

Five Trends That Shaped India's Financial Sector in 2017

India's financial sector is undergoing a sea change, and digital technology is part of the shift.

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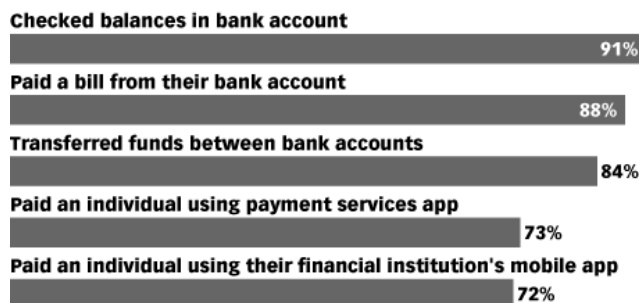
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Mobile payments, online banking, demonetization—these are just a few of the factors hastening the adoption of digital technology in India's financial sector.

Here are a few ways the vertical was reshaped in 2017.

Mobile Banking Transactions Conducted by Young Adult Internet Users in India, Dec 2016

% of respondents



Note: ages 18-36 who have a banking account with a financial institution for personal/household needs; in the past 30 days
Source: FIS, "2017 FIS Consumer Banking PACE Report: India Results" conducted by Kantar TNS, May 31, 2017

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No. 1 Paytm Thrives on Demonetization

Perhaps no entity benefitted more from the Indian **government's demonetization policy** than Paytm. The company, which counts Ant Financial and Softbank among its backers, doubled its wallet user base in a year from 140 million in October 2016 to 270 million in November 2017. Paytm is accepted by a growing number of small merchants thanks to the government's relentless push to get consumers off its cash-focused economy. Paytm also recently launched their mobile-first payments bank, hoping to build off of their mobile wallet user base. The company has set a target to reach 500 million saving accounts by 2020. Currently there are four payments banks in India – Paytm Payment Bank, Airtel Payment Bank, India Post Payments Bank and FINO Payment Bank. These entities can take deposits and process payments, but cannot issue loans. Observers think they'll remain competitive by offering higher interest rates.

No. 2 AI-Powered Chatbots Come to Banking

Although India has been a bit of late bloomer in the adoption of some technologies, the country was quick to embrace chatbots, thanks to a large mobile- and messaging-friendly customer base. And the banking, financial service and insurance (BFSI) sector in India leads the usage of artificial intelligence (AI)-powered chatbots. Since its launch in March , HDFC Bank's AI chatbot "Eva" has answered some 2.7 million customer queries from more than over 530,000 users. Other banks, like the State Bank of India and ICICI Bank, have also set up chatbots to handle a range of customer queries, such as guiding them through product details, transferring funds and integrating with website search functions. Companies like these services because they lower operating costs and keep customers satisfied. According to a Kantar TNS's study, 36% of Indians say they are happy to interact with chatbots online.

No. 3. UPI Growth

The Unified Payments Interface (UPI), a mobile-based payment system that allows instant transfer of funds between two banks, continues to grow in popularity. Consumer adoption continues apace, while some leading technology players like Google and Paypal now rely on the system for their payment services. In November, the number of UPI-

backed transactions grew 38% month-over-month, hitting 105 million transactions, according to the National Payments Corporation of India (NPCI) that runs UPI. According to the [report](#), the value of transactions reached \$1.44 billion in November, up from \$1.05 billion in October. In August, Google's digital payments platform Tez reported the highest number of UPI-based transactions, followed by payment service competitors PhonePe and the BHIM app.

No. 4 Biometric Authentication

Biometrics are reshaping India's national identity policies, and will have a far-ranging effect in the years to come. The government has rolled out Aadhaar, a 12-digit unique identity number issued to all Indian residents linked to their fingerprints, iris scans and certain demographic details. The Reserve Bank of India, the country's central bank, has required that all commercial banks, urban and state cooperative banks, payment banks, ATM operations and authorized card payment networks migrate to an Aadhaar-based biometric authentication method for electronic payment transactions by March 2018. The government claims Aadhaar is needed to fight welfare corruption and improve security as the country increasingly shifts to cashless transactions.

No. 5 ATMs shut down

The total number of ATMs in India was reduced by 1,684 between June and October of 2017, according to the Reserve Bank of India (RBI). Despite the seemingly marginal shrinkage of 7%, this reflects an important shift as ATMs increased at a compounded rate of 16.4% over the past four years according to [The Times of India](#). The shutting down of ATMs is largely driven by operational costs and the migration of urban consumers switching to digital transactions and internet banking after the demonetization was enacted.