

McKinsey on Payments

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Digital maturity brings opportunity in India

Three trends suggest that India is at a turning point in its digital evolution, with important implications for financial services players. First, the country's digital consumer base is growing rapidly as the cost of mobile devices and Internet access declines and investment in 3G/4G infrastructure increases. Second, Indian consumers are increasingly using digital technology to choose financial products by conducting online searches, reading peer reviews on social networking sites, and comparing competing products. Third, nearly 27 million consumers can be described as “digital high-value” consumers, and account for nearly one-third of the household savings pool of all online users. These consumers use digital technology much more than those in other segments.

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However, this emerging digital market has supply-side barriers that discourage adoption. Consumers still use digital technology more to search online rather than purchase. Less than 0.5 percent of Internet users re-searching online for financial services progress through the subsequent stages of product selection, purchase and activation online. Three factors cause consumers to abandon the online process: an inferior virtual Internet experience, Internet security concerns and the lack of any clear advantage to buying online.

To fully capture the digital opportunity in India, therefore, financial services providers

must begin by creating a distinctive online and multichannel presence; develop a distinctive end-to-end proposition for the digital high-value segment; and, finally, address the entrenched barriers to adoption.

A large and growing digital consumer base

India's Internet user base is expected to balloon to approximately 330 million by 2015 (Exhibit 1, page 16), driven by a rapid decline in the cost of smart devices, ongoing investment in state-of-the-art 3G/4G infrastructure, and the sharply declining cost of access.

For Indian consumers, the Internet has become an important medium for learning about and then considering various categories of financial products. Similar to other countries, 60 to 70 percent of offline buyers surveyed in top Indian cities go online to conduct preliminary research; 66 percent then change their minds about products and brands based on their research.

In India’s metropolitan areas, savvy consumers use the Web site policybazaar.com to compare insurance quotes from agents or bankers. McKinsey research shows that 67 percent of Indian consumers who research financial product categories online do so primarily to compare costs, while 59 percent also compare product details and specifications. Brand-specific searches are

also increasing (e.g., by 114 percent for credit card products and by 20 percent for auto insurance).

Overall, the trends indicate that financial services products are beginning the journey towards “digital maturity” (Exhibit 2). (*Digital maturity* is a composite index of online consumer adoption, incorporating the degree to which Internet users become aware of a product online; research a product online; make their final purchase decision online; and make their purchase online.)

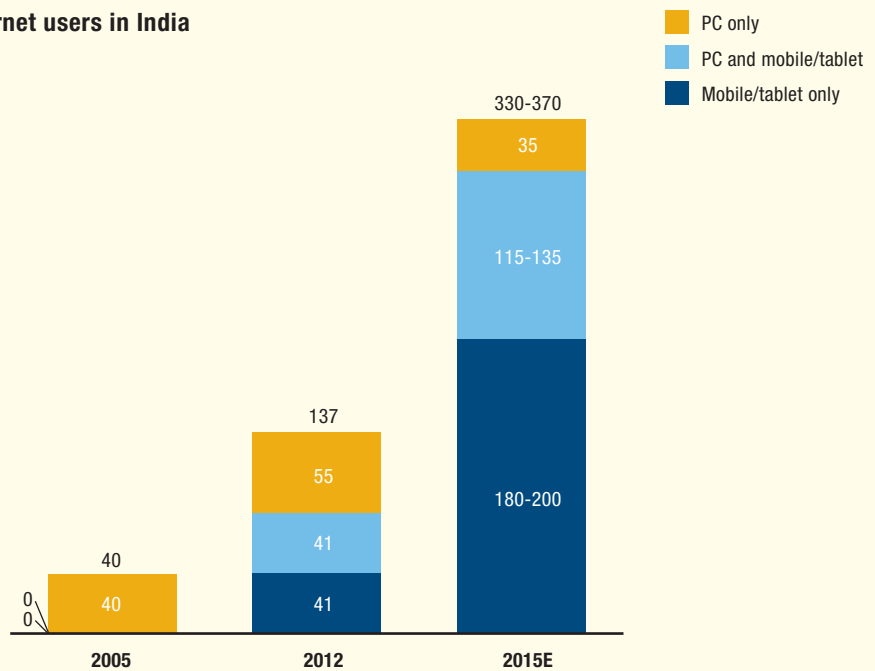
The sweet spot: Digital high-value consumers

McKinsey research has uncovered a potential “sweet spot” in the Indian consumer market: more than 27 million high-value digital con-

Exhibit 1

India has seen rapid growth in its digital consumer base

Number of internet users in India
Millions



'Mobile/tablet only' as percent of total

2005	2012	2015E
~0	30	55

Source: Internet World Stats (2010); McKinsey Digital Consumer Research

sumers who account for a disproportionately high volume of Internet use. These consumers spend over nine hours online a week, 30 percent more than average users (Exhibit 3, page 18). They are between 20 to 45 years of age, live in the top eight cities of India, and have an annual household income of more than US \$11,000. Accounting for nearly one-third of the household savings pool of all online users, these consumers are likely to wield significant influence over the growth of digital financial services in India. McKinsey estimates that by 2015, these high-value digital consumers will number nearly 70 million.

Overcoming barriers

To take full advantage of the expanding Indian digital market, financial services players

must overcome supply-side barriers hampering online commerce. An inferior virtual experience, concerns about Internet security, and the lack of a clear advantage to buying online can all dissuade consumers from purchasing financial products via the Web.

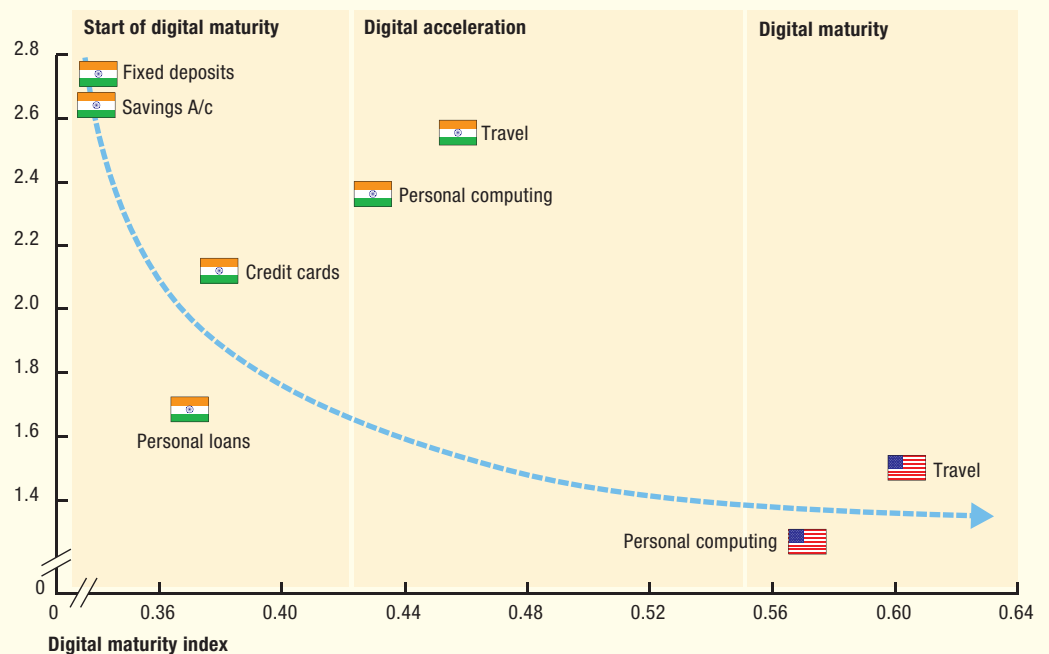
- **Inferior virtual experience.** Fast connection speeds, easy navigation and an intuitive user interface are some of the key factors that shape a consumer’s overall virtual experience. Customers dissatisfied with any of these elements tend to abandon the online purchase process. To encourage online purchases, financial services players need to offer a seamless, device-agnostic experience and a digital interface that is responsive to user needs – offering, for example, minimal clicks for

Exhibit 2

In India, only two product categories have reached the “digital acceleration phase”

Digital momentum

Ratio of search volumes (2012 versus 2010)



Source: Google TNS research; Google search data; consumerbarometer.com; McKinsey analysis

quick solutions and ready support through a “help” option.

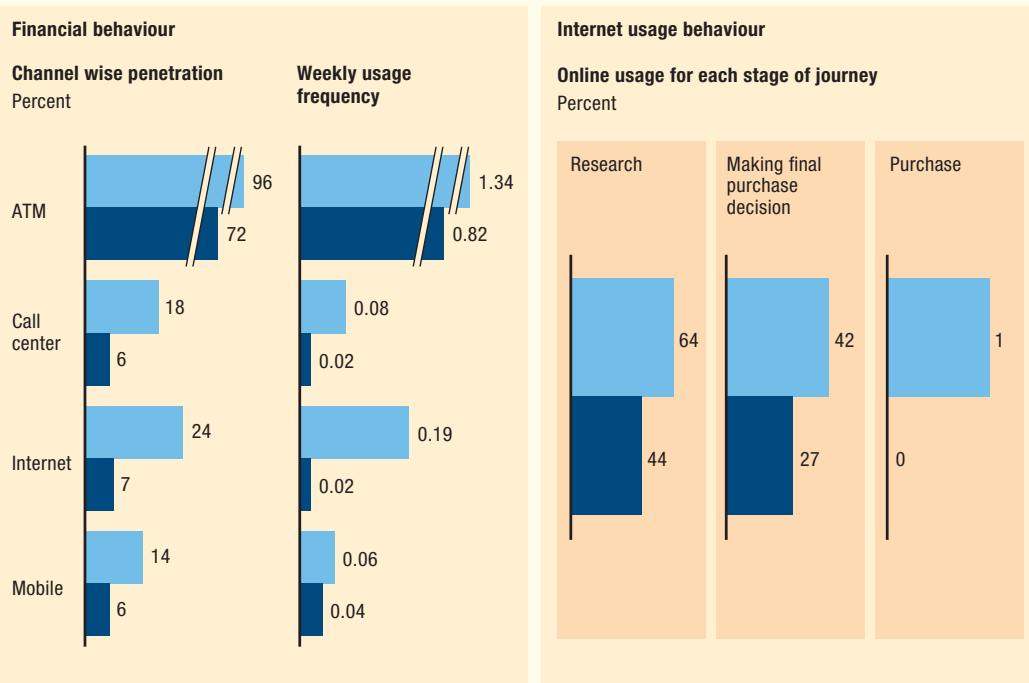
- **Security concerns.** Because consumers are often wary of giving away too much personal data when purchasing a product online, they need reliable assurances at each step that their information will remain confidential, and that sharing their bank or credit card details will not make them vulnerable to fraud.
- **An undifferentiated proposition.** Consumers are often dissuaded from making financial purchases entirely online if they see no advantage to doing so, or if they are still required to submit physical documents after making their online purchase.

In India, the government does not recognize or permit electronic signatures. While home loan applicants can check their eligibility online and make online payments, the loan agreement and documentation cannot be finalized on the Web. To exacerbate matters, online loan applicants do not receive a better loan price. Similarly, if Indian bank customers want to adjust their automatic mutual fund investments online, they must follow up with a physical letter of request. Such physical requirements undermine one of the most distinctive advantages of online commerce: the convenience of making a purchase from anywhere, with just a few clicks. To overcome this bar-

Exhibit 3

India’s “digital high-value” consumers represent a “sweet spot” for digital payments

■ Digital high-value consumers
 ■ All customers



Source: McKinsey PFS Survey 2011; McKinsey Digital Consumer Survey 2012

rier, financial services players can offer consumers incentives for purchasing their products online. They might also consider working with regulators to lift any requirement that consumers submit physical documents to activate a financial product.

Steps to success

Financial services players seeking to tap into India's enormous potential must adapt their way of doing business. They should focus on three specific areas:

1. *Create a distinctive online and multi-channel presence to leverage digital technology's growing influence in consumer purchase decisions.*

First, players can optimize search engines and landing pages to boost hit rates. A second step is to enhance digital marketing across owned, paid and earned media. Standard Chartered, for example, has implemented a comprehensive, Asia-wide marketing strategy to create a consistent, continuous presence across all online touch points, including social networks, aggregator Web sites and search engines. Third, financial services players can implement a seamless, multichannel process to support online-search and offline-purchase behavior. Kotak Mahindra and Yes Bank in India have created a seamless handover from the online to the offline world in ac-

The rise of mobile payments in India

The growing success of mobile payments in India demonstrates the market's potential – and some of its challenges. In 2012-13, approximately 87 million transactions worth \$1.3 billion were channeled through mobile payments modes (m-wallets, mobile banking, and IMPS, India's real-time payments service). While this figure represents a miniscule portion of total retail payments, the rapid uptake points toward the growing opportunity.

Some of this success has been initiated by innovations such as Immediate Payment System (IMPS), launched by National Payment Council of India (NPCI). IMPS enables instant, continuous, interbank electronic funds transfer through phones, which is significantly faster than the earlier batch processing payments platform, NEFT. The platform witnessed a rapid uptake in 2012-13, with about 1.3 million transactions routed through the service. This swift growth can be credited to investments made by NPCI to raise consumer awareness, alleviate security concerns about mobile payments, and establish innovative partnerships to reach consumers. For example, the Council formed a partnership with the largest bank in India to educate the Indian army on mobile payments. But NPCI has a long

way to go in overcoming consumer adoption challenges, most of which arise from the lack of a seamless user experience and concerns about the security of mobile transactions.

The mobile wallet proposition is rapidly taking hold in India as well. Leading telecom operators have launched closed-loop wallet variants where consumers can load money onto their mobile devices and use them to make payments or peer-to-peer funds transfers. In 2012 alone, Vodafone launched mPESA in India in collaboration with ICICI bank, and Airtel launched Airtel Money through its wholly owned subsidiary. Taken together, Vodafone and Airtel cover more than 50 percent of the approximately 900-million telecom subscriber base in India. In addition to telecom players, innovators such as Beam and Oxigen have also launched m-wallets. As a result, nearly 33 million payments worth about \$175 million were transacted through m-wallets in India in 2012-13. The m-wallet proposition is likely to continue to grow, but players must continue to experiment to overcome the challenges of entrenched consumer behavior while also creating a profitable, productive agent network.

count-opening by enabling online account application followed by physical follow-up for document collection.

- 2. Develop a differentiated end-to-end digital proposition for the high-value digital customer segment.* Players should specifically target a particular consumer segment with an end-to-end, differentiated proposition. For example, financial institutions could create tech-enabled, lean, paperless flagship branches; offer a couple of simple yet innovative online products; or develop a compelling mobile banking proposition in partnership with manufacturers or mobile operators. Banks such as DBS in Singapore and ICICI in India have started taking steps on this journey: DBS Remix is a paperless, tech-enabled branch proposition targeting younger consumers; ICICI has launched B2 Digital Banking, an online account proposition for digital consumers.

- 3. Address the barriers to adoption.* Given the ubiquity and entrenched nature of these barriers, players must be willing to invest substantial time and effort in educating consumers to alleviate their security concerns; forming partnerships to overcome access challenges; and creating a distinctive user experience.

* * *

The jury is still out on the scalability and economic success of digital experiments by financial players in India, but changing consumer behavior, technological development and mobile payments indicate that the digital revolution has indeed begun. Financial players willing to invest and take risks stand to gain from a market with enormous potential.

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