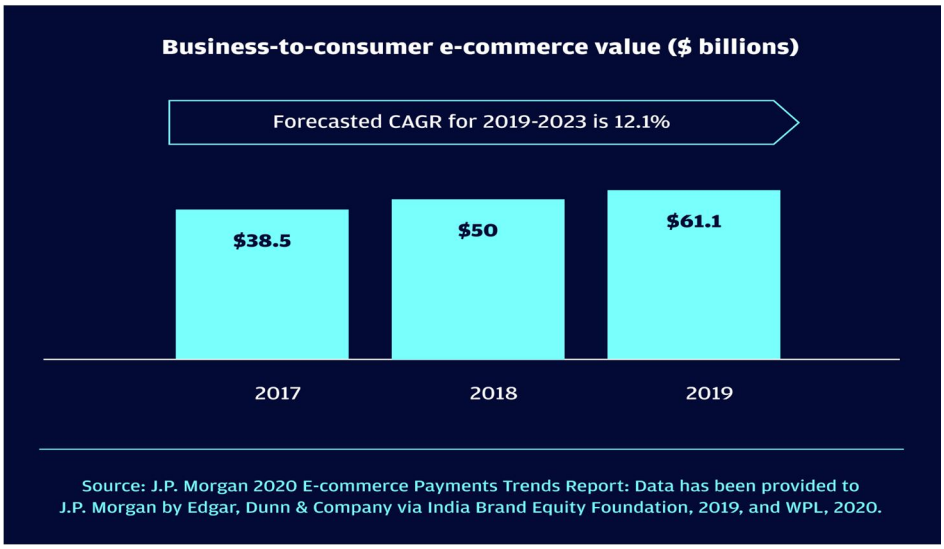
India is widely recognized as one of the most dynamic emerging e-commerce markets. While accounting for only 3 percent of total retail sales in the country, e-commerce is nevertheless already an INR4,299 billion (US$61.1 billion) market.[3, 4]

With 80 percent of the 1.4 billion population yet to make their first online purchase,[5, 6] India's growth potential is huge. Major marketplaces Amazon, JioMart and Flipkart are all key platforms competing for market share. Global merchants are attempting to capitalize on India's e-commerce growth story: Walmart made a $1.2 billion investment in Flipkart in 2020, after buying a majority stake in 2018.[7]

Both urban and rural India are rapidly integrating the internet into everyday life. There are 293 million active internet users in urban India, and approximately 200 million active users in rural India. Growth is driven by rural India, which registered a 35 percent increase in internet users in 2019.[8]

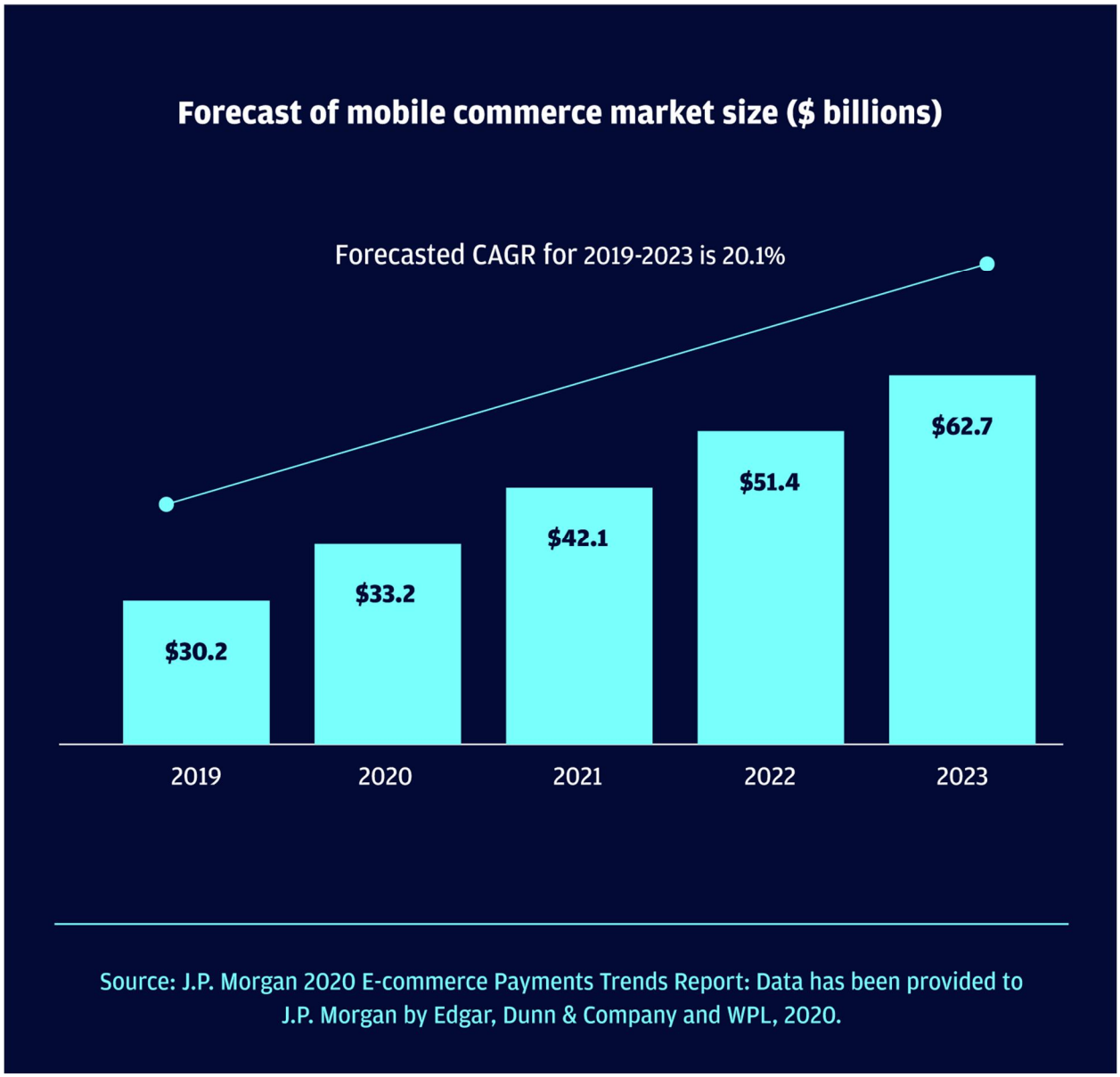
India is becoming a test bed for international brands to trail innovative e-commerce services. For example, India was the first market for Mastercard's® Identity Check Express, the card brand's new mobile-first 3D secure solution.[9] India is a launch market for Instagram's forthcoming TikTok-style video function, Instagram Reels, which will enable brands to work with influencers to market products.[10]

II. HIGH GROWTH SET TO STABILIZE TO 2023



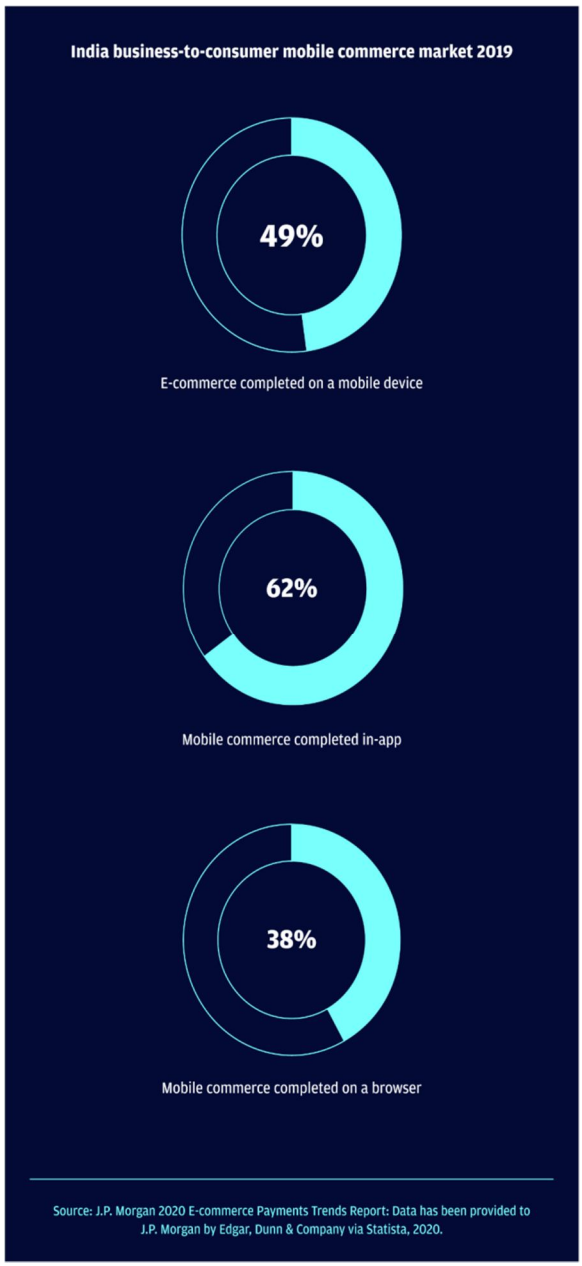
1) The Indian e-commerce market has experienced explosive growth since 2017, jumping from a total $38.5 billion value to $61.1 billion in 2019. Looking ahead, this growth is expected to stabilize to a compound annual growth rate (CAGR) of 12.1 percent to 2023.
2) The most popular product segments are travel (47 percent of total e-commerce value), fashion (21 percent) and consumer electronics (14 percent). Travel will be negatively impacted in the short to mid-term by the effects of the COVID-19 pandemic.[11] During India's lockdown period, spending patterns shifted. Online bill payments increased, taking a 72.5 percent share of online spending, up from 55 percent pre-lockdown. Gaming and entertainment purchases remained steady, whilst travel purchases shrank.[12]
3) Internet penetration in India is at 48.5 percent and is expanding quickly.[13] The government is undertaking a series of schemes, such as Digital India and Skill India, to improve connectivity,[14] and corporates including Google are rolling out programs designed to ramp up connectivity in rural areas.[15]

III. RAPIDLY RISING SMARTPHONE PENETRATION DRIVES CONFIDENT MOBILE COMMERCE PREDICTION



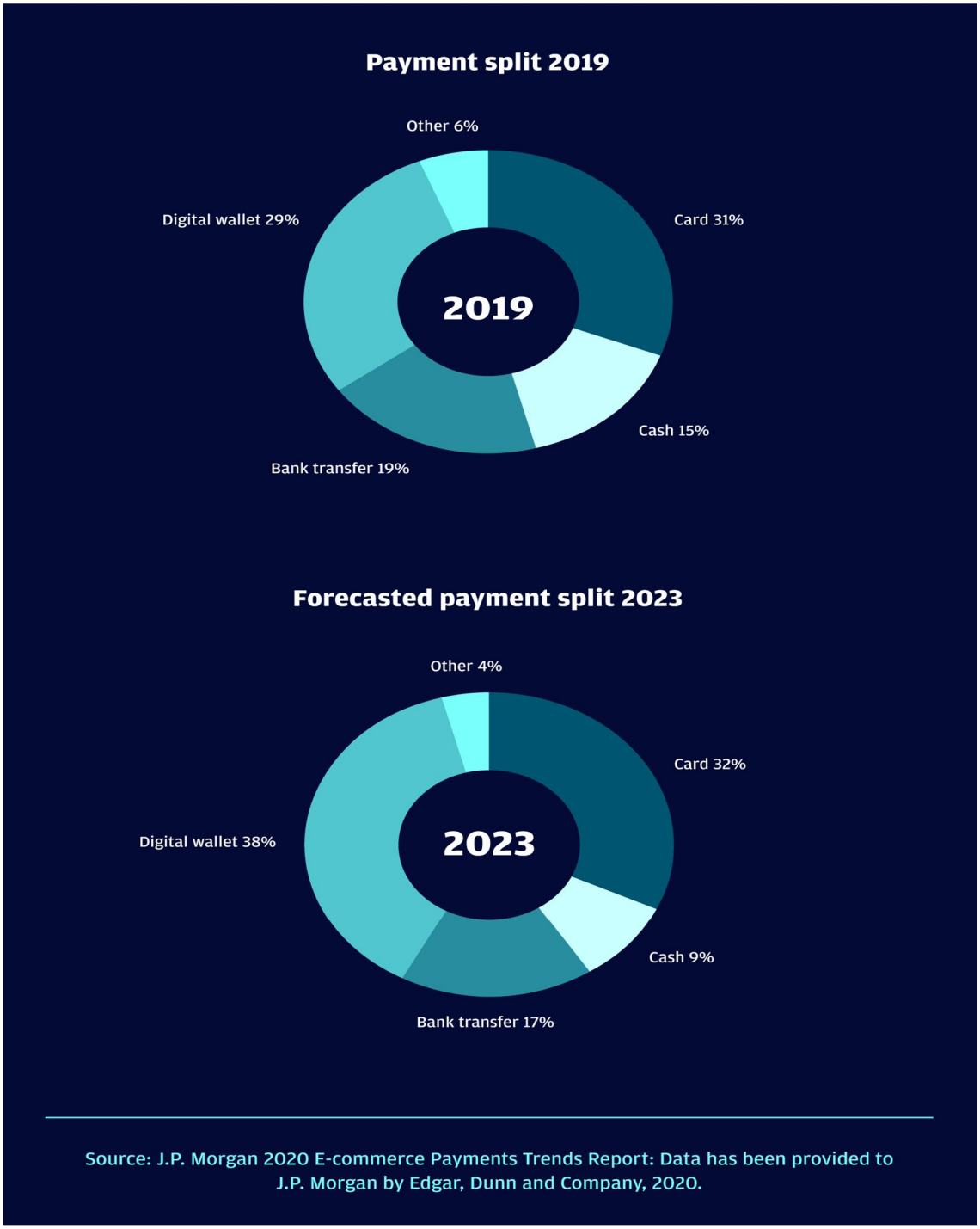
1) Mobile commerce is expected to grow at a compound annual growth rate of 20.1 percent to 2023, outperforming overall e-commerce, to become an INR4,412 billion ($62.7 billion) market by that point.[16]
2) Over two-thirds of the population do not own a smartphone. India has 27.3 percent smartphone penetration.[17] However, it is the fastest-growing smartphone market globally. Smartphone shipments in India increased 14.5 percent year-on-year to reach 142.3 million units in 2018.[18] Smartphone users in India are expected to reach 442 million by 2022. Android devices dominate the Indian smartphone market, taking 95.61 percent of all phones. Apple's iOS operating system takes a 3.35 percent share.[19]
3) The value of mobile commerce in India has increased six-fold since 2015. The 2020 entry in the e-commerce space of Reliance, the largest home-grown conglomerate to challenge Amazon and Walmart's Flipkart, is expected to drive sales and price competition. JioMart, Reliance's e-commerce platform, delivers groceries and essential items from local stores in 200 Indian towns and cities via WhatsApp orders.

IV. APPS SURGE AHEAD OF BROWSERS AS PREFERRED WAY TO SHOP VIA MOBILE



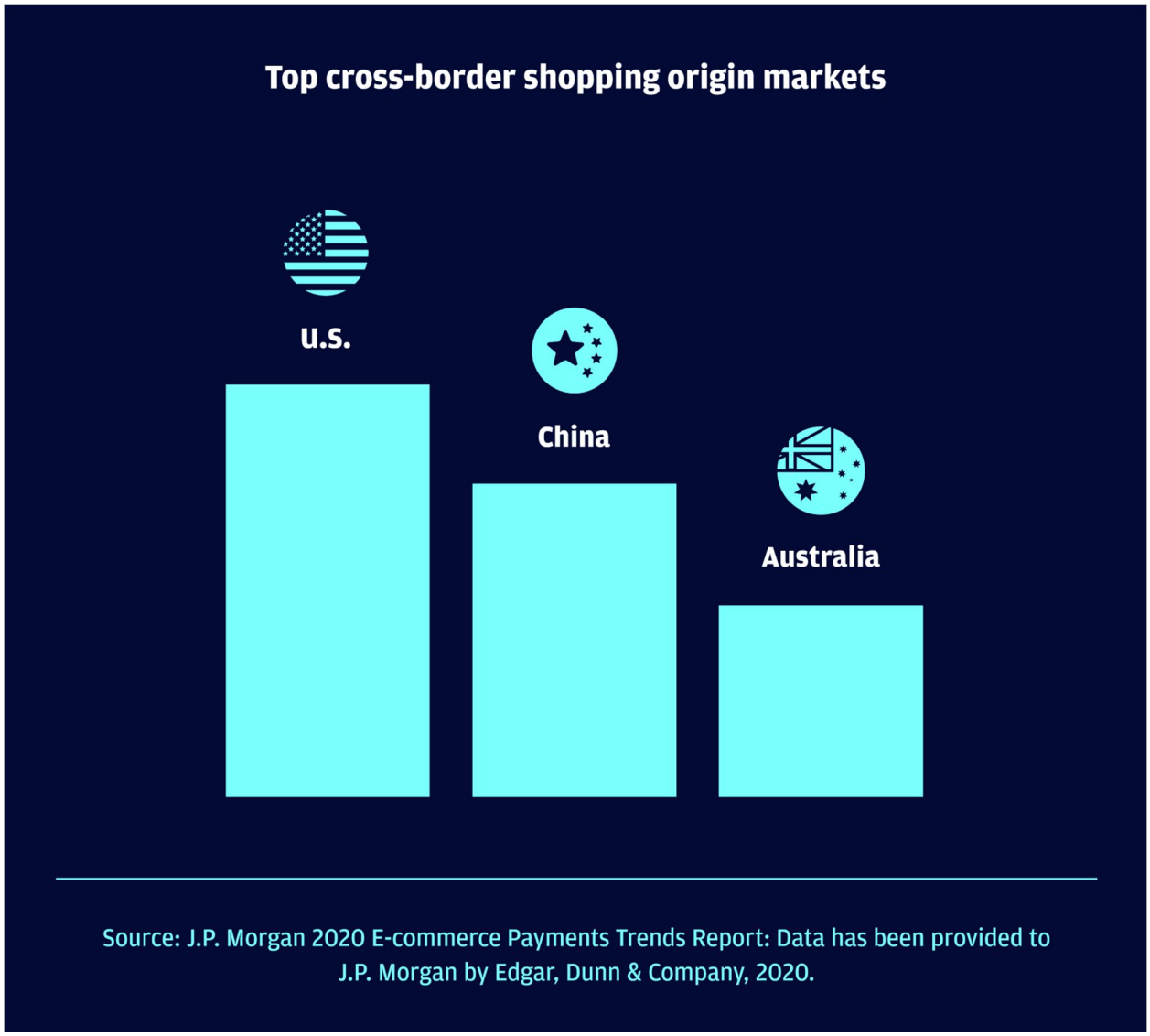
1) Mobile commerce accounts for just under half (49 percent) of all completed e-commerce in India.[20] Mobile is the preferred device to access e-commerce (74 percent), followed by desktops (25 percent) and tablets (1 percent).[21]
2) Apps are used more than browsers to complete a purchase, accounting for 62 percent of completed mobile commerce. Amazon India and domestic brands Flipkart and Tata are the most popular shopping apps as of the second half of 2020.[22]
3) Social commerce is taking shape in India. In 2020, JioMart launched a video-based social commerce platform, 2GUD, which allows shoppers to get shopping advice from influencers and post videos of fashion content.

V. CARDS AND DIGITAL WALLET SHARE INDIAN PAYMENT MARKET, AS CASH DECLINES



- Card is currently the most-used method to pay online, taking 31 percent of transactions. RuPay is India's domestic debit and credit card payment scheme, with wide acceptance across the country. Debit cards are preferred over credit, with 0.67 debit cards per capita, compared with 0.04 credit cards.[23]
- International card brands including Visa®, Mastercard and Amex are also widely accepted. During the COVID-19 pandemic, spending volumes across all card brands declined, but RuPay performed better than international brands. Spend via RuPay fluctuated between 87–98 percent of normal spending volumes, while Visa and Mastercard purchases were lower at 70–86 percent of pre-lockdown volumes.
- Card use is set to be eclipsed by digital wallets by 2023, which are expected to take a 38 percent market share by that point, up from 29 percent in 2019.[24] Key digital wallet brands include Amazon Pay and domestic QR-code-based Paytm, which has 11–13 percent market share. Google Pay and PayPalä also exist in the market, taking 2–4 percent market share each.
- Cash is still an important channel, taking a 15 percent share of the market, but is in decline as the state encourages citizens to switch to electronic payment methods. Major brands including Amazon still offer this payment option.[25]

VI. IMPORT TAX REGULATIONS SET TO BECOME STRICTER AND MORE STREAMLINED



1) Cross-border e-commerce takes a sizeable 20 percent stake of the overall e-commerce market in India, and 34 percent of online shoppers have already made a purchase from abroad.[26] Use has dropped as import processes have become more stringent, and India has recently clamped down on shoppers ordering goods from China via incorrect 'gift' channels to circumvent import taxes.[27]
2) Large, well-developed international markets are preferred by Indian consumers. The U.S. is the most popular overseas market, followed by China and Australia. India has a complex import tax system, which it is planning to streamline with the introduction of a prepaid tax and customs model. Merchants will have to pay duties through a state portal before products are released for shipment.[28]
3) As of July 2020, under India's new Consumer Protection Act 2019, merchants must make it explicit which country they are shipping a product from, so consumers can make an informed choice about cross-border shopping. Price gouging has also been made illegal under the Act.[29]

VII. WIDE-RANGING ONLINE CONSUMER PROTECTIONS ARE NOW IN FORCE

A. Regulation/trends

India's Consumer Protection Act 2019 came into force in July 2020. The Act requires e-commerce merchants to provide information on their sites outlining their return, refund, exchange, delivery, payment, security and complaints procedures.
The Act also means merchants must acknowledge receipt of a complaint within 48 hours and address it within a month.[30]

B. Barriers or Benefits to e-commerce Market Entry

Delivery challenges are still prevalent across India. International and domestic couriers can have difficulties fulfilling deliveries to remote locations and villages, which can slow down international shipments. India Post is experienced in reaching remote locations, so many merchants favor using it to reach these regions.[31]
The Reserve Bank of India sets the country's exchange-control policy and administers foreign exchange regulations in consultation with the government of India. The country's foreign exchange control regime is governed by the Foreign Exchange Management Act (FEMA).[32]

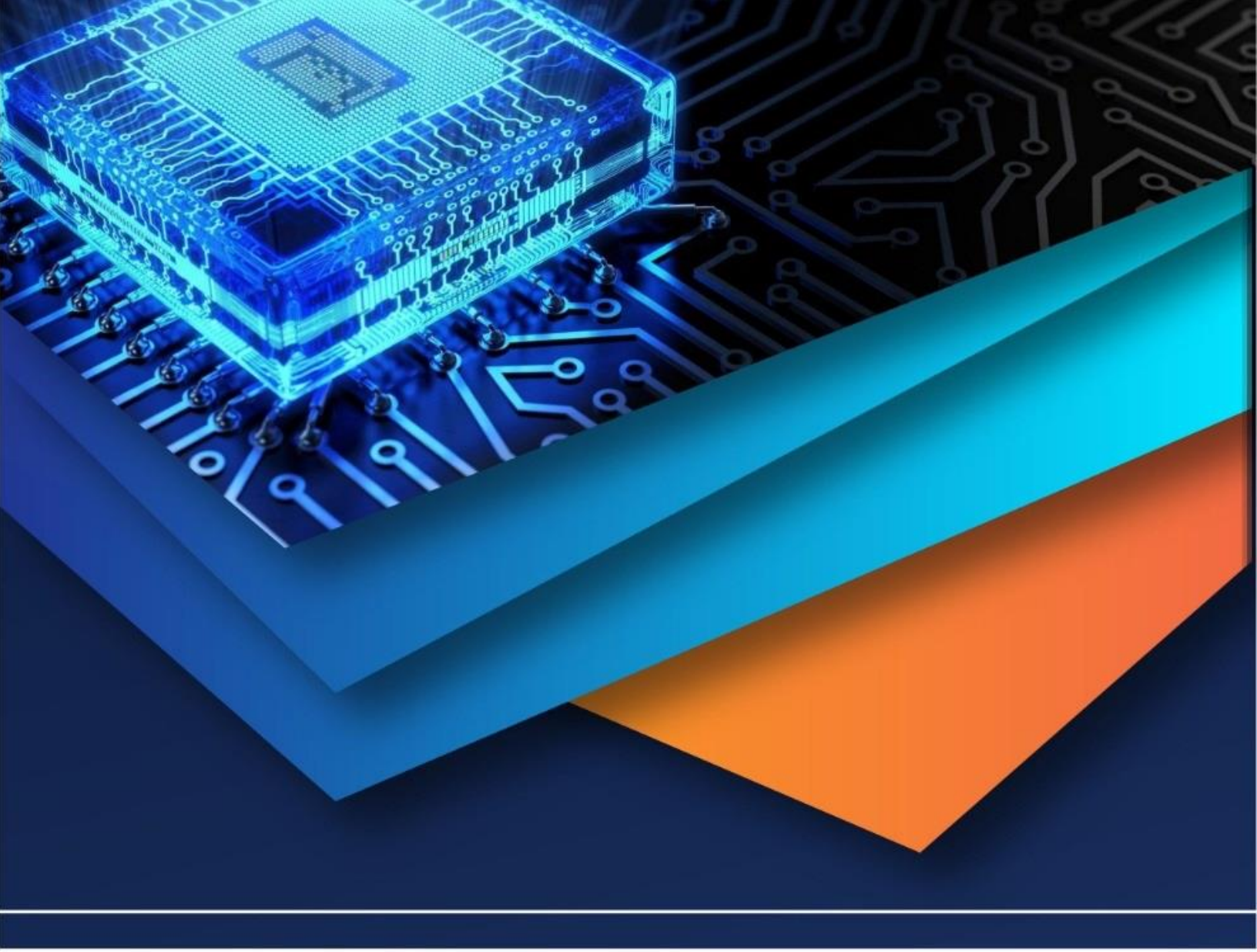
C. Factors Driving the cost of Payment Acceptance

In January 2020, the government removed the merchant discount rate on RuPay and real-time payment system Unified Payments Interface. This was charged by banks to merchants for electronic payments processing in an effort to promote digital payments.[33] It also mandated digital acceptance by this means for all businesses with a turnover greater than $7K under The Central Board of Direct Taxes (CBDT) guidelines.
J.P. Morgan has analyzed 34 e-commerce markets to decipher the trends and challenges driving global e-commerce in 2020. To access our insights on a country-by-country basis, click here.

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