M-Wallet: Scenario Post Demonetisation
Message

It gives me immense pleasure to note that ASSOCHAM is organizing a Press Conference on "M-Wallet: Scenario Post Demonetisation" on December 27, 2016 in Hyderabad. The conclave will focus on the m-wallet market in India with a view to increase business opportunities and investments.

Over the past few years, India has emerged as one of the largest economies in the world; and it is set to emerge as the world’s fastest-growing major economy in couple of years ahead of China. In India, the m-wallet has emerged as a high-growth and high-profit sector due to its immense potential for value addition, particularly in aim of making India a cashless economy. One of the major driving factors of the Indian m-wallet market is the upward trend in the usage of mobile internet. This is primarily because the telecom operators have reduced their internet charges due to extensive competition and advancement of new technologies.

The consumer’s mindset is the biggest factor that hinders the growth of Indian m-wallet market, as they are more skeptical about the safety and security issues as in the case of internet banking. Users worry that their devices could be hacked or attacked by some kind of viruses. Such issues need to be addressed.

I am hopeful that this deliberation and suggestions made in this conference will help all the stakeholders to bring investment and technology for m-wallet market in India.

I extend my heartfelt thanks to Mr Shushmul Maheshwari, CEO, RNCOS Business Consultancy Services for bringing out a very informative study. This extensively researched publication will highlight challenges in developing m-wallet market in India.

I not only wish the event a great success but also assume that ASSOCHAM shall continue to organize such programs for larger public benefits with great degree of excellence.

D S Rawat
Secretary General
ASSOCHAM
Foreword

The m-wallet has appeared as a shining star in the horizon of Indian non-cash transactions. The growth of the m-wallet segment can be attributed to the conjunction of rising smartphone usage and internet penetration in the nation. Also, demonetization in India has proved a lucrative opportunity for m-wallet players in the country. The m-wallet companies are flooded with millions of transactions and double the number of users. The average wallet spend for retail which was about INR 500-700 prior to demonetization move, is expected to increased to INR 2,000-10,000. In light of the existing scenario and future trends, a knowledge report has been prepared by RNCOS for the conference on Indian M-Wallet Market organized by ASSOCHAM.

The report highlights the tremendous growth potential possessed by the Indian m-wallet market due to its huge benefits, ease and convenience to use and expanding network tie-ups. The current scenario of the Indian m-wallet market, major drivers, and factors hindering the growth of the market has been discussed in the report. The report also provides the market for various non-cash transactions based on type of payment and type of wallet. The recent trends and the latest happenings that have a considerable impact have been discussed in the report.

Furthermore, the report also highlights the recommendations for reforming the key areas of the industry and the regulatory framework for the sector. Hence, combination of all the sections in the report, presents an unbiased picture of the Indian m-wallet market to the best of our knowledge.

We take pleasure in presenting the report on “M-Wallet: Scenario Post Demonetisation” to you. We do hope that the findings of this report would help bring the issues to the forefront and also provide a reference point for the forthcoming need to pursue reforms in the m-wallet segment.
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Over the past few years, India has emerged as one of the largest economies in the world; and it is set to emerge as the world’s fastest-growing major economy in couple of years ahead of China, as per the recent report by the World Bank.

The improvement in India’s economic fundamentals has accelerated in the year 2015 with the combined impact of strong government reforms, RBI’s inflation focus supported by benign global commodity prices. The size of the Indian economy was estimated at US$ 2.07 Trillion (INR 132.7 Trillion) for the year 2015, compared to US$ 2.04 Trillion (INR 124.5 Trillion) in 2014.

Number of Commercial Banks rises to 152 in the year 2015, as against 151 in 2014, registering an increase after 2 years. As regards to broadband subscribers, the Central Government had revised the definition of Broadband in July 2013. According to revised definition of broadband, the numbers of broadband subscribers have increased to 99.2 Million in 2015 as compared to 15 Million subscribers in the year 2013 (as per pre-revised definition).

Table 1-1: Economic Overview (2009-2015)

<table>
<thead>
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</thead>
<tbody>
<tr>
<td>GDP (Current US$ Trillion)</td>
<td>1.37</td>
<td>1.71</td>
<td>1.82</td>
<td>1.83</td>
<td>1.86</td>
<td>2.04</td>
<td>2.07*</td>
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<td>Population (Billion)</td>
<td>1.21</td>
<td>1.23</td>
<td>1.25</td>
<td>1.26</td>
<td>1.28</td>
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<td>1.31</td>
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<tr>
<td>Urban Population (Billion)</td>
<td>0.37</td>
<td>0.38</td>
<td>0.38</td>
<td>0.40</td>
<td>0.41</td>
<td>0.41</td>
<td>0.43</td>
</tr>
<tr>
<td>Number of Commercial Banks</td>
<td>170</td>
<td>169</td>
<td>169</td>
<td>173</td>
<td>155</td>
<td>151</td>
<td>152</td>
</tr>
<tr>
<td>Number of Regional Rural Banks</td>
<td>86</td>
<td>82</td>
<td>82</td>
<td>82</td>
<td>64</td>
<td>57</td>
<td>56</td>
</tr>
<tr>
<td>Mobile Cellular Subscription (Per 100 people)</td>
<td>44</td>
<td>62</td>
<td>73</td>
<td>70</td>
<td>71</td>
<td>74</td>
<td>77*</td>
</tr>
<tr>
<td>Broadband Subscription (Million)</td>
<td>6.2</td>
<td>8.8</td>
<td>11.9</td>
<td>13.8</td>
<td>15.1</td>
<td>60.9</td>
<td>99.2</td>
</tr>
</tbody>
</table>

Source: World Bank, RBI, RNCOS
Notes: The number of broadband subscribers prior to 2014 is according to the pre-revised definition Revised Definition of Broadband: Broadband is a data connection that is able to support interactive services including Internet access, and has the capability of the minimum download speed of 512 kbps to an individual subscriber from the Point Of Presence (POP) of the service provider intending to provide Broadband service.
* represents RNCOS Estimation
Current Scenario of Non-cash Payment Transactions

There is a tremendous interest among Indian policy makers, academicians and commercial enterprises to explore the possibility of moving towards a cashless economy. However, cash still continues to remain the predominant form of transaction. Before demonetization move in November 2016, cash accounted for 96% of the monetary transactions in the country. The move primarily aims to curb the black money in the economy and making it a “cashless economy”.

All the transactions would be done through cheques, debit & credit cards, m-wallet etc., which will curb the corruption in the country. Also, demonization drive by Prime Minister “Mr. Narendra Modi” will not only be fruitful for m-wallet companies, but it is also beneficial for debit and credit card offering banks as well. This will lead to lower lending rates and increased supply of money in an economy.

Offline transactions now contribute to over 65% of the overall business from 15% about six months ago.

Currently, approximately 100 million consumers in India are using e-wallets as an option to make transaction.

The non-cash payment instruments in India include debit card, credit card, cheques, and money transfer through NEFT, RTGS, and CCIL. The penetration of debit and credit cards is still low in the country, in spite of their huge popularity and benefits as compared to other non cash payment options of retail banking. People still prefer to transact either through RTGS transfers, or through CCIL or cheques. According to our survey, the youth of the nation prefers internet and mobile banking over traditional payments through cheques or cash. In FY 2017, RTGS is estimated to contribute the major share in the value of non-cash transactions with 56%, followed by the CCIL with 34%.
The non-cash payment transaction system is still at a nascent stage. Majority of the retail market does not have POS installations to offer card-based payments. The retailers are reluctant about non-cash payments, and sometimes charge extra if payments are being done through debit or credit cards.

However, the demonetization move will lead to huge changes in cashless payment system. More and more people have started transacting in Cheques, debit and credit cards. All small and large merchants, street dwellers have started accepting mobile wallet payments. This is certainly flourishing the non cash transaction banking system in India. Cheques are estimated to account 39% of the total volume of non-cash payment transactions in FY 2017.
3.1 Mobile Payment Transaction Volume

Mobile Payment is a transfer of funds in return for a good or service, where a mobile phone is involved in both the initiation and confirmation of the payment. The payment may be processed by credit cards or debit cards. M-payment is a crucial driver for the growth of the e-commerce industry in India. People can shop online; book movie tickets, rail or flight tickets; and pay their bills by making m-payment through their debit and credit cards.

![Transaction Volume of Mobile Payment (Billion), FY 2016 to FY 2022](image)

M-payments have been available in India since 2010; and are majorly driven by the increase in smartphone and tablet users, low mobile tariffs, affordable handsets, and penetration of the internet. However, trust and security issues have remained as the major roadblocks for the industry. During FY 2016, the total transaction volume of the m-payment in India was 2.9 Billion; and it is expected to grow at a CAGR of 132% during FY 2016-FY 2022, and reach around 460 Billion by the end of 2022.

3.2 Mobile Payment Transaction Value

With more than 1 Billion\(^1\) mobile subscribers, India has a promising potential for internet on mobile, and the same is expected for payments and business transactions on mobile. In FY 2016, India m-payment reported INR 8.2 Trillion worth of transaction value; and it is expected that it would grow at a CAGR of 150% during FY 2016 to FY 2022, reaching INR 2205 Trillion.

The future of mobile payments in India depends largely on the payments bank license, which is provided by the RBI. Plethora of telecom operators and third party payment service providers, such as Pay U money, apply for the license daily. Additionally, banks have started issuing credit cards at a very low rate of interest resulting into increased penetration of debit and credit cards in the country.

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1. Telecom Regulatory of India (TRAI)
The RBI takes all possible measures to assure consumers that their safety is not compromised, for instance: It is mandatory for all the banks to provide a 6-digit numeric One Time Password (OTP) that is used to authenticate every credit/debit card transaction on mobile. An OTP can be used only once, and RBI keeps changing these measures time to time in order to avoid hacks. This along with the numerous benefits of these cards has added to the growth of mobile payments in the country.

3.3 Mobile Payment Segmentation (Mobile Banking, Mobile POS, M-wallet)

The Indian Mobile Payment market can be segmented into three categories: Mobile Banking, Mobile POS and Mobile Wallet. In FY 2017, mobile banking segment is estimated to contribute a largest share in Indian mobile payment market, with the majority being money transfers. Its share in the m-payment is estimated to increase tremendously from 8% in FY 2014 to 56% in FY 2017 in terms of value.

On the other hand, mPOS is expected to have a largest market share in terms of volume in FY 2017. However, its share is expected to fall from 85% in FY 2014 to 58% in FY 2017. The primary reasons for the sharp decline in the mPOS transaction value are large amount of population switching to mobile banking and mobile wallet services because of its utter convenience and hassle of carrying cards every time. Mobile point of sale includes transactions through debit, credit or gift cards; that can be used at any outlet, be it shopping stores, petrol pumps, hotel or restaurants. However, unlike mobile wallet, debit and credit cards are not used at smaller outlets.

Mobile Wallet service is estimated to contribute 30% share in the mobile payment volume transactions in FY 2017, its share has increased in the last couple of years due to increasing awareness among the consumers and increasing merchant tie-ups especially at very small terminals, such as Taxi, Bus, Auto, vegetable sellers etc. It is observed that the demonetization is a lucrative opportunity for m-wallet players and share of mobile wallet in the total mobile payment volume transactions is expected to rise from 20% in FY 2016 to 57% by FY 2022. The m-wallet companies are flooded with millions of transactions and double the number of users.
Mobile wallet is a virtual wallet service provided by certain service providers, wherein people can load a certain amount of money that can be spent at online and offline merchants listed with the mobile wallet service provider. This digital payment service works as a cashless payment service, wherein people do not have to pay cash or swipe their debit or credit card at offline merchants.

One of the major driving factors of the Indian m-wallet market is the upward trend in the usage of mobile internet. This is primarily because the telecom operators have reduced their internet charges due to extensive competition and advancement of new technologies. The 3G user base has been growing significantly YOY since 2013. Therefore, mobile internet has become an affordable service to many people in India as compared to early 2000's.

There are four types of mobile wallets in India:

**Open Wallet** – It is the one that allows a user to buy goods and services, withdraw cash at ATMs or banks, and transfer funds. These services can only be jointly launched with a bank. Additionally, it allows its users to send money to any mobile number bank account. Example: M-Pesa by Vodafone and ICICI

**Semi-open Wallet** – It is the one that allows its users to transact with merchants that have a contract with the semi wallet company. A user cannot withdraw cash or get it back; he will have to spend the amount he had loaded.
Example: Airtel Money

**Closed Wallet** - It is quite popular with e-commerce companies. Here, a certain amount of money is locked with the merchant in case of a cancellation or return of the order, or gift cards.
Example: Flipkart e-wallet

**Semi-Closed Wallet** - It does not permit cash withdrawal or redemption, but allows users to buy goods and services at the listed merchants.
Example: Paytm

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**Table 4-1: Types of Prepaid Instrument (M-wallet) at Glance**

<table>
<thead>
<tr>
<th>Entities Allowed to operate</th>
<th>Closed PPI</th>
<th>Semi-Closed PPI</th>
<th>Semi-Opened PPI</th>
<th>Open PPI</th>
</tr>
</thead>
<tbody>
<tr>
<td>Banks, NBFC, Other entities</td>
<td>Banks, NBFCs and other entities</td>
<td>Only Banks</td>
<td>Only Banks</td>
<td></td>
</tr>
<tr>
<td>KYC Required</td>
<td>No</td>
<td>Not Mandated</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Maximum Amount that can be stored in PPI by card holder</td>
<td>INR 10,000</td>
<td>INR 10,000 (without KYC) INR 50,000 (with KYC)</td>
<td>INR 1,00,000</td>
<td>INR 1,00,000</td>
</tr>
<tr>
<td>Examples</td>
<td>Life style gift card, Metro Card, Flipkart Wallet, etc.</td>
<td>Oxigen, Paytm, Mobikwik, etc.</td>
<td>Gift cards by Axis bank, Food card issued by HDFC Bank, etc.</td>
<td>Vodafone M-pesa</td>
</tr>
</tbody>
</table>
Mobile wallet allows its users to save their money in their m-wallet account like they save in the bank account, and at the time of transaction they can simply log into their m-wallet account and pay the desired amount. They do not have to enter their card details every time they make a transaction, rather they only have to enter their m-wallet ID and password. This service has made the online and offline transactions easy and hassle free in addition to saving time.

**User Base**

The m-wallet concept is not very popular in India. Users can be classified into four categories. The first category is for people who have credit/debit cards, and are at ease using that mode of payment. Second category is for people who have cards, but still prefer using Cash on Delivery (COD). The third category is people who do not have cards, so they have to use COD. And the fourth category is for people who want to use COD, but merchants do not deliver products to their pin codes. Mobile wallet addresses issues of all four categories of people. It caters to users’ convenience over using cards. Availability of a person to make COD is mandatory; however with the wallet this problem also gets solved. With a copious number of users that prefer the COD option while shopping, it is a challenge for m-wallet companies to get them to join the m-payment platform. However, with the ease of payment along with other benefits offered by m-wallets, users preferring COD will switch to the m-payment platform in the coming years. The Indian m-wallet market has a significant potential to grow, and it is expected that its user base will grow tremendously in the coming future.
### Table 4-2: Leading M-wallet Players and their User Base (Million), 2015

<table>
<thead>
<tr>
<th>M-wallet Players</th>
<th>Users (Million)</th>
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<tbody>
<tr>
<td>Paytm</td>
<td>120</td>
</tr>
<tr>
<td>ITZ cash</td>
<td>40</td>
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<tr>
<td>Mobikwik</td>
<td>30</td>
</tr>
<tr>
<td>Citrus Pay</td>
<td>21</td>
</tr>
<tr>
<td>Oxigen</td>
<td>20</td>
</tr>
<tr>
<td>Vodafone M-Pesa</td>
<td>5.4</td>
</tr>
<tr>
<td>Airtel Money</td>
<td>1.7</td>
</tr>
<tr>
<td>ICICI Pockets</td>
<td>NA</td>
</tr>
</tbody>
</table>

**Source:** Companies’ Press Release

### Loading Charges

Some of the m-wallet companies charge their users for loading money in their wallets. These charges vary between 1% and 1.5%, depending upon the source of loading money and the total amount of money to be loaded. For example: Oxigen charges 1% of the total amount to be loaded, if the amount is loaded using a credit card, debit card and Immediate Payment Service (IMPS); and its distributors or retailers charge between INR 8-245 depending upon the amount to be loaded. However, companies like Paytm, Mobikwik and ITZ cash do not charge for loading money.

### Parties Involved in setting up of M-wallet in India

<table>
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<tr>
<th>Closed</th>
<th>Semi-closed</th>
<th>Semi-Open/Open</th>
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<tbody>
<tr>
<td>Issuing Company</td>
<td>Card Holder</td>
<td>Issuing Company</td>
</tr>
<tr>
<td>Merchant</td>
<td>Payment Gateway</td>
<td>Bank</td>
</tr>
<tr>
<td>Network Partner</td>
<td>Merchant</td>
<td></td>
</tr>
</tbody>
</table>

**What happens to money**

- To the issuing company’s account
- To escrow account
- To bank account

**Interest earned by the Issuing company**

- Company may or may not earn interest
- 4-8% interest can be earned only through “core portion agreement”
- Company and bank both earn interest

### 4.1 Revenue Generation Model of M-wallet Companies

M-wallet companies earn revenue through following incomes:
• **Commission Income from the Sale of Recharges:** The companies facilitate recharge of talk time, utility bill payments; and earn commission for these services.

• **Commission Income from Merchants:** This income is recognized when the services are rendered to the merchants of the company with respect to the value of transactions done by users of the company’s wallet on the respective merchant’s website.

• **Onetime Setup Fees from Merchants:** This income is recognized when the services are rendered to the merchants of the company with respect to registration of the merchants’ on the website of the company.

• **Interest Income:** This income is recognized on accrual basis on a time proportion basis at the applicable rates of interest.

• **Income from Forfeiture of Unused Users’ Wallet Balance:** This income is recognized when the user amount is forfeited.

4.2 **M-wallet Transaction Volume**

The Indian m-wallet market is growing tremendously, backed by factors such as the rise in the usage of smartphones, increased penetration of mobile internet in the country and increasing disposable incomes. The m-wallet transactions are anticipated to further lush, and drive the growth of the Indian m-wallet market.

The m-wallet market has witnessed promising innovations, and has grown immensely over the past few years. A wide variety of m-wallet providers exist in the market, with the important ones including Paytm, Oxigen, Mobikwik, Airtel Money, etc. Research and Innovation towards discovering more efficient and convenient ways of doing m-wallet transactions is at its peak; and it is expected that the industry will overcome all the current limitations and evolve itself through several novel advancements. In FY 2016, the total m-wallet transaction was 0.6 Billion; and it is expected to reach 260 Billion by FY 2022, growing at a CAGR of 163%.
Soon after the demonetization, Paytm announced that it was processing over 7 Million transactions in a day, surpassing the number of credit and debit card transactions that are done in India. Also, cash in the e-wallets that people keep have grown by 1000% and average number of transactions too has gone up from 3 to 18. Its Gross Merchandise Value (GMV), which is an industry term for estimating the total worth of goods sold through a digital platform, for has increased from US$ 3 Billion to US$ 5 Billion.

4.3 M-wallet Transaction Value

Mobile wallet is relatively a new concept in India, and has gained popularity in a very short span of time. The companies offering m-wallet services mainly target young tech savvy people. M-wallets have proven to be extremely useful for transferring money from urban areas to rural areas, even without using a bank account. Mobile wallet users enjoy greater flexibility in making secure payments. Furthermore, those who do not have a credit card or a debit card can go to their nearest wallet recharge kiosk, and get their wallets loaded against cash.

Mobile wallet transactions in India have grown approximately 20 times to reach INR 206 Billion in FY 2016 from INR 10 Billion in FY 2013. Mobile wallet transaction is among the fastest growing paperless modes of payment or banking, and it is expected that the majority of transactions will go paperless in the next 10 years. It is also anticipated that the market value of m-wallet transactions in India will grow at a CAGR of 211% during the period FY 2016 to FY 2022, and reach INR 275 Trillion.

4.4 By Type of Services

The m-wallet market can be segmented into three broad services: Money Transfers, Recharge, and Others. During the period FY 2017, the Money Transfer segment, which includes money transfers from bank to wallet, wallet to wallet and wallet to bank, is estimated as the largest segment of Indian m-wallet market with around 38% share, followed by Recharge and Bills Payments for mobile phones, DTH, landline, etc. with 31% share.
The rest of the market (31%) is captured by the services such as online shopping; hotel and movie ticket reservations; bus, train, taxi and flight ticketing; online food ordering; payment of insurance premium; metro card recharge; etc. The m-wallet services are not only restricted to online transactions, but it also caters offline transactions by tie-up with retail merchants, like Big Bazaar or CCD. The Indian m-wallet market is expected to capture many other services in its umbrella, leading to tremendous growth in the next few years.

4.5 Market Size

M-wallet facilitates the purchase of goods and services, and money transfers against the value stored on the instrument. M-wallet companies charge for their services provided to the users in the form of a certain percentage of the total value of the transaction as a “service charge”. According to our research, m-wallet companies can charge 0.75% of the total amount of the transaction for transactions up to INR 2,000; and for transactions above INR 2,000, these companies can charge a maximum of 1% of the total value of the transaction. This service charge forms the revenue component for m-wallet companies. However, with the increasing competition in the market, this service charge is expected to decline in the coming future, thereby attracting huge consumer base.

Also, after demonetization drive, the RBI temporarily relaxed the limits of Mobile Wallets from INR 10,000 to INR 20,000, and allowed merchants to transfer INR 50,000 per month from wallets to their banks. The move was meant to encourage the use of mobile wallets. Indian m-wallet market in FY 2016 was around INR 1.54 Billion, and it is expected to grow at a CAGR of 196% during FY 2017 to FY 2022 and reach INR 1512 Billion by the end of FY 2022.

M-wallet acts as an alternative to traditional and current payment systems. Many players have been getting licenses from RBI to operate in this segment. For instance, since 2015, four new players from the banking domain entered in the market: HDFC Zappy, ICICI Pockets, SBI Buddy and Axis Ping. Yes Bank is also expected to launch its m-wallet “Yes Bank Wallet” by the end of 2016. These m-wallets do not offer their services through agents or distributors, and are used directly by individuals.
5.1 Rise in Mobile Internet Users

One of the major driving factors of Indian m-wallet market is the incline in the usage of mobile internet. This is primarily because the telecom operators have reduced their service charges due to extensive competition and introduction of new technologies. The 3G user base has been growing significantly YOY since 2013, and mobile internet has become an affordable service to many people in India as compared to early 2000’s.

By the end of June 2016, over 370 Million mobile internet users are expected to get registered as per the statistics of the Internet And Mobile Association of India (IAMAI). According to the statistics, in 2012, India had 48 Million active mobile internet users, which increased to 91 Million in 2013. According to our analysis, the number of mobile internet users in India is expected to grow at a CAGR of 67% during the period 2016-2020, as tariff rates for 2G and 3G are expected to lower down further with 4G mobile internet hitting the market. Also, the telecom companies have started offering 4G internet at the price of 3G internet, attracting more people to use faster internet services at very low price.

5.2 Rise in Usage of Smartphones

According to IDC, smartphone shipments in India grew almost 6 times from 2012 to 2015 backed by decreasing handset prices and data plans tariffs, which consequently increased penetration of smartphones in the last several years. The median price of handsets has dropped significantly, making internet enabled devices affordable for the masses. The entry of many Chinese smartphone manufacturers in India, for instance - Xiaomi, CoolPad, Vivo, Oppo, is resulting in lowering Average Selling Price. The Indian market is flooded with INR 5000-15000 price range of smartphones, resulting into period of feature-to-smartphone.

In the country of 1.3 Billion people, mobile phone subscriptions in India have already reached 1 Billion mark, according to the latest data by TRAI. The low cost of mobile data and free accessibility to the internet via WiFi in many areas, is fascinating smartphone users like never before. In addition, expansion of 3G and 4G network coverage is further expected to boost smartphone sales in the country. According to our analysis, the smartphone shipment has grown at a CAGR of around 76% during the period 2010-2015.
5.3 Growth of E-commerce Industry

Mobile Payments are the backbone of an e-commerce industry. The e-commerce market in India is growing at a rapid pace, as a result of growing smartphone and internet penetration. E-Commerce companies are making strategic acquisitions to expand their market presence, enter newer markets and niche segments. Also, few e-commerce companies operate only through mobile application and do not have web presence, which require only m-payment.

E-payments and mobile wallets are getting more popular among the youth in the country. The Reserve Bank of India is also working towards making India a cashless economy, and to bring in accountability and transparency in each financial transaction. Therefore, m-wallet is gaining importance with the growth of e-commerce industry. Almost all the e-tailing players in Indian context have tied up with one or more m-wallet companies to attract customers with huge discounts and cashbacks, when paying through these wallets. However, COD or Cash-On-Delivery is still a pertinent part of the e-tailing business. Therefore, both the e-commerce companies as well as m-wallet companies should take certain steps to change the trend of COD in the country.

According to industry experts, nearly 60-65% of the total e-commerce sales are being generated by mobile devices and tablets in India, which is approximately 50% increase as compared to the corresponding figure in 2014, and the same trend is expected to follow in future. The value of e-commerce industry in India was US$ 23 Billion in 2015, and is estimated to reach US$ 38 Billion by the end of 2016.

5.4 Huge Benefits at Online and Offline Stores

The major growth driver of m-wallet market is the availability of huge cashbacks and discount, which is attracting customers rapidly. As Indians have tendency to save, they are easily attracted by the coupons, discounts or cashbacks that allow them to spend less. M-wallet in India allows users to get minimum 5% discount, and cashback ranges from INR 100-500 on shopping at their merchant outlets. This benefit can be availed at online as well as offline stores. These m-wallet companies expand their customer base by offering exciting discounts and offers; also they are increasing their number of merchant tie-ups to capture the market share.

For instance: Flipkart, an e commerce leader, gives 10%-20% discount on a transaction, if a payment is done through m-wallet. Also, cab companies provide free ride or maximum INR 500 off on registering with the m-wallet service. For instance, OLA cabs provide INR 500 free ride coupon, if the payment is made through Ola wallet. Paytm gives huge discount on movie tickets, if the booking is done through BookMyShow and payment is done through the Paytm wallet.

Many people in India have started utilizing credit card and m-payment services in light of the presence of various coupon companies offering deals on every
transaction a user makes. This is a major reason why m-wallet companies in India, aggressively offer discount coupons to attract more customers to utilize their services and build the trust factor with the consumers. Moreover, with the dramatic increase in the number of mobile internet users in India; m-wallet platforms are proffering new deals everyday to survive in this highly consolidated market.

5.5 Ease & Convenience

Convenience and ease of doing the transaction are the key growth drivers of the Indian m-wallet market. Mobile wallets obliterate the need to carry physical wallets while on the go; they ensure more security than cards or carrying cash, especially when traveling. Mobile wallet users enjoy greater flexibility in making secure payments. The convenience of making payments on the go, and easy accessibility of this new mode of payment makes it a coherent and natural choice. Additionally, those who do not have a credit card or a debit card can go to their nearest wallet recharge kiosk and get their wallets loaded against cash. These wallets do not require KYC formalities; therefore anyone can register and use mobile wallet, and avail banking services, such as transfer of money from wallet to wallet and wallet to bank account.

M-wallet users can pay their utility bills, insurance premium, and can recharge their metro cards with just one click from anywhere. They do not have to go the government offices or to the merchants for paying bills and wasting their time. Also, they get discounts and cashbacks along with the cited benefits.
6.1 Consumer Mindset

Mobile wallet is a recent phenomenon, not many people are aware about this service in India. The consumer’s mindset is the biggest factor that hinders the growth of Indian m-wallet market, as they are more skeptical about the safety and security issues as in the case of internet banking. Users worry that their devices could be hacked or attacked by some kind of viruses. Also, often people complains that their money has been debited but the transaction got declined while transacting via mobile, and to avoid such problems users keep away from using mobile wallet related services.

Privacy is another issue related to the growth of m-wallet industry. For all kind of monetary transactions or other services one need to disclose his identity, which at times creates a huge problem for the customer. Hackers hack the security or wireless transmission and obtain all the information related to the customer, which may be related to the social or financial matter of a customer.

6.2 Competition from Debit/Credit Cards

Mobile wallets still face tough competition from debit or credit cards in India, as these cards have several advantages over m-wallets. M-wallets allow limited amount of money transfers from wallet to wallet or wallet to bank, which is not the case while transacting from debit or credit cards. Therefore, these wallets are not suitable for higher purchases, for example buying a laptop or a mobile. Also, only a limited amount can be transacted in a single transaction while using m-wallets. For example: Oxigen allows maximum amount that can be transacted in a month is INR 10,000 or INR 10,000 in single transaction, whereas Paytm daily upper limit for wallet to bank account transactions is INR 5,000 and the monthly limit is INR 25,000.

Therefore, m-wallets tend to handle low-value, high-frequency transactions, with the average value per transaction being INR 320.94 in FY 2015. This is largely down to such wallets not requiring authentication for low-value transactions, making payment swift and easy. In contrast, credit and debit card transactions tend to be larger, with value per transaction during FY 2015 equating to INR 3,087.44 and INR 1,501.68, respectively.

6.3 Compatibility Issues

M-wallet apps are not made for all types of mobile phones; some m-wallets are compatible only with 1 or 2 operating systems. For example: HDFC zappy m-wallet does not work with Windows or IOS operating systems, it is meant only for Android users. Therefore, if a windows operating system user wishes to download HDFC zappy on his phone, then he will not be able to use it. He would have to switch either to android smartphone or to any other m-wallet app.

Also, the services offered by Oxigen are compatible with the App Store (for iOS) and Google Play (for Android), while leaving a strong competitor Windows. Thus, Oxigen has lesser users than its competitor wallets. The current demands of consumers look for variable options and overall compatibility of such services, where Oxigen may lack a bit.
7.1 Introduction of M-wallets for Basic Phone Users

M-wallet was supposed to be used by smartphone users earlier, but now the m-wallet players in the market are launching an application exclusively for basic phone users. The m-wallet plays a crucial role in surging financial inclusion in India, and people who are living in rural areas do not have smartphones. To curb this issue, the companies have launched a new technology that works with basic featured mobile phones.

For Instance: State Bank of India (SBI), the nation’s largest bank already has SBI “Buddy” in the market, an m-wallet for smartphone users, for existing customers as well as non-SBI customers. SBI collaborated with Accenture and Mastercard to launch Buddy in August 2015. The bank will soon to launch another wallet, SBI Batua, whose service will be used by existing customers as well as non-SBI customers. Users will have to download Batua from SBI’s website, and then load the app on their feature phone. This m-wallet will be compatible to Java-enabled mobile phones, and it will have characteristics of ‘Buddy’ but will be targeted at customers who use feature phones. ‘Batua’ can be used to make utility payments, transfer funds and buy air tickets, among others things; it will be available in 13 languages. It also has features like reminders to settle dues, recharge and pay bills instantly.

7.2 Technology Companies Entering in M-wallet Business

Mobile wallet makes an individual’s day-to-day transactions easy by providing him the ability to securely and conveniently manage personal finances, fund transfer, purchases, and perform other transactions electronically. Companies from all sectors are entering in this lucrative business. After banks and telecom companies, software service companies are ready to compete in m-wallet market by introducing advance technology platform to create an environment wherein digital payments can be accepted, irrespective of form factors or service providers in an inter-operable and device-agnostic manner.

For instance: Tech Mahindra Ltd. launched India’s first NFC based digital payment ecosystem, MoboMoney in December 2015. MoboMoney is a prepaid wallet issued in the form of an NFC (Near-Field Communication) tag that frees the user from the hassle of carrying cash. The NFC technology allows radio communication between two NFC enabled devices, and the tag is a small sticker type chip that works on the NFC technology. This tag is linked to the MoboMoney account. The NFC technology basically supports a variety of Use-Cases for remote as well as proximity payments, and can
be linked with Bank Accounts/Credit Cards/Prepaid Accounts for making payments and many other utility solutions.

MoboMoney allows consumers to load their wallet by paying cash at its 1000+ retail network, helping convert cash into e-cash. The money loaded into the customers’ digital wallets can then be used to Tap n pay for over the counter payments, recharges, make bill payments, as well as pay online - converting what were earlier payments done in cash into digital payments.

7.3 Launch of Unified Payments Interface (UPI)

A primary governing body of all retail payment systems in the country, National Payment Corporation of India (NPCI) has launched a Unified Payments Interface (UPI), wherein the customers do not have to give their personal credentials like account details and security pins. The interface allows customers to make payments through a single identifier, like Aadhaar number or virtual address. UPI is an infrastructure on top of which end-user apps can build and implement the features offered by UPI. According to RBI, UPI envisages a payments architecture that is directly linked to achieving the goals of universal electronic payments, a less-cash society, and financial inclusion, using the latest technology trends.

UPI enables a customer to make payments using his mobile phone as the primary device for payments, including person-to-person, person-to-merchant, and merchant-to-person with the ability to pay someone, as well as ‘collect’ cash from someone. It also allows multiple recurring payments similar to electronic cash payments (utilities, school fees, subscriptions, etc.) with a one-time secure authentication and rule based access. UPI has a huge potential, if exhausted fully, it will further promote the concept of mobile payments and also facilitate digital banking.

There has been a lot of speculation that beginning of UPI is the end for mobile wallets. However, that is a quite innate and uninformed contention, as mobile wallet companies in India have more customers than any of the existing bank supported apps combined. In fact, UPI will act as an additional source for wallet companies to integrate further with the banking system, and also add more merchants.

7.4 Entry of New Players in the Market

Indian m-wallet market is extremely competitive and highly fragmented, plenty of companies from different sector having large consumer base are entering into the market, and they are expected to capture larger market share in the near future.

For Example: After Free charge acquisition by Snapdeal, India’s largest e-commerce player, Flipkart, launched its semi closed m-wallet “Flipkart Money” in March 2016, for its customers on mobile operating system Android. This step by an e-commerce player is expected to increase the proportion of cashless transactions, and cut operational costs involved with cash on delivery payments.

Similarly, India’s largest home bred smartphone maker, Micromax is planning to launch its m-wallet “Udio” in India, in the year 2016. The new Micromax phones will come with the Udio mobile wallet app and a physical Udio card to make physical or online transactions at over 100,000 mVisa enabled stores across the country. Reliance Jio Infocomm is also launching its m-wallet, “Jio Money” to compete with established players in Indian m-wallet market, such as Paytm and Oxigen. Jio Money will provide services such as mobile recharges, bill payments, insurance premium payments, online shopping and money transfers.

Other new players which entered the market in 2016 are: “Lime” by Axis Bank, a new mobile app which integrates a mobile wallet, shopping, payments and banking. State run telecom operator, BSNL, partnered with Pyro, a telecom, financial and Analytics Company, along with Andhra Bank and Visa to announce
SpeedPay, a semi closed open prepaid instrument. Additionally, RBL Bank tied up with TranServ, a digital payments company, and iKaaz, a Bangalore-based NFC payments firm, partnered with DCB Bank to launch co-branded wallets too. Furthermore, Citibank India and MasterCard launched a global digital wallet called Citi MasterPass with 2,50,000 e-commerce merchants.

### 7.5 M-wallet Enables Short Term Credit

With the active mobile banking growth, along with increasing penetration for smartphones and rising mobile phone subscribers in the country, people are no longer antipathetic to using their mobile phones for transactions. The mobile wallet has been serving the need for instant cash in an electronic form for sundry transactions, will soon offer instant loan facility for short term to its customers. This micro-credit programme enables users to subscribe for small loans, and m-wallet companies get interest in return. An eligible user will get the loan instantly credited to the wallet. Users will be allowed to take loans in excess of INR 5,000.

The mobile wallet companies are tying up with commercial banks and Non-Banking Finance Companies (NBFCs) to roll out this service, which will analyze the history of the users before crediting the loan. Mobile wallet companies, on their own, cannot give loans. Several companies have started their pilot projects already, and Mobikwik is one of them.

It is expected that the interest rate and duration of the loan will be competitive, and will depend on the user profile and history — between 15 and 30 days. The date of repayment will be intimated to customers, so that minimum wallet balance required for auto-debit is maintained.

Also, one of the oldest players in the market, Citrus pay is planning to launch a new solution “Lazypay”, to become an underwriter of transactions by charging consumers on a fortnightly basis, for transacting with merchants. The consumers would be able to buy grocery, cinema tickets and food under this platform conveniently, and the settlements will be made by Citrus Pay to merchants immediately. This is almost like a postpaid bill, which customer experiences for his phone connection. However, this solution will be offered to customers with good credit scores, which Citrus Pay derives with the help of its analytics engine.

### 7.6 Increasing Merchant Tie-Ups

Indian m-wallet market is extremely competitive and highly fragmented. Ties between m-wallet companies and several entities like restaurants, grocery stores, and ticket booking websites are on the rise in the Indian m-wallet industry. Tie-ups support companies

<table>
<thead>
<tr>
<th>M-wallet Players</th>
<th>Merchants</th>
</tr>
</thead>
<tbody>
<tr>
<td>Paytm</td>
<td>Homeshop18, MakeMyTrip, BookMyShow and Naaptol, Delhi Metro, Ola Cabs, Jugnoo Autos, Zomato, Food Panda, etc.</td>
</tr>
<tr>
<td>ITZ Cash</td>
<td>Yehhi.com, BookMyShow, Dish TV, IRCTC, MTNL, Yatra.com, Ferns &amp; Petals, Koovs, Cleartrip, Fu Cinemas, Satya Paul, Redbus.in, OYO Rooms, etc.</td>
</tr>
<tr>
<td>Mobikwik</td>
<td>Big Bazaar, Cafe Coffee Day, WHSmith, PVR, Domino’s, Pizza Hut, Myntra, Jabong, MakeMyTrip, Yatra, BookMyShow, JustEat, eBay, ShopClues, Pepperfry, Zomato, Food Panda, etc.</td>
</tr>
<tr>
<td>Citrus Pay</td>
<td>Healthkart, Lenskart, Millap, Meru Cab, Pepperfry, Sun DTH, etc.</td>
</tr>
<tr>
<td>Oxigen</td>
<td>The Mobile Store, Planet-M, Croma, One Mobile, In &amp; Out, Sify Iways, Music World, P3, Next stores, etc.</td>
</tr>
<tr>
<td>Vodafone M-Pesa</td>
<td>TABcab</td>
</tr>
<tr>
<td>Airtel Money</td>
<td>Uber</td>
</tr>
<tr>
<td>ICICI Pockets</td>
<td>Dominos, CCD, Provogue watches, TANZ Headphones, etc.</td>
</tr>
</tbody>
</table>

**Source:** Company Websites
to broaden their product portfolio, enhance their technical abilities, and enlarge their footprint in the market. They are increasing their customer base by offering discounts and cashbacks on purchase from their merchants’ site.

7.7 M-wallet Enables Banking Services via Social Network

M-wallet companies are coming up with an idea of transferring funds via social media platforms like Facebook, Twitter, Google+, WhatsApp, etc. This new feature is rapidly adopted among the youngsters, who go out for meals with their friends’ and split bills. They only have to enter the name of the person and the amount of money on social media site which is to be transferred, and the money automatically gets transferred to other person’s account in a very short span of time. Additionally, along with money, users can also send photos, videos, audio and text messages to personalize the transfer.

M-wallet companies send a 4 or 6 digit pin on the payer’s mobile number, and the amount gets transferred to the payee’s account when the payee enters his bank details in his wallet along with the 4 digit pin which payer gets. This new feature has made banking services effortless for the payer as well as the payee, as it saves payer’s time to enter payee’s bank details every time; and also payee is responsible for entering wrong account details. It is as safe as internet banking as it works on the principle of “One Time Password” security, which the payer gets and the payee has to ask for it before doing the transaction.

‘Pockets’ launched by ICICI Bank, and ‘Ping’ launched by the Axis Bank in the year 2015 enable money transfers via social media; however Oxigen’s wallet was the first m-wallet company to provide this feature in the year 2014.
8.1 RBI Guidelines

The Central Bank of India, Reserve Bank of India (RBI) issues guidelines to provide a framework for the regulation and supervision of persons operating payment systems involved in the issuance of Pre-paid Payment Instruments (PPIs) in the country, and to ensure development of this segment of the payment and settlement systems in a prudent and customer friendly manner. Statutory Guidelines are issued by Reserve Bank of India under Section 18 of the Payment & Settlement Systems Act, 2007 (Act 51 of 2007).

Consequent to the passing of Payment and Settlement Systems, Act 2007, banks and non-bank entities have been issuing pre-paid payment instruments in the country after obtaining necessary approval/authorization from Reserve Bank of India and operating within the guidelines issued by Reserve Bank of India in this regard. The initial guidelines on “Issuance and Operation of PPIs” issued in April 2009 have been amended from time to time, taking into account the developments in the field and the progress made by PPI issuers.

All persons authorized to issue pre-paid payment instruments by Reserve Bank of India are permitted to issue reloadable or non-reloadable pre-paid payment instruments depending upon the permissible category of PPIs. Banks are permitted to issue and reload such payment instruments at their branches and ATMs against payment by cash/debit to bank account/credit card, and through their business correspondents appointed as per the guidelines issued by the Reserve Bank in this regard. Banks are also permitted to issue and reload semi-closed prepaid payment instruments through agents (other than BCs) by cash/debit card/credit card, subject to the following conditions:

- The issuer may carry out proper due diligence of the persons before appointing them as agents for the sale of such instruments.
- The issuer shall be responsible for all their payment instruments issued by their agents.
- The pre-paid payment instrument issuers shall be responsible as the principal for all the acts of omission or commission of their agents.

8.2 M-wallet Regulatory Approval in India

Only Banks are permitted to issue all categories of pre-paid payment instruments, whereas Non-Banking Financial Companies (NBFCs) and other companies are permitted to issue only closed and semi-closed system payment instruments, including mobile phone-based pre-paid payment instruments, i.e. M-wallet. Reserve Bank of India prescribes capital adequacy requirements time to time to issue pre-paid payment instruments by Banks and Non-Banking Financial Companies.

All other persons, seeking authorization henceforth, shall have a minimum paid-up capital of INR 5 Crore and minimum positive net worth of INR 1 Crore at all the times. Applicant companies having FDI/FII should meet the minimum capital requirement as applicable under Consolidated FDI policy guidelines of Government of India. Only companies incorporated in India will be eligible to apply for authorization.
Procedure for Setting up of Semi Closed M-wallet by Companies/ NBFC/Banks

- A NBFC/ Banks/ companies can issue a semi closed PPI after getting the approval from RBI.
- The issuing company needs to open an “Escrow Account”.
- Escrow Account can be opened with any scheduled bank. The card holder’s money is saved in this account, and all the transactions are done through this account.
- The escrow account then transfers the payment to the merchant by keeping the mark up of the PPI issuer.
- The PPI issuer may or may not earn interest on the amount held in escrow account. This entirely depends on the agreement between the PPI issuer and bank.
**Need for Increasing Awareness:** M-wallet services across the country faces a major issue of lack of awareness regarding their benefits and usage. Majority of Indians are still reluctant to use m-wallet because of security and safety issues. The m-wallets companies must take important steps to gain their consumers’ trust. Measures such as efficient and effective customer care services, 3-D or OTP security, data back-up system etc can be taken to increase awareness among people.

**Exigency for Safety:** There is an urgent need for a safe, trustworthy, flexible, cross platform, official mobile wallet applications in order to gain consumers' trust to face the liquidity crunch in the economy. Consumers still do not have trust in online payments because of the increasing incidence of fraud cases and internet theft as use of the Adhaar card is not mandatory. Mobile wallets needs to be made as prejudiced vehicles for convenient cash transfer, and if the government is pushing for a cashless economy, as vegetable and fruit sellers have now accepting payments through m-wallet. Government should take steps to ensure people of India that there will be no online theft and their money will be secure in their wallet.

**Introduction of Low Priced Smart Phones:** Since some m-wallets are compatible with operating systems like IOS (Apple) which are expensive and not everyone can afford them. To tackle this problem, mobile phone companies should introduce low priced cell phones in the market which can be bought by all the customers, as the ultimate goal of m-wallet is to improve financial inclusion in the country. With existence of expensive smartphones, the goal would be difficult to achieve.

**Increased Limit of Transaction Amount:** Limited amount can be transacted or transferred through m-wallets in a month which hinders the Indian m-wallet market. M-wallet companies should increase the limit of number of transaction and transaction amount even in the case of basic account.

**Need for Transparency in Regulatory Policy:** The regulatory policy of m-wallet industry is quite cumbersome and involves inflexible and complicated terms and conditions which make it difficult for companies to decide whether their product need RBI approval or not. Crystal clear policies and a common regulatory body for all m-wallets (closed, semi-closed etc) are required. The existence of such body would bring clarity in procedures & policies between the m-wallet companies and the RBI.

**Need for Relaxation of RBI's Policy:** The RBI licensing regime is discouraging mobile wallet growth in the country. The present system allows only e-transfer of money and approves semi-closed pre-paid instrument issuance while it does not allow “cash out” from the semi-closed wallet. The RBI should relax its current policies and allow cash withdrawals from the semi-closed wallets. Also, RBI does not allow all the entities (including Banks, NBFC, Telecom Companies etc) to operate any kind of m-wallet, there are copious of strict RBI policies which encumbrance the growth of m-wallets in India.

**Introduction of Attractive Offers:** The m-wallet companies should pay a small amount of interest on the amount that has been kept in the wallet for a month/quarter/year. This would attract customers and
they would load money in their wallet in order to get interest rate benefits.

**Focus on Technology and Compatibility:** Some m-wallets are not made for all type of operating systems (Andriod, Windows etc); they are only compatible with one or few operating systems. Therefore, there is a need for technological advancement by the m-wallet companies so that their m-wallets are compatible with all operating systems and they do not have to pay extra money every time to launch their application on a new platform. They must develop a common platform for their application to save money and time. This would ultimately result in reduction in cost and expansion in user base and hence revenue.

**Increase Reach:** M-wallet companies should expand their reach by offering their services through agents and distributors in order to capture large consumer base. They should establish more and more distributors or agents outlets/office in the areas where there is poor or no internet connectivity.
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ASSOCHAM OVERSEAS OFFICES

(Map showing overseas offices)

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